News Release

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Talanx generates Group net income of EUR 223 million in first quarter

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- Gross written premiums up 6.4 percent to EUR 12.5 (11.7) billion
- Operating profit (EBIT) down 9.3 percent on prior-year period to EUR 559 (616) million
- Group net income of EUR 223 (235) million roughly on a par with the previous year
- Coronavirus-related large losses of EUR 313 million and impact on earnings from investments of EUR 60 million absorbed in the accounts
- All divisions affected by coronavirus pandemic
- Nevertheless, financial indicators show the Talanx Group's strong resilience
- The Talanx Group remains fully functional and is providing all services to customers and business partners thanks to mobile working and professional crisis management
- Outlook for 2020 withdrawn on 21 April due to uncertainties caused by coronavirus

Hannover, 7 May 2020

The coronavirus crisis impacted both the Talanx Group's underwriting and its investments in the first quarter of the new financial year. Large losses in primary insurance and reinsurance rose from EUR 137 million in the same period of the previous year to EUR 435 million, substantially in excess of the EUR 278 million pro rata large loss budget for the period. All divisions were impacted by the consequences of the pandemic and the lockdown. At the same time, Talanx demonstrated its high level of resilience in a crisis when faced with the exceptional challenges caused by the coronavirus lockdown. Gross written premiums rose by 6.4 percent to EUR 12.5 (11.7) billion. Operating profit (EBIT) amounted to EUR 559 (616) million. At EUR 223 (235) million, Group net income was roughly on a par with the previous year. Overall, the coronavirus pandemic impacted Group net income by EUR 133 million after taxes. EUR 48 million of this figure related to net investment income, EUR 80 million to coronavirus-related losses in excess of the pro rata large loss budget for the first quarter and EUR 5 million to impairments of the present value of future profits (PVFP). The Solvency II ratio before transitional measures on 31 March 2020 was within the upper half of the target range of 150 to 200 percent.

“The coronavirus pandemic has stretched people and enterprises in many countries of the world to their limits. We haven’t seen a crisis like this since the Second World War. In this difficult time, our thoughts are with everyone who has lost loved ones or is suffering personally from the effects of the pandemic. As a major European insurance group, Talanx has also been impacted by this crisis, both in its underwriting activities and in its investments. Our professional crisis management and the ability of more than 90 percent of our staff to engage in mobile working mean that we were and are fully functional at all times and can provide our business partners and customers with a full range of services”, said Torsten Leue, Chairman of Talanx AG’s Board of Management. “We entered this crisis in a position of strength. Now we are focusing on maintaining this strength and resilience so as to be able to continue supporting our policyholders, business partners and employees and the people in the countries in which we do business, and to go on providing insurance, both now and in the future. This is in line with our Talanx Purpose: ‘Together we take care of the unexpected and foster entrepreneurship’.”

Large losses for the first quarter 2020 were up year-on-year at EUR 435 (137) million. EUR 313 million of this figure related to large loss expenses from the coronavirus pandemic before application of the pro rata large loss budget for the period. Reinsurance activities accounted for the largest part with approximately EUR 220 million, primary insurance being responsible for the remainder. The pandemic and the lockdown most of all led to large numbers of business closures and cancelled events that are insured with our risk carriers. The situation was aggravated by the impact of numerous other large losses such as the bush fires and hailstorm in Australia, hurricanes “Ciara”, “Elsa” and “Sabine” in Europe, and tornado “Nashville” in the USA. As a result, the underwriting result amounted to EUR–425 (–357) million. After making use of the otherwise unused pro rata large loss budget, the combined ratio rose by 3.0 percentage points to 99.8 (96.8) percent in the first quarter.

In addition, Talanx's net investment income declined year-on-year as a result of the coronavirus pandemic's impact on the capital markets; at EUR 903 (988) million, it was down 8.6 percent. The net return on investment amounted to 2.7 (3.2) percent. The drop was primarily caused by unrealised losses on the holdings measured at fair value in extraordinary net investment income.

Operating profit fell by 9.3 percent to EUR 559 (616) million, also affected by coronavirus-related PVFP impairments. Nevertheless, at EUR 223 (235) million Group net income was roughly on a par with the previous year, despite the above-mentioned negative effects of the virus.

Industrial Lines: "20/20/20" programme has expected impact; large loss budget exceeded due to coronavirus claims

Gross written premiums at Industrial Lines rose by 12.2 percent in the first three months of 2020 to EUR 2.6 (2.3) billion. Roughly two-thirds of the increase of EUR 279 million were due to growth at HDI Global Specialty, with additional growth coming from the third-party liability and foreign property insurance areas. Net premiums earned climbed by an even stronger 14.5 percent to EUR 726 (634) million, due to the increased retention in the specialty business, among other things. The division systematically continued its restructuring and profitability-enhancing measures, lifting its underwriting result to EUR –11 (–18) million despite EUR 34 million of negative effects from the coronavirus crisis. The pro rata large loss budget was exceeded by EUR 8 million due to the coronavirus pandemic. The (net) combined ratio amounted to 101.6 (102.9) percent. Excluding coronavirus-related losses, the combined ratio would have amounted to roughly 100 percent.

Net investment income was also hit by the coronavirus pandemic's effects on the capital markets, dropping by roughly half to EUR 34 million. At EUR 30 (35) million, Industrial Lines' operating profit for the first three months of the year was down by roughly 15 percent. The division's contribution to Group net income fell by 23.7 percent to EUR 17 (23) million.

Retail Germany: Effects of coronavirus pandemic depress both premiums and net income

Gross premium income at the Retail Germany division declined slightly in the first quarter under the impact of the coronavirus pandemic to EUR 1.8 (1.9) billion. However, the results of the crisis hit operating profit much more clearly; this sank year-on-year to EUR 32 (60) million. The segment contributed EUR 19 (36) million to Group net income.

Property/Casualty Insurance Segment: Loss expenses and net investment income hit hard by coronavirus pandemic

Premium income written in the Property/Casualty Insurance Segment was down slightly on the prior-year quarter, at EUR 774 (782) million. Growth in business with commercial customers and freelance professionals could not fully offset declines in motor insurance and the core biometric business.

At EUR–13 (4) million, the underwriting result was lower than in the same quarter of the previous year; this was due solely to the impact of the coronavirus pandemic (EUR 31 million). In addition, higher loss expenses (primarily due to expenses for shutdown insurance) lifted the combined ratio from 99.3 percent to 103.8 percent; without investments in the "KuRS" optimisation programme, the combined ratio would have been 103.4 percent. In an extremely dynamic environment, HDI insurance received more than 1,300 coronavirus-related shutdown insurance claims for the month of March alone.

Net investment income for the segment fell to EUR 14 (28) million as a result of the effects triggered by the coronavirus pandemic. The segment generated an operating loss of EUR 3 million (operating profit of EUR 30 million) due to the impact on loss expenses and investments.

Life Insurance Segment: Decline in single-premium business and regular premiums

The Life Insurance Segment saw a 2.7 percent decrease in premiums in the first three months to EUR 1,075 (1,104) million, including the savings elements of premiums from unit-linked life insurance. Regular premiums fell largely as a result of higher policy expirations. After adjustment for the savings elements of premiums from unit-linked products and changes to unearned premiums, the Life Insurance Segment's net premiums earned amounted to EUR 812 (812) million, as in the previous year.

New business in the area of life insurance products – measured using the annual premium equivalent (APE), the international standard – rose from EUR 95 million to EUR 96 million.

The underwriting result improved by approximately one quarter to EUR–270 (–363) million. This was largely due to lower provisions for premium refunds resulting from policyholder participation in investment income. The main factors influencing this item continue to be the calculation of the discounts on technical provisions and policyholder participation in net investment income. A coronavirus-related PVFP impairment of EUR 7 million had a negative effect.

Net investment income dropped by roughly one-quarter to EUR 304 (401) million. Apart from lower ordinary investment income resulting from continuing low interest rates, this was mainly due to the impact of the coronavirus pandemic on the capital markets.

Operating profit in the Life Insurance Segment of the Retail Germany Division rose year-on-year to EUR 36 (30) million. The main reason for the increase was the positive effect caused by the deconsolidation of a small company.

Retail International: Slight improvement in operating profit and moderate decrease in premiums

Gross written premiums (including premiums from unit-linked life and annuity insurance) in the Retail International Division declined by 6.4 percent in the first quarter compared to the comparable period of 2019 to EUR 1.5 (1.6) billion. Adjusted for currency effects, gross premiums rose by 2.3 percent. Both the Europe and Latin America regions recorded a drop in premium income. Gross written premiums fell by 5.0% to EUR 1.1 (1.1) billion in Europe and by 10.2 percent to EUR 401 (446) million in Latin America. Premiums in the Latin America region are largely generated from motor insurance policies, which declined as a result of the drop in new car purchases caused by the economic situation. In addition, Italy and Hungary recorded declines in the single-premium life insurance business.

The combined ratio for the property insurance companies rose by 1.9 percentage points year-on-year to 96.6 percent. Coronavirus-related charges of EUR 20 million recognised as a precautionary measure contributed to the rise. In line with this, the underwriting result declined to EUR 3 (15) million. Net investment income roughly matched the prior-year level at EUR 90 (91) million. Operating profit increased by 3.4 percent compared with the first quarter of 2019 to EUR 75 (73) million. The Europe region was a key growth driver here, recording a 32.7 percent rise in operating profit compared to the prior-year period, to EUR 89 (67) million. This was mainly attributable to the earnings contribution made by Polish company TUiR WARTA S. A. The division’s contribution to Group net income was on a par with the prior-year period at EUR 43 (42) million.

Reinsurance: coronavirus effect leads to sharp rise in large losses

The Reinsurance Division saw gross written premiums rise by 9.4 percent in the first quarter to EUR 7.0 (6.4) billion. However, the division exceeded its pro rata large loss budget (EUR 188 million) by EUR 96 million, due above all to approximately EUR 220 million of additional reserves for losses associated with the coronavirus pandemic. The underwriting result fell to EUR –131 (4) million, while operating profit slipped back 5.6 percent to EUR 427 (453) million. The division contributed EUR 149 (147) million to Group net income in the first quarter, roughly on a par with the comparable period of the previous year.

Property/Casualty Reinsurance Segment: Combined ratio exceeds target range due to coronavirus effect

Gross written premiums in the Property/Casualty Reinsurance Segment rose by 13.5 percent to EUR 5.0 (4.4) billion. The combined ratio deteriorated to 99.8 (95.7) percent, mainly as a result of the coronavirus effect. The underwriting result plummeted 101.9 percent to EUR –2 (112) million. This was partially offset by an improvement in extraordinary net investment income to EUR 55 (–4) million, resulting in an operating profit of EUR 305 (340) million.

Life/Health Reinsurance Segment: Premium levels remain constant

Gross written premiums in the Life/Health Reinsurance Segment were roughly on a par with the previous year at EUR 2.0 (2.0) billion, whereas net earned premiums rose 4.3 percent to EUR 1.8 (1.7) billion. This was due among other things to the 2.4 percentage-point increase in the retention. Net investment income improved to EUR 174 (162) million. Operating profit climbed by 8.4 percent to EUR 123 (113) million.

Outlook for 2020

On 21 April 2020, the Talanx Group withdrew its outlook for the financial year 2020 due to the ongoing coronavirus pandemic and substantial uncertainty about future economic and capital market developments.

At EUR 223 million, Group net income for the first quarter of 2020 is roughly on a par with the prior-year level. However, we do not consider it possible to extrapolate the quarterly result to full-year 2020, since the impact of the coronavirus pandemic only affected one of the three months in the reporting period, especially in underwriting. From today's perspective, there are too many uncertainties surrounding the previous earnings target range of between "more than EUR 900 million" and EUR 950 million to be able to maintain it. This applies both to all the Group's management metrics and to the individual divisional targets.

Talanx still aims to distribute 35–45 percent of its IFRS earnings and to maintain its policy of dividend continuity.

Today the Talanx Group also published its annual Solvency and Financial Condition Report as of 31 December 2019.

Key figures from the Talanx Group income statement, Q1 2020, consolidated (IFRS)

EUR million	Q1 2020	Q1 2019	+/–
Gross written premiums	12,467	11,716	+6.4%
Net premiums earned	8,354	7,842	+6.5%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[1]	99.8%	96.8%	+3.0% pt.
Net investment income	903	988	–8.6%
Operating profit/loss (EBIT)	559	616	–9.3%
Group net income (after non-controlling interests)	223	235	–5.1%
Return on equity[2]	9.0	10.3%	–1.3% pt.

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

Full documents relating to the quarterly statement

Financial calendar

About Talanx

Talanx is a major European insurance group with premium income of EUR 39.5 billion (2019) and roughly 23,000 employees worldwide. Based in Hannover, Germany, the Group is active in more than 150 countries. Talanx is a multibrand provider with a focus on B2B insurance. Its industrial insurance and retail business in Germany and abroad is operated under the HDI brand, which has a rich tradition stretching back about 120 years. Other Group brands include Hannover Re, one of the world's leading reinsurers; the bancassurance specialists Targo insurers, PB insurers and neue leben; and Polish insurer Warta. Ampega, one of Germany's largest asset management companies, manages the Talanx Group's assets and is also an experienced provider of asset management solutions for non-group institutional investors. Rating agency Standard & Poor's has awarded the Talanx Primary Insurance 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, where it is a member of the SDAX, and on the Hannover and Warsaw stock exchanges (ISIN: DE000TLX1005, German Securities Code: TLX100, Polish Securities Code: TNX).

Talanx – Together we take care of the unexpected and foster entrepreneurship

For further information, please see www.talanx.com.

Current photographs and company logos are available at https://mediathek.talanx.de.

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