Update on investments

Portfolio resilience in a challenging environment

Clemens Jungsthöfel, Chief Financial Officer
25th International Investors' Day 2022
London, 6 October 2022

hannover re®

Agenda

1

Defensive positioning

2

Long-term effect of rising interest rates

3

Key takeaways

hannover re®

1 Defensive positioning

Strategic positioning 2022 very effective in current market environment

Sale of listed equities, defensive credit-risk taking whilst creating opportunities

Investment category[1]	2021	1H/2022
Fixed-income securities	**86%**	**84%**
- Governments	34%	36%
- Semi-governments	14%	13%
- Corporates	32%	29%
Investment grade	28%	25%
Non-investment grade	4%	4%
- Pfandbriefe, Covered bonds, ABS	6%	7%[2]
Equities	**4%**	**4%**
- Listed equity	1%	<1%
- Private equity	3%	4%
Real Assets	**5%**	**6%**
Others	**2%**	**2%**
Short-term investments & cash	**3%**	**4%**
Total market values in bn. EUR	**56.2**	**56.6**

Strategic measures to increase resilience and build dry powder

Liquids

- Increasing risk-minimal government exposures
- Increasing most liquid Pfandbriefe and Covered bonds
- Increasing short-term investments and cash
- Active cash management

Risk picture

- Sale of listed equities in Q1/Q2 (EUR ~100 m. gains)
- Defensive credit strategy on large credit portfolios in developed markets
- Further increase in market values of private equity and real assets, whilst commitments remain stable
- Active ALM management of yield curves and fx to reduce volatility

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 1,597.0 m. (EUR 1,588.2 m.) as at 30 June 2022
2) Of which Pfandbriefe and Covered bonds = 61.0%

hannover re®

somewhat different

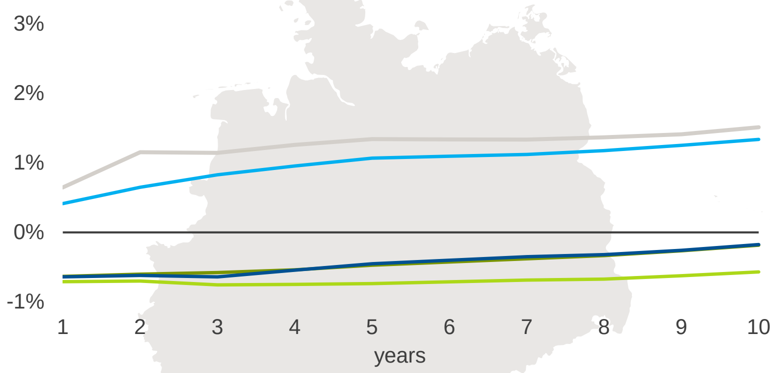
2 Long-term effect of rising interest rates

hannover re®

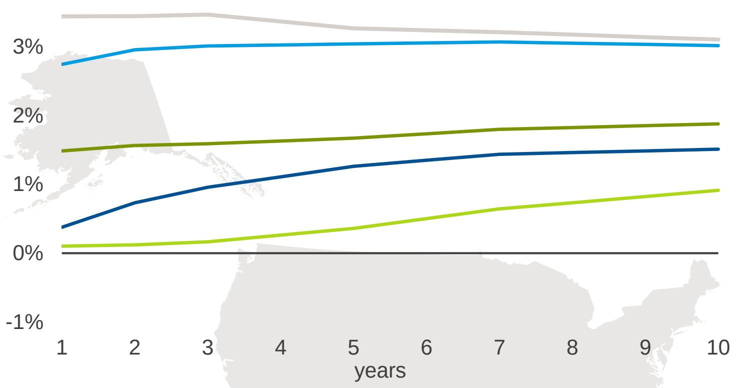
Yield curves torn between inflation and recessional fears

Historic short-term movements with long-term benefits

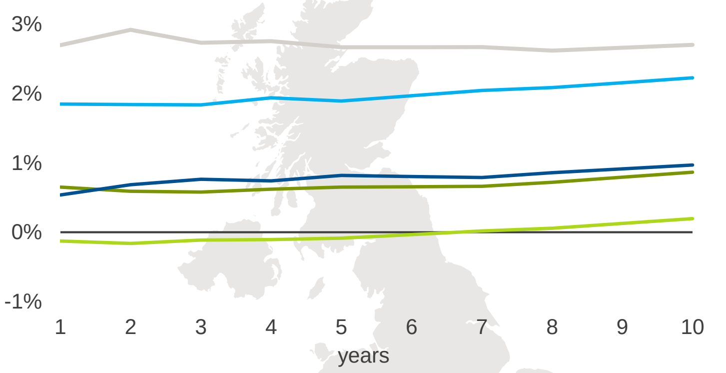
German Bunds



US Treasuries



UK Gilts



30.12.2019 | 31.12.2020 | 31.12.2021 | 30.06.2022 | 30.08.2022

Delta bps	2020	2021	YtD	QtD
1 Y	-8	7	129	23
5 Y	-27	29	179	27
10 Y	-38	39	169	18

2020	2021	YtD	QtD
-138	27	306	70
-131	90	200	23
-97	60	159	9

2020	2021	YtD	QtD
-78	67	216	85
-74	91	185	78
-67	77	173	48

Impact of current yield curves

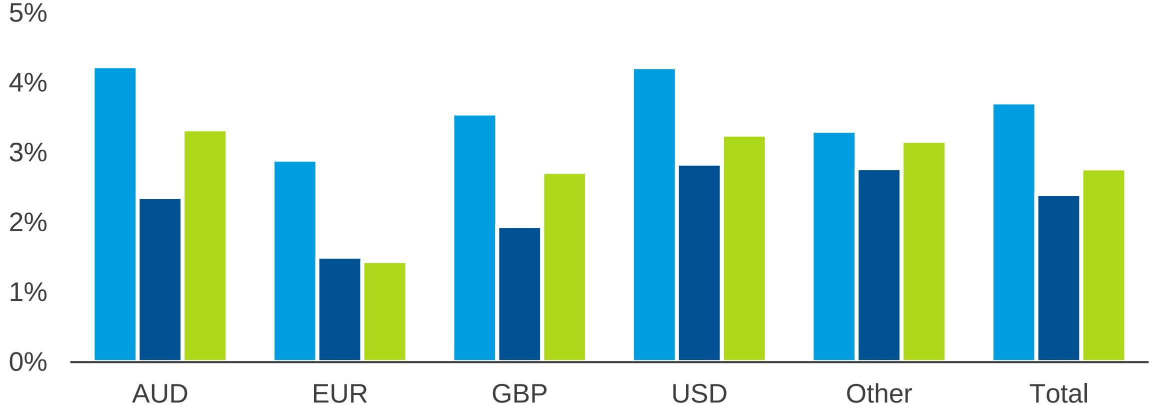
- Higher yield curves clearly beneficial for reinsurance
- Short-term, sharp increase can limit portfolio flexibility, lead to higher market volatility and impact valuations of equity and real assets
- However, volatility expected to normalise when signs emerge that inflation is stabilising and recession is priced in

hannover re®

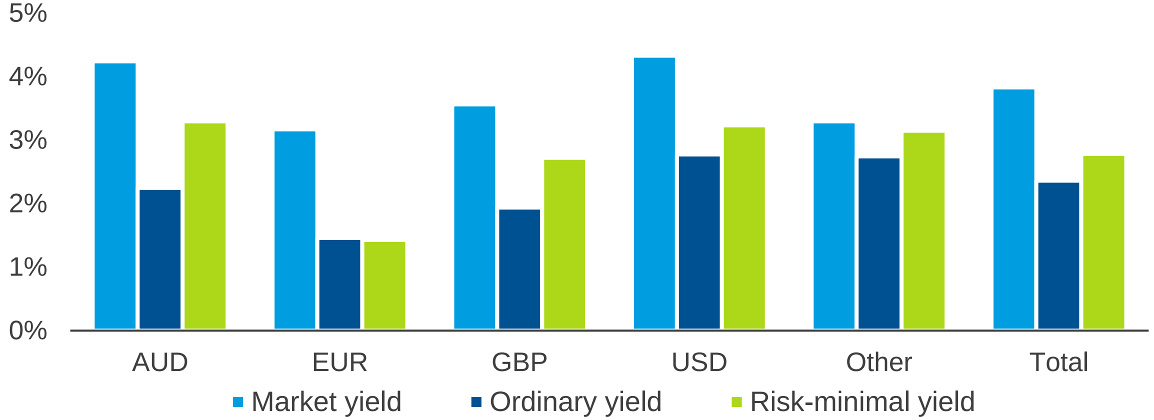
Market reinvestment yields significantly above locked-in yields

Ordinary income to gradually benefit from increased yields

Fixed-income portfolio yields as of 31 Aug 2022



Fixed-income portfolio yields (excluding inflation linker)



As of 31 August 2022 (non-audited figures); analysis with 10Y UST @ 3.16% and 10Y Bunds @ 1.54%)

Impacts from higher reinvestment yields

Market yields (Current market yield of actual portfolio if reinvested)

- Due to yield curve and spread movements market yields of portfolio across currencies exceed locked-in ordinary income yield (see chart)

Ordinary yields (Locked-In yield of current portfolio; inflation linkers simulated according to current market inflation expectation until maturity)

- Modified duration of fixed-income portfolio ~5.3, therefore it will take time for book yields to increase to market yields

Risk-minimal yields (Risk-minimal portfolio yield per currency, i.e. govies with respective ALM durations)

- Defensive strategy in place slightly extends the process of moving ordinary yields to market yields

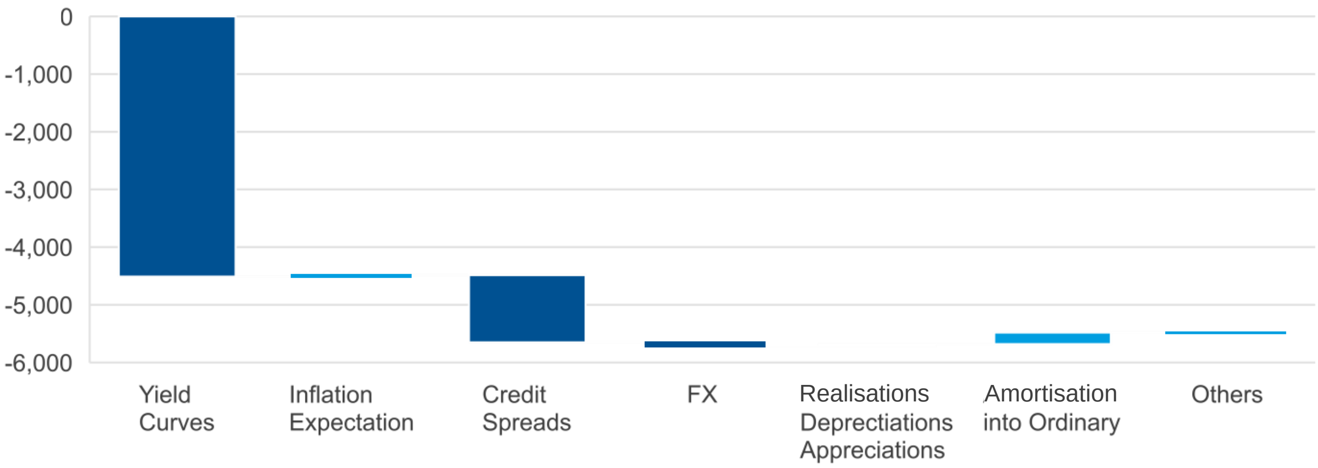
Inflation linker

- Effect on portfolio yields until maturity rather limited, since much lower inflation expectations in markets in comparison to current levels

Balance sheet / equity impact due to lack of discounting under IFRS 4
Economic view proves strong ALM and resilience against yield movements

IFRS accounting view / OCI position YTD change (pre-tax)

in m. EUR



Economic / Solvency view

Interest rate stress		Target corridor	2022Q2
Δ NAV in %	parallel shift -100bps	±5	2.1
	parallel shift +100bps		-2.3
Δ CAR in %pts	parallel shift -100bps	±10	-5.1
	parallel shift +100bps		0.0

As of 31 August 2022 (non-audited figures)
NAV = Net Asset Value; CAR = Capital Adequacy Ratio

Key observations

IFRS

- Majority of OCI reduction is yield curve driven, followed by credit spread movements
- Some positive impact from change in inflation expectation, amortisations and realisations

Solvency / Economic picture

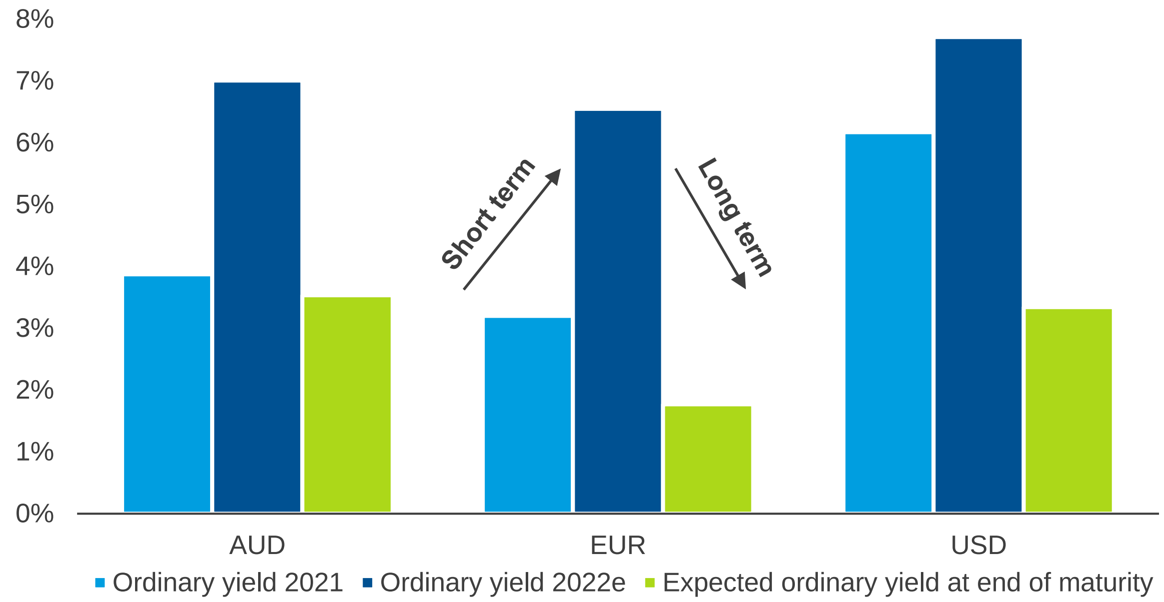
- Very effective, dual targeting Asset-Liability Management in place
- Due to strict Asset-Liability Management limited effects on Capital Adequacy Ratio

hannover re®

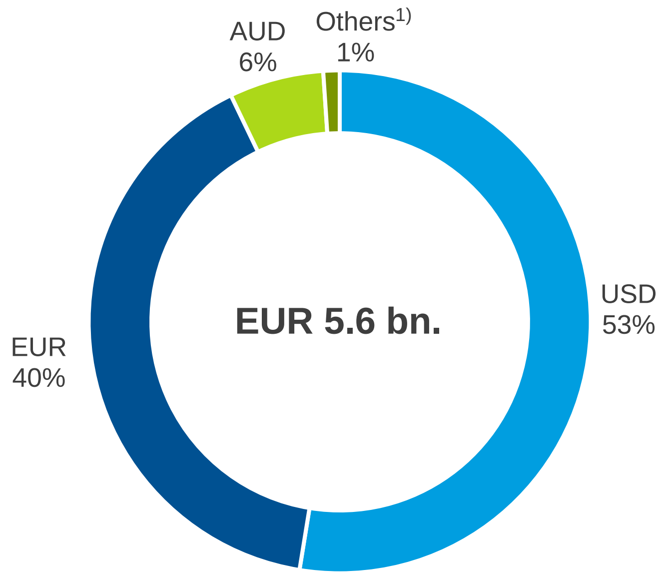
Inflation-linked bonds with strong performance, supporting overall resilience

Sharply falling market expectation for inflation from 2023/2024

Ordinary yield of inflation linker portfolio



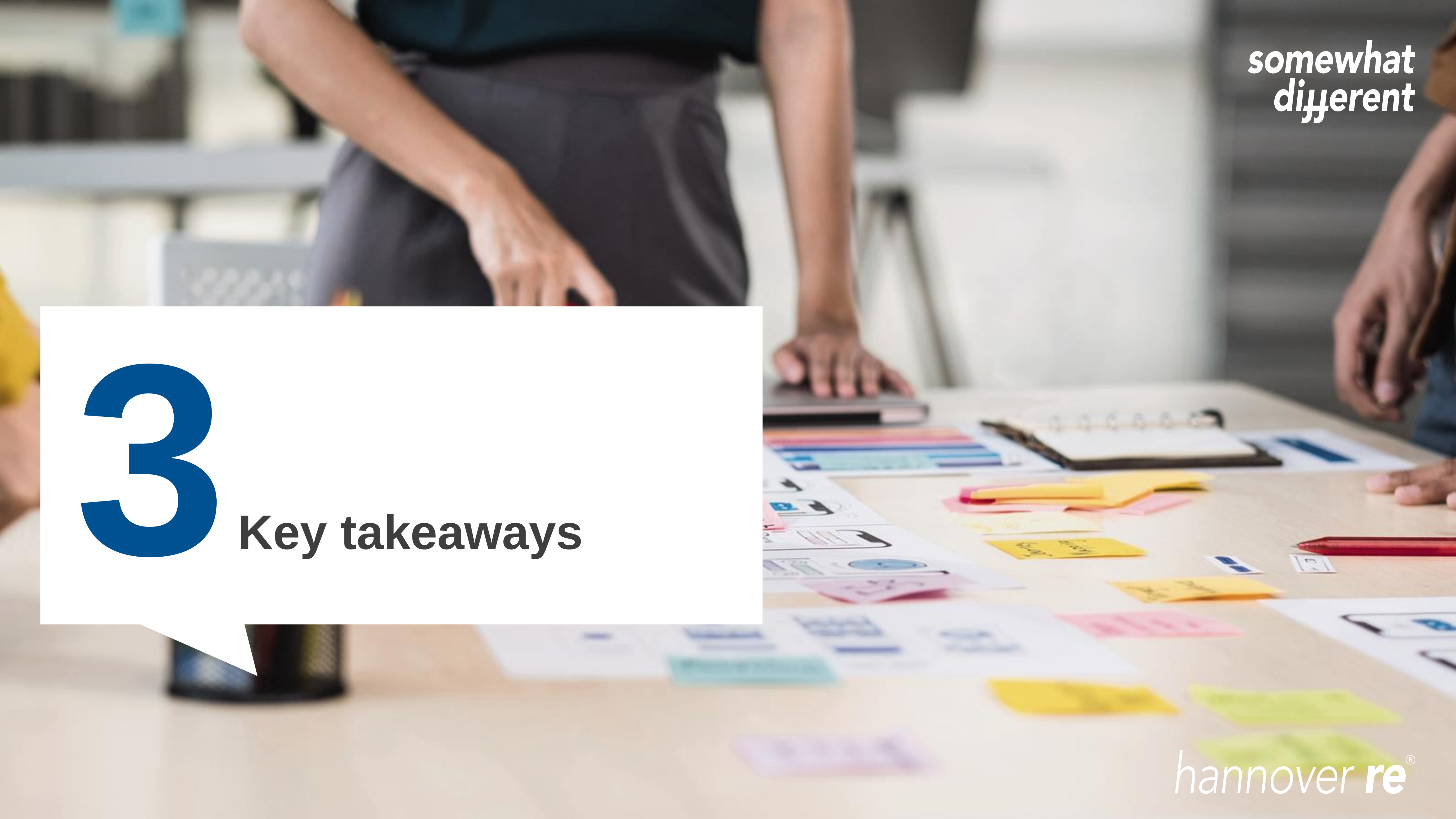
Inflation linker portfolio



Impact of inflation linker on current and future ordinary income

- High inflation currently leading to extraordinary high ordinary income particularly in 2022, partly due to amortisation method under IFRS
- Sharply falling market expectations on future mid- and long-term inflation will reduce ordinary, incl. extraordinary effects being reversed out over time

As of 31 August 2022 (non-audited figures)
1) ZAR, GBP, NZD



3 Key takeaways

Key takeaways

Investment strategy

- No material changes to asset allocation, i.e. ~84% fixed income, given strict ALM, complemented by private equity and real assets
- Defensive positioning from January 2022 proven to be very effective in current market environment (equity, yields, credit)
- Dry powder built up to take advantage of market opportunities

Interest rates

- Interest rate movements have led to reinvestment yields already exceeding current book yields
- Ordinary income will clearly but (only) gradually benefit from increased yields over time
- Impact on OCI / equity mainly accounting driven, given strict ALM

Inflation

- Inflation-linked bond portfolio protects very efficiently against current and future inflation
- P&L contribution to normalise due to inflation market expectations and amortisation accounting effects

Our investment portfolio is showing exceptional resilience in a challenging market environment, whilst fully delivering on plan

hannover re®