VIENNA INSURANCE GROUP (VIG)

IFRS 17/9 Follow-up

Webcast and Q&A-Session

July 17th, 2023

Transcript

Disclaimer:

Liane Hirner

Dear ladies and gentlemen, dear participants of this follow-up teach-in, good morning, and welcome to all of you. I would like to refer to our teach-in we already had in December last year. We have already given an overview of the first indications, based on the transitional balance sheet as of 1st January 2022, and the new accounting regime. The replay and all the documents are available on our re-launched website www.group.vig > Investor Relations > Events.

There, we have also uploaded the relevant section of the Group's Annual Report 2022. Here, we have 12 pages, which contain all the information with regards to the changes to the new accounting policies, starting 1st January 2023. Now today, we are sharing, and we are happy to share with you, the comparative figures for IFRS 17/9 for the full year 2022 results.

Please note that these numbers are still preliminary. They are unaudited data, and they may be subject to change. Nevertheless, I'm really happy that together with Roland Goldsteiner, our Head of Finance, and Werner Matula, our Chief Actuary, we are able to present to you the first set of comparative figures ahead of the half year 2023 results, which we will present end of August. And we announced that we will do this in the last Q1 results call.

Now let's have a look on slide 4. Having a look at the participant list of today, I think it's not really necessary to present slide 4 in detail. You are, in the meantime, well aware of the most significant changes with regards to the accounting of insurance contracts and investments. And in the meantime, the overall concept of the new accounting policies, as well as the new IFRS 17 terms, like Contractual Service Margin (CSM), or Risk Adjustment, are common to all of us.

Let's move on to slide 5, with a short reminder of the key accounting decisions we took in implementing IFRS 9 and IFRS 17. In general, we have chosen those options to allow us for the greatest alignment to the Solvency II regime, and to avoid accounting mismatches as much as possible, in order to provide stable earnings development in future by limiting the effects of market volatility to the greatest extent possible.

As you can see here, on this slide, VIG applies all three measurement models, which always depends on the underlying business. The split between insurance liabilities shows that the VFA approach dominates, with almost three quarters. VFA is, in VIG, typically applied for unit- and index-linked business, but also, for long-term life and health business, with an underlying item meeting the VFA application criteria.

The 73% at VIG is driven by the significant life book in Austria, both until-linked products, as well as with-profit traditional life business under legally regulated profit participation, plus the long-term Austrian health business. Approximately 20% of the technical reserves account for the simplified premium allocation approach, PAA. Typically, we use it for short-term non-life policies. In case of longer durations, here, we test the eligibility of applying PAA, by making sure that the expected results do not differ substantially, compared to the general measurement model, GMM, which would have to be applied in the other case.

Now, GMM, interestingly, despite that this model is a default model according to IFRS 17, in VIG, only accounts for approximately 7% of the technical reserve. This includes the external reinsurance business of VIG Group, in order to be in line with the reinsurance industry. Because the biggest part of this portion comes from the business, which is written by our reinsurance company, VIG Re in the Czech Republic.

Now, when we look at the discount rate, VIG has chosen an approach very close to the Solvency II regime. We applied the default bottom-up approach, risk free interest rate, plus an illiquidity premium, where applicable. Basically, this resembles the EIOPA interest rate curve, only the volatility adjustment of Solvency II is replaced by the country specific illiquidity premium.

Now, let's move to the risk adjustment. This considers the uncertainty of future cash flows, and the additional amount to be held above the best estimate reserves. Here, too, VIG has based the methodology of the risk adjustment on the Solvency II regime.

Before we come to the figures in more detail, let me quickly recap IFRS 9. And I would like to remind you here, that we have applied IFRS 9 retrospectively, as of 1st January 2022, so it's fully included in the P&L 2022.

The IFRS 9 options for equities at fair value through other comprehensive income, OCI, will be used in order to match the swings in the interest rate environment in the P&L. This, together with the extended use of the VFA approach for the technical reserves. A classification and measurement of financial instruments depends, as you all know, on the business model and the contractual cash flows. In VIG, the companies must specify the business models, based on their insurance portfolios.

Uniform measurement of risk provisions primarily takes place in our central subledger, SimCorpDimensions, taking into account the parameters set by VIG headquarters. Debt instruments that satisfy the conditions of “hold to collect” and “hold to collect and sell” business models, are measured according to either at amortised cost, or fair value through OCI. Debt instruments that do not satisfy the SPPI, Solely Payment of Principal and Interest, must be measured through profit and loss.

Furthermore, VIG will use the VFA OCI for strategic participations. Here, we are fully aware that any gains from selling participations will not be shown in the P&L in future anymore.

Regarding our real estate portfolio, here, I'd also like to remind you that we will stay conservative by prolonging the accounting treatment of valuing it at purchase costs less (or minus) regular depreciation. Meaning, the amortised cost model is still applied.

With this, let's move to slide 6, where I am happy to share with you the overview of the IFRS 17/9 results. Just a quick run through here, by me, before Roland Goldsteiner and Werner Matula will go into more details in some minutes. Compared to the €12.6 billion gross written premiums under IFRS 4, the insurance service revenue amounts to €9.7 billion. Our profit before taxes amounts to €545.6 million, which is slightly below the IFRS 4 corresponding number of €562.4 million.

We are also showing, similar to IFRS 4, a net combined ratio, including attributable expenses, which is at 92.3%, according to IFRS 17. This compares to 94.9% under the IFRS 4 accounting regime. Both, the earnings per share for financial year 2022 at €3.4, and the operating return on equity, which amounts to 10.7% under IFRS 17, are slightly below the IFRS 4 comparative figures.

Finally, the IFRS 17 new business margin for life and health stood at a pleasing 5.8% at year-end 2022. The reason for the increase, compared to the 3.6%, according to the embedded value calculation, will be explained by Werner Matula. And here I would also like to remind you that we have presented embedded value calculations, end of 2022, for the last time, and we are really happy to share this reconciliation with you. But first, let me now hand over to Roland Goldsteiner. Roland, please go ahead.

Roland Goldsteiner

Thank you, Liane. Let's start with the development of the equity over the business year 2022 on slide 7. As you may remember, we started in the transition with an equity of €5.3 billion on 1st January 2022. The result of the period, less income taxes and minorities, has only slightly changed from the result according to IFRS 4. The same is absolutely true for foreign exchange changes and the dividend payments, of course.

As you also may remember, the equity went down in IFRS 4 from €5.6 billion to €4.4 billion throughout the business year 2022, highly affected by the violent swings in the interest curve during this year, pushing the OCI from investments into the negative area. What you can see here, in IFRS 17, on the other hand, is a totally different picture, due to the fact that the OCI movement from the technical provisions and the CSM nearly counterbalances the downswing of the OCI from the unrealised gains and losses from IFRS 9.

In total, the equity stayed at a stable €5.7 billion, which resembles more or less the equity at the beginning of the period, plus the net result of the period. This development assures us that VIG has taken the right accounting and measurement decisions, in order to achieve the goal to stabilise its financial developments.

Starting with slide 8, we want to emphasise again the fact that VIG Group in the new accounting world still steers business according to markets, not according to business lines. This determines the reporting segmentation, which stays the same as in the old accounting world, of course. We will stick to Austria, Czech Republic, Poland, extended CEE, Special Markets, and Group Functions, as our reporting segments.

Going on with the presentation, we give you a look at the insurance service revenue of VIG Group, in comparison to the IFRS 4 figures of 2022. The overall figure of insurance service revenue went down, compared with the presented gross written premium by €2.9 billion to €9.7 billion. This is mostly due to the elimination of the investment component in the life insurance business from this new turnover KPI.

This is also clearly pictured on the right graph on this slide, where the life turnover goes down by €2.2 billion. This is also the reason why especially the turnover in Austria goes down significantly. There we run the biggest life portfolio within our Group. This effect is also visible, to a minor degree, in all our business segments here.

The decrease in P&C turnover is caused by discounting effects, especially in the third-party reinsurance business, where GMM is applied and the accounting treatment of the portfolio entries of the in-take reinsurance. This can also be clearly seen in the matching of the decrease in the turnover figure within this segment, the Group Functions, which includes VIG Holding, VIG Re, and Wiener Re, with the lower consolidation effect, pictured on the left graph.

Going on with the Group result before taxes on slide 9, we see hardly any impact overall on the Group result, as the result goes down by merely 2.8%. By drilling down the overall result to the business segments, it is visible that the change from IFRS 4 to IFRS 17 lies in the detail, of course.

Starting with Austria, the result goes down by €23.6 billion, due to the significantly stronger result in the life and health business, overcompensating a significantly lower result in the P&C business. The life and health result is supported by the strong new business margin, shown before, as well as by the release of CSM, especially from the VFA classified business. On the other hand, the P&C business is subdued by the increased liability for incurred claims, otherwise called LIC, due to the effects of cost inflation during this year.

As the difference in the Czech Republic is only minor, I want to go on with the development in Poland. Here, we can see an increase of the result by nearly 40%, which can be explained by two effects. First, we also experienced in this market a positive impact on the release of CSM in the life business. And then additionally, we've got a positive impact on the investment result by the realisation of SPPI eligible investments, which shows, according to IFRS 9, through retained earnings and not through the P&L anymore, like in IAS 39.

The most significant change to the IFRS 4 result, of course, appeared in the extended CEE segment. Here, several effects pushed the result before taxes down by €64.3 million. First, we see a far lower positive effect from the CSM release, compared to Austria, Czech Republic, and Poland. And secondly, we have here many markets where the cost inflation led to a further strengthening of the LIC. Moreover, we also experienced a major impact from the different accounting treatment of non-SPPI-eligible investments, which, under IAS 39, were buffered in the OCI, and didn't affect the P&L then. According to IFRS 9, the decline in market value, due to the heavy swings in the interest environment, now goes through the P&L.

Here, you can clearly see the difference in the measurement models GMM and VFA. Of course, we also encountered this effect in the aforementioned reporting segments. But there, the VFA application is far more prominent than in this business segment here. This underlines, once more, the balancing effect of the VFA approach.

Additionally, we also experienced a negative impact from the staging of investments, due to the expected credit loss of some investments here. Altogether, and also, taking the rather minor changes to the segments of the Special Markets and the Group Functions into account, the changes described above sum up to an overall slight deviation in the Group result before taxes of altogether just -2.8%.

Slide 10 just summarises the effects I've already mentioned on slide 9. You can see here the effects of the cost inflation on the LIC, and the negative effects of IFRS 9 on the result of the P&C business. The positive effects of the strong new business margin, and the release of the CSM on the life and health business, where the predominant application of the VFA measurement model balances the IFRS 9 effects.

Now we concentrate on the next steering KPI, the combined ratio. Regarding the composition of this KPI, we calculate the combined ratio only for the P&C business on a net basis, meaning including reinsurance. Furthermore, we only include the attributable cost basis to the calculation. Using this formula, we come up with a net combined ratio of 92.3% for the P&C business. This is, of course, significantly lower than the IFRS 4 combined ratio of 94.9%.

The difference comes mainly from the discounting effect in the claims ratio, according to IFRS 17, which we didn't apply in the IFRS 4 regime, as we stuck to the national insurance accounting regulation, and not, as multiple peers have done through US GAAP. Additionally, the cost basis with this calculation is significantly lower by taking only the attributable costs into consideration.

Of course, we are striving to come up with further details on the combined ratio in future presentations, but for this presentation, we had to limit the level of detail, as we are now also heavily engaged in preparing the half year result of 2023, as well as the new format of the half year report, so we apologise for that.

This concludes the section of my presentation, and it's my pleasure to hand over to Werner for the details of the life and health business. Please, Werner.

Werner Matula

Thank you very much, Roland. Let me go on with life and health. And as we have already learned today, the life and health business is mainly valued under the variable fee approach, VFA, and a little bit of the GMM. Almost three quarters of our book is VFA, and this is also visible, if you look here, on slide 12 at the development of the CSM over the year. We are starting at the transition balance sheet with €5.1 billion opening CSM. The CSM here is presented as net CSM. This means direct business, reinsurance issued, and reinsurance held, altogether consolidated. And then, there are certain developments over the year. The first, and probably the most interesting one, is the new business contribution of €240 million, which I will go into detail on in the next slide. The GMM model contributes only non-material with €9 million interest accretion and €24 million changes in estimates. Besides the fact that this is a smaller proportion, also this is due to the situation, that changes in the economic environment are not adjusting the CSM in the general measurement model. This is very different under the VFA. You can see here, a big block of plus €800 million coming from the change in variable fee, and this clearly follows the strong increase of interest rates in 2022, particularly in the Austrian life and long-term health book.

After a small FX effect of €6 million, we also see a block here labelled with other effects of €200 million in addition to the CSM. This one represents mainly the two new Aegon entities, which have not been yet part of the opening balance sheets and went into consolidation during the year. Last, but not least, we see the CSM release of €543 million in 2022. And this all sums up to more than €5.8 billion CSM at the end of 2022.

Let me also note that the CSM development is very much in line with what we have shown at the beginning of the year in our embedded value disclosure, supporting the IFRS 4 financial statements. Liane has already mentioned that this was the last time that we did this, and we are happy that the developments are comparable. In order to bridge this in even more detail, I would like to use the opportunity to explain the new business value of €240 million in more detail, and how this reconciles to our MCEV new business value.

The comparative number has been €91 million new business value, under the embedded value metrics, with a new business margin of 3.6%. Just to remind you, the new business margin is always the new business value, in relation to the present value of new business premiums. Now, there are three effects, which I would like to explain, and which reconciles them to IFRS 17.

The first one is tax and minorities. Embedded value is similar to Solvency II, or exactly as Solvency II, an own funds position, and therefore, always shown net of tax, also, the embedded value is presented after minorities. Now grossing this up means €29 million additional value.

The second block relates to the methodology changes. IFRS 17 allows for different contract boundaries, normally longer contract boundaries. IFRS 17 also only considers the attributable expenses, both effect to an increase, of course, of the new business value, or increase the presentation of profitability. And then IFRS 17 initial recognition requires us to use assumptions at the beginning of the period at point of sale. That's different to embedded value, and also, there is no consideration of any experience variance in the reporting periods.

Last, but not least, the scope, which is actually the biggest block here of €77 million, means all entities, which have not been in the consolidation scope of the embedded value, are now included here. Again, this includes the two entities in Hungary and Türkiye. And then we are reaching €240 million of new business CSM, or initial recognition CSM, with a margin of 5.8% for the year 2022.

Let me conclude with a statement that the results, again, show that our long-term business life and health is important and profitable, and we are happy that we are having a good strategy within the business. With this, thank you very much. I hand back to Liane for a summary.

Liane Hirner: Thank you, Werner, and also, thank you, Roland. I guess it's a little bit the same for all of us. It takes a little bit of time, or we take a little bit of time, to fully understand all the new information, and the changes of the new accounting regime, to also get used to the new results presentation, according to IFRS 9 and IFRS 17.

Here, on slide 15, I would like to show you a quick executive summary, in which, once again, I would really like to highlight that the new accounting standards neither have an impact on our overall strategy or risk appetite, nor have an impact on our dividend payment capacity. The latter is especially true, because all bigger VIG entities, including, for example, Austria, Czech Republic, Germany, and Poland, stay with national GAAP, which is, in general, more prudent than IFRS 17, and this remains unchanged, and will stay as the basis in future for the dividend payments.

Now you have seen our first set of comparative figures, I would like to highlight that the insurance revenue amounts to €9.7 billion. The difference, compared to IFRS 4 gross written premium, which is mainly the removal of the investment component, mainly in the life, but also, in the other lines of business. Our IFRS 17/9 combined ratio in P&C amounts to 92.3%. This is calculated on a net basis and considers the attributable expenses.

The disclosure of the CSM and the new business CSM going forward replaced the embedded value calculations, and Werner has shown you the transition to that. VIG reports profitable new business also under IFRS 17, with a margin of 5.8%.

I'm quite confident that the disclosure will further develop over time, and also, here, we welcome your feedback, which is highly appreciated.

Our first half year results in the regular reporting cycle, we will present end of August – on 30th August 2023. There, we will provide you the comparative figures: half year figures for 2022, and for this reason, we will not collect a consensus for the upcoming period.

As you all know, the process of reviewing KPIs and targets, based on the IFRS 17/9 regime, is still ongoing. There is no clear market standard at the moment according to the new regime. And we also look forward to your feedback in this respect.

With this, we have come to the end of our presentation, and we are now ready to take your questions.

Operator: Ladies and gentleman, at this time we will begin the question-and-answer session. Anyone who wishes to ask a question may click the Q&A button on the left side of your screen and then raise your hand. If you are connected via phone, please press star, followed by one, on your telephone keypad. If you wish to remove yourself from the question queue, you may press star, followed by two, or please press the lower your hand button.

If you're using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may click the Q&A and raise your hand button, or press star, followed by one, at this time. One moment for the first question, please. And the first question comes from Youdish Chicooree from Autonomous Research. Please go ahead.

Youdish Chicooree: Good morning, everyone. I've got three questions, please. The first one is on slide 12, on your life and health CSM. I was wondering, you show a CSM release of €543 million. Is that the run rate going forward, or could you guide us to how that stock of CSM is released going forward? That's my first question.

Then the second question on the same slide. I know you briefly explained the benefit of €800 million you recognised. Could you elaborate on that, please, considering it's such a large figure, and how that unwinds going forward?

So, those are my two questions on this slide. And then a couple of more questions on the P&C side. So, overall, on transitioning to IFRS 17, your claims ratio falls by just 50 basis points. So, I'm just wondering, can you tell us what is the benefit of discounting that you recognise in that 61.1%? And I suppose there is probably another negative, which is offsetting that benefit, so if you could quantify that, that would be very helpful. Thank you.

Liane Hirner: Thank you. I think Werner will take the first question for the life business, and Roland will then go into more detail for P&C. Werner, please go ahead.

Werner Matula: So, let me answer the life question first. The CSM release of €543 million and whether this release is also to be planned for the future. To a certain extent, yes. To another extent, no. And it also relates to your second question. So, the CSM release follows the coverage units of the underlying business. So, there is a regularity, which is expected in the CSM release.

However, the CSM release actually then depends on the adjustments of the CSM. And one of the significant adjustments in 2022 was an additional €800 million of a variable fee, which after all, is, as well, released. So, if that was not there, obviously, the same release would be smaller. So, we cannot 100% predict. There is an expectation, but if there is an adjustment, it's in the CSM, like a change in variable fee last year, and also, the new business, then this number could look very different.

The €800 million was your second question. So, this this driven, I think I explained, by the higher interest rates. And if we think in MCEV terminology, so to speak, this means a significant increase of the value in force, the business and the higher interest rates in Austria in the life book is much more profitable. And since this is valued under the VFA, the CSM is adjusted, meaning it is increased, and consequently, also released for the particular periods. As for the P&C combined ratio, Roland please.

Roland Goldsteiner	Youdish, you're absolutely right. Maybe compared to other peers, the decrease in claims ratio at just 50 basis points, compared to IFRS 4, is rather minor. But I can't give you the exact number of discounting at the moment, in fact. But nonetheless, when we said before connecting the result of some P&C business in some reporting segments, I mentioned that we priced in the cost inflation movement here. And please be aware that the cost inflation not only affects the cost ratio, itself, leading to higher wages, and others at the admin basis, but also, the cost inflation effects, repair costs, claims handling costs, and so on. And this also countereffects to a certain degree, the savings, due to the discounting effect.
Youdish Chicooree	So, it sounds like you're saying you've basically strengthened your reserves. Or did I misunderstand?
Roland Goldsteiner	I wouldn't put it as strengthening reserves, but IFRS 17 also goes very much into expected run of the business. So, we included, in our calculation, especially of the LIC, also the cost inflation, more on a prudent basis.
Youdish Chicooree	So, it's a more prudent assumption that you had previously under IFRS 4, is that right?
Werner Matula	That's because the inflation developments are simply stronger in 2022. It started in 2021 already. The expectation of future inflation looks different, in our opinion, so it's still a best estimate. But the best estimate cash flows needed to be increased, because of the future expectation.
Roland Goldsteiner	Also, in IFRS 4, we had, of course, the advantage of a round of releases out of the hidden reserves, out of the claims reserves, which we don't have according to IFRS 17, because we started anew with the transitional balance sheet.
Youdish Chicooree	All right. Thank you. I guess, going forward, you will tell us what the benefit of discounting is on the P&C side, once you start reporting, and the IFRS 17?
Roland Goldsteiner	Yes, we will. We will do our utmost to rise up our level of details for our representation in the future.
Youdish Chicooree	Okay, thank you very much.

Liane Hirner — But we got your point, so we will make sure that we calculate the effect as soon as possible.

Operator — And the next question comes from Bhavin Rathod from HSBC. Please go ahead.

Bhavin Rathod — Good morning. I have two questions from my side. The first one is on slide number 10, where you show the decline on the P&C figure of €181.4 million. And I guess it's impacted by two factors. One is obviously the cost inflation that you have referred to, and this other element of migration from IAS 39 to IFRS 9. Could you provide any further granularity on how much of this is impacted by the inflationary impact, and how much of this is impacted by transitioning to IFRS 9?

The second one is on slide number 11, when you showed the combined ratio of 92.3% under IFRS 17 versus 94.9% under IFRS 4. Now, I understand, under your previous guidance, your normalised expectation for the combined ratio was close to 95%, but how should we think about normal expectations under IFRS 17? Or would you say that 92% would be more comparative combined ratio under the new IFRS 17 regime? Those are the two questions that I have currently. Thank you so much.

Roland Goldsteiner — Thank you for your questions. If I understood it correctly, in your first question, you asked about the IFRS 9 negative impact, especially under the P&C results we presented here. Like we mentioned before, we had some effects in IFRS 9, which we didn't have, according to IAS 39. And we must say that during the year 2022, of course, we steered still according to IAS 39. So, what you see here, the effect of IFRS 9, is just an effect out of the transition from IAS 39 to IFRS 9.

So, like I mentioned before, two of the main effects, where we have now more investments, which are in the category fair value through profit and loss, compared to before, we had a much bigger portion of our investments, classified as available for sale, where the deviation of the market, whether it goes through OCI, and now, of course, for a bigger portion, which is classified according to fair value through P&L, of course, we have a bigger impact in the P&L out of the market deviations.

As you know, we are heavily loaded on the bond side here, and during year 2022, due to the heavy interest environment swings here, of course, there was a negative change of the market, but especially in the bonds area. This was one effect. And then, of course, a second effect out of the first-time application of expected credit loss during the year 2022, we are, of course, operative in some countries, which are heavily affected by the war in Ukraine, and therefore, we had some effects through P&L, which was, according to IAS 39, only visible in the OCI.

I hope this answers your first question thoroughly. And regarding your question on the future development of our expectations of our combined ratio development, this is something that, at the moment, we won't give you any expectation for this time of the year. Because as we said before, also for us, we have a steep learning curve before us on the mechanics behind all these figures. This is one topic, of course.

The other one is what we experienced during the comparison period here is that all the results, which go through the P&L, regardless of if this is the result of the year or the combined ratio, is much more affected by interest developments than in the older accounting regime. And this is something we have to gain experience to give a well-founded outlook for the future. So, we apologise that at the moment, we don't give you any indication of what we will experience in the future.

Liane Hirner: And I would like to add here also that in the comparative period, we steered our business according to our old KPIs, IFRS 4 and IAS 39, so this might also have an effect. We need more data and more information going forward to really be confident with the target for the combined ratio. For the time being, we only have the number for 2022.

Bhavin Rathod: Can I just quickly follow up on the cost inflation part. Would you be able to say which regions contributed most to the highest cost inflation under IFRS 17?

Werner Matula: Could you please repeat? It's very hard to understand you.

Bhavin Rathod: I just wanted to understand, would you be able to comment on which regions contributed most to the higher cost inflation or higher inflation results under IFRS 17? Was it similar across all the regions, or was it a particular region that contributed most to this higher inflation?

Roland Goldsteiner: If I understood you correctly, you're asking in which regions we operate we experienced the highest cost inflation effects.

Bhavin Rathod: That's right.

Roland Goldsteiner: Of course, the further east, you see it on our map, of course, is where the biggest swings were. When you look at the inflation figures, there, we experienced in some markets, inflation, excluding Türkiye, because there it was by far the biggest swing, we experienced inflation rates above 15% of the year.

And in the more mature markets, like Austria or the Czech Republic, the inflation effects were quite high, I would say, when you compare it with the past. But the more east you go, the higher the cost inflation effects were.

Liane Hirner: But we have also seen in Eastern Europe, some countries, smaller ones, where the inflation rate is below Austria for the first

	time. So, we have very different inflation rate developments for our region. I hope this answers your question.
Bhavin Rathod	Yes, it does. Thank you so much.
Operator	And we do have a follow-up question from Youdish Chicooree from Autonomous Research. Please go ahead.
Youdish Chicooree	Hi, there. Me again. Thank you for taking a couple more questions. I'd like to ask again about this cost inflation. Is that the result of transitioning to IFRS 17? Or is that your choice to actually strengthen your reserve, now that you're moving to IFRS 17? That's my first question. And then I'm just wondering, could you remind us of which assets have you decided to market through the P&L, and which ones are going to be through OCI, please?
Werner Matula	I will start with the inflation, in general, because this is a topic for all lines of business, but it's of particular interest in the P&C section. We don't really have a choice. What we need to do is when we set up our reserves, be it claims reserves, LIC or LRC, we always need to set assumptions, various assumptions. We are very used to setting assumptions around costs, for example, or mortality in the life business. We have not been used to setting assumptions around inflation, simply because inflation was a very constant parameter in the history. Now, since 2020, inflation started to be volatile. That means we had to set proper assumptions, in terms of, especially, excess inflation in the future. And this has happened, actually, already at transition, of course. But since we are getting more and more statistics and data looking forward on inflation, we have considered, hopefully, even more severe inflation assumptions also for the year end 2022. That's why we see the effects, which we explained as strengthening, but it's not really a choice. We need to have a best estimate liability, and part of the best estimate assumptions, and also, inflation assumptions. So, it has been in the transition balance sheet, but it has been even more for the year end 2022.
Youdish Chicooree	Thank you for that. My question is basically, let's say, if IFRS 17 didn't exist and you didn't have to transition, and you had, basically, more information on inflation, on the various stuff driving it, would that have changed anything? You would still have had to probably beef up your reserves for cost inflation, right?
Werner Matula	Absolutely. In previous times, in IFRS 4, the famous claims reserve was decompositions in case reserves and IBNRS and both would have been, or have been adjusted also for inflation. This would be the same effect. The reserve would have grown

	also for inflation under IFRS 4 metrics.
Youdish Chicooree	Okay. Thank you.
Roland Goldsteiner	Regarding your question, what type of investments we are classifying through fair value through P&L. We not really changed our classification policy, meaning we really tried to classify, as much as possible, as fair value through OCI as in the past, according to IAS 39, we classified as much as possible as available for sale. This is our attempt to balance out the market deviation swings and let them swing over the OCI. Similar to now, according to IFRS 17, the technical reserve swings. So, the P&L is not immune, but not as heavily affected as it would be, if everything goes through the P&L. On the other hand, of course, according to the new regulation of IFRS 9, we are not able to classify as much as we had in the past, according to IAS 39, as eligible to classify for market deviations through OCI. Meaning not all our investments, which are classified as available for sale, pass the SPPI test. This is especially true for bonds here, and also, we have some parts of the investment portfolio and for equities, we have to classify as fair value for P&L here. But again, we tried to have as little as possible in this category.
Youdish Chicooree	All right. I’ve got it. Thank you.
Operator	Ladies and gentlemen, as a reminder, anyone who has a question may click the Q&A and raise your hand button, or press star, followed by one, at this time. It seems like there are no more questions, so I shall hand back to Liane Hirner for closing comments.
Liane Hirner	Dear participants, dear ladies and gentlemen, thank you very much for joining today's video conference. As announced, a replay of our presentation will be available online in the next days on the already existing IFRS 17/9 section under events on our investor relations website. Today's presentation can already be downloaded there. In case of further questions, please reach out to our Investor Relations team. We are happy to support, and also, get your feedback. Thank you and all the best to you all, to all of us, for the upcoming half year results season.
Werner Matula	Thank you very much. Goodbye.
Liane Hirner	Bye.
Roland Goldsteiner	Thanks. Goodbye.