Notes to the consolidated financial statements

GENERAL INFORMATION AND PRINCIPLES OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe is a public limited company and one of the leading insurance groups in Central and Eastern Europe with its registered office located at Schottenring 30, 1010 Vienna, Austria. Wiener Städtische Versicherungsverein, which also has its registered office in Vienna, is the majority shareholder of VIG Holding. It is also the ultimate parent company and therefore includes VIG Holding and its subsidiaries in its consolidated financial statements. The insurance companies and pension funds of VIG Insurance Group offer insurance services in the life, health and property and casualty areas to roughly 28 million customers in 30 countries.

PRINCIPLES OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and the applicable provisions of § 245a (1) of the Austrian Commercial Code (Unternehmensgesetzbuch – UGB) and Chapter 7 of the Austrian Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG).

The significant accounting policies used in the preparation of the consolidated financial statements are presented in the Accounting policies section starting on page 75. Unless otherwise stated under "Changes in accounting policies", the policies described were applied consistently during the reporting periods presented in these financial statements. Preparing consolidated financial statements in accordance with the IFRS requires the Managing Board to make estimates and assumptions in connection with the accounting policies. Areas with greater scope of discretion, highly complex areas, or areas involving assumptions and estimates that are of critical importance to the consolidated financial statements are listed on page 72.

Amounts were commercially rounded to improve readability and, where not indicated otherwise, are shown in thousands of euro (EUR '000). Calculations, however, are done using exact amounts, which may lead to rounding differences.

Going concern

The present consolidated financial statements were prepared on a going concern basis in accordance with IAS 1.25 and IAS 1.26. The Managing Board made this assessment primarily based on the solid capital resources, positive result before taxes and risk-averse investment.

CHANGES IN ACCOUNTING POLICIES

Unless otherwise indicated, the standards that are applicable for the first time, if relevant, have no or no material effect on the financial statements.

Standards applicable that are used for the first time in the Group Annual Report

Amendments to IFRS 3	Amendments to References to the Conceptual Framework in IFRS Standards
IAS 37	Onerous contracts: costs of contract performance
all IFRS	Annual Improvements to IFRS Standards 2018–2020
IAS 16	Income before qualified use

New standards and changes to current reporting standards		Applicable as of[1]
Those already adopted by the EU		
IFRS 9	Financial Assets	1.1.2018[2]
Amendments to IFRS 9	Prepayment features with negative compensation	1.1.2019[2]
IFRS 17	Insurance Contracts	1.1.2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1.1.2023[3]
Amendments to IAS 8	Definition of Accounting Estimates	1.1.2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1.1.2023
Amendments to IFRS 17	Initial Application of IFRS 9 and IFRS 17 – Comparative Information	1.1.2023
Those which are not or not yet adopted by the EU		
IFRS 14	Regulatory Deferral Accounts	EU decided this standard shall not be transferred into EU law
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	First-time application deferred for an indefinite period
Amendments to IAS 1	Classification of liabilities as current or non-current	1.1.2024
Amendments to IFRS 16	Lease liabilities for sale and leaseback	1.1.2024

1 Unless otherwise specified, the VIG Insurance Group is not planning early adoption of the provisions listed in the table.
2 First-time application for insurance companies can be delayed to 1 January 2023.
3 Please see Estimates and discretionary decisions section on the topic of materiality.

Unless indicated otherwise, either no material effects from the standards listed in the table are expected, or the amendments are not relevant.

IFRS 9 Financial Instruments: general information

The International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments (IFRS 9) back in 2014. The standard supersedes the previously applicable IAS 39 "Financial Instruments: recognition and measurement" (IAS 39), with effect from 1 January 2018. However, companies that apply IFRS 4 Insurance Contracts, can opt to defer the IFRS 9 effective date (the deferral approach). Accordingly, companies whose activities are predominantly in the insurance business are permitted to postpone their initial application of IFRS 9 until IFRS 17 Insurance contracts (IFRS 17) comes into effect. IFRS 17 was adopted into EU law in November 2021, with effective date as of 1 January 2023 as the date of initial application. In order to prevent potential inconsistencies in measurements between the asset and liabilities side (accounting mismatches), both standards will be applied for the first time on 1 January 2023, if the deferral approach is used.

A company is predominantly engaged in the insurance business if

- the percentage of the book value of the underwriting liabilities and provisions compared with total liabilities including underwriting provisions exceeds 90%, or
- this percentage is between 80% and 90% and no other significant activities other than the insurance business are pursued.

In December 2021, the IASB published further amendments to IFRS 17 “Initial application of IFRS 17 and IFRS 9 – Comparative information” concerning comparative information. This adjustment was due to the fact that, unlike in the initial application of IFRS 17, retrospective application is not mandatory when IFRS 9 is first applied. As a result, there might not be any comparative data for the financial instruments. To counteract this, the classification overlay can be used. However, only if there is no restatement of a financial instrument with regard to the comparative information due to IFRS 9 in 2022 when IFRS 17 and IFRS 9 are initially applied together at the same time. Using the classification overlay minimises accounting mismatches that arise as a result of differences in the transition requirements of IFRS 17 and IFRS 9.

A company that uses the classification overlay for financial instruments must publish the comparative data as if the classification and measurement requirements of IFRS 9 applied to that financial instrument. The impairment requirements are not mandatory applicable if the classification overlay is used. Any difference between the previous carrying amount of a financial instrument and the amount resulting from the application of the classification overlay must be recognised in equity.

IFRS 9 initial application rules have to be applied as of 1 January 2023 if classification overlay is used for comparative period.

IFRS 9 primarily concerns the classification and measurement of financial instruments. These will be classified in two groups in the future, at amortised cost (AC) and at fair value.

Classification and measurement of financial assets depends on the business model and contractual cash flows (Solely Payments of Principal and Interest criterion (SPPI criterion)). Furthermore, incurred losses (Incurred Loss Model) are no longer the only losses to be taken into account, but rather expected losses (Expected Credit Loss Model (ECL Model)) in the form of a risk provision. Simplifications exist for trade receivables and lease receivables. New requirements were also provided for hedge accounting. Their objective is to orient hedge accounting more to the economic risk management of the entity in the future.

In principle, equity instruments and derivatives are measured at fair value through profit and loss (FVtPL). However, upon initial recognition of equity instruments, there is an irrevocable option to subsequently measure them through other comprehensive income (OCI) (FVtOCI option), which also means that they can no longer be recycled through profit or loss. Consequently, only dividends are to be recognised in the income statement. The FVtOCI option applies for instruments that are not held for trading. Exercising this option in accordance with IFRS 9 makes it possible to remove or further minimise the risk of accounting mismatches.

The requirements of IAS 39 for the classification and measurement of financial liabilities have not been amended in IFRS 9, which is why financial liabilities – with the exclusion of derivatives respectively liabilities held for trading – continue to be measured at AC. Derivatives respectively liabilities held for trading are to be recognised at FVtPL.

IFRS 17 Insurance Contracts: general information

IFRS 17 was published in the Official Journal of the European Union (EU) on 23 November 2021. As a result, IFRS 17 will supersede the previous standard, IFRS 4, in the EU effective as of 1 January 2023. IFRS 4, which is still currently in place, is to be applied until IFRS 17 enters into effect. IFRS 4 allows local accounting practices to be used for insurance contracts in the IFRS consolidated balance sheet. The IASB imposes uniform accounting policies for insurance contracts for the first time in IFRS 17.

IFRS 17 provides three measurement models for measuring insurance contracts:

- In principle, measurement is performed using the general measurement model (GMM) based on a prospective method. The model is based on the concept of contract fulfilment and uses current assumptions. When GMM is used for measurement, future cash inflows and outflows are discounted and supplemented by a risk adjustment (RA). First-time measurement of insurance contracts results in either a contractual service margin (CSM) that is distributed over the term of the contract, or a loss component that is recognised immediately in the income statement. There are a number of exceptions and special provisions for the GMM that concern groups of investment contracts with discretionary profit participation and reinsurance cessions as well as the two measurement models below.

- A simpler measurement model – the premium allocation approach (PAA) – may be used for short-term contracts and low volatility long-term insurance contracts. The approach is similar to the unearned premium model currently used for accounting in the property and casualty line of business. They are different, however, in that the loss reserve (provision for outstanding claims/liability for incurred claims (LIC)) must also be accounted for using an expected present value and a risk adjustment.
- There is a mandatory measurement model for profit-participating contracts and contracts of unit- and index-linked life insurance – the variable fee approach (VFA). Measurement is, as a rule, performed according to the GMM, but the contractual service margin (CSM) is variable in the VFA due to the discretionary profit participation.

Measurement units are determined using the following steps:

- Portfolio: insurance contracts that are subject to similar risks and managed together are combined into portfolios
- Group: every portfolio is divided into the following groups:
  - onerous contracts;
  - contracts that have no significant possibility of becoming onerous; and
  - other contracts.
- Annual cohorts: groups are divided according to underwriting year (annual cohorts). However, the IFRS 17 adopted by the EU provides an exception for the formation of annual cohorts for intergenerational, mutualised and cash-flow matched insurance contracts.

The most significant changes from IFRS 4 to IFRS 17 in terms of the accounting of insurance contracts are:

- the use of current assumptions for measuring underwriting provisions,
- the introduction of the contractual service margin (CSM) for the unrealised future profits of a group of insurance contracts that is distributed over the term of the contract,
- the introduction of a risk adjustment (RA) to take account of the uncertainty in the cash flows from insurance contracts,
- the elimination of savings components (investment component) as revenue, and
- the introduction of the OCI option to enable the offsetting of accounting mismatches, which can occur, for example, in the case of life insurance contracts with direct profit participation.

Initial application of IFRS 9 and IFRS 17 within the Group

IFRS 4 DEFERRAL APPROACH

In accordance with the deferral approach requirements, the Group performed the calculations on the basis of 31 December 2015 and satisfies the criteria for deferral according to IFRS 4 with a result of more than 90%. IFRS 9 will therefore be applied at the same time as IFRS 17. For associated companies and joint ventures that have applied IFRS 9 since 1 January 2018, VIG Insurance Group has chosen in accordance with IFRS 4 to include them in the consolidated financial statements without adjustment. IFRS 4 does not require regular evaluation of the predominant business activity unless there is a change in the entity's business activities. A new evaluation was also not necessary in the current financial year.

Any information that must be published in line with the deferral approach (IFRS 4.39B-.39J) has been presented in the following tables. Financial instruments that satisfy the SPPI criteria (SPPI-pass), but are held for trading or managed based on fair value, are reported under "Other". This is primarily the case for bonds.

Fair value	31.12.2022		31.12.2021		Fair value changes	
Financial assets	SPPI-pass	Other	SPPI-pass	Other	SPPI-pass	Other
in EUR '000						
Loans	1,597,626	387,958	1,902,525	477,132	-83,152	-24,319
Bank deposits	1,157,148	0	783,730	0	0	0
Other financial assets	**21,765,229**	**3,550,965**	23,887,089	4,865,156	**-3,850,115**	**-587,811**
Bonds	21,765,229	940,885	23,887,089	1,207,420	-3,850,115	-166,436
Shares and other participations and other non-fixed-interest securities	0	617,590	0	777,601	0	-96,135
Investment funds	0	1,966,474	0	2,850,069	0	-325,067
Derivatives	0	26,016	0	30,066	0	-173
Financial investments for unit- and index-linked life insurance	128,803	7,035,326	178,694	8,346,637	-177	-885,227
Non-underwriting receivables	745,570	3,585	688,558	1,045	0	0
Cash and cash equivalents	2,058,970	0	2,456,333	0	0	0

Book value	31.12.2022						
SPPI-pass financial assets rating categories	AAA	AA	A	BBB	BB and lower	No rating	Total
in EUR '000							
Loans and bank deposits	63,538	362,319	1,175,325	577,581	442,319	267,061	2,888,143
Other financial assets	2,238,056	6,164,994	6,748,913	5,233,242	1,449,594	159,467	21,994,266
Financial investments for unit- and index-linked life insurance	0	10,724	40,646	42,393	38,895	-3,855	128,803
Non-underwriting receivables	257	825	18,857	616	13,923	711,507	745,985
Cash and cash equivalents	1	15,082	1,599,843	290,657	125,731	27,656	2,058,970

Book value	31.12.2021						
SPPI-pass financial assets rating categories	AAA	AA	A	BBB	BB and lower	No rating	Total
in EUR '000							
Loans and bank deposits	55,730	344,211	850,960	669,786	404,914	206,732	2,532,333
Other financial assets	2,192,933	7,265,995	7,828,410	5,275,249	997,030	231,576	23,791,193
Financial investments for unit- and index-linked life insurance	0	47,629	42,861	60,143	28,420	-359	178,694
Non-underwriting receivables	331	647	17,128	731	19,435	650,340	688,612
Cash and cash equivalents	414	19,741	1,714,854	586,364	121,635	13,325	2,456,333

SPPI-pass financial assets with a significant risk of default	31.12.2022		31.12.2021	
	Book value	Fair value	Book value	Fair value
in EUR '000				
Loans and bank deposits	463,796	447,469	422,691	427,313
Other financial assets	1,514,676	1,505,969	1,062,883	1,073,182
Financial investments for unit- and index-linked life insurance	38,720	38,720	28,267	28,267
Non-underwriting receivables	62,035	62,035	57,570	57,570
Cash and cash equivalents	126,913	126,913	122,686	122,686

IMPACT ON CONSOLIDATED BALANCE SHEET AND CONSOLIDATED SHAREHOLDERS' EQUITY

VIG Insurance Group will apply IFRS 9 and IFRS 17 for the first time from 1 January 2023, with IFRS 17 applied retrospectively and the Group having decided to apply the classification overlay within the meaning of IFRS 9.

The initial application will result in significant changes and therefore have a material influence on the consolidated financial statements. The derivation of the adjusted opening balance was performed and resulted in a reduction in shareholders' equity at the current implementation status. This is currently broken down as follows:

Estimated impacts on shareholders' equity	1.1.2022
in EUR '000	
Adjustments due to IFRS 17 implementation	-2,039,982
Adjustments due to IFRS 9 implementation	1,674,537
Subtotal	-365,445
Effects from deferred taxes	154,873
Total	-210,572

The effects on the opening balance are also presented below. These are still preliminary, so changes may occur until they are finalised. Reasons for this include that:

- financial reporting processes and internal controls are still being adapted and continually improved;
- the new systems are still being tested and optimised despite the fact that IAS 39/IFRS 4 and IFRS 9/17 were running in parallel in 2022;
- internal implementation work in certain sub-areas – particularly alignment work for internal reinsurance – is not yet complete;
- when classifying financial instruments in accordance with IFRS 9, individual adjustments can still be made in order to enable an asset-liability match in the shareholders' equity and the income statement that is as efficient as possible.

Effects on the assets	Balance Sheet as of 31.12.2021	IFRS 17 adjustment	IFRS 9 adjustment	Adjustments/ reclassifications	Balance sheet as of 1.1.2022
in EUR '000					
Cash and cash equivalents	2,456,333			271,074	2,727,407
Financial assets	**40,207,620**	**-1,557,445**	**1,679,252**	**67,592**	**40,397,019**
Financial assets according to IAS 39	31,682,289	-1,557,445	-30,032,823	-92,021	0
Financial assets according to IFRS 9		8,346,278	31,712,075	338,666	40,397,019
Financial investments for unit- and index-linked life insurance	8,525,331	-8,346,278		-179,053	0
Receivables	**2,067,188**	**-1,378,020**	**-3,194**	**-336,042**	**349,932**
Underwriting	1,377,531	-1,377,531			0
Non-underwriting	689,657	-489		-336,042	353,126
Risk provision			-3,194		-3,194
Current tax assets	135,053				135,053
Investments in associates and joint ventures	276,913				276,913
Insurance contracts	**1,564,605**	**201,804**		**0**	**1,766,409**
Reinsurers' share in underwriting provisions IFRS 4	1,564,605	-1,564,605			0
Insurance contracts assets issued IFRS 17		114,156			114,156
Reinsurance contracts assets held IFRS 17		1,652,253			1,652,253
Investment property (incl. building rights)	2,378,285		-878		2,377,407
Owner-occupied property and tangible assets	472,303			114,433	586,736
Other assets	390,893	-176,654		-113,934	100,305
Goodwill	1,260,226				1,260,226
Intangible assets	483,943	-14,607		-48	469,288
Deferred tax assets	311,447			273,720	585,167
Right-of-Use Assets	173,348				173,348
Total assets	52,178,157	-2,924,922	1,675,180	276,795	51,205,210

Effects on the liabilities	Balance Sheet as of 31.12.2021	IFRS 17 adjustment	IFRS 9 adjustment	Adjustments/ reclassifications	Balance sheet as of 1.1.2022
in EUR '000					
Liabilities and other payables	**1,738,513**	**-1,002,395**		**3,075**	**739,193**
Underwriting	1,166,270	-1,166,270			0
Non-underwriting	572,243	163,875		3,075	739,193
Current tax liabilities	243,382				243,382
Financial liabilities	2,623,053	747	643		2,624,443
Other liabilities	131,168	-70,852			60,316
Insurance contracts	**40,735,020**	**219,867**		**0**	**40,954,887**
Underwriting provisions IFRS 4	32,546,227	-32,546,227			0
Underwriting provisions for unit- and index-linked life insurance IFRS 4	8,188,793	-8,188,793			0
Insurance contracts liabilities issued IFRS 17		40,905,302			40,905,302
Reinsurance contracts liabilities held IFRS 17		49,585			49,585
Provisions	890,189	-32,307			857,882
Deferred tax liabilities	218,884			118,847	337,731
Consolidated shareholders' equity	5,597,948	-2,039,982	1,674,537	154,873	5,387,376
Total assets	52,178,157	-2,924,922	1,675,180	276,795	51,205,210

The contractual service margin (CSM) of approximately EUR 5.1 billion is included in Insurance contracts liabilities issued.

IFRS 9 APPLICATION DETAILS

VIG uses a central subledger for the measurement of financial instruments. This allows the processes associated with the recognition and measurement of financial instruments to be optimised and streamlined. More than 95% of financial instruments relevant to IFRS 9 are currently managed in this system. In the future, this makes it significantly easier to consistently apply IFRS 9, including calculation of ECL. The classification of financial assets based on the SPPI criteria has already been implemented.

The IFRS 9 guidelines were finalised and rolled out in VIG Insurance Group as part of the IFRS 9/17 programme. These guidelines include the methods used for uniform implementation of IFRS 9.

In the future, illiquid portfolios for which the "hold strategy" is used will be classified as measured at AC. This applies in particular to loans. Financial assets that both satisfy the SPPI criterion (SPPI-pass) and are subject to the "hold to collect and sell" business model are categorised as measured at FVtOCI. Financial assets that are not compliant with SPPI (SPPI-fail) or do not meet any of the above-mentioned business models are recognised as measured at FVtPL.

As part of the initial application of IFRS 9, the representation of financial instruments of the unit-linked and index-linked life insurance was harmonised with the presentation of underwriting positions on the liabilities side of the balance sheet. Against this background, these financial instruments are no longer listed separately, but are included in the financial instruments within the definition of IFRS 9, measured at FVtPL or at AC. Among other things, this influences the recognition of cash and cash equivalents of financial instruments for unit- and index-linked life insurance.

As a rule, financial assets within the meaning of IFRS 9 are to be distinguished between debt instruments and equity instruments. The following table shows the classification of debt instruments and equity instruments according to both IAS 39 and IFRS 9 as of the transition date 1 January 2022.

Debt instruments

IAS 39	IFRS 9			
	SPPI-pass[1]			SPPI-fail
	Business model			
	Hold to collect	Hold to collect and sell	Neither	
Loans and other investments	measured at AC	measured at FVtOCI	measured at FVtPL	measured at FVtPL
Held to maturity (incl. reclassified)	measured at AC	measured at FVtOCI	measured at FVtPL	measured at FVtPL
Available for sale	measured at AC	measured at FVtOCI	measured at FVtPL	measured at FVtPL
Recognised at fair value through profit and loss	measured at AC	measured at FVtOCI	measured at FVtPL	measured at FVtPL

[1] Expected credit loss (ECL) must be calculated for SPPI-pass debt instruments.

Equity instruments

IAS 39	IFRS 9	
	Held for trading	FVtOCI option
Available for sale	measured at FVtPL	measured at FVtOCI
Recognised at fair value through profit and loss	measured at FVtPL	measured at FVtOCI

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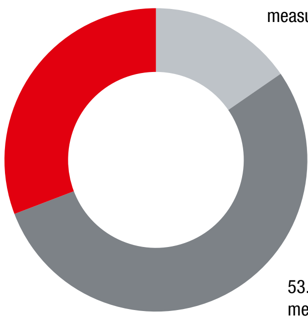
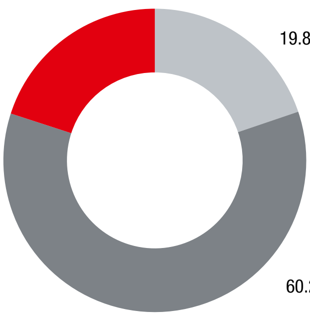
The two following diagrams show the distribution of the classification of financial assets (as a percentage) according to both IFRS 9 and IAS 39 as of 1 January 2022:

IFRS 9



IAS 39



Included in the category measured at AC according to IFRS 9 are cash and cash equivalents, debt instruments subject to SPPI-pass as well as the "hold to collect" business model, and receivables to which the ECL model applies. According to the current implementation status of IFRS 9, the share of any financial instruments measured at AC is reduced.

More than half of the total financial assets are classified as measured at FVtOCI under IFRS 9. This includes debt instruments that are assigned to both SPPI-pass and to the "hold to collect and sell" business model.

Financial assets that are classified as measured at FVtPL according to IFRS 9 account for the second-largest share. This category is predominantly made up of financial instruments for unit- and index-linked life insurance and investment funds.

Thus, around 85% of financial assets are measured at fair value under IFRS 9. This means that the share of the financial assets measured at fair value increases after the initial application of IFRS 9.

CHANGE FROM CLEAN VALUE TO DIRTY VALUE ACCOUNTING

As part of the initial application of IFRS 9, financial instruments will subsequently be accounted at the dirty value. This means that – in contrast to IAS 39 accounting – the accrued interest is no longer recognised as a separate item in the balance sheet but is listed as part of the book value.

IFRS 17 APPLICATION DETAILS

As of the transition date 1 January 2022, the Group has:

- defined, recognised and measured every group of insurance contracts and all acquisition costs recognised as assets as if IFRS 17 had always been applicable, unless the fair value approach was applied as of the transition date;
- derecognised all balances that are not to be recognised under IFRS 17; and
- recorded any resulting net differences under consolidated shareholders' equity.

Under IFRS 17, there is a choice in relation to measurements during the year for interim reporting. In the case of changes to estimates, IFRS 17 requires contractual service margin (CSM) effects to be immediately recognised in the income statement. Under IAS 34, however, the frequency of reporting must not influence the amount stated for the result for the year. So that the result for the year is not influenced, measurements made during the year must be carried out on a cumulative basis from the start of the financial year to the relevant reporting date during the year (year-to-date accounting). Consequently, the year-to-date accounting does not take into account the changes to estimates recorded during the year in previous periods. In contrast, these changes in estimates recorded during the year in prior periods would have to be included in the calculation for period-to-period accounting. VIG has opted for year-to-date accounting in accordance with IFRS 17.B137.

Additionally, the Group exercises the optional exemption from grouping by annual cohorts that is applicable in the EU. This exemption primarily concerns long-term life insurance contracts and health insurance contracts that are eligible for profit participation. However, due to cost-benefit considerations and materiality aspects, insurance companies from non-EU member states that apply IFRS 17 at a local level are not obliged to apply this optional EU exemption for the consolidated financial statements.

Primary insurance and facultative reinsurance were grouped in the IFRS 17 portfolio as follows:

- Life insurance and health insurance:
  - With profit participation
  - Unit-linked and index-linked
  - Others
  - Issued and held Treaty reinsurance
  - Facultative issued reinsurance
  - Facultative held reinsurance
  - Long-term health insurance (SLT)
- Property and casualty insurance:
  - Medical expense insurance
  - Income protection insurance
  - Workers' compensation insurance
  - Motor vehicle liability insurance
  - Other motor insurance
  - Marine, aviation and transport insurance
  - Fire and other damage to property insurance
  - General liability insurance
  - Credit and suretyship insurance
  - Legal expenses insurance

– Assistance
– Miscellaneous financial losses
– Issued and held Treaty reinsurance
– Facultative issued reinsurance
– Facultative held reinsurance

In primary insurance, the PAA is applied in the non-life line of business for short-term contracts and also serves as the preferred measurement model. This is also the case for multi-year insurance contracts in non-life insurance, insofar as the measurement models do not lead to any material differences. In the case of multi-year insurance contracts in primary insurance, the GMM is applied, and in the presence of a substantial profit participation, the VFA is applied in life insurance and health insurance.

Under IFRS 17, the determination of the risk adjustment is required for non-financial risks (Risk adjustment). The standard does not set out any specific requirements in this context. VIG has therefore decided to follow the cost of capital approach methodology of Solvency II when determining the risk adjustment under IFRS 17. This corresponds to the opportunity costs for allocated capital.

The health insurance business in Austria comprises insurance contracts with direct profit participation in accordance with IFRS 17.B101. The IFRS 17.B101 a) to c) criteria on mandatory application of the VFA are met primarily by the premium adjustment mechanism that ensures life-long coverage of the insured risks.

Fully retrospective approach

The Group has adopted the full retrospective approach where applicable. This was thus applied to the non-life business as well as the assumed and ceded reinsurance, which are measured according to the PAA. In order to apply the fully retrospective approach as far as possible, all available and reliable information was taken from existing systems. Nevertheless, it was precisely the limited availability of data that was the decisive reason that the fair value approach was applied for the long-term business as of the transition date. For the most part, long-term business comprises life insurance, health insurance (SLT) and any property and casualty insurance contracts that fall under the GMM.

Fair value approach

The difference between the fair value of the groups of insurance contracts and the fulfilment cash flow as of the transition date results in the contractual service margin (CSM) or the loss component of the mathematical reserve (liability for remaining coverage (LRC)). When determining the fair value, the principles of IFRS 13 were applied where this was permitted. In addition, the Group made extensive use of the rule that groups of insurance contracts can also be aggregated over the annual cohorts in the fair value approach as of the transition date.

All available and reliable information was gathered in order to

- identify the groups of insurance contracts,
- determine whether policies with direct profit participation existed,
- identify policies that contain discretionary cash flows that are not subject to direct profit participation, and
- determine whether investment contracts exist that satisfy the criteria for investment contracts with direct profit participation in accordance with IFRS 17.

When carrying out measurements according to the fair value approach, VIG determined the interest rates used for discounts for the groups of insurance contracts as of the transition date. The determined interest rates correspond to the weighted average interest rates that are applied for the underlying contracts as of the date of initial application.

The discount rate used for the periodic compounding of the contractual service margin (CSM) is determined using the bottom-up approach.

Furthermore, VIG has decided, from the transition date, to break down the insurance finance result into amounts that are included in the income statement and amounts that are included in the statement of comprehensive income.

In order to determine the liabilities for insurance contracts as of the transition date, the costs of capital approach was used for the risk adjustment (RA) to calculate the fair value.