

IFRS – A User's Perspective and Expectations Regarding Enforcement

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Please note that opinions in this presentation do not necessarily represent Hansabank's views.



Current thinking regarding company analysis

- Accounting is considered to be more like an art form rather than a science
 - On top of auditors opinion deeper analysis is usually required, especially for:
 - Understanding company's operations
 - Valuation of financial investments
 - Valuation of significant other assets
 - Transactions with related parties
- For reasonable analysis of company's operations usually more info is needed than available from audited reports**

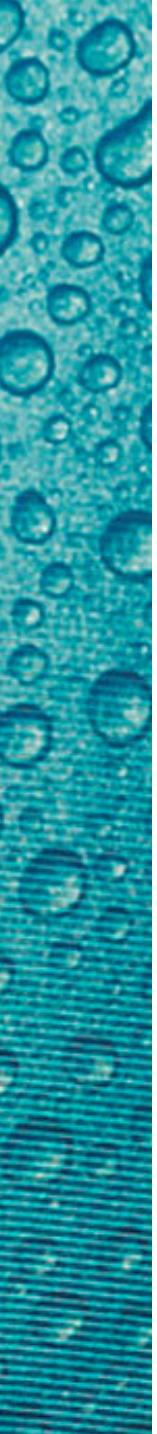
Main ideas behind IFRS

- Emphasis is on measuring the fair values of companies' assets and liabilities
 - Investors are supposed to get relevant information more quickly
 - Number of items kept previously off-balance must be recorded at fair value
 - Better transparency and similar underlying assumptions in provided data
 - With certain adjustments will be apparently applied to SME segment
- New framework addresses many of the current concerns in the right way from user's perspective**

Implications of adopting IFRS

- Public reports are to become closer to fair representations of reality rather than being management's opinion of current state of affairs
- Transparent and comparable data
- Large impact on investors relations
 - Explain income volatility
 - Changes in balance sheet structure
 - Manage more disclosure
- Markets become more efficient, differences between jurisdiction are likely to decrease

The expected outcome is without any doubt investor-friendly, although at a certain cost to the companies

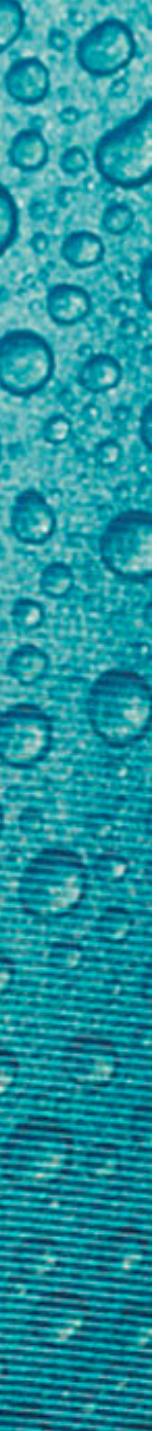


Will it really work?

- If IFRS is applied properly many opportunities for creative thinking will be shut down permanently
- But still a number of topics for subjective judgement will remain
- Apparently there will be considerable short-term confusion for investors as well as for companies
 - Reconsidering of old ways may take a while
 - Some rules are too complex and costly to implement
 - Debt covenants may be affected significantly
- For Baltic companies compliance will be easier to achieve than for some Western jurisdictions
 - Fewer complex issues like pensions or stock options
 - Less historical baggage

Conclusions

- IFRS seems to be driven by sound reasoning and addresses a number of today's concerns in a straightforward way
- New rules are much more than just complicated adjustments of old rules – fair value model to be implemented will require changes in thinking
- Getting used to new rules will take time from all stakeholders and there are a number of hidden caveats in the process
- But in general, it is clearly a step in the right direction towards greater transparency and more efficient markets



Thank you!