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**Financial Reporting
for Non-Life Insurance**


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Introduction (I)

| Measurement | Presentation |
|---|--|
| IFRS 4 Phase I Measurement of assets | "Financial statement presentation" Joint project of the IASB and FASB |
| IFRS 4 Phase II Measurement of liabilities | |

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Introduction (II)

Reasons given for the presentation project

| | |
|---|--------|
| Markets need to have more cash flow information | ✓ |
| Financial statements are not cohesive | ✓ |
| The current P/L model is broken because its basis is not consistent | ? |
| <ul style="list-style-type: none"> ▪ Some unrealized losses are not in the P/L ▪ Unrealized gains are excluded from the P/L | ✓ ? |

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Proposed format of financial statement presentation


| Statement of financial position | Statement of comprehensive income | Statement of cash flows |
|--|--|---|
| Business <ul style="list-style-type: none"> ▪ Operating assets and liabilities ▪ Investing assets and liabilities | Business <ul style="list-style-type: none"> ▪ Operating income and expenses ▪ Investing income and expenses | Business <ul style="list-style-type: none"> ▪ Operating cash flows ▪ Investing cash flows |
| Financing <ul style="list-style-type: none"> ▪ Financing assets ▪ Financing liabilities | Financing <ul style="list-style-type: none"> ▪ Financing asset income ▪ Financing liability expenses | Financing <ul style="list-style-type: none"> ▪ Financing asset cash flows ▪ Financing liability cash flows |
| Income taxes | Income taxes on continuing operations (business and financing) | Income taxes |
| Discontinued operations | Discontinued operations, net of tax | Discontinued operations |
| | Other comprehensive income, net of tax | |
| Equity | | Equity |

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Source: IASB/FASB



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Is net income no longer relevant, or only a subtotal?


Allianz Group (EUR mn)

| | 9M 2004 ¹ | 9M 2005 | 9M 2006 | 9M 2007 | 9M 2008 |
|-------------------------------|----------------------|---------|---------|---------|---------|
| Total revenues ² | 72,592 | 75,779 | 71,595 | 72,074 | 69,525 |
| Operating profit ² | 5,091 | 6,097 | 7,112 | 7,715 | 6,477 |
| Net income | 1,970 | 3,508 | 5,649 | 7,301 | 667 |
| Movement of OCI | -484 | 3,491 | -693 | -3,935 | -8,448 |
| Comprehensive income | 1,486 | 6,999 | 4,956 | 3,366 | -7,781 |

- ▶ Comprehensive income does not reflect the performance
- It is disconnected from our business model

1) As reported (not reflecting financial reporting methodology refinement effective January 1, 2006)
2) Total revenues and operating profit 9M 04 and 9M 05 include sold part of Dresdner Bank which has been classified as "discontinued operations" in the meantime

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Measurement without presentation discussions are not really meaningful

| Premium model in P/L | Margin model in P/L |
|---|---|
| Gross premiums written | Unwind of margins |
| Change in unearned premiums | ▪ New business margin |
| Investment income | ▪ Margins from in-force business |
| Subtotal revenues | Variance between expected and actual claims (retrospective) |
| Claims paid (calendar year and run-off) | Change in assumptions (prospective) |
| Acquisition costs | Unwind of discount rate |
| Administrative expenses | Investment income |
| Profit before taxes | Profit before taxes |

- ▶ Key profit drivers visible (premiums, claims, investment result)
 - Direct computation of KPIs possible (loss ratio, expense ratio, inv. result)
- ▶ Profit drivers invisible
 - Instead, recording of margins (NBM, in-force margin), changes in assumptions and investment results

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Conclusions

Accounting rules are convention

Appropriate presentations should always follow the management approach

The disconnection of measurement and presentation discussions may lead to not acceptable results