News Release

Talanx achieves nine-month net income of EUR 444 million despite severe impact of natural catastrophes

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- Gross written premiums up by 6.3 percent to EUR 25.2 (23.7) billion
- Industrial Lines and Property/Casualty Reinsurance hit by very large losses relating to natural catastrophes in the third quarter
- Positive developments in domestic and foreign retail business help compensate for effects
- Group net income stands at EUR 444 (636) million
- Talanx has revised its outlook for Group net income for 2017 to around EUR 650 million
- Outlook for 2018: Group net income of around EUR 850 million expected

Hannover, 13 November 2017

Despite the exceptionally high burden resulting from natural catastrophes, Talanx Group achieved a nine-month net income of EUR 444 (636) million. For financial year 2017, the Group expects a relatively solid Group net income of around EUR 650 million. Thereby, the hurricanes “Harvey”, “Irma” and “Maria” and the earthquakes in Mexico cost the Group a little more than a quarterly result. Mainly, Industrial Lines and Property/Casualty Reinsurance were affected by the very high large-loss burden resulting from natural catastrophes in Central and North America. Overall, large losses relating to natural catastrophes cost the Group a total of EUR 1.045 million. The premium growth and positive developments in domestic and foreign retail business were pleasing. Across the Group, premium income grew by 6.7 percent to EUR 25.2 (23.7) billion, when adjusted for currency effects. Talanx has revised its outlook for Group net income for 2017 in the light of these large losses and is now expecting the figure to be around EUR 650 million. For financial year 2018, Talanx Group is expecting a considerably improved Group net income of around EUR 850 million.

"In the third quarter, natural catastrophes led to exceptionally large losses. We still, however, posted nine-month net income of EUR 444 million and are expecting a Group net income of EUR 650 million for the year as a whole. As things currently stand, a dividend payout at least equal to the year-earlier level is assured. This shows the Group is in a solid and robust position and can also cope with exceptionally severe loss events," says Herbert K. Haas, Chairman of the Board of Management at Talanx AG. "Both the German and international retail business developed nicely. The positive trend in the German property insurance business, for both retail and commercial customers, is becoming established. This shows we are on the right path. We are expecting Group net income of around EUR 850 million for 2018, providing natural catastrophes and other large losses do not exceed expectations. The way things are going at the divisions, I look forward to the coming year with confidence."

The impact in terms of large losses breaks down as follows: Losses worth EUR 327 (140) million were attributed to primary insurance, with most of these resulting from the Industrial Lines Division. EUR 894 (393) million was attributed to Reinsurance. Large losses exceeded the estimated large loss budget both pro rata (EUR 840 million) and for the whole year (EUR 1,115 million). The combined ratio deteriorated to 103.1 (96.6) percent. The underwriting result in Property/Casualty fell accordingly to EUR –384 (339) million.

Net investment income increased compared with the previous year by 11.1 percent to EUR 3.3 (3.0) billion due to higher net gains, with a view to funding the additional interest reserve (Zinszusatzreserve), and other sales of securities, in particular in the Reinsurance Division. As a consequence of diversification in its investments, Talanx achieved a healthy net return on investment of 3.9 (3.5) percent. As a result of very large losses, EBIT amounted to EUR 1.1 (1.7) billion after nine months. Return on equity was 6.6 (9.8) percent. As at 30 June 2017, the Solvency II ratio at Group level stood at once again improved 197 (Q1 2017: 194; FY 2016: 186; FY 2015: 171) percent.

Third quarter: Negative Group net income of EUR 19 million

In the third quarter, gross written premiums rose by 5.0 (adjusted for currency effects: 7.3) percent to EUR 7.7 (7.3) billion. The combined ratio deteriorated to 114.4 (96.4) percent as a result of the exceptionally high large loss burden. The underwriting result in Property/Casualty decreased to EUR –615 (128) million accordingly. Net investment income increased to EUR 1.2 (1.0) billion, while EBIT declined to EUR –21 (584) million. Group net income amounted to EUR –19 (233) million.

Industrial Lines: exceptionally high loss expenditure due to natural catastrophes

The Industrial Lines Division increased its premium income by 4.3 percent to EUR 3.5 (3.4) billion. Adjusted for currency effects, the increase amounted to 4.4 percent. Premium growth was mainly achieved abroad, particularly in Australia, Hong Kong, the United Kingdom, France and Japan. Retention climbed to 54.4 (52.9) percent in line with the strategy.

At EUR 315 million, the exceptional impact of especially natural catastrophes exceeded the estimated large loss budget both pro rata (EUR 195 million) and for the whole year (EUR 260 million). In addition, Industrial Lines was hit by an unusually high rate of small and medium-sized losses during the third quarter. As a result of the developments described, the combined ratio increased to 110.1 (98.0) percent. The underwriting result decreased to EUR –179 (33) million. Net investment income increased by 23.0 percent to EUR 203 (165) million as at 30 September. EBIT for the division stood at EUR 25 (204) million. The contribution to Group net income stands at EUR 14 (132) million.

The division is continuing to optimise the portfolio successfully and is now extending this policy to foreign risks. Especially for risks affected by the recent natural events, differentiated premium increases by up to 25 percent are expected.

Third quarter: further growth achieved abroad

In the third quarter, gross written premiums increased to EUR 741 (684) million. The combined ratio deteriorated to 135.0 (98.4) percent as a result of the exceptionally heavy losses within the division. The underwriting result declined accordingly to EUR –211 (8) million. Net investment income increased again to EUR 66 (56) million. As a result of the unusual accumulation of losses, EBIT fell to EUR –137 (62) million and the contribution to Group net income deteriorated to EUR –94 (41) million.

Retail Germany: contribution to Group net income more than doubled

The Retail Germany Division remains in a healthy position after nine months. The combined ratio within the Property/Casualty Insurance segment improved significantly. The Life Insurance segment was again affected by the funding of the additional interest reserve (Zinszusatzreserve). Overall, however, the contribution to Group net income more than doubled to EUR 90 (39) million.

Property/Casualty Insurance segment: positive claims trends improve EBIT

Premium income in the Property/Casualty Insurance segment rose by 1.9 percent to EUR 1,284 (1,260) million. In line with the strategy, the increase was particularly attributable to the growth in business with small and medium-sized companies and self-employed professionals as well as successes in direct sales and bancassurance. The combined ratio improved to 100.3 (103.2) percent on the back of positive claims trends. Adjusted to reflect expenditure on the KuRS investment and modernisation programme, the figure stood at 97.8 (100.4) percent. The underwriting result improved to EUR 2 (–33) million.

Net investment income improved slightly to EUR 71 (69) million. In terms of EBIT, the segment recorded another significant increase to EUR 49 (-9) million thanks to positive claims trends, reduced operating costs and lower expenditure for KuRS.

Third quarter: further reduction in combined ratio

In the third quarter, premium income remained stable at EUR 282 (280) million. The combined ratio improved to 98.1 (100.3) percent. Adjusted to reflect KuRS expenditure, the figure stood at 96.0 (96.9) percent. The underwriting result improved to EUR 11 (–1) million. Net investment income also improved to EUR 27 (22) million. EBIT rose to EUR 27 (8) million.

Life Insurance segment: pleasing share of new business attributable to capital-efficient and biometric products

Premiums in the Life Insurance segment declined by 3.4 percent during the first nine months of 2017 to EUR 3.4 (3.5) billion. This decline, which is in line with expectations, applies to both regular premiums – due to an increase in the number of policies maturing in 2016 – and single premiums. New business for life insurance products was down overall, based on the annual premium equivalent (APE) metric, to EUR 280 (296) million. The share attributable to capital-efficient and biometric products amounted to 72 percent.

The underwriting result stood at EUR –1.3 (–1.2) billion. It will continue to be affected by the unwinding of discounts on technical provisions and policyholder participation in net investment income. The latter increased by 4.8 percent to EUR 1.4 (1.3) billion, which was mainly attributable to realisation of unrealised gains in order to fund the additional interest reserve (Zinszusatzreserve). EBIT declined to EUR 67 (79) million due to provision for premium refunds resulting from tax income at a number of companies within the Group.

Third quarter: significant improvement in EBIT

In the third quarter, gross written premiums fell to EUR 1,089 (1,149) million. The underwriting result improved to EUR –409 (–426) million. Net investment income increased slightly to EUR 447 (444) million, while EBIT improved to EUR 26 (6) million.

Retail International: strong growth in gross premium income continues

The positive trend for the Retail International Division has continued during financial year 2017, with gross written premiums rising by 10.8 percent to EUR 4.1 (3.7) billion. Adjusted for currency effects, the increase amounted to 9.3 percent, which on balance only comes from the property/casualty insurance sector. Both target regions of Latin America and Europe contributed to growth. In Latin America, the increase in premium volume was mainly the result of positive trends in terms of motor insurance. In Europe, premium income growth was largely due to higher average premiums for motor liability insurance and an increase in the number of vehicles insured in Poland.

The combined ratio improved by 1.1 percentage points to 95.9 (97.0) percent, mainly due to a decline in the expense ratio on the back of cost optimisation measures, which more than compensated for a slight increase in the loss ratio. The underwriting result was significantly up on the previous year at EUR 31 (–3) million.

The division's net investment income increased by 4.5 percent to EUR 255 (244) million. This was mainly due to investment portfolios being larger than in the same period of the previous year. EBIT after nine months stood at EUR 179 (163) million. The increase in EBIT in Europe more than compensated for the decline in Latin America. Group net income improved by 13.4 percent to EUR 110 (97) million.

Third quarter: combined ratio significantly improved

In the third quarter, gross written premiums increased to EUR 1,237 (1,182) million. The combined ratio improved to 94.9 (98.0) percent. The underwriting result rose to EUR 17 (–10) million. Net investment income declined to EUR 82 (91) million. EBIT improved to EUR 63 (56) million, with its contribution to Group net income increasing to EUR 36 (32) million.

Reinsurance: exceptional claims experience affects contribution to earnings

The Reinsurance Division was massively affected by the impact of natural catastrophes during the third quarter. Given the circumstances, the contribution to Group net income fell to EUR 271 (404) million across the segments.

Property/Casualty Reinsurance segment: exceptional impact of natural catastrophes

Gross written premiums in the Property/Casualty Reinsurance segment rose by 15.2 percent to EUR 8.2 (7.1) billion. Adjusted for currency effects, the increase amounted to 16.1 percent. The combined ratio deteriorated to 104.3 (95.1) percent due to the exceptionally severe impact of large losses, which meant the target of 96 percent was missed. The underwriting result deteriorated significantly to EUR –306 (274) million. Net investment income increased to EUR 965 (663) million. Against this backdrop, the segment posted EBIT of EUR 612 (919) million, which represents a decline of 33.4 percent.

Third quarter: positive trend in terms of premium income

In the third quarter, gross written premiums increased to EUR 2.8 (2.5) billion. The combined ratio amounted to 118.2 (94.5) percent. The underwriting result decreased to EUR –455 (109) million. Net investment income increased to EUR 475 (232) million, while EBIT fell due to the severe impact of large losses to EUR –32 (337) million.

Life/Health Reinsurance segment: stable premium income

In the Life/Health Reinsurance segment, premium income fell only slightly by 0.9 percent to EUR 5,284 (5,334) million after nine months of 2017. Adjusted for currency effects, gross written premiums rose by 0.7 percent. The underwriting result deteriorated to EUR –363 (–237) million. Net investment income fell by 12.3 percent to EUR 433 (494) million as a result of interest rates remaining low. After a decline of 31.2 percent, EBIT stood at EUR 194 (282) million.

Third quarter: slight increase in gross written premiums

In the third quarter, gross written premiums increased to EUR 1,714 (1,678) million. The underwriting result deteriorated to EUR –134 (– 61) million. Net investment income declined to EUR 133 (173) million. EBIT declined to EUR 38 (108) million.

Outlook for 2017

Talanx has revised its outlook for financial year 2017 already at the end of October to around EUR 650 million due to the high large-loss burden from natural catastrophes in the third quarter. Accordingly, the return on equity is expected to be around 7.5 percent. This forecast result is subject to the large loss burden during the fourth quarter not exceeding the large losses budgeted for one quarter. Talanx still expects a rise in gross premiums of more than 4.0 percent for the whole of the year, based on steady exchange rates. Net return on investment should be at least 3.0 percent.

As usual, the targets for financial year 2017 assume there will be no negative developments in the currency and capital markets and that large losses will remain in line with expectations. From today's perspective, a dividend payout at least equal to the year-earlier level is assured.

Outlook for 2018

For financial year 2018, Talanx is aiming to achieve a considerably improved Group net income of around EUR 850 million, despite the ongoing reflection of the low interest phase within the eurozone in the investment portfolio. Gross premium income is expected to grow by at least 2.0 percent, based on steady exchange rates. Net return on investment should be at least 3.0 percent and return on equity around 9.0 percent.

As usual too, the targets for financial year 2018 assume there will be no negative developments in the currency and capital markets and that large losses will remain in line with expectations. Another stated aim for financial year 2018 is to distribute a share of 35 to 45 percent of Group net income as a dividend payment.

Key data from the Talanx Group income statement, 9M 2017, consolidated (IFRS)

EUR million	9M 2017	9M 2016[1]	+/-
Gross written premiums	25,239	23,749	+6.3%
Net premiums earned	20,284	19,134	+6.0%
Combined ratio in property/ casualty primary insurance and Property/Casualty Reinsurance[2]	103.1%	96.6%	+6.5%pts.
Net investment income	3,311	2,981	+11.1%
Operating profit (EBIT)	1,104	1,651	-33.1%
Group net income (after non-controlling interests)	444	636	-30.2%
Return on equity[3]	6.6%	9.8%	-3.2%-pts.

Key data from the Talanx Group income statement, Q3 2017, consolidated (IFRS)

EUR million	Q3 2017	Q3 2016[1]	+/-
Gross written premiums	7,686	7,322	+5.0%
Net premiums earned	6,844	6,324	+8.2%
Combined ratio in property/ casualty primary insurance and Property/Casualty Reinsurance[2]	114.4%	96.4%	-18.0%pts.
Net investment income	1,226	1,019	+20.4%
Operating profit (EBIT)	-21	584	-103.7%
Group net income (after non-controlling interests)	-19	233	-108.4%
Return on equity[3]	-0.9%	10.5%	-11.4%pts.

1) Adjusted in accordance with IAS 8 or IFRS 3.45 within the valuation period.
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 interim report:
http://www.talanx.com/investor-relations/presentations-and-events/disclosure/2017.aspx?sc_lang=de-DEFinanzkalender:

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

About Talanx

With premium income of EUR 31.1 billion (2016) and about 20,000 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. 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 MDAX 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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