



Chairman's report 2024

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Topdanmark 

Chairman's report at the Annual General Meeting on 23 April 2024

A warm welcome once again to Topdanmark's annual general meeting. As you can hear, my mother tongue is Swedish, and unfortunately my spoken Danish isn't better than previous years. So, I am presenting this report in Swedish, but we have added Danish subtitles to my section of the report. I will try to speak as slowly and clearly as possible, and I apologise in advance if my speaking in Swedish causes any problems in terms of understanding.

In accordance with the powers vested in us by the company's articles of association, the Board of Directors has decided to hold the annual general meeting as a fully virtual general meeting with no attendance in person. This enables all our shareholders to attend the annual general meeting on an equal footing, regardless of residence, nationality, physical freedom of movement and so on, which in the view of the Board of Directors is extremely advantageous.

We hope you can follow along at home without any crackling on the line.

As part of today's formal programme, we have divided the report into two parts. Firstly, our CEO Peter Hermann will review the year's results, developments in 2023 and the forecast for 2024, as well as briefly commenting on the efficiency programme we have launched to make Topdanmark even more efficient for the benefit of both customers and shareholders.

After that, I will comment on the distribution of dividends, the management's remuneration and some of the Board's proposals.

Peter, would you like to go through your section of the 2023 report?

2023 was an eventful year for Topdanmark.

Topdanmark announced the acquisition of Oona Health, including the market-leading Danish health insurance company Dansk Sundhedssikring in March 2023, and the acquisition finally went through in December. This means that going forward Topdanmark and Oona Health will be in a position to co-develop even more attractive and innovative healthcare solutions for the benefit of Private and SME customers alike within both companies.

As expected, 2023 was also a year characterised by low growth as a result of several one-off effects, whereas the end of the year, and especially the first quarter of 2024, showed a significant change in momentum in our growth rates.

Finally, 2023 was also a year characterised by many weather-related claims. In fact, we experienced the highest number of weather-related claims in a decade, and several negative weather records were set.

These will be some of the main points in my section of the report.

Before moving on to the financial reporting for 2023, I would like to add a few words about our acquisition of Oona Health. We are very pleased that the acquisition was completed at the end of 2023, and that we have now been able to welcome more than 250 skilled and dedicated employees to the Topdanmark family.

The acquisition of Oona Health represents an important milestone for us, as we see healthcare solutions as a strategic focus area for any insurance company for many years to come, not least in terms of customer loyalty and market growth. In the coming years, we expect that Oona Health and their insurance company Dansk Sundhedssikring will continue the impressive growth journey they have been on for more than a decade, boosted along the way by Topdanmark as an active owner and sparring partner. Last month, we started selling Dansk Sundhedssikring's healthcare solutions to our existing Topdanmark customers, and the reception has been really positive. At the same time, it is also my expectation that Oona's unique business model will contribute to the Topdanmark Group's overall profitability objectives. I am therefore full of optimism about the future.

Let us now turn to the financial results in 2023. In the announcement of the annual report for 2022, we predicted a profit for 2023 of between DKK 1.05 and 1.31 billion before run-off.

The profit for the year came in at DKK 1,051 million including run-off, or DKK 898 million before run-off, i.e. less than we anticipated at the start of 2023. This is fully accounted for by the high level of weather-related claims, which I will be coming back to.

Overall, premiums earned increased by 2.7% to DKK 10.2 billion, corresponding to organic growth of 2.1%, adjusted for the acquisition of Oona Health, which, as you know, was completed on 1 December 2023.

In the Private segment, premiums earned increased by 3.6% including Oona Health, and by 2.2% excluding Oona Health. Our efforts to match price and risk in the best possible way continue to bear fruit. In addition, we have invested heavily in customer retention, which over the course of 2023 showed very robust rates, while at the same time, especially towards the end of the year, we saw that our competitiveness improved. Our distribution agreement with Nordea also continued to deliver good results, and in 2023 we gained new customer leads in line with 2022.

In the SME segment, which covers the market for small and medium-sized businesses as well as agriculture, premiums earned increased by 1.9%. Growth in the SME segment was, as expected, lower than last year owing mainly to a low index for price adjustment of Occupational Injury Insurance and discontinuation of a distribution agreement for credit card-based travel insurance. In addition to this, we remain intent on securing profitable growth, and in 2023 we raised the prices payable by large-scale agricultural enterprises, for example. This inevitably resulted in some degree of customer defection.

2023 was therefore a year in which growth bottomed out, and we are pleased to see that our growth is now at a significantly higher level, as evidenced by our latest quarterly accounts for the first quarter of 2024. I am also reassured to see that our customer satisfaction is still at a very good level, although the high volume of weather-related claims in 2023 kept us very busy, which impacted satisfaction slightly.

The result of the non-life insurance business itself – excluding the investment result – fell to DKK 1.5 billion before tax.

Developments in the non-life insurance business can be illustrated by the change in the claims ratio, which is the percentage of claims costs incurred in relation to premiums earned.

As shown in this illustration, the claims ratio increased by 2.4 percentage points to 68.9.

The deterioration was mainly due to the effects in 2023 of a high frequency of adverse weather events, including storms, cloudbursts, floods, heavy rainfall and a high-damage hailstorm over Northern Italy that affected many of our customers holidaying in the region. In fact, 2023 was the wettest year on record in Danish meteorological history, as a result of which weather-related claims significantly exceeded the budgeted level. The weather-related claims thus amounted to a colossal DKK 517 million, which significantly exceeded the usual projection of weather-related claims worth DKK 300 million. However, the weather is to some extent a random factor, and we expect to see claims at last year's level every 8 years. Bearing that in mind, it is also worth noting that we recorded weather-related claims below normal projections in every single year from 2016 to 2022.

Rising interest rates throughout 2023 provided a significant tailwind to our claims ratio, helping to offset some of the headwinds we experienced in the wake of factors such as adverse weather events and rising inflation in recent years.

In addition, we continued to make excellent progress in our efficiency programme, which seeks to improve our purchasing agreements and secure the best prices for us and our customers, among other measures. The programme yielded robust results in 2023, ultimately delivering savings of DKK 430 million to further boost our performance.

The claims ratio plus costs for acquisition and administration gives us the key figure of 'combined ratio', which expresses the total expenses for claims and costs as a percentage of premiums earned. The combined ratio was 85.6 in 2023 compared with 82.4 in 2022. And it is worth noting that the combined ratio in 2023 would actually have been 82.7 if weather-related and large-scale claims had been in line with normal projections.

I will now move on to comment on our return on investment.

The return on investment was DKK 169 million compared with a loss of DKK 223 million in 2022. This profit was driven by a positive development on the stock markets as well as a higher current return on short-term liquidity, partly offset by a negative effect on the provisions for Occupational Injury Compensation payouts as a result of rising wage inflation.

The positive development should be seen in the light of a very challenging year on the financial markets in 2022 when the war in Ukraine and rising inflation caused great volatility.

In 2023, we also worked intensively to mitigate the risk in our investments, which meant, among other things, that we reduced our equity exposure by over 40%, while we also removed all of our exposure to CLOs. All of which efforts are geared to ensuring the best risk-adjusted return for our shareholders.

I will also briefly comment on our solvency position. Since last year's dividend was reduced to finance the acquisition of Oona Health, our solvency position was exceedingly strong for much of the year. After the acquisition was completed in December, our solvency position has been normalised. But it is still quite solid, and before the board's proposal for a dividend for 2023, the solvency capital thus constituted 263% of the solvency requirement.

I will now move on to the profit forecast for 2024. The profit forecast model in the 2023 annual report was between DKK 1.150 and 1.425 billion after tax and including the run-off result. This is a change in practice compared to previous years, when forecasts have been exclusive of run-off. The expected net result includes the effect of having acquired Oona Health and is predicated on anticipated organic premium growth of more than 4.5 percent.

The combined ratio is expected to be in the range of 82–85, including run-off. To be completely honest, we had hoped to be able to present an even lower level for 2024, but the substantial falls in interest rates in December resulted in a significant headwind of almost 0.7 percentage points, which we were unable to mitigate by price increases right from

the beginning of 2024. In addition, the range includes a cost level that, as expected, is set to increase in 2024, partly as a result of increasing amortisation related to our major investment in a new core system.

In connection with the presentation of our accounts for Q1 last week, we upgraded the profit forecast for 2024 by DKK 100m to between DKK 1,25 and 1,525 billion after tax. Our expectations for the combined ratio improved by 0.2pp to between 81.8 and 84.8 including run-off, while we maintain our expectations for organic growth at above 4.5%. All of this happened on the back of a robust return on investment in the first quarter and despite the many weather-related claims ensuing from the harsh winter.

As we announced over three years ago, Topdanmark has scaled up its efficiency programme, which has three overall focus points:

- Automation and digitalisation of routine processes
 - Purchasing power and cost savings
- and
- Risk and pricing

As mentioned earlier, 2023 has been another year of great progress in the programme, and we achieved gross efficiency gains of DKK 430 million. On that basis, we remain intent on reaching our targeted DKK 650 million in gross efficiency gains by 2025.

In 2024, we expect the gross efficiency gains to increase to DKK 540 million. This is included in the profit forecast for 2024 that I mentioned earlier.

I will now give the floor back to Ricard Wennerklint, who will start by reviewing the Board's proposal for dividend distribution.

As Peter Hermann has just outlined, Topdanmark's solvency position was exceptionally strong at the end of 2023. Under item III of the agenda, the Board of Directors will therefore propose a total dividend for the 2023 financial year of DKK 11.5 per share, corresponding to DKK 1,035 million. This corresponds to a pay-out ratio of 98.4.

The proposed dividend of DKK 11.5 per share ensures that, after deducting the dividend, Topdanmark still operates with a conservative capital base and a solvency ratio of 193 at the end of 2023.

I will now turn to a completely different subject: remuneration of Topdanmark's management.

In 2023, the members of the Board of Directors received ordinary basic remuneration of DKK 423,500. The chairman receives triple that amount and the deputy chairman double. The chairmanship also receives a fee for carrying out the duties of chairing Topdanmark Forsikring, corresponding to 50% and 25% respectively of the basic remuneration.

In 2023, the chairman of the Audit and Risk Committee also received a fee corresponding to 75% of the basic remuneration, while the other members of the Audit and Risk Committee received a fee corresponding to 50% of the basic remuneration. The members of the Remuneration Committee received a fee corresponding to 25% of the basic remuneration. The Nomination Committee did not receive a separate fee. The Board of

Directors does not receive options or other performance-based benefits. For the record, the fee for Swedish board members is subject to social security tax of around 20% which Topdanmark is obliged to pay to the Swedish authorities.

As appears from agenda item V.C, the Board of Directors proposes that the Board's ordinary basic remuneration be increased by 10% from the current DKK 423,500 to DKK 465,850 as of the financial year 2024 to reflect the general remuneration increases in comparable companies and the increased workload. The basic remuneration was last increased in 2021.

Topdanmark's Remuneration Policy states that the remuneration to the Executive Board must be competitive with comparable companies and that it can be made up of a fixed basic salary including pension and company car, additional remuneration, other salary benefits, employee shares, options in accordance with Topdanmark's long-term incentive programme (LTI Programme), cash and share-based remuneration in accordance with Topdanmark's short-term incentive programme (STI Programme), and extraordinary variable remuneration.

The fixed basic salary for the Executive Board is based on a specific assessment of the individual director, taking into account issues such as the latter's position, person and performance.

For the LTI Programme, a fixed share, namely 10% of the sum of the cash salary, pension and company car value, is paid in the form of share options. Topdanmark's STI Programme is a cash and share-based incentive scheme linked to the individual participant's achievement of a number of predefined goals, which are determined based on Topdanmark's overall strategic and business goals.

For 2023, the Board of Directors entered into individual STI bonus agreements with the two members of the Executive Board. For non-financial performance criteria, the assessment of goal achievement is based on employee satisfaction and customer satisfaction. In addition, both directors have a project goal linked to Topdanmark's strategy. The final amount of the STI bonus depends on a common factor calculated on the basis of Topdanmark's technical insurance result before capital costs and run-off. The factor is multiplied by the director's individual score, and it should ensure that the director not only has an incentive to work towards individual goals, but also to always work towards Topdanmark's overall result. According to the Remuneration Policy, the STI bonus cannot exceed 40% of the director's fixed basic salary including pension. Since Topdanmark instigated the STI Bonus Programme in 2020, the scheme has been phased in gradually. For 2023, the STI-Bonus is considered fully phased in for both directors, and can thus amount to a maximum of 40% of the director's fixed basic salary including pension.

Like share options, bonuses are classed as variable remuneration. Among other things, this implies that allocation and payment are subject to a number of statutory restrictions, for example, at least 50% of the variable remuneration must consist of shares or share-based instruments, share options must not exceed 12.5% of the director's fixed salary including pension, payment of at least 40% of the variable remuneration must be deferred over a period, which from 1 January 2024 amounts to at least five years as opposed to the previous four years, plus a number of provisions regarding the payment of deferred salary, including claw-back provisions.

As indicated in the Remuneration Report and note 23 to the Annual Report, the Executive Board received a total of DKK 16.4 million in remuneration in 2023. Of this DKK 16.4 million, DKK 14 million concerns fixed remuneration and DKK 2.4 million relates to variable remuneration, breaking down to DKK 1.4 million in the form of the value of share options and DKK 1 million in the form of STI bonus.

The management's remuneration for 2024 will be within the framework of the Remuneration Policy.

All of the information I have just gone through, and more, is available to read in Topdanmark's Remuneration Report, which is presented to the general meeting for a possible indicative vote under agenda item IV.

Under agenda item V.A the Board of Directors presents a proposal for an indemnification scheme for the members of the Board.

With the Remuneration Policy approved at the general meeting in 2021, a severance and indemnification scheme was implemented for Topdanmark's management, which covers the liability and claims that may have been or might be brought against them personally as a result of their duties as a board member within Topdanmark, in the event that the coverage under Topdanmark's board and management liability insurance ("D&O insurance") in force at any time falls short.

As a result of the Danish Business Authority's Guidance of 13 April 2023 on indemnification of management members, and in order to increase the degree of transparency concerning the indemnification scheme's main terms and conditions, the Board proposes that the general meeting adopt an updated indemnification scheme for the board members on the terms and conditions stated in the notice, as the indemnification scheme is not deemed to contain extraordinary terms and conditions.

According to the indemnification scheme, indemnification includes any loss incurred by a board member arising from and/or being based on the relevant board member's exercise of their duties as a board member within Topdanmark. Excluded from indemnification are any claims pertaining to liability incurred by a board member arising out of that board member's fraudulent conduct, fraud, criminal acts, improper transactions, gross negligence or wilful misconduct, and any claims arising from the board member's breach of their statutory obligations towards Topdanmark, or any other claim incurred by a board member for which their indemnification would be in contravention of the legislation in force at any given time.

The indemnification scheme must remain in force until the ordinary general meeting of 2028.

The Board has implemented a corresponding indemnification scheme for the Executive Board.

Under agenda item V.B, the Board of Directors presents a proposal to amend Topdanmark's Remuneration Policy.

With the revised remuneration policy, the Board of Directors wishes to bring the indemnification provision into line with the instructions in the Danish Business Authority's Guidance of 13 April 2023.

It is clarified that the Remuneration Policy applies to Topdanmark A/S and Topdanmark Forsikring A/S, and that the Oona Health group has its own remuneration policy, which Topdanmark A/S considers and approves at Oona Health's AGM.

The deferral period for variable remuneration has been extended by one year pursuant to the rules to that effect in the Insurance Business Act.

The section on control functions has been expanded to clarify which control functions are covered.

Furthermore, a number of linguistic and consequential amendments and clarifications have been made, including as a result of the fact that certain provisions regarding remuneration in insurance companies have been moved from the Executive Order on remuneration policies and remuneration in insurance undertakings and insurance holding undertakings to the Insurance Business Act.

The Board of Directors has organised a process for evaluating the Board's work. The evaluation is overseen by the chairman of the board without the involvement of the Executive Board and is carried out on the basis of anonymous questionnaires about the work of the Board and cooperation with the Executive Board, anonymous evaluation of the individual members of the Board of Directors and the Executive Board, individual interviews with the chairman of the board and a questionnaire about the competencies of each individual member. The Board of Directors specifically assesses whether and when it is necessary or relevant to bring in external assistance. In the evaluation for 2021/2022, the Board of Directors had engaged an external consultancy to assist with the evaluation of the Board.

All of the board members are standing again, and the Board of Directors proposes that they all be re-elected.

As can be seen from the CVs of the Board of Directors, taken together the Board of Directors has the experience and skills that, in the Board's assessment, are necessary in order to run a company like Topdanmark.

If the Board's candidates are elected, three out of the Board's six board members elected by the annual general meeting will be independent, meaning that Topdanmark's Board of Directors complies with the Committee on Corporate Governance Recommendations that at least half of the board members elected by the general meeting be independent.

It is expected that after the annual general meeting the Board will continue with myself as chairman and Jens Aaløse as deputy chairman.

In conclusion, I would like to extend a big thank you to Topdanmark's employees for their great efforts in 2023, which have contributed to our excellent results. In a busy year shaped by the acquisition of Oona Health, the continued work to hand over the life insurance company to Nordea and the work to implement our new IT core system, I am very proud of the dedication shown by the employees in their efforts to assist our customers.

Thank you for your attention.