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Layout & Distribution: Valéria Kozakova

What do we Need from IFRS? - An Analyst's View

Ralph Hebgen

Agenda

1. Who am I?
2. What do I want?
3. What do I NOT want?
4. Are we getting there?
 - Where have we come from?
 - Where are we going?
 - Do we want to go there?
 - Where do we want to go?



1. Who am I?

Who am I?

- I am a “sell side” analyst for a stockbroker
- I am one of the most frequent / most interested users of companies’ accounts.
- I need to understand the drivers of profitability.....
- to explain insurance businesses to my clients
- My clients are investors, sales forces, but also the companies themselves

Who am I? - clients at KBW

- KBW's sales team of 75 world-wide has daily access to the FIG specialists in over 1000 accounts globally

US equities (57 sales staff)

➤ Access to over 800 accounts- top ranked by Institutional Investor

➤ Top specialist market maker in NASDAQ 100 financials

| Rank | Broker | Trading Vol. (000) | % Of Total |
|------|------------------------------------|--------------------|------------|
| 1 | Credit Suisse | 919,140 | 8.2 |
| 2 | Merrill Lynch | 815,785 | 7.2 |
| 3 | Morgan Stanley | 785,964 | 7.0 |
| 4 | Citigroup | 705,125 | 6.3 |
| 5 | UBS | 697,756 | 6.2 |
| 6 | Knight Equity Markets | 628,783 | 5.6 |
| 7 | Lehman Brothers | 624,670 | 5.5 |
| 8 | Keefe, Bruyette & Woods | 611,345 | 5.4 |
| 9 | Goldman Sachs Group | 441,616 | 3.9 |
| 10 | Automated Trading Desk | 357,222 | 3.2 |

Pan-European equities (18 sales staff¹)

➤ Average experience of 15 years including several former analysts

➤ A growing franchise continuing to add investors across the globe

➤ KBW sales team retains a focus on long only funds, as well as a strong representation with important hedge funds, which account for some 35% of commissions

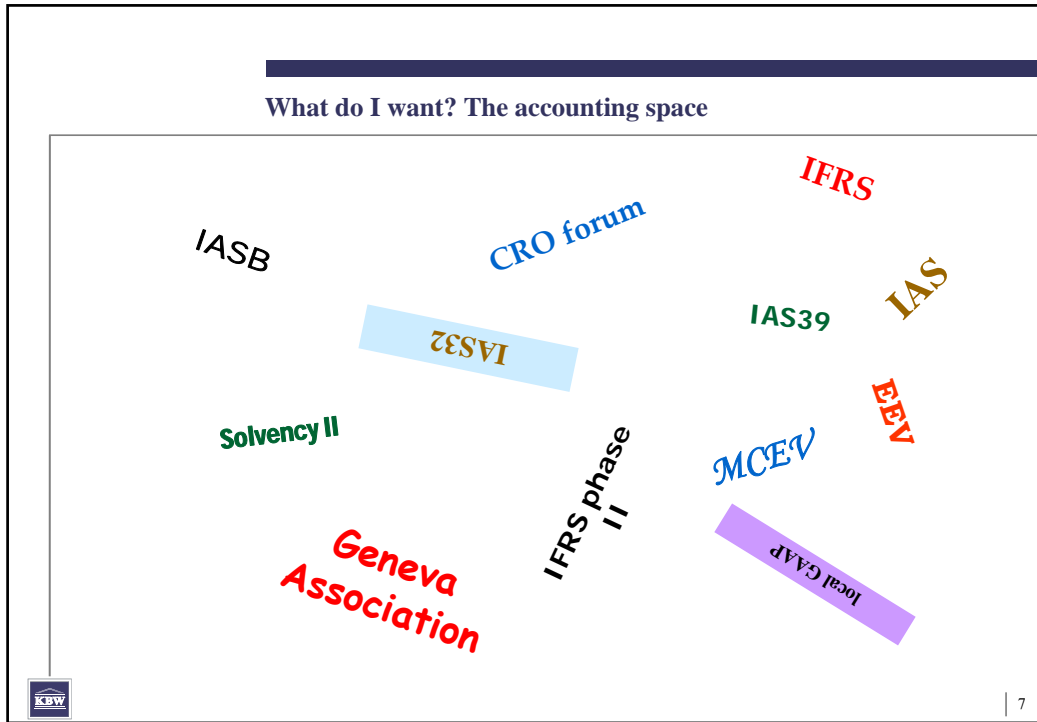
➤ Ranked 1st for pan-European sales of banks in 2007

KBW European product commission split 2006

Source: BlockData as of Dec 31, 2006 - Industry Rankings of Investment Banking & Trading Firms NASDAQ 100 Financial Index
Note: ¹ Includes sales traders

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2. What do I want?




- What do I want? Stand back from it all...**
- What do I want?**
- I want to understand the business
 - I want to explain the business to my clients
- What do I need?**
- I need to see how the products generate cash / profits
 - I need to keep separate the profit drivers (mortality/investment margin/fees)...
 - and the drivers of outgo (expenses, claims split between policyholders / shareholders)
 - I need transparency in non-cash items (drivers of change in reserves)
 - I need this by segment (Life, P&C, asset management, health)....
 - to see how operating profits build up by segment and at the group level.
 - I need transparency in any consolidation item.
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What would I get?

What would I get?

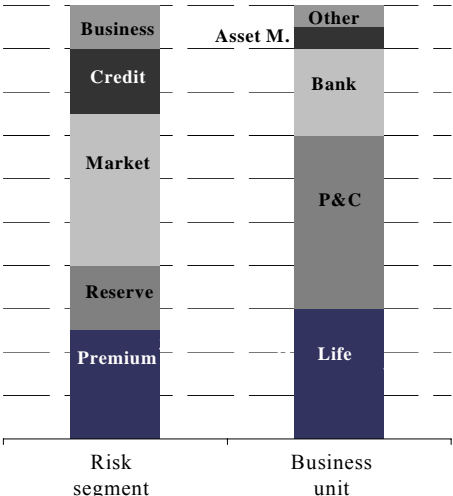

- I would get a measure of profits which is more robust since I can analyse its drivers and include / exclude items as I see fit.
- Because of that, I would gain more confidence in my forecasts....
- and profits / earnings would emerge as a more useable metric at a time that the complexities of MCEV have generated a “quest for simplicity”.



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What do I want? Segmental returns on equity

- Disclosure of economic capital / allocation of statutory capital by business segment
- Together with meaningful segmental earnings, I can calculate segmental RoEs / RoEVs / RoRACs
- If both sides of the return calculation are transparent, I have more confidence in the result....
- and hence in the estimated period over which returns can be expected to be eroded.
- That would make valuations more robust and in theory reduce the cost of equity to the insurance industry.

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3. What do I NOT want?

What do I NOT want?

| | |
|--|---|
| |  Conference call Swiss Re expects CHF 1.2 billion mark-to-market loss from its credit underwriting activities |
| | Jacques Aigrain Chief Executive Officer George Quinn Chief Financial Officer Roger Ferguson Head of Financial Services 19 November 2007 |

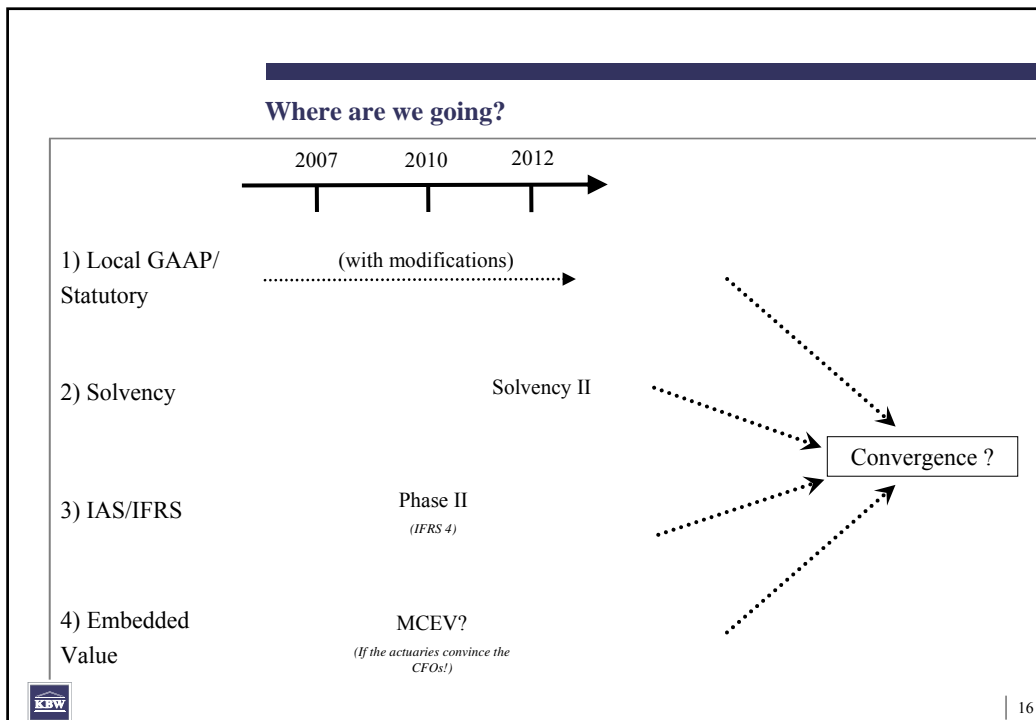
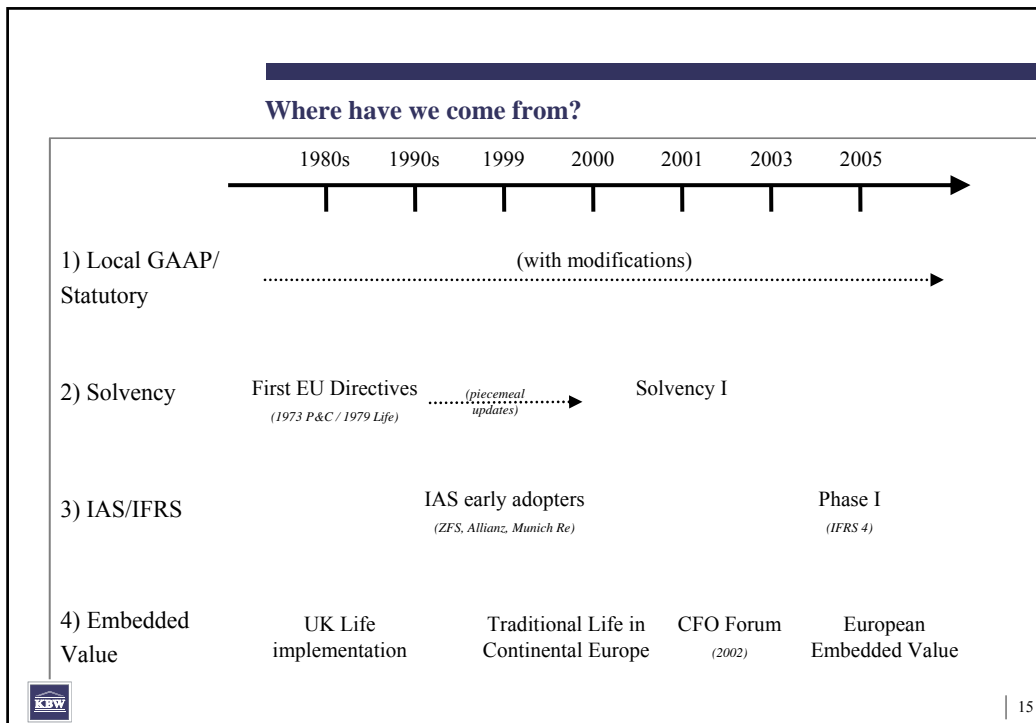
What do I NOT want?

What do I NOT want?

- I do not want off-balance sheet liabilities – the exposure to notional liabilities needs to be transparent for users to interpret the information in accordance with their specific risk-reward tolerance.
- I do not want the proverbial 
 - ♦ no consolidation items that do not show constituent components
 - ♦ no aggregate “claims and benefits” lines which do not break out policyholders’ and shareholders’ shares
 - ♦ no aggregate “investment income” lines that do not break out income, realised gains and unrealised gains



4. Are we getting there?



Do we want to go there?

MCEV is too complex

- Insurance is a complex business. The long-term nature of profit emergence in the contracts sold (both life and P&C) gives rise to reserve developments as the major non-cash items which are difficult to capture within the confines of a one-year earnings snapshot.
- This DOES mean that the economic reality of the business is best captured by an appropriate DCF-based model.
- But it does NOT mean that the creators of such a model should feel justified to use the mindboggling complexities of stochastic calculus as an excuse for being opaque.

The quest for simplicity

- MCEV, although the best theoretical way to “describe” an insurance business, has turned out to be too complex to be useful without the additional disclosure of detailed sensitivities.
- As a consequence, investors are allured by the deceptive simplicity of “earnings”, which in their current IFRS-form are as difficult to manipulate and forecast as MCEV.



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Where do we want to go?

Is convergence a good thing?

- If IFRS becomes more like embedded value and “earnings” will be the difference between assets and liabilities in an economic balance sheet, there is a risk that investors will start applying large risk premiums to the sector to reflect increasing lack of transparency.

Differentiation may be a better thing

- The current “quest for simplicity” illustrates that investors are seeking simple and transparent metrics which describe the profit dynamics of insurance intuitively.
- It may be appropriate to keep two systems separate:
 1. A more transparent MCEV to capture the long term earnings dynamics.
 2. A more transparent IFRS to capture the short term earnings dynamics.
- The two systems, however, need to be reconcilable....



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