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Update on IFRS 17

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IFRS 17 Conference Call
1 February 2023

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Agenda

- 1 Preliminary figures 2022
 - 2 Recap Investors' Day 2022
 - 3 Guidance 2023 & IFRS 17/9 impacts
 - 4 Additional information
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A blurred background image of a business meeting. In the foreground, a person's hands are visible, one holding a smartphone and the other typing on a laptop. The desk is covered with various business data visualizations, including bar charts, pie charts, and a grid of data points. The overall color palette is dominated by light blues and whites, with a warm, slightly orange glow from the background lighting.

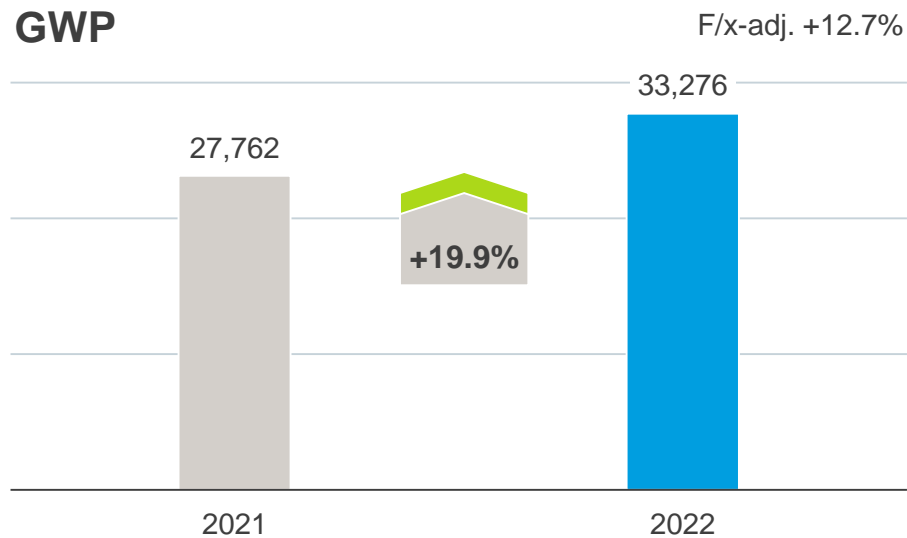
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**Preliminary figures
2022**

Net income within target range, premium growth above expectations

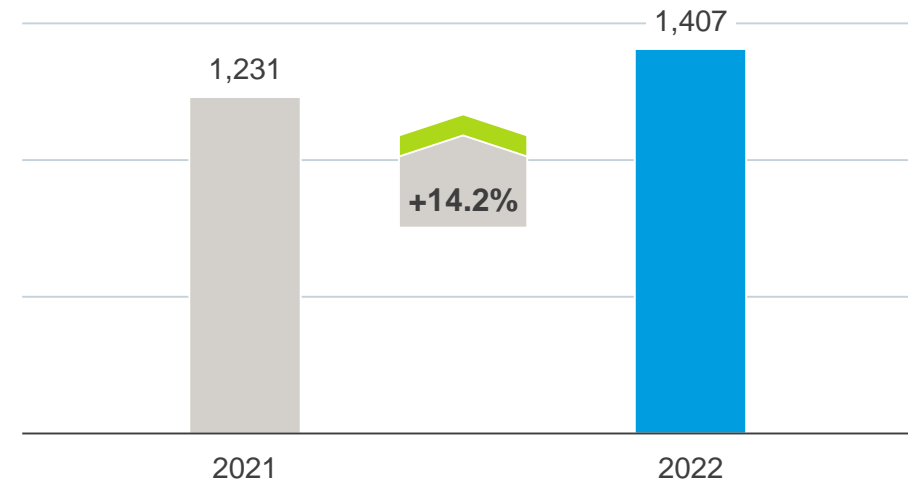
Preliminary key figures for 2022 – Return on equity 2022: 14.1%

GWP



Target: >7.5%¹⁾

Group net income



Target: at the lower end of the EUR 1.4 - 1.5 bn. range

P&C R/I

- U/W result impacted by higher than expected losses from current and prior years

L&H R/I

- Positive underlying profitability and decreasing Covid-19 claims; investment income supported by one-off gains

Investments

- Very strong RoI from AuM: 3.2% supported by inflation linked bonds

Figures in EUR millions, unless otherwise stated and according to IFRS 4 / IAS 39

1) At unchanged f/x rates

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**Recap
Investors' Day 2022**

RECAP

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Recap Investors' Day 2022

Main implications for Hannover Re

IFRS 17

- Strategy and business model unaffected
- Dividend capacity and strong capitalisation unchanged
- Enhancement of presentation and reporting will increase transparency
- Better reflection of value and earnings of L&H business
- Equity + CSM at similar level to Solvency II equity
- Prudent reserving approach in P&C maintained
- Transformational benefits through review of data, processes, etc.

IFRS 9

- Classification, valuation and impairment changes
- P&L volatility likely increases due to higher share of assets FVPL, however still > 90% of our investments categorised as Fair Value OCI
- Minor impacts from introduction of Expected Credit Loss
- Overall limited impact on balance sheet and shareholders' equity
- Cash excluded from assets under own management in RoI calculation

Our approach to IFRS 17 will bring accounting view closer to economic view

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Guidance 2023 & IFRS 17/9 impacts

PLAN
somewhat different 75%

Guidance for 2023

First guidance based on new accounting standards IFRS 17/9

Hannover Re Group

- Reinsurance revenue ¹⁾ _____ ≥ 5% growth
- Return on investment ²⁾ _____ ≥ 2.4%
- Group net income ²⁾ _____ ≥ EUR 1.7 bn.
- Ordinary dividend _____ ≥ prior year
- Special dividend _____ if capitalisation exceeds capital requirements for future growth and profit targets are achieved

1) At unchanged f/x rates

2) Subject to no major distortions in capital markets and/or major losses not exceeding the large loss budget of EUR 1,725 m. 2023 and no further significant impact from Covid-19 on L&H result

Transition to IFRS 17 moderately increases earnings level

Impact of IFRS 17/9 accounting change



Property & Casualty reinsurance

- Prudent Reserving approach and Retro Strategy continue to mitigate overall volatility
- OCI option limits volatility of technical result and equity



Life & Health reinsurance

- CSM release with stabilising effect on overall result
- OCI option limits volatility of technical result and equity



Investments

- Volatility likely to increase due to higher share of assets FVPL, but due to "hold & sell" >90% FVOCI
- Minor impact from introduction of Expected Credit Loss
- Insurance related derivatives reflected in technical result



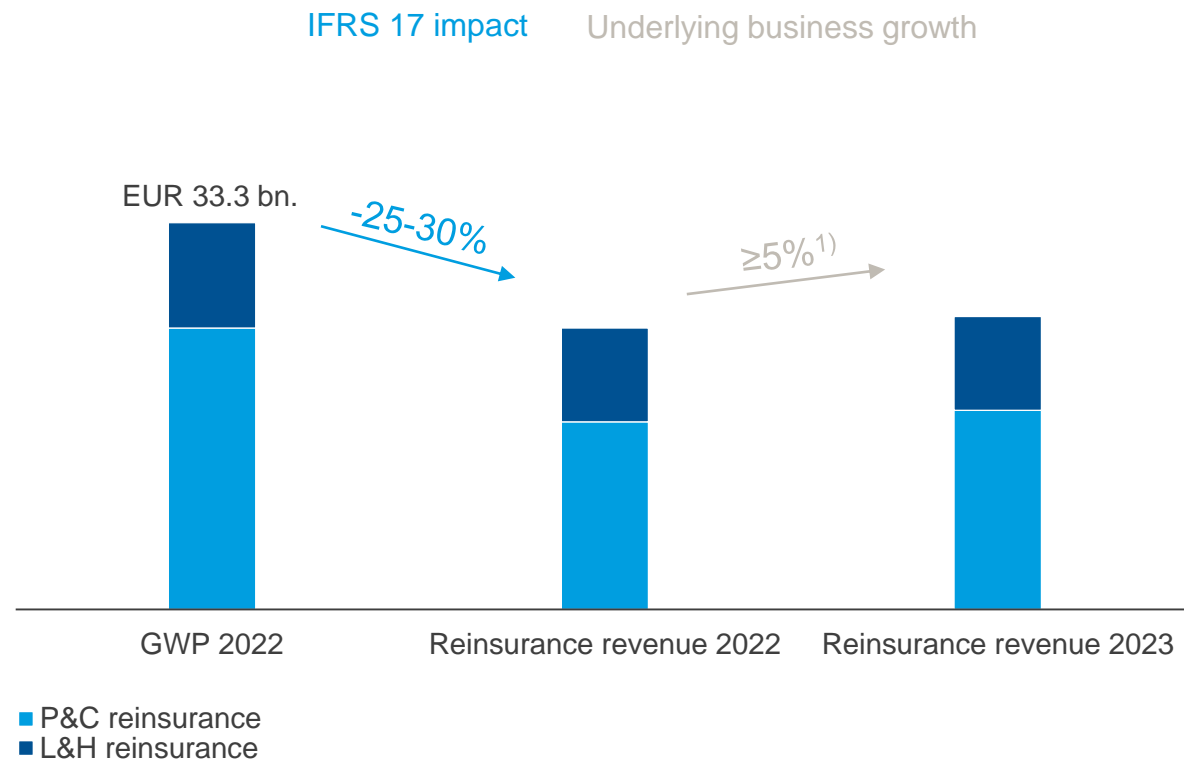
- Minor impact from accounting change

- Minor impact for large parts of L&H business
- Uplift from unlocking effect for mortality business with long durations

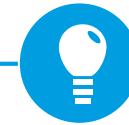
- Minor impact from accounting change

Reinsurance revenue will be lower than gross written premium




Reinsurance revenue



1) At unchanged f/x rates



Accounting impact IFRS 17

- Exclusion of commissions and non-distinct investment components (NDIC) 
- Exclusion of unearned premiums (mainly impacting P&C) 
- Inclusion of result from deposit-accounted Financial Solutions business 

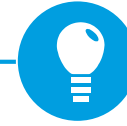
P&C: IFRS 17 with limited impact on earnings level

Prudent reserving approach



Underlying development

- Positive impact from margin improvements expected in 2023 renewals provides flexibility to strengthen resilience reserve
- Prudent reserving approach
- Large loss budget increased to EUR 1,725 m.



Accounting impact IFRS 17

Discounting

- Lower Combined ratio due to discounting of cash flows, offsetting impact from interest accretion in insurance finance expenses
- OCI option limits volatility of technical result and equity

Reserving

- Prudent best estimate reflected in LIC; expectation of positive run-off result (A/E experience)
- As a result of prudent initial reserving parts of the loss component might ultimately not be loss making
- Risk adjustment (RA) provides additional layer of prudence

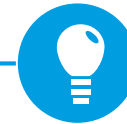
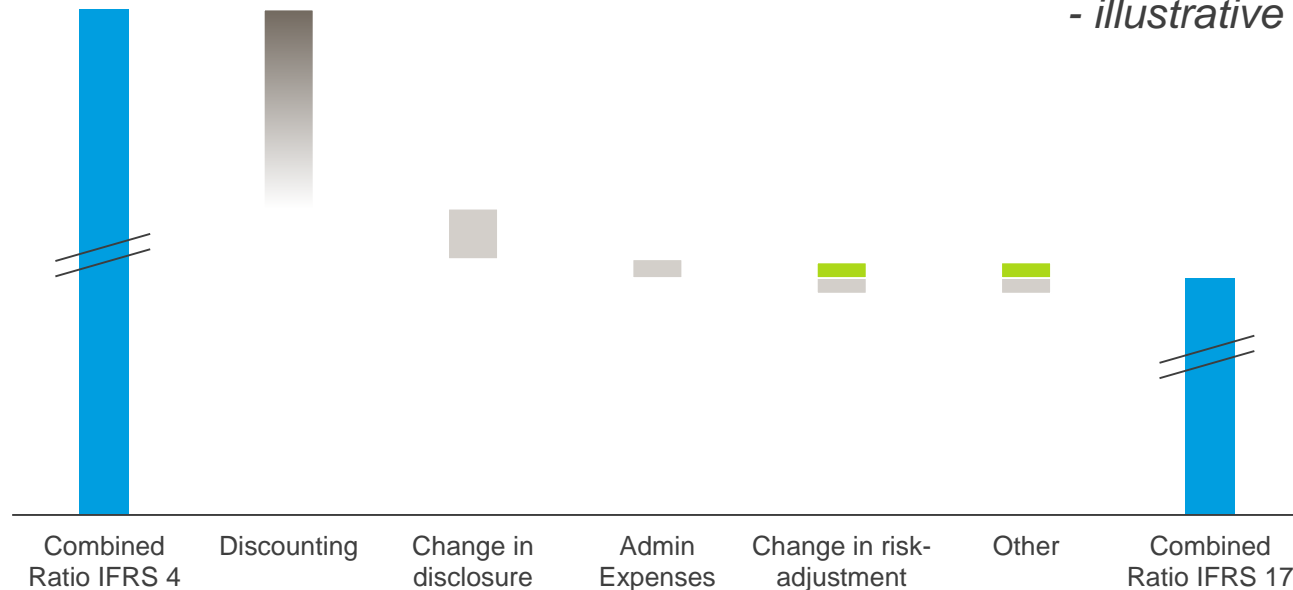
P&C: translation to IFRS 17 metrics results in lower combined ratio

Outlook 2023: Expected margin improvements enable strengthening of resiliency

IFRS 17 combined ratio (net / net calculation)

$$\text{Combined ratio} = \frac{\text{Reinsurance service expenses (net)}}{\text{Reinsurance revenue (net)}^{1)}$$

- illustrative -



Accounting impact IFRS 17

Discounting

- Positive impact on combined ratio (magnitude depending on interest rate level)

Change in disclosure

- Deduction of commissions and NDIC²⁾ from both numerator and denominator

Admin expenses

- Directly attributable expenses are lower than IFRS 4 admin expenses
- Moderate positive impact of ~0.6%p reflects overall low expense ratio

Risk adjustment

- Business growth with negative impact on combined ratio

Other

- Other methodological changes (e.g. seasonality of loss component)

Illustrative translation to IFRS 17 assuming a combined ratio <100 %. 1) Reinsurance revenue (gross) – Reinsurance expenses (ceded)

2) Non-distinct investment component

L&H: IFRS 17 transition effects will lead to moderately higher earnings level

Outlook 2023: further growth mainly from Longevity and Financial Solutions



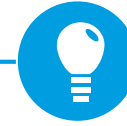
Underlying development

- Supported by further growth mainly in Longevity and Financial Solutions
- Further decreasing impact from Covid-19



Insurance service result

- Insurance service result will include full profitability of underwriting activity
 - Includes result from currently deposit accounted treaties in Financial Solutions
 - Includes planned income from funds withheld



Accounting impact IFRS 17

- Focus of transition approach on sustainability of future earnings
- Better reflection of value and earnings of L&H business
- Increasing transparency in particular in connection to CSM development
- Overall similar earnings pattern (largely unchanged for Financial Solutions and Longevity business)
- Transition to IFRS 17 results in unlocking of best estimate liability and unlocking of discount rates to current interest rates

EBIT level up by mid to high double-digit million

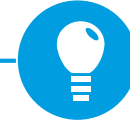
Investments: IFRS 9 has limited impact on underlying earnings level

P&L volatility likely to increase due to higher share of assets FVPL



Underlying development

- Ordinary investment income
 - Increasing contribution from fixed income securities (excl. inflation-linked bonds),
 - Decreasing contribution from inflation-linked bonds based on currently embedded inflation expectation
 - Planned contribution from alternative investments in line with 2022
- No realised gains / losses planned
- Current economic environment bears risk of decreasing valuation of private equity and real estate



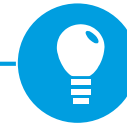
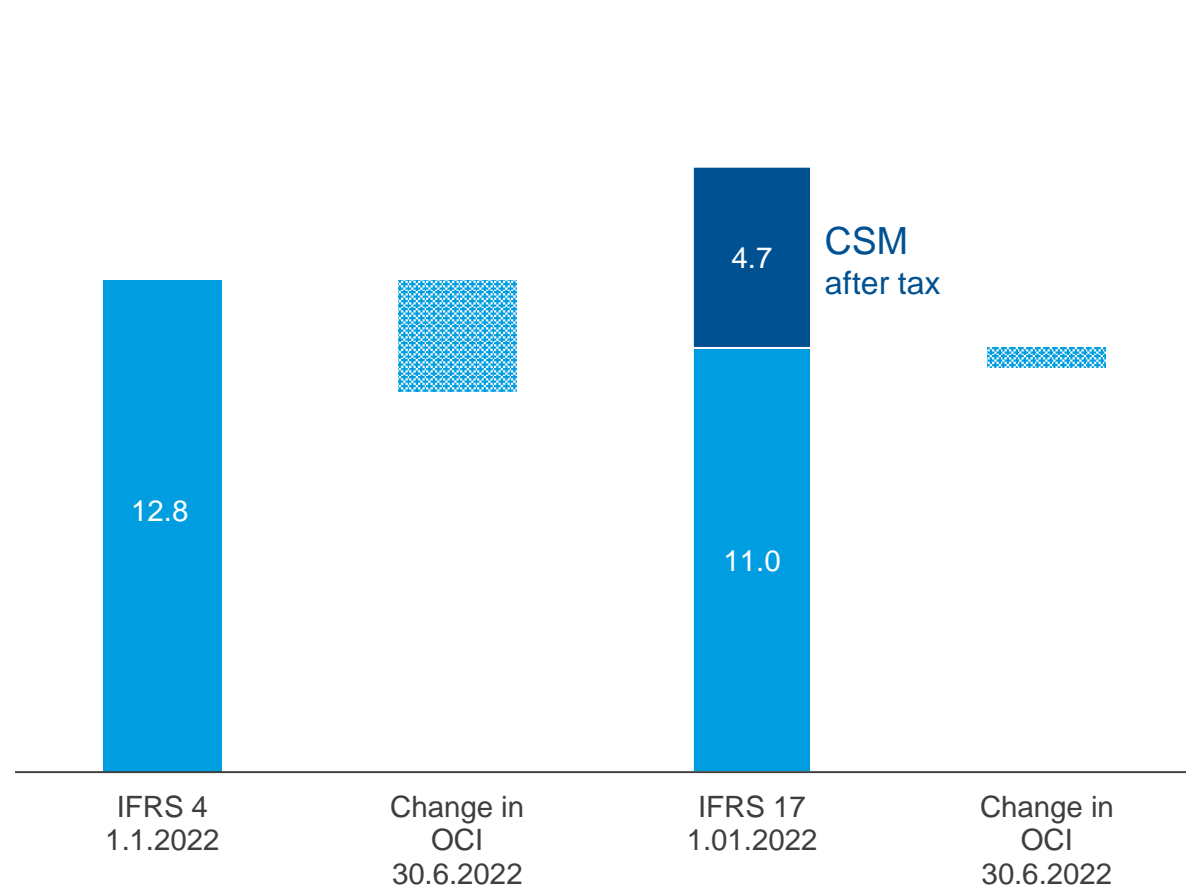
Accounting impact IFRS 9

- Volatility likely to increase (more pronounced in P&C) due to higher share of assets FVPL
 - Increase from <1% to ~7.5%, main asset classes: Private-Equity, Real-Estate, fixed-income funds
- Minor impact from introduction of Expected Credit Loss
- Insurance related derivatives reflected in technical result

Strategic RoE target increased to 1000 bps above risk free... ...reflecting transition to IFRS 17/9

Total equity

in bn. EUR



Accounting impact IFRS 17

$$RoE = \frac{\text{Group net income} \uparrow}{\text{Average equity} \downarrow}$$

- Unlocking of best-estimate liabilities in L&H results in decrease of shareholders' equity and increase in EBIT (mid to high double-digit millions)

Shareholders' equity will be more stable due to improved matching of assets and liabilities

RoE uplift of 100bps

All figures as of 1.1.2022, preliminary unaudited figures

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**Additional
information**

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Risk-adjustment methodology based on internal view on price for insurance risks



Interest rates

- Bottom-up approach (risk-free rates + illiquidity premium (ILP))
- Interest rates based on SII, adjusted to better reflect economic reality and Hannover Re portfolio

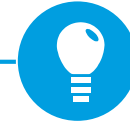
IFRS 17 risk-free rates

- largely aligned with SII methodology, differences in extrapolation

IFRS 17 ILP

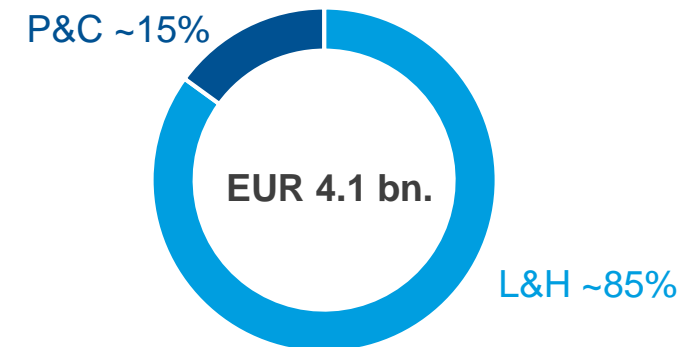
- based on SII methodology with use of individual asset portfolio
- Duration-dependent ILP for EUR and USD to reflect the dependency between spread levels and duration

Changes in interest rates will largely be reflected in OCI



Risk adjustment

- Margin approach aligned with pricing metrics for insurance risks calculated with available capital as base
- Consideration of group diversification
- Confidence level of risk adjustment ~80%
- Risk adjustment (RA) is sensitive to interest rate movements
- Risk adjustment (at transition) at similar level to Solvency II risk margin



All figures as of 1.1.2022, preliminary unaudited figures

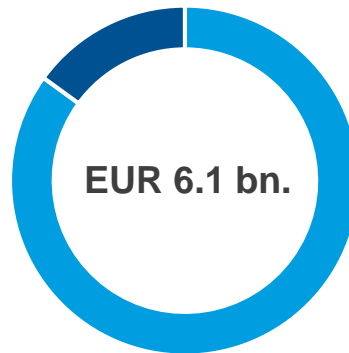
CSM reflects future profits of L&H reinsurance business and stabilises profit emergence over time



Contractual service margin

P&C ~15%

- (Low) level of CSM reflects short duration of business and conservative reserving
- Well diversified by line of business and region
- Release of CSM largely within two years

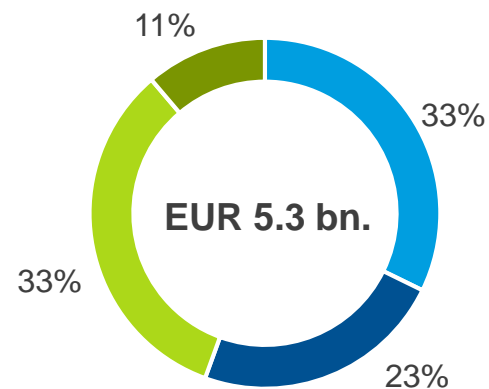


L&H: ~85%

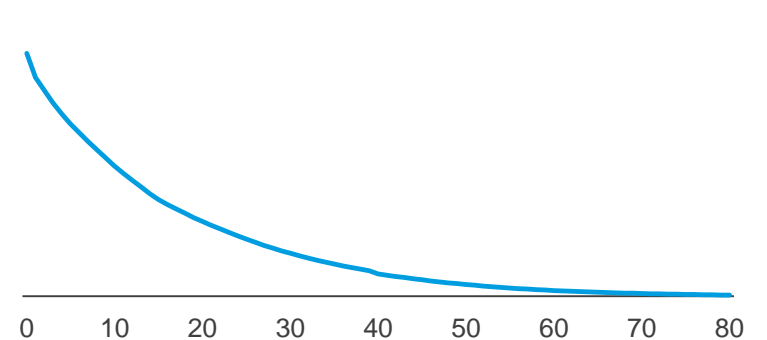
- New business contribution expected to be higher than CSM release (~10% p.a., on average/multi-year view)
- Volatility will mainly come from new or discontinued individual large transactions or assumption changes for business with long durations
- Interest-rate movements impact valuation of new business, overall CSM not materially affected due to locked-in interest rates

L&H CSM

- New business CSM + Loss Component on similar level to SII VNB
 - Only directly attributable costs included in IFRS 17 vs. full internal costs in SII
 - Differences in new business definition between IFRS 17 and SII



Release of L&H CSM (in-force business)



All figures as of 1.1.2022, preliminary unaudited figures

Key take-aways: Greater transparency on future results

Increasing earnings in the medium term



- **Economic view:** More realistic and aligned presentation of market and interest rate developments
- **Increasing Transparency:** Additional items will help to estimate current financial status
- **Increased comparability:** Common set of valuation principles across the industry
- **Better visibility:** Better disclosure of information to anticipate future profits

Outlook for Hannover Re:

Property & Casualty reinsurance:

- Very favourable underlying market conditions
 - improved net risk return and underlying earnings profile provide increased flexibility to increase confidence level of reserves

Life & Health reinsurance:

- Positive underlying business development
 - profitable business growth mainly driven by Longevity and Financial Solutions
 - additional uplift from transition to IFRS17
- Further decrease of Covid-19-impact expected

Investments:

- Ordinary investments will benefit from higher interest rates
- Contribution from inflation-linked bonds is expected to decline (materially)
- Some allowance for negative FVPL impact from Private Equity and real estate

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Appendix

IFRS

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P&L structure at Hannover Re

Illustrative example

Reinsurance revenue
Reinsurance service expenses
Reinsurance service result (gross)
Reinsurance expenses (ceded)
Income from reinsurance contracts held (ceded)
Net result from reinsurance contracts held (ceded)
Reinsurance service result
Net finance income or expenses from reinsurance contracts issued (incl. currency effects)
Net finance income or expenses from reinsurance contracts held (incl. currency effects)
Reinsurance finance result
Of which: Currency gains/losses from reinsurance finance result (net)
Net reinsurance finance result before currency gains or losses
Ordinary investment income
Expected credit losses, impairment, depreciation and appreciation of investments
Change in fair value of financial instruments
Profit / loss from investments in associated companies
Realised gains and losses on investments
Other investment expenses
Net income from investments under own management
Currency gains / losses on investments
Currency gains / losses from reinsurance finance result (net)
Other currency gains / losses
Net currency result
Other income
Other expenses
Other income / expense
Operating profit / loss (EBIT)
Financing costs
Net income before taxes
Taxes
Net income
thereof
Non-controlling interest in profit and loss
Group net income

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