IFRS 17 | IFRS 9
Insurance accounting at CaixaBank Group
1 December 2022
The new accounting standard IFRS 17: Insurance Contracts shall enter 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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1. Background

2. Changes to the accounting of insurance contracts

3. Adoption impacts

4. Changes in future P&L reporting
Implementation date is 1 January 2023—with beginning of transition set at 1 January 2022

**Timeline**

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

- **Analyst Day**
  - Early communication of key implications for CABK (qualitative)

- **Change in accounting standards**
  - Implementation of IFRS 17 and end of IFRS 9 deferral period

- **Reporting of transition impacts in annual accounts**
  - Financial reporting still under IFRS 4 / IAS 39; impact on equity at transition provided

- **1st IFRS 17 | IFRS 9 reporting**
  - First set of results reported under IFRS 17 | IFRS 9

- **1st semi-annual reporting based on IFRS 17 | IFRS 9**
  - First full IFRS 17 | IFRS 9 reporting (half-year accounts) with 1H22 restated under IFRS 17 | IFRS 9

- **1st Annual accounts based on IFRS 17 | IFRS 9**
  - Full IFRS 17 | IFRS 9 reporting (annual accounts) with FY22 restated under IFRS 17 | IFRS 9
Insurance business at CaixaBank Group

**CAIXABANK INSURANCE SUBSIDIARIES (1)**

- **CaixaBank**
  - LIFE INSURANCE & PENSION PLAN MANAGEMENT + SUBSIDIARIES
  - 100% owned

- **VidaCaixa**
  - LIFE INSURANCE & PENSION PLAN MANAGEMENT
  - 100% owned

- **SegurCaixa Adeslas**
  - NON-LIFE INSURANCE
  - JV: 49.9% owned

- **BPI**
  - 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: €453M

**TOTAL REVENUES: €1,759M**

- 9M22 TOTAL REVENUES: €8,647M
- 20% OF TOTAL GROUP REVENUES

**INSURANCE LIABILITIES (5)**

- 30 Sep. 2022: €65.7 Bn
- 10% of Group liabilities

**INSURANCE ASSETS (5)**

- €67.5 Bn
- 10% of Group assets

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(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) Nil 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.
1. Context

2. Changes to the **accounting** of insurance contracts

3. **Adoption** impacts

4. Changes in future **P&L reporting**
Implementation of IFRS 17 | IFRS 9 in insurance at CaixaBank Group –no change to economics, only accounting

- Double change in accounting standards: IFRS 17 | IFRS 9 to replace IFRS 4 | 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.

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\(^{(1)}\) Based on current internal estimates.
IFRS 17 | IFRS 9 to replace IFRS 4 | IAS 39
in accounting of insurance contracts and associated assets

INSURANCE CONTRACT LIABILITIES

IFRS 4

IFRS 17

Material changes vs. current accounting on measurement of life-savings insurance products(1)

FINANCIAL ASSETS ASSOCIATED TO INSURANCE CONTRACTS

IAS 39

IFRS 9

End of deferral for insurance companies belonging to financial conglomerates

No significant changes vs. current accounting(2)

CaixaBank

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

IFRS 17 aims at harmonising the measurement of insurance contract liabilities by combining:

• IFRS 17 replaces IAS 39 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 IAS 39, 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.
**Key changes** to the accounting of insurance liability contracts: **IFRS 17** vs. current **IFRS 4**

<table>
<thead>
<tr>
<th><strong>IFRS 4</strong></th>
<th><strong>IFRS 17</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Insurance liability recognition</strong></td>
<td>obligations originating from insurance contracts are covered by technical provisions (\Rightarrow) liability in the balance sheet = technical provisions</td>
</tr>
<tr>
<td><strong>Interest rates and present value</strong></td>
<td>Technical provisions are capitalised at the technical interest rate (\Rightarrow) Not updated to market rates</td>
</tr>
<tr>
<td><strong>Shadow accounting</strong></td>
<td>Allowed under IFRS 4</td>
</tr>
<tr>
<td><strong>CSM</strong></td>
<td>The future profit is implicit in technical provisions and recognised on an accrual basis</td>
</tr>
<tr>
<td><strong>Onerous contracts &amp; Liability adequacy test</strong></td>
<td>Liability adequacy test allows for netting among different portfolios</td>
</tr>
<tr>
<td></td>
<td>Insurance contract liability = liability owed to the client + estimate for future profit (“CSM” or “Contractual Service Margin”) (^{(1)})</td>
</tr>
<tr>
<td></td>
<td>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</td>
</tr>
<tr>
<td></td>
<td>Not allowed under IFRS 17</td>
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<tr>
<td></td>
<td>CSM is a separate component and is not recalculated at current rates</td>
</tr>
<tr>
<td></td>
<td>CSM is estimated net of directly-attributable expenses</td>
</tr>
<tr>
<td></td>
<td>CSM released on accrual basis as services provided</td>
</tr>
<tr>
<td></td>
<td>Expected losses from onerous contracts must be recognised upfront in P&amp;L, with no netting among portfolios</td>
</tr>
</tbody>
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\(^{(1)}\) 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.
Measurement of insurance liability contracts under IFRS 17

**Key Changes to the Accounting of Insurance Liability Contracts**

**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 17 General Measurement Model**
  - **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

- **IFRS 4**
  - **FULFILLMENT CASH FLOWS (FCF)**
    - Updated every reporting cycle based on market rates (discounting)
    - Recognised in OCI\(^{(5)}\)

**Notes**

- \(^{(1)}\) 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

### Key Changes to the Accounting of Insurance Liability Contracts

#### Life-Savings Insurance Business: Balance Sheet Structure

<table>
<thead>
<tr>
<th>IFRS 4</th>
<th>IFRS 17</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td><strong>ASSETS</strong></td>
</tr>
<tr>
<td>Financial Assets to OCI</td>
<td>Financial Assets AC</td>
</tr>
<tr>
<td>Technical Provisions</td>
<td>Financial Assets FV-OCI</td>
</tr>
<tr>
<td>Shadow Accounting</td>
<td>CSM (Deferred Profit)</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td><strong>Liabilities</strong></td>
</tr>
<tr>
<td>Equity</td>
<td>FCF (Present Value of Future Net Cashflows and Risk Adjustment)</td>
</tr>
<tr>
<td></td>
<td>OCI</td>
</tr>
</tbody>
</table>

- **On the asset side,** most of underlying assets covering insurance contracts 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)
1. Context

2. Changes to the accounting of insurance contracts

3. Adoption impacts

4. Changes in future P&L reporting
Factors impacting equity upon adoption

1. **DE-RECOGNITION OF INTANGIBLE ASSETS**
   - 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

2. **CHANGE IN THE MEASUREMENT OF INSURANCE LIABILITIES**
   - De-recognition of provisions under IFRS 4 and recognition of new liabilities measured under IFRS 17 \(\rightarrow\) the later including CSM calculated based on the transition approach chosen by VidaCaixa (FV approach under IFRS 17)\(^{(2)}\)
   - Emergence of a gap \(\rightarrow\) 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

3. **REMOVAL OF SHADOW ACCOUNTING + MARK-TO-MARKET OF INSURANCE LIABILITIES**
   - Shadow accounting is no longer possible under IFRS 17 \(\rightarrow\) 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) \(\rightarrow\) the resulting impact is recognised in OCI

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\(^{(1)}\) 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 and sign of depicted underlying drivers (positive or negative) based on current internal estimates.
(2) Refer to previous slide for details.
<table>
<thead>
<tr>
<th>Category</th>
<th>Impact from the reclass</th>
</tr>
</thead>
<tbody>
<tr>
<td>NII</td>
<td>› Under IFRS 4: NII from savings insurance capitalises the net of interest received on financial assets minus interest guaranteed to the client</td>
</tr>
<tr>
<td></td>
<td>› Under IFRS 17:</td>
</tr>
<tr>
<td></td>
<td>o Interest on financial assets - LIR(^{(2)}) → NII</td>
</tr>
<tr>
<td></td>
<td>o LIR - interest guaranteed to the client → reclassified to net insurance service result</td>
</tr>
<tr>
<td>Net fees</td>
<td>› Under IFRS 17:</td>
</tr>
<tr>
<td></td>
<td>o Fees from unit linked (and alike) are reclassified to net insurance service result</td>
</tr>
<tr>
<td></td>
<td>o No change in pension plan fees</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>› 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</td>
</tr>
<tr>
<td>Net insurance service result(^{(1)})</td>
<td>› Positive contribution from NII reclassification</td>
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<tr>
<td></td>
<td>› Positive contribution from Unit Linked fee reclassification</td>
</tr>
<tr>
<td></td>
<td>› Negative contribution from reclassification of operating expenses</td>
</tr>
<tr>
<td>PPP</td>
<td>› Mainly affected by reclassifications in the aforementioned P&amp;L lines</td>
</tr>
</tbody>
</table>

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

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