

# Presentation of Topdanmark

## June 2003



# How Topdanmark intends to create value

## Operations

- An increase in premium income higher than the market
- A declining expense ratio



# How Topdanmark intends to create value

## Capital

- Topdanmark is an insurance company
  - **Not an investment trust**
- Topdanmark intends to avoid unnecessary excess capital
  - **Share buy-back**



# Corporate Governance

- Has removed all relevant limitations set out in the Articles of Association
- Lives up to the principles of good Corporate Governance
- No shareholder holds more than 10%
- A high share price is the only protection against uninvited take-over bids
- Revolving stock option scheme for management



# Key features of Q1 2003

- DKK 102m post-tax profit after transfer of DKK 24m to equalisation provisions
  - Q1 2002 : DKK 100m plus non-recurring income of DKK 112m
- Cash flow of DKK 133m (Q1 2002 : DKK 185m)
- Expense ratio improved to 19.7% (Q1 2002: 20.9%)
- Combined ratio declined to 95.0% (Q1 2002: 100.7%)
- Premium growth / decline
  - Non-life            14.1% growth
  - Life                 8.1% decline
    - Regular premiums    14.9% growth

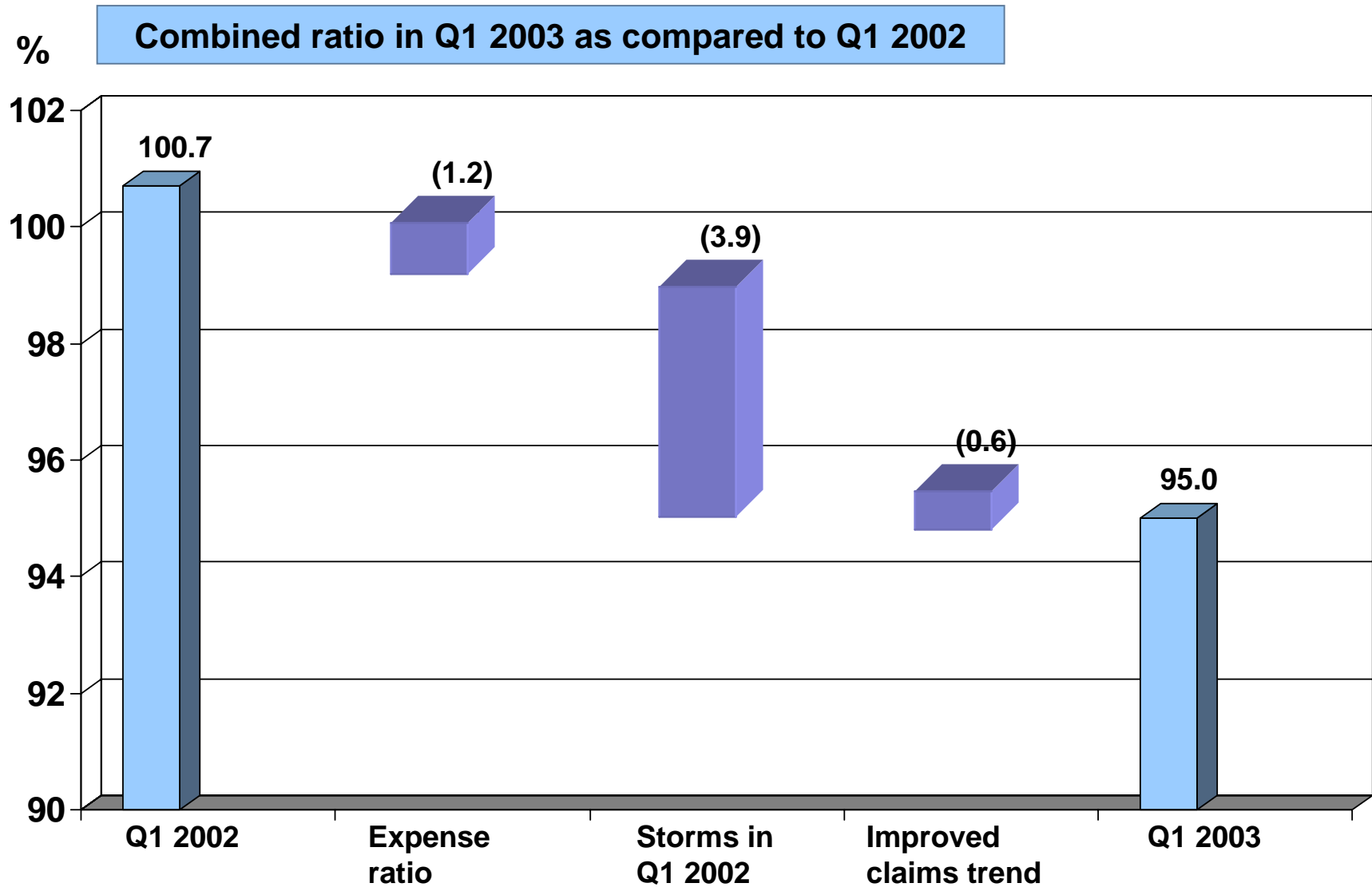


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# Improved combined ratio

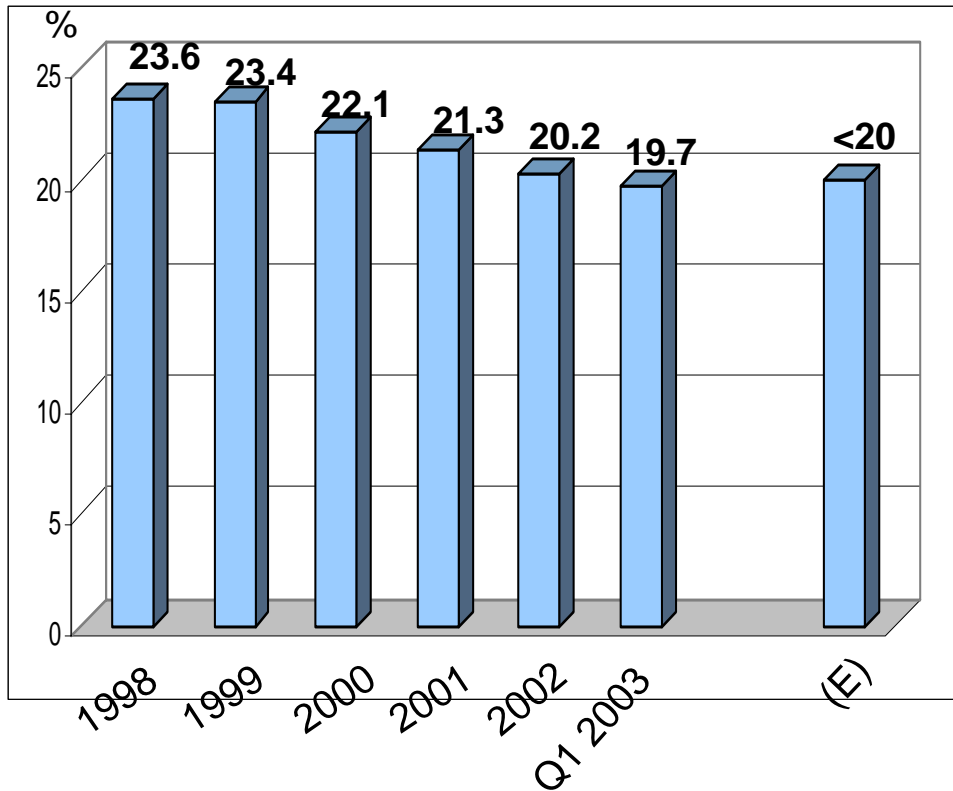


**Non-life**

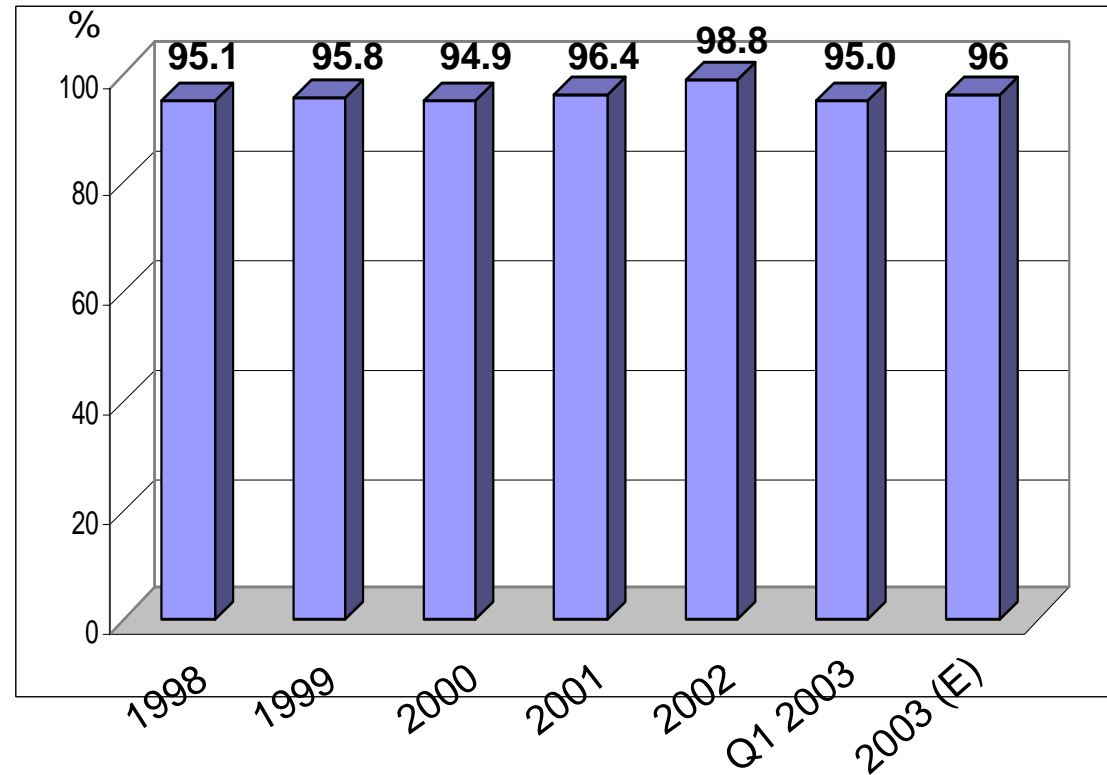


# Continued decline in expense ratio

Expense ratio



Combined ratio - excl. 1999-hurricane



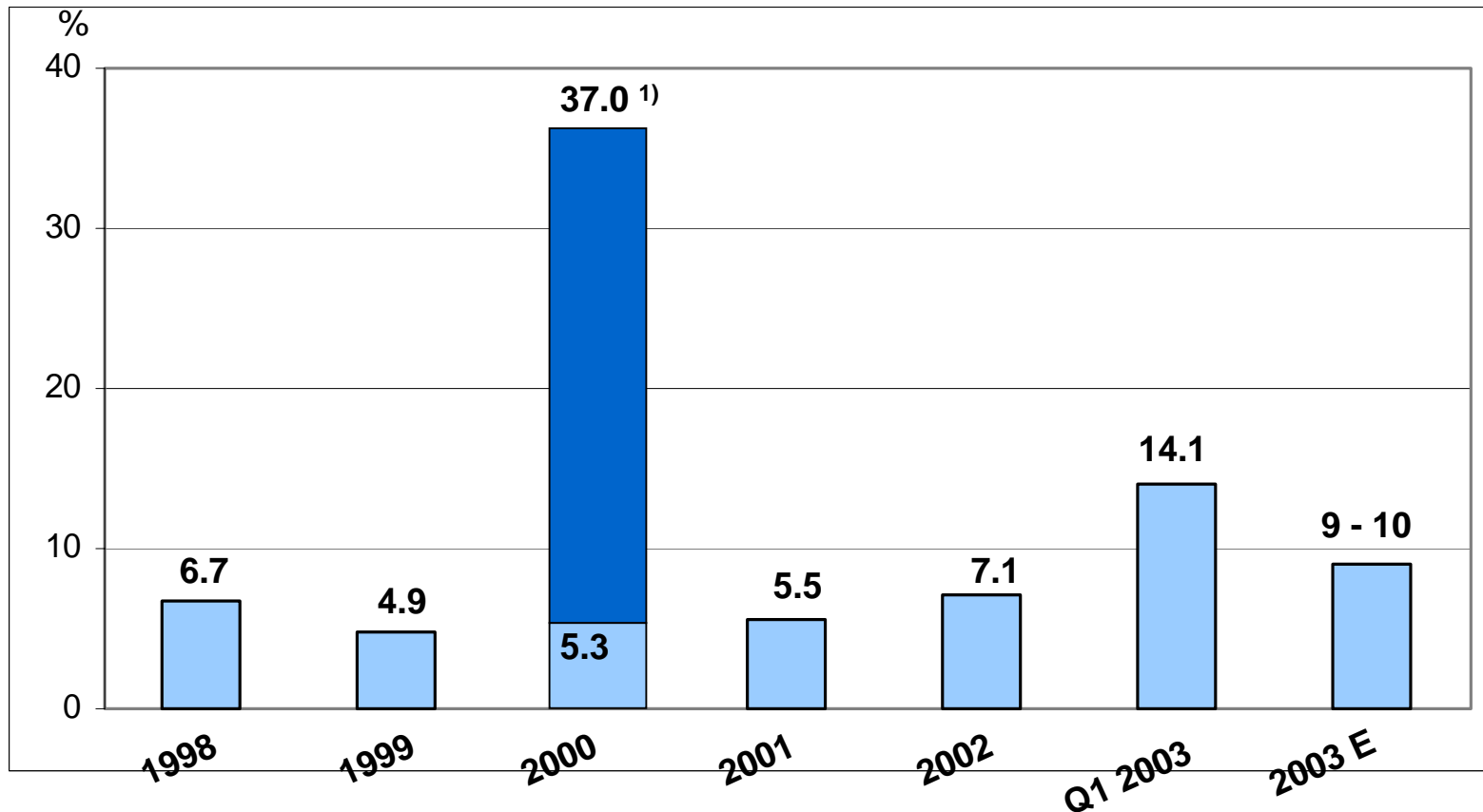
Non-life

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# Growth in non-life premiums

## Premium growth



<sup>1)</sup> Including the acquisition of Danske Forsikring / Danica Forsikring



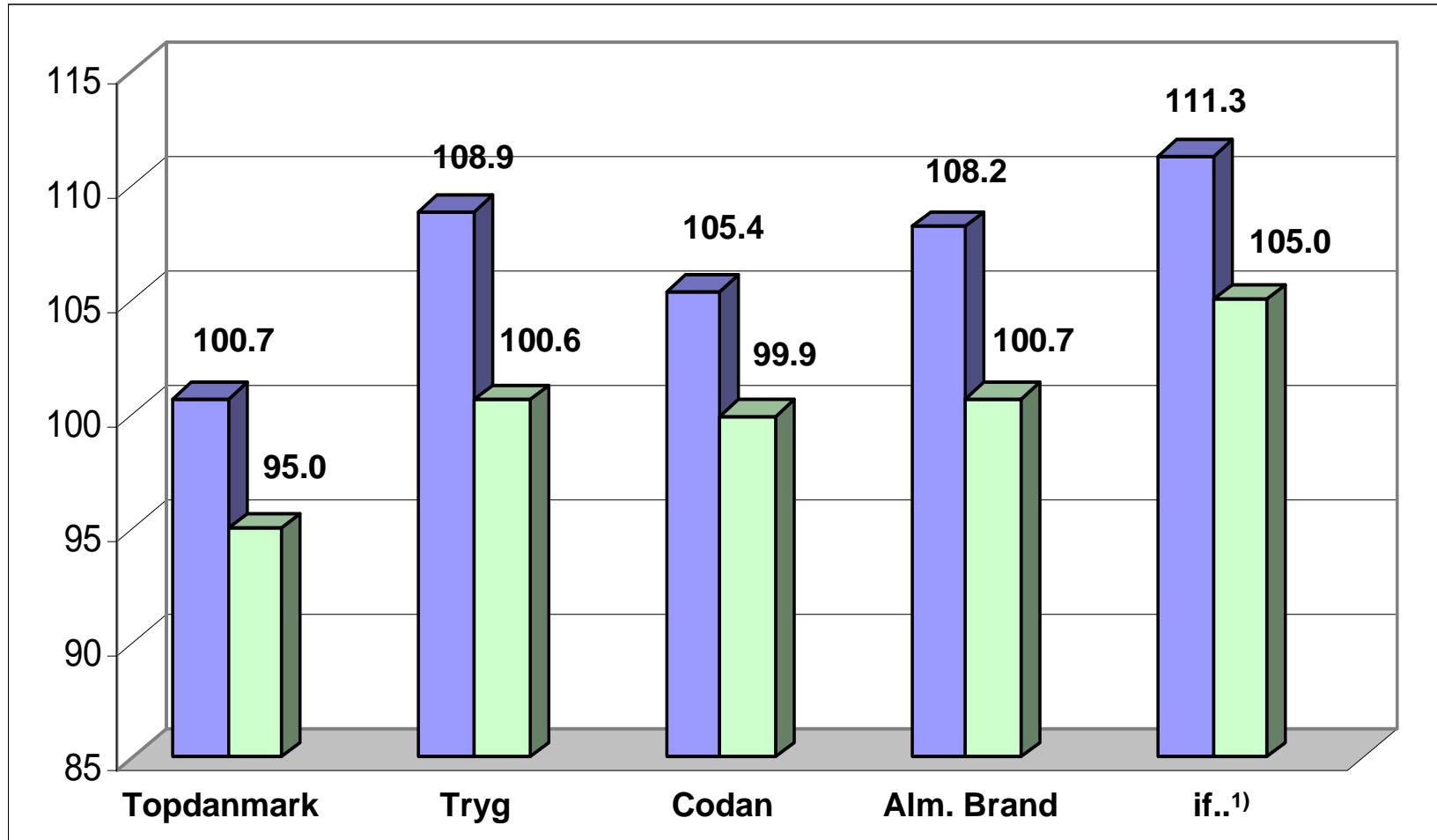
## Non-life

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# Topdanmark keeps the lead in combined ratio



1) if...’s Nordic business



Non-life



# Prospects for non-life insurance

- Improved competitive position
- Expected premium growth 9 - 10% in 2003
  - Previously 8 - 10%
- Stability in reinsurance expenditure
- Build-up of equalisation provisions
  - DKK 24m in Q1 2003
- Expected combined ratio continues to be 96% for 2003
- Continued low investment income
  - Risk free interest rate 3.5% in 2002 - 2.2% now



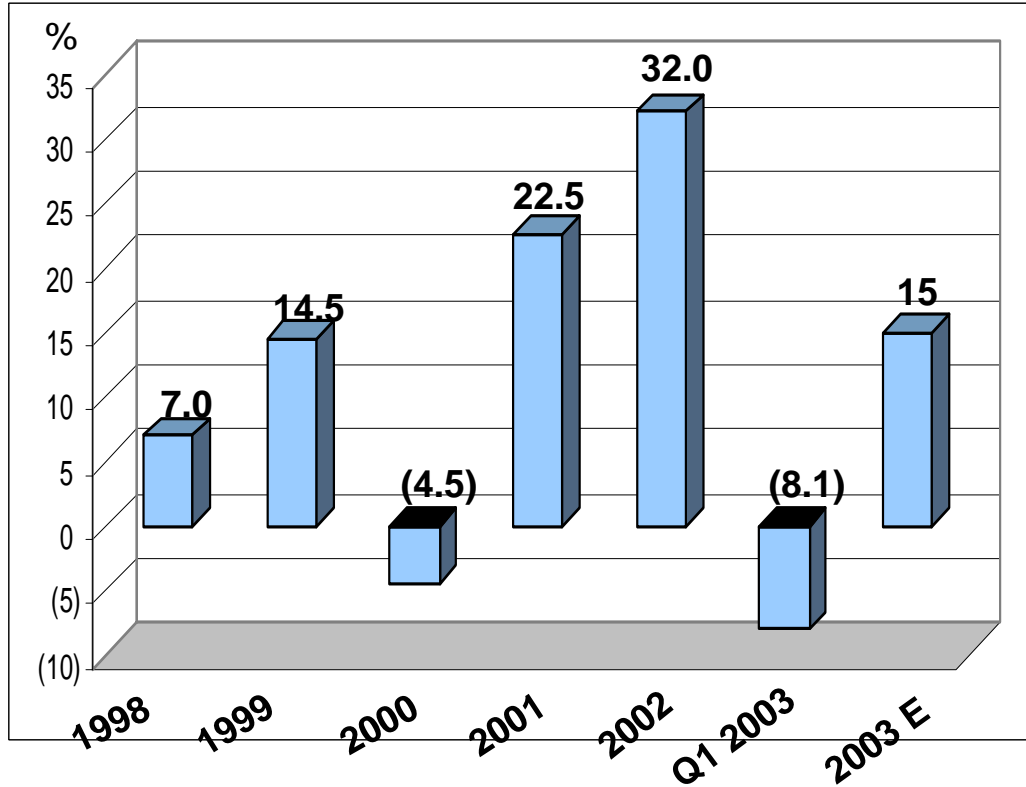
**Non-life**

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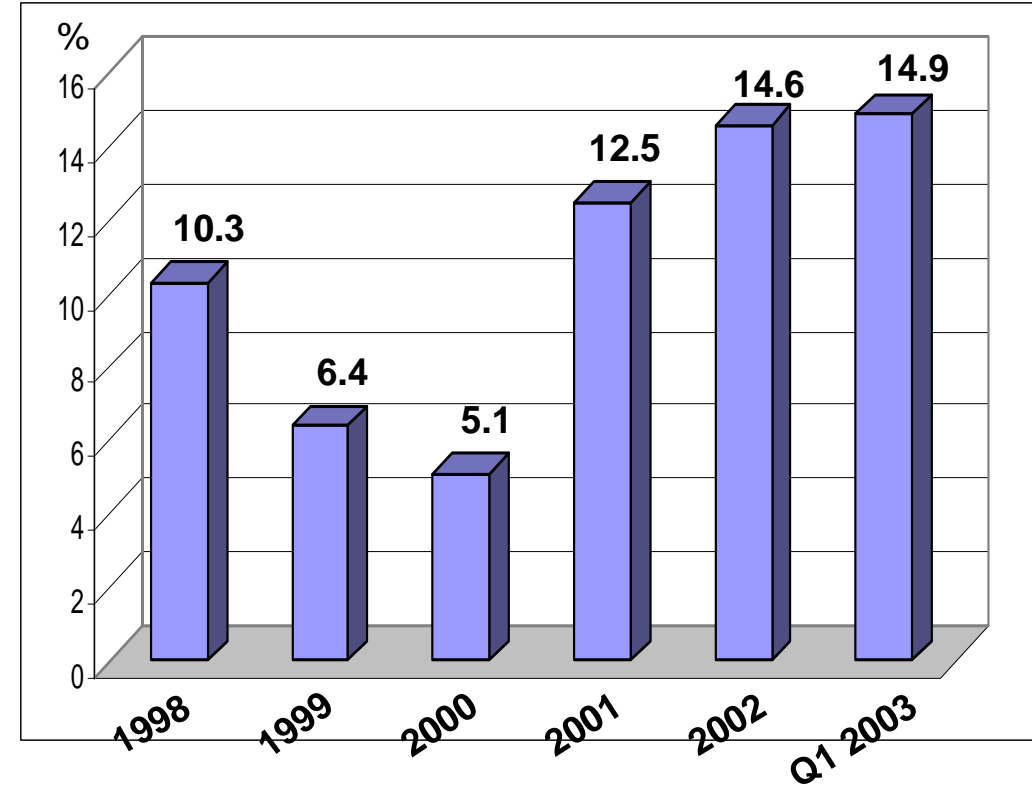


# Increased growth in regular premiums

Premium growth  
excl. BG Pension



Trend in regular premiums  
excl. BG Pension

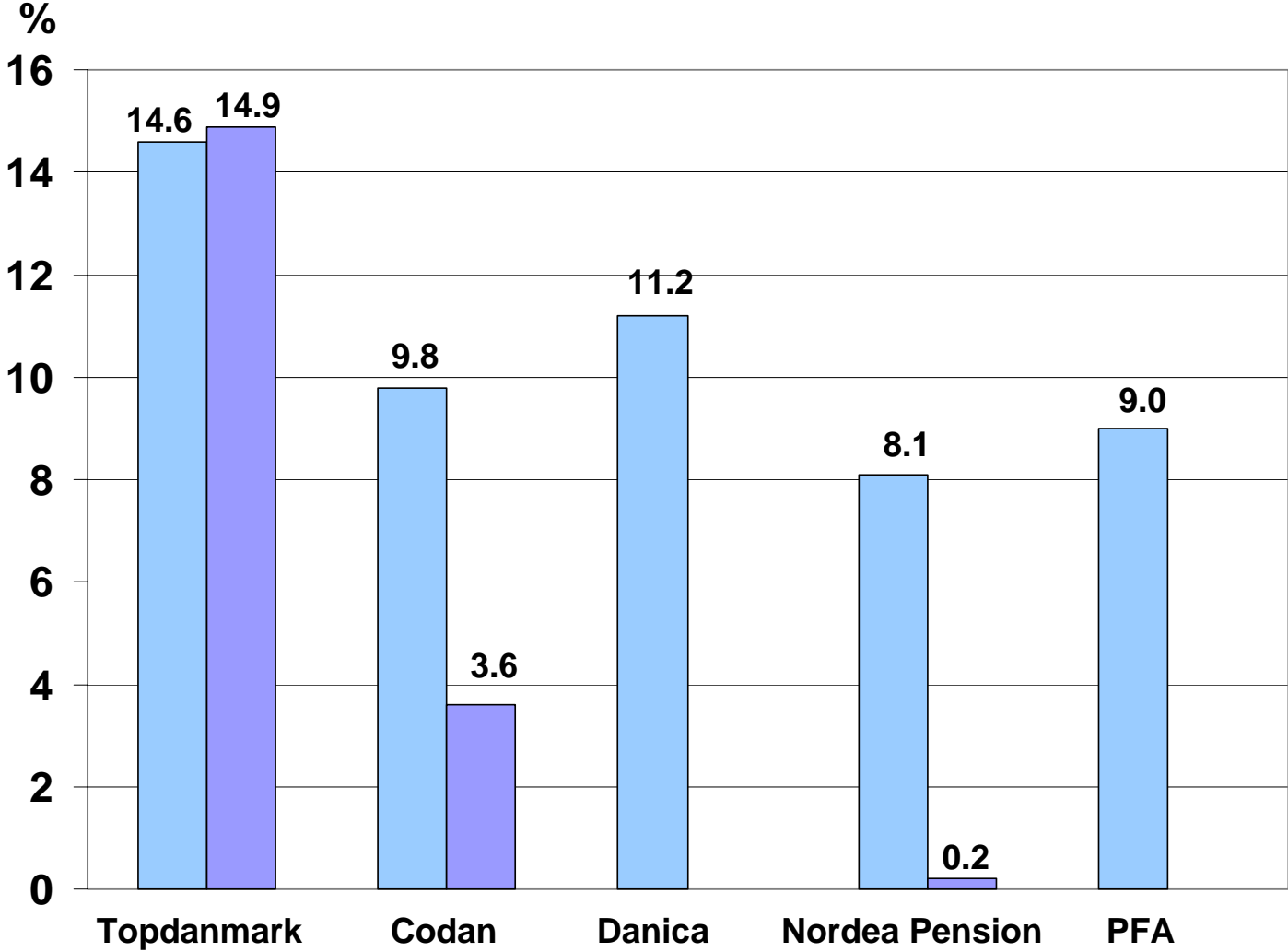


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# Trend in regular premiums



Regular premiums 2002

Regular premiums Q1 2003

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# Growth expected to continue in Topdanmark Livsforsikring

- Improved competitive position
- Topdanmark receives more attention from brokers
- Increase in sales through own sales channels
- Expected increase in sales through banks and mortgage lenders
- Significant single premiums expected in remainder of year
- Expected 15% premium growth in 2003
- Larger buffer against losses on investment assets due to shift to market value policy
- Allowance for risk expected to be included in income from Q2 2003



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# Profit forecast for 2003

DKKm

- Profit excl. shareholding in Danske Bank 425 - 525
- Profit on shareholding in Danske Bank 175 - 175
- Expected profit 600 - 700

Forecast assumptions based on share price on 19 May 2003



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# Shareholding in Danske Bank

- Topdanmark's non-life business holds 11,525,466 shares in Danske Bank
  - equivalent to 1.6% stake
- Expect to sell most of shareholding after expiry of 3-year period, i.e. after September 2003
- Expect to invest proceeds in
  - Bonds
  - Portfolio equities
  - Share buy-back
- Sale of Danske Bank-shares
  - significantly reduces exposure to financial risk
  - reduces volatility in Topdanmark's results
  - increases share buy-back potential



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# Opportunity to increase share buy-back in 2003

- Share capital reduced 38% from share buy-backs since 1998
- Annual Report 2002 expected DKK 350 - 450m share buy-back for 2003
- Increase in potential for 2003 due to upgraded profit forecast and trend in price of Danske Bank's shares
- Decision on any increase in buy-back to be made H2 2003
- 2003 to date DKK 267m shares bought back



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# [www.topfacts.dk](http://www.topfacts.dk)

- a source of updated information on Topdanmark

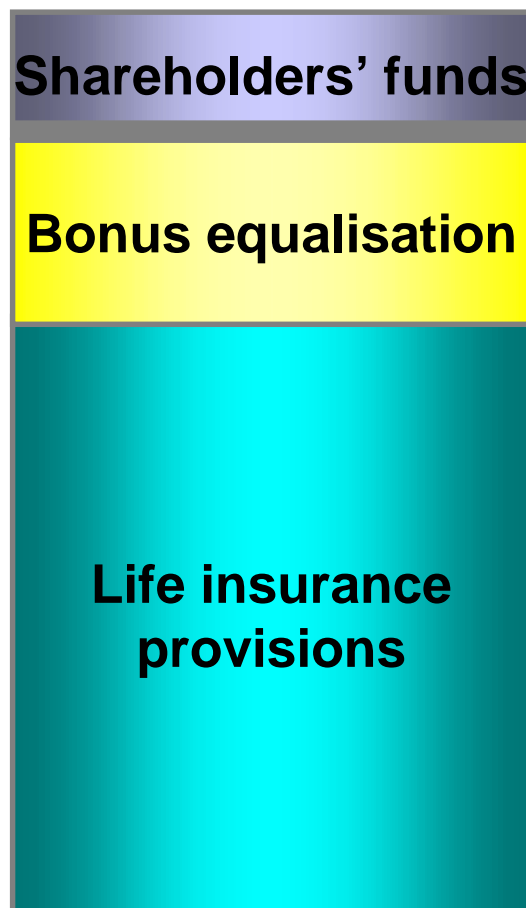


# Appendix

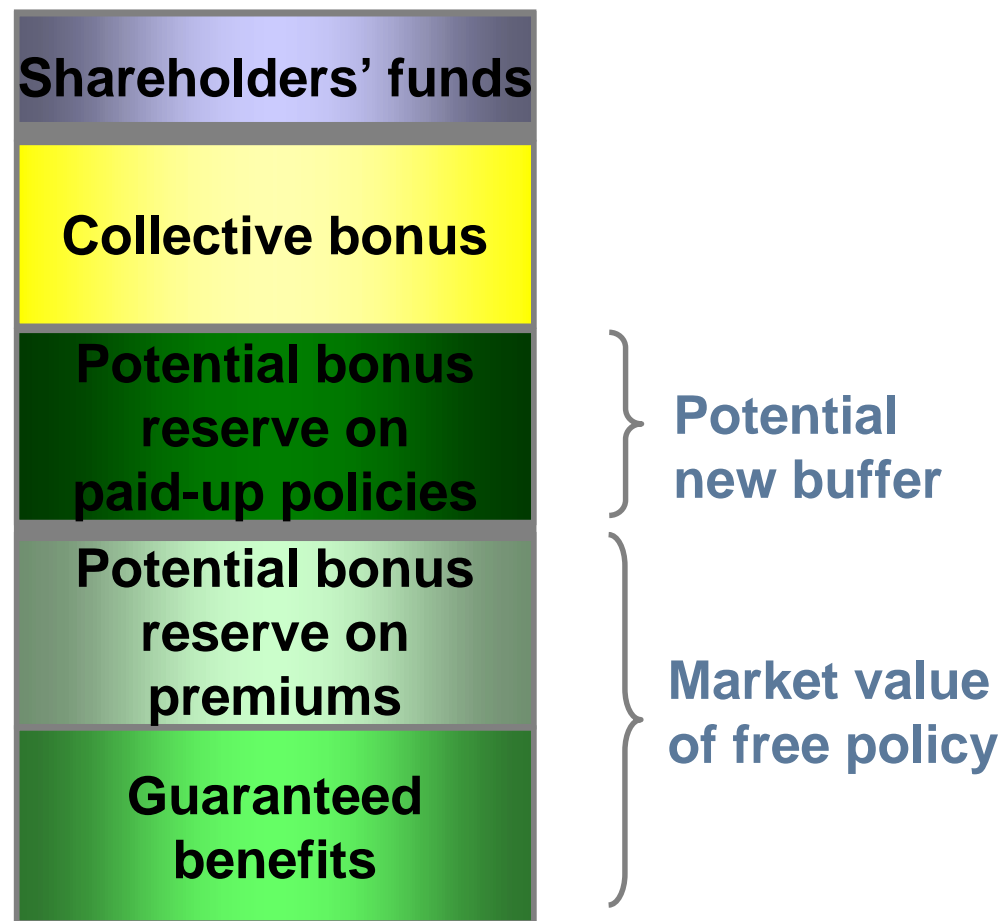


# Effect of change to new accounting rules

## Old rules



## New rules



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# Lower risk profile

## Yellow risk scenario

	1 Jan 2003	28 Feb 2003
Collective potential bonus reserve	409	169
Individual potential bonus reserve	1,162	1,051
Shareholders' funds	1,179	1,177
After pension return tax 28 Feb 2003		
	Decline in interest rates	Increase in interest rates
Interest rate risk on assets -1%	(780)	401
Equity risk - (30%)	473	473
Credit risk	190	190
Subsidiaries (incl.property) (12%)	324	324
Interest rate risk on liabilities	<u>693</u>	<u>(278)</u>
Total scenario loss	900	1,110



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# Lower risk profile

## Yellow risk scenario

	Decline in interest rates	Increase in interest rates
Individual potential bonus reserve	636	1,717

### Distribution of scenario loss:

Collective potential bonus reserve	169	169
Individual potential bonus reserve	477	816
Shareholders' funds	<u>254</u>	<u>125</u>
Total	900	1,110



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# Significant decline in interest rates - and what then?

## Assumptions:

- 4.5% ↘ 3.25% excl. option (2.75% after pension return tax)
- Life provisions doubled over 10 years
- Shareholders' funds doubled over 10 years
- 3.5% bonus rate to all policyholders
- 8.25% return to be transferred to shareholders' funds

## Conclusion:

- Funds will be available for risk allowance for 10 years



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# Alternatives in order to continue unchanged

To avoid diluting the option the following measures could be considered:

- Splitting the portfolio
- Writing new business in a new company



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# “Normal” profit in life insurance

## Necessary capital according to model:

- 80% of 1.5 x solvency minimum DKK 742m
- Shareholders' funds DKK 1,179m
- Excess capital DKK 437m which could be allocated for capital cover in non-life insurance

## Return in life insurance

	DKKm
Investment return on necessary capital 5%	37.1
Risk premium 1 5% of 1.5 x solvency minimum, 5% of DKK 928m	46.4
Risk premium 2 1% of DKK 1,179 m - 928m	2.5
25% of risk and administrative result	10.0
Profit on asset management	15.0
Total return	111.0

Interest on necessary capital 15%

Additionally there will be synergies of about DKK 25m



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# Can profit be made on non-life insurance?

## Assumptions

- Shareholders' funds 33% of premium income
- Combined ratio 96%
- Technical interest rate 2.5%
- Return on shareholders' funds 5%

## Return on operations

• Income	100.0	
• Technical interest	<u>2.5</u>	
	102.5	
• Expenditure	<u>96.0</u>	
	6.5	~ ROE = 19.5%

## Return on shareholders' funds

• ROE before taxation	<u>5.0%</u>
	24.5%



**Non-life**

# Share buy-back model 1/2

	DKKm	DKKm
2 x required solvency in non-life (premium based)	1,860	
1.5 x required solvency in life	928	
1 year's growth in required solvency	251	
0.3 x equity exposure (Group excl. life)	605	
1 x interest rate exposure (Group excl. life)	57	
	<hr/>	3,701
less equalisation provisions in Group excl. life and workers' compensation insurance		(120)
less up to 20% long-term loan capital or committed lines to parent company		(740)
Total shareholders' funds		<hr/> 2,840



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# Share buy-back model 2/2

DKKm

Shareholders' funds 1 Jan 2003		3,321	
Less: tax asset	(383)		
goodwill	<u>(559)</u>		
Capital cover		<u>(942)</u>	
		2,379	
Expected pre-tax profit before goodwill 2003 (average value)		<u>844</u>	
Expected capital cover 31 Dec 2003			3,223
Reasonable level of capital cover		2,840	
80% of 1 year's normal growth in required solvency		<u>122</u>	
Expected reasonable level of capital cover 31 Dec 2003			<u>2,962</u>
Share buy-back potential 2003			261
Release of capital by selling Danske Bank			<u>354</u>
Total share buy-back potential 2003			<u>615</u>



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