CaixaBank

IFRS 17 | IFRS 9

Insurance accounting at CaixaBank Group

1 December 2022

Disclaimer

The new accounting standard IFRS 17: Insurance Contracts shall entry into force on 1 January 2023 and become applicable to the presentation and measurement of insurance contracts (including technical provisions). Additionally, the Group decided to benefit from the temporary exemption from the application of IFRS 9 to the insurance business, aligning its application with the entry into force of the new IFRS 17. The assessment and estimates of the impacts resulting from implementing these changes in accounting standards have not yet been completed by the Group

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CONTENTS

Implementation date is 1 January 2023
–with beginning of transition set at 1 January 2022

1 January 2022

Transition date

Transition to IFRS 17 begins (establishes the beginning of the period that will be adjusted for comparison)

1 December 2022

Analyst Day

Early communication of key implications for CABK (qualitative)

1 January 2023

Change in accounting standards

Implementation of IFRS17 and end of IFRS9 deferral period

February 2023

FY22 RESULTS and ANNUAL ACCOUNTS

Reporting of transition impacts in annual accounts

Financial reporting still under IFRS4 / IAS 39; impact on equity at transition provided

April 2023

1Q23 RESULTS

1st IFRS 17 I IFRS 9 reporting

First set of results reported under IFRS 17 I 9 accounting with 1Q22 restated under IFRS 17 I 9

July 2023

1H23 RESULTS

1st semi-annual reporting based on IFRS 17 I IFRS 9

First full IFRS 17 I 9 reporting (half-year accounts) with 1H22 restated under IFRS17 I 9

Jan-Feb 2024

FY23 RESULTS

1st Annual accounts based on IFRS 17 I IFRS 9

Full IFRS 17 I 9 reporting (annual accounts) with FY22 restated under IFRS17 I 9

Insurance business at CaixaBank Group

CAIXABANK INSURANCE SUBSIDIARIES(1)

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VidaCaixa
LIFE INSURANCE
PENSION PLAN MANAGEMENT
+ SUBSIDIARIES(1)(2)
100% owned

» **#1** LIFE INSURER IN SPAIN

SegurCaixa Adeslas
NON-LIFE INSURANCE
JV: 49.9% owned

BPI Vida e Pensões Grupo CaixaBank
LIFE INSURANCE & PENSION PLAN MANAGEMENT
100% owned

GROUP INSURANCE BUSINESS: KEY FIGURES

REVENUES FROM INSURANCE
9M22

LIFE-SAVINGS(3)	€447M
PENSION PLANS	€228M
LIFE-RISK	€631M
NON-LIFE(4)	€453M

€1,759M TOTAL

20% OF TOTAL GROUP REVENUES

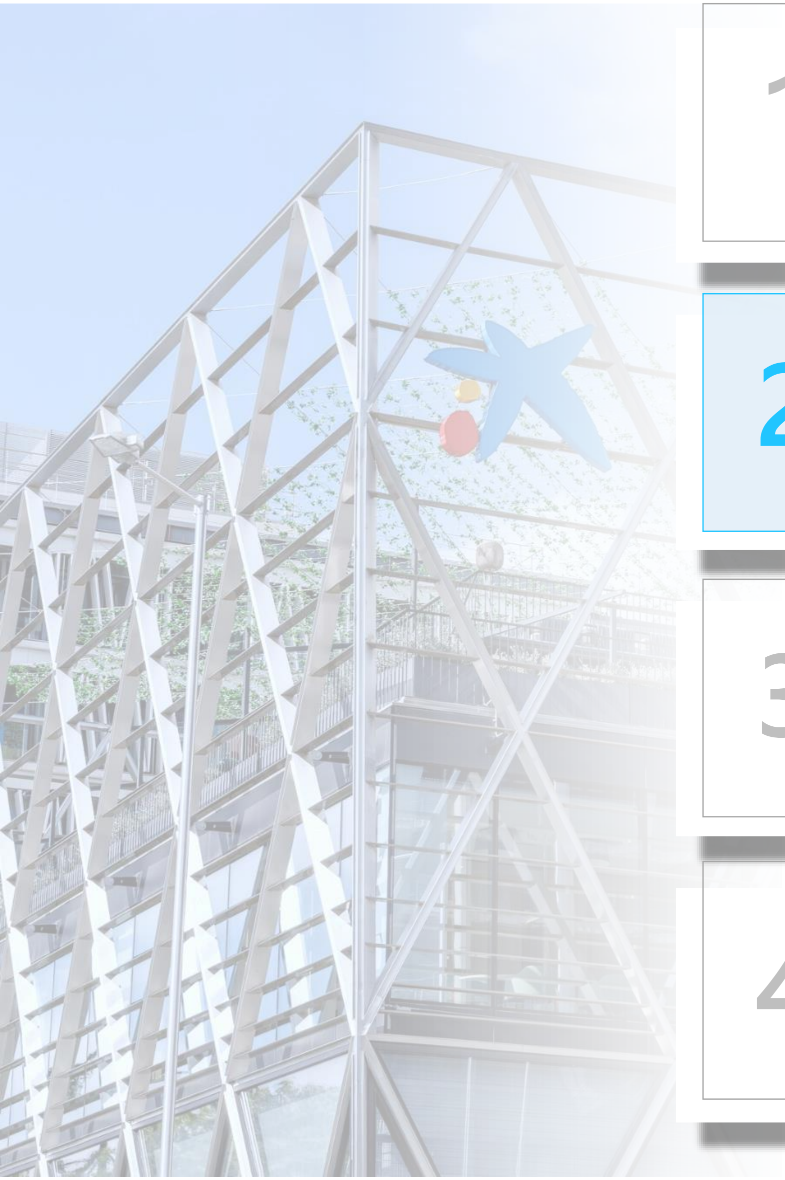
€8,647M 9M22 TOTAL REVENUES

	INSURANCE **LIABILITIES**(5)	INSURANCE **ASSETS**(5)
30 Sep. 2022	**€65.7 Bn**	**€67.5 Bn**
	10% of Group liabilities	**10%** of Group assets

Changes from IFRS 17 and IFRS 9 at CaixaBank Group mostly impact the **life-savings insurance business**(6)

(1) VidaCaixa has taken control of Sa Nostra at the end of November 2022: eventual merger still pending (2) Bankia Vida merger with VidaCaixa completed in 4Q22. (3) NII from life-savings insurance plus fees from unit linked. (4) Equity accounted income from insurance JVs plus non-life insurance sale fees. (5) Assets/liabilities under insurance business in CaixaBank Group's balance sheet (based on current accounting standards: IAS 39 for assets under insurance business; IFRS 4 for liabilities). (6) Impacts affecting life-risk insurance and non-life insurance expected to be far less relevant than for life-savings.

CONTENTS



Implementation of IFRS 17 I IFRS 9 in insurance at CaixaBank Group –no change to economics, only accounting

IFRS 17 I IFRS 9 are accounting regimes

→ **Underlying cashflows and profitability of insurance contracts remain unchanged**

- Double change in accounting standards: IFRS 17 I IFRS 9 to replace IFRS 4 I IAS 39 in **accounting of insurance contracts and associated assets**
- IFRS 9 does not introduce **any material changes** vs. previous IAS 39 while IFRS 17 aims at **harmonising insurance accounting** –close to Solvency II measurement approach
- **There will be an overall negative impact on equity at adoption** estimated at c.20 bps[(1)] (as in Strategic Plan projections) –although it will partially **unwind into higher future profits** (vs. IFRS 4)
- For a subset of insurance liabilities, mark-to-market of interest rates under IFRS 17 to be reflected in **OCI with limited volatility**
- IFRS 17 entails some **reclassifications in future P&L reporting** within revenues and from opex to revenues –broadly neutral to PPP

(1) Based on current internal estimates.

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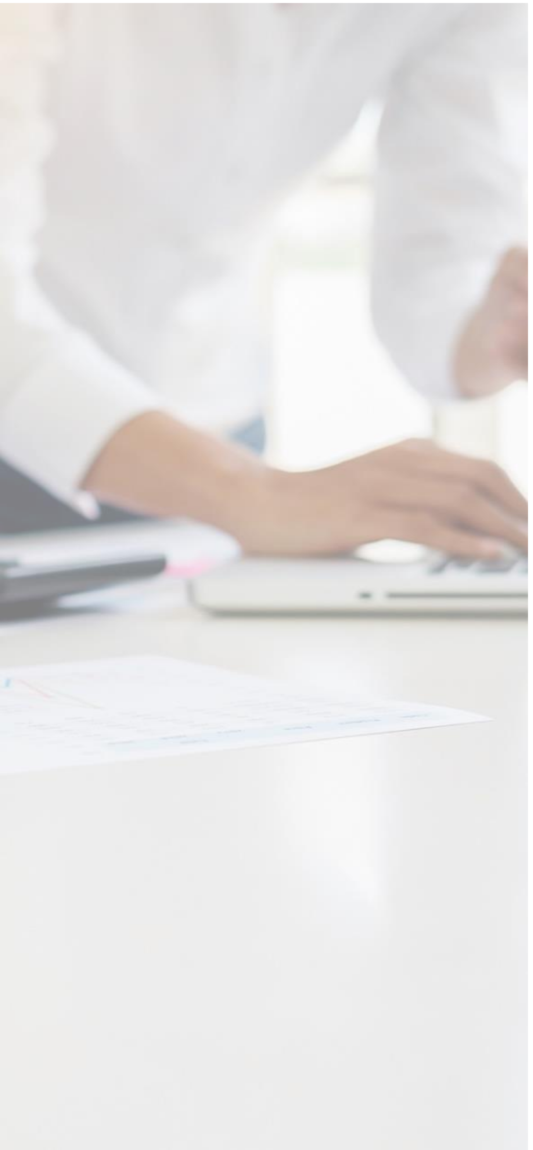
IFRS 17 | IFRS 9 to replace IFRS 4 | IAS 39
in accounting of insurance contracts and associated assets



INSURANCE CONTRACT LIABILITIES	FINANCIAL ASSETS ASSOCIATED TO INSURANCE CONTRACTS
IFRS 4	IAS 39
IFRS 17	IFRS 9 End of deferral for insurance companies belonging to financial conglomerates
Material changes vs. current accounting on measurement of life-savings insurance products(1)	No significant changes vs. current accounting(2)

- **IFRS17** aims at harmonising the **measurement of insurance contract liabilities** by combining:
  1. **present value** approach (the estimated future profit is included in the measurement of the insurance contract liability as the **contractual service margin** →"CSM")
  2. **accrual-based approach**, with the gradual recognition of insurance revenues through the P&L (as services are provided) over the life of the insurance contract
- **IFRS9** replaces **IAS39 in accounting for financial instruments that underpin and fund IFRS 17 insurance liabilities**

(1) Far less relevant for measurement of life-risk insurance or non-life products.

(2) Under IAS39, most financial assets at CABK are classified as "Available-for-sale" with subsequent changes in valuation recorded in "Other Comprehensive Income" whereas, under IFRS 9, bulk of assets will be classified as FV-OCI with some subset classified as Amortised Cost.

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Key changes to the accounting of insurance liability contracts: **IFRS 17 vs. current IFRS 4**

	IFRS 4	IFRS 17
Insurance liability recognition	**Obligations** originating from insurance contracts are covered by **technical provisions → liability in the balance sheet = technical provisions**	Insurance contract liability = **liability owed to the client + estimate for future profit ("CSM" or "Contractual Service Margin")(1)**
Interest rates and present value	Technical provisions are **capitalised at the technical interest rate** **Not updated to market rates**	The **discount rate(2) for liabilities under IFRS 17 is set at inception** (Locked-in-rate, "LIR") **with changes to current market rates recognised in OCI**
Shadow accounting(3)	**Allowed under IFRS 4**	**Not allowed under IFRS 17**
CSM	The future profit is **implicit** in technical provisions and **recognised on an accrual basis**	CSM is a **separate component** and is **not recalculated at current rates** **CSM is estimated net** of directly-attributable expenses **CSM released on accrual basis** as services provided
Onerous contracts & Liability adequacy test	**Liability adequacy test** allows for netting among different portfolios	**Expected losses** from onerous contracts must be **recognised upfront in P&L, with no netting among portfolios**

(1) Expected profits cannot be recognised upfront, they must be recognised in the P&L as the service is provided. CSM cannot be negative. (2) The interest rate used to discount the liability is aligned with the yield of financial assets. (3) Accounting option provided for in IFRS 4, whereby the insurer is permitted to affect measurements of liabilities under insurance contracts in the same way as unrealised gain or loss on assets, thus avoiding accounting asymmetries between assets and liabilities.

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Measurement of insurance liability contracts under IFRS 17

USE OF DIFFERENT IFRS 17 MEASUREMENT MODELS AT CAIXABANK

- **General Model or Building Block Approach (BBA) → Used in life-savings insurance products; life-risk policies (duration> 1 year).**
  - The **CSM** is **adjusted for changes in estimates of future cash flows** (provided CSM>0)
  - **Changes in estimates for the current period** are recognised **upfront in P&L**
  - **Changes in financial conditions** are recognised in **OCI** (option chosen by CaixaBank)
- **Variable Fee Approach (VFA) → Used in unit linked and profit-participating products**
  - Similar to BBA but **changes in financial conditions** are recognised **in the CSM**
- **Premium Allocation Approach (PAA) → Used in life-risk policies with duration <1 year and in non-life short-term insurance products**
  - **Simplified** approach, **similar to current** accounting model

IFRS 17 GENERAL MEASUREMENT MODEL vs. IFRS 4

IFRS 4

CLIENT PREMIUM | TECHNICAL PROVISIONS

IFRS 17

INSURANCE LIABILITY

CSM
Represents the present value of deferred profit

Discounting
of projected cashflows and risk adjustment to present value

Risk adjustment(1)
To reflect non-financial risk concerning future cashflows(2)

Future net cashflows
Premiums, less claims, benefits, expenses

Calculated at inception → based on a **locked-in rate(3)**; and fixed; i.e. not updated with current rates(4)

FULFILLMENT CASH FLOWS (FCF)

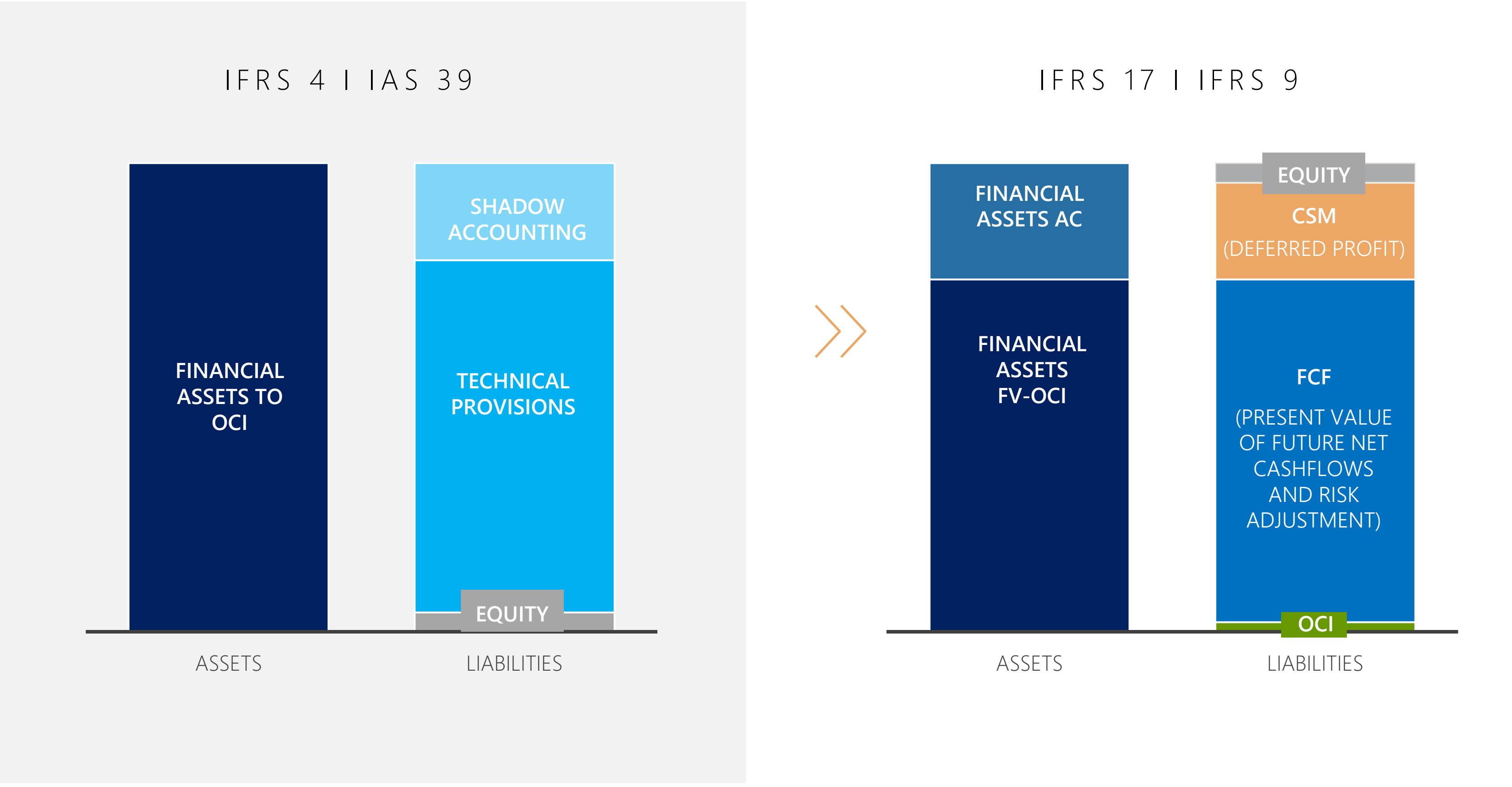
Updated every reporting cycle based on market rates (discounting)

Recognised in OCI(5)

(1) Similar to the Risk Margin in Solvency II. (2) Uncertainty regarding the amount and timing of cash flows. It is calculated using statistical methods. (3) Discounting rate to calculate the liability at inception. The locked-in rate is fixed until extinction of the contract and it is used to (i) measure future cashflows and CSM at inception, (ii) determine the net insurance financial result to recognize in the P&L, and (iii) determine the impact of changes in discount rates in OCI. (4) But it absorbs changes in future actuarial hypothesis, which under IFRS 4 would be recognized in the P&L. (5) Under BBA, IFRS 17 allows 2 options: OCI or P&L. VidaCaixa has opted for OCI. Under VFA, changes are recognised in the CSM.

Life-savings insurance: insurance liabilities and associated assets in the balance sheet under IFRS 4/IAS 39 vs. IFRS 17/IFRS 9

LIFE-SAVINGS INSURANCE BUSINESS: BALANCE SHEET STRUCTURE



- **On the asset side, most of underlying assets covering insurance contracts to remain classified as "FV-OCI" under IFRS 9** (as was the case with IAS 39, changes in valuation recorded in OCI), with **some subset classified at Amortised Cost**
- On the **liability side:**
  - **Shadow accounting disappears**
  - **The liability** is structured **into 2 components:**
    - **CSM** (deferred profit) → **not marked-to-market**
    - **Fulfillment cashflows** (which in turn builds on projected future cashflows, risk adjustment and discounting to present value) → **marked-to-market (some limited impact on OCI)**

CONTENTS

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Factors impacting equity upon adoption

DE-RECOGNITION OF **INTANGIBLE ASSETS**

1

- Since IFRS 17 already provides an estimate of the unearned profit of insurance contracts → **certain intangible assets associated to existing contracts**[1] **must be eliminated**
- De-recognition of intangible assets is **registered against reserves**
- **Recognised goodwill is not affected**

AGAINST **EQUITY** (RESERVES)

CHANGE IN THE **MEASUREMENT OF INSURANCE LIABILITIES**

2

- **De-recognition of provisions** under IFRS 4 **and recognition of new liabilities measured under IFRS 17** → the later including CSM calculated based on the **transition approach** chosen by VidaCaixa (FV approach under IFRS 17)[2]
- **Emergence of a gap** → reflecting the disappearance of the option to compensate excess/deficits of liabilities among different portfolios[3]
- The coverage of such **gap is to be booked against reserves on implementation of IFRS 17**
- **This front-loaded impact on reserves will unwind into higher future profits** vs. IFRS 4

AGAINST **EQUITY** (RESERVES)

REMOVAL OF SHADOW ACCOUNTING + MARK-TO-MARKET OF INSURANCE LIABILITIES

3

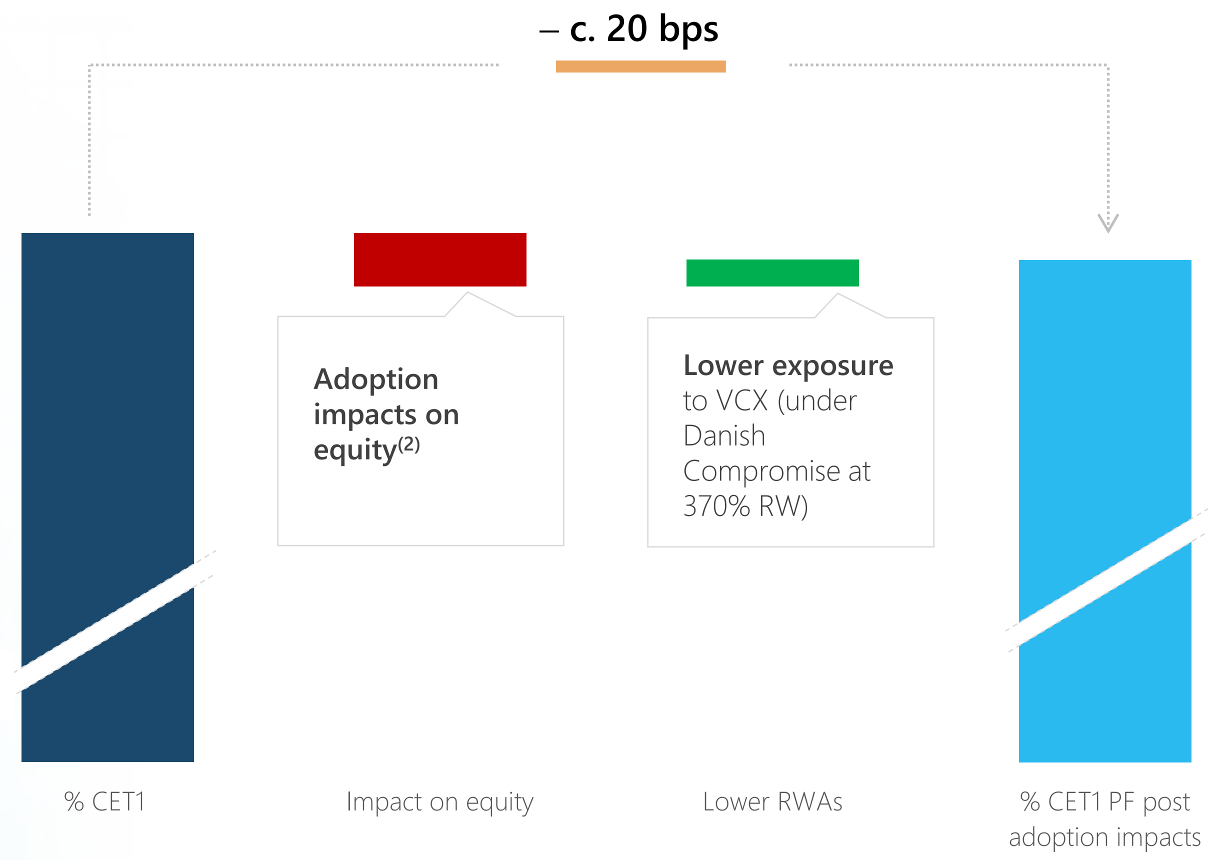
- **Shadow accounting is no longer possible under IFRS 17** → unrealised gains/losses on financial assets underpinning insurance liabilities must be registered in OCI
- **Under IFRS 17, insurance liabilities must be marked-to-market at every closing** (locked-in-rate at inception compared to current rate) → the resulting impact is recognised in OCI

AGAINST **OCI**

(1) With the exception of those related to annual renewable contracts. (2) The CSM is calculated as the difference between the fair value of a portfolio of insurance contracts and projected cashflows at transition date. (3) Under IFRS 4, the "liability adequacy test" is used to determine the overall adequacy of the provisions for the set of contract portfolios, and the compensation between them. With the entry into force of the new IFRS 17, this compensation will not be allowed, and as a result of the asymmetrical treatment of excesses and deficits at the portfolio level, the shortage in liabilities in some of them cannot be offset with the surpluses in others.

Estimated impacts on % CET 1

% CET1 BRIDGE WHEN ADOPTED (1)



Impact on CET1 to reflect the **net impact on equity** (reserves + OCI) **partly offset by lower RWAs** related to insurance business

(1) Impact on %CET1 and sign of depicted underlying drivers (positive or negative) based on current internal estimates.
(2) Refer to previous slide for details.

P&L reclassifications under IFRS 17

	Impact from the reclass	
NII	–	**Under IFRS 4:** NII from savings insurance capitalises the net of interest received on financial assets minus interest guaranteed to the client **Under IFRS 17:** o Interest on financial assets - LIR(2) → **NII** o LIR - interest guaranteed to the client → **reclassed to net insurance service result**
Net fees	–	**Under IFRS 17:** o Fees from **unit linked** (and alike) are **reclassified to net insurance service result** o **No change in pension plan** fees
Operating expenses	+	**Under IFRS 17, opex directly attributable to insurance contracts** (including personnel, general and depreciation classified by nature under IFRS 4) are **reclassified to net insurance service result**
Net insurance service result(1)		Positive contribution from **NII reclassification** Positive contribution from **Unit Linked fee reclassification** Negative contribution from **reclassification of operating expenses**
PPP	Broadly neutral	Mainly affected by reclassifications in the aforementioned P&L lines

(1) "Income/expenses from assets/liabilities under insurance and reinsurance contracts" in IFRS 4 reporting. (2) Locked-in-rate at inception of insurance contract.

APPENDIX

Glossary

Term	Definition
AC	Amortised cost
BBA	Building block approach
CET1	Common Equity Tier 1
CSM	Contractual service margin
FCF	Fulfilment Cash Flows
€Bn | €M	Billion euros | Million euros
FV-OCI	Fair Value in Other Comprehensive Income
IAS	International Accounting Standards
IFRS	International Financial Reporting Standard
JV	Joint Venture
LIR	Locked-in rate
NII	Net interest income
OCI	Other Comprehensive Income
PAA	Premium Allocation Approach
PPP	Pre-provision profit
P&L	Profit and Loss Account
RWAs	Risk Weighted Assets
VCX	VidaCaixa
VFA	Variable Fee Approach

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