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Talanx on track with good 6M results

- Gross written premiums climb by a double-digit 11.2 percent to EUR 20.9 (18.8) billion
- EBIT up 2.7 percent to EUR 1,244 (1,212) million
- Group net income rises 9.4 percent to EUR 477 (437) million
- Restructuring of industrial fire insurance business ahead of schedule
- Outlook for full-year Group net income raised to more than EUR 900 million

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The Talanx Group has continued its profitable growth in the first half of 2019 and has already generated more than half of its target net income for the year. Gross written premiums saw double-digit growth year-on-year of 11.2 percent to EUR 20.9 (18.8) billion, or 10.1 percent after adjustment for exchange rate effects. All divisions recorded an increase. Operating profit was up 2.7 percent year-on-year to EUR 1,244 (1,212) million, while Group net income – boosted in particular by the Retail Germany and Retail International divisions – rose by a clear 9.4 percent to EUR 477 (437) million. At 97.5 (96.7) percent, the combined ratio was somewhat higher than in the prior-year period due to late claim notifications relating to last year. The restructuring of the industrial fire insurance business – the "20/20/20" programme – is progressing very successfully. Due to its strong business performance in the first half of the year, Talanx is raising its outlook for Group net income in 2019 to more than EUR 900 million.

"We are pleased with the way our business has developed in the first half of 2019", said Torsten Leue, Chairman of the Board of Management of Talanx AG. "We are seeing growth in all our divisions. Our '20/20/20' programme to restructure the industrial fire insurance business is having the desired effect and will be reflected in a steady improvement of our results going forward. In addition to the Retail Germany and Retail International divisions, our Reinsurance operations also continued their successful development. I am confident that we will reach our new target for Group net income in full-year 2019 of more than EUR 900 million."

At EUR 308 (241) million, losses from natural disasters and other large losses for the first half of the year were higher than in the prior-year period, although still well within the pro rata large loss budget of EUR 527 million at Group level. Reinsurance accounted for large losses of EUR 141 (93) million. With large losses of EUR 167 (148) million the pro rata large loss budget for primary insurance was slightly exceeded. The combined ratio at Group level increased slightly to 97.5 (96.7) percent, but still remained at a profitable level.

The underwriting result improved by 5.5 percent to EUR –708 (–748) million. Higher loss expenditures were more than offset by the strong result generated by the Life Insurance segment in Germany. Net investment income was almost on a par with the previous year at EUR 1,986 (2,007) million and a net return on investment of 3.3 (3.5) percent. Operating profit grew by 2.7 percent to EUR 1,244 (1,212) million. Group net income climbed 9.4 percent to EUR 477 (437) million. Excluding transitional measures, the Solvency II ratio as at 30 June 2019 was a comfortable 203 (March 31 2018: 204) percent, above the target range of between 150 and 200 percent.

Second quarter: Strong improvement in Group net income

In the second quarter, gross written premiums rose to EUR 9.1 (8.2) billion, a double-digit increase of 11.6 percent. The underwriting result deteriorated to EUR –350 (–318) million. The main reason for this was the late claim notification for Typhoon “Jebi” in the Property/Casualty Reinsurance segment (EUR 54 million), which passed across Japan in September 2018. The combined ratio increased to 98.1 (96.5) percent, while net investment income rose 5.6 percent to EUR 998 (944) million. Operating profit grew by 1.3 percent to EUR 628 (620) million and Group net income climbed by a double-digit 10.8 percent to EUR 242 (219) million.

Industrial Lines: Restructuring of fire insurance business is bearing fruit

Gross written premiums in the Industrial Lines Division rose by 20.2 percent to EUR 3.5 (2.9) billion. Adjusted for exchange rate effects, growth amounted to 18.7 percent. The rise is largely attributable to HDI Global Specialty SE, which since beginning of 2019 is included in the consolidated financial statements for this division.

The underwriting result amounted to EUR –32 (–28) million. Loss expenditure remained somewhat in excess of the budgeted figure in the first quarter due to additions to reserves for a large loss dating from the previous year. Additionally, Storm “Jörn” in Germany and a ship fire in Singapore negatively impacted results in the second quarter. In contrast, the “20/20/20” programme had positive effects. Implementation of the restructuring programme for the fire insurance business, which was launched last year, is running ahead of schedule and continuing in the second half of the year. Further positive effects on profitability will be seen during the rest of the year, but the frequency loss ratio has already declined in the property insurance business. The combined ratio was stable at 102.3 (102.3) percent. The Industrial Lines Division is expecting a more or less balanced underwriting result in 2019.

Net investment income increased to EUR 133 (124) million. Operating profit declined to EUR 69 (78) million. The segment contributed EUR 42 (53) million to Group net income.

Second quarter: Improved operating profit

In the second quarter, gross written premiums increased by 39.8 percent year-on-year to EUR 1.2 (0.8) billion. Adjusted for exchange rate effects, growth amounted to 38.3 percent. The underwriting result improved by 6.5 percent to EUR –14 (–15) million. The combined ratio fell from 102.3 to 101.9 percent, reflecting the positive trend from the change programme of the fire insurance business. Net investment income increased to EUR 62 (56) million. Operating profit rose to EUR 33 (27) million, although the contribution to Group net income declined to EUR 19 (22) million due to a higher tax rate.

Retail Germany: Strong growth in operating profit

The Retail Germany Division remained on its highly positive trajectory in the first half of the year. Gross written premiums rose year-on-year to EUR 3,327 (3,263) million, with growth being seen in both the property/casualty and the life insurance businesses. Thanks to this strong performance operating profit rose by 42.6 percent to EUR 125 (88) million and the contribution made by the division to Group net income climbed to EUR 72 (50) million.

Property/Casualty Insurance segment: Clear growth in corporate business

Gross written premiums in the Property/Casualty Insurance segment rose by 2.0 percent to EUR 1,042 (1,022) million due primarily to an increase in the business with SMEs and freelance professionals. The underwriting result improved by 31.2 percent to EUR 10 (8) million. Profitable growth in the third-party liability, accident and property insurance areas had a positive effect here. By contrast, the negative impact of natural disasters and large loss events such as Storm “Jörn” increased slightly.

The combined ratio improved by 0.3 percentage points to 98.7 (99.0) percent despite this and despite early IT investments made as part of the “KuRS” programme. Adjusted for these investments, the combined ratio as at 30 June 2019 was 96.3 (96.7) percent. Net investment income rose year-on-year to EUR 55 (44) million. Operating profit climbed to EUR 54 (40) million, due among other things to the improvement in net investment income.

Second quarter: Improved combined ratio

In the second quarter, gross written premiums rose by 7.6 percent to EUR 260 (242) million. The underwriting result increased to EUR 7 (5) million and the combined ratio improved to 98.1 (98.9) percent. Adjusted for the costs associated with the “KuRS” modernisation programme, the combined ratio was 96.4 (96.0) percent. This was largely due to the higher losses from Storm “Jörn”. Net investment income improved by 9.7 percent to EUR 26 (23) million. Operating profit rose to EUR 25 (22) million.

Life Insurance segment: Lower contributions to the ZZR

Premium income in the Life Insurance segment rose by an encouraging 2 percent to EUR 2.3 (2.2) billion. Single premiums rose by 13.2 percent or EUR 89 million, largely as a result of the sale of capital-efficient products. New business in the area of life insurance products – measured using the annual premium equivalent (APE), the international standard – rose from EUR 195 million to EUR 205 million. The underwriting result improved to EUR –664 (–858) million. The main factors influencing this item continue to be the calculation of discounts on the technical provisions and policyholder participation in net investment income. Net investment income was impacted by a significant reduction of realised gains, due to the change in the way the Zinszusatzreserve (ZZR; additional interest reserve) is calculated that was mandated by the Federal Ministry of Finance. The item declined by 18.3 percent year-on-year to EUR 753 (922) million. Operating profit improved to EUR 71 (48) million.

Second quarter: Clear improvement in operating profit

In the second quarter, gross written premiums in the Life Insurance segment rose by 2.6 percent to EUR 1.18 (1.15) billion. The underwriting result improved to EUR –303 (–391) million. Net investment income fell to EUR 353 (433) million, largely due to the recognition of lower hidden reserves. The rise in operating profit to EUR 40 (28) million was primarily the result of a positive one-off effect.

Retail International: Strong premium growth

Gross written premiums in the Retail International Division rose by 6.5 percent year-on-year to EUR 3.2 (3.0) billion. Adjusted for exchange rate effects, growth amounted to 9.2 percent. Premium volumes increased in both of the two target regions of Europe and Latin America. In Europe (+7.1 percent), growth was mainly due to the increase in the life insurance business in Italy, the non-life and life businesses of our Warta entities in Poland and a sharp rise (+58 percent) in motor vehicle premiums in Turkey. In Latin America (+6.2 percent), the rise in premium income was largely the result of higher motor vehicle premiums in Mexico.

The underwriting result amounted to EUR 24 (33) million. At EUR 95.2 (94.6) percent, the combined ratio remained at the sound level seen in the previous year. Net investment income grew by 8.7 percent to EUR 189 (174) million. Operating profit rose by 6.2 percent year-on-year to EUR 146 (138) million. The contribution made by the division to Group net income was 2.6 percent higher, at EUR 85 (83) million.

Second quarter: Stable contribution to earnings

In the second quarter, gross written premiums rose by 4.8 percent to EUR 1.54 (1.47) billion. The underwriting result declined to EUR 9 (18) million. The combined ratio increased to 95.6 (94.2) percent due to a change in internal cost allocation. Net investment income increased to EUR 97 (82) million, while an 8.1 percent rise in operating profit to EUR 73 (68) million was recorded. The division's contribution to Group net income rose to EUR 43 (42) million.

Reinsurance lifts contribution to Group net income

The Reinsurance Division grew encouragingly in the first half of the year. Gross written premiums rose by 17 percent to EUR 11.7 (10.0) billion. Operating profit was EUR 943 (917) million and the contribution to Group net income was EUR 329 (281) million.

Property/Casualty Reinsurance segment: Strong premium growth

Gross written premiums increased by 21.3 percent year-on-year to EUR 7.8 (6.5) billion in the first half of the year. Adjusted for exchange rate effects, growth amounted to 18.4 percent. At EUR 141 (93) million, net large losses were up on the comparative period, but substantially lower than the pro rata large loss budget figure of EUR 370 million. Key losses included the explosion at a refinery in Philadelphia in June (EUR 46 million), the floods in Queensland, Australia (EUR 26 million) and the late claim notification for Typhoon “Jebi”. The underwriting result declined to EUR 174 (206) million. The combined ratio was 96.7 (95.7) percent. Net investment income fell by 1.7 percent to EUR 508 (517) million. Operating profit amounted to EUR 662 (704) million.

In the second quarter, gross written premiums rose by 19.5 percent to EUR 3.5 (2.9) billion. The underwriting result declined to EUR 61 (115) million. The combined ratio was 97.6 (95.5) percent. Net investment income improved by 9.2 percent to EUR 266 (243) million. Operating profit fell by 10.7 percent to EUR 322 (360) million.

Life/Health Reinsurance: Strong rise in operating profit

Premium income in the Life/Health Reinsurance segment rose by 9.3 percent in the first half of the year to EUR 3.8 (3.5) billion. Adjusted for exchange rate effects, gross written premiums increased by 7.4 percent. The underwriting result fell to EUR –210 (–108) million. Net investment income rose to EUR 364 (239) million, partly due to a positive one-off effect of EUR 100 million from the release of hidden reserves related to the restructuring of the shareholding in Viridium. Operating profit increased by 32.6 percent to EUR 282 (213) million.

In the second quarter, gross written premiums rose by 6.6 percent to EUR 1.87 (1.75) billion. The underwriting result fell to EUR –102 (–53) million. Net investment income increased to EUR 202 (116) million. Operating profit improved substantially to EUR 169 (121) million.

Outlook for 2019 Group net income lifted to more than EUR 900 million

Net income has performed well in the year to date. In addition, the Life/Health Reinsurance segment recorded extraordinary income in the second quarter from the release of hidden reserves in connection with the restructuring of the shareholding in the Viridium Group. Thanks to its shareholding in Hannover Re, the move boosted Talanx Group’s net income by roughly EUR 50 million in the first half of the year. Against this backdrop, Talanx is lifting its outlook for Group net income to more than EUR 900 million. In line with this, the return on equity is expected to be in excess of 9.5 percent, while a net IFRS return on investment of more than 2.7 percent is forecast. Talanx is confirming the other forecasts for 2019 that were published in autumn last year. For example, the Group is expecting gross written premiums to rise by roughly 4 percent in the current financial year after adjustment for exchange rate effects.

The earnings target assumes that any large losses will be within the expected range and that there is no turbulence on the currency and capital markets. Talanx’s goal remains to distribute between 35 percent and 45 percent of Group net income, and at the least the same amount as the previous year, as a dividend.

Key data from the Talanx Group income statement for H1 2019, consolidated (IFRS)

EUR million	6M 2019	6M 2018	+/–
Gross written premiums	20,864	18,760	+11.2%
Net premiums earned	15,917	14,435	+10.3%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[1]	97.5%	96.7%	+0.8%pts
Net investment income	1,986	2,007	–1.1%
Operating profit (EBIT)	1,244	1,212	+2.7%
Group net income (after non-controlling interests)	477	437	+9.4%
Return on equity[2]	10.4%	10.0%	+0.4%pts

Key data from the Talanx Group income statement for Q2 2019, consolidated (IFRS)

EUR million	Q2 2019	Q2 2018	+/–
Gross written premiums	9,148	8,200	+11.6%
Net premiums earned	8,075	7,446	+8.4%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[1]	98.1%	96.5%	+1.6%pts
Net investment income	998	944	+5.6%
Operating profit (EBIT)	628	620	+1.3%
Group net income (after non-controlling interests)	242	219	+10.8%
Return on equity[2]	10.1%	10.1%	+0.0%pts

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 interim report, see:
http://www.talanx.com/investor-relations/presentations-and-events/disclosure/2019.aspx?sc_lang=de-DE

http://www.talanx.com/investor-relations/presentations-and-events/disclosure/2019.aspx?sc_lang=en

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

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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