



IR Newsletter no. 1 | 2009

TrygVesta 

Welcome to TrygVesta’s first IR newsletter. This issue marks the beginning of a regular issue of newsletters in which we will highlight topical issues to enhance understanding of the factors influencing TrygVesta’s performance.

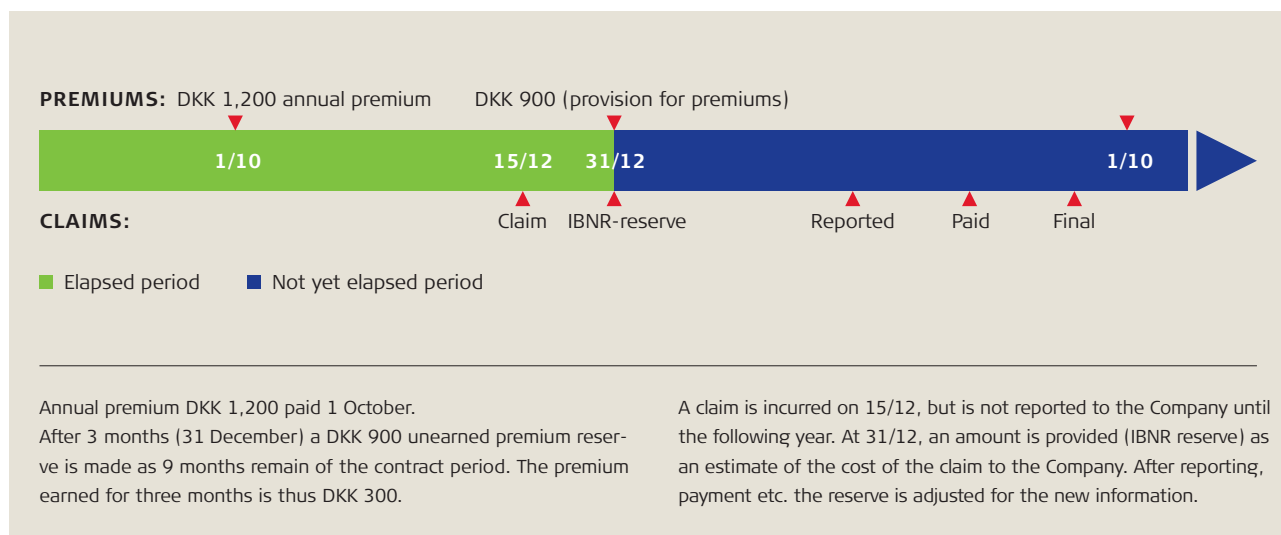
This first issue looks at provisions and run-off. TrygVesta’s financial results since being listed in 2005 have been supported by annual run-off results in the order of DKK 550-800m. In this newsletter, we will give a detailed account of how these run-off results arise and explain why we expect positive run-off results in future as well.

Provisions

Technical provisions are the amounts that ensure that the Company is able to meet its insurance obligations. The amount must equal the risk of claims assumed by an insurance company but not yet paid. Provisions fall into two categories:

- > **Premium provisions** cover the pre-paid portion of insurance premiums. Insurance premiums are typically paid annually, and the premium provision ensures that the premium is earned over the course of the year.
- > **Provisions for claims** are to cover future payments on claims already incurred. Provisions for claims comprise both claims reported to the Company but not yet paid and estimated claims not yet reported.

PAYMENT FLOW



Provisions for claims are traditionally categorised as

1. Provisions for known claims (assessed per claim)
2. Statistically calculated provisions (assessed per type of insurance)

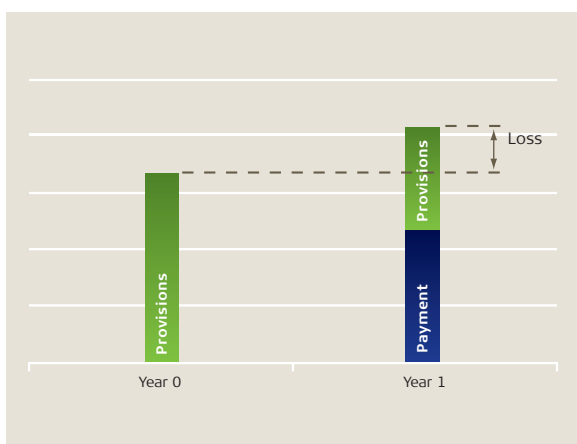
TrygVesta uses provisions for known claims for major claims and personal injury only. Statistically calculated provisions are made by actuaries, who make a number of adjustments to the claims handlers' case reserves based on large amounts of data and historical information. This ensures that sufficient reserves are provided for reported claims. Reserves are also made for claims not yet reported and claims for which the claims handlers themselves do not make reserves.

If it is necessary to change the estimated total costs of settling claims for a given period, this results in a run-off gain or a run-off loss.

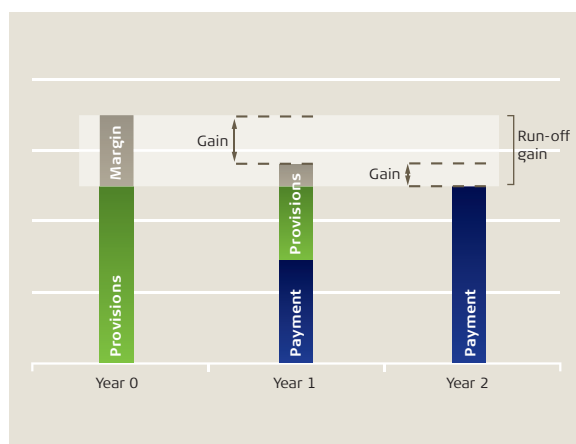
The possibility of positive run-off gains or the risk of run-off losses increases with the amount of time it takes to settle a claim. The most common reasons for run-off gains or losses are:

- > Random fluctuations. Statistical uncertainty causes the actual claims experience to deviate from expectations. This type of run-off should even itself out over time as this form of uncertainty is not systematic.
- > New information causing previous estimates to be revised. Examples of such information are new legislation or a changed practice for the handling of personal injury.
- > Systematic conservatism (margin) included in provisions and automatically released over time.

NORMAL SITUATION



MARGIN SITUATION



TrygVesta calculates the value of provisions at present value

The market value concept has been introduced in current international financial reporting standards. In terms of technical provisions, this affects the calculation of the present value of provisions ("discounting") and the degree of security chosen for the provisions ("margin").

The existing financial reporting rules outline the framework for the margin concept. TrygVesta's financial statements are presented in accordance with the rules set out by the Danish Financial Supervisory Authority.

Under IFRS, provisions should be made at market value. Market-based pricing of a liability of this nature will include a certain positive margin (risk premium). This is consistent with the latest draft Solvency II directive.

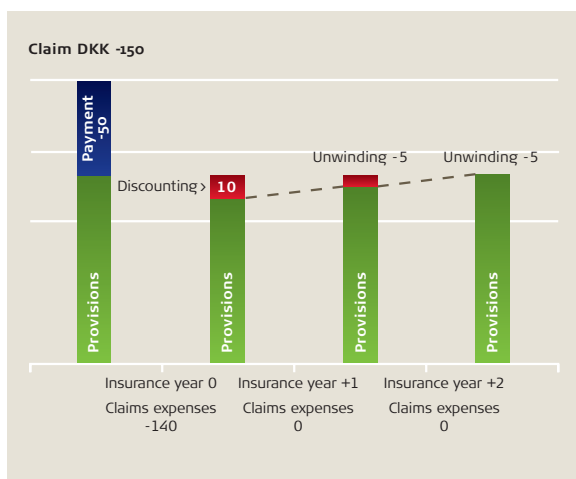
TrygVesta wishes to adapt to the current and future rules and has therefore allocated an adequate margin to the provisions.

To comply with these rules and to ensure adequate security in the running off of the Group's existing provisions, TrygVesta applies contingency loading to existing provisions. In TrygVesta, provisions for claims are discounted as the Danish Financial Supervisory Authority requires all Danish companies to discount provisions.

The discount element means that a future payment may be offset by a smaller bank account deposit today, when taking into account the interest payments that accrue until settlement. As the settlement date approaches, the present value increases, corresponding to a larger provision. The annual increase as a result of the shorter (residual) term to maturity is called unwinding.

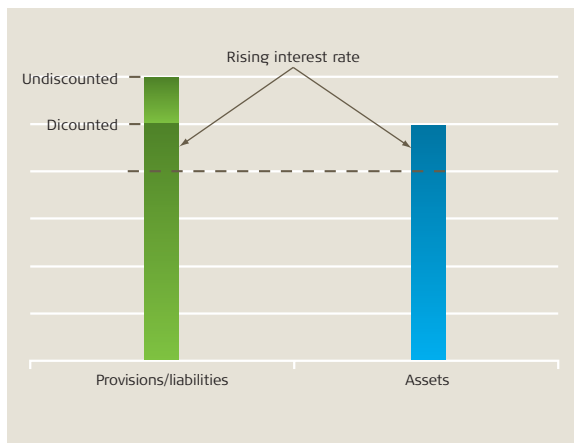
When provisions for claims are discounted, the provisions are calculated at present value using a yield curve reflecting the rate of interest of the maturities in question.

DISCOUNTING MODEL



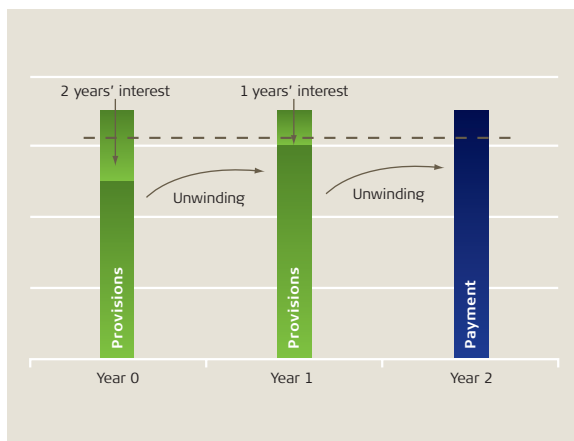
The regular discounting of provisions for claims means that the provisions recognised in the balance sheet comprise a discount element which changes merely as a consequence of changes in market rates. Accordingly, the provisions have an inherent price sensitivity, which the Company seeks to cover by purchasing suitable bonds ensuring the best possible match between assets and liabilities. In practice, this means that the discounted provisions are reduced in case of a rise in interest rates, resulting in a gain which is set off by a corresponding loss in the market value of the matching bond portfolio.

MATCH



TrygVesta endeavours to ensure that the best possible match counters not only changes in interest rates across all maturities but also cases in which the slope of the interest rate curve changes – for example if short-term interest rates rise while long-term rates fall. This means that the exposure to interest rate fluctuations is close to zero.

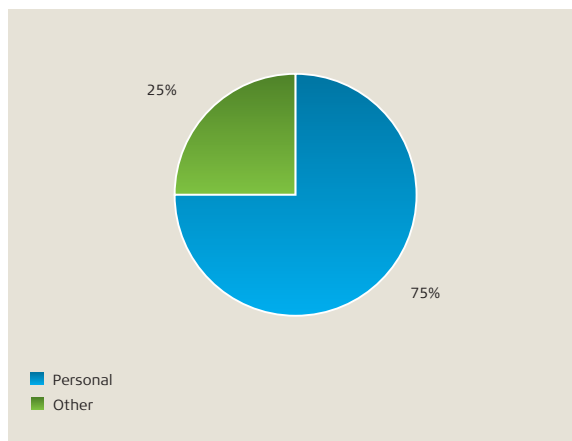
PROVISIONS AND INTEREST EFFECT



Uncertainty

In non-life insurance, a distinction is made between insurances in which claims may have short or long terms (also known as short-tail and long-tail lines of business); the differentiation being the time elapsing from the claim is incurred until it is finally settled. Personal injury lines (motor TLP; workers' compensation and illness) are considered long-tail lines and the risk inherent in the provisions therefore mainly relates to these types of claim. The longer the time elapsing from a claim is incurred until its settlement, the greater the uncertainty in terms of the size of the provisions.

DISTRIBUTION OF PROVISIONS



A significant part of the Group's risk relates to technical provisions, and in particular provisions for claims. The risk arises as a result of sensitivity to a number of underlying assumptions used in the calculation of the provisions. If the provisions are inadequate relative to the final claims, the Company will have to cover the difference through shareholders' equity.

- Large claims

The sensitivity to major claims consists in the uncertainty relating to the claims experience of (single) major claims. Statistical models will often not be sufficiently accurate to describe the risk of a single claim being reported, and if the claim is material this will have a negative impact on provisions. Examples of lines of business exposed to this type of sensitivity are marine and large properties.

- Underwriting

In certain lines, the premium or the number of policies are parameters in the calculation of provisions, for example if there is very limited historical claims data regarding the first period in the life of a claim. If the risk profile of the line of business is changed, a considerable amount of time may pass before claims experience supports this changed underwriting risk and, consequently, before provisions are affected. In the interim period, a provision surplus or deficit will have developed. The more long-tail the line of business is, the more significant the effect will be.



- Long-tail lines of business

Similarly to the lack of information in the first part of the life of a claim, the same will often be true towards its end (also known as the "tail"). Either because the line is too young for a full run-off to have been observed or because the observations made for previous insurance years do not apply to subsequent insurance years. This sensitivity is significant because changed assumptions affect many insurance years and the effect increases the longer-tailed the line is. An example of this may be new workers' compensation legislation. Lately, the National Board of industrial injuries handling of reopened claims was declared unlawful and a number of old claims which previously were refused, had to be reopened. This will not only affect these specific claims, but also the expectations regarding development within new claims when they at a later point are mature for being reopened.

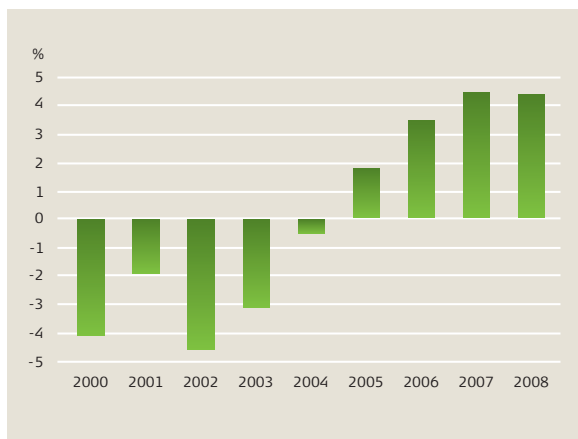
- Inflation

The most significant risk arises as a result of changes in claims inflation. Claims inflation comprises many components, including changes in prices of materials and spare parts, wages, social inflation, cyclical conditions and changes in legislation. The effects can be difficult to isolate, and in any event it is difficult to predict future changes that will materially affect the true claims levels of the day.

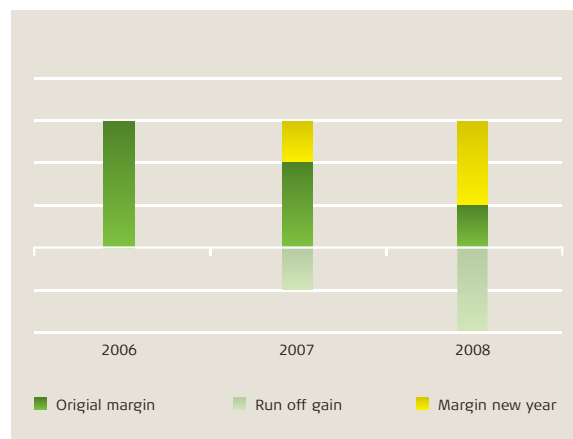
TrygVesta's provisioning policy is to ensure that the Group's risks in relation to reserves are minimised. The policy is prepared in accordance with the Supervisory Board's Risk Management Instructions and sets out guidelines in relation to processes and business procedures and ensures a uniform basis for provisioning across the Company.

An actuarial report is prepared annually. The report comprises an adequacy test of the provisions for claims and its conclusions are communicated to the Executive Management, the Supervisory Board and the audit committee. Furthermore, the Group has set up a claims provisioning committee, which forms part of the risk management environment. The claims provisioning committee is responsible for ensuring compliance with the provisioning policy, which creates valuable transparency in relation to the Group's level of risk in terms of provisions.

IMPACT OF THE RUN-OFF RESULT ON THE COMBINED RATIO 2000-2008



PROVISION FLOW



The good reserve cycle

After TrygVesta strengthened provisions significantly in the period 2000-2003, resulting in a run-off loss, TrygVesta has now built up a certain margin in the level of provisions. Over the past three to four years, this has resulted in considerable run-off gains, which is a natural consequence of the way in which a positive margin passes through the financial statements.

As insurance years pass and the provisions are gradually paid out, a positive buffer will automatically occur in the form of run-off gains. In order to maintain a consistent margin on the total provisions, however, a corresponding buffer must be added to new provisions. As long as this practice is maintained, the Company will generate run-off gains which, all other things being equal, will offset the margin allocated to the most recent insurance year.

Total provisions are thus not affected once a margin has been established, and in this "good cycle" the Company will be ensured of a continuous positive run-off result, funded by a slightly higher claims ratio for the insurance year. However, the above uncertainty may result in a certain amount of volatility, although with a positive mean value.

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