IFRS 17 and IFRS 9 pre-transition disclosures

Guide to annual financial statements: Supplement for insurers

October 2022

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Contents

About this supplement

This supplement has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

It is intended to help insurers prepare pre-transition disclosures related to IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* as required by paragraphs 30–31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for standards that have been issued but are not yet effective ('forthcoming requirements') in their 2022 financial statements. It comprises the disclosure 'Standards issued but not yet effective' and illustrates what these pre-transition disclosures may look like in the 2022 financial statements of a fictitious multinational insurer (the Group) that will apply IFRS 17 and IFRS 9 from 1 January 2023. It is not intended to reconcile to our Guide to annual financial statements – Illustrative disclosures for insurers (September 2020), which illustrates example disclosures for the initial application of IFRS 17 and IFRS 9.

Impact of IFRS 17 and IFRS 9

Users of financial statements and regulators are showing an increasing interest in understanding the possible impact that the adoption of IFRS 17 and IFRS 9 will have on insurers' financial statements. As a consequence, significant focus is expected on the pre-transition disclosures.

Regulators have communicated their expectation that, as preparations for implementation progress, more information about the possible impact that the adoption of the new standards will have on the financial statements should become known or reasonably estimable. Therefore, preparers should be able to provide progressively more entity-specific qualitative and quantitative information in their financial statements about the application of the new standards.

The disclosures illustrated in this supplement assume that the Group is at an advanced stage in its implementation of IFRS 17 and IFRS 9. Accordingly, it is able to provide the qualitative and quantitative disclosures illustrated. However, the status of implementation will vary between insurers and, as a result, the nature of disclosures that each entity is able to provide in its 2022 financial statements will also vary. The disclosures provided under IAS 8 will depend on what information is available, the reliability of that information and the significance of its impact on the financial statements.

Significant management judgement may be required to determine the nature and extent of pre-transition disclosures and what information is relevant to explaining the potential impact of applying the new standards. Accordingly, the disclosures in this supplement are only an illustrative example of one possible scenario and more or less disclosure may be appropriate, depending on the insurer's circumstances.

This supplement does not illustrate the IAS 8 pre-transition disclosures for forthcoming requirements other than IFRS 17 and IFRS 9. A list of forthcoming requirements has been included in Appendix I.

The standards and their interpretation may change over time. Accordingly, this supplement should not be used as a substitute for referring to their requirements and other relevant interpretative guidance.

Materiality

Materiality is relevant to the presentation and disclosure of the items in the financial statements. This supplement includes example disclosures for a hypothetical insurer merely for illustrative purposes and, as such, largely without regard to materiality. The information contained herein is of a general nature and is not intended to address the circumstances of any particular entity. Preparers need to consider whether their pre-transition disclosures include all of the information that is relevant to assessing the possible impact of the adoption of IFRS 17 and IFRS 9. They need to consider the appropriate level of disclosure based on materiality for the reporting period and take care not to reduce the understandability of their financial statements by obscuring material information with immaterial information.

Specific guidance on materiality and its application to the financial statements is included in paragraphs 29–31 of IAS 1 *Presentation of Financial Statements*. Preparers may also consider IFRS Practice Statement 2 *Making Materiality Judgements*, which provides guidance on applying materiality in the preparation of financial statements.

References

References are included in the left-hand margin of this supplement.

IAS 8.30	Paragraph 30 of IAS 8.
[IFRS 17.C1]	Paragraph C1 of IFRS 17. The square brackets indicate that the paragraph relates to requirements other than disclosure requirements.
Insights 8.1A.180.140	Paragraph 8.1A.180.140 of the 19th Edition 2022/23 of our publication Insights into IFRS.

Abbreviations

The following abbreviations are used often in this supplement.

CSM	Contractual service margin
DPF	Discretionary participation features
EAD	Exposure at default
ECL	Expected credit losses
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
LGD	Loss given default
OCI	Other comprehensive income
PAA	Premium allocation approach
PD	Probability of default

About the Group

The example disclosures in this guide relate to a multinational insurer that carries out life and non-life insurance business in Europe, Asia and the US. The Group will apply IFRS 17 and IFRS 9 for the first time on 1 January 2023.

The Group has the following reportable segments. These segments offer a variety of products and services, which will be accounted for under different standards and measurement models, as set out below. The Group does not issue any reinsurance contracts.

Life operating segments

Reportable segment	Products and services	Classification
Life risk	Term life, critical illness, non-participating whole-life and immediate fixed annuity contracts	Insurance contracts without direct participation features under IFRS 17
Life savings	Deferred fixed annuity and universal life contracts	
Participating	Traditional participating, variable annuity, unit-linked and investment-linked contracts	Insurance contracts or investment contracts with DPF that are direct participating contracts under IFRS 17
	Unit-linked and other investment-linked contracts and collective investment schemes	Financial instruments under IFRS 9 and investment management service contracts under IFRS 15 *Revenue from Contracts with Customers*

Non-life operating segment

Reportable segment	Products and services	Classification
Non-life	Property and casualty contracts	Insurance contracts measured under the PAA in IFRS 17

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective[a]

IAS 8.30–31

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. However, the Group has not early adopted the new standards in preparing these consolidated financial statements.

The Group will apply IFRS 17 and IFRS 9 for the first time on 1 January 2023.[b] These standards will bring significant changes to the accounting for insurance and reinsurance contracts[c] and financial instruments and are expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

A. Estimated impact of the adoption of IFRS 17 and IFRS 9

The Group has assessed the estimated impact that the initial application of IFRS 17 (see (B)) and IFRS 9 (see (C)) will have on its consolidated financial statements. Based on assessments undertaken to date, the total adjustment (after tax) to the balance of the Group's total equity is estimated to be a reduction of €4.0 billion at 1 January 2023 and €3.6 billion at 1 January 2022, as summarised below.

In billions of euro	*Note*	1 January 2023	1 January 2022
Estimated increase (reduction) in the Group's total equity			
Adjustments due to adoption of IFRS 17			
Life contracts	*(B)(v)*	(5.2)	(5.0)
Non-life contracts	*(B)(vi)*	(0.3)	(0.2)
		(5.5)	**(5.2)**
Adjustments due to adoption of IFRS 9			
Classification of financial assets	*(C)(i)*	0.2	0.1
Impairment of financial assets	*(C)(ii)*	(0.7)	(0.3)
		(0.5)	**(0.2)**
Deferred tax impacts		**2.0**	**1.8**
Estimated impact of adoption of IFRS 17 and IFRS 9, after tax		**(4.0)**	**(3.6)**

The Group will restate comparative information on adoption of IFRS 17 and IFRS 9 (see (B)(ix) and (C)(v)). The Group estimates that the profit after tax for 2022 will reduce by €0.3 billion as a result.

a. The Group has disclosed known or reasonably estimable information relevant to assessing the possible impact that the application of IFRS 17 and IFRS 9 will have on its financial statements in the period of initial application that was available when the 2022 financial statements were authorised for issue. Some regulators have indicated that they expect the extent of quantitative disclosures to increase as the mandatory effective date of a new standard approaches.

IFRS 4.20A–20B, 9.7.2.2

b. An insurer that has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at FVTPL, and whose activities were predominantly connected with insurance at its annual reporting date that immediately preceded 1 April 2016 (or at a later date as specified in paragraph 20G of IFRS 4 *Insurance Contracts*), may apply IAS 39 *Financial Instruments: Recognition and Measurement* rather than IFRS 9 for annual periods beginning before 1 January 2023 (temporary exemption from IFRS 9).

The Group has applied the temporary exemption from IFRS 9 and has not previously adopted any version of IFRS 9, including the requirements for the presentation of gains and losses on financial liabilities designated as at FVTPL, for annual periods beginning before 1 January 2023. Consequently, the Group has a single date of initial application of 1 January 2023 for IFRS 9 in its entirety. The date of initial application is relevant to several assessments necessary to apply IFRS 9.

c. In this supplement, 'reinsurance contracts' refers to reinsurance contracts held by the Group. The Group does not issue any reinsurance contracts.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

A. Estimated impact of the adoption of IFRS 17 and IFRS 9 (continued)

The assessment above is preliminary because not all of the transition work has been finalised. The actual impact of adopting IFRS 17 and IFRS 9 on 1 January 2023 and 2022 may change because:

- the Group is continuing to refine the new accounting processes and internal controls required for applying IFRS 17 and IFRS 9;
- although parallel runs were carried out in the second half of 2022, the new systems and associated controls in place have not been operational for a more extended period;
- the Group has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

B. IFRS 17 *Insurance Contracts*

[IFRS 17.C1]

IFRS 17 replaces IFRS 4 *Insurance Contracts* and is effective for annual periods beginning on or after 1 January 2023, with early adoption permitted.

i. Identifying contracts in the scope of IFRS 17

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with DPF.

When identifying contracts in the scope of IFRS 17, in some cases the Group will have to assess whether a set or series of contracts needs to be treated as a single contract and whether embedded derivatives, investment components and goods and services components have to be separated and accounted for under another standard. For insurance and reinsurance contracts, the Group does not expect significant changes arising from the application of these requirements.

For investment contracts with DPF, under IFRS 4 the Group separately identifies and classifies part of the DPF as equity. Under IFRS 17, the Group will consider all of the discretionary benefits in the measurement of the liabilities. In addition, these contracts are currently subject to the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* and some of the presentation requirements of IAS 32 *Financial Instruments: Presentation*. On transition to IFRS 17, they will no longer be subject to those requirements because the presentation and disclosure requirements of IFRS 17 will apply to them.

ii. Level of aggregation

[IFRS 17.14, 16, 22, A]

Under IFRS 17, insurance contracts and investment contracts with DPF are aggregated into groups for measurement purposes. Groups of contracts are determined by first identifying portfolios of contracts, each comprising contracts subject to similar risks and managed together. Contracts in different product lines or issued by different Group entities are expected to be in different portfolios. Each portfolio is then divided into annual cohorts (i.e. by year of issue) and each annual cohort into three groups:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

[IFRS 17.20]

Contracts within a portfolio that would fall into different groups only because law or regulation specifically constrains the Group's practical ability to set a different price or level of benefits for policyholders with different characteristics are included in the same group. This will apply to contracts issued in the EU that are required by regulation to be priced on a gender-neutral basis.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

ii. Level of aggregation (continued)

[IFRS 17.24–25, 28, 61]

When a contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts may be added. Groups of reinsurance contracts are established such that each group comprises a single contract.

The level of aggregation requirements of IFRS 17 limit the offsetting of gains on groups of profitable contracts, which are generally deferred as a CSM, against losses on groups of onerous contracts, which are recognised immediately (see (v) and (vi)). Compared with the level at which the liability adequacy test is performed under IFRS 4 (i.e. portfolio of contracts level), the level of aggregation under IFRS 17 is more granular and is expected to result in more contracts being identified as onerous and losses on onerous contracts being recognised sooner.

iii. Contract boundaries

[IFRS 17.33, A]

Under IFRS 17, the measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Compared with the current accounting, the Group expects that for certain contracts the IFRS 17 contract boundary requirements will change the scope of cash flows to be included in the measurement of existing recognised contracts, as opposed to future unrecognised contracts. The period covered by the premiums within the contract boundary is the 'coverage period', which is relevant when applying a number of requirements in IFRS 17.

Insurance contracts

[IFRS 17.34]

For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and investment services). A substantive obligation to provide services ends when:

- the Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

Some term life and critical illness contracts issued by the Group have annual terms that are guaranteed to be renewable each year. Currently, the Group accounts for these contracts as annual contracts. Under IFRS 17, the cash flows related to future renewals (i.e. the guaranteed renewable terms) of these contracts will be within the contract boundary. This is because the Group does not have the practical ability to reassess the risks of the policyholders at individual contract or portfolio level.

Some universal life contracts contain a guaranteed annuity option, which allows the policyholder to convert, on maturity of the stated term, the maturity benefit into an immediately starting life-contingent annuity at a predetermined rate. Currently, the Group does not consider the cash flows related to the options when measuring the contracts until the option is exercised. The Group has assessed the contract boundary for the contracts, including the options, and concluded that, under IFRS 17, the cash flows related to the guaranteed annuity options will fall within the boundary of the contracts. This is because the Group does not have the practical ability to reprice the contract on maturity of the stated term.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

iii. Contract boundaries (continued)

Investment contracts with DPF

[IFRS 17.71(b)]

For investment contracts with DPF, the cash flows are within the contract boundary if they result from a substantive obligation of the Group to deliver cash at a present or future date. The Group has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.

Reinsurance contracts

For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

Some of the Group's quota share reinsurance contracts cover underlying contracts issued within the annual term on a risk-attaching basis and provide unilateral rights to both the Group and the reinsurer to terminate the attachment of new underlying contracts at any time by giving three months' notice to the other party. Currently, the measurement of these reinsurance contracts generally aligns with that of the underlying contracts and considers only underlying contracts already ceded at the measurement date. However, under IFRS 17 cash flows arising from underlying contracts expected to be issued and ceded after the measurement date, in addition to those arising from underlying contracts already ceded, may be within the boundaries of the reinsurance contracts and may have to be considered and estimated in their measurement.

iv. Measurement – Overview

[IFRS 17.32]

IFRS 17 introduces a measurement model based on the estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a CSM. For an explanation of how the Group will apply the measurement model, see (v).

[IFRS 17.A, B101]

Contracts are subject to different requirements depending on whether they are classified as direct participating contracts or contracts without direct participation features. Direct participating contracts are contracts that are substantially investment-related service contracts under which the Group promises an investment return based on underlying items; they are contracts for which, at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

All insurance contracts and investment contracts with DPF in the Participating segment are expected to be classified as direct participating contracts. Shadow accounting will no longer be applied to these contracts. To avoid accounting mismatches between these contracts and their underlying items, the Group will:

[IFRS 17.B115–B118]

- apply the risk mitigation option in IFRS 17, to the extent eligible, to recognise certain changes in these contracts in profit or loss and not to adjust the CSM for those changes when it uses derivatives, non-derivative financial instruments measured at FVTPL or reinsurance contracts to mitigate the financial risk from interest rate guarantees in traditional participating contracts and equity guarantees in variable annuity contracts; and

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

iv. Measurement – Overview (continued)

[IFRS 9.3.3.5, IAS 16.29A–29B, 32.33A]

- take advantage of the consequential amendments introduced by IFRS 17 to other standards to measure owner-occupied properties and the Group's own financial liabilities and own shares held that are underlying items as assets at FVTPL. Currently:
  - owner-occupied properties are measured at cost less accumulated depreciation less any impairment losses;
  - the repurchase of own financial liabilities results in their derecognition; and
  - the costs of purchasing own shares are accumulated in the treasury share reserve in equity.

All other insurance contracts and all reinsurance contracts are expected to be classified as contracts without direct participation features.

PAA

The PAA is an optional simplified measurement model in IFRS 17 that is available for insurance and reinsurance contracts that meet the eligibility criteria. For an explanation of how the Group will apply the PAA, see (vi).

[IFRS 17.53, 69]

The Group expects that it will apply the PAA to all contracts in the Non-life segment because the following criteria are expected to be met at inception.

- *Insurance contracts and loss-occurring reinsurance contracts:* The coverage period of each contract in the group is one year or less.
- *Risk-attaching reinsurance contracts:* The Group reasonably expects that the resulting measurement of the asset for remaining coverage would not differ materially from the result of applying the accounting policies described above.

v. Measurement – Life contracts

Insurance contracts and investment contracts with DPF

[IFRS 17.31–33]

On initial recognition, the Group will measure a group of contracts as the total of (a) the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and (b) the CSM. The fulfilment cash flows of a group of contracts do not reflect the Group's non-performance risk.

[IFRS 17.33(a), B37–B39]

- The Group's objective in estimating future cash flows is to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. The cash flows from each scenario will be discounted and weighted by the estimated probability of that outcome to derive an expected present value. If there are significant interdependencies between cash flows that vary based on changes in market variables and other cash flows, then the Group will use stochastic modelling techniques to estimate the expected present value. Stochastic modelling involves projecting future cash flows under a large number of possible economic scenarios for variables such as interest rates and equity returns.

[IFRS 17.36, B74]

- All cash flows will be discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity characteristics of the contracts. Cash flows that vary based on the returns on any underlying items will be adjusted for the effect of that variability using risk-neutral measurement techniques and discounted using the risk-free rates as adjusted for illiquidity. When the present value of future cash flows is estimated by stochastic modelling, the cash flows will be discounted at scenario-specific rates calibrated, on average, to be the risk-free rates as adjusted for illiquidity.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

v. Measurement – Life contracts (continued)

Insurance contracts and investment contracts with DPF (continued)

[IFRS 17.33(d), 37, B90]

- The risk adjustment for non-financial risk for a group of contracts, determined separately from the other estimates, is the compensation that the Group would require for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

[IFRS 17.38, 47, 49]

- The CSM of a group of contracts represents the unearned profit that the Group will recognise as it provides services under those contracts. On initial recognition of a group of contracts, the group is not onerous if the total of the following is a net inflow:

  (a) the fulfilment cash flows;

  (b) any cash flows arising at that date; and

  (c) any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group (including assets for insurance acquisition cash flows; see below).

  In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition. If the total is a net outflow, then the group is onerous and the net outflow is generally recognised as a loss in profit or loss; a loss component is created to depict the amount of the net cash outflow, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue (see (viii)).

[IFRS 17.A]

Subsequently, the carrying amount of a group of contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The liability for incurred claims includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

[IFRS 17.33(c), 41–42, 87, B96–B97]

- The fulfilment cash flows of groups of contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows.

Changes relating to future services	Adjusted against the CSM (or recognised in the insurance service result in profit or loss if the group is onerous)
Changes relating to current or past services	Recognised in the insurance service result in profit or loss
Effects of the time value of money, financial risk and changes therein on estimated future cash flows	Recognised as insurance finance income or expenses

[IFRS 17.43–45]

- The CSM is adjusted subsequently only for changes in fulfilment cash flows that relate to future services and other specified amounts and is recognised in profit or loss as services are provided. The CSM at each reporting date represents the profit in the group of contracts that has not yet been recognised in profit or loss because it relates to future service.

Reinsurance contracts

The Group will apply the same accounting policies to measure a group of reinsurance contracts, with the following modifications.

The carrying amount of a group of reinsurance contracts at each reporting date is the sum of the asset for remaining coverage and the asset for incurred claims. The asset for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be received under the contracts in future periods and (b) any remaining CSM at that date.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

v. Measurement – Life contracts (continued)

Reinsurance contracts (continued)

[IFRS 17.63, 67, BC309]

The Group will measure the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in the insurance service result in profit or loss.[a]

[IFRS 17.64]

The risk adjustment for non-financial risk will represent the amount of risk being transferred by the Group to the reinsurer.

[IFRS 17.65–66B, B96–B97]

The CSM of a group of reinsurance contracts represents a net cost or net gain on purchasing reinsurance. It is measured such that no income or expense arises on initial recognition, except that the Group will:

- recognise any net cost on purchasing reinsurance coverage immediately in profit or loss as an expense if it relates to insured events that occurred before the purchase of the group; and
- recognise income when it recognises a loss on initial recognition of onerous underlying contracts if the reinsurance contract is entered into before or at the same time as the onerous underlying contracts are recognised. A loss-recovery component is created, which determines the amounts that are subsequently disclosed as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid.

The CSM is adjusted subsequently only for specified amounts and is recognised in profit or loss as services are received.

Insurance acquisition cash flows

[IFRS 17.28A, A, B35A]

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Under IFRS 17, for Life contracts, insurance acquisition cash flows are allocated to groups of contracts using systematic and rational methods based on the total premiums for each group.

[IFRS 17.B35A(a)]

Insurance acquisition cash flows that are directly attributable to a group of contracts (e.g. non-refundable commissions paid on issuance of a contract) are allocated only to that group and to the groups that will include renewals of those contracts. The allocation to renewals will only apply to certain term life and critical illness contracts that have a one-year coverage period. The Group expects to recover part of the related insurance acquisition cash flows through renewals of these contracts. The allocation to renewals will be based on the manner in which the Group expects to recover those cash flows.

Insights 8.1A.310.130 a. It appears that the risk of non-performance by the reinsurer is a non-financial risk because it represents the risk that the cedant specifically will suffer a loss in relation to the reinsured risk which does not meet the definition of financial risk. We believe that the amounts recognised in profit or loss should be included in the insurance service result.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

v. Measurement – Life contracts (continued)

Insurance acquisition cash flows (continued)

[IFRS 17.28B–28F, 38(c)(i), B35C–B35D]

Under IFRS 17, only insurance acquisition cash flows that arise before the recognition of the related insurance contracts are recognised as separate assets and tested for recoverability, whereas other insurance acquisition cash flows are included in the estimates of the present value of future cash flows as part of the measurement of the related insurance contracts. The Group expects that a majority of assets for insurance acquisition cash flows will relate to the renewals of term life and critical illness contracts, as described above. These assets will be presented in the same line item as the related portfolio of contracts and derecognised once the related group of contracts has been recognised. This differs from the Group's current practice, under which all acquisition costs are recognised and presented as separate assets from the related insurance contracts ('deferred acquisition costs').

[IFRS 17.28E, B35D]

IFRS 17 will require the Group to assess at each reporting date whether facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired. If it is impaired, then the Group will:

a. recognise an impairment loss in profit or loss so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group; and

b. if the asset relates to future renewals, recognise an impairment loss in profit or loss to the extent that it expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals and this excess has not already been recognised as an impairment loss under (a).

[IFRS 17.28F]

The Group will reverse any impairment losses in profit or loss and increase the carrying amount of the asset to the extent that the impairment conditions have improved.

Impact assessment

Under IFRS 17, all profits will be recognised in profit or loss over the lifetime of the contracts, and this will primarily be driven by the timing of the recognition in profit or loss of the CSM as services are provided and the risk adjustment for non-financial risk as the related risk expires. The Group expects that, even though the total profit recognised over the lifetime of the contracts will not change, it will emerge more slowly under IFRS 17. This is mainly because, for certain Life contracts, all profits are currently recognised in profit or loss on initial recognition of the contracts. The different timing of profit recognition will result in an increase in liabilities on adoption of IFRS 17 because a portion of profits previously recognised and accumulated in equity under IFRS 4 will be included in the measurement of the liabilities under IFRS 17.

The increase in the liabilities for Life contracts on transition to IFRS 17 can mainly be attributed to the following.

Changes from IFRS 4	Impact on equity on transition to IFRS 17
The estimates of the present value of future cash flows will increase as a result of (a) the inclusion of all discretionary benefits in the estimates of the future cash flows in measuring the liabilities for investment contracts with DPF (see (i)) and (b) a reduction in the discount rates because of the IFRS 17 requirements to measure future cash flows using current discount rates.	Decrease
The risk adjustment for non-financial risk under IFRS 17 will be lower than the risk margin under IFRS 4 as a result of (a) recalibration of the measurement techniques to conform with the IFRS 17 requirements, (b) exclusion of financial risk and general operational risk from the IFRS 17 risk adjustment for non-financial risk and (c) consideration of diversification benefit between Group entities.	Increase
A CSM, determined using the transition approaches described under (ix), will be recognised for the unearned profit for these contracts.	Decrease

The Group estimates that, on adoption of IFRS 17, the impact of these changes (before tax) is a reduction in the Group's total equity of €5.2 billion at 1 January 2023 and €5.0 billion at 1 January 2022.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

vi. Measurement – Non-life contracts

[IFRS 17.55(a), 59(a)] On initial recognition of each group of Non-life insurance contracts, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition. The Group will elect to recognise insurance acquisition cash flows as expenses when they are incurred.

[IFRS 17.55(b)–56] Subsequently, the carrying amount of the liability for remaining coverage is increased by any further premiums received and decreased by the amount recognised as insurance revenue for services provided. The Group expects that the time between providing each part of the services and the related premium due date will be no more than a year. Accordingly, as permitted under IFRS 17, the Group will not adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

[IFRS 17.57–58] If at any time before and during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Group will recognise a loss in profit or loss and increase the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. The fulfilment cash flows will be discounted (at current rates) if the liability for incurred claims is also discounted (see below).

[IFRS 17.59(b), B72(a)] The Group will recognise the liability for incurred claims of a group of contracts at the amount of the fulfilment cash flows relating to incurred claims. The future cash flows will be discounted (at current rates) unless they are expected to be paid in one year or less from the date the claims are incurred.

The Group will apply the same accounting policies to measure a group of reinsurance contracts, adapted where necessary to reflect features that differ from those of insurance contracts.

Impact assessment

Although the PAA is similar to the Group's current accounting treatment when measuring liabilities for remaining coverage, the following changes are expected in the accounting for Non-life contracts.

Changes from IFRS 4	Impact on equity on transition to IFRS 17
Under IFRS 17, the Group will discount the future cash flows when measuring liabilities for incurred claims, unless they are expected to occur in one year or less from the date on which the claims are incurred. The Group does not currently discount such future cash flows.	Increase
IFRS 17 requires the fulfilment cash flows to include a risk adjustment for non-financial risk. This is not explicitly allowed for currently.	Decrease
The Group's accounting policy under IFRS 17 to expense eligible insurance acquisition cash flows when they are incurred differs from the current practice under which these amounts are recognised separately as deferred acquisition costs.	Decrease

The Group estimates that, on adoption of IFRS 17, the impact of these changes (before tax) is a reduction in the Group's total equity of €0.3 billion at 1 January 2023 and €0.2 billion at 1 January 2022.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

vii. Measurement – Significant judgements and estimates

Estimates of future cash flows

[IFRS 17.33(a), B41]

In estimating future cash flows, the Group will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

[IFRS 17.33(b)]

The estimates of future cash flows will reflect the Group's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

[IFRS 17.B60]

When estimating future cash flows, the Group will take into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts will not be taken into account until the change in legislation is substantively enacted.

[IFRS 17.B65]

Cash flows within the boundary of a contract are those that relate directly to the fulfilment of the contract, including those for which the Group has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts. Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

[IFRS 17.B65(l)]

Cash flows will be attributed to acquisition activities, other fulfilment activities and other activities at local entity level using activity-based costing techniques. Cash flows attributable to acquisition and other fulfilment activities will be allocated to groups of contracts using methods that are systematic and rational and will be consistently applied to all costs that have similar characteristics. The Group will generally allocate insurance acquisition cash flows to groups of contracts based on the total premiums for each group, claims handling costs based on the number of claims for each group, and maintenance and administration costs based on the number of in-force contracts in each group.

Discount rates

[IFRS 17.36, B79–B80]

The Group will generally determine risk-free discount rates using the observed mid-price swap yield curves for AA-rated banks (adjusted for the bank's credit risk). The yield curve will be interpolated between the last available market data point and an ultimate forward rate, which reflects long-term real interest rate and inflation expectations. For markets in which there is no reliable swap yield curve, government bond yields will be used. Although the ultimate forward rate will be subject to revision, it is expected to be updated only on significant changes to long-term expectations. To reflect the liquidity characteristics of the contracts, the risk-free yield curves will be adjusted by an illiquidity premium. Illiquidity premiums will generally be determined by comparing the spreads on corporate bonds with the costs of credit default swaps with matching critical terms for the same issuer.

The requirement to measure liabilities for insurance contracts and investment contracts with DPF using current discount rates will be a significant change from the Group's current practice. For Life contracts, the Group currently measures future cash flows using discount rates determined on initial recognition and not adjusted for illiquidity. Under the current economic environment, the Group estimates that the discount rates under IFRS 17 would generally be lower than the corresponding rates under IFRS 4. For Non-life contracts, the Group does not currently discount future cash flows.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

vii. Measurement – Significant judgements and estimates (continued)

Risk adjustments for non-financial risk

[IFRS 17.37, B88]

Risk adjustments for non-financial risk will be determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion. They will be determined separately for the Life and Non-life contracts and allocated to groups of contracts based on an analysis of the risk profiles of the groups. They reflect the effects of the diversification benefits between Group entities, which will be determined using a correlation matrix technique.

The risk adjustments for non-financial risk will be determined using the following techniques.

- *Liabilities for incurred claims of Non-life contracts:* a confidence level technique.
- *Life contracts outside Europe:* a confidence level technique.
- *Life contracts in Europe:* a cost of capital technique.

To determine the risk adjustments for non-financial risk for reinsurance contracts, the Group will apply these techniques both gross and net of reinsurance and derive the amount of risk being transferred to the reinsurer as the difference between the two results.

Applying a confidence level technique, the Group will estimate the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculate the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years. The target confidence level will be 90 percent for liabilities for incurred claims of Non-life contracts and 75 percent for Life contracts outside Europe.

Applying a cost of capital technique, the Group will determine the risk adjustment for non-financial risk by applying a cost of capital rate to the amount of capital required for each future reporting date and discounting the result using risk-free rates adjusted for illiquidity, consistently with the Group's current practice. The required capital will be determined by estimating the probability distribution of the present value of future cash flows from the contracts at each future reporting date and calculating the capital that the Group would require to meet its contractual obligations to pay claims and expenses arising over the duration of the contracts at a 99.5 percent confidence level. The cost of capital rate represents the additional reward that investors would require for exposure to the non-financial risk. The Group's weighted-average cost of capital rate is 4.5 percent at 1 January 2023 and 2022.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

vii. Measurement – Significant judgements and estimates (continued)

CSM

[IFRS 17.B119] The CSM of a group of contracts is recognised in profit or loss to reflect services provided in each year, by identifying the coverage units in the group, allocating the CSM remaining at the end of the year (before any allocation) equally to each coverage unit provided in the year and expected to be provided in future years, and recognising in profit or loss the amount of the CSM allocated to coverage units provided in the year. The number of coverage units is the quantity of services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided and its expected coverage period. The coverage units will be reviewed and updated at each reporting date.

The Group will determine the quantity of the benefits provided under each contract as follows.[a]

Product	Basis for determining quantity of benefits provided
• **Term life** • **Non-participating whole-life**	• Sum assured payable on death
• **Critical illness**	• Maximum amount payable (including any premiums waived) on detection of illness
• **Immediate fixed annuity**	• Annuity amount payable in each period
• **Universal life** • **Traditional participating** • **Unit-linked and other investment-linked**	• *Insurance coverage:* net amount at risk (i.e. guaranteed minimum benefits less account value), if any • *Investment services:* account value
• **Quota share reinsurance**	• The same basis as the underlying contracts, including expected new underlying contracts within the reinsurance contract boundary (see (iii))
• **Excess of loss and stop loss reinsurance**	• Expected amount of underlying claims recoverable from reinsurance in each period

For insurance contracts that provide both insurance coverage and investment services, the assessment of the quantity of benefits entails determining the relative weighting of the benefits provided to the policyholder by these services, determining how the benefits provided by each service change over the coverage period and aggregating those different benefits.

To determine the relative weighting of the benefits provided by insurance coverage and investment services, the Group will generally consider the selling prices for the services had they been offered on a stand-alone basis and adjust the quantity of benefits for each service in proportion to those stand-alone selling prices. The stand-alone selling price for a service may be evidenced by observable prices when the Group sells that service separately to policyholders with similar characteristics.

Insights 8.1A.220.30 a. The objective of the release of the CSM to profit or loss is to reflect insurance contract services provided in each period. However, IFRS 17 does not specify how to determine coverage units. It appears that an entity should apply judgement and consider all relevant facts and circumstances to determine a systematic and rational method for estimating the insurance contract services provided for each group of contracts.

The pattern in which services are provided is a significant judgement to be made in measuring groups of insurance contracts. The disclosures presented are only illustrative and reflect the facts and circumstances of the Group.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

viii. Presentation and disclosure

IFRS 17 will significantly change how insurance contracts, reinsurance contracts and investment contracts with DPF are presented and disclosed in the Group's consolidated financial statements.

[IFRS 17.78–79]

Under IFRS 17, portfolios of insurance contracts and investment contracts with DPF that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. All rights and obligations arising from a portfolio of contracts will be presented on a net basis; therefore, balances such as insurance receivables and payables and policyholder loans will no longer be presented separately. Any assets or liabilities recognised for cash flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) will also be presented in the same line item as the related portfolios of contracts.

[IFRS 17.80, 82]

Under IFRS 17, amounts recognised in the statement of profit or loss and OCI are disaggregated into (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses. Amounts from reinsurance contracts will be presented separately.

The separate presentation of underwriting and financial results under IFRS 17 and IFRS 9 (see (C)) will provide added transparency about the sources of profits and quality of earnings.

Insurance service result

[IFRS 17.83, B120–B126]

For contracts not measured using the PAA, insurance revenue for each year represents the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. For contracts measured using the PAA, insurance revenue is recognised based on an allocation of expected premium receipts to each period of coverage, which is based on the expected timing of incurred insurance service expenses for certain property contracts and the passage of time for other contracts. The requirements in IFRS 17 to recognise insurance revenue over the coverage period will result in slower revenue recognition compared with the Group's current practice of recognising revenue when the related premiums are written.

[IFRS 17.84]

Expenses that relate directly to the fulfilment of contracts will be recognised in profit or loss as insurance service expenses, generally when they are incurred. Expenses that do not relate directly to the fulfilment of contracts will be presented outside the insurance service result.

[IFRS 17.2, 85, A]

Investment components will not be included in insurance revenue and insurance service expenses under IFRS 17. As a result, the Group expects a significant reduction in the total amounts of revenue and expenses from contracts with investment components compared with those recognised under the current practice. The Group will identify the investment component of a contract by determining the amount that it would be required to repay to the policyholder in all scenarios with commercial substance. These include circumstances in which an insured event occurs or the contract matures or is terminated without an insured event occurring. The Group has identified that its universal life, participating and non-participating whole-life contracts contain an investment component, determined as the surrender value specified in the contractual terms less any accrued fees.

[IFRS 17.86]

Amounts recovered from reinsurers and reinsurance expenses will no longer be presented separately in profit or loss, because the Group will present them on a net basis as 'net expenses from reinsurance contracts' in the insurance service result, but information about these will be included in the disclosures.

[IFRS 17.81]

The Group will choose not to disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk recognised in profit or loss will be included in the insurance service result.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

viii. Presentation and disclosure (continued)

Insurance finance income and expenses

[IFRS 17.87, B128(c)]

Under IFRS 17, changes in the carrying amounts of groups of contracts arising from the effects of the time value of money, financial risk and changes therein are generally presented as insurance finance income or expenses. They include changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals).

[IFRS 17.88(b), B129]

For Life risk and Life savings contracts, the Group will choose to disaggregate insurance finance income or expenses between profit or loss and OCI. This is expected to reduce accounting mismatches in profit or loss, considering that many of the supporting financial assets will be debt investments measured at FVOCI under IFRS 9 (see (C)(i)). The amount included in profit or loss will be determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts. The systematic allocation will be determined using the following rates:

[IFRS 17.B131]

- *Life risk contracts:* the discount rates determined on initial recognition of the group of contracts; and

[IFRS 17.B132(a)(i), (c)(i)]

- *Life savings contracts:* for insurance finance income or expenses arising from the estimates of future cash flows, a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate (i.e. the effective yield); and for insurance finance income or expenses arising from the CSM, the discount rates determined on initial recognition of the group of contracts.

[IFRS 17.91(a)]

If the Group derecognises a contract without direct participation features as a result of a transfer to a third party or a contract modification, then any remaining amounts of accumulated OCI for the contract will be reclassified to profit or loss as a reclassification adjustment.

[IFRS 17.87A, 88(a), 89(a), B117A, B129]

For Participating and Non-life contracts, the Group will present insurance finance income or expenses in profit or loss, considering that the supporting assets will generally be measured at FVTPL.

Disclosure

IFRS 17 requires extensive new disclosures about amounts recognised in the financial statements, including detailed reconciliations of contracts, effects of newly recognised contracts and information on the expected CSM emergence pattern, as well as disclosures about significant judgements made when applying IFRS 17. There will also be expanded disclosures about the nature and extent of risks from insurance contracts, reinsurance contracts and investment contracts with DPF (see (i)). Disclosures will generally be made at a more granular level than under IFRS 4, providing more transparent information for assessing the effects of contracts on the financial statements.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

ix. Transition

[IFRS 17.C3–C4]

Changes in accounting policies resulting from the adoption of IFRS 17 will be applied using a full retrospective approach to the extent practicable, except as described below. Under the full retrospective approach, at 1 January 2022 the Group will:

- identify, recognise and measure each group of insurance contracts, reinsurance contracts and investment contracts with DPF as if IFRS 17 had always been applied;
- identify, recognise and measure any assets for insurance acquisition cash flows as if IFRS 17 had always been applied, except that they will not be tested for recoverability before 1 January 2022;
- derecognise previously reported balances that would not have existed if IFRS 17 had always been applied (including some deferred acquisition costs, provisions for levies attributable to existing insurance contracts and customer-related intangible assets related to acquired insurance contracts[a]);
- measure owner-occupied properties, own financial liabilities and own shares held that are underlying items of direct participating contracts at fair value (see (iv)); and
- recognise any resulting net difference in equity. The carrying amount of goodwill from previous business combinations will not be adjusted.[b]

[IFRS 17.C5, C5B–C6]

If it is impracticable to apply a full retrospective approach to a group of contracts or to an asset for insurance acquisition cash flows, then the Group will choose between the modified retrospective approach and the fair value approach. However, if the Group cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it will apply the fair value approach.

Irrespective of the transition approach used, the following items will not be applied retrospectively.

[IFRS 17.C3(b), C5A]

- The risk mitigation option in IFRS 17 (see (iv)) will be applied prospectively from 1 January 2022. Certain groups of contracts to which the risk mitigation option is applied will be measured under the fair value approach at 1 January 2022 (see below).

[IFRS 3.15, 17, 64N]

- The consequential amendments to IFRS 3 introduced by IFRS 17 require the Group to classify contracts acquired as insurance contracts based on the contractual terms and other factors at the date of acquisition. This requirement will not be applied to business combinations before 1 January 2023, for which the Group classified contracts acquired as insurance contracts based on the conditions at contract inception.

IFRS 17.BC374, Insights 8.1A.490.90–100

a. An entity may have previously recognised intangible assets under IAS 38 *Intangible Assets* reflecting the expectation of future contracts from existing customer relationships acquired in a business combination in the scope of IFRS 3 *Business Combinations* or in connection with a transfer of a portfolio of insurance contracts. An entity needs to consider whether the measurement or recognition of these intangible assets at the date of the transaction should be amended when it transitions to IFRS 17 and applies the requirements of IFRS 17 retrospectively, especially to avoid double counting of the same rights to obtain expected future contracts. Double counting will occur, for example, if:

- the future contracts to which the previously recognised intangible assets relate no longer exist under IFRS 17 because the related cash flows are required to be included in measuring contracts existing at the date of the transaction, applying the contract boundary requirements in IFRS 17; or
- the rights previously recognised under IAS 38 are required to be recognised instead as assets for insurance acquisition cash flows under IFRS 17.

It appears that, to the extent that an entity would have determined a different value for intangible assets acquired and accounted for under IAS 38 before the date of transition, an entity should derecognise the amount of the IAS 38 asset that would not exist at the date of transition if IFRS 17 had always applied. We believe that this approach is required because some or all of the intangible assets would not have been recognised if IFRS 17 had always applied.

IFRS 17.BC374, Insights 8.1A.490.80

b. If an entity had previously acquired insurance contracts in a business combination in the scope of IFRS 3 before the date of transition to IFRS 17, then it is required to initially recognise insurance contracts as at the date of the business combination in accordance with IFRS 17. This could cause differences in the initial measurement of the assets and liabilities as at the date of the business combination compared with what was previously reported. For these business combinations, it appears that under the specific transition requirements of IFRS 17 any difference in the measurement of assets and liabilities should be recognised in equity at the date of transition and the carrying amount of goodwill, if there is any, should not be adjusted.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

ix. Transition (continued)

Insurance contracts, reinsurance contracts and investment contracts with DPF

The Group will apply the full retrospective approach to all Non-life contracts and the following approaches to Life contracts on transition to IFRS 17.

Year of issue	Transition approach to Life contracts
After 2015	• *Groups to which the risk mitigation option is applied:* Fair value approach • *Other groups:* Full retrospective approach
2011–15	• *Groups for which the full retrospective approach is impracticable:* Modified retrospective approach • *Other groups:* Full retrospective approach
Before 2011	• *All groups:* Fair value approach

[IAS 8.5, 50–53]

The Group considers the full retrospective approach impracticable under any of the following circumstances.

- The effects of retrospective application are not determinable because the information required has not been collected (or has not been collected with sufficient granularity) or is unavailable because of system migrations, data retention requirements or other reasons. Such information includes for certain contracts:
  - expectations about a contract's profitability and risks of becoming onerous required for identifying groups of contracts;
  - information about historical cash flows (including insurance acquisition cash flows and other cash flows incurred before the recognition of the related contracts[a]) and discount rates required for determining the estimates of cash flows on initial recognition and subsequent changes on a retrospective basis;
  - information required to allocate fixed and variable overheads to groups of contracts, because the Group's current accounting policies do not require such information; and
  - information about certain changes in assumptions and estimates, because they were not documented on an ongoing basis.

Insights 8.1A.490.23 a. For each existing group of contracts recognised at the date of transition with an unexpired coverage period, a full retrospective approach would require an entity to determine what amounts it should have recognised for an asset for insurance acquisition cash flows (and other assets or liabilities for cash flows related to the group and incurred before the date of initial recognition of the group of insurance contracts) that would have been derecognised and included in the measurement of the CSM of the group of insurance contracts on initial recognition of that group. It appears that if it is impracticable for an entity to retrospectively estimate these historical amounts and the corresponding adjustments to the CSM, then it would be impracticable for the entity to apply IFRS 17 retrospectively to the group of insurance contracts. This is because the measurement of a group of insurance contacts on initial recognition includes the amounts of the derecognised assets for insurance acquisition cash flows or other pre-recognition assets and liabilities and therefore the retrospective estimates of the group and those derecognised assets are interdependent.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

ix. Transition (continued)

Insurance contracts, reinsurance contracts and investment contracts with DPF (continued)

- The full retrospective approach requires assumptions about what Group management's intentions would have been in previous periods or significant accounting estimates that cannot be made without the use of hindsight. Such assumptions and estimates include for certain contracts:
  - expectations at contract inception about policyholders' shares of the returns on underlying items required for identifying direct participating contracts;
  - assumptions about discount rates, because the Group was not subject to any accounting or regulatory framework that required insurance contracts to be measured on a present value basis before 2007; and
  - assumptions about the risk adjustment for non-financial risk, because the Group was not subject to any accounting or regulatory framework that required an explicit margin for non-financial risk before 2016.

Modified retrospective approach

[IFRS 17.C6–C8]

The objective of the modified retrospective approach is to achieve the closest outcome to retrospective application possible using reasonable and supportable information available without undue cost or effort. The Group will apply each of the following modifications only to the extent that it does not have reasonable and supportable information to apply IFRS 17 retrospectively.

Assessments at inception or on initial recognition

[IFRS 17.C10, C18(a)]

Some groups of immediate fixed annuity contracts issued between 2011 and 2013 contain contracts issued more than one year apart. For these groups, the discount rates on initial recognition will be determined at 1 January 2022 instead of at the date of initial recognition.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

ix. Transition (continued)

Insurance contracts, reinsurance contracts and investment contracts with DPF (continued)

Modified retrospective approach (continued)

Contracts without direct participation features

The Group will apply the following modifications to certain groups of contracts.

[IFRS 17.C12]

- For groups of contracts issued or initiated between 2011 and 2015, the future cash flows on initial recognition will be estimated by adjusting the amount at 1 January 2016 or an earlier date (determined retrospectively) for the cash flows that are known to have occurred before that date. The earliest date on which future cash flows can be determined retrospectively for these groups of contracts is 1 January 2012.

[IFRS 17.C13(b)]

- For groups of contracts issued or initiated between 2011 and 2013 (except for some groups of immediate fixed annuity contracts as described above), the illiquidity premiums applied to the risk-free yield curves on initial recognition will be estimated by determining an average spread between the risk-free yield curves and the discount rates determined retrospectively for the period between 1 January 2014 and 1 January 2022.

[IFRS 17.C14]

- For some groups of contracts, the risk adjustment for non-financial risk on initial recognition will be determined by adjusting the amount at 1 January 2022 for the expected release of risk before 1 January 2022. The expected release of risk will be determined with reference to the release of risk for similar contracts that the Group issued at 1 January 2022.

[IFRS 17.C15(b)]

If any of these modifications is used to determine the CSM on initial recognition, then the amount of the CSM recognised in profit or loss before 1 January 2022 will be determined by comparing the coverage units provided before 1 January 2022 and the remaining coverage units at 1 January 2022.

[IFRS 17.C19(b)(ii)]

For all Life savings contracts measured under the modified retrospective approach, the amount of insurance finance income or expenses accumulated in the insurance finance reserve at 1 January 2022 will be determined to be zero.

Direct participating contracts

[IFRS 17.C17–C17A]

For certain groups of contracts issued between 2004 and 2015, the Group will determine the CSM (or the loss component) at 1 January 2022 by calculating a proxy for the total CSM for all services to be provided under the group as follows.

- The fair value of the underlying items at 1 January 2022 minus the fulfilment cash flows at 1 January 2022, adjusted for:
  - amounts charged to the policyholders (including charges deducted from the underlying items) before 1 January 2022;
  - amounts paid before 1 January 2022 that would not have varied based on the underlying items;
  - the change in the risk adjustment for non-financial risk caused by the release from risk before 1 January 2022, which will be estimated based on an analysis of similar contracts that the Group issued at 1 January 2022; and
  - insurance acquisition cash flows arising before 1 January 2022 that are allocated to the group.

If the calculation results in a CSM, then the Group will measure the CSM at 1 January 2022 by deducting the CSM related to services provided before 1 January 2022. The CSM related to services provided before 1 January 2022 will be determined by comparing the coverage units on initial recognition and the remaining coverage units at 1 January 2022.

If the calculation results in a loss component, then the Group will adjust the loss component to zero and increase the liability for remaining coverage excluding the loss component by the same amount at 1 January 2022.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

ix. Transition (continued)

Insurance contracts, reinsurance contracts and investment contracts with DPF (continued)

Modified retrospective approach (continued)

Reinsurance of onerous underlying contracts

[IFRS 17.C16A] For groups of reinsurance contracts covering onerous underlying contracts that were entered into before or at the same time as the onerous underlying contracts, the Group will establish a loss-recovery component (see (v)) at 1 January 2022. For some groups of contracts measured under the modified retrospective approach, the Group will determine the loss-recovery component with reference to the amount of the loss component that relates to the underlying contracts at 1 January 2022.

[IFRS 17.C16C] For reinsurance contracts initiated between 2011 and 2013, the Group will not identify a loss-recovery component because it does not have reasonable and supportable information to do so.

Fair value approach

[IFRS 17.C20] Under the fair value approach, the CSM (or the loss component) at 1 January 2022 will be determined as the difference between the fair value of a group of contracts at that date and the fulfilment cash flows at that date. The Group will measure the fair value of the contracts as the sum of (a) the present value of the net cash flows expected to be generated by the contracts, determined using a discounted cash flow technique; and (b) an additional margin, determined using a confidence level technique.

[IFRS 13.B13] The cash flows considered in the fair value measurement will be consistent with those that are within the contract boundary (see (iii)). Therefore, the cash flows related to expected future renewals of insurance contracts will not be considered in determining the fair value of those contracts if they are outside the contract boundary.[a] The present value of the future cash flows considered in measuring fair value will be broadly consistent with that determined in measuring the fulfilment cash flows. Although the Group's own non-performance risk will be considered when measuring the fair value of liabilities but not when measuring the fulfilment cash flows (see (v)), the effect is expected to be insignificant.

Differences in the Group's approach to measuring fair value from the IFRS 17 requirements for measuring fulfilment cash flows will give rise to a CSM at 1 January 2022. In particular, in measuring fair value the Group will include a margin comprising a risk premium to reflect what market participants would demand as compensation for the uncertainty inherent in the cash flows and a profit margin to reflect what market participants would require to assume the obligations to service the insurance contracts. In determining this margin, the Group will consider certain costs that are not directly attributable to fulfilling the contracts (e.g. general overheads) and certain risks that were not reflected in the fulfilment cash flows (e.g. general operational risk), among other factors that a market participant would consider.

Insights 8.1A.540.15 a. When measuring the fair value of a group of insurance contracts on transition, it appears that an entity should exclude the value of expected future renewals that are outside the boundaries of the contracts. This ensures consistency with the requirements for measurement of the fulfilment cash flows and the CSM, under which cash flows outside the contract boundary are excluded from the measurement of a group of insurance contracts.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

ix. Transition (continued)

Insurance contracts, reinsurance contracts and investment contracts with DPF (continued)

Fair value approach (continued)

[IFRS 17.C21(a)–(d), C22(b)] For all contracts measured under the fair value approach, the Group will use reasonable and supportable information available at 1 January 2022 to determine:

- how to identify groups of contracts;
- whether a contract meets the definition of a direct participating contract;
- how to identify discretionary cash flows for contracts without direct participation features; and
- whether an investment contract meets the definition of an investment contract with DPF.

[IFRS 17.C23] Some groups of contracts measured under the fair value approach will contain contracts issued more than one year apart. For these groups, the discount rates on initial recognition will be determined at 1 January 2022 instead of at the date of initial recognition.

[IFRS 17.C24(b)] For all contracts measured under the fair value approach, the amount of insurance finance income or expenses accumulated in the insurance finance reserve at 1 January 2022 will be determined to be zero.

[IFRS 17.C20A] For groups of reinsurance contracts covering onerous underlying contracts, the Group will establish a loss-recovery component at 1 January 2022. The Group will determine the loss-recovery component with reference to the amount of the loss component that relates to the underlying contracts at 1 January 2022.

Insurance acquisition cash flows

[IFRS 17.C5B] For the Life risk segment, the Group will apply the modified retrospective approach or the fair value approach to identify, recognise and measure certain assets for insurance acquisition cash flows at 1 January 2022.

[IAS 8.5, 50–53] It is impracticable to apply the full retrospective approach in these cases because:

- data has not been collected with sufficient granularity;
- information required to identify fixed and variable overheads as relating to acquisition activities and to allocate them to groups of contracts is not available; or
- original assumptions about the manner in which the Group would have expected insurance acquisition cash flows to be recovered, which are required to allocate them to renewals, cannot be made without the use of hindsight.

[IFRS 17.C3] The Group will apply the full retrospective approach to all other assets for insurance acquisition cash flows on transition to IFRS 17.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

B. IFRS 17 *Insurance Contracts* (continued)

ix. Transition (continued)

Insurance acquisition cash flows (continued)

Modified retrospective approach

[IFRS 17.C14B–C14C] Under the modified retrospective approach, the Group will identify any insurance acquisition cash flows arising before 1 January 2022 that do not relate to contracts that ceased to exist before that date. These cash flows will be allocated, using systematic and rational methods, to:

- groups of contracts recognised at 1 January 2022 (which will adjust the CSM of those groups if they are measured using the modified retrospective approach[a]); and
- groups of contracts expected to be recognised after 1 January 2022 (which will be recognised as assets for insurance acquisition cash flows).

[IFRS 17.C14D] In some cases, the Group does not have reasonable and supportable information to identify the relevant insurance acquisition cash flows. The adjustments to the CSM of groups of contracts recognised at 1 January 2022 and the assets for insurance acquisition cash flows for expected future groups will be determined to be zero.

Fair value approach

[IFRS 17.C24A] The Group will measure an asset for insurance acquisition cash flows under the fair value approach at an amount equal to the insurance acquisition cash flows that it would incur at 1 January 2022 for the rights to obtain:

- recoveries of insurance acquisition cash flows from premiums of contracts issued before 1 January 2022 but not yet recognised at that date, and renewals of such contracts;
- renewals of contracts recognised at 1 January 2022; and
- other future contracts after 1 January 2022 without paying again insurance acquisition cash flows that it has already paid.

Insights 8.1A.540.40 a. It appears that when applying the fair value approach to a group of insurance contracts on transition, an entity is not permitted to include in the measurement of the CSM any insurance acquisition cash flows occurring before the date of transition that would have been attributable to those insurance contracts. Because these cash flows are not included in the measurement at the date of transition, we believe that they cannot be included in the presentation of insurance revenue and expenses for reporting periods subsequent to the date of transition.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

C. IFRS 9 *Financial Instruments*

[IFRS 4.20A–20B, 9.7.1.1]

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. However, the Group has met the relevant criteria and has applied the temporary exemption from IFRS 9 for annual periods before 1 January 2023. Consequently, the Group will apply IFRS 9 for the first time on 1 January 2023.

i. Financial assets – Classification

[IFRS 9.4.1.1]

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 includes three principal measurement categories for financial assets – measured at amortised cost, FVOCI and FVTPL – and eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

[IFRS 9.4.1.2]

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

[IFRS 9.4.1.2A]

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

[IFRS 9.4.1.4–4.1.5]

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

[IFRS 9.4.1.4, 5.7.5]

Nevertheless, on initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. The election is made on an instrument-by-instrument basis.

[IFRS 9.4.3.2]

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

C. IFRS 9 *Financial Instruments* (continued)

i. Financial assets – Classification (continued)

Impact assessment

IFRS 9 will affect the classification and measurement of financial assets held at 1 January 2023 as follows.

- Most underlying items of Participating contracts and certain other financial investments are designated as at FVTPL under IAS 39. They will also be measured at FVTPL under IFRS 9.
- Derivative assets, which are generally classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Debt investments that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.
- The majority of equity investments that are classified as available-for-sale under IAS 39 will be measured at FVTPL under IFRS 9. However, some of these equity investments are held for long-term strategic purposes and will be designated as at FVOCI on 1 January 2023; consequently, all fair value gains and losses will be reported in OCI, no impairment losses will be recognised in profit or loss, and no gains or losses will be reclassified to profit or loss on disposal of these investments.
- Held-to-maturity investments and loans and receivables measured at amortised cost under IAS 39 will generally also be measured at amortised cost under IFRS 9.

Because a majority of the Group's financial assets are measured at fair value both before and after transition to IFRS 9, the new classification requirements are not expected to have a material impact on the Group's total equity at 1 January 2023 or 2022. The Group's total equity is impacted only to the extent of any reclassifications between the amortised cost and fair value measurement categories. The Group estimates that, on adoption of IFRS 9, the impact of these changes (before tax) is an increase in the Group's total equity of €0.2 billion at 1 January 2023 and €0.1 billion at 1 January 2022.

ii. Financial assets – Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement about how changes in economic factors affect ECL, which will be determined on a probability-weighted basis.

[IFRS 9.2.1(b)(i), 5.5.1]

The new impairment model will apply to the Group's financial assets measured at amortised cost, debt investments at FVOCI and lease receivables.

[IFRS 9.A]

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECL or lifetime ECL. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument; 12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

[IFRS 9.5.5.3, 5.5.5, 5.5.10, 5.5.15–5.5.16]

The Group will measure loss allowances at an amount equal to lifetime ECL, except in the following cases, for which the amount recognised will be 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date, which the Group considers to be the case when the security's credit risk rating is equivalent to the globally understood definition of 'investment grade'; and
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for lease receivables will always be measured at an amount equal to lifetime ECL.

[IFRS 9.5.5.9, 5.5.11]

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort. This will include both qualitative and quantitative information and analysis based on the Group's experience, expert credit assessment and forward-looking information. As a backstop, the Group will consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

C. IFRS 9 *Financial Instruments* (continued)

ii. Financial assets – Impairment (continued)

Measurement of ECL

[IFRS 9.5.5.17, A, B5.5.28–B5.5.33]

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The key inputs into the measurement of ECL are the term structures of the PD, LGD and EAD. ECL for financial assets for which credit risk has not significantly increased are calculated by multiplying the 12-month PD by the respective LGD and EAD. Lifetime ECL are calculated by multiplying the lifetime PD by the respective LGD and EAD.

To determine lifetime and 12-month PDs, the Group will use the PD tables supplied by [*Rating Agency X*] based on the default history of obligors in the same industry and geographic region with the same credit rating. The Group will adopt the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings. The PDs will be recalibrated based on current bond yields and CDS prices, and adjusted to reflect forward-looking information. Changes in the rating for a counterparty or exposure will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value ratios will be a key parameter in determining LGD. LGD estimates will be recalibrated for different economic scenarios. They will be calculated considering current and forecast economic conditions on a discounted cash flow basis using the effective interest rate as the discount rate.

EAD represents the expected exposure in the event of a default. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount at the time of default.

[IFRS 9.5.5.19, B5.5.38]

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics, which include:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

C. IFRS 9 *Financial Instruments* (continued)

ii. Financial assets – Impairment (continued)

Measurement of ECL (continued)

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Group will use to derive the default rates of its portfolios. This includes the PDs provided in the [*Rating Agency X*] default study and the LGDs provided in the [*Rating Agency Y*] recovery studies.

Impact assessment

The Group estimates that application of the IFRS 9 impairment requirements at 1 January 2023 and 2022 will result in additional loss allowances. The recognition of additional loss allowances on adoption of IFRS 9 mainly relates to debt investments measured at FVOCI, but this will not affect the Group's total equity. This is because, for these investments, the recognition of loss allowances will not reduce the carrying amount of the investments, which is their fair value; instead, the recognition of impairment losses in profit or loss will give rise to an equal and opposite gain in OCI. The Group estimates that the application of the IFRS 9 impairment requirements to these investments will result in a transfer (before tax) from retained earnings to the fair value reserve of €3.2 billion at 1 January 2023 and €3.0 billion at 1 January 2022.

The Group's total equity is impacted by the IFRS 9 impairment requirements only to the extent of any loss allowances on financial assets measured at amortised cost and lease receivables. The Group estimates that, on adoption of IFRS 9, the impact of these changes (before tax) is a reduction in the Group's total equity of €0.7 billion at 1 January 2023 and €0.3 billion at 1 January 2022.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

C. IFRS 9 *Financial Instruments* (continued)

iii. Financial liabilities

[IFRS 9.5.7.7]

IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows.

- The amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI.
- The remaining amount of the change in the fair value will be presented in profit or loss.

[IFRS 9.B5.7.15(a)]

The Group expects an immaterial impact from adopting the requirements above. The Group has designated investment contract liabilities as at FVTPL because these liabilities as well as the related assets are managed and their performance is evaluated on a fair value basis. All investment contract liabilities have a unit-linking feature whereby the amount due to contract holders is contractually determined on the basis of specified assets. The effect of the unit-linking feature on the fair value of the liability is asset-specific performance risk and not credit risk, and the liabilities are fully collateralised. The Group does not expect that any residual credit risk will have a significant impact on the fair value of the liabilities.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

C. IFRS 9 *Financial Instruments* (continued)

iv. Hedge accounting

[IFRS 9.6.1.1, 7.2.21]

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group will adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedging relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses certain foreign exchange forward contracts to hedge the risk of a weakening of sterling against the euro that will result in a reduction in the carrying amount of the Group's net investments in subsidiaries in the UK. The types of hedging relationships that the Group currently designates meet the requirements of IFRS 9 above.

[IFRS 9.6.5.16]

Under IAS 39, the changes in the fair value of the forward elements of the forward exchange contracts ('forward points') are recognised immediately in profit or loss. However, under IFRS 9 the Group will exclude the forward element from the designation as hedging instruments and elect to separately account for the changes in the fair value of the forward points as costs of hedging; these changes will be recognised in OCI and accumulated in the costs of hedging reserve as a separate component within equity while the fair values of the forward points at the inception of the hedge will be amortised to profit or loss over the life of the hedge.

Impact assessment

The estimated impact on retained earnings as a result of the application of the costs of hedging approach (before tax) is an increase of €0.1 billion at 1 January 2023 and €0.1 billion at 1 January 2022. The same amount will be transferred to the costs of hedging reserve. There will be no impact on the Group's total equity.

Notes to the consolidated financial statements (extract)

1. Standards issued but not yet effective (continued)

C. IFRS 9 *Financial Instruments* (continued)

v. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will be applied retrospectively, except as described below.

[IFRS 9.7.2, 17.C28A–C28E]

- The comparative period will be restated.[a] In accordance with IFRS 9's transition requirements, IFRS 9 does not apply to financial assets that had already been derecognised at 1 January 2023; however, the Group will elect to apply the classification overlay in IFRS 17 to financial assets derecognised in 2022 to present comparative information as if the classification and measurement (including impairment) requirements of IFRS 9 had been applied to such financial assets, by using reasonable and supportable information to determine how they would be classified and measured on initial application of IFRS 9.[b]
- Changes to hedge accounting policies will be applied prospectively from 1 January 2023, except for the costs of hedging approach for forward points, which will be applied retrospectively to hedging relationships that existed on or after 1 January 2022. All hedging relationships designated under IAS 39 at 31 December 2022 met the criteria for hedge accounting under IFRS 9 at 1 January 2023 and will therefore be regarded as continuing hedging relationships.
- The following assessments have to be made on the basis of the facts and circumstances that exist at 1 January 2023:
  - the determination of the business model within which a financial asset is held;
  - the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
  - the designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a financial asset has low credit risk at 1 January 2023, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 9.7.2.15, BC7.34M

a. IFRS 9 contains exemptions from full retrospective application for its classification and measurement requirements, including impairment. These include an exemption from the requirement to restate comparative information. An entity may restate prior periods only if it is possible without the use of hindsight.

IFRS 17.C28A–C28E

b. *Initial Application of IFRS 17 and IFRS 9: Comparative Information – Amendment to IFRS 17* was issued in December 2021 to introduce an optional classification overlay to alleviate operational complexities and accounting mismatches in comparative information between insurance contract liabilities and related financial assets on the initial application of IFRS 17. The amendment is applicable when an insurer initially applies IFRS 17. For further information, see our web article.

Appendix I

Forthcoming requirements

This supplement does not illustrate the IAS 8 pre-transition disclosures for standards other than IFRS 17 and IFRS 9 that have been issued but are not yet effective.

This appendix lists the recent changes to the standards issued by the International Accounting Standards Board as at 30 September 2022 that are required to be applied for annual periods beginning after 1 January 2022 and that are available for early adoption in annual periods beginning on 1 January 2022. A cross-reference to further KPMG guidance is also included, as appropriate. All of the effective dates below refer to the beginning of an annual period.

Effective date	New standards or amendments	KPMG guidance
1 January 2023	IFRS 17 *Insurance Contracts*	*Insights into IFRS* (Chapter 8.1A), web article, First Impressions, New IFRS 17 transition option
	Classification of Liabilities as Current or Non-current – Amendments to IAS 1[a]	*Insights into IFRS* (2.9.45, 3.1.47, 7.10.55), web article
	Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	*Insights into IFRS* (2.1.15), web article
	Definition of Accounting Estimate – Amendments to IAS 8	*Insights into IFRS* (2.8.115), web article
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	*Insights into IFRS* (3.13.213, 6.1.235), web article
1 January 2024	*Lease Liability in a Sale and Leaseback – Amendments to IFRS 16*	Insights into IFRS (5.1.780.10), web article
Available for optional adoption/ effective date deferred indefinitely[b]	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28*	Web article

a. The amendments to IAS 1, as issued in January 2020 (2020 amendments), are subject to future developments. In November 2021, the International Accounting Standards Board published the exposure draft *Non-current Liabilities with Covenants – Proposed amendments to IAS 1*, which proposed further amendments to IAS 1 and the deferral of the effective date of the 2020 amendments to no earlier than 1 January 2024. The final amendments to IAS 1 on non-current liabilities with covenants are expected to be finalised in the fourth quarter of 2022. For further information, see our web article.

b. The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

Acknowledgements

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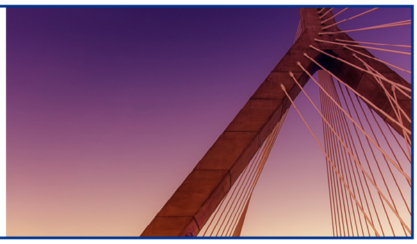

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