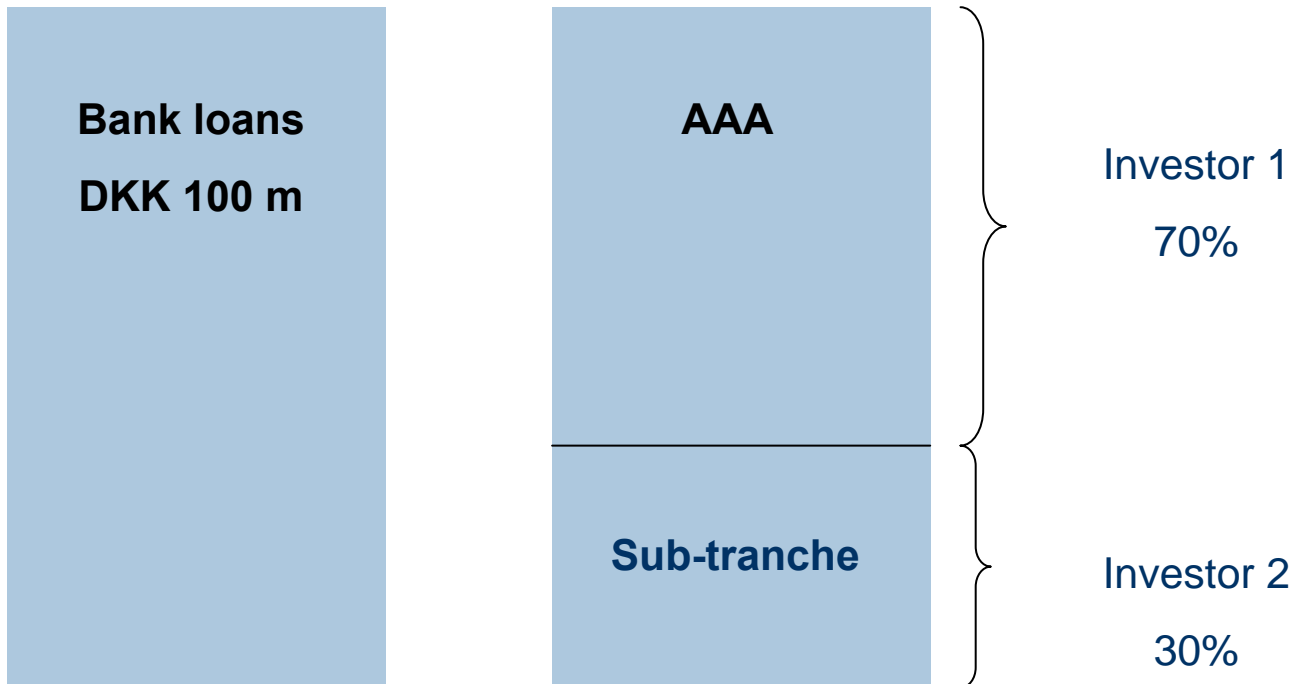


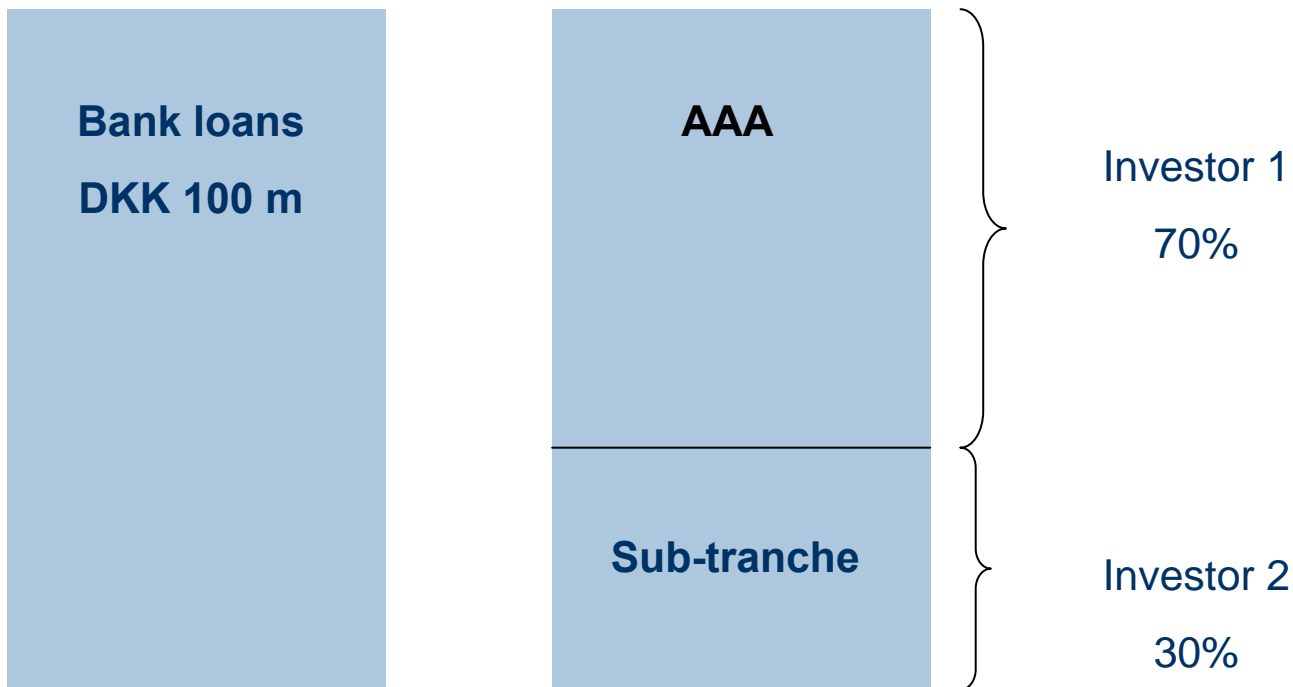
# **CDOs - once more**

- CDOs are not a class of assets
- CDO's are legal shells used to hold the underlying assets - somewhat like mutual funds
- The purpose of the CDO form is to redistribute risk among the investors

## CDO balance - Simplified

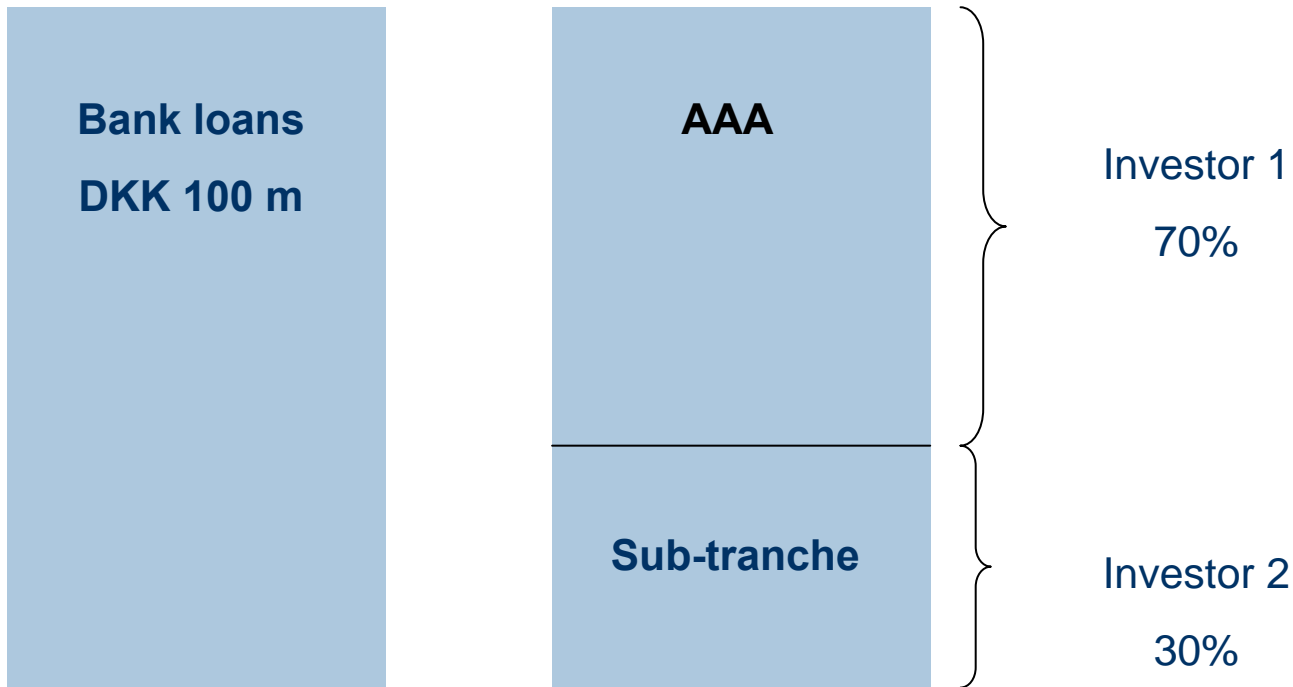


## CDO balance - Simplified



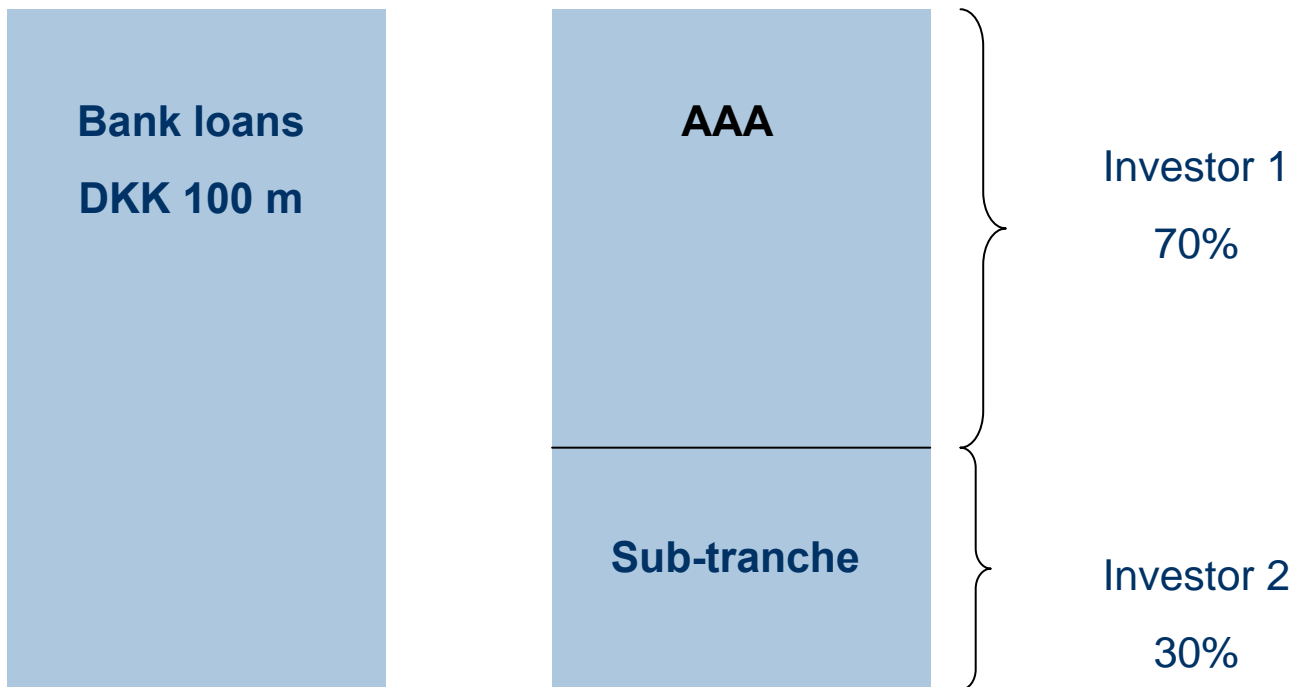
The two investors have together invested DKK 100m in bank loans. The regulations of the CDO provide that Investor 2 takes all losses until the total investment in the sub-tranche has been lost

# CDO balance - Simplified



For example, if 15% of the investment in bank loans is lost, Investor 2 will lose 50% of his investment. Investor 1 will lose nothing. Investor 1 will only suffer a loss under absolutely extreme circumstances

## CDO balance - Simplified



Investor 2 has invested DKK 30m but has a large exposure to bank loans.

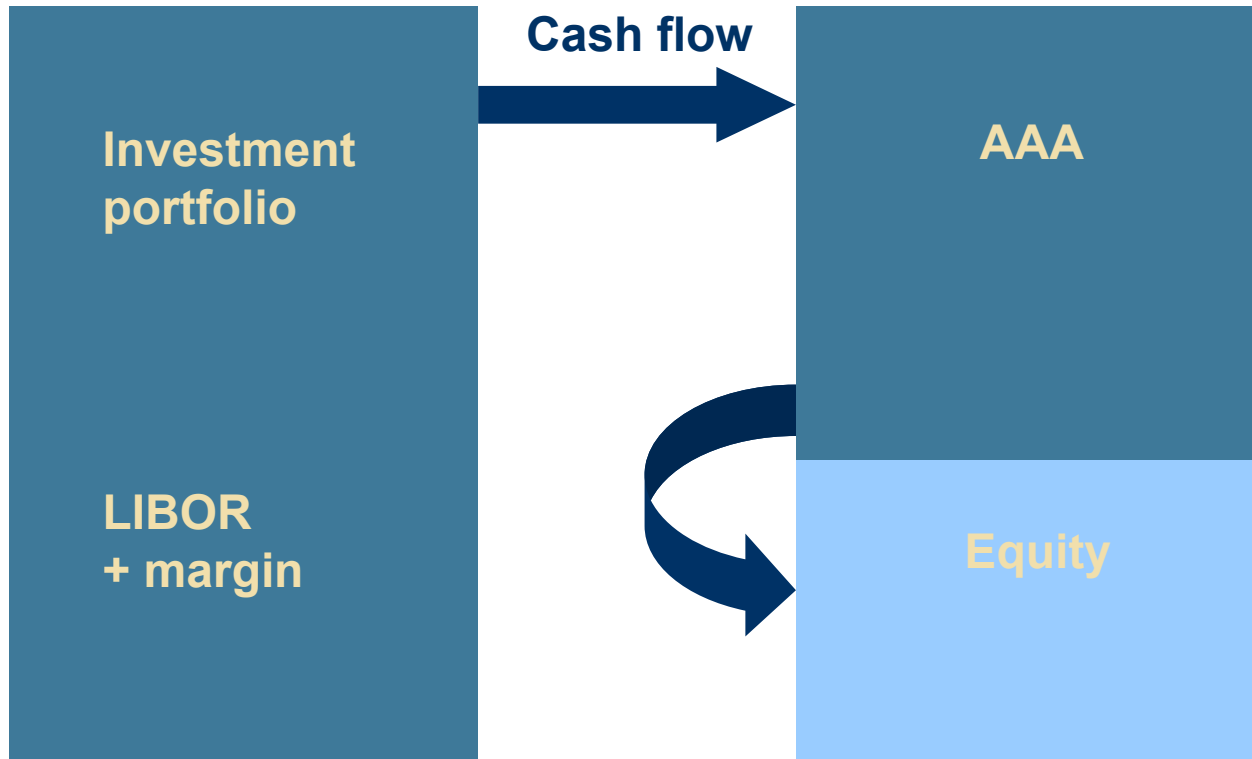
Investor 1 has invested DKK 70m but has a very small exposure to bank loans

**Speaking of CDO exposure is nonsense !**

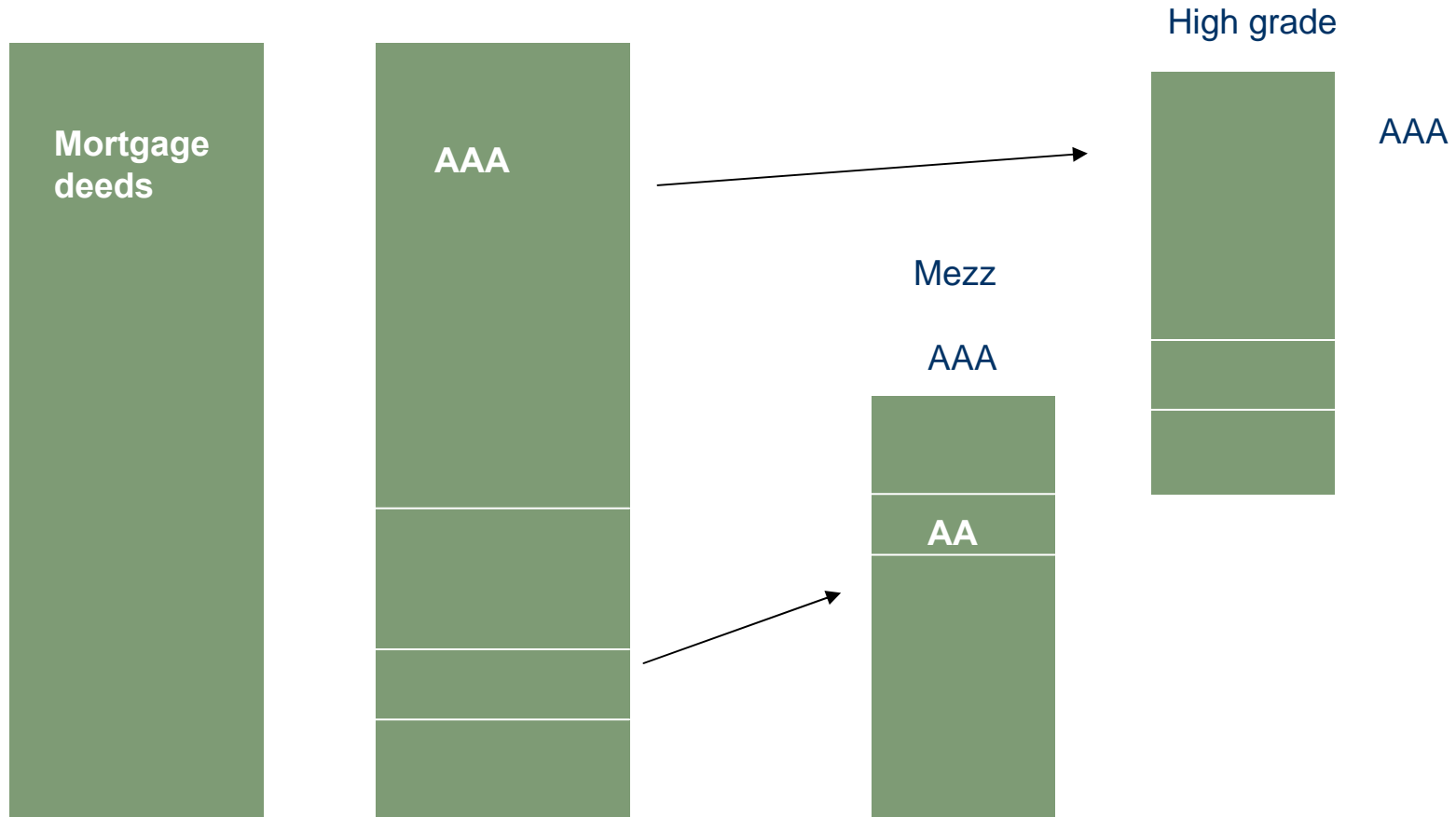
# Structure-determined differences in risk



## CDO balance - Simplified

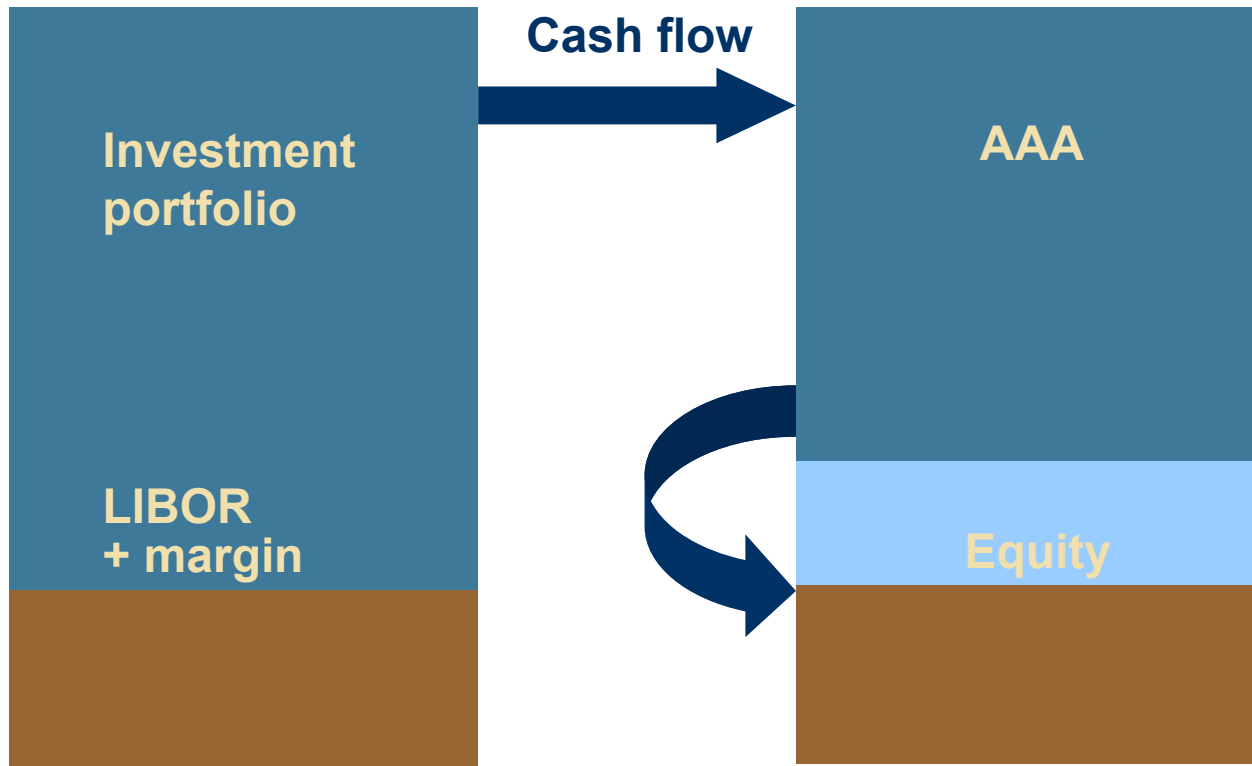


# ABS CDO with subprime - Simplified

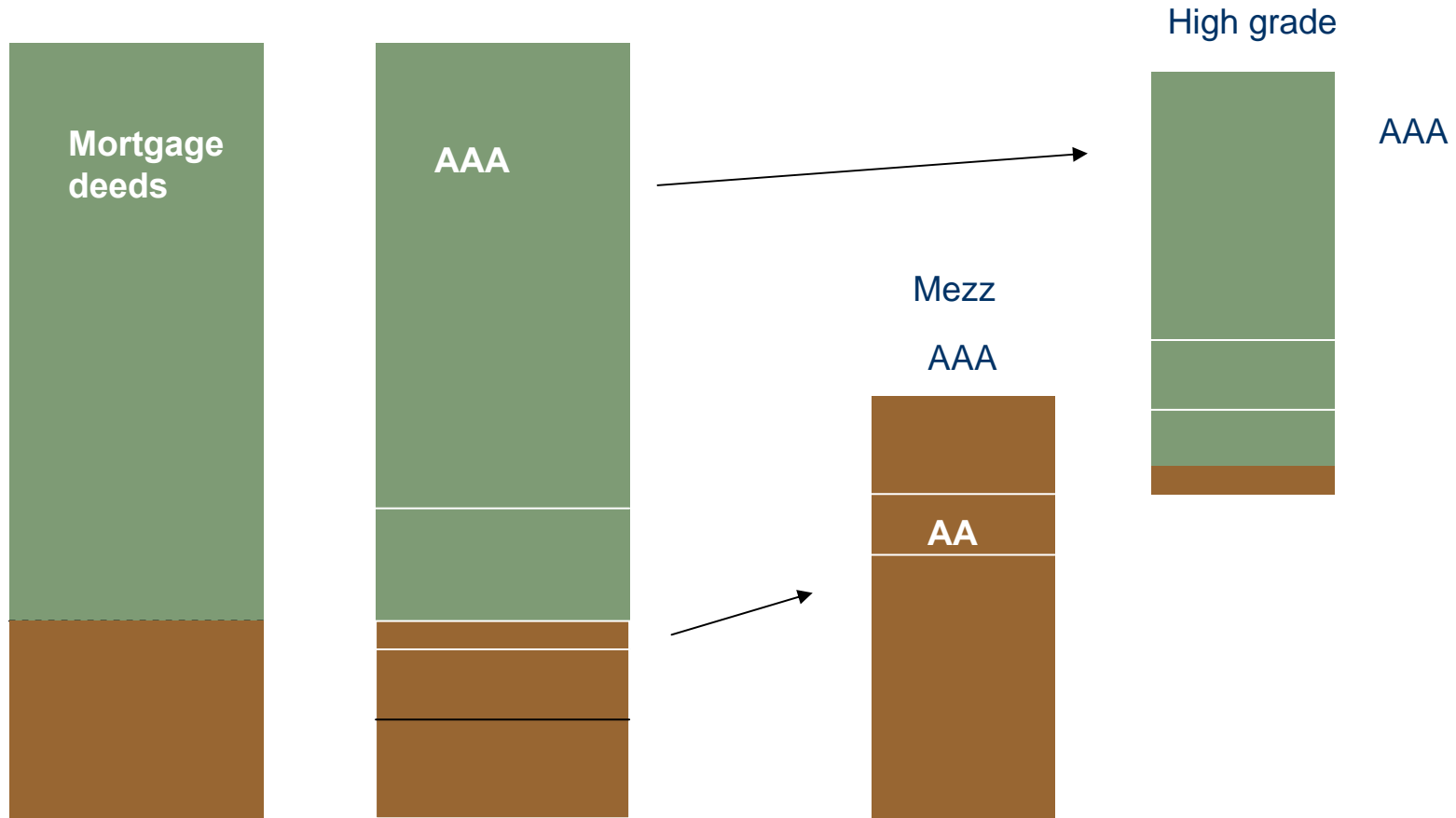


# CDO balance

## Distribution of losses - Simplified



# ABS CDO with subprime Distribution of losses - Simplified



# Topdanmark's CLO portfolio

## Some statistics for CLOs in Topdanmark's portfolio rated lower than AA

- References a broad market of 1,731 unique issuers / credits

## Geographically diverse - 29 countries

	CLOs total	Topdanmark's allocation - estimated
United States	57.5%	41%
United Kingdom	8.9%	12%
Germany	8.8%	12%
France	7.8%	11%
Netherlands	4.2%	6%
Denmark	2.7%	4%
Spain	2.5%	4%
Ireland	1.6%	2%
Sweden	1.5%	2%
Italy	<u>1.3%</u>	<u>2%</u>
Total	96.7%	96%

# Significant sector diversification (average 4.3%)

## CLOs total

Aerospace and Defence	1.1%	Healthcare, Education & Childcare	9.4%
Auto	4.8%	Mining, Metals and Natural Resources	3.6%
Broadcasting, Leisure, Entertainment	13.4%	Personal, Food & Misc Services	7.1%
Buildings and Real Estate	2.6%	Printing and Publishing	8.3%
Chemicals, Plastics & Rubber	6.7%	Retail Stores	4.5%
Construction and Materials	6.2%	Structured/Other	0.3%
Consumer Durables	1.1%	Telecommunications	4.4%
Consumer Non-Durables	0.6%	Travel and Transport	4.1%
Diversified/Conglomerate Manufacturing	2.2%	Utilities	2.7%
Diversified/Conglomerate Service	6.3%	Waste and Ecological	1.2%
Electronics	5.7%	Finance, Banking and Insurance	3.3%



## Seniority of underlying collateral supports high recovery expectations in the event of default

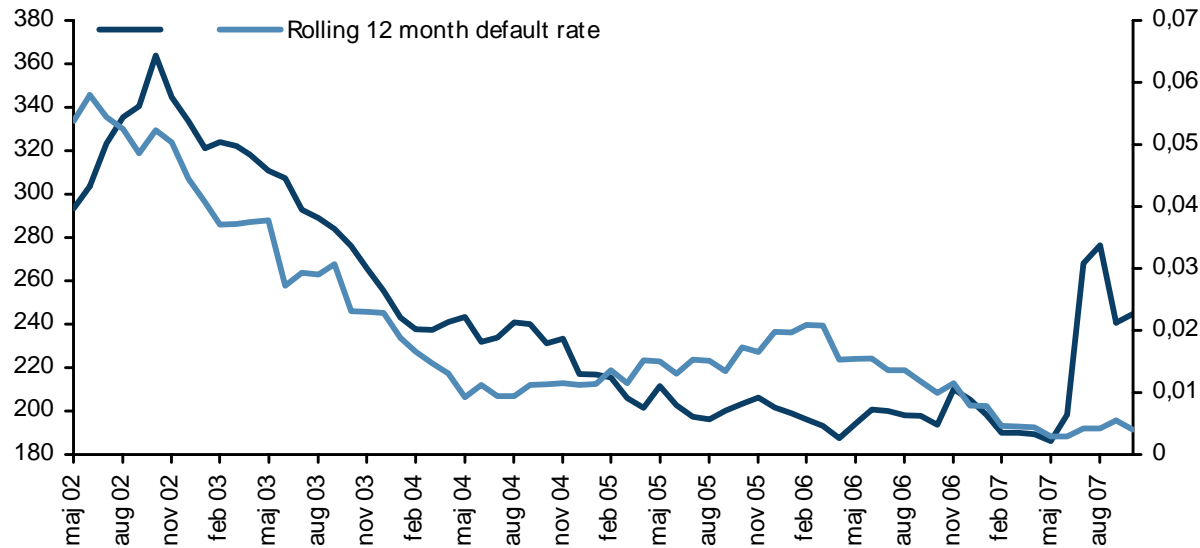
### CLOs total

#### Seniority

Term loan	86.4%
Second lien	7.0%
Corporate bond	4.6%
Mezzanine loan	1.9%
CLO / CDO	<u>0.1%</u>
Total	100.0%

Topdanmark's allocation implies more term loans and less bonds, second lien and mezzanine

# US leveraged loans credit spreads May 2002 - 15th November 2007



# Accounting policies

## IAS 39: Financial instruments: Recognition and Measurement

Financial instruments are classified as financial assets and liabilities at fair value through profit or loss when the instruments are

- Held for trading, or
- Derivatives other than hedging instruments
- Designated as at fair value through profit or loss -The fair value option (used when doing so results in more relevant information)

### Topdanmark year-end 2006

Assets in scope of IAS 39:

Fair value through profit or loss	DKK 37.6bn
Amortised cost (loans and receivables)	DKK 0.8bn
Total assets in scope of IAS 39	DKK 38.4bn

DFSA allows no financial assets to be classified as available for sale or held to maturity

# Topdanmark's CDO portfolios: returns and holdings

## CDO's with no subprime exposure - Returns at 1 November 2007

DKKkm	AAA and AA	Less than AA	Total	Of which Interest	Of which Revaluations
Group excl. life	(1)	(35)	(36)	112	(148)
Portfolio 1 Nov	985	640			
Liv I	(7)	(33)	(40)	143	(183)
Portfolio 1 Nov	723	779			
Liv V	6	(29)	(23)	102	(125)
Portfolio 1 Nov	780	566			

## CDO's with subprime exposure - Returns at 1 November 2007

DKKkm	AAA and AA	Less than AA	Total	Of which Interest	Of which Revaluations
Group excl. life	(10)	(51)	(61)	12	(73)
Portfolio 1 Nov	31	18			
Liv I	(10)	(84)	(93)	21	(114)
Portfolio 1 Nov	21	24			
Liv V	(6)	(53)	(61)	12	(73)
Portfolio 1 Nov	20	16			

See [www.topdanmark.com](http://www.topdanmark.com) → Business base → Investment → Highlights - Financial returns for an analysis of CDOs by rating.

# Topdanmark's CDO portfolios analysed by rating

**Table 1: Market value of Topdanmark's CDOs**

<b>Rating (DKKm)</b>	<b>Topdanmark Portfolio end of Oct</b>	<b>Liv I Portfolio end of Oct</b>	<b>Liv V Portfolio end of Oct</b>
AAA	718	466	582
AA	298	278	218
A	56	35	30
BBB	11	5	40
<BBB	591	763	512
<b>Total</b>	<b>1,674</b>	<b>1,547</b>	<b>1,382</b>

**Table 2: CDOs with subprime as underlying asset  
(subset of table 1)**

<b>Rating (DKKm)</b>	<b>Topdanmark Portfolio end of Oct</b>	<b>Liv I Portfolio end of Oct</b>	<b>Liv V Portfolio end of Oct</b>
AAA	26	15	14
AA	5	6	6
A	0	0	0
BBB	0	2	2
<BBB	18	22	14
<b>Total</b>	<b>49</b>	<b>45</b>	<b>36</b>

# 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 factors” 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 2007 report.**

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