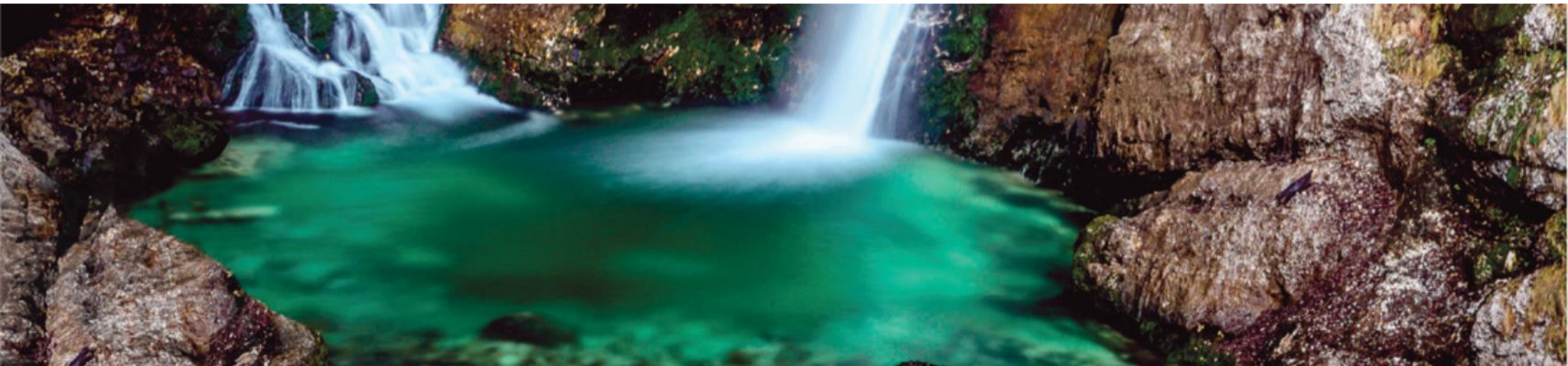




# Introduction to IFRS 17 & IFRS 9

22 December 2022



## **IMPORTANT CAUTIONARY STATEMENTS CONCERNING PRELIMINARY IFRS 17 AND IFRS 9 (IFRS 17/9) EXPECTATIONS AND ASSESSMENTS**

The audited annual report of the Sava Insurance Group and Sava Re for 2022 under IFRS 4 will be published in March 2023. On 1 January 2023, IFRS 4 will be replaced by IFRS 17, which is a new accounting standard applicable to (re)insurance contracts that will result in accounting changes with impacts on the Sava Insurance Group's consolidated income statement and balance sheet. Starting on 1 January 2023, the Sava Insurance Group will also begin applying the IFRS 9 standard on classifying and measuring financial assets and liabilities and certain contracts.

The Sava Insurance Group's estimates, expectations and assessments relating to IFRS 17/9 in this presentation are by their nature preliminary and subject to change during the formal implementation of IFRS 17/9 in the Group's financial reporting (IFRS 17/9 Implementation) through 2023. This presentation reflects the Group's estimates, expectations and assessments of the impact of IFRS 17/9 Implementation exclusively as of the date hereof. Undue reliance should not be placed on such estimates, expectations and assessments, which are qualified in their entirety by the forward-looking statements in the paragraphs below. Moreover, investors should note that no information related to IFRS 17/9 set out in this presentation has been audited or subject to a limited review by the Sava Insurance Group's auditors. In addition, IFRS 17/9 Implementation involves accounting judgements and choices between alternative accounting approaches. While this presentation reflects the Group's current assessment and expectations regarding these judgments, it is possible that, as the Group and the industry adapt to IFRS 17/9 reporting, the Group may determine that adjustments to its initial judgments are needed. There can be no assurance that such judgements and, more broadly, the ultimate impacts of IFRS 17/9 Implementation on the Group's presentation of its business, results of operations or financial condition will not differ materially from the illustrative information contained in this presentation.

## **IMPORTANT LEGAL INFORMATION AND CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING STATEMENTS AND THE USE OF NON-GAAP FINANCIAL MEASURES**

### **Forward-looking statements**

This document may contain forward-looking statements concerning the expectations, plans and goals of the Sava Insurance Group, which are based on estimates and assumptions of Sava Re's management board. Undue reliance should not be placed on such statements contained herein because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, in particular business performance, to differ materially from those expressed or implied in this document.

### **Duty to update**

The Sava Insurance Group and Sava Re undertake no obligation to publicly update or revise any of these forward-looking statements or other information included in this document, except as required by applicable laws and regulations.

### **NON-GAAP financial measures**

In addition, this presentation may refer to certain non-GAAP financial measures or alternative performance measures used by management in analysing the Sava Insurance Group's operating trends, financial performance and financial position, and providing investors with additional information that management believes to be useful and relevant regarding the Sava Insurance Group's and Sava Re's results. These non-GAAP financial measures generally have no standardised meaning and may therefore not be comparable to similarly labelled measures used by other companies. As a result, none of these non-GAAP financial measures should be considered in isolation from, or as a substitute for, the Group's consolidated financial statements and related notes prepared in accordance with IFRSs.

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# Key messages

No impact on strategy or business model

Cash flows and capitalisation remain strong

Earnings expected to remain mostly unaffected

Dividend capacity to remain unchanged

Better reflection of value and earnings of life business

# IFRS 17/9 to bring accounting view closer to economic view

## IFRS 17 – Major changes

### Balance sheet:

- Expected cash flows + discounting + RA
- CSM – deferred future profits

### Income statement:

- No GWP but insurance revenue
- Premium is spread over lifetime of contracts
- Investment component of the premium is excluded from revenue and expenses
- Immediate recognition of onerous contracts
- Presentation of the insurance and finance results

### Disclosures for major product lines:

- Profitability and new business value
- Analysis of change in profitability
- Profits expected to be released in future periods

## IFRS 9 - Limited changes

### Business model and SPPI test

- Hold to collect – amortised cost
- Hold to collect and for sale – FVOCI
- Equity instruments – FVTPL/OCI

### Impairment for expected credit losses

### Limited impacts if most of the portfolio is:

- Principal and interest
- Hold to collect and for sale business model
- Low credit risk

**Enhancement of presentation and reporting will increase transparency**

# IFRS 17/9 Group reporting

## Non-life

### Limited changes:

- Revenue and earnings mostly similar to current practice
- Combined ratio net/net calculation to remain unchanged, adjusted for IFRS 17 specifics, including non-attributable expenses and other net revenue

## Life

### Most of the changes:

- Revenue and claims to decrease as investment component is excluded
- No major changes in earnings, primarily based on release of CSM and RA
- CSM and new business value key profitability indicators

## Reinsurance

### Limited changes:

- Combined ratio with the same characteristics as in non-life
- Revenue and expenses to decrease for commission to cedants

## Pensions

### Mostly unaffected by IFRS 17

- Annuities changed similar to life; portfolio not significant

## Asset management

### Unaffected by IFRS 17

## Assistance and health

### Unaffected by IFRS 17

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# PAA for 60% of Group operating revenue

## PAA / Simplified model

Very similar to current practice

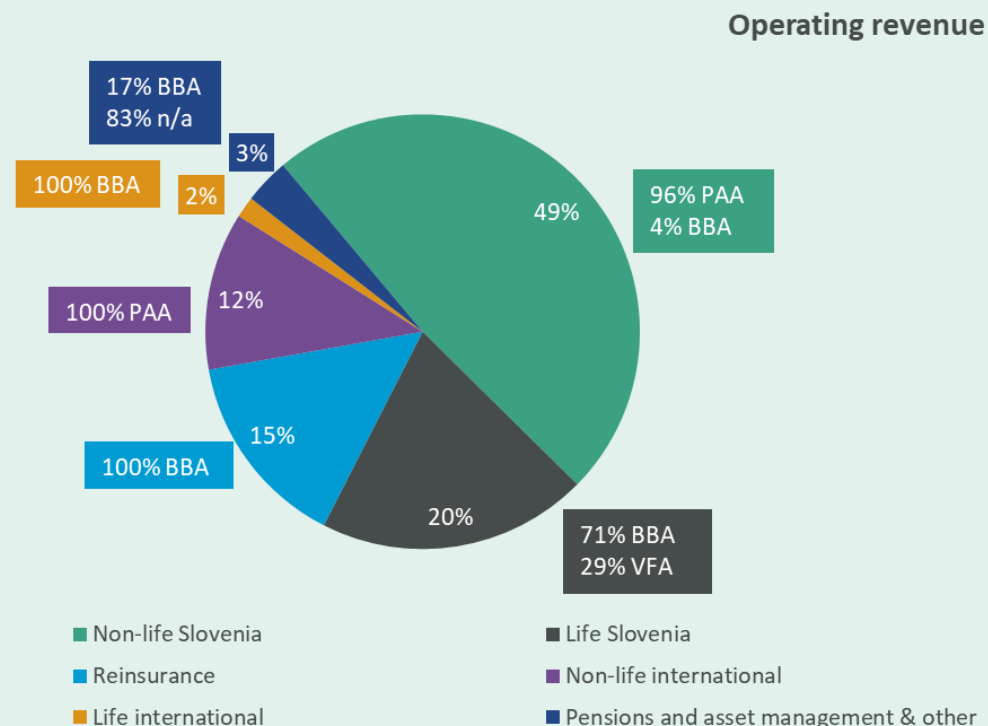
- Non-life products
- Changes in technical assumptions → **P&L**
- Changes in financial assumptions → **OCI**

## BBA / General model

- Life savings and risk products, reinsurance
- Changes in technical assumptions → **CSM**
- Changes in financial assumptions → **OCI**

## VFA model

- Unit-linked products
- Changes in technical assumptions → **CSM**
- Changes in financial assumptions → **CSM**



Operating revenue = GWP and operating revenue of non-insurance companies.  
n/a = not applicable (IFRS 17 does not affect this part of the segment)



# Key accounting policies ensuring continuity and limited volatility in earnings

	Alternative option	Our policy	Rationale
Discount rates	Top-down approach (portfolio yield less allowance for unexpected losses)	Bottom-up approach (risk-free rates + liquidity premium derived from covered bonds)	Consistency with Solvency II
Changes in discount rates	Through P&L (changes in rates to be recorded in P&L)	Through OCI (changes in rates to be recorded in OCI)	To mitigate earnings sensitivity to market rates
Risk adjustment	No prescriptive approach	VaR in non-life and life TVaR in reinsurance (confidence level at 75 <sup>th</sup> – 85 <sup>th</sup> percentile)	Maintaining reasonably high prudence level
Attributable expenses	No prescriptive definition	Approx. 90% of operating expenses	Following SII approach, non-attributable only those explicitly defined by the standard and holding costs
Measurement of equity investments	Fair value through P&L (changes in prices to be recorded in P&L)	Fair value through OCI (changes in prices to be recorded in OCI, no recycling in P&L)	Different in Group companies as defined by the business model

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# SIG balance sheet remains strong

## Balance sheet under IAS 39 / IFRS 4

Illustrative

ASSETS	LIABILITIES
<b>Investments:</b> Amortised cost <ul style="list-style-type: none"> <li>• Held to maturity</li> <li>• Loans, receivables</li> </ul> Fair Value <ul style="list-style-type: none"> <li>• Available for sale</li> <li>• Fair value option/trading</li> </ul>	<b>Equity</b>
Reinsurance provisions	<b>Technical provisions</b> <ul style="list-style-type: none"> <li>• Unearned premiums</li> <li>• Mathematical provisions</li> <li>• Other technical provisions</li> </ul>
(Re)insurance receivables	<ul style="list-style-type: none"> <li>• Provisions for outstanding claims</li> </ul>
Deferred acquisition costs	(Re)insurance liabilities
Other assets	Other liabilities

## Balance sheet under IFRS 9 / IFRS 17

Illustrative

ASSETS	LIABILITIES
<b>Investments:</b> Amortised cost <ul style="list-style-type: none"> <li>• Hold to collect</li> </ul> Fair value <ul style="list-style-type: none"> <li>• Hold to collect and sell – OCI</li> <li>• Other – P&amp;L</li> </ul>	<b>Equity</b>
Reinsurance held LRC	<b>LRC without loss component</b> <ul style="list-style-type: none"> <li>• Discounted cash flows</li> <li>• Risk adjustment</li> <li>• CSM</li> </ul>
Reinsurance held LIC	<b>LRC loss component</b>
Other assets	<b>LIC</b> <ul style="list-style-type: none"> <li>• Discounted cash flows</li> <li>• Risk adjustment</li> </ul>
	Other liabilities

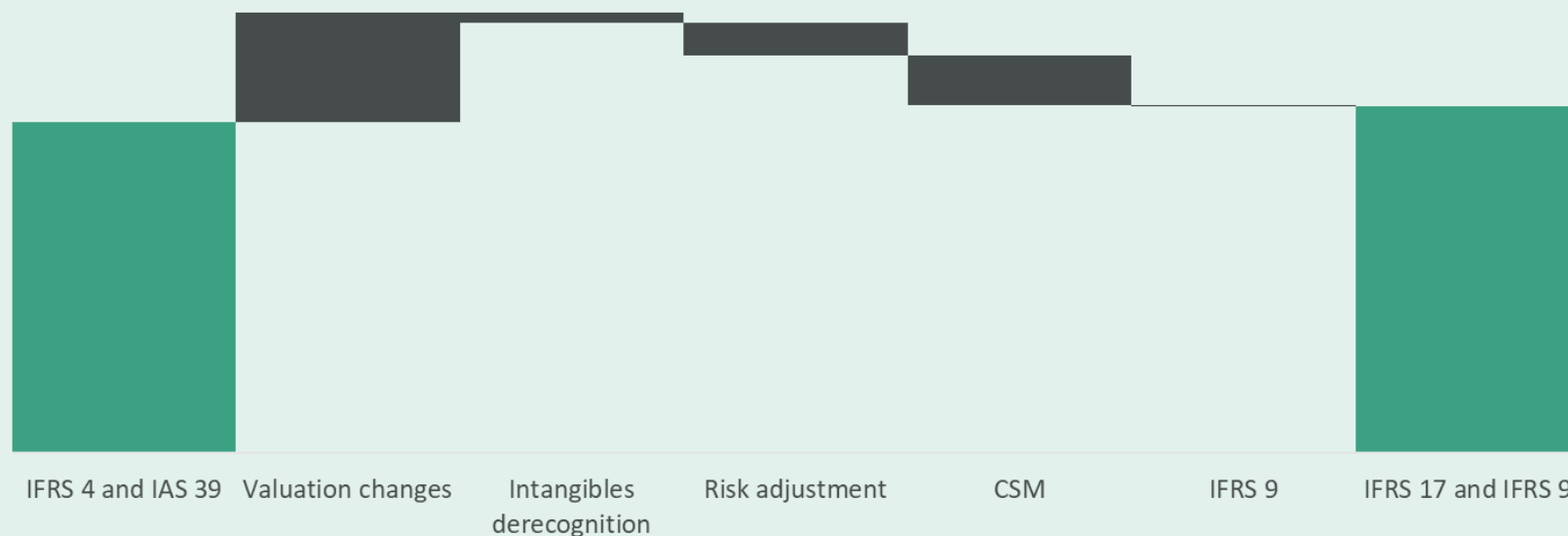


Abbreviations are explained in the appendix.

# No major changes on transition

- Transition is retrospective, as if standard had always been applied
- Expected moderate increase in equity from P&C business

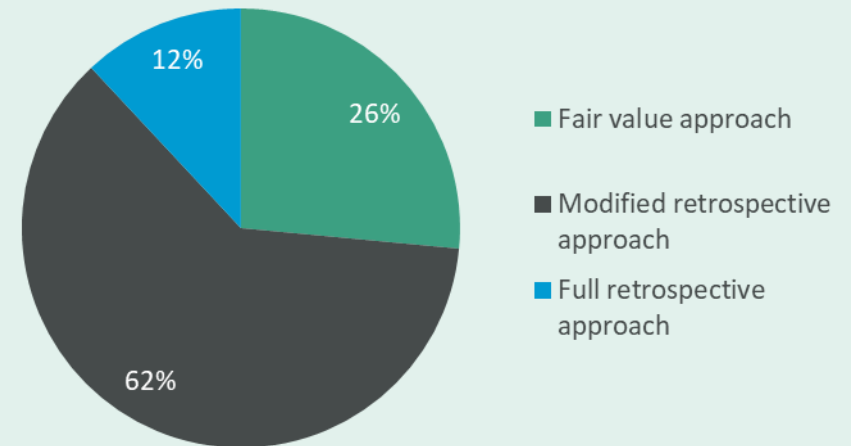
Shareholder's equity from IFRS 4 / IAS 39 to IFRS 17 / IFRS 9 (illustrative)



# 75% of CSM under retrospective approach

- **Fair value approach** is mostly used for Vita's portfolio when first consolidated in 2020 – CSM at the acquisition date is calculated as the difference between the fair value of the technical provisions and fulfilment cash flows on that day
- **Full retrospective approach** is used for reinsurance and recently written life business
- **Modified approach** is used for the rest of life business

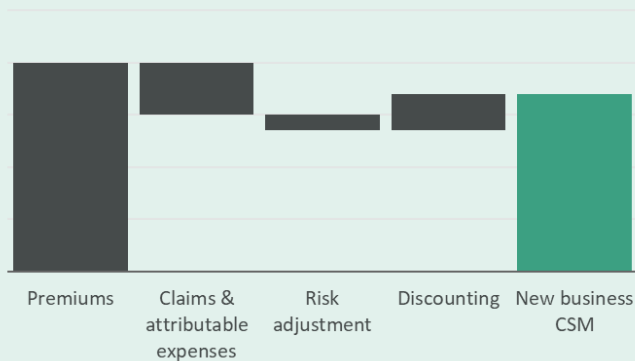
CSM by transition approach



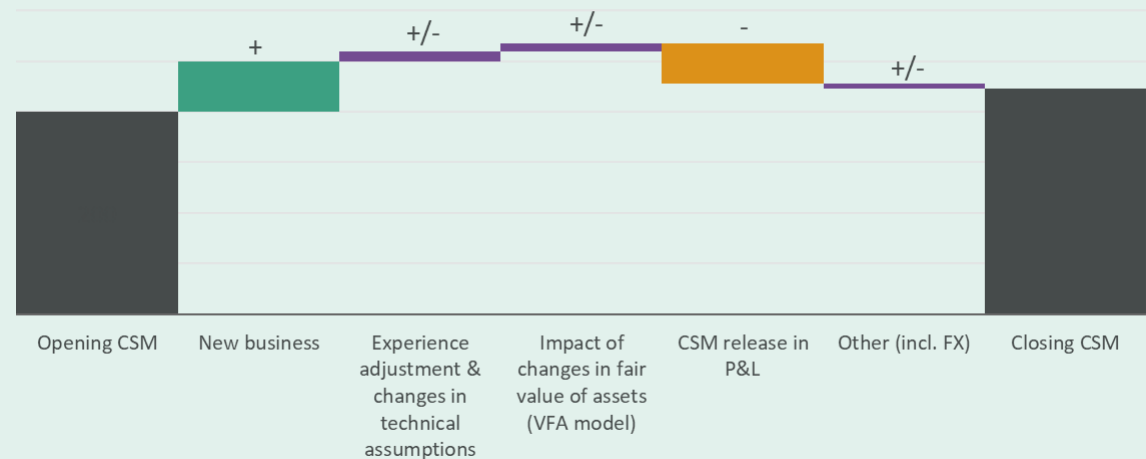
# CSM at transition represents the source of future profits

- CSM will be released into revenue during the lifetime of the contracts
- CSM will avoid volatility in earnings, absorbing changes in technical assumptions and financial assumptions in VFA model
- CSM at transition around €120 million
- CSM expected to grow sustainably over time
- Loss component for onerous contracts not material

How new business CSM is created (illustrative)



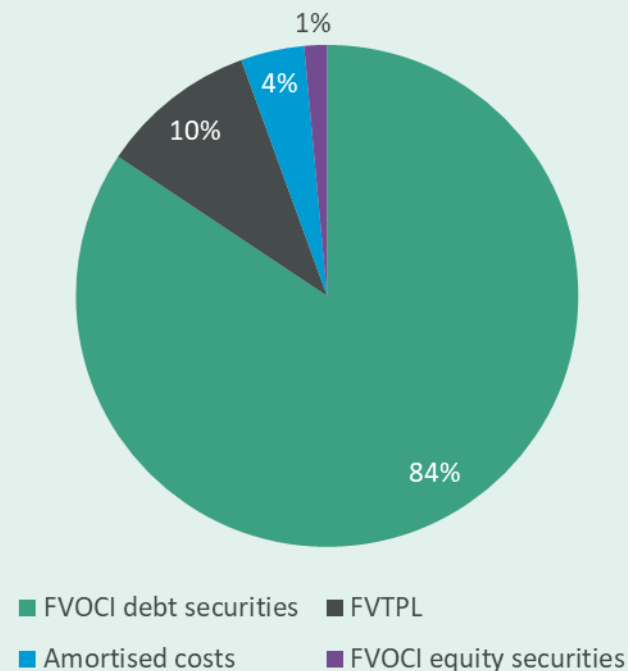
Movement in CSM over one period (illustrative)



# No material impact on investment portfolio

- Most debt securities pass SPPI test
- Changes in fair value for most debt securities continue to be recorded through OCI
- Higher share of FVTPL investments potentially increases volatility of earnings
- Expected Credit Loss (ECL) allowance not material, as the portfolio is predominantly investment grade

Structure of financial investments under IFRS 9\*



\* Excluding unit-linked investments.

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# Income statement more transparent

IFRS 4 & IAS 39	Key components
Revenue	Net premiums earned
	Investment income
	Other income
Expenses	Net claims incurred
	Changes in technical provisions
	Acquisition costs
	Administrative and operating expenses
	Expenses for financial assets and liabilities
	Other expenses
<b>Profit or loss before tax</b>	



IFRS 17 & IFRS 9	Key components
	Insurance revenue
Insurance service result	Insurance service expenses
	Reinsurance result
Finance result	Investment result
	Insurance finance result
Other result	Other income and expenses
<b>Profit or loss before tax</b>	

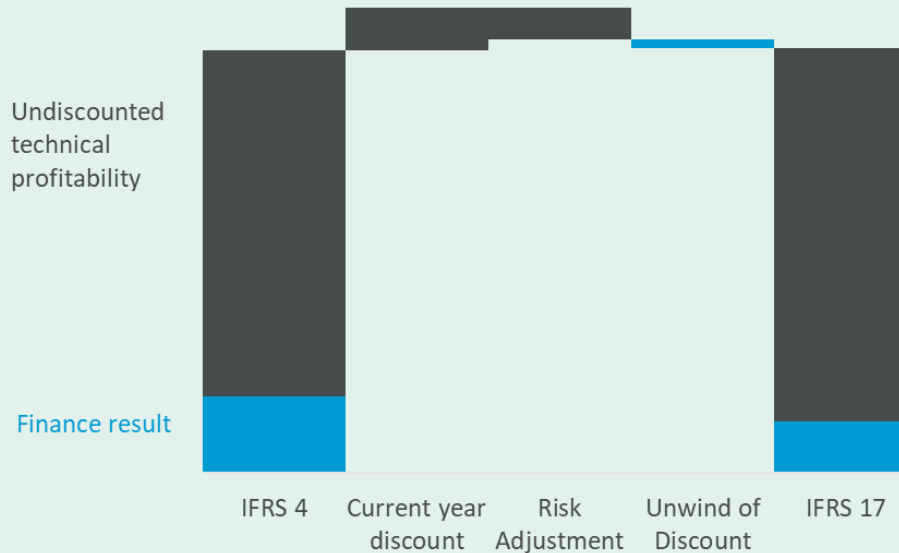
- Underwriting revenue/expenses are not separated from investment income/expenses
- Difficult to see the source of profit

- Underwriting, reinsurance and finance result presented separately
- Source of profit clearly seen

# Non-life with only limited changes

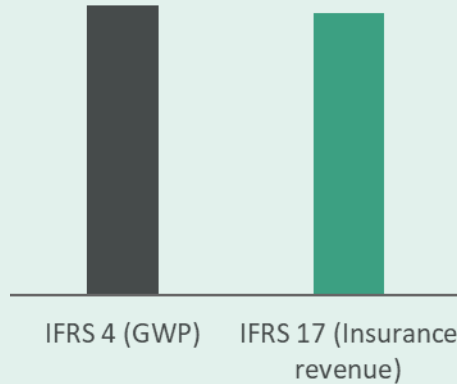
- Mostly on simplified approach (PAA) with only limited changes in comparison to IFRS 4
- Introduction of:
  - risk adjustment as an allowance for uncertainty
  - discounting of claims reserves
  - recognition of loss component (not material, similar to current AURR)
  - insurance finance expenses representing unwind of the discounting of insurance liabilities

Non-life earnings from IFRS 4 to IFRS 17 (illustrative)



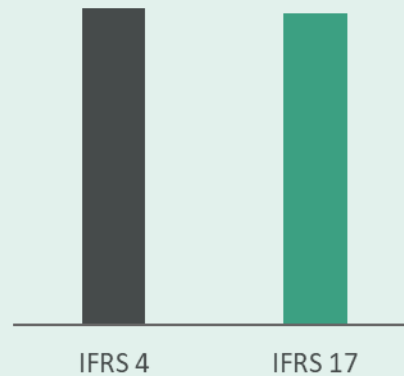
# No major changes to non-life KPIs

## Revenue



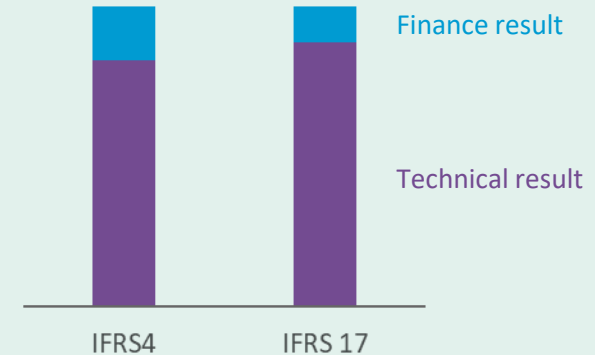
- Roughly the same as GWP
- GWP will remain a key indicator for volume of business

## Combined ratio



- Slightly lower due to discounting, partly offset by lower finance result
- Methodology net/net unchanged with technical IFRS 17 adjustments
- Remains the key indicator of profitability

## Profit



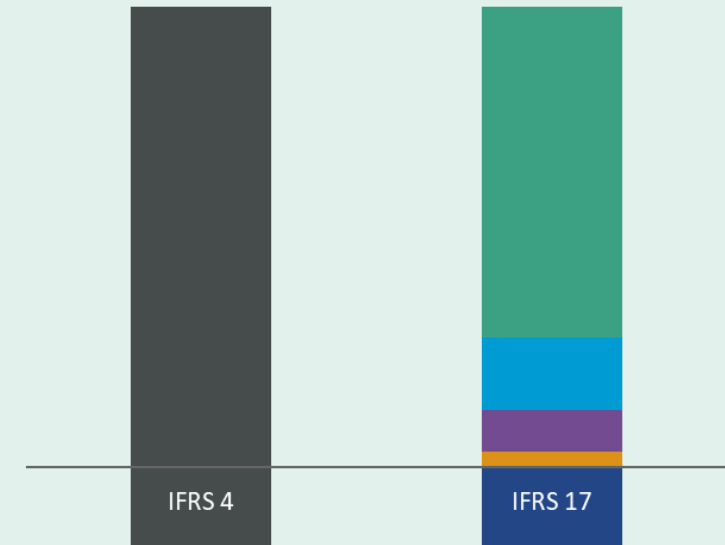
- Not expected to be materially different
- Slightly different structure of result due to discounting – higher technical result and lower finance result

# Continuity in life earnings with more transparent source of profit

- Investment component is excluded from revenue and claims
- Life earnings to be mostly driven by release of CSM and risk adjustment
- Clear visibility of contribution from new business
- Loss component for onerous contracts not material
- CSM margin will become our indicator for new business profitability

$$CSM \text{ margin} = \frac{CSM \text{ New business}}{\text{Present value of new business premiums (PVNBP)}}$$

Life segment earnings

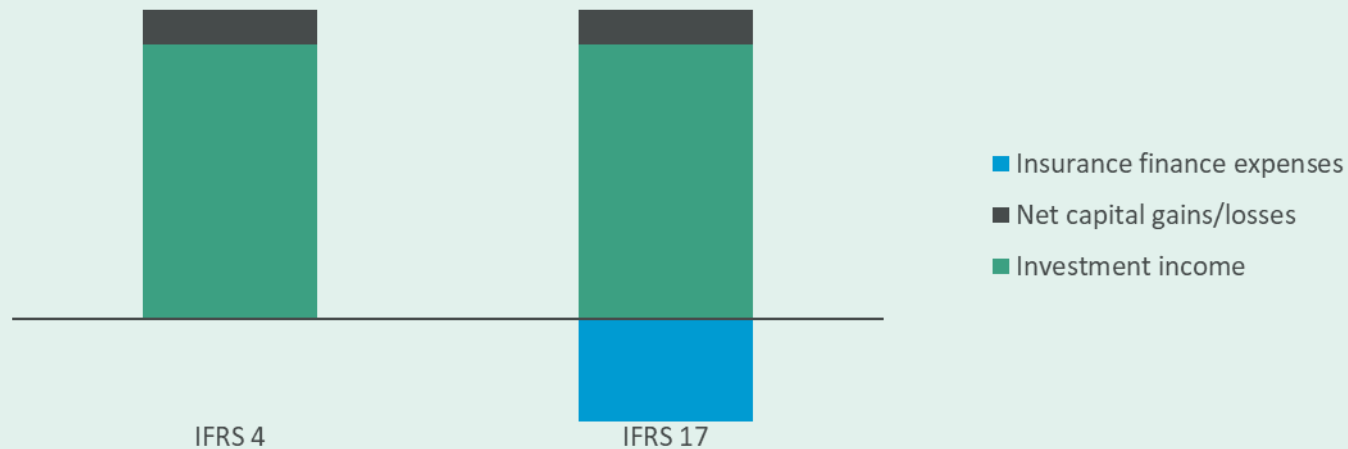


- Release of CSM
- Release of RA
- Finance result
- Experience adjustment
- Non-attributable expenses and other income/expenses

# Finance result reflects the investment margin

- IFRS 17/9 finance result includes both investment return and unwind of insurance liability discount
- Difference between locked-in rates and current rates for both investments and liabilities recognized in AOCI

Components of finance result in profit (illustrative)



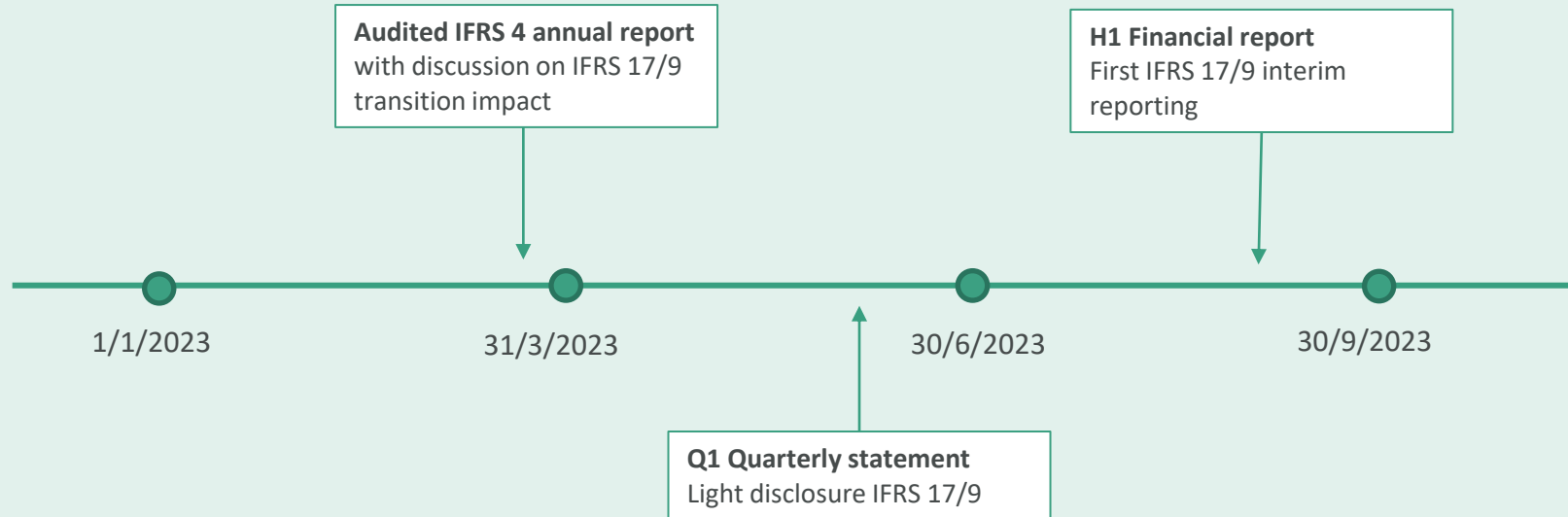
# KPI

Business segment	IFRS 4 KPI	IFRS 17/9 KPI	Comment
<b>Group</b>	Operating revenue	Operating revenue	GWP + other non insurance operating revenue
	Net expense ratio	Expense ratio	Gross expenses not reduced by reinsurance commission
	Return on investment portfolio	Return on investment portfolio	
	Profit, net of tax	Profit, net of tax	
	ROE excluding AOCI	ROE excluding AOCI	
<b>Non-life &amp; reinsurance</b>	GWP	GWP	
	Combined ratio	Combined ratio	Methodology is not changed (net/net)
	Loss ratio	Loss ratio	
	Net expense ratio	Expense ratio	Gross expenses not reduced by reinsurance commission
	Profit before tax	Profit before tax	
<b>Life</b>	GWP	GWP	
	Net expense ratio	Expense ratio	Gross expenses not reduced by reinsurance commission
		PVNB	New KPIs
		NB CSM	New KPIs
	Profit before tax	Profit before tax	
<b>Pensions and AUM</b>	AUM	AUM	
	Operating revenue	Operating revenue	
	GWP (annuities)	GWP (annuities)	
	Profit before tax	Profit before tax	
<b>Other</b>	Profit before tax	Profit before tax	

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# Timeline





A scenic view of a river flowing through a lush green forest. The river is surrounded by dense green foliage and large, light-colored rocks. The water is clear and appears to be splashing over the rocks, creating white foam. The overall atmosphere is serene and natural.

**Thank you for your attention.**

# List of abbreviations used

AOCI	Accumulated other comprehensive income
AUM	Assets under management
AURR	Additional Unexpired Risk Reserves
BBA	Building block approach
CSM	Contractual service margin
ECL	Expected credit loss
FVTPL	Fair value through profit or loss
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
GWP	Gross written premiums
IFRS	International financial reporting standard(s)
KPI	Key performance indicator
LIC	Liabilities for incurred claims
LRC	Liabilities for remaining coverage
NB CSM	New business contractual service margin
OCI	Other comprehensive income
PAA	Premium allocation approach
PVNBP	Present value of new business premiums
P&L	Profit and loss statement
RA	Risk adjustment
ROE	Return on equity
SII	Solvency II
SPPI test	The solely payments of principal and interest test
VFA	Variable fee approach
VaR	Value at risk
TVaR	Tail value at risk