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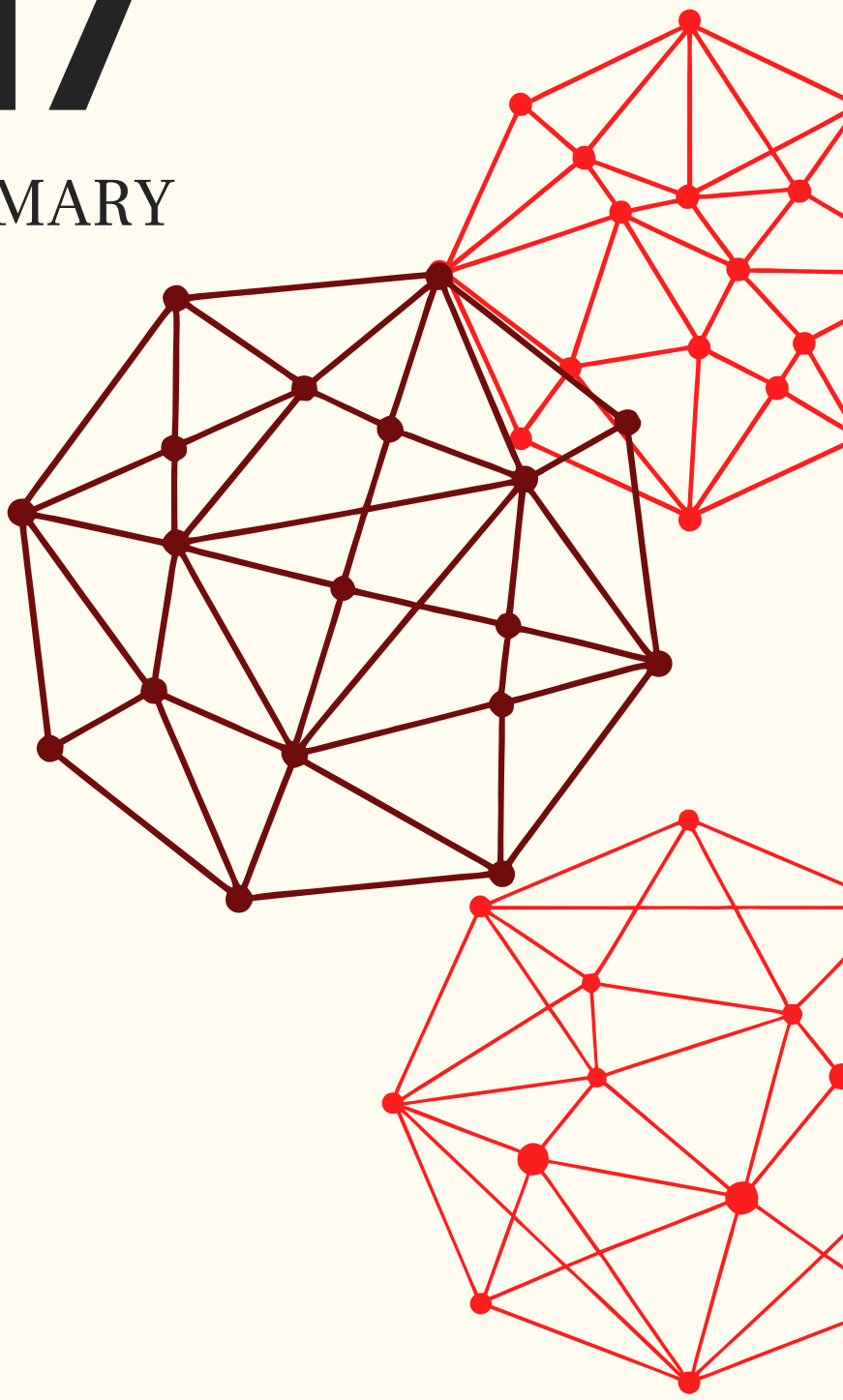
FIGHT FOR SIMPLICITY

IFRS 17

EXECUTIVE SUMMARY



ACHIEVE IFRS COMPLIANCE WITH EASE

A new paradigm for implementing IFRS solutions

ADOPTING IFRS 17 WITH EASE

HAMILTON IFRS 17 COMPLY

Currently, in the insurance industry, revenue recognition is primarily based on gross premiums. Therefore, a company's performance can be roughly measured by looking at its gross premiums in the income statement. Under IFRS 17, this distinction no longer applies to the insurance industry. Through the new provisions, all insurance contract revenue must be calculated using one of three given approaches: the General Measurement Model (GMM), Premium Allocation Approach (PAA), and Variable Fee Approach (VFA). Under the commonly used model, GMM, insurance contracts must recognize the Contractual Service Margin (CSM) by subtracting the present value (PV) of cash flows from the Risk Adjustment and Deferred Acquisition Costs (DAC) on the balance sheet. Later, the CSM will be amortized over time in each reporting period to be recognized as revenue. This new implementation will have a significant impact because the main sources of revenue recognition are shifting from gross premiums to CSM. As a result, the performance of insurance companies worldwide may appear to decrease in their financial reporting. The key difference with this new reporting standard is the calculation of amortization and the readjustment of CSM, which must be done every reporting period. It already takes a significant effort to calculate the initial CSM through various considerations and judgments regarding future risks. Therefore, relying on human labor alone may seem impossible for recalculating the adjustment of CSM based on the changing risk factors and claim development in each period.

"Deloitte expects that implementing these new IFRS 17 requirements will entail major changes to insurance companies' actuarial and finance reporting processes, systems, and data. This effort will likely generate implementation costs for many insurers as large as those incurred in the European Union for the adoption of the Solvency II regulations." —Pert Pruner, Partner, Deloitte Romania

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CHALLENGES TO OVERCOME

Hamilton Engine provides a comprehensive, integrated, and complete solution for IFRS 17 use cases and its mandatory quantitative disclosures.

Key Features and Benefits:

- Simplicity: IFRS 17 is inherently complex, but Hamilton Engine shifts this complexity to the machine, providing simplicity to users and enabling easy adoption of IFRS 17 compliance.
- Adaptability: Regulations and business requirements are constantly evolving. Hamilton Engine, with its unique use-case-driven approach and framework, can be extended to address evolving needs and serve as a foundation for future finance transformation.
- Predictive Accounting Engine: It enables a holistic simulation of future business events and provides a better understanding of unbiased future figures, which is key to success in today's competitive environment. All processes within the engine are designed and configured using the predictive accounting engine, with the primary objective of achieving the end goals: reports and disclosures.
- Comprehensive Solution: Hamilton Engine is a one-stop solution for IFRS 9, IFRS 15, IFRS 16, and IFRS 17.
- Cost Efficiency: The total cost of ownership (TCO) is arguably the lowest in the market for an IFRS 17 solution.

Consequences of Non-Compliance:

- Non-compliance could cause problems with company audits.
- The ability to source credit lines and attract investors will be severely limited.
- Delaying compliance could lead to increased complexity and significant costs.
- Implementation is a time-consuming process, and non-compliance may result in outdated key performance indicators.

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FEATURES & FUNCTIONALITIES

01 Measurement Model

It supports GMM, PAA, VFA

03 Level of Aggregation

It supports the mandatory levels of aggregation:

- Portfolio
- Annual cohort
- Profitability group

Additional levels of aggregation can be configured to support complex aggregation requirements.

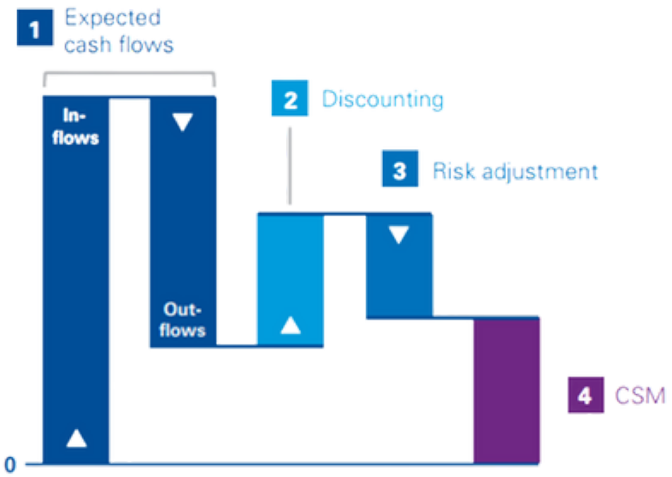
04 Initial Measurement

The liability (or asset) recognized for a group of insurance contracts is measured, both on initial recognition and subsequently, as the sum of:

- The fulfillment cash flows, which are a risk-adjusted, explicit, unbiased, and probability-weighted estimate of the present value of expected cash flows that will arise as the entity fulfills the contracts; and
- The Contractual Service Margin (CSM), which represents the unearned profit that the entity will recognize in profit or loss as services are provided.

IFRS 17.32 The fulfillment cash flows consist of the following components:

- Estimates of expected cash flows that will arise as the entity fulfills the contracts.
- An adjustment to reflect the time value of money (i.e., discounting) and the financial risks related to the expected cash flows (to the extent that these risks are not already included in the estimates of expected cash flows).
- An explicit risk adjustment for non-financial risk: to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of cash flows arising from non-financial risk.

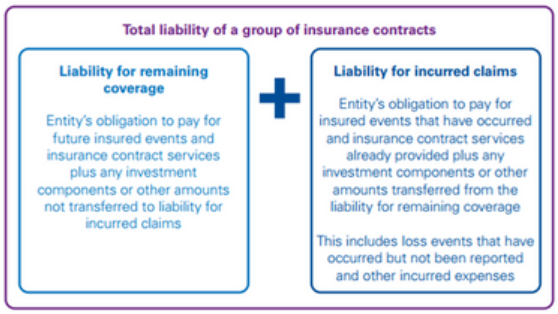


02 Predictive Accounting

It is Hamilton's signature solution, proven to be very powerful when implementing IFRS requirements (such as IFRS 9, IFRS 15, and IFRS 16). Under IFRS 17, it becomes even more crucial, as all calculations are forward-looking, based on future projections. This distinct feature of Hamilton unlocks valuable insights into future data under IFRS 17.

05 Subsequent Measurement

Subsequent to initial recognition, the total liability of a group of insurance contracts comprises the following.



The liability for remaining coverage is measured as the fulfillment cash flows related to coverage that will be provided under the contract in future periods, plus the remaining CSM. The liability for incurred claims is measured as the fulfillment cash flows for claims and expenses that have already been incurred but not yet settled.

06 Onerous Test

For each reporting period, the system will automatically determine whether a group of insurance contracts is profitable or onerous.

07 Probability weighted expected future cash flows

It estimates the present value of expected cash flows that will arise as the entity fulfills the contracts.

08 Tiered Pricing

Insurance contract with different pricing for different period.

09 Direct Attributable Costs

Costs/expenses that occur prior to contract inception can be capitalized and included as part of the CSM calculation.

FEATURES & FUNCTIONALITIES

10 Insurance acquisition cash flows

For many insurance contracts, the main cash flows paid before the initial recognition of a group of contracts are the insurance acquisition cash flows.

Recognizing insurance acquisition cash flows paid as assets until the related group of insurance contracts has been recognized ensures that these cash flows are not immediately recognized as an expense.

This accounting treatment may appear similar to recognizing the related insurance contracts from the date on which the insurance acquisition cash flows occur. However, in many cases, the initial recognition requirements for the group will not have been met at that time. Therefore, there will be no need to determine the CSM until those requirements are met.

12 Discount rate

The discount rate/interest rate can be stored based on several factors, such as the inception rate (locked-in rate), contract tenure, currency, country, etc. However, the operational system needs to determine which discount rates should be stored in the system.

14 Changes for future service

Due to changes in expected cash flows, business assumptions, or any future data, a group of contracts can be modified. However, the CSM and interest expense/income (P/L) need to be calculated using the locked-in rate.

16 Effect of discount rate changes to P/L or OCI

Changes in future service may result in differences due to the varying discount between the current rate and the locked-in rate. Hamilton supports the P/L or OCI option to capture these differences.

18 Foreign Currency Revaluation

IFRS 17 states that when applying IAS 21 – The Effects of Changes in Foreign Exchange Rates to a group of insurance contracts that generate cash flows in a foreign currency, an entity should treat the group of contracts, including the Contractual Service Margin (CSM), as a monetary item.

20 Payment method

Whether it is paid in advance (ADV) or in arrears (ARR).

22 G/L Account Determination

Insurance contracts may have different sets of account regulations based on use cases, insurance contract types, and other parameters.

24 Transition: Full, Modified Retros or FV approach.

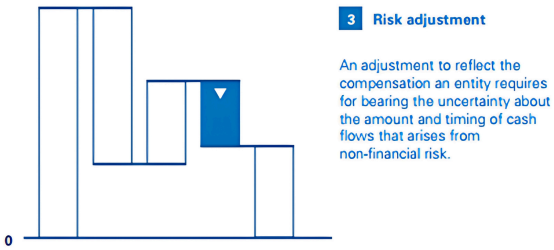
The transition approach for calculating the initial balance of insurance contract assets and liabilities.

11 Risk adjustment

The risk adjustment conveys information to users of financial statements about the amount the entity charges for bearing the uncertainty over the amount and timing of cash flows arising from non-financial risk. It measures the compensation that the entity would require to make it indifferent between:

- Fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and
- Fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contract.

Adjusting for non-financial risk



13 New business (additional insurance contracts)

New additional contracts within the same LoA can be added to the existing group.

15 Interest Accretion on CSM

For each reporting period, the system will automatically calculate interest accretion on the CSM opening balance. However, if the group of contracts is onerous, it will be charged to P/L, and no interest accretion will be calculated.

17 Experience Adjustments for Current Services

Experience adjustments (current services) on claims, risk adjustments, and (non-premium related) insurance expenses are to be accounted for in full in profit or loss.

19 Re-insurance

A 'reinsurance contract' is a type of insurance contract issued by an entity (the reinsurer) to compensate another entity (the cedant) for claims arising from insurance contract(s) issued by the cedant. It supports both the treaty and facultative reinsurance methods.

21 Payment cycle

Cycle of payment, e.g., monthly, quarterly, yearly, ad-hoc, etc.

23 Cumulative Catch-Up

If the changes occurred in the past, delta changes can be cumulative and updated in the current period.

REPORTS AND DISCLOSURES IN HAMILTON ENGINE

01 Projection of SFP/SPL

Projection of the balance sheet and income statement for all insurance contracts.

02 Amortization of CSM

Depreciation/amortization of CSM for all insurance contracts.

03 Liability for Remaining Coverage

An entity's obligation to investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (i.e., the obligation related to the unexpired portion of the coverage period).

04 Liability for Incurred Claims

An entity's obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not yet been reported, as well as other incurred insurance expenses.

05 Roll Forward

The BEL/CSM/RA roll-forward is a schedule showing the beginning balance, additions, new business, changes for future service, interest accretion, FX changes, service provided, and ending balance for a particular account. The accounts may vary among fixed assets.

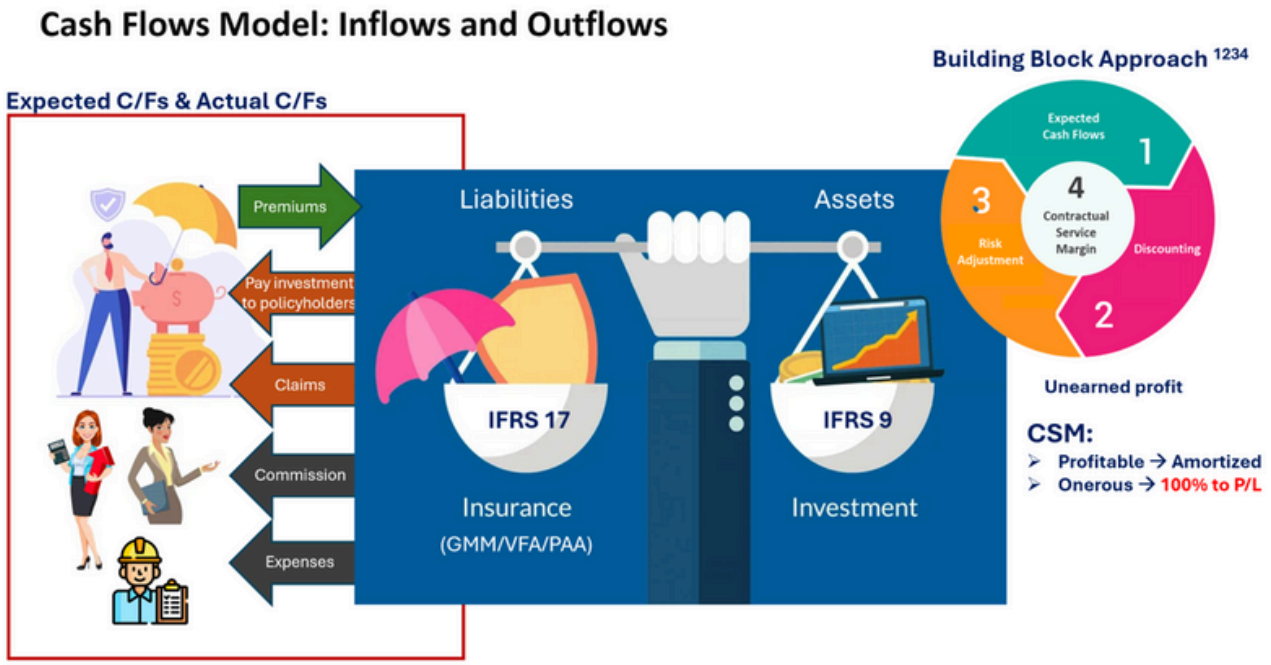
06 CSM Maturity Analysis

CSM maturity analysis refers to the date on which the life of a CSM ends. It provides information in configurable time buckets to show the effect of CSM amortization in each time bucket.

07 Information System

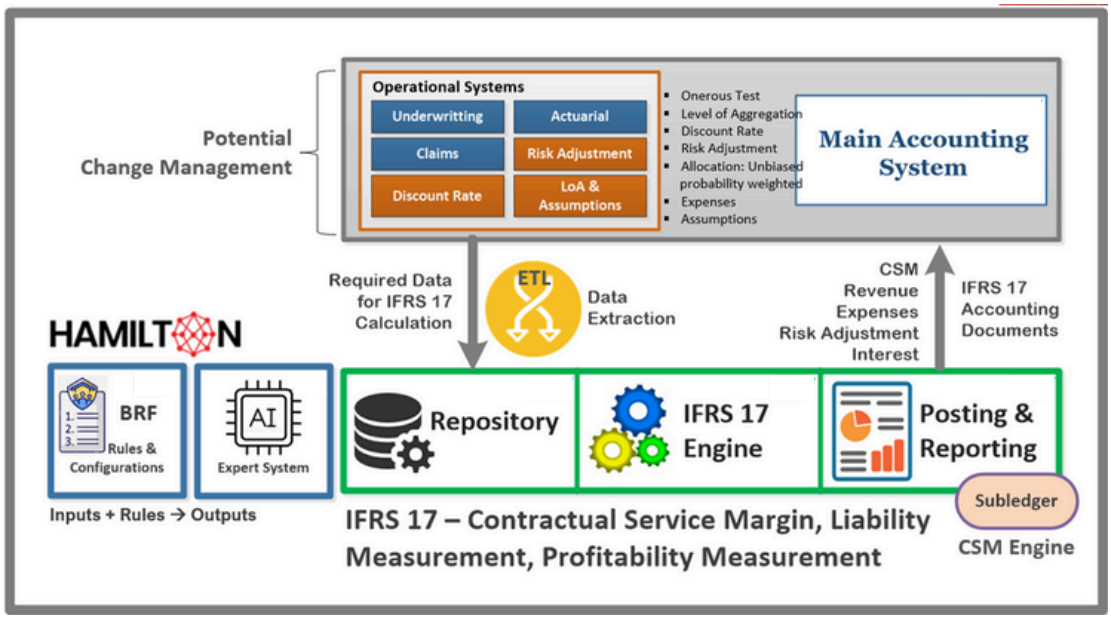
Flexible reporting for insurance contracts.

PREDICTIVE ACCOUNTING: BUILDING BLOCK APPROACH IN CIRCULAR MOTION



CSM subsequent measurement is arguably the complex calculation under IFRS 17. Hamilton has its own unique method to solve this complex CSM calculation using use-case driven approach, and it can track all changes to the CSM with all the details and high level of accuracy.

Hamilton CSM Engine: High Level Architecture



Key Functionalities Mapping: