



Danske Markets
Nordic Insurance Seminar
2 June 2010

Topdanmark

By Christian Sagild, CEO

Agenda



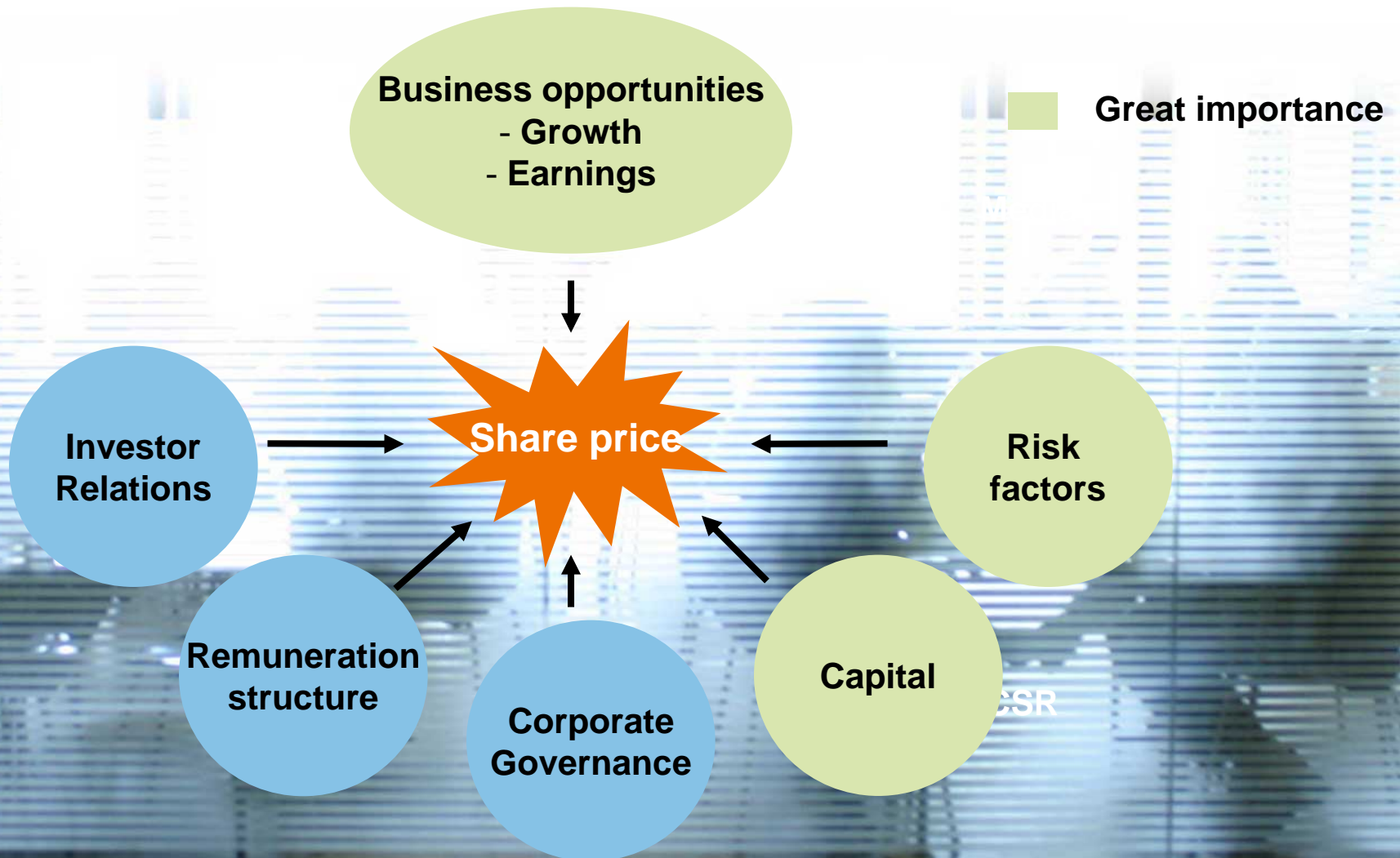
- **Crisis and value creation**

- Highlights from Q1 2010 Report

- Solvency II

Crisis and value creation

Topdanmark's share price model



Effect of the crisis on growth

Growth - % p.a.

Mass market

- Number of cars, fewer car and house sales

SME market

- Business liquidations, fewer employees and reduced values insured



Estimated negative effect: 2-3% on growth in 2009 and 2010

Narrow scope for action!!!

... Instead great need to focus on maintaining earnings

Effect of the crisis on earnings

Factors impacting earnings

Interest rates

- Short-term: A decline of 1pp
- Long-term: A decline of 1pp

Negative claims inflation

- Fire claims
- Theft claims

Positive claims inflation

- Claims frequency in motor insurance

Estimate – earnings 2009

(0.6)pp profit margin
1.1pp on CR

1-2pp on CR
2pp on CR

(½)pp on CR

Own scope for action

Earnings: Own scope for action

Extraordinary focus on expenses

Intelligent employment freeze

Goal: To reduce number of employees by 50 in 2010

- General restraint

Efficient control of claims incurred

Focus on savings on motor, building and property claims paid to customers

- External suppliers and own staff

Goal: To reduce CR by 1pp in 2010

Price increases

Mass market: 12%

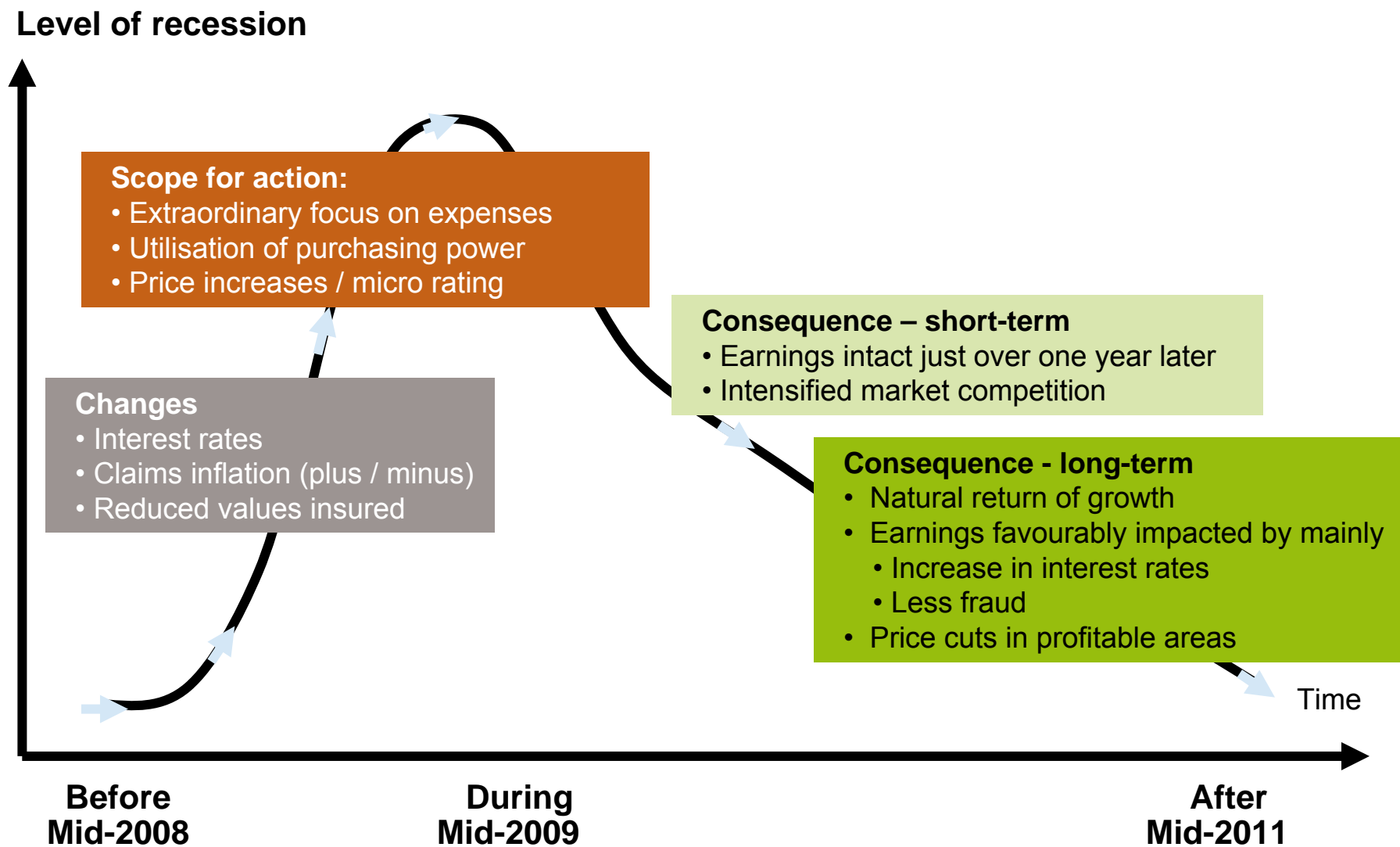
- Primarily house and contents
- Subsequently improving unbalanced earnings

SME market: 9%

- Building and property in fire and theft insurance



Probable scenario – Growth and earnings



Agenda

- Crisis and value creation



- **Highlights from Q1 2010 Report**

- Solvency II

Highlights - Q1 2010

- Increase in profit to DKK 268m in Q1 2010 (Q1 2009: DKK 35m)
- Better than expected profit
 - Lower winter claims and higher investment return
- 3.5% decline in premiums earned in non-life
- Higher than assumed decline due to premium adjustments on 2009 results
- Increase in CR to 102.8 in Q1 2010 (Q1 2009: 91.4)
- Increase in CR to 105.8 in Q1 2010 excl. run-off profits (Q1 2009: 93.7)
 - Underlying CR of 93.2 in Q1 2010 excl. run-off profits

Highlights - Profit forecast

- Adjustment of assumed growth in premiums for 2010 to around zero from 1-2%
- Improved assumed CR for 2010 to 94-95 (underlying 91) from 95-96, excl. any run-off profits / losses in Q2-Q4 2010
- Upgraded post-tax profit forecast for 2010 by DKK 150m to DKK 950 - 1,050m
- Increase in share buy-back programme for 2010 to DKK 1,050m from DKK 900m (buy-back yield of 9.6%)
- Balance of DKK 969m of 2010 programme

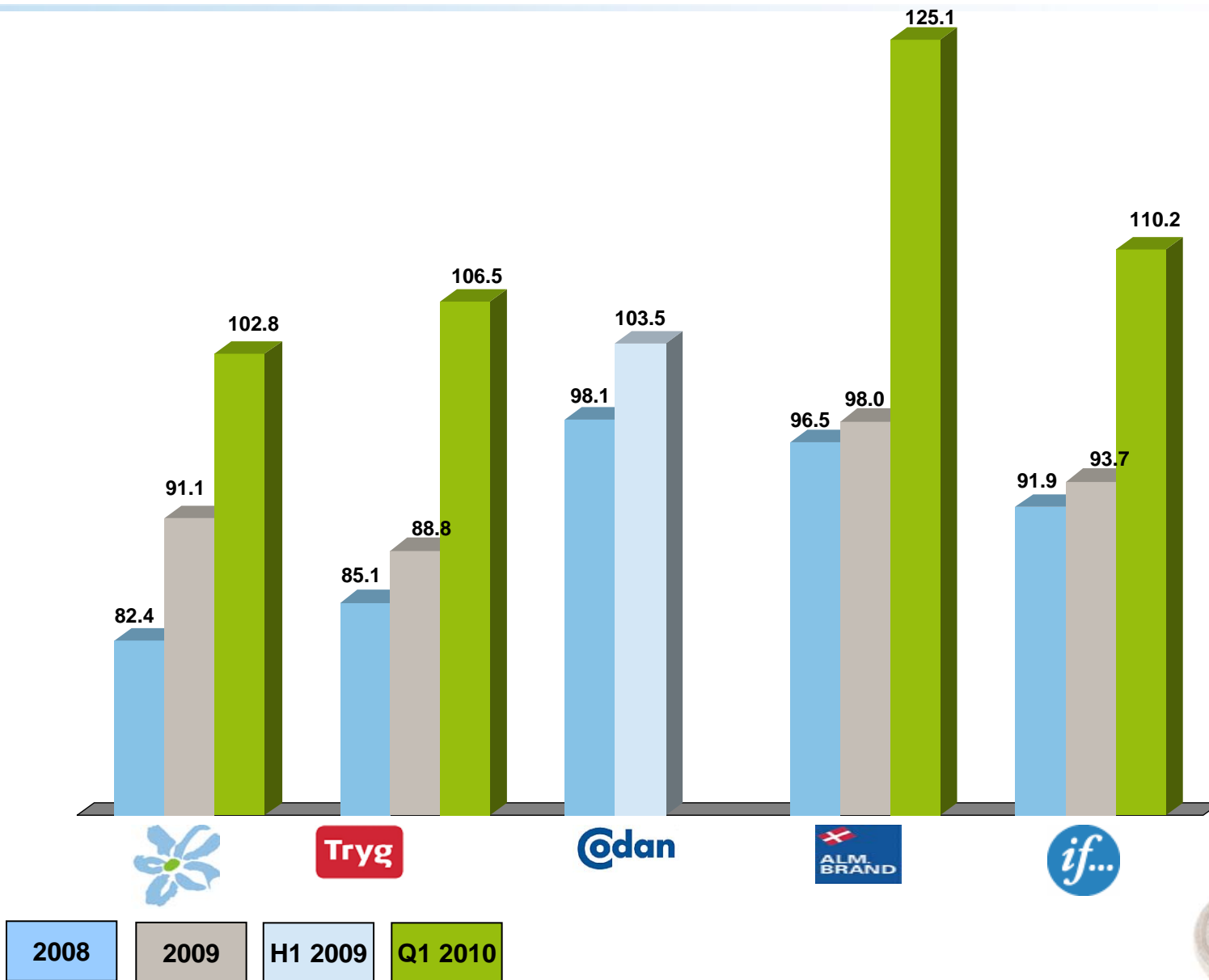
Share profile

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

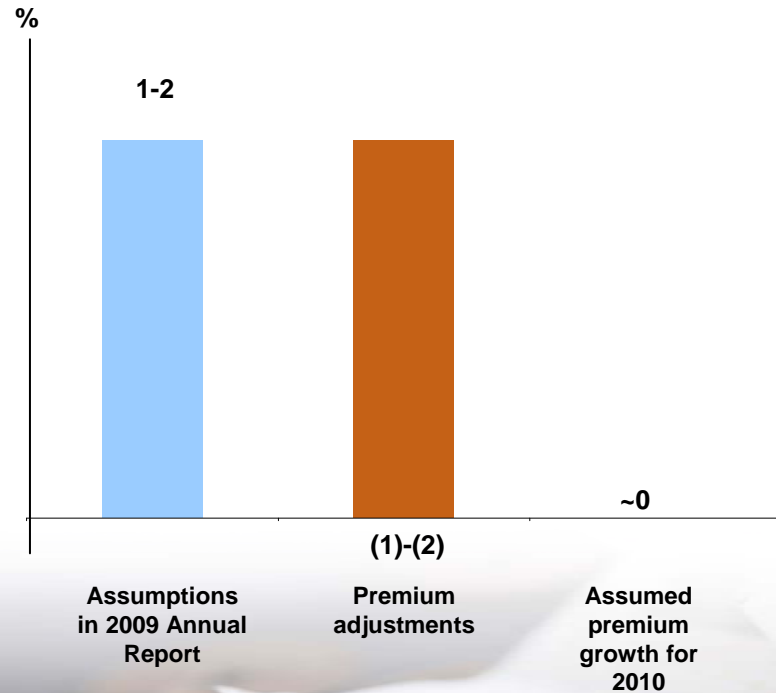


Comparison of CR (Danish insurance)

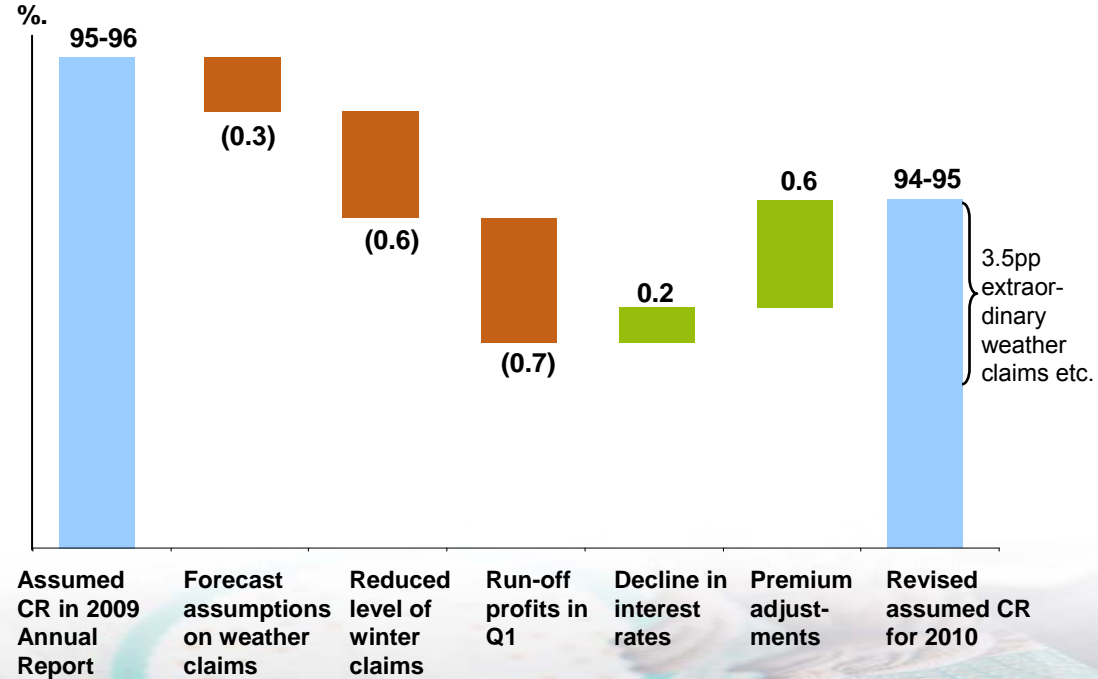


Assumptions for 2010 forecast

Premium growth

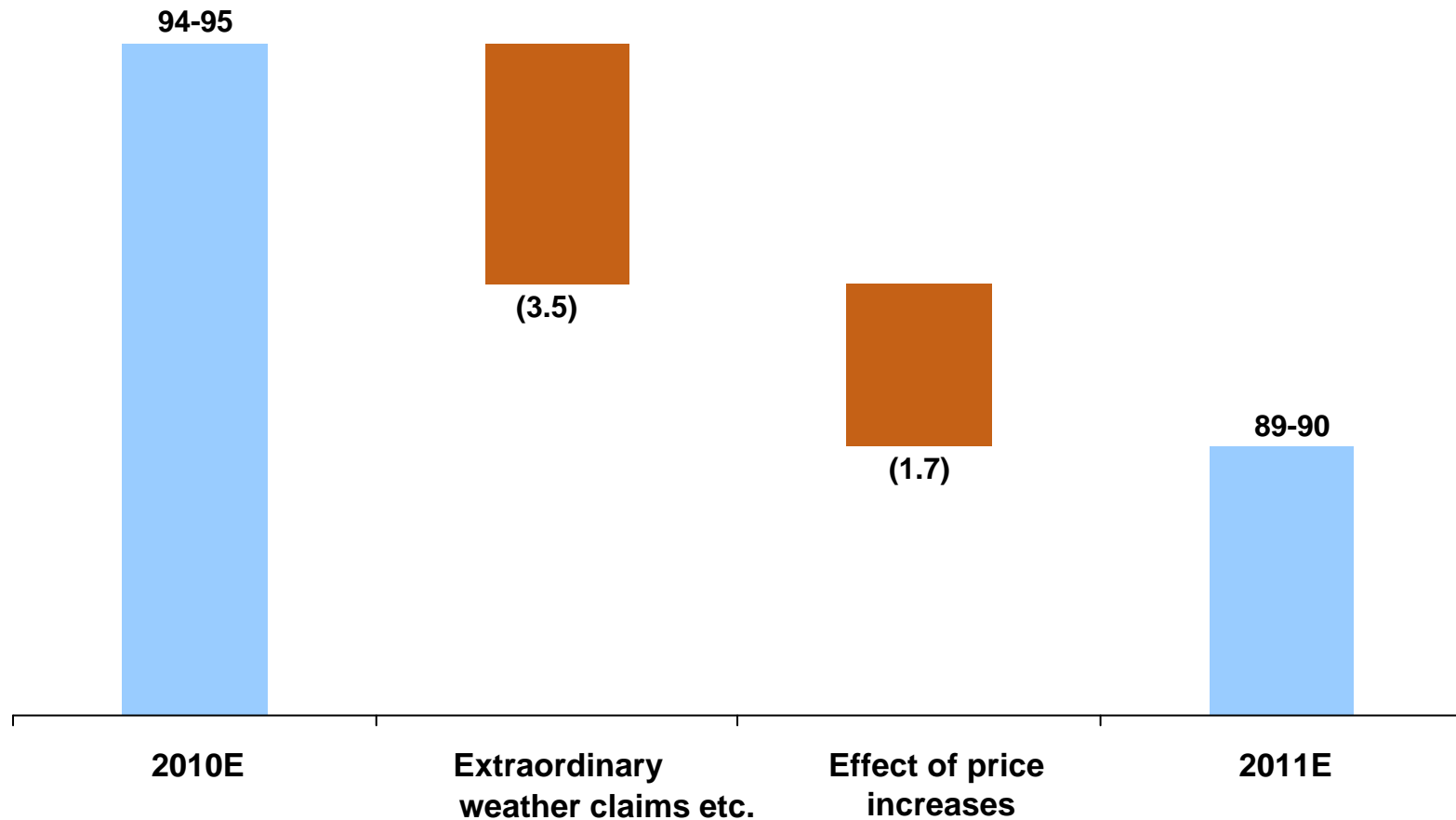


CR excl. any run-off profits in Q2-Q4 2010



Prospects of improved CR in 2011

Excl. any run-off profits / losses - all other things equal



Agenda

- Crisis and value creation

- Highlights from Q1 2010 report

- • **Solvency II**

Topdanmark's philosophy on capital structure

- Topdanmark's insurance operations generate a fairly stable cash flow
- Primarily exposed to retail market and SME
- Comprehensive reinsurance programme
- Topdanmark will generate a profit even in the event of a recurrence of 2008
- No ambition to build up capital exceeding the necessary to support insurance operations
- Paying out all surplus capital
- Initially Solvency II was intended as risk-based regulation
- A number of non risk-based extra buffers and requirements proposed following the financial crisis
- Necessary to accumulate additional capital in excess of risk-based capital DKK 250m in 2010 and 2011
- The same solvency requirements for Topdanmark as for similar companies with lower profitability / higher risk
- Wish to meet the regulatory requirements in the most cost-efficient way through the composition of tier 1, tier 2 and tier 3 solvency capital

Draft from EU Commission- Solvency II

The EU Commission has modified a number of solvency requirements advised by CEIOPS, including

- The risk-free rate is based on swaps and includes an illiquidity premium
- The value of diversification is allowed for in the calculation of the risk margin on reserves
- The solvency capital required due to operational risk is reduced
- The solvency capital required due to risk on investment assets is reduced
- Some correlations are reduced
- The solvency capital required due to the premium and provisioning risk in non-life insurance is reduced in the standard model
- The definition of solvency capital is modified
- Supplementary capital already issued is grandfathered at least until the first call date

Unchanged goal of solvency capital of DKK 4.5bn

- Topdanmark assumes
 - Use of internal model for non-life insurance risks
 - Use of standard model for investments risks
- Overall QIS5 specifications indicates lower future capital requirements than suggested by CEIOPS, but higher than QIS4
- Continued significant uncertainty - Topdanmark still intends to accumulate solvency capital of DKK 4.5bn by 2012
- If contrary to expectation Topdanmark cannot use an internal model for non-life insurance risks, solvency capital requirements may increase by around DKK 1bn
- Could be financed by issuing tier 2 capital
 - In the event of issue of tier 2 capital of DKK 1bn with a 4pp margin to reinvestment rate, pre-tax extra cost will be DKK 40m (post-tax: DKK 30m)
 - Representing about 3% of a normal post-tax profit

Capital model - Topdanmark Holding

(DKKm)	31 Dec 2009
Assumed necessary solvency capital 2012. Before growth	4,500
Shareholders' equity 1 Jan 2010	4,465
Hybrid capital	403
Goodwill	(441)
Other intangible assets	(288)
Tax asset	(40)
	<hr/>
	4,099
Subordinated loan capital – Topdanmark Forsikring	250
Solvency capital 1 Jan 2010	<hr/>
	4,349
Profit after tax 2010 - 2012	2,600
Movements in shareholders' equity	400
Expected capital cover 31 Dec 2012	<hr/>
	7,349
Necessary solvency capital 31 Dec 2012. Before growth	4,500
3% annual growth in solvency requirements	415
Necessary solvency capital 31 Dec 2012	<hr/>
	4,915
Surplus capital / buy-back potential in 2010 - 2012	2,434
Tier 2's share of solvency cover:	5%
Estimated annual cost after tax	9



Capital model - Topdanmark Holding - What if ...

(DKKm)	31 Dec 2009	31 Dec 2009
Assumed necessary solvency capital 2012. Before growth	4,500	5,500
Shareholders' equity 1 Jan 2010	4,465	4,465
Hybrid capital	403	403
Goodwill	(441)	(441)
Other intangible assets	(288)	(288)
Tax asset	<u>(40)</u>	<u>(40)</u>
	4,099	4,099
Subordinated loan capital – Topdanmark Forsikring	<u>250</u>	<u>1,250</u>
Solvency capital 1 Jan 2010	4,349	5,349
Profit after tax 2010 - 2012	2,600	2,550
Movements in shareholders' equity	<u>400</u>	<u>400</u>
Expected capital cover 31 Dec 2012	7,349	8,299
Necessary solvency capital 31 Dec 2012. Before growth	4,500	5,500
3% annual growth in solvency requirements	<u>415</u>	<u>415</u>
Necessary solvency capital 31 Dec 2012	4,915	5,915
Surplus capital / buy-back potential in 2010 - 2012	2,434	2,384
Tier 2's share of solvency cover:	5%	21%
Estimated annual cost after tax	9	39



Significant uncertainties for Topdanmark

- Awaiting QIS5 information from the DFSA
- Spread risk very high – might be reduced
- Provisions for unearned premiums after providing for one year's UW risk incl. total run-off profits / losses?
- Future profit from agreements already made can be included in income?
- CoC uncertainties of, for example, WoCo-annuities
- Solo companies' recognition of subsidiaries versus group statements.

Further process

- Topdanmark continues to follow information issued by the EU Commission, CEIOPS and the DFSA
- Topdanmark intends to participate in QIS5
- Application for approval of partial, internal model for non-life insurance in 2011
- Solvency II project with about 25 employees for approx. two years
- Challenges:
 - Development and documentation of internal model and underlying processes
 - Extensive reporting
 - Solvency II-considerations in all business decisions

**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 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 management” on our website 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 2010 Report.

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

