Nordea Markets
Insurance Seminar 2012

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Agenda

- **How do you see risk, return and opportunities going forward?**
- What is the main impact from Solvency II – on investments?
- Internal model is a buy-back opportunity?
- Does CoC represent a potential problem?
- Topdanmark has already picked the low-hanging fruits?
- Expense ratio has been increasing – a problem?

Normalised profit

Assumptions:

CR: 91

Run-off gains: 1.5pp

Technical interest excl. discounting: 2%

Return on "match" portfolio equals discounting

Investment return on interest-bearing assets not included in "match" portfolio:

Risk-free interest rate + 200bp

Return on equities: 7% p.a.

(DKKm)	
Non-life – CR = 91 – 8.7bn x 9pp	780
Run-off (CR effect 1.5pp) – 8.7bn x 1.5pp	130
Technical interest excl. discounting	80
Life incl. Asset Management (life)	250
Risk premium assets – 5bn x 2%	100
Equities – 0.8bn x 7%	60
Total return	1,400
Tax	(350)
Post-tax profit	1,050

Forecast assumption: Risk premium of DKK 100m

- Forecast assumption of risk premium of DKK 100m based on
  - Provisions for unearned premiums invested in for example properties, credits, CDOs where illiquidity allowance is possible
  - Provisions for outstanding claims mainly invested in Danish mortgage bonds where option-adjusted spread is possible

- So far risk premium allowance of 200bp has turned out to be a conservative forecast assumption

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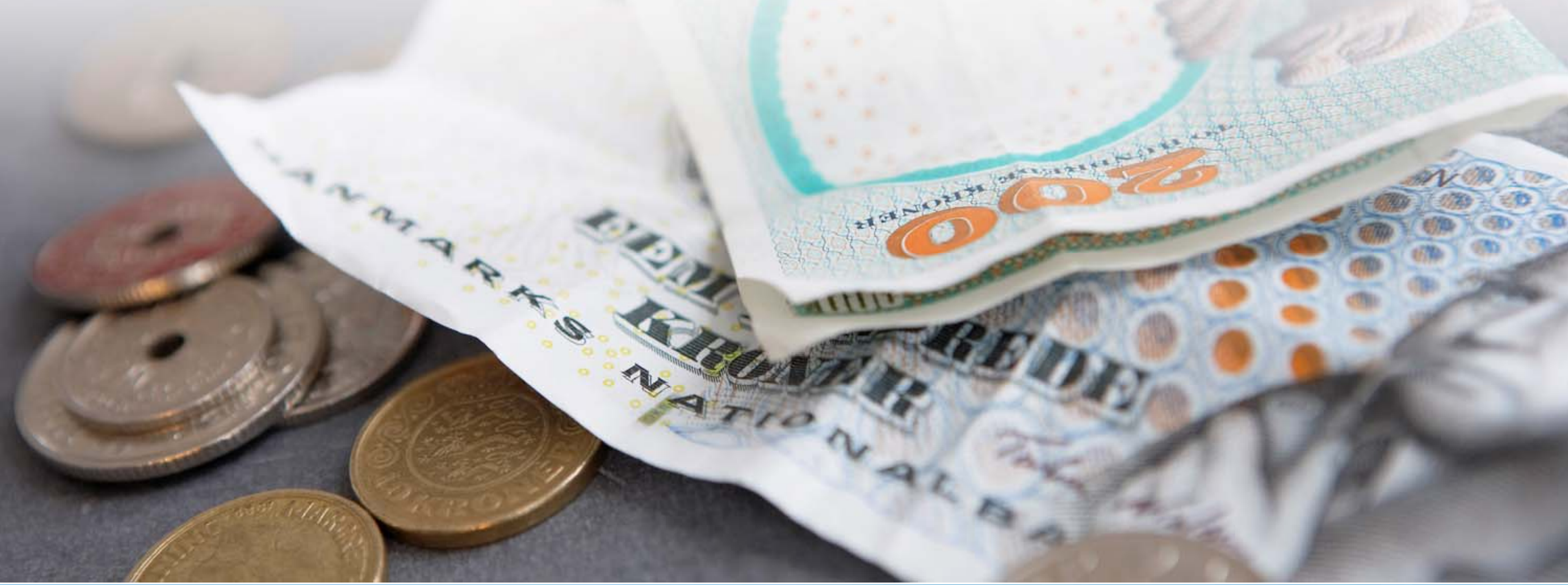
What is the main impact from Solvency II on investments?

- Solvency II increases capital requirements on risky investment assets

- Examples of possible capital requirements
  - CDOs 100%
  - Equities ~40%
  - Credits with B-rating 25%



What is the main impact from Solvency II on investments?

Example of effect of Solvency II

- CDO and equity portfolio halved and reinvested in short-terms credits

- Return assumption p.a.
  - Equities 7%
  - CDOs 12%
  - Short-term credits 5%

- Equity and CDO exposure on 30 September 2011
  - Equities DKK 767m
  - CDOs DKK 718m

- Around DKK 30m pre-tax effect on results
  - Out of a normalised pre-tax profit of DKK 1.4bn

- Partly compensated by lower volatility in earnings which, theoretically, reduces return requirements

- Solvency requirement reduced by DKK 200m after diversification effect

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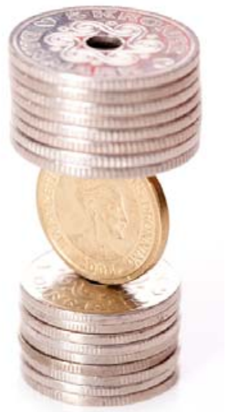
Internal model is a buy-back opportunity

- Topdanmark able to optimise its capital structure when internal model has been approved
- Solvency II enables tier 2 capitalisation of up to 50%
    - At present Topdanmark has tier 2 capitalisation of 6%
- Postponement of Solvency II will postpone consideration of extraordinary buy-back due to optimisation of capital structure
- If Solvency II is postponed, Topdanmark will not benefit from tier 2 capital of DKK 500m
    - DKK 15m post-tax cost of capital

Internal model is a buy-back opportunity

Buy-back potential 2011

(DKKm)	
Estimated necessary solvency capital under Solvency II - Before growth	4,500
Subordinated loan capital - Insurance	(250)
Necessary solvency capital - Holding	4,250
Shareholders' equity 31 Dec 2010	4,900
Hybrid capital	404
Intangible assets	(787)
	4,517
Surplus capital 31 Dec 2010: DKK 267m	
Expected post-tax profit (average value)	950
Change in intangible assets	54
Movements in shareholders' equity	150
Expected capital cover 31 Dec 2011	5,671
Surplus capital / buy-back potential in 2011	1,421



Any solvency capital requirement exceeding DKK 4,500m will be covered by issuing further supplementary capital. Topdanmark Forsikring has issued subordinated loan capital of DKK 100m with step-up in 2015 and expiry in 2018 and further subordinated loan capital of DKK 400m with step-up in 2016 and expiry in 2019. These issues are intended as resources for the change to Solvency II and therefore they will not be included in the share buy-back potential until the actual Solvency II requirement is known.

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Does CoC represent a potential problem?

- CoC risk offset by
  - Recognition of next years' profit
  - Buffers on provisions for outstanding claims

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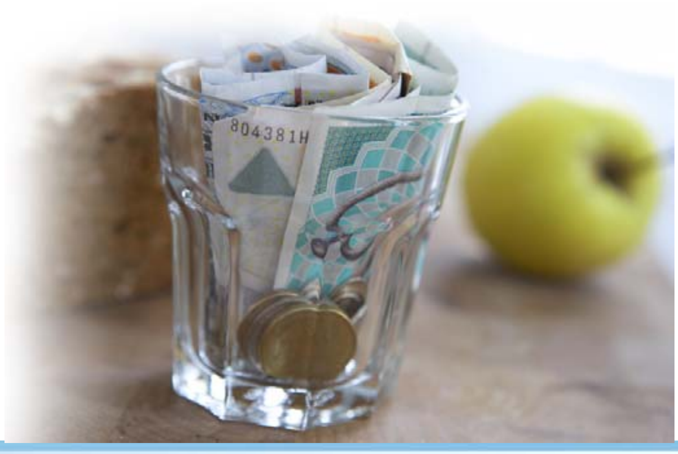
Topdanmark has already picked the low-hanging fruits

- There are no low-hanging fruits for permanent value creation in insurance
  - For example price increases

- Topdanmark will improve the quality of its customer portfolio by implementing a number of profitability improving initiatives
  - Individual price increases
  - Higher deductibles
  - Lower sums insured
  - Loss prevention



Effect of general price increases vs profitability improving initiatives

General price increases	Price increases for both profitable and non-profitable customers
• Short-term effect	Premium growth and lower CR
• Long-term effect	Loss of competitiveness on profitable customers → Loss of profitable customers → Higher CR
Profitability improving initiatives	Profitability improving initiatives for less profitable customers
• Short-term effect	Lower growth and lower CR
• Long-term effect	Improved competitiveness on profitable customers → not necessarily higher premium growth but lower CR

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- **Expense ratio has been increasing – a problem?**

Expense ratio has been increasing – a problem?

- Topdanmark has no goal for its expense ratio, but for its combined ratio
- Goal for expense ratio involves a risk of sub-optimisation
  - For example, Topdanmark's around DKK 500m reduction of its workers' comp portfolio increased the expense ratio by around ½pp but at the same time improved the claims trend
- Trade-off between expense ratio and claims trend
  - Could be healthy to invest – thus achieving a temporary higher expense ratio – if it reduces the claims trend

What do you prefer?

CR	Expense ratio	Claims trend
91	16	75
92	15	77

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This presentation includes statements relating to the future. Such statements are uncertain and involve both general and specific risks.

Many factors may cause a significant deviation from the forecasts and assumptions set out in the presentation. Such factors could be, for example, cyclical movements, changes in the financial markets, the financial effect of non-anticipated events like acts of terror or exceptional weather conditions, changes in Danish and EU rules, competitive factors in the insurance industry and the trend in reinsurance market. Also see www.topdanmark.com → Risk management.

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Topdanmark's statements relating to the future are solely based on information known at the time of the preparation of the interim report for Q1-Q3 2011.

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