

IFRS 9/17 Teach-In

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IFRS 9/17: new accounting era will not change UNIQA's underlying business



Objectives of the standard setter:

- 
Achieve consistency in accounting
 for insurance contracts and investments in order to solve IAS 39/IFRS 9 accounting mismatches
- 
Enhance comparability of reporting
 of the whole industry by eliminating shortcomings of previous accounting regimes
- 
Increase transparency for investors
 by disclosing future profit margins, as well as separate valuation and presentation of onerous contracts



No expected impact on:

-  Business strategy
-  Dividend policy
-  Strong capital position under Solvency II
-  Reserving strategy

Agenda

01 IFRS 9/17 principles

03 IFRS 17 impact on UNIQA

02 Balance sheet, income statement and KPIs under IFRS 17

04 Summary & next steps

TOP 1

IFRS 9/17 principles



IFRS 9 transition indicates higher volatility in the investment result



Income & expense of financial investments under IFRS 9

OCI

- Valuation of Bonds (SPPI-passed)
- Valuation of Equities & Participations with OCI-Option

P&L

- Ordinary Income from all assets
- Valuation of Bonds (SPPI-failed)
- Valuation of Equity Investments (without OCI-Option)
- Valuation of Fund Investments
- Valuation of Derivatives
- Expected Credit Loss of Bonds
- FX-Valuation



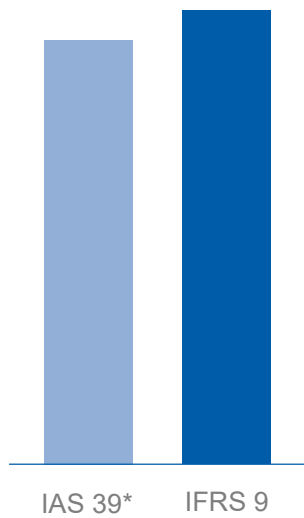
Impact on UNIQA

- Small increase in total book value of financial assets & total equity due to fair value re-measurement
- Small Expected Credit Loss at transition due to high overall credit quality of bonds
- Higher future P&L volatility within Investment Result due to increased share of P&L investments (esp. Fund Investments)
- Smaller future realized gains/losses due to increased share of P&L investments & application of OCI-Option to equities (no recycling permitted)

IFRS 9 increases share of investments valued through P&L

Increase in total financial investments due to fair value re-measurement

Financial Investments



*Net of adjustments for scope & presentation under IFRS 9 (Policy Loans, Investment Contracts)

IAS 39

IFRS 9

Asset Class	IAS 39 %	Measurement	IFRS 9 %
Deposits Loans Bonds reclassified to Loans and receivables	2%	Amortized Cost	2%
Bonds Equity Shares Participations Funds: Equity, Private Equity, Fixed Income, Infrastructure	97%	Fair Value OCI	80%
Derivatives Structured Bonds and Funds	1%	Fair Value P&L	18%

Majority of Bonds & Loans are „plain-vanilla“ and pass the SPPI-Test
Funds generally do not pass the SPPI-Test due to their contractual nature

UNIQA applies all three IFRS 17 measurement models

Reflecting underlying business specifics of each portfolio

General Measurement Model (GMM)

- General measurement model
- Applicable to all contracts **without** “direct profit participation features“

Variable Fee Approach (VFA)

- Modification of GMM with regards to profit recognition to reduce volatility
- Applicable to all contracts **with** “direct profit participation features“

Premium Allocation Approach (PAA)

- Simplified approach, high comparability to IFRS 4 regulations
- Applicable to short-term business



Share of IFRS 17 insurance liabilities

8%

Main areas of application:
Long-term P&C business, Life business without profit participation

81%

Main areas of application:
Health business and Life business with profit participation, mutualization applied in UAT; index/unit-linked business;

11%

Main areas of application:
short-term P&C business, reinsurance

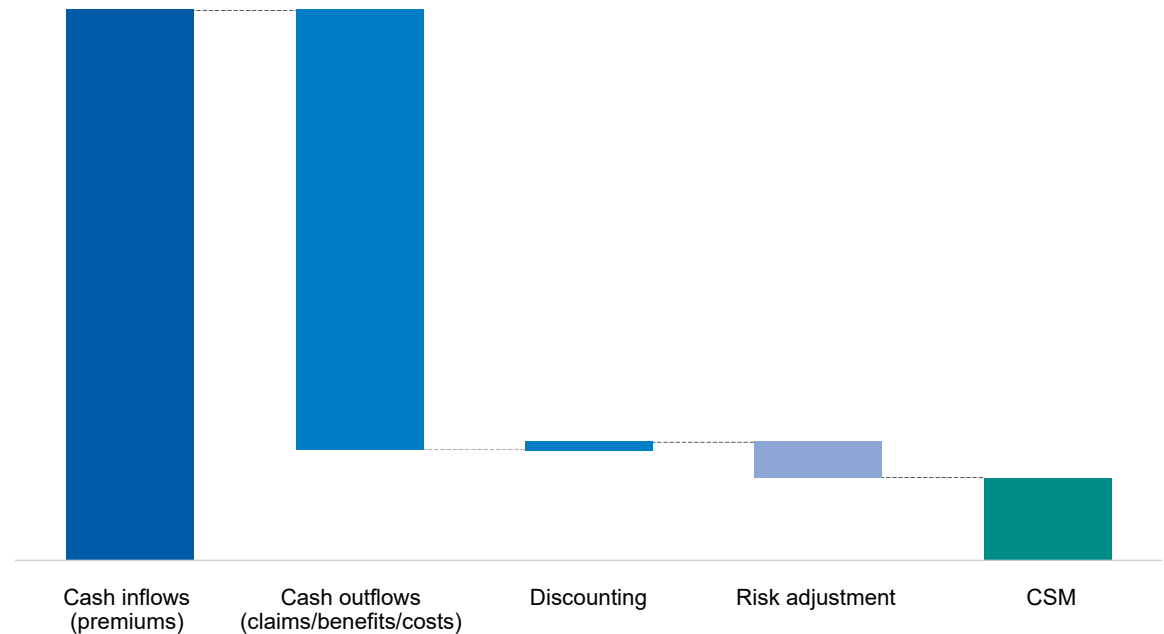
Derivation of the Contractual Service Margin (CSM) at initial recognition of the contract



Keep in mind!

If the expected cash outflows exceed the expected cash inflows, no CSM is generated and a loss is booked directly through the P&L.

Expected cash flows at initial contract recognition

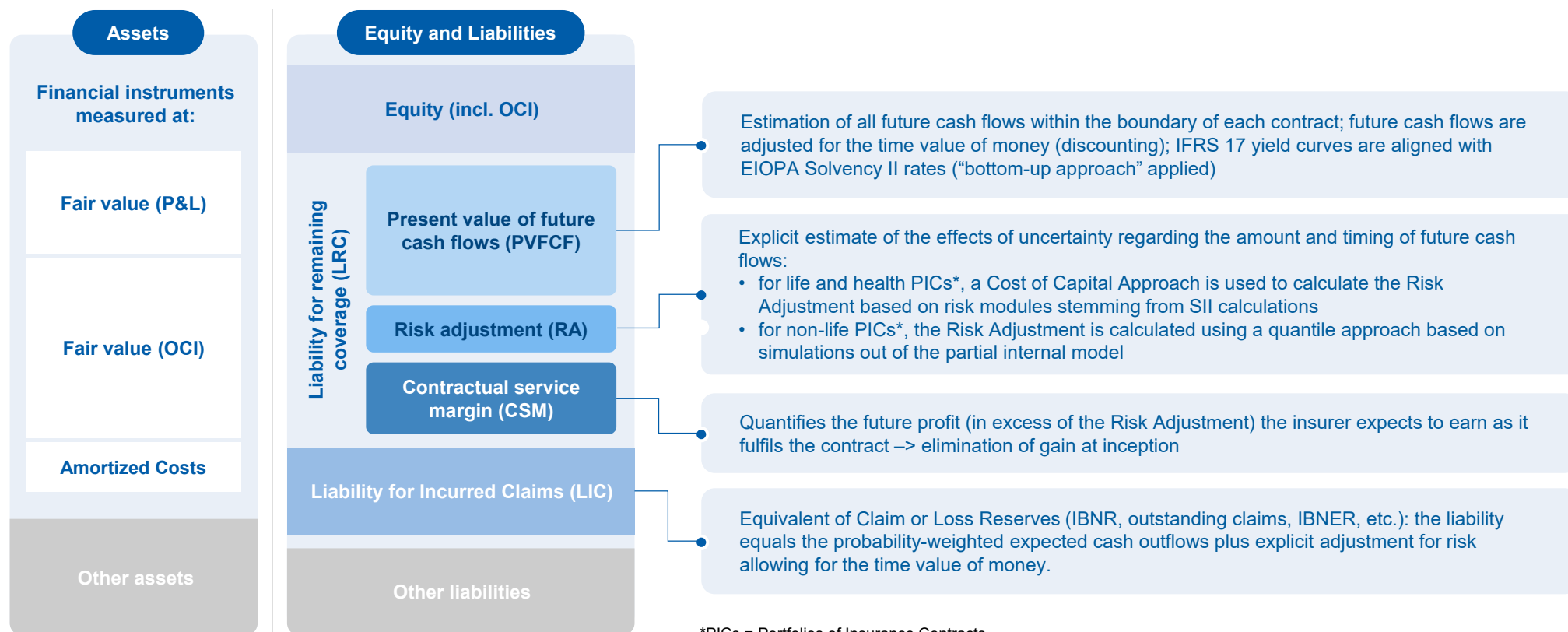


TOP 2

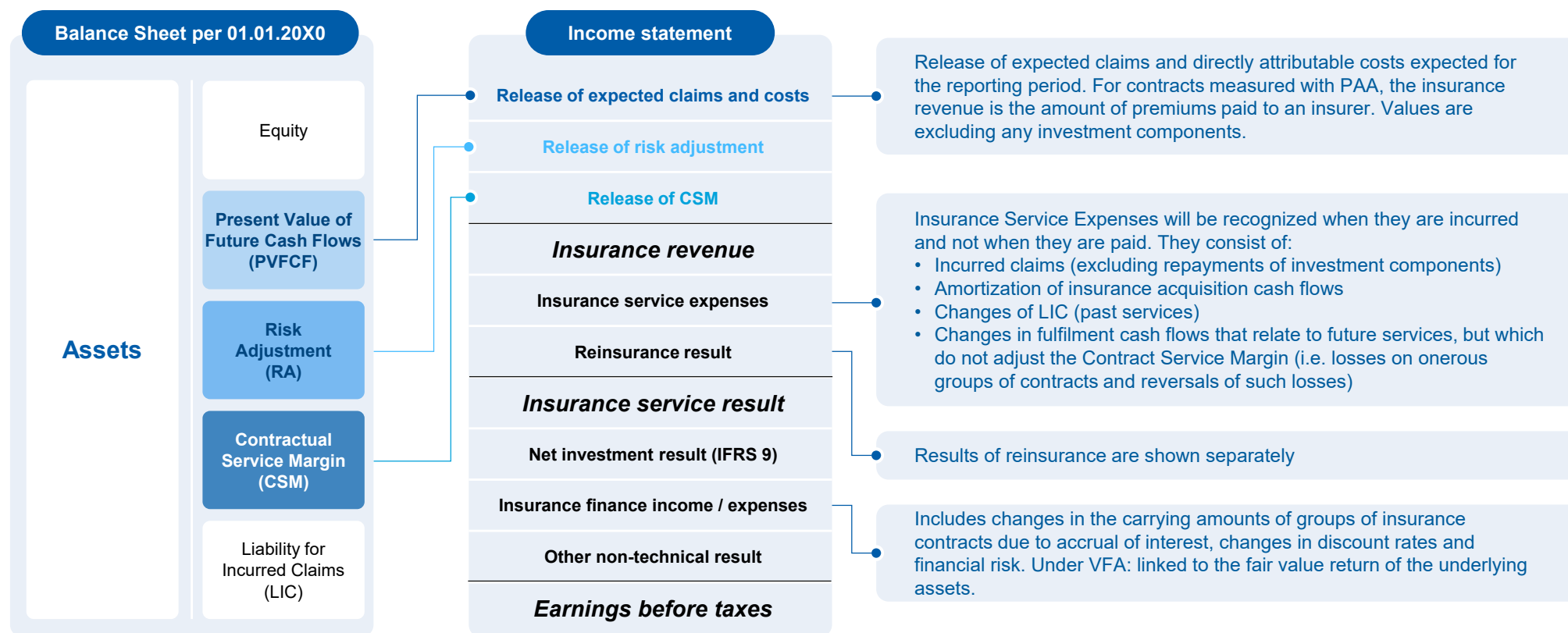
Balance sheet, income statement and KPIs under IFRS 17






IFRS 17 introduces new positions on the balance sheet



Under IFRS 17, certain P&L information is already available at the beginning of the period

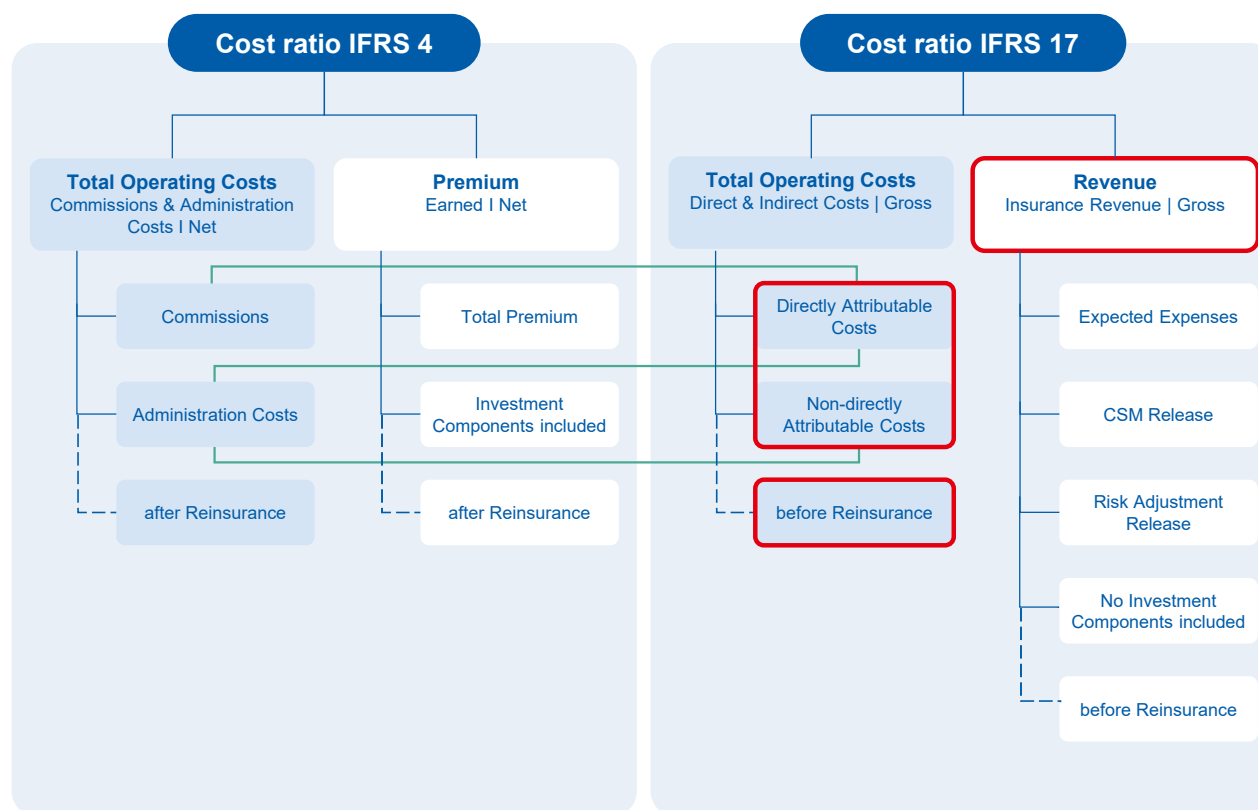


Transition approach heavily dependent on the availability of historical data

	 Description	 Main application	 Share of IFRS 17 insurance liabilities
	Full retrospective approach (FRA)	Transition is derived based on historical information as if IFRS 17 were always in place	<ul style="list-style-type: none"> • Calculation of historical OCI for PAA • No CSM derived using the Full Retrospective Approach <p style="text-align: center;">17%</p>
If application of Full Retrospective Approach is impractical, choice between	Modified retrospective approach (MRA)	Simplification of methodology of the Full Retrospective Approach , i.e. only actual historical cash flows are required, but no historical expected cash flows	<ul style="list-style-type: none"> • Certain parts of Life and P&C business in UNIQA International <p style="text-align: center;">5%</p>
	Fair value approach (FVA)	CSM at transition is calculated based on the Fair Value in the case of the portfolio being transferred to an acquiring insurance company	<ul style="list-style-type: none"> • Health and Life business in UNIQA Austria • Certain parts of Life and P&C business in UNIQA International <p style="text-align: center;">78%</p>

Decision on transition approach was made on the level of portfolios of insurance contracts (PICs)

IFRS 17 changes methodology for the Cost Ratio



Comparison of IFRS 17 to IFRS 4

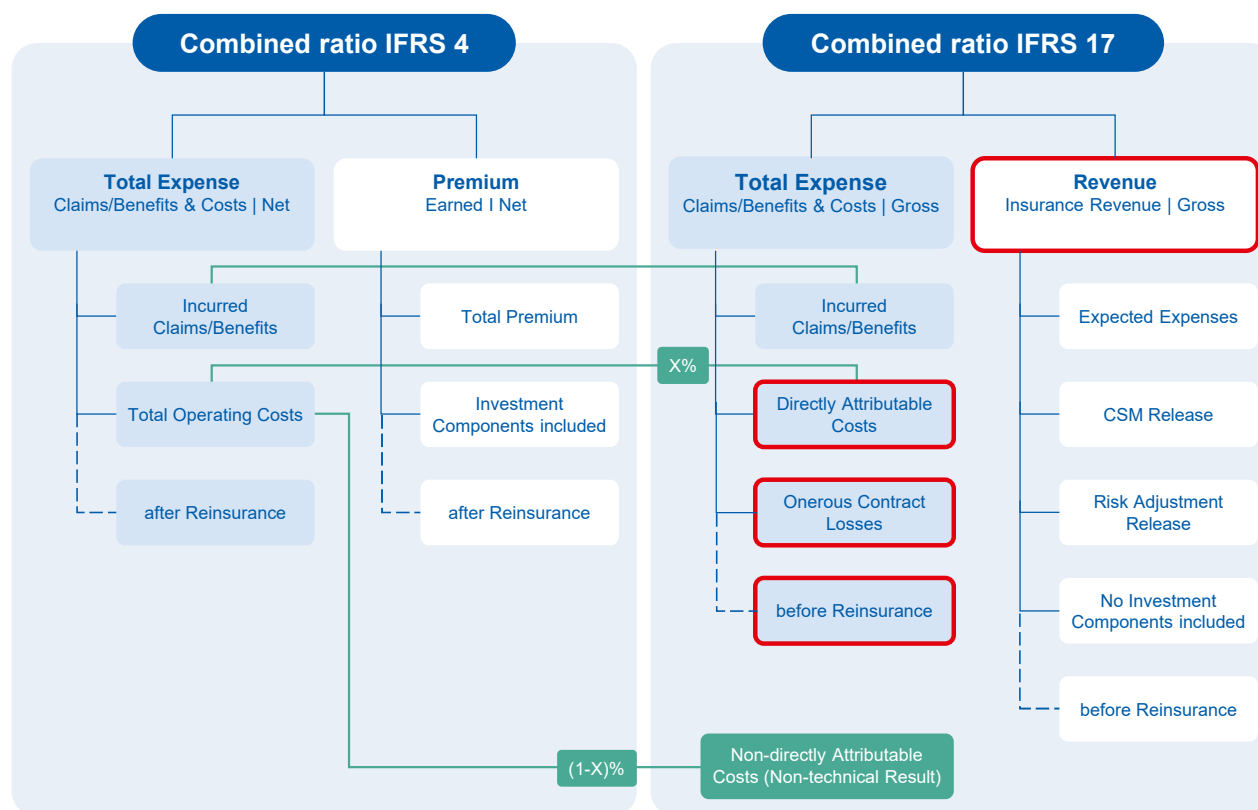
NUMERATOR Change in underlying metrics

- **Costs:** Distinction between directly attributable (part of technical result) and non-directly attributable (part of non-technical result) cost components
- **Gross View:** Reinsurance is shown as a separate position in the IFRS 17 P&L statement

DENOMINATOR Revenue replaces Premium

- The **Insurance Revenue** replaces the (earned) premium
- **Future Performance Components** are considered (IFRS 4 took only historical view)
- New parameters are included: **Release of Risk Adjustment and Contractual Service Margin** for future periods
- **Gross View:** Reinsurance is not considered, as it is shown as a separate position
- **No Investment Components** included (IFRS 4 included index/unit-linked products or savings portion); in IFRS 9/17, these can be found under Net Investment Income

Changes in methodology for Combined Ratio under IFRS 17



Comparison of IFRS 17 to IFRS 4

NUMERATOR

Change in underlying metrics

- **Claims/Benefits** ~ IFRS4: incurred in actual period (no future benefits = insurance revenue)
- **Costs**: only costs that are directly attributable (to the insurance contracts) are part of the underwriting
- Consideration of **loss-making contracts (“onerous”)**
- **Gross view**: Reinsurance is shown as a separate position in the IFRS 17 P&L statement

DENOMINATOR

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TOP 3

IFRS 17 impact on UNIQA



Composition of CSM at transition



Property & Casualty



Health

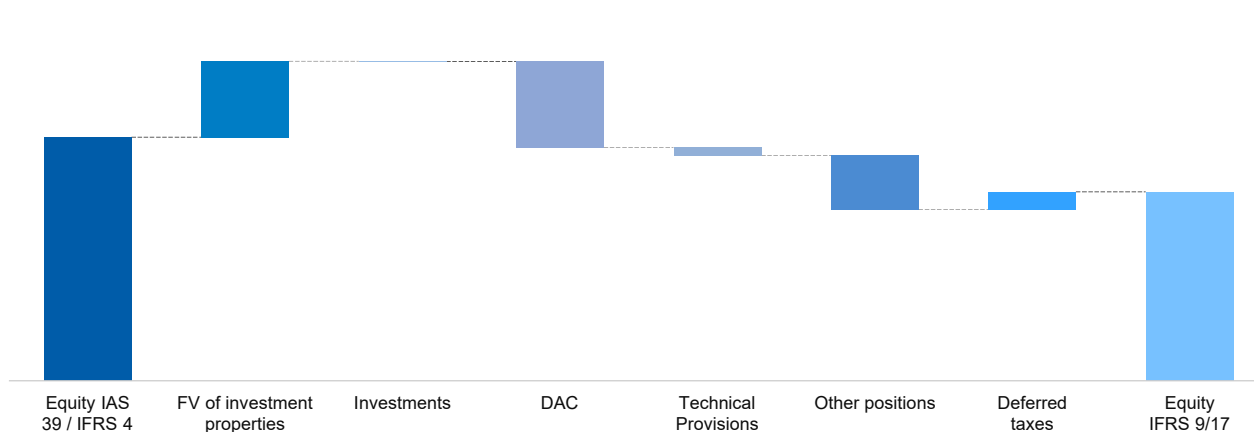


Life

	Property & Casualty	Health	Life
UNIQA Austria	1%	73%	26%
UNIQA International	5%	1%	94%
Group Level	1%	65%	34%

- Bulk of Group CSM coming from UNIQA Austria: strongest contribution by Health portfolios and mutualized Life portfolio
- Roughly 12 % of Group CSM coming from UNIQA International: biggest CSM drivers are Term and Unit-Linked-portfolios in CZ and SK, as well as Unit-Linked business in Hungary
- Property and Casualty business mainly short-term and measured using the PAA. Therefore, only small contribution to CSM at transition.

Decrease of equity of ~20 % in line with rest of the market

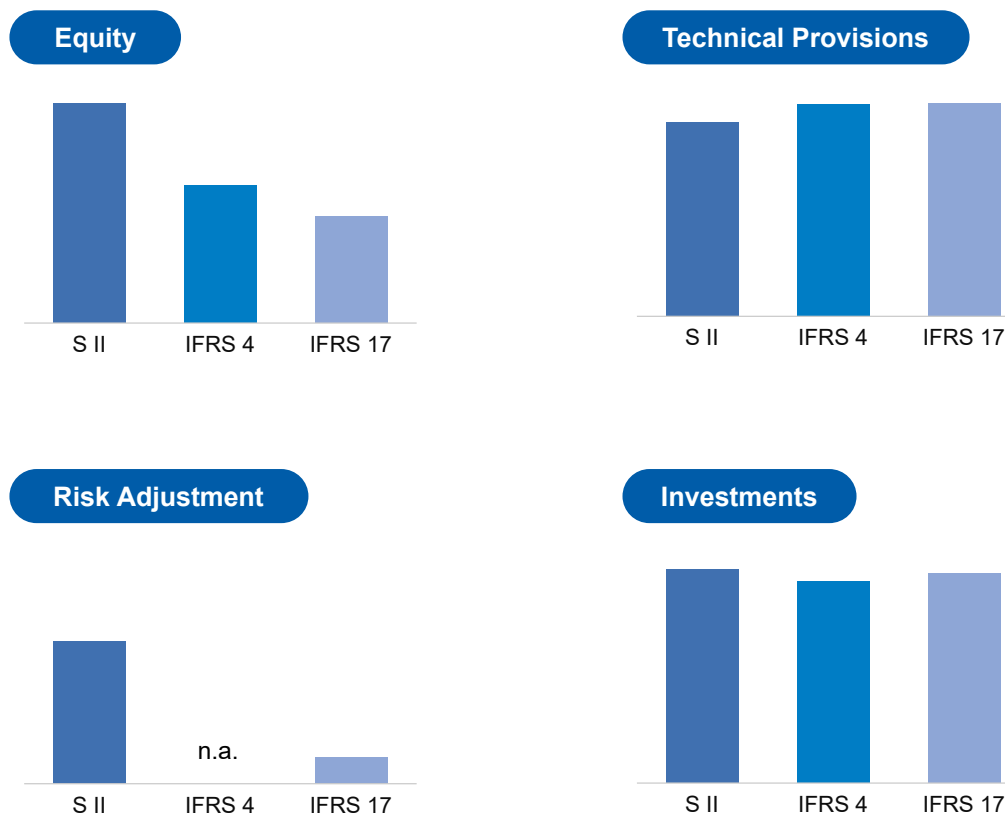


Source: study from WTW (Jan 2023)

- Revaluation of investment properties in Life and Health segments in UAT (measured at Fair Value instead of Amortized Cost).
- Derecognition of deferred acquisition costs (DAC) in IFRS 17 in comparison to IFRS 4. Under IFRS 17, acquisition costs are included in the technical provisions.
- Decrease of other positions mainly driven by
 - derecognition of insurance receivables (included in technical provisions)
 - reinsurance share of UIG for the Life mathematical reserve (measured with PAA under IFRS 17).
- Changes in deferred taxes result from valuation differences in tax relevant revaluations.




Key balance sheet positions under different accounting regimes

- Lower IFRS 17 equity (incl. minorities) largely due to the new CSM position, which is included in own funds under Solvency II.
- Technical provisions under Solvency II are lower than in other accounting regimes mainly due to the CSM not being included in the TPs.
- Solvency II risk margin is significantly higher than the risk adjustment under IFRS 17 due to the different confidence level: 99,5% under Solvency II vs. 75% under IFRS 17.
- No major changes to the value of investments under IFRS 9. Slightly higher values under Solvency II due to pure market valuation from loans and receivables.



Based on indicative values per 31.12.2021

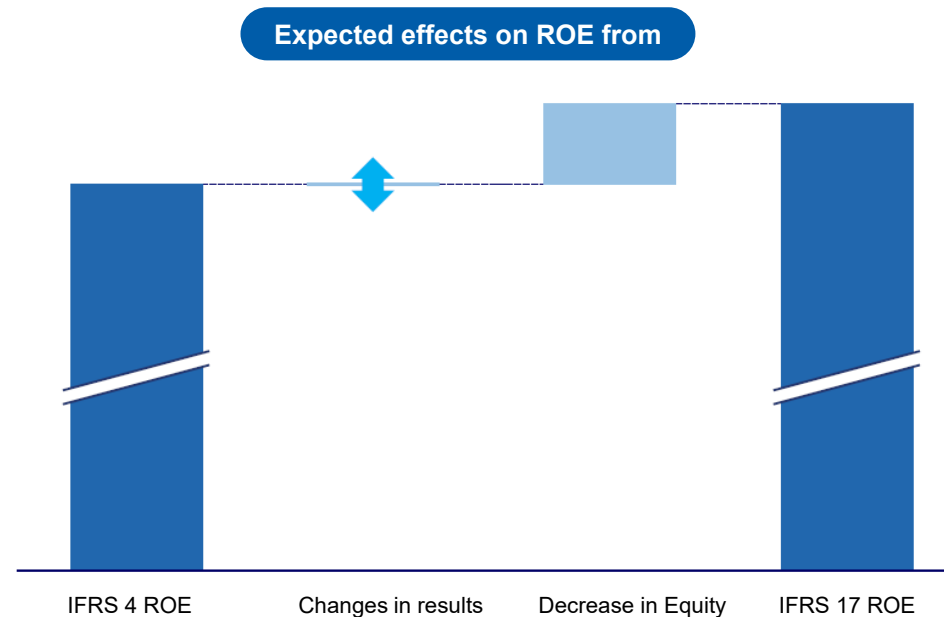
Impact of rising interest rates on key balance sheet positions

	Solvency II	IAS 39 / IFRS 4	IFRS 9/17	Comment
 Equity	↑	↓	↑	Increase of Solvency II own funds, as technical provisions decrease more than investments; Smaller effect on IFRS 17 as CSM acts as a buffer and both investments and technical provisions are valued with adapted assumptions
 Technical Provisions	↓	↓	↓	Decrease in technical provisions is larger than decrease in investments; smaller effect on IFRS 17 technical provisions as CSM will rise, especially under VFA (Life, Health), compared to Solvency II
 Investments	↓	↓	↓	Greatest impact under Solvency II, as all investments are measured at Fair Value

Due to decrease in the denominator, Return on Equity (ROE) expected to increase

Definition

$$\frac{\text{Consolidated profit (after taxes and minorities)}}{\text{Average equity}}$$



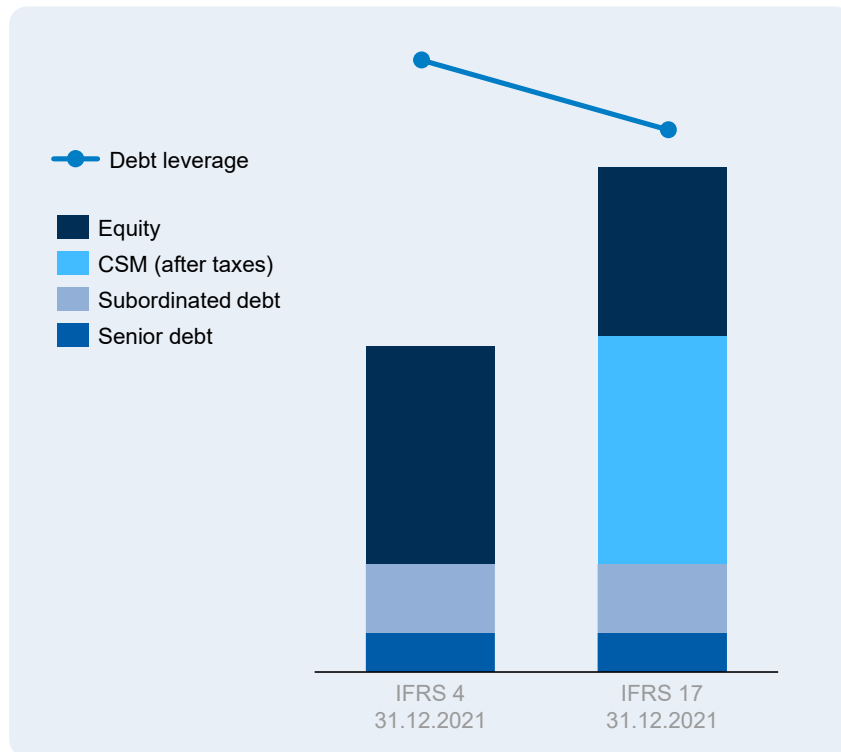
Drivers for ROE development:



- Impact of IFRS 9/17 on consolidated profit tbd (numerator)
- Decrease in equity (denominator) leads to higher ROE
- Discussion in the market still ongoing on whether to count CSM as “equity” for the derivation of certain ratios

Transition to IFRS 17 will lower UNIQA's debt leverage

Inclusion of CSM increases denominator



Debt leverage:

$$\frac{\text{(Subordinated debt + senior debt)}}{\text{(Subordinated debt + senior debt + equity + CSM (after taxes))}}$$



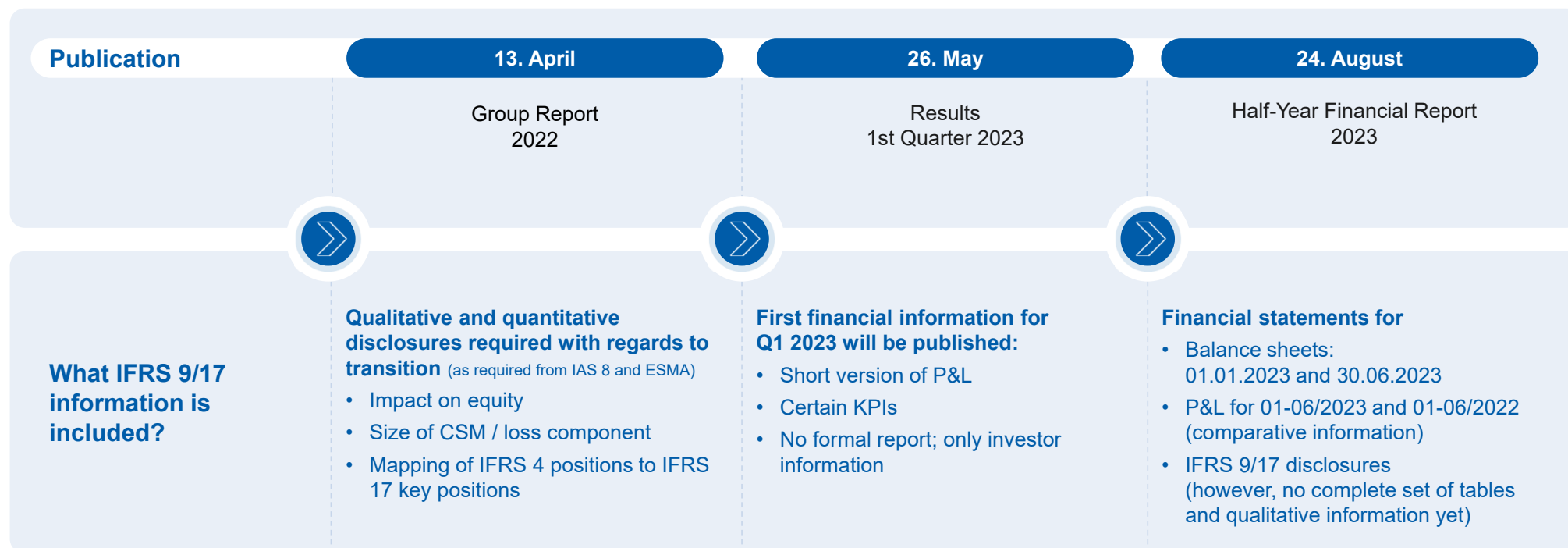
Decrease in equity due to transition effects of IFRS 17. Inclusion of CSM leads to increase of the denominator and overall decrease in leverage.

TOP 4

Summary & next steps



Extensive reporting under IFRS 9/17 starting in 2023



Key messages

Effect on equity



Impact on equity mainly due to new balance sheet positions such as Contractual Service Margin and Risk Adjustment.

Limited impact of IFRS 17 on results in Property and Casualty segment



Property and Casualty insurance mostly measured applying PAA. Therefore, no major changes on results and presentation expected in this segment.

Measurement and accounting depending on type of contract



Different valuation models are applied in Life insurance. Contracts with direct profit participation features are treated applying VFA.

Increased transparency



Under IFRS 17, profitability of contracts in general and specifically of new business (in relation to existing business) will be presented more transparently.

No impact on strategy



Application of IFRS 9/17 will not impact UNIQA's corporate strategy. As before, close alignment between regulatory and business views remains crucial.

No expected impact on dividend policy



IFRS 9/17 will have no influence on UNIQA's strong solvency position under Solvency II. Dividend policy is not expected to be affected by IFRS 9/17.

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Q&A

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