Update on IFRS 17/9

Basel, 9 March 2023

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Agenda

1. Key Messages
2. Expected Impact on Balance Sheet, P&L and KPIs
3. IFRS 17/9 Methodology

01 Key Messages

IFRS 17/9 – Key Messages

- Starting from 1.1.2023, the **new accounting standards** IFRS 17 and IFRS 9 will replace the current standards IFRS 4 resp. IAS 39 for insurance companies
- Baloise will report under the new Standards IFRS 17/9 for the first time at **20 September 2023** in its consolidated financial statements for Half-Year 2023.
- We expect:
  - to show continuity and limited changes for our **Non-Life business**
  - to achieve a more consistent valuation of assets and liabilities as well as a higher earnings stability and predictability for our **Life business**
  - no material changes for our **Asset-Management & Bank segment**
- Baloise plans to provide a more detailed update on the transition to IFRS 17/9 on **29 June 2023**

Our strong fundamentals remain unchanged.

IFRS 17/9 are accounting regime changes. No changes to underlying business fundamentals, capital management, cash generation, balance sheet strength, and strategic targets

IFRS 17/9 – Overview on Expected Impacts

IFRS 17 is an accounting regime change, no changes to underlying business fundamentals or cashflows

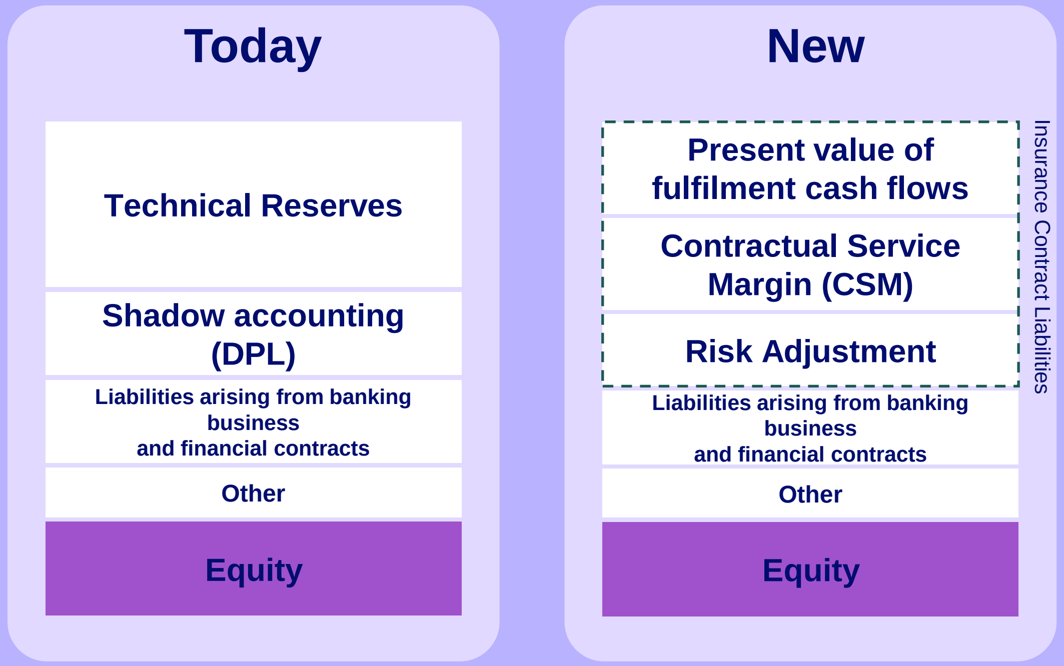
unchanged	• Business model and **strategy** • Economic Valuation and **Solvency** (SST and Solvency II) • **Local accounting** (OR, HGB, ...) • Ability to pay dividends, **cash flows**
similar	• **Non-life business** • **Asset-Management & Bank** • **Asset-Allocation** for Insurance Business • Current set of **KPIs** for Group reporting
changes	• Material changes regarding **financial reporting**, esp. for life business (disclosure and KPIs) • **More economic perspective** in disclosure and valuation • **More stable profit in Life.** Timing of profits may change • **Equity** affected at transition by remeasurement of assets and liabilities and recognition of the CSM
new	• **Insurance Revenue** aligns top-line reporting for insurance business with other industries • **Contractual Service Margin** (CSM) recognized in balance sheet to recognize unearned profits • Improved disclosure, e.g. detailed Analysis of Change information as required by the new standards

02 Expected Impact on Balance Sheet, P&L and KPIs

IFRS 17 – New Items on Liability Side of Balance Sheet

Sum of equity and CSM under IFRS 17 expected to be larger than equity under IFRS 4

Liabilities Balance Sheet



Present value of fulfilment cashflows: The Insurance liabilities under IFRS17 are valued in a more economic way as before and reflect the expected cash outflows and inflows. The future cashflows are discounted at risk free rates + illiquidity premium

CSM: Represents unearned profits of GMM and VFA policies which the entity expects to earn as it provides services. They are recognized in earnings over the life of the contract. The CSM level determined at transition has a direct (inverse) impact on equity: the higher the CSM, the lower the equity

Risk Adjustment: Introduced to account for future uncertainty of non-financial risks. Risk adjustment derived with confidence level set at 75th percentile. Not expected to be very material on Group level

Equity: Lower equity for Life expected but sum of equity and CSM under IFRS 17 expected to be larger than equity under IFRS 4

Profit & Loss – New Representation

Non-life business expected to remains similar to today, significant changes in Life

Profit & Loss Representation

Today	New
Premiums earned (net)	Insurance Revenue
Investment income	Insurance Service Expenses
Total Income	Reinsurance Result
Claims and benefits paid (net)	**Insurance Service Result**
Change in technical reserves	Investment income
Costs*	Insurance finance income & expenses
Total Expenses	**Insurance Finance Result**
	Other income & expenses
Profit / Loss before borrowing cost and taxes	**Profit / Loss** before borrowing cost and taxes

Non Life: Expected to remain similar to today

- Insurance Revenue is similar to the gross earned premium in IFRS4
- Underwriting income (driven by premium volume and combined ratio) and investment income remain the main profit drivers as under IFRS4

Life: Significant changes

- The insurance revenue in the life business will be significantly lower than the premium under IFRS 4, as savings premiums will no longer be included
- A large part of the market value movements of assets and liabilities are absorbed by CSM or OCI. Hence, profit in Life to be expected to become more stable
- The CSM release will be the main profit driver in Life and lead to an increased earnings predictability

* Administration, acquisition, and investment management cost

Group KPIs – Will Remain Similar as Today

It will remain a combination of IFRS-KPIs and Non-GAAP KPIs

Our **strategic targets** 2022-2025 are not affected by IFRS 17/9	• **Cash Remittance**	Not affected
	• **Number new customers**	Not affected
	• **Employee Satisfaction**	Not affected
Information on **sales and margins** remain unchanged or similar	• **Combined Ratio**	Definition expected to change, but unchanged underlying profitability
	• **Interest Rate Margin**	Not affected (based on local GAAP)
	• **New Business Margin**	Possibly redefined in 2023 or later (deduced from IFRS17 instead of MCEV)
	• **Premium Volume, AuM**	Remain available as Non-GAAP disclosure
New KPIs according to IFRS17/9 requirements	• **Insurance Revenue**	For Non-Life business similar to earned premiums under IFRS4. For Life business significantly smaller since saving premiums are excluded
	• **CSM**	Part of the insurance contract liability in the balance sheet that represents unearned profits for VFA and GMM insurance policies

03 IFRS 17/9 Methodology

IFRS 9 – New Classifications and Valuation of Assets

More market-value based valuations and reduced accounting mismatch between asset and liabilities

New Classifications	• **AMCO** «Amortised Cost» • **FVOCI** «Fair Value through OCI» (Market values, with changes booked into equity) • **FVPL** «Fair Value through P&L» (Market values, with changes booked through P&L)	• Our bonds and shares backing Life business will predominately be classified as FVPL, those backing Non-Life as FVOCI • Valuation impact limited to revaluation of current held-to-maturity (HTM)-bonds, mortgages and loans from HTM resp. AMCO to fair value • Investment properties remain accounted for at FVPL in accordance with IAS40
Introduction Expected Credit Loss (ECL) Method	• Replaces the IAS39 incurred loss impairment methodology with a more forward-looking model with earlier **recognition of credit deterioration** • Applies to **debt capital instruments,** which are not FVPL-classified	• For our bonds, loans and mortgages in Non-Life • Expected Credit Loss (ECL) expected not to be material on group level given the quality of our bond portfolio

Our choices of classifications ensure continuity in Non-Life, reduce ALM accounting mismatches and limit volatility in earnings

IFRS 17 – New Measurement Approaches for Insurance Contracts

Different measurement models are applied, following the characteristics of the insurance contracts

Premium Allocation Approach (PAA)	Optional simplified approach for short term contracts (similar to IFRS4) No CSM	Our standard approach for **Non-Life Business** OCI option applied
Variable Fee Approach (VFA)	Approach for participating policies where payments to policyholders are directly linked to underlying items Financial and non-financial effects offset by CSM	Our standard approach (accounts for about 80% of our life insurance liabilities) for **investment-type** insurance business and **Life Insurance** in **Switzerland** and **Germany**
General Measurement Model (GMM) also called building block approach (BBA)	Default measurement model for all insurance contracts Only non-financial effects offset by the CSM	Our standard approach for **Belgium Life Insurance Business** OCI option applied

Our choices of measurement models ensure continuity in Non-Life and follow the characteristics of the insurance contracts in Life

Reporting Agenda and Contact Details

Reporting Agenda

Publication of the Annual Report 2022	28 March 2023
Annual General Meeting	28 April 2023
IFRS 17/9 Transition Information	29 June 2023
Half-year results 2023	20 September 2023
Q3 interim statement 2023	16 November 2023
Full-year results 2023	26 March 2024

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