

# **Cheuvreux - Insurance Day**

## **13 January 2009**

by Poul Almlund  
CEO

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# Highlights

## Results for the period:

- Q3 loss of DKK 172m (Q3 2007: DKK 204m profit)
- Q1-Q3 loss of DKK 163m (Q1-Q3 2007: DKK 968m profit)
- 52.8% increase in technical result of non-life in Q3 and 22.7% in Q1-Q3
- CR improved from 85.2 in Q1-Q3 2007 to 82.1 in Q1-Q3 2008
  - After adjusting for gains on the claims provisions CR declined from 88.5 to 88.2
- DKK 1,330m loss on investments
- Cash flow from operations improved 1% to DKK 4,257m

## Prospects for 2008

- Improved CR from around 88 to around 84.5
- Post-tax profit forecast for 2008 is now a DKK 250m - 350m loss
- Share buy-back programme discontinued for 2008

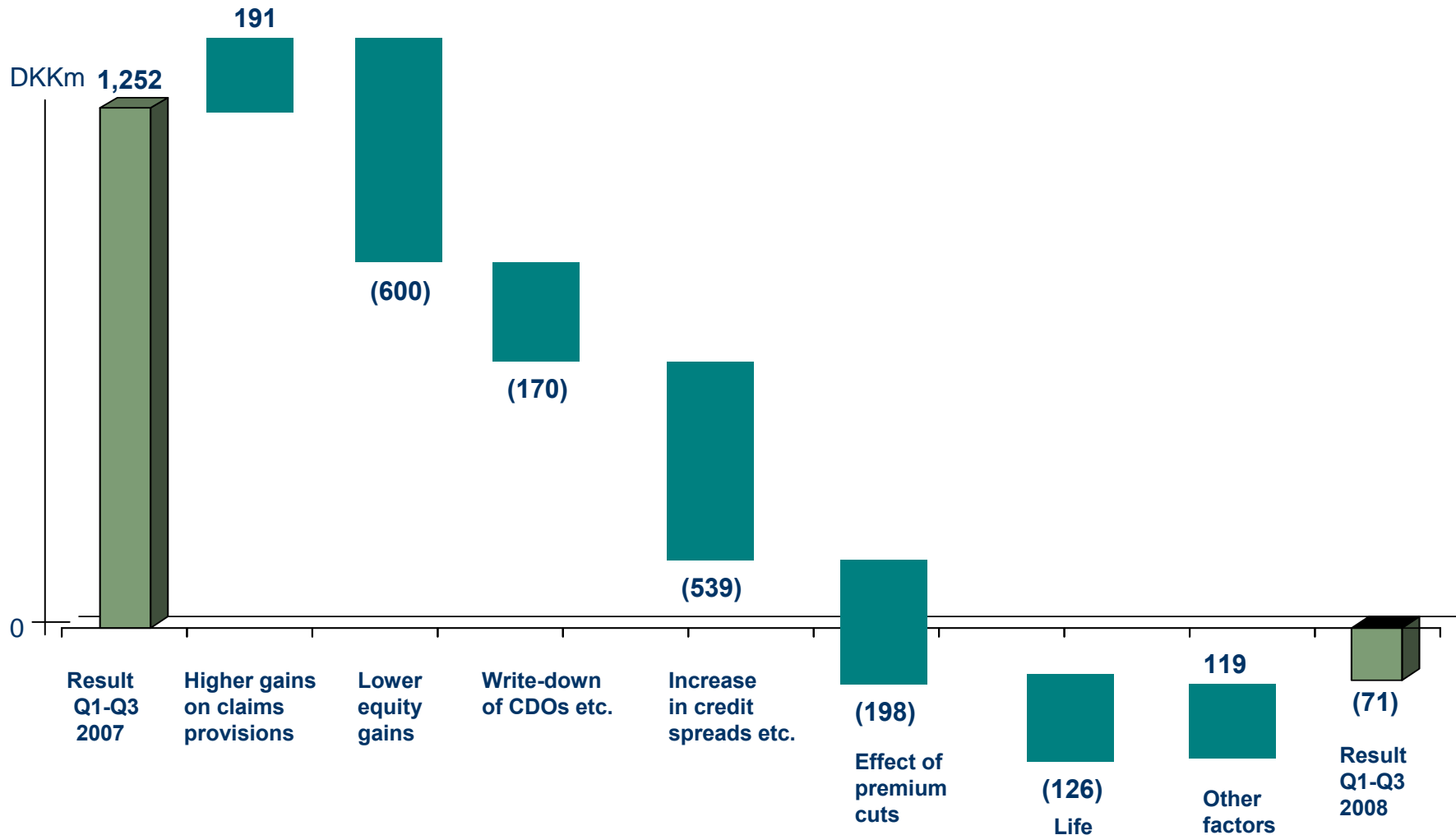
## Prospects for 2009

- Expected post-tax profit of DKK 1,150m - 1,250m ~ 35% ROE

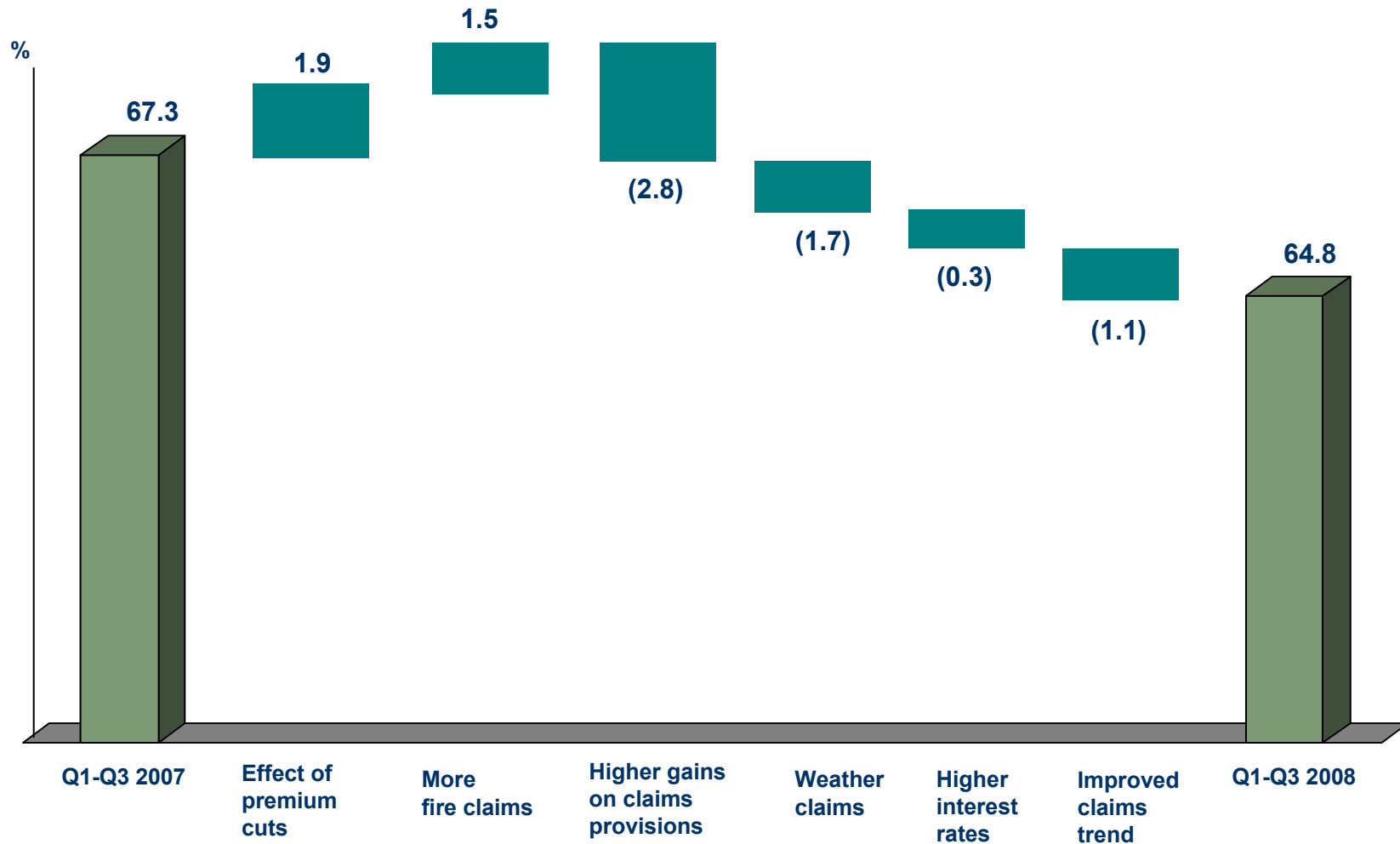
## New CEO

- As planned Poul Almlund will retire at the end of May 2009 to be succeeded by Christian Sagild

# Pre-tax trend in result Q1-Q3 2007 to Q1-Q3 2008



# Trend in loss ratio Q1-Q3 2007 to Q1-Q3 2008

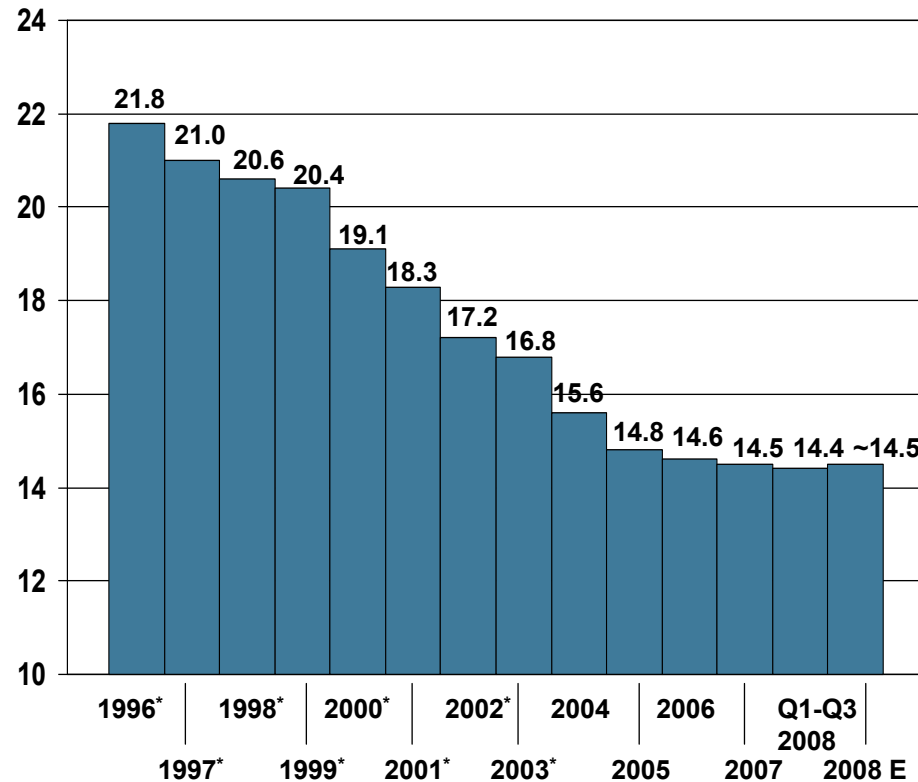


# Ratios by segments

## Ratios by segments

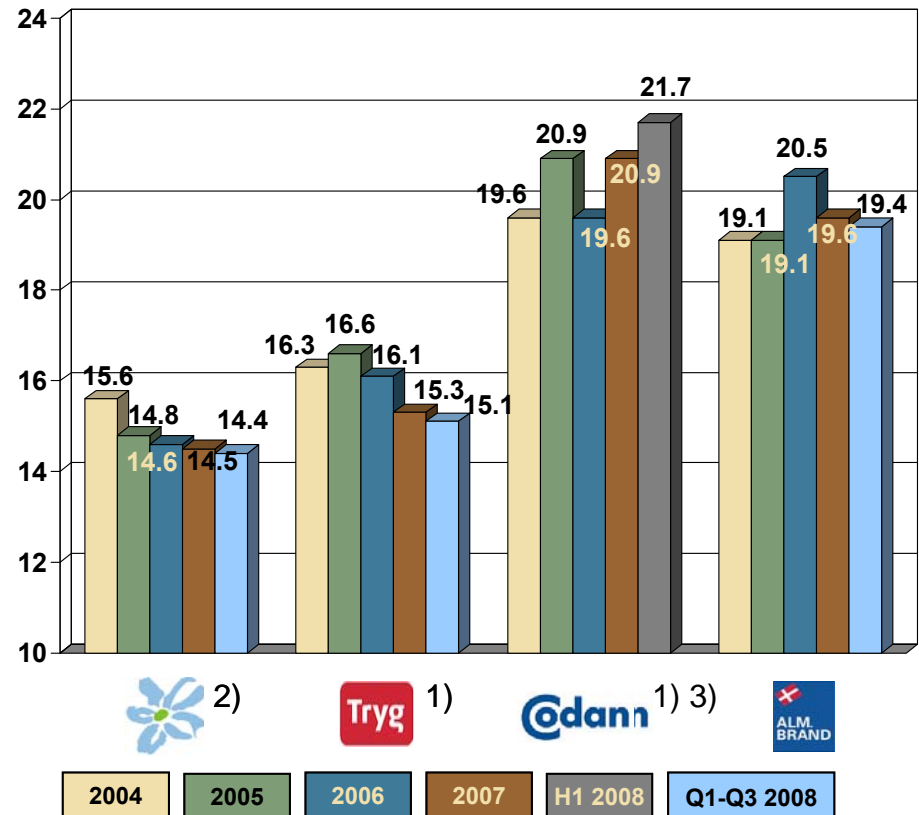
	Personal		Commercial		Industrial		Group	
	Q1-Q3 2007	Q1-Q3 2008	Q1-Q3 2007	Q1-Q3 2008	Q1-Q3 2007	Q1-Q3 2008	Q1-Q3 2007	Q1-Q3 2008
Premium growth		0.6		3.4		0.6		1.6
Gross loss ratio (%)	67.3	67.9	69.0	62.5	61.4	58.1	67.3	64.8
Net reinsurance ratio (%)	0.9	1.2	3.4	3.2	18.8	10.7	3.6	2.9
Claims trend (%)	68.2	69.1	72.4	65.7	80.2	68.8	70.9	67.7
Gross expense ratio (%)	15.3	15.6	13.4	13.3	13.4	13.5	14.3	14.4
Combined ratio	83.5	84.7	85.8	79.0	93.6	82.3	85.2	82.1
CR adjusted for any gains on / strengthening of provisions	87.5	88.0	87.2	87.7	100.6	93.0	88.5	88.2
Effect of premium cuts								(2.4)
								85.8

## Trend in Topdanmark's expense ratio



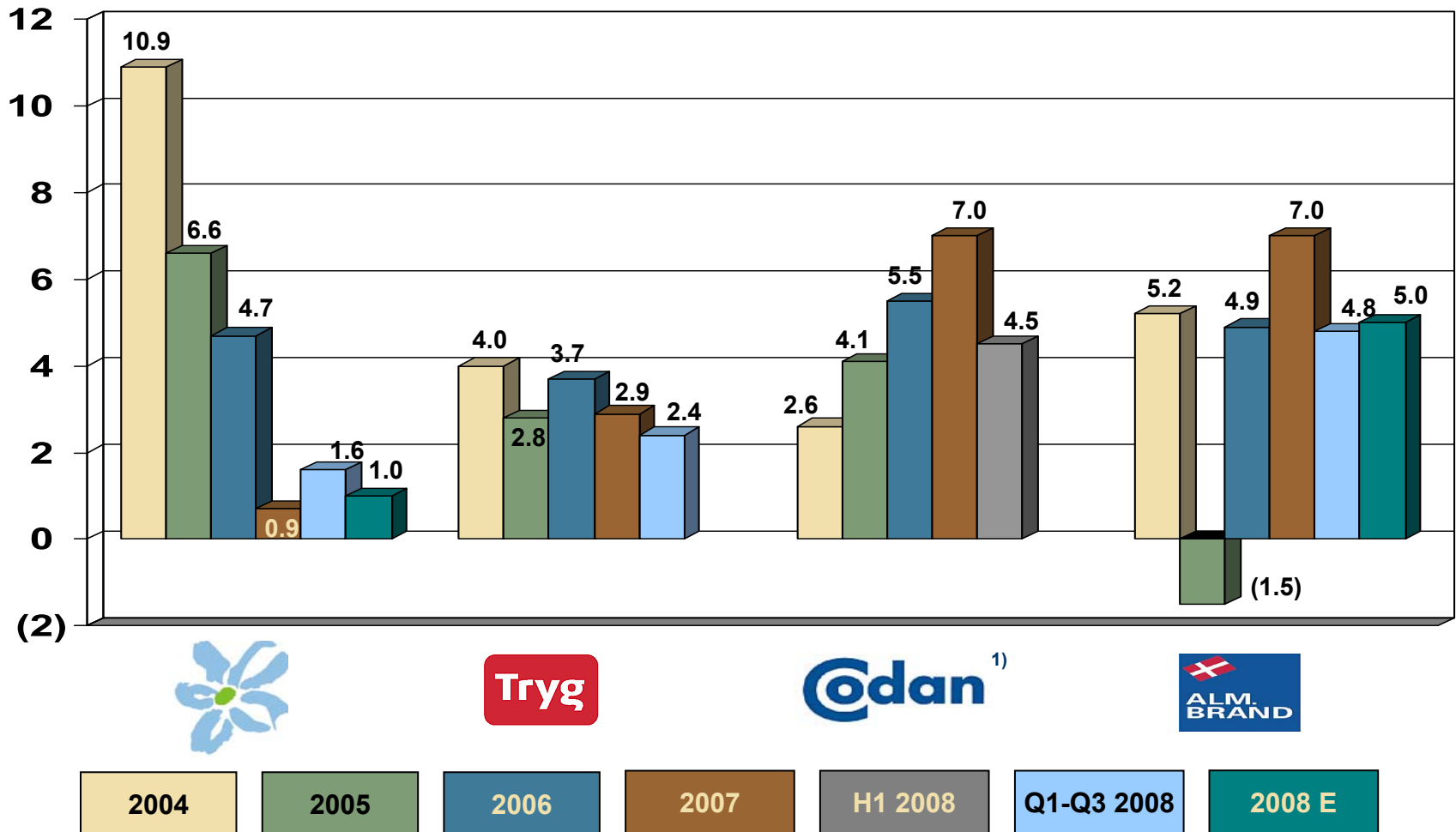
\*Reduced by estimated IFRS effect 1996-2003

## Topdanmark has the lowest expense ratio among the major Danish insurance companies



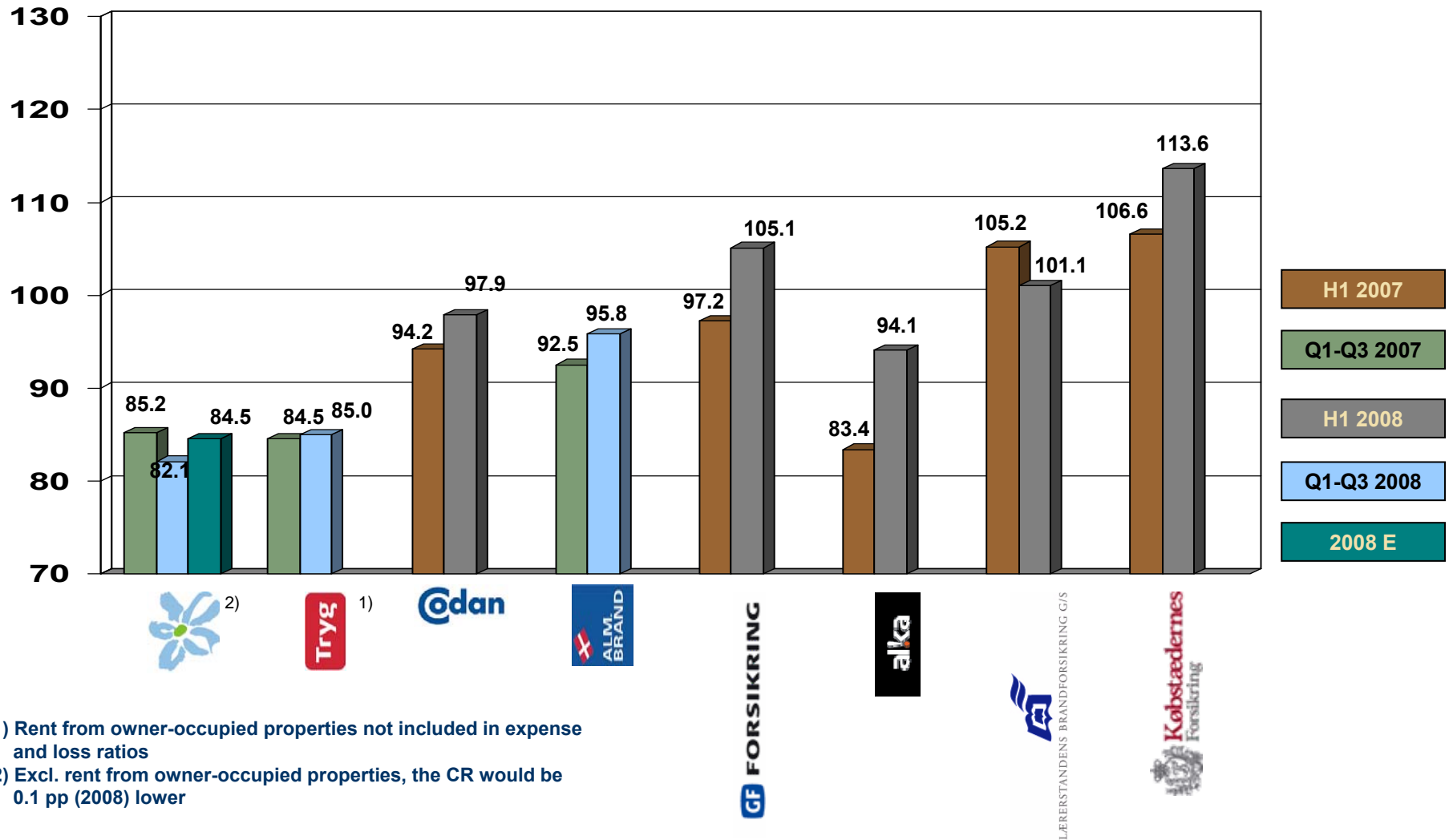
- 1) Rent from owner-occupied properties not included in expense ratio
- 2) Excl. rent from owner-occupied properties, the expense ratio would be 0.1 pp (2008) lower
- 3) Separate figures no longer disclosed for Denmark

# Comparison of premium growth (Danish insurance)



<sup>1)</sup> From 2007 Scandinavian business on own account

# Comparison of CR



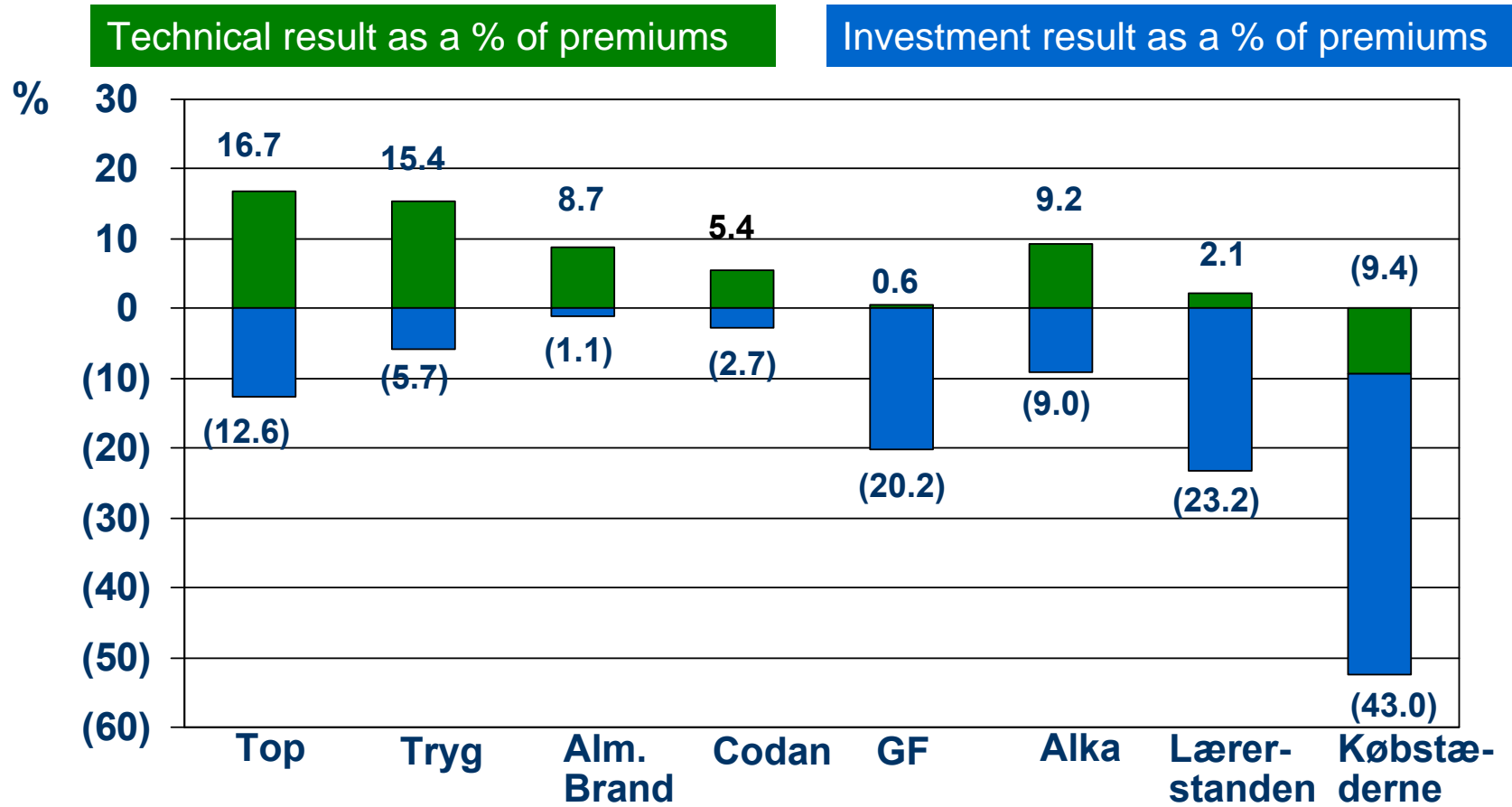
1) Rent from owner-occupied properties not included in expense and loss ratios

2) Excl. rent from owner-occupied properties, the CR would be 0.1 pp (2008) lower



# Comparison of earnings

## Earnings profile H1 2008



# Prospects in non-life insurance

## 2008

- Measures to improve competition implemented, DKK 135m effect in Q1-Q3 2008
  - Overall 3.0 pp adverse effect on premium growth in Q1-Q3 2008
- Improved exchange rate of customers now seen in in personal market
- Continued expected premium growth of 1%
- Improved expected CR from around 88 to around 84.5
- Trend in 2008:

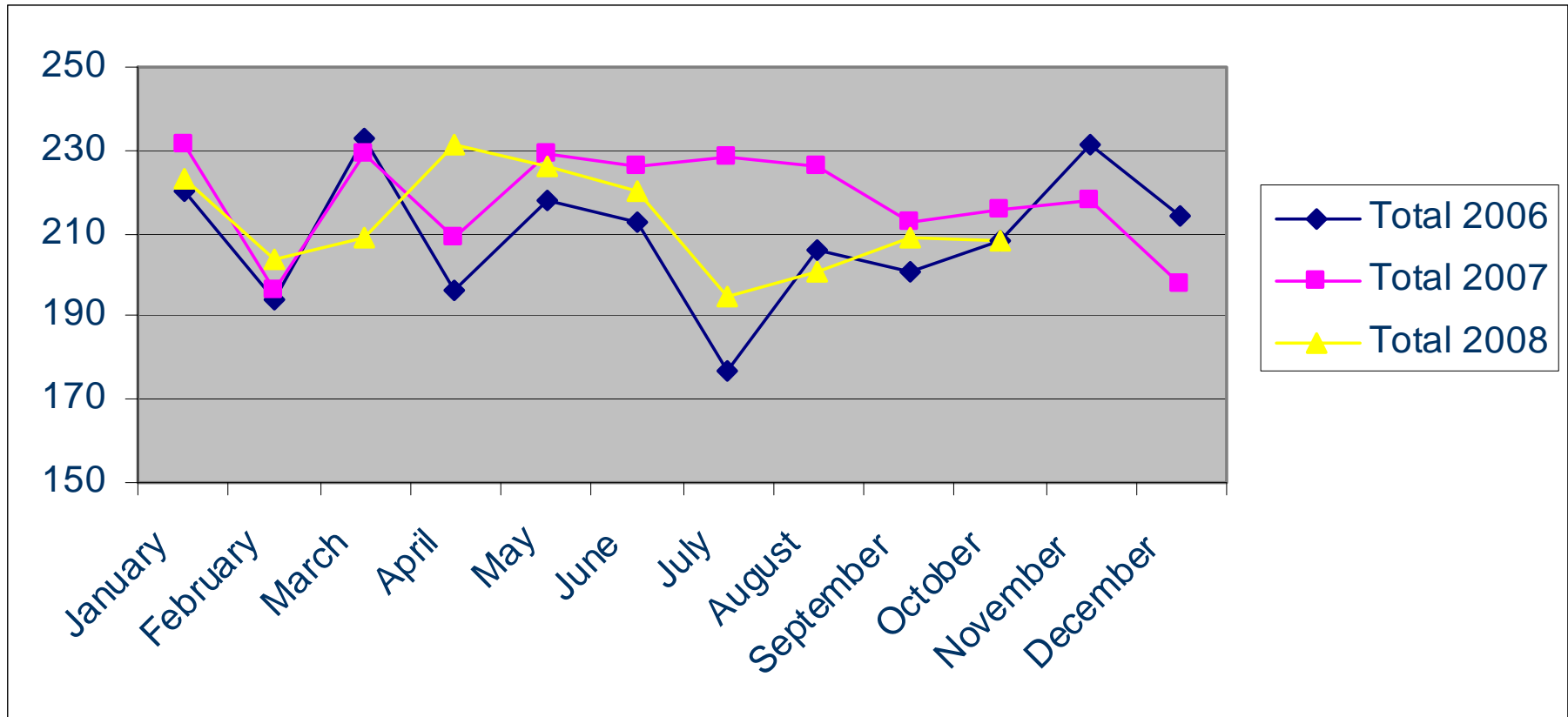
	Claims frequency	Average claim
Motor	(3)%	5%
House	(8)%	8%

### Maintaining operational goals:

- 12% profit margin in the next 1 or 2 years
  - Corresponding to a CR of just over 89
- 10% profit margin in the longer term
  - Corresponding to a CR of just over 91
- 5% annual growth in gross premiums

Operational goals include a safety margin of 1 pp but exclude any gains on / strengthening of provisions

# Claims frequency for passenger cars



## Prospects in non-life insurance

### 2009

- DKK 200m effect of premium cuts ~ just over 2 pp
- Expected premium growth of around 2.5%
- Expected CR of 89
  - Incl. normalised storm expenses of DKK 150m
  - Incl. buffer of 1 pp
  - Excl. any gains on the claims provisions
- Prospect of softened competition in personal market

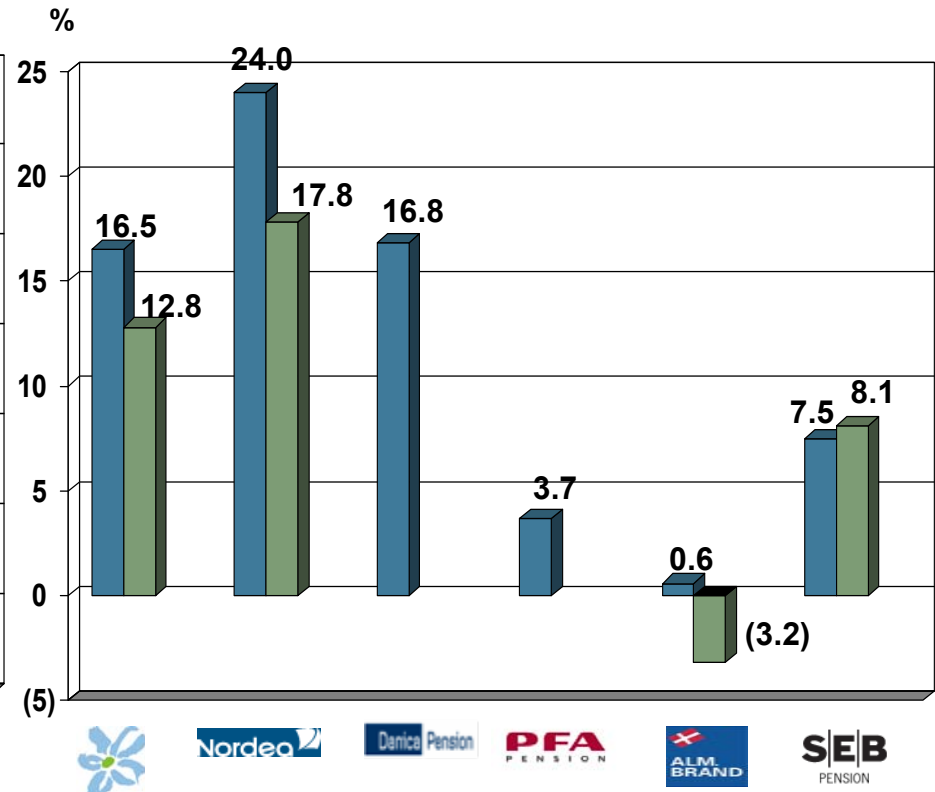
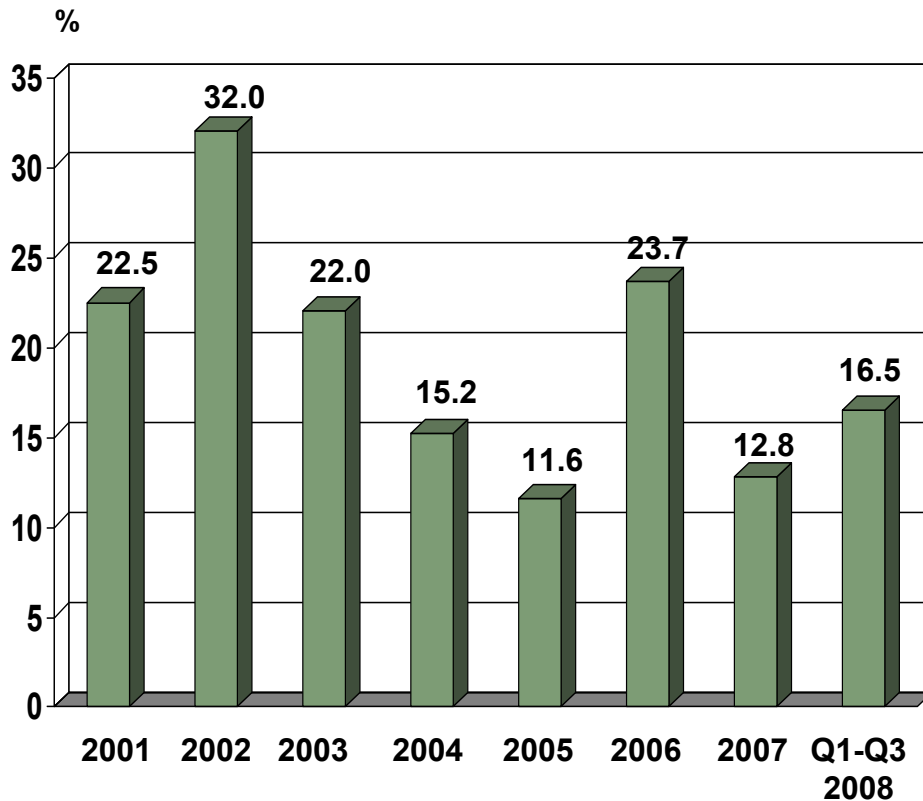
## Result of life insurance

(DKKm)	Liv I	Liv V	Q1-Q3 2007 Group	Liv I	Liv V	Q1-Q3 2008 Group
Investment return	5	6	11	(6)	(12)	(18)
Risk allowance	43	38	81	46	39	85
Transferred to shadow account	0	(29)	(29)	(46)	(39)	(85)
Loss in Topdanmark Link			(7)			(30)
Financing charges Liv Holding			(8)			(9)
Other			8			(13)
<b>Profit / (loss) on life insurance</b>			<b>56</b>			<b>(70)</b>
<b>Shadow account end of period</b>	<b>0</b>	<b>29</b>	<b>29</b>	<b>46</b>	<b>90</b>	<b>136</b>

# Continued high premium growth

19.3% CAGR in Topdanmark (2001 - 2007)

Comparison of premium growth Q1-Q3 2008



Total premiums

Regular premiums

## Prospects in life insurance

- Introduction of 10% loss participation and reduction of the rate of interest on policyholders' savings from 5.5% to 2.5% in Liv I
- Reduction of the rate of interest on policyholders' savings from 5.5% to 4.5% in Liv V
- Continued expected premium growth of around 10% in 2008
- DKK 110m expected to be transferred to the shadow account
  - Expected shadow account balance at 31 December 2008: DKK 161m
  - Will be included in income in a subsequent period when the investment return is sufficiently high

# Investment return for Topdanmark Group excluding life insurance

	Portfolio		Return Q3		Return Q1-Q3	
	30 Sep DKKbn	DKKm	%	DKKm	%	
Danish equities	0.4	(57)	(13.2)	(123)	(22.7)	
Foreign equities	0.8	(110)	(8.5)	(306)	(28.3)	
Government and mortgage bonds	7.1	(138)	(1.1)	25	0.8	
Credit bonds	1.3	(172)	(12.2)	(232)	(15.5)	
CDOs	1.1	(124)	(11.2)	(269)	(20.3)	
Properties	0.9	11	1.2	31	3.5	
Assets rel. to I/A	1.3	(9)	(0.7)	(10)	(0.8)	
Other assets	3.6	14	0.4	77	2.7	
Interest-bear. debt	(1.6)	(27)	(1.0)	(68)	(4.4)	
<b>Total</b>	<b>14.9</b>	<b>(612)</b>	<b>(3.9)</b>	<b>(875)</b>	<b>(5.5)</b>	



## CDOs - Returns and portfolios

(DKKm)	Group excl.		Life insurance	
	Q3	Q1-Q3	Q3	Q1-Q3
<b>Return</b>				
AAA and AA	(33)	(61)	(30)	(75)
Lower than AA	(91)	(208)	(190)	(432)
Total return	(124)	(269)	(220)	(507)
Interest	38	121	79	249
Revaluations	(162)	(390)	(299)	(756)
Total return	(124)	(269)	(220)	(507)
<b>Book value 30 September</b>				
AAA and AA		802		1,258
Lower than AA		331		683
Total book value		1,133		1,941

## Unrealised write-downs of CDOs, without subprime exposure, and transfers to shadow account

DKKm		
Write-downs of CDOs in 2007	181	
Shareholders' share in life	45	
Write-downs of CDOs in Q1-Q3 2008	390	
Shareholders' share in life	<u>95</u>	
		711
Transferred to shadow account in 2007	51	
Transferred to shadow account in Q1-Q3 2008	<u>85</u>	
		<u>136</u>
		847

## 2008 profit forecast

(DKKm)	Full year 2007	Forecast after H1	Forecast after Q3
Non-life insurance			
- Technical result	1,572	1,300	1,610
- Investment return etc.	8	(480)	(1,675)
Life insurance	50	0	(50)
Parent company etc.	27	(70)	(60)
<b>Pre-tax profit</b>	1,657	750	(175)
Tax	(386)	(250)	(125)
<b>Post-tax profit</b>	1,271	500	(300)

Forecast assumptions for 2008 are based on equity prices at 21 November 2008

## 2009 profit forecast

(DKKm)	Scenario 1	Forecast	Scenario 2
Non-life insurance			
- Technical result	1,220	1,220	1,220
- Investment return etc.	(280)	170	390
Life insurance	150	220	250
Parent company etc.	(40)	(40)	(40)
<b>Pre-tax profit</b>	<b>1,050</b>	<b>1,570</b>	<b>1,820</b>
Tax	(275)	(370)	(420)
<b>Post-tax profit</b>	<b>775</b>	<b>1,200</b>	<b>1,400</b>

### Scenario 1

- 15% loss on the equity portfolio
- CDO portfolio rated lower than AA will have been written down to nil at 30 June 2009 and the interest will lapse after that date

### Scenario 2

- 15% return on the equity portfolio
- No losses on CDOs

Forecast assumptions for 2009 are based on equity prices at 21 November 2008

## Share buy-back for 2008 discontinued

- Share buy-back for 2008 downgraded to nil
- To date in 2008, DKK 366m shares bought back
- Therefore, share buy-back programme for 2008 exceeded by DKK 366m
- Intended DKK 366m reduction in normalised, estimated share buy-back programme for 2009 of DKK 1bn
  - to now around DKK 650m
- Since 1998 Topdanmark has bought back 59% of the outstanding shares
  - Average price per share: DKK 324

## No need to increase capital

- All non-life and life insurance companies in green light
- DKK 750m in committed lines
- Conservative provisioning

## Christian Sagild to be new CEO

- As announced in 2005 when promoted to CEO Poul Almlund will retire at the end of May 2009
- Christian Sagild promoted to be new CEO, with effect from 1 June 2009
- Lars Thykier promoted to join Management Board as new CFO with effect from 1 June 2009

**[www.topdanmark.com](http://www.topdanmark.com)**

- a source of up-to-date  
information on Topdanmark



# Disclaimer

**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 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 trend in reinsurance market. Also see “Risk management” on our website [www.topdanmark.com](http://www.topdanmark.com) → [Risk management](#) .**

**The above description of potential risks is not exhaustive. Investors and others, who may base decisions relating to Topdanmark on statements relating to the future, should make their own careful considerations on these and other factors of uncertainty.**

**Topdanmark’s statements relating to the future are solely based on information known at the time of the preparation of the Q1-Q3 report for 2008.**

**This publication is a translation. In case of any divergence, the original Danish text shall prevail.**

# Appendix

# Can profit be made on non-life insurance?

- **Assumptions:**
  - Shareholders' equity 33% of premium income
  - Combined ratio 89
  - Interest income on provisions (incl. discounting effect) equal to 3.0% of premiums earned
  - ROE 5%
- **Return on operations:**

• Income	100.0
• Interest income	<u>3.0</u>
	103.0
• Expenditure	<u>89.0</u>
	14.0 ~ ROE = 42.0%
- **ROE:**

• ROE before taxation	<u>5.0%</u>
	47.0%

## Share buy-back model (1/2)

### Reasonable level of capital cover 1 Jan and 31 Dec 2008 (DKKm)

2 x required solvency in non-life (premium based)	2,550	
1.5 x required solvency in life	1,314	
1 year's growth in required solvency	193	
0.3 x equity exposure (Group excl. life)	348	
1 x interest rate exposure (Group excl. life)	<u>75</u>	
		4,380
Financed by:		
subordinated loan capital, long-term loan capital or committed lines to parent company (20% of DKK 4,380m)		<u>(876)</u>
<b>Total reasonable level of capital cover 1 Jan 2008</b>		<b><u>3,504</u></b>
1 year's normal growth in reasonable level of capital cover		<u>162</u>
<b>Expected reasonable level of capital cover 31 Dec 2008</b>		<b><u>3,666</u></b>

## Share buy-back model (2/2)

### Share buy-back potential 2008 (DKKm)

Shareholders' equity 1 Jan 2008		3,715
Hybrid capital	402	
Adjusted for: Goodwill	(441)	
Tax asset	(85)	
Value of own shares on exercise of share options	77	
Value of own shares to hedge option programme <sup>1)</sup>	295	248
Capital cover 1 Jan 2008		<u>3,963</u>
Expected profit after cash-impacting tax 2008 (avg)		(300)
Movements in shareholders' equity		<u>40</u>
<b>Expected capital cover 31 Dec 2008</b>		<b><u>3,703</u></b>
Expected reasonable level of capital cover 31 Dec 2008		<u>(3,666)</u>
<b>Share buy-back potential 2008</b>		<b><u>37</u></b>

<sup>1)</sup> 70% of market value - 575 - however max. strike price

# Normalised return in life insurance

## Assumptions:

- Shareholders' equity: DKK 939m
- Investment return on shareholders' equity: 4.5%
- Cost result of new business: DKK 10m loss
- Risk and administrative result in Link: 0.1% of savings
- Sufficient insurance technical profit before bonus contribution
- Customers' savings :
  - Life I: DKK 12.8bn
  - Life V: DKK 8.0bn
  - Link: DKK 1.6bn

# Normalised return in life insurance

(DKKm)

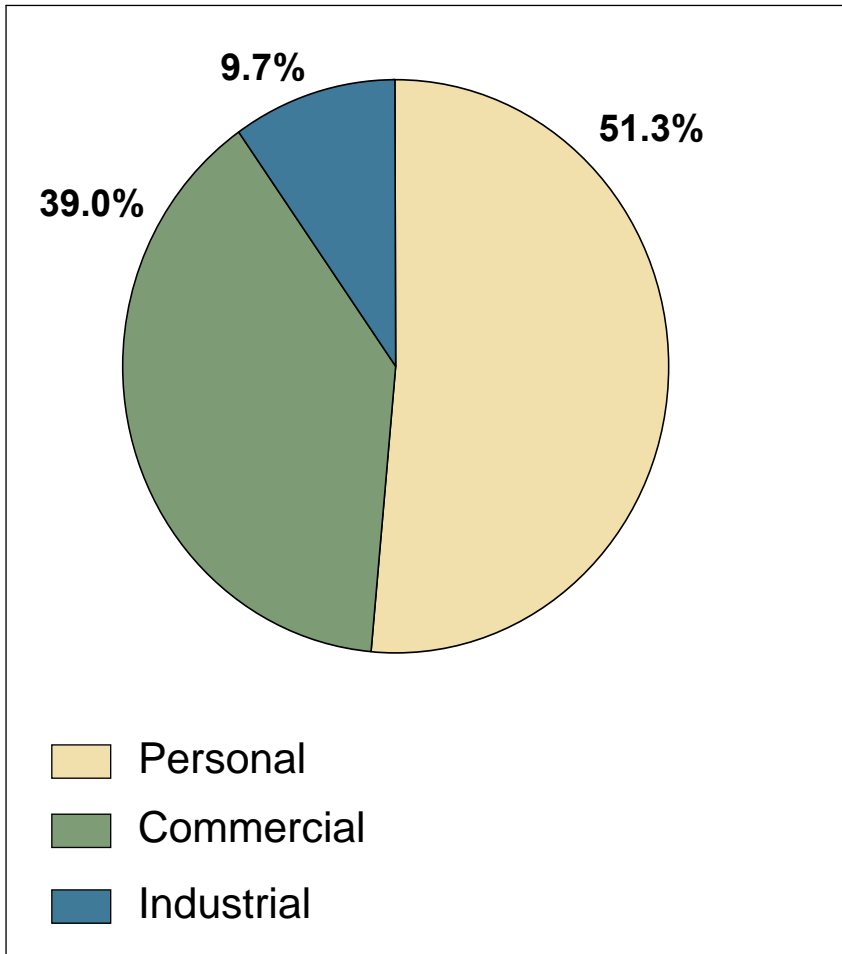
## Return on life insurance:

	Normalised Annual return	
Investment return on shareholders' equity, 4.5%	42	
Risk allowance: 0.50% / 0.65% of customers' savings	116	
Cost result of new business	(10)	
Risk and administrative result in Topdanmark Link	<u>2</u>	
Total return	150	150 ~ ROE = 16.0%

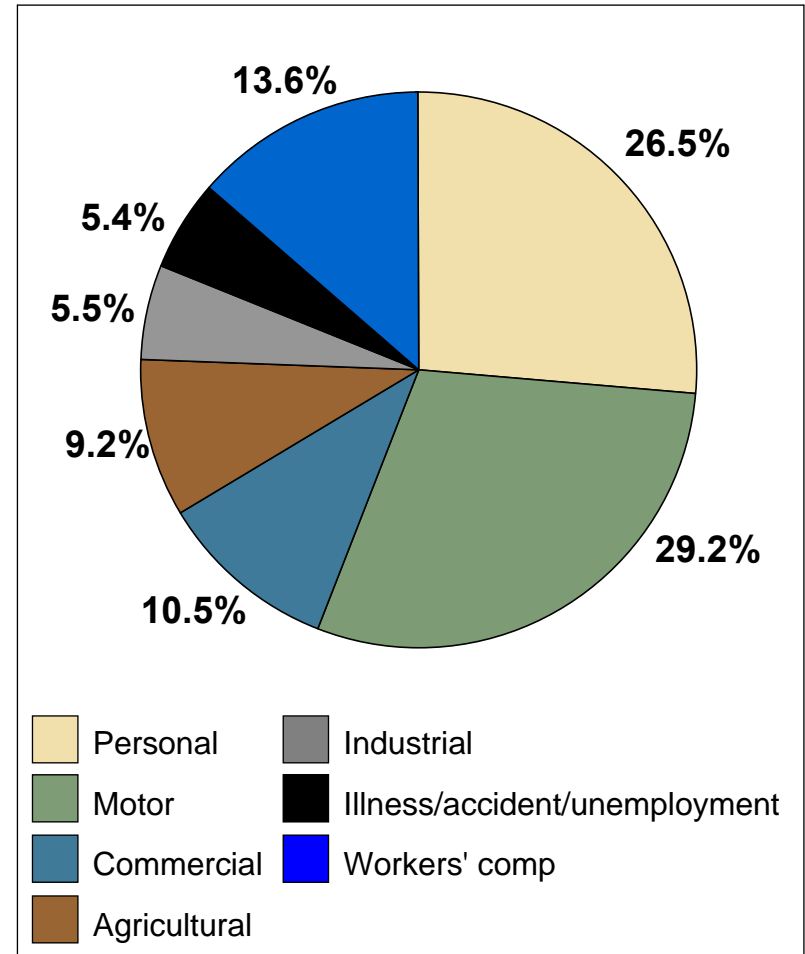
## Other life-related result:

Life-related non-life (health and critical illness etc.)	30	
Asset management	22	
Other synergies in e.g. distribution	<u>35</u>	
	87	87
		<u>237</u> ~ ROE = 25.0%

## Premiums by segment 2007



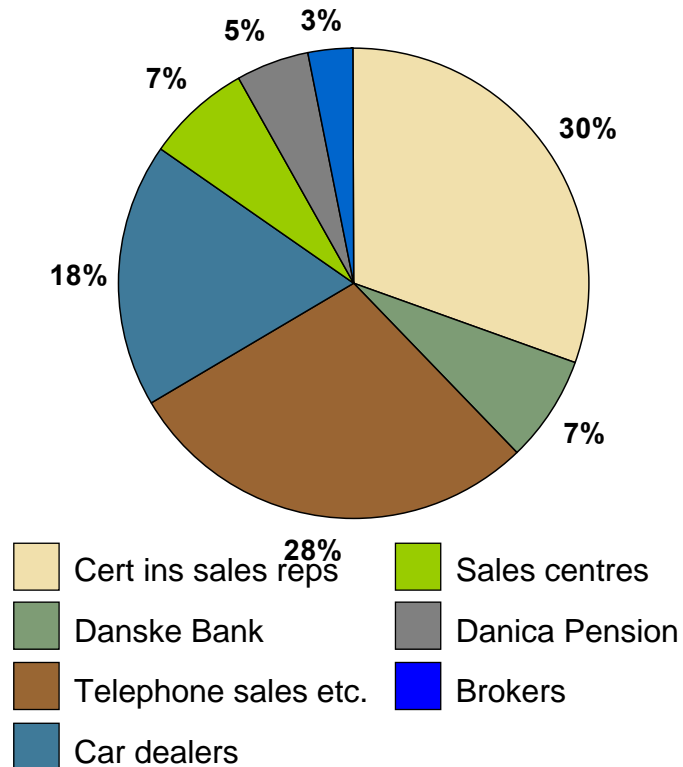
## Premiums by product 2007



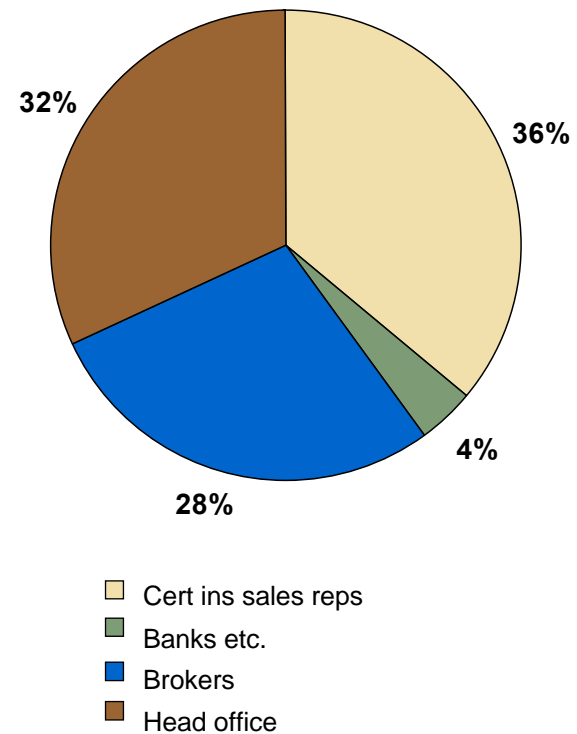


# Distribution channels

Non-life 2007



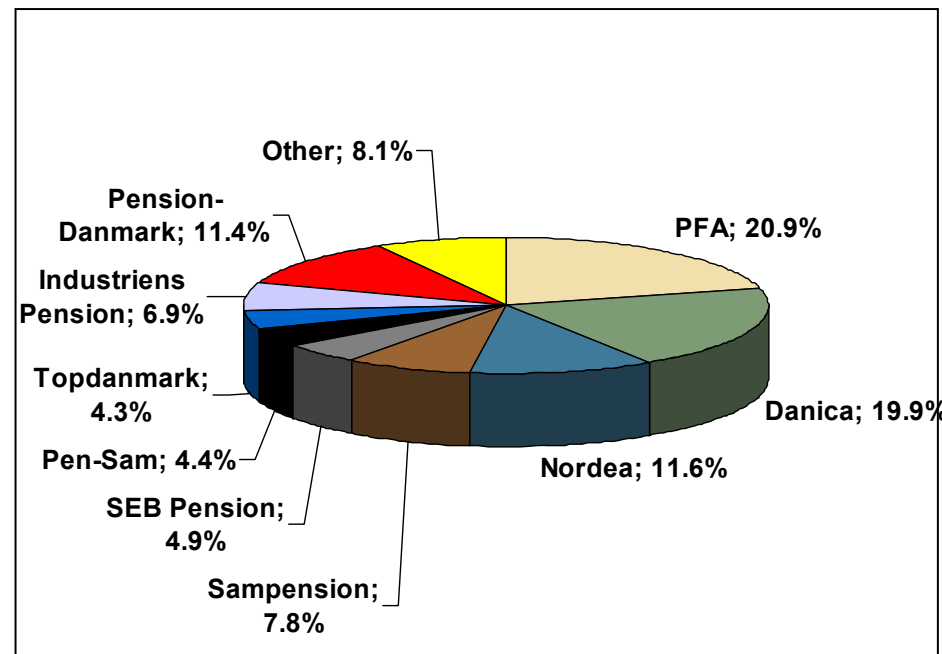
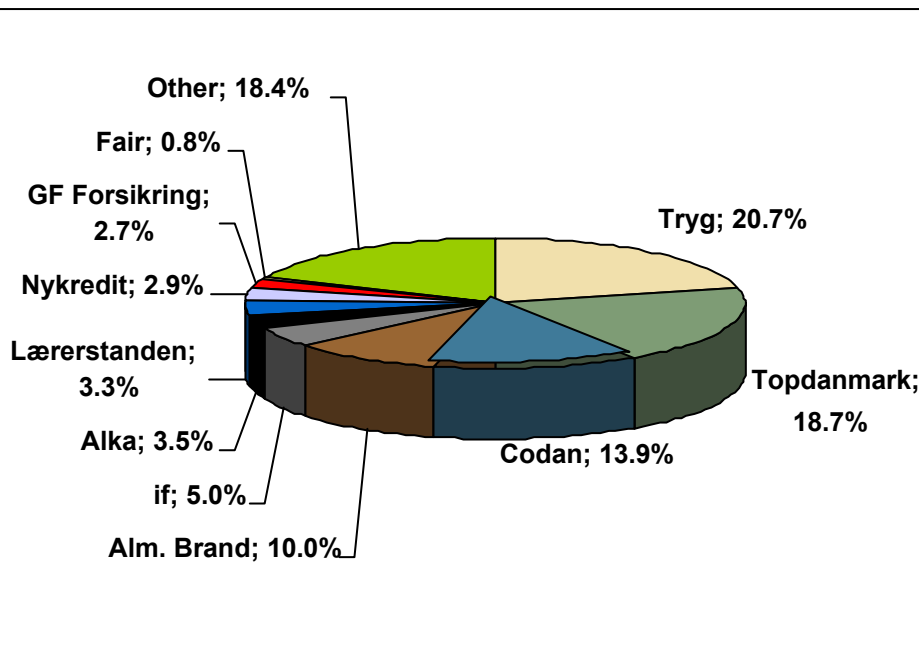
Life 2007



# Market share

Market share in non-life 2007

Market share in life in 2007



## Large-scale and weather-related claims

(DKKm) **Large-scale claims**

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Financial year</b>
2006	5	12	22	25	64
2007	18	17	31	(3)	63
2008	21	17	75		

Large-scale claims are defined as gross claims exceeding DKK 5m  
Comprising property claims in Commercial and Industrial

(DKKm) **Weather-related claims**

	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Financial year</b>
2006	0	11	64	13	88
2007	42	12	129	29	212
2008	47	11	5		

Comprising gross claims exceeding DKK 4.5m per event within 72 hours

## Investment assets at 30 September 2008

(DKKm)	Group excl. life	Life group
Interest bearing investment assets	10,749	17,434
Equities	1,216	4,025
Index-linked bonds	292	1,602
Investment properties	871	2,475
Associated companies	40	539
Other	0	465
Investment assets	13,168	26,540
Intra-group balances	1,598	(1,598)
Investment assets corresponding to illness / accident provisions	1,251	(1,251)
Investments	16,017	23,691
Liquid funds	47	127
Interest earned	168	327
Interest-bearing debt derivatives	(1,339)	(379)
Net investments assets	14,893	23,766

# Key figures

## - the impact of recession on non-life insurance 1/2

### Examples

#### Personal market

- Cars
- Fraud
- Travels

#### Professional market

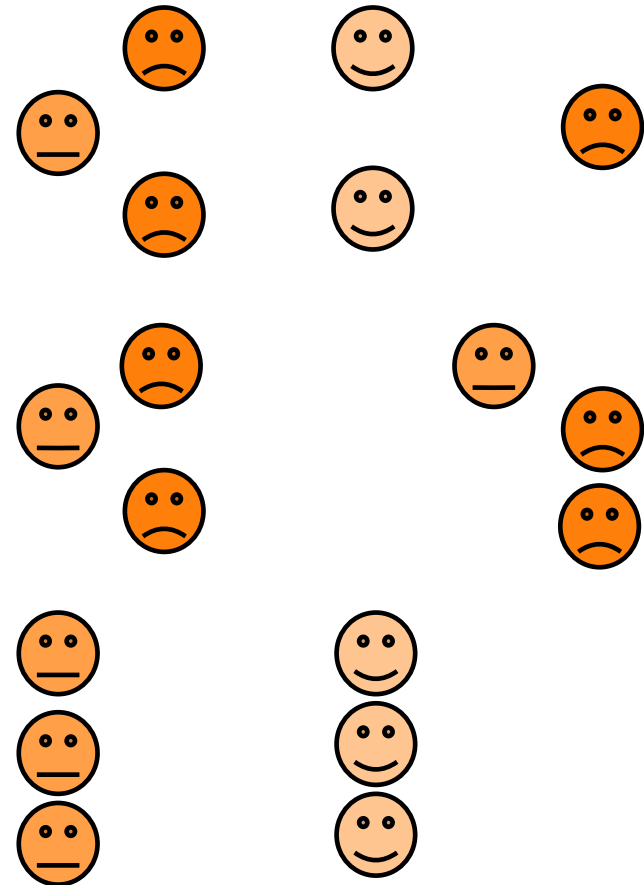
- Bankruptcies
- Fraud
- Fewer in employment

#### Repair sector

- Skilled craftsmen
- Garages - hourly rate
- Materials

### Growth - % p.a.

### Earnings - CR



# Key figures

## - the impact of recession on non-life insurance 2/2

Non-life insurance is relatively resistant to financial recession

### Trend in gross premiums earned as a percentage

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
8.5	5.9	1.3	2.3	1.3	5.4	1.3	(1.9)	8.7	6.9

### Claims trend

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
85.9	76.2	80.1	71.2	76.2	76.2	79.9	87.3	75.8	78.8

**1986:** Reflecting an increase in motor claims and other claims.  
30% premium increase in motor during the year

**1989:** Reflecting gains on provisions because it was the last year  
for tax-free transfer to security fund

**1993:** Reflecting storms and problems in workers' comp