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An introduction to IFRS 17

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The purpose of this document is to give capital market participants a better understanding of how the implementation of IFRS 17 will impact Tryg's financial statements and KPIs as well as give an overview of key accounting choices made during the implementation of the standard.

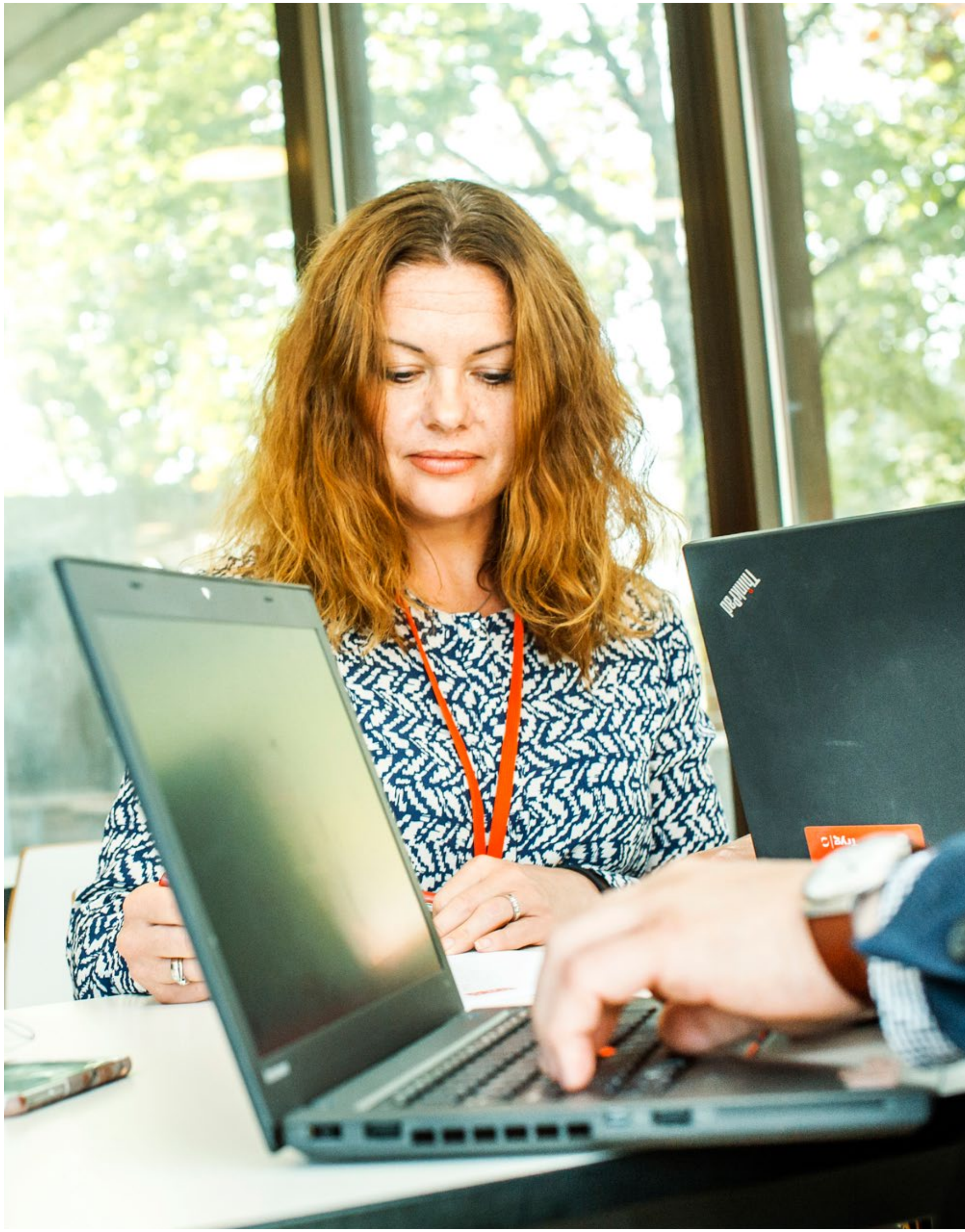
On 1 January 2023, a new accounting standard, "IFRS 17: Insurance Contracts", will come into effect and change the financial reporting of insurance companies. Companies will also need to publish a restatement of their financials under IFRS 17 for the transition period, 1 January 2022 to 31 December 2022, as well as restated key figures for the four years prior to the go-live in 2023.

The goal of IFRS 17 is to ensure consistency across the accounting for all insurance contracts, increase comparability between insurance companies and drive more detailed disclosures.

Due to Tryg's business being predominantly short tail* along with the current accounting policy practices already in force in Denmark (e.g. mark-to-market accounting for all assets and liabilities), the introduction of IFRS 17 will primarily mean a change in terminology and only have a minor impact on the financial statements overall. Key items such as the net profit and the shareholders' equity will remain virtually unchanged while the technical result will see only a modest positive impact. This is likely to be in contrast to the large multi-line and life insurers that dominate the IFRS 17 headlines for whom the accounting standard will bring substantially larger changes.

In this document we will run through the largest changes that IFRS 17 brings as well as provide indicative comparative numbers and commentary on the income overview and key ratios between IFRS 4 and IFRS 17. The comparative numbers and commentary can be found at the bottom of the document after the explanation of the changes. All comments related to Tryg's 2020 figures as the inclusion of the RSA Scandinavia since June 2021 materially impacted the income statement.

* a short coverage period would be a more appropriate, but less used wording, as insurers can write workers' compensation business with only 1 year coverage but a very long-tailed run-off



Earnings Recognition & Measurement

A core element of IFRS 17 is the standardisation of earnings measurement methodologies. The standard presents a choice between the General Measurement Model (GMM) and the Premium Allocation Approach (PAA).

The GMM is the default approach for longer term (+12 months) insurance contracts. It groups insurance contracts with similar characteristics and discount rates and calculates the present value of all the associated cash flows and carries with it additional disclosures. This approach is most likely to be used by large cap composite insurers and life insurers.

The PAA is a simplified version of the GMM and is primarily for short term insurance contracts (less than 12 months coverage period). The PAA model does not require discount of premiums (only claims are discounted) allowing the insurance contracts to be treated as a single large group.

Insurance companies are only eligible for the PAA model when the longer coverage period business is sufficiently small that the differences in the liability for the remaining coverage (i.e. the unearned premium reserve) between the PAA and the GMM model are immaterial. The key advantage of using the PAA model, if eligible, is that the calculation and the reporting requirements, are less complex.

Tryg's business is entirely focused on non-life insurance and it is relatively short-tail, this makes Tryg eligible to use the Premium Allocation Approach for measuring earnings. The PAA approach is in line with Tryg's current earnings methodology, which means that earnings are not expected to change.

P&L Changes: Revenue

The main impact of the introduction of IFRS 17 will relate to the profit and loss. The top line revenue figure under IFRS 4, "Gross Earned Premium", will be called "Insurance Revenue", but the revenue will be recognised largely in the same way as it is currently.

As per year-end 2020, approximately DKK800m of bonus and premium rebates were offset within "Gross premium income". Under IFRS 17, the bonus and premium rebates will instead be included in "Insurance service expense" (a new line item covering the sum of claims and costs) on the face of the P&L with additional disclosure in the notes.

A key feature of IFRS 17 is the concept of onerous contracts. Under IFRS 17, insurance contracts are deemed to be either profitable or onerous at inception. The expected loss component of the onerous contracts will feature as part of "Insurance service expenses".

While the calculation of the impact of onerous contracts are likely to be a major change for large multi-line insurers, due to the short term nature of Tryg's business, the loss component is very similar to the current concept of unexpired risk provision. The unexpired risk provision currently sits as part of the premium income (it is disclosed in the notes of the annual report), but will, as onerous contracts, instead become part of the claims under IFRS 17. Although small (unexpired risk was DKK24m in 2020), this will have the effect of decreasing both the insurance revenue and insurance service expense as the onerous contracts would have been booked as income in 2020 as it was the reversal of a previous reserve.

These two changes combined will increase under IFRS 17. However, this is merely a reclassification, and therefore it will not impact the technical result (called "Insurance service result" under IFRS 17).

P&L Changes: Cost & Claims

As part of the effort to simplify the financial statements and help investors better assess profitability, under IFRS 17, insurance related costs and claims will be combined into a new line in the P&L called "Insurance Service Expenses". The costs and claims will instead be disclosed separately in the notes to the P&L.

It should be noted that, around DKK120m (2020 numbers) of costs relating to education and development will move out of the insurance service result from operating costs to "other costs" at the bottom of the P&L.

P&L Changes: Investment Result

IFRS 17 will also impact how finance and hedging decisions are presented. For Tryg, this means changes to the insurance technical interest as well as the movements in value of the inflation swaps that Tryg holds.

Tryg currently holds a number of swaps to hedge against inflation risks in the workers' compensation claims reserve. Currently movements in the valuation of these swaps are presented as part of the claims figure although not shown separately or disclosed in the notes. However, under IFRS 17, the impact of these movements will move out of the Insurance Service Result entirely and instead be presented under Investment Result.

The movements in the value of the inflation swap can be difficult to predict from one year to another as its value is affected by movement in the expected inflation.

The Insurance technical interest is currently stated in the Technical Result but will in the future be included in the Investment Result. In recent years, this amount has been small (DKK-20m in 2020, DKK1m in 2019, DKK-10m in 2018) as it is broadly driven by movements in the interest rate.

While both these changes will impact the insurance service result and the investment returns, the overall "Profit/loss for the period" should remain largely unchanged.

Balance Sheet Changes

The balance sheet will also see a number of changes that are primarily presentational, but which will affect the total assets and liabilities stated on the face of the balance sheet.

Within the line item "Total provisions for insurance contracts", the claims provision will change name to the Liability for Incurred Claims and the premium provision will become the Liability for Remaining Coverage. The Liability for Remaining Coverage will also include "Receivables from policyholders" which was previously stated under Total receivables. This will have the effect of reducing the total assets as well as the total liabilities.

A further change on the balance sheet relates to risk adjustments. Insurance provisions are made based on a best estimate of the liability. However, a risk adjustment is added to the estimate to bring the estimate into the desired confidence interval, which will be disclosed in the notes under IFRS 17. Tryg maintains a confidence interval of around 99% on the claims reserves which is well above the industry standard.

The shareholders' equity on the balance sheet will remain unchanged. Tryg's current earnings recognition is already closely aligned to the PAA model under IFRS 17 and discounting on market-based interest rates are used. Shareholders' equity is therefore expected to remain stable even when considering the changes elsewhere in the financial statements.

Impact on Financial Key Performance Indicators

Tryg has decided to keep the KPIs currently in use for group reporting. This will provide capital market participants with transparency through the transition to IFRS 17 financial statements and highlights Tryg's continued stable figures and high performance.

While retaining the familiar IFRS 4 terminology for the KPIs, their calculation will change slightly. When comparing IFRS 17 to IFRS 4, the premiums will be higher under IFRS 17 as the bonus and premium rebates will be stripped out from "Insurance Revenue". This will have a small impact on premium growth. The rebates stripped out from premiums will instead appear within claims, which will cause an increase in the claims ratio.

However, as certain education and development costs are moving out of the technical result, the expense ratio will decrease, leaving the combined ratio with only minor changes. Key figures will be restated accordingly.

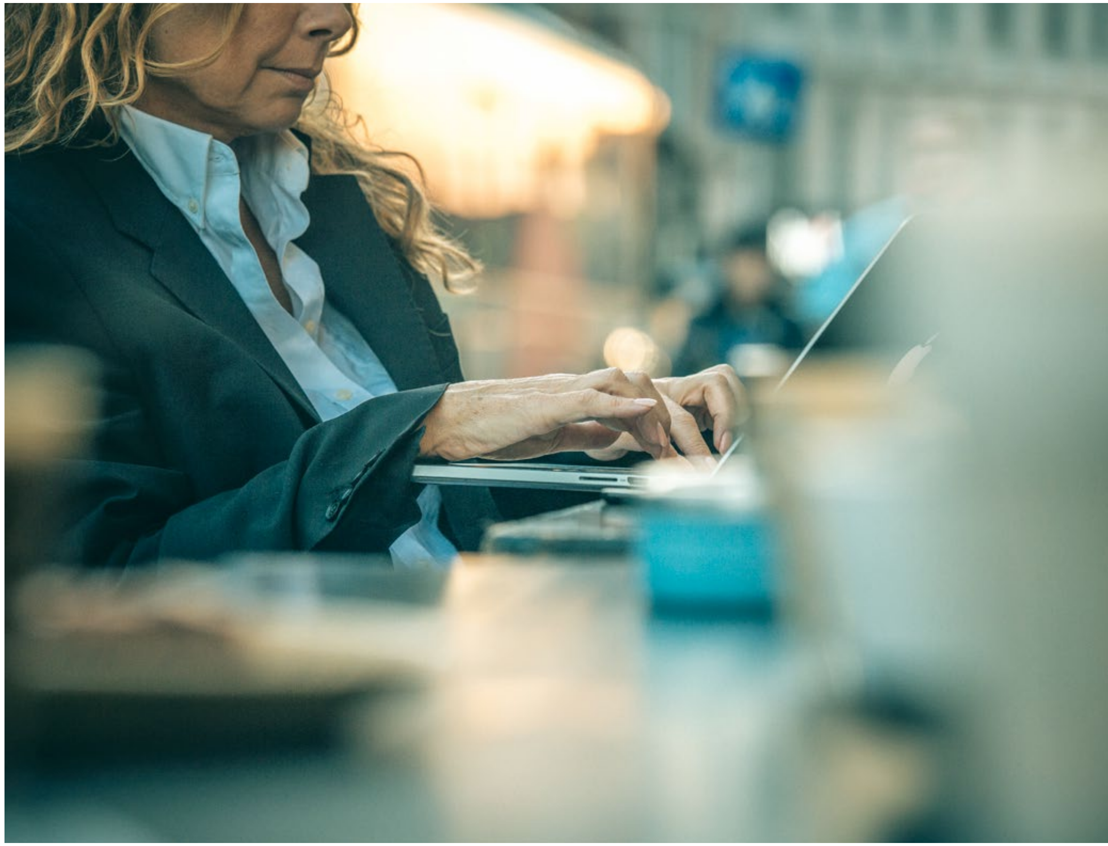
Summary of Key Accounting Choices under IFRS 17

Along with a number of mandated changes, Tryg has also made several key accounting choices within IFRS 17.

Measurement of Premiums: Due to the short coverage period of most of Tryg's insurance contract portfolio, the premiums will be calculated and allocated on the PAA approach. This choice means the changes from IFRS 17 will be kept to a minimum.

Acquisition Costs: Currently, the vast majority of acquisition costs are immediately expensed through the P&L. This policy will be continued under IFRS 17.

Inflation swaps: Under IFRS 17, the changes in the value of the inflation swaps will be presented differently. Currently, the change in value are shown as part of the claims, but when reporting under IFRS 17 it will be presented under Investment Return.



The example below shows how the financial statements and KPIs for Tryg will look under IFRS17. The example uses 2020 figures as the 2021 P&L was materially impacted the income statement. impacted by the acquisition of RSA Scandinavia.

Please note that the IFRS 17 numbers are unaudited but should give an indicative view of how the statements will look under IFRS 17.

DKKm	IFRS 17 2020	Now (IFRS 4) 2020	Change 2020
Insurance revenue (Gross premium income)	**23,441**	**22,653**	**789**
Gross claims	-16,149	-15,437	-712
Total insurance operating costs	-3,126	-3,202	75
Insurance technical interest, net of reinsurance	0	-20	20
Insurance service expenses	-19,275	-18,659	-617
Profit/loss on ceded business	-480	-499	19
Insurance service result (Technical result)	**3,687**	**3,495**	**191**
Net Investment result	241	311	-69
Other income and costs	-387	-265	-121
Profit/loss before tax	3,541	3,541	0
Tax	-768	-768	0
Profit/loss	**2,773**	**2,773**	**0**
Hereof Run-off gains/losses, net of reinsurance	1,145	1,145	0
Key figures			
Total equity	12,264	12,264	0
Return on equity after tax (%)	22.5	22.5	0
Return on Own Funds (%)	32.6	32.6	0
Return on Tangible Equity (%)	55.4	55.4	0
Number of shares 31 December (1,000)	301,750	301,750	0
Earnings per share (DKK)	9.19	9.19	0
Operating earnings per share (DKK)	9.54	9.54	0
Net asset value per share (DKK)	40.64	40.64	0
Ordinary dividend per share (DKK)	7.00	7.00	0
Premium growth in local currencies	7.4	7.0	0.4
Gross claims ratio	68.9	68.1	0.7
Net reinsurance ratio	2.0	2.2	-0.2
Claims ratio, net of ceded business	70.9	70.3	0.6
Gross expense ratio	13.3	14.1	-0.8
Combined ratio	**84.3**	**84.5**	**-0.2**
Run-off, net of reinsurance (%)	-4.9	-5.1	0.2
Large claims, net of reinsurance (%)	2.1	2.2	0.1
Weather claims, net of reinsurance (%)	1.6	1.6	0.0
Discounting (%)	0.2	0.2	0.0
COVID-19 claims, net of reinsurance (%)	-0.8	-0.8	0.0

Does IFRS 17 mean higher revenue?

The earnings methodology remains unchanged under IFRS 17 (i.e. the timing of recognition of revenue stays the same), but Insurance Revenue increases from Gross Premium Income due to Bonus and premium discounts being stripped out into costs:

- The **Bonus and Premium Rebates** (currently within Premiums) will move into gross claims (DKK813m in 2020)
- **Unexpired Risk Provision** (also under premiums) becomes **onerous contracts** and moves into gross claims, but has the effect of slightly lowering revenue (DKK24m in 2020)

Why is the Technical Result better under IFRS 17?

While the overall Profit would stay the same, the insurance service result (technical result) would jump by DKK191m for 2020 under IFRS 17. This was mainly due to:

- DKK121m of **education and development costs** moving from insurance operating costs into “other income and costs”
- The value of the Inflation swaps moves in line with inflation, and lost value in 2020. This loss (DKK49m) featured within claims under IFRS 4 but is being absorbed in the investment result under IFRS 17.
- Over the years, the value of the **inflation swaps** has moved both upwards and downwards showing at times bigger changes in value compared to the one observed in 2020. Therefore, when comparing IFRS 17 with IFRS 4 in other years, the technical result might not always be positively impact by IFRS 17.

Statement of financial position (IFRS 17)

DKKm	IFRS 17	IFRS 4
Assets		
Intangible assets	**7,124**	**7,124**
Operating equipment	147	147
Owner-occupied property	630	630
Total property, plant and equipment	**777**	**777**
Investment property	**1,117**	**1,117**
Equity investments in associates	16	16
Total investments in associates	**16**	**16**
Equity investments	2,611	2,611
Unit trust units	6,878	6,878
Bonds	34,339	34,339
Other lendings	80	80
Derivative financial instruments	1,840	1,840
Total other financial investment assets	**45,748**	**45,748**
Total investment assets	**46,881**	**46,881**
Assets from reinsurance contracts	**1,592**	**1,377**
Receivables from policyholders	0	1,674
Receivables from insurance enterprises	0	270
Other receivables	685	685
Total receivables	**685**	**2,628**
Current tax assets	51	51
Cash at bank and in hand	1,390	1,390
Other	1	1
Total other assets	**1,442**	**1,442**
Interest and rent receivable	131	131
Other prepayments and accrued income	555	555
Total prepayments and accrued income	**686**	**686**
Total assets	**59,186**	**60,916**

DKKm	IFRS 17	IFRS 4
Equity and liabilities		
Equity	**12,264**	**12,264**
Subordinate loan capital	**2,801**	**2,801**
Total provisions for insurance contracts	**31,330**	**32,488**
Pensions and similar obligations	130	130
Deferred tax liability	851	851
Other provisions	57	57
Total provisions	**1,038**	**1,038**
Debt relating to direct insurance	0	516
Debt relating to reinsurance	0	56
Amounts owed to credit institutions	1,191	1,191
Debt relating to repos	3,259	3,259
Derivative financial instruments	897	897
Current tax liabilities	357	357
Other debt	5,979	5,979
Total debt	**11,683**	**12,255**
Accruals and deferred income	**69**	**69**
Total equity and liabilities	**59,186**	**60,916**

Why are total assets and total liabilities both lower under IFRS 17?

Under IFRS 17, Receivables from Policyholders will be included in the Liability for Remaining Coverage within "Total provisions for insurance contracts". This will have the effect of lowering both the total assets and total liabilities positions on the face of the balance sheet.

NOTE: Receivables from policyholders, Receivables from insurance enterprises, debt relating to direct insurance and debt relating to reinsurance will mainly be removed as line items on the face of the balance sheet under IFRS 17. Receivables from insurance enterprises will be stated within the "Assets from reinsurance contract", as will Debt relating to reinsurance. Debt relating to direct insurance will move to "Liability for Incurred Claims" within the Total provisions for insurance contracts".