

Danske Markets Nordic Insurance Conference

21 September 2007

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Chief Executive Officer

Agenda

- **Nordic non-life consolidation versus barriers to entry**
- Will rising interest rates increase price competition?
- Prospects
- Topdanmark's exposure in subprime loans and CDOs

Market shares in the Nordic market

Denmark	Market share
Tryg	21%
Topdanmark*	20%
Codan	13%
Alm. Brand	10%
	64%

Norway	Market share
if...	32%
Gjensidige	31%
Vesta (Tryg)	18%
Sparebank 1	10%
	91%

Finland	Market share
if...	29%
Pohjola	26%
Tapiola	18%
Fennia	10%
	83%

Sweden	Market share
LF-Group	30%
if...	20%
Trygg-Hansa (Codan)	18%
Folksam	15%
	83%

*) Excl. illness / accident

Recent years' M&A's and start-ups in the Danish market

- Gjensidige Forsikring acquired KommuneForsikring and Fair
- Codan acquired Trekrøner
- Alm. Brand acquired Provinzial
- Nykredit acquired Østifterne
- Topdanmark acquired Danske Forsikring / Danica Forsikring
- Topdanmark acquired IA
- Start-up of Fair (Storebrand and Head & Company)

Barriers to entry into the Danish market

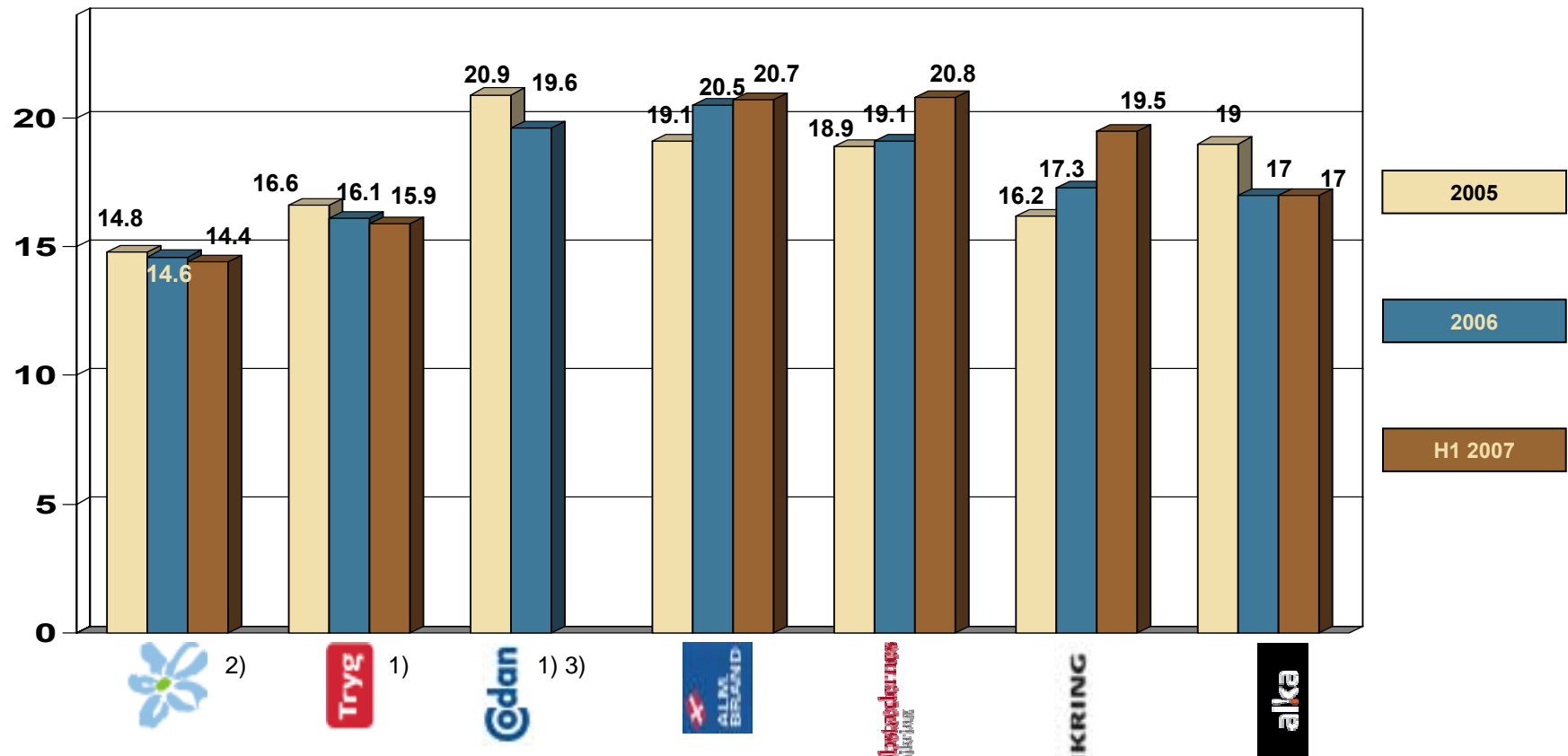
- Low expense ratios
 - For all practical purposes a direct market
 - Topdanmark and Tryg: expense ratios of 15
 - Market: expense ratio of 19.3
 - Major foreign non-life companies: expense ratios of around 30
- Denmark a relatively small market
- Relatively high customer loyalty
- No foreign companies (except RSA) have been successful in the Danish market

- Acquisitions is the only way to get into the Danish mass and SME markets
 - Topdanmark the only company with 100% free float and no limitations set out in the Articles of Association
- Better opportunities to get into the industrial market and selected niche markets such as boat insurance
 - Already seen companies like
 - AIG in the industrial insurance market
 - Pantaenius in the boat insurance market

Drivers for continued consolidation

- Economies of scale
 - Correlation between size and low expense ratio

Comparison of expense ratios in the Danish market



- 1) Rent from owner-occupied properties not included in expense ratio
- 2) Excl. rent from owner-occupied properties, the expense ratio would be 0.2 pp lower
- 3) Separate figures no longer disclosed for Denmark

Drivers for continued consolidation

- Solvency II
 - Lower capital adequacy requirements due to, among other factors, international diversification
 - Example: Storebrand's acquisition of SPP
 - Further international consolidation likely due to Solvency II
 - Solvency II seems to become a problem for some of the smaller Danish insurance companies
 - Could result in consolidation primarily among small companies
- Insurance companies have money to burn
 - Profits could be used on acquisitions

Conclusion - consolidation

- Due to Solvency II the most likely consolidation in the Danish market is consolidation among Danish players
- However, Solvency II could also lead to cross-border consolidation

Topdanmark has a focused strategy

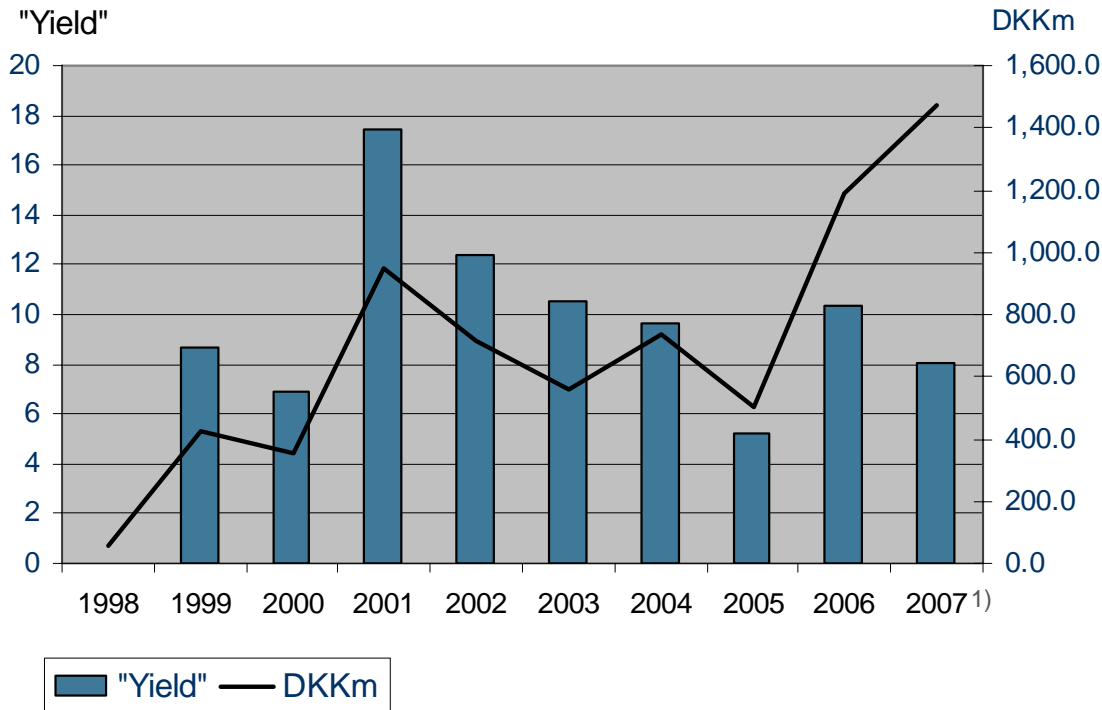
- Danish player
- A non-life insurance company - one of our investments is in a life insurance company
- Portfolio concentrated towards high frequency claims
 - Low volatility in CR
- High cash flow
- Large share buy-back programme
- 100% free float
- No limitations set out in the Articles of Association

Topdanmark's development strategy

- Organic growth
- Growth through alliance partners
 - Danske Bank, home, DLG and others
- Acquisitions
 - Only if $ROI > ROI$ on share buy-back

Trend in share buy-back

Movement in share capital write-downs decided by shareholders
 Calculation based on market value at 1 Jan

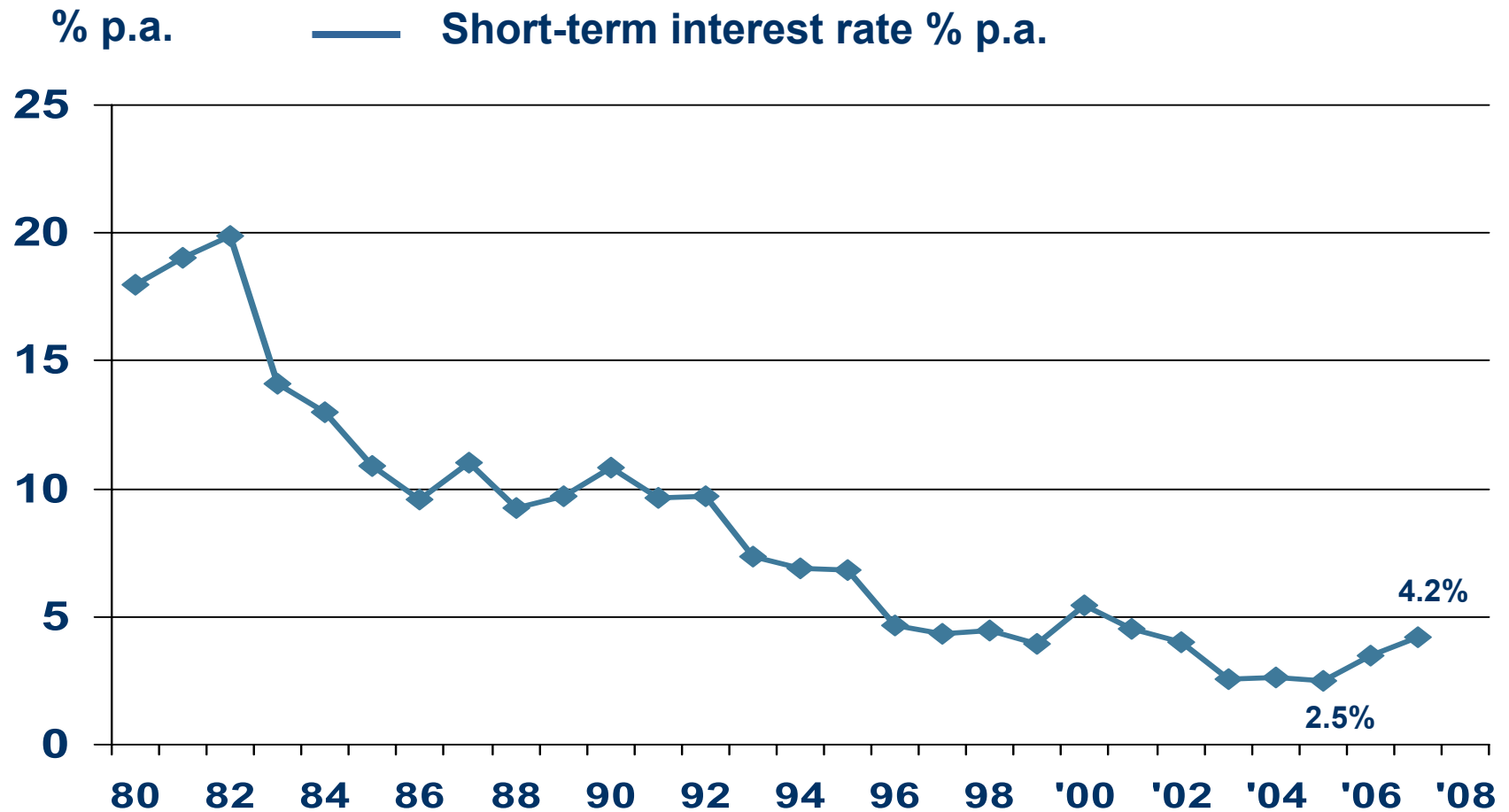


¹⁾ Write-down year to date

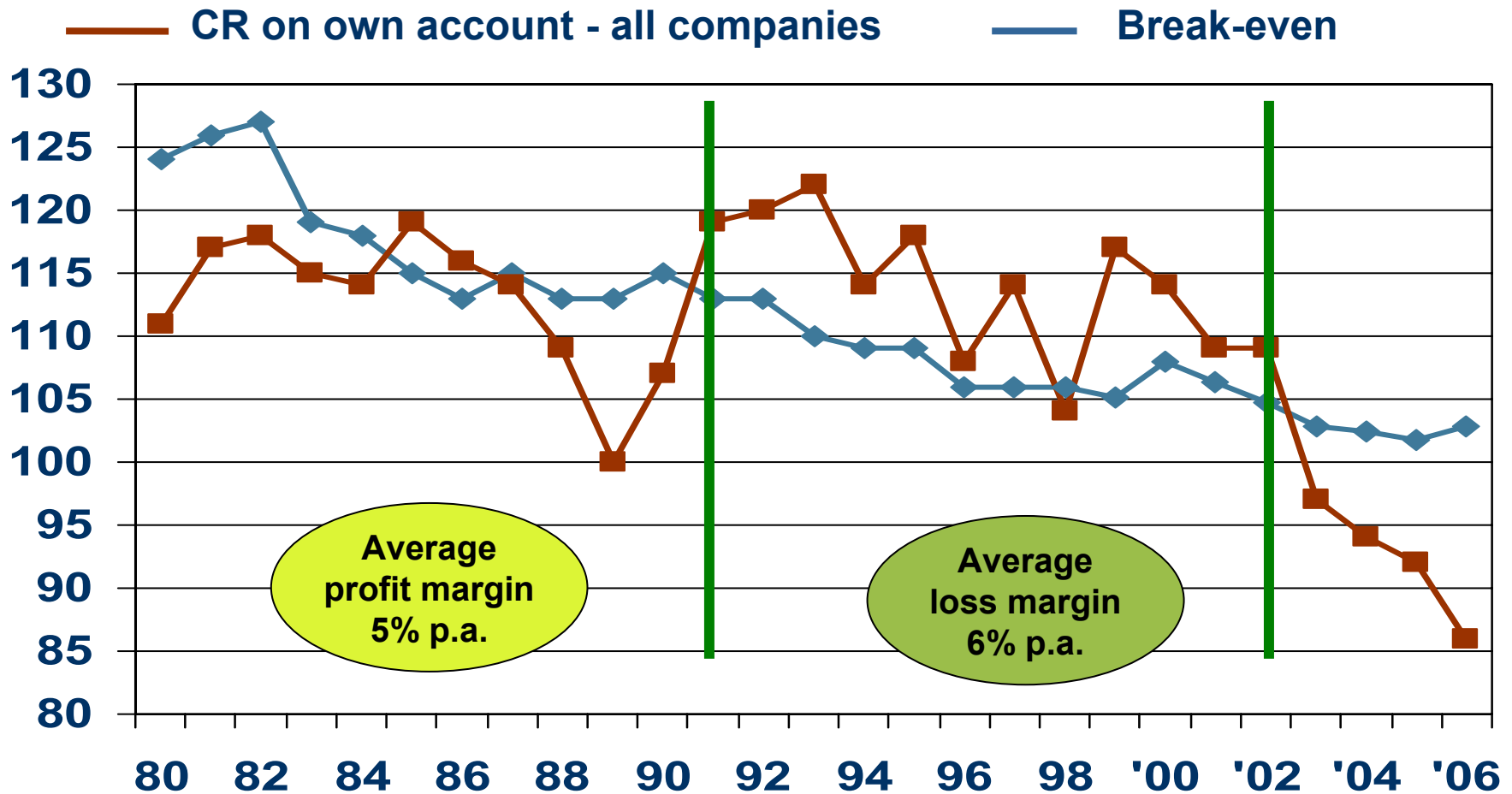
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Short-term interest rate 1980 - Q2 2007

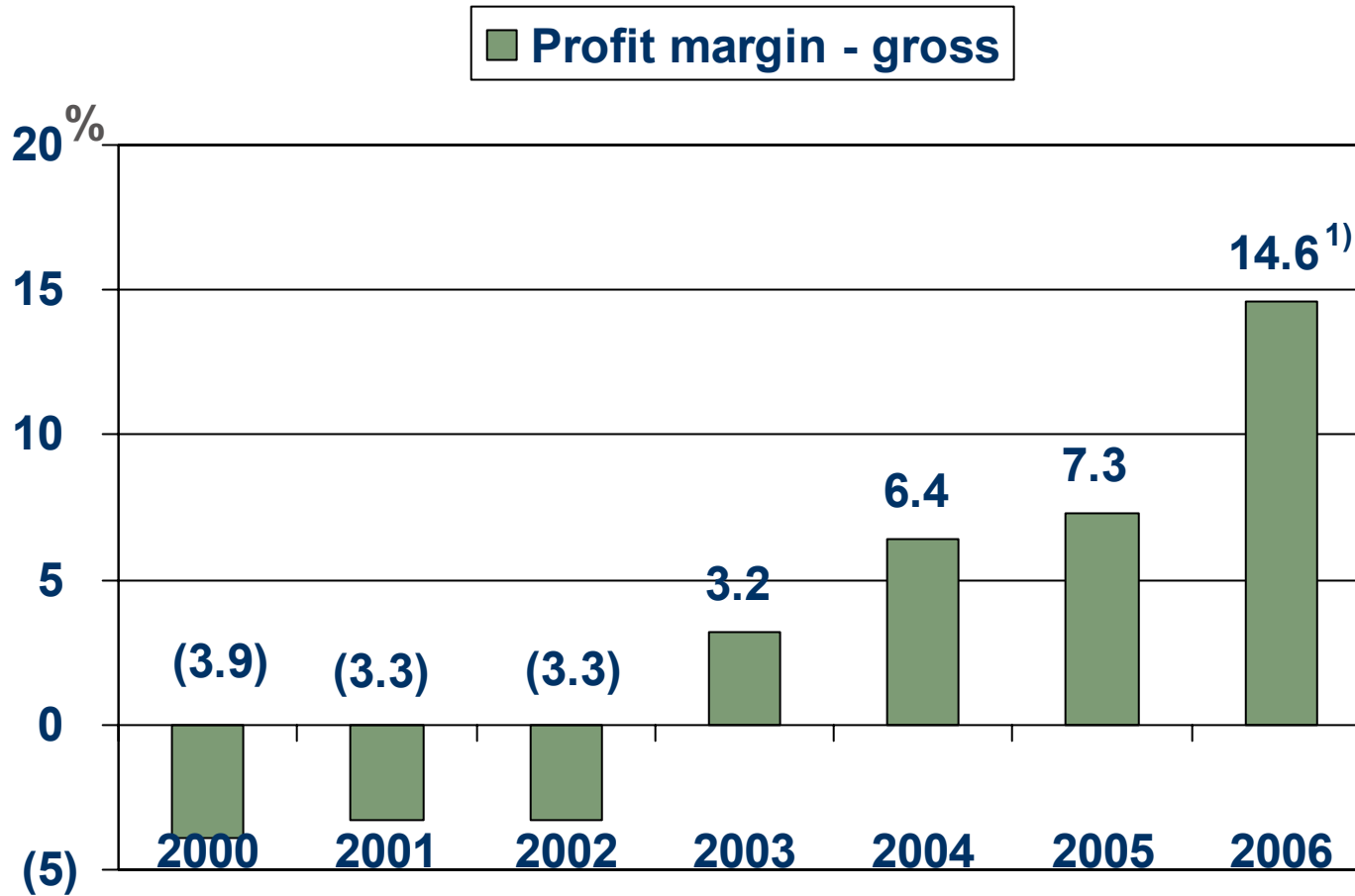


Trend in CR on own account versus break-even



Premiums on own account 2006 = DKK 43.3bn

Trend in profit margin in the Danish market



1) Artificially impacted by Codan. Adjusted: around 12%

Post-tax effect of a 1 pp increase in interest rates

Immediate effect

DKKm	Post-tax
Revaluation of investment assets	(307)
Revaluation of claims provisions	239
Non-recurring effect of increase in interest rates	(68)

Annual effect

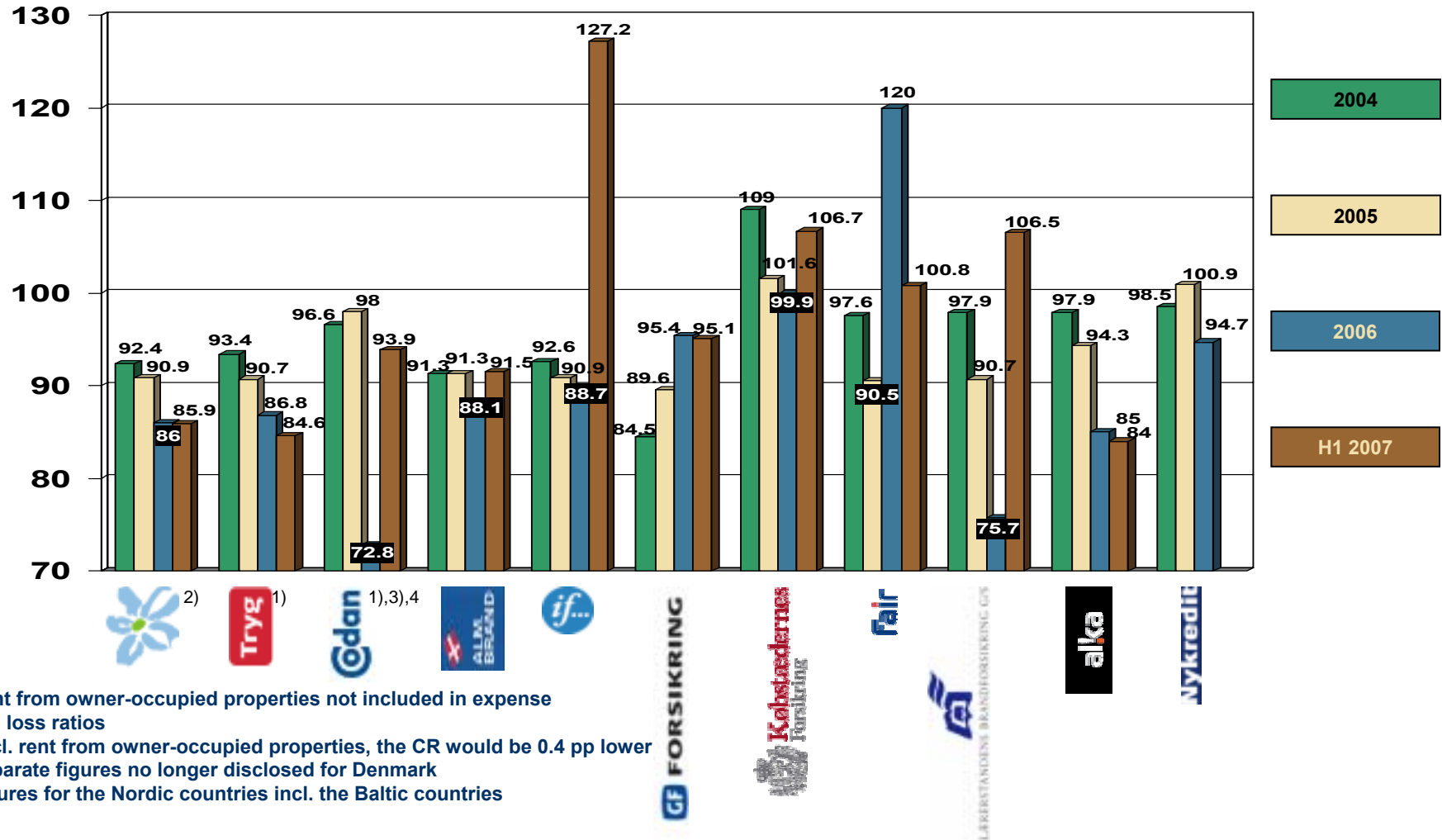
DKKm	Post-tax
Excess return on interest-bearing assets	26
1.2 percentage point decline in loss ratio	77
One year's effect of increase in interest rates	103
Non-recurring effect of increase in interest rates	(68)
Total effect on results - first year	35
Total effect on results - second year and afterwards	103

Interest rate exposure based on equity prices 22 August 2007

Increased competition in the Danish market

- Price, distribution, staff
- Increased price competition in primarily
 - Industrial insurance
 - Motor insurance
- The increase in price competition is to some extent due to the increase in interest rates
- The major reason is that all companies have recovered and have high profitability
- Continued increase in interest rates could further increase price competition

Comparison of CR in the Danish market



- 1) Rent from owner-occupied properties not included in expense and loss ratios
- 2) Excl. rent from owner-occupied properties, the CR would be 0.4 pp lower
- 3) Separate figures no longer disclosed for Denmark
- 4) Figures for the Nordic countries incl. the Baltic countries

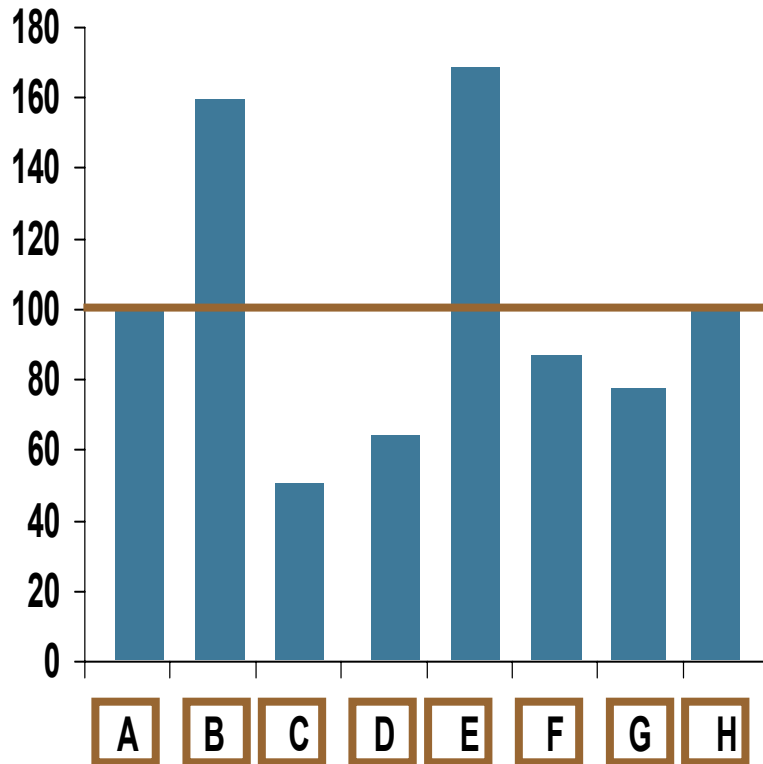
Reason for high profitability in the Danish non-life market

- Companies with a 70% market share are listed on the stock exchange
- Barriers to entry
 - Expense ratio
 - High customer loyalty
- Relatively small market

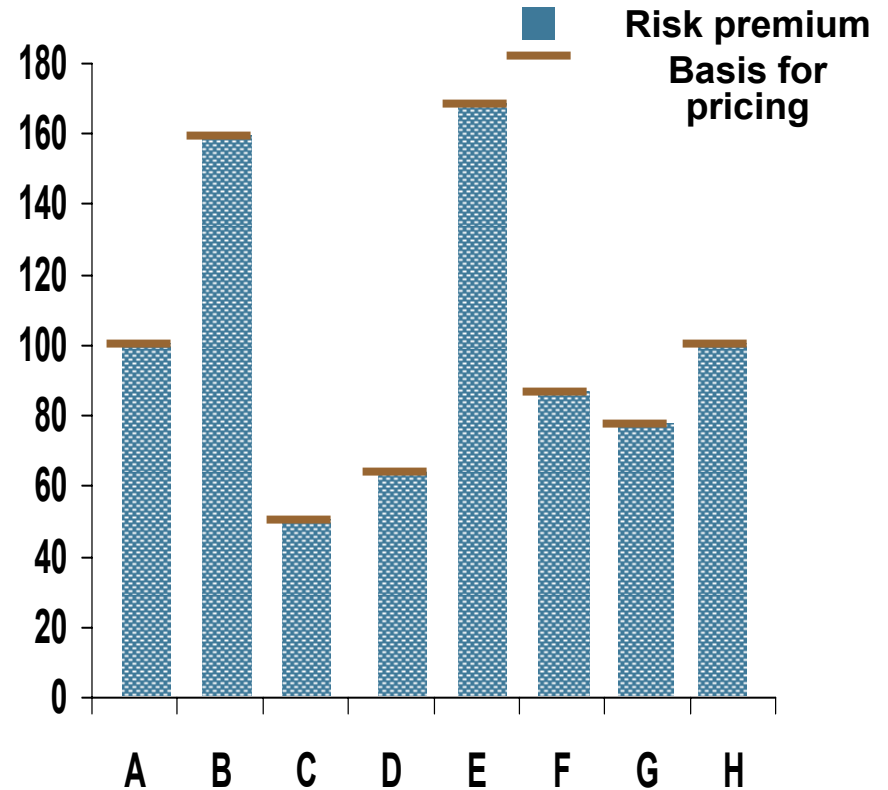
Micro-rating - introduced to withstand increased competition

How it works!

1/5

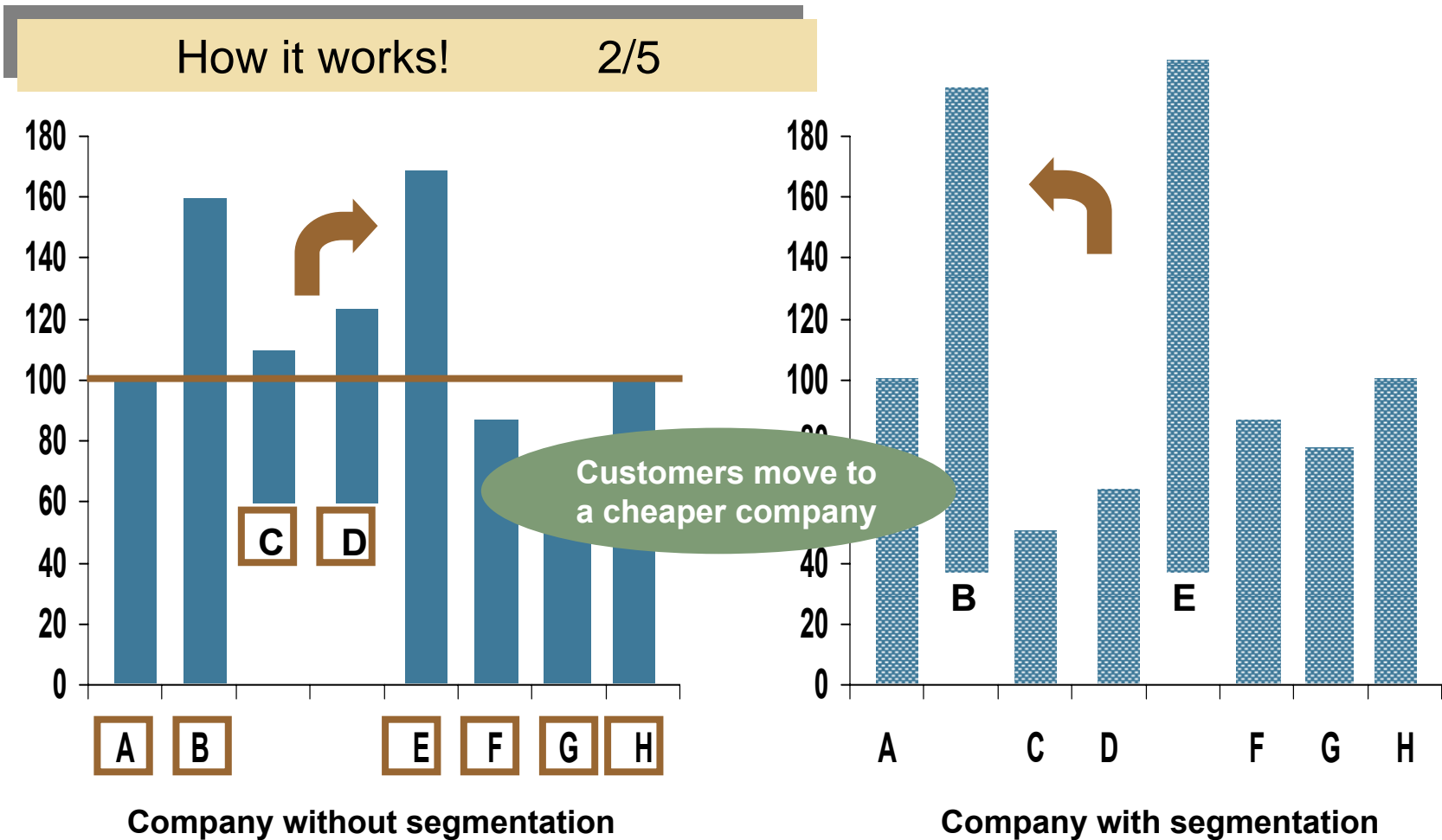


Company without price differentiation



Company with price differentiation

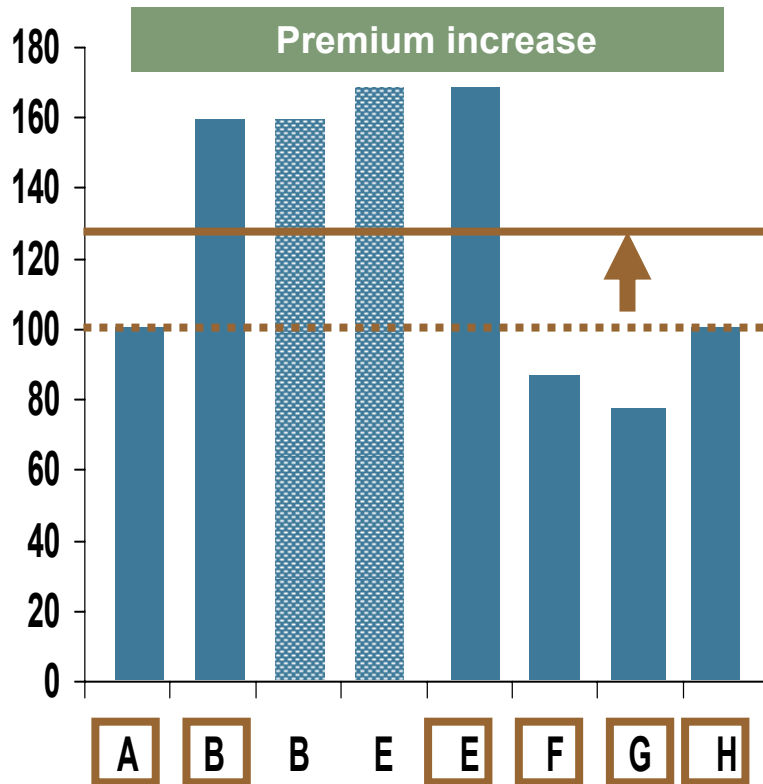
Micro-rating



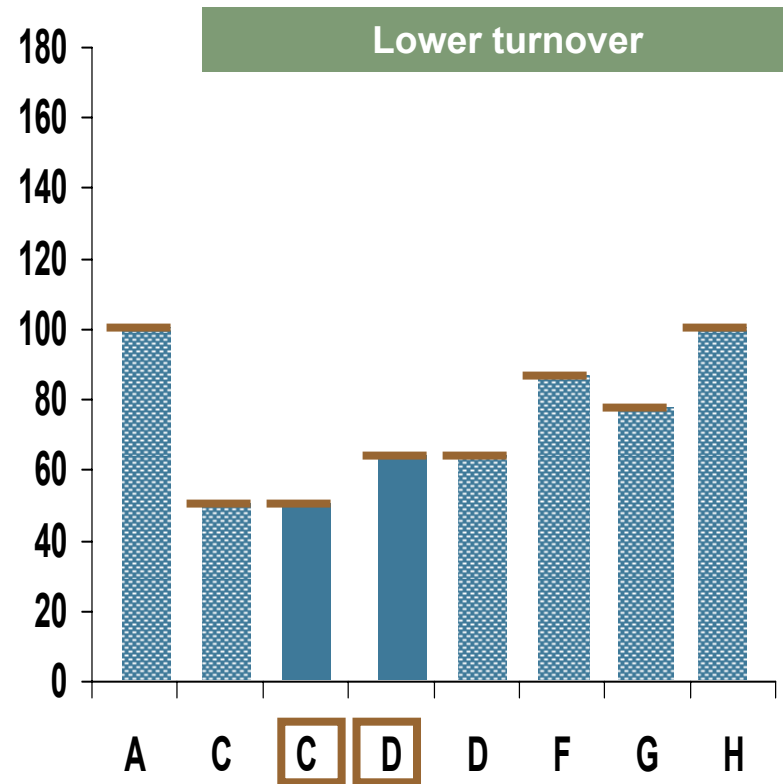
Micro-rating

How it works!

3/5



Company without segmentation

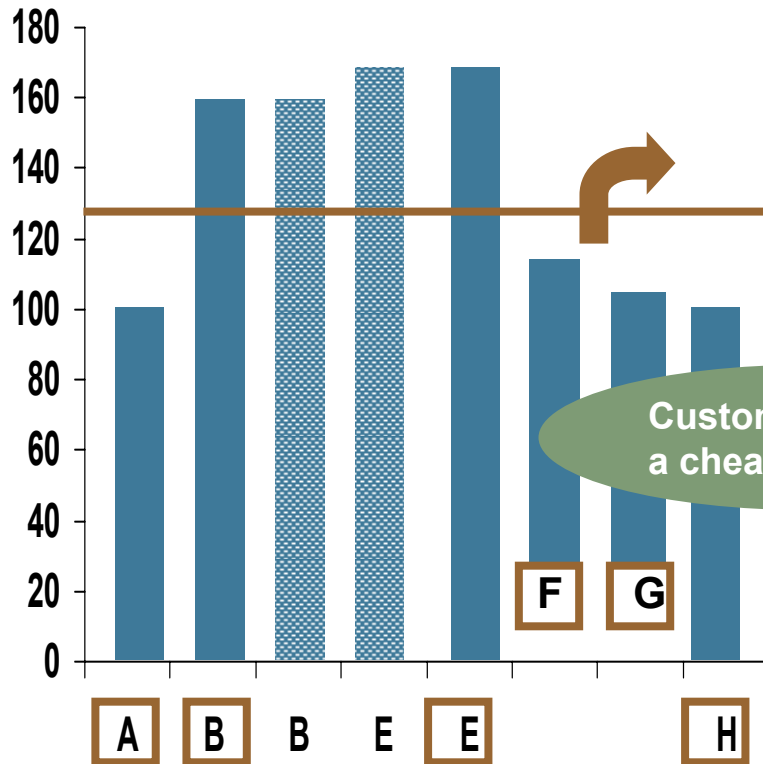


Company with segmentation

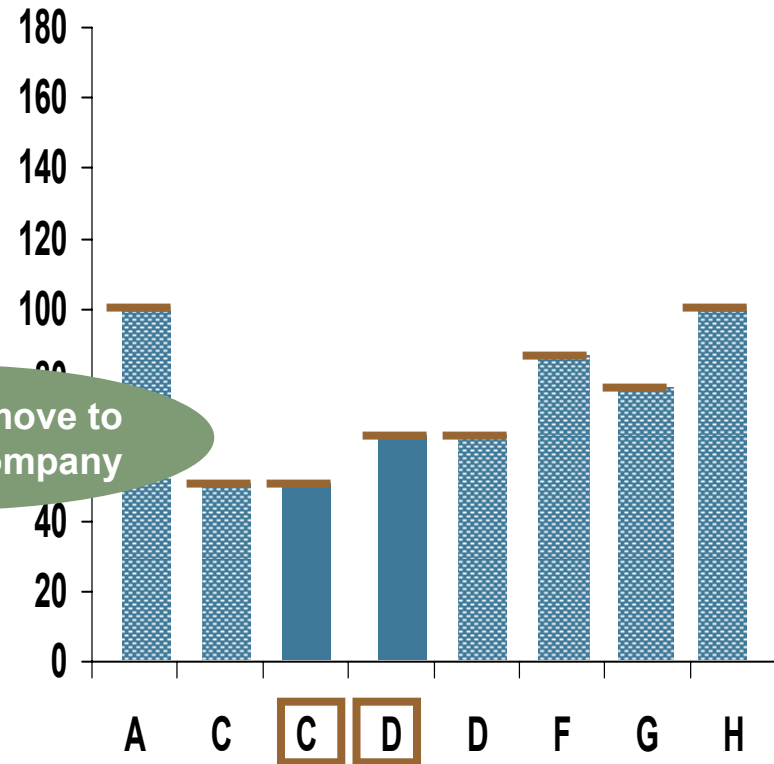
Micro-rating

How it works!

4/5



Company without segmentation



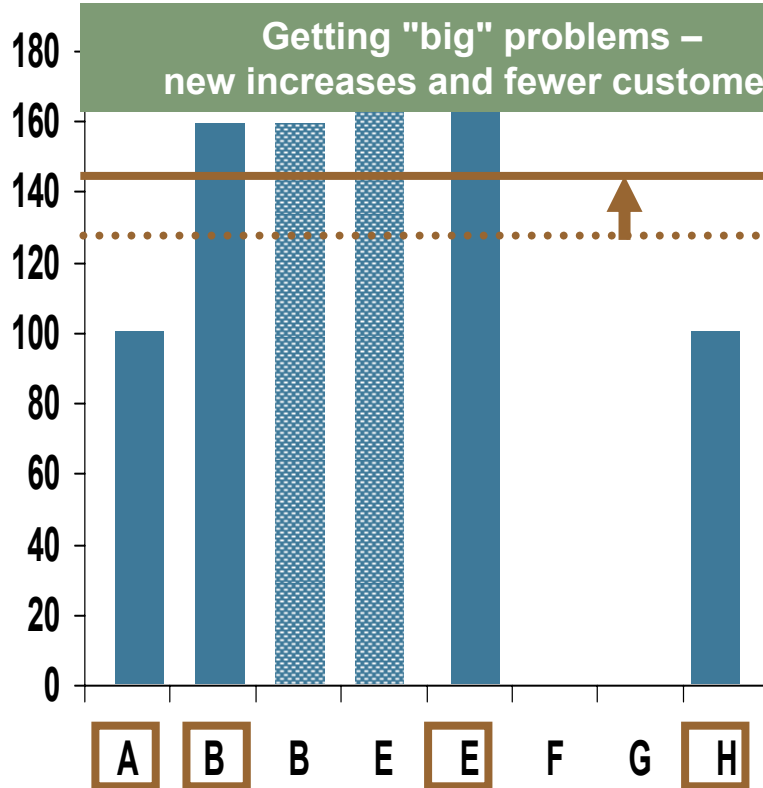
Company with segmentation

Customers move to a cheaper company

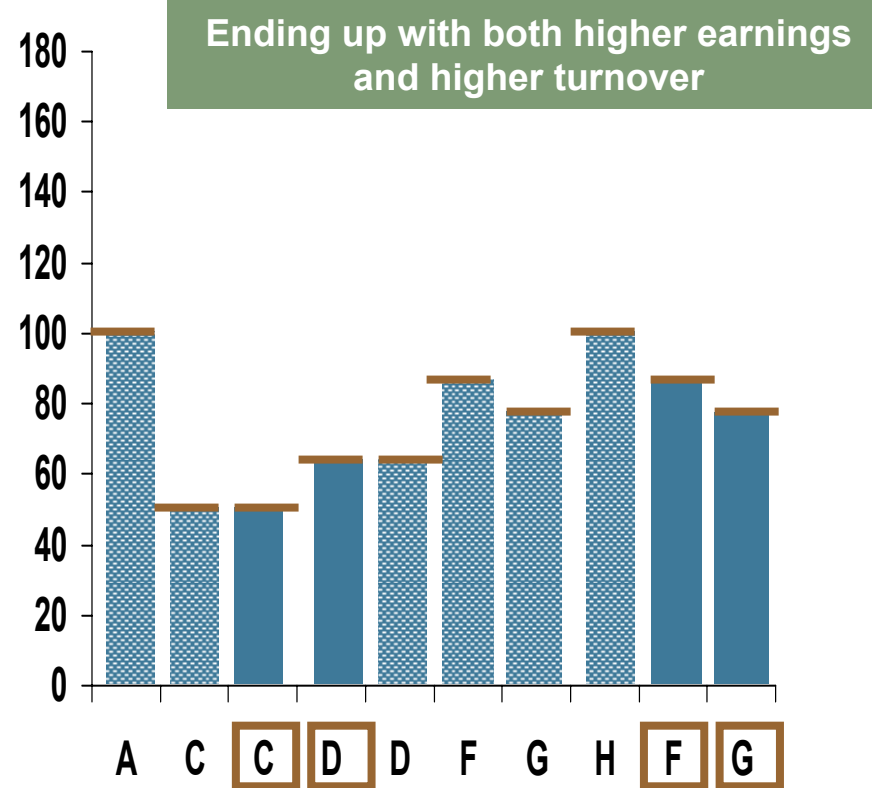
Micro-rating

How it works!

5/5



Company without segmentation



Company with segmentation

Topdanmark's policy on micro rating

- Micro rating implemented within
 - Motor
 - Workers' compensation
 - Contents
- In the future we will improve our pricing in order to offer even more risk-based prices

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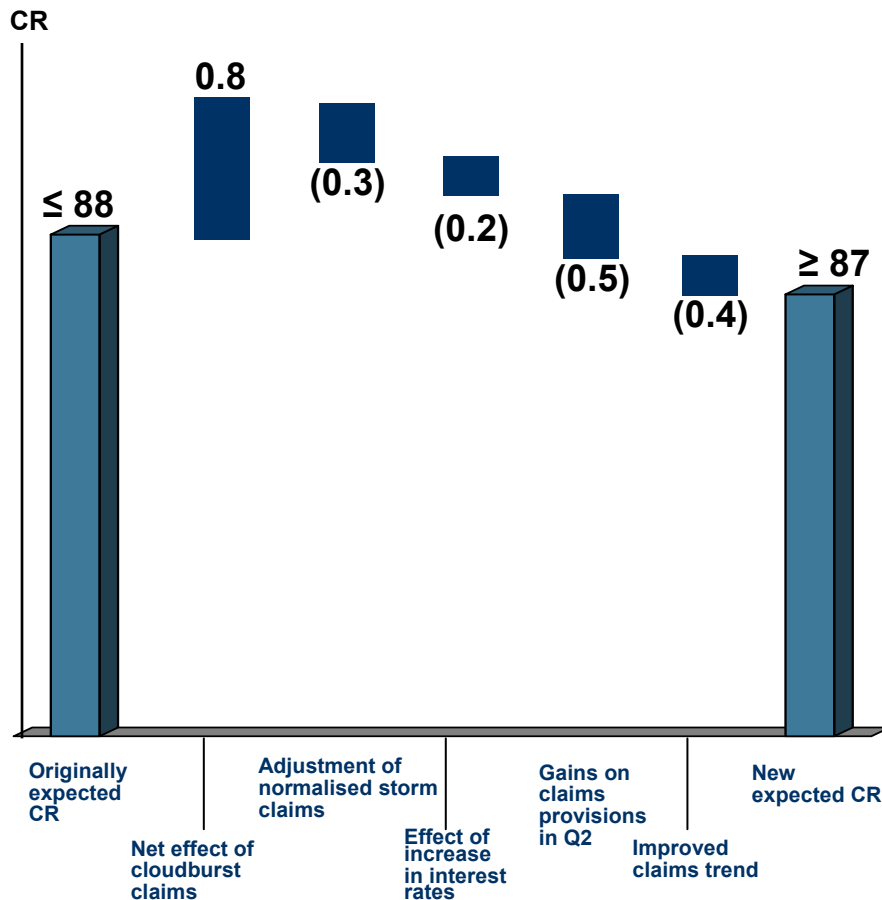
Prospects in non-life insurance 1/2

Premium growth

- Intensified competition in, among others, industrial and motor insurance
- Expected market growth of 2 - 3% in 2007
- Topdanmark has invested in improving its competitiveness
 - New motor and workers' comp insurance rates will have a 2.8 pp adverse effect on premium growth in 2007
- New motor insurance rate has the required effect
 - Increase in the sale of motor insurance policies to senior citizens and those motorists with low annual kilometres driven
 - But also slightly greater loss than expected of those motorist driving substantial distances, young motorists and those with only liability insurance → Improved quality of motor portfolio
- Premium increases corresponding to 0.6 pp due to new Act with effect from 1 July 2007
- Continued expected premium growth of around 1% in 2007
- Solvency II

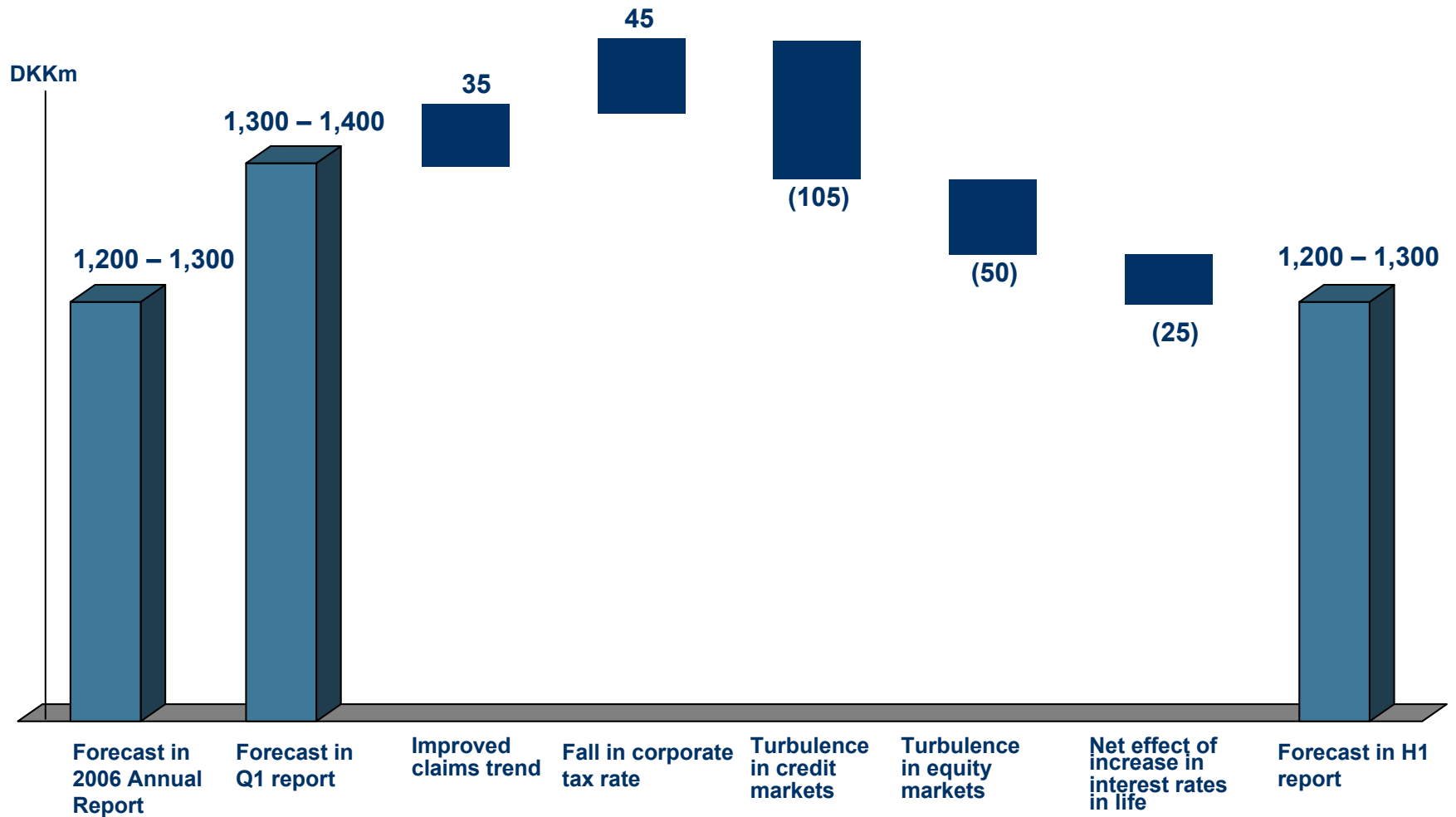
Prospects in non-life insurance 2/2

Adjustment of expected CR for 2007



- Operational goals
- 12% profit margin in the next two or three years
 - Corresponding to a CR of just over 89
- 10% profit margin in the longer term
 - Corresponding to a CR of just over 91
- A 5% annual growth in gross premiums

New profit forecast for 2007



Forecast assumptions for 2007 are based on equity prices at 24 August 2007

Share buy-back represents a yield of 11.7%

- Expected buy-back also reduced by DKK 100m to DKK 1,700m in 2007
- However increase due to the issue of DKK 400m of hybrid capital
- Therefore overall share buy-back of DKK 2,100m
- Proportion not bought back in 2007 to be added to ordinary programme for 2008
- Expected buy-back in 2007 represents a yield of 11.7%
- To date in 2007 DKK 1,347m shares bought back
- As at 28 August remaining buy-back of DKK 753m in 2007
- Since 1998 Topdanmark has bought back 56% of the outstanding shares
 - Average price per share: DKK 277

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Fixed income portfolio as at August 2007

Rounded figures

	DKKm		
AAA, AA			
Danish mortgage bonds	9,600	77%	
Covered bonds	300	2%	
CDOs	800	6%	
Credits	100	<u>1%</u>	86%
A, BBB			
CDOs	100	1%	
Credits	300	<u>2%</u>	3%
<BBB			
CDOs	600	5%	
Credits	200	<u>2%</u>	6%
Money market etc.	<u>500</u>	<u>4%</u>	<u>4%</u>
Total	12,500	100%	100%

Topdanmark's CDO exposure 1/2

- Topdanmark's exposure in CDO tranches covered by CDO-VaR (tranches rated lower than AA)
 - Senior secured loans (CLOs) DKK 683m
 - ABS CDOs (subprime exposure) DKK 41m
 - Book value at 31 July 2007 DKK 724m

- Market value of Topdanmark's investment in CDOs and credit bonds written down by DKK 140m
 - Of which DKK 100m in Q3

- Write-down reflects
 - CLOs: Market imbalances, increased return requirements etc. Expected cash flow unchanged from that at the time of investment
 - ABS CDOs: Ultimate subprime debtors' ability to pay poorer than assumed. Expected cash flow lower than at the time of investment

Topdanmark's CDO exposure 2/2

- None of Topdanmark's bonds or CDO investments have defaulted or been downgraded
 - ABS CDOs comprise 7 CDO subprime exposure investments
 - No downgrading of tranches in these CDOs
 - 2005 vintage or previous

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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 → [Risk management](#) .

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