



**tal anx.**  
Insurance. Investments.

## UniCredit & KeplerCheuvreux 18<sup>th</sup> German Corporate Conference

Dr Immo Querner, CFO  
Frankfurt, 23 January 2019


# Agenda


I CMD: Group Strategy



II CMD: Group Financials


III 9M 2018 results


# A team of entrepreneurs who see performance as a question of honour


**Christian Hinsch, 63**   
Industrial Lines  
*built up a leading global industrial lines franchise by successfully integrating Gerling*

**Ulrich Wallin, 64**   
Reinsurance  
*turned Hannover Re into the most profitable leading global reinsurer*

**Sven Fokkema, 50**    
Retail International  
*turned Talanx's Polish acquisitions into successful ventures with his international experience*

**Jan Wicke, 50**   
Retail Germany, IT  
*proven cost manager driving transformation programme KuRS*

**Immo Querner, 56**   
CFO  
*well-recognised Gerling crisis-proven expert in finance and risk management*

**Torsten Leue, 52**   
CEO  
*developed Retail International into the profitable growth engine of the Group*

**170 years of common experience in financial sectors**

Note: Jean-Jacques Henchoz to succeed Ulrich Wallin as of 05/2019

## Key messages

- We **strengthen**: entrepreneurial culture, B2B focus and portfolio diversification
- We **develop**: enhanced capital management, focused divisional strategies and digital transformation
- We **commit** to ...
  - an increased **RoE** of  $\geq 800$ bps above risk-free
  - annual **EPS** growth  $\geq 5\%$  on average
  - 35% to 45% **payout of IFRS earnings** with DPS at least stable y/y

Note: Targets are relevant as of FY2019. EPS growth CAGR until 2022 (base level: original Group net income Outlook of ~EUR 850m for 2018). The risk-free rate is defined as the 5-year rolling average of the 10-year German Bund yield. Targets are subject to large losses staying within their respective annual large-loss budgets as well as no major turmoil on currency and/or capital markets

## Strengthen and develop – Turning our roots into a foundation for future success

### Strengthen

- 1 Entrepreneurial culture
- 2 B2B focus
- 3 Diversified portfolio

### Develop

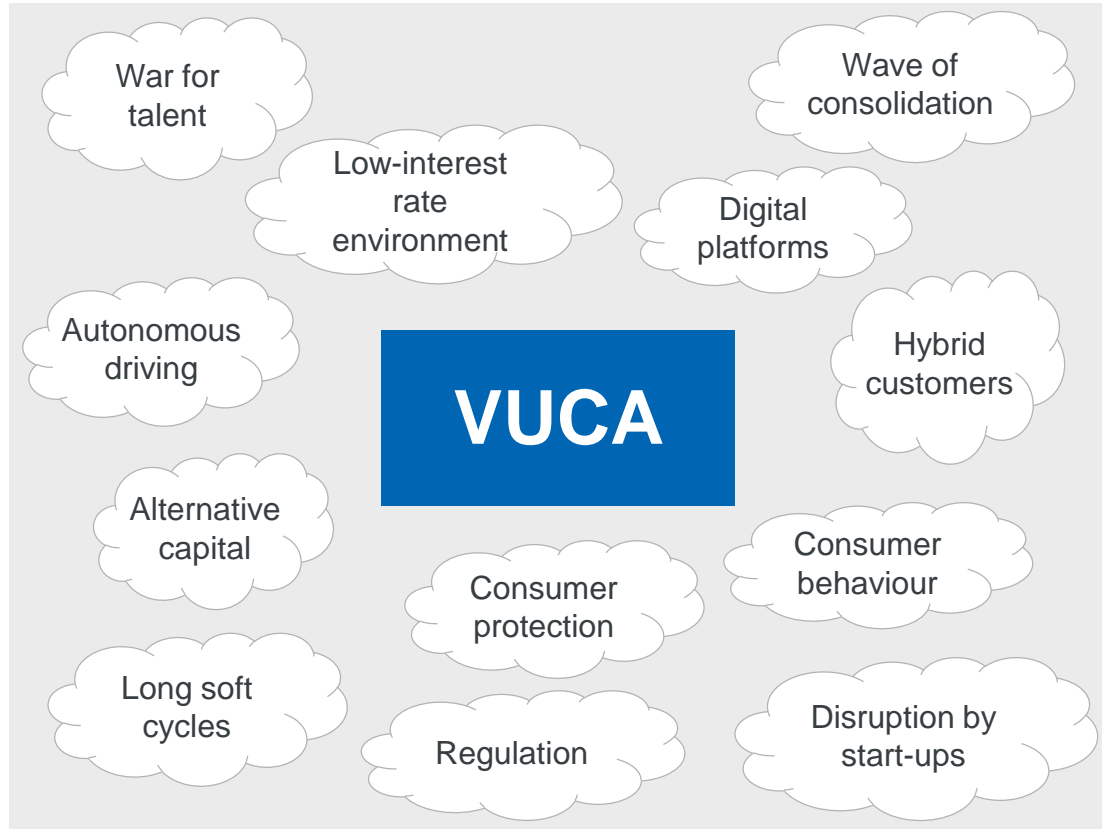
- 1 Enhanced capital management
- 2 Focused divisional strategies
- 3 Digital transformation

**Traditionally different**

Strengthen

We approach the VUCA world from a position of strength

**V**olatility **U**ncertainty **C**omplexity **A**mbiguity



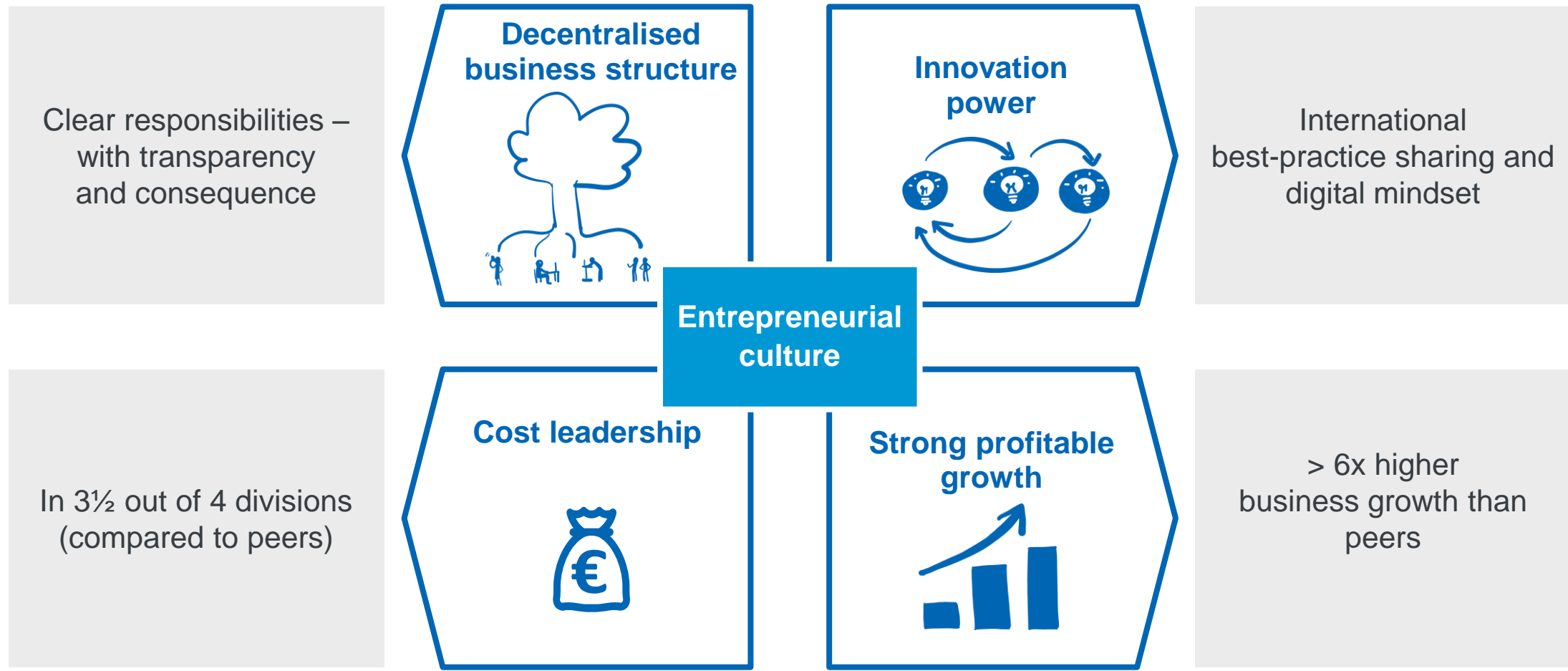
**Our answer: reinforcing our strengths**



- 1** Entrepreneurial culture
- 2** B2B focus
- 3** Diversified portfolio

1 Strengthen – Entrepreneurial culture

# Our entrepreneurial culture as basis for continued growth and cost leadership



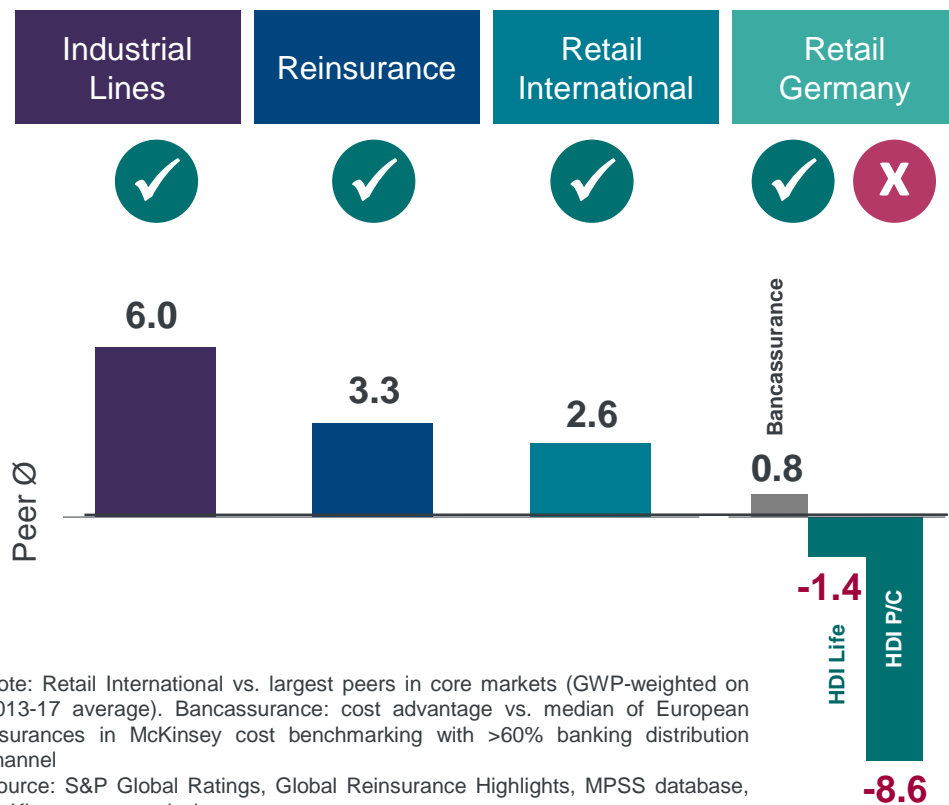
Note: Business growth defined as GWP CAGR for 2013-2017. Talanx Peer group consists of Allianz, AXA, Generali, Mapfre, Munich Re, Swiss Re, VIG and Zurich (throughout this document if not stated differently)

1 Strengthen – Entrepreneurial culture

# Entrepreneurial culture – Basis for cost leadership and profitable growth ...

## Cost leadership in 3½ out of 4 divisions

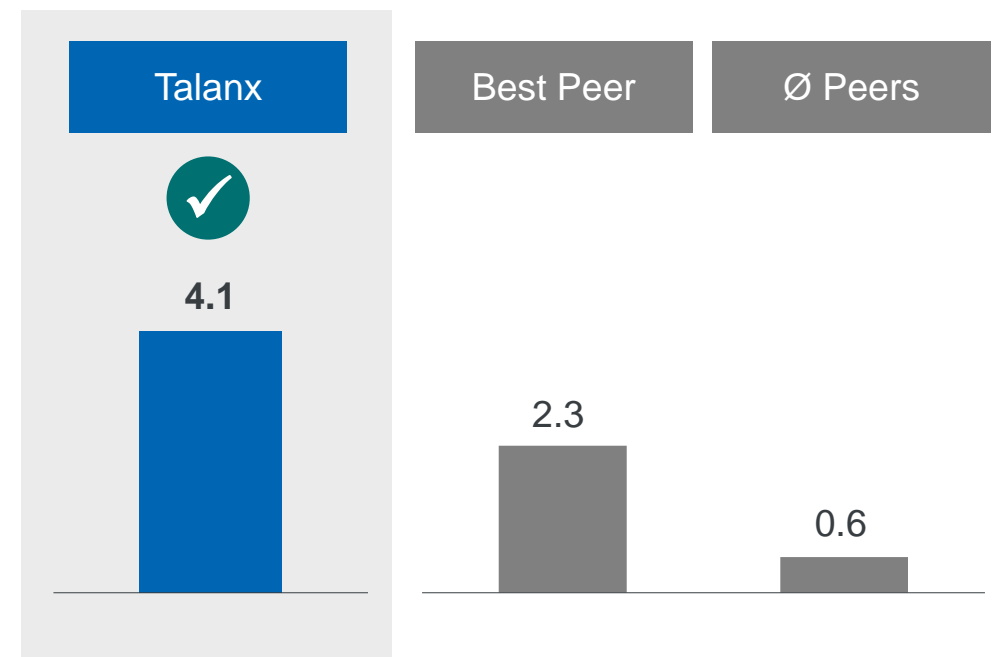
Cost ratio advantage (net) of divisions compared to peer Ø (2013 – 17) (in %-pt)



Note: Retail International vs. largest peers in core markets (GWP-weighted on 2013-17 average). Bancassurance: cost advantage vs. median of European insurances in McKinsey cost benchmarking with >60% banking distribution channel  
 Source: S&P Global Ratings, Global Reinsurance Highlights, MPSS database, McKinsey; own analysis

## > 6x higher business growth than peers

GWP CAGR 2013 – 17 (in %)

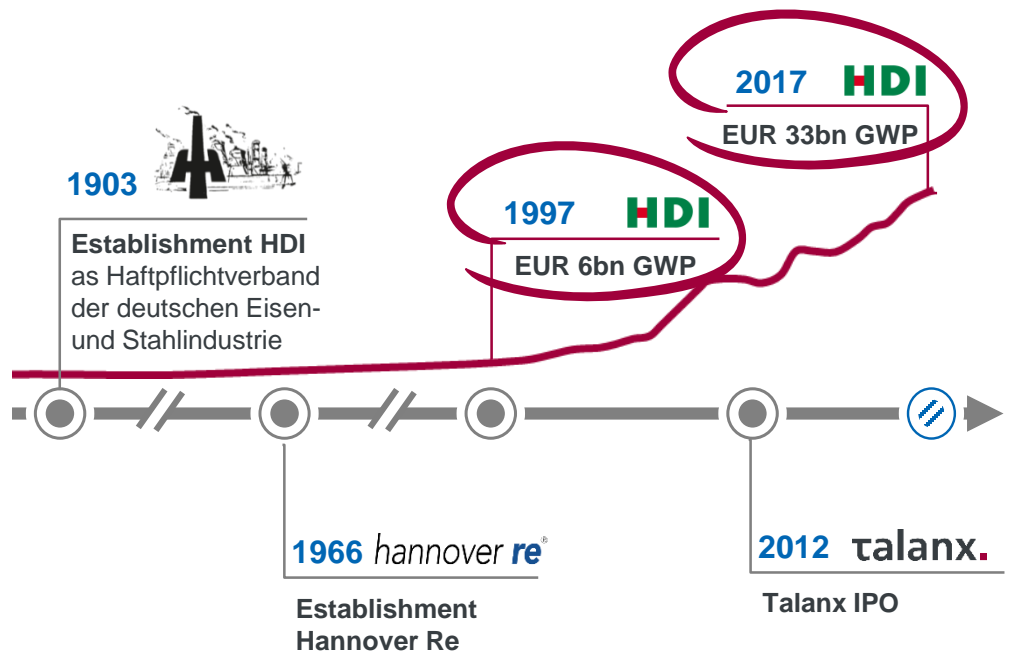


Note: Peer average GWP-weighted. Own calculations based on Annual Reports



1 Strengthen – Entrepreneurial culture  
 ... leading to #7 market position in Europe

115 years of successful HDI/Talanx history



Talanx ranked at #7 in Top 10 European insurers

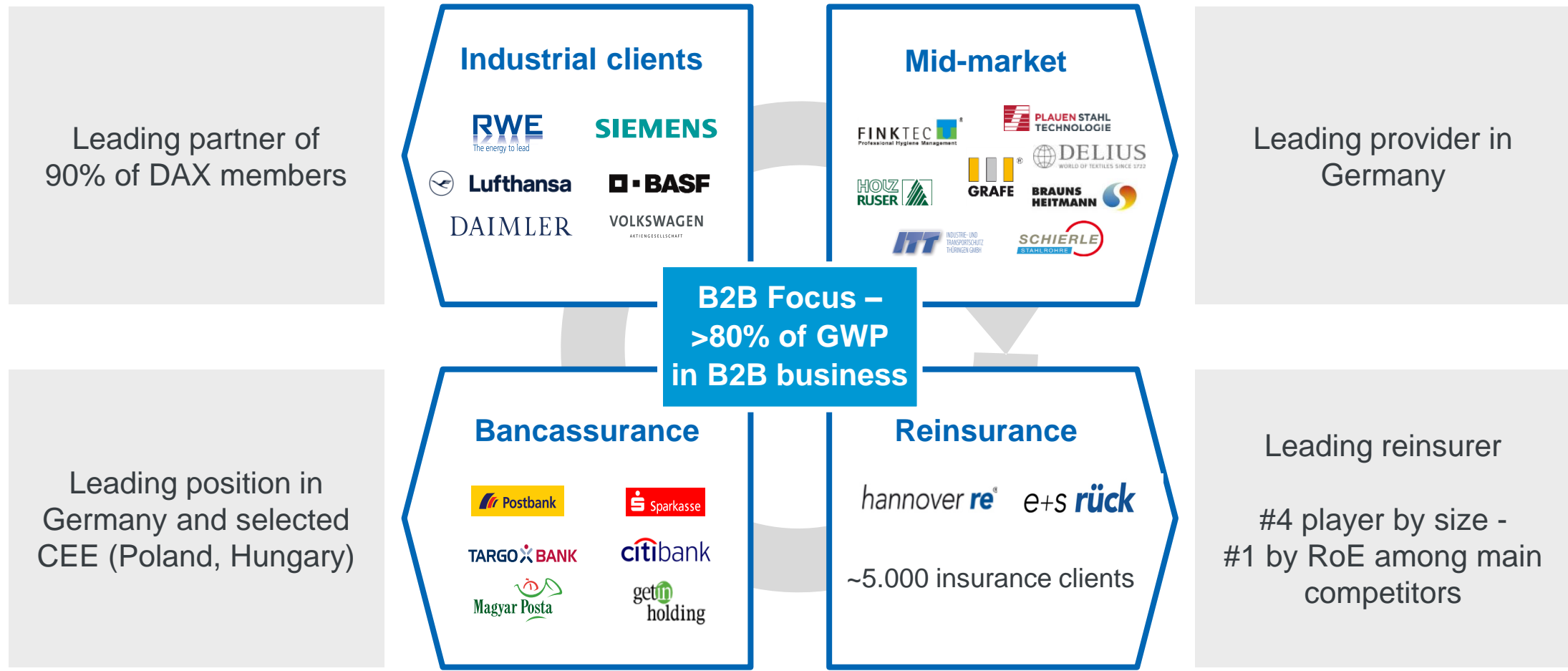
GWP 2017, in EURbn

#1	Allianz	119.5
#2	AXA	92.1
#3	GENERALI	68.5
#4	PRUDENTIAL	50.3
#5	Munich RE	49.1
#6	ZURICH	41.3
#7	<b>talanx.</b>	<b>33.1</b>
#8	CNP	32.5
#9	AVIVA	31.6
#10	Swiss Re	31.5

Note: Prudential data based on earned GWP

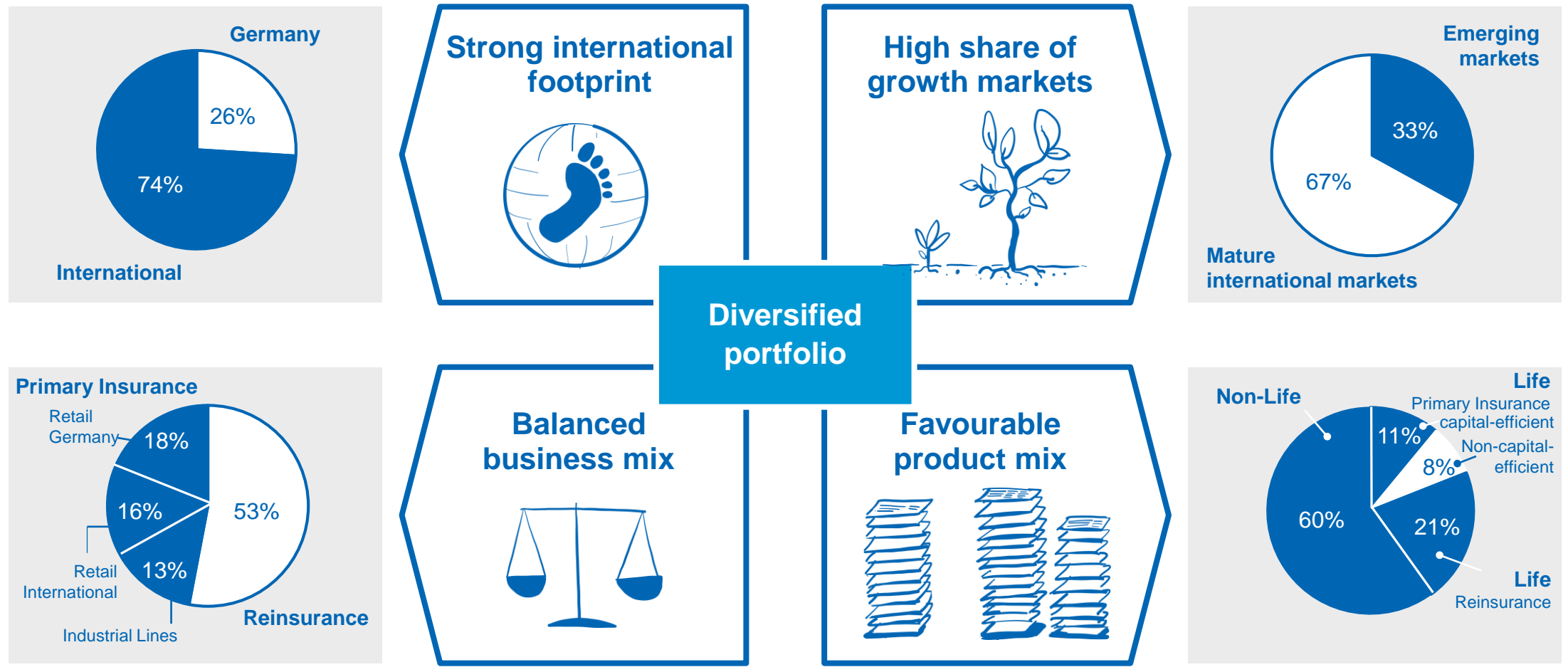
2 Strengthen – B2B focus

Our unique B2B customer focus positions us well



3 Strengthen – Diversified portfolio

Our diversified portfolio as basis for proven earnings resilience



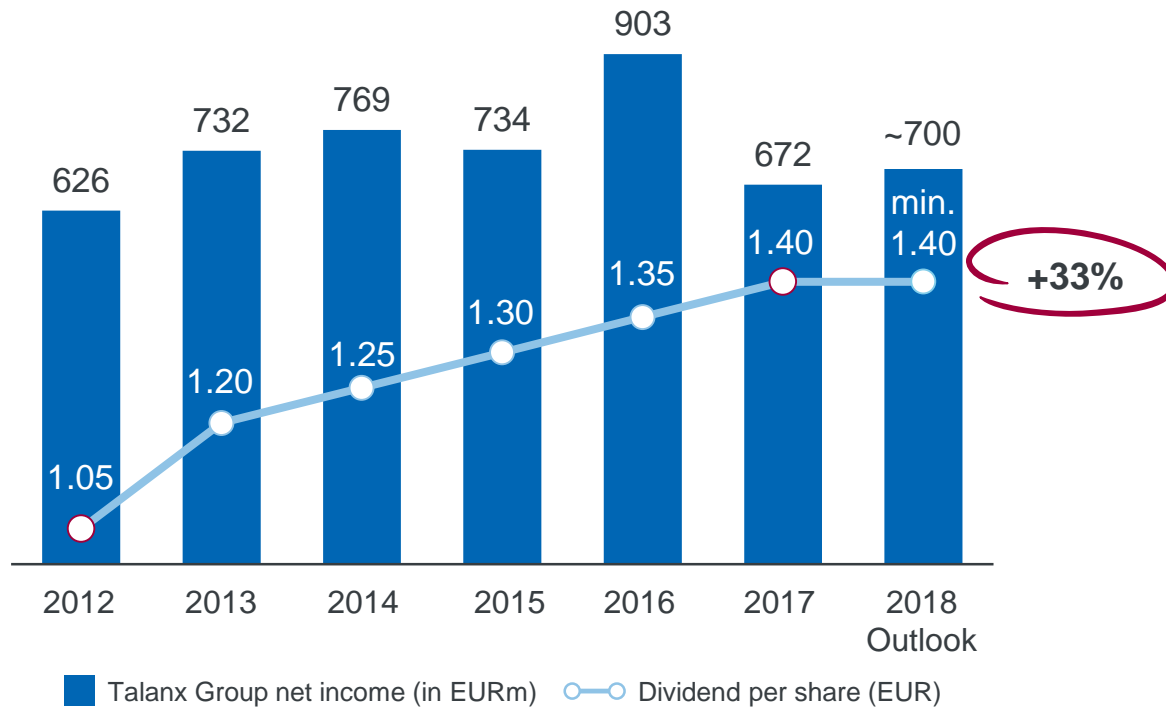
Note: All figures refer to GWP 2017 of Talanx Group; growth market split refers to international portfolio only

Strengthen

# Outcome – Proven earnings resilience backing our sustainable payout policy

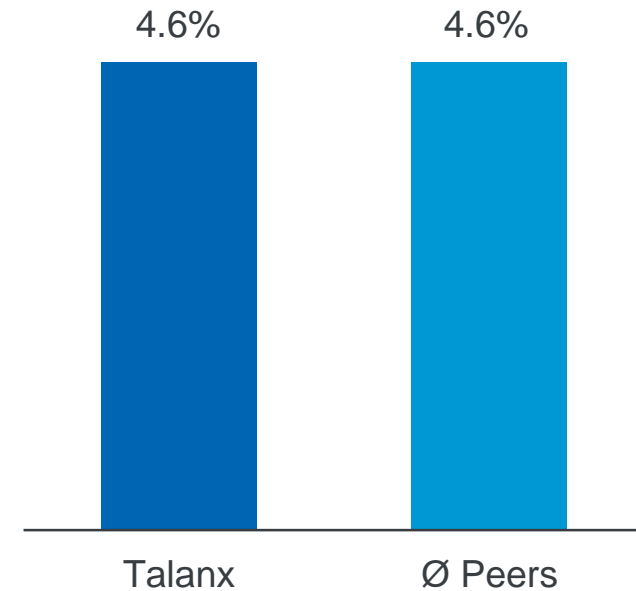
## Sustainable earnings and payout policy

Talanx IFRS net income and dividend (per share)



Note: Net income of Talanx after minorities, after tax based on restated figures as shown in annual reports 2012–2017; numbers for 2018 according to Talanx Group Outlook; all numbers according to IFRS

## Dividend yield in line with peers

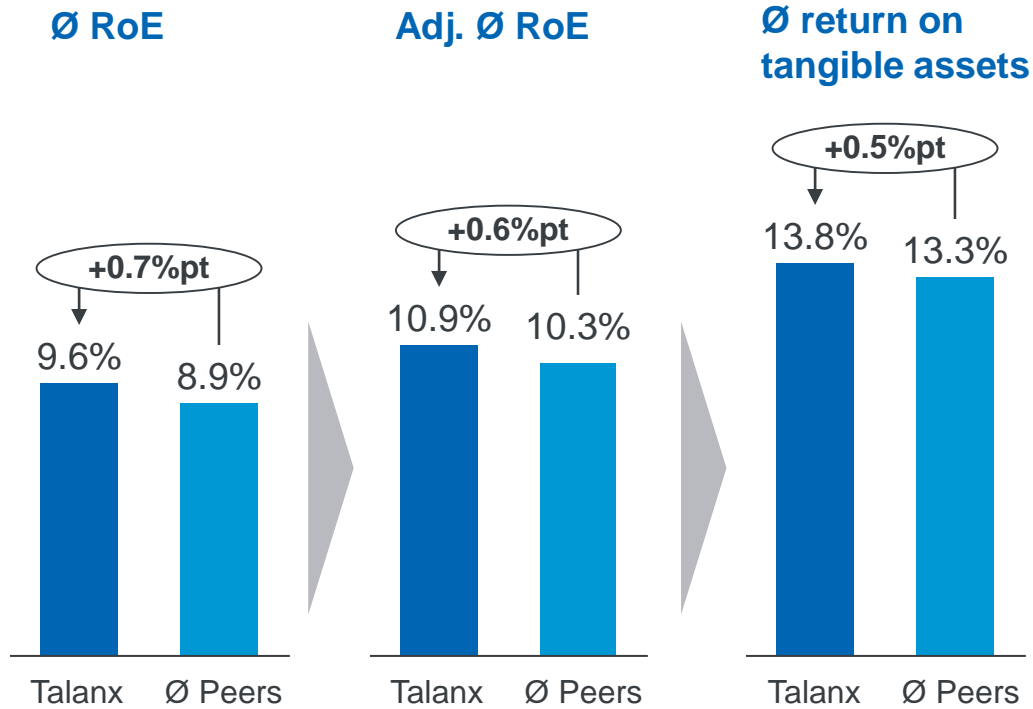


Note: For time period 2012–2017. Source: FactSet

Strengthen

Outcome – In the past, Talanx with strong track record and favourable risk-return profile...

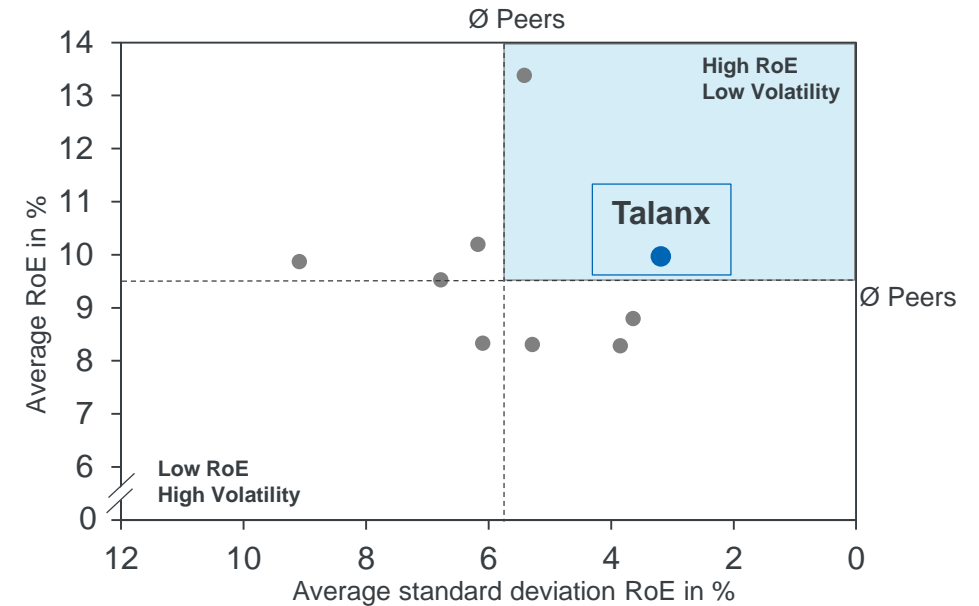
### RoE above peer average



Note: All figures 2012-2017.  
 Adj. average RoE: own calculation based on the ratio of net income (excl. minorities) and average shareholders' equity excluding average unrealised gains & losses based on available peer data. Average return on tangible asset: own calculation based on the ratio of net income (excl. minorities) and average shareholder's equity excluding average goodwill and average other intangible assets  
 Peer group: Allianz, Munich Re, AXA, Zürich, Generali, Mapfre, VIG, Swiss Re  
 Source: Financial reports of peers, FactSet and own calculations

### Favourable risk-return profile

Average Return on Equity compared to peers (2001-2017)

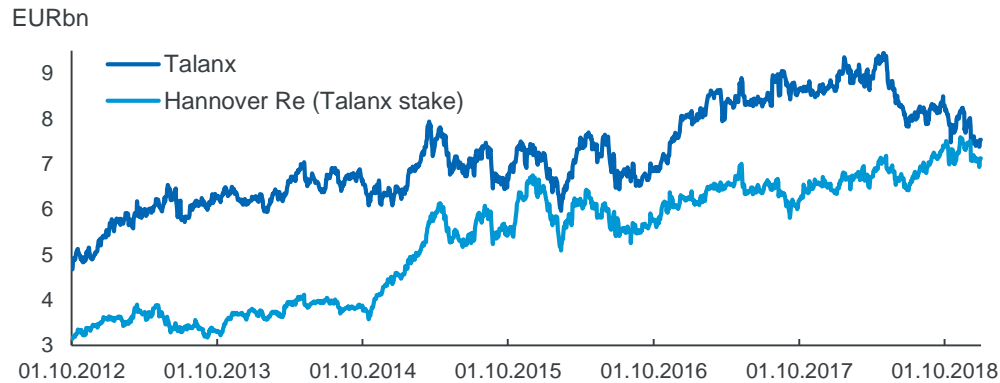


Note: Own calculations. RoE based on the ratio of net income (excl. minorities) and average shareholders' equity  
 Source: RoE 2001-2010 KPMG; 2011-2017 annual reports

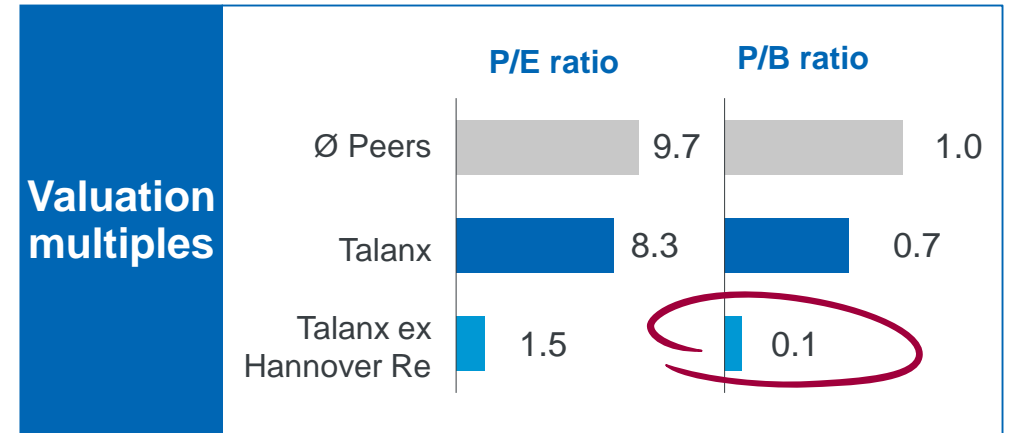
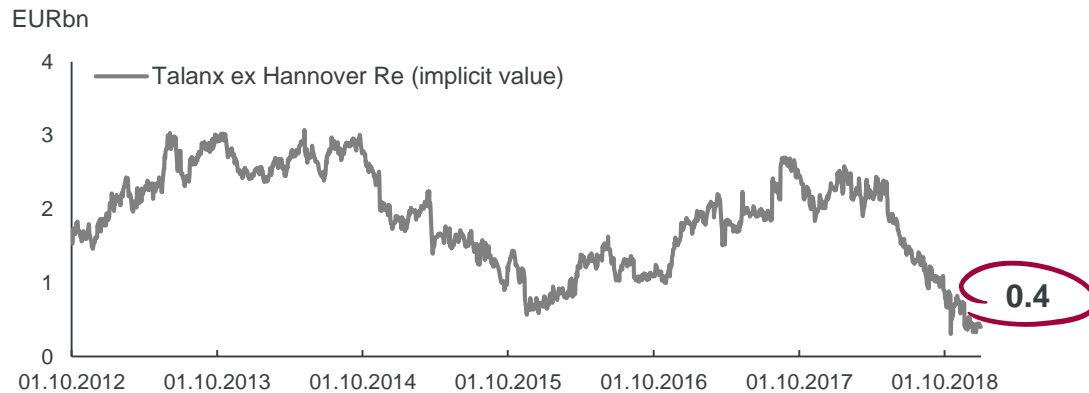
Develop

...however, cautious valuation of Talanx ex Hannover Re

### Market cap development



### Implicit market cap Talanx ex Hannover Re stake



Note: Multiples as of 31 December 2018 and based on sell-side estimates as collected by Talanx. The P/E ratio refers to the 2019E median for EPS, the P/B ratio refers to the 2018E shareholders' equity

Develop

## Talanx's ambition – Three areas to develop

### Strengthen

- 1 Entrepreneurial culture
- 2 B2B focus
- 3 Diversified portfolio

Traditionally different

### Develop

- 1 Enhanced capital management
- 2 Focused divisional strategies
- 3 Digital transformation

# Develop Talanx's ambition 2022





# 1 Develop – Enhanced capital management

## Our Capital Management Strategy

### Enhanced Capital Management

How to spend it	<ul style="list-style-type: none"> <li>▪ Sustainable dividend growth</li> <li>▪ Stringent capital allocation to support profitable organic growth</li> <li>▪ Disciplined M&amp;A approach</li> </ul>
How to get it	<ul style="list-style-type: none"> <li>▪ Reduce local excess capital</li> <li>▪ Increase cash upstream</li> <li>▪ Bundling reinsurance at Group level</li> </ul>



### Mid-term ambition

1	Attractive dividend payout ratio with DPS y/y at least stable	35-45%
2	Stringent capital manager	RoE ≥ CoE
3	Upstream of excess capital	~350m
4	Increase remittance ratio	50-60%

Note: Target dividend coverage ratio (available cash fund divided by target dividend level) is ~1.5-2 times actual dividend

1 Develop – Enhanced capital management

How to spend it – Allocate capital to support profitable organic growth

Return on Equity / GWP



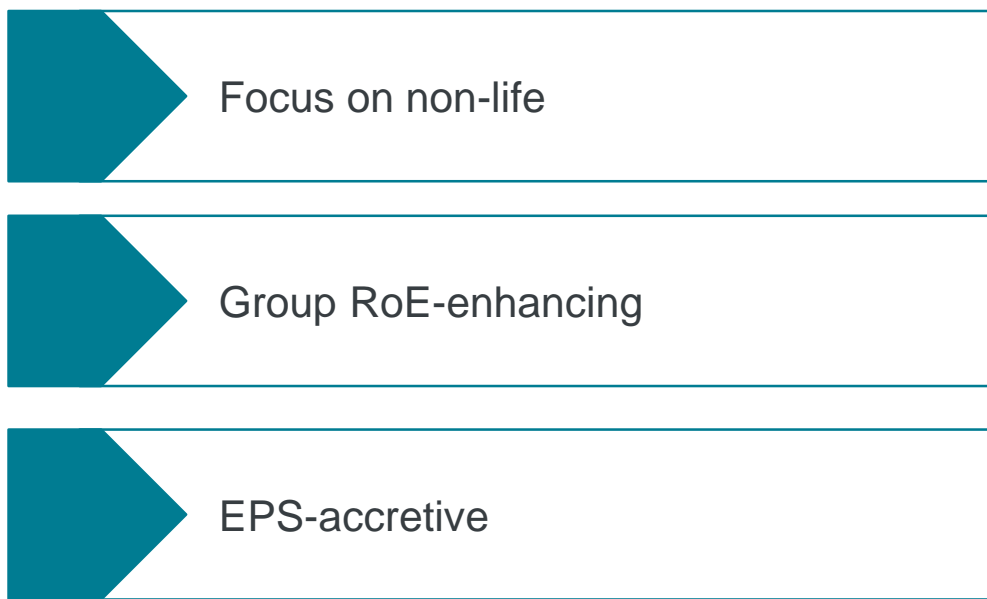
Consequent and efficient capital allocation in high RoE business...

... supports strong and profitable growth

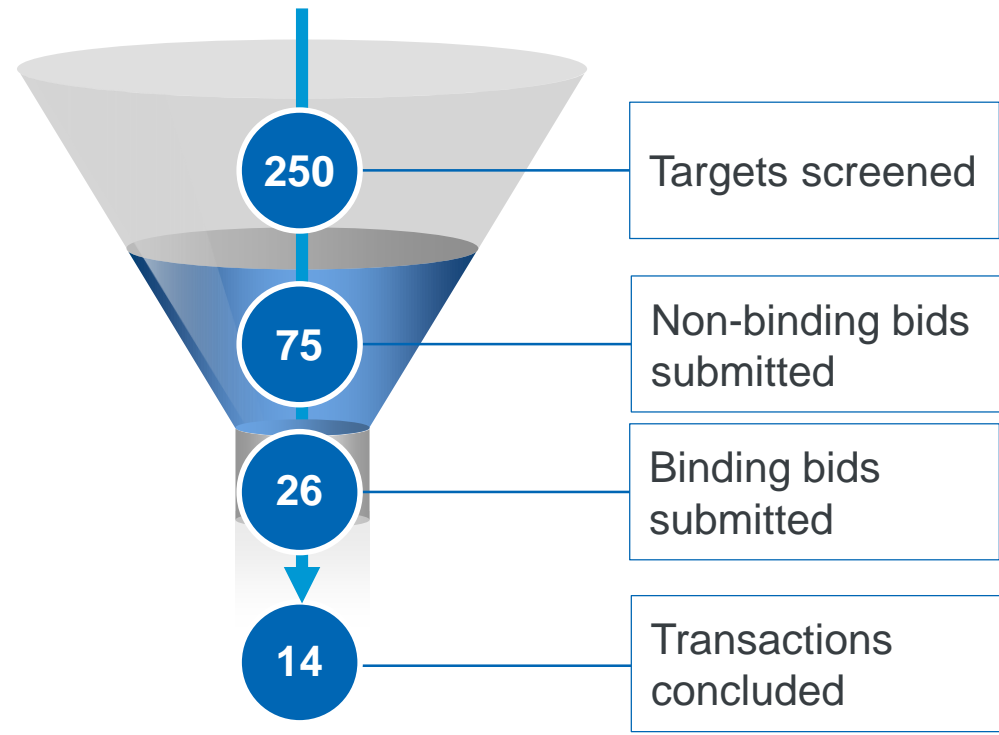
Note: Bubble size: attributed equity capital 2017 in m EUR; figures in bubbles refer to change in attributed equity excl. minorities (2017 vs. 2012)

# 1 Develop – Enhanced capital management How to spend it – Disciplined M&A approach

## Our M&A criteria



## Disciplined M&A activity (since 2011)



Note: "EPS-accretive" refers to an increase of Talanx's earnings per share

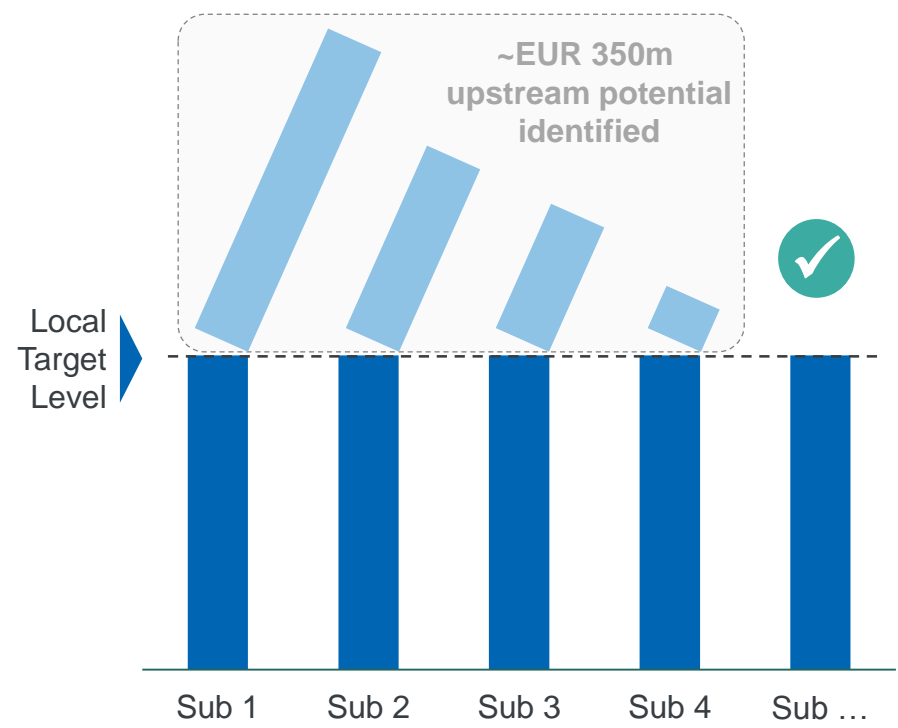
1 Develop – Enhanced capital management

How to get it – Reduce local excess capital and increase cash upstream

Reduce local excess capital

Solvency ratio (%)

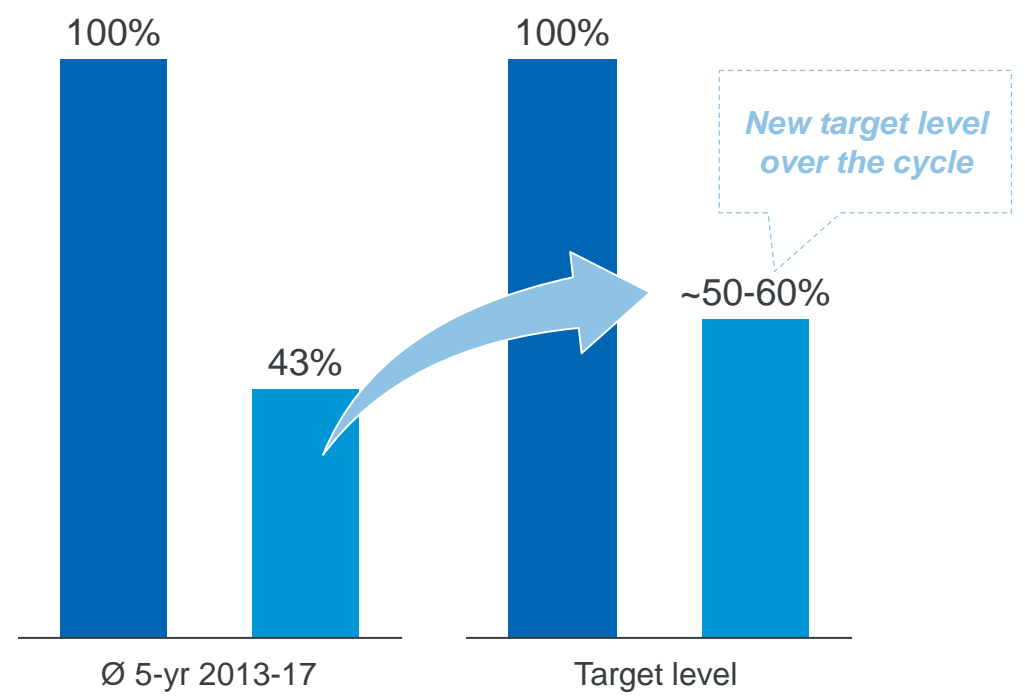
Illustrative



Increase cash upstream to Talanx Group

Ø 5-yr remittance ratio (2013-17)

IFRS Group net income Remittance from affiliated companies

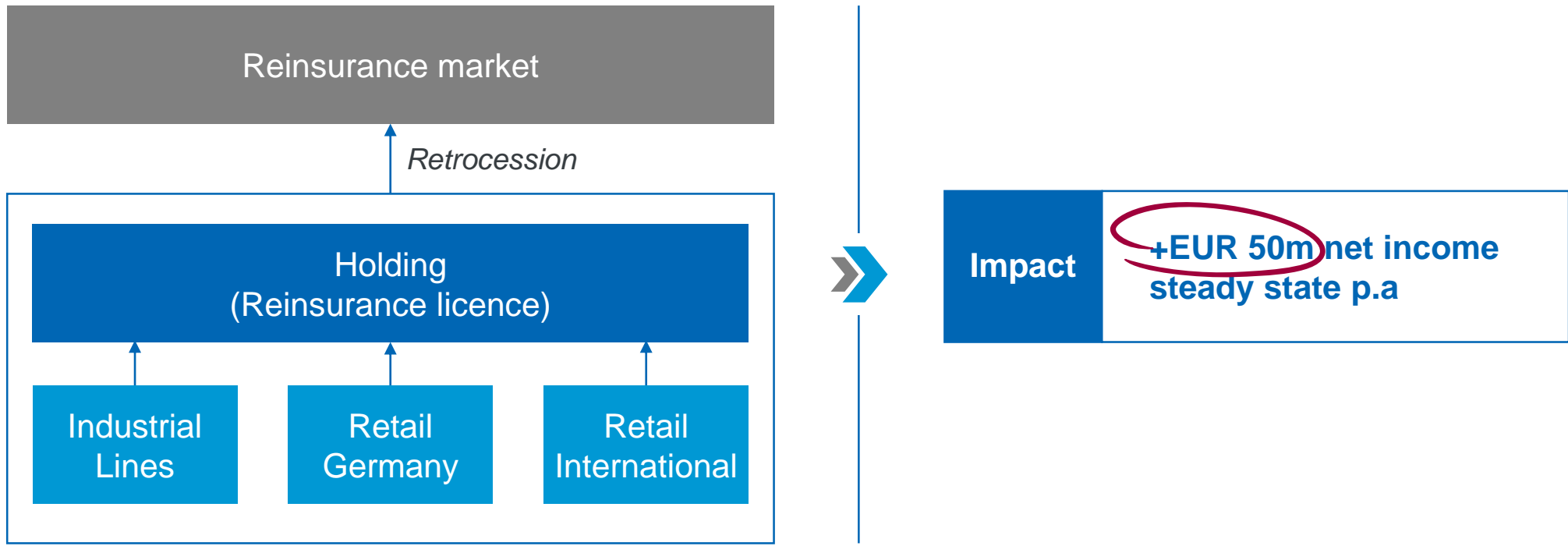


1 Develop – Enhanced capital management

# How to get it – Bundling reinsurance at Group level to leverage diversification

## Bundling reinsurance at Group level

Illustrative



## 2 Develop – Focused divisional strategies Industrial Lines

### Stock take

<b>Leading</b>	<ul style="list-style-type: none"> <li>▪ Customer focus and claims management</li> <li>▪ International Programmes</li> <li>▪ Cost leadership</li> </ul>
<b>Lagging</b>	<ul style="list-style-type: none"> <li>▪ Profitability in Fire business – Balanced Book not sufficient</li> <li>▪ Untapped growth potential in foreign markets and in Specialty</li> </ul>



### Focus and mid-term ambition

<b>Focus</b>	<ul style="list-style-type: none"> <li>▪ Bring CoR in Fire to well below 100% until 2020 (“20/20/20”)</li> <li>▪ Continue profitable foreign growth</li> <li>▪ Growth initiative in Specialty</li> <li>▪ Drive digital transformation</li> </ul>
	<p style="text-align: center;">RoE Ambition <span style="float: right; border: 1px solid #0056b3; border-radius: 50%; padding: 5px 15px; color: white;">8-10%</span></p>

## 2 Develop – Focused divisional strategies Retail International

### Stock take


<b>Leading</b>	<ul style="list-style-type: none"><li>▪ Entrepreneurial culture and digital leadership</li><li>▪ Strong track record in M&amp;A</li><li>▪ Cost leadership</li></ul>
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<b>Lagging</b>	<ul style="list-style-type: none"><li>▪ Top 5 position not yet achieved in all core markets</li><li>▪ Dependency on Poland, Brazil and Italy results</li></ul>
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### Focus and mid-term ambition

<b>Focus</b>	<ul style="list-style-type: none"><li>▪ Focus on top 5 positions in 5 core markets</li><li>▪ Disciplined organic and inorganic growth with focus on profitability</li><li>▪ Leveraging digital leadership</li></ul>
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	RoE ambition	<b>10-11%</b>
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## 2 Develop – Focused divisional strategies Retail Germany

### Stock take


<b>Leading</b>	<ul style="list-style-type: none"><li>▪ Leading player in Bancassurance</li><li>▪ Experienced employee benefits player</li><li>▪ Strong B2B position for P/C SME</li></ul>
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<b>Lagging</b>	<ul style="list-style-type: none"><li>▪ Cost level (HDI P/C and Life)</li><li>▪ Legacy IT systems</li></ul>
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### Focus and mid-term ambition

<b>Focus</b>	<ul style="list-style-type: none"><li>▪ Delivery on KuRS targets until 2021</li><li>▪ Growth initiative in SME</li><li>▪ Drive digital transformation</li></ul>
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	<b>RoE ambition</b>	<b>7-8%</b>
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## 2 Develop – Focused divisional strategies Reinsurance

### Stock take


<b>Leading</b>	<ul style="list-style-type: none"><li>▪ Cost leadership</li><li>▪ Top profitability</li><li>▪ Consistent underwriting approach</li><li>▪ Efficient tailor-made solutions</li></ul>
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<b>Lagging</b>	<ul style="list-style-type: none"><li>▪ Profitability of US mortality business</li></ul>
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### Focus and mid-term ambition

<b>Focus</b>	<ul style="list-style-type: none"><li>▪ Focus on reinsurance</li><li>▪ Maintain competitive (cost) advantage</li><li>▪ Solution-oriented innovative reinsurer</li><li>▪ Drive digital transformation</li></ul>
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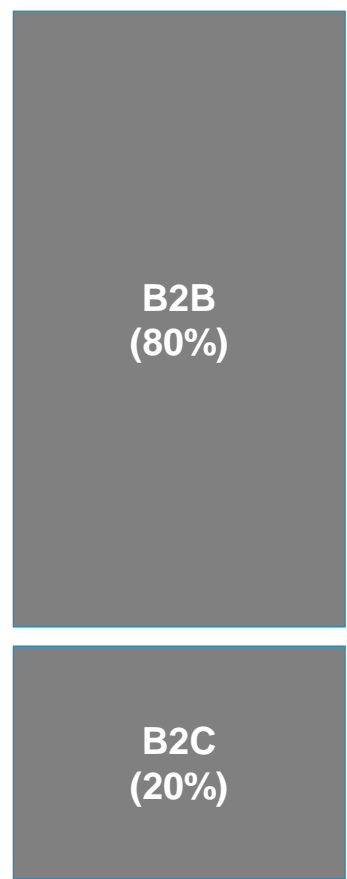
	<b>RoE ambition</b>	<b>≥ 10%</b>
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Note: RoE target of ≥900bps + risk-free

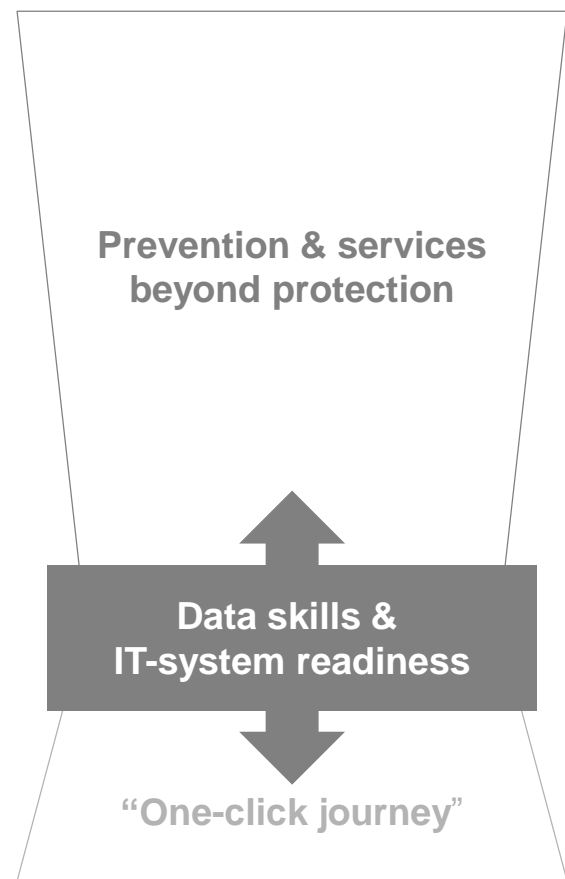
3 Develop – Digital transformation

# Digitalisation@Talanx – Clear focus to extend our digital value proposition

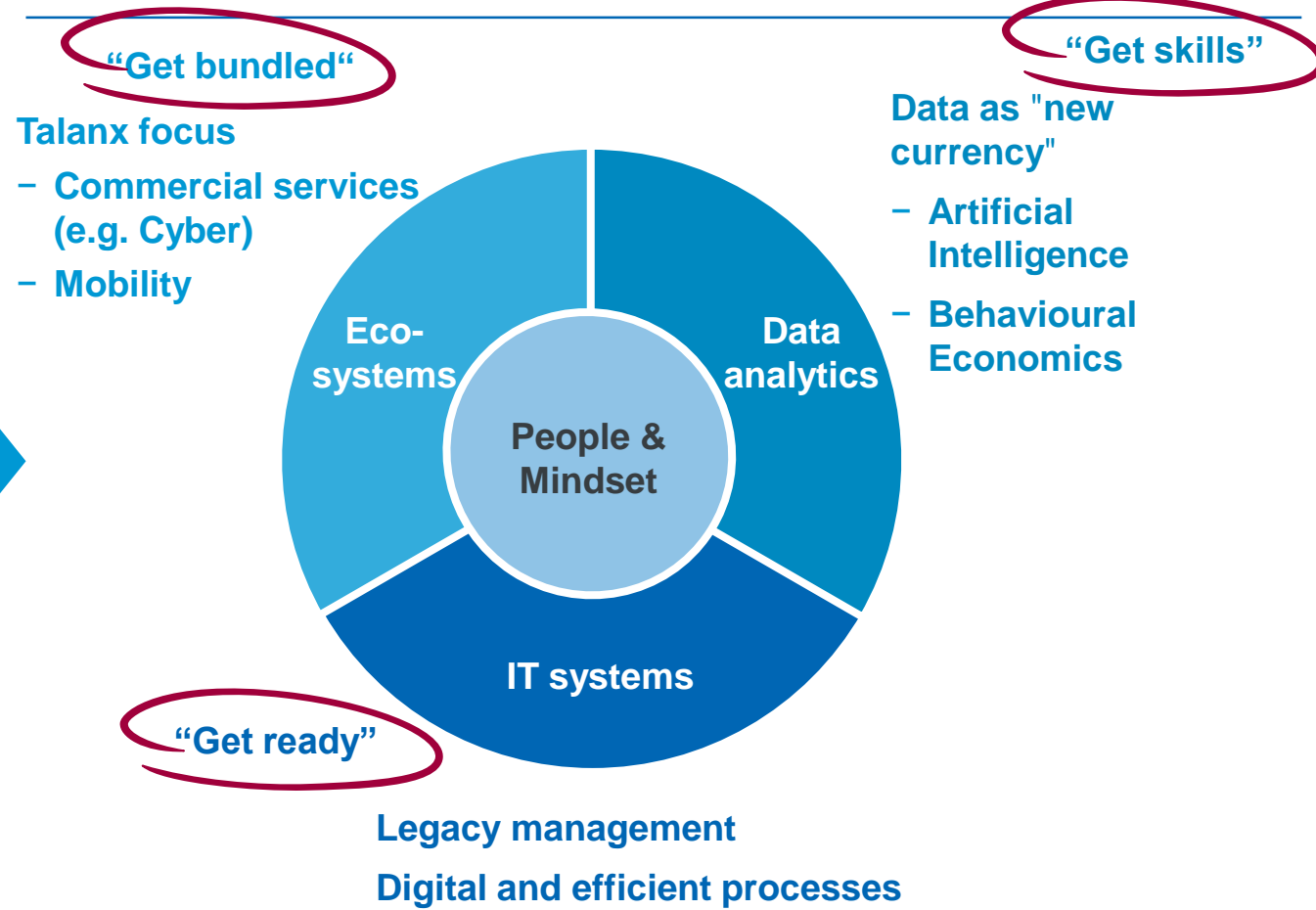
## Our footprint



## Key success factors



## Our focussed approach

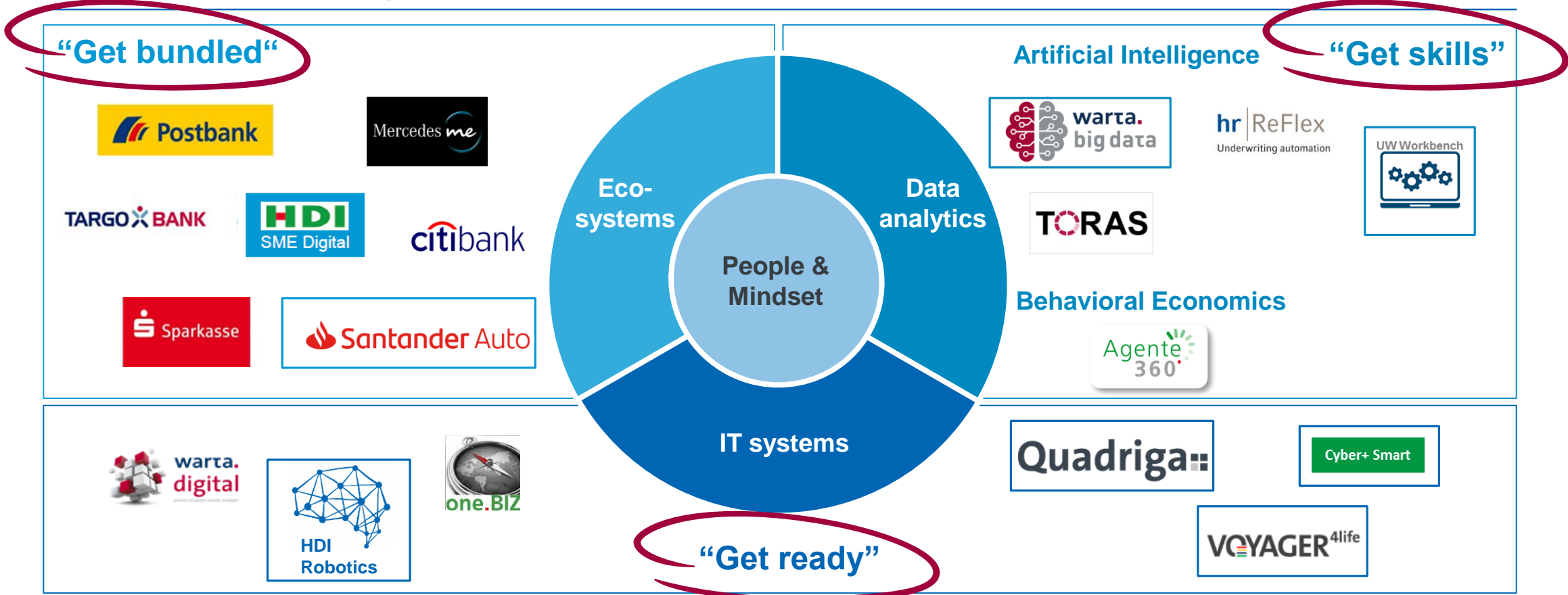


Note: Commercial services and mobility represent ~50% of insurer-relevant ecosystems (McKinsey)

3 Develop – Digital transformation

Digitalisation@Talanx – Divisions drive digitalisation as top management priority

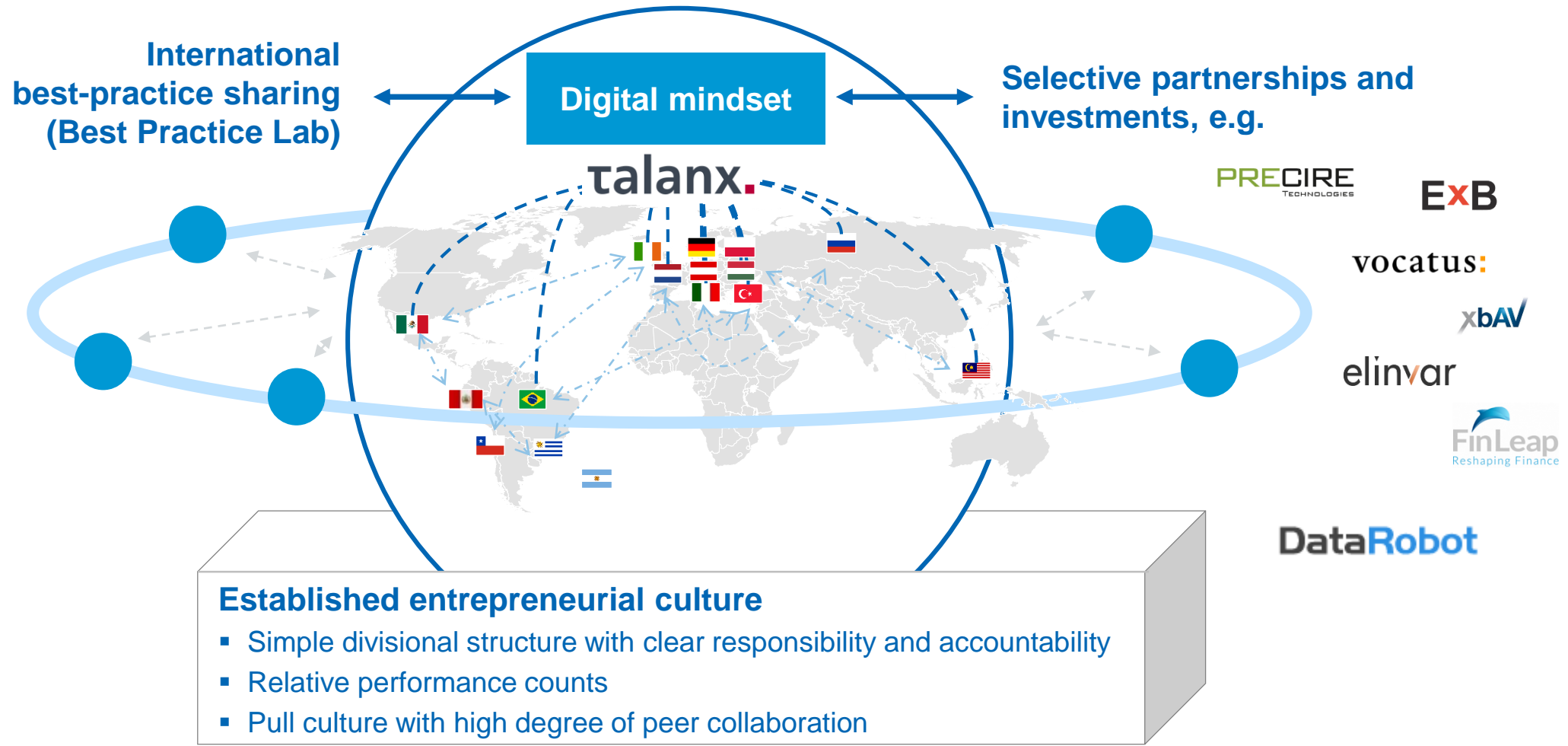
Selected examples for digitalisation in divisions






Further details in divisional presentations

3 Develop – Digital transformation

# Digitalisation@Talanx – Group fosters digital mindset leveraging our entrepreneurial culture



# Mid-term ambition – Raising the target level for Group profitability

Targets	<b>Return on equity</b>	<b>EPS growth</b>	<b>Dividend payout ratio</b>
	 High level of profitability	 Profitable growth	 Sustainable & attractive payout
	≥ <b>800bp</b> above risk-free rate	≥ <b>5%</b> on average p.a.	<b>35% - 45%</b> of IFRS earnings  DPS at least stable y/y

Constraints	<b>Strong capitalisation</b>	<b>Market risk limitation (low beta)</b>	<b>High level of diversification</b>
	Solvency II target ratio 150 - 200%	Market risk ≤ 50% of Solvency Capital Requirement	targeted 2/3 of Primary Insurance premiums from outside Germany

Note: Targets are relevant as of FY2019. EPS CAGR until 2022 (base level: original Group net income Outlook of ~EUR 850m for 2018). The risk-free rate is defined as the 5-year rolling average of the 10-year German Bund yield. Targets are subject to large losses staying within their respective annual large-loss budgets as well as no major turmoil on currency and/or capital markets

# Agenda

I CMD: Group Strategy

II CMD: Group Financials

III 9M 2018 results

# 1 Enhanced capital management

## Our Capital Management Strategy

### Enhanced Capital Management

**How to spend it**

- Stringent capital allocation to support profitable organic growth
- Sustainable dividend growth
- Disciplined M&A approach

**How to get it**

- Reduce local excess capital
- Increase cash upstream
- Bundling reinsurance at Group level

### Mid-term ambition

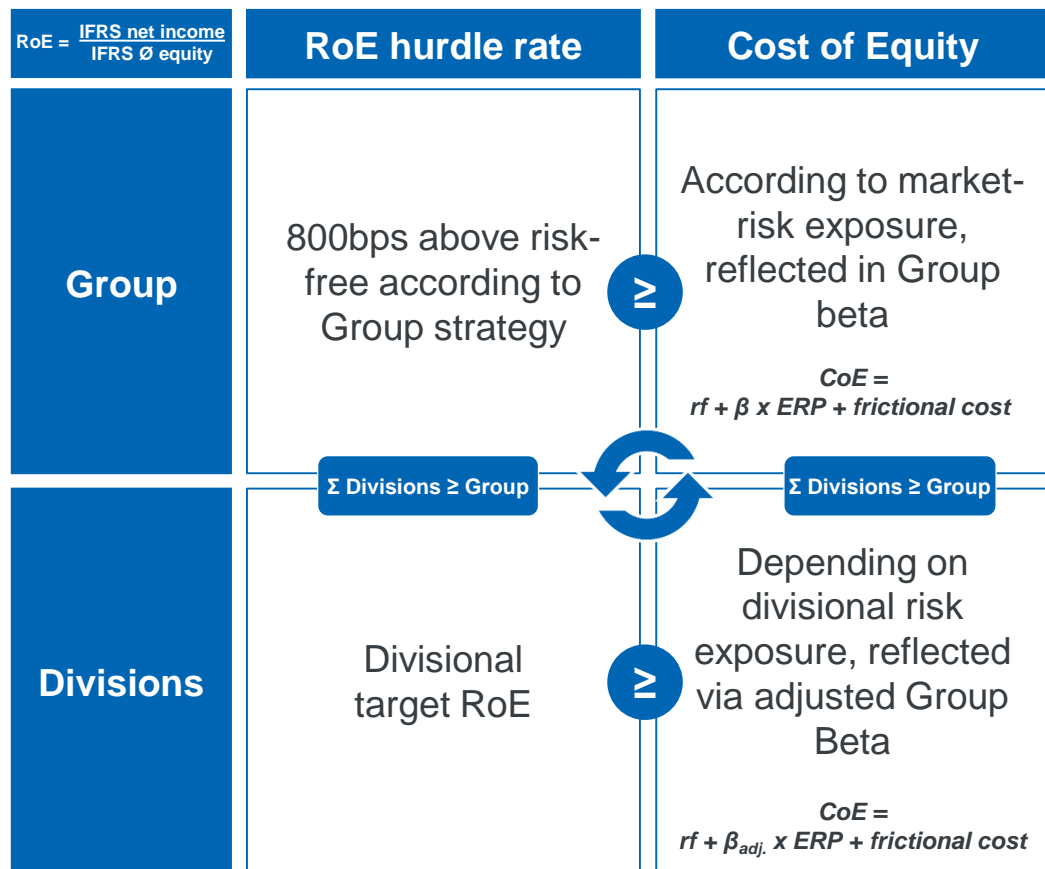
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Note: Target dividend coverage ratio (available cash fund divided by target dividend level) is ~1.5-2 times actual dividend

1 Enhanced capital management

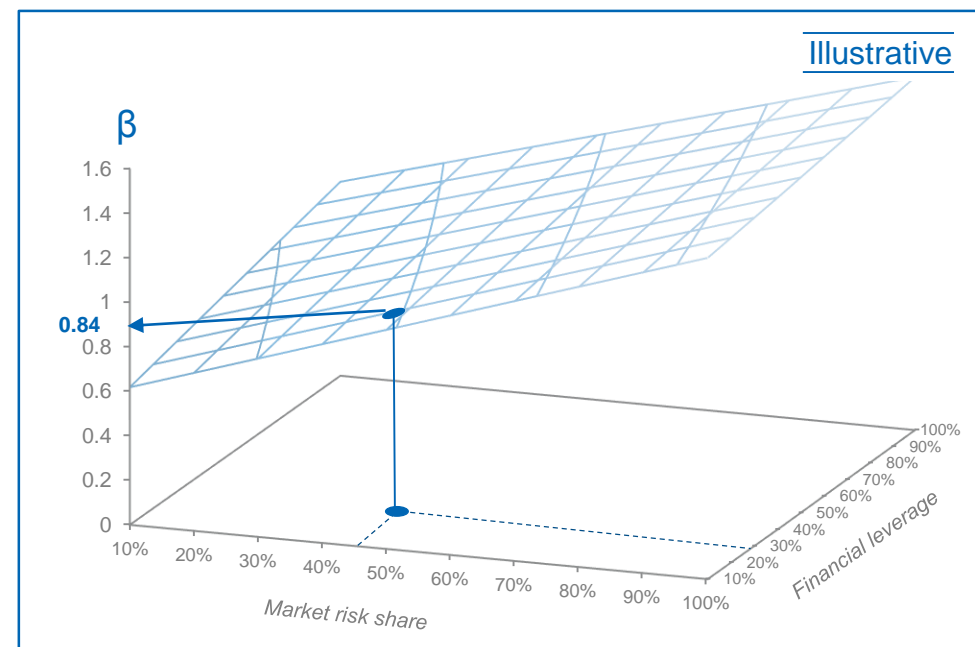
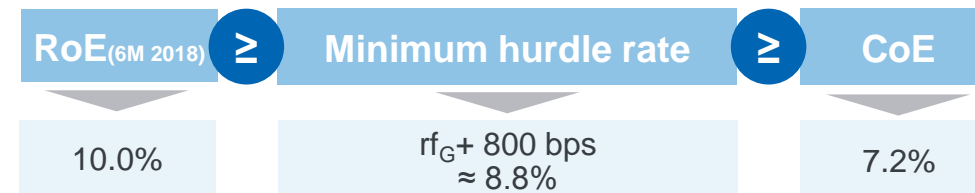
# How to spend it – Stringent capital allocation to support profitable organic growth

## Capital steering matrix & KPIs



Note: RoE based on IFRS 4. Cost of Equity benchmark 7.2% - 7.6% confirmed e.g. by PWC (Cost of Equity Insurance Companies, Germany 2018), AonBenfield ("The Aon Benfield Aggregate", 12/2016) and most recent Swiss Re Sigma (4/2018)

## Beta drivers



Note: Calculation for FY2018



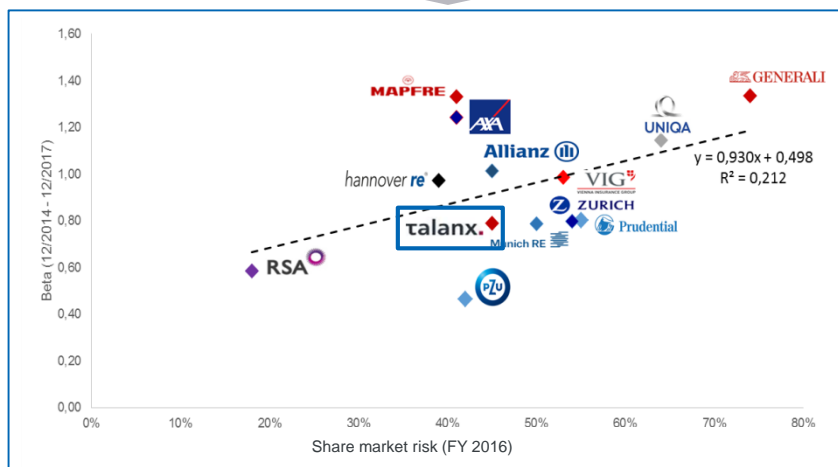
1 Enhanced capital management

# Beta-blockers to prevent abnormal (“risk off”) heart rhythms/attacks



## Prudent market risk

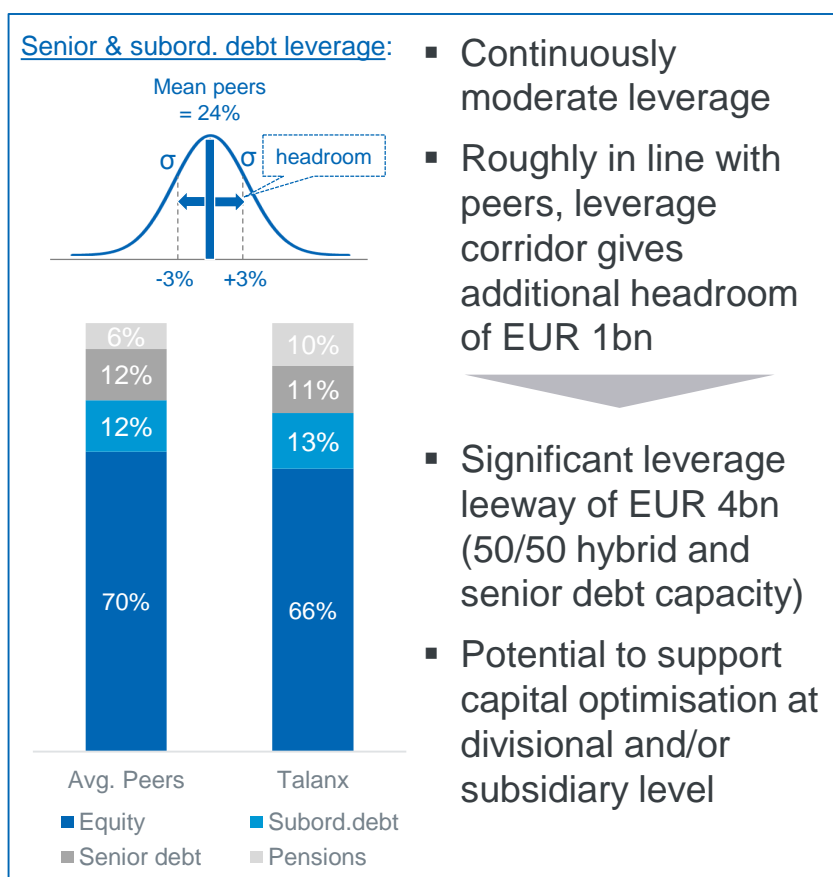
**Market risk share**



Source: Bloomberg, own calculation

## Moderate leverage

**Leverage position**



Source: Company reports, own calculation, figures as of 30 June 2018

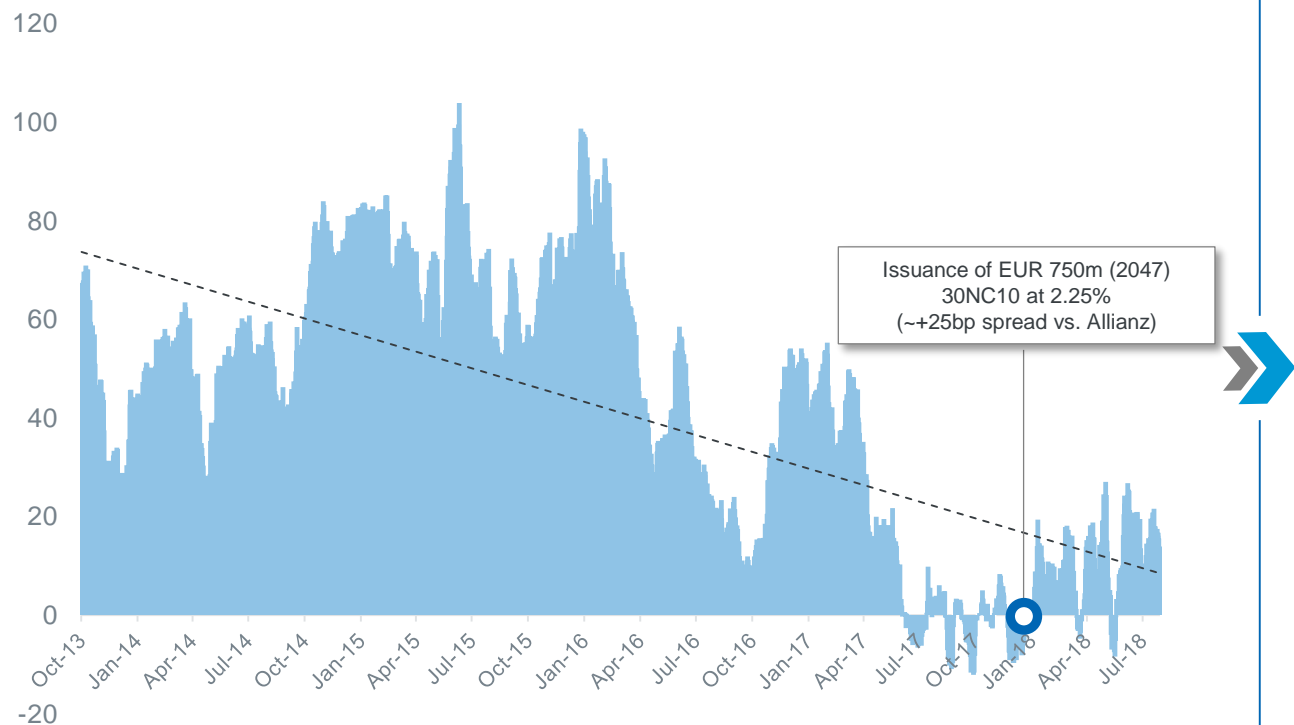
1 Enhanced capital management

Ongoing trend of narrowing spreads supported by Talanx's conservative low-beta profile



Credit spread development

Trading spread in bps between Talanx EUR 500m (2042) 30NC10 8.37% and peers



- 1 Low market risk reflected in constantly declining spreads (relative position)
- 2 Efficient timing of capital management actions
- 3 Narrowing spreads result in reduced future funding and/or refinancing cost

Note: Credit spreads are calculated as spreads over the 6M swap curve. Seniority: Lower Tier 2. Equally weighted peer group consists of Allianz (2022, 5.625%), AXA (2023, 5.125%), Generali (2022, 10.125%), Munich Re (2022, 6.25%) and Zurich (2023, 4.25%)

1 Enhanced capital management

How to spend it – Aspirational steering with RoE ambition ≥ CoE

Cost of Equity calculation

	Risk-free (FX exposure weighted)	+	Group beta 5yrsØ	×	Adjustment factor	×	Market-risk premium	+	Frictional cost	=	CoE
<b>Group</b>	1.9%				1.00						<b>7.2%</b>
<b>Industrial Lines</b>	0.9%		0.84		1.07		4.0%		2.0%		~6.5%
<b>Retail Germany</b>	0.8%			2.48		~11%					
<b>Retail Intern.</b>	3.8%			1.26		~10%					
<b>Reinsurance</b>	1.2%			0.66		~5.5%					

Consistent and more ambitious target setting

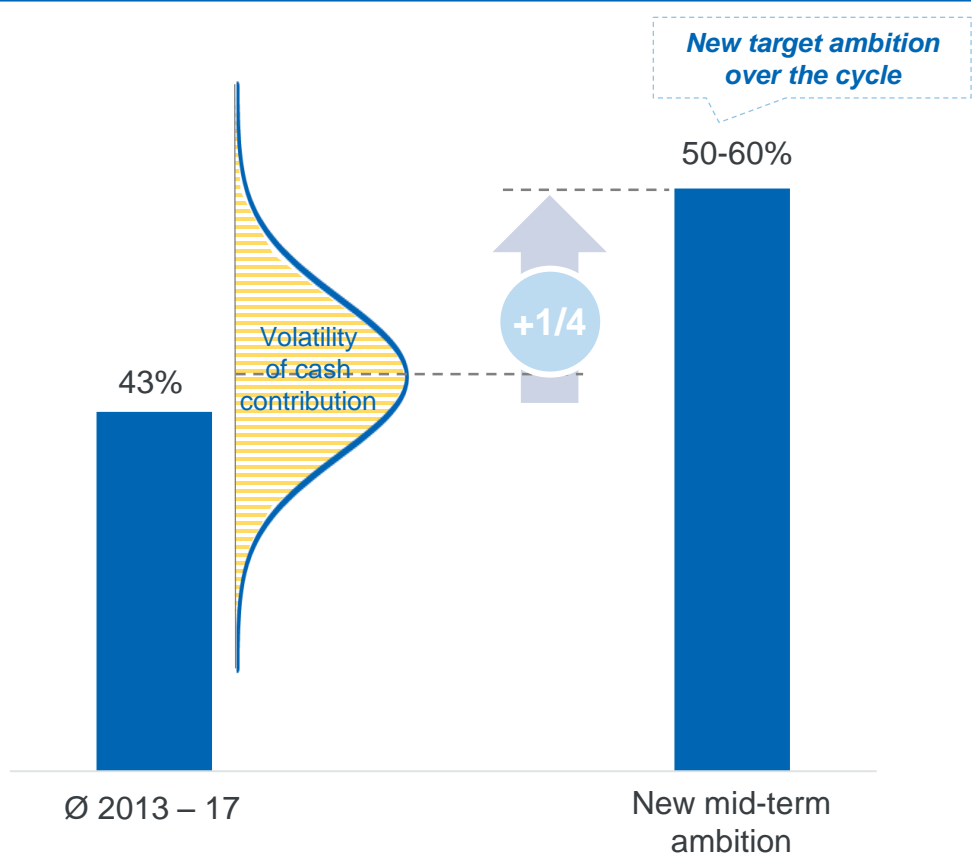
CMD 2017 ambition	Ambition	Comments
750bp + risk free <sub>G</sub>	≥800bp + risk free <sub>G</sub>	Talanx ≤ sum-of-the-parts creating value!
8%	<b>8-10%</b>	“20/20/20”, Speciality etc.
6-7%	<b>7-8%</b>	“Tapering” guarantee burden; shifting Life to P/C; more capital- efficient and biometric business
9%	<b>10-11%</b>	FX mix & goodwill allocation; growth & capital management
n/a	<b>≥ 10%</b>	In line with Hannover Re’s minimum RoE target

Note: The adjustment factor is determined by two factors: the capital adequacy ratio of the division relative to the Group and the divisional share of market risk relative to the Group. An equal position as the overall Group would result in a figure of “1.00”. A higher share of capital market risks than the overall Group and lower divisional capital adequacy ratios than the overall Group would result in adjustment factors above 1. All numbers relate to a Shareholder Net Asset (SNA) view. All calculations for FY2018

1 Enhanced capital management

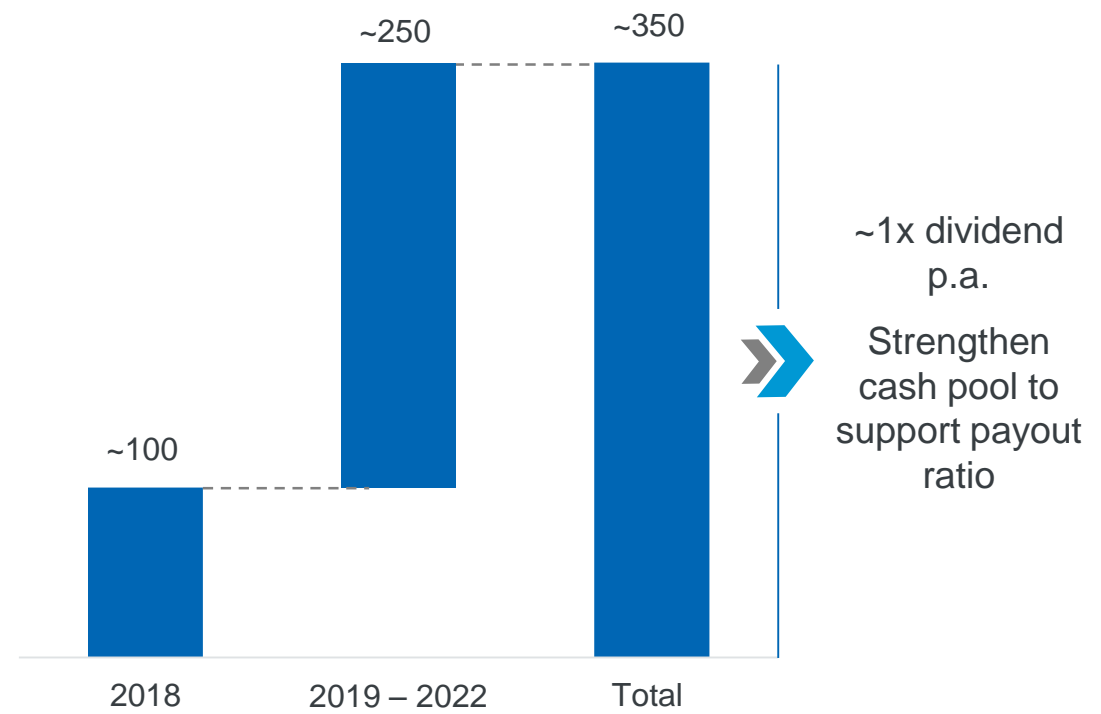
How to get it – Increase cash upstream and reduce local excess capital

Ø Remittance ratio



Mid-term capital upstream potential

Excess capital after local constraints (in EURm):



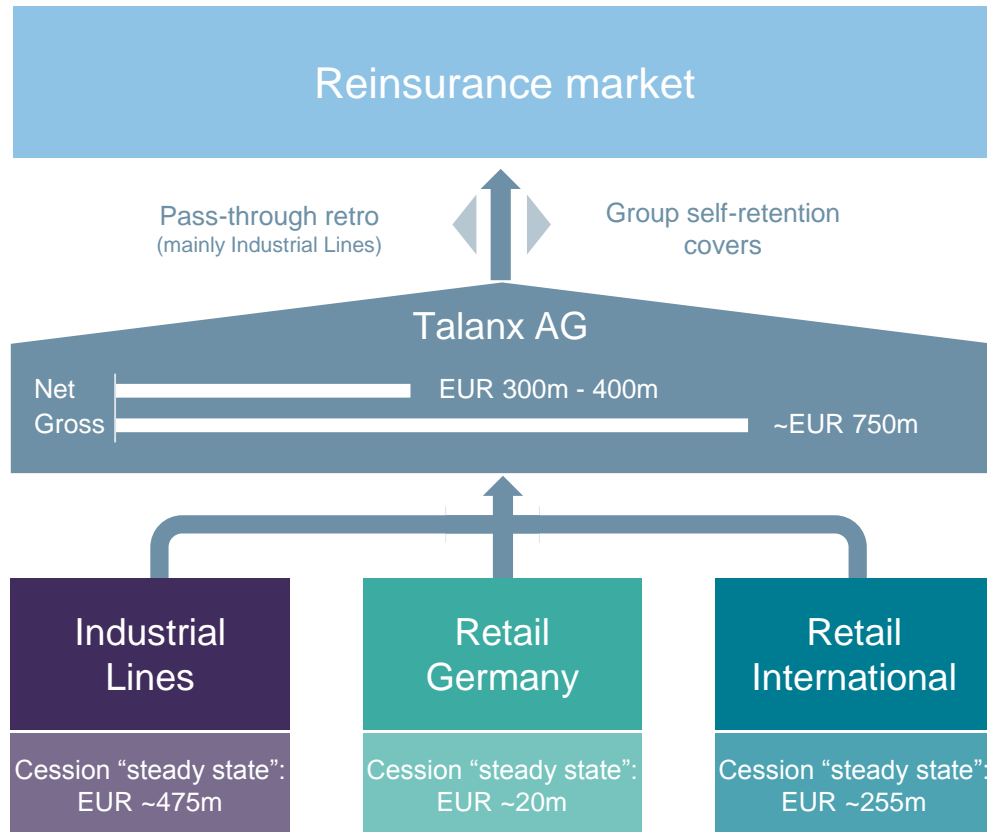
Note: Local constraints reflect e.g. local supervisor, withholding tax

# 1 Enhanced capital management

## How to get it – Bundling reinsurance at Group level

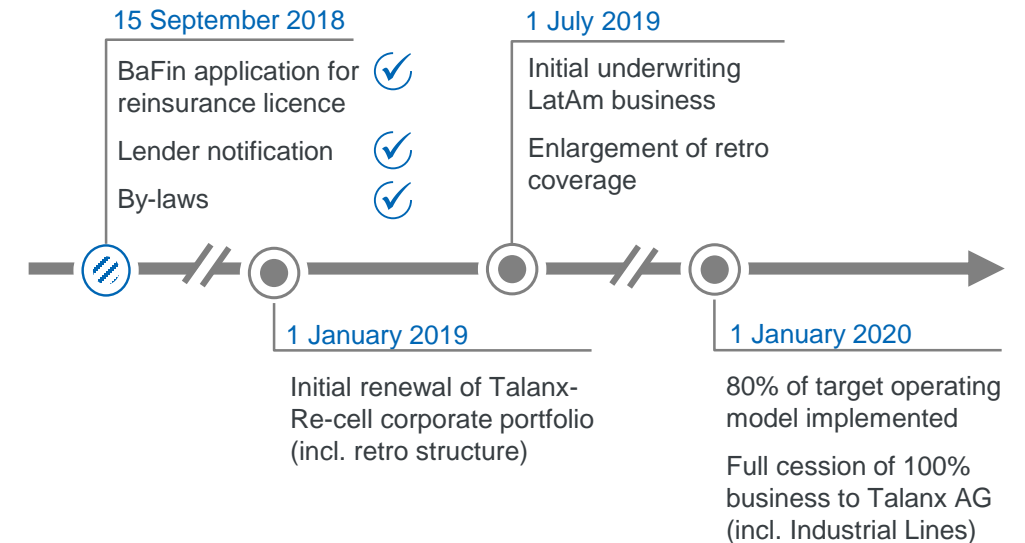
January 2019: Talanx AG issuer credit ratings up to "A+" at S&P and to "a+" at A.M.Best; underwriting commenced as planned in January

### New reinsurance structure



### Stringent implementation

- Talanx AG will become exclusive reinsurer for all treaty cessions in P/C segments. Talanx AG to act as the risk carrier and pooling vehicle
- Increased cash generation and liquidity flow at Group level
- Optionality for capital relief transactions






1 Enhanced capital management

# How to get it – Bundling reinsurance at Group level

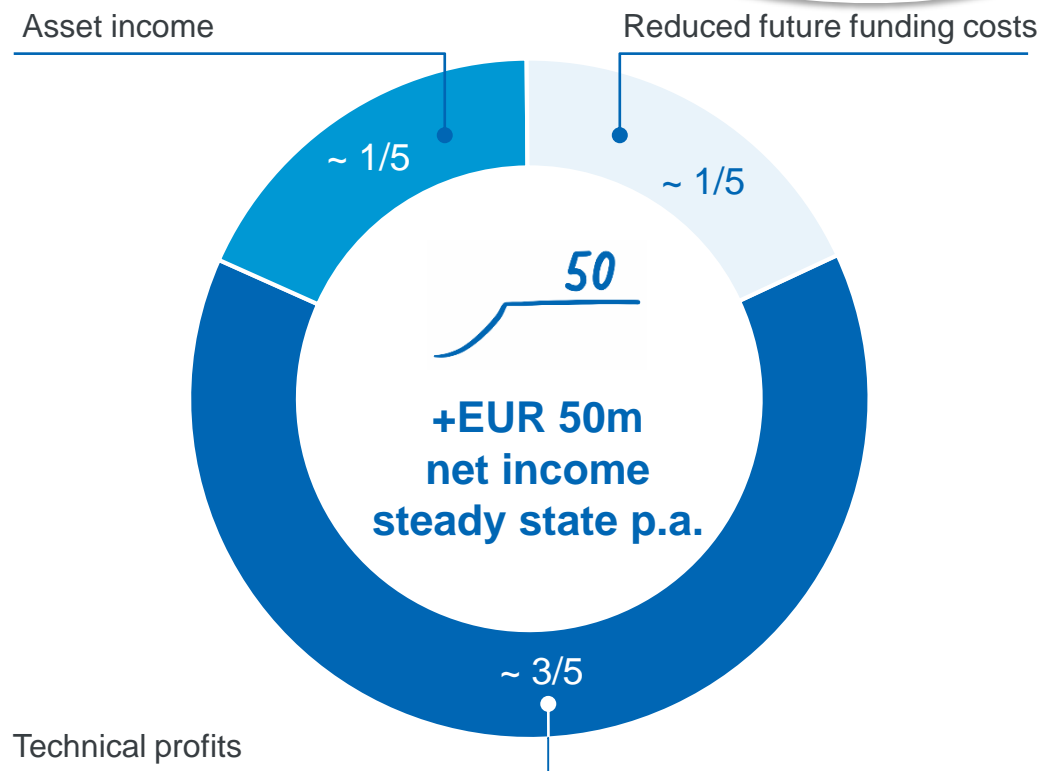
January 2019: Talanx AG issuer credit ratings up to "A+" at S&P and to "a+" at A.M.Best; underwriting commenced as planned in January

## Key value driver/benefits

<p><b>Technical profits</b></p> 	<ul style="list-style-type: none"> <li>Increased retention by gearing Talanx AG's idle solo funds and use of Group diversification</li> <li>Target solo SII-CAR of &gt;300% acc. to standard model and only marginal SCR Group impact</li> </ul>
<p><b>Asset income</b></p> 	<ul style="list-style-type: none"> <li>Enlarged assets under management (AuM) and related income due to increased Group retention</li> <li>+Δ AuM steady state EUR ~0.65bn</li> </ul>
<p><b>Rating increase</b></p> 	<ul style="list-style-type: none"> <li>Credit rating improvement for Talanx AG expected (currently A- vs. A+ of operating carriers) resulting in reduced future funding costs</li> </ul>



## Mid-term ambition

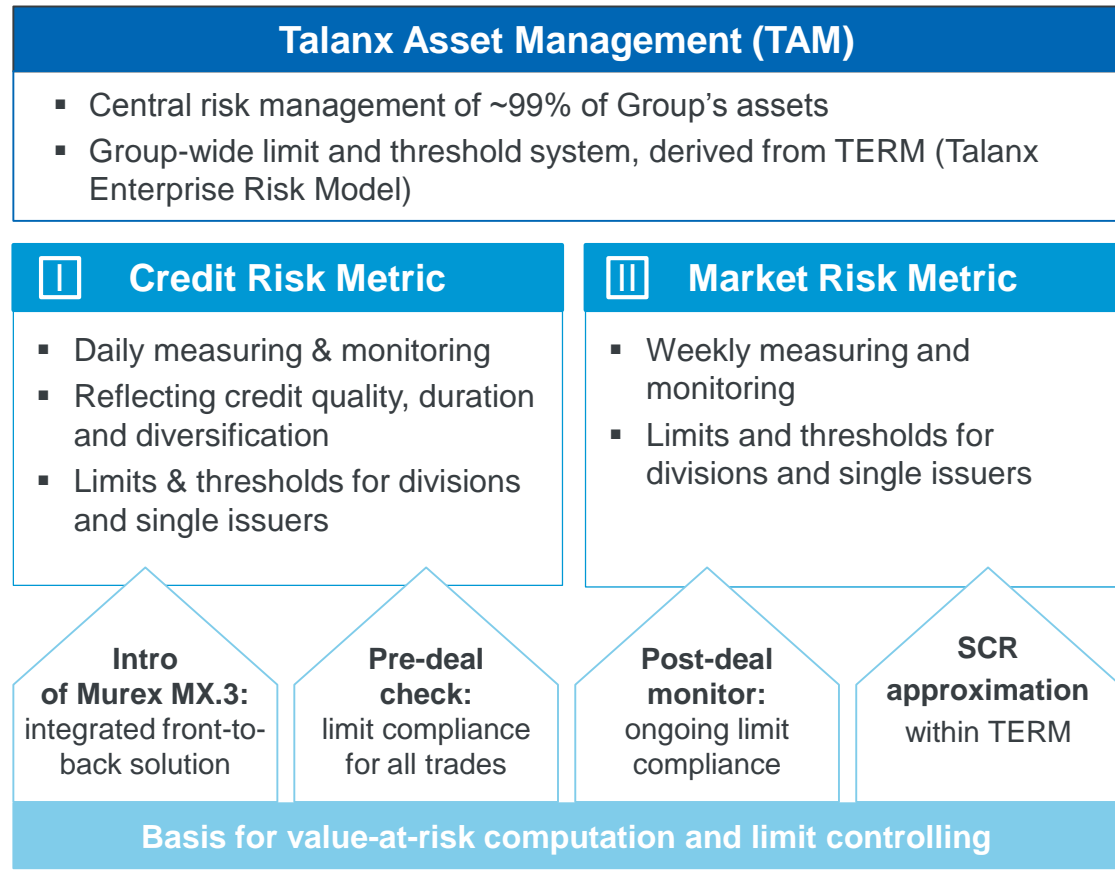


Note: Initially very low marginal tax burden due to (potentially written-off) tax losses carried forward, subject to normal loss frequency, unchanged reinsurance structures and no disruptions on currency, capital or reinsurance markets

2 Asset Management

# Strong AM lines of defence and stringent sustainability strategy

## Ensuring low beta & protection of shareholders' equity



## ESG strategy and approach

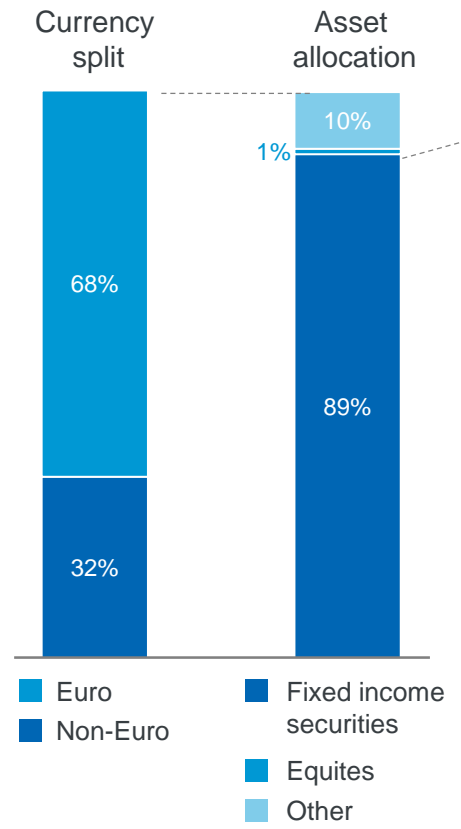


2 Asset Management

# Investment strategy unchanged – Striving for close asset-liability matching

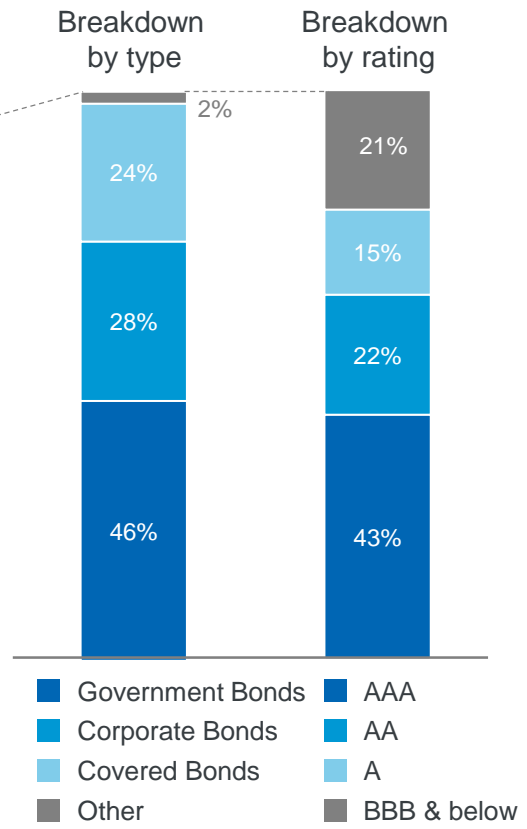
## Investment portfolio

as of 30 Sep 2018: EUR 111.5bn

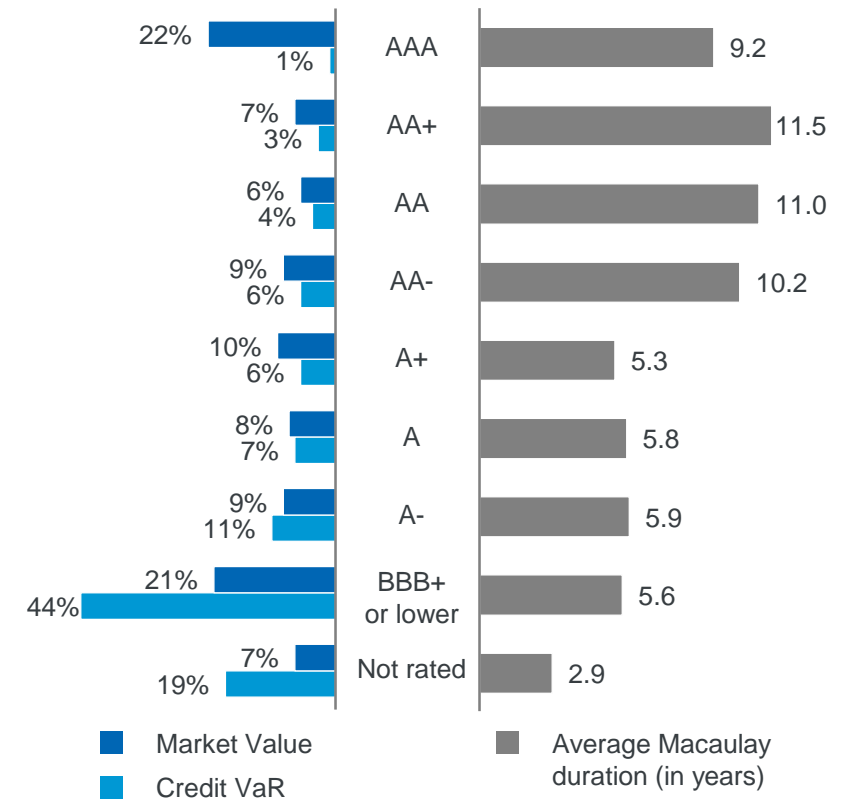


## Fixed income portfolio

as of 30 Sep 2018: EUR 99.7bn



## Credit VaR & Macaulay duration



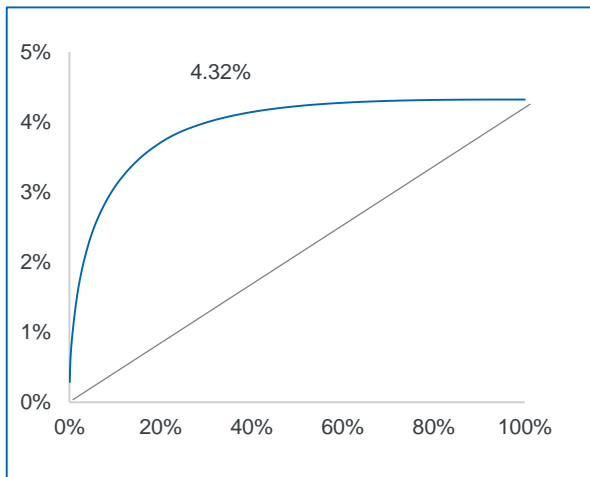
Note: Positions without external ratings (esp. funds and equity investments) shown as not rated. Credit VaR metric particularly depends on maturity and specific loss default assumptions



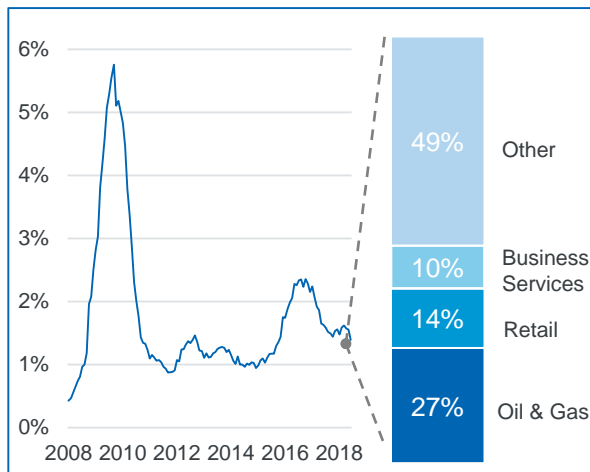
## 2 Asset Management

At the end of QE – (Corporate and sovereign) spread risks may be the top challenge

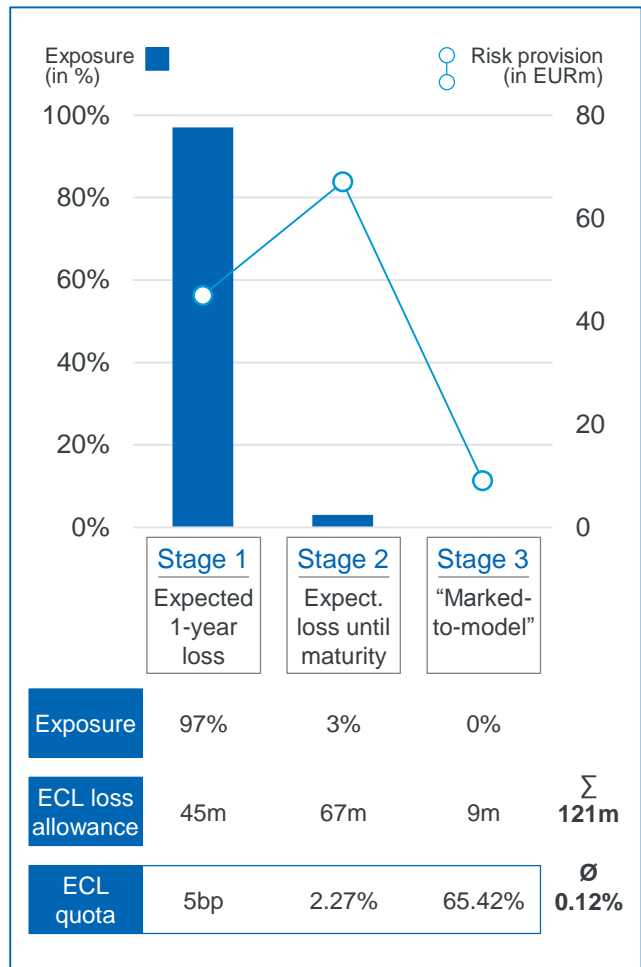
### CVaR by share of issuers



### Corporate default rate & distribution



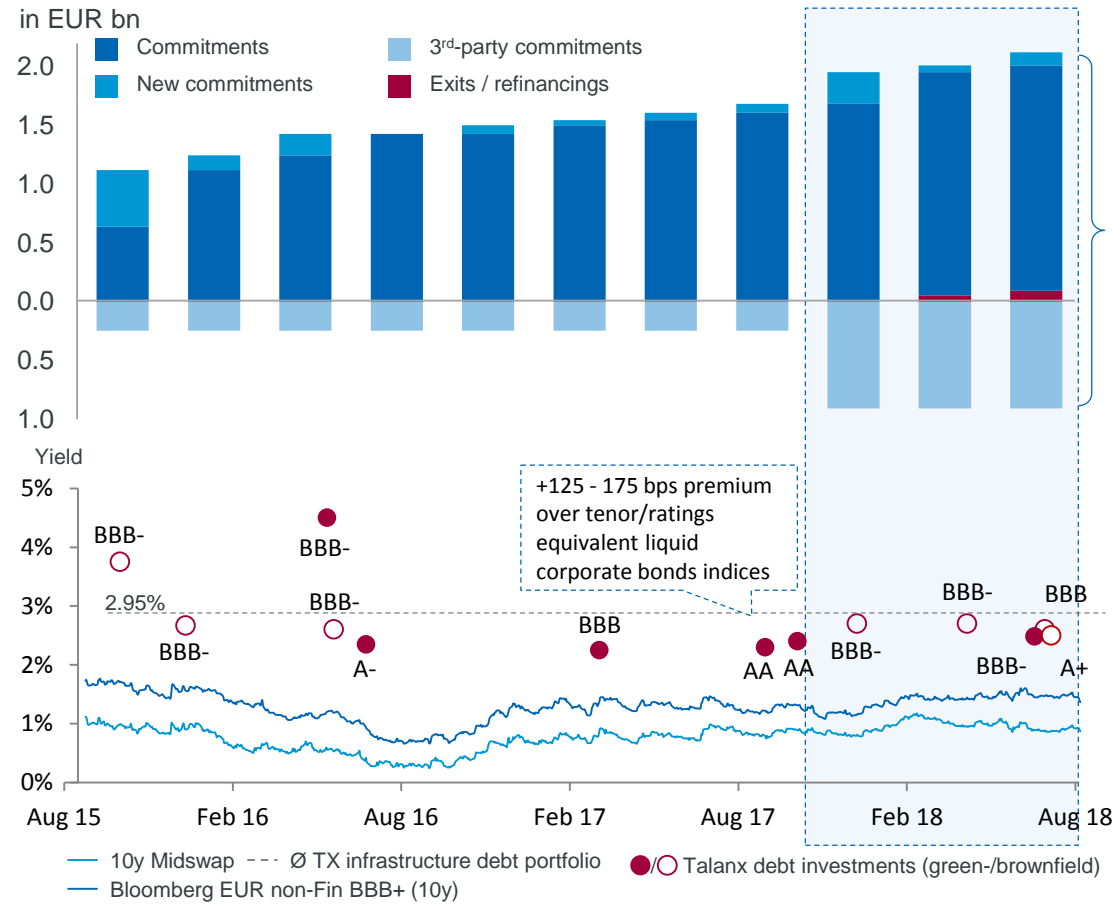
### IFRS 9 Expected credit loss model simulation



No material defaults in assets managed by Talanx Asset Management  
e.g. Steinhoff, Carillion & Toys"R"Us

## 2 Asset Management Infrastructure pays off

### Expansion of infrastructure investments



~3 EUR bn



**1** €1.9bn of direct infrastructure investment commitments, with 10-yr weighted average life @ BBB+ Ø rating

**2** EUR 0.9bn of 3<sup>rd</sup>-party participation generating subsequent fee income

**3** Long-term limit: 5% of invested assets

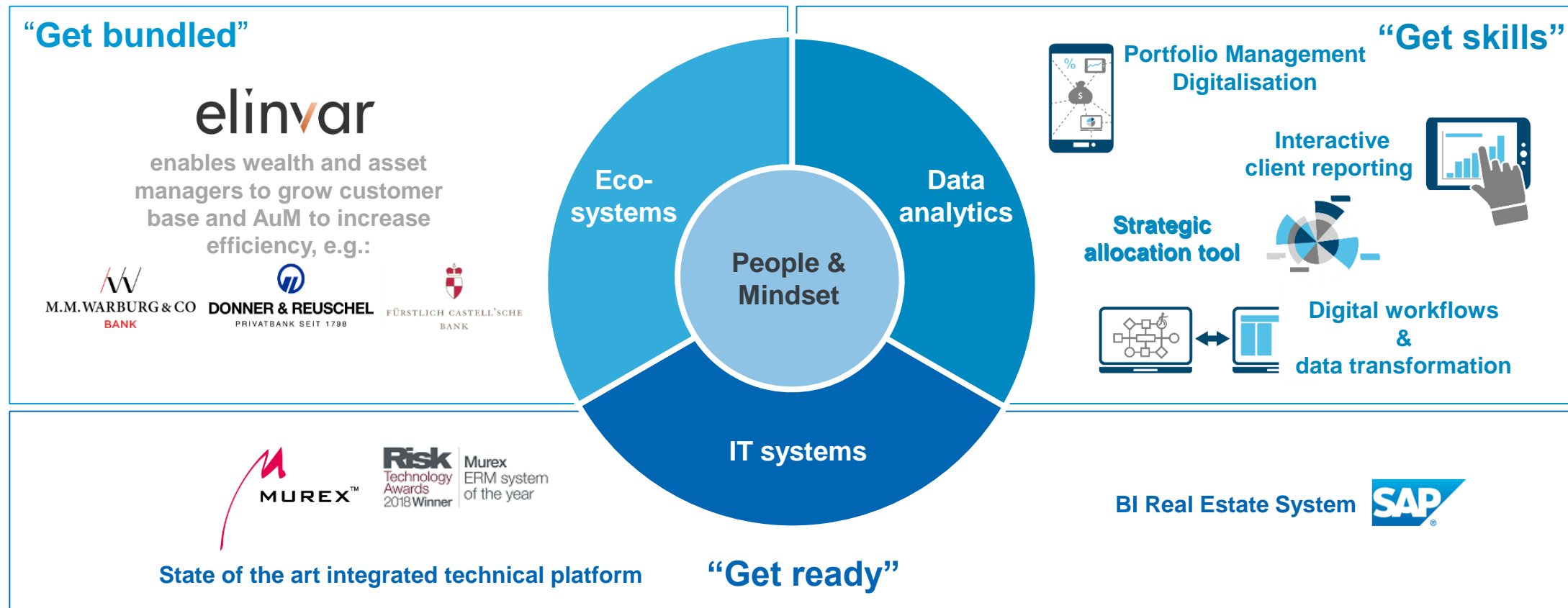
### Latest innovative transaction in niche sector

- Ulm regional rail passenger franchise
- 1<sup>st</sup> structured solution of a German passenger rail concession (total EUR 90m) by institutional investors
- Funding rolling stock for operator via long-dated lease structure
- Significant growth expected given further liberalisation due to the 4<sup>th</sup> EU rail package

2 Asset Management

# Talanx Asset Management – Drive digitalisation as top management priority

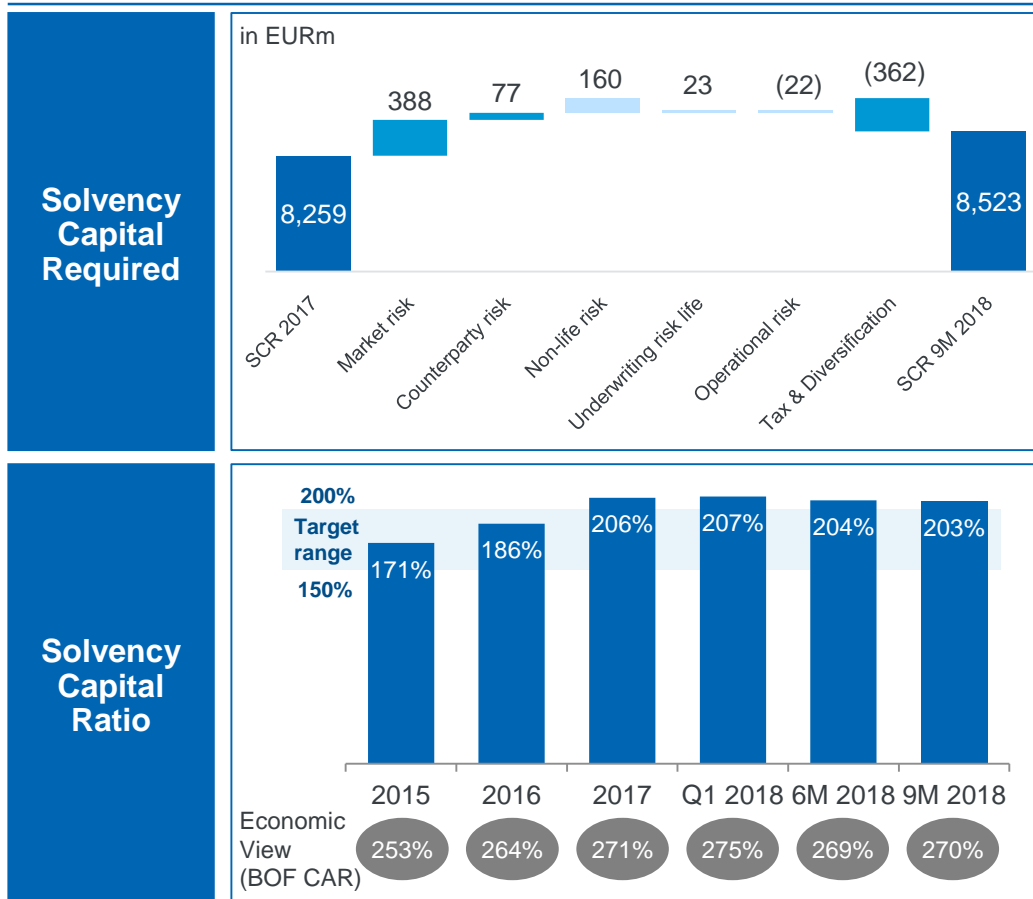
## Selected examples for digitalisation in TAM



### 3 Excursion – Solvency II Update

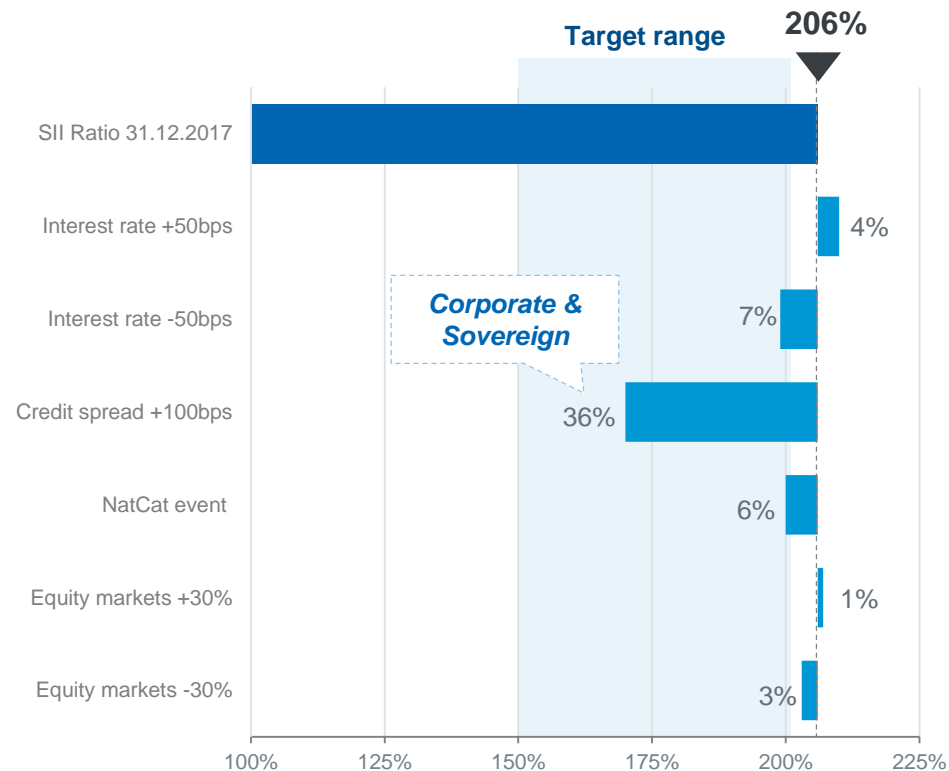
## Development of Group capitalisation

### Solid capitalisation (Regulatory view)



Note: Regulatory view without transitional

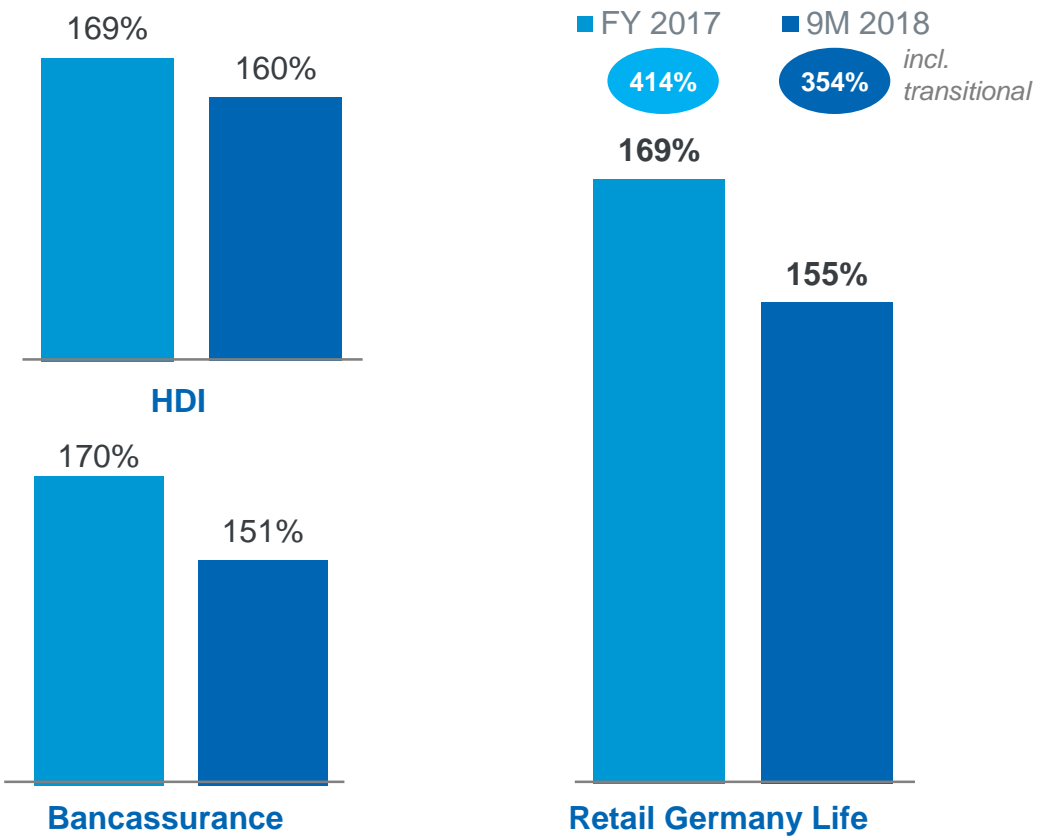
### Limited stress impact



3 Excursion – Solvency II Update

# Retail Germany Life: Robust capitalisation despite strong credit spread increase

## Solvency ratios: Retail Germany Life



- 1 Average increase in credit spreads by ~40% in 9M 2018 hampers Retail Germany Life's CARs
- 2 Robust capitalisation despite recent credit spread widening

Note: Numbers show weighted average of single CARs; if not otherwise stated all figures are based on regulatory view without transitional

### 3 Excursion – Solvency II Update

## Future model change may well result in 10%-point SII ratio improvement

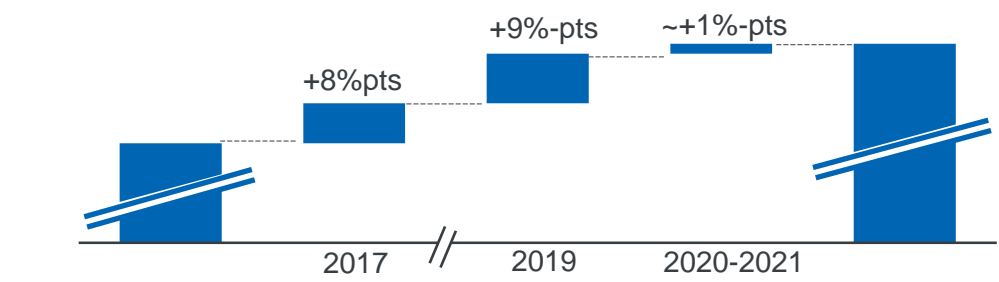
### Internal Model changes & outlook

	2017		2018E		2019E	
	SCR	Own Funds	SCR	Own Funds	SCR	Own Funds
OpRisk (Hannover Re)	-2.7%	+1%				
OpRisk (Primary Group)					↓	↗
Asset correlation coverage et al.			↑	→		
Pensions	-1.2%	0%				
Dynamic & static volatility adj. (P/C)			→	↗	↓	↘
Counterparty default			↗	→		
RITA					→	→
Nucleus					→	→
<b>Aggregate</b>	<b>-3.9%</b>	<b>1%</b>	↘	↗	↓	↘
<b>Combined CAR impact</b>	<b>+10.5%pts</b>		↘		↑	

Outlook

- 1 Strong **increase in SII ratio** (+10%pts) due to successful model updates in 2017 with subsequent phasing of positive impact
- 2 Further **reduction in market risk share** by approx. **1%pt** due to relative increase in SCR OpRisk

### Expected impact from OpRisk improvements on SII

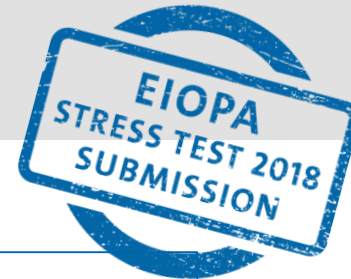


Baseline: SCR = EUR 8.3bn; EOF = EUR 17.0bn

Note: Risk modelling planned to be changed to tail VAR approach

3 Excursion – Solvency II Update

Preliminary results in line with 2017 home-specified stress test



EIOPA stress scenarios			SII ratio (HDI Group)	
			w/o transitional Basis: 206%	incl. transitional Basis: 253%
1 Yield curve down	Market shocks	<ul style="list-style-type: none"> <li>Swap rates 10y EUR -80bp</li> <li>Government bonds: -10-35bp</li> <li>Corporate bonds &amp; MBS -20 to -70bp</li> <li>Equities -16%</li> <li>UFR 2.04%</li> </ul>	~130%	~170%
	Insurance shocks	<ul style="list-style-type: none"> <li>15% Longevity shock</li> </ul>		
2 Yield curve up	Market shocks	<ul style="list-style-type: none"> <li>Swap rates 10y EUR +80bp</li> <li>Government bonds: +110-190bp</li> <li>Corporate bonds &amp; MBS +190-325bp</li> <li>Equities -40%</li> </ul>	~120%	~170%
	Insurance shocks	<ul style="list-style-type: none"> <li>20% Lapse shock</li> <li>2% claims inflation</li> <li>0.24% general inflation</li> </ul>		
3 NatCat	<ul style="list-style-type: none"> <li>In one of 17 years</li> <li><b>Simultaneous</b> occurrence of:                             <ul style="list-style-type: none"> <li>Four <b>European windstorms</b></li> <li>Two <b>CEE floods</b></li> <li>Two <b>earthquake</b> scenarios (in Italy &amp; Monaco)</li> </ul> </li> </ul>		~190%	~240%

Preliminary! Subject to final regulatory validation



- Groupwide calculation of three combined stress scenarios on a best effort basis
- Stress results in line with 2017 “home-specified” stress test
  - European credit crisis (Italian euro exit): ~120%
  - Global Pandemic: >150%
  - Earthquake New Madrid (USA): ~140%
- Above regulatory required limit in yield curve stress scenarios even without transitional

Note: SII solvency ratios for all three stress scenarios without transitional

3 Excursion – Solvency II Update

# Preparing for IFRS 9 & 17 – Two steps forward, one step back: project on track

## Top issues IFRS 9 & 17

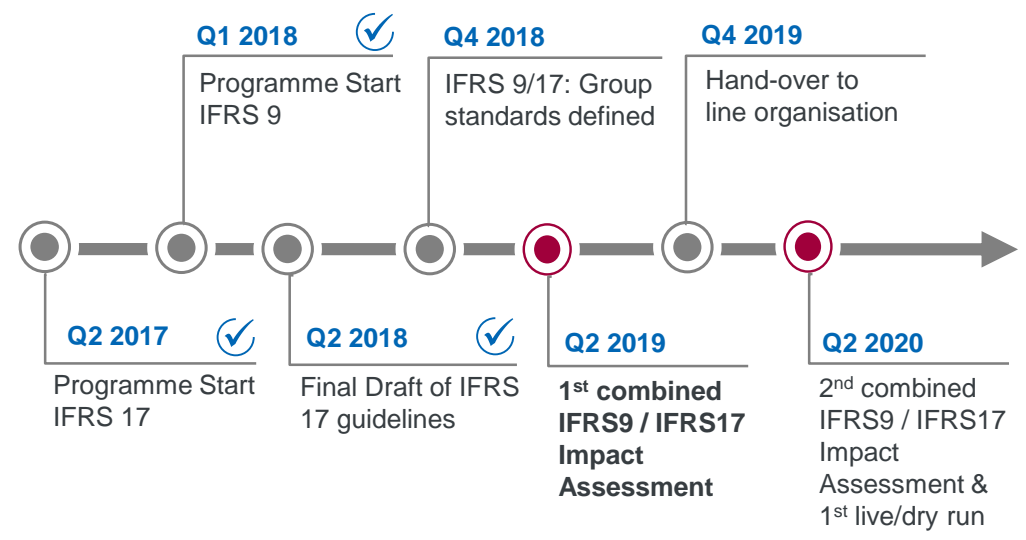
IFRS 9 IFRS 17

<b>Data management / IT capabilities</b>	<ul style="list-style-type: none"> <li>Murex MX.3 roll-out</li> </ul>	<b>Implementation in various IT (source) systems</b>	<ul style="list-style-type: none"> <li>PAA default choice for primary non-life</li> <li>Dynamic specification and IT implementation</li> <li>German back-office implementing well established accounting engine SAP IA</li> </ul>
<b>Higher P&amp;L volatility</b>	<ul style="list-style-type: none"> <li>The “new normal”</li> <li>Interaction between FVPL and Premium Allocation Approach (PAA) critical</li> <li>ECL driven acceleration</li> <li>KPI overhaul</li> </ul>	<b>Determination of Risk Adjustment (RA) Approach</b>	<ul style="list-style-type: none"> <li>Solo entity RA target</li> <li>Inter-company-neutral consolidation of RAs</li> <li>Disclosure of implicit Group confidence level</li> </ul>
<b>New processes &amp; interfaces</b>	<ul style="list-style-type: none"> <li>New controls to be implemented</li> <li>Intensive exchange between IFRS 17 and IFRS 9 (joint impact assessments)</li> </ul>	<b>Reinsurance assets &amp; related mismatches</b>	<ul style="list-style-type: none"> <li>Particular the net position of cedents</li> <li>Improvement by standard setter needed</li> </ul>
<b>Stochastic calculations for life (incl. CSM)</b>	<ul style="list-style-type: none"> <li>Comprehensive fast-close</li> <li>SII features can (partially) be re-used</li> <li>Volatility adjuster/illiquid spread consistent bottom-up interest rate curve</li> </ul>	<b>Handling reserving buffer (non-life)</b>	<ul style="list-style-type: none"> <li>Reduced discretionary top-side adjustments</li> <li>Reserving in interim reporting considering risk budgets remains unaffected</li> </ul>



### 3 Excursion – Solvency II Update Advanced implementation

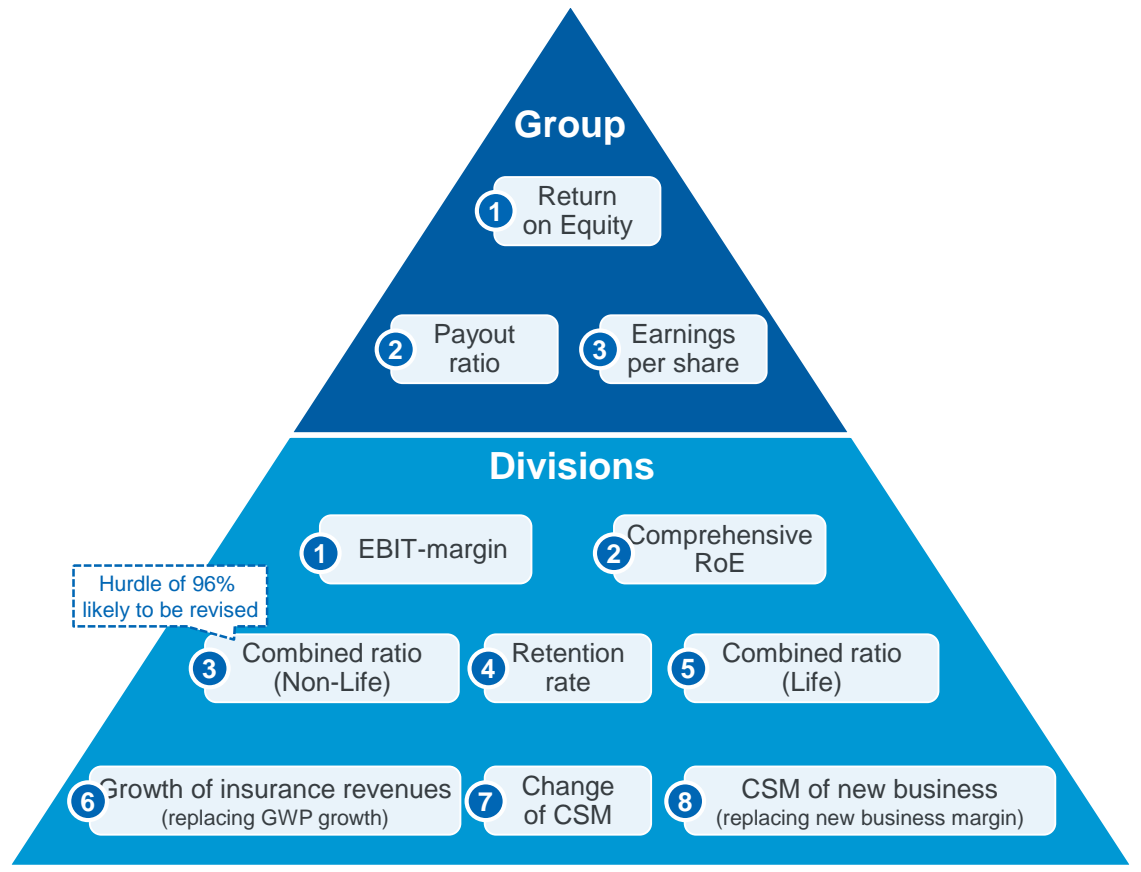
#### Clear IFRS 9 & 17 programme roadmap



- 1** Project fully on track and already passing from design to implementation
- 2** Not in favour of any delay in the IFRS 17 application (e.g. due to late endorsement)...but quick-fix of top flaws, such as outward reinsurance



#### New KPI framework considering IFRS 9 & 17 “go live”



Note: Comprehensive RoE = (Net income + ΔOCI + ΔCSM) / (∅ Equity + CSM)

## Key messages

**Stringent and capitalistic performance management** to support profitable organic growth

Initiatives to **stream up** EUR 350m of **local excess capital and to increase the remittance ratio**

**Bundling reinsurance at Group level** providing an upside of roughly EUR 50m in net income in the steady state

Clear commitment to **maintain the defensive low-beta investment profile**

Considerate use of model changes **suggests mid-term SII-upside**

# Agenda

I CMD: Group Strategy

II CMD: Group Financials

III 9M 2018 results

## All segments except Industrial Lines contribute to significantly higher operating result

EBIT (+33%) and Group net income (+10%) well above their respective 9M 2017 levels

Significant improvement in three out of four divisions - only Industrial Lines burdened by large losses and by frequency losses

Industrial Lines' "20/20/20" initiative ahead of plan

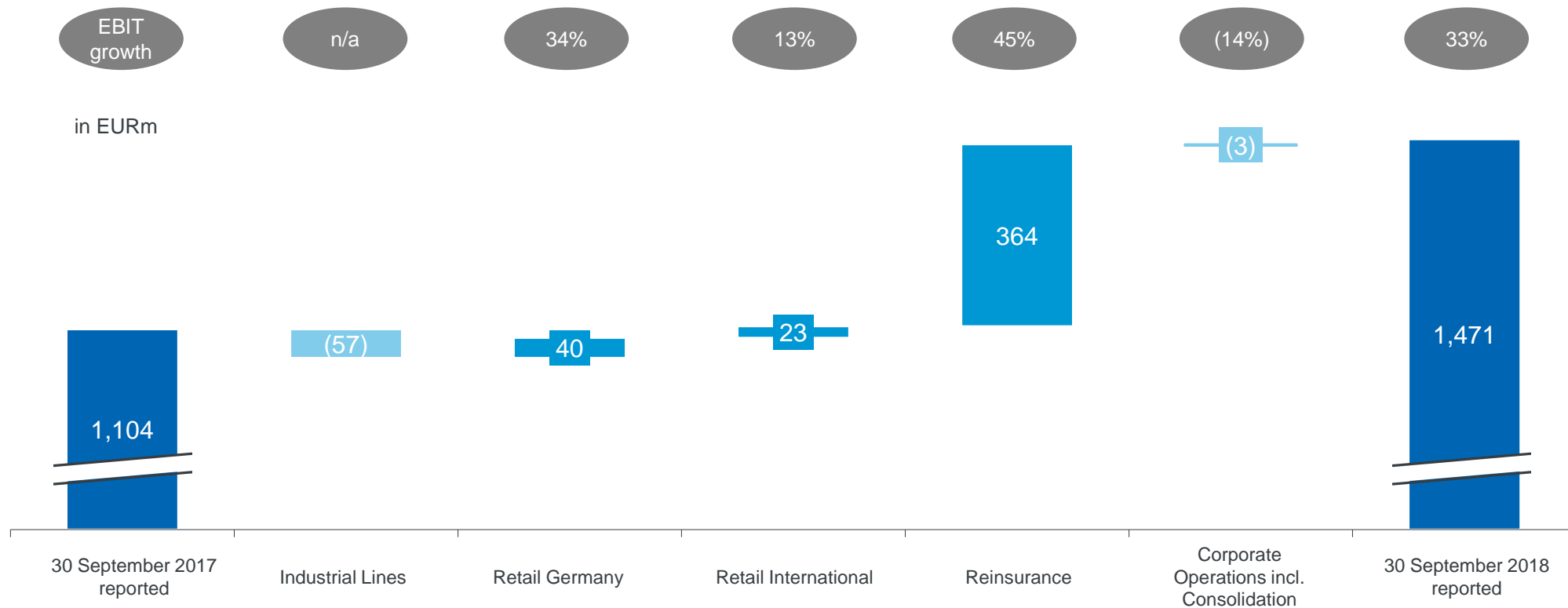
Group net income Outlook of ~EUR 700m for FY2018 with the targeted dividend payout at least equal to last year's EUR 1.40 per share

Group net income Outlook for 2019 at ~EUR 900m significantly up despite the continuous headwind from investment returns in the euro-zone

## 9M 2018 results – Key financials

EURm	9M 2018	9M 2017	Delta	Comments
<b>Gross written premium (GWP)</b>	<b>27,091</b>	<b>25,239</b>	<b>+7%</b>	▶ Despite currency headwind, strong growth momentum continues. Currency-adjusted, GWP up by 11%
Net premium earned	21,841	20,285	+8%	
Net underwriting result	(1,423)	(2,120)	+33%	▶ Group combined ratio materially improved; also supported by positive base effect from 2017 ("HIM")
t/o P/C	163	(384)	n/a	
t/o Life	(1,585)	(1,736)	+9%	
Net investment income	2,900	3,311	(12%)	▶ All segments with decline in extraordinary investment result
Other income / expenses	(6)	(87)	+93%	▶ EBIT decline in Industrial Lines significantly overcompensated by higher EBIT in all other divisions
<b>Operating result (EBIT)</b>	<b>1,471</b>	<b>1,104</b>	<b>+33%</b>	
Financing interests	(128)	(111)	(15%)	▶ Impacted by higher tax rate and higher share of minorities
Taxes on income	(401)	(191)	(110%)	
Net income before minorities	942	802	+17%	
Non-controlling interests	(454)	(358)	(27%)	
<b>Net income after minorities</b>	<b>488</b>	<b>444</b>	<b>+10%</b>	
Combined ratio	98.6%	103.1%	(4.5%)pts	▶ Higher tax rate, mainly from US tax reform and from the previous year's tax benefits on the equity disposal gains in Reinsurance
Tax ratio	29.8%	19.2%	+10.6%pts	
Return on equity	7.5%	6.7%	+0.8%pts	
Return on investment	3.3%	3.9%	(0.6%)pts	

# 9M 2018 – Divisional contribution to change in Group EBIT



▶ Reinsurance main driver for EBIT improvement – all divisions except Industrial Lines improved

## Q3 2018 results – Key financials

EURm	Q3 2018	Q3 2017	Delta	Comments
<b>Gross written premium (GWP)</b>	<b>8,331</b>	<b>7,686</b>	<b>+8%</b>	▶ Top-line growth up in Q3 despite currency headwind. Currency-adjusted, GWP up by 11%
Net premium earned	7,406	6,835	+8%	
Net underwriting result	(675)	(1,180)	(43%)	
t/o P/C	(110)	(616)	+82%	
t/o Life	(565)	(565)	+0%	
Net investment income	893	1,226	(27) %	▶ Lower realisation of capital gains, in particular in Retail Germany and in Reinsurance (base effect from equity disposal gains in Reinsurance in Q3 2017)
Other income / expenses	41	(67)	n/a	
<b>Operating result (EBIT)</b>	<b>259</b>	<b>(21)</b>	<b>n/a</b>	▶ Negative EBIT in Industrial Lines significantly overcompensated by positive EBIT in all other divisions
Financing interests	(44)	(37)	(19%)	
Taxes on income	(44)	76	n/a	
Net income before minorities	171	18	>100%	
Non-controlling interests	(120)	(37)	(>100%)	
<b>Net income after minorities</b>	<b>51</b>	<b>(19)</b>	<b>n/a</b>	▶ Significantly above Q3 2017
Combined ratio	102.1%	114.4%	(12.3%)pts	▶ Q3 2018 burdened by Industrial Lines; Q3 2017 "HIM"
Tax ratio	20.4%	(129.1%)	n/a	
Return on equity	2.4%	(0.9%)	+3.3%pts	▶ Higher taxes namely in Retail Germany and in Reinsurance due to one-off effects in 2017
Return on investment	3.0%	4.4%	(1.4%)pts	

# Large losses<sup>1</sup> in 9M 2018 (in EURm)

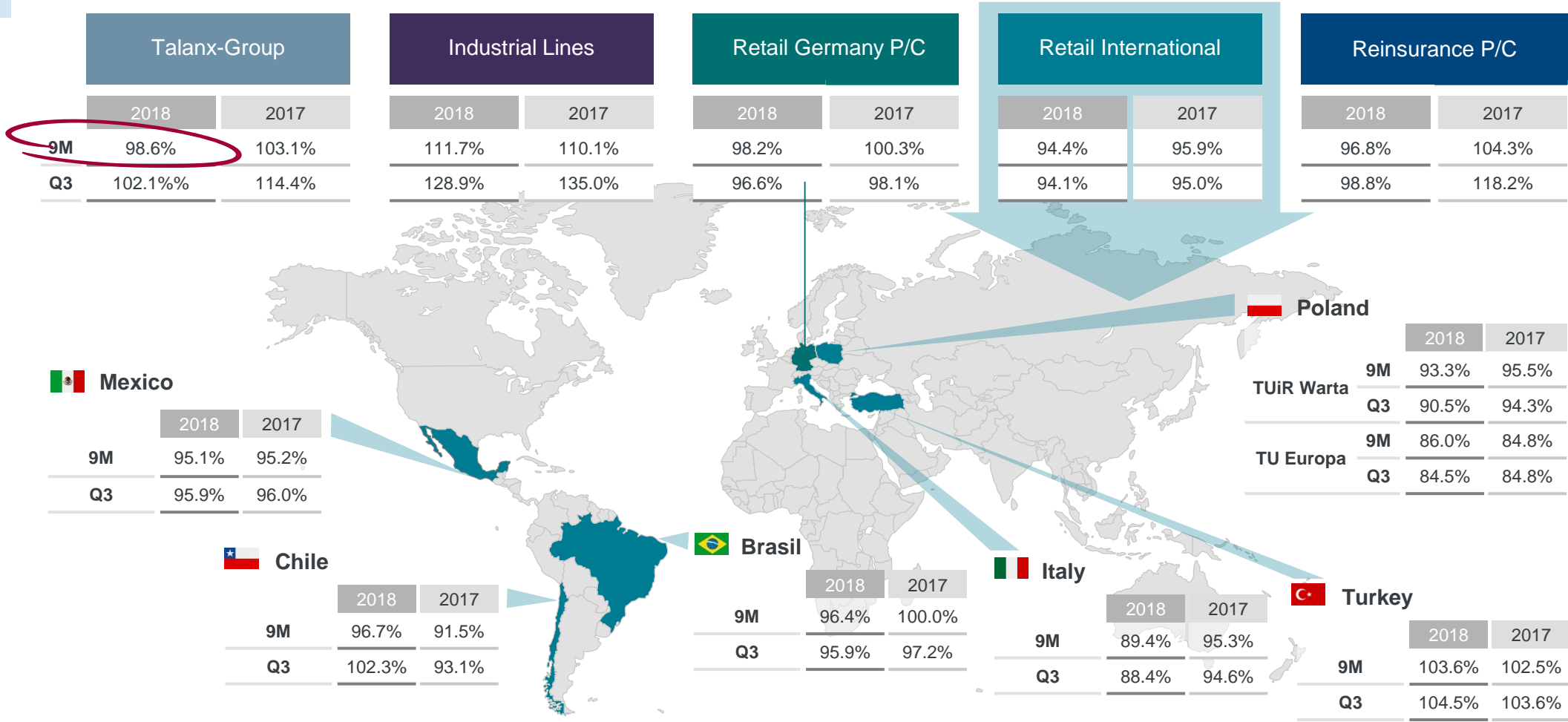
Net losses Talanx Group in EURm, 9M 2018 (9M 2017)	Industrial Lines	Retail Germany	Retail International	Σ Primary Insurance	+	Reinsurance	=	Talanx Group
Winter Storm <i>Friederike</i>	15.5	11.6	0.1	31.7		32.1		63.8
Earthquake Papua New Guinea	9.1			9.1		13.0		22.1
Cyclone <i>Mekunu</i> , Oman	4.1			4.1		9.4		13.4
Typhoon <i>Prapiroon</i> , Japan						54.2		54.2
Wildfire California						8.6		8.6
Typhoon <i>Jebi</i> , Japan	0.8			0.8		103.3		104.2
Typhoon <i>Mangkhut/Guam</i> , Philippines/China	8.5			8.5		5.2		13.8
Hurricane <i>Florence</i> , USA	15.6			15.6		39.6		55.2
Typhoon <i>Trami</i>						22.2		22.2
Storm <i>Wilma</i> , Germany	7.3			7.3				7.3
<b>Sum NatCat</b>	<b>61.0 (214.4)</b>	<b>11.6 (8.8)</b>	<b>0.1 (3.4)</b>	<b>77.2 (226.6)</b>		<b>287.6 (818.0)</b>		<b>364.8 (1,044.6)</b>
Fire/Property	199.1			199.1		53.7		252.8
Credit						23.3		23.3
Other	6.7			6.7				6.7
<b>Sum other large losses</b>	<b>205.9 (100.7)</b>	<b>0.0 (0.0)</b>	<b>0.0 (0.0)</b>	<b>205.9 (100.7)</b>		<b>77.0 (76.3)</b>		<b>282.9 (176.9)</b>
<b>Total large losses</b>	<b>266.8 (315.1)</b>	<b>11.6 (8.8)</b>	<b>0.1 (3.4)</b>	<b>283.0 (327.3)</b>		<b>364.6 (894.3)</b>		<b>647.6 (1,221.5)</b>
Impact on CoR	14.0%pts (17.9%pts)	1.1%pts (0.8%pts)	0.0%pts (0.1%pts)	5.2%pts (6.4%pts)		4.5%pts (13.2%pts)		4.8%pts (10.3%pts)
Pro-rata large loss budget	195	18.0	6.0	225		629		854
Impact on CoR - pro-rata large loss budget	10.2%pts (11.1%pts)	1.7%pts (1.4%pts)	0.2%pts (0.1%pts)	4.2%pts (4.2%pts)		7.9%pts (9.2%pts)		6.4%pts (7.1%pts)
FY large loss budget	260	24.0	8.0	300		825		1,125

<sup>1</sup> Definition "large loss": in excess of EUR 10m gross in either Primary Insurance or Reinsurance

Note: additional 9M 2018 Primary Insurance large losses (net) in Corporate Operations: EUR 4.5m; since FY2016 reporting onwards, the table includes large losses from Industrial Liability line, booked in the respective FY

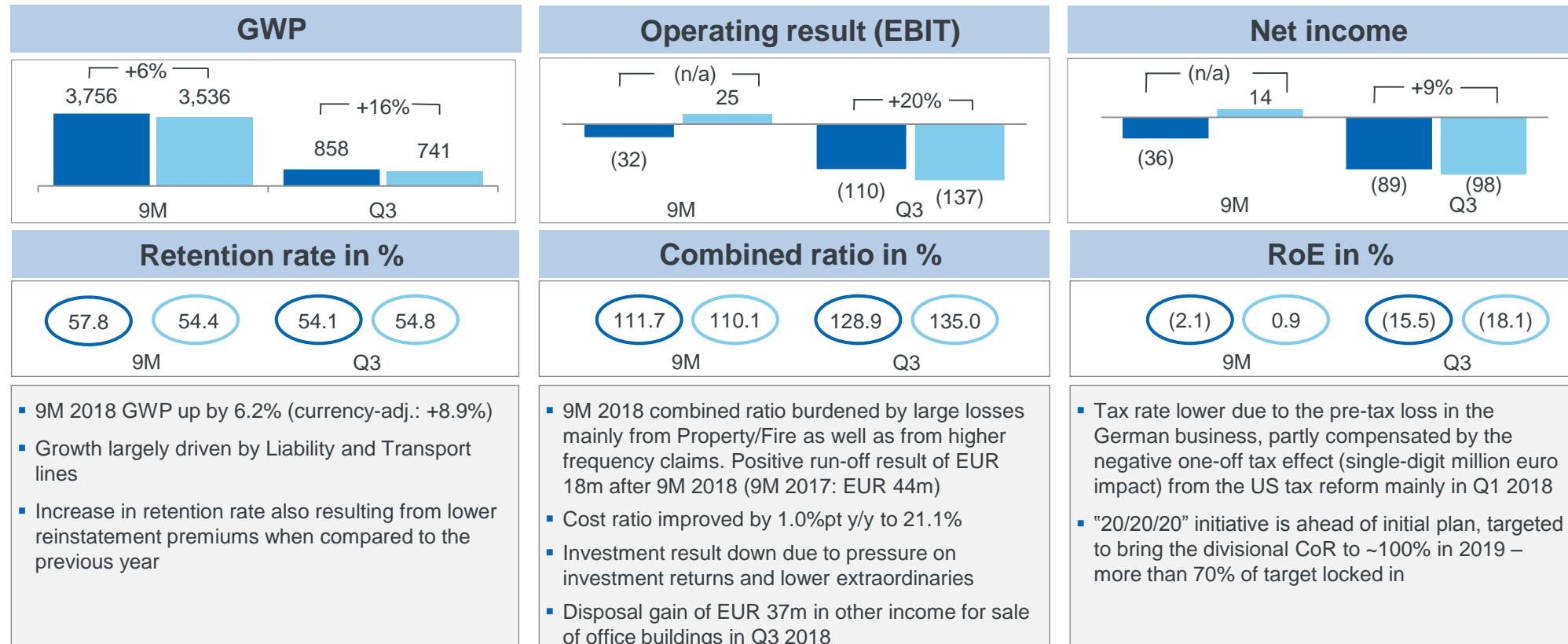


# Combined Ratios



Note: Turkey numbers are excluding Liberty Sigorta

# Segments – Industrial Lines



EURm, IFRS ■ 2018 ■ 2017

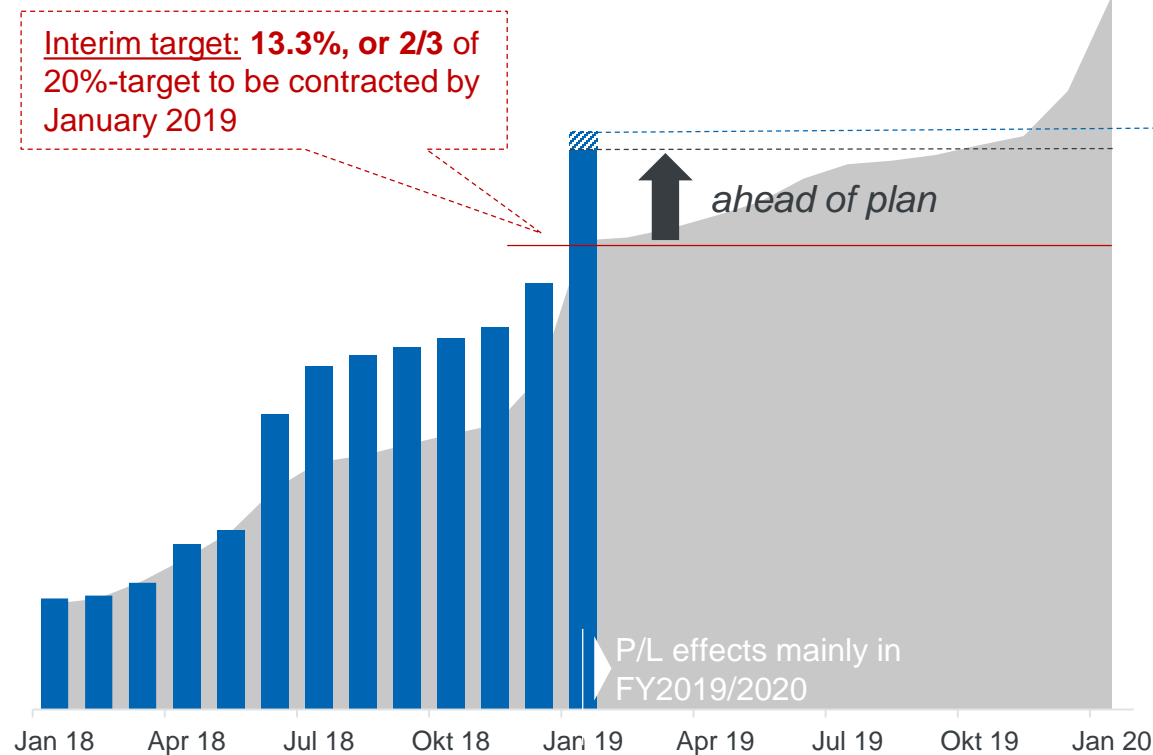
▶ Dissatisfying combined ratio burdened by large losses and by higher frequency claims in Property business

# “20/20/20” initiative ahead of plan – More than 80% of target locked in

## “20/20/20” initiative update

Price increase: contracted vs target as of 7 January 2019

Interim target: 13.3%, or 2/3 of 20%-target to be contracted by January 2019



20% price increase by 2020

Achievement: 16.2%, or 81% of 20%-target  
15.7%  
13.3%

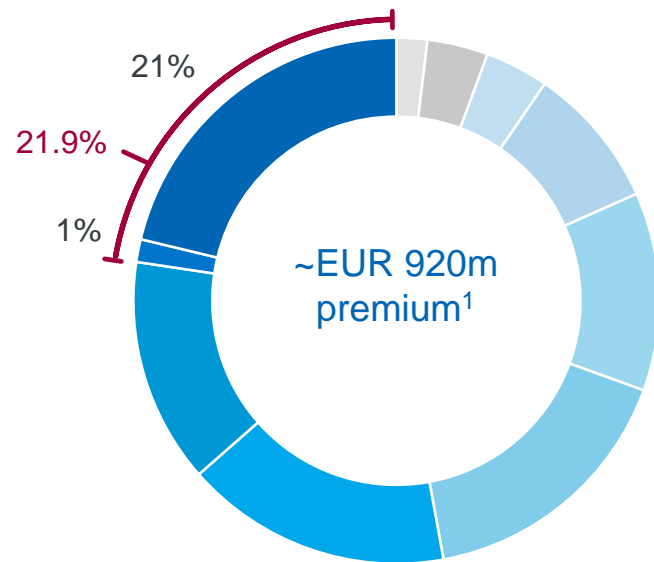
- More than 80% of target locked in (16.2%pts. of 20%)
- Main P/L effects as of 2019
- Premium base so far broadly stable

Legend: Target “20/20/20” (grey), Price increase as of current month (blue), Price increase as of 1 Jan 2020 (hatched)

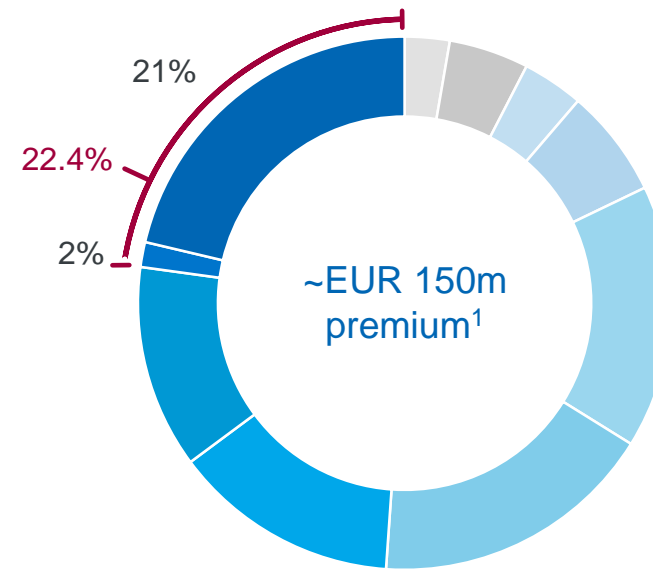
Note: 20% price increase in 2020 derives from 15% premium increase + 5% premium-equivalent measures. Refers to renewed business only

# “20/20/20” initiative - Risk classes point towards unchanged risk profile

Portfolio prior to restructuring



Dropped business

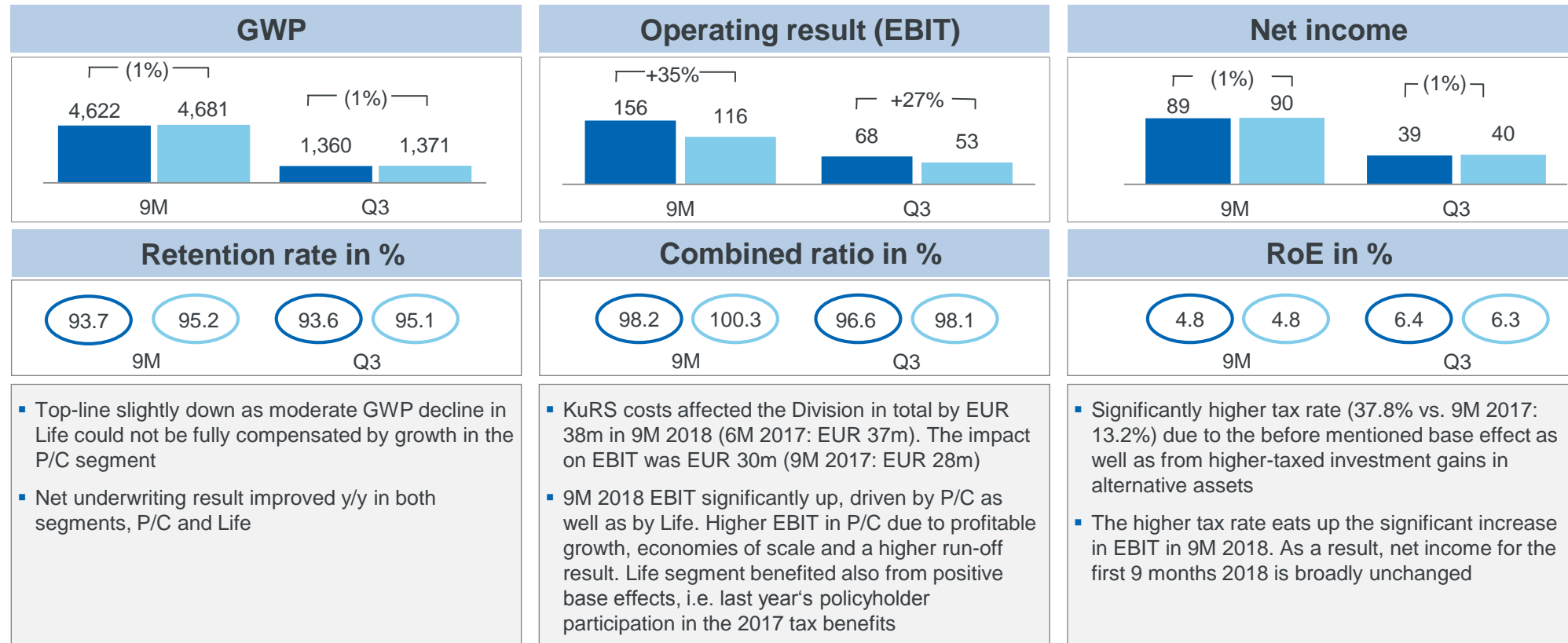


## Risk classes

Low 1 2 3 4 5 6 7 8 9 10 High

<sup>1</sup> Defined as GWP excluding fronting and internal cessions, all numbers as of 7 January 2019

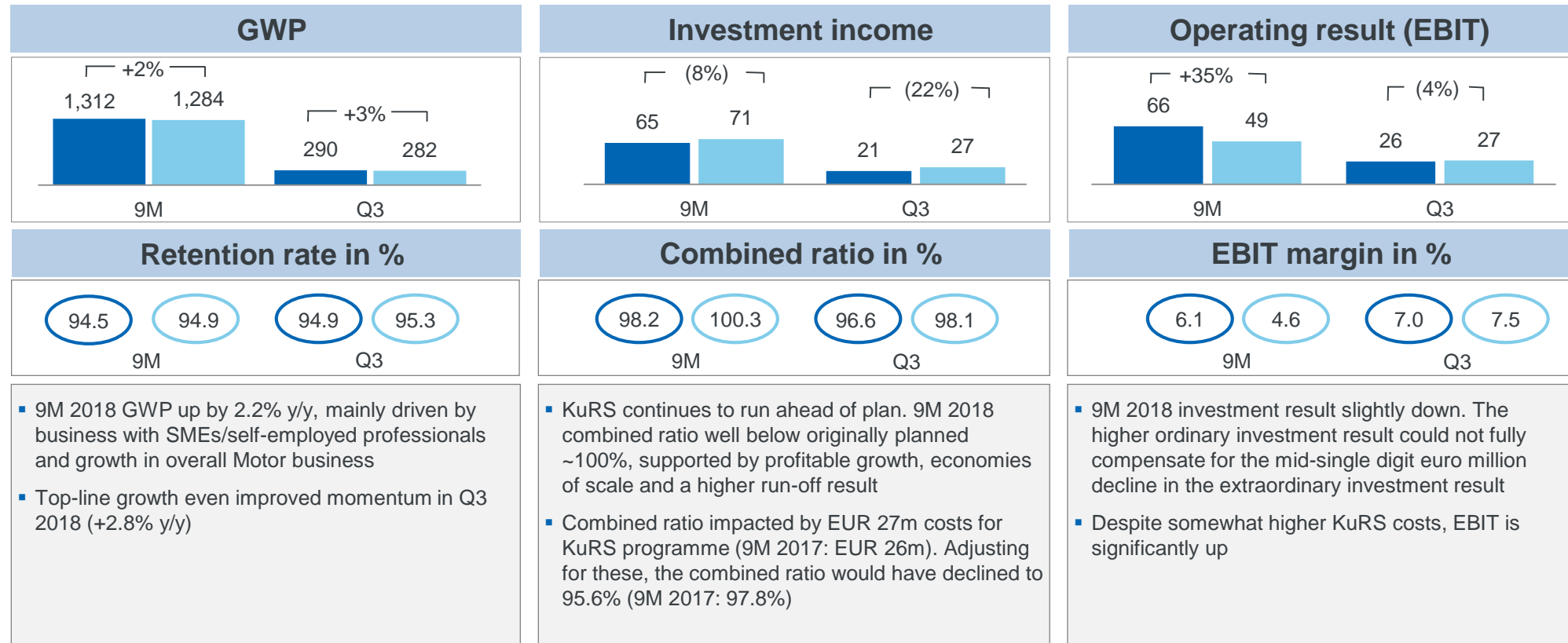
# Segments – Retail Germany Division



EURm, IFRS ■ 2018 ■ 2017

► 9M EBIT significantly up, driven by P/C as well as by Life – KuRS remains ahead of plan

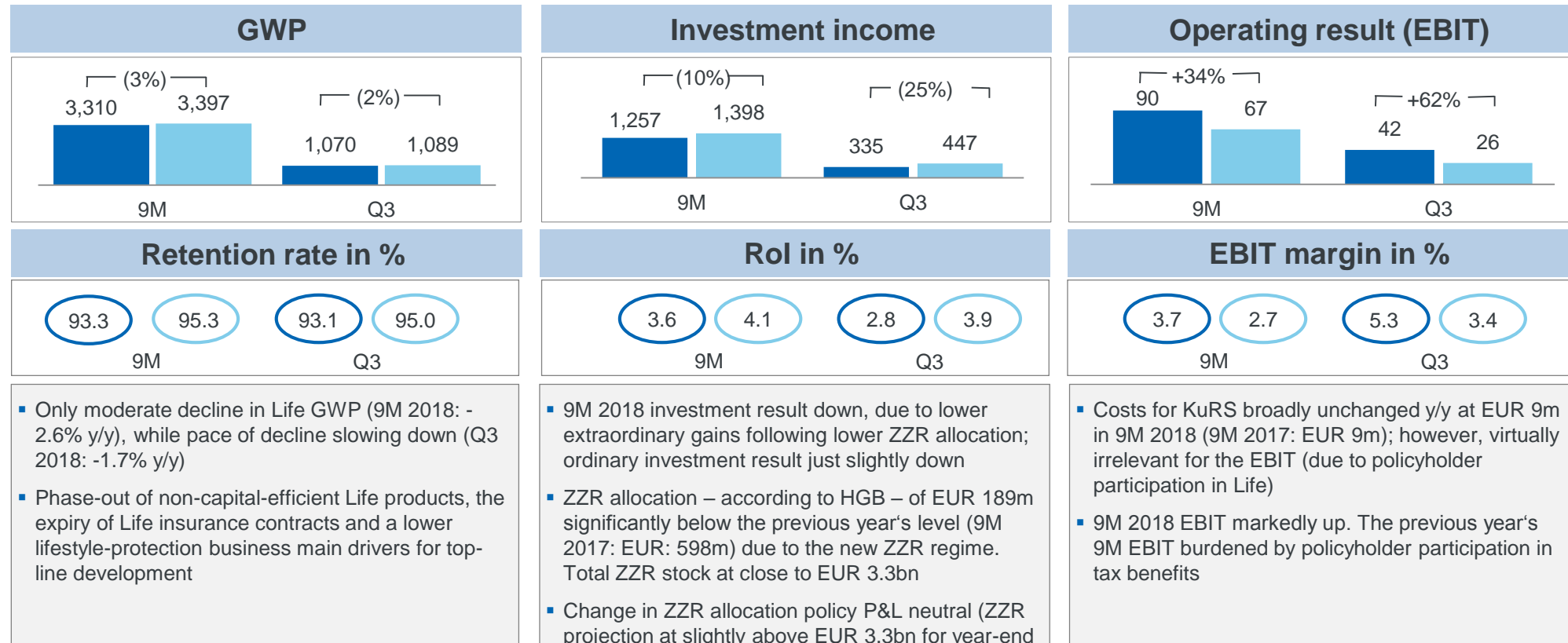
# Segments – Retail Germany P/C



EURm, IFRS ■ 2018 ■ 2017

▶ Top-line growth and improved combined ratio main drivers for EBIT growth – KuRS ahead of plan

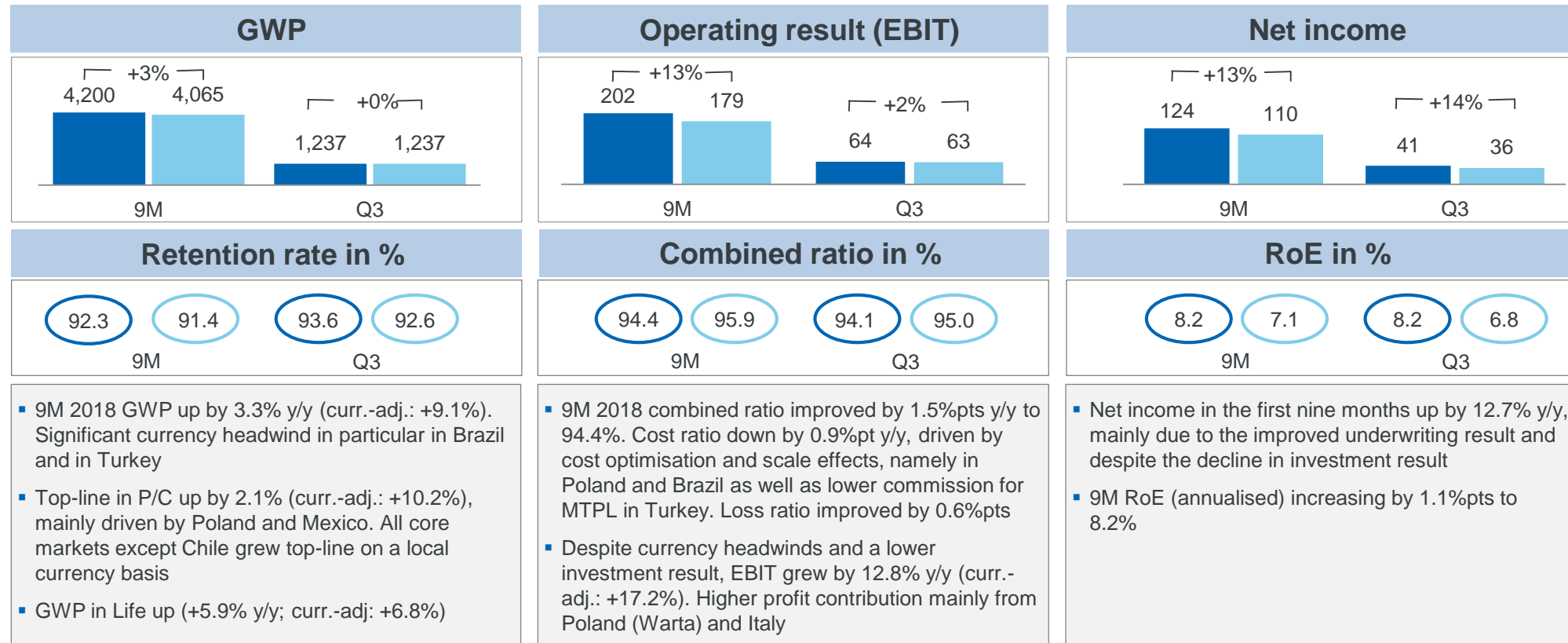
# Segments – Retail Germany Life



EURm, IFRS ■ 2018 ■ 2017

▶ Lower ZZR contribution in 9M 2018 – EBIT significantly improved

# Segments – Retail International



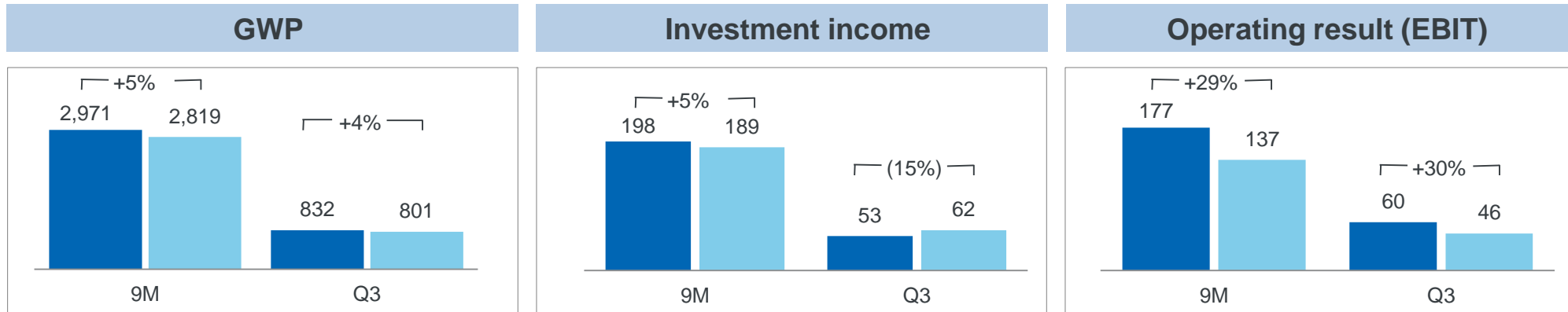
EURm, IFRS ■ 2018 ■ 2017

Note: Due to industrial action, the 9M 2018 reporting for HDI Chile has been carried out on the basis of the figures for the first 8 months 2018 only

▶ EBIT and net income significantly up, mirroring the further improvement in combined ratio



# 9M 2018 Additional Information – Retail International Europe: Key financials

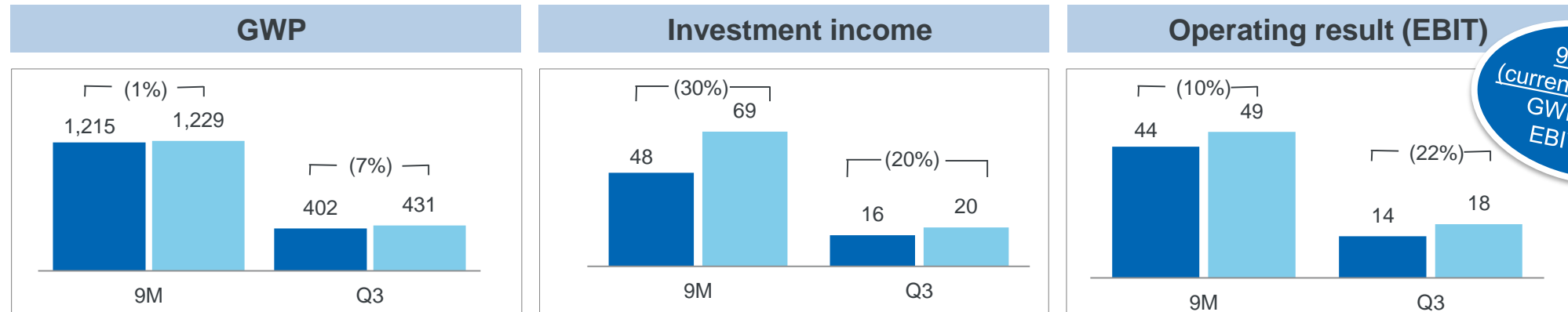


EURm, IFRS ■ 2018 ■ 2017



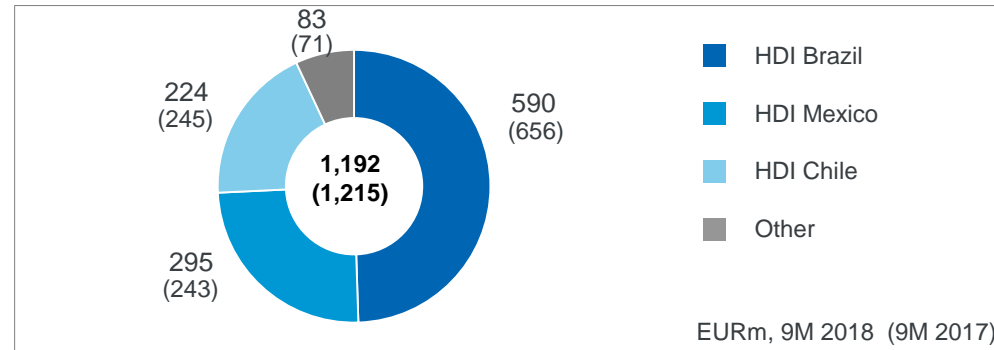
▶ **Top-line up by 5% - EBIT improvement driven by Poland and Italy**

# 9M 2018 Additional Information – Retail International LatAm: Key financials



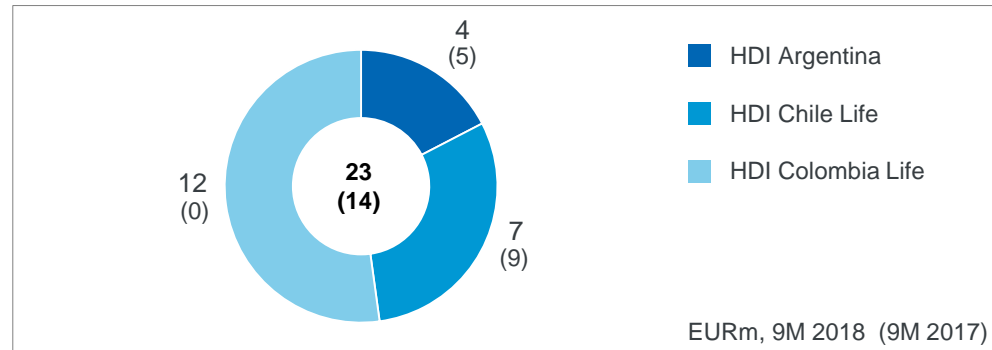
EURm, IFRS ■ 2018 ■ 2017

## GWP split by carriers (P/C)



EURm, 9M 2018 (9M 2017)

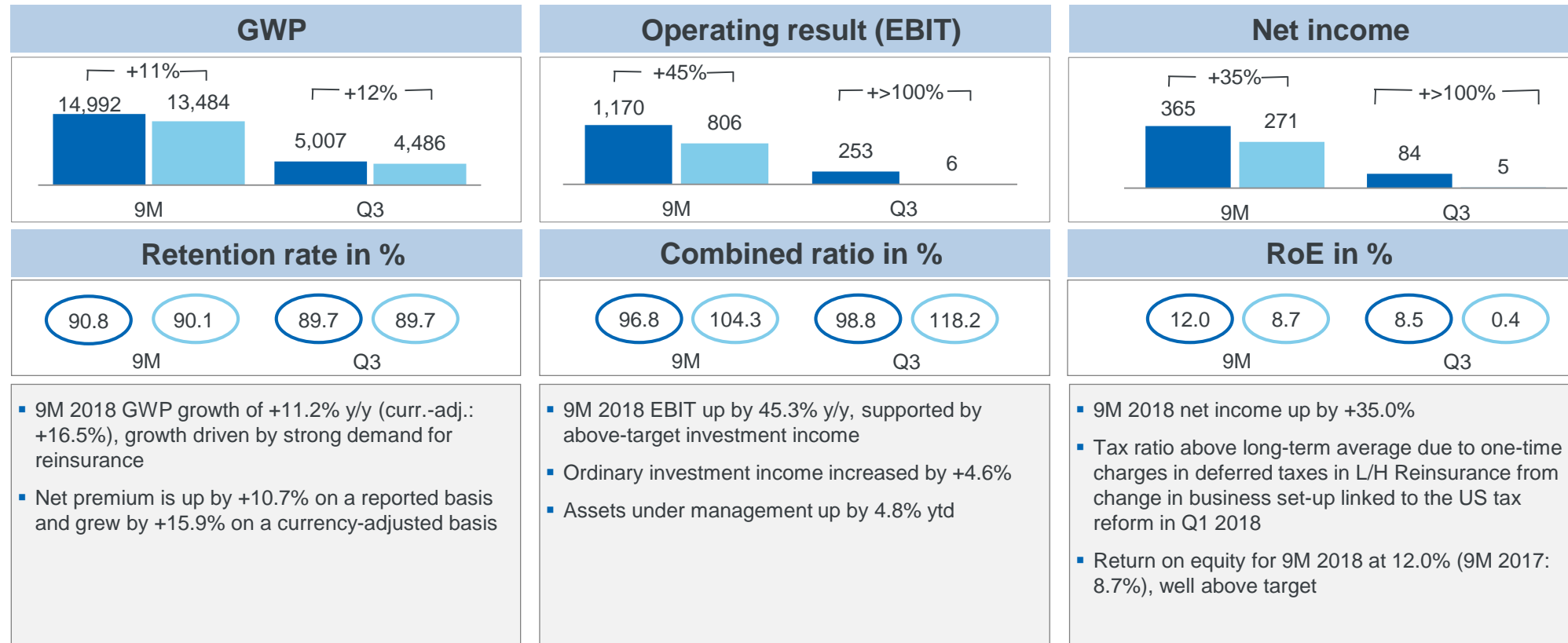
## GWP split by carriers (Life)



EURm, 9M 2018 (9M 2017)

► Currency effects and decline in interest rates burdening EBIT in LatAm – EBIT up 6% in local currencies

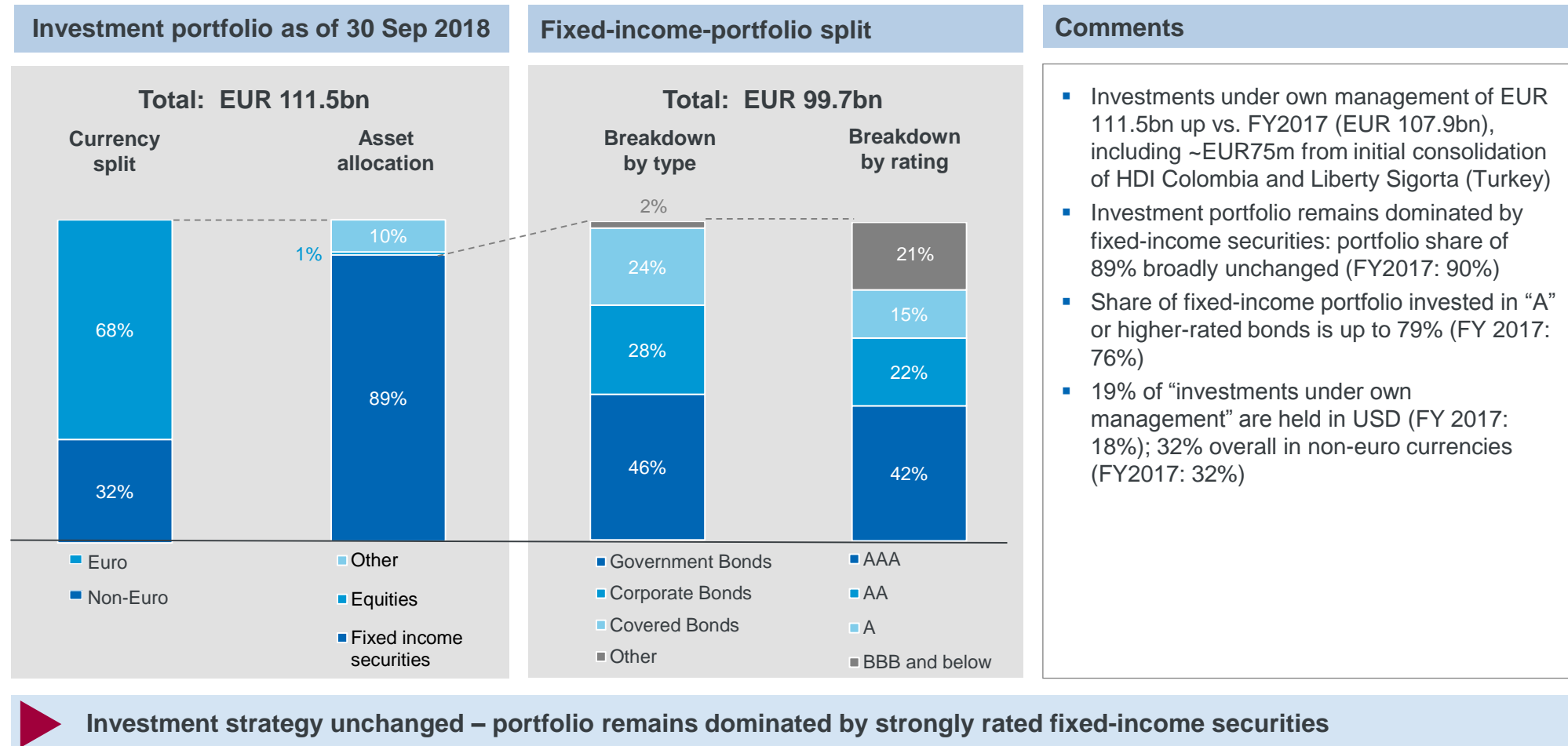
# Segments – Reinsurance Division



EURm, IFRS ■ 2018 ■ 2017

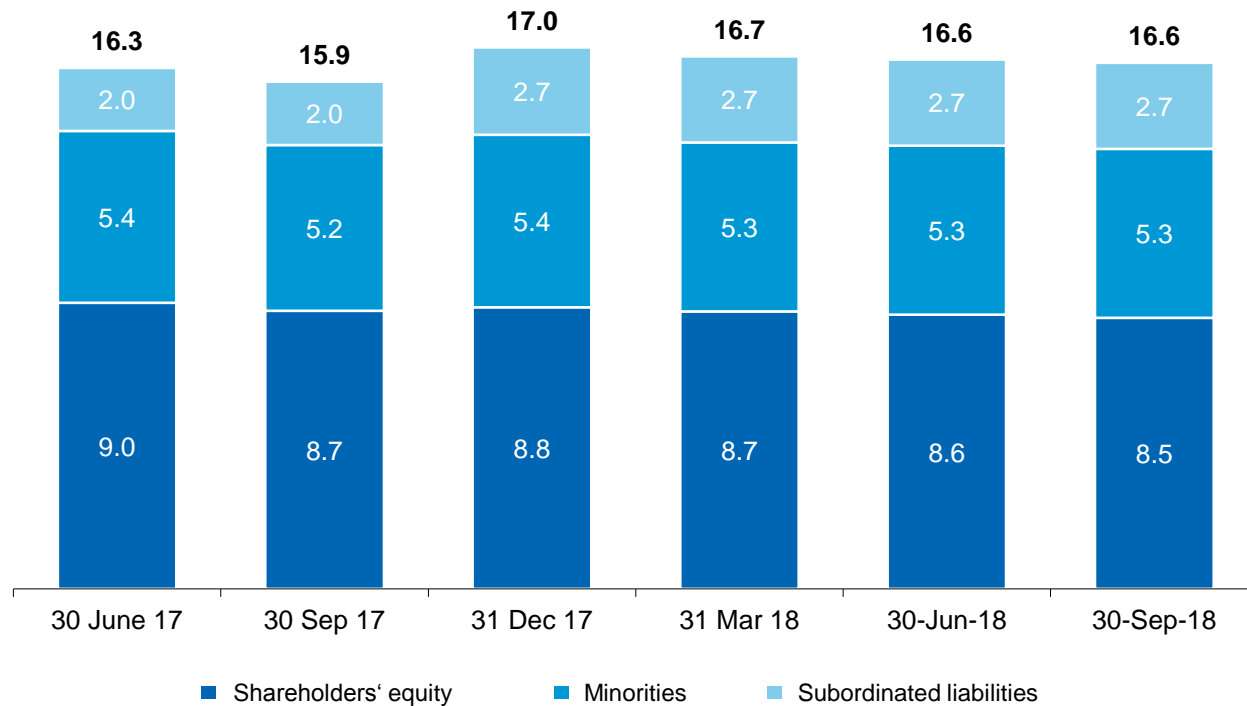
**▶ RoE well above target, despite impact from recaptures in L/H Reinsurance – Guidance for 2018 reconfirmed**

## 9M 2018 Additional Information – Breakdown of investment portfolio



## Equity and capitalisation – Our equity base

### Capital breakdown (EUR bn)



Note: figures restated on the base of IAS 8

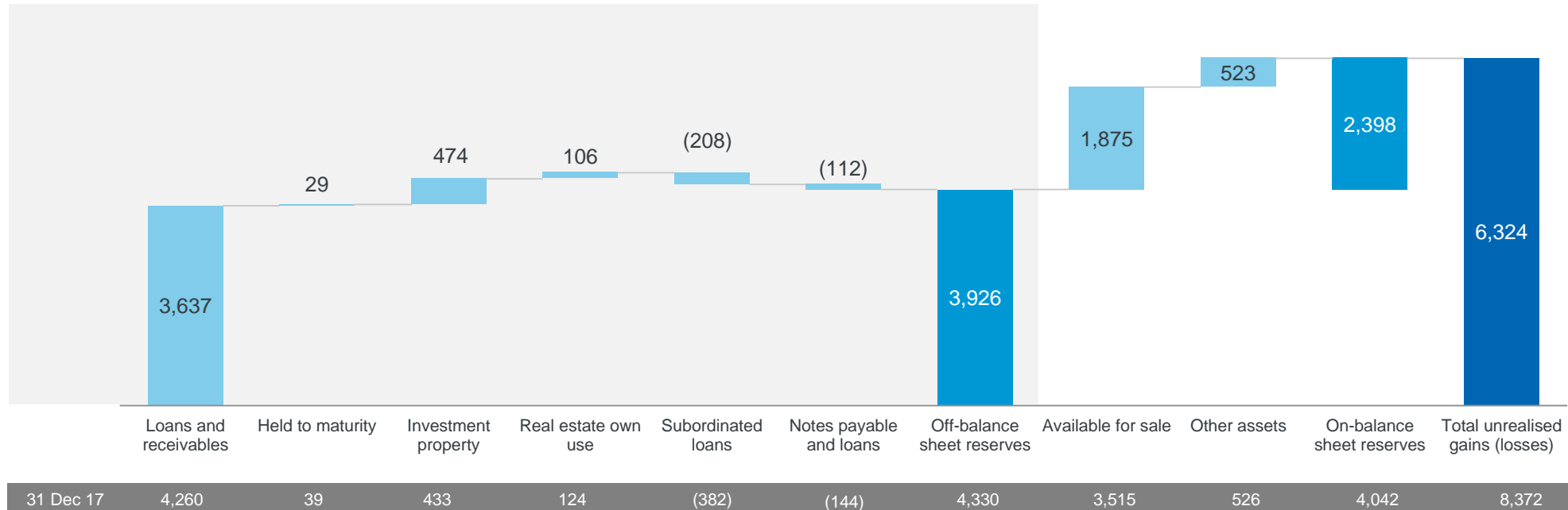
**Shareholders' equity at EUR 8,540m, or EUR 33.78 per share**

### Comments

- Shareholders' equity down vs. 6M 2018 due to a decline in OCI, resulting from increase in bond yields and higher spreads in some markets
- At the end of 9M 2018, book value per share was EUR 33.78 (6M 2018: EUR 33.99), NAV (excl. goodwill) per share was EUR 29.57 (EUR 29.79)
- Off-balance sheet reserves amounted to ~EUR 3.9bn, or EUR 1.35 per share (shareholder share only)
- 9M 2018 RoE (annualised) stands at 7.5% - 2018 RoE Outlook of ~8.0%

# Equity and capitalisation – Unrealised gains

## Unrealised gains and losses (off- and on-balance sheet) as of 30 September 2018 (EURm)



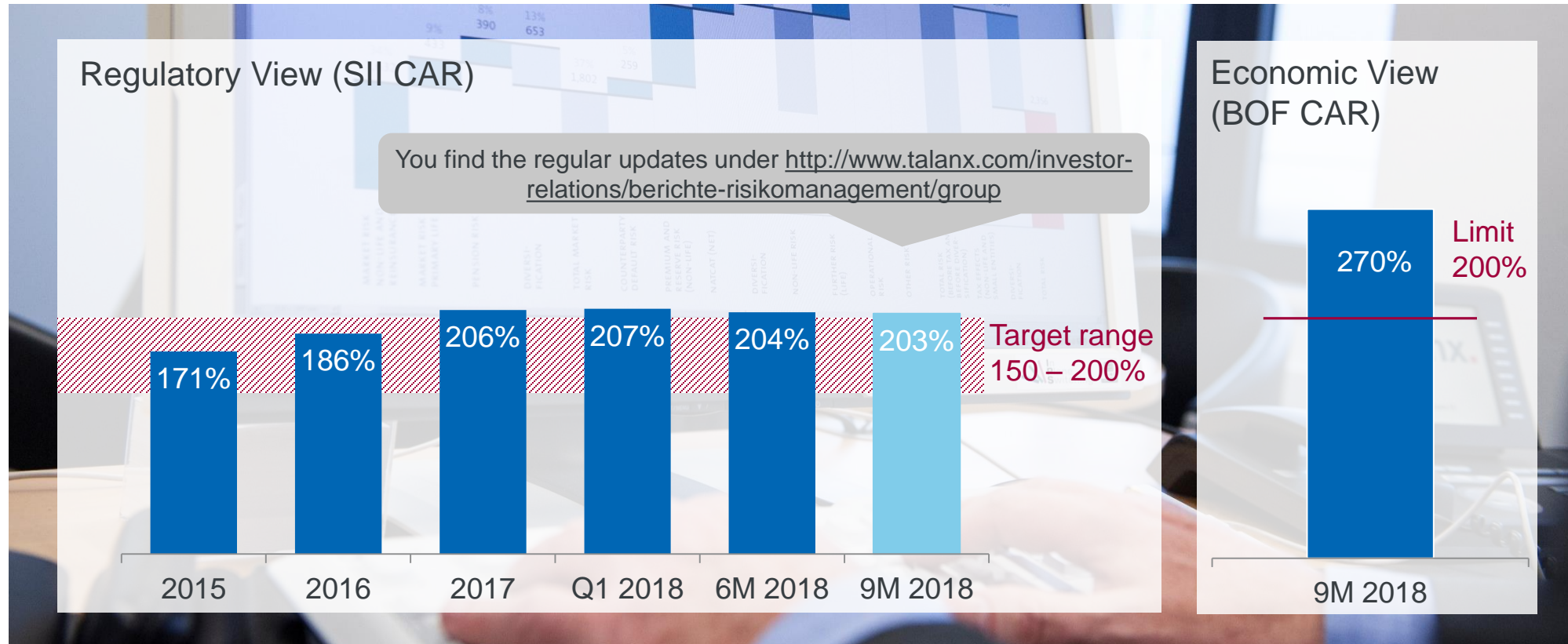
### Δ market value vs. book value

Note: Shareholder contribution estimated based on historical profit sharing pattern

▶ **Off-balance sheet reserves of ~ EUR 3.9bn – EUR 341m (EUR 1.35 per share) attributable to shareholders (net of policyholders, taxes & minorities)**

# Risk management – Solvency II capital

## Development of Solvency II capitalisation



Note: Solvency II ratio relates to HDI Group as the regulated entity. The chart does not contain the effect of transitional measures. Solvency II ratio including transitional measures for 9M 2018 was 245% (FY2017 253%)

## Outlook 2018 for Talanx Group

Gross written premium	▶	>5%
Return on investment	▶	≥3.0%
Group net income	▶	~700 EURm
Return on equity	▶	~8.0%
Dividend payout ratio	▶	EUR 1.40 min. DPS for FY2018

Note: The 2018 Outlook is based on a large loss burden for Q4 2018 in the Primary Insurance that will not significantly exceed a quarterly budget. All targets are subject to no large losses exceeding the large loss budget, no turbulences on capital markets and no material currency fluctuations



## Outlook 2019 for Talanx Group

Gross written premium	▶	~4%
Return on investment	▶	~2.7%
Group net income	▶	~900 EURm
Return on equity	▶	~9.5%
Dividend payout	▶	35-45% DPS at least stable y/y

Note: The 2019 Outlook is based on a large loss budget of EUR 315m (2018: EUR 300m) in Primary Insurance, of which EUR 278m in Industrial Lines. The large loss budget in Reinsurance stands at EUR 875m (2018: EUR 825m). All targets are subject to no large losses exceeding the large loss budget, no turbulences on capital markets and no material currency fluctuations

## Financial Calendar and IR contacts



- 18 March 2019  
Annual Report 2018
- 9 May 2019  
Annual General Meeting
- 9 May 2019  
Quarterly Statement as at 31 March 2019
- 20 November 2019  
Capital Markets Day in Frankfurt



**From left to right:** Carsten Fricke (*Equity & Debt IR*), Shirley-Lee Inafa (*Roadshows & Conferences, IR Webpage*), Carsten Werle (*Head of IR*), Anna Färber (*Team Assistant*), Marcus Sander (*Equity & Debt IR*), Alexander Zessel (*Ratings*), Hannes Meyburg (*Ratings*); not on the picture: Nicole Tadge & Wiebke Großheim (*maternity leave*)

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