SOCIETY OF ACTUARIES

U.S. GAAP & IFRS: Today and Tomorrow
Sept. 13-14, 2010

New York

Convergence

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Society of Actuaries
US GAAP Seminar

Convergence*

September 14, 2010

*connectedthinking

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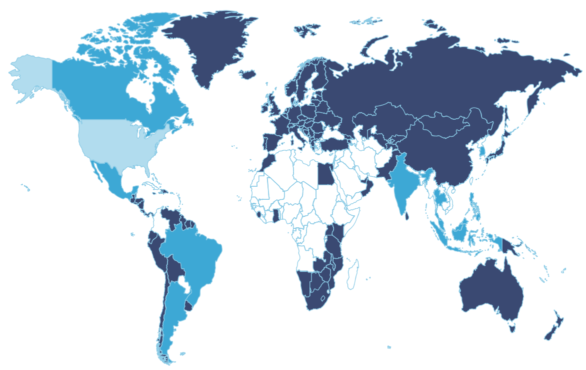
IFRS Usage Globally

More than 100 countries require, permit or are converting to the use of IFRS



Major global capital markets	
Australia	IFRS
Brazil	Converting to IFRS
Canada	Converting to IFRS
France	IFRS
Germany	IFRS
Hong Kong	IFRS
India	Converging with IFRS
Japan	IFRS permitted
Switzerland	IFRS or US GAAP
UK	IFRS
US	Analysis ongoing

- Countries seeking convergence with the IASB or pursuing adoption of IFRSs
- Countries that require or permit IFRSs
- United States

SEC IFRS roadmap

- November 2007 – SEC eliminates the US GAAP reconciliation requirement for foreign filers reporting under IFRS in the US
- November 2008 – SEC proposed a roadmap that:
  - establishes a potential mandatory dated for US IFRS adoption beginning in 2014 and
  - proposes earlier, optional IFRS use by certain domestic issuers
  - planned revisit of mandatory adoption timeline in 2011
  - three years of IFRS financial statements still required upon adoption
- February 2010 - SEC published a statement of continued support for a single set of high-quality global accounting standards and acknowledged IFRS is best positioned to serve that role.
  - The statement introduced a work plan to be executed by the SEC Staff that considers concerns raised by respondents to the roadmap.
  - The end goal is to provide analysis to the Commissioners to allow them to decide whether, when and how the US financial reporting system should incorporate IFRS.
  - The SEC maintained its original timeline of being in a position in 2011 to make a determination regarding incorporating IFRS into the US financial reporting system.

SEC IFRS Work Plan Details

The work plan is designed to consider:

- The sufficiency of development and application of IFRS for the U.S. system, including:
  - Comprehensiveness
  - Auditability and enforceability
  - Consistent and high-quality application
- The independence of standard setting for the benefit of investors
- Investor understanding and education regarding IFRS
- Examination of the U.S. regulatory environment affected by the change
- The impact on large and small issuers including the effect on systems, contractual arrangements, and corporate governance
- Human capital readiness

The first two areas consider *whether* IFRS should be further incorporated. The remaining four areas relate to transitional considerations to better evaluate *when* and *how* to effectively incorporate IFRS.

SEC continues to carry out the workplan

Latest step in SEC workplan was August 12, 2010 request for comments from:

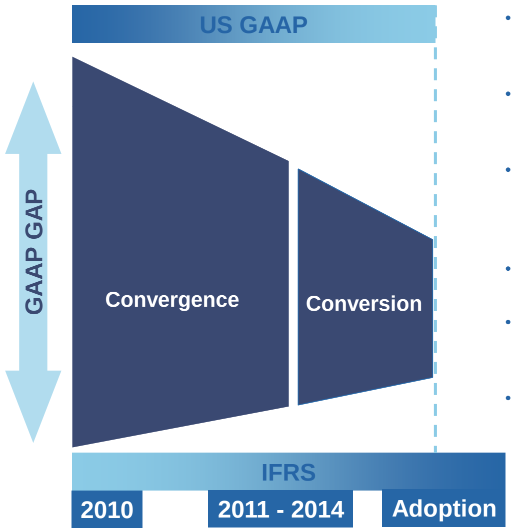
- Issuers
  - Contractual arrangements
  - Corporate governance; stock exchange listing requirements
  - Statutory distribution restrictions and other legal standards tied to reporting standards
- Investors
  - U.S. investors' current knowledge of IFRS and preparedness for IFRS
  - How investors educate themselves on changes in accounting standards
  - Extent of and time needed to undertake changes to improve investors' understanding of IFRS and the related education process

While opinions differ on what the SEC will communicate in 2011, convergence of US GAAP and IFRS standards continue at a rapid pace.

US GAAP/IFRS convergence agenda

- The FASB and IASB are currently working on approximately a dozen projects under the Memorandum of Understanding (MoU). The FASB and IASB originally committed to completing convergence projects by June 2011 with effective dates after 2012.
- The FASB and IASB announced a modified strategy for completion of the convergence agenda that will extend some projects into the second half of 2011 and beyond. The boards also committed to perform additional stakeholder outreach to allow for more participation in the standard setting process.
  - The boards prioritized the convergence agenda projects. Priority projects are targeted for completion by June 2011 or earlier. Projects considered to be a lower priority have completion dates that extend into the latter half of 2011; and beyond for certain projects.
  - The SEC's Chairman, Mary Schapiro, issued a statement that the revised timing will not impact the SEC's ability to make a determination in 2011 about whether to incorporate IFRS in the US domestic reporting system.
  - We believe that taking the time necessary to issue high quality standards is in the best interest of preparers and users. And, the necessary steps to do so will require further extension of the proposed timeline.
- No matter the outcome of the SEC's decision in the US, the ongoing convergence and development of standards will result in significant changes. This, together with new regulations caused by the financial crisis and continual global adoption of IFRS, will result in an extended period of substantial change for which companies should prepare.

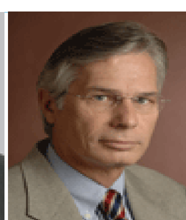
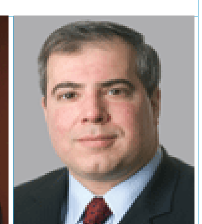
The US path to IFRS will likely be one of continued convergence followed by ultimate conversion



- The planned convergence of US GAAP and IFRS will result in a significant number of new US GAAP standards between 2010 and 2014
- Outside the US a growing number of countries require IFRS or an IFRS equivalent for private statutory reporting
- The IASB and FASB convergence project started in 2002. Despite expected progress significant differences will remain even after completion of the convergence agenda.
- Ultimately, the US will still need to change to IFRS to eliminate remaining differences.
- Under the SEC's proposed conversion timeline, IFRS could replace US GAAP, but no sooner than 2015-2016
- More likely we see that ultimate adoption of IFRS will still occur but that the timeline will be longer given convergence and conversion challenges.

Perspectives on FASB Leadership

Current FASB board members*

				
Bob Herz (retiring Oct.1, 2010)	Larry Smith (2012)	Tom Linsmeier (2011)	Leslie Seidman (appointed acting chair Oct. 1, 2010)	Marc Siegel (2013)

**The Financial Accounting Foundation (FAF) announced in August 2010 plans for the FASB to increase from 5 to 7 members by early 2011.*

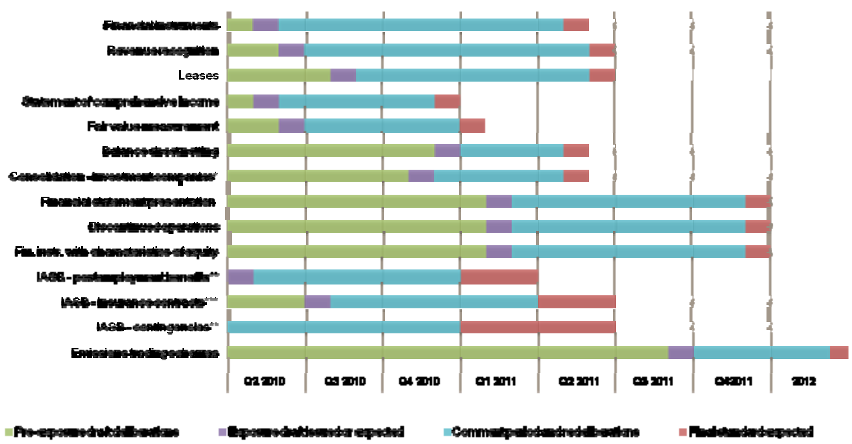
Advisory Groups to the FASB

- Financial Accounting Standards Advisory Council (FASAC)
- Financial Crisis Advisory Group (FCAG)
- Investor Task Force (ITF)
- Investors Technical Advisory Committee (ITAC)
- Valuation Resource Group (VRG)

Key FASB Developments – Announcement to Modify Work Plan

- On June 24, 2010, the IASB and FASB announced a modified strategy and work plan for completing their joint convergence agenda
- The modified strategy addresses the concerns of the stakeholders and includes:
  - A new timeline prioritizing the major projects, providing a sharper focus on the projects deemed to be the most urgent by the FASB and IASB
  - A limit to the number of exposure drafts (ED) published in a quarter. The Boards have agreed that only four significant or complex ED's will be issued in a quarter
  - A proposal to issue a separate consultation document seeking input about the effective dates and transition methods.
- The over-arching goal remains at arriving at high quality, improved and converged standards developed using robust due process and deliberation
- SEC confirmed the delay will not negatively impact its Work Plan about whether to incorporate IFRS in the US (announcement expected in 2011)

The current status of convergence – as announced July 2010



* The consolidation project has been divided into two projects: one focused on investment companies and one that is more comprehensive. The FASB will decide how it wants to proceed on a comprehensive project after it performs additional stakeholder outreach.

** These are IASB projects that have the potential to impact the views of the FASB as it evaluates existing U.S. GAAP in these areas.

*** IASB timeline. The FASB will decide, once the IASB issues its exposure draft, how best to proceed and plans to obtain stakeholder feedback on the IASB proposal.

Joint FASB/IASB Project: Accounting for Leases

Executive summary

- ED issued in August 2010. Comments due December 15, 2010. Final standard expected in Q2 2011
- The proposal would impact virtually every company
- The proposed rules would eliminate operating lease accounting by lessees
  - Balance sheet will be grossed up with an obligation and an asset
  - Rent expense will be replaced with amortization and interest expense
  - Total expense will be front-end loaded
- Lease term, contingent rents, residual value guarantees will need to be estimated and subsequently re-measured
- On-going reassessment and true-up of estimates will lead to significantly greater administrative burden
- Broad impacts on debt covenants, credit ratings, real estate and equipment financing strategy (lease vs. own), models for forecasting, impacts on incentive compensation plan metrics, etc.

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Joint FASB/IASB Project: Accounting for Leases

Scope

What is scoped in:

- All leases of tangible assets (property, plant and equipment) including short term leases
- Leases embedded within other arrangements such as service or supply contracts

What is scoped out:

- Transactions legally structured as leases but considered to be purchases (by lessee) and sales (by lessor) of the underlying asset
- Leases of intangible assets, biological assets, and exploration for or use of natural resources such as minerals, oil, natural gas
- Investment property accounted for at fair market value under IAS 40 (The FASB is considering a similar proposal to IAS 40 that would **require** the fair value measurement of investment property. .

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Joint FASB/IASB Project: Accounting for Leases

Lessee accounting model

- Lessee recognizes "right-of-use" asset and a liability for obligation to pay lease rentals
- Initial measurement
  - Obligation is measured at the present value of lease payments discounted at lessee's incremental borrowing rate. The rate the lessor is charging in the lease can be used if readily determinable.
  - Asset is the present value of lease payments (equal to the obligation at inception) plus initial direct costs incurred by lessee
- Subsequent measurement
  - Right-of-use asset
    - Amortized cost based approach (typically straight-line method)
    - Will be subject to impairment assessment under existing rules
  - Obligation
    - Amortized cost using effective interest method (like an amortizing mortgage)
    - Interest expense will be higher in the initial years

Joint FASB/IASB Project: Fair Value Measurement and Disclosure

- Objectives of project include:
  - Ensure fair value (FV) has the same meaning in U.S. GAAP and IFRS
  - Promote convergence with IFRS FV exposure draft, even if it results in amendments to current U.S. GAAP FV guidance
- Many aspects of the converged standard, including the definition of fair value and the market participant concepts, appear to be similar to existing U.S. guidance
- The FASB issued the proposed changes to ASC 820 on June 29, 2010; at the same time the IASB issued a limited re-exposure on sensitivity (measurement uncertainty) disclosures
- Comments are due on the exposure drafts on September 7, 2010 at which time the boards will re-deliberate jointly the comments received, with the intent of issuing substantially converged guidance by Q1 2011
- Deliberations have resulted in some changes to U.S. GAAP that will be proposed
- Two main areas may not be converged through this project

Joint FASB/IASB Project: Fair Value Measurement and Disclosure (continued)

- Areas of change for US GAAP

Valuation premise (highest and best use)

- Application of "highest and best use" will be limited to nonfinancial assets
- Financial assets and liabilities will be required to be valued on a standalone basis

Portfolios of financial assets and liabilities

- Proposal includes an exception to the principle around the valuation premise above that allows a company to determine fair value on a net basis if the company manages the offsetting market and credit risks of a group of financial assets and financial liabilities on a net basis (rather than a gross basis) if certain criteria are met
- Meant to address a practical issue (i.e., how entities manage and exit portfolios)

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Joint FASB/IASB Project: Fair Value Measurement and Disclosure (continued)

- Areas of change for US GAAP (cont'd)

Premiums and discounts

- Blockage factors will be prohibited for all levels in the fair value hierarchy
- Control premiums will be limited to reporting units (such as for a goodwill impairment analysis)

Disclosures

- Classification within the fair value hierarchy required for instruments where fair value is only disclosed in the footnotes (e.g., disclosure of the fair value of long term debt)
- A measurement uncertainty analysis will be required for all Level 3 fair value measurements unless another standard does not require such a disclosure
- The measurement uncertainty analysis should consider the effect of the correlation between inputs when relevant
- Requirement to disclose when an asset is being used differently from its highest and best use

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Joint FASB/IASB Project: Fair Value Measurement and Disclosure (continued)

- Areas of continued divergence

Day one gains and losses

- Under IFRS, Day one gains and losses can only be recognized to the extent that the fair value is based on observable pricing – this is different from U.S. GAAP
- The IASB determined to not address this difference in the fair value measurements project and will consider at a future time

Fair value of investments in investment company entities

- In 2009, the FASB issued a practical expedient to NAV
- The IASB determined to not issue similar guidance because:
  - IFRS does not contain accounting requirements specific to investment company entities
  - NAV is not defined in IFRS and its definition can vary in different parts of the world

Joint FASB/IASB Revenue Recognition Project

Objective: develop a single, comprehensive revenue recognition model

- The new revenue recognition model is a single, contract-based, asset and liability model
- Replaces all existing US GAAP and IFRS revenue recognition literature (including all industry-specific guidance)
  - The scope of the model is focused on contracts with customers across all industries
  - Scope exceptions include: leases, insurance, financial instruments, certain guarantee contracts and certain nonmonetary exchanges
- ED released in June 2010 and a final standard expected in 2011
- Comment letter period ends on October 22, 2010

Joint FASB/IASB Revenue Recognition Project (continued)

- Single contract based model for **all transactions**
- Recognition resulting from satisfaction of performance obligations
  - Contract asset = rights to consideration
  - Contract liability = performance obligation
- Performance obligations include:
  - Explicit or implicit promise to transfer a distinct asset (good or service)
  - Customary business practices
  - Certain warranties

Joint FASB/IASB Revenue Recognition Project (continued)

- Measurement of performance obligations
  - Transaction price (customer consideration) is the amount expected to be received
    - Variable or contingent consideration
    - Collectibility
    - Time value of money
  - Transaction price continuously updated over life of contract
- Allocate consideration to each performance obligation using relative actual or estimated standalone selling prices
  - No options for allocation – residual method no longer allowed
    - Account for onerous obligations (may be recognized earlier and more frequently)

Joint FASB/IASB Revenue Recognition Project (continued)

- Revenue recognized when performance obligations are satisfied
  - Occurs when asset is controlled by the customer (generally, when the customer receives the good or service)
- Contract costs
  - Costs of obtaining a contract are expensed as incurred (e.g. sales commissions)
  - Some fulfillment costs are eligible for capitalization

Joint FASB/IASB Project: Financial Statement Presentation (FSP)

Background	
Why FASB and IASB are doing this project	• Analysts and investors have long raised concerns about some issues in the way financial information is presented: - No common approach for financial statements presentation. - Information is not linked between the statements. - Dissimilar items are sometimes aggregated into one number.
Core objectives and principles	• Financial information presented in the financial statements to: - Portray a cohesive financial picture of an entity's activities. - Disaggregate information so that it is useful in assessing the amount, timing and uncertainty of an entity's future cash flows.
Expected completion dates	• Discussion Paper setting out preliminary views was published in 2008. • Staff Exposure Draft issued July 1, 2010 reflecting cumulative decisions to date in order to extend outreach to stakeholders. • IFRS and US GAAP Exposure Drafts are now expected to be released in Q1 2011. • The project is expected to be finalized by the end of 2011.

Joint FASB/IASB Project: FSP (continued)

DISAGGREGATION	Statement of financial position	Statement of comprehensive income	Statement of cash flows
	COHESIVENESS		
	Business: - Operating assets and liabilities - Investing assets and liabilities	**Business:** - Operating income and expenses - Investing income and expenses	**Business:** - Operating cash flows - Investing cash flows
	Financing: - Debt - Equity	**Financing:** - Debt	**Financing:** - Debt - Equity
	Income taxes	**Income taxes** on continuing operations (business and financing)	**Income taxes**
	Discontinued operations	**Discontinued operations** Net of tax	**Discontinued operations**

* *The IASB format is similar*

Financial Statement Presentation (continued)
Statement of Financial Position

	For the year ended December 31, 2010
BUSINESS	
Operating	
Assets	
Cash	22,871
Federal funds sold	45,800
Advances and loans to banks	15,203
Trading securities at fair value	34,022
Securities available-for-sale at fair value	653,636
Derivatives at fair value	655
Interest receivables on loans and leases	180,570
Loans and leases, net	3,836,442
Premises and equipment, net	195,250
Goodwill	81,330
Core deposit and other intangible assets	2,835
Total operating assets	5,068,614
Liabilities	
Noninterest bearing deposits	(670,717)
Interest checking deposits	(78,846)
Savings deposits	(1,352,372)
Total Deposits	(2,101,935)
Federal funds purchased	(404,704)
Wages payable	(10,500)
Share-based compensation liability	(95,672)
Litigation provision	(3,846)
Total liabilities before operating finance	(2,616,657)
Operating finance	
Time deposits	(1,236,335)
Total operating liabilities	(3,852,992)
Net operating assets	1,215,622

	For the year ended December 31, 2010
Investing	
Equity method investment in company X	53,240
Investment at fair value in company Y	31,750
Total investing assets	84,990
NET BUSINESS ASSETS	1,300,612
INCOME TAX	
Deferred tax asset	34,392
Income taxes payable	(2,087)
NET INCOME TAX ASSET	32,305
FINANCING	
Debt	
Interest payable	(93,360)
Long-term debt	(727,313)
Dividends payable	(20,000)
Total debt	(840,673)
Equity	
Common stock (.25 par, 500,000 shares authorized, 100,000 issued and outstanding in both years)	(25,000)
Additional paid-in capital	(105,643)
Treasury stock	55,918
Retained earnings	(347,005)
Accumulated other comprehensive income	(70,514)
Total equity	(492,244)
TOTAL FINANCING	(1,332,917)
Total assets	5,187,996
Total liabilities	(4,695,752)

Financial Statement Presentation (continued)
Statement of Comprehensive Income

	For the year ended December 31, 2010
BUSINESS	
Operating	
Interest income	
Loans and leases, including fees	220,320
Trading securities	1,399
Securities available-for-sale	23,539
Federal funds sold	3,672
Interest expense	
Interest checking deposits	(564)
Savings deposits	(21,644)
Federal funds purchased	(19,224)
Operating finance	
Interest expense - time deposits	(46,296)
Net interest income	161,202
Provision for credit losses	(12,853)
Net interest income after provision for credit losses	148,349
Non-interest operating income (expense)	
Mortgage banking revenue	7,907
Service charges on deposits	32,079
Wages, salaries and benefits expense	(38,000)
Occupancy expense	(6,860)
Share-based compensation expense	(36,172)
Depreciation expense	(6,400)
Realized gains and losses	(87)
Impairment loss on goodwill	-
Amortization of core deposit intangibles	(2,658)
Transaction processing expense and other	(23,298)
Total operating income	74,860
Investing	
Earnings in company X (equity method)	3,780
Fair value change in investment in company Y	(7,500)
Dividend income from company Y	2,700
Total investing income	(1,020)
TOTAL BUSINESS INCOME	73,840

	For the year ended December 31, 2010
FINANCING	
Debt	
Interest expense on long-term debt	(47,127)
TOTAL FINANCING EXPENSE	(47,127)
Income before income tax	26,713
Income Tax	
Income tax expense	(9,274)
NET INCOME	17,439
OTHER COMPREHENSIVE INCOME, NET OF TAX	
Foreign currency translation adjustment on equity method investee (investing, net of tax of (290) and (269))	(540)
Gains on available-for-sale securities arising during the year (net of tax of (18,228) and 15,750)	(33,852)
Amounts reclassified into earnings (net of tax of 756 and 700)	1,404
Unrealized gain (loss) on available-for-sale securities (operating, net of tax of (17,4720 and 15,0500)	(32,448)
Gains on futures contracts arising during the year (net of tax of 314 and 290)	583
Amounts reclassified into earnings (net of tax of (215) and (199))	(400)
Unrealized gain on futures contract (operating, net of tax of 98 and 91)	183
Total other comprehensive income	(65,070)
TOTAL COMPREHENSIVE (LOSS) INCOME, NET	(47,631)
Net income per common share	0.17
Net income per common share assuming dilution	0.16

On the Horizon

Joint FASB / IASB Project: FSP (continued)

Statement of Cash Flows

- Cash flows are to be presented using the "direct method".
- The Boards do not specify to companies how to prepare the direct method cash flow statement, thus an “indirect-to-direct method” can be used (i.e., no need to track all cash transactions)
  - The exposure draft states that to present cash flows using the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:
    - Directly from accounting records of reporting entity, or
    - Indirectly, by identifying the change in asset and liability balances
- A reconciliation from operating income to net cash from operating activities and non-cash information is to be presented as part of the Statement of Cash Flow.

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