

# Small and Mid Cap Seminar Enskilda Securities



Value creation in Topdanmark  
by Michael Pram Rasmussen, CEO



## Profile of Topdanmark's shares

- Focused national strategy
- Topdanmark is an insurance share
  - not an investment trust
- Limited investment exposure
  - Principle: Shareholders can take investment exposure themselves
- Calculated insurance risks
  - Returns on insurance and investment risks are not correlated - insurance risk therefore attractive

## Profile of Topdanmark's shares

- Meets, practically speaking, the principles of good Corporate Governance
  - has removed all relevant limitations set out in the Articles of Association
- Gradually reduced risk premium (discount rate)
- Relatively limited top line growth in non-life – higher in life
- High cash flow
- Large share buy-back programme

# Can profit be made on non-life insurance?

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## Assumptions

- Shareholders' funds 33% of premium income
- Combined ratio 94%
- Interest income on provisions equal to 2.5% of premium income
- Return on shareholders' funds 5%

## Return on operations

- Income
- Interest income

100.0

2.5

102.5

- Expenditure

94.0

8.5 ~ ROE = 25.5%

## Return on shareholders' funds

- ROE before taxation

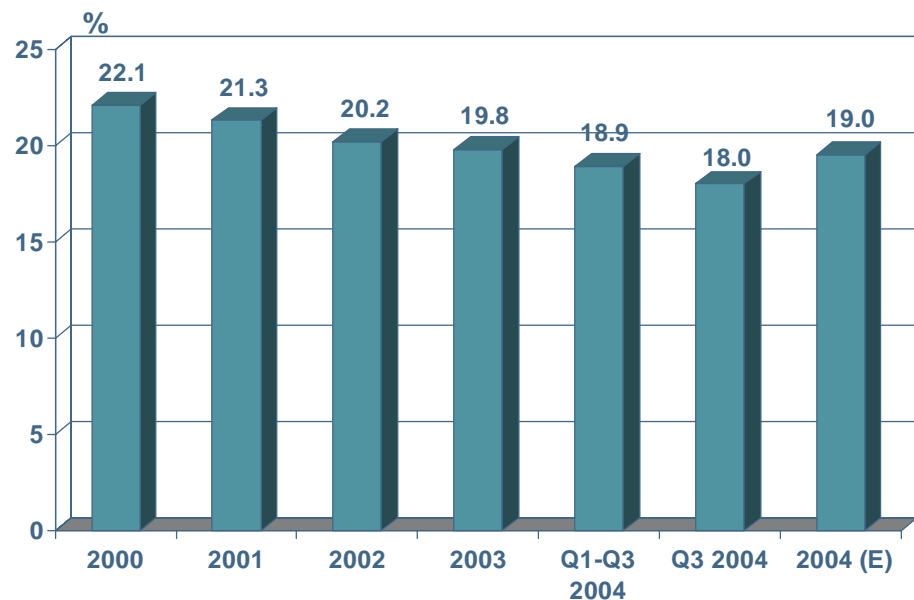
5.0%

30.5%

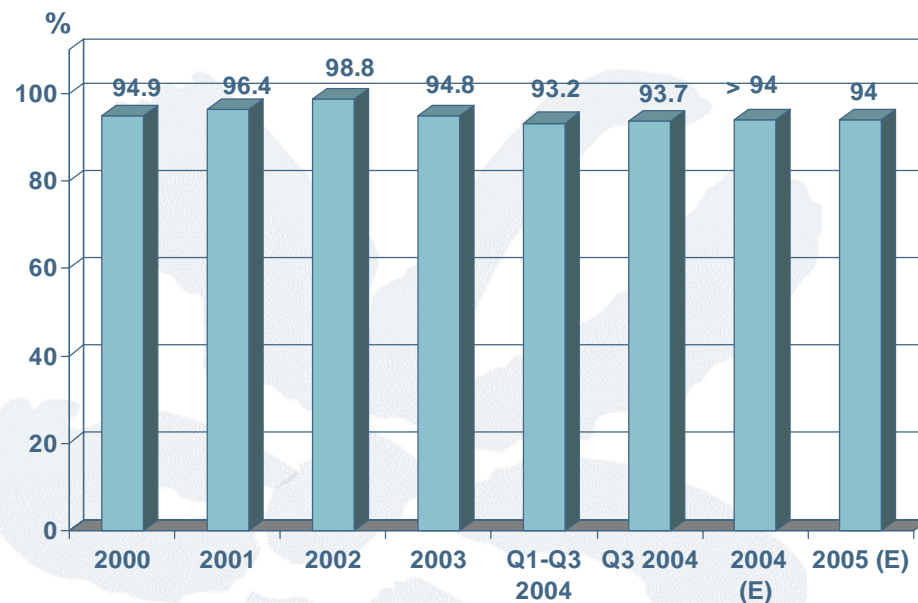
Group

- DKK 553m post-tax profit after transferring DKK 19m to equalisation provisions
  - Q1 - Q3 2003: DKK 742m, DKK 48m to equalisations provisions
- Increase in non-life insurance result – but lower investment income and higher tax payment
- Post-tax return on shareholders' funds 14.9% (20.3% annualised)

## Expense ratio

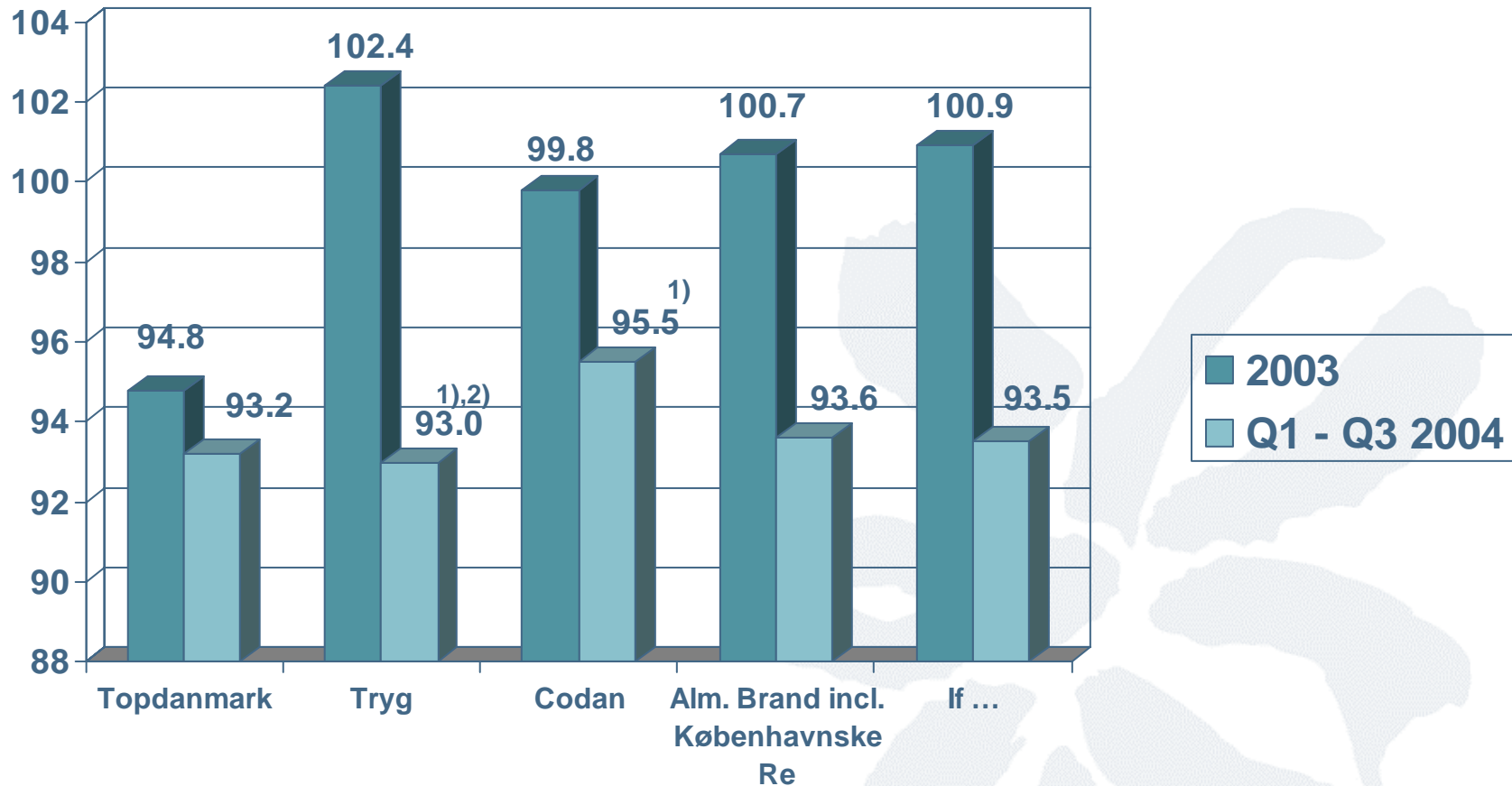


## Combined ratio (excl. 1999-hurricane)



# Comparison of combined ratios – group level

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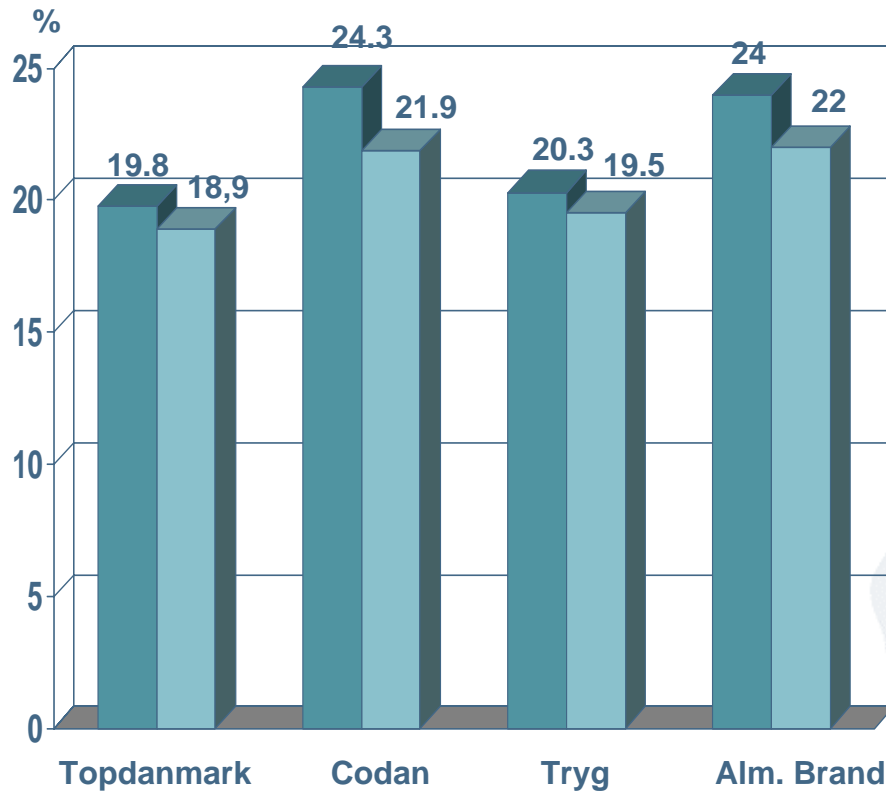
- 1) Excl. capitalisation of acquisition costs  $\approx$  0.3 percentage points
- 2) Excl. reinsurance settlement costs  $\approx$  0.6 percentage points

Non-life

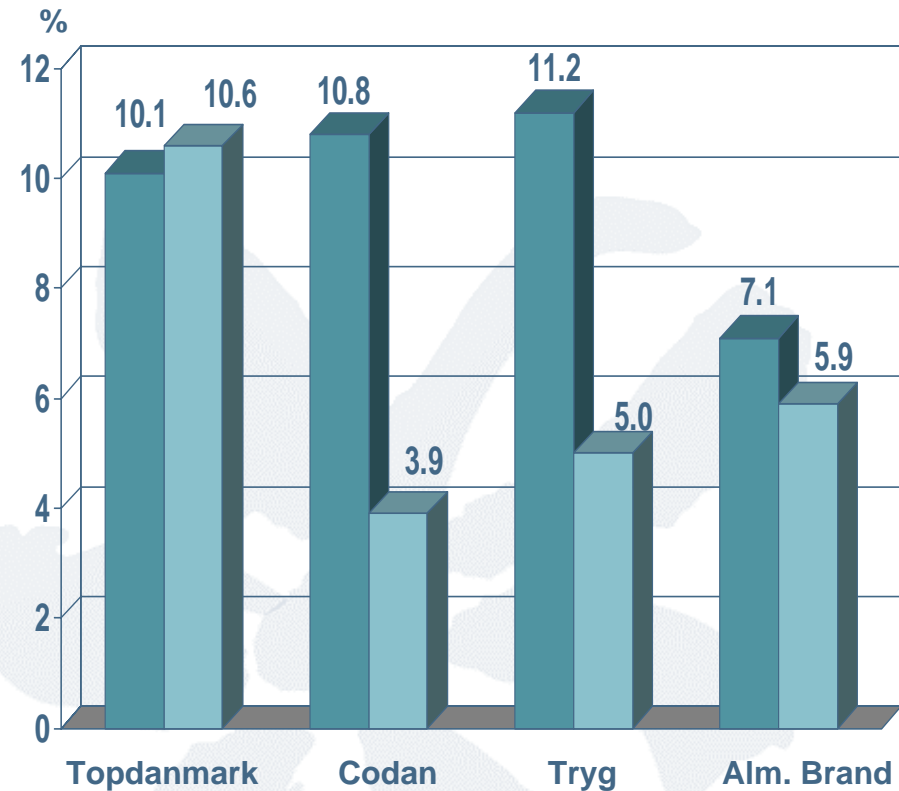
# Comparison of expense ratios and premium growth (Danish insurance)

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## Comparison of expense ratio



## Comparison of premium growth



2003

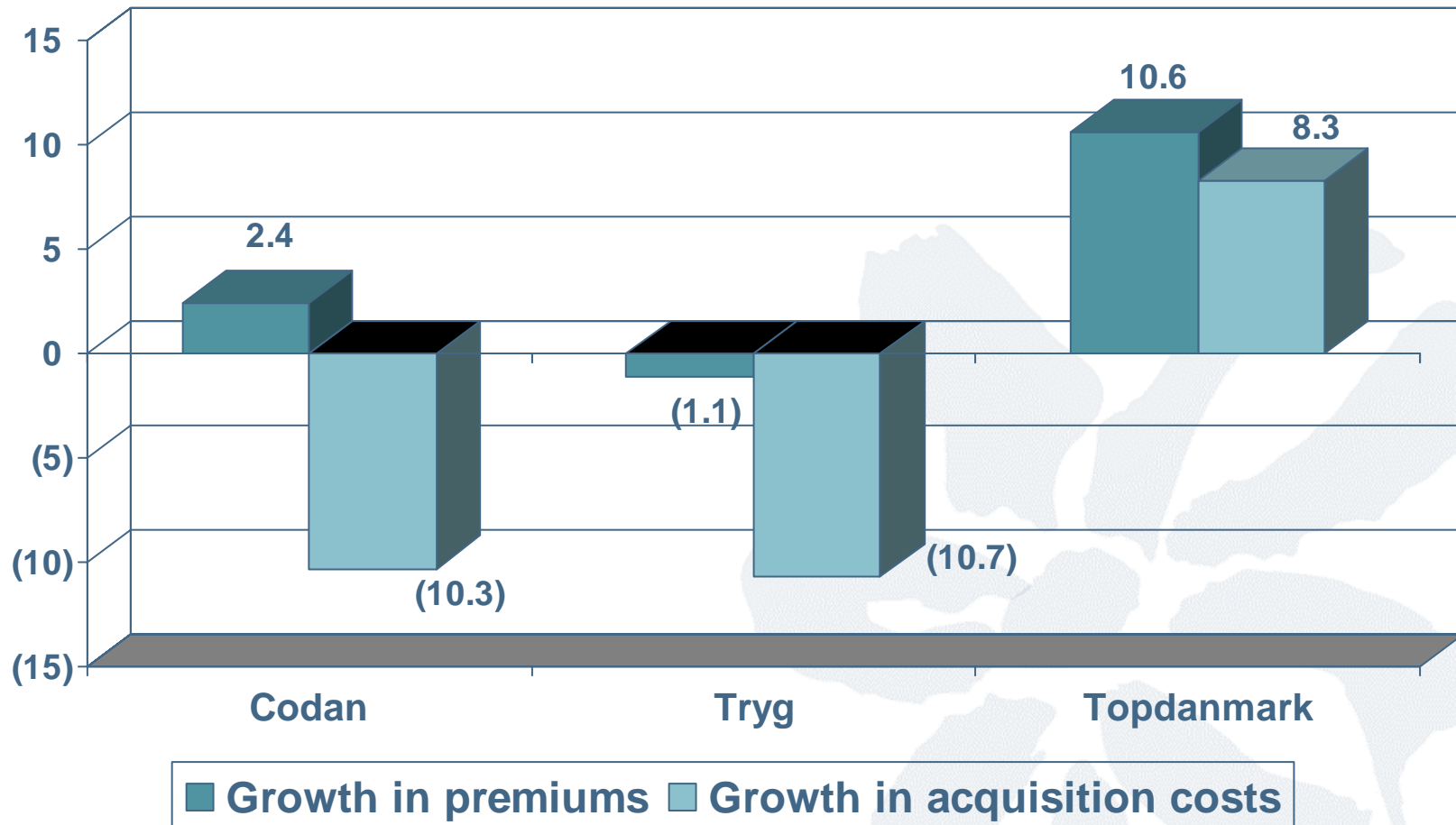
Q1 - Q3 2004

Non-life



# Growth in premiums and acquisition costs Q1–Q3 2004 – group level

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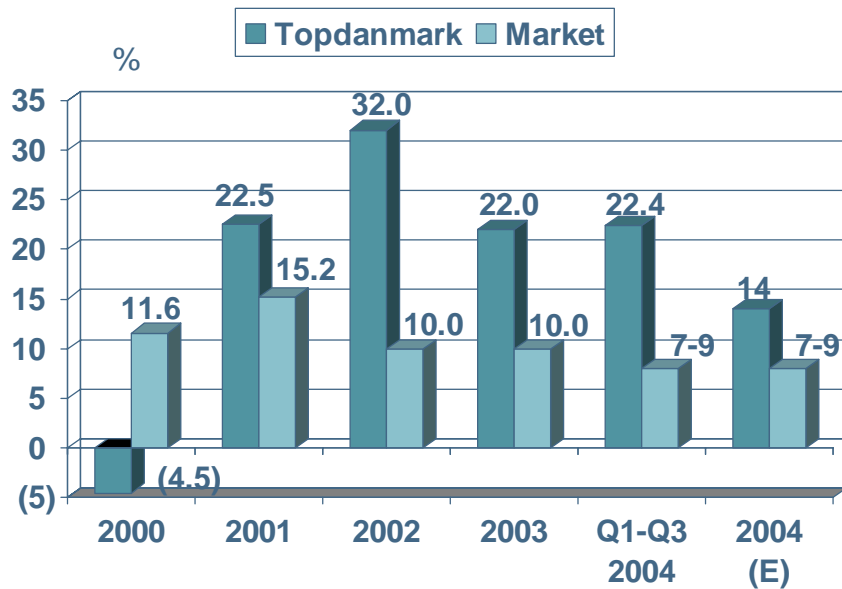
Non-life



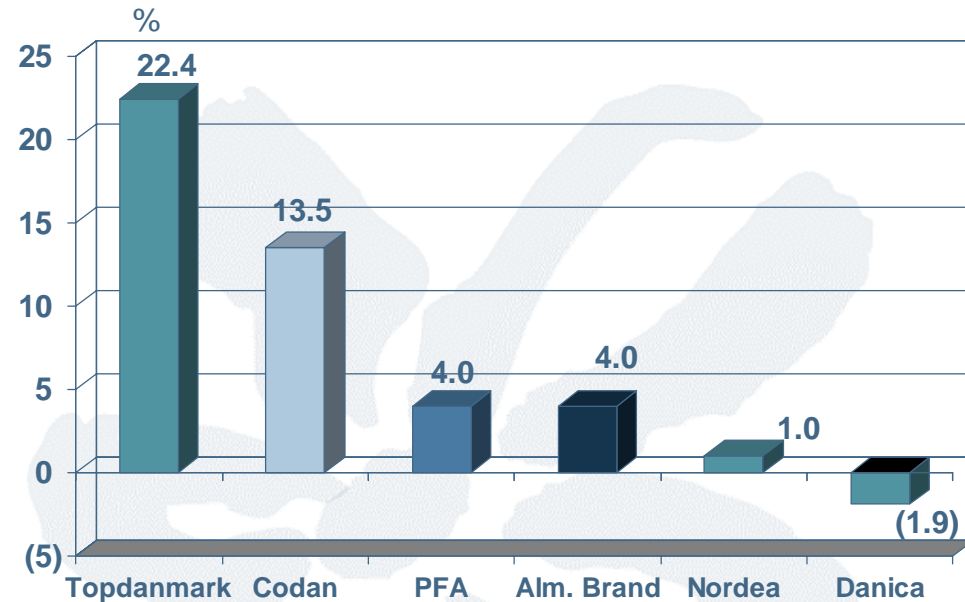
- Improved quality of portfolio
  - Relatively high premium growth in personal market
  - Relatively lower premium growth in industrial market and for large farms
- Expected premium growth around 11% for 2004
- Improved customer loyalty
- Major event incurred about DKK 75m claims in Q4
- Expected combined ratio unchanged at just over 94% for 2004
- Expected combined ratio improved to 94% in 2005
- Favourable effect on results if interest rates go up

# Continued high growth in Topdanmark Livsforsikring

Premium growth excl. BG Pension



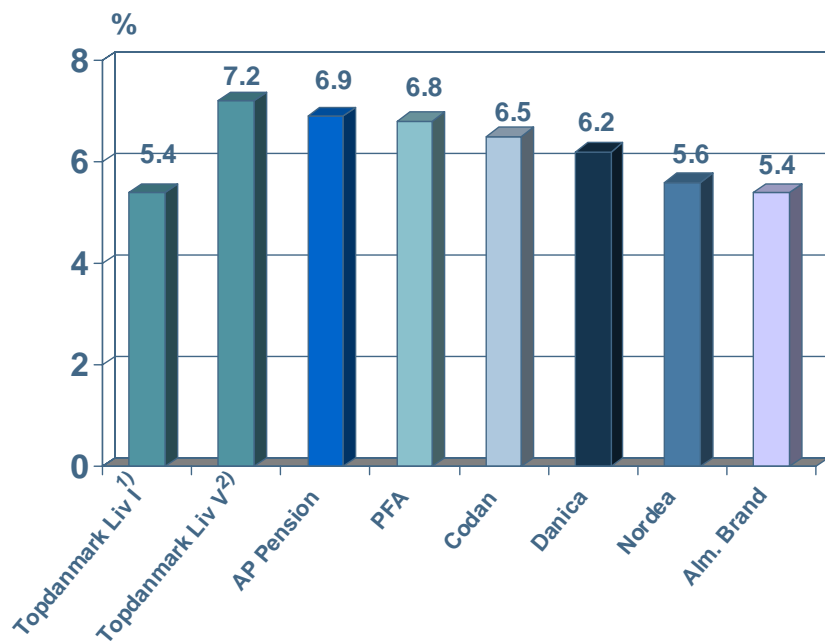
Comparison of premium growth Q1 - Q3 2003 → Q1 - Q3 2004



# Comparison of investment return before PAL-tax

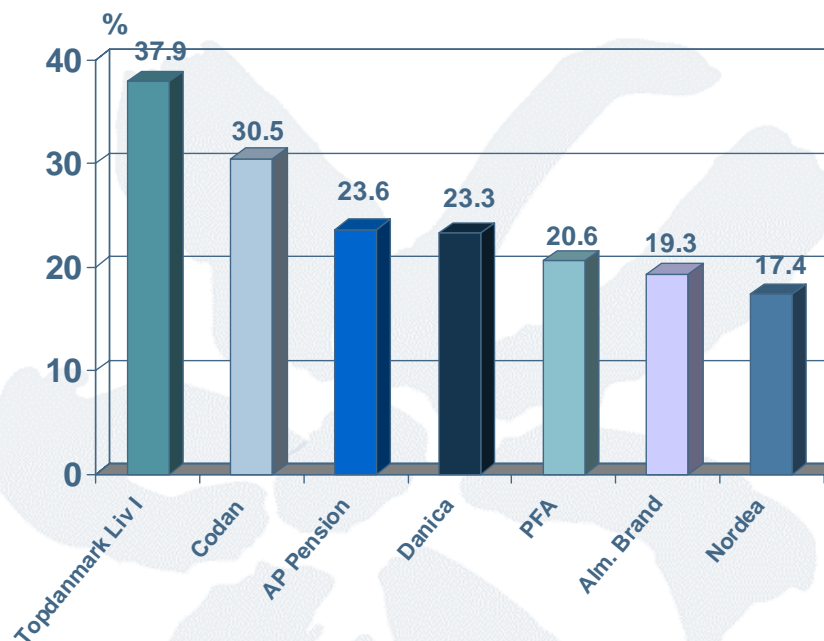
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## Investment return Q1 - Q3 2004



1) 2.5% and 1.5% guarantees  
2) 4.5% guarantees

## Accumulated investment returns 2000 - Q3 2004



- Combined ratio expected to improve from just over 94% in 2004 to around 94% in 2005
- The expected 2005 combined ratio of around 94% includes storm claims from the hurricane on 8 January 2005

- Expected post-tax profit upgraded by DKK 50m to DKK 625 – 725m
- Expected profit includes
  - Major fire in Q4 resulted in about DKK 75m claims
  - Weather-related claims etc. of DKK 115m after reinsurance
    - Up to 23 November weather-related claims etc. of DKK 62m in 2004
  - Strengthening of annuity reserves in workers' compensation by DKK 80m due to decline in interest rates

Forecast assumptions are based on equity prices at 19 November 2004

- Share buy-back programme upgraded by DKK 50m to about DKK 850m for 2004
- Most of increased element of share buy-back will occur in 2005
- DKK 803m shares bought back in 2004
  - DKK 47m transferred for buy-back in 2005
- Since 1998, 48% outstanding shares bought back
- Average price of share bought back: DKK 210 per share

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

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