

European Life Market Update

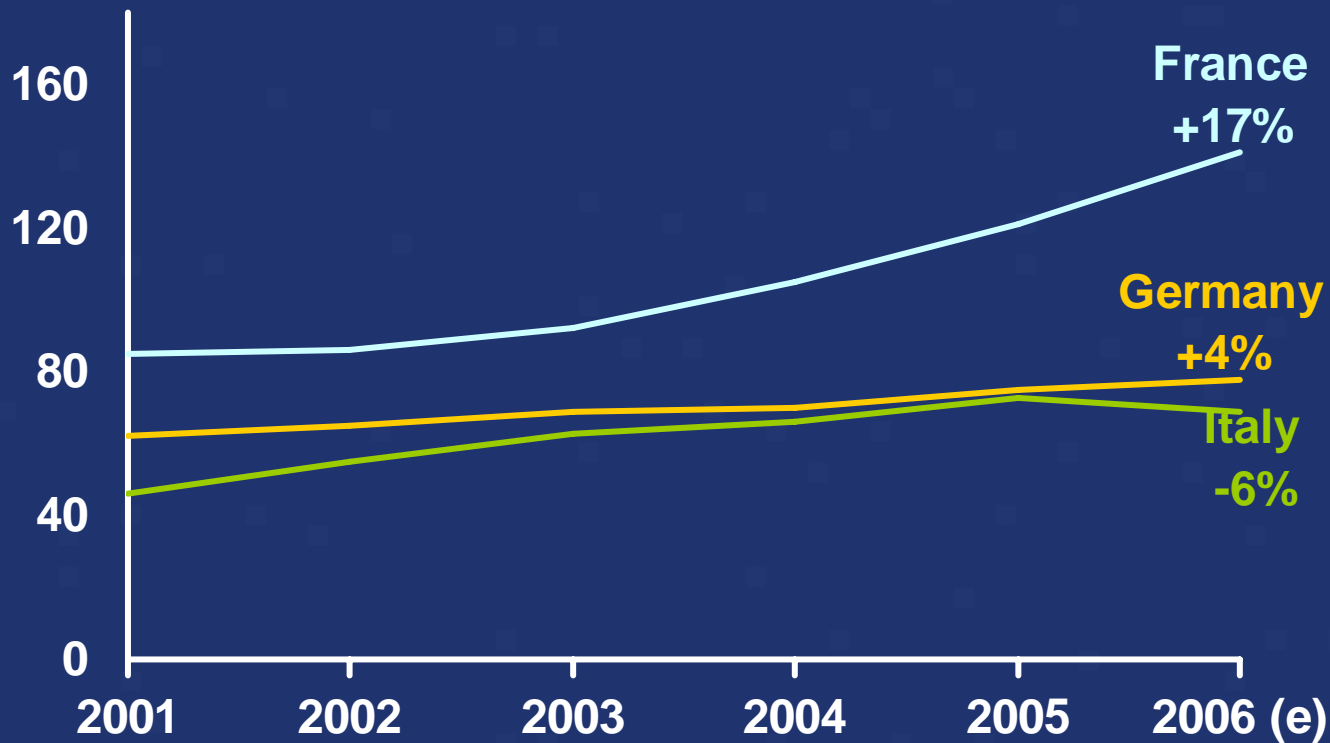
Vasilis Katsipis

Assistant General Manager

A.M. Best Europe

Unit Linked and Pensions Main Growth Areas in Europe

GWP Development (EUR bns)



Growth Rates

| | UL | Pensions |
|---------|-----|----------|
| France | 45% | 12% |
| Germany | 16% | 25% |
| Italy | 4% | 25% |

Changes in State Provisions Point to Strong Growth

Changes In State Pension Provision

| | Contribution Period | Replacement Rates | Retirement Age |
|--|---------------------|-------------------|----------------|
|--|---------------------|-------------------|----------------|

France



Germany



Italy



Uncertainty on direction to be clarified post 5/07 elections

Tax relief and subsidies in place till 2008

New legislation came in force 1/1/07 will drive strong demand

Population & Pensions

Population Coverage of Different Pension Schemes

Growth Prospects

| | Voluntary Occupational | Personal Pensions | |
|----------------|---------------------------|----------------------|---|
| France | 10% | 8% | <ol style="list-style-type: none">1. Voluntary occupational pensions are the immediate growth area2. Personal pensions may have to wait for further legal changes |
| Germany | 60% | 13% | <ol style="list-style-type: none">1. Voluntary occupational pensions still grow strongly following tax breaks and subsidies2. Strong sales of private annuity insurance products |
| Italy | 8% | 2% | <ol style="list-style-type: none">1. Strongest growth potential in Europe2. Strong sales of voluntary occupational pensions and personal pension expected as state pension benefits decrease |

Risks With Writing Pensions in Continental Europe

1. Uncertainty on longevity risk

PLUS

2. Lack of sufficiently long term gilts

➤ Dependence on hedging strategies

➤ Residual Risk

➤ A system that favours the larger insurers

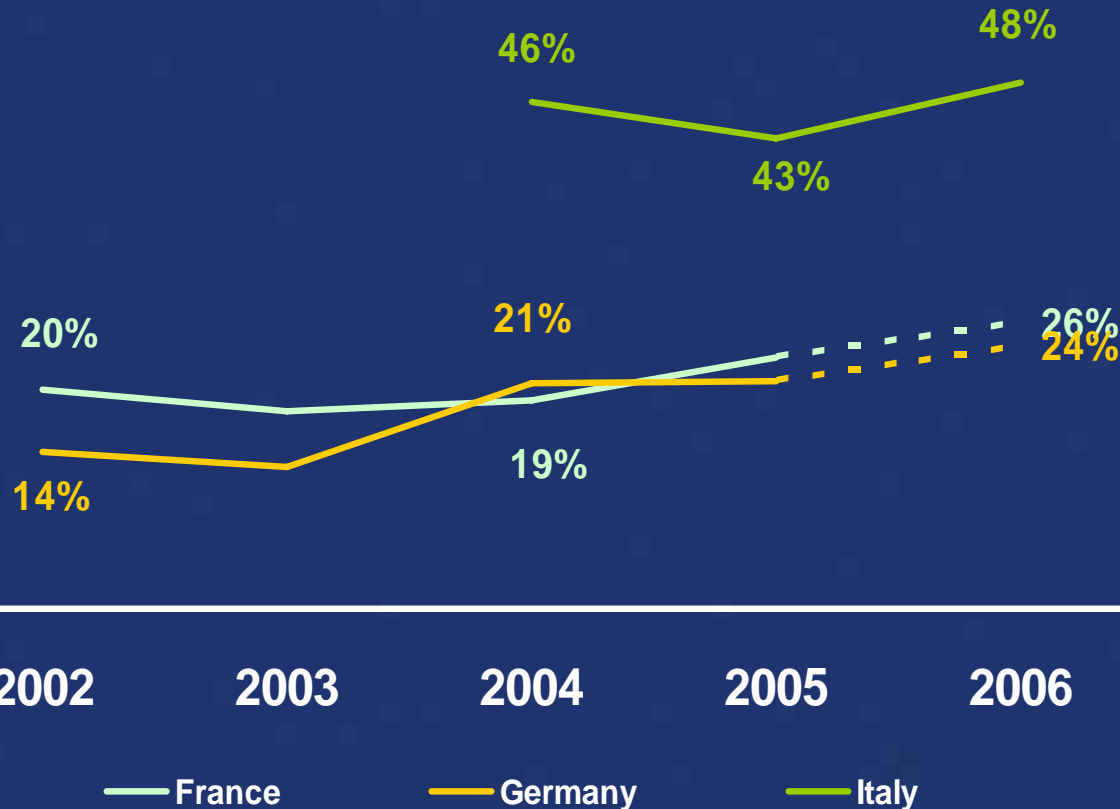
3. Complete lack of a secondary market

➤ No ability to offload risks

➤ Upfront pressure in effective risk management

Growth in UL Business

Unit Linked Proportion of Sales



Pros

- Reduced new business strain
- Move away from endowments with expensive guarantees
- Reduction in required capital

Cons

- Lower margins
- Higher earnings volatility

Overall Trends Impacting European Life Markets

- + Growth to continue
- + Insurers give further emphasis on life insurance on a background of softening non-life
- = Reported profitability stable
- = M&A activity in selected segments
- Capitalisation:
 - Problems with ALM of pensions business
 - Questionable for smaller companies