News Release

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Talanx improves operating profit despite goodwill impairment

- Gross written premiums increase in first nine months of 2015 by 12.1 percent to EUR 24.4 (21.7) billion
- Operating profit (EBIT) grows by 4.4 percent to EUR 1.5 (1.4) billion
- Group net income at EUR 488 million, adjusted for goodwill impairment in 2nd quarter: EUR 643 (530) million
- Outlook for Group net income for 2015 of EUR 600 to 650 million confirmed
- For the 2016 financial year, a Group net income of more than EUR 700 million is expected

Hannover, 12 November 2015

The Talanx Group has improved its operating business as at 30 September 2015. The gross written premiums increased by 12.1 percent compared to the same period in the previous year to EUR 24.4 (21.7) billion. This increase was primarily posted in foreign countries, in line with the growth strategy. On balance, the sustained exchange rate fluctuations had a positive effect on the premium performance. Adjusted for currency effects, the gross written premiums increased by 6.5 percent. Operating profit (EBIT) grew by 4.4 percent to EUR 1.5 (1.4) billion. The Group net income excluding the full goodwill impairment in the German life insurance business in the second quarter of 2015 stood at EUR 643 (530) million. Taking the one-off effect of EUR 155 million into account, the net income amounted to EUR 488 million.

“Our diversification strategy is paying off. In spite of considerable large losses and a market environment that is still challenging, Talanx has achieved a satisfactory result in the first nine months of 2015. We are therefore confident that we shall achieve our expected net income for the entire year. Following the goodwill impairment in the second quarter, this target is between EUR 600 and 650 million. Without that impairment, the forecast would have been EUR 755 to 805 million, significantly above the target set at the beginning of the year”, said Herbert K. Haas, Chairman of the Board of Management at Talanx AG.

Although the net large loss burden was higher than in the previous year at a total of EUR 724 (501) million, it was still within the large loss budget for the period. The largest loss was the explosion in the port of Tianjin, China, which was posted Group-wide with a value of EUR 114 million. The divisions were also burdened by several large fire losses, primarily among German customers and by natural catastrophes, most recently storm “Siegfried” and the earthquakes in Chile. Overall, large losses worth EUR 287 (259) million were attributed to primary insurance, whereas reinsurance was burdened with large losses amounting to EUR 436 (242) million.

The combined ratio improved across the Group to 96.9 percent (97.7 percent) thanks to a decline in the expense ratio. The underwriting result continued to be shaped by the German life insurers. Thanks to the participation of the life insurance customers in the net investment income, it remained largely unchanged at EUR -1.3 (-1.4) billion. Regardless of the continuing low interest rate environment, the net investment income – with increased assets overall – of EUR 3.0 (3.0) billion stood at the same level as the previous year.

The earnings per share amounted to EUR 1.93 (2.10) as at 30 September 2015. The capital resources of the Talanx Group in accordance with Solvency I stood at 227.5 percent (31 December 2014: 228.2 percent).

In the third quarter of 2015, the Group achieved gross written premiums of EUR 7.5 (6.8) billion. The increase of 11.4 percent was favoured overall by currency effects in an environment of extremely varying changes in exchange rates; in local currencies, the gross written premiums increased by 5.0 percent. The combined ratio improved by two percentage points to 98.0 percent (100.0 percent). The underwriting result increased to EUR -437 (-578) million. The net investment income remained almost on a level with the previous year, at EUR 1.0 (1.0) billion. Due to the improved underwriting result, the EBIT improved in quarterly terms by 12.1 percent to EUR 492 (439) million. Group net income increased by 18.8 percent to EUR 177 (149) million.

Talanx implemented the financing of the offshore wind farm Gode Wind 1 after the reporting date of 30 September 2015. The Talanx Group had announced its role as the consortium leader of several institutional investors as early as September 2015 and coordinated a bond amounting to EUR 556 million to finance this offshore wind farm. Talanx subscribed to about EUR 300 million of the 10-year bond.

The Talanx Group concluded a service agreement with IBM at the end of October 2015 for the consolidation of the Talanx data centres. IBM will therefore take over the operation of the data centres and enhance it as what is known as a “platform as a service”. The aim is to achieve a further improvement in the IT service range and cost efficiency.

Performance of the divisions

The **Industrial Lines** Division improved its gross written premiums in the first nine months of 2015 to EUR 3.4 (3.2) billion. That corresponds to a premium gain of 6.9 percent, or 2.7 percent after adjustment for currency effects. This growth was again primarily achieved in international locations given a largely saturated domestic market. In view of the premium increase, the combined ratio improved to 100.2 percent (104.7 percent) despite a high large loss burden. In particular, the result was burdened by several large fire losses and the explosion in the port of Tianjin. Nevertheless, the underwriting result improved to EUR -4 (-66) million. This positive development compensated for a much lower net investment income of EUR 158 (209) million. This figure had benefited in the same period of the previous year from higher realised disposal gains. The EBIT increased by 21.6 percent to EUR 152 (125) million, while the division’s contribution to the Group net income increased year-on-year and amounted to EUR 103 (85) million.

In the third quarter of 2015, the premium income increased by 13.0 percent to EUR 809 (716) million. The combined ratio improved in comparison to the same period of the previous year to 103.0 percent (115.0 percent) in view of a lower loss ratio; the underwriting result improved to EUR -17 (-72) million. The EBIT stood at EUR 10 (-16) million. Industrial Lines contributed EUR 6 (-4) million to the Group net income.

Although the market environment continued to be challenging, the **Retail Germany** Division posted gross written premiums of EUR 5.1 (5.1) billion in the reporting period. This corresponded to an increase of 1.3 percent. In the Life insurance business, premium income grew by 1.9 percent to EUR 3.9 (3.8) billion in the first few months of the financial year, particularly due to greater single-premium business. Measured against the annual premium equivalent (APE), the new business rose to EUR 330 (313) million. This was based particularly on growth in unit-linked and biometric products. In property/casualty insurance, the gross written premiums remained largely constant at EUR 1.3 (1.3) billion, with slight declines in motor insurance.

The underwriting result, which was characterised by the participation of the policyholders in the net investment income, improved slightly in the reporting period to EUR -1.2 (-1.3) billion. The net investment income again reached the same level as the previous year, at EUR 1.4 (1.4) billion. An improved run-off result in property damage liability insurance led to a slight improvement in the combined ratio of the composite insurers: it fell to 101.0 percent (101.7 percent).

Due to the full goodwill impairment in the German life insurance business in the second quarter of 2015, the EBIT of the division fell in the first nine months to EUR -16 (119) million. Without this one-off effect, it would have amounted to EUR 139 million – 16.0 percent more than in the same period of the previous year. The Group result fell to EUR -73 (72) million; adjusted for the impairment, it would have stood at EUR 82 (72) million, also above the figure of the previous year.

For the third quarter of 2015, the Retail Germany business recorded almost stable premium income of EUR 1.5 (1.5) billion. Marked by the participation of the life insurance customers in the lower net investment income, the underwriting result improved to EUR -361 (-456) million. The main reason for the fall in the net investment income to EUR 403 (493) million was a lower level of realised gains. The same quarter in the previous year had also benefited from higher disposal gains in the German life insurance business. The combined ratio stood at 100.8 percent (102.7 percent). The EBIT increased to EUR 45 (22) million, particularly thanks to the favourable development of the underwriting result. The division contributed EUR 31 (15) million to the Group net income in the third quarter.

The premium income in the **Retail International** Division amounted to EUR 3.5 (3.3) billion in the first nine months of 2015. This increase was particularly due to growth in the Mexican and Brazilian risk carriers and the Turkish subsidiary. The Chilean Magallanes Group, which was taken over at the beginning of 2015, contributed premium income worth EUR 169 million. The premium gain amounted to 4.7 percent overall, and the growth adjusted for negative exchange rate effects burdening this segment stood at 6.9 percent. The non-life insurers' premiums performed especially well, achieving growth adjusted for exchange rate effects of 18.6 percent. In the life insurance business, the gross written premiums declined slightly, particularly due to deliberately lower single premiums in Italy.

The combined ratio of the non-life insurers improved to 96.3 percent (96.5 percent) in view of a lower loss ratio. The underwriting result increased to EUR 1 (-6) million. In terms of investments, an increased number of investment assets in particular led to a performance growth of 3.7 percent to EUR 250 (241) million. Supported by the improved combined ratio and the excellent investment result, the EBIT climbed by 5.5 percent to EUR 173 (164) million. The contribution of the division to the Group net income amounted to EUR 106 (96) million.

In quarterly terms, the gross written premiums registered a gain of 1.8 percent to EUR 1.1 (1.1) billion. The underwriting result stood at EUR -18 (-20) million. The net investment income reached EUR 83 (85) million, despite low yields on euro-denominated government bonds. The EBIT increased in the third quarter by 15.0 percent to EUR 46 (40) million. In this quarter, the contribution of the division to Group net income stood at EUR 29 (22) million.

The gross written premiums in **Non-Life Reinsurance** increased strongly with a gain of 20.8 percent. Despite strong competition, they registered a value of EUR 7.3 (6.1) billion in the first nine months of 2015. In local currencies, the growth stood at 9.8 percent. The combined ratio at 95.6 percent (95.3 percent) achieved the target of remaining under 96 percent, while the underwriting result improved by 10.7 percent to EUR 248 (224) million. Net investment income in the reporting period amounted to EUR 689 (666) million. The segment achieved an EBIT of EUR 975 (868) million, and its contribution to the Group net income stood at EUR 320 (271) million.

In the third quarter, the premium income in Non-Life Reinsurance increased by 18.4 percent to EUR 2.3 (2.0) billion. The EBIT increased by 7.2 percent to EUR 359 (335) million. The Group net income stood at EUR 114 (106) million.

The gross written premiums in the **Life/Health Reinsurance** segment also performed well. Following growth of 21.2 percent in the first nine months of 2015, they registered a value of EUR 5.6 (4.6) billion. Adjusted for currency effects, the gross written premiums rose by 10.1 percent. The underwriting result fell to EUR -334 (-242) million. A gain of 17.6 percent to EUR 542 (461) million was registered in investments. In operating terms, the result (EBIT) remained almost constant at EUR 238 (237) million, but the contribution to the Group net income fell slightly to EUR 84 (86) million.

In quarterly terms, the gross written premiums increased by 21.4 percent to EUR 2.0 (1.7) million. The EBIT closed at EUR 44 (85) million. Life/Health Reinsurance contributed EUR 15 (29) million to the Group net income in the third quarter of 2015.

Outlook for 2015

Based on constant exchange rates, Talanx is aiming for gross premium growth of 1 to 3 percent in financial year 2015, with most of this generated outside Germany. The return on investment should be in excess of 3.0 percent. After adjustment for the impairment in full of goodwill amounting to EUR 155 million attributable to the German life insurance business in the second quarter of 2015, Group net income is expected to be between EUR 600 million and EUR 650 million for the current financial year. As a result, the return on equity should amount to between 7 and 8 percent in 2015. The Board of Management's dividend proposal for financial year 2015 will not be affected by the goodwill impairment. From today's perspective, at a payout rate of 35 to 45 percent and adjusted for the goodwill impairment in the Retail Germany Division, it will thus be based on an as-if IFRS profit of between EUR 755 million and EUR 805 million. These targets assume that exchange rates remain constant, that there are no negative developments on the capital markets and that claims for large losses are within the large loss budget.

Targets for 2016

For the 2016 financial year, the Group is aiming for a Group net income of more than EUR 700 million. The planning takes an additional post-tax expense in the amount of about EUR 70 million for IT costs as well as organisational and personnel restructuring costs in the Retail Germany Division into account. This target assumes that exchange rates remain constant, that there are no negative developments on the capital markets and that claims for large losses are within the large loss budget. Talanx is leaving the target for primary insurance in the year 2016 unchanged at EUR 290 million. In reinsurance, the large loss budget will rise to EUR 825 million (2015 financial year: EUR 690 million).

Key figures from the Talanx Group income statement for 9M 2015, consolidated (IFRS)

Figures in EUR million	9M 2015	9M 2014	+/-
Gross written premium	24,355	21,732	+12.1 %
Net premium earned	19,246	17,131	+12.3 %
Combined ratio in property/casualty insurance and non-life reinsurance	96.9 %	97.7 %	-0.8 % pts
Net investment income	2,989	2,996	-0.2 %
Operating profit (EBIT)	1,507	1,444	+4.4 %
Group net income (after non-controlling interests)	488	530	-7.9 %
Return on equity[1]	8.1 %	9.4 %	-1.3 % pts

Key figures from the Talanx Group income statement for Q3 2015, consolidated (IFRS)

Figures in EUR million	Q3 2015	Q3 2014	+/-
Gross written premium	7,528	6,757	+11.4 %
Net premium earned	6,495	5,823	+11.5 %
Combined ratio in property/casualty insurance and non-life reinsurance	98.0 %	100.0 %	-2.0 % pts
Net investment income	952	1,048	-9.2 %
Operating profit (EBIT)	492	439	+12.1 %
Group net income (after non-controlling interests)	177	149	+18.8 %
Return on equity[1]	8.8 %	7.7 %	+1.1 % pts

1) Annualised net income excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests.

Full interim report:
http://www.talanx.com/investor-relations/presentations-and-events/disclosure/2015.aspx?sc_lang=en

Financial calendar 2015/2016:
http://www.talanx.com/investor-relations/finanzkalender/termine.aspx?sc_lang=en

About Talanx

With premium income of EUR 29.0 billion (2014) and more than 21,300 employees, Talanx is one of the major European insurance groups. The Hannover-based Group is active in some 150 countries. Talanx operates as a multi-brand provider with a focus on B2B insurance. The Group's brands include HDI, which operates in Germany and abroad, the global industrial insurer HDI-Gerling, Hannover Re, one of the world's leading reinsurers, Targo Versicherungen, PB Versicherungen and Neue Leben, the latter all specialized in bancassurance, the Polish insurer Warta, and the financial services provider Ampega. 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 MDAX as well as on the stock exchanges in Hannover and Warsaw (ISIN: DE000TLX1005, German Securities Code: TLX100, Polish Securities Code: TNX).

You can find additional information by going to www.talanx.com.

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