News Release

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Group net income holds up well despite substantial coronavirus impact

- Gross written premiums up 5.5 percent to EUR 22 (20.9) billion
- Coronavirus claims expenses of EUR 824 million
- Operating profit down 40.1 percent to EUR 745 (1,244) million
- Group net income of EUR 325 (477) million
- Excluding the coronavirus impact, Group net income would have been up tangibly year-on-year
- Combined ratio excluding coronavirus effects stable
- Solvency II ratio of 191 percent at upper end of target corridor
- Ongoing uncertainty means no reliable outlook can be given

Hannover, 12 August 2020

The Talanx Group continued its successful development in the first half of the year, generating Group net income of EUR 325 million despite a substantial impact from the coronavirus. This figure is only one-third down on the strong first half of 2019. Excluding the effects of the coronavirus, Group net income would in fact have been up substantially year-on-year, at EUR 603 (477) million. Gross written premiums rose by 5.5 percent in the first half of 2020 to EUR 22 (20.9) billion, or 6.3 percent after adjustment for exchange rate effects. Net coronavirus expenses of EUR 658 million impacted operating profit, which amounted to EUR 745 (1,244) million. The combined ratio was 101.3 (97.5) percent. Excluding positive and negative coronavirus effects, it would have been stable, at 97.4 percent. In total, losses from the pandemic in the first half of the year amounted to EUR 824 million; however, these were absorbed in part by the budgeted large loss reserve. Other negative effects relate to investments (EUR 174 million) and provisions for future premium decreases (EUR 104 million). Conversely, the coronavirus reduced losses at certain lines by EUR 93 million. The positive developments in the divisions continued despite the coronavirus. Industrial Lines made further progress with its profitability enhancement

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measures. The Retail Germany Division is coming on well with its KuRS programme. And operating profit at the Retail International division was up slightly year-on-year.

"The coronavirus pandemic made the first half of 2020 difficult for us", commented Torsten Leue, Chairman of Talanx AG's Board of Management. "The impact in the second quarter in particular – the height of the lockdown in Europe – was enormous and clearly exceeded our loss budget. However, adjusted for the losses from the pandemic, our underwriting would have been stable. We saw considerable premium growth in primary insurance and our profitability enhancement programmes are having the desired effect. Nevertheless, we must also be prepared for a challenging second half of the year. The coronavirus pandemic is not over yet and the consequences for economic growth are still unknown. What is clear is that the low-interest rate environment has been further exacerbated and that the hurricane season is only just starting. In other words, the situation remains extremely opaque and means we are still unable to provide an outlook for financial year 2020."

At EUR 824 million, coronavirus loss expenses were far greater than losses from natural disasters, although the latter were higher in the first half of the year than in the prior-year period at EUR 190 (138) million. The largest losses were caused by the Nashville tornado in the USA (EUR 44 million) and the New South Wales bush fires in Australia (EUR 40 million).

The underwriting result fell by almost 60 percent due to the coronavirus to EUR –1,129 (–708) million. EUR 281 million of the total large losses of EUR 1,018 million is attributable to primary insurance and EUR 737 million to reinsurance. Large losses clearly exceeded the pro rata budget for the period of EUR 594 (527) million. The main causes apart from natural disasters were business interruptions and event insurance.

Excluding transitional measures, the Solvency II ratio as at 30 June 2020 was a comfortable 191 (31 March 2020: 196) percent, at the upper end of the target range of between 150 and 200 percent.

Second quarter: Group net income down by more than half

In the second quarter, gross written premiums rose by 4.3 percent to EUR 9.5 (9.1) billion. The underwriting result was EUR –704 (–350) million due to the coronavirus. The combined ratio rose to 102.7 (98.1) percent. Without the impact of the coronavirus, it would have been 98.0 percent. Net investment income fell by 11.7 percent to EUR 882 (998) million. Operating profit (EBIT) dropped to EUR 186 (628) million and Group net income to EUR 103 (242) million.

Industrial Lines: Ongoing clear effect of profitability enhancement measures

Gross written premiums in the Industrial Lines Division rose by 10.6 percent to EUR 3.9 (3.5) billion. Adjusted for exchange rate effects, the increase was even higher, at 10.9 percent. Once again, HDI Global Specialty SE was the main growth driver. Provisions were recognised as of the end of the quarter for the expected negative impact on earned premiums for the current financial year.

Coronavirus losses of EUR 107 million led to the large loss budget being exceeded by EUR 32 million, negatively impacting the underwriting result and the combined ratio. The underwriting result was EUR –67 (–32) million in the first half of the year, while the combined ratio was 104.7 (102.3) percent. Adjusted for the effects of the pandemic, the combined ratio would have been 98.6 percent. This figure also reflects the ongoing clear progress with the profitability enhancement measures forming part of the 20/20/20 programme.

At EUR 107 (133) million, net investment income was below the result for the previous year, which had benefited from substantial distributions. Operating profit fell to EUR 18 (69) million due to the impact of the large losses from the coronavirus and the drop in net investment income. The segment contributed EUR 7 (42) million to Group net income.

Second quarter: Group net income hard hit by coronavirus

In the second quarter, gross written premiums increased by 7.6 percent year-on-year to EUR 1.3 (1.2) billion. Adjusted for exchange rate effects, growth amounted to 8.9 percent. The underwriting result declined to EUR –56 (–14) million, since the large loss budget was exceeded due to the coronavirus. In line with this, the combined ratio rose from 101.9 percent to 107.7 percent. Without the coronavirus effects and the provision for expected premium adjustments, the combined ratio would have been 96.8 percent. Net investment income rose to EUR 73 (62) million on the back of income from equities sales. An operating loss of EUR 12 (operating profit of 33) million was generated, while the segment’s contribution to Group net income was EUR –10 (19) million.

Retail Germany relatively robust

The Retail Germany Division remained relatively robust in the coronavirus environment in the first half of the year. Gross written premiums fell by 5.4 percent year-on-year to EUR 3,147 (3,327) million. Operating profit dropped by 24.3 percent to EUR 95 (125) million. This was due to a routine update to the bases of calculation under the

IFRSs in the life insurance area and to the absence of a positive net effect seen in the previous year. The “KuRS” optimisation programme continues to make good progress. Excluding corona burdens, it is apparent that by the end of this financial year we are already close to the target we wanted to achieve for 2021. The contribution made by the division to Group net income fell to EUR 63 (72) million.

Property/Casualty segment: Operating profit up slightly on previous year

Roughly 2,100 business insurance losses have been reported so far during the coronavirus pandemic. HDI Germany has made payments to customers in excess of EUR 40 million. Gross written premiums in the Property/Casualty segment fell by 3.6 percent to EUR 1,005 (1,042) million. The decline was driven by the drop in new business as a result of the coronavirus pandemic and the negative net motor vehicle renewal business. Business with small and medium-sized enterprises increased in line with our strategy, despite the adverse conditions. The underwriting result improved by 125.2 percent to EUR 22 (10) million. The profitability enhancement measures in the motor vehicles area and a lower level of basic losses had an extremely positive effect. In addition, the division succeeded in tangibly limiting the impact of the coronavirus by sharing risk with the reinsurance market.

The combined ratio improved by 1.8 percentage points to 96.9 (98.7) percent. Without the impact of the coronavirus, it would have been 95.1 percent. Net investment income dropped by 27.5 percent compared to the prior-year period, to EUR 40 (55) million. Despite this, operating profit rose slightly to EUR 55 (54) million.

Second quarter: Improved combined ratio

In the second quarter, gross written premiums fell by 11.3 percent to EUR 231 (260) million. EUR 22 million of the decline is due to the coronavirus. The underwriting result increased to EUR 35 (7) million. The combined ratio improved to 90.1 (98.1) percent. Adjusted for coronavirus effects and the costs of the “KuRS” modernisation programme, the combined ratio was 95.1 (96.4) percent. Net investment income fell by 4.1 percent to EUR 25 (26) million. Operating profit rose to EUR 58 (25) million.

Life Insurance segment: Lower premium income

Premium income in the Life Insurance segment fell by 6.3 percent to EUR 2.1 (2.3) billion due to the impact of the coronavirus. Branch office closures in the banking sector and companies’ reluctance to take out occupational pension insurance policies had an effect here. The pandemic is estimated to have pushed down premium income by EUR 99 million. The underwriting result improved to EUR –634 (–664) million. Net investment income fell by 9.0 percent year-on-year to EUR 685 (753) million. This was due to lower income in the low interest rate environment, lower income from unrealised gains and losses, and higher write-downs. Operating profit dropped to EUR 40 (71) million.

Second quarter: Coronavirus impacts operating profit

In the second quarter, gross written premiums in the Life Insurance segment fell by 9.6 percent to EUR 1.1 (1.2) billion. The underwriting result declined to EUR –364 (–303) million. Net investment income improved to EUR 381 (353) million, largely due to the fair value measurement of derivatives. Operating profit fell to EUR 4 (40) million as a result of the coronavirus, although the prior-year period had also been influenced by a positive one-off effect of EUR 15 million.

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Retail International: clear exchange rate effects from coronavirus – higher operating result

Gross written premiums in the Retail International Division fell by 12.6 percent year-on-year to EUR 2.8 (3.2) billion. Adjusted for exchange rate effects, the drop was 6.8 percent. Premium volumes in Europe declined by 10.1 percent to EUR 2.1 (2.3) billion; this was mainly due to the drop in single-premium business in Italy. By contrast, Polish company Warta lifted its premium volumes by 2.3 percent after adjustment for exchange rate effects. In Latin America, premium income fell by 19 percent to EUR 699 (863) million. Apart from exchange rate effects, this was largely due to the drop in new motor vehicle policies in Brazil, Mexico and Chile caused by the coronavirus.

The underwriting result was EUR 44 (24) million. The combined ratio improved by 0.8 percent to 94.3 (95.2) percent, since the coronavirus temporarily pushed down loss frequencies for motor vehicle insurance. Net investment income fell by 11.8 percent to EUR 167 (189) million. Operating profit rose by 6.9 percent year-on-year to EUR 156 (146) million. The contribution made by the division to Group net income was 4.5 percent higher, at EUR 89 (85) million.

Second quarter: Higher contribution to earnings

In the second quarter, gross written premiums fell by 19 percent to EUR 1.2 (1.5) billion. The underwriting result rose to EUR 41 (9) million. The combined ratio improved as a result of the coronavirus to 91.8 (95.6) percent. Net investment income fell to EUR 76 (97) million. Operating profit climbed by 10.5 percent to EUR 81 (73) million. The contribution made by the division to Group net income rose to EUR 46 (43) million.

Reinsurance: Coronavirus impacts large loss budget in Non-Life Reinsurance by EUR 600 million

Growth by the Reinsurance Division increased in the first half of the year despite the coronavirus. Gross written premiums rose by 12.4 percent to EUR 13.1 (11.7) billion. The high level of claims meant that operating profit was EUR 509 (943) million, while the division's contribution to Group net income amounted to EUR 200 (329) million.

Property/Casualty Reinsurance segment: Strong premium growth

Gross written premiums increased by 16.9 percent year-on-year to EUR 9.2 (7.8) billion in the first half of the year. Adjusted for exchange rate effects, the increase amounted to 16.3 percent. At EUR 737 (141) million, net large losses were substantially higher than both the figure for the comparative period and the pro rata large loss budget figure for the first half of the year of EUR 414 million. A total of EUR 600 million was reserved for coronavirus losses in Property/Casualty Reinsurance. The EUR 380 million increase made to the reserves in the second quarter is largely due to uncertainty as to the pandemic's duration and intensity.

The underwriting result declined to EUR –186 (174) million. The combined ratio was 102.3 (96.7) percent. Net investment income fell by 7.9 percent to EUR 468 (508) million. Operating profit amounted to EUR 300 (662) million.

In the second quarter, gross written premiums rose by 21.3 percent to EUR 4.2 (3.5) billion. The underwriting result declined to EUR –184 (61) million. The combined ratio rose to 104.8 (97.6) percent. Net investment income fell by 36 percent to EUR 170 (266) million. The operating loss was EUR 5 (operating profit of 322) million.

Life/Health Reinsurance segment: Coronavirus has moderate impact on results

Premium income in Life/Health Reinsurance rose by 3.3 percent in the first half of the year to EUR 4.0 (3.8) billion. Adjusted for exchange rate effects, gross written premiums increased by 3.6 percent. Coronavirus claims in the Life/Health Reinsurance segment amounted to approximately EUR 60 million. The underwriting result fell to EUR –284 (–210) million. Net investment income declined to EUR 331 (364) million. Operating profit fell by 25.6 percent to EUR 210 (282) million.

In the second quarter, gross written premiums rose by 6.2 percent to EUR 1.98 (1.87) billion. The underwriting result fell to EUR –155 (–102) million. Net investment income declined to EUR 157 (202) million. Operating profit dropped to EUR 87 (169) million.

Outlook for 2020

On 21 April 2020, the Talanx Group withdrew its outlook for financial year 2020 due to the ongoing coronavirus pandemic and substantial uncertainty about future economic and capital market developments. Originally we were aiming for Group net income in a range of “more than EUR 900 million” up to EUR 950 million.

There has been no change in the period of exceptional uncertainty regarding future developments in premiums and large losses, and on the capital markets. As a result, it is not possible to give a reliable earnings outlook and we have decided not to present financial performance indicators at Group and segment level.

At EUR 325 million, Group net income for the first half of 2020 has declined more strongly year-on-year (EUR 477 million) than Q1 earnings did. We do not think that it is possible to extrapolate the results for the first half of 2020 to the year as a whole, since we expect that the coming quarters will also be hit by additional, although not easily foreseeable, financial effects from the pandemic, and that the economic and capital market environment will deteriorate.

From today's perspective, Talanx still aims to distribute 35 to 45 percent of its IFRS earnings and to maintain its dividend policy of continuity.

Key data from the Talanx Group income statement for H1 2020, consolidated (IFRS)

EUR million	6M 2020	6M 2019	+/–
Gross written premiums	22,006	20,864	+5.5%
Net premiums earned	16,746	15,917	+5.2%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[1]	101.3%	97.5%	+3.8% pps
Net investment income	1,785	1,986	–10.1%
Operating profit/loss (EBIT)	745	1,244	–40.1%
Group net income (after non-controlling interests)	325	477	–31.8%
Return on equity[2]	6.4%	10.4%	–4.0% pps

Key data from the Talanx Group income statement for Q2 2020, consolidated (IFRS)

EUR million	Q2 2020	Q2 2019	+/–
Gross written premiums	9,539	9,148	+4.3%
Net premiums earned	8,392	8,075	+3.9%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[1]	102.7%	98.1%	+4.6% pps
Net investment income	882	998	–11.7%
Operating profit/loss (EBIT)	186	628	–70.4%
Group net income (after non-controlling interests)	103	242	–57.7%
Return on equity[2]	4.1%	10.1%	–6.0% 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.

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).

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