Investment update and inflation

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Agenda

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1 Investment update

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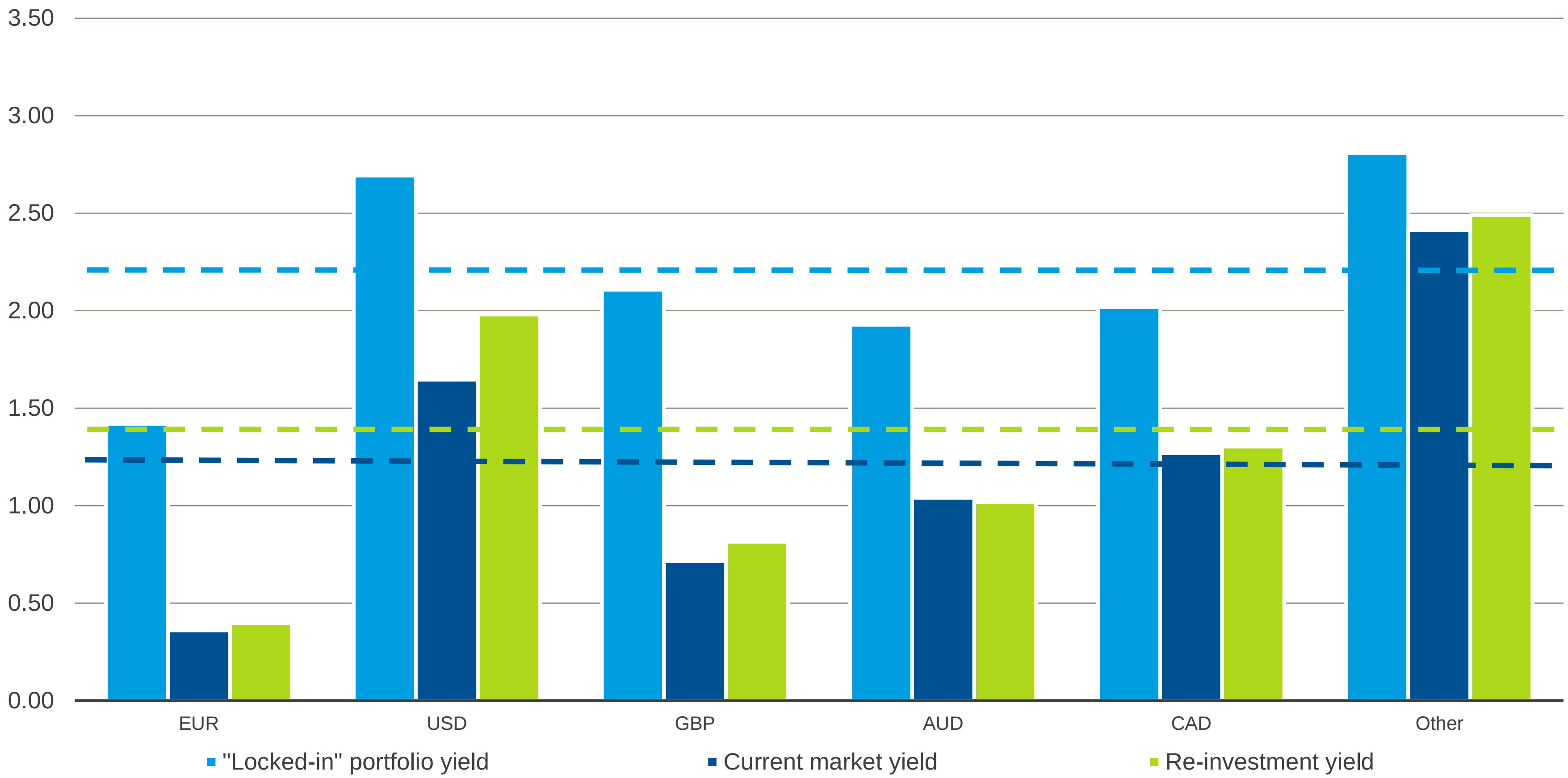
Return on investment supported by comfortable "locked in" yields

Whilst re-investment yields remain challenging

Fixed-income portfolio as at 30 July 2021[1)]



Average yield levels :

2.21% "Locked in" portfolio yield

1.22% Current portfolio market yield

1.38% Actual re-investment yield

1) Excluding short-term investments and cash

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Investment strategy slightly adjusted

To further optimise portfolio towards stable and attractive returns and ESG targets

Credits		Alternative investments		ESG and impact	
Reduce Govs and Corps with AA and A rating	Increase High Yield opportunistically	Increase Private Equity (target 3%)	Increase Real Estate (target 5%)	Climate strategy	Decarbonisation target of -30% by 2025[1)]
Increase Emerging Markets opportunistically	Increase CLOs A and BBB	Increase Infrastructure (target 2%)	Keep Listed Equity (target 1%)	Increase sustainable and real impact investments	Stringent negative screening with improved measurements
IFRS 9 preparation: reduce fund structures and shift to direct exposures; keep funds with low volatility profiles		IFRS 9 preparation: reduce equity ETF's and shift to direct listed equities; keep PE and RE funds		Reporting according to signed UN PRI; increase share of proxy votings and direct engagements	
Lower gov yields and spread returns require more opportunistic approach		Stable returns of real assets and closer movement to RoE business models by investing in (private) equities is key		Net zero by 2050	

1) Corporates, covered bonds and equities; compared to base year 2019

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Asset allocation remains highly diversified and resilient

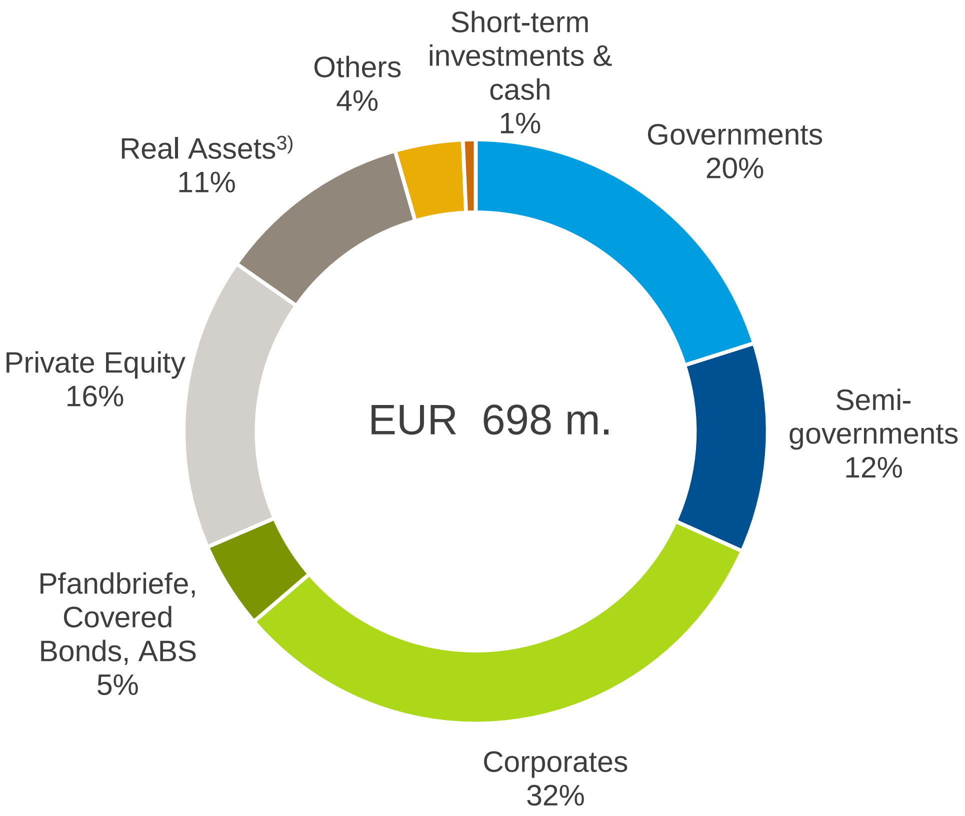
Strong ordinary returns with high contributions from alternative investments

Asset allocation[1)]

Investment category	2017	2018	2019	2020	1H/2021
Fixed-income securities	**87%**	**87%**	**87%**	**85%**	**85%**
- Governments	30%	35%	35%	34%	32%
- Semi-governments	17%	16%	15%	15%	15%
- Corporates	32%	29%	31%	30%	32%
Investment grade	27%	25%	26%	25%	28%
Non-investment grade	5%	4%	4%	5%	4%
- Pfandbriefe, Covered bonds, ABS	8%	7%	7%	6%	6% [2)]
Equities	**2%**	**2%**	**3%**	**3%**	**2%**
- Listed equity	<1%	<1%	<1%	1%	1%
- Private equity	2%	2%	2%	3%	3%
Real Assets	**5%**	**6%**	**5%**	**5%**	**5%**
Others	**1%**	**1%**	**2%**	**3%**	**3%**
Short-term investments & cash	**4%**	**4%**	**3%**	**3%**	**3%**
Total market values in bn. EUR	**40.5**	**42.7**	**48.2**	**49.8**	**53.4**

Ordinary income split

(as per 1H/2021)



1) Economic view based on market values without outstanding commitments for Private Equity and Alternative Real Estate as well as fixed-income investments of EUR 1,583.2 m. (EUR 1,275.6 m.) as at 30 June 2021
2) Of which Pfandbriefe and Covered Bonds = 63.3%
3) Before real estate-specific costs. Economic view based on market values as at 30 June 2021

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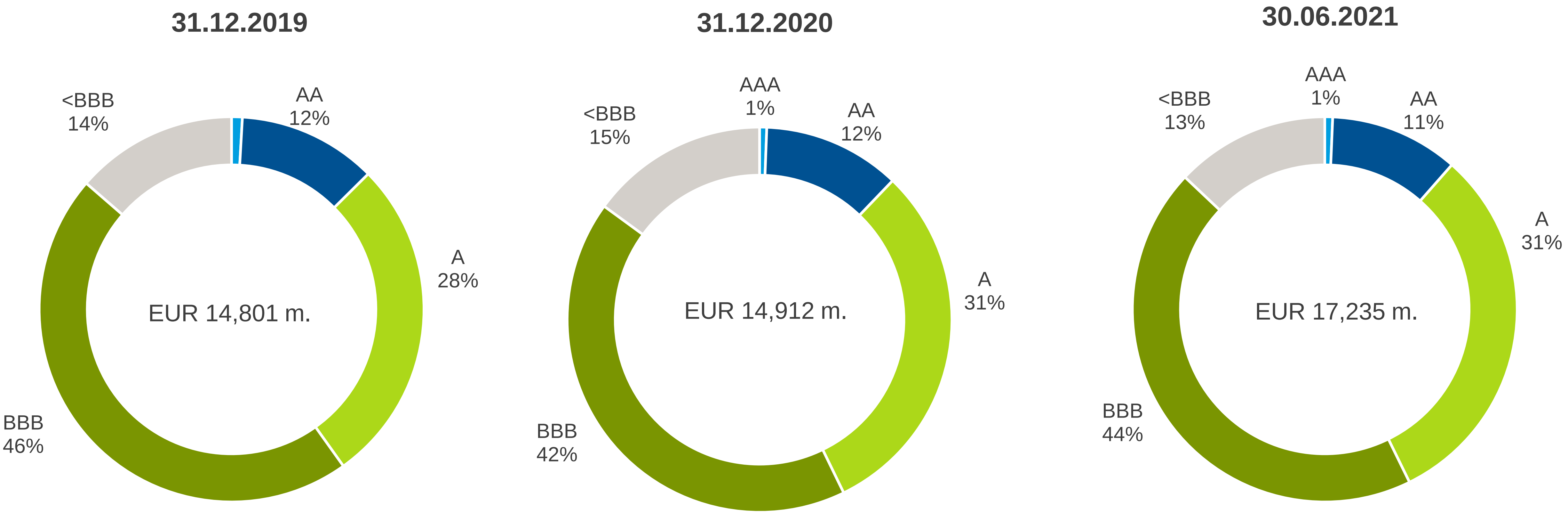
High-quality corporate bond portfolio

Expansion supported by strong AuM growth



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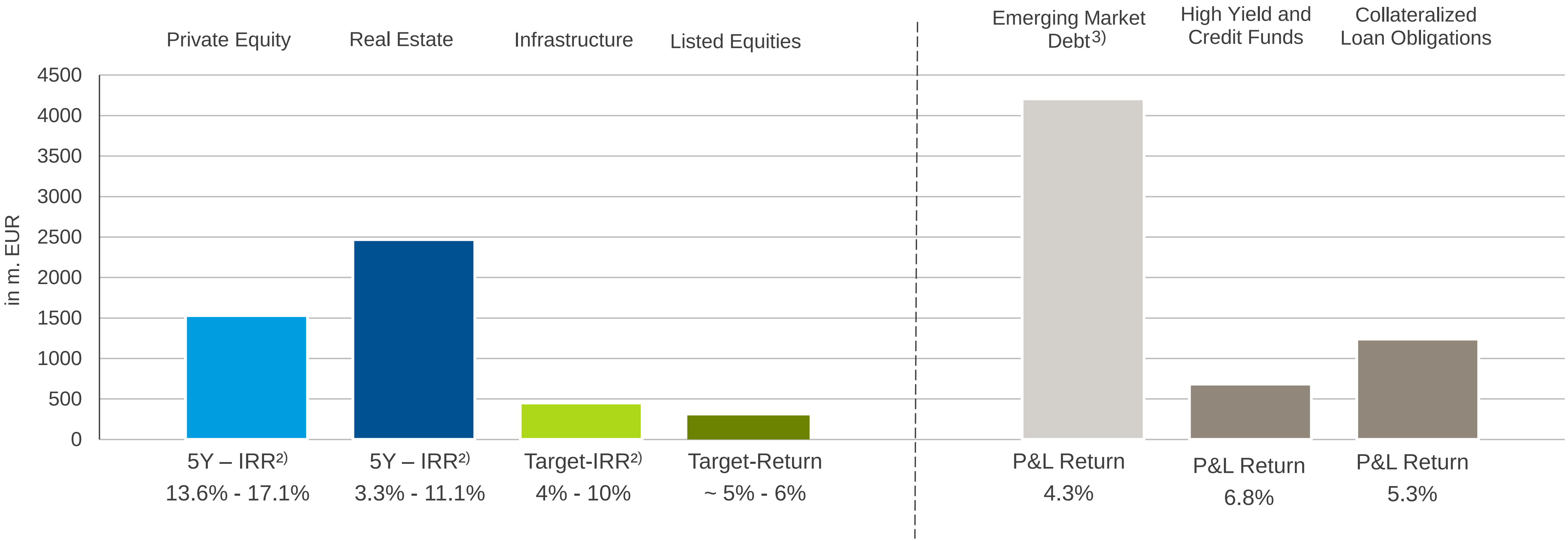
Alternative investments and credit enhancement

Well positioned to generate sustainable attractive returns to support RoI

Volume and returns[1] of main alternative asset strategies



1) Volumes as of 15 July 2021; returns as a 5Y average as of Q1/2021
2) Range due to several investment structures with different risk-return profiles
3) w/o HR-entities located in emerging markets

ESG in asset management has developed since 2011 and focusses on three pillars today

Exclusionary criteria and negative screening

- Principles of UN Global Compact
- Controversial weapons
- Fossil fuel involvements

- Semi-annual screening covers up to 90 % of total assets
- Prompt exclusion in case of non-compliance with ESG standards

Active investments in sustainable assets

- Impact investment funds
- Sustainable infrastructure investments

- Renewable energy, clean transport, sustainable forest and agriculture funds
- “Real impact” through improvement of living, environmental and working conditions complying with the UN Social Development Goals (SDGs)

Increase sustainability quality in investment portfolio

- Best in class
- CO_2 reduction
- PRI participation

- Carbon footprint reduction of 30 % by 2025 for ~39% of total assets
- Net zero commitment 2050

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2 Focus topic: inflation

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Areas potentially impacted by inflation…

- Pricing
- Reserving
- Large loss budgeting
- Investments, admin. costs, etc.

...but all actively addressed by effective measures

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Inflation closely monitored and reflected in pricing process

- General inflation (e.g. US CPI) increased significantly however claims inflation drivers are different
- Hannover Re's specific inflation index would be a mix across regions and currencies and depending on the lines of business; the main drivers being wages & salaries (Casualty), building costs (Property, incl. NatCat) and medical expenses (Life & Health)

Pricing

- Best-estimate inflation is annually adjusted, based on historical experience and future outlook
- For 2021 pricing, we already raised inflation assumptions on top of historical experience; further "trend" adjustments for 2022 are under review, given shortages of material etc.; demand surge is also a component of cat models

- In addition to regular repricing at renewal, inflation exposure is mitigated by index-clauses, sliding scales or profit commissions in many P&C reinsurance treaties; we also participate in direct insurers' rate increases, in particular for proportional business

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Inflation also well considered in our strong reserving process

- Reserving is based on average historical inflation; loadings are applied if future inflation is expected to deviate significantly from past inflation

Reserving

- Reserving particularly important for long-tail lines, as they are mainly affected by wage and medical expense inflation; actual loss experience has been in line with expectations, but potential loading at year-end 2021 currently under review
- Expected price increases on large losses are reflected in reserving process (e.g. demand search, etc.)

- On top of the above material reserve buffers and conservative large loss budgets leave substantial room for adverse developments

Inflation-linked bonds provide additional protection

Volume

Market value of inflation-linked bonds

- EUR 2,191 m. (EUR)
- EUR 2,355 m. (USD)
- EUR 371 m. (AUD)
- EUR 19 m. (NZD)

Hedge level

Average hedged inflation levels

- 1.57% EUR
- 2.25% USD
- 2.47% AUD
- 1.90% NZD

Sensitivity to inflation in EUR m.

Inflation expectation: +100 bps	+468
Inflation expectation: -100 bps	- 417
Inflation expectation: +400 bps	+2,262

Inflation-linked Bond (ILB)

- Portfolio of approx. 5 bn. EUR; duration between 6 and 9 years, mainly USD and EUR
- Nominal (government) bond with embedded inflation swap
  - "fixed" payer leg = expected inflation at purchase date;
  - "floating" leg = realised inflation until maturity of the ILBs
- Market value of the embedded swap reflects the realised inflation (until reporting date) and changes of inflation expectations (for remaining life of ILBs)

Accounting

- Swap not to be separated in IFRS, i.e. market value changes of swap are not visible in IFRS-P/L (less volatility)
- but realised YoY inflation feeds into the ordinary income of ILBs for each reporting year

Figures as at 30 June 2021

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Key takeaways

Highly diversified and resilient investment portfolio

- Strategy adjusted for yield optimisation and ESG goals
- Ordinary income strong and stable earnings contributor
- Low yield environment challenging but manageable

Inflation risks remain manageable

- Inflation drivers closely monitored and mitigated by price increases in renewals, index clauses, sliding scales and through price increases in primary rates
- Conservative reserving approach and large loss budgeting ensure sufficient buffers
- Inflation-linker used as proxy to further mitigate exposure
- Real assets, i.e. private equity, infrastructure, real estate provide additional protection

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