VIG
VIENNA INSURANCE GROUP
Protecting what matters.

IFRS 17/9 TEACH-IN

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IFRS 17 MEASUREMENT MODELS AND IMPLEMENTATION AT VIG

IFRS 17/9 ACCOUNTING OPTIONS AND DECISIONS TAKEN AT VIG

NEXT REPORTING STEPS AND FIRST INDICATIONS

MEASUREMENT MODEL OVERVIEW

VIG applies all 3 models

	General Measurement Model (GMM)	Variable Fee Approach (VFA)	Premium Allocation Approach (PAA)
Application	General approach	Contracts with underlying item; mandatory use	Short-term contracts (<1 year); optional use
Contract types	All types possible; if VFA criteria do not apply	Life with profit participation, unit-linked; long-term health	Short-term non-life, health, life
LRC	PVCF + RA + CSM	Fair value underlying – variable fee + RA + CSM	Similar to IFRS 4 unearned premium reserve
LIC	PVCF + RA	PVCF + RA	PVCF + RA

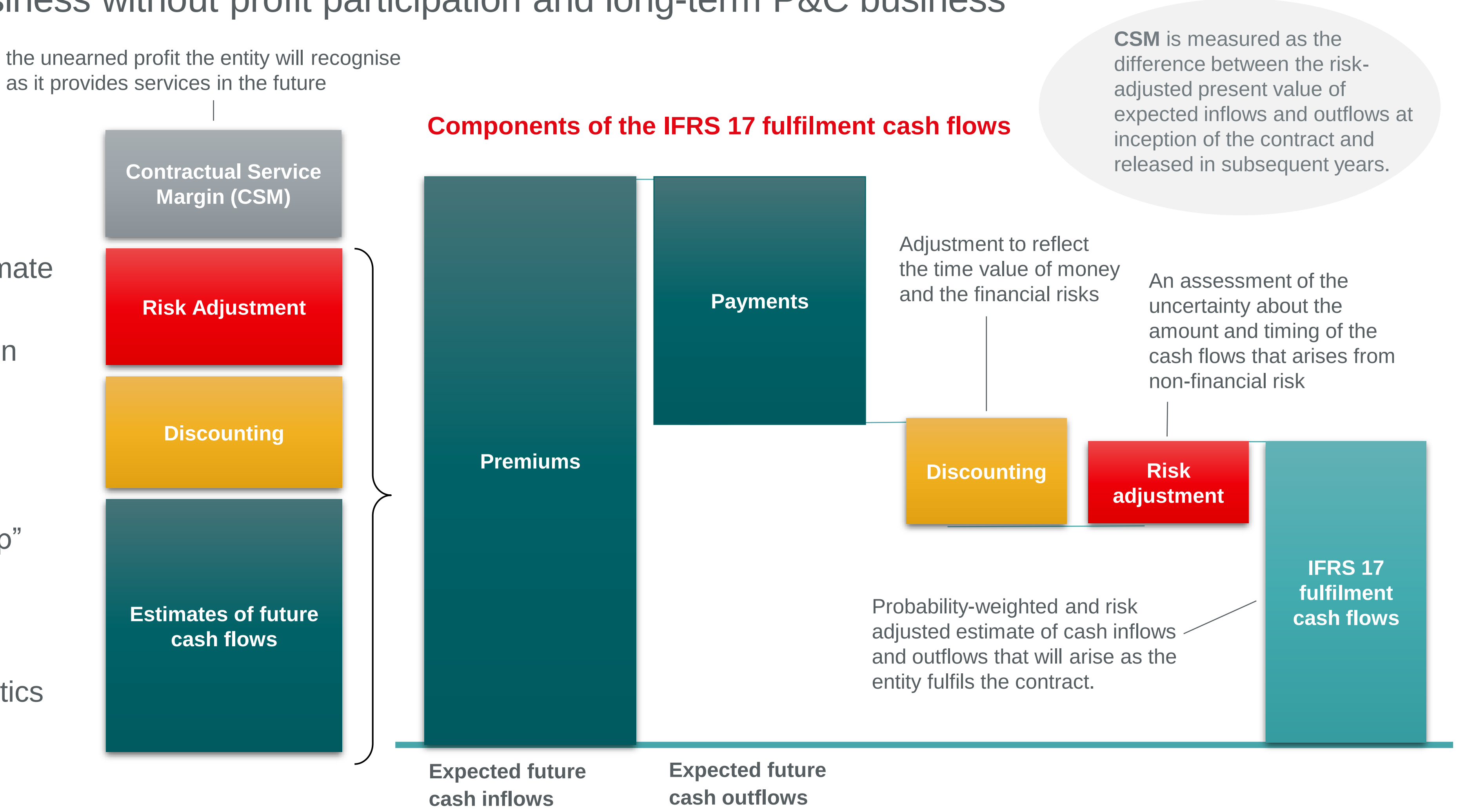
LRC = Liability for Remaining Coverage (LRC); LIC = Liability for Incurred Claims; PVFCF = Present Value of Future Cash Flows; RA = Risk Adjustment; CSM = Contractual Service Margin

GENERAL MEASUREMENT MODEL (GMM)

Application in VIG: Life business without profit participation and long-term P&C business

Principles

- Measurement model uses a "building block" approach
- Measurement uses current estimate assumptions
- Measurement objective based on notion of the entity-specific "fulfillment of obligations"
- Discount rate can be developed from market interest rates using either a "top down" or "bottom up" approach→ VIG decided for "bottom-up"
- Discount rates based on market interest rates whose characteristics match those of the liability (currency, duration, liquidity)



VARIABLE FEE APPROACH (VFA)

Application in VIG: Traditional life business with profit participation, unit-linked and long-term health business

Under the VFA, changes in the insurer's share of the fair value of the underlying items (e.g. assets) adjust the CSM. The application of VFA is mandatory if the eligibility criteria are met.

- The **building blocks still apply** and the CSM is still determined the same way at initial recognition.
- The **approach considers the variable fee** associated with direct participating contracts.
- The underlying items can be held or referenced.
- Should assist entities in **reducing accounting mismatches and volatility** for these types of contracts.

Obligation to pay fair value of underlying items

−

Variable fee (the entity's share in the fair value of the underlying items) — **Adjusts the CSM**

=

Obligation to the policyholder = PVCF

PREMIUM ALLOCATION APPROACH (PAA)

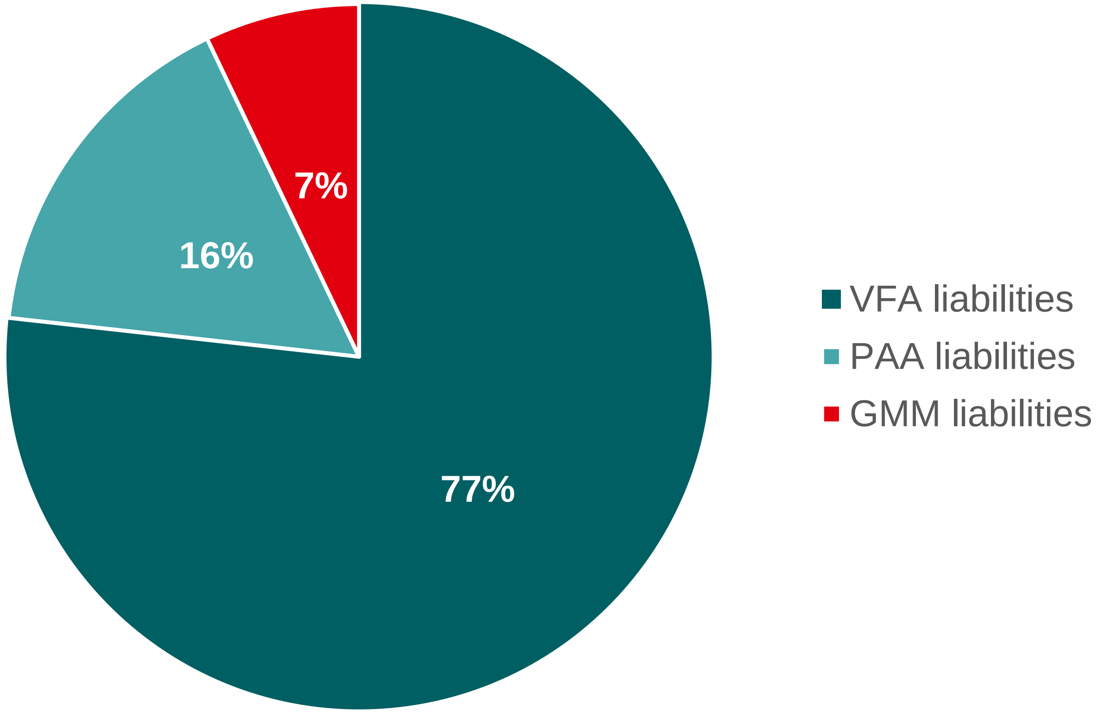
Application in VIG: Nearly all P&C business

PAA Eligibility

- For direct non-life business, the **PAA is the default measurement model** for all one-year business and the preferred measurement model for multi-year business (if eligibility criteria are fulfilled)
- For reinsurance business with external insurers VIG applies GMM in order to be in-line with reinsurance industry
- VIG reviews periodically the PAA eligibility via quantitative testing (comparing LRC under GMM and PAA)

SPLIT OF INSURANCE TECHNICAL RESERVES BY MEASUREMENT MODEL

ILLUSTRATIVE



GROUP OF CONTRACTS

Portfolios structured by IFRS 17 regulation

Insurance Portfolio

- Of similar risk
- Managed together
- Same product line

Cohorts

Contracts per underwriting year separated; exemption: mutualised contracts

Profitability

At initial recognition
- onerous
- not onerous

IFRS 17 Groups of Contracts

Note: Insurance portfolios in line with Solvency II Lines of Business

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OPTIONS IFRS 17/9 OFFERS

Key accounting options and decisions (1)

Discount Rates

- VIG uses bottom-up approach: risk free rate plus illiquidity premium
- FVA at Transition: CoC Approach for the Solvency II Own Funds Projections

Risk Adjustment

- VIG uses a percentile approach similar to Solvency II
- Periodical review in the running periods based on the current CoCs

IFRS 9 Securities FVtOCI, Real Estate

- VIG will use this option for equities to reduce the volatility of the financial impact of markets rates on financial instruments
- Together with the extended use of VFA VIG tries to match swings in the interest environment in the P&L
- Is also predominately used for participations of strategic importance
- Only dividend payments included in P&L; result from disposal netted in equity
- Real estate will still be accounted at purchased value minus regular depreciation

OPTIONS IFRS 17/9 OFFERS

Key accounting options and decisions (2)

Year-to-date accounting

- VIG makes use of year-to-date accounting to avoid effects of the frequency of reporting to the annual result
- Changes in estimates during the year are not taken into account when calculating year-end figures

Annual Cohorts

- VIG makes use of the optional exemption from the formation of annual cohorts for intergenerationally mutualised and cash-flow matched insurance contracts
- Decision concerns primarily long-term life insurance with profit participation and long-term health insurance

Group of Contracts

- VIG will use portfolios for direct insurance and facultative reinsurance compatible with Solvency II Lines of Business
- Comparability with Solvency II important due to interconnectivity between IFRS profitability and Own Funds creation

OPTIONS IFRS 17/9 OFFERS

Transition – Application of the approaches at opening balance sheet date

Full Retrospective Approach (FRA)

- Primary approach for P&C business, especially those classified as PAA
- Limitation for further usage was unavailability of necessary data
- A very limited range of life portfolios was calculated with FRA in Poland, Slovakia and Czech Republic

Modified Retrospective Approach (MRA)

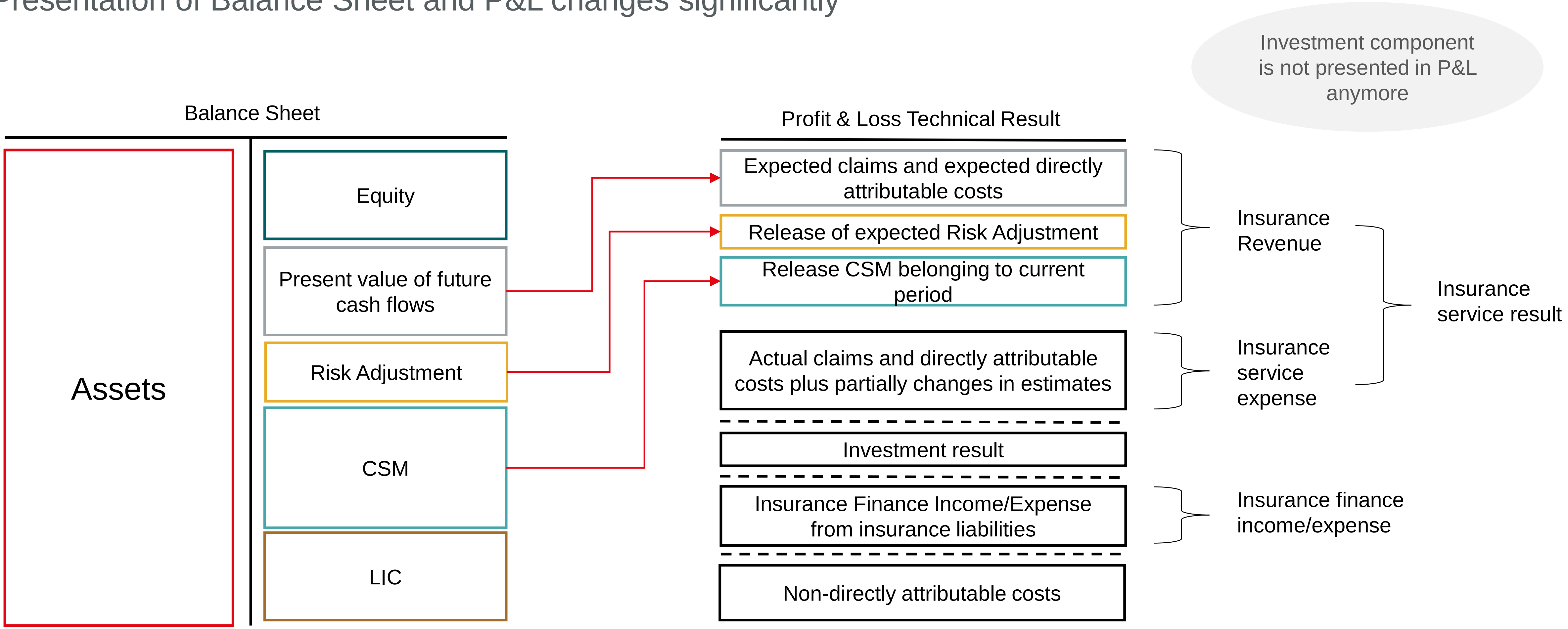
- Was only used for quality assurance purpose for selected portfolios
- During transition no portfolio was modelled using this approach

Fair Value Approach (FVA)

- Preferred approach for life and long-term health portfolios
- Almost all CSM based on FVA

IMPACT OF IFRS 17/9

Presentation of Balance Sheet and P&L changes significantly



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POTENTIAL SET OF KPIS UNDER IFRS 17

Existing set enlarged by new KPIs

Turnover

Portfolio Premium
Insurance Revenue

Profit

Profit Before Tax
Earnings per Share

Profitability

Administration Cost Ratio
Combined Ratio

Old/New Portfolio

CSM Development
New Business CSM

Capital

Solvency II Ratio
Operating RoE

ROADMAP TO IFRS 17/9 FOR VIG IN 2022/23

First qualitative information on IFRS 17/9 in HY Report 2022

IFRS 17/9 teach-in

FY-22 IFRS 4 results reporting (Discussion of IFRS 17/9 transition impacts)

3M 2023: Update

6M 2023 results: 1st IAS 34 IFRS 17/9 reporting

9M 2023: Update

FY 2023 results: full IFRS 17/9 reporting

Q2-22 · Q3-22 · Q4-22 · Q1-23 · Q2-23 · Q3-23 · Q4-23 · Q1-24

IFRS 17 parallel runs and transition balance sheet (Jan 1, 2022)

Auditor alignment / Peer alignment on KPIs

IFRS 17 EQUITY ONLY SLIGHTLY BELOW THE LEVEL OF IFRS 4

Reconciliation of equity IFRS 4 to IFRS 17 (in EUR mn)

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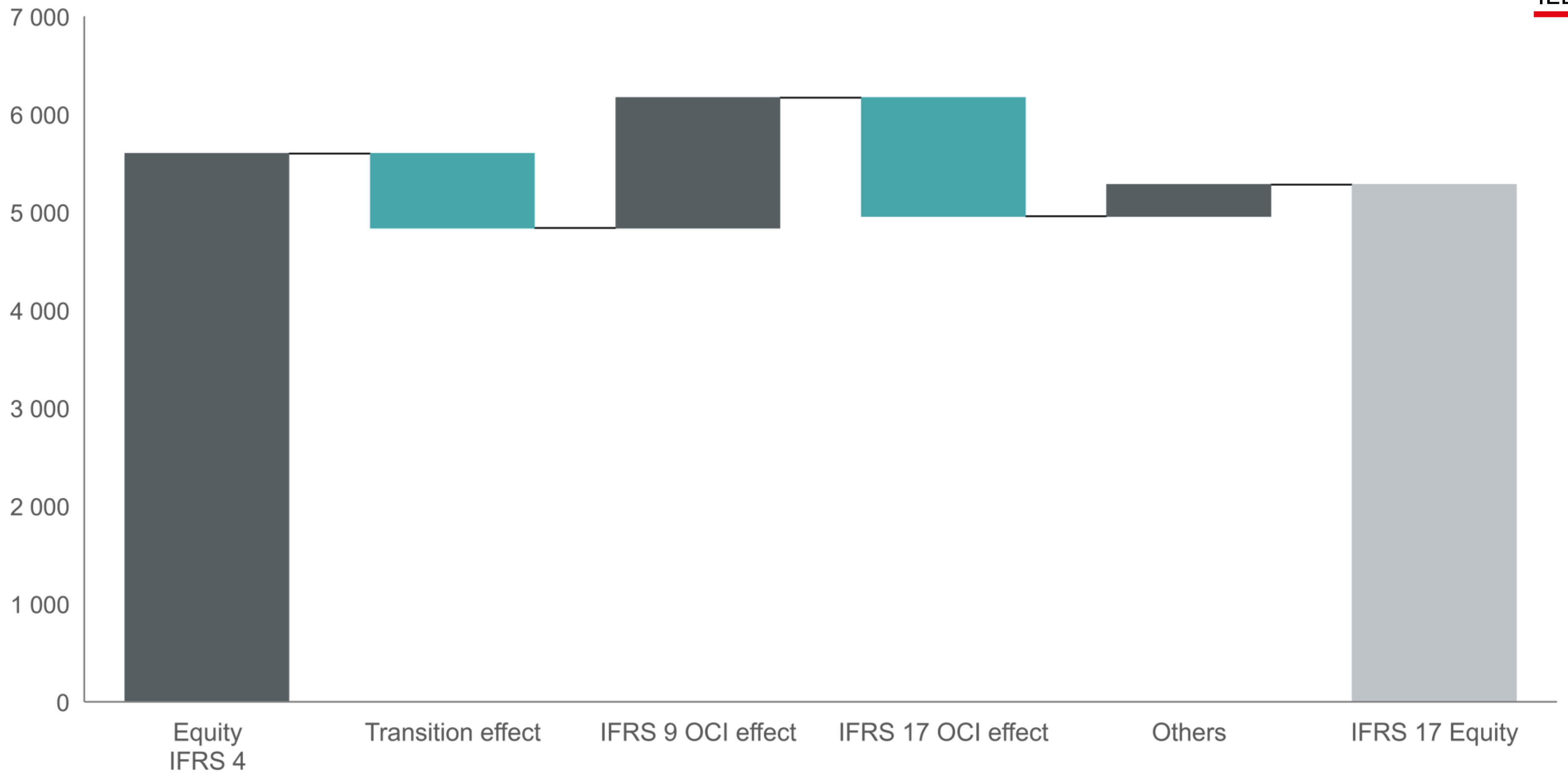

IFRS 17 EQUITY INCLUDING CSM CLOSE TO SII OWN FUNDS

Indication of IFRS 17 equity reconciliation to Own Funds (in EUR mn)

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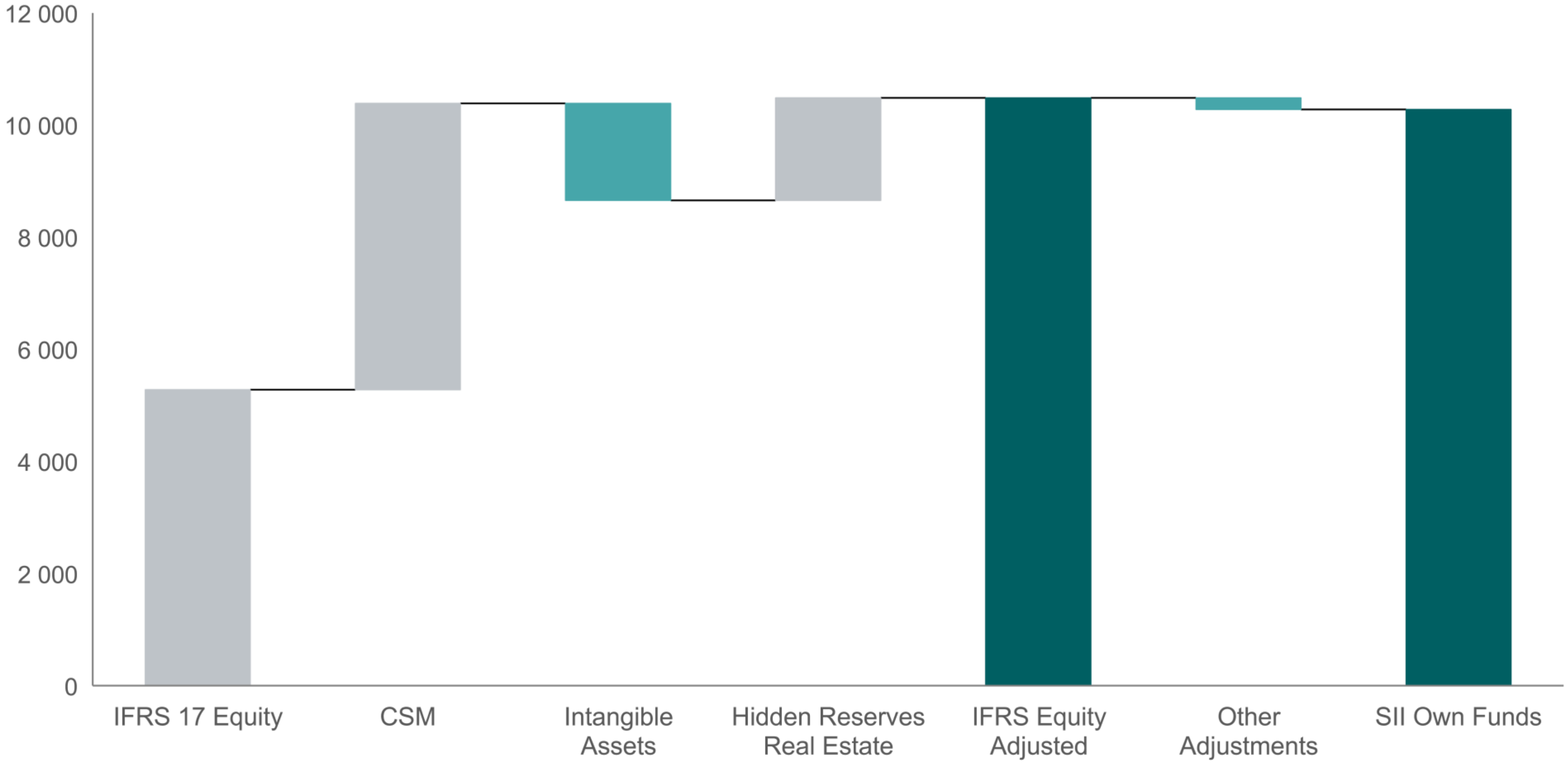

EXECUTIVE SUMMARY

IFRS 17/9 will not change how VIG runs its business

- P&C business will primarily be based on PAA, therefore only limited changes to IFRS 4
- Combined Ratio as KPI will remain, although the calculation will change due to new IFRS 17 presentation

- In Life and Health insurance, the presentation of CSM improves the clarity of profit drivers and better reflects the long-term nature of the business
- New KPIs in Life and Health are the CSM and the New Business CSM
- Different measurement models (GMM and VFA) will be applied in Life; application of VFA for long-term health business
- Around 75% of technical reserves in Variable Fee Approach (VFA)
- Investment component of benefits not presented in P&L anymore

- **IFRS 17 equity (excluding CSM) at comparable level as under IFRS 4**
- **IFRS 17 equity (including CSM and adjusted for hidden reserves related to real estate and intangible assets) at level of SII Own Funds**
- **Total assets under IFRS 17/9 slightly below IFRS 4 level; in total above €50 billion**

Q&A

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Financial calendar 2023*

Date	Event
15 Mar. 2023	Preliminary results for the financial year 2022
19 Apr. 2023	Results, Annual Report and Sustainability Report for the year 2022
16 May 2023	Record date Annual General Meeting
26 May 2023	Annual General Meeting
30 May 2023	Ex-dividend day
31 May 2023	Record date dividend
31 May 2023	Update first quarter 2023
01 June 2023	Dividend payment day
30 Aug. 2023	Results for the first half-year 2023
30 Nov. 2023	Update first three quarters 2023

* Preliminary planning

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