News Release

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High premium growth significantly boosts EBIT

- Gross written premiums up 7.3% to EUR 27.1 (25.2) billion
- Combined ratio improves to 98.6% (103.1%)
- EBIT rises to EUR 1.5 (1.1) billion
- Group net income at EUR 488 (444) million
- Talanx confirms Outlook for 2018 Group net income of around EUR 700 million
- 2019 Outlook: Group net income of around EUR 900 million

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Hannover, 12 November 2018

The Talanx Group significantly improved its EBIT by 33% to EUR 1.5 (1.1) billion after nine months compared to the same period of the previous year. Group net income increased by 10% to EUR 488 (444) million. All divisions except Industrial Lines contributed to this development. In Industrial Lines, multiple large losses and the unusually high amount of frequency losses in the third quarter led to a quarterly loss of the division. The premium growth as well as the development in the domestic and foreign retail business and Reinsurance were pleasing. At a Group-wide level, gross written premiums rose by 7.3% to EUR 27.1 (25.2) billion. Adjusted for currency effects, the increase was in double digits at 11.4%. Decisive for this development was growth in Property/Casualty Reinsurance as well as in the Retail International Division. By mid-October, Talanx had already adjusted its Outlook for Group net income in 2018 to around EUR 700 million. Talanx is anticipating Group net income to improve significantly to around EUR 900 million in the 2019 financial year.

“Despite the unsatisfactory performance in the Industrial Lines Division, especially in the third quarter, we have nevertheless achieved a higher nine-month result compared to the previous year of EUR 488 million and we anticipate Group net income of around EUR 700 million for the year as a whole. A dividend payout at least equal to the level of the previous year is guaranteed. German and international retail business also continued to perform positively in the third quarter. We are ahead of schedule with our strategic programme “KuRS” which aims to boost profitability in our domestic market. International retail is and remains a driver of growth, despite being somewhat curbed by current exchange rate effects. Reinsurance is performing very positive as expected", said Torsten Leue, Chairman of the Board of Management at Talanx AG. "In the Industrial Lines Division, our 20/20/20 programme is well on the way. The increase in premiums achieved so far will already affect the income in financial year 2019, so that we are expecting a balanced result in underwriting across the divisional lines."

The burden resulting from large losses (incl. natural catastrophes) amounted to EUR 648 (1,222) million at Group level after nine months, thus remaining in general below the pro-rata large loss budget for the first nine months amounting to EUR 855 million. Primary insurance accounted for losses of EUR 283 (327) million. Reinsurance accounted for EUR 365 (894) million. The Group-wide combined ratio rose to 98.6% (103.1%). The underwriting result in property and casualty insurance was EUR 0.2 (-0.4) billion.

Net investment income stood at EUR 2.9 (3.3) billion well below the previous year. This was the result of a reduced need to realise hidden reserves in order to finance the Zinszusatzreserve in the German life insurance business as well as the extraordinary positive sale of equities in Reinsurance in the same period in the previous year. This decline can also be seen in net return on investment, which fell to 3.3% (3.9%). Return on equity was 7.5% (6.7%). At Group level, the Solvency-II ratio was quoted at a comfortable 204% as at 30 June 2018 (Q1 2018: 207%; 2017: 206%).

Third quarter: Lower realisations affect investment income

Gross written premiums climbed by 8.4% to EUR 8.3 (7.7) billion in the third quarter, an increase of 10.8% adjusted for currency effects. The combined ratio was 102.1% (114.4%) and thus stood well below the previous year. The underwriting result in property/casualty insurance improved accordingly to EUR -0.1 (-0,6) billion. Net investment income saw a drop to EUR 893 (1,226) million, while EBIT rose to EUR 259 (-21) million. Group net income reached EUR 51 (-19) million.

Industrial Lines: 20/20/20 programme ahead of plan

The Industrial Lines Division boosted its income from premiums by 6.2% to EUR 3.8 (3.5) billion. This constitutes growth of 8.9% adjusted for currency effects. Retention rose to 57.8% (54.4%) in line with strategy.

The combined ratio was 111.7% (110.1%) after nine months on account of multiple large losses and an unusually high amount of frequency losses in industrial property insurance. The underwriting result slid accordingly to EUR -224 (-179) million. The division has therefore already begun the restructuring of Fire insurance business with the 20/20/20 programme. "We were able to raise our premiums in the unprofitable Fire insurance business on average by 14% across the entire portfolio. We are confident that with the help of the 20/20/20 programme we will achieve our target of reducing the combined ratio in Fire insurance to under 100% by 2020 and becoming profitable in underwriting again. In the long term, we want to continue to grow internationally and we see great potential in our joint venture with Hannover Rück – HDI Global Specialty SE," said Dr Christian Hinsch, member of Talanx AG's Board of Management and responsible for the Industrial Lines Division. Net investment income was down 9.9% at EUR 183 (203) million as at 30 September. The division's EBIT was EUR -32 (25) million. Its Group net income contribution amounts to EUR -36 (14) million.

Third quarter: High burden of large losses and frequency losses in Fire insurance

Gross written premiums were up 15.8% at EUR 858 (741) million in the third quarter. This constitutes growth of 16.2% adjusted for currency effects. The combined ratio was 128.9% (135.0%) following the multiple large losses and an unusually high number of frequency losses in the third quarter. The underwriting result improved slightly to EUR -196 (-211) million. On the other hand, net investment income experienced a decrease to EUR 59 (66) million. EBIT was EUR -110 (-137) million in the third quarter and Group net income contribution totalled EUR -89 (-98) million.

Retail Germany: EBIT substantially improved

The Retail Germany Division remains well on the way to increasing profitability as part of its strategic “KuRS” programme. EBIT experienced a clear upturn by 35 % from EUR 116 million to EUR 156 million. The Group net income contribution remained virtually stable at EUR 89 (90) million as the tax rate increased significantly after a positive one-off tax effect in the prior year.

Property/Casualty Insurance segment: solid premium growth and improved EBIT

Premium income in the Property/Casualty Insurance segment rose by 2.2% to EUR 1,312 (1,284) million. In particular, the increase reflects a surge in business with small and medium-sized enterprises and self-employed professionals in line with strategy. The combined ratio improved to 98.2% (100.3%) thanks to the favourable claims situation. Adjusted to reflect expenditure for the “KuRS” investment and modernisation programme, the figure was 95.6% (97.3%). The underwriting result increased to EUR 21 (2) million. Net investment income came to EUR 65 (71) million. In terms of EBIT, the segment again reported a clear rise to EUR 66 (49) million thanks to the favourable claims situation.

Third quarter: Combined ratio falls further

Premium income increased by 2.7% to EUR 290 (282) million in the third quarter. The combined ratio improved to 96.6% (98.1%). After adjusting for expenditure relating to “KuRS”, the figure came to 93.5% (96.0%). The underwriting result improved to EUR 13 (11) million. Net investment income saw a decrease to EUR 21 (27) million. EBIT remained virtually stable at EUR 26 (27) million.

Life insurance segment: Relief for Zinszusatzreserve prompts lower realisation of hidden reserves

Premiums in life insurance fell by 2.6% to EUR 3.3 (3.4) billion in the first nine months of 2018. The decline is due both to regular premiums resulting from an increase in policies maturing and single premiums. New business in life insurance products, measured by the annual premium equivalent (APE), remained stable overall at EUR 280 (280) million.

The underwriting result amounted to EUR -1.2 (-1.3) billion. This continues to be determined by the compounding of technical provisions and policyholder participation in net investment income. Net investment income fell by 10.1% to EUR 1.3 (1.4) billion, chiefly a result of a lower realisation of hidden reserves to finance the Zinszusatzreserve (ZZR). “We welcome the changes to the calculation of the ZZR and believe that it will help stabilise life insurance in Germany. The change will help to avoid future imbalance in the distribution of surpluses between generations of customers and transaction costs,” said Dr Jan Wicke, member of Talanx AG’s Board of Management and responsible for the Retail Germany Division. EBIT improved to EUR 90 (67) million, also boosted by lower provisions for premium refunds due to tax income.

Third quarter: EBIT greatly improved

Gross written premiums fell to EUR 1,070 (1,089) million in the third quarter. The underwriting result improved to EUR -293 (-409) million. Net investment income reported a decrease to EUR 335 (447) million. EBIT improved to EUR 42 (26) million.

Retail International: Sustained strong growth in gross premiums

The Retail International Division continued its positive performance in the third quarter and is consistently continuing to optimise its portfolio. For example, the Division sold the Peruvian HDI Seguros S.A. after the reporting date 30 September 2018, subject to the approval of supervisory authorities. “We want to continue our strong international growth and make further inroads into diversification. Our goal is to bolster business in the five defined core markets in Latin American and Central and Eastern Europe and, in the medium term, move up the ranks to become one of the top 5 providers of property/casualty insurance in these markets,” said Sven Fokkema, member of Talanx AG’s Board of Management and responsible for the Retail International Division.

Gross written premiums rose by 3.3% to EUR 4.2 (4.1) billion. This constitutes growth of 9.1% adjusted for currency effects. Both target regions, Latin America and Europe, contributed to the growth. In Latin America, the increase in premium volume was primarily a result of positive development in motor vehicle insurance. In Europe, premium growth reflected an upswing in the number of insured vehicles in Poland while average premiums in motor insurance remained stable.

The combined ratio improved by 1.5 percentage points to 94.4% (95.9%). Improvements were achieved both in the cost ratio and in the loss ratio. At EUR 58 (31) million, the underwriting result was significantly higher than in the prior year. The Division reported a 4.7% fall in net investment income to EUR 243 (255) million. This was primarily a result of the lower interest rates in Brazil compared to the previous year. EBIT was up 12.8% at EUR 202 (179) million after nine months. The EBIT increase in Europe more than offset the decline in Latin America, only resulting from exchange rates. The Group net income contribution improved by 12.7% to EUR 124 (110) million.

Third quarter: Combined ratio improves again

Despite negative exchange rate development, gross written premiums remained virtually stable at EUR 1,237 (1,237) million in the third quarter. Adjusted for currency effects the premium increase was 7.8%. The combined ratio improved to 94.1% (95.0%). The underwriting result increased to EUR 25 (17) million. Net investment income saw a decrease to EUR 69 (82) million. EBIT improved slightly to EUR 64 (63) million and the Group net income contribution rose to EUR 41 (36) million.

Reinsurance: Strongly improved contribution to Group net income

After moderate large losses in the first six months of 2018, the Reinsurance Division reported claims within the scope of quarterly expectations in the third quarter. The largest claims included typhoon “Jebi” in Japan, typhoons “Prapiroon” and “Trami” and hurricane “Florence”. Group net income improved to EUR 365 (271) million.

Property/Casualty Reinsurance segment: Significant premium growth

Gross written premiums in the Property/Casualty Reinsurance segment rose by 17.8% to EUR 9.7 (8.2) billion. This constitutes an increase of 24.0% after adjusting for currency effects. The combined ratio improved to 96.8% (104.3%), only slightly above the target rate of 96%. The underwriting result improved to EUR 230 (-306) million in light of fewer large losses. Net investment income decreased to EUR 807 (965) million, as the previous year’s net investment income was characterised by earnings from the sale of equities. The segment generated clear EBIT growth of EUR 1,026 (612) million.

Third quarter: Premium growth developing well

Gross written premiums rose to EUR 3.2 (2.8) billion in the third quarter. The combined ratio was 98.8% (118.2%). After the loss in the prior year, the underwriting result improved significantly to EUR 24 (-455) million. Net investment income saw a downturn to EUR 290 (475) million. EBIT increased to EUR 322 (-32) million on account of the lower burden from large losses.

Life/Health Reinsurance segment: EBIT satisfactory

In the Life/Health Reinsurance segment, premium income increased only slightly, up 1.0% at EUR 5,335 (5,284) million after nine months. Gross written premiums grew by 4.8% adjusted for currency effects. The underwriting result improved to EUR -356 (-363) million. Net investment income saw a 15.2% decrease to EUR 367 (433) million. EBIT after nine months was at EUR 144 (194) million, despite a non-recurring burden of EUR 218 million caused by treaty recaptures in US mortality business.

Third quarter: Slight increase in gross written premiums

Gross written premiums rose to EUR 1.8 (1.7) billion in the third quarter. The underwriting result deteriorated to EUR -248 (-134) million. Net investment income saw a decrease to EUR 128 (133) million. EBIT fell to EUR -69 (38) million.

2018 outlook

In light of the high amount of large losses in Industrial Lines in the first nine months and an unusually high accumulation of frequency losses, Talanx adjusted its outlook for the 2018 financial year to around EUR 700 million already in mid-October. In line with this, return on equity is expected to be around 8.0%. It is thus close to the defined minimum capital interest.This results outlook is based on the assumption of a large loss burden in the primary insurance segments for the fourth quarter that does not significantly exceed a quarterly budget. Talanx also anticipates gross written premiums to rise by more than 5.0% on a constant exchange-rate basis in the year as a whole. Net return on investment should be at least 3.0%.

As usual, these targets assume that any large losses will be within the expected range and that there will be no disruptions on the currency and capital markets. A dividend payout at least equal to the level of the previous year is guaranteed, which would imply a dividend payout ratio of no lower than 50%.

2019 outlook

Talanx is aiming for Group net income of around EUR 900 million in the 2019 financial year, and thus for a 6% higher profit than originally planned for 2018 (around EUR 850 million). The increase is therefore above the minimum target of an annual average increase of at least 5% by 2022. Return on equity should correspond to about 9.5%. Growth in gross written premiums is set to be around 4.0% on a constant exchange-rate basis. Ambitious net return on investment should reach around 2.7%. As a result of the persistently low interest rate environment, especially in the more euro-biased primary insurance business, it is below the previous year's level.

As usual, these objectives for the 2019 financial year assume that any large losses will be within the expected range and that there will be no disruptions on the currency and capital markets. Our stated target for the 2019 financial year is also to distribute between 35% and 45% of Group net income as a dividend, thus ensuring that the dividend at least remains stable year-on-year.

Key data from the Talanx Group income statement, 9M 2018, consolidated (IFRS)

EUR million	9M 2018	9M 2017[1]	+/-
Gross written premiums	27,091	25,239	+7.3%
Net premiums earned	21,841	20,285	+7.7%
Combined ratio in property/ casualty primary insurance and Property/Casualty Reinsurance[2]	98.6%	103.1%	-4.5 %pts.
Net investment income	2,900	3,311	-12.4 %
Operating profit (EBIT)	1,471	1,104	+33.2 %
Group net income (after non-controlling interests)	488	444	+9.9 %
Return on equity[3]	7.5%	6.7%	+0.8 %pts.

1) Adjusted in accordance with IAS 8.
2) Including net interest income on funds withheld and contract deposits
3) Annualised net income for the reporting period excluding non-controlling interests relative to average equity excluding non-controlling interests.

Key data from the Talanx Group income statement, Q3 2018, consolidated (IFRS)

EUR million	Q3 2018	Q3 2017[1]	+/-
Gross written premiums	8,331	7,686	+8.4%
Net premiums earned	7,406	6,835	+8.4%
Combined ratio in property/ casualty primary insurance and Property/Casualty Reinsurance[2]	102.1%	114.4%	-12.3%pts.
Net investment income	893	1,226	-27.2%
Operating profit (EBIT)	259	-21	n/m
Group net income (after non-controlling interests)	51	-19	n/m
Return on equity[3]	2.4%	-0.9%	+3.3%pts.

1) Adjusted in accordance with IAS 8.
2) Including net interest income on funds withheld and contract deposits
3) Annualised net income for the reporting period excluding non-controlling interests relative to average equity excluding non-controlling interests.

All documentation relating to the quarterly statement:
https://www.talanx.com/investor-relations/presentations-and-events/disclosure/2018.aspx?sc_lang=en

Financial calendar:
http://www.talanx.com/investor-relations/finanzkalender/termine.aspx

About Talanx

With premium income of EUR 33.1 billion (2017) and about 20,000 employees, Talanx is one of the major European insurance groups. The Hannover-based Group is active in more than 150 countries. Talanx operates as a multi-brand provider with a focus on B2B insurance. Under the HDI brand, which can look back on more than 100 years of tradition, Talanx operates both in Germany and abroad in industrial insurance as well as retail business. Further Group brands include Hannover Re, one of the world's leading reinsurers, Targo insurers, PB insurers and neue leben, the latter all specialised in bancassurance, as well as the Polish insurer Warta. Talanx Asset Management is one of the top asset management companies in Germany and manages the assets of the Talanx Group. With its subsidiary Ampega Investment, Talanx Asset Management is also an experienced provider of solutions for outsourcing in the B2B market. The rating agency Standard & Poor's has given the Talanx Primary Group a financial strength rating of A+/stable (strong) and the Hannover Re Group one of AA–/ stable (very strong).

Talanx AG is listed on the Frankfurt Stock Exchange in the SDAX as well as on the stock exchanges in Hannover and Warsaw (ISIN: DE000TLX1005, German Securities Code: TLX100, Polish Securities Code: TNX).

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