

## Capitalisation

### Highlights of the fourth quarter 2008

During the fourth quarter of 2008 the decrease in available capital over required capital decreases the buffer to "A" range by 2% point (DKK 254m). By the fourth quarter of Q4 2008 the buffer is DKK 1,227m corresponding to 16% (after suggested dividend related to 2008 results).

Main changes during fourth quarter in the simplified internal model are the following:

Changes in required and available capital (MDKK)	Changes Q4	Effect of exchange rate changes (NOK/DKK)
Required capital	-469	-542
- <i>Asset risk</i>	-346	-96
- <i>Liability risk</i>	-139	-446
- <i>Diversification</i>	16	-
Available capital (TAC)	-723	-147
Effect on buffer capital	-254	395

The significant change in the exchange rate NOK to DKK explains a large part of changes during the quarter. On the asset side the decrease is DKK 346m of which DKK 96m is explained by the exchange rate and the rest is mainly explained by a decrease in the proportion of equities from 4.6% to 3.4%. For the liability charge, the exchange rate accounts for a decrease of DKK 446m. The underlying increase in liability risk charge is DKK 300m and is driven by increased premium volume in local currency.

The effect of exchange rate on the available capital is DKK -147m, which is the effect on deferred tax. The shareholder equity is not affected by the change in exchange rates, but has decreased by DKK 378m during fourth quarter. In addition, non-paid dividends have increased by DKK 180m.

Further specification can be found in the table on page 5.

### Capital strategy

TrygVesta follows an active capital strategy and coordinates the capital planning with risk management. Both capital planning and risk management is supported by the internal ALM framework. The capital structure is continuously optimized while maintaining the necessary security for the stakeholders in TrygVesta and room for growth and development in the Group.

TrygVesta is rated once a year by Standard & Poor's and Moody's. This rating is the basis for the capital target. The targeted rating is to sustain a minimum rating of "A-" and A3 respectively.

This target satisfies the demand for security by the corporate customers and the broker sales channel and gives a high degree of certainty that TrygVesta will be able to execute the business strategy and still service our debtors.

TrygVesta's dividend policy is to pay out a minimum of 50% of the results as a cash dividend and to return any excess capital to the shareholders as share buy-backs. The dividend policy is thereby also based on risk management, and is derived from the capital strategy.

The ratings from Standard & Poor's and Moody's are given as part of an interactive rating process. Standard & Poor's uses a capital model, however, only as one of several criteria and parameters on which TrygVesta is examined. Other criteria may be risk profile, risk management, strategy, management, current and potential profitability. Moody's does not use an explicit capital model.

### **The capital model – determination of target capital and available capital**

Standard & Poor's capital model determines a target capital required per rating class ('AAA', 'AA', 'A' and 'BBB') reflecting different confidence levels in the risk distribution. The capital model is a multi-factor model with a required capital based on insurance related risks (Liability Risk) and investment and credit risk (Asset Risk) including diversification effects between the asset and liability risks, however, with a 50% hair-cut of the effect.

The available capital is based on the equity position adjusted for different accounting measures and hybrid equity. In the capital model, TrygVesta's targeted rating of 'A-' corresponds to the minimum required capital for an 'A' level. To avoid adverse changes to the rating, the capital target is set at 5% above the minimum level by building a smaller buffer to the 'A-' target. With the current business mix and investment profile, the target capital of 'A-' (plus 5%) corresponds to a capital requirement of 49% of the net premiums.

In the following, a simplified version of the capital model is disclosed with explanation of the elements and difference in results to the full internal capital model which is not disclosed in public. The alphabetic reference is to the corresponding lines in the capital model presented in the table on page 5.

#### *Asset risk*

The required capital for asset risk (E) is calculated in the full model by multiplying different factors to the amounts invested per asset class, a charge for reinsurance credit risk and a general asset risk charge for all other assets. The following components are charged:

- Credit rating of bond portfolio
- Duration of bond portfolio
- Land of origin of shares in portfolio
- Real estate portfolio
- Receivables and outstanding reserves by reinsurers' credit rating
- A general credit risk adjustment of 6.6% on assets not otherwise in the model

The charge for asset risks varies significantly between asset classes, and the total risk charge is therefore dependent on the actual investment mix.

The proportion of equities was 11.9% in 2007 and has been reduced to 3.4% by the fourth quarter of 2008.

The total asset charge is in consequence reduced from 6.5% of the total assets (D) in 2007 to 4.6% by the fourth quarter of 2008 giving a charge of DKK 1,769m compared to DKK 2,849m by the fourth quarter 2007 by. During fourth quarter the asset risk has been reduced by DKK 346m, which is mainly driven by a reduction in the proportion of equities from 4.6% to 3.4%.

#### *Liability risk*

The required capital for liability risk is comprised of five different components.

The premium risk (F) is calculated in the full model by multiplying different factors to the net written premium per lines of business. These factors range from 13% to 30% depending on line of business. In the simplified model, this is on average 19.6% of the net earned premium (A) with the current business mix. The premium for the fourth quarter of 2008 is DKK 16,635m giving a capital charge of DKK 3,260m compared to DKK 3,178m in 2007.

The required capital for reserve risk (G) is calculated in the full model by multiplying different factors to the net discounted reserves per line of business. These factors range from 9% to 26% depending on the line of business. In the simplified model, this is on average 18.4% of the booked net reserves (B) less the reserves annuities (C) with the current reserve mix. In 2007 this was DKK 3,236m and in the fourth quarter of 2008 DKK 3,134m.

Reserves for annuities in Danish workers' compensation insurance is separated out and treated as a life insurance risk in the model. The capital required for life reserve risk (H) is equal to 0.9% of annuity reserves (C). In 2007 and in the fourth quarter of 2008 this was DKK 15m and DKK 16m respectively.

A capital charge for catastrophe risk was added for testing to the capital model in 2007. The calculation includes the net exposure for the 1-in-250 year scenario for property risk. TrygVesta's reinsurance program covers the 1-in-250 year event on an occurrence basis with a retention of DKK 100m. The 1-in-250 year net exposure is DKK 241m pre-tax, and the post-tax amount of DKK 174m has been added to the required capital (I).

The required capital for TrygVesta Garanti's insurance bond portfolio (J) is approximately DKK 126m. This is the result of taking the historically largest loss in any one year related to that year's gross exposure and then applying this to the current exposure of the insurance bond portfolio.

#### *Target capital and diversification*

In total the target capital for "A" range (K) was DKK 9,567m in 2007 compared with DKK 8,479m in the fourth quarter of 2008. Diversification effects results in a Diversified Target Capital (M) of DKK 8,802m in 2007 and DKK 7,725m in the fourth quarter of 2008.

The diversification effect is a relatively stable component on the liability side, but since the total capital requirement, driven by a reduction in the asset risk, has decreased, the relative diversification effect has increased from 8.0% in 2007 to 8.9% by the fourth quarter of 2008.

*Total adjusted capital (TAC)*

The equity (O) is adjusted for several accounting issues:

- |                                   |   |
|-----------------------------------|---|
| Hybrid / Subordinated Capital (P) | Can count for up to 25% of the available capital for "A" rated companies. The hybrid capital is DKK 1,102m in the fourth quarter of 2008.   |
| Expected pay-out (Q)              | Deduct current dividend and expected share buy back from capital. The payout for 2007 was DKK 2,561 of which DKK 1,156m was paid out as cash dividend, and the remaining DKK 1,405m was to be used for buy back of own shares. By the fourth quarter 2008 share buy backs of DKK 1.053m have been realised. The suggested payout for the 2008 fiscal year amounts to a total of DKK 423m in cash dividends and is deducted as well. There will be no new share buy back during 2009.    |
| Equalization reserves (R)         | Can be counted as available capital. According to IFRS the equalisation and security reserves are no longer booked as liabilities, but are part of the equity position after deduction of deferred tax liabilities. In the Standard & Poor's total adjusted capital, these reserves are included in full (without deduction for deferred tax), whence the deferred tax liability is being added. In 2007 this amount was DKK 1,201m and in the fourth quarter of 2008 this is DKK 843m. |
| Intangible assets (S)             | Is deducted from the available capital with DKK 335m in 2007 and 450m by Q4-2008. The increase in intangible assets comes from investments in our internal IT project DOP, with the main objective to simplify and streamline sales process and customer dialog.  |

Standard & Poor's applies a simplistic approach to discounting of claims reserves, where TrygVesta uses current market value discounting as regulated and approved by the Danish FSA. In the model below we have maintained TrygVesta's internal discounting when deciding the capital adequacy and payout level.

The adjustments results in a total adjusted capital (T) net of payout of DKK 9,235m by year end 2007. By the fourth quarter of 2008 the total adjusted capital amounts to DKK 8,951m. This corresponds to a buffer of 16% to the "A-" target, which is 11% point larger than what

TrygVesta's capital strategy dictates. It should be noted that the change in exchange rates during fourth quarter has a positive effect on the buffer corresponding to 5%.

Simplified Capital Model	2006	2007	2008 Q3	2008 Q4	Change	
					2008 Q4	2008 YTD
A Net premiums	15.293	15.890	16.573	16.635	63	745
B Net reserves excl. Annuities	19.034	19.676	19.873	18.855	(1.018)	(821)
C Annuities	1.558	1.698	1.700	1.822	122	124
D Total assets	42.783	43.830	42.078	38.453	(3.625)	(5.377)
<b>E Asset risk (4,6% x D)</b>	<b>2.781</b>	<b>2.849</b>	<b>2.114</b>	<b>1.769</b>	<b>(346)</b>	<b>(1.080)</b>
F Premium risk (19,6% x A)	3.059	3.178	3.265	3.260	(4)	82
G Reserve risk (18,4% x (B))	3.146	3.236	3.271	3.134	(137)	(102)
H Life reserve risk (0,9% x C)	14	15	15	16	1	1
I Catastrophe	174	174	174	174	-	-
J Bond insurance	100	115	124	126	1	11
<b>Liability risk</b>	<b>6.492</b>	<b>6.718</b>	<b>6.850</b>	<b>6.711</b>	<b>(139)</b>	<b>(8)</b>
K Target capital "A"	9.273	9.567	8.964	8.479	(485)	(1.088)
L Diversification (8,9% x K)	(742)	(765)	(771)	(755)	16	11
<b>M Diversified target capital</b>	<b>8.531</b>	<b>8.802</b>	<b>8.193</b>	<b>7.725</b>	<b>(468)</b>	<b>(1.077)</b>
O Equity	9.951	10.010	8.622	8.244	(378)	(1.766)
P Hybrid capital	1.099	1.101	1.103	1.102	(1)	1
Q Expected pay-out	(2.244)	(2.561)	(608)	(788)	(180)	1.774
R Deferred tax	945	1.021	1.010	843	(167)	(178)
S Intangibles	(220)	(335)	(453)	(450)	3	(115)
Discounting (only 2006)	(328)	-	-	-	-	-
<b>T Total Available Capital</b>	<b>9.203</b>	<b>9.235</b>	<b>9.674</b>	<b>8.951</b>	<b>(723)</b>	<b>(284)</b>
U Buffer to "A" range	8%	5%	18%	16%	-2%	11%
V Buffer in mDKK	672	434	1.481	1.227	(254)	793
Full S&P Internal Capital Model	498	441	1.481	1.235	(246)	794

The simplified model underestimates the buffer with DKK 7m in 2007 relative to the full Standard & Poor's model. By the fourth quarter of 2008 this discrepancy is DKK 8m.

The simplified model is disclosed to give insight to the capital planning in TrygVesta and will be updated on the Investor Relations website every quarter on the same dates as the financial results. The model is a simplified version of the extensive internal model; however, the results give guidance to the capitalisation of the Group. The results of neither the simplified nor the full model can be viewed as the opinion of either rating agencies.