

Gjensidige



IFRS 9 and 17 at Gjensidige

An introduction to the main impacts on Gjensidige Group's accounts

Webinar, 22 November 2022

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Today's speakers and Q&A panel



Jostein Amdal
Chief Financial Officer



**Karen-Elise Berg
Christoffersen**
Chief Accountant



Simen Gaarder
Chief Actuary



Mitra Hagen Negård
Head of Investor Relations

Speakers

Q&A panel



Key implications of IFRS 9 and 17

Jostein Amdal, Chief Financial Officer

Fundamentals of our business remain unchanged

– Group strategy, risk appetite and operations are unaffected

New accounting standards impact where, when, and how specific items are recognised in financial statements

- No major impact on earnings
- No change to solvency position
- No change to dividend policy
- Lower 2022 opening balance of equity
- Minor changes in General Insurance results
- Some changes in KPIs for General Insurance
- More volatile Pension results
- Potential tax effect, pending regulatory decision

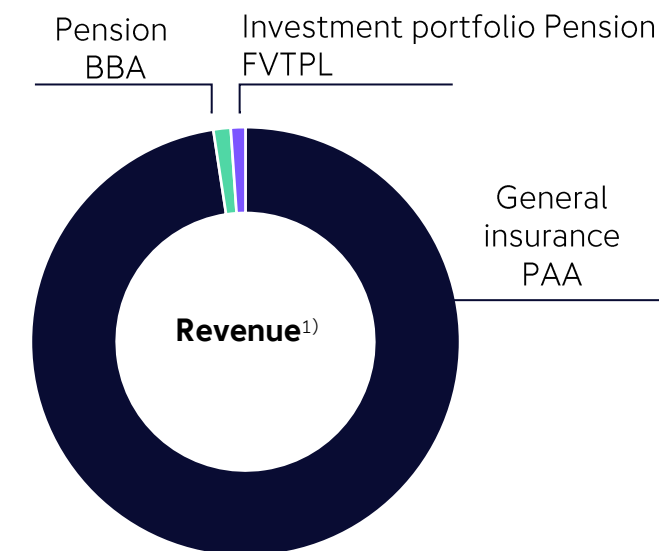
Revised financial targets, reflecting new accounting standards and higher interest rates

Annual financial targets from 2023

	Unchanged		Unchanged
Combined ratio < 84% (from < 85%)	Cost ratio < 14%	Return on Equity > 20% (from > 19%)	Solvency ratio 150–200%
Primarily due to discounting of all claims reserves Minor impact from larger premium base in denominator (Insurance revenue)	Minor impact from IFRS 17	Primarily due to higher interest rates Minor impact from lower equity	No change in solvency position

Simplified approach (Premium Allocation Approach) chosen for majority of Group

Contract	Segment	Measurement model	Accounting standard
Insurance contracts	General Insurance (GI)	Premium Allocation Approach (PAA)	IFRS 17
Insurance contracts	Pension	Building Block Approach (BBA)	IFRS 17
Investment contracts	Investment portfolio Pension	Fair value through profit or loss (FVTPL)	IFRS 9



1) Preliminary revenue, YTD Q3 2022

Key elements in the new accounting standards

Measurements

IFRS 17

- Discounting of all claims reserves in General Insurance
 - ~20% under IFRS 4 (annuities)
- New elements:
 - General Insurance and Pension:
 - Risk Adjustment (RA), reflecting compensation for uncertainty in cash flows
 - Pension:
 - Contractual Service Margin (CSM), reflecting unearned profit for providing future insurance coverage

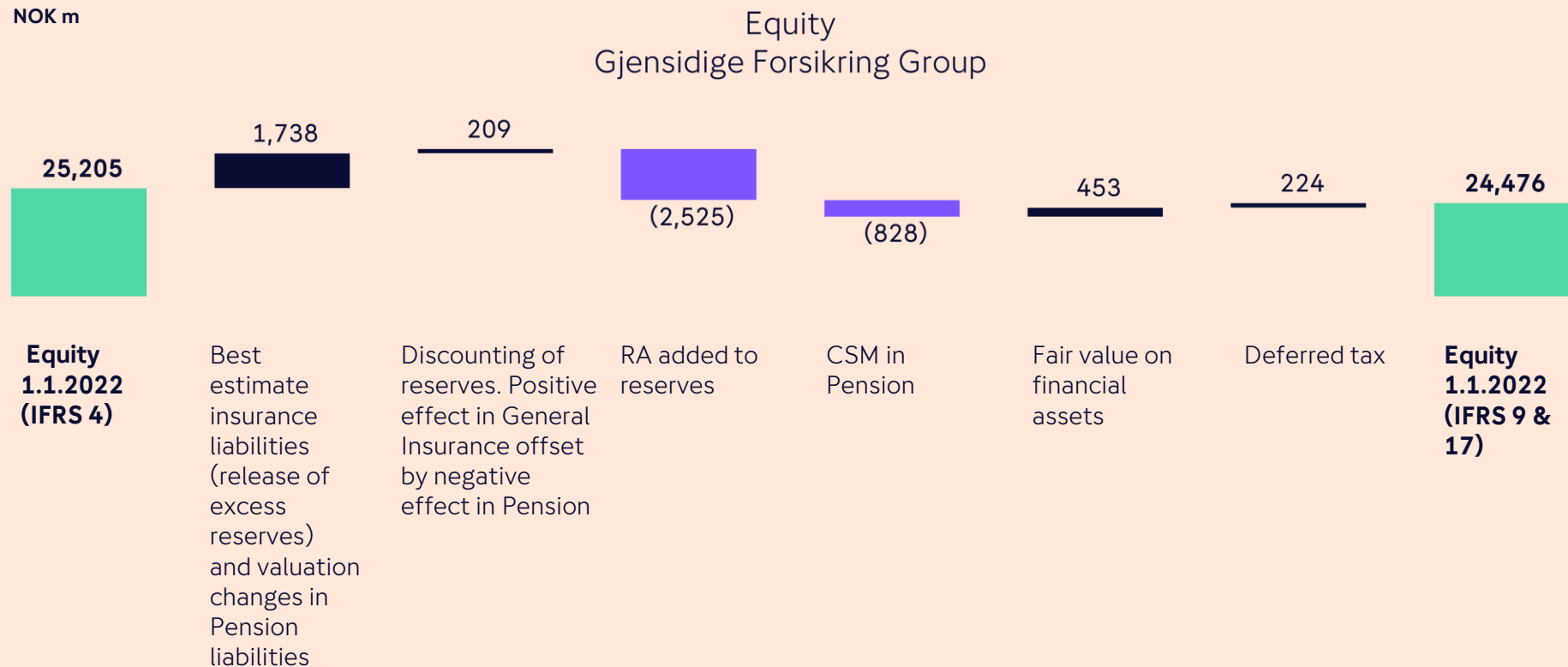
IFRS 9

- All financial assets at fair value through profit or loss (FVTPL)

Presentation and terminology

- Introduction of Insurance service result, similar to Underwriting result
- Liability for incurred claims (LIC) replaces claims provisions
- Liability for remaining coverage (LRC) replaces premium reserves and provision for unearned premiums

Lower preliminary 2022 opening balance of equity, mainly due to Risk Adjustment (RA) and Contractual Service Margin (CSM)



Key elements in the new accounting standards

Discount rates

- General Insurance: Swap interest rates
- Pension: EIOPA interest rates
- Choices based on market practice
- Good hedge between liabilities and assets for both segments

Risk Adjustment

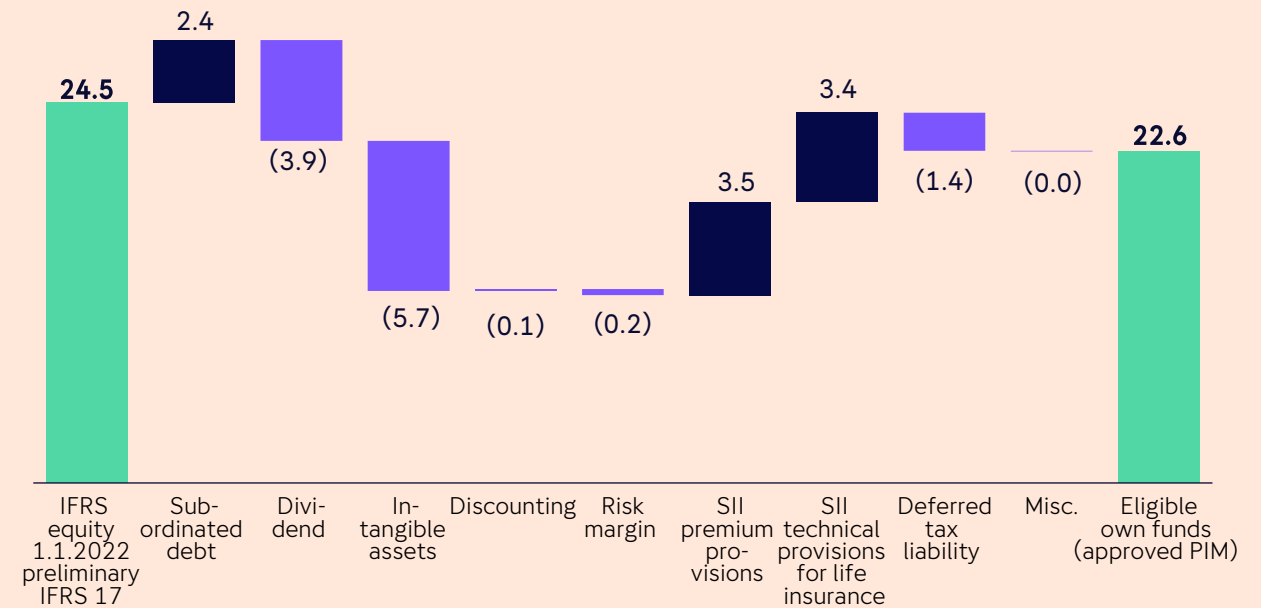
- Percentile approach; ultimate risk
 - 85% per legal entity (95% 1-year risk)
 - 89% on Group level (97% 1-year risk)
- Aligned with Gjensidige's cost of equity

- General Insurance: RA ~7% of LIC
- Pension: RA ~6% of LRC

No impact on solvency position

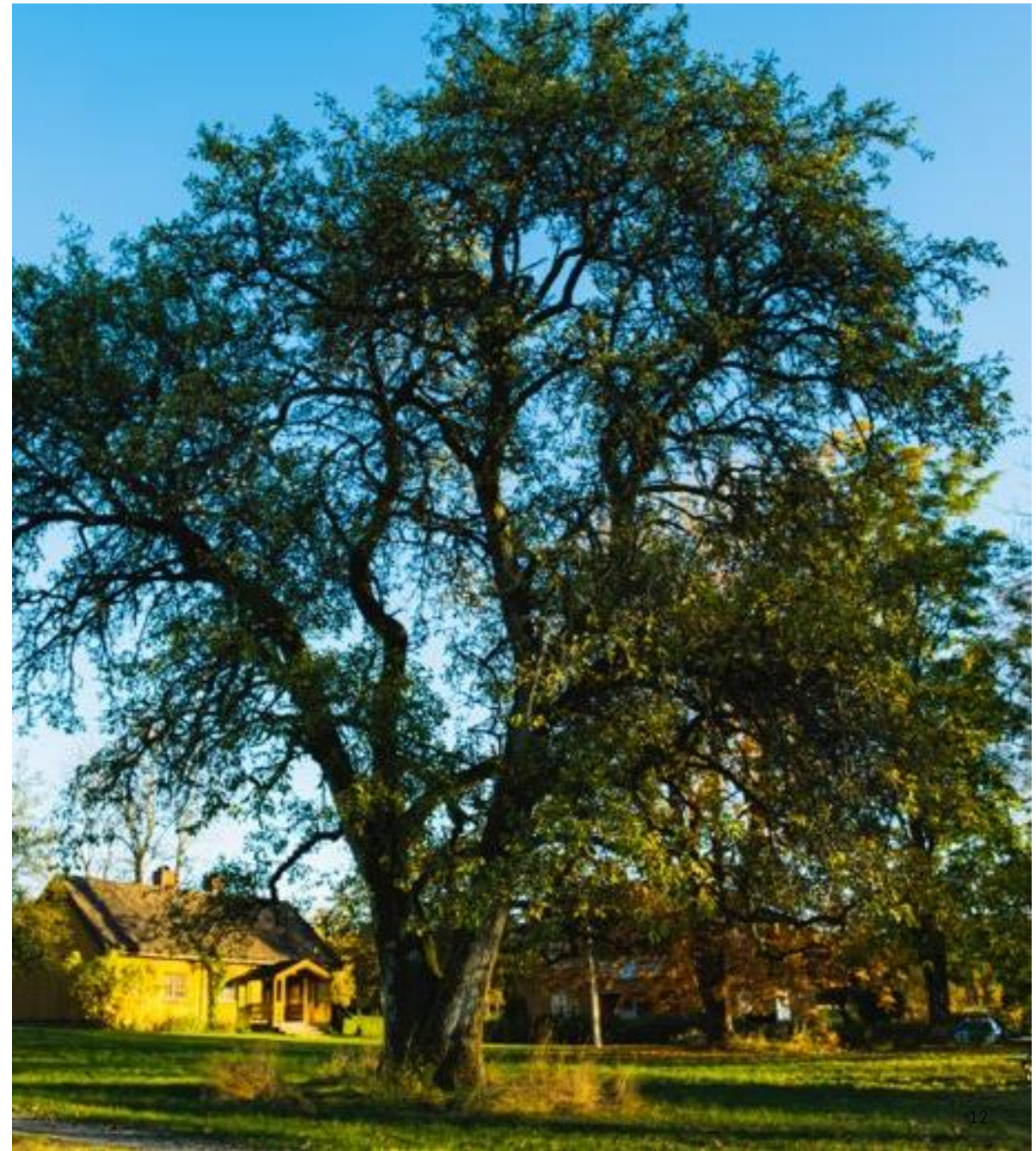
- No differences in valuation of financial assets
- Discounting:
 - Remaining difference due to discount rate - swap rates under IFRS 17 and EIOPA rates under SII (GI)
- Risk margin/risk adjustment:
 - Risk adjustment under IFRS 17 reduces differences, but still different methods and principles
- Premium provisions and technical provisions:
 - Profit from future exposure part of technical liabilities under IFRS 17, and equity under SII (GI and Pension)
 - Different definitions of contract boundary (GI and Pension)
 - LRC discounted in SII, but not under IFRS 17 (GI)
- Deferred tax liability:
 - Changes related to different valuation principles as described above

Lower gap with new standards



New standards will give higher volatility in Pension results

- No impact on operations or risk appetite
- Risk diversification reduced due to split of the portfolio into cohorts and groups
- Recognition of loss on onerous contracts
- Profits distributed over the whole coverage period, instead of upon recognition of contracts
- Higher sensitivity to interest rates
 - Financial assets recognised at fair value
 - Liabilities discounted with market-based interest rates





Impacts on financial statements and KPIs

Karen-Elise Berg Christoffersen, Chief Accountant

IFRS 9 and 17 implementation on track

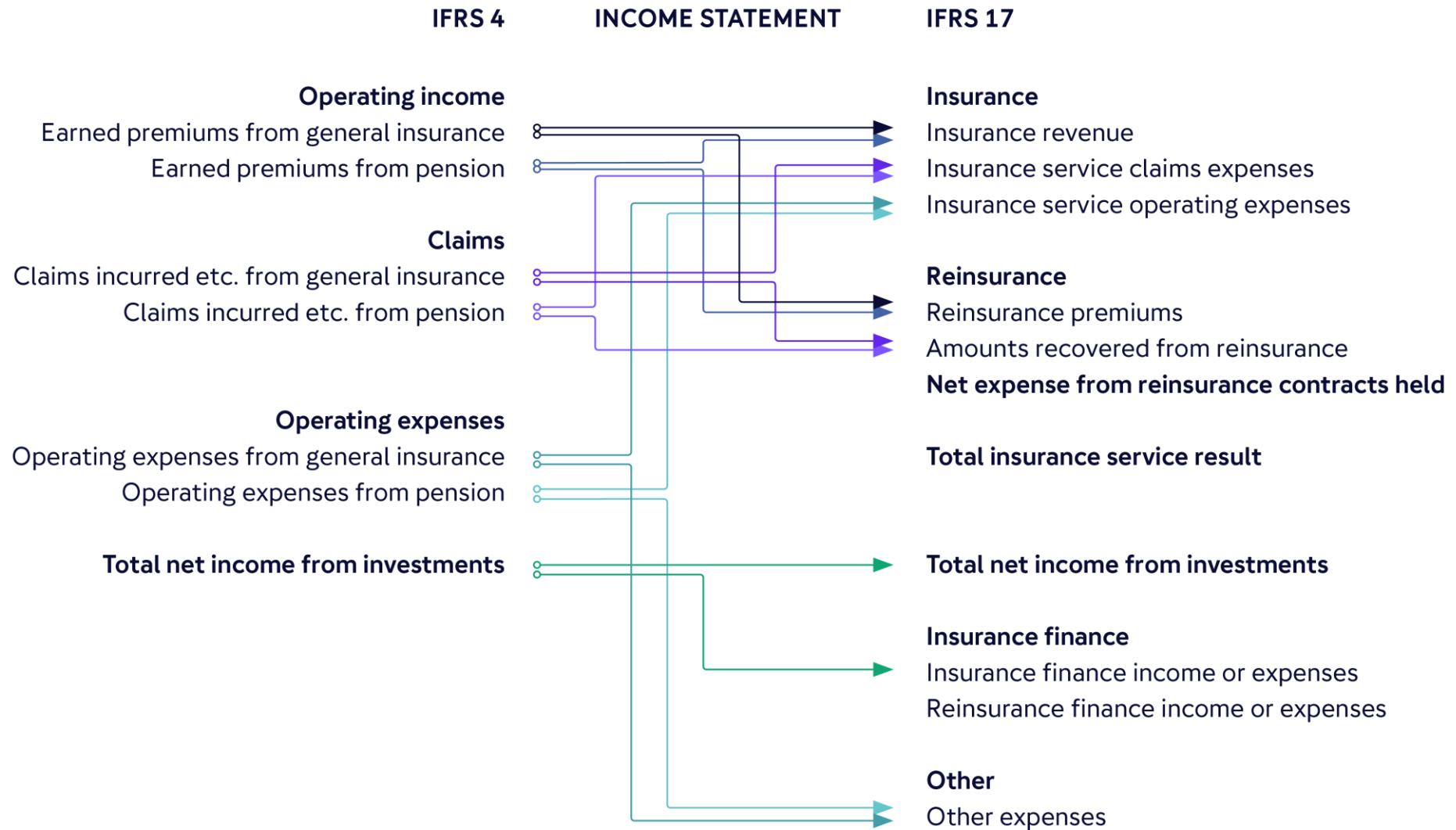


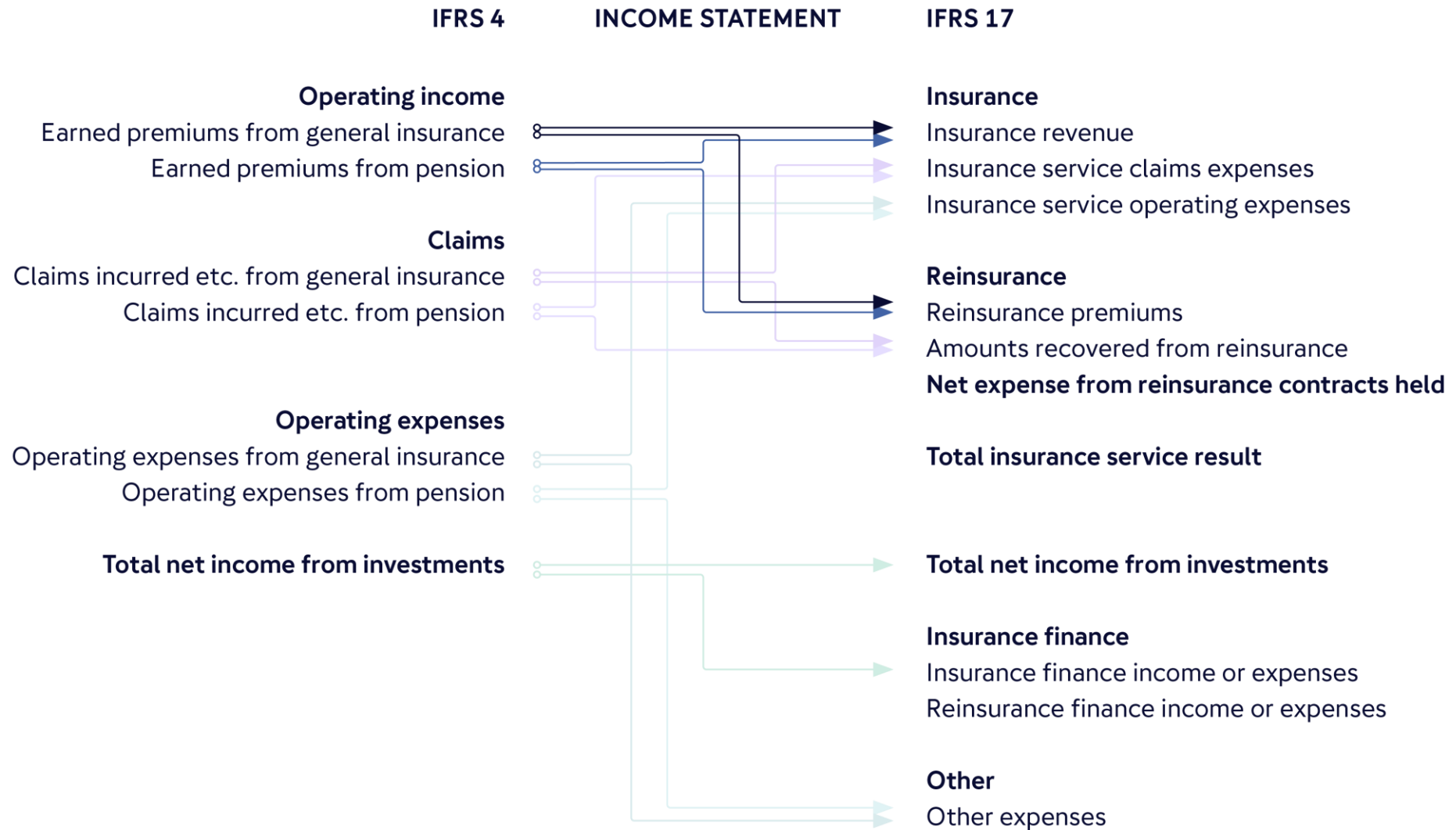
Effective from
1.1.2023
Opening balance
1.1.2022

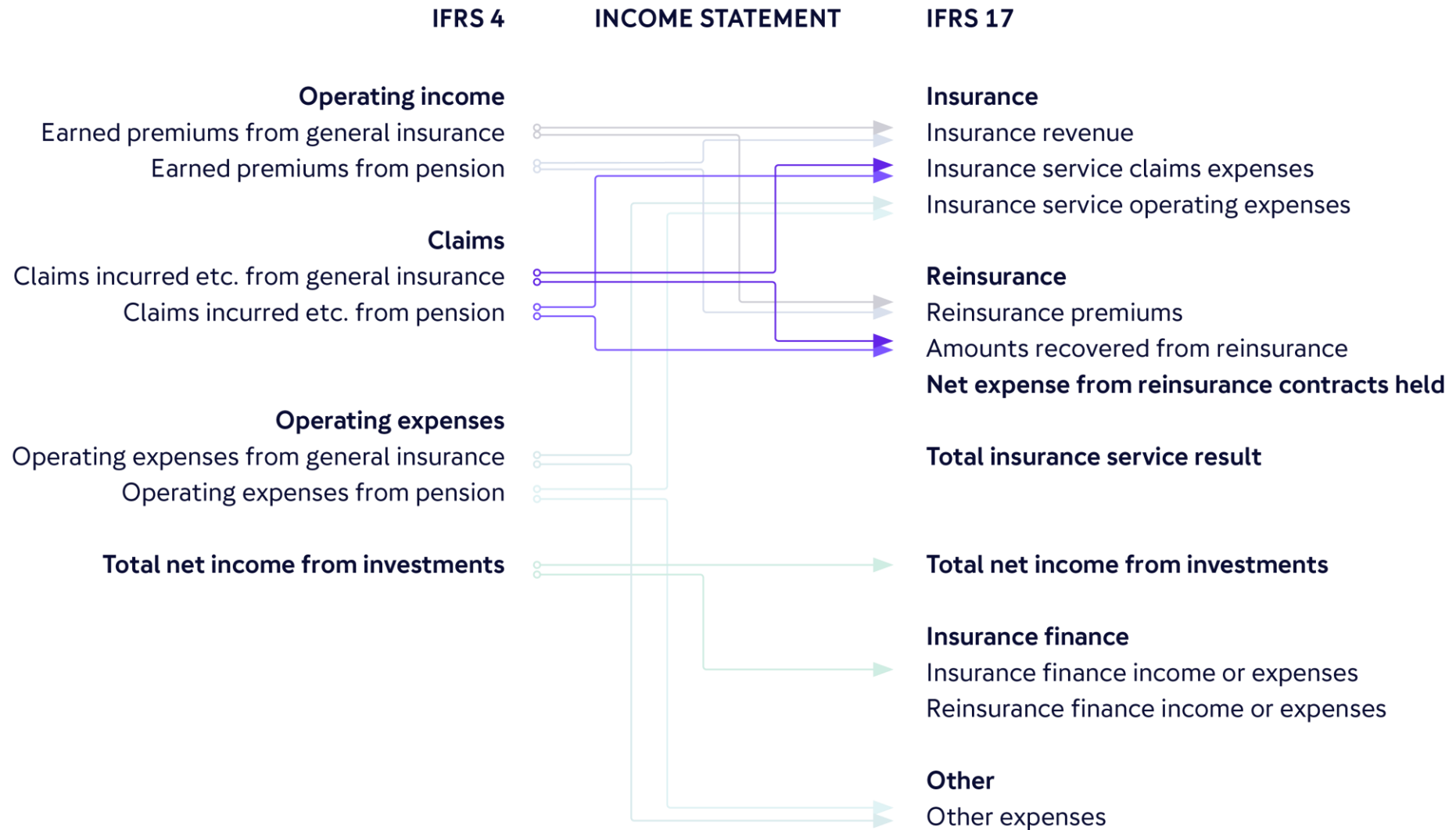


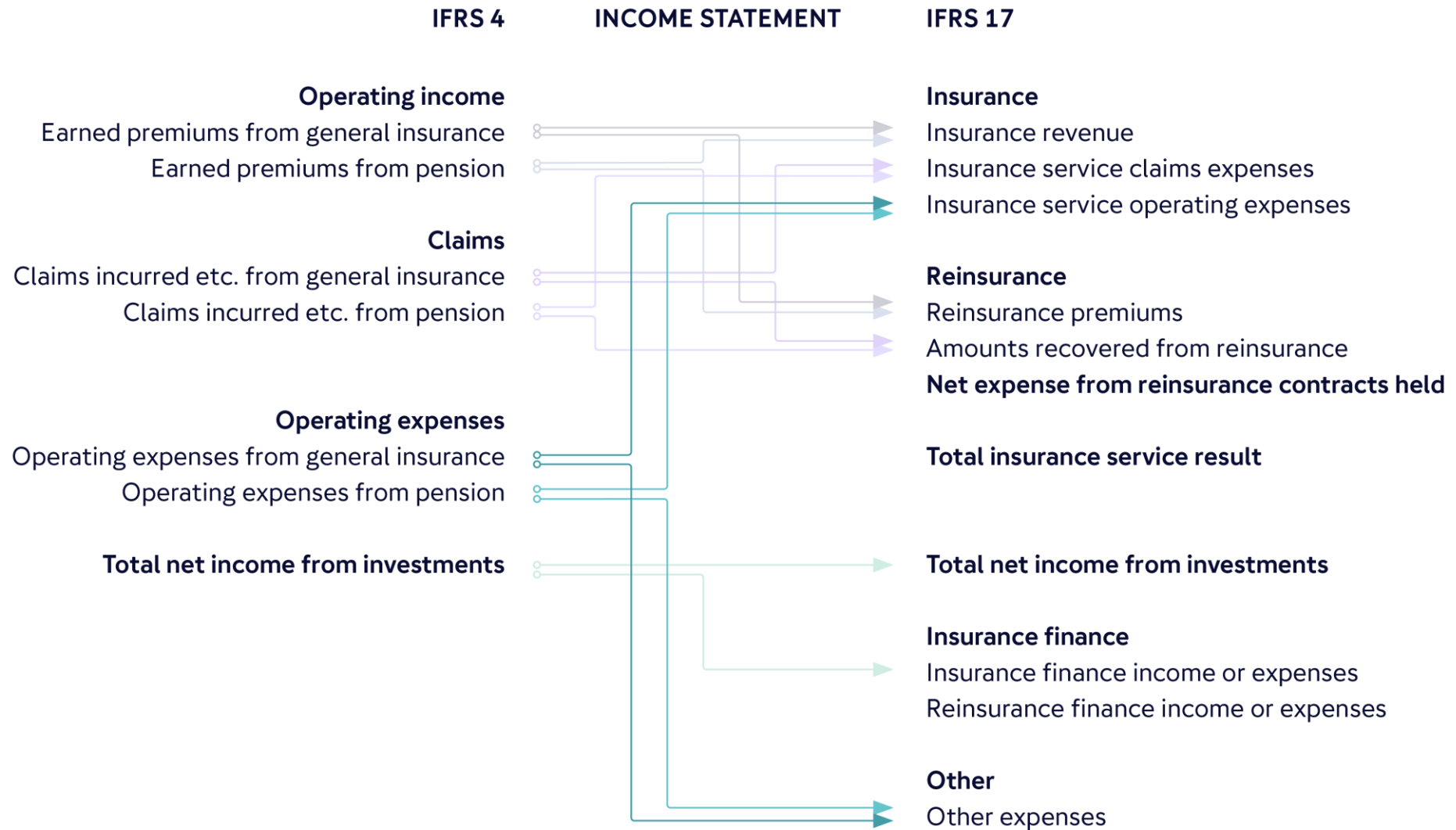
IFRS 17
Mandatory for Group entities except Gjensidige Pensjonsforsikring

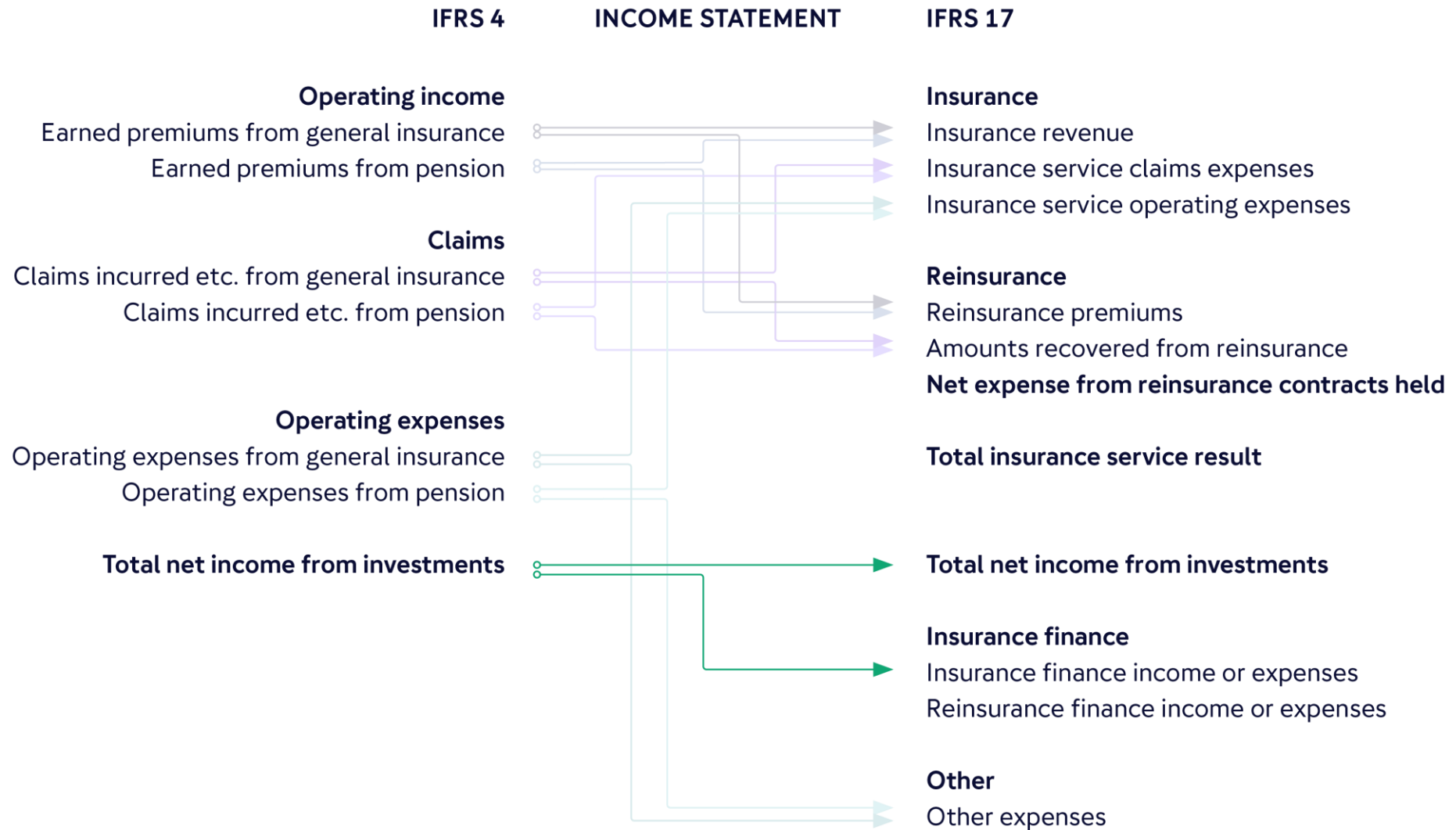
IFRS 9
Mandatory for all companies

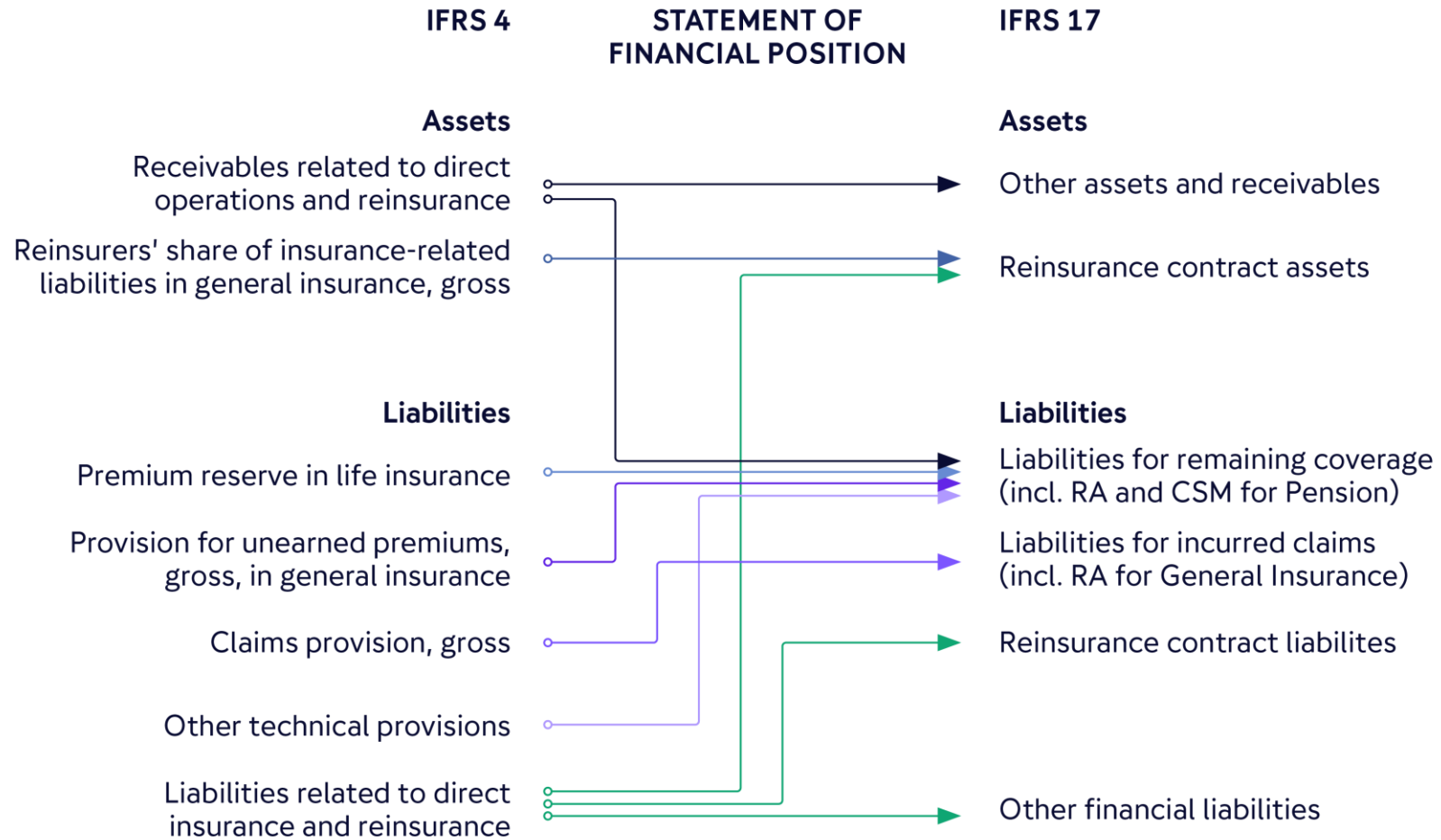


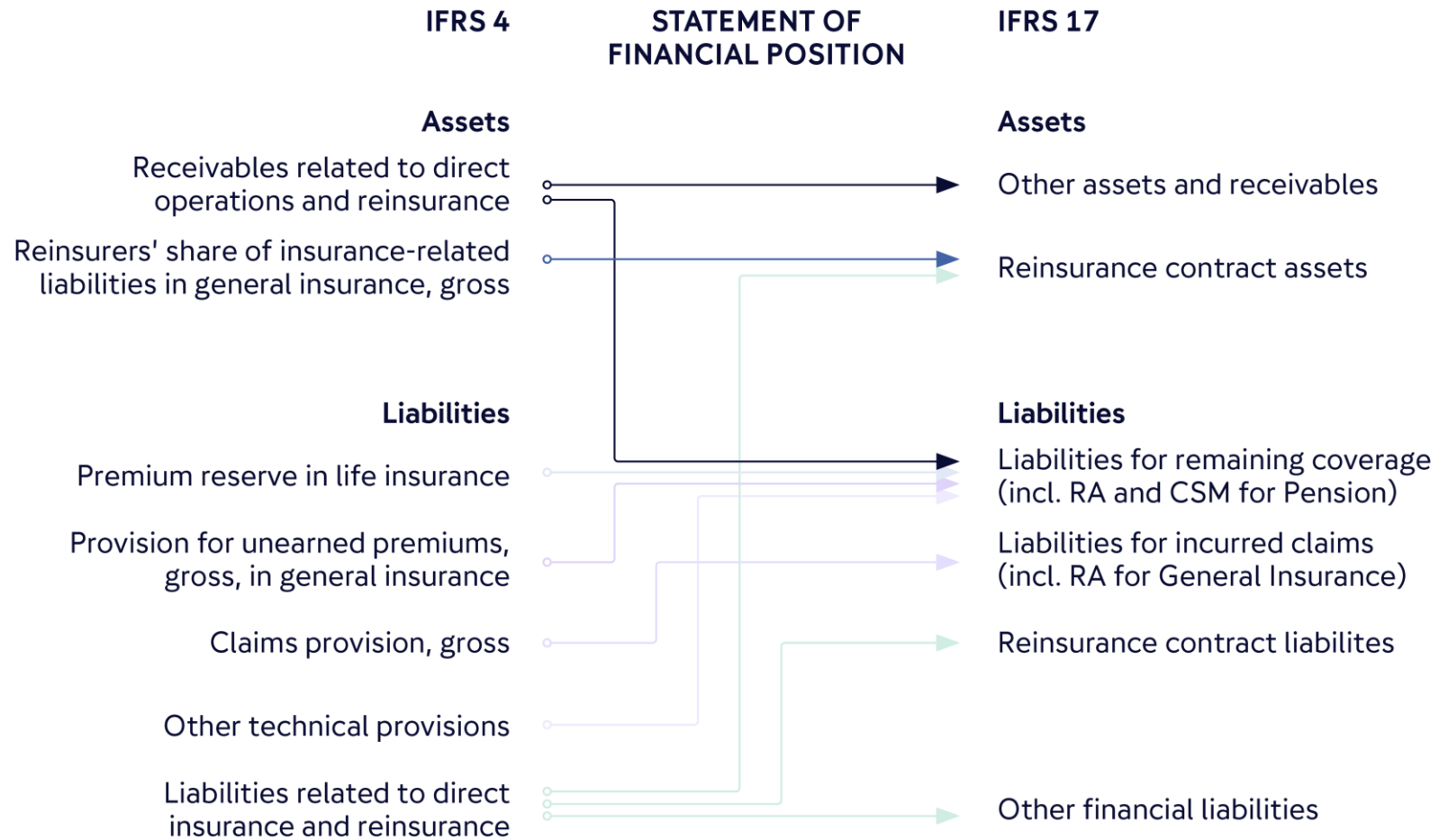




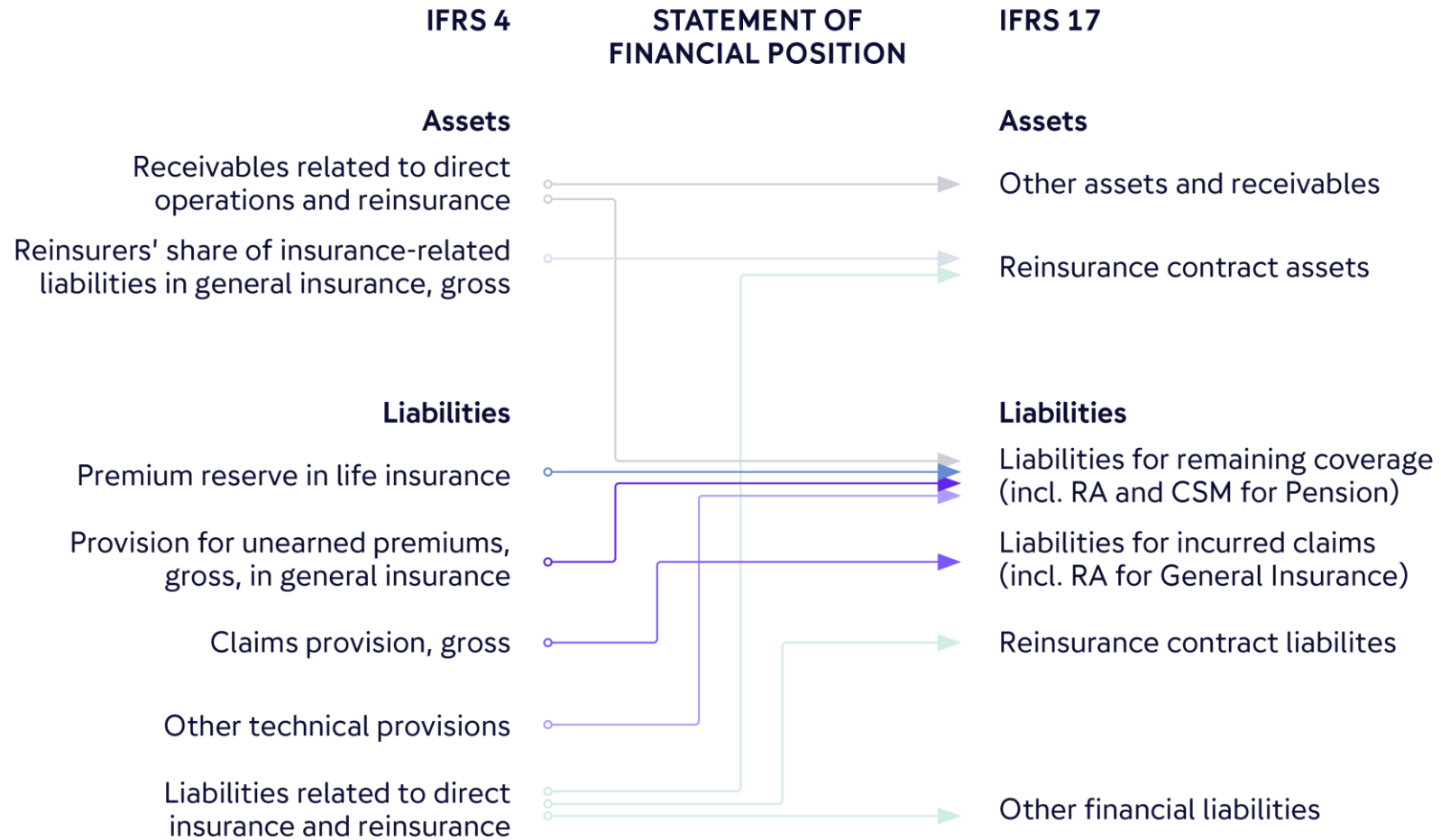




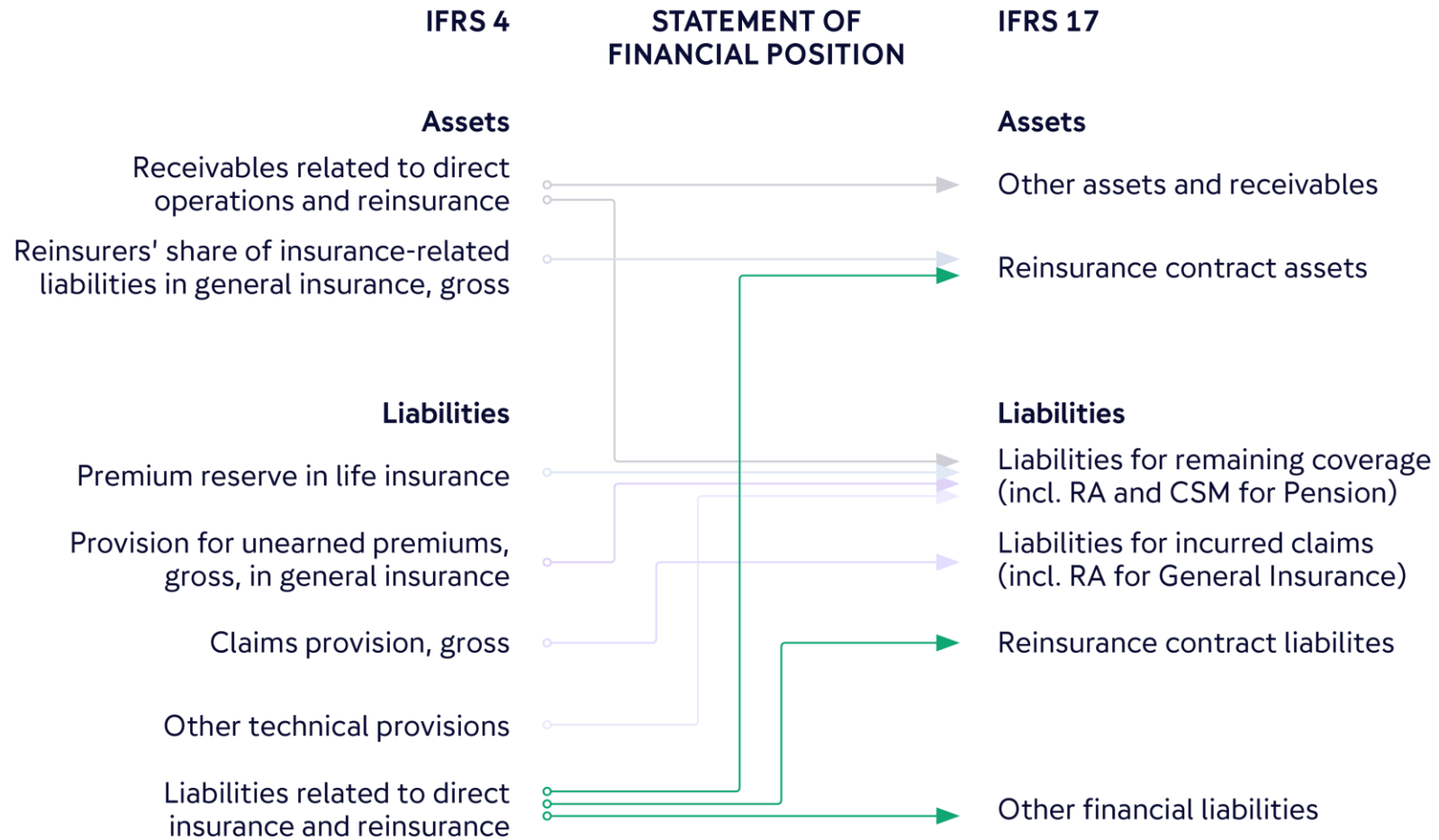




Impacts on financial statements and KPIs



Impacts on financial statements and KPIs



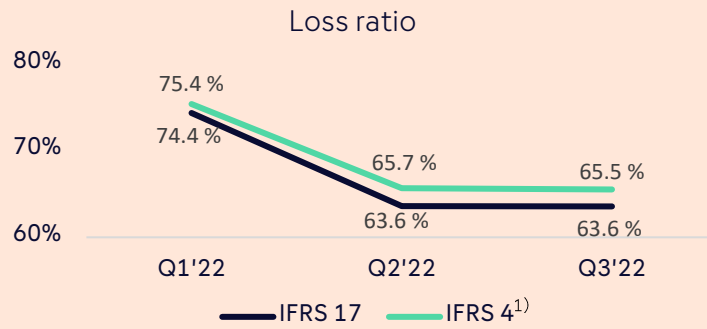
Minor changes in KPIs for General Insurance and Group

Current KPI	New KPI	Change	Definition new KPI
	Loss ratio, gross		Insurance claims expenses/ Insurance revenue
	Net reinsurance ratio		Net expense from reinsurance contracts held/Insurance revenue
Loss ratio	Loss ratio, net	Due to discounting and introduction of RA ¹⁾	Loss ratio, gross + Net reinsurance ratio
Cost ratio	Cost ratio, gross	Due to allocation to other expenses ¹⁾	Insurance operating expenses/ Insurance revenue
Combined ratio	Combined ratio		Loss ratio, net + Cost ratio, gross
Return on equity, Group	Return on equity, Group	Due to lower equity	Profit/average shareholders' equity

1) The KPI is calculated based on insurance revenue, compared to calculated based on earned premiums under IFRS 4

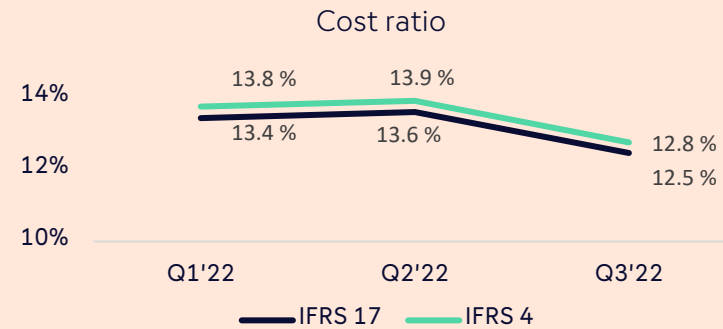
IFRS 17 improves General Insurance KPIs

Discounting reduces loss ratio



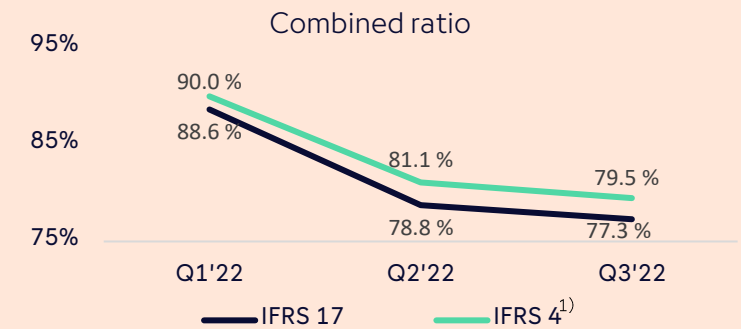
- Positive effect from discounting and larger denominator (Insurance revenue), partly offset by changes in RA

Reclassification reduces cost ratio



- Costs related to education and new products classified as Other expenses
- Larger denominator (Insurance revenue)

Improved combined ratio

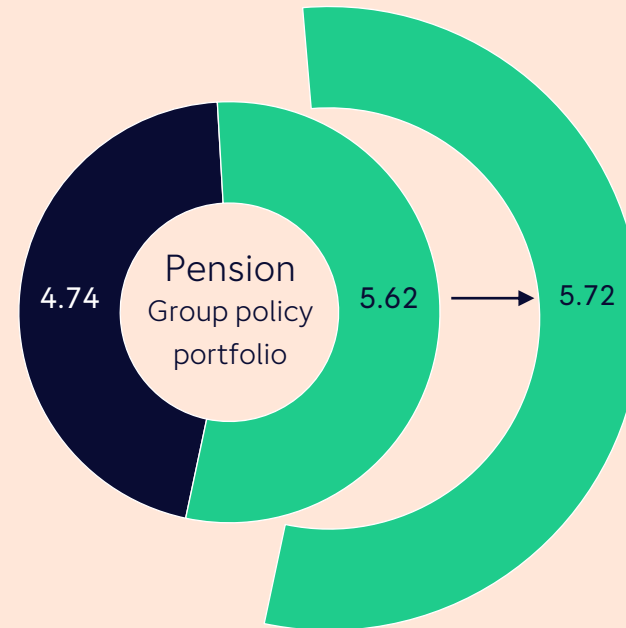
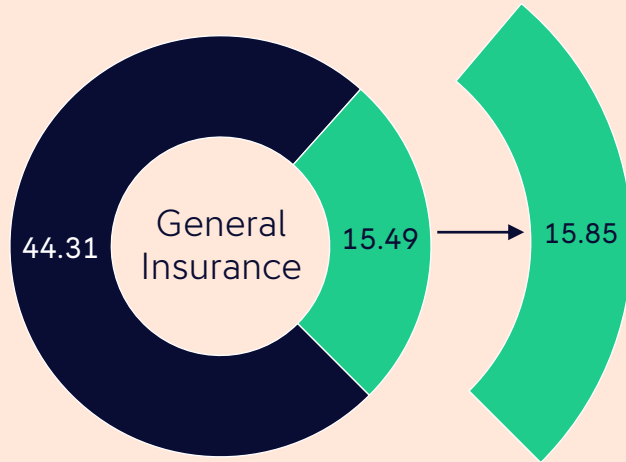


- Reflecting positive effects from loss ratio and cost ratio

1) Excess reserves not included

IFRS 9 - financial assets measured at FVTPL

NOK bn
As at 1.1.2022

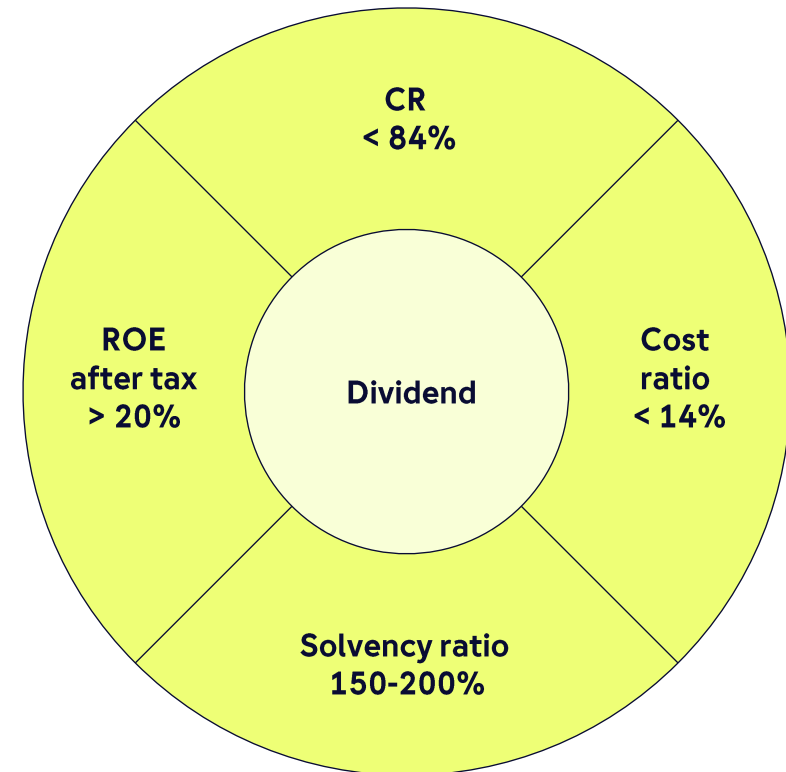


■ Fair value ■ Bonds at amortised cost

Key messages

- Fundamental economics of our business remain unchanged
- No major impact on earnings
- No change in solvency position or dividend policy
- Lower equity for opening balance 2022
- New KPIs and adjusted definitions of some current KPIs
- Revised financial targets from 2023, reflecting new accounting standards and higher interest rates

Annual financial targets from 2023





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