HEUBECK
A MRH Trowe Company



DISCOUNT RATE FOR IFRS/US-GAAP

REPORTING DATE: 31.10.2026

NEW METHOD FOR DERIVING THE DISCOUNT RATE FOR IFRS/US GAAP AS OF 30 SEPTEMBER 2026

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A MRH Trowe Company

The merger of HEUBECK and Lurse under the parent company MRH Trowe Benefits, Pensions & Compensation has provided the impetus to harmonize the discount rate derivation. Compared with the previous HEUBECK-5A method, the following changes result:

Data basis

The yield derivation is based on corporate bond data, considering ratings from Fitch and Moody's (S&P no longer applied). For maturities with low data density, market yields are extrapolated using government bond yields (instead of the ECB yield curve).

Methodology

Previously, bond yields were converted into spot rates via bootstrapping, and a yield curve was fitted using the Svensson method by least squares.

The new method determines the cash flows of each bond (coupons and redemption) and fits the yield curve using cubic P-splines based on the deviation between model and market prices (optimization still via the sum of least squared errors). Bonds whose market values deviate more strongly from comparable bonds receive a lower weight.

Overall, the model changes enable us to offer higher-quality estimates of the discount rate under IFRS and US GAAP from the reporting date of 30 September 2026 onward.



TRANSITION TO THE NEW DISCOUNT RATE METHOD AS OF 31 DECEMBER 2026 IS A "CHANGE IN ACCOUNTING ESTIMATE" UNDER IAS 8: RECOGNITION IN OCI WITH NO EFFECT ON PROFIT OR LOSS, PLUS A DISCLOSURE IN THE NOTES.

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What does the transition mean?

You may first apply the new discount rate as of 31 December 2026.

Under IAS 8, the transition to the new method is a change in accounting estimate, to be recognized in other comprehensive income (OCI) without effect on profit or loss. A comparative calculation must also determine the transition effect (difference between the DBO with the new discount rate and the DBO with the old discount rate) and, if material, disclose it in the notes.

A note in the financial statements could read as follows:

The method for deriving the discount rate used to measure the obligations was refined as of 31 December 2026. As a result, the discount rate increases by X percentage points. This increase reduces the defined benefit obligation (DBO) by EUR XX million. The transition effect is a change in accounting estimate under IAS 8, which is recognized in other comprehensive income (OCI) without effect on profit or loss as an actuarial gain from changes in financial assumptions

We recommend switching as soon as possible, at the earliest as of 31 December 2026.



01

DISCOUNT RATE BY PORTFOLIO STRUCTURE AND YIELD CURVE

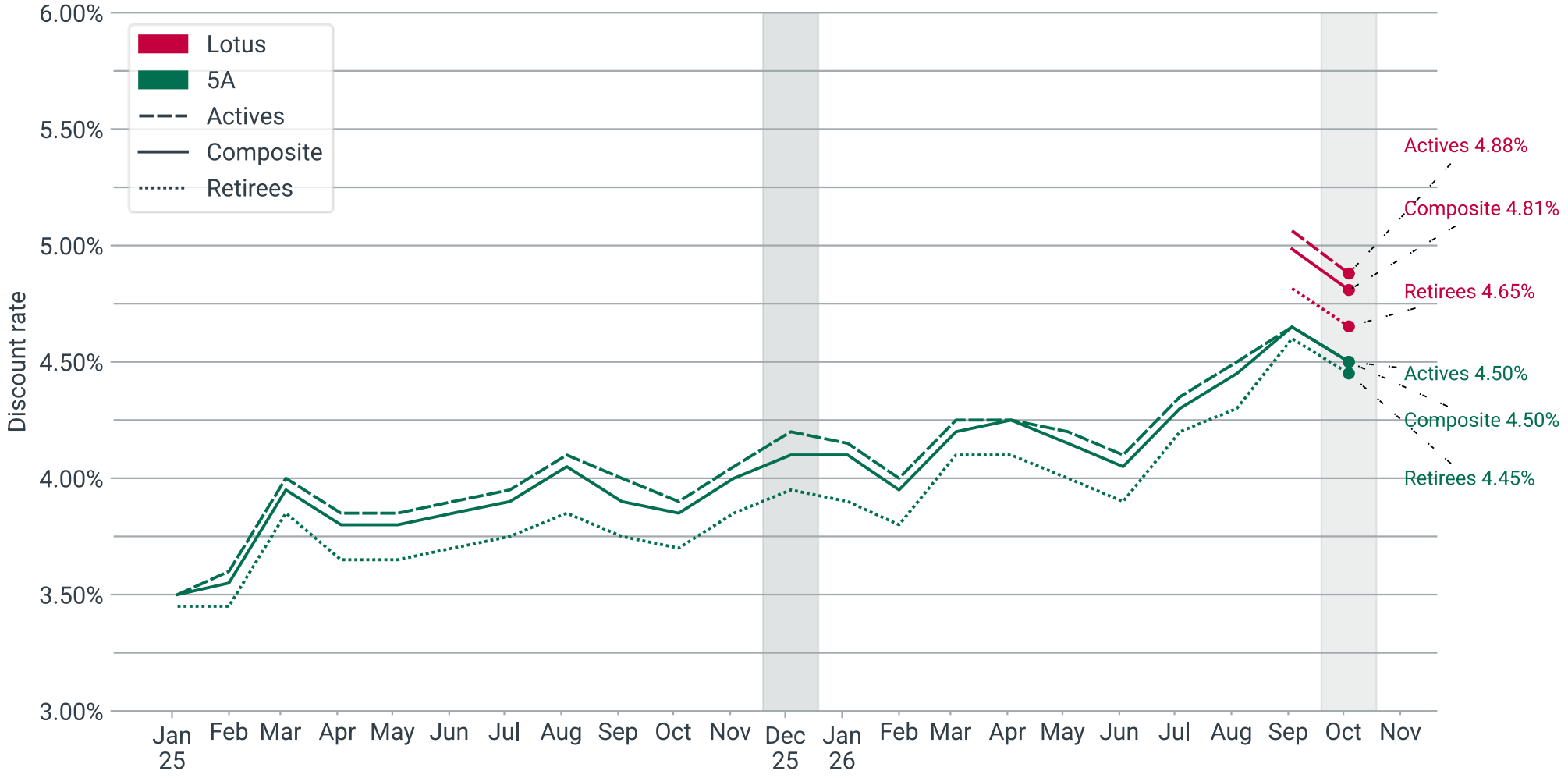
REPORTING-DATE VALUES FOR TYPICAL PORTFOLIOS AND DURATIONS

DISCOUNT RATE UNDER IFRS/US-GAAP

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Development of discount rates

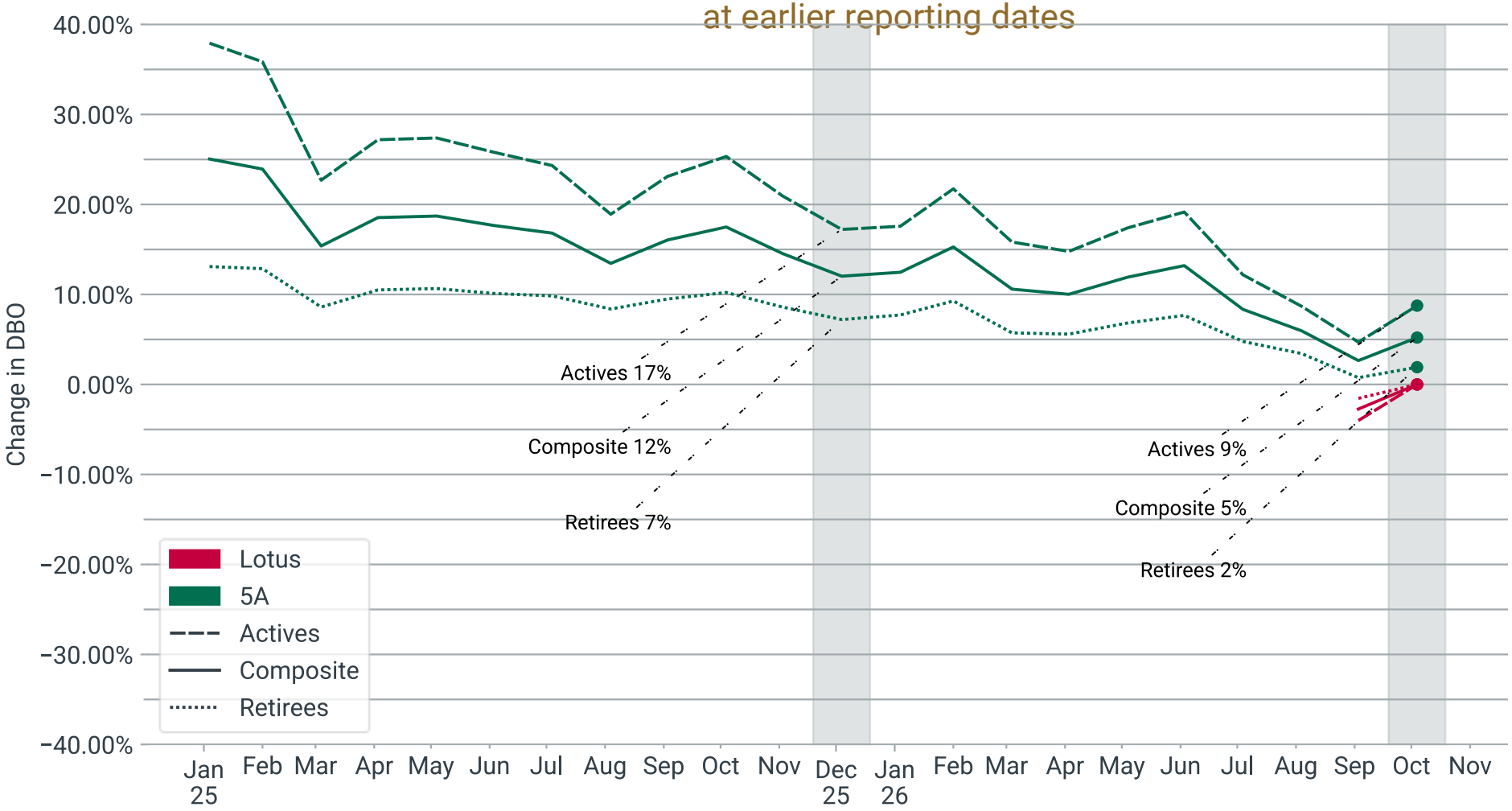


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Relative deviation of DBO determined with 5A-discount rate and DBO determined with current Lotus-discount rate at earlier reporting dates



Reading guide:

Assuming that the DBO had been calculated as of previous reporting dates using the current Lotus discount rate, how large would the relative deviation be between the DBO calculated using the 5A interest rate at that time and this value?

RATE UNDER IFRS/US-GAAP

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Discount rate development by model portfolio

Date	ACTIVES		RETIREES		COMPOSITE	
	old	new*)	old	new*)	old	new*)
31.12.2024	**3,50 %**		**3,45 %**		**3,50 %**	
30.09.2025	4,00 %		3,75 %		3,90 %	
31.12.2025	**4,20 %**		**3,95 %**		**4,10 %**	
31.03.2026	4,25 %		4,10 %		4,20 %	
30.06.2026	4,10 %		3,90 %		4,05 %	
30.09.2026	4,65 %	5,06 %	4,60 %	4,82%	4,65 %	4,98 %
31.10.2026	**4,50%**	**4,88%**	**4,45%**	**4,65%**	**4,50%**	**4,81%**

*) The rate labelled "new" is determined using the HEUBECK Lotus method. This rate variant has been available since 31 December 2026.

DISCOUNT RATE UNDER IFRS/US-GAAP

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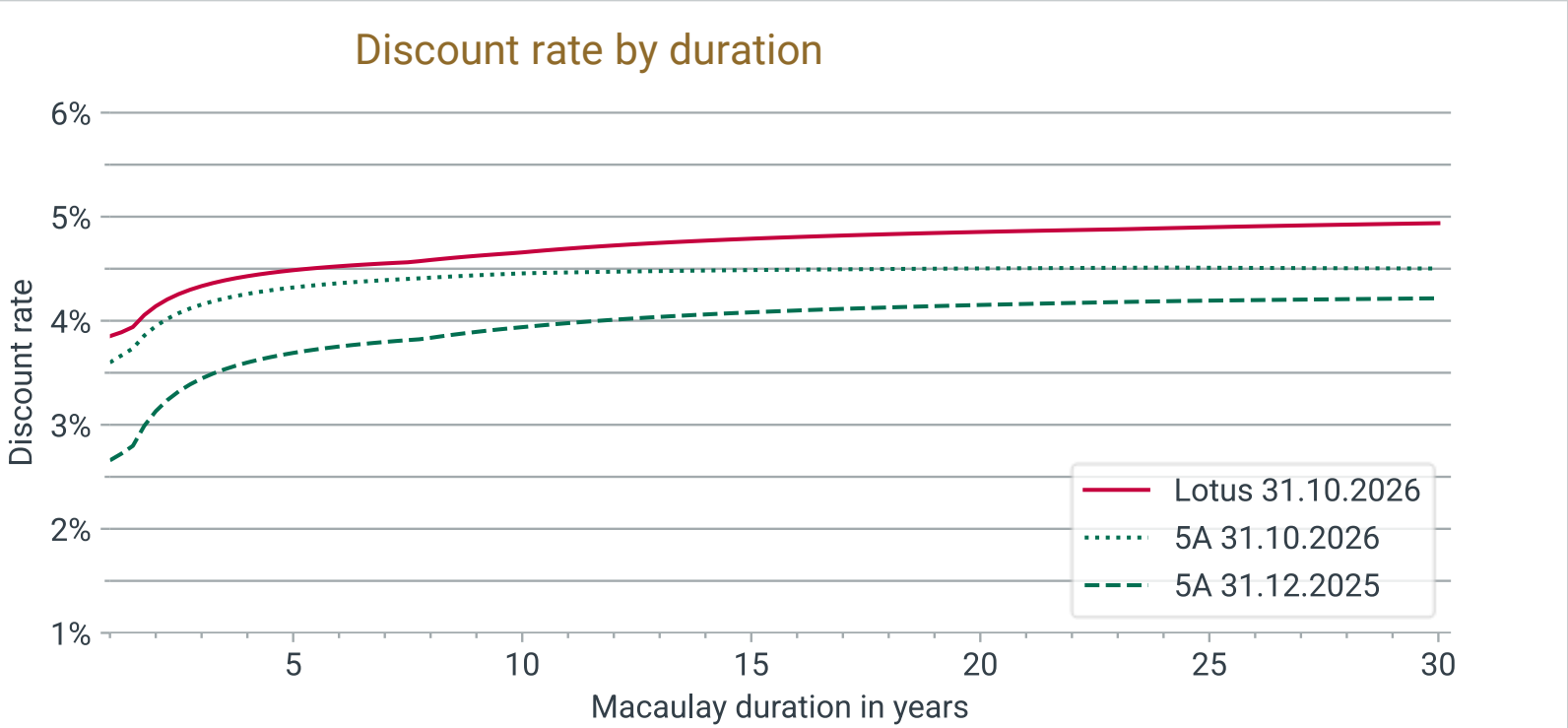
New method		
TTM	31.10.2026	31.12.2025
5	4,19 %	n.a.
10	4,56 %	n.a.
15	4,71 %	n.a.
20	4,81 %	n.a.
25	4,88 %	n.a.
30	4,93 %	n.a.

Old Method		
TTM	31.10.2026	31.12.2025
5	4,13 %	3,22 %
10	4,47 %	3,80 %
15	4,56 %	4,08 %
20	4,57 %	4,21 %
25	4,55 %	4,25 %
30	4,53 %	4,26 %

The yield curve shows the return on zero-coupon bonds (spot rates) as a function of maturity. It is derived from the yield of high-quality corporate bonds at the respective reporting date. For measurement under IFRS and US GAAP, the payments expected in t years from the obligations at the reporting date are discounted at the spot rate for bonds with a maturity of t years. The sum of the discounted cash flows equals the defined benefit obligation (DBO under IAS 19) or projected benefit obligation (PBO under US GAAP) at the reporting date.

DISCOUNT RATE UNDER IFRS/US-GAAP

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New method		
Duration	31.10.2026	31.12.2025
5	4,49 %	n.a.
10	4,66 %	n.a.
15	4,79 %	n.a.
20	4,85 %	n.a.
25	4,90 %	n.a.
30	4,94 %	n.a.

Old method		
Duration	31.10.2026	31.12.2025
5	4,30 %	3,70 %
10	4,45 %	3,95 %
15	4,50 %	4,10 %
20	4,50 %	4,15 %
25	4,50 %	4,20 %
30	4,50 %	4,20 %

The duration of an obligation indicates the payment focus of the discounted cash flows from that obligation. It depends on the discount rate: as the rate rises, duration falls; as the rate falls, duration rises. The discount rates shown in the chart for a given duration were determined as so-called "equivalent rates". The equivalent rate is the uniform rate at which the cash flows of the obligation are discounted so that the resulting present value exactly equals the present value of the cash flows discounted with the yield curve, i.e. the DBO or PBO.

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Cashflows & Yield curve→ discount rates for typical plans



Actives	Retirees	Composite
Discount rate 4.88%	Discount rate 4.65%	Discount rate 4.81%
(Duration 23.5 years)	(Duration 10.1 years)	(Duration 16.7 years)

The portfolio-specific Discount rates are determined by applying the yield curve to typical cash flow profiles and then deriving the "equivalent rate" from them. The cash flow profiles are model-based payment patterns typically observed in classic direct pension commitments. They were derived synthetically on the basis of a model portfolio.

02

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LOTUS-METHOD

DESCRIPTION OF THE LOTUS METHOD (1/2)

The discount rate for measuring long-term pension obligations under IFRS and US GAAP is derived from the market yields of high-quality corporate bonds. HEUBECK uses the "Lotus method", developed in 2026, for this purpose.

Data basis

The basis is euro-denominated corporate bonds available via Bloomberg, rated at least AA by Fitch or Moody's. Included are fixed-rate bonds with bullet repayment and a remaining maturity of at least six months. Secured, state-guaranteed and structured bonds are excluded.

Derivation of the yield curve

A spot rate curve is estimated directly from the market prices and contractual cash flows of the bonds. Lotus uses a cubic P-spline for this. Its parameters are determined so that the bond prices derived from the yield curve match the observed market prices as closely as possible.

The method takes into account the information quality of the individual market data. The relevant factors are the density of market information around the remaining maturity of a bond, the consistency of its yields, and the deviation of individual observations from the local yield level. The resulting information strength determines the regression weight of each bond. An additional smoothing penalty limits the influence of random fluctuations in individual market observations. As a result, the curve follows observed prices more closely where many consistent market observations exist, while avoiding an erratic curve shape in maturity ranges with little or contradictory market information.

DESCRIPTION OF THE LOTUS METHOD (2/2)

The discount rate for measuring long-term pension obligations under IFRS and US GAAP is derived from the market yields of high-quality corporate bonds. HEUBECK uses the "Lotus method", developed in 2026, for this purpose.

Extrapolation and discount rate

Since only a few high-quality corporate bonds trade for long maturities, the yield curve at the long end is transitioned to a reference curve derived from AA government bonds, plus a constant spread. The start of the transition depends on the remaining market information from corporate bonds. Government bonds are weighted according to the same criteria regarding information strength. The spot rate curve is estimated using the Nelson-Siegel method. Bonds with a remaining maturity of more than 50 years are not taken into account.

Uniform discount rates for typical active, mixed and pensioner portfolios are derived from the resulting yield curve.

CONTACT DETAILS

If you have any questions about the discount rate, please contact your client relationship manager, or alternatively our colleagues in the Benefits division of our parent company MRH Trowe Benefits, Pensions & Compensation:

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