ALLIANZ MALAYSIA BERHAD (197201000819)

Q1 2023

FINANCIAL RESULTS

MFRS 9/17

Analyst Briefing

30 May 2023

Allianz

01

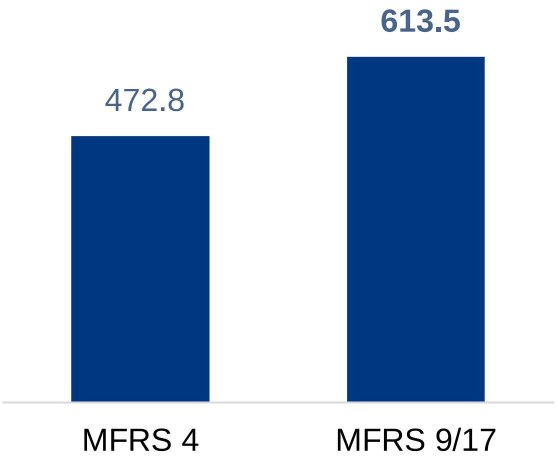
AMB GROUP FINANCIAL RESULTS

HIGHLIGHTS 2022: ACCELERATED RESULTS UNDER MFRS 9/17

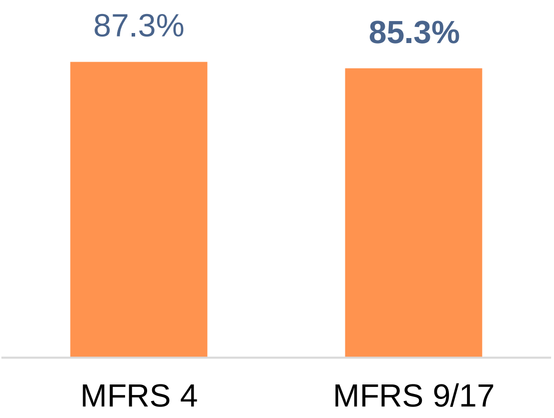
(31 DECEMBER 2022)

	Group	General Insurance	Life Insurance	
Gross Written Premium (RM'mil)				
	6,023.0	2,656.3	3,366.7	
Insurance Revenue (RM'mil)				
	4,450.1	2,597.8	1,852.3	
Profit Before Tax (RM'mil) (values in brackets based on MFRS 4)				
	873.6 (704.4)	515.4 (462.6)	377.5 (287.2)	

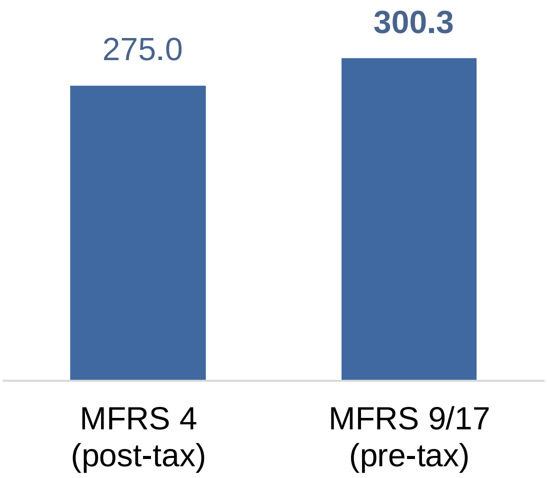
Shareholders' net income
(in RM'mil)



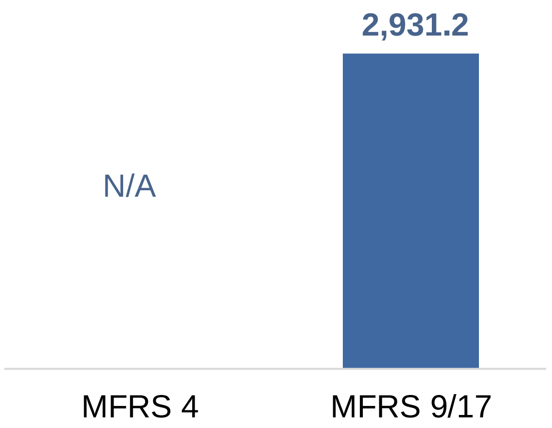
Combined ratio
(in %)



New business value
(in RM'mil)



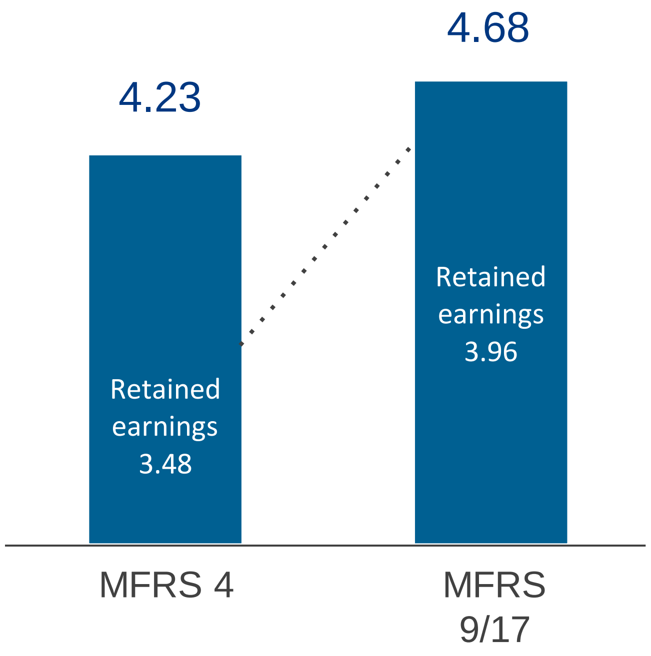
Contractual service margin ("CSM") (in RM'mil)



SHAREHOLDER'S EQUITY HIGHER AT TRANSITION

Group balance sheet equity (RM'bil)

31 December 2022



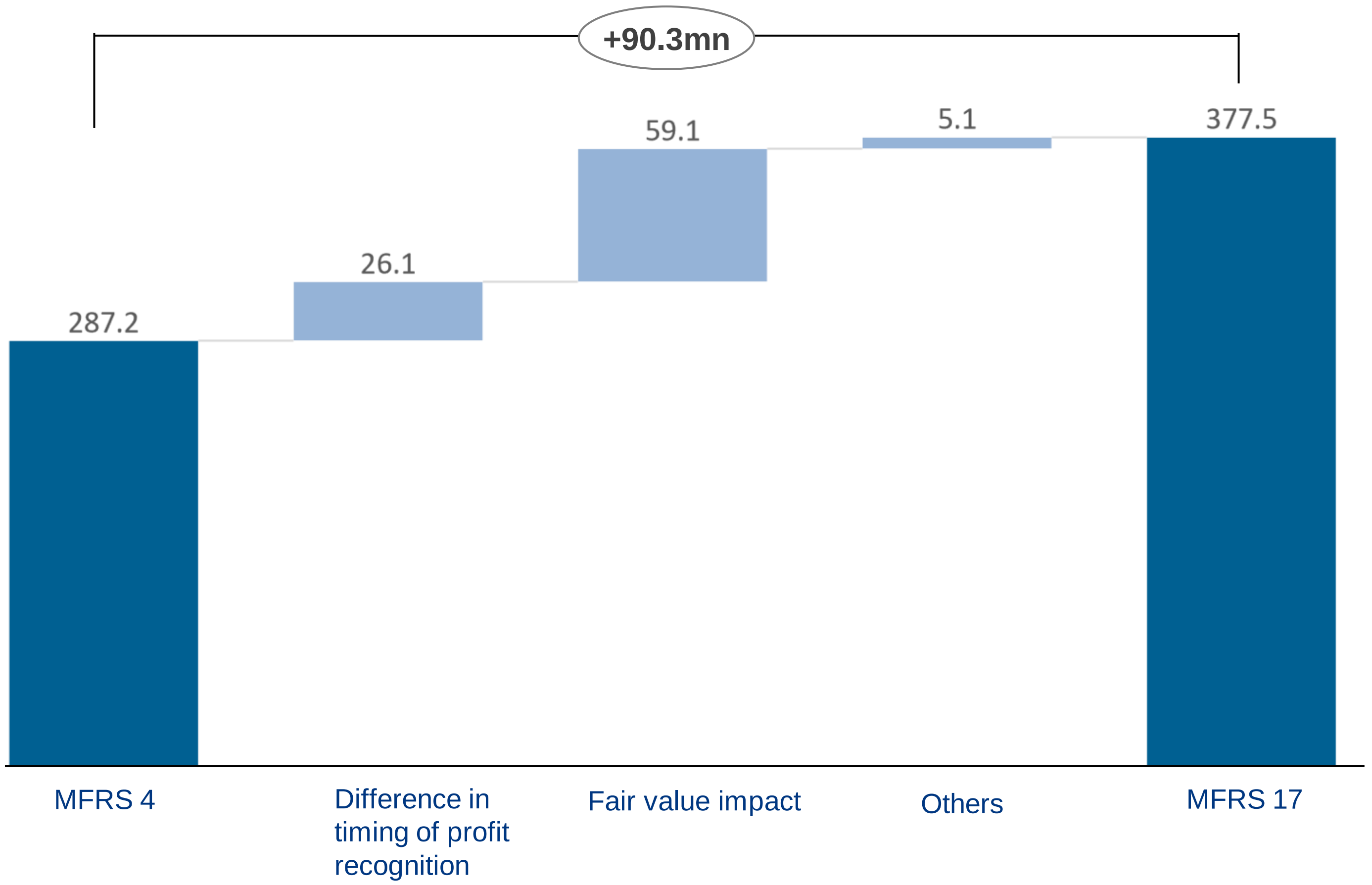
Highlights

- Difference versus MFRS 4 mainly driven by difference in profit emergence in the life insurance business;
- Higher retained earnings for general insurance business from first time adoption of MFRS 17 with introduction of discounting of claims reserves and deferral of expenses.

LIFE SEGMENT PROFIT BEFORE TAX CHANGES

Profit Before Tax (RM'mil)

31 December 2022



Profits under MFRS 17 against MFRS 4 mainly due to:

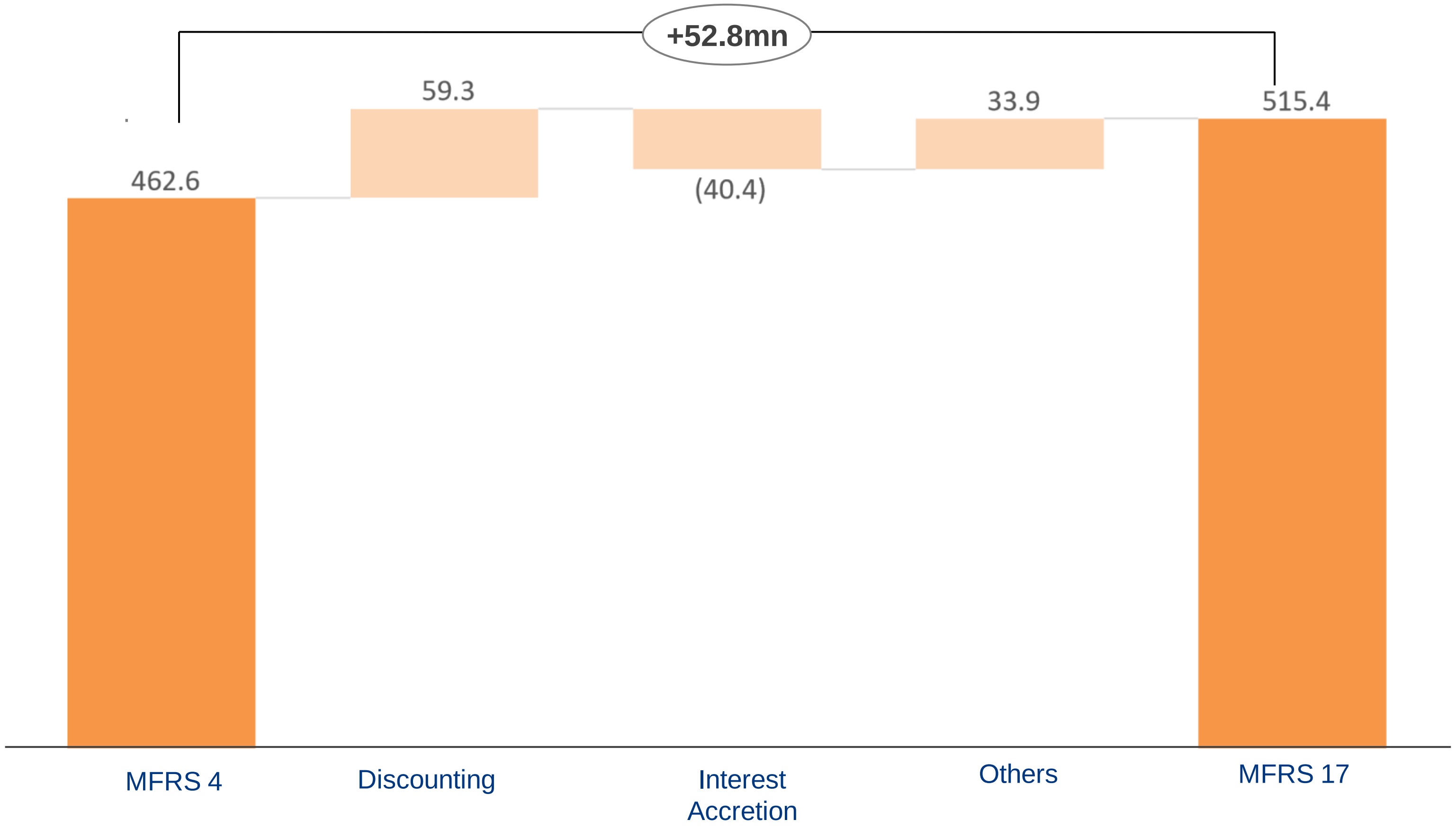
Acceleration of profit under MFRS 17 for investment-linked business

Fair value impact on investment assets being recognised in OCI

GENERAL SEGMENT PROFIT BEFORE TAX CHANGES

Profit Before Tax (RM'mil)

31 December 2022



Profits under MFRS 17 against MFRS 4 mainly due to:

Higher PBT from discounting on claims due to higher interest rate.

Others: Fair value impact on investment assets being recognised in FVPL, loss component and deferral of acquisition cost

LIFE SEGMENT NEW BUSINESS VALUE ALIGNED TO MFRS 17 FRAMEWORK

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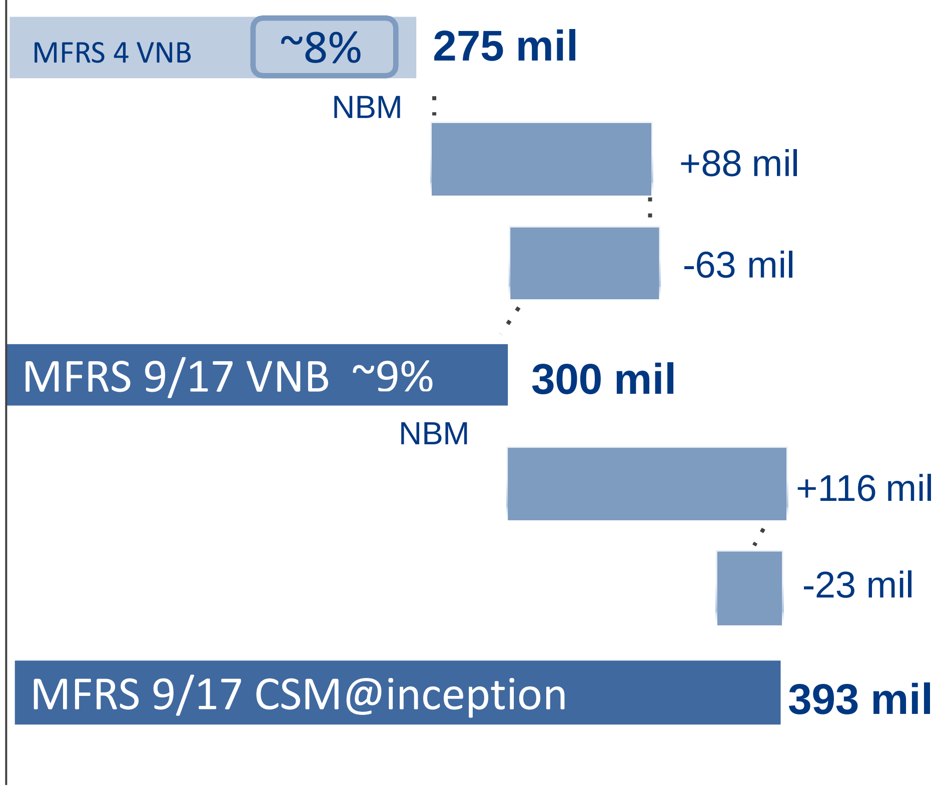
Value of new business ("VNB") (RM'mil)

31 December 2022



Highlights

	MFRS 4 KPI for new business value; basis for NBM
Tax	MFRS 9/17 view is before tax
Valuation basis	Difference in risk adjustment, valuation curve and contract boundaries
	MFRS 9/17 KPI for new business value; basis for NBM
Non-attr. cost / reinsurance	CSM@inception is before non-attributable cost and reinsurance, which are separate profit line items
Scope	Premium allocation approach business not in scope of MFRS 17 (= no CSM)
	KPI for CSM movement

GENERAL SEGMENT COMBINED RATIO IN DETAIL

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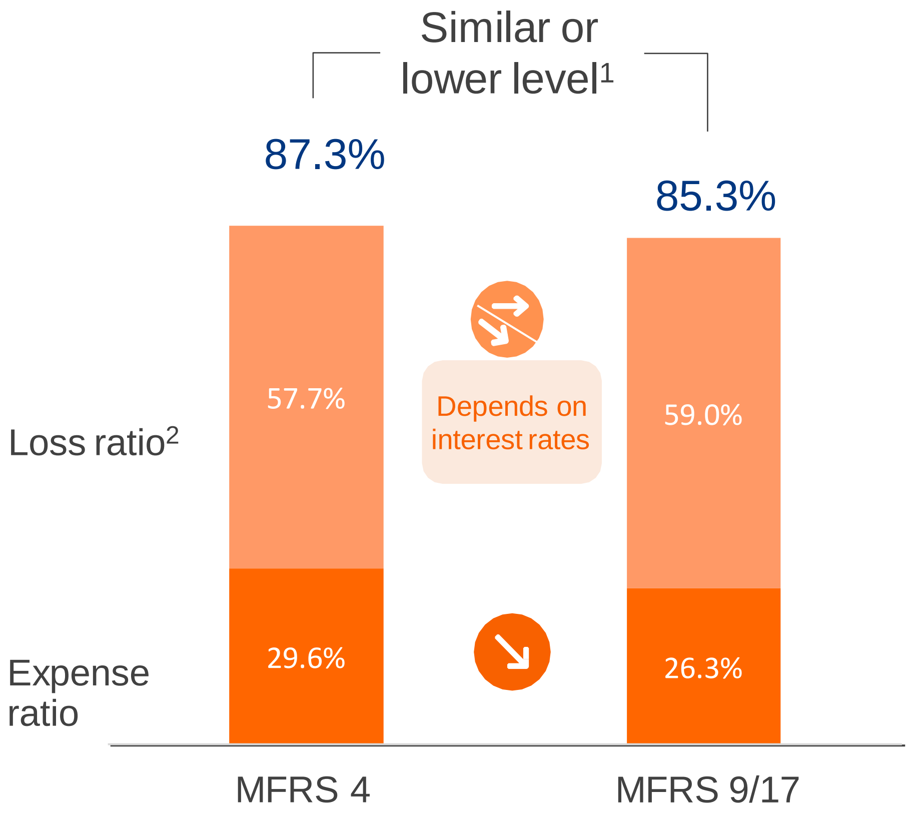
Combined ratio (“CoR”)

31 December 2022



Highlights

New topline: CoR calculation based on gross instead of net premiums earned

- Lower loss ratio due to discounting of current accident year claims reserves
- Secondary discounting impact on prior year claims reserves will affect the loss ratio; minimal impact expected
- Movement in loss component will affect the loss ratio
- Reclassification of claims function expenses from expenses

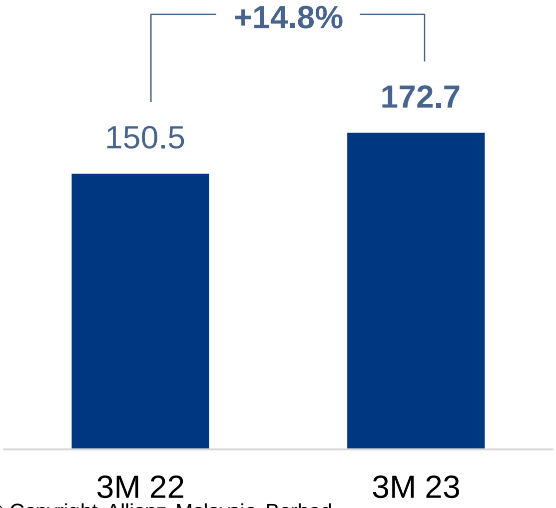
- Lower expense ratio following move from net to gross view and reclassification of claims function expenses to claims
- Includes non-attributable cost, i.e., same cost basis as under MFRS 4

1) Based on current interest rate environment
2) Including reinsurance result with reinsurance ratio of 11.0% under MFRS 9/17

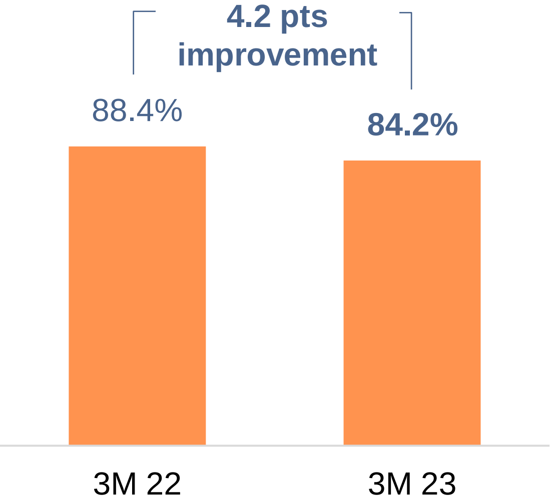
FINANCIAL HIGHLIGHTS 3M 2023

Group	General Insurance	Life Insurance	
Gross Written Premium (RM'mil)			
1,705.3 (+4.6%)	776.1 (+4.7%)	929.2 (+4.5%)	
Insurance Revenue (RM'mil)			
1,161.4 (+9.2%)	661.5 (+8.1%)	499.9 (+10.8%)	
Profit Before Tax (RM'mil)			
232.3 (+7.8%)	139.8 (+50.3%)	96.5 (-26.6%)	

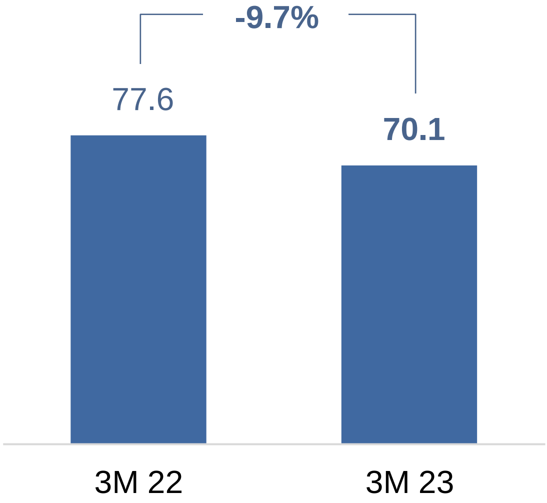
Shareholders' net income
(in RM'mil)



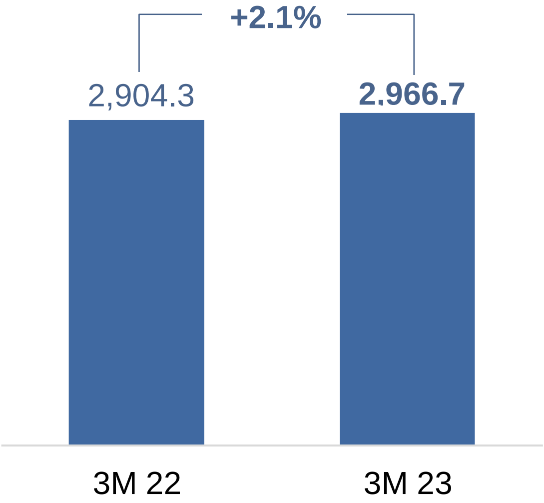
Combined ratio
(in %)



New business value
(in RM'mil)



Contractual service margin
(in RM'mil)



EXCELLENT START INTO 2023

Comments

Insurance revenue

- Group insurance revenue of RM1.16 billion, an increase of 9.2% from RM1.06 billion in 2022 due to higher insurance revenue from both insurance segments.

- General business recorded an insurance revenue of RM661.5 million, an increase of 8.1% compared to corresponding period of RM612.1 million.

- Life business recorded an insurance revenue of RM499.9 million, an increase of 10.8% compared to corresponding period of RM451.0 million.

Earnings per ordinary share

- Basic earnings per ordinary share at 97.03 sen (3M 2022: 84.68 sen).

- Diluted earnings per ordinary share at 49.88 sen (3M 2022: 43.51 sen).

Profitability

- Group profit before tax of RM232.3 million, increased by 7.8% (3M 2022: RM215.5 million) due to higher profit contribution from general insurance segment.

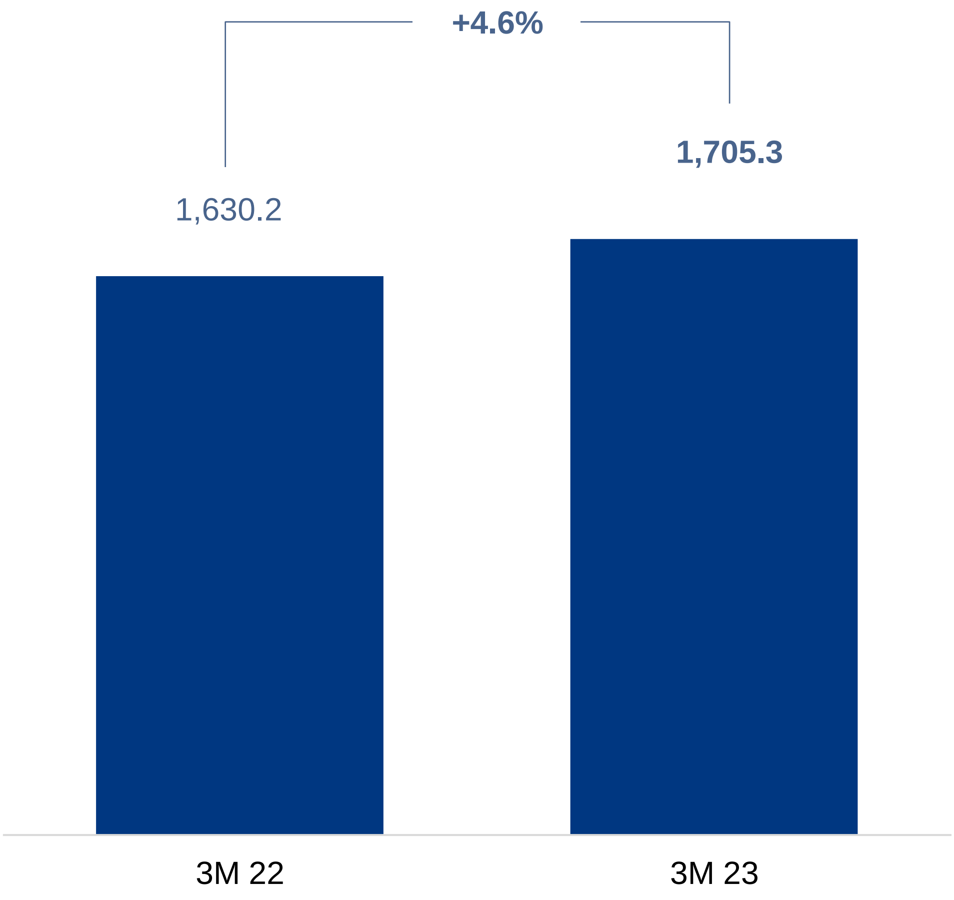
- General business contributed a profit before tax of RM139.8 million, an increase of 50.3% (3M 2022: RM93.0 million). The increase was attributable to higher insurance service results and positive fair value movement from investment. Net combined ratio was 84.2% as at 3M 2023 (3M 2022: 88.4%), benefiting from one off claims reviews and file closures as well as timing variances in the expense spending, which is expected to normalise over the subsequent quarters.

- Life insurance business recorded a profit before tax of RM96.5 million (3M 2022: RM131.5 million), a reduction due to normalised claims experience from investment-linked protection business in current year as compared to 3M 2022.

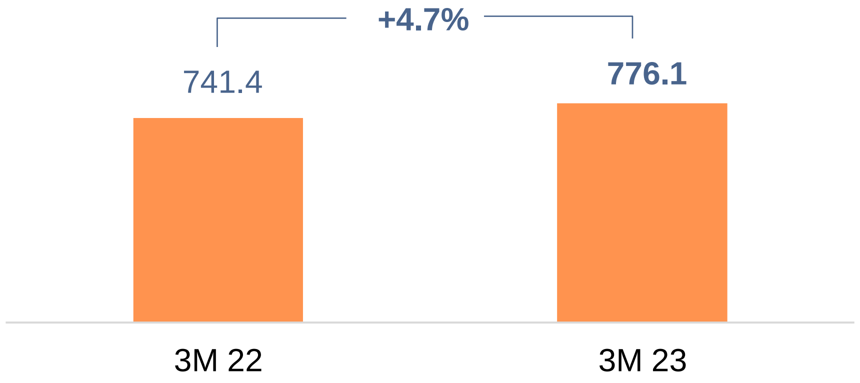
FINANCIAL HIGHLIGHTS 3M 2023

Group

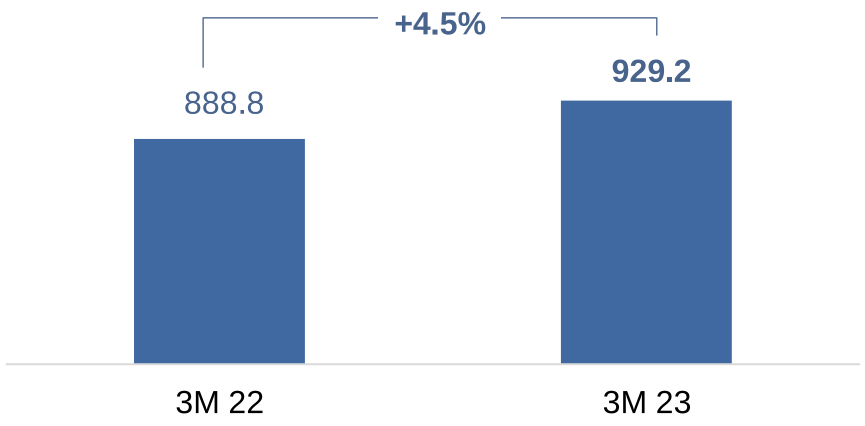
Gross Written Premium ("GWP") (RM'mil)



General Insurance

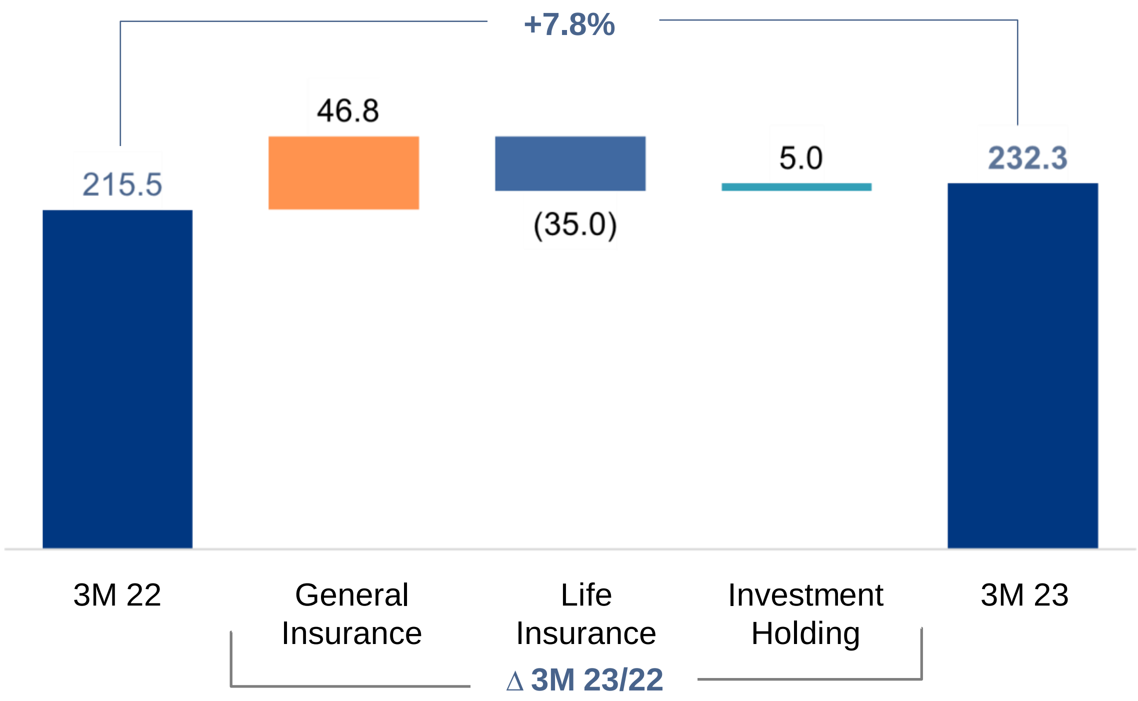


Life Insurance



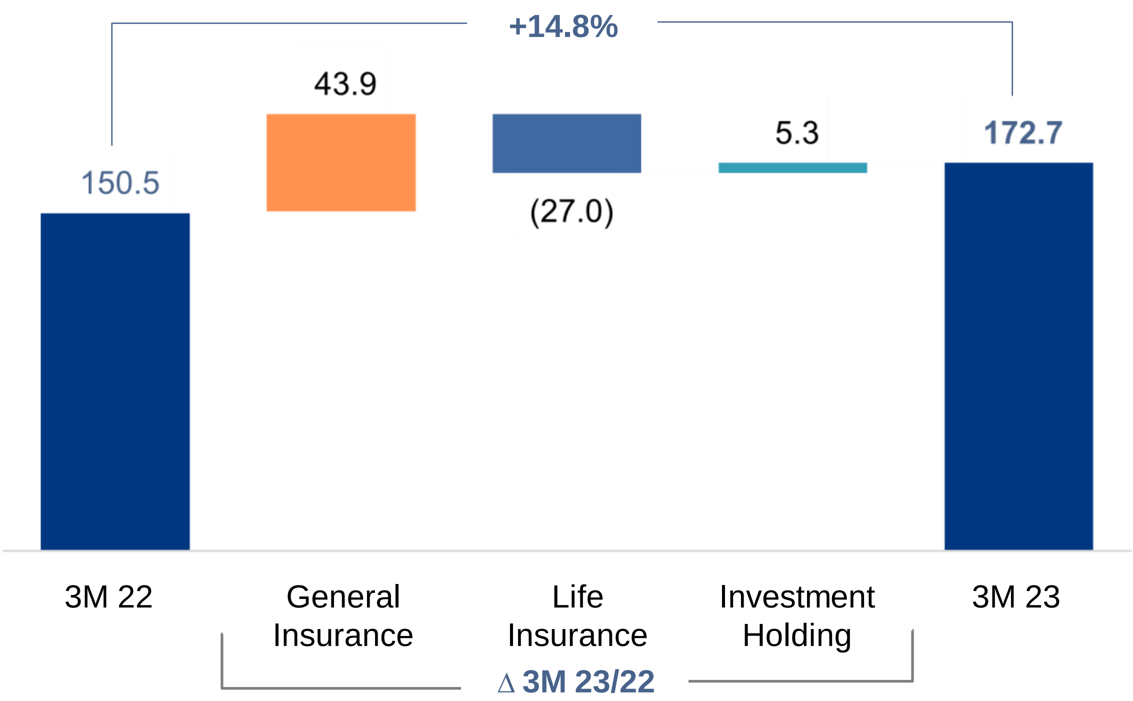
FINANCIAL HIGHLIGHTS 3M 2023

Profit Before Tax drivers (RM'mil)



3M 2022	93.0	131.5	(9.0)	215.5
3M 2023	139.8	96.5	(4.0)	232.3
Change	**46.8**	**(35.0)**	**5.0**	**16.8**
Change (%)	**50.3%**	**(26.6%)**	**55.6%**	**7.8%**

Profit After Tax drivers (RM'mil)



3M 2022	61.4	98.9	(9.8)	150.5
3M 2023	105.3	71.9	(4.5)	172.7
Change	**43.9**	**(27.0)**	**5.3**	**22.2**
Change (%)	**71.5%**	**(27.3%)**	**54.1%**	**14.8%**

FINANCIAL OVERVIEW

MFRS 4 BASIS

RM'mil	2020	2021	2022	3 YEAR CAGR (2019-2022)
Gross Written Premiums	5,305.2	5,689.6	6,021.7	6.9%
CSM Release	N/A	N/A	N/A	N/A
Expense Ratio (Non Life)[1]	32.9%	31.2%	29.6%	2.3 pts
Expense Ratio (Life)[2]	9.4%	9.9%	9.9%	0.6 pts
Local Consolidated PBT	729.6	625.6	704.4	0.6%
Total Assets	21,896.7	23,643.5	24,683.1	7.8%
Shareholders' Equity	4,031.5	4,144.2	4,230.0	4.8%
Dividends declared	220.44	239.35	322.88	9.3%
Diluted earnings per ordinary share (sen)	150.29	138.29	136.60	(1.4%)

MFRS 9/17 BASIS

RM'mil	3M 2022	3M 2023	12M 2022
Gross Written Premiums	1,630.2	1,705.3	6,023.0
CSM Release	90.5	95.0	368.6
Expense Ratio (Non Life)[1]	27.7%	24.8%	26.3%
Expense Ratio (Life)[2]	9.2%	10.6%	9.8%
Local Consolidated PBT	215.5	232.3	873.6
Total Assets	22,993.7	24,346.6	24,014.7
Shareholders' Equity	4,577.4	4,917.7	4,677.1
Dividends declared	-	-	322.88
Diluted earnings per ordinary share (sen)	43.51	49.88	177.29

Note 1 : Expense ratio for Non Life insurance segment consists of commission and management expense (MFRS 4); both attributable and non attributable acquisition and administration expenses (MFRS 17).

Note 2 : Expense ratio for Life insurance segment weighted for 10% of Single Premium.

SUMMARY OF UNAUDITED FINANCIAL RESULTS

RM'mil	3M 2022	3M 2023	△23/22 %
Insurance revenue	1,063.1	1,161.4	9.2%
Claims and benefits	(556.8)	(543.1)	(2.5%)
Acquisition and administrative expenses (net)	(269.8)	(268.3)	(0.6%)
Reversal of losses/(Losses) on onerous contracts	6.9	(14.6)	(>100%)
Insurance service expenses	(819.7)	(826.0)	0.8%
Reinsurance result	(53.0)	(75.7)	42.8%
Insurance service results	190.4	259.7	36.4%
Investment return	125.8	270.9	>100%
Net (re-)insurance finance expenses	(65.2)	(258.3)	>100%
Net financial and investment results	251.0	272.3	8.5%
Other operating expenses	(35.5)	(40.0)	12.7%
Profit before tax	215.5	232.3	7.8%
Tax expense	(65.0)	(59.6)	(8.3%)
Profit after tax	150.5	172.7	14.8%

02

GENERAL BUSINESS

GENERAL BUSINESS

Comments

Gross written premiums

- Gross written premium increased by 4.7% as compared to prior year.

Profitability

- Higher profit before tax from higher insurance service results and positive fair value movement from investment.

Distribution and Portfolio

- 56.9% (3M 2022: 59.9%) of GWP from Agency and 30.6% (3M 2022: 29.3%) from Franchise.

- Broker and Franchise were the main growth contributors (25.0% growth for Broker and 9.6% growth for Franchise), with growth mainly coming from Motor class.

Combined ratio

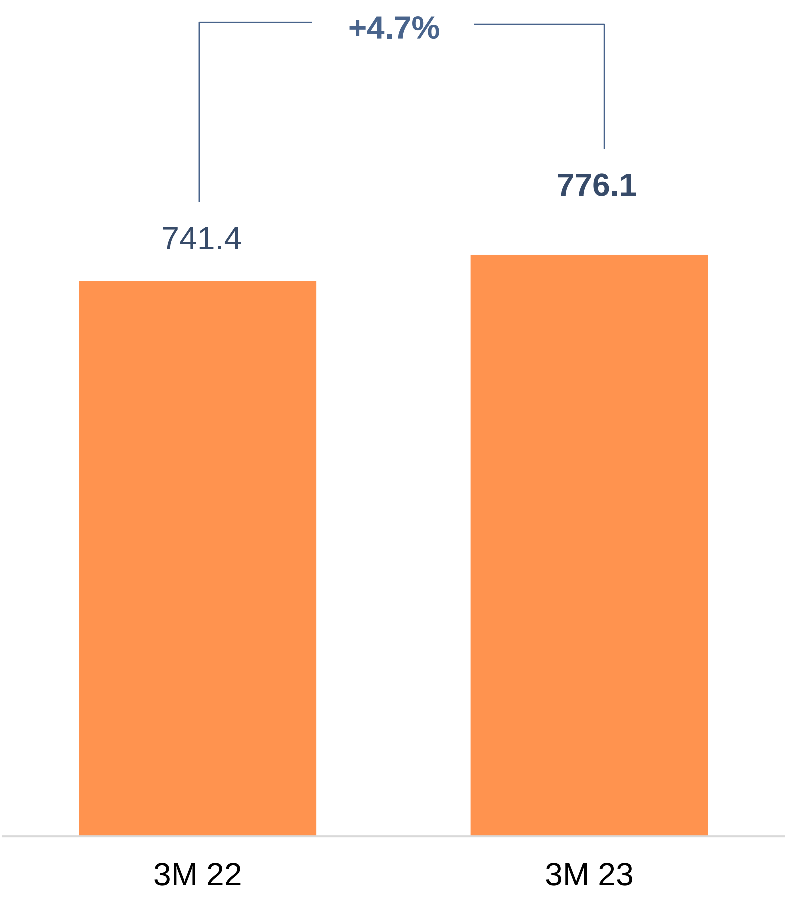
- Lower combined ratio by 4.2 pts driven by lower claims and expense ratio.

Market growth

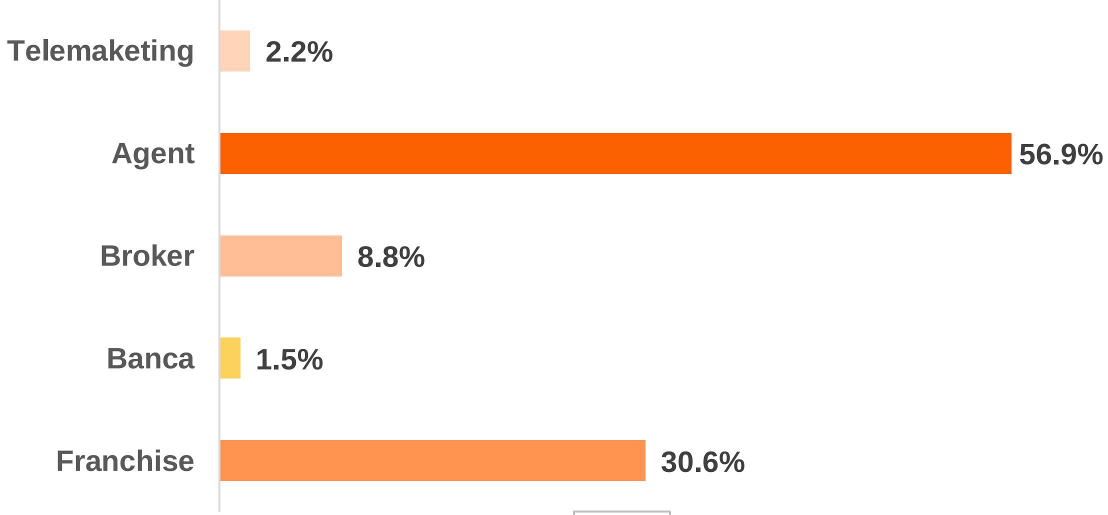
- Market share stood at 13.3% in 3M 2023 (12M 2022: 13.3%).

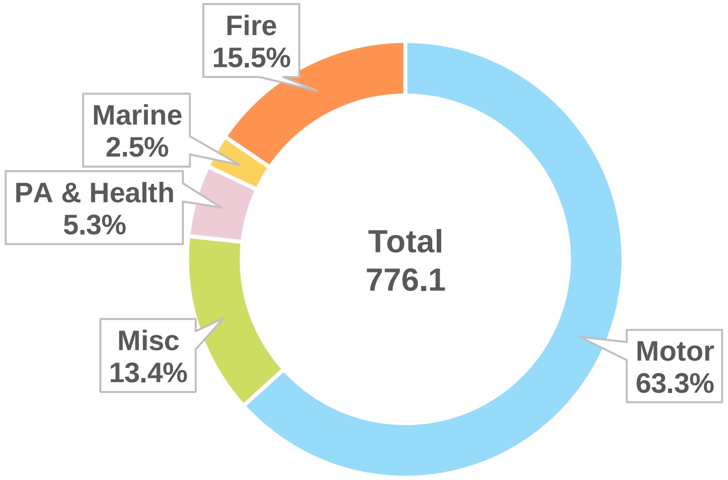
GENERAL BUSINESS: GWP IS 4.7% HIGHER THAN PRIOR YEAR

Gross Written Premium (RM'mil)



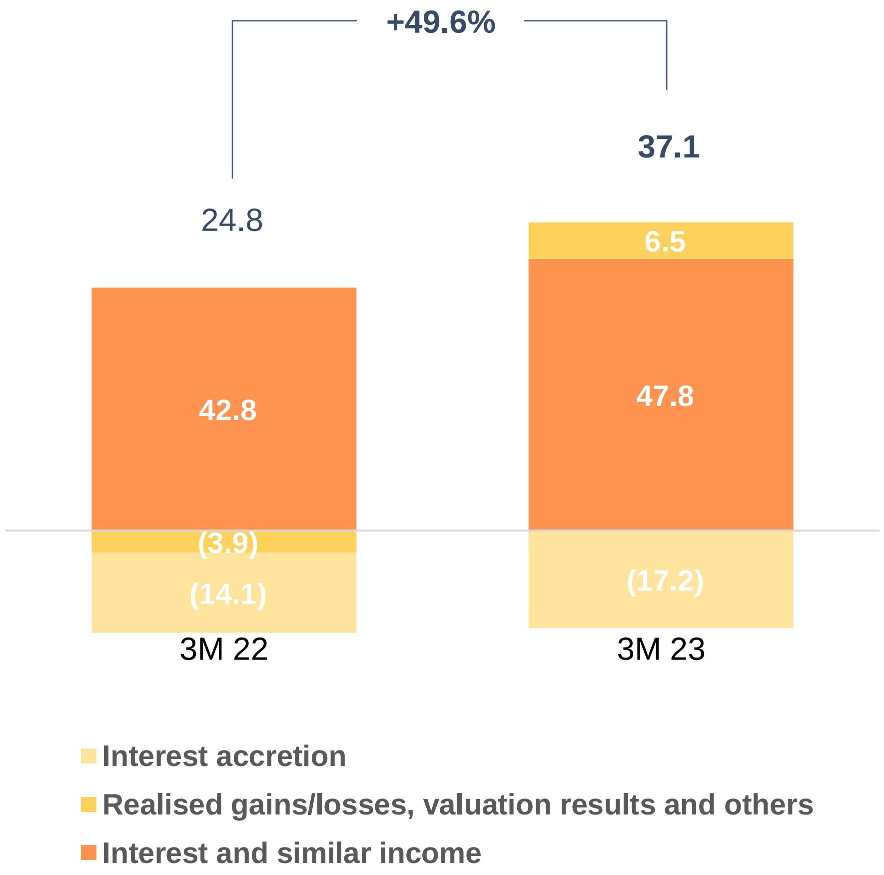
Distribution Channel & Portfolio Mix



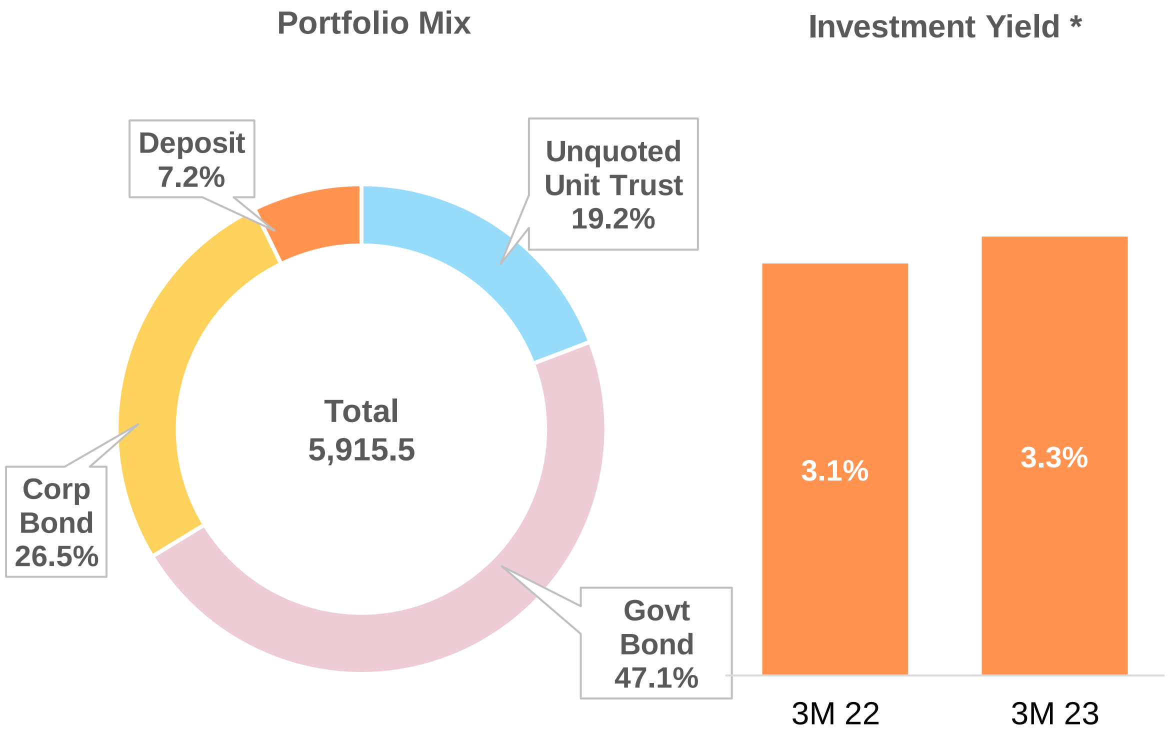


GENERAL BUSINESS: GROWTH IN INVESTMENT INCOME

Investment Return/ Net (re-)insurance finance expenses (RM'mil)



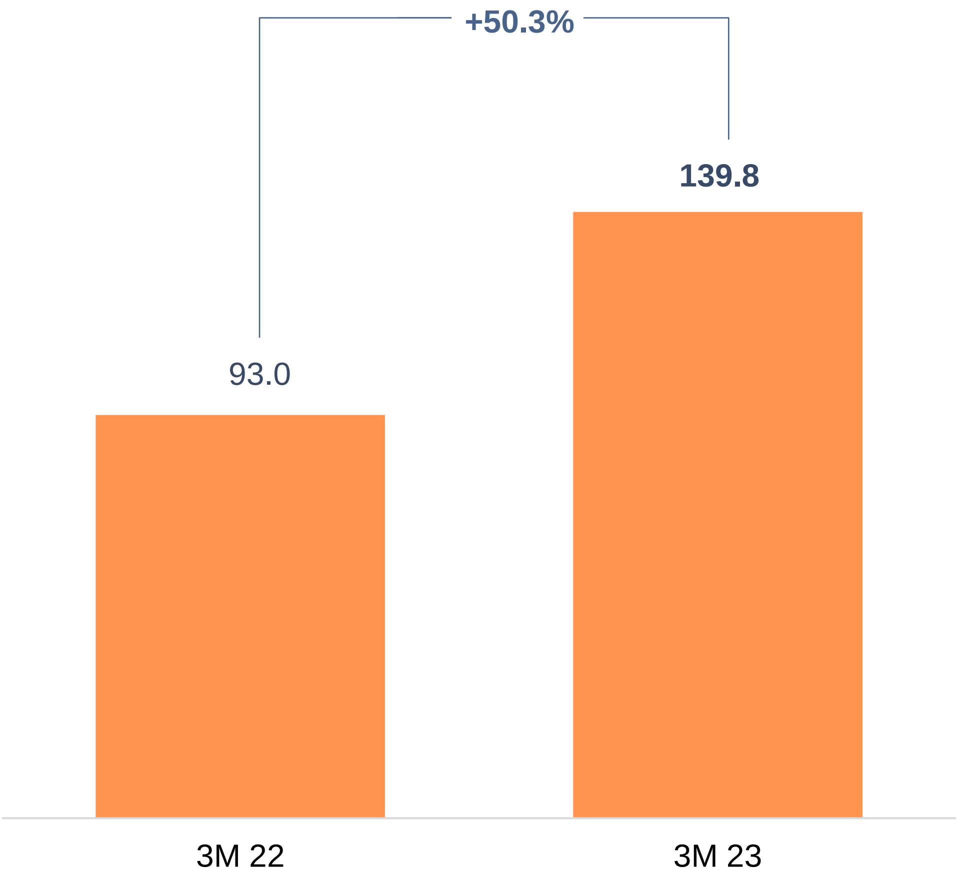
Portfolio Mix and Investment Yield (Annualised)



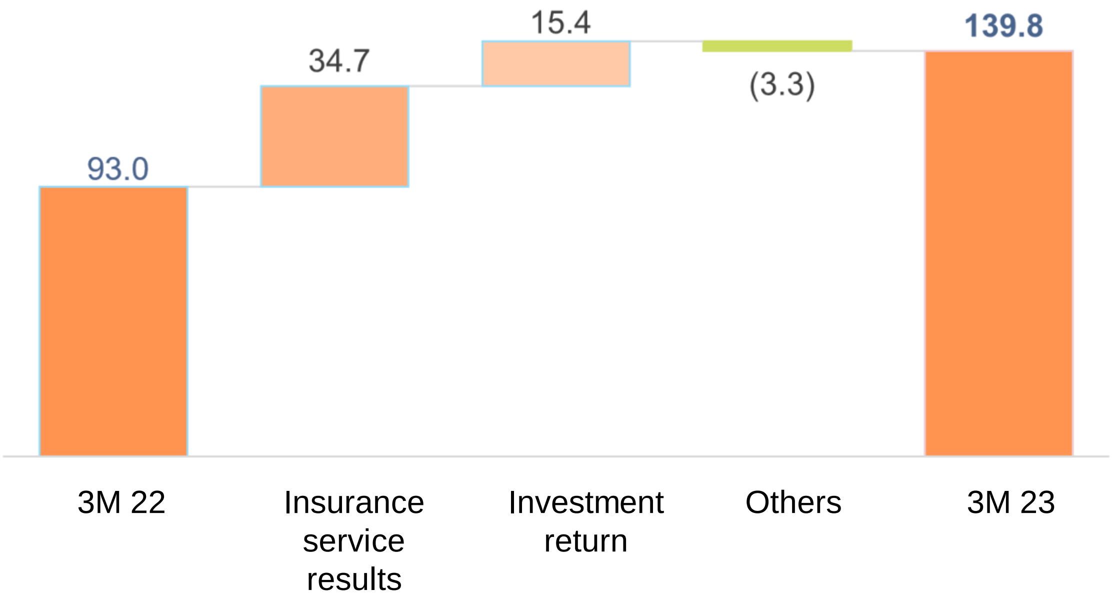
** Investment yield is excluding fair value gains/losses*

GENERAL BUSINESS: HIGHER PBT FROM HIGHER INSURANCE SERVICE RESULTS

Profit Before Tax (RM'mil)



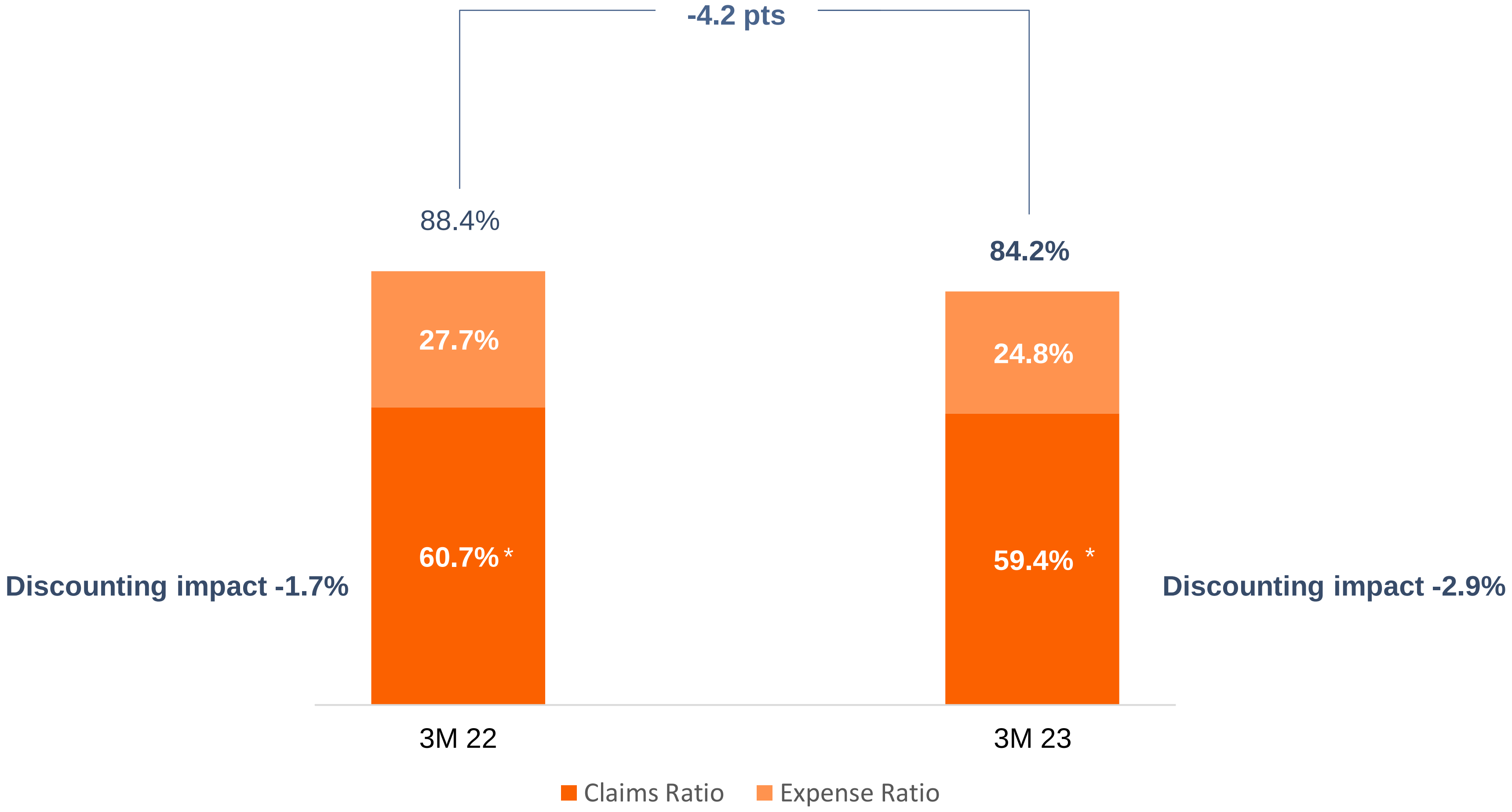
PBT Drivers (RM'mil)



3M 2022	**82.4**	**38.9**	**(28.3)**	**93.0**
3M 2023	**117.1**	**54.3**	**(31.6)**	**139.8**
Change	**34.7**	**15.4**	**(3.3)**	**46.8**

GENERAL BUSINESS: BETTER COMBINED RATIO DUE TO BETTER LOSS AND EXPENSE RATIO

Combined Ratio



** Include reinsurance results - reinsurance ratio 5.5% in 3M 22, 13.8% in 3M 23.*

GENERAL BUSINESS: FINANCIAL RESULTS AT A GLANCE

RM'mil	3M 2022	3M 2023	△23/22 %
Insurance revenue	612.1	661.5	8.1%
Claims and benefits	(337.9)	(294.3)	(12.9%)
Acquisition and administrative expenses (net)	(158.0)	(151.5)	(4.1%)
Losses on onerous contracts	(0.2)	(7.4)	>100%
Reinsurance result	(33.6)	(91.2)	>100%
Insurance service result	82.4	117.1	42.1%
Investment return	38.9	54.3	39.6%
Net (re-)insurance finance expenses	(14.1)	(17.2)	22.0%
Other operating expenses	(14.2)	(14.4)	1.4%
Profit before tax (after consolidation adjustment)	93.0	139.8	50.3%
Claims ratio	60.7%	59.4%	(1.3 pts)
Expense ratio	27.7%	24.8%	(2.9 pts)
Combined ratio*	88.4%	84.2%	(4.2 pts)

** Combined ratio is calculated at company level*

GENERAL BUSINESS: PERFORMANCE COMPARED TO INDUSTRY (JAN-MAR 2023)

KPIs	AGIC 3M 2023	Industry [1] 3M 2023	Takaful [1] 3M 2023
GWP growth	**4.5% ***	**10.1%**	**19.9%**

Market Share (3M 2023) [2]	**13.3%**
Market Ranking (12M 2022) [3]	**No. 1**

Notes:

1) Source: ISM Market Performance Report Jan-Mar 2023 (General Insurance & General Takaful) – ISM statistic exclude business outside of Malaysia.
2) Source: AGIC Revenue Account and ISM Market Performance Report Jan-Mar 2023
3) Source: ISM Market Performance Report Jan-Dec 2022

** GWP growth is 10.8% excluding premium contribution from the Perlindungan Tenang Voucher incentive in prior year, which has since been discontinued by the Government in December 2022.*

03

LIFE BUSINESS

LIFE BUSINESS

Comments

Gross written premiums

- Gross written premiums grew by 4.5% from all key distribution channels.

Market growth

- ANP increased by 11.0% and outpacing industry growth of 3.0%.[1]
- Market share 3M 2023 increased to 10.0% (12M 2022: 9.5%).

Distribution

- Agency ANP increased by 1.1% while Bancassurance increased by 23.8%.
- Focus on strategy to intensify agency recruitment and uplift agency productivity.

Product mix

- Remain focused on sales of investment-linked products with protection rider which provides higher margins but to also cater for demand for saving products.
- Investment-linked ANP and GWP grew by 24.4% and 3.9%.

Profitability

- Profit before tax of RM96.5 million (3M 2022: RM131.5 million), a reduction due to normalised claims experience from investment-linked protection business in current year as compared to 3M 2022.

Value of new business

- New business value was RM70.1 million, decreased by 9.7% due mainly to increase in acquisition expenses.

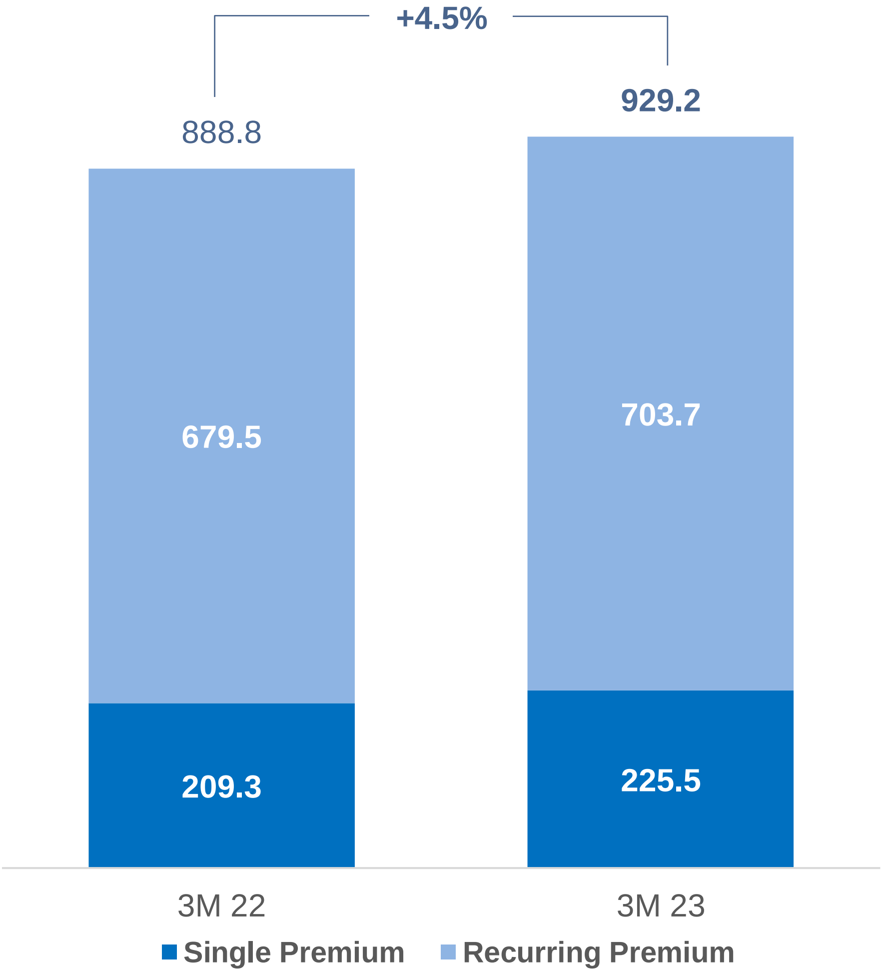
CSM

- As at 31 March 2023, CSM was at RM2.97 billion, an increase of RM35.5 million from the end of 2022. The growth in CSM is contributed by new business generated, in-force movements offset by releases for the period.

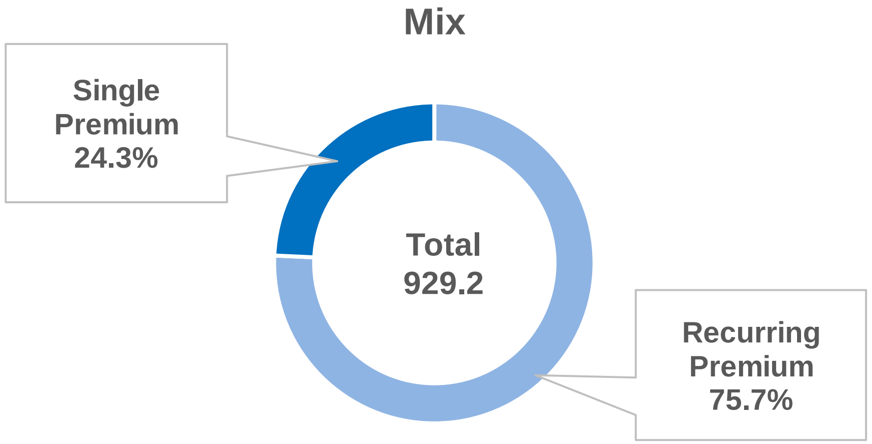
Note1: Market share based on statistics from LIAM.

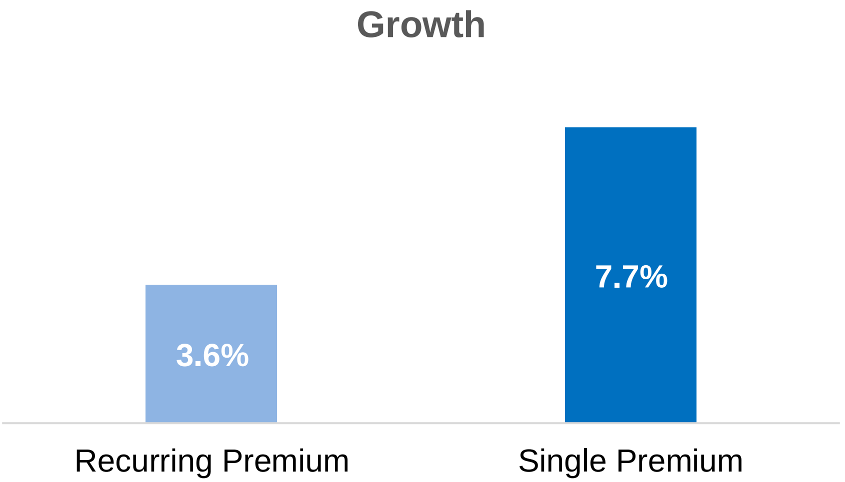
LIFE BUSINESS: Y-O-Y GROWTH DRIVEN BY SINGLE PREMIUM AND RECURRING PREMIUM

Gross Written Premiums (“GWP”) (RM’mil)



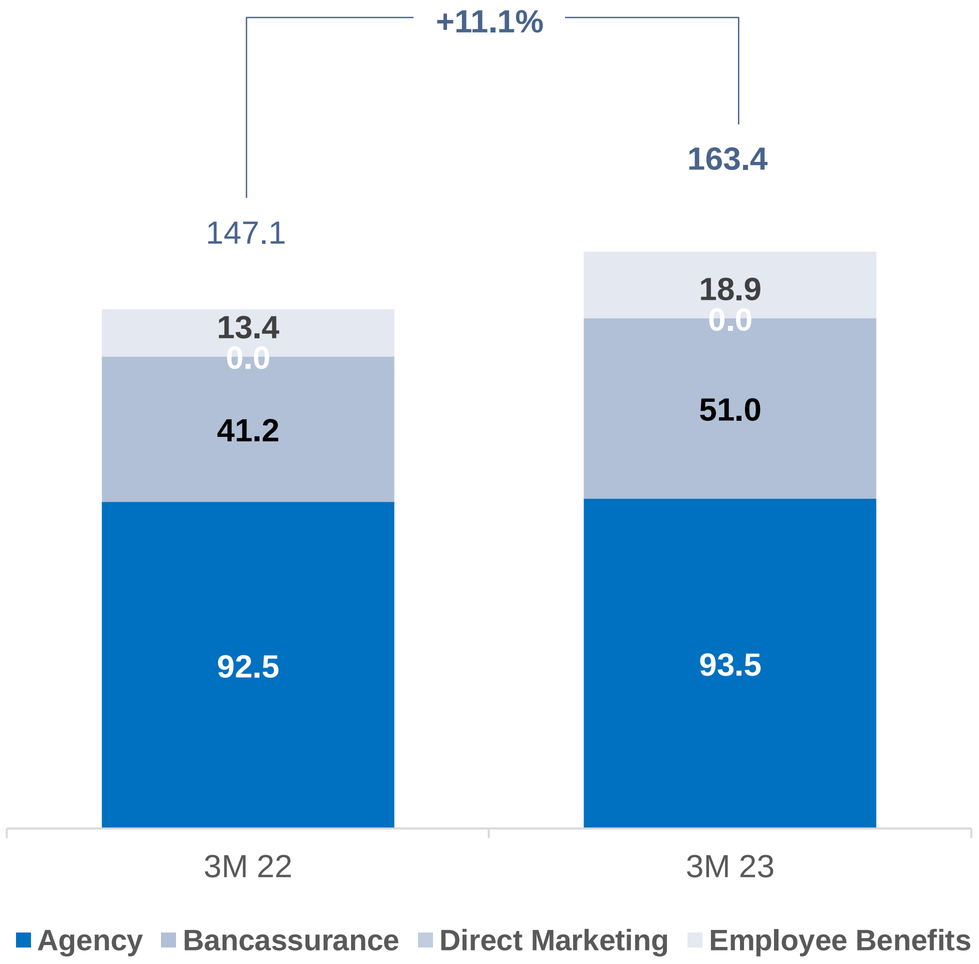
GWP Mix & Growth (%) (3M 2023)



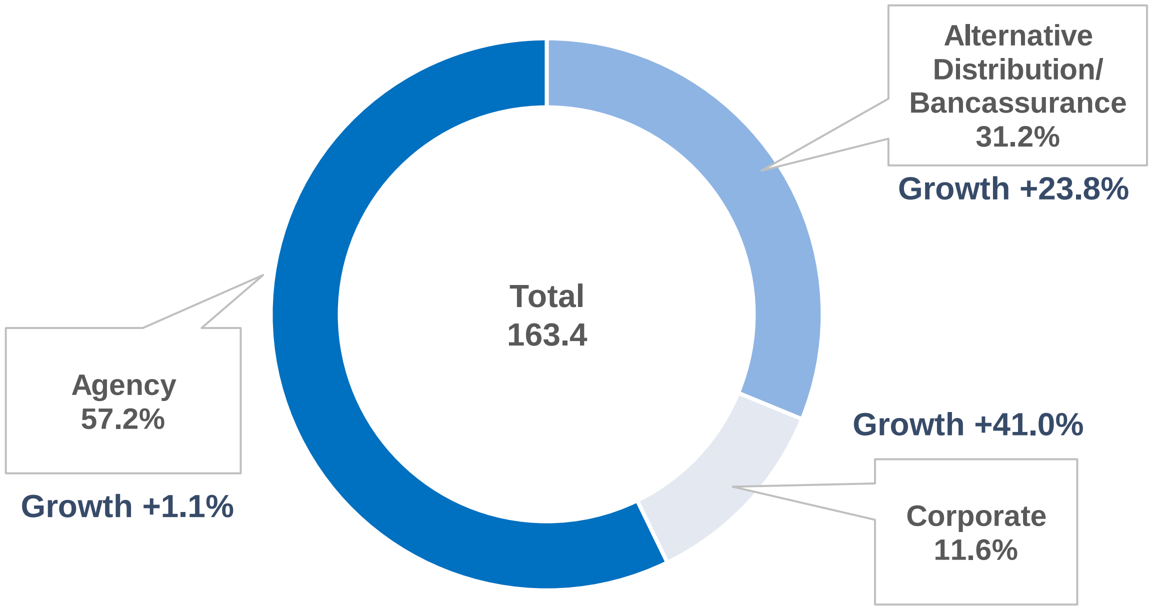


LIFE BUSINESS: GROWTH IN ANP DRIVEN BY ALL KEY DISTRIBUTION CHANNELS

Annualised New Premiums (“ANP”) (RM’mil)

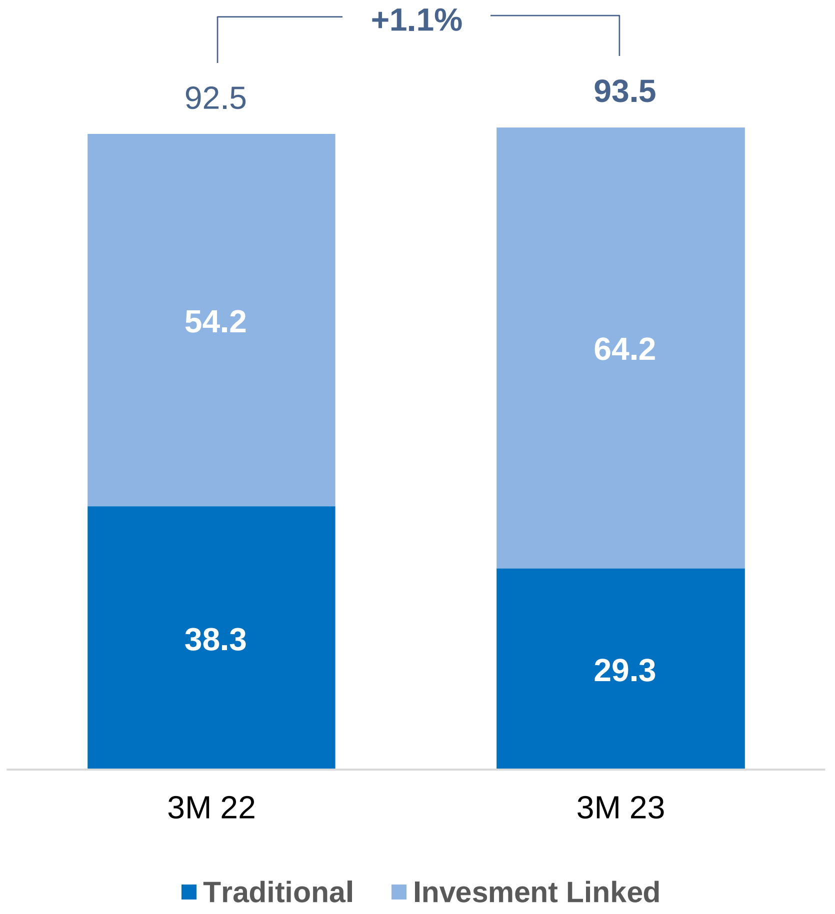


ANP Channel Mix (%) (3M 2023)

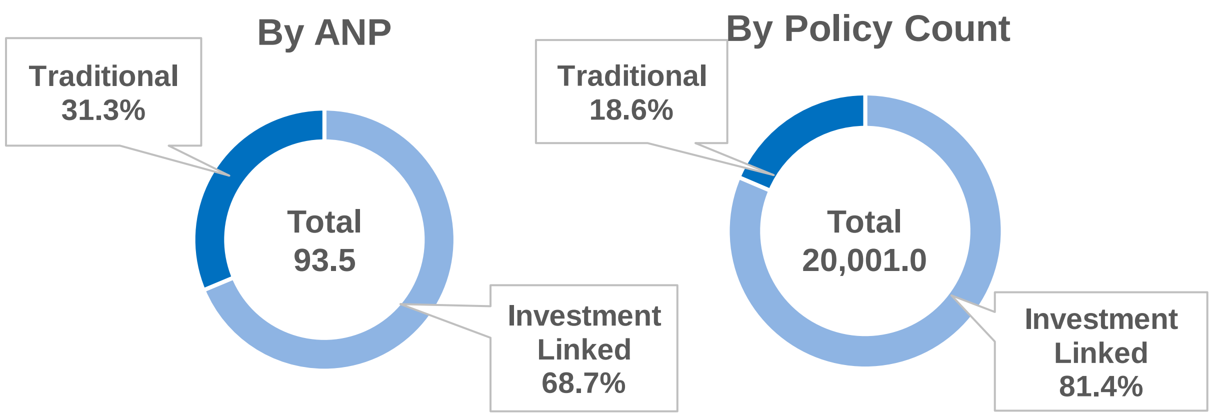


LIFE BUSINESS (AGENCY): CONTINUE FOCUS ON PROFITABLE REGULAR INVESTMENT-LINKED PRODUCTS

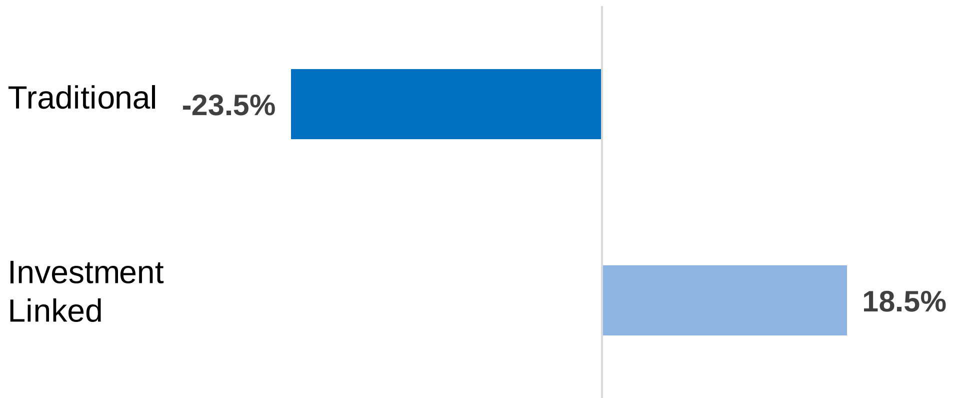
Agency Annualised New Premiums (RM'mil)



Agency Product Mix (%) (3M 2023)

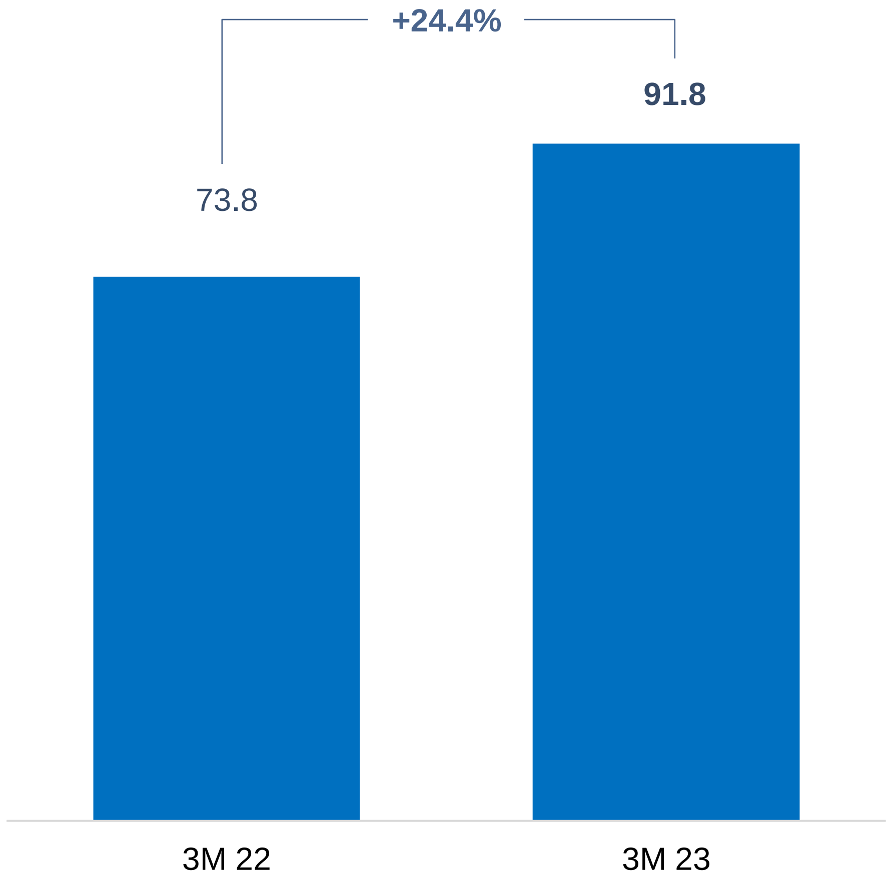


Agency ANP Growth (%) (3M 2023)

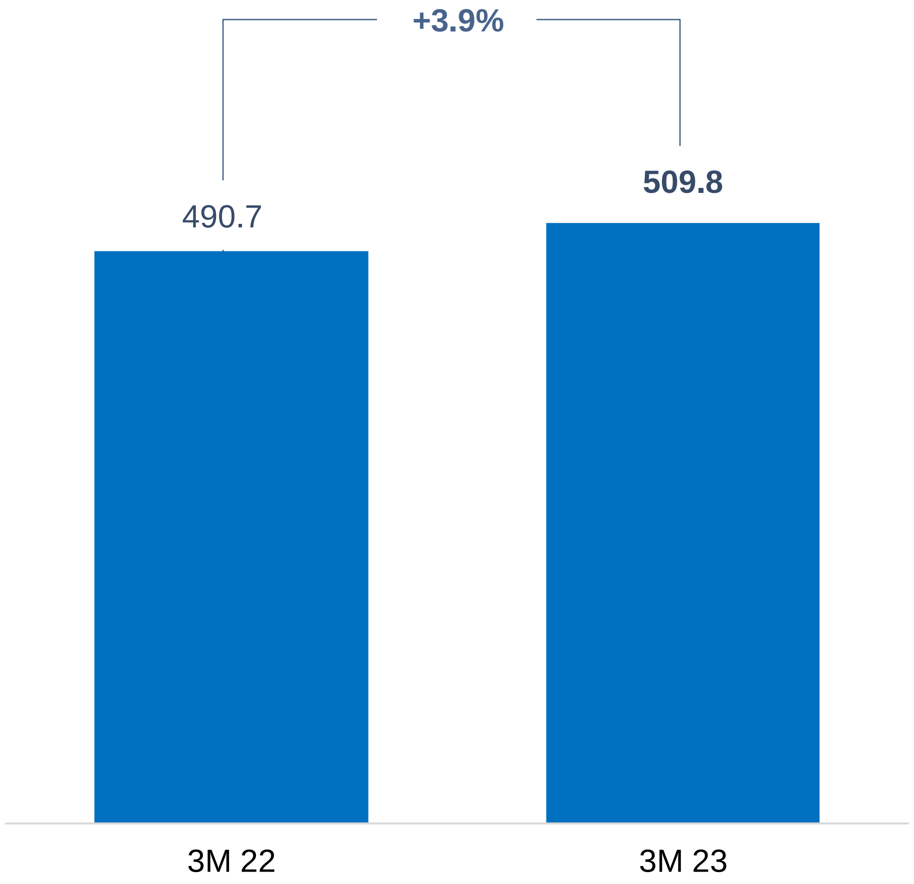


LIFE BUSINESS: INVESTMENT-LINKED WITH PROTECTION FEATURES CONTINUES TO GROW

Annualised New Premiums (RM'mil)

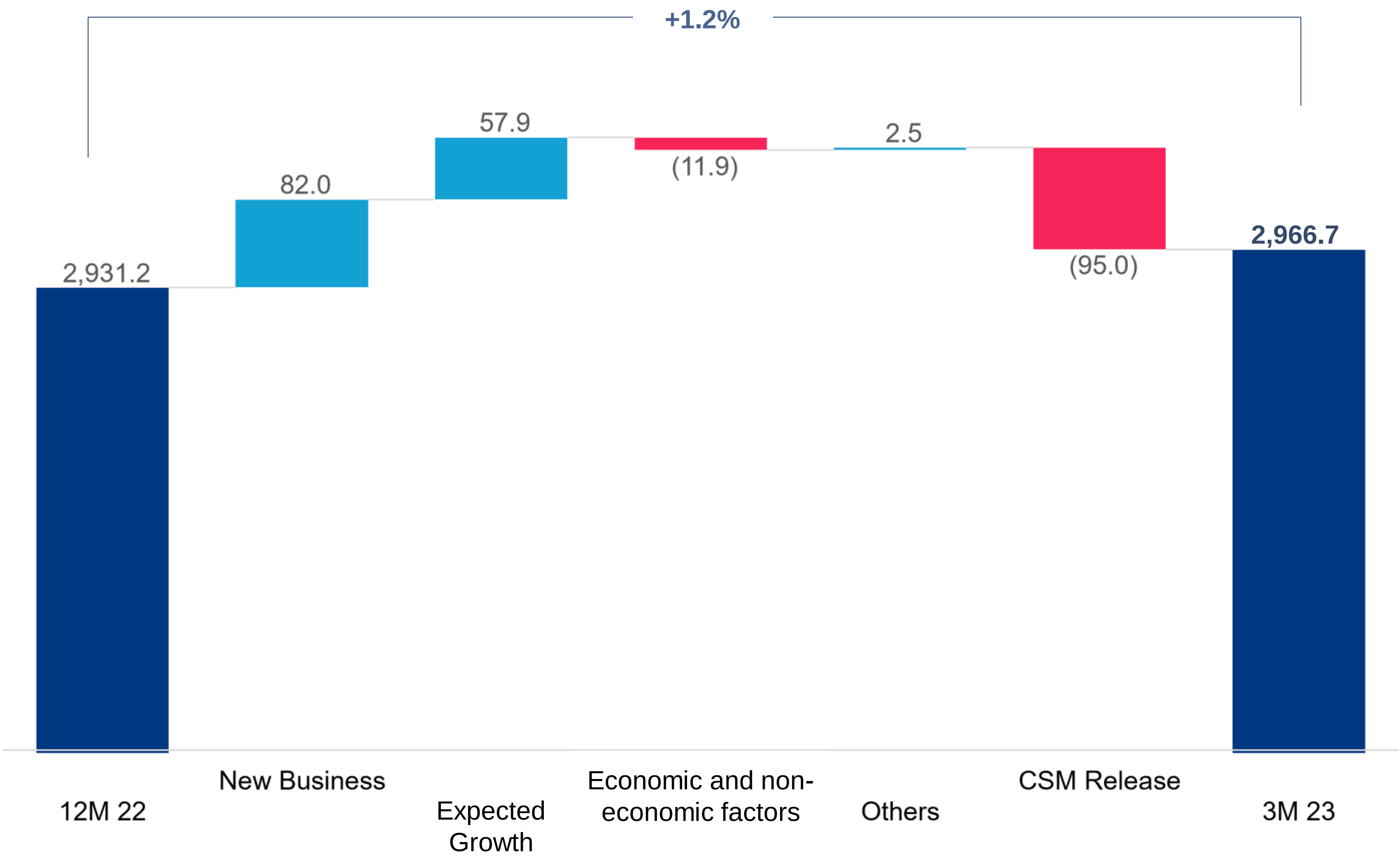


Gross Written Premiums (RM'mil)



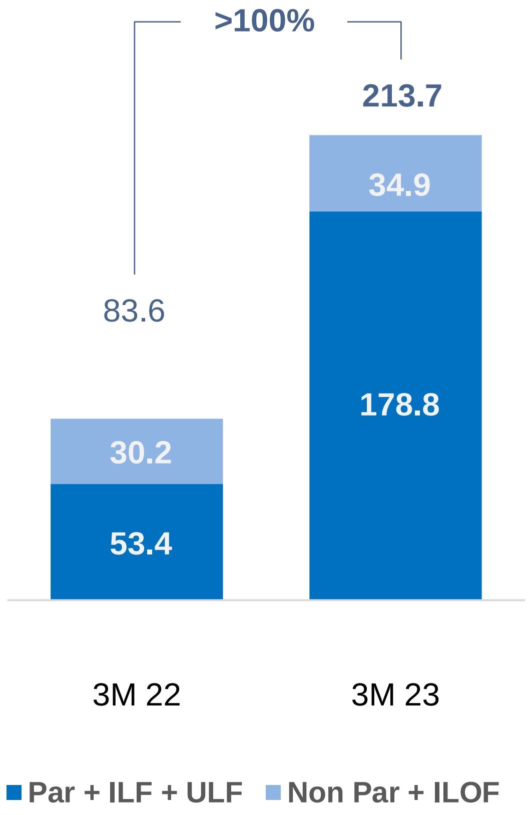
LIFE BUSINESS: CSM GROWTH GOOD AT 1.2%

Contractual Service Margin (RM'mil)



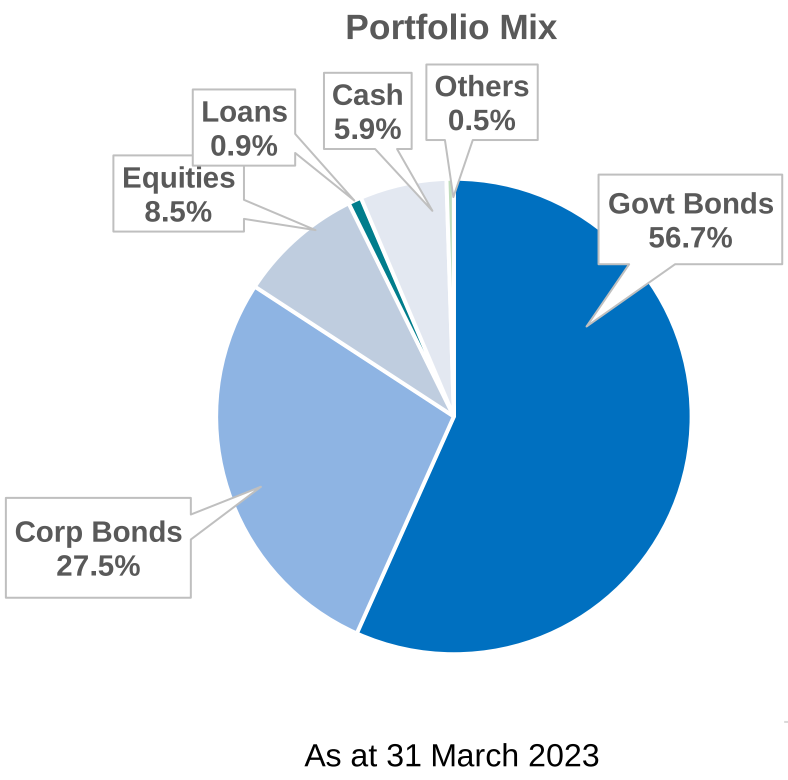
LIFE BUSINESS: GROWTH IN INVESTMENT INCOME

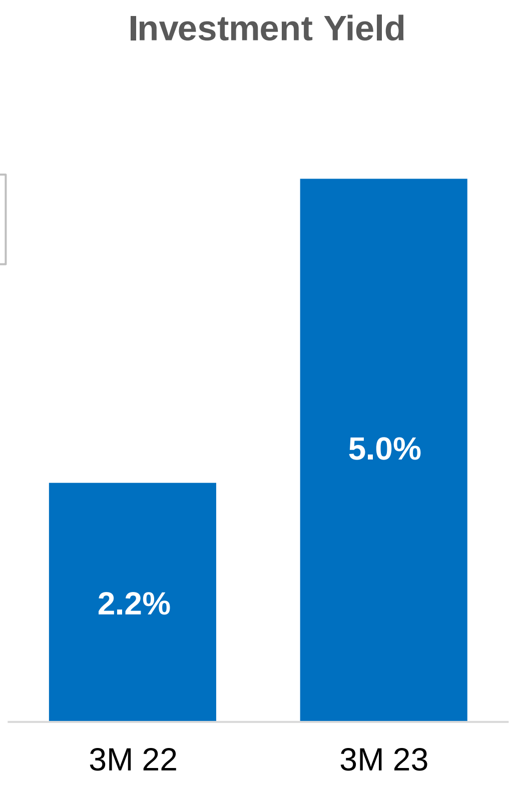
Investment Return by funds (RM'mil)



Note: Investment return include Investment Income and Realised Gains/(Losses).

Portfolio Mix and Investment Yield (LF+SHF) (%) (Annualised)





Note: Yield % includes unrealised gains/losses from equities and fixed income.

LIFE BUSINESS: FINANCIAL RESULTS AT A GLANCE

RM'mil	3M 2022	3M 2023	△23/22 %
Insurance revenue	451.0	499.9	10.8%
Claims and benefits	(215.0)	(248.8)	15.7%
Acquisition and administrative expenses (net)	(111.8)	(116.8)	4.5%
Reversal of losses/(Losses) on onerous contracts	7.1	(7.2)	(>100%)
Reinsurance result	(19.4)	15.5	(>100%)
Insurance service result	111.9	142.6	27.4%
Investment return	83.6	213.7	>100%
Net insurance finance expenses	(51.9)	(240.9)	>100%
Net reinsurance finance income/(expenses)	0.8	(0.2)	(>100%)
Other operating expenses	(12.9)	(18.7)	45.0%
Profit before tax (after consolidation adjustment)	131.5	96.5	(26.6%)
Annualised new premiums	147.1	163.4	11.1%
Expense ratio (LF+SHF)	9.2%	10.6%	1.4 pts
Local investment yield (LF+SHF)	2.2%	5.0%	2.8 pts
Block persistency ratio	87.3%	85.4%	(1.9 pts)

Appendix

ADOPTION OF IFRS 17 (INSURANCE CONTRACTS) ACCOUNTING STANDARDS

Allianz

The Group adopted two key new accounting standards beginning 1 January 2023, Malaysian Financial Reporting Standards (“MFRS”) 17 ‘Insurance Contracts’ and MFRS 9 ‘Financial Instruments’.

MFRS17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes MFRS4.

MFRS17 provides comprehensive guidance on accounting for insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features. It introduces three new measurement models, reflecting a different extent of policyholder participation in investment performance or overall insurance entity performance.

For each contract one measurement model is applicable based on contractual features

Type of business		MFRS 17 measurement model
Pure non-participating risk business (short-term or long-term)	→	Premium Allocation Approach (PAA) or Building Block Approach (BBA)
Direct participating business	→	Variable Fee Approach (VFA)

ADOPTION OF IFRS 17 (INSURANCE CONTRACTS) ACCOUNTING STANDARDS

The general measurement model, also known as the building block approach, consists of the fulfillment cash flows and the contractual service margin. The fulfillment cash flows represent the risk-adjusted present value of an entity's rights and obligations to the policyholders, comprising estimates of expected cash flows, discounting and an explicit risk adjustment for non-financial risk. The contractual service margin represents the unearned profit from in-force contracts that an entity will recognise as it provides services over the coverage period.

At inception, the contractual service margin cannot be negative. If the fulfillment cash flows lead to a negative contractual service margin at inception, it will be set to zero and the negative amount will be recorded immediately in the statement of profit or loss. At the end of a reporting period, the carrying amount of a group of insurance contracts is the sum of the liability for remaining coverage and the liability of incurred claims. The liability for remaining coverage consists of the fulfillment cash flows related to future services and the contractual service margin, while the liability for incurred claims consists of the fulfillment cash flows related to past services. The contractual service margin gets adjusted for changes in cash flows related to future services and for the interest accretion at interest rates locked-in at initial recognition of the group of contracts. A release from the contractual service margin is recognised in profit or loss each period to reflect the services provided in that period based on "coverage units".

MFRS 17 only provides principle-based guidance on how to determine these coverage units. The Group has defined the account value for the reflection of investment services and the sum at risk for insurance services as the default approach to determine the coverage units. If multiple services are provided in one contract, a weighting is applied. The variable fee approach is a mandatory modification of the general measurement model regarding the treatment of the contractual service margin in order to accommodate direct participating contracts. An insurance contract has a direct participation feature if the following three requirements are met:

(a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
(b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
(c) the entity 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.

The assessment of whether an insurance contract meets these three criteria is made at inception of the contract and not revised subsequently, except in case of a substantial modification of the contract. For contracts with direct participation features, the contractual service margin is adjusted for changes in the amount of the entity's share of the fair value of the underlying items. No explicit interest accretion is required since the contractual service margin is effectively remeasured when it is adjusted for changes in financial risks.

ADOPTION OF IFRS 17 (INSURANCE CONTRACTS) ACCOUNTING STANDARDS

The premium allocation approach is a simplified approach for the measurement of the liability of remaining coverage an entity may choose to use when the premium allocation approach provides a measurement which is not materially different from that under the general measurement model or if the coverage period of each contract in the group of insurance contracts is one year or less. Under the premium allocation approach, the liability for remaining coverage is measured as the amount of premiums received net of acquisition cash flows paid, less the net amount of premiums and acquisition cash flows that have been recognised in profit or loss over the expired portion of the coverage period based on the passage of time. The measurement of the liability for incurred claims is identical under all three measurement models, apart from the determination of locked-in interest rates used for discounting.

MFRS 17 requires the separation of embedded derivatives, investment components, and performance obligations to provide non-insurance goods and services, if certain conditions are met. The separated components need to be accounted for separately according to MFRS 9(embedded derivatives, investment components) or MFRS 15(non-insurance goods and services). Measurement is not carried out at the level of individual contracts, but on the basis of groups of contracts. To allocate individual insurance contracts to groups of contracts, an entity first needs to define portfolios which include contracts with similar risks that are managed together.

For non-life insurance contracts, the Group expects that all business qualifies for the premium allocation approach eligibility. The premium allocation approach has similar mechanics as the current approach under MFRS 4 Insurance Contracts and therefore only limited impact on main result drivers and limited judgmental areas for the underwriting result. The estimation of the expected claims in the loss reserves is the main area of judgment for general business and remains unaffected by the introduction of MFRS 17.

The main changes for non-life insurance contracts comprise the mandatory discounting of loss reserves, higher transparency of loss-making portfolios due to more granular onerous contract testing, and the introduction of risk adjustment for non-financial risk which is similar to the Provision of Risk Margin for Adverse Deviation under MFRS 4 claims liabilities. The standard requires the discount rates to be determined using observable market data based on a risk-free base curve and portfolio specific adjustments to reflect the illiquidity of insurance obligations.

MFRS 17 requires expected losses over a contract's lifetime to be reflected at initial recognition in the statement of profit or loss and the statement of financial position as a loss component. The approach to determine loss component is very similar to the current premium deficiency testing, but MFRS 17 requires the calculation on a more granular level. As offsetting with profitable groups of insurance contracts is not allowed, the increasing granularity leads to an increasing number of onerous group of contracts.

MFRS 17 does not prescribe a specific approach for determining the risk adjustment for non-financial risk. The Group applies the commonly accepted percentile approach to determine risk adjustment as it is allowed by the standard, consistent with local regulatory requirements.

ADOPTION OF IFRS 17 (INSURANCE CONTRACTS) ACCOUNTING STANDARDS

In the statement of financial position, deferred acquisition costs and insurance related receivables will no longer be presented separately but as part of the insurance liabilities. This change in presentation will lead to a reduction in total assets, offset by a reduction in total liabilities. The amounts presented in the statement of profit or loss need to be disaggregated into an insurance service result, consisting of the insurance revenue and the insurance service expenses, and insurance finance income and expenses. Income or expenses from reinsurance contracts held need to be presented separately from the expenses or income from insurance contracts issued.

MFRS 17 will change the presentation of insurance contract revenue; gross written premium will no longer be presented in the statement of profit or loss. Insurance contract revenue is defined in such a way as to achieve comparability with the revenue of other industries and, investment components may not be recognised as part of insurance contract revenue. The combined ratio will remain the main KPI for the general segment and will be defined as the sum of insurance service expenses, the reinsurance result and non-directly attributable expenses, divided by insurance revenue.

Generally, the Group expects only limited impact on the operating result. There will be a positive impact on underwriting result from the discounting of loss reserves, but, while the operating investment income will remain almost unchanged, the interest accretion on historical loss reserves will notably decrease the investment result. MFRS 17 contains an accounting policy option to recognise changes in financial parameters either in profit or loss or in other comprehensive income (“OCI”).

This “OCI option” can be exercised at the level of individual portfolios. The Group generally will make use of this option. Under this option, loss reserves are discounted for profit or loss with locked-in interest rates from the respective accident years and the discounting effect needs to be recognised as interest accretion in the investment result until the claims reserves run-off.

For non-life insurance contracts, the Group expects that all business qualifies for the premium allocation approach eligibility at transition. As such, the full retrospective approach will be applied to all groups of insurance and reinsurance contracts, except for groups with exposure in 2017 and prior. Due to the unavailability of locked-in interest rate curves for 2017 and prior, the fair value approach will be applied to these groups.

For long-duration life insurance contracts, MFRS 17 is expected to have a significant impact on actuarial modeling, as more granular cash flow projections and regular updates of all assumptions will be required, either impacting profit or loss or the contractual service margin. The Group expects that direct participating business, where the rules on profit sharing are defined by legal/contractual rights, will qualify for the variable fee approach eligibility. Indirect participating business, where the payments to the policyholder depend on the investment performance but there are no fixed rules on how the performance is passed on to the policyholders, as well as non-participating business, i.e., business without policyholder participation, including savings and risk business, will be accounted for under the general measurement model.

ADOPTION OF IFRS 17 (INSURANCE CONTRACTS) ACCOUNTING STANDARDS

The Group continues to have unit-linked insurance contracts, which are contracts with significant insurance risk, e.g., via death or other insurance riders. The Group expects unit-linked insurance contracts to be eligible for the variable fee approach. In the statement of financial position, the Group expects an increase of the insurance liabilities as these will be discounted with current rates and will contain an explicit future profit margin with the contractual service margin. Shareholder's share of unrealised capital gains will be part of the insurance liabilities accounted for under the variable fee approach.

In the income statement, the release of the contractual service margin and the risk adjustment for non-financial risk will become the main components for the profit before tax of the life insurance. Besides the qualitative impacts described above, the Group is currently assessing the quantitative impact of the application of MFRS 17. The final figures will also depend on the application of the transition approaches. MFRS 17 has to be applied retrospectively unless this is impracticable. Fulfillment cash flows are determined prospectively at every reporting date, including the date of initial application. However, the contractual service margin is rolled-forward over time, a split of profits between equity ("earned profits") and contractual service margin ("unearned profits") is required, but is often very challenging due to the long-term nature of some life insurance contracts. If a full retrospective application is impracticable, an entity can choose between a modified retrospective approach or a fair value approach.

The objective of the modified retrospective approach is to use reasonable and supportable information available without undue cost or effort to achieve the closest possible outcome to full retrospective application. To the extent a retrospective determination is not possible, certain modifications are allowed. Under the fair value approach, the contractual service margin of a group of contracts at transition is determined as the difference between the fair value of this group at transition determined in accordance with MFRS 13 and the corresponding MFRS 17 fulfillment cash flows measures at transition. Besides the determination of the contractual service margin, another crucial topic at transition is the determination of historic interest rates.

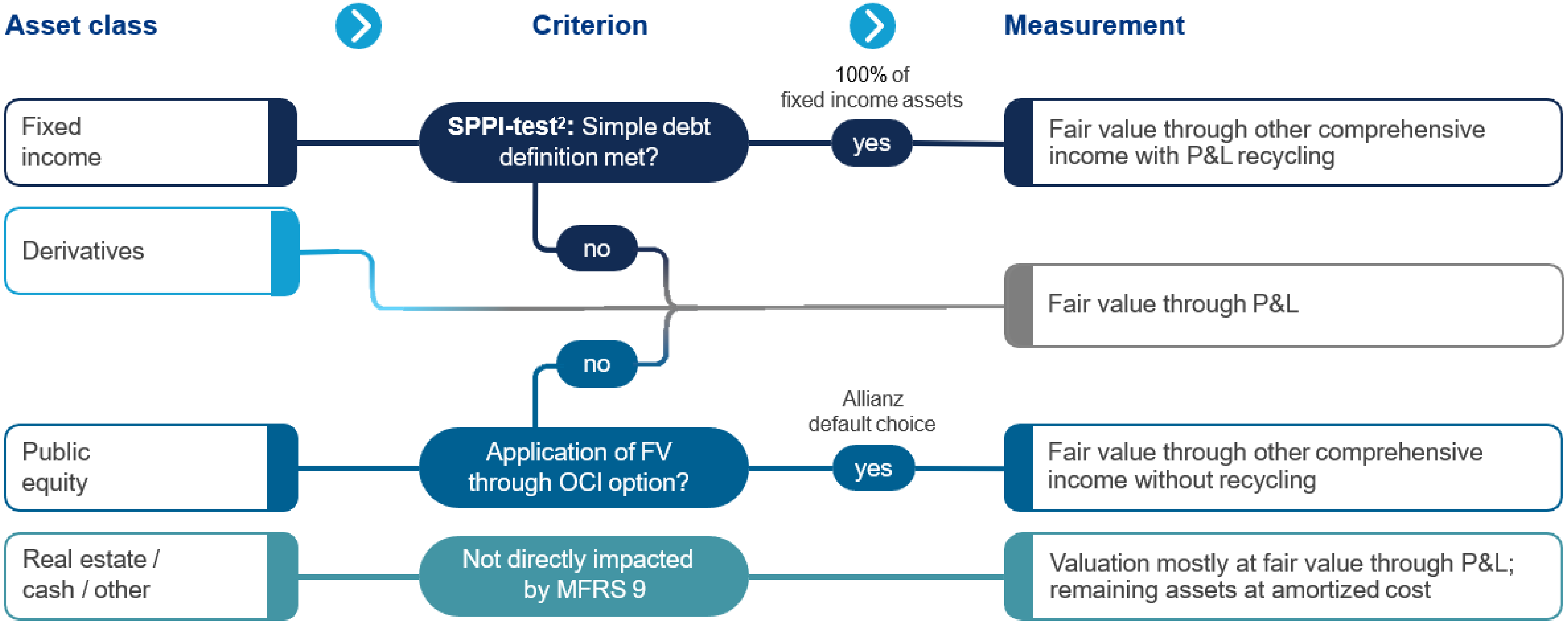
After making reasonable efforts to gather necessary historical information, the Group has determined that for certain groups of contracts, information such as the expectation of the contract's profitability at initial recognition, historical interest rates and historical cash flows were not available or not available in a form that would enable it to be used without undue cost and effort. It was therefore impracticable to apply the full retrospective approach, and the Group has adopted the modified retrospective approach for these groups.

For insurance contracts issued, the Group has adopted the standard using the full retrospective approach for all currently modelled products in annual cohorts 2014 or later. For modelled products in annual cohorts prior to 2014, the modified retrospective approach will be applied. For unmodelled products, the Group will continue not be modelled under MFRS 17 on the basis of insignificant.

In respect of reinsurance contract held, the modified retrospective approach will be applied to the reinsurance contracts held in annual cohorts prior to 2021 while the full retrospective approach will be applied to reinsurance contracts held in annual cohorts 2021 or later.

ADOPTION OF IFRS 9 (FINANCIAL INSTRUMENTS) ACCOUNTING STANDARDS

MFRS9 ‘Financial Instruments’ replaces MFRS139 ‘Financial Instruments: Recognition and Measurement’ on the classification and measurement of financial assets and financial liabilities and on hedge accounting, effective for annual periods beginning on or after 1 January 2018. However, as the Group qualifies for the temporary exemption under the guidance on Amendments to MFRS4-Applying MFRS9, Financial Instruments with MFRS4, Insurance Contracts from applying MFRS9 and has deferred and adopted MFRS9 together with MFRS17, Insurance Contracts for the financial year beginning on or after 1 January 2023.



1) SPPI (solely payment of principal and interest); bond features determine how to account for a fixed income asset

ADOPTION OF IFRS 9 (FINANCIAL INSTRUMENTS) ACCOUNTING STANDARDS

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The key changes to the Group's accounting policies resulting from its adoption of MFRS 9 are summarised below.

(i) Classification of financial assets and financial liabilities

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost ("AC"), FVTPL and FVOCI. The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is:

For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss.

The Group has classified and measured equity instruments and bond investments that are not held for trading at FVOCI. The financial assets of the Group are for the purpose of backing insurance liabilities, hence the hold and sell business model is adopted with FVOCI as a relevant measurement approach. There will be no significant changes to the Group's accounting for financial liabilities as it largely retains the MFRS 139 requirements.

(ii) Impairment of financial assets

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The new impairment model requires the recognition of impairment allowances based on expected credit losses (""ECL"") rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, loan commitments, financial guarantee contracts and other loan commitments.

ADOPTION OF IFRS 9 (FINANCIAL INSTRUMENTS) ACCOUNTING STANDARDS

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Under MFRS 9, impairment will be measured on each reporting date according to a three-stage ECL impairment model:

Stage 1 – from initial recognition of a financial assets to the date on which the credit risk of the asset has increased significantly relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months (12-month ECL).
Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial assets, a loss allowance is recognised equal to the credit losses expected over the remaining life of the financial asset (Lifetime ECL).
Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses is to be recognised (Lifetime ECL).

As all financial assets within the scope of MFRS 9 impairment model will be assessed for at least 12-month ECL, the total allowance for credit losses is expected to increase under MFRS 9 relative to the allowance for credit losses under MFRS 139. In addition, changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month ECL) and Stage 2 (lifetime ECL) and the application of forward looking information, will be recorded in profit or loss, allowance for credit losses will be more volatile under MFRS 9.

The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

Hedge accounting

Under MFRS 9, the general hedge accounting requirements have been simplified for hedge effectiveness testing and permit hedge accounting to be applied to a greater variety of hedging instruments and risks. The Group do not expect a significant impact arising from the changes in the hedge accounting requirements.

Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Group has applied the new rules retrospectively from 1 January 2023, with the restated financial results on comparatives for 2022.

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FOR YOUR ATTENTION

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

Cautionary Note Regarding Forward-Looking Statements

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, liquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures, and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

No duty to update.

The company assumes no obligation to update any information contained herein.