

Q3 2019 Earnings Call

Company Participants

- Steffen Heegaard, Group Communications, CSR & IR Director

Presentation

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Welcome to the presentation of Topdanmark's results for the first 3 quarters of 2019.

Despite a negative investment return, profit after tax for the first 3 quarters amounted to DKK 1.150 billion, up from DKK 1.071 billion in the first nine months last year. The combined ratio improved to 82.1% compared to 84.2% in the same period last year. Premiums increased by 2.4% in nonlife and by 13.5% in life.

For full year 2019, the assumed combined ratio has improved between 85% and 86% to between 84% and 85%, excluding run-off in Q4. And the profit forecast model for 2019 has been improved by DKK 50 million to between DKK 1.3 billion and DKK 1.4 billion, excluding run-off in Q4.

For 2020, we assume a premium growth in nonlife that is on the same level as in 2019 and a combined ratio of around 90%, excluding run-off. These are the main points of my presentation.

Pretax earnings increased by DKK 65 million to DKK 1.436 billion. The technical nonlife profit increased by 130 -- by DKK 172 million to DKK 1.260 billion. The improvement was due to higher run-off profit and a lower claims trend on the SME and the agricultural business. On the other hand, the discounting had a negative impact on the technical result due to a lower yield curve.

The investment return in nonlife decreased by DKK 222 million to a loss of DKK 145 million. And negative investment return was, accounting-wise, negatively impacted by DKK 260 million, owing to a lower volatility adjustment component, primarily as a consequence of a change in the method for calculation.

In Q3, the investment return was furthermore negatively impacted by a negative return on Danish mortgage bonds. Profit in life insurance increased by DKK 109 million to DKK 291 million due to a higher investment return and an improved risk result.

The claims trend improved by 1.8percentage points to 66.4% in the first 3 quarters this year. Adjusted for run-off profits, weather-related claims, large-scale claims and other

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positions, including change of risk margin, the claims trend deteriorated by 0.2percentage points to 70.3%.

The adjusted claims trend improved in all major product lines, except house, illness and accident. And workers' compensation. But the yield curve used for discounting the reserves was lower compared to the first 3 quarters last year, thus having a negative impact on the claims trend of 0.7percentage points.

Premiums increased by 2.4% in life. In nonlife, the premium growth was split between 8.6% increase in the private segment and a 4.6% increase in the SME segment. The premium growth in the private segment was negatively impacted by lower sales of illness and accident insurance and by the termination of the distribution agreement with Danske Bank at the end of Q2. We continue to assume a premium growth for 2019 higher than the 1.7% growth in 2018.

As stated, the combined ratio was 82.1% in the first 3 quarters of 2019, an improvement from 84.2% in the same period last year. For the full year, we have adjusted the assumed combined ratio from between 85% and 86% to between 84% and 85%, excluding run-off in Q4. This improvement is caused by the positive development in Q3 with run-off profits at a lower level of large-scale claims than assumed.

Profit in life insurance increased by DKK 109 million to DKK 291 million because of a higher investment return and an improved result on insurance risk. For 2019, the assumed profit in life insurance has been upgraded by DKK 20 million to between DKK 320 million and DKK 350 million.

In life insurance company, premiums increased by 13.5%, split between a 12.5% growth in regular premiums and a 14% increase in single premiums. Adjusted for the loss of the distribution agreement with Nykredit, regular premiums increased by 15.4%. For 2019, the assumed growth in regular premiums continues to be around 10%.

Excluding life and adjusted for revaluation and return on nonlife insurance provisions, the investment return for the Topdanmark Group was a loss of DKK 51 million. This includes the result of Topdanmark's asset management company of DKK 68 million.

The investment return was affected by the change in the method of calculation of the VA component and a market-based reduction in the VA component, which had a negative one-off effect of DKK 260 million. The changes in the VA component is solely an accounting issue. And it has no impact on the cash flow in Topdanmark.

In Q3, the investment return was hit by the sharp fall in the yield curve, which had a substantial impact on Danish mortgage bonds market. Mortgage bonds were prepaid at extraordinary scale and new bond issued at the lowest coupons ever. Hedge efficiency of the mortgage bond portfolio was, hence, strongly reduced in Q3. And the losses due to the poor match between assets and liabilities were only partly offset by the high returns on equities, index bonds and properties.

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Based on a number of assumptions described in the Q3 report, the assumed post-tax profit for the remainder of 2019 is upgraded by DKK 50 million to between DKK 1.3 billion and DKK 1.4 billion, excluding run-off in Q4, representing earnings per share of DKK 15.6.

For 2020, we assume a premium growth in nonlife at the same level as in 2019 and a combined ratio of around 90%, excluding run-off. Compared with the assumed combined ratio of between 86% and 90%, excluding run-off for 2019 announced in the Q3 report for 2018, the assumed combined ratio for 2020 is negatively impacted by 1.6 percentage points due to lower interest rates.

Thank you for taking the time to watch this presentation of Topdanmark's Q3 report. If you want to learn more about Topdanmark, you're welcome to contact me.

Following the announcement of the Q3 report, we'll host a number of investor meetings. Today, we'll be hosting a conference call at 3:30 CET. You'll find more information on our roadshow schedule in the Events calendar on our website. Thank you. And goodbye.

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