

January 2011

SEB Enskilda Nordic Seminar

11 January 2011

Presentation of Topdanmark

By Christian Sagild
CEO

Agenda



- **Share profile**

- Important assumptions for success
 - Key value drivers

- A probable scenario

- Normalised earnings

- Share buy-back

Share profile

Clearly focused strategy

- Danish player
- Stable insurance risks
- Low expense ratio
- Limited financial risk
- Efficient capital management
- Relatively limited top line growth
- Profitable growth - in that order
- Relatively high net result
- Large share buy-back programme
- No limitations set out in the Articles of Association

The Topdanmark share is a value case – not a growth case

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Important assumptions for success

External factors

Market

Competitive situation

Consequences
for key drivers

- Growth
- Expense ratio
- Combined ratio

Internal factors

Our distribution efficiency

Success factors

Our pricing

Our efficiency

Market: Trend in loss ratio – Summary

House and contents



- House and contents are considered to be loss-making also in 2010
- Cloudbursts and continued thefts require price increases
- Several large companies must notify price increases for the 2nd time
- Several small companies must notify price increases for the 1st time

Motor



- Several companies have made customers a "good" offer"
- Deteriorated earnings on comprehensive for several companies
- Reduced run-off on third party and thus deteriorated claims trend
- However, overall satisfactory earnings

Workers' comp



- Loss ratio will increase
- Thereby pressing overall earnings in SME/Industrial market
- Pricing in workers' comp requires significant know-how
- Aggressive prices may be expected to continue

Change of ownership



- Change of ownership has always been loss-making
- Preparations are being made for a change in presale house inspections
- Insurance Ass. working to change the change of ownership policies
- Conditions ought to improve finances from mid-2011

Market: Significant factors affecting 2010 earnings

Weather-related claims

- Snow loading and cloudburst claims estimated to be DKK 1bn and 1.5bn (0.5bn net of reinsurance) respectively

Recession

- Continued recessionary effect estimated to be DKK 0.5bn

Decline in interest rates

- Since 1 October 2009 around 1.5% decline in interest rates for bonds of 3.5 years duration
- This deteriorates CR by around 2pp (DKK 1bn)

Total

- As compared to the same period last year, overall estimated effect of around DKK 4bn and around 3bn net of reinsurance
- Premium increases have a favourable effect

Competitive situation in mass market

Tryg

Currently notifying price increases: House, contents, accident

Announced: Price increases in change of ownership 30-40%

Further price increases for contents from the turn of the year

Alm. Brand

Currently notifying price increases: Contents and house

New accident insurance, i.e. rewriting and price increase notifications from the turn of the year

Minor competitors

Alka: New house insurance. Notifying various price increases

GF: Notifying price increases for contents, house, accident

Lærerstanden: New contents insurance with price increases and price increase notification for contents and house

If

Price increases for new house and contents business and price increase notification

Gjensidige / Nykredit

Notifying price increases for house from the turn of the year

Price increases for change of ownership

Topdanmark

Notifying price increases for contents and house

Discount possible on selected products

Forthcoming price increases in change of ownership

Introduction of many new/improved personal products in 2010

Codan

Implementing selective price increases

New definition in accident insurance

Announcement seen on new contents after the turn of the year

Competitive situation in professional market

SME market

- Tryg** • Implementing price increases of 10-18% with effect from October
- Alm. Brand** • Letters of notification have been seen but unknown level
- Codan** • Currently notifying price increases – level unknown
- If** • Notifying price increases of 5-25% in the lower market

Agricultural market

- Tryg** • Individual measures (premium increases, excess and other risk improving measures)
- Alm. Brand** • Individual measures and run-off from general notification 2009 (premium increases, excess and other risk improving measures). General notification to mink customers
- Codan** • All major customers given notice of termination
- Gjensidige** • Individual notifications

Industrial market

- Soft market – particularly the upper end

Competitive situation - Summary

Most companies are implementing price increases

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Distribution efficiency

Increased focus in 2011

Personal

- Re-establishment of the number of market pressuring jobs – certified insurance sales representatives, sales centre staff and customer service employees
- Transfer of Danica certified insurance sales representatives
- More resources on customer retention activities

SME and Industrial

- Introduction of truck concept and aiming at broker sales channel

Continued focus areas

Personal

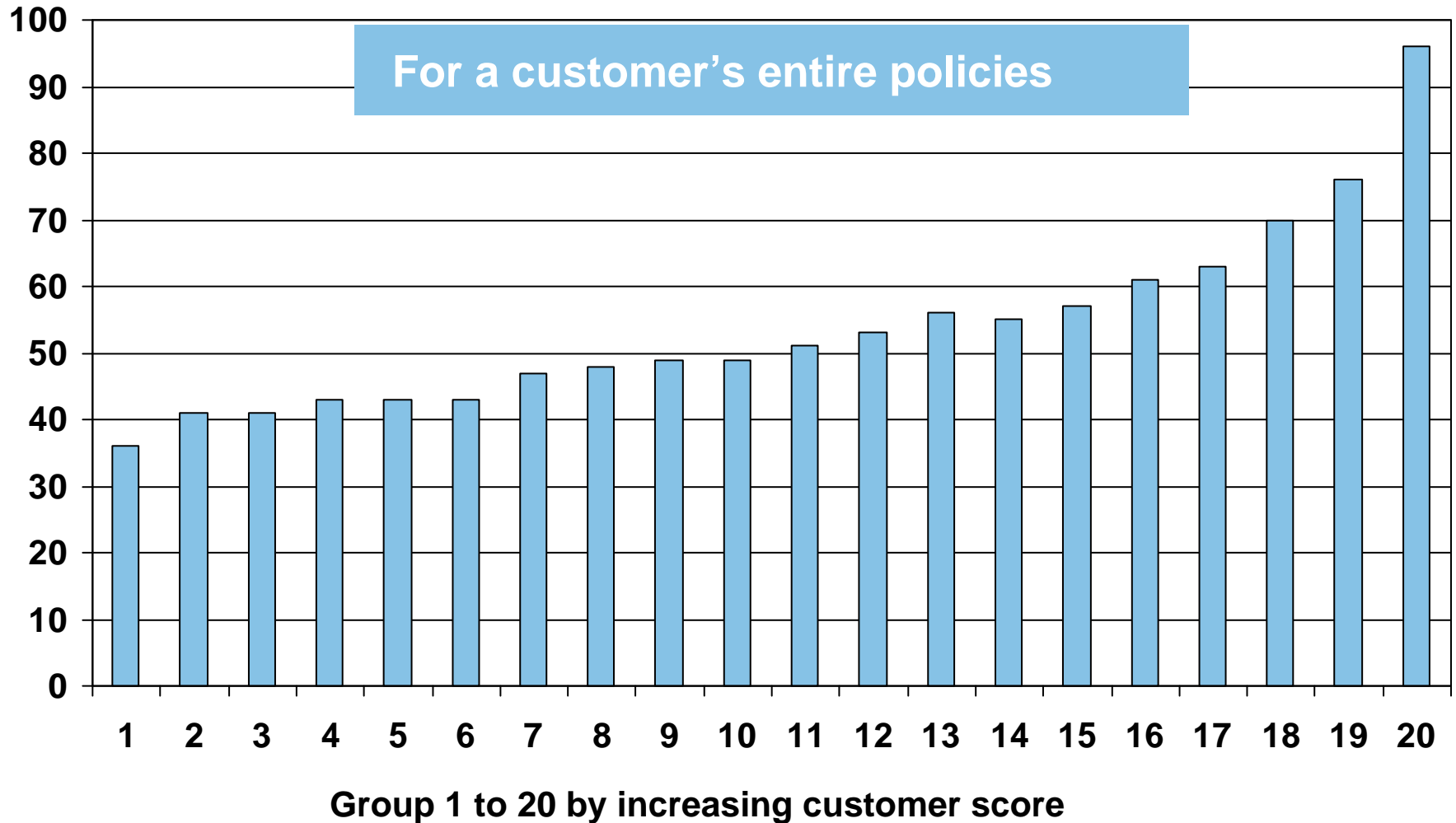
- Sales via Danske Bank (DB) => Dialogue with DB on future setup

Pricing: Significant core skills

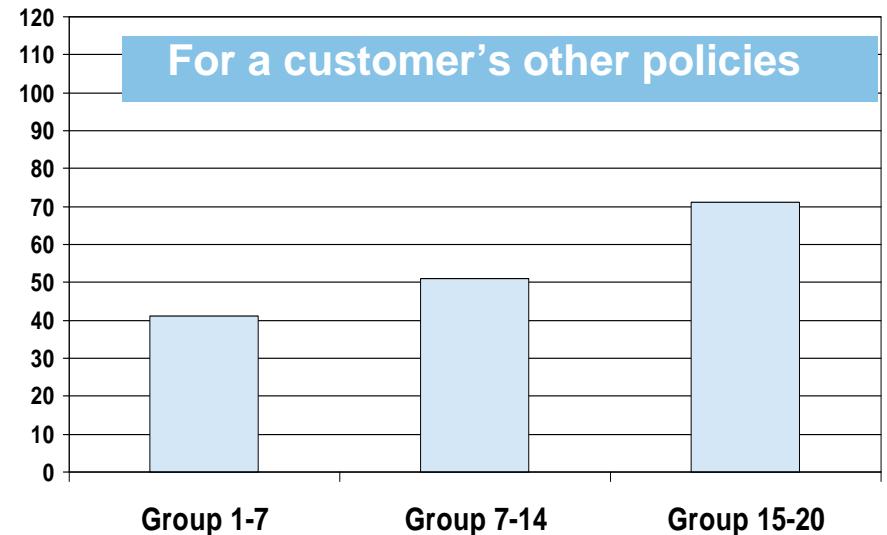
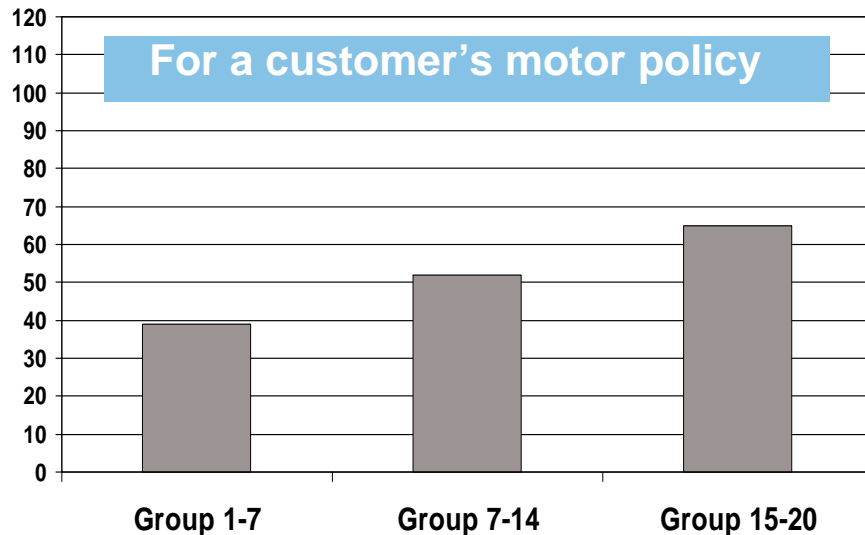
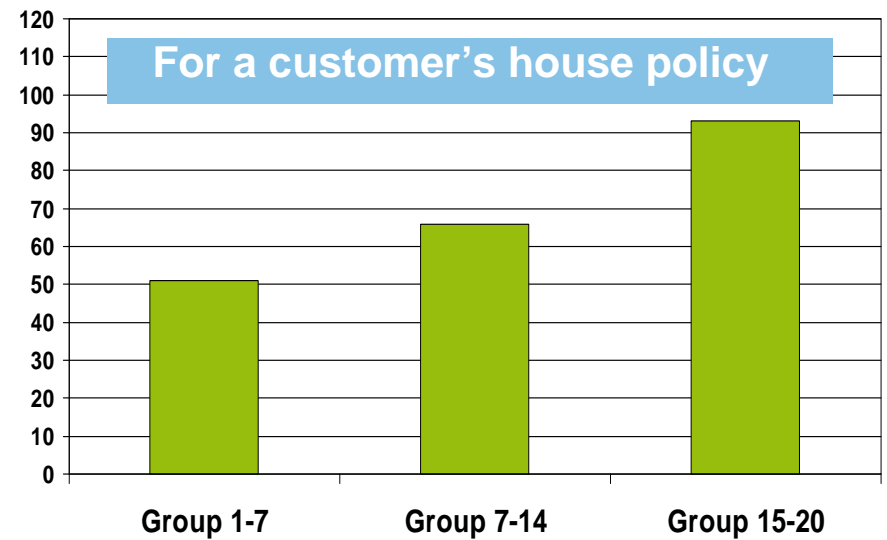
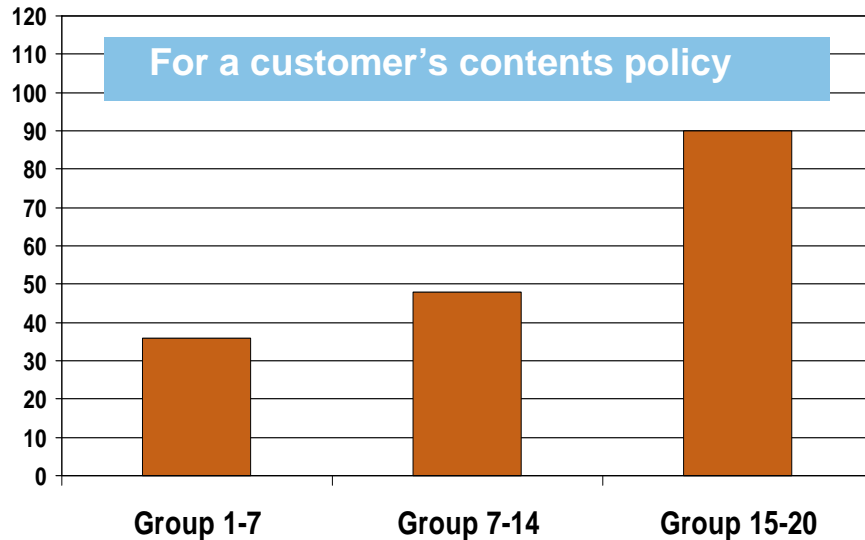
- ✓ **Micro rating**
- ✓ **Acceptance rules**
- ✓ **Rescuing**
- ✓ **Portfolio reorganisation**
- ✓ **Price sensitiveness**

Breakdown of existing customers by profitability

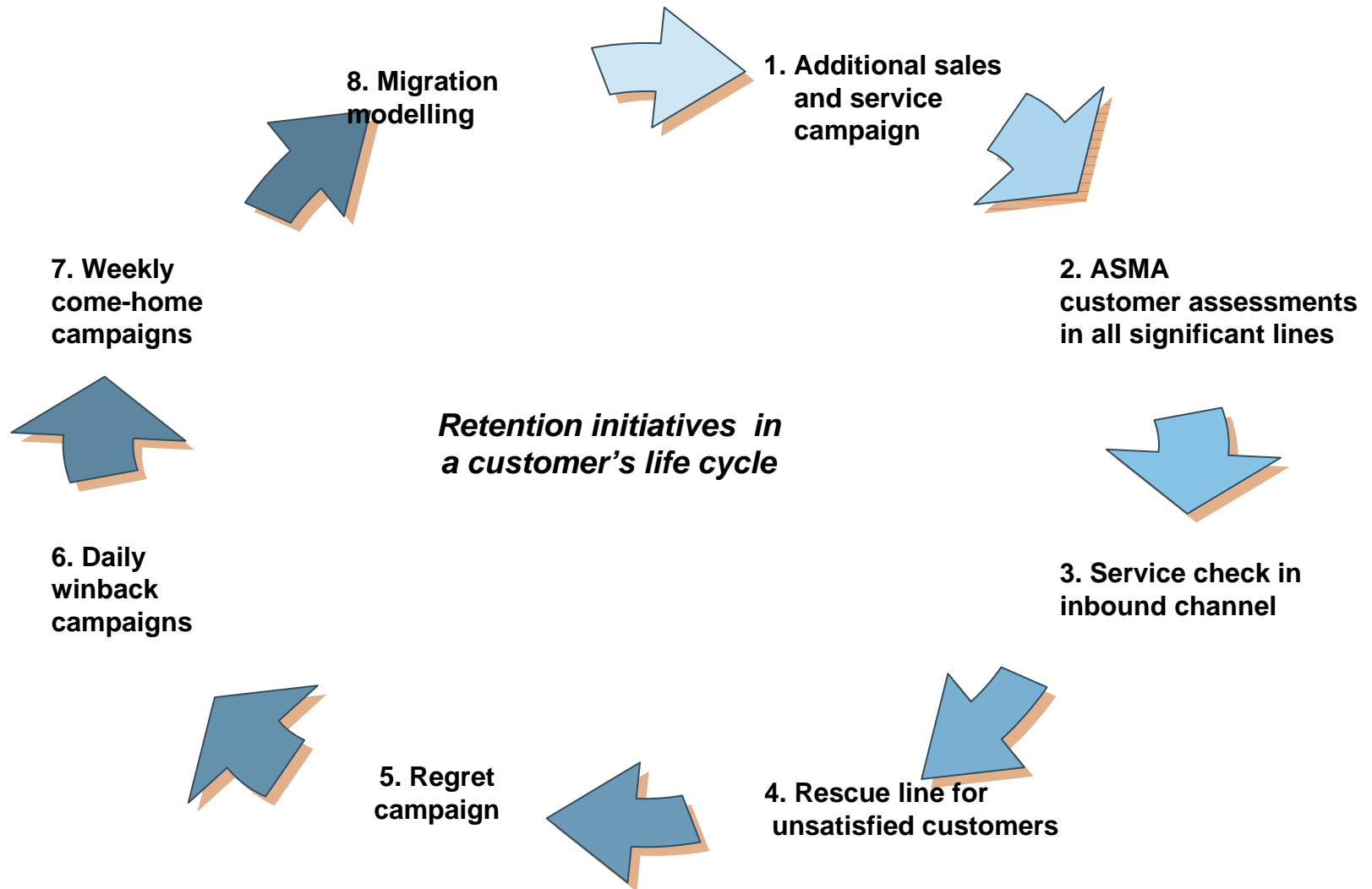
Expected loss ratio



Breakdown of existing customers by profitability



Customer retention initiatives – Mass market



Price increases

(DKKkm)	2010	2011	2012	Total
Personal	69	76	17	162
SME/Industrial	52	13	0	65
I/A	30	0	0	30
Unemployment	10	10	0	20
Total	161	99	17	277



Summary of price measures

Topdanmark believes that the price measures mentioned come close to ensuring the desired combined ratio in 2011
- assuming, of course, a normal year

Efficiency – Examples

Intelligent employment freeze

- Fewer employees
- Cut down on overtime

Continued focus on
non-performers

IT-solutions

TRIM

- Life, non-life, agricultural and SME

Procurement

More joint functions between
Personal and Partners

Merger of sales centres

Merger of
SME and Industrial

Important assumptions for success

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Financial targets

Earnings

- ✓ CR of 91 excl. run-off – profit margin of 10% is the ruling factor
 - that is, the CR goal is adjusted each year dependent on interest rates

Growth

- ✓ 1% p.a., in excess of wage inflation, in non-life gross premiums incl. I/A adjusted for any price changes

Expense ratio

- ✓ No specific goal
 - ... but our goal for the expense ratio continues to be one which is lower than the general market level

Follow-up on strategy

Strategy:

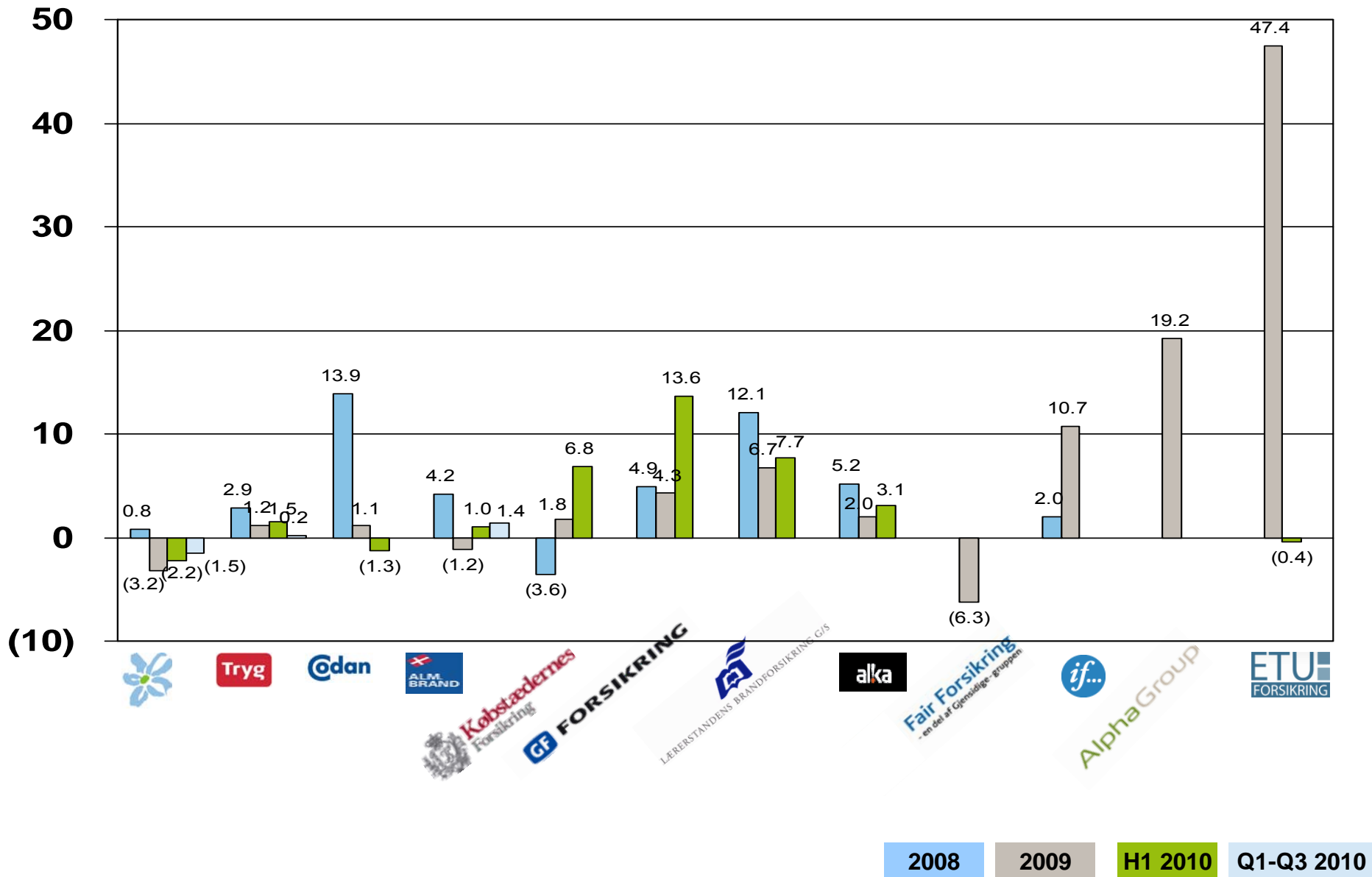
- Profitable growth – in that order

Current position

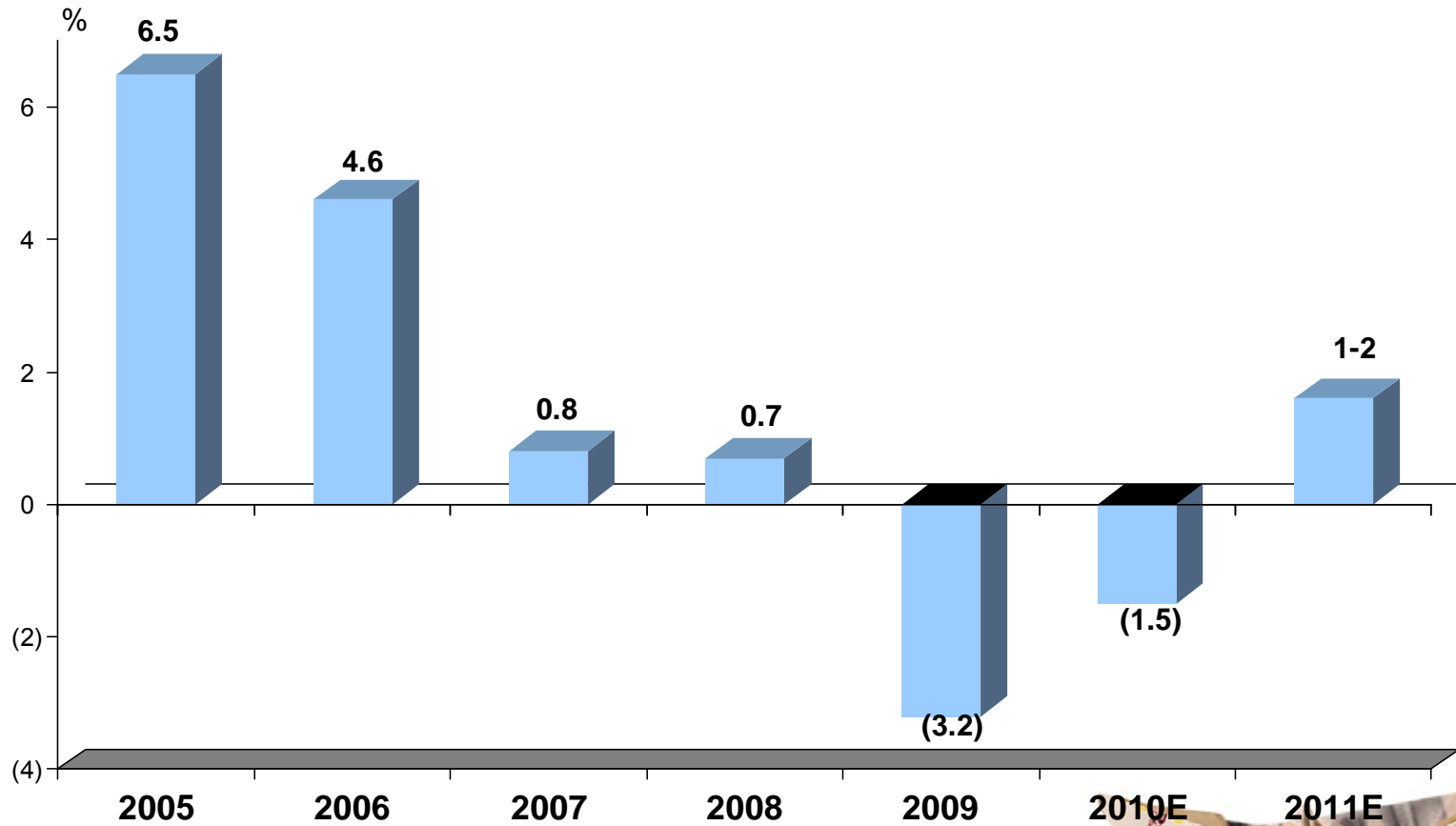
- Basically, goal of 10% profit margin corresponding to CR of 91 is close to being achieved
- Challenge now to achieve the goal of premium growth in non-life of 1pp above the index



Comparison of premium growth – Danish insurance



Trend in premiums - Topdanmark



Initiatives to reach growth goal in Non-life

Measures taken by Topdanmark

- Activities undertaken to maintain portfolio
- Experimenting with new selling methods through Danske Bank Group
- Sales staffing increased to the level before the financial crisis
- Changes in products offered
- Greater emphasis on sales through brokers
- Entering road transport market

External factors

- Stabilisation of the macroeconomic conditions
- Other Danish insurance companies are instigating price increases



Assumed premium growth of 1-2% in 2011

Effect of automatic price indexation: 2%

+ Price increases

+ Growth measures

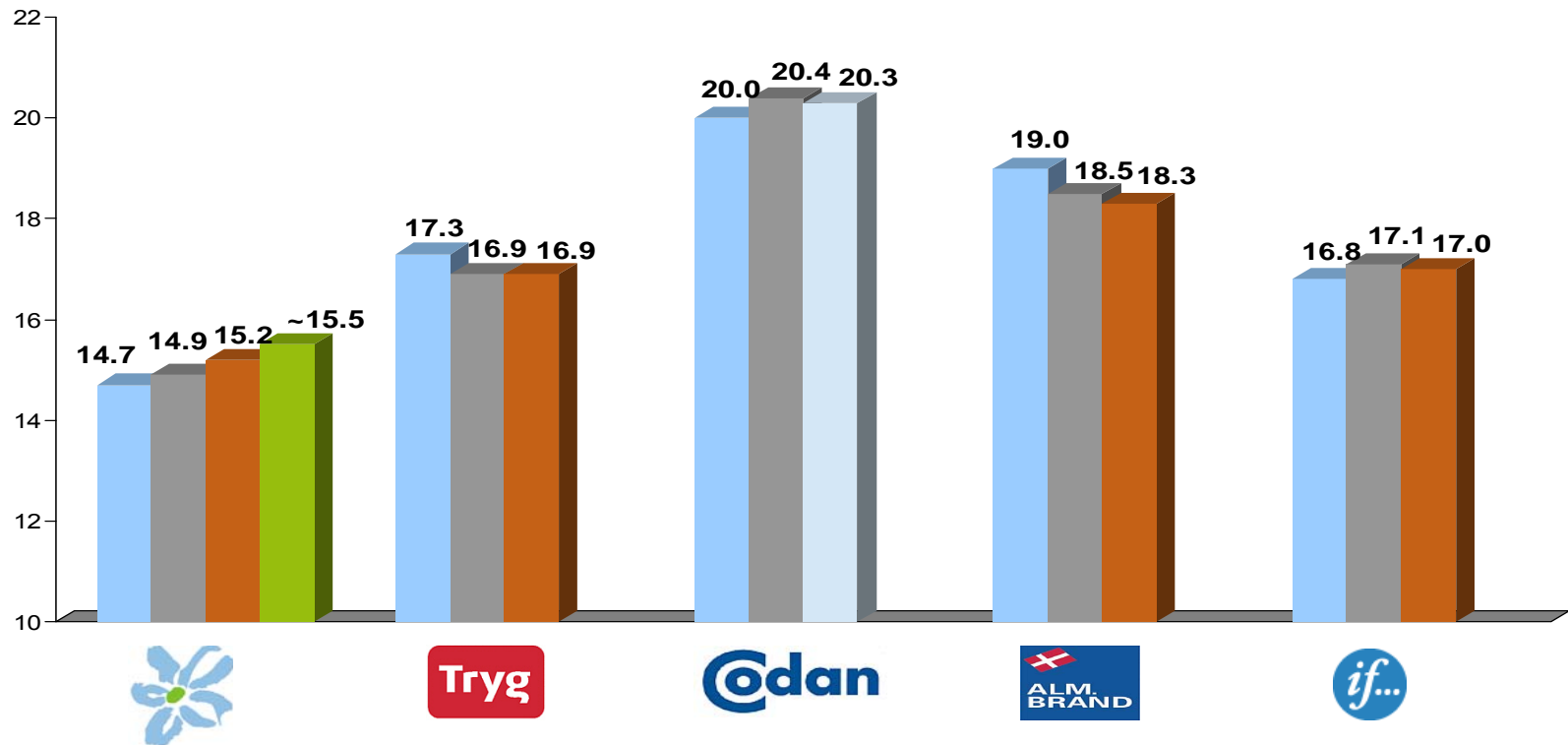
- Sale of portfolio of Nykredit Arbejdsskadeforsikring (workers' comp)

- Loss of a large customer in illness / accident

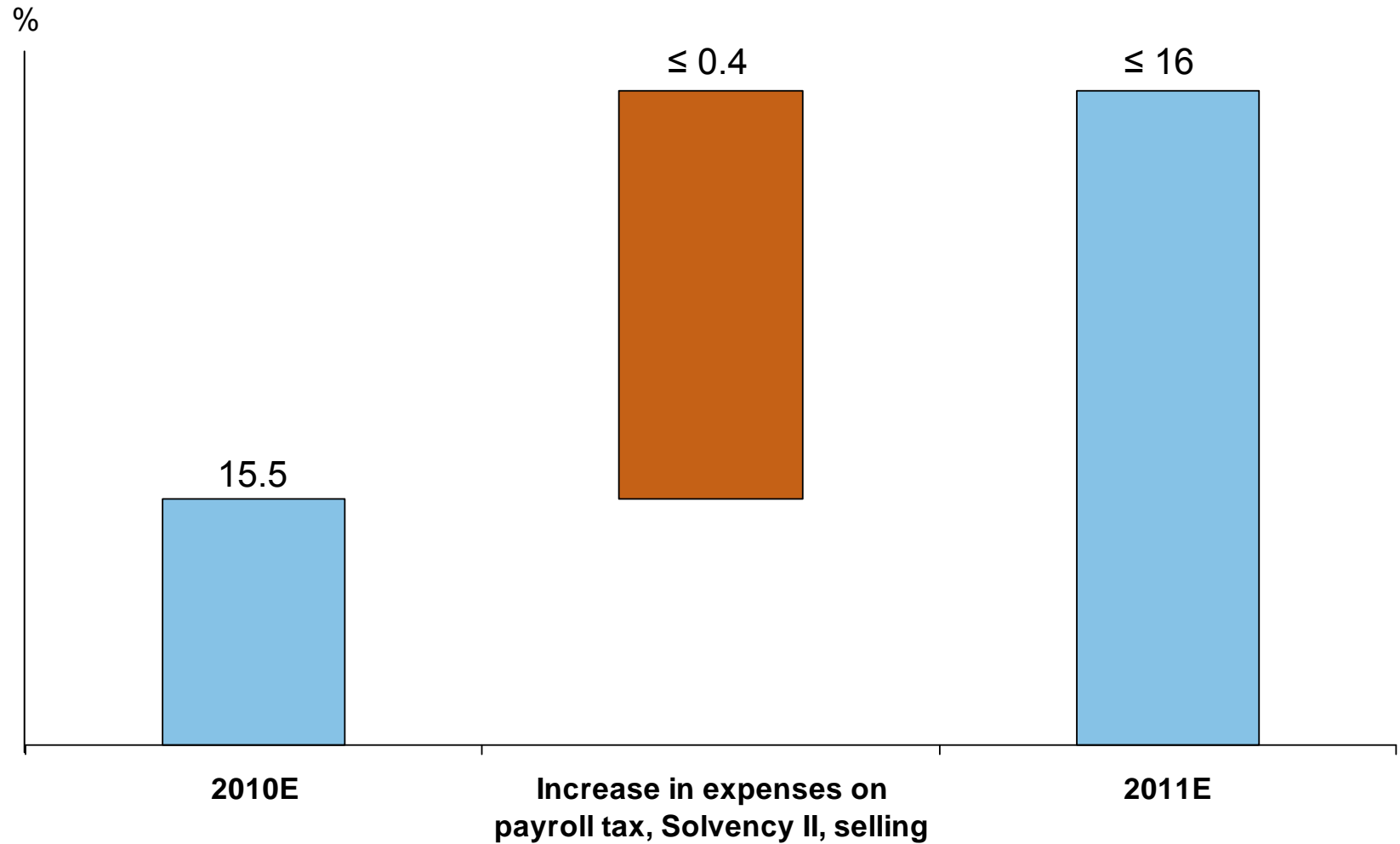
- Intense competition in workers' comp

Overall expected premium growth: 1-2%

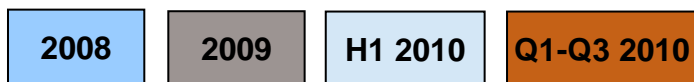
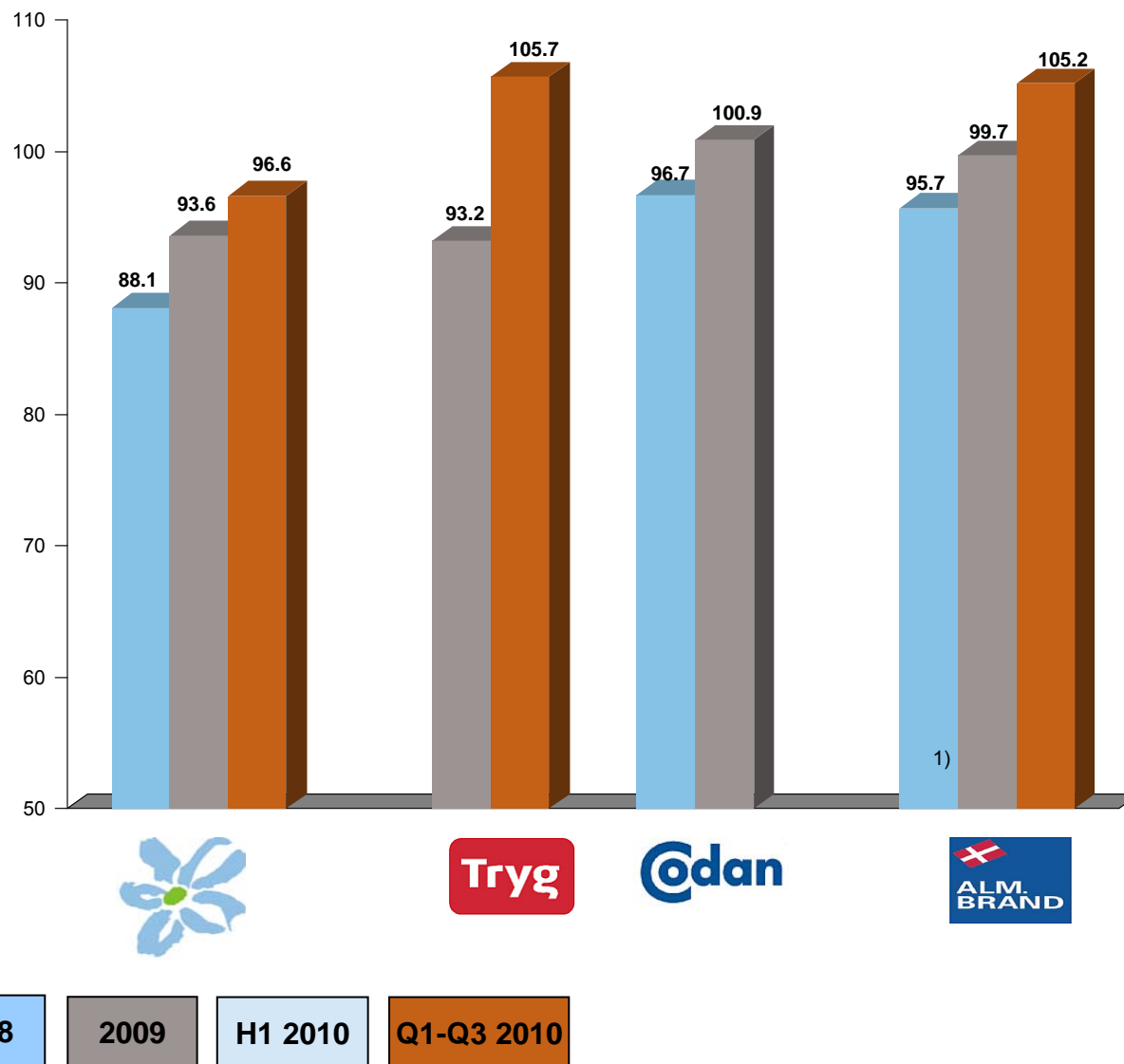
Comparison of expense ratio – at Group level



Assumed development in expense ratio in 2011



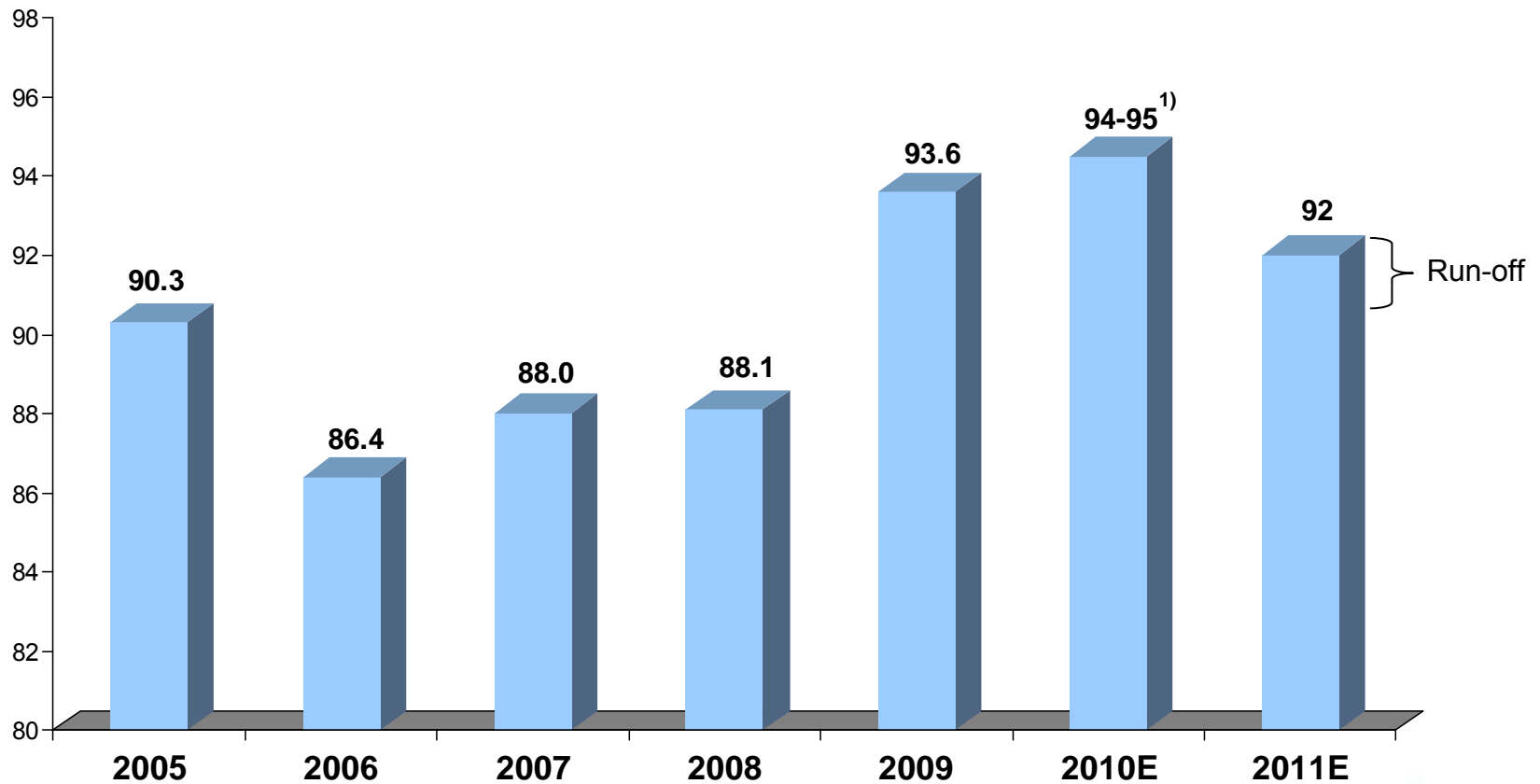
Comparison of CR – excl. run-off (Danish insurance)



¹⁾ Scandinavian business



Trend in combined ratio incl. run-off - Topdanmark

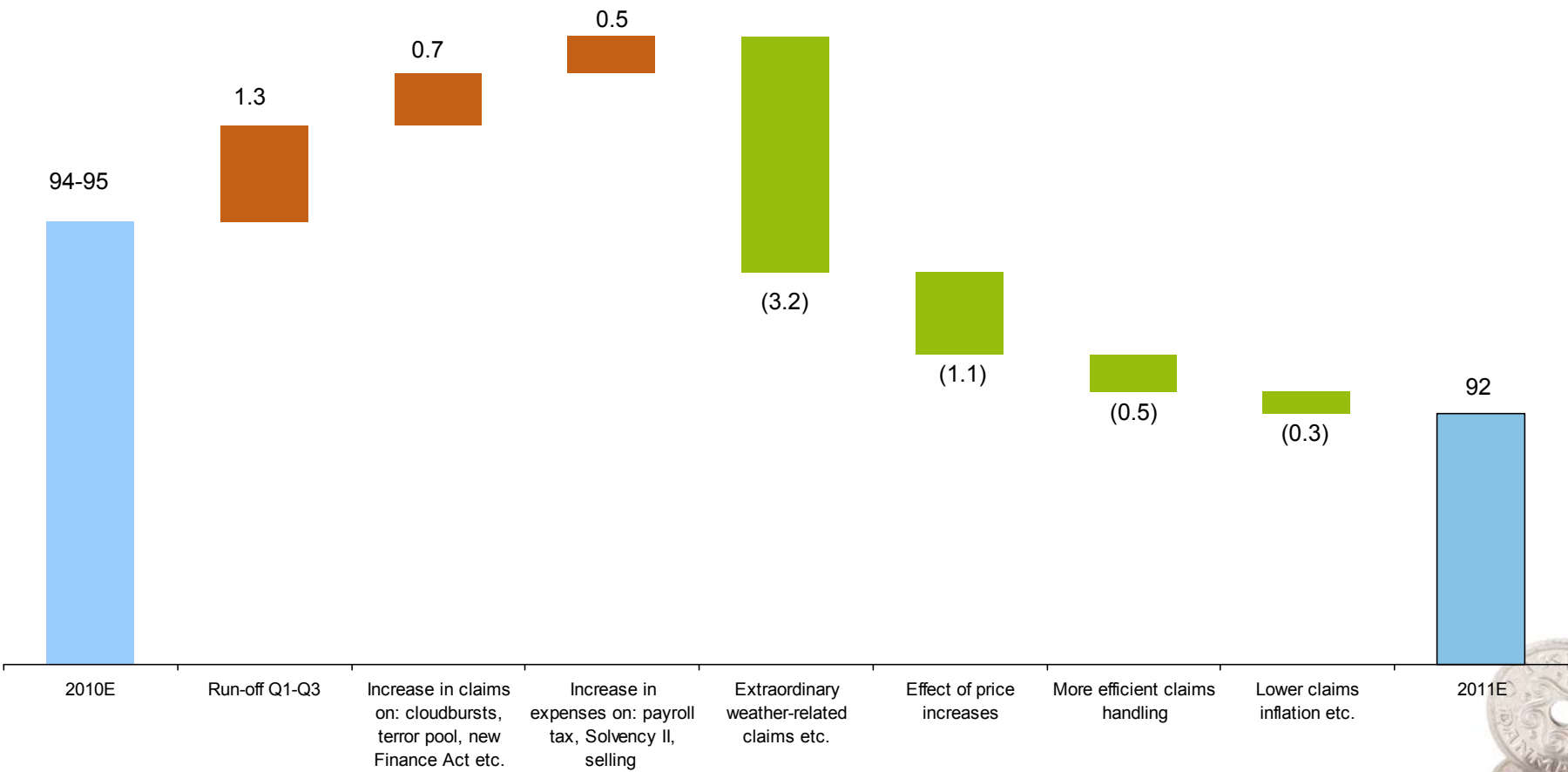


¹⁾ Excl. run-off in Q4 2010



Assumed CR of around 92 excl. run-off in 2011

excl. any run-off profits / losses – other things being equal



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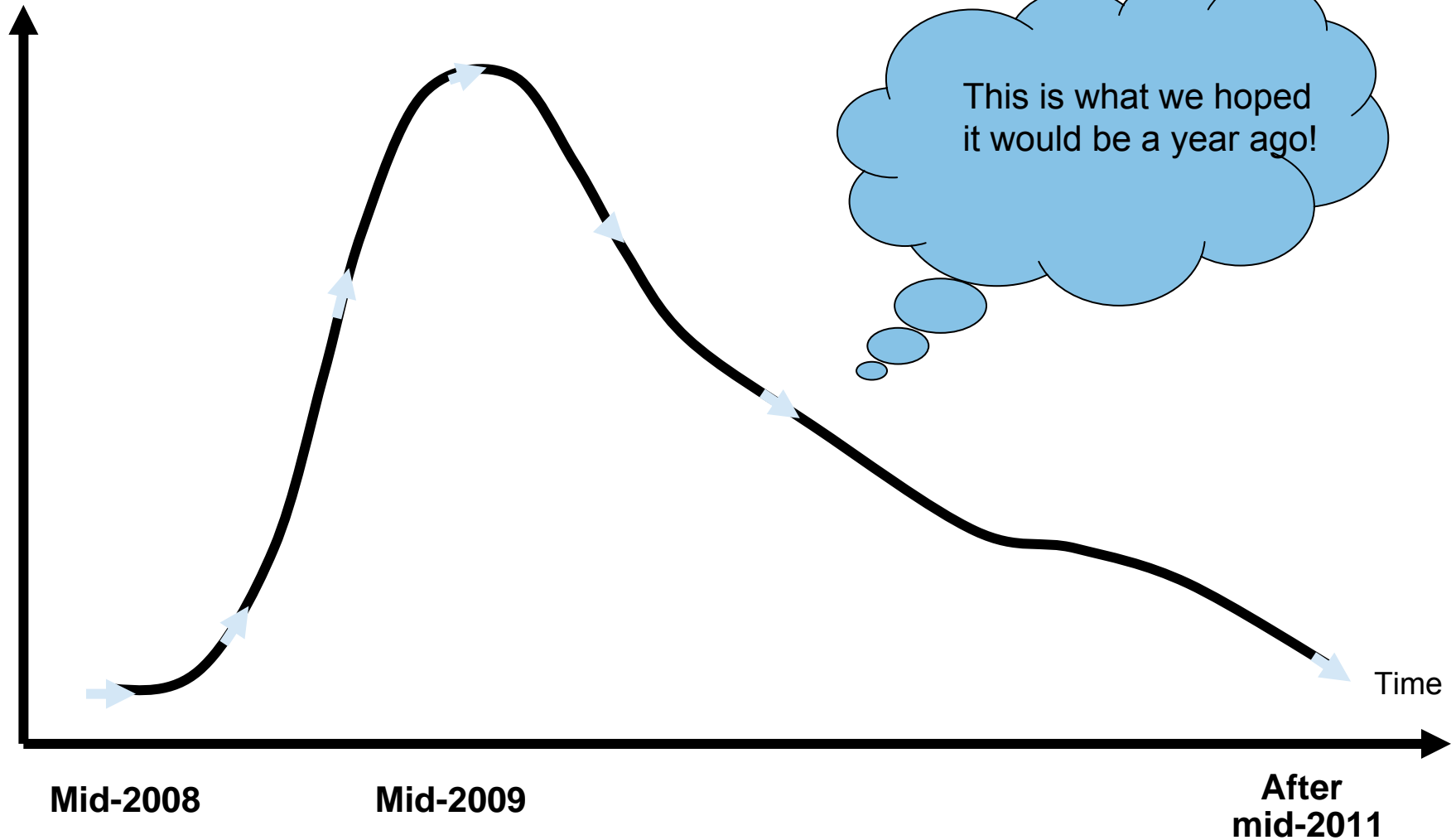
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- Normalised earnings

- Share buy-back

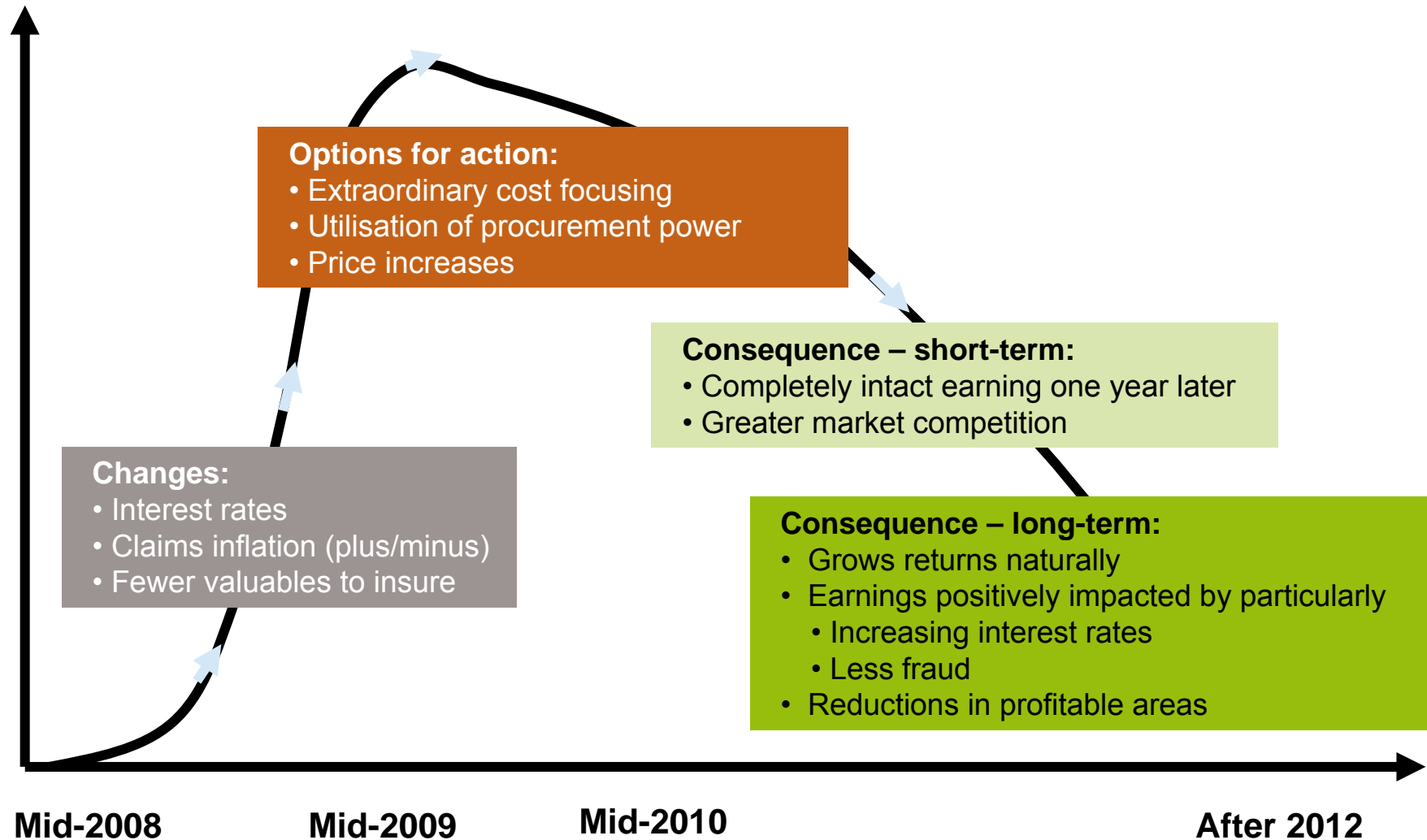
A probable scenario mid-2009 – Growth and earnings

Level of crisis



A more probable scenario now – Growth and earnings

Level of recession



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Profit forecast model for 2010

(DKKm)	2009	Forecast for 2010		Forecast for 2010	
		13 August 2010	12 November 2010		
Non-life insurance					
- Technical result	869	520	- 570	500	- 540
- Investment return after transfer to technical result etc.	723	250	- 310	390	- 430
Profit on non-life insurance	1,592	770	- 880	890	- 970
Life insurance	292	290	- 310	310	- 360
Parent company etc.	(21)	(10)	- 0	(10)	- 0
Pre-tax profit	1,863	1,050	- 1,190	1,190	- 1,330
Taxation	(417)	(250)	- (290)	(290)	- (330)
Profit for the year	1,446	800	- 900	900	- 1,000

Representing a profit per share of DKK 62.9

Normalised earnings

(DKKm)

Non-life – CR = 91 – 8.7bn x 9pp	780
Run-off (CR effect 1.5pp) – 8.7bn x 1.5pp	130
Technical interest excl. discounting 4bn x 1%	40
Life	200
Risk premium assets – 5bn x 2% – etc.	120
Equities – 0.8bn x 7%	<u>60</u>
Total return	1,330
Tax	<u>(330)</u>
Post-tax profit	<u>1,000</u>

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Topdanmark's distribution of earnings

- Topdanmark distributes all unnecessary capital back to shareholders by way of share buy-back
- Guidance for share buy-back for 2010 is DKK 1bn
 - Buy-back yield of 9%
- Since 1990 Topdanmark has bought back own shares of DKK 8.8bn representing 62.3% of outstanding shares
 - Average price per share: DKK 345



Share buy-back since 2000

Year	Announced (DKKkM)	Buy-back (DKKkM)	Buy-back yield (%)
2000	200-350	350	7
2001	800-1.000	1,025	19
2002	400-500	682	13
2003	350-450	601	9
2004	800	803	10
2005	600-700	676	7
2006	1,200	1,396	10
2007	1,700	2,000	14
2008	1,050	366	3
2009	500	220	2
2010	900	732*	7*
2010E	1,000		9

*(30 November)

**Thank you for your attention
- questions?**

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 and assumptions set out in the interim report. 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 the trend in reinsurance market. Also see www.topdanmark.com → [Risk management](#).

The above description of risk factors 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.

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