

# Presentation of Topdanmark

## Carnegie Nordic Small & Mid Cap Seminar

22 - 24 September 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 H1 2003

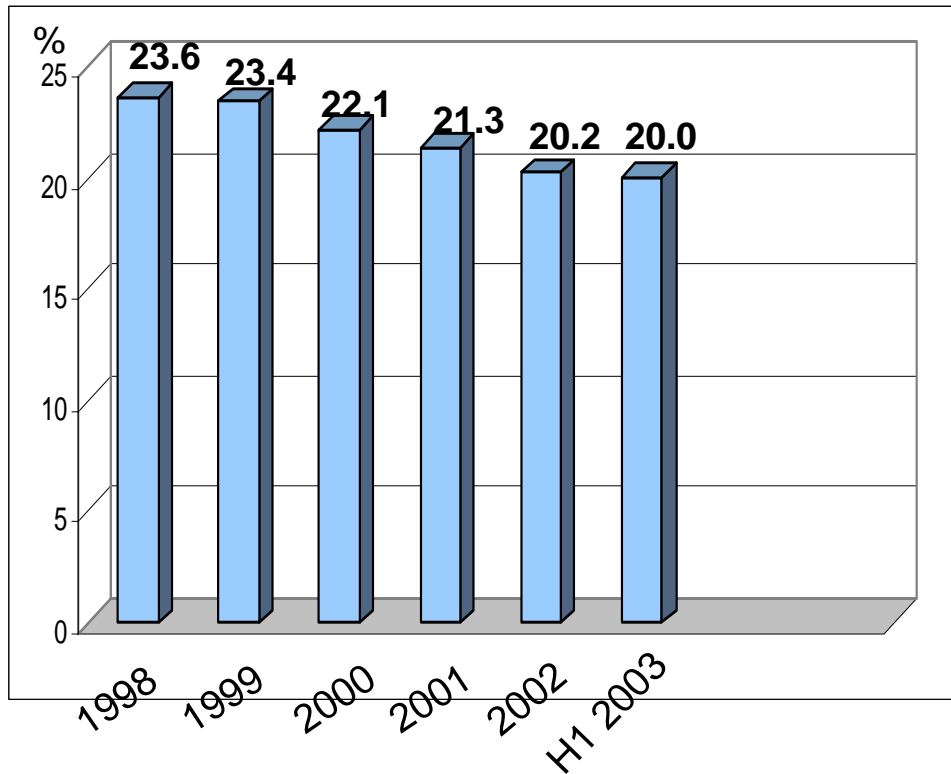
- DKK 579m post-tax profit after transfer of DKK 25m to equalisation provisions
  - H1 2002 : DKK 229m plus non-recurring income of DKK 112m
- H1 2003 cash flow increased 39.6% to DKK 679m
- Cash flow per share increased 51.4% to DKK 26.6
- Expense ratio declined from 20.9% in H1 2002 to 20.0% in H1 2003
- Combined ratio declined from 100.6% to 95.2%
- Premium growth
  - Non-life                    12.6%
  - Life                         11.7%
  - Regular premiums        16.5%
- 5.9% (12.2% annualised) return on investments in Topdanmark Livsforsikring



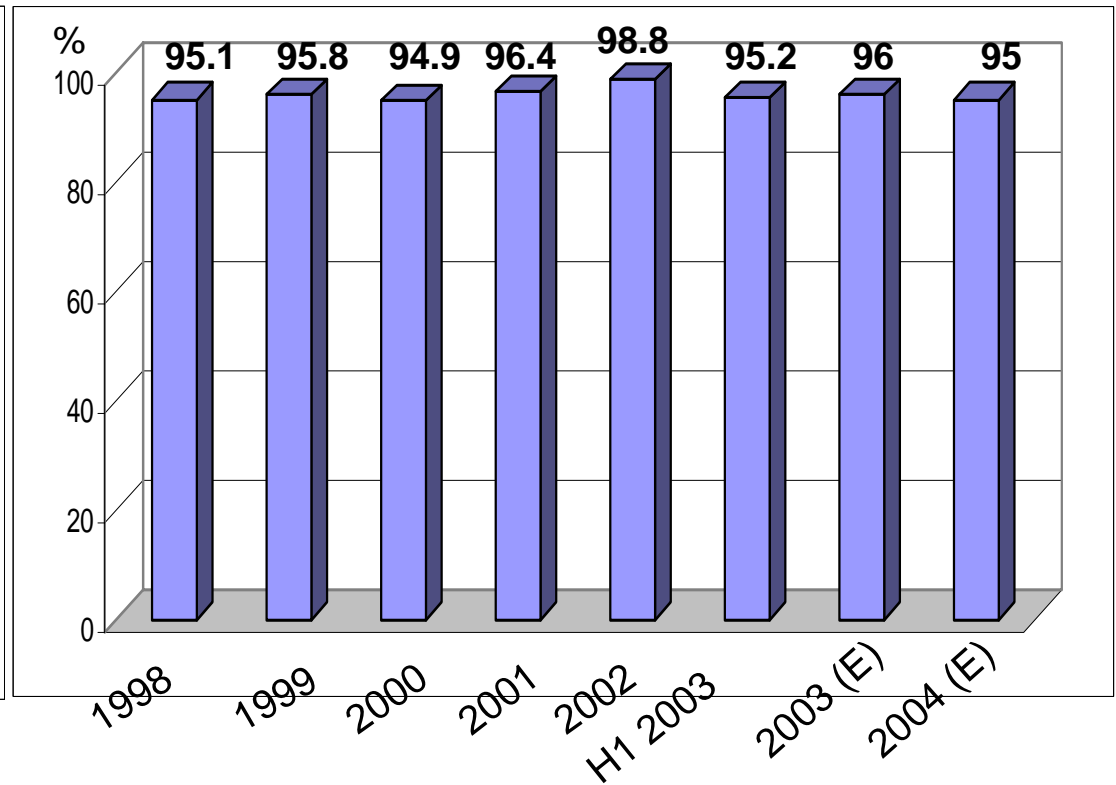
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# Continued decline in expense ratio

Expense ratio



Combined ratio - excl. 1999-hurricane



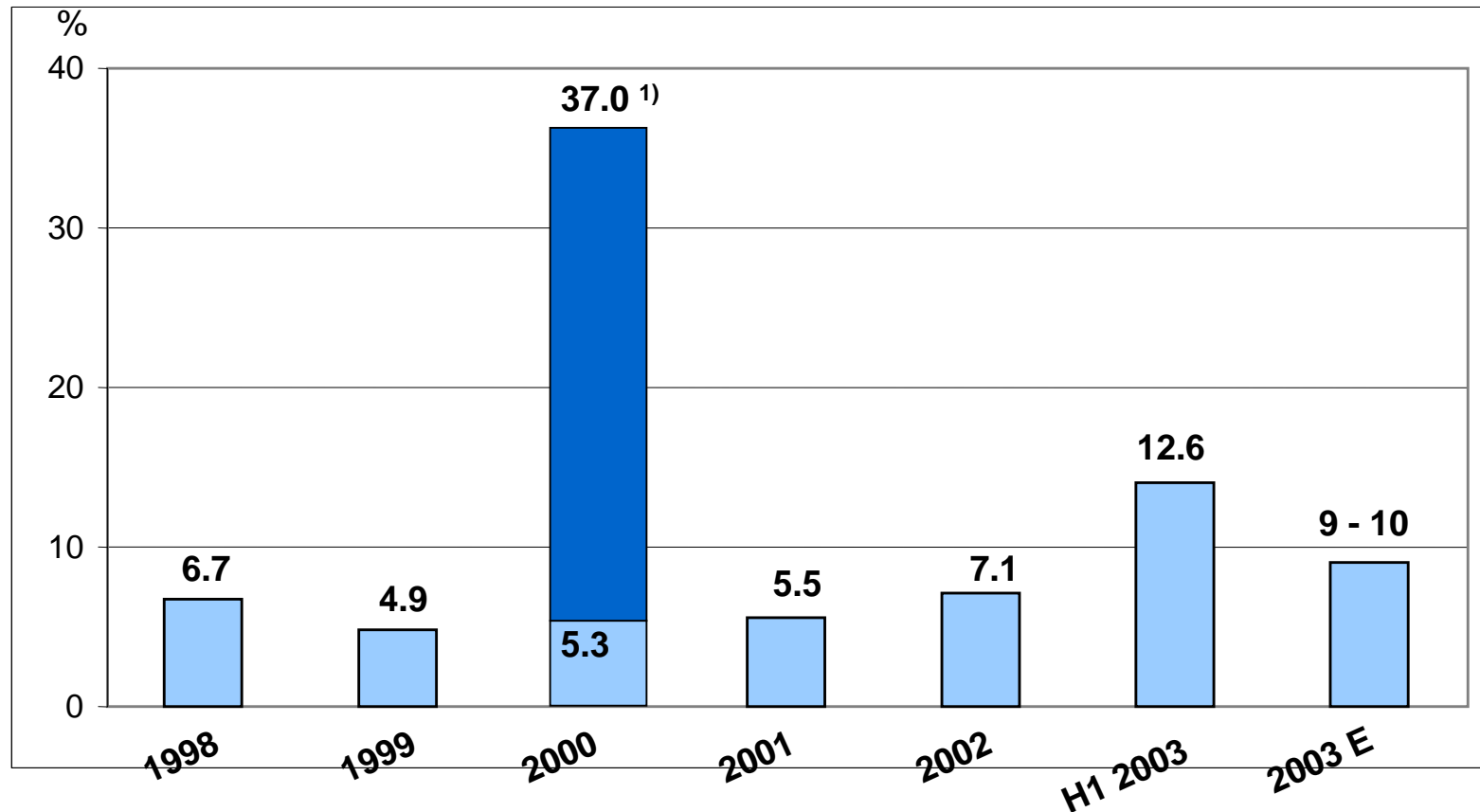
Non-life

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# Increased growth in premiums

## Growth in premiums



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

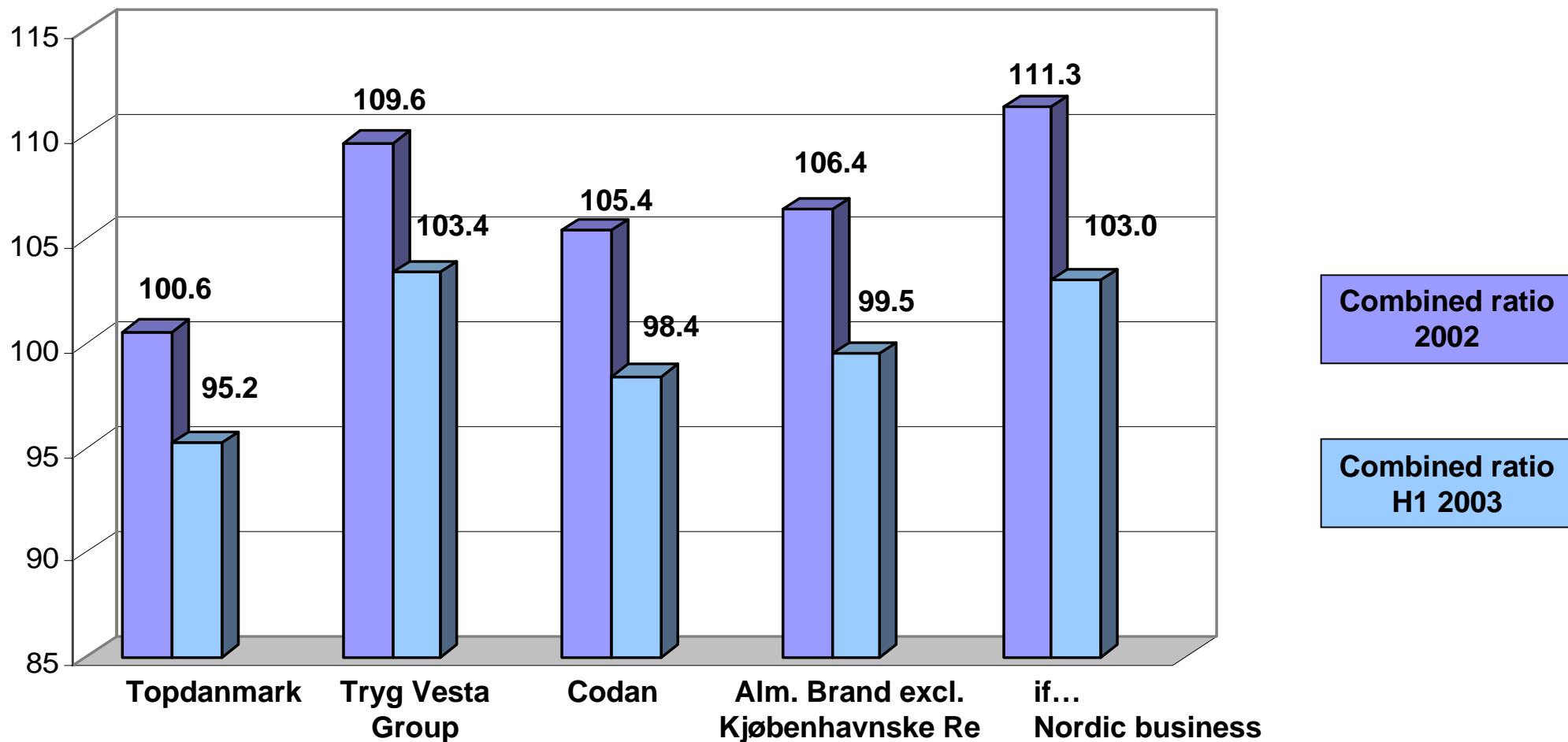


## Non-life

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# Topdanmark keeps the lead in combined ratio



Non-life



# Prospects for non-life insurance

- Market affected by general premium increases due to low capitalisation, low interest rates, high combined ratio
- Excluding effect of civil liability Act, Topdanmark kept premium increases to around 3%
- Improved competitive position
- Expected premium growth 9 - 10% in 2003
- Reinsurance programme on storm increased by DKK 100m to DKK 3.6bn
  - Savings of nearly 10%
- Cloudburst claims of just under DKK 30m in Q2
- Build-up of equalisation provisions
  - DKK 25m in H1 2003
- Expected combined ratio continues to be 96% for 2003
- Continued low investment income
  - Risk free interest rate 3.5% in 2002; 2.6% in H1 2003
- Target for 2004 - combined ratio of around 95%



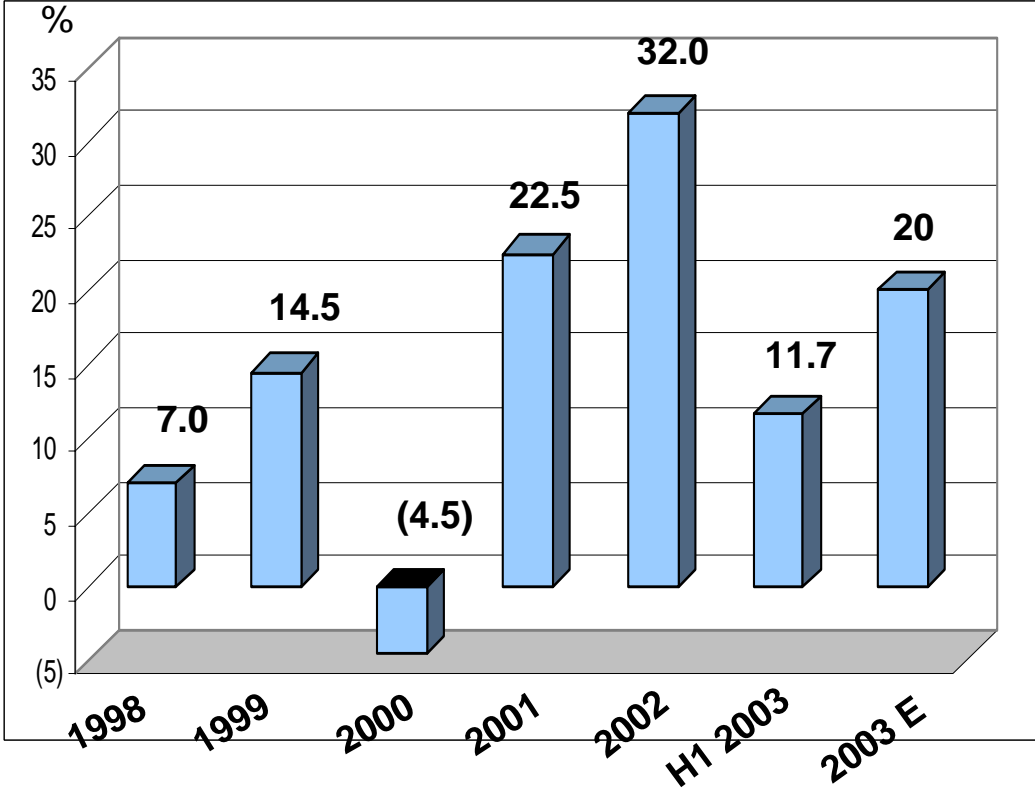
**Non-life**

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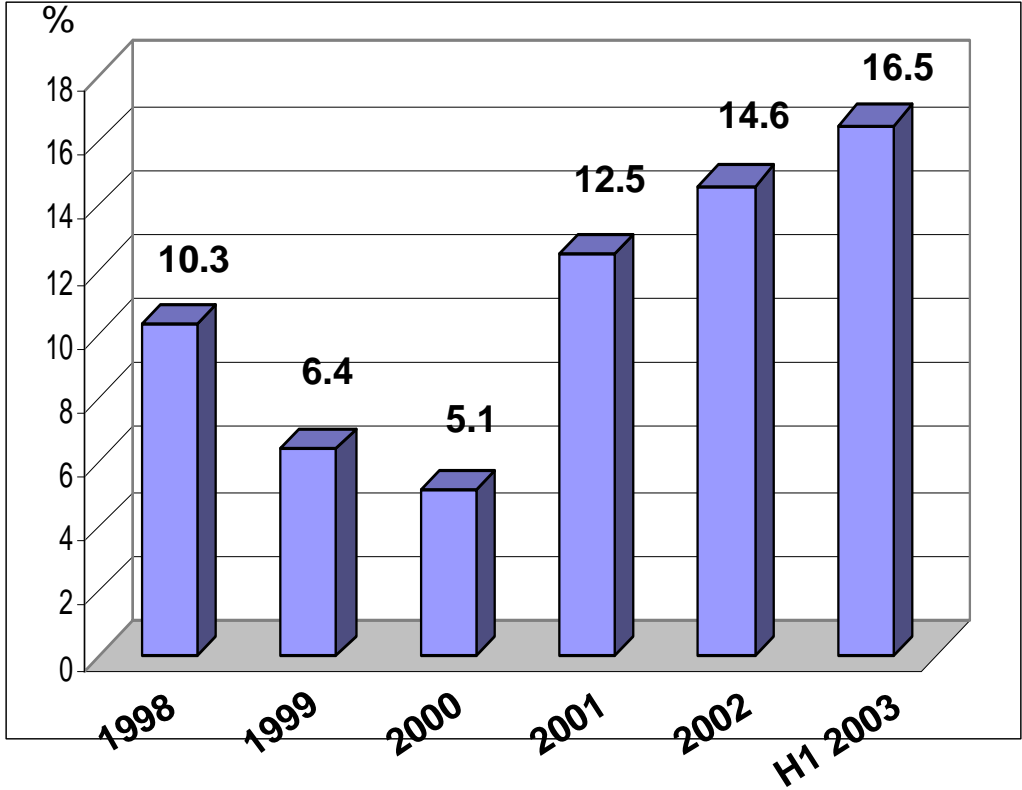


# Increased growth in regular premiums

Premium growth excl. BG Pension



Trend in regular premiums excl. BG Pension



Life

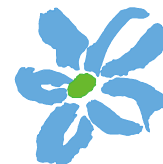
# Growth expected to continue in Topdanmark Livsforsikring

- Improved competitive position
- Premium growth for 2003 upgraded from 15% to about 20%
  - Based on higher than expected sales in H1
  - Continued expected high sales in H2
- Investment policy maintained
  - About 15% exposure in equities at 30 June 2003
- 5.9% return on investments in H1 2003
- Allowance for risk from Q1 2003 included in income already in Q2 2003
- Increase in bonus reserves from 3.5% to 4.2%
- Topdanmark Livsforsikring ranked as the Danish life insurance with most satisfied and loyal customers by Aalunds Business Analyse (business analysis company)



Life

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# Shareholding in Danske Bank

- In September 2003 Topdanmark's 1.6% stake in Danske Bank reduced to a level representing an ordinary portfolio investment
- Expect to invest proceeds in
  - Repayment of loans
  - Purchase of bonds
  - Purchase of portfolio equities
  - Share buy-back
- Sale of Danske Bank-shares has
  - reduced exposure to financial risk
  - reduced volatility in Topdanmark's results
  - increased share buy-back potential



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# Profit forecast for 2003

DKKm

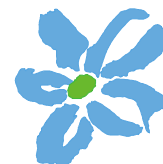
- |  |                  |
|--|------------------|
| • Profit excl. shareholding in Danske Bank | 500 - 600        |
| • Profit on shareholding in Danske Bank    | <u>145 - 145</u> |
| • Expected profit                          | 645 - 745        |
| • Cash flow                                | Approx. 880      |
| • Cash flow per share                      | Approx. DKK 35   |

**Forecast assumptions based on share price on 14 August 2003**



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# Opportunity to increase share buy-back in 2003

- Share capital reduced 40% from share buy-backs since 1998
- Annual Report 2002 expected DKK 350 - 450m share buy-back for 2003
- Potential for 2003 increased to approx. DKK 680m due to upgraded profit forecast after Q1 and Q2
- Share buy-back programme for 2003 upgraded by DKK 100m to DKK 450 - 550m
- Decision on any further increase in buy-back for 2003 to be made later in the year
- At 14 August 2003 own shares of DKK 359m bought back



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

- a source of updated information on Topdanmark



# Appendix





# “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	<hr/> 111.0

Interest on necessary capital 15%

Additionally there will be synergies of about DKK 25m



Life

# 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 solvency requirement in non-life (premium based)	1,860	
1.5 x solvency requirement in life	928	
1 year's growth in solvency requirement	251	
0.3 x equity exposure (Group excl. life)	544	
1 x interest rate exposure (Group excl. life)	<u>50</u>	
		3,633
less equalisation provisions in Topdanmark Group excluding life and workers' compensation insurance and less up to 20% loan capital by way of long-term loans or committed lines to parent company		(113)
Total shareholders' funds		<u>(727)</u> 2,793



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# Share buy-back model 2/2

DKKm

Shareholders' funds 1 Jan 2003		3,321	
Shareholders' funds net of tax asset	(383)		
Shareholders' funds net of goodwill	<u>(559)</u>		
Capital cover		<u>(942)</u>	
		2,379	
Expected pre-tax profit before goodwill 2003 (average value)		<u>879</u>	
Expected capital cover 31 Dec 2003			3,258
Reasonable capital cover		2,793	
80% of 1 year's normal growth in required solvency		<u>122</u>	
Expected reasonable level of capital cover 31 Dec 2003			<u>2,915</u>
Release of capital by selling Danske Bank			343
Total share buy-back potential 2003			<u>343</u>
			686



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