

## **Talanx boosts profit in 2018 and lays the foundations for further profitable growth**

- Gross written premiums see sharp 6% rise to EUR 34.9 (33.1) billion, up 9% adjusted for currency effects
- Combined ratio significantly improved at 98.2% (100.4%)
- Significant operating improvements in all divisions except Industrial Lines
- Double-digit growth in Group EBIT of 13% to EUR 2.0 (1.8) billion
- Group net income up 5% on the prior year at EUR 703 (671) million
- Proposal to increase dividend again to EUR 1.45 (1.40) per share
- Outlook for the year and medium-term targets confirmed: Group net income of around EUR 900 million anticipated in 2019

Talanx AG

Group Communications  
Tel. +49 511 3747-2022  
Fax +49 511 3747-2025

Investor Relations  
Tel. +49 511 3747-2227  
Fax +49 511 3747-2286

HDI-Platz 1  
30659 Hannover  
[www.talanx.com](http://www.talanx.com)

Hannover, 18 March 2019

**The Talanx Group enjoyed considerable growth in 2018. The gross written premiums picked up by 6% to EUR 34.9 (33.1) billion, an increase of 9% – almost reaching double digits – after adjusting for exchange rate effects. The overall result rose thanks to operating improvements in both Retail Germany and International and in Reinsurance, comfortably offsetting the decline in Industrial Lines. The restructuring of industrial fire insurance as part of the “20/20/20” programme is making excellent progress. Operating profit climbed 13% to EUR 2.0 billion (2017: EUR 1.8 billion) and Group net income was up 5% at EUR 703 million (671 million), meaning that return on equity exceeded the minimum target at 8.0% (7.5%). Talanx shareholders look set to share in the positive Group performance, with the Board of Management and the Supervisory Board proposing a 5 cent dividend increase to EUR 1.45 per share at the Annual General Meeting. Talanx reiterated its guidance of a significant upturn in Group net income to around EUR 900 million in 2019 – which would correspond to an increase of 28%.**

“In 2018, we set our course for the future and made significant operating progress,” said Torsten Leue, Chairman of the Board of Management at Talanx AG. “Both Retail Germany and Retail International as well as

Reinsurance continued to perform strongly. We are continuing to make excellent headway with our “KuRS” and “20/20/20” profitability programmes, we are ahead of plan and confident that we will achieve our 2019 outlook. We are convinced that Talanx will become an even more agile, growth-oriented and profitable company over the next few years. This is underpinned by our refined strategy that we outlined in October, which also sets out even more ambitious targets.”

### **Refined strategy to step up growth and earnings**

Talanx presented its refined strategy for the years ahead in October last year. As well as enhanced capital management and focused divisional strategies, the strategy also encompasses growth initiatives, such as continuing to expand business with small and medium sized enterprises in Retail Germany, pooling intragroup reinsurance in the holding company and establishing HDI Global Specialty SE to combine business with special risks. The latter will bring together the skills of the Industrial Lines Division and Reinsurance. Another key facet of the new strategy involves accelerating the Group’s digital transformation. This includes systematic system migration, rapid development and expansion of expertise in the areas of data analytics and artificial intelligence and networking in digital ecosystems.

### **Large loss burden falls but still high**

In comparison to the previous year, which was marred by severe natural catastrophes, the net large loss burden shrunk significantly in 2018. Nonetheless, at EUR 1.2 (1.6) billion, it still went over the anticipated large loss budget of EUR 1.1 billion. Of this figure, primary insurance accounted for a total of EUR 394 (492) million and Reinsurance for EUR 850 (1,127) million. The largest loss events in 2018 were California’s forest fires in November and December, which collectively incurred loss volumes of almost EUR 200 million. This is followed by Typhoon “Jebi” in Japan and losses resulting from the heavy rainfall in Colombia. The Group’s combined ratio saw a substantial year-on-year

improvement, reaching 98.2% (100.4%). The underwriting result in property and casualty insurance was EUR 285 (-81) million.

At EUR 3.8 (4.5) billion, net investment income was down on the previous year's figure, primarily a result of extraordinary effects. While current investment income saw a slight upturn – chiefly on the back of private equity exposure – the volume of realised gains slid significantly year on year, primarily reflecting lower demand for transfers to the ZZR (Zinszusatzreserve; additional interest reserve) in light of new rules. On the other hand, this is also influenced by a base effect as Reinsurance generated high extraordinary income from the sale of shares in 2017. Net return on investment fell in line with expectations to 3.3% (4.0%) as a result. In 2019, Talanx will continue to stand by its strategy of limiting market risks (beta) and its conservative investment policy, while steadily expanding infrastructure investments. The Group-wide Solvency II ratio was 203% as at 30 September 2018 (31 December 2017: 206%), slightly above the Group's defined target range of 150% to 200%.

#### **Dividend payout ratio of more than 50% of profits proposed**

A dividend rise to EUR 1.45 (1.40) per share will be proposed to the Annual General Meeting on 9 May 2019, representing a payout ratio of over 52% of IFRS earnings. The dividend yield, based on the average share price in 2018, is 4.3% (4.2%). Since Talanx's IPO in 2012, dividends have risen year after year, climbing almost 40% in total from a starting amount of EUR 1.05 per share.

*Fourth quarter: characterised by steady underlying business development*

The final quarter was characterised by extraordinary effects. The Group's written premiums totalled EUR 7.8 (Q4 2017: 7.8) billion on par with the previous year. The combined ratio rose to 97.2% (92.7%) on the back of natural catastrophe losses caused by storms and forest fires. Nonetheless, the underwriting result improved to EUR -223 (-424) million. This was attributable to the new regulations regarding the

ZZR, which resulted in lower provisions for premium refunds but also reduced net investment income by 26% to EUR 866 million (1.2 billion). All told, operating profit (EBIT) for the quarter amounted to EUR 562 (703) million due to one-off effects. Thanks primarily to a significant drop in taxes, Group net income almost matched the figure for the same quarter in the previous year at EUR 215 (228) million.

### **Industrial Lines: fire insurance restructuring making good progress**

Industrial Lines strengthened its gross written premiums in 2018, although it was squeezed – as it was well-known - by large losses in fire insurance and in engineering insurance as well as by an upturn in frequency losses in property. Gross written premiums rose in the year as a whole by 5% to EUR 4.7 (4.5) billion, with growth seen in areas including liability and transport. Approximately 64% of the premium volume was generated abroad last year and so the division has almost already met its 2019 goal of 65%. In line with the strategy, retention surged to 58.6% (55.2%).

The extraordinary claims burden caused the combined ratio for the year as a whole to deteriorate to 109.1% (108.5%). Despite the heavy rain in Colombia, the “Friederike” winter storm (also known as storm “David”) and Hurricane “Florence”, the burden from natural catastrophes was down significantly at EUR 96 (232) million. At the same time, however, a spate of man-made losses in fire insurance caused the burden to rise to EUR 281 (249) million. The underwriting result subsequently slid to EUR -240 (-207) million.

The “20/20/20” programme to restructure fire insurance, launched in the middle of last year, is proceeding faster than expected. As of mid-March, almost 90% of the minimum price increases envisaged have already been agreed with the customers in question. Positive effects on business development will make themselves felt as early as this year, with Industrial Lines anticipating a largely balanced underwriting result in 2019.

Net investment income on the other hand fell by 13% to EUR 242 (276) million. For the year as a whole Industrial Lines generated EBIT of EUR 11 (109) million. Its Group net income contribution amounted to EUR -16 (91) million.

*Fourth quarter: previous year comparison severely distorted by positive non-recurring effect*

The area reported a slight rise in gross written premiums in the period from October to December, increasing to EUR 930 (918) million. The combined ratio declined by 2 percentage points to 102.3% (104.3%). The underwriting result improved by 44% to EUR -16 (-29) million but was still marked by ongoing high large losses and frequency losses. Net investment income fell 20% to EUR 59 (73) million. EBIT halved to EUR 42 (84) million in the quarter, driven chiefly by a positive one-off effect resulting from reinsurance accounting balances in the prior year. The division's Group net income contribution declined on account of a higher tax burden in comparison to the previous year falling by 74% to EUR 20 (78) million.

### **Retail Germany: "KuRS" programme showing further signs of success**

Premium erosion in the Retail Germany Division was virtually halted. Retail Germany is still well above target when it comes to implementing the "KuRS" growth and efficiency programme. This is demonstrated in part by the combined ratio, which fell below the key 100% mark to 99.3% (101.6%). After adjusting to take account of investments in connection with "KuRS", which had an adverse effect on the result in 2018, the ratio even reaches 97.1% (98.6%). Operating profit therefore saw a substantial upturn of almost one third to EUR 180 (137) million. At EUR 102 (102) million, however, the Group net income contribution was on par with the previous year's level due to the higher, but normalised tax rate. The area had benefited significantly from a non-recurring tax effect in 2017.

*Property/Casualty Insurance segment: combined ratio falls below key 100% mark*

The Property/Casualty Insurance segment continued its spell of good growth, with gross written premiums up 3% at EUR 1.6 (1.5) billion. As well as premium increases, this was driven primarily by growth strategies for small and medium-sized enterprises and self-employed professionals. The underwriting result improved significantly to EUR 11 (-21) million. At EUR 89 (91) million, net investment income held steady year-on-year. The significant pick-up in EBIT, which rose to EUR 69 (52) million, reflects positive growth effects and economies of scale, as well as the “KuRS” programme which is increasingly bearing fruit.

*Fourth quarter: lower burden from natural occurrences*

The segment booked premium growth of 5% to EUR 252 (241) million in the closing quarter. The combined ratio fell to 102.7% (106.9%), in part a result of lower large losses. After adjusting for expenditure relating to “KuRS”, the figure came to 101.4% (102.4%). The underwriting result improved to EUR -10 (-25) million. Net investment income expanded by 20% to EUR 24 (20) million. EBIT remained stable in the quarter at EUR 3 (3) million.

*Life Insurance segment: EBIT surges*

In Life Insurance, Talanx pressed ahead with its disciplined approach to its strategy of scaling back business in non capital-efficient products in 2018. Nevertheless, premium volumes were similar to the previous year’s figure at EUR 4.5 (4.6) billion. As measured by annual premium equivalent (APE), an international benchmark, new business in life insurance products rose by 1.0% to EUR 389 (385) million on the back of an upturn in new business. The share of capital-efficient products, determined by total premiums in new business, held steady in the financial year at 72%.

The underwriting result improved by around a quarter to EUR -1.4 (-1.9) billion. This continues to be determined by the compounding of technical provisions and policyholder participation in net investment income. Net investment income is influenced by a significantly lower realisation of hidden reserves due to changes in how the ZZR (Zinszusatzreserve) is calculated as mandated by the German Federal Ministry of Finance. Net investment income fell to EUR 1.6 (2.0) billion as a result. A total of EUR 301 (809) million was transferred to the ZZR last year, down substantially on previous years. The allocation to the ZZR totalled around EUR 3.4 billion at the end of the year. The segment saw EBIT improve significantly in 2018, up 30% at EUR 111 (85) million.

*Fourth quarter: operating profit up on the previous year*

Life insurance premiums developed well at Talanx in the fourth quarter, with gross written premiums rising by 2% to EUR 1.2 (1.2) billion. The underwriting result strengthened considerably to EUR -270 (-572) million, with net investment income at EUR 329 (608) million. EBIT was up somewhat on the previous year at EUR 21 (18) million.

**Retail International continues its course of profitable growth**

The Retail International Division continued its path of dynamic growth in the last financial year, shoring up its result significantly. Activity in Poland, Italy and Mexico was a key driver. The Division also once again expanded its business inorganically by acquiring Generali Colombia Seguros Generales in Colombia and taking over a majority stake in Liberty Sigorta in Turkey. In addition, a motor vehicle insurance joint venture was agreed with Banco Santander in Brazil to secure future growth.

Gross written premiums in the Retail International Division rose by 2% to EUR 5.6 (5.5) billion, in 2018, reflecting decidedly negative currency effects, in particular relating to the Brazilian real and the Turkish lira. After adjusting for currency effects, the figure in Property/Casualty Insurance rose by 10.7%. Adjusted for exchange rates, overall growth came to 4%

in Europe and over 15% in Latin America. The combined ratio improved once again to 94.3% (95.4%). The driving forces behind this were cost optimisations and economies of scale, in particular in Poland and Brazil. At the same time, the loss ratio dropped. This caused the underwriting result to climb significantly year on year to EUR 91 (53) million, comfortably offsetting the decline in net investment income EUR 321 (329) million triggered by falling interest rates in Brazil and Italy. EBIT therefore picked up by 13% in the year as a whole to EUR 268 (238) million. An improved tax rate also meant that the Group net income contribution rose even more rapidly to EUR 161 (137) million.

*Fourth quarter: significant currency effects curb growth momentum*

At EUR 1.4 (1.4) billion, the Division's gross written premium remained slightly under the previous year's level on account of significant exchange rate effects. After adjusting for currency effects, however, growth of 3% resumed. The combined ratio was in line with the prior year at 94.0% (93.7%). The underwriting result increased significantly to EUR 34 (23) million as a result of stable growth. Net investment income picked up by 5% to EUR 79 (75) million. EBIT saw a 13% rise to EUR 68 (60) million, while the Group net income contribution was up by more than a third year on year at EUR 37 (28) million.

**Reinsurance bolsters Group net income contribution**

In spite of considerable large losses and non-recurring burdens, the Reinsurance Division achieved its growth and earnings targets in 2018. Operating profit (EBIT) rose by 19% to EUR 1.6 (1.4) billion following the previous year's unusually high burden from natural catastrophes. Despite the exceptional burden resulting from the US mortality business, this was boosted by good business quality in both Property and Casualty Reinsurance. Net investment income adjusted for one-off effects also performed extremely well in 2017. The Group net income contribution rose to EUR 540 (480) million.

*Property/Casualty Reinsurance segment: high claims burden in second half of the year*

After very moderate claims in the first six months of the year, Property/Casualty Reinsurance was marked by a pronounced upturn in large losses in the second half of the year. Gross written premiums in the segment rose by 12% to EUR 12.0 (10.7) billion. If exchange rates had remained stable, this would have represented growth of 16%. The combined ratio was down significantly year on year at 96.6% (99.8%), a result of the net burden from large losses falling against 2017, which saw the highest large loss burden in the history of Hannover Re – primarily from natural catastrophes. The underwriting result improved significantly to EUR 333 (1) million as a result. Net investment income in the segment amounted to EUR 1.1 (1.2) billion. At EUR 1.4 (1.1) billion, EBIT surpassed the previous year's figure easily.

*Fourth quarter: dwindling underwriting result*

The gross written premium declined by 8% to EUR 2.3 (2.5) billion in the final quarter. The combined ratio increased to 96.0% (87.0%) as claims significantly overshot the large loss budget allocated for this quarter. The underwriting result subsequently slid to EUR 102 (308) million. At EUR 259 (269) million, net investment income held virtually steady year-on-year. EBIT was EUR 339 (529) million in the quarter.

*Life/Health Reinsurance segment: non-recurring effects strain EBIT*

The segment buoyed profits thanks to good business performance, despite facing considerable, planned non-recurring charges. Premiums rose by 2% to EUR 7.2 (7.1) billion in the year as a whole - adjusted for currency effects, this would constitute an increase of 5%. The underwriting result improved to EUR -416 (-493) million. Net investment income reached EUR 491 (560) million. EBIT was up year on year at EUR 262 (229) million, although treaty recaptures resulting from rate increases in the US mortality business had a negative impact. Taking into account the reversal of a cost reserve that is no longer required, non-

recurring burdens amount to around EUR 185 million before taxes. However, this supports significantly more favourable earnings prospects in future financial years.

*Fourth quarter: marked rise in operating profit*

From October to December, gross written premiums increased by 4% year on year to EUR 1.9 (1.8) million. The underwriting result improved notably to EUR -59 (-130) million, with net investment income largely stable against the previous year at EUR 122 (128) million. EBIT tripled to EUR 117 (36) million.

**Outlook 2019: significant profit upturn anticipated**

Talanx fully confirms the outlook for 2019 and subsequent years as already published in autumn last year. Growth in gross written premiums is set to be around 4.0% on a constant exchange-rate basis. IFRS net return on investment should reach around 2.7% which is ambitious given the increasingly intense low interest rate environment. Talanx is aiming for Group net income of around EUR 900 million in the 2019 financial year. Return on equity should correspond to about 9.5% in 2019, meaning that the company would exceed its strategic target of 800 basis points above the risk-free interest rate.

These objectives assume that any large losses will be within the expected range and that there will be no disruptions on the currency and capital markets. Talanx remains committed to its stated target of distribution between 35% and 45% of Group net income as a dividend, thus ensuring that the dividend at least remains stable year-on-year.

**Key figures from the Talanx Group income statement for 2018, consolidated (IFRS)**

EUR million	2018	2017 <sup>1</sup>	+/-
Gross written premiums	34,885	33,060	+5.5%
Net premiums earned	29,574	27,418	+7.9%
Combined ratio in property/casualty insurance and Property/Casualty Reinsurance <sup>2</sup>	98.2%	100.4%	-2.2%pts.
Net investment income	3,767	4,478	-15.9%
Operating profit (EBIT)	2,032	1,805	+12.6%
Net income (after financing costs and tax)	1,359	1,269	+7.1%
Group net income (after non-controlling interests)	703	671	+4.8%
Return on equity <sup>3</sup>	8.0%	7.5%	+0.5%pts.

**Key figures from the Talanx Group income statement for Q4 2018, consolidated (IFRS)**

EUR million	Q4 2018	Q4 2017 <sup>1</sup>	+/-
Gross written premiums	7,794	7,821	-0.3%
Net premiums earned	7,733	7,133	+8.4%
Combined ratio in property/casualty insurance and Property/Casualty Reinsurance <sup>2</sup>	97.2%	92.7%	+4.5%pts.
Net investment income	866	1,168	-25.9%
Operating profit (EBIT)	562	703	-20.1%
Group net income (after non-controlling interests)	215	228	-5.7%
Return on equity <sup>3</sup>	9.9%	10.4%	-0.5%pts.

1) Adjusted in line with IAS 8.

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 annual report:

Full [online Annual Report 2018](#)

Further information on [2018 annual results](#)

[Financial calendar](#)

[Media library](#)

**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. 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 SDAX 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](http://www.talanx.com).

Follow us on Twitter: [twitter.com/talanx\\_en](https://twitter.com/talanx_en).

Current photographs and company logos are available at <http://mediathek.talanx.de>.

**For media enquiries please contact:**

Andreas Krosta                      Tel.:    +49 511-3747-2020  
E-Mail: [andreas.krosta@talax.com](mailto:andreas.krosta@talax.com)

Dr. Kerstin Bartels                Tel.:    +49 511-3747-2211  
E-Mail: [kerstin.bartels@talax.com](mailto:kerstin.bartels@talax.com)

**For Investor Relations please contact:**

Carsten Werle, CFA                Tel.:    +49 511-3747-2231  
E-Mail: [carsten.werle@talax.com](mailto:carsten.werle@talax.com)

Carsten Fricke                      Tel.:    +49 511-3747-2291  
E-Mail: [carsten.fricke@talax.com](mailto:carsten.fricke@talax.com)

**Disclaimer**

This news release contains forward-looking statements which are based on certain assumptions, expectations and opinions of the Talanx AG management. These statements are, therefore, subject to certain known or unknown risks and uncertainties. A variety of factors, many of which are beyond Talanx AG's control, affect Talanx AG's business activities, business strategy, results, performance and achievements. Should one or more of these factors or risks or uncertainties materialise, actual results, performance or achievements of Talanx AG may vary materially from those expressed or implied in the relevant forward-looking statement.

Talanx AG does not guarantee that the assumptions underlying such forward-looking statements are free from errors nor does Talanx AG accept any responsibility for the actual occurrence of the forecasted developments. Talanx AG neither intends, nor assumes any obligation, to update or revise these forward-looking statements in light of developments which differ from those anticipated.