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Talanx lifts Group net income from EUR 448 million to EUR 742 million

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- Gross written premiums up 11.9 percent to EUR 30.3 (27.1) billion
- Industrial Lines improves combined ratio by 10.3 percentage points by the end of September – Q3 figure is 99.8 (128.9) percent
- EBIT climbs by 26.7 percent to EUR 1.9 (1.5) billion thanks to progress in all divisions
- Group net income up 52 percent to EUR 742 (488) million
- Talanx confirms outlook for 2019 Group net income of "more than EUR 900 million"
- Outlook for 2020: Group net income to range between "more than EUR 900 million" and EUR 950 million

Hannover, 11 November 2019

The Talanx Group remains on course to meet its targets, recording double-digit growth in premiums and net income in the first nine months of the financial year. Premium income for the Group as a whole rose by 11.9 percent to EUR 30.3 (27.1) billion, or by 10.6 percent after adjustment for exchange rate effects. All divisions were involved in this growth. Nine-month operating profit (EBIT) climbed by a strong double-digit figure, rising 26.7 percent year-on-year to EUR 1.9 (1.5) billion, while Group net income jumped by 52 percent to EUR 742 (488) million. All divisions including Industrial Lines contributed to this performance. The combined ratio in the Industrial Lines Division improved by 10.3 percentage points to a good 101 percent – and in the third quarter dipped below the 100 percent mark again for the first time, at 99.8 percent. This shows that the division's "20/20/20" programme is bearing fruit. The outlook for 2019 Group net income of more than EUR 900 million remains unchanged. For financial year 2020, Talanx is expecting Group net income to range between "more than EUR 900 million" and EUR 950 million.

"We are very pleased with our net income for the first nine months of EUR 742 million – a year-on-year increase of 52 percent. Encouragingly, the clear improvement in net income at our Industrial Lines Division also contributed to this. We are ahead of the pro rata target for our '20/20/20' programme in this division. Both our operating profit and the equity ratio rose substantially. We are confident of reaching our target for Group net income this year of 'more than EUR 900 million'. In line with our mediumterm goal of increasing our earnings per share by an average of at least 5 percent per year, based on our original earnings forecast of EUR 850 million in 2018, we are aiming for Group net income in 2020 in the range of between 'more than EUR 900 million' and EUR 950 million", said Torsten Leue, Chairman of Talanx AG's Board of Management.

Large losses (including natural disasters) at Group level totalled EUR 782 (648) million after nine months, below the pro rata large loss budget of EUR 900 million overall. Losses of EUR 236 (283) million were attributable to primary insurance, very close to the figure that had been budgeted for this. Reinsurance accounted for large losses of EUR 546 (365) million, below the budget. The combined ratio for the Group as a whole remained almost unchanged at 98.5 (98.6) percent. The underwriting result for Property/Casualty Insurance was EUR 196 (162) million.

Net investment income improved, due in particular to a one-time special factor – the realisation of gains related to restructuring Hannover Re's shareholding in Viridium – in the second quarter of 2019. It rose year-on-year to EUR 3.2 (2.9) billion. The net return on investment was almost unchanged, at 3.4 (3.3) percent. The return on equity increased significantly, to 10.4 (7.5) percent. The Group's Solvency II ratio was a comfortable 196 (Q2 2019: 203) percent as at 30 September 2019.

Third quarter: Strong rise in operating profit and Group net income

Gross written premiums rose by 13.6 percent in the third quarter to EUR 9.5 (8.3) billion. Adjusted for exchange rate effects, the increase was a double-digit 11.6 percent. The combined ratio was down year-on-year, at 100.4 (102.1) percent. In line with this, the underwriting result for the Property/Casualty Insurance segment was EUR –30 (–110) million. Net investment income improved to EUR 1.2 (0.9) billion, while operating profit jumped to EUR 619 (259) million. Group net income amounted to EUR 265 (52) million.

Industrial Lines: Successful restructuring of fire insurance

The Industrial Lines Division lifted its premium income by 30 percent to EUR 4.9 (3.8) billion. Adjusted for exchange rate effects, growth amounted to 28.1 (8.9) percent. Retention fell to 50.8 (57.8) percent. The main driver for the increase in premiums and the decrease in retention was the acquisition of the shares of HDI Global Specialty.

At EUR –30 (–224) million, the underwriting result improved considerably year-on-year. Whereas the prior-year quarter was impacted by an extraordinary cluster of large losses, the figure for the current quarter was within budget. In addition, the “20/20/20” programme is having a positive effect. The goal of lifting profitability by at least 20 percent was already exceeded – improvements in terms and conditions of a good 24 percent had been firmly agreed with customers as of 1 October 2019. Both the large loss ratio and the frequency loss ratio for fire insurance improved, thanks to the systematic restructuring measures there. The total loss ratio in Fire was 81.0 (90.6) percent for the first nine months, while the combined ratio for the Industrial Lines Division amounted to 101.4 (111.7) percent.

Net investment income rose by 17.8 percent to EUR 215 (183) million as a result of positive one-off effects. Operating profit for the division amounted to EUR 133 (–32) million due to the measures taken to increase profitability and due to lower large losses. The contribution made to Group net income was EUR 84 (–36) million.

Third quarter: Combined ratio of less than 100 percent

The first-time inclusion of HDI Global Specialty in the third quarter lifted gross written premiums by 63.2 percent to EUR 1,401 (858) million. Adjusted for exchange rate effects, growth amounted to 60.1 percent. The combined ratio fell to 99.8 (128.9) percent. The underwriting result improved to EUR 2 (–196) million, while net investment income saw a rise to EUR 82 (59) million. Operating profit for the third quarter was

EUR 65 (–110) million and the contribution to Group net income was EUR 43 (–89) million. We are expecting the full-year combined ratio to be approximately 101 percent. This is, on the one hand, close to our original target while on the other it underlines the need to continue our restructuring efforts.

Clear improvement in EBIT at Retail Germany

The Retail Germany Division remains well on track to improve profitability with its strategic "KuRS" programme. Nine-month operating profit rose by 18.6 percent to EUR 185 (156) million, due among other things to an increase in net investment income. The combined ratio rose slightly to 98.4 (98.2) percent; after adjustment for investments in the "KuRS" programme it was a comfortable 96.1 percent. The division's contribution to Group net income rose to EUR 110 (89) million.

Property/Casualty Insurance segment: Clear growth in the corporate customers/freelance professionals business

Gross premium income in the Property/Casualty Insurance segment rose by 1.9 percent to EUR 1.3 (1.3) billion; in line with the segment's strategy, this was attributable to clear growth in its business with small and medium-sized enterprises and freelance professionals. The underwriting result declined to EUR 18 (21) million. Net investment income increased to EUR 85 (65) million, largely as a result of higher realised profits and ordinary income. Operating profit was up significantly on the prior-year period at EUR 78 (66) million due to the improvement in net investment income.

Third quarter: Premium growth continues

Premium income increased by 1.9 percent to EUR 295 (290) million in the third quarter. The combined ratio rose to 97.8 (96.6) percent, while the underwriting result declined to EUR 8 (13) million. Net investment income recorded an increase to EUR 31 (21) million. Operating profit fell slightly to EUR 24 (26) million.

Life Insurance segment continues to grow

Life insurance premiums grew by 2.6 percent in the first nine months of 2019 to EUR 3.4 (3.3) billion. A EUR 100 million rise in single premiums overcompensated, by EUR 50 million, the foreseen decline in regular premiums, which was due to a high level of policies maturing. New life insurance product business – measured by the annual premium equivalent (APE), the international standard – was up 5.2 percent to EUR 294 (280) million.

The underwriting result was EUR –1.1 (–1.2) billion. The main factors influencing this item continue to be the calculation of the discounts on technical provisions and policyholder participation in net investment income. Net interest income itself declined by a slight 1.2 percent to EUR 1.2 (1.3) billion, largely as a result of the fall in interest income caused by lower interest rates. Operating profit improved by 18.1 percent to EUR 107 (90) million thanks among other things to a number of one-time factors in the last two quarters.

Third quarter: Improved premium growth

Gross written premiums rose to EUR 1,110 (1,070) million in the third quarter. The underwriting result declined to EUR –445 (–292) million due to policyholder participation in investment income. Net investment income increased to EUR 489 (334) million, while operating profit fell to EUR 36 (42) million.

Retail International: Ongoing strong gross premium growth

The Retail International Division continued its positive H1 performance in the third quarter, carrying on its tightly focused portfolio expansion. In Central and Eastern Europe, Turkish company HDI Sigorta A. Ş. acquired Ergo Sigorta A. Ş. with the aim of further expanding its market presence. In Brazil, a partnership agreement was signed in October with Icatu Seguros S.A. for joint sales of term life insurance.

Gross written premiums for the first nine months were up 8.0 percent at EUR 4.5 (4.2) billion. Adjusted for exchange rate effects, the increase amounted to 9.9 percent. Both target regions – Europe and Latin America – contributed to this growth. Premium growth in Europe was primarily attributable to the increases recorded at Italian company HDI Assicurazioni S. p. A and at TUiR WARTA S. A. in Poland. The rise in premium volumes in Latin America resulted among other things from the clear increase in homeowners insurance premiums on the Brazilian and Mexican markets.

The combined ratio rose by a slight 0.7 percentage points to 95.1 (94.4) percent. Net investment income for the division increased by 18.1 percent to EUR 286 (243) million due to a rise in the volume of investments in Italy and both higher interest rates and higher investment volumes in Turkey. The underwriting result amounted to EUR 34 (58) million, with the decrease being due to higher policyholder participation in net investment income in Italy. Operating profit rose by 13.1 percent to EUR 227 (202) million. The contribution made by the division to Group net income improved by 7.2 percent to EUR 132 (124) million.

Third quarter: Significant improvement in operating profit

Gross written premiums rose by 11.8 percent in the third quarter to EUR 1.4 (1.2) billion. Adjusted for exchange rate effects, premium income increased by a double-digit 11.9 percent. The combined ratio rose slightly to 95.0 (94.1) percent. The lower underwriting result of EUR 10 (24) million was more than offset by higher net investment income of EUR 98 (69) million. Operating profit climbed to EUR 81 (63) million, while the contribution to Group net income rose to EUR 47 (40) million.

Reinsurance: Sharp improvement in earnings contribution

Large losses at the Reinsurance Division for the nine-month period were up considerably year-on-year at EUR 546 (365) million, but remained within the large loss budget. The largest loss event by far was Hurricane “Dorian” in the Bahamas and the USA, followed by the insolvency of tour operator Thomas Cook and Typhoon “Faxai”. The contribution made by the Reinsurance Division to Group net income improved to EUR 480 (365) million.

Property/Casualty Reinsurance segment: Clear premium growth

Gross written premiums in the Property/Casualty Reinsurance segment rose by 20.7 percent to EUR 11.7 (9.7) billion. Adjusted for exchange rate effects, the increase was 17.5 percent. The combined ratio deteriorated to 98.7 (96.8) percent, above the target of a maximum of 97 percent. The underwriting result declined due to the higher impact from large losses to EUR 89 (230) million. Net investment income rose to EUR 817 (807) million. EBIT fell by 13.5 percent to EUR 887 (1,026) million.

Third quarter: Solid rise in gross premiums

Gross written premiums rose by 19.3 percent in the third quarter to EUR 3.8 (3.2) billion. The combined ratio was 102.2 (98.8) percent. The underwriting result deteriorated to EUR –84 (24) million. Net investment income increased to EUR 309 (290) million. Large losses pushed down EBIT to EUR 226 (322) million.

Life/Health Reinsurance segment: Gross premium growth slightly above target

Premium income in the Life/Health Reinsurance segment was up 7.6 percent after the first nine months of 2019 to EUR 5,740 (5,335) million. Adjusted for exchange rate effects, gross written premiums increased by 5.8 percent, slightly above the gross premium growth target of 3–5 percent. The underwriting result improved to EUR –275 (–356) million, while net investment income rose by 42.9 percent to EUR 527 (367) million. EBIT jumped to EUR 472 (144) million. A one-time effect resulting from treaty recaptures in the US mortality business had negatively impacted this figure in the prior-year period.

Third quarter: Rise in gross written premiums

Gross written premiums rose by 4.2 percent in the third quarter to EUR 1.9 (1.8) billion. The underwriting result improved to EUR –65 (–248) million. Net investment income saw an increase to EUR 162 (128) million. EBIT jumped to EUR 190 (–69) million.

Outlook for full-year 2019 confirmed

After the first nine months of financial year 2019, we are now expecting gross premium growth (after adjustment for exchange rate effects) of more than 4 percent, slightly adjusting the outlook in our 2018 Annual Report. This change is largely based on the Reinsurance Division’s positive performance in the first nine months. In addition, we are confirming our forecast for Group net income of “more than EUR 900 million”, despite impending losses from Typhoon “Hagibis” in Japan, the unrest in Chile and the Group’s conservative accounting policy. We are also continuing to invest in the two divisions in the Retail segment in order to sustainably optimise their growth prospects and efficiency.

As always, these targets for financial year 2019 are subject to the proviso that no turbulence occurs on the currency and capital markets and that large losses remain in line with expectations. However, based on its current knowledge, the Group is assuming that the large loss budget for 2019 as a whole will be sufficient.

Outlook for 2020

Talanx is publishing an earnings outlook for financial year 2020 together with its results for the first nine months of the current year. We are assuming continuing premium growth of approximately 4 percent. The net return on investment under the IFRSs is forecast to be approximately 2.7 percent, with the even lower interest rate environment expected to impact net interest income by roughly EUR 25 million. Despite this, we are aiming for Group net income to improve to between “more than EUR 900 million” and EUR 950 million, in line with our strategic measures to improve Group profitability. This should correspond to a return on equity of more than 9.0 to 9.5 percent. A decrease of 0.5 percentage points compared to the current year is likely here due to the interest-rate driven increase in equity.

As usual, the targets for financial year 2020 are also subject to the proviso that no turbulence occurs on the currency and capital markets and that large losses remain in line with expectations. Other stated goals are to distribute 35 to 45 percent of Group net income in dividends for the 2020 financial year, as in the past, and to ensure the dividend payment remains at least stable year-on-year.

The aim is to lift earnings per share (EPS) by an average of at least 5 percent per year in the period up to 2022**.**

Key figures from the Talanx Group income statement, 9M 2019, consolidated (IFRS)

EUR million	9M 2019	9M 2018	+/–
Gross written premiums	30,325	27,091	+11.9%
Net premiums earned	24,186	21,841	+10.7%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[1]	98.5%	98.6%	–0.1 pps
Net investment income	3,156	2,900	+8.8%
Operating profit/loss (EBIT)	1,863	1,471	+26.7%
Group net income (after non-controlling interests)	742	488	+52%
Return on equity[2]	10.4%	7.5%	+2.9% pps

Key figures from the Talanx Group income statement, Q3 2019, consolidated (IFRS)

EUR million	Q3 2019	Q3 2018	+/–
Gross written premiums	9,461	8,331	+13.6%
Net premiums earned	8,269	7,406	+11.6%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[1]	100.4%	102.1%	–1.7% pps
Net investment income	1,170	893	+31.0%
Operating profit/loss (EBIT)	619	259	+139%
Group net income (after non-controlling interests)	265	52	+412.2%
Return on equity[2]	10.7%	2.4%	8.3% pps

1) Including net interest income on funds withheld and contract deposits.
2) The ratio of annualised net income for the reporting period excluding non-controlling interests to average shareholders' equity excluding non-controlling interests.

For the full documents relating to the quarterly statement, see:
https://www.talanx.com/investor-relations/presentations-and-events/disclosure/2019.aspx?sc_lang=en

Financial calendar:
https://www.talanx.com/investor-relations/finanzkalender/termine.aspx?sc_lang=en

About Talanx

With premium income of EUR 34.9 billion (2018) 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. Ampega is one of the top asset management companies in Germany and manages the assets of the Talanx Group. It is also an experienced provider of solutions for non-group institutional investors. 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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