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Investor Day

Company Participants

- Claude Jacques Chevre, Unknown
- Clemens Jungsthofel, CFO & Member of Executive Board
- Jean-Jacques Henchoz, CEO & Chairman of the Executive Board
- Karl Steinle, Head of Corporate Communications
- Klaus Wilhelm Miller, Unknown
- Sven Althoff, Member of the Executive Board
- Unidentified Speaker, Unknown

Other Participants

- Andrew James Ritchie, Analyst
- Henry Heathfield, Analyst
- Iain Pearce, Analyst
- Thomas Fossard, Analyst
- Unidentified Participant, Analyst
- Vinit Malhotra, Analyst
- William Fraser Hardcastle, Analyst

Presentation

Karl Steinle {BIO 1986424 <GO>}

Hello. Good morning, to the Hannover Re's Investors Day. I wish you a very warm welcome on behalf of the entire management team. Again this is a virtual format because of the pandemic. So we are not broadcasting from Copenhagen as originally planned. We are in Hanover. I'm happy that so many of you are already participating. This Investor Day is our 24th edition, and therefore, a long-standing tradition of Hannover Re. And as everybody is talking about purpose, the purpose of this event is very clear.

First of all, we want to provide additional information, we want to demonstrate transparency, and we want to also advance the dialogue with you. We want to increase the understanding of our business the market development and also our positioning in our future prospects. As this may take a while, we have scheduled for the next four hours.

For an event to be viewed as helpful, in particular from your side, it needs a number of ingredients. It's just when I teamed up with my 12 years old daughter last week to bake a pie, you need to have a delicious and appealing recipe, a proper time frame and a good allocation of resources.

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But most important, you need to have the right ingredients, the basics, but also the herbs, the spices and sugar, of course. I do realize that this analogy has some limitations because it's a lot easier to make a pie. Nonetheless, I hope we have some delicious thought -- a delicious food for thought for you. Just a few words on today's agenda.

Our CEO, Jean-Jacques Henchoz, will kick things off and bring you up to speed with regards to our strategy and the achievements we have so far reached in order to have a sustainable outperformance. Our CFO will then go over the investment strategy in detail, and he will also give us some thoughts on inflation. As always, we will then invite Sven and Claude to share their thoughts on the Non-Life and the Life & Health reinsurance business. So we have a rich agenda and a rich variety in our agenda for today.

Just a few organizational remarks before we start. Today's event will be recorded. After each presentation, we have some time for Q&A. (Operator Instructions) So it's now my pleasure to hand over to our CEO, Jean-Jacques Henchoz. Jean-Jacques, the floor is yours.

Jean-Jacques Henchoz {BIO 17457677 <GO>}

Well thank you very much. Good morning, everyone. A warm welcome to our Investor Day. We wanted to have a meeting with physical presence, but given the uncertainties surrounding the restrictions on the Covid pandemic, we decided to play safe and go for a virtual event. I very much hope that next year will be an opportunity to meet in person, this will be certainly behind us and the possibility to meet an exchange also informally during breaks as well will be provided.

So I'd like to give a bit of an overview on where we stand as a company and also highlight the execution of our strategy. You see my title is Teaming Up to Create Opportunities. This is taken from our purpose statement, very much driven to partnerships with our clients, with our broker partners, but also opportunities because we have a positive outlook and see future opportunities arising and that's very much the key message we want to convey for today.

So the agenda are a few comments first on our current position in the reinsurance market. I'll then update you on the strategy cycle, which is a 3-year cycle, which started in '21. Then I'd like to comment also on our ESG strategy, which is progressing very well. You might have first seen the announcement yesterday on our net zero targets. Then a few words on the outlook before closing and opening up for Q&A.

So on our position in the market, I don't want to go back too much into the previous strategy cycle, but one overview on the key metrics showing that in spite of a quite turbulent time with heavy NatCat activities in '18/'19 and, of course the Covid pandemic in 2020, the main metrics are looking good. We delivered on most of them and showed, I would say resilience in a very, very challenging environment. So looking back, we feel that the main objectives we've set ourselves for the previous strategy cycle were met. We're quite happy to see that there has been value creation for our shareholders. It's good, of course to see the ROE performance in this challenging time and particularly also the

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growth trajectory in all our business segments, particularly P&C in the past few years. So good successful execution of the previous strategy cycle.

Looking at the performance in terms of return of equity, of course it's always good to have a bit of a longer-term view. You see that Hannover Re produced above 13% ROE over the past decade. This is, of course the platform for us to continue the trajectory. The ROE performance has been quite above the industry average, 5.6%, in this period. You see that we had some different cycles. And across these cycles, we managed to have this outperformance. This is something which is key to the management team. We believe that the ingredients which are helping this outperformance include the underwriting focus, the underwriting DNA of Hannover Re and the discipline related to it, but also the combination with the nurturing of partnerships with our clients, with brokers. We're trying to be a very consistent player looking at long-term partnerships and trying to produce win-win opportunities across the different cycles.

The capital management side is, of course also very important, particularly the retrocession program, which is key to our strategy in P&C. This is something we will continue to build on. Obviously in the past few years, it has helped the performance, but we also want across the cycle to be able to make money for our retrocession partners. This is also about partnerships on this side.

And last but not least, the lean operating model has helped producing an extra margin over time and is a key part of our business model for how we want to operate going forward. So just to look back, and that's really our reference point and something we want to continue to build on going forward.

And a few words on our lean operating model. You see here on the left-hand side of the slide, the development of net earned premiums. They quadrupled over the period since 2000, so quite a growth trajectory. At the same time, looking at our admin expenses, they increased by a factor of 2.8 during the same period. So you're looking at a model which is very cost conscious and we're trying to build the franchise by making sure that cost efficiency is continuously looked after. It's evident from the expense ratio, admin expense ratio development, we're, on average, looking the at past five years about 3% above the industry average. So quite a performance. It shows, in my view, the scalability of the business model. It shows also that we continue to focus on operational efficiency, and this is something which is key to the discussions in our Executive Board.

So the lean operating model is difficult to replicate. In my view, this is a key competitive advantage, which is cultural, but also organizational. We seek organizational simplicity. I think it's very difficult to copy such a model and we will keep it as a key ingredients for future performance.

So just a look at the Covid situation. You know most of the numbers, but I just wanted to give an overview on where we stand. In P&C, you remember that as of the end of 2020, we had an overall expected load of EUR 950 million net. This was a situation, which kept stable over the past few months. I can confirm today that we believe this is quite a realistic picture of our expected exposure. Of course there are still some uncertainties on

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potential long-tail exposures related to Covid. But at the same time, I think we have some solid provision for it. So in my view, a stable situation. I would not expect movement on the P&C side.

Life & Health is, of course a bit of a different story. The excess mortality has been felt in our book of business from the beginning of the pandemic. The excess mortality is most pronounced in the United States and continues to have a burden on our numbers for 2021. There is also some excess mortality, unfortunately, in South Africa, which is a country which has been very much impacted by Covid, particularly because of the lack of progress in vaccination programs. In Latin America, the same. So me Latin American countries where quite impacted. I think that with the progress made with the vaccination levels across the world, we'll see some improvement to the situation in 2022. But it's clear that the Covid pandemic has had a clear impact not only on 2020, but also on our performance in 2021.

What you know also in Life & Health is that we have a pandemic retrocession program, which is a parametric cover focusing on the U.S., the U.K. and the Australian market. This would potentially give us a protection for further degradation of the situation, particularly in the United States. This is something which will be felt rather in 2022. If we have some relief from an accounting point of view, you would see that reflected in our numbers for '22.

And to end up on the global picture, I think as I mentioned earlier, I think we see a lot of opportunities in the market. The global reinsurance market has been growing quite steadily, 7.3% in the past five years. Hannover Re has been growing faster than that. We've seen some good opportunities. We have been able to expand a lot of client relationships. We're able to profitably grow during this period. I believe we're well positioned to continue on this path. There are many clients who want to offer us more space in their insurance program. I think we're also a partner for the broker community and receive a lot of opportunities, traditional business but also nontraditional business opportunities. So the outlook is, in our view, good.

And of course you have a huge protection gap. This is, of course for the industry a big challenge, seeing that the delta between economic losses and effective insured losses remains very high, but we can see this as an opportunity to reduce the protection gap going forward. We need to make some progress on modeling. We need to look into insurance penetration and increase it, particularly in emerging markets. But I think beyond the natural growth of the reinsurance market. There are also opportunities to expand the cake, if I may put it that way by tapping into the protection gap. I would say the protection gaps, plural, because beyond NatCat, there are also many opportunities to grow further in reinsurance. Therefore, this confirms our view that a pure-play reinsurance positioning is an appropriate way to tap into these opportunities.

So let me now move to a quick update on our strategy cycle, which we started in 2021. You see here the strategy map of the group on the left-hand side, the foundations as we put it, first of all, culturally, our purpose statement, our values. We have a very strong culture at Hannover Re, which we want to nurture and a very strong governance

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framework in place. This is very much the building block to ensure sound growth and cohesive strategy and organization, which is a high-performance organization.

We have performance drivers, and I will comment on them in a minute. These are the drivers for growth, and we have performance enablers. I spoke about some of them earlier on, and I see them as the drivers for potential outperformance. That's very much our framework and where we want to operate in the future with the priorities set and a few strategic initiatives, which I want to comment on, first, around the performance drivers and performance enablers. Then I'll briefly comment on our ESG strategy, which is part of the foundations.

So let me start with Asia Pacific. We have set ourselves very ambitious goals in the region. We've been very successful. We've gained market share profitably in the past. But so a couple of years ago that there was more to be done and identified a number of initiatives, which we pursue with allocated resources and expect to have additional EBIT contributions from these initiatives. So you see the key numbers, the expected numbers with over EUR 0.5 billion of EBIT to be expected within the strategy cycle.

We follow, of course demographic development. The exposures are gaining importance, economic development. And clearly, the share of wallet you have, even if you don't grow in terms of percentage, you see the trajectory of our main clients. They are growing very fast and need our help. We are on track with our financial targets at this stage. So the goal we're setting ourselves for Asia Pacific is in my view still a realistic stretch, but realistic target. And as you see, we focus on EBIT generation. We don't look at premium. This is not where we're heading. The underwriters in the region know that this is about bottom line. Meaning, if the cycle is not conducive to further growth in any one year, we accept it and make sure that our long-term trajectory is front of mind and not a situation one year or the other.

So we accept that growth might not be always within expectations if margins are under threat, which is not the case today. We're growing steadily. We are very successful in the area of financial solutions in Life & Health. We see the growing middle class with emerging needs and the insurance penetration increasing. We see regulatory developments which are triggering interest for nontraditional solutions. The growth outlook is for us, at this stage, in terms of premium in Life & Health at about 11% in P&C. So these are the numbers built in. I believe that with the strengthening of our regional hubs in the region and the recruitment phase we're in, will have what it takes to be successful and outperform in Asia Pacific. So good path and promising development in the region. We'll see a bit more in the Q&A probably and when we discuss the business unit strategies later on today.

The second initiative, which is important to us and is also a long-term endeavor is our efforts to leverage innovation and also digital solutions. We have put in place a number of accelerators within the business units and want to make sure that emerging ideas are consistently leveraged, that we develop new solutions with our partners. We feel whereas this is not, from an EBIT production standpoint, very, very prominent today we are convinced that in a few years, this will be a material part of what we do.

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Two main themes we want to focus on. The first is digital health data. We feel in the health sector, there is a real revolution taking place. There's a potential for strengthening of partnerships with our clients looking into health data and making sure that we contribute to an improved connection with our clients, increase profitability, but also positive contribution to healthcare by creating more awareness among policyholders. An example of what we're doing is VeoSense collaboration in the area of wearables, which is a very interesting opportunity for us to make steady progress in the digital health space. So more to come, still in the making, but we're quite confident that this will be an important part of what we do and data analytics being one of the key skills we need to combine with our underwriting abilities.

The second theme is related to direct digital distribution. Of course many of our traditional clients are looking for an entry into the direct space, digital solutions, products and new entrants are coming into the insurance space, fintech companies with original and distinctive strategies. What we're trying to do in that space, again in a pure play of reinsurance positioning, we want to partner with these different clients and potential clients and provide a new value proposition through the digital channel. We see a lot of promising opportunities. One example mentioned here is Parametrix, a cloud insurance scheme, which we developed with Element in Germany, the insurance provider. This is a good example of something which we can develop in partnerships, providing a lot of knowledge in pricing, structuring, product development and modeling, of course as a key asset to the contribution to this partnership.

So here is an area which is of long-term strategic importance. It's not going to move the needle in terms of pure EBIT contribution in the short term, but I think there is a lot of potential opportunities coming up. Scalability is the goal, and I hope in a few years, I'll be able to provide examples with scale in the sense of creating new partnerships for innovation. Client excellence is the other initiatives we're pursuing. If you look at the feedback from clients, from brokers, you might conclude that we don't need to push too much on this because we received extremely positive feedback because exactly of this partnership approach we're showing. But at the same time, we're growing steadily. Our clients are growing. Some of them are consolidating and more demanding, sometimes more complex to handle.

And we are of the view that we need to prepare for future growth. One aspect is to ensure a very strong key account management when it comes to the international clients, the larger clients and be one voice to our customers, orchestrate the relationship. And another priority is to improve on our customer relationship management. We have a new platform for collaboration across the teams, and we want to enrich the client discussion. So short term, of course we see a lot of inbuilt growth in the traditional business. It's not a growth challenge, but it's about preparing for future growth. So I think that strengthening of our client interactions and approach to client relationships will bear some fruit in the midterm. It's an investment which is necessary to continue growth beyond this strategy cycle.

As an example, and I won't comment in depth on this, you see the latest feedback. We gathered the NMG global studies, a survey which is done worldwide in Life & Health and in P&C. Of course we look into the feedback in detail. You see the brand associations like

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partnership, innovation, flexibility, supportive, the consistency, the reliability, which are attributes we like to hear. This is what we hear from our clients. We are very much number one in a number of indicators in the capability index. These are, to a great extent, the attributes we want to see to secure further growth. The broker community puts us in a number one position in P&C. So this is very good to see. So a strong platform for customer loyalty and something we want to continue to nurture going forward. So client-centricity, client excellence as a long-term endeavor, building on what is essentially a strength of the Hannover Re model.

Last but not least, talent management. I commented already last year on it. The number of activities are not totally surprising, but it is important in the context of our growth story. We've been growing steadily. We need to hire new people. The APAC initiative, in particular, shows the need to grow regionally. It's important that we foster a strong culture as we grow that we integrate our new hires, make sure that our culture is alive and that our new talent create added value, but also longevity in the company. You know that a number of our underwriters are very experienced, have a long tenure, a lot of loyalty with the company. Succession planning is certainly one of the topics we want to strengthen over time. There will be a number of key roles to replace in the next few years. So we're putting a lot of emphasis on personal development, on leadership development. creating opportunities to be a bit more mobile and allowing also our younger talents to broaden their profiles. So a lot of activities around talent management, talent development in a growing organization and certainly the goal to continue to foster a very strong culture and make sure the Hannover Re way is -- continues to be alive.

So let me end up with the last topic on our strategy map, which is ESG. We are of the view that there is a lot on our plate, but we also did a lot in the past few years, and I want to comment on this. Of course it has gained unprecedented global awareness in the last few years. I think the Covid pandemic, to some extent, has indirectly highlighted the need to do more with respect to climate change in particular. There are a lot of initiatives. There's a lot of activity going on.

The COP26 conference is going to take place in Glasgow. We decided to really make an effort to not only continue on our path and be diligent in that space, but also be a bit more vocal and say more about our priorities. We want to increase the dialogue. We want to increase transparency. We want ESG to be well anchored into our corporate strategy. So climate change is a key topic, first, of course in the contribution to mitigation strategies. But also in the area of climate change adaptation, I think there's a lot of things we need to do to adapt to climate change, to prevent natural disasters to be too destructive and so on and so forth. So a priority for us. You might have seen our sustainability report giving you an overview on where we stand with this alliance, which is very beneficial to our strategy as well. And hopefully, we'll set some standards for the industry going forward.

So these are our commitments. I won't go into the details, but I think this is for your background and our sustainability report is also giving you a lot of information on our target, on the priorities. I think in asset management, we have an opportunity to improve quite steadily in the next few years. It's about asset selection, but we also feel we can do more in new technologies, in renewable energy, in infrastructure. In underwriting, a lot of

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progress made. In our facultative operation, as I mentioned, we decided to progressively exit the thermal coal segment in facultative. We're also shying away from the most extractive projects, particularly oil sands, and are very diligent in improving our track record in underwriting.

The next stage will be treaty. It is, of course a bit of more of a challenge for us because the level of granularity of data is not as significant, and this is why we want to work with our peers in order to make progress there. In our own business operations, we're carbon-neutral in Hanover. It has been the case for a number of years. This is, of course a combination of carbon offset. But we also hope to focus on being more efficient, travel whenever we can use options which are more sustainable. We want to globalize this in the next few years. And by 2030, we want to be a net zero organization across the globe. So a lot to do there, but I think worthwhile targets to set ourselves and clearly with climate change, the topic of our generation.

You see that we have strengthened our approach and visibility. This is reflected in some of the specialized ratings. We've been progressing very steadily with ESG ratings. You see a few mentioned here and want to continue to progress. We're also very pleased to see that our company is listed in some of the specialized ESG listings. The DAX 50 ESG index, in particular, is an important one. So we want to continue on our path. I hope in the coming years that we'll have more examples of such specialized listings or ratings improvement on ESG. But it's a good indicator, which reflects the progress made by our company.

So I conclude on ESG. I want to look into the outlook for 2022. The target matrix, which you see here, is unchanged. We feel that in spite of the continuing challenges, Covid, of course continuing to be a highly relevant point for 2021. NatCat activities, we feel that our 3-year target matrix is robust and feel there's no need to revise it. So this is our platform, our indicator for future success, and we'll be guided by these metrics going forward. That's the strategy cycle '21, '23.

And apart from that, what we want to do is continue to emphasize the importance of our dividend story. We changed the emphasis. We want to discontinue the payout ratio, which we've used in the past and move to a new definition of our target for the ordinary dividend. And from now on, our goal is to at least secure the same level of ordinary dividend as compared to the previous year. So you know that our last dividend has been at 4 50 and this is our base for future payment.

The special dividend, however stays as an option, which is related to our performance in the year, our capital requirements and our capital needs for further growth. So we didn't change the messaging here. But of course -- and as soon as we can, depending on the performance, we are of the view that we should offer a special dividend. But the emphasis, the message is on dividend continuity and a strong signal that we want to at least match the ordinary dividend performance we've shown in the previous year going forward.

So key takeaways for this initial part. I think first of all, we have very good growth outlook. We see many opportunities, but we want to support this growth through initiatives, which

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give us some structure and longevity around growth, so Asia Pacific innovation, (inaudible) client excellence, talent management, really building on our success story, but also giving us the toolkit, the structure, the basis for sustainable growth. We're well on track in this initial year. This is good news. ESG is an area where we're working very hard. We're making progress across our operations and see the steady improvements in our ratings as an indicator of success. But we'll continue to work on this based on our guidance for net zero, our targets for net zero going forward.

And lastly, the capital management side remains key to success. We want to convey the message of dividend continuity, and therefore, emphasize the stability and improvement of our ordinary dividend going forward. So I close with these key takeaways, and we have 25 minutes approximately for Q&A. My colleagues will join me now, Clemens, Sven and Claude, for any questions you might have on this first section. Thank you very much.

Questions And Answers

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you, Jean-Jacques, for your lively presentation. I'm sure that has already stimulated a lot of interest. Therefore, we are going straight into the Q&A session. (Operator Instructions) For the Q&A session, I'd like to invite all Board members giving presentations today to take the stage.

First, I'm pleased to welcome Sven Althoff, our coordinator for the P&C business and with responsibility for the U.S., U.K., Ireland, London market and some specialty markets like marine, aviation, credit surety and, of course facultative business. I'm also happy to welcome Claude Chevre. Claude's responsibility on the Life & Health side covers longevity business and most regional markets except for the Anglo-Saxon markets. I'm also pleased to welcome Clemens Jungsthofel, our CFO, whose scope of responsibility includes, among other things, IT investments and finance and accounting.

So I think we are set to take your questions. I already see a number of raised hands, and we start with Andrew Ritchie from Autonomous. So Andrew, can you hear us? We cannot hear your question.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Sorry, I think your operator is being quite unhelpful just in terms of interfering with muting and unmuting. A couple of questions. I'm not sure, when I add together the various initiatives that have been outlined, I'm not -- you talked about incremental EBIT adding up to about EUR 300 million by 2023. I'm not sure how I view it as incremental because -- or to what degree is business as usual, and you're just unpacking what would otherwise be business as usual. I mean if I add it together, it implies about a 6% growth in EBIT from those initiatives on average over three years. Is that on top of normal organic growth? Or just help us understand what's going truly incremental, I guess is the question.

On the capital management, I'm still a bit confused why change the messaging now? Or are you not really changing the messaging? This is simply a formality of what we've always

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seen, which is a fair degree of continuity in the ordinary dividend and specials from time to time. I can't judge to what degree is really a change of message or not.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Well thank you, Andrew. On your first question, I think when we discussed the different areas of focus for the next few years, we felt they would need to be associated with additional resources, and we wanted to have a clear price tag on these resources and the return expectations. Some of it -- and it will be very difficult to really measure in practice what comes out of our core business, what is the result of initiatives. But based on the initial planning we had at the time, we felt we should put an additional EBIT contribution. Some of it will translate into incremental growth. Some of it will be an expansion of our business with clients. Some of it will be in nontraditional business. But it's not on top of what we've presented today and will be a bit of a blend going forward. This was more of an ambition we wanted to set to the teams and this added to our planning for the next three years. So it's not on top of what you've seen so far.

On the capital message, my colleague might complement. But we wanted, indeed, as you said, to make more explicit what has been implicit in the past few years. That message is not a change of direction. This is more of an explicit emphasis, which we want to convey to the market. So no big revolution I'm aware, but I think making sure that the emphasis is explicitly communicated to the market.

A - Karl Steinle {BIO 1986424 <GO>}

I think or I hope, Andrew, that answers your question. So we continue with Will Hardcastle with the next question.

Q - William Fraser Hardcastle {BIO 16346311 <GO>}

It's a quick one on retro really. I think it does fit in here just thinking about the capital management structure. It's been a key differential versus peers in respect of volatility. It's clear in P&C. It could be coming apparent in Life & Health as well those kinds of things. So it makes the question as to what prevents peers from replicating this approach? Do you think it's cultural or is it a structural decision? And given you've drawn down a bit on retro in recent years, is it possible, do you think to expect price change at upcoming renewals on your retro to be better than the market price change like it's been recently given your long-standing relationships?

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you, Will. So I'll give the question to Sven, who is very much into our retro approach.

A - Sven Althoff {BIO 19104724 <GO>}

Thanks for the question. As you know, we have a long-term approach to buying retro. To your question, why is that not easily replicated? I think it can be replicated, but it's a question of how much appetite for volatility do you have from, particularly, your NatCat writings. And here, our appetite seems to be lower compared to the average peer. And hence, we have continued building on the capacity we are buying on the retrocessional

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side. You know that we are very diversified by having various instruments of retro. So we are, therefore, also flexible to structure our protection according to our needs for future years. Whether we have to expect price increases at the renewal over and above what we can achieve in the reinsurance market ourselves, it's a little too early to say. I mean you will not be surprised that on, at least some of the losses, our retro program is working again this year. So we certainly have to expect increases in prices and/or adjustments and structure. But whether this will be over and above or in line or below what we can achieve in the market ourselves, it's too early to tell. I would expect it to be in line again.

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you Will for your question. So the next question is from Vinit Mahotra from Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Can you hear me?

A - Karl Steinle {BIO 1986424 <GO>}

Yes. We can hear you.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So my question links more to -- I mean yesterday there was this -- two days ago, there was this ESG press release where you commented that on the investment management side, there'll be a 30% reduction in carbon exposure by 2025. Now usually, the ESG targets tend to have a profile further out that we don't know I mean you don't have to care lightweight. But this one would be something that brings more action from your side. So I'm just wondering whether there is whether some kind of market you're flagging because you'll be selling the lot? Or how do you think the actual practical application of this could mean? Then I have one question from the CFO. There will be Q&A session afterwards, so I can (inaudible)

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you, Vinit. I give the floor to Clemens on investment management.

A - Clemens Jungsthofel {BIO 22251357 <GO>}

Yes. Thank you for the question, Vinit. I will be covering some of that later in my session as well. But just briefly, on ESG and Investment Management. As you mentioned, we've sort of raised the bar, on the one hand, formulating a target for reduction of carbon-intense investments. We've raised about to 30% by 2025. So we've increased our ambition early in the year there. That was part of our sustainability strategy. That will cover roughly 39% of our portfolio. It's mainly addressed to corporate bonds and equity positions. So we will be actively screening those and we'll be reallocating some parts of that. On top of that, that was what we communicated yesterday we have set a net zero target by 2050 in that area.

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A - Karl Steinle {BIO 1986424 <GO>}

Well thank you, Vinit. Of course you can ask further questions in later sessions as well. The next question is from Iain Pearce.

A - Sven Althoff {BIO 19104724 <GO>}

I had three questions, if that's okay. The first one was just on Covid-related losses. You mentioned that you have a decent proportion of losses related to sort of liability claims, longer-term claims. Have you've seen anything there developing yet? Is there anything worth dragging? And also, with the high level of IBNR you still have on the business interruption claims and as these get notified and you start coming against the retro, is there a chance that we actually see cover losses going down going forward and reserve releases in relation to those?

My second question was on ESG. We've had some peers talking about growth opportunities related to ESG, particularly on the underwriting side. I think if you could provide some thoughts there, sort of where you might see growth opportunities related to ESG, that would be quite interesting.

Then on the dividend, just thinking related to this change in dividend policy. Obviously you had quite a big jump in the ordinary last year. How we should think about the ordinary dividend trajectory going forward and what that should be linked to in terms of growth of the ordinary?

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you. So Sven, maybe I'll invite you to comment on the first two questions and Clemens on the dividend.

A - Sven Althoff {BIO 19104724 <GO>}

Yes. Very happy to do so. So on the Covid side, you're right that a fair number of our IBNRs are on liabilities and other long-tail exposures like credit and surety. We are comfortable with our reserve position right now. We have not seen a lot of movement in Q2, nor will we see a lot of movement in Q3. So we start in certain parts of the reserve. We start recognizing some first prudency in our numbers. But it's still very early days when it comes to exposures like credit and surety. You know that we have more than EUR 200 million of our reserve coming from those lines of business. Yes. We have not seen the level of insolvencies rising in the last 18 months. But that, of course was heavily supported by government support for either the economies or for the credit insurance industry. As those are phasing out, we have to expect insolvency levels getting back to normal or above normal. So what we are comfortable with the reserve position, we would feel it's too early to start releasing some of that. So from that point of view, you can expect that, that number should stay stable throughout 2021.

Your second question was on growth opportunities on the ESG side, and there are plenty, but maybe I'll give you two examples of where we see growth opportunities. First is in the sector of renewable energy. So wind, solar and other means of alternative energy

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generation, where, of course you need insurance for operating those wind farms or solar parks. So that's an area of new business opportunities.

And the second example I can give is the phenomenal amount of investment that is necessary to get into the -- in line with the goals of the Paris Agreement or the EU Green deal. We are talking very, very large numbers of investments that are required in order to transform the entire industry to be carbon neutral. And all of that activity, of course needs insurance during the construction phase and then in the operating phase. So this should definitely be a significant source of government and commercial investment and hence, insurance opportunities.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you, Clemens?

A - Clemens Jungsthofel {BIO 22251357 <GO>}

On the dividend, I think it's been said earlier, I think when you look at how a dividend policy was sort of phrased was very much linked to a payout ratio when we look at the ordinary. Then we, of course had a special dividend sort of as an option in terms of capital management. The reason why we really wanted to strengthen the message here is that when you look into the past, how we've been doing about dividends is really -- was rather that commitment to steady and growing dividends. This is what we really wanted to reassure the market. We have raised the bar a bit here. So the five 50 that Jean-Jacques mentioned earlier is sort of the starting point for us. Of course we are committed and wanted to state that, of course to grow that base with our EBIT.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Thank you very much, Iain, for your questions. The next one is coming from Thomas Fossard from HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Hope you can hear me well. I had a question related to your NatCat writing. Can you remind us what's your appetite? How much allocated capital is currently to write NatCats, how you intend to grow this into 2022 and maybe be a bit more specific by regions? I think that in the past, you say that actually for U.S. CAT probably wind, you were already maxed out. But just wanted to understand if potential price increase, with potential price increase on the horizon, this may change your risk appetite and how you will allocate potentially more capital to this line of business? And maybe I fully understand that you're presenting and leaving unchanged your 2021, 2023 targets in terms of growth expectations, plus 5%. But it seems to be that the sector is heading into a kind of a quite nice cyclical upturn. So I wanted to better understand how you wanted to take benefit of the (inaudible) turn? And potentially, if you could be a bit more specific and precise on what you're expecting in terms of growth rate on the P&C market for next year?

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you, Thomas. Sven, maybe I'll invite you NatCat.

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A - Sven Althoff {BIO 19104724 <GO>}

Thank you, Thomas. On your letter question, I would ask for your patience. I will cover our midterm outlook on the P&C side when it comes to premium growth in my presentation. So hopefully, that will give you a good idea where we are. -- But of course also happy to take a further Q&A after my presentation if you should have any questions.

When it comes to the NatCat risk appetite, our risk appetite has been very stable the last five years, I would say. We have grown our NatCat writings proportionate to the growth of our economic capital. But the percentage of economic capital we are using for NatCat writing itself has been stable. We, you're right, have certain areas, and particularly U.S. wind exposed business, where we have deemphasized our growth. So 2021 is the third year in a row where we are growing our U.S. wind aggregates much less than proportionate to the overall growth of our NatCat risk appetite. The reason is diversification. U.S. wind for us and for the entire industry, of course is the peak peril, and that is also showing through in our portfolio. But we decided three years ago that we want to close the gap between U.S. wind and the other peak perils we are looking yet. In order to do -- come to that result, we decided to lessen proportionately grow in U.S. wind. That will remain unchanged going into next year.

Yes. You're right. We feel that we are in a good pricing environment and that good pricing environment should continue into 2022. But we are not expecting a pricing environment that would make us fundamentally change our risk appetite on the NatCat side.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you, Sven. Clemens, maybe I invite you to briefly comment on the target matrix.

A - Clemens Jungsthofel {BIO 22251357 <GO>}

Yes. On the growth, Thomas, I think it's -- you have to read it as an ambition over the cycle. That's how we looked at the target metrics in terms of P&C growth. I think the overall growth with the 5% is probably a bit more allocated to P&C. I guess it's a balanced message there. The first one being we do see opportunities in the market over the cycle, and we want to take advantage of those. But at the same time, we wanted to convey the measures that we are not really chasing top line. So we are -- we don't want to sacrifice bottom line in terms of really chasing top line in the upcoming renewals. However you've seen that our growth has been in excess of what we've put in the target matrix. So we will revisit that number for 2022, of course again and will include that in our guidance for 2022 as well.

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you, Thomas, for your question. It looks like we have no further requests for questions. Therefore, move on with our agenda. So thank you for your excellent questions, and thank you for taking the stage for answering the questions.

We are not at the next coffee break, but I'm sure you're desperate for a coffee break. But as some of you have doubtlessly learned in economics, foregoing consumption, as long as you have saved it instead is, or should I say used to be rewarded with interest. This

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brings us straight to the next topic. Our CFO, Clemens Jungsthofel will give an update on the investment portfolio and the future income it can be expected to generate. He will also talk about inflation and in particular, how we protect ourselves in multiple ways and not only on the investment side. I'm sure you will find this thrillingly interesting. But just as a housekeeping remark, information about our reserving position has already been published with our Q2 numbers. Therefore, it is not part of this part of this section. On that note, I'd like to welcome Clemens on stage. Clemens, it's your turn.

(presentation)

A - Clemens Jungsthofel {BIO 22251357 <GO>}

Yes. Thank you, Karl. So -- thrilling, you said, Karl. I'm still wondering really what got into me to put inflation on the agenda today. I think it must have been your team. You probably talked me into this for good reasons though, I have to say because inflation is really something that is in literally in every second headline at the moment in the newspapers. So it's all over the place. And at the same time, interestingly, it's a bit of an elephant in the room topic inflation when we talk about our and industry how the reinsurance industry is affected. So I think it's really worthwhile to spend some time on that topic.

But let's start with investments and how we are doing there. So I think it's fair to say on the investment side that our portfolio has fared quite well over the pandemic. It has produced very stable returns. I think it has shown strong resilience over the last year, and it has also produced very strong and attractive returns in 2021 so far. So overall, I think we're doing quite well there. That is the despite fact that we are in a market that I would still call quite challenging.

So you know this slide already. It's familiar to you. It shows sort of the locked-in yields in our fixed income portfolio. That's the light blue bars and the dotted line that you see here. You know that from previous presentations. Our reinvestment yield, that represents the green bar and the dotted line as per currency.

So you can see that our locked-in yield at the moment stands at 2.21%. So if you remember the slide from last year, that came further down from 2.35%. I think we've managed to smooth that a bit that drop. I would have expected a bit sharper drop given the situation last year and early this year. But I think we've managed to smooth that a bit. Then the reinvestment yield, you can see, has decreased further from 1.45%. In 2019, we were standing at 1.57% to what is now 1.38%.

So reinvestment remains challenging for some time. The question is how do we position ourselves in the market? And Karl mentioned it, so we have slightly adjusted our strategy, our investment strategy early in the year. So those are the three pillars of our investment strategy that you see here. So it's the credit portfolio, on the one hand side, the real assets and ESG as a third becoming more pronounced pillar.

What changed from last year basically in our strategy? I think the first one is -- and you remember that in 2020, we had rather take a passive derisking approach, particularly on the side credit. So a bit more risk detached there on the credit side. We see that credits

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have come to more expensive levels now with monetary politics, et cetera, pushing down threats, so it's not an easy exercise. But what you see here, we have reallocated some govies into BBB and high-yield corporate bonds. The focus there is on large and small corporates in developed markets. So it's really about finding the buckets that still provide attractive risk returns there.

On the CLO spectrum, I think that still provides some room for opportunities. It still offers good spread returns there, but we really have to look into it, particularly to look at capital costs there as well as very important when it comes to risk reward. So we reloaded some 2A into our BBB bucket investments on the CLO side.

Emerging markets, as you can see here, we do have a substantial portfolio in emerging markets. There are still market opportunities in the emerging market space. Still, rather developed markets are very expensive. So same here, it's a rather opportunistic approach there.

So I think that counts for the overall credits at the moment. So it's not easy to find a sweet spot there. It's not easy to find opportunities here. I think you really have to go the extra mile on the credit side here to find the sweet spots, to find opportunities there, or as one of our investment managers recently said, it really feels like squeezing the last drop out of a lemon. I think that describes it very well. But I think we've done -- during 2021, we've done a quite good job here on the credit side and have positioned ourselves.

Then of course our real assets. The private equity portfolio there, as you know, it's a very established asset class within our portfolio. It's roughly EUR 1.3 billion at the moment with commitments, outstanding commitment on top of that. It's highly diversified. It has been a very stable contributor even in 2020, a very stable contributor to our earnings and has proven to be resilient in difficult times. We've reported that in the first and in the Second Quarter, that it has been an uptick in terms of distributions from our private equity portfolio. So that is very pleasing to see.

On the real estate side, it's roughly EUR 2.3 billion that we have there on the real estate side, both direct and indirect funds, strong focus on the U.S., on Europe and then we've got a substantial portfolio both in Asia and in Germany as well, roughly 45% to 50% office space there, 15% to 20% logistics and retail, et cetera.

So I think on the fund side, we have a steady contribution to our real estate funds. On the direct side, same here, you have to be really looking into opportunities in the market. You have to be very disciplined. It's partly, in some regions, a very competitive market. So we are very mindful of pricing there. So we are rather taking an opportunistic approach both when it comes to a new investment, but also to disposals. But I'll come to that in a minute. I think we've managed to keep that very stable as well.

On the infrastructure side, at the moment, roughly EUR 400 million to EUR 500 million there, includes equity and also debt positions there. It's a focus at the moment, mainly on the U.S., but we want to enhance that and distribute that to other areas as well. We are looking steadily for opportunities there, part of our ESG strategy as well.

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So how are we doing on all this? You can see the familiar table here with our asset allocation. So you can see when you look at the at the bottom line that our asset base, when you recall the number from last year has increased over the last 12 months by roughly EUR 4 billion. So I think it's fair to say that the speed and the strong operating cash flows that our underwriting colleagues were producing over the last 12 months has been challenging for us on the investment side really to find spots there to invest that. But I think again on the credit side, we've done quite well. The most notable change here you can see in the reallocation of the government bonds to more corporate bonds here. But we've also managed to grow our real assets, as you can see here, with the portfolio and the equities as well. So I think that's -- the team has done a good job here.

On the right-hand side, the contributions. You know this table as well. You can see that particularly on the private equity side, as mentioned earlier, which represents roughly 3% of our overall portfolio, but contributes 16% to our ordinary as per June 2021. So again very pleasing and very steady contributions there, and I see that for the rest of the year as well.

So how does our corporate bond portfolio look like? We've grown it quite steadily, as you can see here. Substantially, as part of our strategy, we've increased the BBB rating investments here, as you can see, the positions. Overall, the quality of the portfolio is still very, very strong. Our fixed income portfolio was 94% of our fixed income investments carrying an investment grade.

Quick glance on the alternative investments. As mentioned earlier, it's a constantly growing asset class. We slightly increased our targets here on the real assets that you can see here on the left-hand side. Again private equity, as you can see here, on the IRRs has been a strong earnings contributor. And even when you look back over the last 15, 20 years in our portfolio, has always been a very stable contributor. So we will be keeping and actually building on that class going forward as well.

Real estate, again stable contributor as well. It wasn't easy, as mentioned earlier, to keep that level of investment here because we've done some opportunistic sales. We had some very good market opportunities. So we took chance and disposed some of our real estates. We're able to replace that in terms of -- return is very stable as well, very much in line with expectations. We do watch the areas where we had potential Covid impact. I mentioned earlier, that roughly 45% to 50% is office space. But there, I think it's all around how flexible you are in terms of office space. We have seen very rarely issues with that. I think overall, the office space is very flexible. We do see customers, renters there to ask for rebuilding in terms of new work, et cetera. So it's not about really decreasing space at the moment, it's rather using it in a different way. That's what we see in our portfolio. But we watch that very closely.

Again on infrastructure, constantly growing portfolio with debt and equity positions there. On ESG, as announced yesterday and briefly touched base on it in the Q&A, it's actually -- and you might think that as we have become probably a bit more vocal on ESG in asset management. I did look it up when I was preparing for the session. We actually started the ESG journey quite early actually, 10 years ago on the investment side with some exclusions already in 2011. We've actually formulated an ESG strategy on the investment side already

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in 2012. So the journey started early. At the heart of our client strategy on the investment side is the decarbonization of our investment. Again the first target, 30% reduction in carbon intensity of the asset classes, so corporate bonds, covered bonds and equities. So starting point from that is 2019. We will be reducing by 30% -- to 30% by 2025. Then, of course the attainment of climate neutrality in this area, as mentioned, by 2050. The goal will accomplish by active portfolio management. Again that asset class is roughly 39%, 40% at the moment. Another step forward is the increased emphasis on sustainable investments that sort of counteract climate change, such as infrastructure investments and impact invest funds.

So let's spend some time on inflation. As mentioned earlier, it's a topic that is literally in every second headline. I do promise that I will not even make an attempt to try to predict the unpredictable. So I will not talk about inflation itself. I would only share my thoughts on how this might or might not impact Hannover Re. What are the implications on inflation? Just briefly here, you can see the areas that can potentially be impacted by inflation -- It's the obvious one, of course on the pricing side and on the reserving side. But also when we define our large loss budget for the year, we incorporate or we take account of inflation there as well, of course. Then on the investment side, both in terms of hedging, but also in terms of how we invest real assets is certainly one topic. Then, of course admin costs, et cetera, and the obvious ones as well, we can be affected by inflation there as well.

On the pricing side, I think first of all, it's really important to state that when we talk about general inflation that the drivers for claims inflation, so how that can affect our business, how it can affect that our underwriting, that the drivers are very different from what we see in the headlines. For example, U.S. CPI as an inflation index for the U.S., so those drivers behind that are very different. If we were to sort of form in Hannover Re-specific inflation index, that would be a blend across regions, across currencies. Then, of course we would have to distinguish between certain lines of business and the drivers, what drives inflation in our LOBs. That is, for example, drivers would be wages and salaries in our casualty lines of business, in our long-tail casualty LOBs, then rebuilding costs of course in property, including NatCat and then medical expenses, for example, in the Life & Health space.

So what are we doing about it? On the underwriting side, the obvious one, of course is repricing as part of our regular annual renewal in the short-term business. So the best estimate inflation assumptions are annually adjusted here on the underwriting side. We incorporate historical experience, of course inflation in those assumptions, but also would add some loadings and will add future outlooks into our pricing considerations there as well. For 2021, we already raised slightly our assumptions here on inflation on top of what we've seen in the past because you could see some dynamics, of course early in the year already in terms of inflation. But we will be revisiting and see if there are any future trends, of course when we do adjustments for 2022. So those are under review at the moment as part of our regular renewal cycle here. Of course given the shortage of material, et cetera, all what we see in the headlines, what we see in the indices, et cetera, will be taken into account.

What are other mitigating facts here other than repricing? I think it's important to note that on top of that, we have index clauses in large parts of our portfolio, particularly in our portfolio outside the U.S., where it's not very common. But particularly in Europe, it's very common that you have index clauses. Then we have sliding scales and profit commissions in many of our P&C reinsurance contracts as well.

So on the pricing side, as you can see, I think it's sort of a basket of mitigating factors here that mitigate that exposure. How does that look on the reserving side? First of all, reserving is, of course very much based on with the actual methods that we use, very much based on historical data. So anything that we would have seen in the past in terms of inflation is explicitly or implicitly actually in the triangles that we use for actual calculations going forward. So as long as inflation doesn't really change significantly, average inflation would be -- would already be included in our reserves. I guess historically, should be around 2% to 3% that we see as implicit inflation anyways. Then, of course we consider when we do our actuary work at year-end, we always look at loadings for deviations of what we've seen in the past in our triangles.

Another element is, of course the prudency in our reserving. You know that -- and we've published our studies there. You know that we are carrying a substantial amount of buffers in our reserves. Some of that the result, of course that particularly in the first underwriting years, we set our ULRs above our pricing expectations. So that adds some prudency there. Then, of course when you look at historic events, et cetera, I think it's fair to say that within the last 20, 30 years, we haven't really observed significant impact of changes in inflation on our technical provisions. So I think overall, I think the conservative reserve buffers do add some comfort here. And also, I think when you look at our large loss budgeting, we have been rather on the conservative side over the last 10 years. Of course we have exceeded the large loss budget in the last five years. But when you really look at long term, I think we've been rather on the conservative side here. So that adds some buffer here as well.

On the hedging. So you do know our inflation-linked bonds. We've been reporting those. So this is -- it's part of our, let's say inflation hedging program. We do have other programs in place where we have hedging strategies in some jurisdictions, in some currencies. But this is really sort of a substantial amount of inflation-linked bonds. What is inflationary bond? Just briefly. It's basically a nominal bond where you have embedded an inflation swap, which is linked to a consumer basket like CPI, et cetera, that we heard earlier for each country. The portfolio is, at the moment, we slightly increased it in the First Quarter. It stands at roughly EUR 5 billion. The duration is mainly sitting at six years and nine years. You can see the exposure on the left-hand side. It's mainly euro and U.S. dollar.

So the -- when you look at the swap, how is the mechanic of the swaps? You have the fixed (inaudible) that represents the expected inflation at purchase date and that is what you can see on the left-hand side, so the average hedge inflation levels. Then you've got the floating lag, that's the realized inflation until maturity of the inflation-linked bond, and that's an exercise to do on a yearly basis. You see -- you compare sort of the fixed and the floating lag. The accounting mechanics is that difference. So the actual inflation is part of the amortization of the yearly amortization that comes with a time lag of two months

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roughly. You will have seen that in our first and Second Quarter reporting that, that has contributed already to our investment income. So that is how the mechanics are.

The swap doesn't happen. That's the reason why we structured it this way. The swap doesn't have to be bifurcated under IFRS. So it's really a part of the market value change that you do not see in the P&L, but in OCI in terms of volatility. It's -- again it's a bit easier to handle.

So is it ideal? We've put down some sensitivities here. You can see that a change in inflation of roughly 100 basis points would increase the market value of our inflation-linked bonds to roughly EUR 470 million. When you look at our liability at our technical provisions, of course that's not 100% coverage. That is clear. It would probably roughly at the moment, stand at around 20% coverage of our liabilities. So if you do the same exercise on our technical provisions, that would be probably bring in a sensitivity of around 4% in our technical provisions roughly at the moment. So I think it's a proxy. It's not perfect, of course because we do not hedge non-CPI, as mentioned earlier. There are different drivers in our portfolio, of course. We have other mitigating factors here. So it's really part of the overall inflation hedge strategy and adds another mitigating factor to it and works quite well, of course at the moment.

So key takeaways. I think on the investments it's fair to say it's a highly diversified portfolio. It's very, very resilient. We've adjusted our strategy slightly to, again to squeeze out that a little bit out of the lemon to go the extra mile. It's really hard work there. I think this is really where you have the advantage, you have to go the extra mile to find some opportunities in the market and to smoothen out that drop in our book yield. I think we are doing quite a good job there. I'm quite optimistic that we managed to smooth that out quite well.

Our ordinary income, that's very pleasing. And also when you look historically, I think if the portfolio has been very reliable in terms of producing ordinary income. Overall, I think the low interest rate environment, of course is challenging, but we will manage it. On the inflation risk side, again I think it's over -- it's a mixed basket of certain mitigating factors. Inflation drivers are monitored. We are monitoring them very closely. I think we have some tools there how we can mitigate it. Our conservative reserving approach, of course does help and really provide some comfort here and some buffer. The inflation linked bonds contribute to that. Our real assets, hence, our private equity or real estate portfolio that we are rebuilding are also mitigating those effects. So I think it's inflation. Yes. In every second headline, it is on the radar, but I think for us, very, very manageable. So I close here and will then, Karl, go straight into the Q&A session, I guess.

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you, Clemens, for your distinguished presentation. You're right. We are diving straight into the Q&A session, and we already have a number of raised hands. So we start with Henry Heathfield and continue with Vinit Malhotra.

Q - Henry Heathfield {BIO 19760919 <GO>}

Can you hear me?

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A - Karl Steinle {BIO 1986424 <GO>}

Yes. We can hear you.

Q - Henry Heathfield {BIO 19760919 <GO>}

I'm sorry. I didn't quite manage to get in on the previous Q&A. So I would like to start before we go too far down the rest of the Investor Day. On the key account management, you mentioned your EUR 100 million benefit in terms of EBIT by 2023. Essentially, client relationships being pretty important in insurance to me. So I was wondering if you could just briefly talk me through what kind of touch points you have on the clients, whether there are underwriters and client relationship managers? Then also, do you always go through brokers in the renewal process? And is there any chance of reducing commission where you continue to renew the same book over a period of time, basically. Does that change in P&C versus like health? And are there any particular lines of business where you might end up not having to pay commissions to grow this and then sort of finally, in that whole kind of topic, what really are the advantages of renewing through brokers as far as having a . Do you see a day where you need brokers less basically? Just kind of get a brief question on inflation. What kind of rate of inflation are used for reserving? I think if you give me some specifics? Then how often are the reserve reviews and adjusted in terms of these rates? Then when there is an adjustment versus historical? When there's adjustment takes place, how does that flow through the income statement? If you could just run me through that. So I don't know to some basic questions, appreciate any .

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well thank you, Henry, and I apologize for the difficulties you had to dial into that session earlier. So we start with the first question. Therefore, we have on stage again about the questions regarding the initiative.

A - Unidentified Speaker

Yes. We touched upon it in the previous session. Generally, the client excellence initiative is built on what we've done so far, but we have growing relationships with many clients. We have, of course also a need for collaboration within the organization. That's a bit the starting point. We feel this is an area of strength. But at the same time, with that continuous growth with some of our partners, we've had was the time to structure a little bit more to have a platform for CRM client relationship management. And for the great the larger clients to organize ourselves around key account management. This is in place. This is not an organizational change. This is more leveraging the virtual structure of the company and to secure longer-term growth. The benefit, and this is the idea behind these EBIT targets, the benefit that we want to increase the share of wallet. This is the major part of the growth story now, broadening client relationships increasing our shares on existing programs we like, but also developing new business ideas and accessing the C-suite more consistently and have more leads in the structured space, in particular. So this is in the context of a continuous improvement rather than a real change.

The broker strategy is unchanged. This is our main origination channel, more than two-thirds of the P&C business is through brokers and we have excellent relationships. We feel that the brokers are not only distributors, originators, but also increasingly bring new ideas. I spoke about the protection gap earlier on this morning. I think the broker community is very good at tapping into new opportunities. And my sense, looking forward to the next few years is that there importance will grow in P&C, and we want to partner with them. So there's no plan or any idea to change gears here. I think we are an organization, which relies on a broker of the broker channel. We have excellent relationship, as I said. So the client excellence initiative is very much in line with that broker positioning. No change expected going forward.

A - Clemens Jungsthofel {BIO 22251357 <GO>}

So on the inflation, Henry, the sort of the average amount, again is included in our reserving process. So if we add another year, the implicit inflation will add to our historical sort of view on the inflation. So implicitly, historically, we have, on average, don't nail me down on that number, but probably roughly 2.5% of implicit historical inflation baked into our reserving anyways. So that will add to our reserve position here. Then we will do an assessment if any loadings are needed to certain lines of business in terms of inflation that we see currently in the market. So that's a yearly exercise when we look close at our reserves, and that's something our external auditor is looking into as well when we do the yearly reserving study. So that's a yearly exercise. On both elements, the inherent sort of the incremental inflation and post loading will form part of our reserves heading for year-end. Of course we'll then flow through the P&L.

A - Karl Steinle {BIO 1986424 <GO>}

So Henry, I hope that has answered your question. But if not, please raise your hand again and we can discuss it even further. The next question is coming from Vinit Malhotra and after that. So we have a question from Andrew Ritchie again.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Can you hear me?

A - Karl Steinle {BIO 1986424 <GO>}

Now I can hear you.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. So first question for Clemens is on Slide 13 and maybe linked to what was just said, but when you say potential loading for year-end '21 under review, presumably for U.S. social inflation and other such topics or even casualty each broadly. What are the risks we are looking at here? Could you help us understand would this be visible in the quarterly results. So is it something that would be part of the whole process and then in the end you won't got to see it. So I just would like to understand what magnitude roughly or what is the risk or any commentary on that? Second question is just on the -- on your opening remark on inflation given you mentioned that if you had a handover specific inflation index, I'm just curious, do you have a handover specific inflation index and how is it doing at the moment? You mentioned 2.5% is in results? Do you think that the recent three, four, five months of inflation data is flowing into your inflation index? And do you see any signs for worry?

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A - Clemens Jungsthofel {BIO 22251357 <GO>}

Yes, Vinit. So on the inflation, I think if we look at, let's say general inflation, we put aside for a moment, social inflation. I think the -- it's part of the regular exercise that we do there in terms of loading. We haven't defined a loading for 2021. will not see anything there in our Third Quarter results. So it will form part of our reserving exercise for the year. So I wouldn't expect a really substantial amount there in terms of really loading on what is in inflation in our reserves already there. But we will revisit that and it will be part of our exercise here. So I don't expect it to be a large magnitude the same counts for social inflation. I think we've covered that last year. So it's yes, it's -- we've seen an uptick there. I think we will see an uptick there in terms of litigations, et cetera, et cetera. You know that when courts come back into and back into place that we do expect to pick up there. But our exposure there is really limited, so we aren't exposed to the large accounts there. So I think on social inflation, I'm not too worried for our exposure as well that will form part of our yearly exercise as well. But again nothing really material that we see there at the moment.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. It looks like we only have 1 --

A - Clemens Jungsthofel {BIO 22251357 <GO>}

I think -- Vinit, I think I dropped one of your questions. So the -- yes, I think there was a question on Hannover Re specific inflation index. I would love to have that, to be honest, and our actuals as well but it's very difficult, of course because you really have to track sort of you have to take all currency, all lines of business, all regions, et cetera, you have to track index clauses in your contracts, you have to make assumptions on many areas. So that is a very complicated and very difficult exercise to have an index. So it's nothing that I would call it a specific index. However what we do is that we really look specifically into those baskets and see what we can do there to mitigate inflation there, and that's what I was referring to, I think with repricing, with these index clauses, et cetera, the inflation lingers on top, et cetera, et cetera. So it does overall, and we do sensitivity analysis on a yearly basis, we have an our risk committee. We have in our board when we decide about inflation-linked bonds, et cetera, how we address inflation is very much on our agenda very regularly, but it's rather an overall picture. And again I think overall, we do feel very comfortable with the position that we have there.

A - Karl Steinle {BIO 1986424 <GO>}

So right now, it looks like we only have one question left to answer, and that is from Andrew Ritchie.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Sorry to go back to this topic. I'm just trying to clarify, Clemens, I think there's a risk of people getting confused. When you say our inflation assumption embedded in reserves is 2.5%. I'm always wary of company saying that because that's not your claims cost assumption is that's the back solve CPI number. I mean it just strikes me, there's an awful lot more granularity aside from an overall 2.5%. I don't understand that the messaging here is that looking at current inflation, you're still happy you're talking about maybe adjustments, but you're still happy that we should see normal levels of runoff from your reserves with the inflation environment as we see it today. So I guess that's the first question. I just think I'm skeptical that you can give us this overall CPI number. I'm sure there must be a lot more detail behind it and claims cost is a lot higher, but I just wanted some reassurance on that. The fact that we so still seeing normal levels of runoff as things stand. The other question was you didn't cover the topic, but you are responsible for it, just on IFRS 17, I mean there's only one year left of current IFRS. What's the latest thoughts in terms of impact on financials? Is it significant? Does it help transparency in any way? What's your latest thinking on it?

A - Clemens Jungsthofel {BIO 22251357 <GO>}

Yes. Andy -- Andrew, so on inflation, I think -- thank you for clarifying that or give me the chance to clarify that. So the point that I tried to make is it's when we talk about reserving and inflation on reserving, what people are mainly referring to are often referring to is inflation rates that you put on top of your reserves. But the point that I'm trying to make is that there is also an element of something that is called historical assumptions that just comes out of the techniques, the actual techniques that we use, so there is some incremental inflation already baked into our reserving. That is often forgotten. That's why I wanted to refer to it, so often forgot there is some incremental part in there. Then, of course you have to do the exercise and see what are -- and that's exactly, as you said, Andrew, it's a very detailed exercise.

You cannot just pick CPI, et cetera, you have to go into your lines of business in duration, your currencies, your exposure, et cetera, look at costs duration of your liabilities, et cetera. It was really to get a sense on what is probably overall baked into our reserves. That's on our overall portfolio. But of course when it comes to your reserve setting long tail, that's the approach that we have very detailed look into our exposure into specific loadings. That's what we will do at year-end 2021. Then, of course when it comes to short-term spikes in working -- in labor costs, in lumber costs, et cetera, what we've been talking about when we talk about impacts of hurricane seasons, et cetera, that is something that you have to rate into your initial reserve setting as well when we put up large loss reserves. And again I think we've been it more on a conservative side there when we define our budgets. But of course at the first of January 2021, we didn't know where inflation would go in 2021. But overall, again I think with all these buckets, we do feel comfortable on the reserving position.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

So a normal runoff would still be a fair assumption?

A - Clemens Jungsthofel {BIO 22251357 <GO>}

Yes. I think so that would still be for 2021 a fair assumption. But again Andrew, there will be many factors when we look at our reserves in 2021, and we will be reporting about those. On IFRS 17, yes, we could -- Andrew, I have managed not to mention it, right? So we could talk hours about it. You're perfectly right. Yes. I mean if you ask me, I've spent 20 years with KPMG. I think my first day when I started with KPMG in 1990, there was talk about an accounting standard, a common accounting standards also for the U.S. that would add transparency, and what you work a lot easier. So have we -- has the standard where the

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standard reach that -- it's a difficult question. But I think the attempt is still and the way we have approached this standard. This is not only about accounting standards you know that there's a lot of pain, which goes into that if you do it right, because we don't want to just switch from IFRS 4 to IFRS 17.

So if you do it right, I think there's still the goal, and this is how we look at the standard, we still have the goal to use that really to add transparency to our cash flows worldwide on the P&C, but particularly also on the Life & Health side. So I do believe that with the actual databases that we are building, et cetera, where you have all cash flows to hand that adds transparency internally, both for us in terms of steering but also for you in terms of transparency, particularly on the Life & Health side, I think there is a big step forward in terms of KPIs. It's really trying to look through that lens on our financial statements to really look through -- and that's what I actually do every day Andrew, look through your lens, on our financial statement and see how can we add value with this accounting standard. This is really what we are diligently working on. It's a tough project. I think for everyone in the market, we are currently running another impact study. So we are getting very closer to what I would call a transition balance sheet. Yes. There will be impacts, of course. I don't want to talk too much about it today and we will have separate sessions on those, of course. But again I think I'm very optimistic that that will add transparency and add value also how you look at our financial statements.

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you, Andrew. We have another two more questions. One is from Iain Pearce and then Thomas Fossard.

Q - Iain Pearce {BIO 19522835 <GO>}

Yes. So on inflation, I had a question related to the sort of competitive outlook. Obviously it feels like there's quite a wide range of views on inflation assumptions. So how does that impact the competitive environment in relation to pricing? Are you sort of at risk have been a victim to the sort of least conservative set of assumptions that people are taking very wide inflation assumptions going forward. Then also, in terms of your own thinking in relation to inflation, I mean has the current outlook changed your risk appetite into any particular lines of business? Are you looking to grow or shrink in certain areas because of your views on inflation at the moment? Then just a final one on the sort of shorter-term risks with the sort of losses we've seen in Q3, how are the industry dealing with incorporating labor shortages, supply chain disruption into industry loss estimates and do you think they've been appropriately captured?

A - Clemens Jungsthofel {BIO 22251357 <GO>}

Yes. Iain, happy to answer those questions. So if we start with the market environment, et cetera. Of course on the pricing side, this is very much of getting your price right and incorporate inflation assumptions into your pricing, of course you have to do it line by line, contract by contract, et cetera. So that will form part of our renewal, of course it's going to be a big part of our renewal. I do see adjustments there, of course for some lines of business, some will be more substantial, so I'm not. So I don't think it's necessarily about competition here. I think we just have to be very, very clear about your assumptions that you have in terms of inflation. It's probably a bit easier, short term as long term, and you know the discussions. That's why I mentioned, I don't want to go into predicting the unpredictable because is it a long-term trend or not. But I think with our yearly contracts, we do have the chance to react to that when we go into our renewal season.

And that's how I look at into the setting of our price assumptions here, where we are very close to the business and to the lines of business. In terms of losses, I think it's very obvious that inflation and what we've seen there in terms of labor shortages and price increases, et cetera, will have an impact on the losses, particularly in Q2 and what we've seen in Q2 and Q3, et cetera, that is for sure. I think this is really about -- and there will be an impact, of course. So this is really about your reserve setting. Are you a bit more on the conservative side? How have you take that into your large loss budgeting. Again I think nobody would have expected it last year when we set our large loss budget that we come to that level. But I think historically, that's what I was referring to, Iain, historically, I think we've been a bit more on the conservative side here with sitting within that range. So there is some buffer here and therefore in our large loss budget, but certainly also in our reserves. So this is rather around reserves, et cetera, and how that will impact our earnings. But that buffer will, of course help to dampen that impact.

A - Karl Steinle {BIO 1986424 <GO>}

Then we have a question from Thomas Fossard.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. I just wanted to touch upon the solvency topic and the rating agency model, I don't think that it's going to be touch on later in the presentation. So I just wanted to ask on your Solvency II ratio, I think that last year, at the same time, actually, you talked a lot about your the direction or the trajectory of your solvency that we should expect, bearing in mind that you had significant top line growth in P&C. I think that you were leading us to think that the Hannover Re Solvency II ratio should be trending towards to 20% or even a bit lower. So I think that if you could update on the group solvency trajectory would be of interest. And also, if you could update on the model and the way you capitalize on the S&P model and maybe provide the buffer you have over the AAA level, here also, I think that with the growth that you managed to write in the past years, I would expect -- I would expect this is a buffer to have significantly reduced because this is really factor-based. So any update on that would be helpful.

A - Unidentified Speaker

Yes. Thomas, I think on the Solvency II ratio, you've seen we've managed to keep that quite stable although it's been a very volatile year 2020. So -- but in terms of our limits and threshold, we report the last Solvency II ratio that we reported was EUR 250 million. So our limit of EUR 180 million in our threshold of EUR 200 million are unchanged, right? So that's still the level where we are looking at. Of course the growth that we've seen during the year, and you will see that in the Third Quarter, we will report on the Solvency II ratio in our earnings call as well, will slightly have been reduced. So it's a -- you might raise the question, of course the hybrid issuance that we've done in the First Quarter has added probably roughly 10percentage points to that ratio. So you might think well, is this an excessive capital position, et cetera? What are you looking at, but the first reason is really we wanted to take advantage of the market take opportunity, but it's very difficult,

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and you mentioned it, Thomas, quite rightly that it's very difficult to draw a comparison to S&P or to other rating models here, right?

Because those are mainly factor-based models, of course. They work differently. Our internal model, of course is very much reflecting on our diversification where those models are working different. So it's very difficult to steer to that. But we always mention when we were referring to our Solvency II measure, model that the model is very different and that the capital position there is different as well. So we wanted to make sure that was also the reason why we took the chance in the First Quarter, that small window where we start is a good opportunity to release that hybrid bond to increase our buffer in both Solvency II but also in our rating models. It has created some buffers. I think there's still -- I don't have a number on top of my head, Thomas, but there is still a substantial buffer also in our rating models to take advantage of growth going forward.

Q - Thomas Fossard {BIO 1941215 <GO>}

So just to make it clear, actually, the S&P model is not a constraint for you at the present time to grow further your book over the next -- over the next years?

A - Unidentified Speaker

Now at the moment, Thomas, again that was the reason why we wanted to add some buffer to the model as well. That was the reason for the main reason or one of the reasons for the hybrid bond issuance, and that will not limit us this year or next year in terms of our growth.

A - Karl Steinle {BIO 1986424 <GO>}

Thank you, all for all your questions. Currently, we don't have any further questions. So therefore, we are ready for a break, and I'm sure you are, too. So we will resume in about 10 minutes time. So let's say 10 minutes after the hour for Sven's presentation

(Break)

Welcome back to the second part of our Investor Day. I hope you enjoyed your coffee break. The next highlight that awaits us is the presentation of Sven. This time, Sven has something rather unusual and exciting in-store for us. In the past, when has taken a deep dive into specific topics or business line. For today we felt it might be helpful to provide an overview of the current status of the property and casualty reinsurance market and give you the bigger picture of how we are tackling the opportunities we see going forward. With that, I hand over to Sven.

A - Sven Althoff {BIO 19104724 <GO>}

Good morning, everyone. Also a warm welcome from my side. As Karl says, I want to talk a little bit about how we see our midterm outlook on the growth and profitability side of our P&C business. Jean-Jacques has already mentioned and covered the strategic initiatives at group level. So the APAC initiative and customer excellence, innovation and digital, in particular, so I will not cover those as part of my presentation. But I would like to

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give you an idea of what we are doing underneath those group strategic initiatives on the P&C side. So for that, I will talk a little bit about the market environment. I will then cover our positioning and give you some key takeaways towards the end of the presentation.

From a macroeconomic perspective, we, of course have seen a sharp recession in 2020 due to the Covid-19 lockdown situation. Already in 2021, we are seeing the global economy for the most part, getting back on a growth trajectory and a relatively sharp recovery in the Americas and then the APAC region, but even the EMEA region should reach the pre-Covid level in the year 2022.

This is helping the global insurance industry to get back to a more normalized growth trajectory. Also here, we have seen a somewhat lower growth trajectory in 2020, which, of course has to do with the underlying activity. But it's our expectation that we will return to more normal growth patterns in the very near future. What is very pleasing is that from a rate environment, commercial insurance rates have been tracking positive for four years in a row now. So we get rate increases on rate increases for quite some time and that this development even accelerated in the last 1.5 years.

At the same time, we can say that the reinsurance industry has been resilient when it comes to its capital base. So even in the difficult cohort year 2020, the overall capital available for writing the business was not impacted negatively. In the last few years, we have seen that the traditional capital was slightly outgrowing the alternative capital, which was more stable in the last three years. In the four years prior to that, it was exactly the other way around, where the alternative capital base was growing more quickly. But what that means is that we are seeing in a growing economy and in growing insurance markets that this is meeting a relatively stable capital base to underwrite the business. That development is actually helping traditional reinsurers in the ongoing flight to quality. And as we will see on the following slides, we feel that we are particularly well positioned to be a good and successful partner to our clients with the additional demand.

It comes to the market dynamics, we live in a rather volatile and interesting times. Jean-Jacques has already covered the sustainability and ESG topic in his presentation. Here, the industry will play a major role, as I said during my answer in the Q&A in order to transform the world economy to get carbon neutral. There's a very significant amount of investments necessary, which will create additional opportunities on the insurance side. At the same time, we are seeing that our ceding companies are increasingly risk-averse for example, due to the Covid-19 experience, which meant that we could benefit from significant additional demand on, for example, structured solutions, but it also means that session rates are trending positive, so they are increasing after a period where they have been mostly stable or even reducing at times.

We are now seeing a trend that cession rates are actually slightly increasing, which, of course is a good development from a reinsurance point of view. At the same time, we all face technical logical progress topics. Some of them are more internally oriented, so the automation topics, improving the efficiencies. We are getting to a situation where the industry is using more and more data standards, which, of course helps to make the entire industry more efficient. Therefore, policyholders, at the end of the day hopefully, spend less money to cover the general cost of the industry, but rather have more of the

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money available for claiming claims. But there are also market facing developments like distribution new distribution models or improvement in underwriting or new products coming out of data analytics.

Then, of course you all know that from a natural catastrophe point of view, the last five years have shown that we are seeing more and more losses coming out of used to be site perils like bushfires, flood events or ice storms in states that are not known for that kind of peril that that is increasing the volatility and the model uncertainty, again fueling additional demand for reinsurers. And last but not least, on the cyber side, we have an ever-growing demand for that product on the insurance side. the increased frequency of cyber incidents, particularly during the lockdown phase has certainly led to an even more dynamic situation on the demand side here.

So overall, the situation we are in creates good opportunities for reinsurers. And particularly for those reinsurers that we'll be able to react fast, flexible and reliable to those issues. So how did we do in the last few years? You can see and on the last next few slides, I'm going to compare us to a defined peer group. So you can see that over the last 10 years, we and the peer group enjoyed a very good period of growth. The peer group grew by almost 7%, which is certainly a very significant and good and robust growth figure.

But during the same time, Hannover Re managed to outgrow the peer group by achieving a combined average growth rate of a little over 10%, which means that our market share in this defined group has increased from 17% coming from 2011 to 23% in 2020.

Of course the generation of profit is more important to us than the generation of premium as already explained in an earlier answer. So how did we do on that side? When you look at the graph, the line is indicating our percentage share of the premium pool amongst us and the peer group, but the bars are showing you the EBIT share of us within the peer group.

And you can see that very constantly, we had a higher EBIT share of the entire EBIT, then we had the premium share, which is demonstrating that our focus really is on profitability. That we, of course need premium as a transmission mechanism to generate profitability, but that our strategy of increasing our share of the EBIT pool, which we talked with you about a few years ago during an Investor's Day has actually worked. On that basis, we are very bullish that we will be able to continue on this trajectory, and I will give you a few reasons where we see those business opportunities coming from.

The last slide in this part of the presentation, I wanted to demonstrate the volatility side of the business, again comparing us with our peer group. We feel that the industry overall over the last 10 years has done a remarkable good job of estimating what the loss situation will be, so the capability of the industry to deal with risk and have a good view on the risk situation is sound.

Of course not every year, but over a 10-year average, the result is actually quite impressive. At Hannover Re, we actually managed to be exactly within our estimated and

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projected natural catastrophe budget over this period. And all those numbers actually do include the Covid-19 losses.

And pleasingly, we also managed to have a lesser volatility of our NatCat numbers compared to the peer group. So again this, in our view, demonstrate that we have a good planning capability and that particularly on the natural catastrophe side that by means of buying a retrocession, we are also in a position to be less volatile than the average peer.

So let me start talking about our positioning. Jean-Jacques talked about our strong culture this morning and I wanted to give you a few examples where we see the benefits and particularly our strength on the cultural side. I will not go through all the items listed here, but we will only focus on a few.

But let me first start by reemphasizing again that we have a long-term relationship approach, which is very important for our clients that they know that they will have us as a partner through the good, but also through the difficult times.

We enjoy situation where our staff is staying with us for a very long time, which means that our underwriters when they sit in front of a client, a, have a very personal relationship with that client for a long period; and b, of course we have accumulated a lot of experience which again is something that is important in the decision-making process and makes us a particularly reliable partner for our clients.

We are delegating and empowering our people. So when our underwriters travel, our clients are talking to decision makers, which is different to approach some of our peers have where marketing and decision-making can be different functions for us, it's not.

And the fourth item I wanted to mention is that we are very focused on tailored solutions. So we are listening to the clients, and we want to structure something together with them, which is filling the demand from their side according to their needs and not according to a prestructured product we want to sell. And as you have seen on the growth trajectory, that is actually honored very much by the clients. So I would say very strongly embedded into our culture and a very positive aspect.

So what do we do in addition to the group's strategic initiatives? What are the initiatives I want to talk about with you today? In the next slides, I will give you an idea about our approach to tailor-made solutions. I will talk about the protection gap topic in combination with parametrics. I will give you an idea about our risk appetite on the specialty side. And last, but not least, from a regional perspective, I would like to talk about Latin America in addition to what we already talked about on APAC earlier today.

So let me start with the tailor-made business. Here, as I already indicated, the idea that through listening to the clients and by focusing on special services, we are willing to provide to those clients that we can structure reinsurance that is tailor-made for their particular needs. We are taking this as a holistic multiline approach, which is not only on the structured side but also on the traditional side, creating additional demand from our clients.

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For them, it's very interesting because we can help them to deal with topics like changes in the regulatory environment. We can help them to steer their capital base, and we can help them to actually grow their own business by offering those services.

And examples where that has been very successful for us are on the telematics side, where, together with our ceding companies, we were able to develop tariffs, which takes the telematics technology into account, which in certain markets gives those clients a competitive edge over their competitors, helping them to grow, and they are quite happy to reward us with buying additional reinsurance from us.

At times, reinsurance that would not make its way into the commercial market, but it's only really reserved for reinsurance partners that are helping with the product development. So a very important aspect is having the technical capability of doing it, and secondly, to be close enough to the client to actually feel that demand and fill that demand.

Other examples, which we have seen are on the natural catastrophe side, where we are increasingly using also the technical parametric coverages. On the cyber side, where, again in many markets, we have been able, particularly in the SME space, to create products and tariffs for insurance products together with our clients, helping them to penetrate their markets.

The next item I wanted to touch upon is our ideas about the NatCat protection gap and where do we see our role here in that respect. So as Jean-Jacques said earlier today there clearly is still a significant protection gap on the natural catastrophe side.

And both the public and the private sector are very anxious to learn about new ideas, particularly on the distribution side, how in many situations, more simplified products, should -- can be created in order to make particularly the less affluent people better protected from the pyramids of natural catastrophes.

This, of course is deeply embedded into our ESG strategy. In order to find these solutions, you need both the technical capability on the distribution side, but you also need the risk capability of structuring those products and making them really simple to use.

So for this, the parametric solution is almost perfect because we can clearly identify what region, what peril exactly do you want to cover. And by not having too many human interaction in those models that we are using on the parametric side, the products we are creating are very cost effective, they are very simple to use, also for the end customer, very simple to use.

And very often, they are related to technology like mobile phones, where even without having access to any broker or any insurance companies themselves, those policyholders are able to -- just with a few -- yes, just with a few hits on their phone to buy those products.

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We have experience with those on the agricultural side on the natural catastrophe side, and we can well see that this is also an avenue into us being more active in the field of private-public partnerships, where, in the future, maybe even coverages like pandemic and/or cyber may be an issue, and we feel we are well prepared to deal with those topics.

I talked about our risk appetite, about natural catastrophe exposures in the Q&A earlier today where I said that maybe our appetite for volatility is less pronounced than elsewhere, that was actually very different in specialty lines.

We already have a significantly higher market share in specialty lines compared to our average market share. When I talk about specialty, I'm talking particularly about topics like marine, aviation, credit surety and agricultural business.

So that business has performed very well for us in the past. And despite us having a significant market share already, we certainly have the ambition to do even more. One way of achieving that is getting closer to our clients. Here, the regional activities we have in the APAC region, but also in other parts of the world, and I will talk about Latin America in a second, are getting us closer to the clients, and therefore, also closer to local specialty opportunities which are maybe not necessarily brokered through one of the big specialty wholesale markets, but business, you can only really write when you are close to your customer.

In addition, we, of course still have quite a few traditional relationships with clients that are more based on the traditional property and casualty business and adding specialty business to those relationships through our customer excellence initiative will give us additional access also to the specialty business coming from those customers.

And the last opportunity, I would like to talk with you about is our approach in Latin America. We talked about APAC in the last two Investor Days, but we're also very active in Latin America.

The macroeconomic situation in Latin America is certainly not as strong as in Asia, but still we have many rising economies, and we have, in those economies, very often similar situation compared to APAC. That is that the insurance penetration is still relatively low in many of those countries and there with a growing middle class is a strong additional demand for covering property risks, in particular, on the personal line side, but also with the economy is getting stronger, the commercial risk demand from those countries, which are very often also agricultural based, is on the increase as well.

So of course we want to take maximum advantage of that opportunity and are working together with the feeding companies to provide additional products for personal and commercial lines solutions. We want to close the protection gap, as I already said, particularly in Latin America, the parametric basis of providing coverage has a very good momentum right now.

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So quite a few of our successes on that side are actually happening in Latin America. And for us, very often, we have the added benefit that we can transfer our experience, which we have already gained from the APAC region, into Latin America as well. So we do not have to reinvent the wheel twice.

Taking that all together, how do we feel about our 5-year outlook on the development of our business? Here, you can see also an answer to Thomas' question he asked us earlier, that we feel that we should have a sustainable growth of at least 7% over the next five years.

On the right-hand side, you can see that we feel that this growth will continue to be well diversified. So we see all regions of the world growing with the highest growth in the APAC region. But we also see all the business lines growing with the highest growth in the specialty markets.

Our combined ratio target for that period stays at 96%. But the 70% -- 7% average growth rate is a little more bullish than the 5% we were talking about earlier, which brings me to the key takeaways.

So from a market environment point of view, the global economy is back on track. We can report that as a relatively stable reinsurance capital meets a growing demand, which is good quality reinsurers as they can write more of that business. The market dynamics and unexpected events are creating additional need for stability and security.

Our positioning, as I said, seems to be good from the results we could demonstrate in the presentation. We are benefiting from that flight to quality. We are outperforming the market, both as far as growth rate, but also from a profitability point of view.

We feel we have a clear strategic focus on how we are going about the business, and we continue to fully concentrate on the bottom line and we want to be an excellent partner for our clients, the fast, flexible and reliable partner, which is helping them with their performance and how they can grow their business.

I demonstrated with the opportunities that there is more to say about Hannover Re PNC than just the group strategic initiatives. Of course they are extremely important for PNC as well. But there's also a lot of underlying momentum that will fuel additional growth in the future. With that, I would say we can go to the Q&A and I'm very happy to get your questions.

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A - Unidentified Speaker

Well thank you, Sven, for your sound insights and food for thought. For the Q&A, I'd like now to ask to take the stage and as a member of the Board, she is responsible for reinsurance business in continental -- with continental and African clients for sale as well as for ILS in structured reinsurance. To round things up, she also oversights the retro covers we are buying. (Operator Instructions) We have already got some questions, at least I see

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some requests. We start with Andrew Ritchie first and continue with Vinit Malhotra. Andrew, please go ahead.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Can you hear me?

A - Unidentified Speaker

Yes.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Sven, I guess just a question, if you could give us some sense as to your outlook for the pricing environment in 2022 in light of the events we've seen this year, the losses we've seen this year?

And I guess my second question is linked. I struggle when investors ask me to try and put 2021 losses, catastrophe losses, in context because broadly speaking, it looks like the industry will miss Cat budgets again.

And I can't judge as to whether 2021 is a normal year, above normal, particularly things like just seem very expensive for a relatively small storm and obviously the German floods as well. So I guess in that context, number one is a sense of renewal pricing in '22. Number two, how normal is the loss experience in '21? And in that context as well, is catastrophe pricing really, really adequate? Yes. I know you're not really focusing on that as a growth area, but is it in any way adequate?

A - Sven Althoff {BIO 19104724 <GO>}

Yes. Thank you very much, Andrew. Let me start with your pricing question in general. On the cat side, particularly the Cat pricing side, I will ask to comment. So what is our expectation going into the year 2022? We are confident that the general positive pricing momentum will continue to be in place. We have seen that in 2020 and in 2021, that the market reacted very well to particular loss situations. So with the general positive trend, I'm optimistic that those parts of the world, which have seen the losses will get those kind of rate increases that are necessary to deal with the losses. So they will be higher and a time significantly higher than the average increase, but both on the insurance and on the reinsurance side. the underlying pricing trend should be a positive on a global basis across all product lines, that would be our expectation.

When it comes to your question, how average or not average is the 2021 Cat here? I think your absolute -- observation is absolutely spot on. We didn't have that many events in 2021, but two of them being the flooding in Europe, but also hurricane either are very expensive in themselves. Partly, this, of course particularly on Hurricane either is fueled by the inflation topics we were talking about earlier. So that certainly plays a major role here.

But at this stage, I would say we are still in an average cat year but with two rather unusual losses and the flooding in Europe is, of course very special as well because that's going to

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turn out to be the highest insured loss in Germany ever which is quite remarkable for an isolated localized flood event, and many seating companies have tested and some even exhausted their programs on a localized event like that when, I guess they actually bought it for the big European storm event.

So that's an interesting observation in itself, and we would not be surprised if that means that there is going to be additional demand for vertical cat cover on top of the rate increases we can expect for the business that has been impacted. But I would now like to hand over to on her view when it comes to the appropriateness on the cat pricing.

A - Unidentified Speaker

Yes. Thanks, Sven. Hello, Andrew. Hello, everyone. Also welcome from my side. Coming to the cat pricing, I'm still relaxed from the pricing side, from a pure modeling and actuarial pricing side.

You know we model our NatCat exposures with IIR. You also know that the new pricing trends will be included in the update. In addition, we have our own view to the model outcome. So it's not just pure underwriting by modeling output is more together with our own expertise and our own view on certain climate risk and flooding and wind exposure.

So when I'm looking at our portfolio, we are currently writing. We have certain levels on profitability. And from this point of view, we have the highest level in the history or at least in the last 20 years roughly, and this reflects that the pricing as such is not wrong.

I mean as Sven just outlined, there are two major and very special events with but I'm quite relaxed with the pricing. Also the sophisticated model agency, they include the news update in their pricing and most of our NatCat writings are on a 1-year contract basis, so that if it's climate change, we can adjust the year by year. This -- I hope this answers your question, Andrew.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Sorry, Just to clarify, did you say when you said its highest in 20 years, what do you mean? The profitability of our account book?

A - Unidentified Speaker

Yes. Absolutely right. On certain levels, I said. So we have --

Q - Andrew James Ritchie {BIO 18731996 <GO>}

On certain layers?

A - Unidentified Speaker

On our profitability layer. So we have where we say technical results, then after management expenses and after capital cost and then I mean with different level where we measure our profitability.

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So now you can say how good is the expected loss in the NatCat modeling with right online layers of 1% and -- but based on this model outcomes, this is the highest level on our profitability, how we measure profitability. So this is excess profitability after capital cost for the worldwide portfolio.

A - Sven Althoff {BIO 19104724 <GO>}

But Andrew of course talking about it in the context of pricing, not about the actual experience, so the quality of the pricing, the way we look at it has been the highest in a long period.

A - Unidentified Speaker

Absolutely.

Okay. Thank you, Andrew. So the next question is from Vinit Malhotra and after that, we have a question from Will Hardcastle.

Q - Vinit Malhotra {BIO 16184491 <GO>}

I think you should be able to hear me now. Can you hear me now?

A - Unidentified Speaker

Yes. Yes. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sven, just picking up on two topics you mentioned in today's speech. One is the specialty lines. I'm tempted to go back to 2011 Investor Day when (inaudible) specialty lines and lower cat volatility was mentioned, so 10 years ago. I mean is this really that much more juice left in this lemon, sorry to pick up some Clemens' comment, but is there more competition? I have heard from one of the peers, one of these other ones in France saying, specialty lines is going to be the focus as well.

So just comment on where you see the market appetite for yourselves? And second question, if I can ask, again is picking up on tailored -- tailor-made solutions, which -- I mean yes, I think the phrase is being used by you a bit new, but it probably has been used by you in the past, I think beginning in somewhere in Australia a few years ago seen some of these transactions.

But I'm just trying to understand, is this new and then will catalyze growth? Or is this something that you think has been going on and you're just putting a phrase to it today to keep in line with the market? And in line with maybe a side question is, you said at least 7% or is it about 7% just so I don't miss that nuance

A - Sven Althoff {BIO 19104724 <GO>}

Thank you, Vinit. Let me take the specialty on the growth question, and I ask to answer your tailor question. So on the specialty side, yes, there's still juice left in that field for us.

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Given our already high market share, it was the area in the years '17 to '19 where actually we did quite a bit of cycle management activity, given that both the insurance and the reinsurance pricing was not always meeting our cost of capital requirements during that period.

So quite willingly, we gave up some of the market share we've previously had. So now with the better pricing, that, of course is ground we want to win back again. So from a vertical growth point of view, there is scope to further grow. I hope I gave you some ideas about how we horizontally want to grow the specialty business by embedding that into even more client relationships and helping with our product knowledge clients that are not already in the specialty field to become a specialty player.

So from that point of view, we see this as a continuously growing class for us, where we have a lot of expertise, and there is certainly still scope in our risk appetite to grow our market share in that area. On the growth side, it's the same like we are using for the current guidance, Andrew, where we are seeing greater or equal 5%. I would say this is now a greater or equal 7%. And

A - Unidentified Speaker

Yes. Okay. On the structured reinsurance side or tailor-made solutions side, how we label it? Sven mentioned already in his presentation that we listen first to our client. So it's not a product as such, it's really a solution, an individual solution.

And these solutions are discussed with the C level and it's based on capital and risk management. So it's not giving cat capacity with a share rather than listen, what is the need, the demand for reinsurance from a risk and capital point of view from a client perspective?

Then in an interactive discussion, trying to match or find the best solution. This can be on growth surplus relief type of transaction, it can be volatility cover and it can be also quite innovative, so from straightforward to quite innovative.

And to give you a feeling, in the last decade, we tripled the volume of that business in our units. So we are currently writing more than EUR 3 billion in that division. The last two years, so this year and the last year, that was a record year, number-wise, of new transaction we have underwritten.

From the profit we are realizing in that business area, we don't show immediately all of the profit because we -- especially if it's medium we realize in the next years. So there is a huge volume of embedded margins still in our reserves on that business.

What we have achieved so far, profit-wise on that business, xRoCA, excess return on capital allocated, is double digit. So between 15% and in the last year that was the xRoCA on that business.

Yes. One further comment maybe on that is that new? No that is not new. You mentioned also Australia. This is a long time ago, and there were certain cases in the past. But our focus was not on -- yes, was always on the solution and structuring side and taking into account all aspects of underwriting this is not pure underwriting.

This is also accounting knowledge, whether it's Solvency II or IFRS 17, it's also compliance, it's regulatory knowledge and structuring knowledge. So this is how we addressed it all over in the past, and we write those transactions normally for 100%.

Q - Vinit Malhotra {BIO 16184491 <GO>}

If I can ask again. Sven, I think you said this is not just in structure, which I know in EUR 3 billion, but there's also something coming up in traditional book. That will be new, right?

A - Sven Althoff {BIO 19104724 <GO>}

Yes. That's something I just wanted to mention, Vinit. I mean the reason why we used the phrase tailor-made rather than structured reinsurance is indeed that it's the approach we are talking about here that together with the clients, we are identifying their needs. And very often, that translates into structured reinsurance. But the example I was talking about earlier, like telematics or cyber, that was actually all traditional opportunities, which we created together with the clients and which is actually helping them to also grow their business. It's not only about existing business, but it's also giving clients the opportunity to grow their business.

A - Unidentified Speaker

And Sven, if I may I can add on that, Vinit, that the solution focus is also, Sven mentioned, the cyber area and he mentioned also earlier on the parametric -- he also mentioned earlier the parametric case where we cover cloud outage.

So we try to find new solutions and teaming up with our clients and having the partnership approach. One other example is also on the ILS side on the cat bond activities we are doing. This has also the solution focus and try to find the individual we spoke solutions for the clients rather than the product.

Yes. Thank you, Vinit. We still have a few requests to speak left for to be precise, we continue with Will Hardcastle.

Q - William Fraser Hardcastle {BIO 16346311 <GO>}

Just a couple of questions on NatCat really. The first one is S&P recently published a report like when they're now looking at NatCat performance relative to budgets. Do you have an expectation that capital charges on NatCat could be loaded for those companies where budgets haven't proven to be as robust as yourselves?

And the second question is -- it's more of a statement followed by a question. But one bearers view in the industry I hear is it would suggest that climate change is leading to

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increased frequency, severity of NatCats. Therefore, budgets in general aren't set robustly enough.

But your budget is actually proven to be spot on as you provided over the last 10 years. The question, therefore, is, is the last 10-year average than your normal in your view that would imply all budgets accurate and implicitly the peers budgets aren't? Or do you think yours is still overly conservative perhaps in the last 10 years isn't their reflection?

A - Sven Althoff {BIO 19104724 <GO>}

Yes. Thank you for those questions, Will. No. I would not necessarily say that the budget of the last 10 years is going to be a good pointer for what's going to happen in the next 10 years.

So that, of course is something we are reviewing very carefully, particularly in the context of climate change and the various site perils, which we have seen, yes, materialize over the last five years, which were certainly surprising the industry and were also surprising us at times.

So from that point of view, it is under review and I guess the industry overall, in case they are willing to write more or less the same exposure on the NatCat side, we'll have to allocate more budget to the probability of loss in future years, which in itself is not necessarily a problem if that is reflected in the pricing so that the capital that is required to, yes, support that budget is making its

So from that point of view, as mentioned, our view on pricing on that side right now would be such that we would answer that question positively. When it comes to your S&P part of the question, I don't have a good answer for you on that side. I mean S&P were certainly not telling me their ambitions on how they want to deal with the results of their study. So sorry, I can't help you on that side.

A - Unidentified Speaker

Okay. Thank you, Will, for that question. We continue with Henry from MorningStar.

Q - Unidentified Participant

Very nice presentation, Sven. I just had three questions, really. Just on -- I mean kind of going back to comment a bit. I think generally, we're seeing higher from what I can tell we understand, we're seeing there were higher frequency, lower with the industry and for so you mentioned I think another one.

I was wondering if you could comment maybe on whether that itself a bit more to return tie capital than it does traditional reinsurance? I mean I see traditional reinsurance being there really as kind of the big guys, the back stock. But if we're getting higher frequency, lower severity and maybe that moves demand a little bit away from you guys not.

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Then my second question really is just down to a bit more of an operational understanding of what the way reinsurance works? So I understand that in commercial, you generally have sort of a primary lead and then in reinsurance, you have a similar sort of primary lead, but it's less operation delegation control, it's more down to the quantum.

I was wondering whether you might sort of just kind of outline a little bit whether my understanding there is correct? And whether you might be able to provide a rough indication of what proportion of your customers that have you are sort of a primary lead on, you're the biggest layer?

Then lastly, on the specialty. I mean I love the business model in terms of specialty, the cost-conscious culture. Just kind of move back to two minutes question on squeezing the lemon really.

How do you -- how much opportunity do you see -- could you give us an indication of how much opportunity you see to expand your specialty lines with clients, maybe you don't have specialty lines with or where you can take specialty from peers? And if it's taking specialty from peers, there's a bigger opportunity then how are you able to do that? What's your -- what will differentiate her versus unit Those are my 3.

A - Sven Althoff {BIO 19104724 <GO>}

Very good. Thank you very much. On the frequency severity question this is driving demand away from us and more into the traditional -- alternative capital space. We have not necessarily seen that in the last few years that this is moving one way or the other.

Of course the cat part of the market is where the alternative capital providers are featuring the most because, as mentioned, its 12-month contract period business, so this works for collateralized reinsurance.

So there are an important part of that market, but I don't see them behaving very significantly different compared to the traditional markets when it comes to what they want to write, how they write it. So of course it always goes in cycles.

I mean you know that particularly the aggregate covers have seen losses over the last number of years. So those markets, which historically participated in those maybe have less of a risk appetite today which creates opportunities for other players that maybe were not so heavily involved. So in that context, the market shares between traditional markets and ILS markets may shift from time to time. But I think that's more the general cyclical nature of how the business is transacted rather than the source of capital would be my answer.

When it comes to your questions on lead positions, yes, you're right, typically, commercial business and reinsurance business is placed on a subscription or syndicated basis where you have a lead reinsurer taking a share, but not writing the placement for 100%.

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There are a few exceptions to that. So most of what is doing in her structured unit would actually be placed with one reinsurer only and that reinsurer then is, of course taking 100%, but the bulk of the business is transacted exactly the way you were describing that.

And when it comes to the number of contracts we are writing, our lead position on the number of contracts we are writing is above 20%. If you look at the premium, it's actually higher than 40% of the business which we are writing, where we do have the lead position.

That, of course is easily explained. When we are setting our own terms and conditions, we are, of course willing to take higher shares, and therefore, the percentage of the premium base is higher than the percentage of the underlying contract base.

So that hopefully gives you an idea where we are in that perspective. Specialty and our cost-conscious culture go together very well. Our approach to specialty underwriting is a very centralized approach. So most of that business, we're actually writing out of Hannover in Germany.

Of course it's embedded into our local activities and our local PNC colleagues help us in getting close to the clients and staying in touch with the clients, but the underwriting itself is mostly done, as I said, out of one location only.

But to maybe give you an idea how being close to clients and being cost conscious at the same time can work. For example, the Chinese surety market, where that product was hardly available in the Chinese market five years ago, but all the various provinces have now opened up to the product of surety.

And we, of course have a lot of worldwide surety knowledge. So what we are doing is being close to those Chinese customer that want to enter the line of surety through our local Shanghai colleagues, but the expertise really is put into the equation by our colleagues in Hannover, which is both supporting the cost-conscious culture, but it's also a good example for areas where we see further growth opportunities on the specialty side.

Q - Unidentified Participant

Sorry, just on your 40% volume versus 20% number of contracts. I mean this overall seems like a pretty get the feeling of a price taker kind of industry. But does that give you any pricing power or not really?

A - Sven Althoff {BIO 19104724 <GO>}

Well of course we would say yes, it does give us some pricing power, but within region -- within reason, I would say. I mean we are not minded to sell on price only, we are minded to sell through our qualities, which we described earlier today.

So that does give us a little bit of an advantage. But can I charge significantly more compared to where the average pricing is and the client would still give me that business?

It happens. But of course that would not apply for the bulk of the business.

But clients are more sensitive on walking away from us. So the pricing we achieved tends to be more sticky. So while that's difficult for me to win business by being more expensive, it's also less likely that I will lose business just because I'm a little more expensive, if that gives you a good feeling about it.

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A - Unidentified Speaker

We still have more questions than time, so we are already run over the time budget. Unfortunately, owing to time constraints, we only can give the opportunity for answering those questions which have not been asked yet at the later Q&A session. Therefore, I would like to thank you all for your very good questions and also Sven and for answering them. We are now breaking for another coffee for about 20 minutes, and we'll resume at half past the hour.

(Break)

A - Karl Steinle {BIO 1986424 <GO>}

Welcome back, everybody, and thanks for being so punctual. We can now dive straight into the last presentation of today with a focus on life and health.

Claude has given some remarkable presentations in the past few years. And he has applied his outstanding presentation skills to a whole range of topics, and today's offering is no exception. He will be talking about longevity, business, in particular, a subject that has been underrepresented in our external communication. He will talk about a number of things, and he will talk about where we are right now in that business and what the future earnings streams look like. So that's enough from my side as a lead in. Therefore, I hand over to you, Claude.

A - Claude Jacques Chevre {BIO 17369098 <GO>}

Yes. Good morning, everybody, or should I already say good afternoon. Many thanks for staying. Many thanks for your interest in the last, but hopefully not least presentation of this Investor Day on the business group, life and health. If I think back a year when we recommence here on the Investors Day I wonder who of you guys and of ourselves here thought that we would be, again reconvening in the same setup, this TV studio, this camera without seeing anybody, I think not too many people, at least not myself. The advantage of reconvening in the same setup is, of course that you can try and improve and become better.

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I hope that we all have become better in the second time now that we will convene this TV studio. I'm talking about improving and becoming better like to remind you that you have all received the feed platform and that we would like you to complete. Ideally, please complete the form, not putting just a score between one and five, but really put in your comments. I mean how did you find the topic? How did you find the content? How did you find the slides? How did you find the presentation? This is extremely important for us so that we can become better in the future. Last time, I was looking into these

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feedback forms. I mean you gave to my presentation, quite good feedback. I must say it was quite positive, but there were two remarks that I was seeing that made me think.

I mean there are two people who said, Claude, you're just talking too fast. You talked too fast. I thought to myself, well, how can it be? It cannot be. I mean me, talking too fast. So I went through this painful exercise, and you know how painful it is watching your own presentation on video, and it was painful, I tell you. You know what, it was too fast. I mean I have problems, myself, to follow my own presentation. So what I tried to do with today and please give some feedback is really to slow down. It's not easy because I cannot see reactions, but I try really to slow down. So that's really the first thing.

The second thing, maybe some people asked me, but why did you come on stage with your mobile phone? I had this clicker with me. It was not my mobile phone. So again this is not my mobile phone guys. This is the clicker. It's a bit big. It is -- yes, that's it. But that's what I have here, and that's what I wanted to tell you.

So today's topic, longevity. So after a short introduction, I will then really make a spotlight on longevity, show you some interesting and hopefully, interesting slides on our longevity business followed by the life and health earnings power. Then afterwards, the key takeaways as everybody else before me. After that, we'll have the Q&A session. Klaus will, of course be joining me for the Q&A session so that you can hopefully ask any questions you might have on the life and health business group in the future.

Okay. Well let's have a look quickly on the last Investor Day. You remember on the last Investor Day I was talking about the earnings growth drivers of the business group life and health. I as identifying mainly three drivers. Number one was financial solutions. The second key growth driver was Asia. The third growth driver was longevity. I can reassure you, these growth drivers haven't changed over this year because they're still the same growth drivers for us in the life and health business group.

So what we did at that time, and you see this on the bottom of the slide, at that time, we were looking into each of these growth drivers, and we were showing you the normalized EBIT of the past of each of these growth drivers. We were also showing you what we would expect as normalized EBIT into the future. These were the figures we were showing you. So you see that there on the financial solutions side, for example, we were showing you that we would expect an additional EBIT of the upcoming then four years of EUR 120 million, whereas on the Asian business, we would expect an additional EUR 50 million EBIT over the upcoming four years. In longevity, we would expect an additional EUR 80 million on top of the situation in 2019.

And let's have a look quickly on how we performed in 2020. That's what we showed you on this graph for each of these growth drivers. So when you look into what we expected to achieve, what we promised to you and what really happened. So on the financial solutions side, you see that we have been pretty much spot down. In Asia, we have overachieved our EBIT expectations by quite a bit. In longevity, the same, we were overachieving our expectations by quite a bit. So if you look into the earnings growth drivers, as a whole, I would say that we have been overachieving in 2020. So today what I

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would like to do is really concentrate on longevity, because longevity is one of our most important business lines that we have within life and health.

So let me maybe start with a little bit of history, how we developed our longevity book over the past. What you see here in the time line, which starts in '95 and ends up in 2020 is that we have an experience of 25 years of longevity business. What you see here on this time line are various colors. What we try to do is to sort these colors in a certain way. So the green dots.

The green years that you see are years in which we have experienced an important product expansion, whereas the gray dots are years in which we have experienced a very important system or underwriting system expansion and the orange dots are years in which we have experienced an important geographic expansion. I would like to quickly go through all these years. So '95, we started with longevity. And at that time, I must say we were not really experienced. What was the idea? Well let's start with the product, which -- where the life expectancy of people is not too long. Because we're not very sure about all these things. So we started with a product that we call enhanced annuities. They still exist. These enhanced annuities. They're mainly in annuities for elderly sick people who have a very small life expectancy to go, so something between two and 10 years. So that's the way we started in the U.K. with enhanced annuities.

And you see if you look into this graph that only 13 years later, in 208, we started to look into the first block transaction into the first deal were of in pension payments. So that was really a big, big change. What we did there, we concentrated with the same (inaudible) as before, we concentrated more on blue collar workers than on white collar workers at the beginning, because blue collar workers have a lower life expectancy, of course than white collar workers. But we then eventually went into the more and more white collar workers in the future.

In 2011, you see that we wrote our first index deal. And a few years later, our first longevity deal, what we call an RPAT, the regular premium annuity treaty for deferred risks. So you see, so we got more and more comfortable with these long-term liabilities to take on board. So starting with deferred annuities, which are elderly sick people, we ended in 2015 already with our first deal for deferred annuities for blue and white collars.

We then continued with quite an interesting product in 2016, which is what we call an automatic regular premium annuity treaty. An automatic treaty, meaning that cedents upon certain frameworks that we set, can cede us automatically certain blocks of annuity business. These blocks of annuity business have very clear characteristics. They're very small in general. They have very little experience. So that become with a global pricing approach, a more general pricing approach except these deals. So this was in 2016.

And in 2018 we had the first cover for unit-linked business where the liabilities move together with the underlying funds but were, of course also the premium that we would get for these liabilities also move. So we would not take any investment risk, but that was in 2018. So the first powerful unit-linked business. This is the product expansion that we had.

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Now moving to the system expansion. I would like to show you to the year 2000, where you see that we developed our first underwriting system for deferred annuities -- for individual dual deferred annuities. It was quite an easy system, where the way we did the underwriting was the following, we asked some questions. Then based on the answers that we got and on the diseases these elderly people had at the time, we would then calculate a life expectancy and then tell the people how high or how low the annuity would be based uniquely on their life expectancy.

A few years later, in 2007, as you can see, we made a very important system expansion that we're still using today where we said, you know what, the life expectancy alone is probably not good enough because you can have diseases where the life expectancy is exactly the same, but some diseases, or diseases like, let's say a smaller cancer, are something where you might die very early off. But if you survive the first two years, you're going to die much, much later on. So the life expectancy is somewhere in between, rather on a diabetes for example, you would say nobody is dying of a diabetes early on. So everybody who die probably more or less in the same way. So you see these patterns, these survival curves of certain diseases, they look totally different. We started to increase -- to introduce these survival curves into our system. This is what we have been doing in 2017.

Maybe the last point is the geographic expansion. Of course the whole thing started in the U.K. And as you know, the U.K. Is still our most important region for longevity business. But if you look into the geographic expansion, you see in 2010, this is this orange dot, the first dot that we wrote our first longevity deal outside the U.K., it was not really far away from the U.K. It was up -- sorry, I have to be careful here. It was not very far away. It was in Ireland.

And in 2014, we wrote our first longevity deal in Continental Europe. This was a deal that you have heard of, which was in France. Later, in 2017, we rolled our first next cover outside of the U.K., this was in the Netherlands. We then moved 2019 into America and also into Germany, of course. In 2020, we started our first in New Zealand and Australia. So this is about the history of our longevity book.

Now something which is also interesting on this slide is, of course the bar plot that you see in the middle. What we show here is the covered annuities that we have. So you have -- of course you have the members, let's say the policyholders of the pension funds on the one hand side, then you have an insurance company, we call a cedents for us, on the other hand side. Then, the longevity reinsurer.

You often are in a situation where you have, I would say a double bidding process, where, on the one hand, you have our cedents, having negotiation with the pension scheme on how they want to deal with the pensions that they have in their book. So are they going to take a pension buy in? Is it going to be a pension buyout? Is it going to be a swap structure, whatever? So this is happening between the pension fund and the insurance company, whereas between the insurance company and the reinsurer, of course we're discussing about terms and condition of a regular premium annuity treaty.

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So what does that mean really? It means that we, as a reinsurer, often get the same deal via various insurance companies. This means quite a bit of workload, of course when you analyze these deals because you get various information's from various companies. And also, you need to take into account that there is another negotiation going on between the pension scheme and the cedent. So this makes the whole situation complicated, but that's what we're dealing with every single day.

Now coming to the regular premium annuity treaty, which is really the preferred option, as I told you before already, what is the idea? The idea is that, and I'm giving you here the most easy possibility of an RPAT -- that we call it an RPAT, is where you're taking on board a closed block of annuities. What we would do, as a reinsurer, as Hanover Re, we would apply our best estimate mortality rates to this block of business and calculate the future annuity payments that we would have to pay until the last pensioner dies. This is what we take as a basis. Then, of course we would increase this estimate by a margin. This is what you see on the right-hand side of this slide with this blue line, which is what we would call the fixed leg. This is the premium that we get from our cedents every single year. That's the fixed leg.

Now what is the claim that we pay? The claim that we pay is simply what we call the floating leg. These are the real annuities. So these are the real annuities that the cedent is paying to the end consumer. This is the difference between fixed leg and floating leg.

Now looking into this graph, at the beginning, you see that there is not too much happening. I mean the fixed leg, and we would expect that, is slightly higher than the floating leg. This is more or less our margin because you wouldn't expect any deviations at the beginning of a longevity deal, the first, say five to eight years. But afterwards, there are two possibilities which could happen. One could be that people die less than what we anticipated. This is what you see in year five, six or seven, where the floating leg is exceeding the fixed leg. If the floating leg exceeds the fixed leg, of course that means that we, as a reinsurer, we pay the difference. This is mainly a claim for us.

And on the other hand, you could also have the situation where people die faster than what we anticipated. This is, in the last year, you can see that over there, there, the floating leg is smaller than the fixed leg and this would then be a profit for ourselves.

The good thing about all this is that we do not take any investment risks here because as I said before, we're getting the premium year by year, year by year. So no investment risk involved for ourselves, and that's why we like it.

But why do we like this long-term liability also? Of course the basic of all this, and I told you, is our pricing is our best estimate. So how do we do the best estimate? How do we price the business? How do we monitor the business? And the basis for all this is really to have an excellent data collection and monitoring in place. We are doing that for now, and you have seen that for 25 years. For probably 15 years or so, we're having these RPATs in our book. We're collecting and monitoring the data systematically for 15, 20 years to the back. This is very important.

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And what you see here is the next track of the report that we are building every single year and analyzing every single year. These are real figures. I think that should be very interesting for you guys now. And let me maybe focus directly on the very last line, which is total because that's interesting.

What you see here in the first column is you see the present value of all the claims that we have taken on board at the moment at which we have written the deals. So we have written various deals over time. So these are all the deals accumulated and these are all the present values of claims of all the deals accumulated since we are writing longevities. You see that the present value of these claims is approximately EUR 32 billion, so massive.

In the next column, and that's also an interesting thing, you see how much of these claims we have already paid out. So today you see, and that's the situation in 2020, we paid out 40% of these EUR 32 billion expected claims. It's clear because these deals, they're already in our portfolio for many, many years. So that's a complete situation.

Now what is the margin that we realized so far? You see that there, EUR 524 million of margin. What is the future margin that we expect out of this business? So taking -- take into account the future -- the runoff of all these deals, where the future margin is approximately EUR 1.2 billion. The admin expenses, that means the full admin expenses that we're estimating for the full duration since the first deal 15 years ago until now and until the last pensioner dies that's probably within 15 years down the road is EUR 260 million. So that we have a total margin, this is the third before last column, of, let's say EUR 1.5 billion.

I think that's a very interesting slide because what you could now do, you can now calculate an EBIT margin -- an approximative EBIT margin. Let's do that together maybe. How would we calculate an EBIT margin out of these figures? Well it's easy. We take the total margin after administration expenses, EBIT is always after admin expenses, and we divide it by the PV of claims, by the EUR 32 billion, plus the realized margin, plus the future margin. If you do that for yourself, if you take a calculator, you try and do it, you will see that the margin -- the EBIT margin that you get out of this business on average is slightly above 4%. I think that's a very interesting figure also. We can really demonstrate this with this table.

Another very interesting column is the second before last, which is the actual lower expected quote. So what does that mean? That means we're analyzing for the whole book, how many claims did we get in reality and how many claims we estimated at quote time. So 10 years, 15 years ago, five years ago, maybe last year. So we're making this analysis in a very detailed way. What we can show you is that over the whole book of longevity business, the actual or expected a quote is staying at 100%. Of course if you go into the detailed treaties, and I showed you two examples there, they're all a bit different. That's very clear.

But the whole book is performing exactly as expected with the margins that you see there. And now comes the column I like most, I must say which is, I would call it, the euro

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amount of a 1% mortality decrease. Yes. So let me explain this to you. So what we do is we run a stress, and we say well, what would happen? To our portfolio. If the mortality that we estimate as a best estimate was over the whole duration, 1% lower than what we think. What is the impact on our portfolio if this happens? And what you see here is that the impact is approximately EUR 90 million. So 1% less mortality over the whole duration of our book means EUR 90 million impact. That means EUR 90 million less margin.

So let's maybe quickly have a look into the total margin or, let's say the future margin that we are having in our book. It's EUR 1.2 billion. And let's make an easy calculation. I'm sorry, I'm sure the longevity guys are watching me now and they're all laughing when they see that. But let's suppose this thing is linear just to simplify it. Then you would say maybe we could probably, easily support a 10% decrease of our mortality assumptions over the whole duration of time because 10% decrease, if it was linear, sorry, which mean EUR 900 million reduction of our future margins, and we have EUR 1.2 billion in our future margins. So we would still be okay. What I want to give you with these figures is just a feeling on how we monitor the business, and how resilient this -- our longevity business is to mortality changes, and mortality changes is the most important ingredient on longevity. That's what we saw before.

Now we have always talked about best estimates. That's why I would like to deepen this a little bit here on this slide. What means best estimate mortality for our longevity book? If we concentrate first on the left side of the slide, you see there a graph with four lines. The first line, which is the top line, which is at 100% horizontal line is showing our best estimate assumptions for mortality in 2021. This is today. You see there for every single age, from the age of 30 to the age of 100, you see the best estimate that we have today. The QX, as we call them. And let's put this at 100%.

Now when you take this as a basis, then let's concentrate on the next line, which is the cyan blue or the light blue line down there. What does this line show us right now? This line shows us what the best estimate mortality of today 30-year old male is in the future compared to the best estimate mortality of everybody today. So let's have a look into that. So if we take this 30-year-old male, and let's put him, let's say 40 years into the future. So in 40 years, the guy is 70-year-old. In 40 years, we have 2061. When he gets to the age of 70, you can see that the mortality that we assume in our best estimate for this 30-year old male today in 40 years down the road, at the age 70, is 60% of the best estimate mortality of somebody who's 70-year-old today okay?

And if you do the same game again and we go to the age 90, that means we go 60 years ahead, yes? Then you can see that our best estimate assumption for this 30-year old male when he reaches age of 90 in 2081 is 40% of the best estimate mortality of somebody who is 90-year-old today. This is the way you

need to read this graph. I wanted to show you this graph because I think it gives you some feeling on what we mean by best estimates. Now what does that mean? I mean this does not only mean that the 90-year old person in 60 years down the road, has a lower probability of dying, but it means also that the probability that somebody reaches the age of 90, given that this probability of diving in between is much lower than today is also much higher. So you will end up with much more people at the age of 90, dying with a

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much lower probability, of course. This is what we take into account in our pricing assumptions. Now you might ask yourself, I'm sure, why does the curve go up after the age of 90? Well because differences become smaller when you start to become really older.

I mean running around doing some fitness at the age of 110 has probably less of an impact than at the age of 50. So that's why we believe that this goes back, and there is an age where everybody has a probability of dying of one of 100%, and this will also be the case in the future. So that's the reason why you see these lines going up again at the end. Let me remain a little bit on this graph. You have two more lines there. You have -- and these two more lines that you see, which is the dark blue line and the green line are so-called stress tests that we perform when we do the pricing and when we analyze the business.

One of the stresses, and that's a very trivial stress is to say guys, and if our best estimate was still too high. What if the mortality across the whole best estimate was only 75% of our best estimate, or was 25% lower than our best estimate. This is what you see in the green line. The more interesting line is the dark blue line where we say but what happens if our best estimate is quite good now, and I think it is quite good now. Today I would say -- I mean we're not getting it wrong. We know our best estimate today. So we started the same level. But let's suppose that the best estimate is a little bit better. This little bit is 1% every single year. So that's the reason why you see that the dark line is getting the further and further away from the blue -- from the cyan line because, of course differences become the bigger and bigger. So this is what we call a 1% trends stress. So these are stresses that we perform regularly on our book in order to see, and what if.

Now when it comes to determining how much economic capital we need to take risk on board, we do not -- none of these two stresses, but we do a stress that we call the cure for cancer scenario stress. I, on purpose, didn't show it here because it would be a little bit more complicated. But in a nutshell, the cure for cancer scenario means, let's suppose that five years down the road, somebody finds a cure for cancer and that, at that moment in time, people really start to not to die anymore for cancer. They will die for something else, but not for cancer. So the way the impact of the stress is similar to the 1% stress test I'm showing to you here. This is the stress that we perform in order to determine then how much economic capital we need to hold in order to accept certain risks. Then, of course we need to have a margin, which allows us to cover the return on capital that we need to cover.

So that's what I wanted to say to you on the left side of the graph. Why did I show you the right-hand side of the graph? This is exactly the same, but this time it is for somebody who is not 30-year old, but somebody who is 60-year-old. What you can see here is that the impact of the stresses, it's really the impact of the stresses and, in particular, the impact of the 1% stress, is relatively much smaller than the impact of the 1% stress that you have for a 30-year-old person. This means that for a 60-year-old person, we need to hold much less economic capital. So we need a lower margin than for a 30-year-old person.

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What do I say this? Well this explains why in payment blocks of business where we have no deferred annuities need less margin than deferred annuities. Now maybe also just to stay cool, we're not offering different annuities for 30-year-old people, by the way. I just want to show you the deferred annuities are typically offered for people who are 55 or 60, so we have five or 10 years to go to the pension

But that's the main reason why deferred annuities need a higher-margin than in payment annuities. Okay. So that was it on longevity, but I would like also to talk a little bit about the life and health earnings power and directly come back to longevity and show you what the earnings power of the longevity business has been in the past and what we see into the future. You see this on this slide. So on the left-hand side of the slide, you see the VNB and the EBIT of the longevity business over the past seven years, whereas on the right-hand side of the slide, you see then the future cash flows that we're expecting from the VNB business.

So let's first start on the top left part of the slide with the VNB. You see that we have always been in the past, producing nice VNBs. This is also kind of logical a few months because it is a long-term business. So we're expecting, as you have seen before, long-term margins getting out of this business. It's not immediate, but it's long term. So that's why you're getting a nice VNB out of the longevity business. You see this also, in particular, in 2019 and 2020, we had a lot of new business opportunities and we were writing a lot of new business opportunities in longevity and this triggered also, of course an increase of the VNB.

Now what I also have to tell you is that in these figures, we also included the impact of the financial solutions business in the U.S., which is linked to annuity business, where the underlying biometric risk is annuity. So this is also included here. So you need to take this into account. But still, if you look into these figures, very nice VNB for the longevity business as a whole.

The EBIT also looks very nice, in my view, very positive. You see also that there has been apparently, especially effect in 2020, I showed you the figure in my very first slide, right? You remember why I was showing our performance in 2020 compared to what we expected it to be. You see here also that there was a nice outperformance. The reason for this outperformance are some financial solutions scenes in the U.S. That's one part. But there is also another part. What is the other part? Well is the longevity business itself. On the one hand, it's clear that Covid had a positive impact on the longevity business because there were a little bit more people dying than what we expected. So this has, of course a positive impact.

On the other hand, there is also something else, which is happening. We are not showing the 4% EBIT that I was calculating together with you a few slides before. We're not showing this 4% EBIT from the day one on. We're not showing the 4% every single year on the longevity block. What we're doing, we're doing so-called PADs. These are provisions for adverse deviations. These PADs mean that, at the beginning, we're probably showing a 2% EBIT margin and then we're releasing the PADs over time. So every now and then, we're looking into the PADs, and we see what are the PADs that we can release. The PADs that we can release are mainly PADs for people who have already

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died. We don't need any PADs for people to have died. So that's what we're doing every now and then. This is also something, which has happened in 2020. So the reason why the EBIT in 2020 has been higher than expected. So PADs on one side, Covid on the other side, financial solutions, of course the third reason.

Now looking maybe quickly on the rates on the top right side, which are the cash flows that we're expecting out of the longevity business. You see long, long, long cash flows, quite steady cash flows. I'm absolutely convinced that you're all going to say but what's happening in 2038 -- 2036, sorry, where we expect only EUR 11 million, whereas all the other years around, we were expecting something like EUR 30 million. Again these cash flows, are cash flows for the existing in-force business that we have on longevity. These are, of course not the cash flows that we're getting out of the future business.

So what's happening in 2036? Well this is one of our index deals. The one that I was mentioning, I think it was a Dutch deal that I was mentioning at the very beginning. This index deal where we know that in 2036, we're going to pay out EUR 20 million. But during the 20 years before, we're getting EUR 3 million fees. So the deal is absolutely positive, but the payout, and that's why you see this cash flow pattern there, is happening in 2036. So that's why you see this dip there to EUR 11 million. Yes. So that's on the cash flow side.

And this brings me maybe to the last slide, which is a slide that I have already been showing last time. You remember a year ago, we were looking into the whole of the business group, life and health, and not just longevity this time. These are exactly the same figures, by the way that we have been showing last year. So you see the past again. So the normalized EBIT that we have been

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able to achieve on the life and health business group over the past until 2019. In 2020, of course what I would like to propose you is to analyze the difference between the normalized EBIT that we were expecting at that time for 2020 and what really happens. So the actuals, this is the difference between the EUR 502 million and the EUR 385 million. You see this in this nice wonderful chart, where you see, of course we had a negative impact from Covid. These were, at that time, EUR 261 million. You remember that we had some positive impacts on minority shareholdings that we have in our book at equity. We had also some positive impacts. I showed that in my very first slide, you remember when I showed you the outperformance of our earnings growth drivers, and the total positive impact of this has been EUR 89 million, which brings us to EUR 385 million EBIT on an actual basis for 2020. Now what's going on from 2021 onwards to 2024. Well if you remember well what I was showing a year ago, I was showing exactly the same pattern, exactly the same figures, but we were expecting to reach EUR 600 million normalized EBIT by 2023. You certainly remember that. You might say but why is it now taking one year longer to get to these expected normalized EUR 600 million EBIT that we're showing here?

And the reason cannot be Covid claims because I'm showing you a normalized EBIT. It's not an EBIT with any underperformance, or outperformance, or special impacts. So why is it still one year longer? And The reason why we believe it takes us one year longer are not claims. The reason is that the new business of our clients has simply, I wouldn't say stopped -- completely stopped, but it has slowed down dramatically in the whole world.

These figures that we were showing you at that time, were supposing that we will still have a very nice new business production, and our cedents would have a nice business production, this has slowed down over the last year and also this year. This is the reason why it's going to take us a little bit longer to reach the EUR 600 million on a normalized basis.

Maybe just one thing. Don't expect us to finish this year with 502. You see the 502, which are there in 2021. We already know that this year has been negatively impacted by Covid. In the first half year, we have communicated negative impact of EUR 263 million, if I'm not mistaken. It's also clear that Covid is not over. I mean people are still dying and I'm absolutely convinced that you will have tons of questions in the Q&A around Covid, and we'll try to answer these questions, of course. So don't take the 502 as the best estimate of EBIT or best estimate EBIT for the life and health business group, of course.

Yes. This brings me to the key takeaways. I mean again I'm repeating what I said before. If you look into the longevity business, in the past, one thing we can say is that we have an outstanding reinsurance expertise on longevity. That's very, very clear. We have even been voted best-in-class reinsurer, as you can see there by NMG. We have gained over these 25 years, a very, very granular mortality experience, which is the basis to write longevity deals. We have not stopped innovating on -- both on the product side, but also on the systems side, and we have shown a consistently strong performance you have seen that in the last slide.

The future of longevity for us, what is important? I mean important is that we don't want to have any surprises. So what we need to do, and what we do already and we're going to do it even more in the future, is closely monitor this business, closely check what's happening exactly. This takes, of course time and resources. We try really, and that's what I showed you with this, the dollar amount, or the euro amount, of 1% deviation, we try here to have a very strong resilience to these mortality deviations that can happen. And right now, our portfolio is showing this resilience very, very clearly.

We continue with product innovations, definitely. So that's very important. The further geographic expansion also is something that's on top of our minds. I mean talking about geographies, which are interesting. Asia. Asia might come also working about markets such as Korea, Japan, but maybe also China could be market of the future. We're writing our first longevity deals into an African country right now. We're writing our first -- probably the first longevity deal into Latin America. So this geographic expansion will be very, very important for us. And again data collection, I mean I'm stating the obvious. Now maybe key takeaways on the business group life and health. You have seen that in the last slide, we have an increasing underlying profitability on a normalized basis, of course the VNB volatility. So the value of new business volatility that you might see in the future is mainly coming from financial solutions, and from longevity. I mean financial conclusions are contributing a lot to the VNB.

And it's also very bulky. So there are years where you write a lot of deals. There are years we write less deals. So this has a huge impact on our VNB level and the same is right for longevity. If you look into the EBIT volatility that we have on the life and health side, I would say in principle, not too much, but still it will be -- and it can be and will be negatively

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impacted by Covid, of course. And by any future pandemics, that's very clear. There are some positive impacts that we have seen that will also happen into the future, which are possible recapture of financial solutions deals. When you recapture a finance solution deal, you get the future fee that you expected to get over the years, you get it in one time. So this has a positive impact on your EBIT.

Then, of course and this can be positive or negative. We have also sometimes equity measurements of companies. That's what happened last year. Remember that I think it was a Monument Regroup [ph], and this could also happen this year again. So this is where the volatility might come on the EBIT side of the life and health. With that, I suggest we move forward and go directly Karl into the Q&A session, I guess. Karl?

A - Karl Steinle {BIO 1986424 <GO>}

Yes. Well thank you very much Claude for your fascinating presentation. Indeed, we go into the Q&A. And for that, I also like to welcome Klaus Miller to the stage. Klaus is in charge for all life and health regions, namely North America, U.K., Ireland and -- as well as North and Eastern and Central European markets. So that sets up us nicely for the Q&A session. I already can see a few virtual hands up.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

And the first one is coming from Andrew Ritchie. So Andrew, please go ahead.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

A couple of questions. Apologies if this is a simplistic question. The mortality curve you showed for longevity in your pricing assumptions, is that the same in mortality curve for mortality business, as in the assumed improvement in mortality, which looks pretty dramatic. So would it be the same for mortality business or different? Secondly, I mean you invited the question, what's your expectation for Covid mortality impacts as things stand at the minute for 2022?

And the final question is a cheeky one, but you've put EBIT projections for 2023 and 2024, which we know were going to be wrong because there's going to be a different IFRS basis. So is it going to be higher or lower under IFRS 17 for the life business?

A - Claude Jacques Chevre {BIO 17369098 <GO>}

Yes. Andrew, many thanks. So let me maybe take the first question. I mean it's very clear that also, on our standard mortality business, there are mortality improvements that people are dying less, that's also very clear. We do not have exactly the same assumptions, but we have similar assumptions in principle.

Now it depends on the markets. There are some markets who do introduce into their pricing the future mortality improvements. If you introduce these mortality improvements on the mortality business, your price becomes, of course a little bit cheaper. But that's a risk that you take.

There are other markets, and most of the markets I know, and these are not Euromarket, Klaus, I know, but my markets, we do not take on the mortality business, mortality improvements into account. So what we say internally is that the trend is our friend on the mortality business because we price the business with the current best estimate mortality assumptions.

So on my slide, you remember, the 100% line. We know that people are probably dying less into the fuel future. This is an additional margin that is the trend, which is a friend that we're going to use, hopefully, into the future. That's on question number one. The second one, on Covid, maybe Klaus?

A - Klaus Wilhelm Miller {BIO 16886879 <GO>}

Yes. Andrew, many thanks. So let me maybe take the first question. I mean it's very clear that also on our standard mortality business, there are mortality improvements that people are dying less, that's also very clear. We do not have exactly the same assumptions, but we have similar assumptions in principle. Now it depends on the markets. There are some markets who do introduce into their pricing, the future mortality improvements. If you introduce these mortality improvements on the mortality business, your price becomes, of course a little bit cheaper, but that's a risk that you take. There are other markets, and most of the markets, I know, and these are not U markets clouds, I know, but my markets, we do not take on the mortality business, mortality improvements into account. So what we say internally is that the trend is our friend on the mortality business because we price the business with the current best estimate mortality assumptions. So on I remember, the 100% line.

And we know that people are probably dying less into the future. This is an additional margin that is -- the trend which is our friend that we're going to use, hopefully, into the future. That's on question number one. The second one on Covid. Yes. Andrew, obviously it's difficult to look into the future what will happen in the Fourth Quarter. We have seen and reported already for the first half year, EUR 263 million, which is basically the same number as we have seen all last year. And as Claude said already, this will continue into the Fourth Quarter and the Third Quarter, sorry, and the Fourth Quarter as well. The numbers are currently put together. But from my perspective, the question is not so much what will happen. Is it a EUR 50 million or EUR 100 million hit somewhere. The question is exactly the same as with the P&C colleagues today I guess it was circle who said the times have never been better, at least for the last 10 years in P&C pricing as they were today.

And for the life side and equivalent statement would be what is the earnings power Claude referred to for our underlying business. When you just look at the last couple of years, we are now seeing about 75-ish percent of our normalized EBIT coming from financial solutions. And about 10% is probably growing to 15% in the meantime now from longevity. What Claude and I did in the last 10 years, we shifted gradually from being the normal mortality reinsurer, and they usually call that bread and butter business, and we were not that happy with not enough butter and very old and hard bread. So we did started to shift a little bit to financials, not only a little bit. We shifted to financial solutions and to longevity.

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And if you want to compare it, we are not negative about mortality organic business, in general. We write that. But most of the profit will come elsewhere. It's a little bit like when Claude and I go out for dinner at night, we use a fine dining restaurant and, of course we start with bread and butter. But as a start, we have longevity and then it's financial solutions. The dessert then usually is some of our strategic cooperation's, like Viridium, like Vitality, like Monument Re, and others. So the dependence on the mortality side will shrink in the future.

Having said that, you will see Covid claims, no question about that, in the Third Quarter. I'm really afraid probably also in the Fourth Quarter. You have seen the spike in the U.S. in August and September in mortality in the population. There are lots of, let's say mitigating effects on our side. Jean-Jacques referred to the pandemic cover. We have bought already, in 2013 ours, at that time, not really keen on that because I thought our group risk management is charging us too much in terms of capital for pandemic risk. They were right because I didn't like the requirement -- capital requirements. We bought this pandemic cover and we bought it very cheap. And now this is in the money, and we'll probably pay out in 2022 as Jean-Jacques indicated. For the real Third Quarter numbers, you have to wait for a few more weeks.

A - Claude Jacques Chevre {BIO 17369098 <GO>}

Thank you, Klaus, and then your last question on IFRS. I mean yes, that's a tricky question, I must say. One thing is clear, IFRS 17 is an accounting system, and it doesn't change anything on the economics of our business. So the economics are not going to change. But the concrete impact is something that we're calculating now. Clemens was alluding to it already. We are now making all our test scenarios, and we will be able to tell you something later. Right now, but I cannot answer this question, unfortunately.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Okay. Thank you. Andrew, for that question. We continue with Thomas Fossard with this question.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Carlos, actually, I had some questions for Sven and Jean-Jacques, so I don't know if this is the time to yes. Please go ahead. All right. Okay. Sorry, I had a couple of questions related to the previous presentation. The first one, which is a general question regarding pandemic and climate change. I mean are you seeing any regulatory pressure around the world that actually, the industry are not factoring well enough this risk and you may face or the industry may face new regulatory pressure coming on these two sides, actually? And the second question for Sven as well is, if you could help us to understand what you -- what is your exposure to aggregate covers that you may have sold to your clients. Is it a product that you've been able to sell in the past or not some much, just to be understand what's your exposure to what you call the side perils?

A - Sven Althoff {BIO 19104724 <GO>}

Yes. Sure. Thank you, Thomas. I guess you are particularly referring to aggregate covers on the natural catastrophe side, right? Let me start -- start me with that question.

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Historically, our risk appetite for aggregate covers on the natural catastrophe side has been much more limited compared to the vertical per event towers. So we only have a very small part of our NatCat business written on an aggregate basis.

That has changed a little bit in the latest two renewal seasons where we took slightly bigger positions. Once that business was repriced after having had losses for a number of years. So the reward relationship was such that we did write a little more. Structurally, we much prefer the event towers and try to avoid the aggregate towers.

On your pandemic question, I mean we see that regulators and politicians are encouraging the industry on certain lines of business, like pandemic coverage to start providing that cover again in order to support the economy. But I wouldn't call it significant pressure at this stage. I am certain that the P&C industry will be prepared to write more pandemic exposures again. But it's difficult to start creating that product in a still ongoing pandemic because the risk of you writing a known loss is just too high with Covid-19 situation.

Once Covid is behind us, at least the pandemic side of Covid is behind us, I'm certain that there will be coverage for pandemic exposure again from the commercial market and also in private partnerships.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Thank you, Thomas. The next question is coming from Vinit Malhotra.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. So just on the life side. So thanks for the great presentation, Claude and Klaus. So just the shifting of the EUR 600 million by one year, you mentioned it's linked to your clients selling lower volume of life insurance covers? And just -- I'm not really first about one year, EUR 600 million here or there. But what is important to me is what you seeing in the demand side? So we keep hearing that Covet has enhanced sensibilities around risk in everybody prefuel. So will there be higher demand for protection? And obviously Yuasa financial solutions is 85% -- 75% of EBIT. So would that Rub on to financial solutions or maybe less so should you shift a little bit more towards protection because of this potential demand? Just any thoughts on this will be very welcome. Yes. Maybe let me -- you can take the last solution side afterwards, Klaus. Maybe just on this direct insurance side. The demand is there, of course.

But the problem is that many insurance companies, they have not been prepared to capture this demand because they needed to change the way they were distributing their life business from a standard old-fashioned analog way of distributing into some kind of digital distribution. This took them some time. So this is where we see this, let's say this slowing down of new business production very clearly. But you're absolutely right that it is clear that the consciousness of the end consumer towards life business has increased, and this might give us, of course a certain push into the future.

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But you also know when I was explaining that probably before already that the new business on the life and health side is really only just the real new business that you write. It is not like on the P&C side where you write every single year, I would say the whole portfolio again and again and again on the life and health side, we're sitting on a big portfolio, and this is there. The new business is representing quite a small part of the total cake. So that's why these impacts that you will see, this, I would say increased sales of life of risk policies on the life and health side will take some time.

A - Klaus Wilhelm Miller {BIO 16886879 <GO>}

On the financial solutions side, we are still growing even this year, but we are not growing as fast as we anticipated. The reason is linked to Covid in the sense that Covid has changed some things in the financial markets dramatically. And clients are just -- I wouldn't say paralyzed, but they just stopped and held back and say okay we wanted to solve a regulatory problem, but does it make sense to continue with what we have discussed with Hannover Re so far? Or should we just wait until the capital -- or the financial market settle a little bit and then maybe get a better price? Whatever the clients are thinking, I can't tell you, but it stalled a little bit.

The really big demand we have seen 18 months ago, it's still there, but the execution lacked a little bit, not on our side but on the client side. This is why we pushed it back. You can expect that maybe there is extremely more business in the next two years so that we still reach the goal. But for the time being, we have just decided to push back the plan -- official plan figures a little bit.

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you Vinit. The next question is coming from Henry Heathfield.

Q - Henry Heathfield {BIO 19760919 <GO>}

Very nice presentation again. Thank you very much. I'm unfortunately going to ask some questions that highlight my lack of understanding. So sorry to anyone that does already understand this. In your Slide 8, your present value claims anointed. I wondering if you could just break down exactly what that is? Is that the difference between your fixed revenue floating there? And what's the app pot? Have you really use for me? The second question on the same slide, just moving from future margins on the total margin, the admin expenses in between the negative EUR 260 million, but we're going from future margin of EUR 1.2 billion total margin of EUR 1.5 billion. So perhaps I don't understand why the EAA expenses are bumping up total margin, just probably a complete lack of understanding from my side. Then finally, just within this kind of longevity reinsurance. I mean how can you be better than peers there it seems let me kind of understand how you think be better business e specialty and reinsurance P&C side. But I just imagine in the data margins. So I just wonder kind of how you can differentiate itself really through versus a mixes?

A - Claude Jacques Chevre {BIO 17369098 <GO>}

Thank you very much for the question. Maybe on your first topic, we don't have the slide now. But we all -- we remember the slides with the monitoring -- with the extract of the

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monitoring and you were referring to the first column, which showed the present value of claims at quote, which were the EUR 32 billion. What this really represents is that -- let me take one piece of business. If I take one piece of business on to the book, then what I'm doing with my best estimate assumptions, we're estimating all the annuities that we're going to payout for the whole lifetime of this business that we take on to our book until the last pensioner has died. Then we take the present value. I mean today the present value is easy to be taken because interest rates are so low. So you can more or less sum them up. But you take the present value of these best estimates annuities that we're going to pay from now until the last person dies. The figure, the EUR 32 billion that we showed was the sum of all the present values of best estimates that we were having over all the years on this business. So it is really -- this business, which has been written at various points in time, in various years, and we sum them up. So this is one thing. Then you -- so I hope I'm answering this question.

The second question was your admin expense question. So the EUR 259 million, I think we're showing there. These are the admin expenses that we estimate for the whole duration of treaty. So when you write a new business, of course you need some expenses to take the business on board for negotiations, et cetera, et cetera, then you need to monitor, price the business. So these are the admin expenses. The EUR 259 million is the sum of the total factored in admin expenses for every single deal from the inception -- from the day we quoted the deal. So the EUR 259 million in -- all the admin expenses we already had and all the future admin expenses we need in order to monitor and administer the business, this is the EUR 259 million. That's why you can take them out of the total margin that you have. We could have probably -- with hindsight, I must say we could have also shown you how much admin expenses have we already had and what is the future and expenses that we would have so that we have something which is similar to the margin. The margin we split it into past and future margin. The admin expenses, we took it as a whole. So this is -- I hope I'm clarifying this part here. And now, I'm really sorry, what was the third question.

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Q - Henry Heathfield {BIO 19760919 <GO>}

Why do we better than peers.

A - Claude Jacques Chevre {BIO 17369098 <GO>}

Yes. Yes. Okay. So I would say that the market is definitely very competitive and we try -- what we try is to diversify ourselves out of where the market is most competitive. I told you that at the beginning, or in the U.K. only and what we did, and I showed this to you is also via new products -- via new systems that we were inventing and innovating every now and then, we're always a little bit ahead of the game.

Now if a market starts to become too crowded, and this is a little bit -- Klaus, you know it better than me, the U.K. is a little bit crowded on these longevity deals, then we say guys come on. We don't need premium volume here. And Jean-Jacques mentioned it already, we need profits. So that's where we say we slow down and we look into other possibilities. That's why I was showing you the geographic expansion. I was mentioning geographic expansion into New Zealand, Australia, into Japan, Korea, into Africa, into Latin America. So this is the way we're going about it.

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Now in addition, and that's also very important in my view, what clients love about us is to get this, I will say execution reliability or this execution certainty. They love it, not only with longevity. They love it with financial solutions. They love it on the P&C side. We heard that. This is a very, very important factor. So sometimes it's not the price, which is determining. Sometimes it's really the fact that you know you have a partner who is looking at the business, who's flexible, and who can also quote quite fast. Because I told you, remember the various factors that you have when you're quoting a longevity deal, you have various insurance companies, the pension fund negotiating. So you need to be flexible and fast, and speed sometimes is an advantage. Speed, combined with very good data, puts us in an absolute competitive advantage in my view.

Q - Henry Heathfield {BIO 19760919 <GO>}

So can I just -- sorry, on the admin expenses, just clarify, is that the cost to you? Or is that what you charge?

A - Claude Jacques Chevre {BIO 17369098 <GO>}

No. It is a cost to us -- sorry. So if this was not clear, it is a cost to us.

Q - Henry Heathfield {BIO 19760919 <GO>}

Okay. The total margin is removing the admin those are costs basically, but you will incur those?

A - Claude Jacques Chevre {BIO 17369098 <GO>}

We have -- some of these EUR 259 million, we have incurred them from 1995, if you want, an exaggerating until 2020. And part of these admin expenses are going to be incurred. We price them in. When we price the business, remember the fixed leg is our best estimate plus the margin. This margin needs to cover what? It needs to cover admin expenses. So at the time of pricing, you need to know what your future admin expenses on the whole block of business are. So you price this in and you need also to have into this margin, you need to include the cost of capital. I explain you how we calculate the cost of capital with these stress scenarios, the cure for cancer scenario, both need to be included when we price the business.

And when we talk about VNB. As you know, VNB is really the future, is the profits of the deal after admin expenses, after cost of capital. So this is the VNB really what's left over. I'm not sure I'm responding to your question, but I hope it can.

A - Karl Steinle {BIO 1986424 <GO>}

Thank you. I'm not sure if we have another question at least on my screen, it says Iain Pearce has raised his virtual hand. Is that still --

Q - Iain Pearce {BIO 19522835 <GO>}

Yes. Just a quick one. Just a quick question on the actual versus expected. I was a bit surprised that you've got that 100%, given that -- under the impression we've seen fairly

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favorable experience in terms of sort of -- for longevity, right, in terms of higher mortality recently, particularly in the U.K. So just wondering how that factors into the sort of actual versus expected that you disclosed there?

A - Claude Jacques Chevre {BIO 17369098 <GO>}

Yes. I'm happy to do so. Well let me give it a try, okay? I didn't expect that question. But if you take Covid, Covid had an impact, of course on our business. But what is the impact of Covid? It is probably, Klaus, correct me if I'm wrong, a 10% increased mortality, probably. Let's take it 10% increased mortality. If you then look into our longevity book, the average age of our book is approximately 75 years. So that's more or less the average age that we have there. The mortality -- now, I'm looking at Klaus of somebody who is 75 years old, is probably 2%, yes? Let's make it 2%.

So the additional mortality of a 10% increased mortality is 2% per mil. It is only 2% per mil that we see as an additional for mortality. It is very, very limited, the impact, if you want, of the additional -- of the Covid that we will see on the mortality. This is definitely not something that we can see already now on the actual versus expected analysis that we ran in 2020. The impact is minor, and you will never see that.

Q - Iain Pearce {BIO 19522835 <GO>}

Obviously those sort of longevity tables have been favorable, I guess similar factors apply?

A - Claude Jacques Chevre {BIO 17369098 <GO>}

Yes. Yes.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well thank you for all your profound questions. I think we are closing the Q&A session now. And also, thank you, Klaus, and Claude for your wide-ranging insights.

In a moment, Jean-Jacques will summarize the day and take a brief look forward. And as always, we will not providing any new guidance for today and for the year 2022. That will have to wait until the Q3 conference call on November 4.

But I'd like also, draw your attention to the questioner. Claude already mentioned that your feedback is very valuable to us, and we're really looking forward for that in a very detailed manner. Therefore, that is a very important element for us to refine our work continuously.

On that note, I'd like -- certainly, like to thank you all for -- behalf -- for participating at today's Investor Day. This is also on behalf of the entire Investor Relations team. It's really gratifying that so many of you have participated today and have showed such a keen interest in our presentation. On that note, I'd like to hand over to Jean-Jacques.

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A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Well thank you very much indeed, and thank you to all for participating today. I found the questions highly relevant, and I hope it was an informative half day. Of course any further question you might have, you can interact with us in the coming days and weeks, no doubt.

I won't go to an in-depth summary of the sessions. I think that would be too lengthy at this stage, but I just want to show one more time, our purpose statement because I think it's underlying what we're trying to do as a company and the purpose statement is about entrepreneurial period beyond risk sharing is expressing that idea. The teaming up aspect is very much about being one team, Hannover Re and well coordinated for the partnerships with our clients, with new entrants of the business, new partnerships we're trying to seek. The creation of opportunities underlines the fact that we're very optimistic about the outlook for Hannover Re. We see many opportunities being in the so-called bread and butter business, but also in more tailor-made areas of our business. So I think growth is certainly not the biggest problem. I think the issue is more to manage the cycle, to manage profitability over the next few years.

In my presentation, I try to convey the message that we're well on track on the strategic initiatives. They are gearing towards supporting future growth. I think their impact will be felt over time, but it's important that we work very focused -- in a very focused way on these initiatives to accompany the growth trajectory of Hannover Re.

I also mentioned ESG, which is a very topical theme where we've done a lot of work and recently issued some statements to signal the path and the support where we want to have on net zero targets on climate change generally, and we want to be an active player in that field.

And we mentioned the dividend. Clearly, not a new strategy, but certainly an attempt to make very explicit what we tried implicitly to do, so focusing on continuity of the dividend and making sure that the ordinary dividend continues to be steady and grow over time, clearly subject to capitalization. We are focusing on making sure we can deliver on having an additional special dividend that remains in the card for this year and the coming years. This is very much part of our strategy as part of the dividend communication.

Clemens had a deep dive on inflation and asset management. I think on asset management, you've seen that we're very well diversified that we're very resilient, and we're happy about our positioning at this stage, an inflation risk, very high on the agenda. We know that. We're looking into it. I think our pricing approach, our reserving approach are conservative in taking this into account. Obviously on the asset side, we have the linkers, EUR 5 billion of inflation linkers, which give us an additional protection for inflation risk.

P&C, you've seen the growth story. We continue to grow very, very well. We see opportunities in the traditional and in the nontraditional space. There are -- there is growing demand. There is momentum in the market with the pricing going in the right direction from our perspective. end of flight to quality, which is linked to consolidation of

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panels of reinsurers and for us as a preferred partner for our main clients, but also for the brokers we see the benefit of these trends. So a very optimistic outlook and a preferred partner position in the P&C space.

Life and health, deep dive on longevity. I hope it was useful to give us a sense for the earnings power of this line. We're a leader there. We think we have a history of product innovation in longevity. One of our goals is, of course to continue to diversify our book of business. We're very U.K. centric at this stage, but are seeing some good opportunities outside of the U.K. going forward. You saw -- you've seen the earnings power of the whole portfolio, the EUR 600 million EBIT with a slight delay but in normalized terms, I think the earnings power of the life and health business is very convincing. Clearly, we have a short-term challenge with Covid. But I think going forward, the life and health business will generate very good earnings for the group.

So that was it. I hope it was an informative half day updating you on our strategy, on our business and I look forward to remaining in touch. Next milestone for us is the conference call. It's on the 4th of November, and that's where we will present our Q3 results and another opportunity to address your questions and feedback. Thank you very much. With that, I close the Investors Day for Hannover Re.

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