Debt profile & currency sensitivities

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Introduction

Tryg is the second-largest non-life insurance company in the Nordic region present in Denmark, Norway and Sweden.

The presence in three different Nordic countries means that Tryg is exposed to fluctuations in the local currencies (NOK and SEK) in regards to both the financial results and the solvency ratio. Tryg has chosen to implement a currency hedge strategy that focuses on mitigating the currencies impact on the financial results. However, this introduces increased volatility with regards to the Solvency ratio.

In order to mitigate the currency impact on the Solvency ratio, Tryg has chosen to issue subordinated loans in the local currencies, NOK 800m in 2013 and NOK 1,400m in 2015, and plan to issue approximately SEK 1bn in 2016. This paper shows the rationale and effect of this strategy.

Currency sensitivities

The solvency capital requirement (SCR) is calculated in Danish kroner and therefore an increase in the NOK or SEK exchange rates versus the DKK will result in larger exposures (higher premiums and reserves) which will automatically increase the SCR.

The own funds (OF) consist of various elements where only the shareholders' equity, due to the currency hedge strategy, is not sensitive to changes in the local currencies. The table below shows that an increase in the exchange rates between NOK/DKK and SEK/DKK will increase intangibles (negative impact on OF), increase the future profits (positive impact on OF) and increase the nominal amount of the subordinated debt (positive impact on OF). The overall impact on OF is a function of the different amounts. The total impact from a 10% increase in the SEK/DKK exchange rate is negative as the goodwill in Sweden is relatively high as it comes from the acquisition of Moderna.

The table 'Own Funds and SCR sensitivity from 10% increase in currencies' shows the sensitivities of Tryg's OF and SCR as per Q1 2016 and the potential change coming from the planned SEK 1bn subordinated debt issuance. Tryg disclosed an SCR of DKK 5.1bn at the end of Q1 2016 which could, very crudely, be divided by our country exposure although this does not take in consideration the underlying risks of the portfolio. We show below that a 10% move in the exchange rate between NOK/DKK would increase the SCR by some DKK 130m and a 10% move in the exchange rate between SEK/DKK would increase the SCR by some DKK 70m. The overall impact (net move of OF and SCR) of a 10% move in the NOK/DKK is relatively limited as all the subordinated debt outstanding has been issued in NOK. The overall impact of a 10% move in the SEK/DKK is currently higher but will be reduced sharply once the new subordinated debt (SEK 1bn) will be issued – the DKK 80m OF move between the two scenarios is represented by a 10% move including SEK 1bn of additional subordinated debt.

The sensitivities with regards to the local currencies are an important factor when deciding in which currencies the subordinated loan will be issued but it is also important to highlight that they are not the only factor that Tryg considers when choosing currency. There are also considerations in relation to price, execution risk, local appetite for maturities etc.

Own Funds composition and impact from 10% increase in currencies

	NOK/DKK	SEK/DKK
+ Equity	No sensitivity due to hedge strategy	
- Intangible assets	Negative	Negative
+ Expected future profits	Positive	Positive
+ Subordinated capital	Positive	Positive
= Own funds	**DKK 190m**	**DKK -30m**

Own Funds and SCR sensitivity from 10% increase in currencies

Q1 2016	**NOK/DKK**	**SEK/DKK**	**+ additional SEK 1bn SEK/DKK**
Sensitivity OF	DKK190m	DKK -30m	DKK 50m
Sensitivity SCR	DKK 130m	DKK 70m	DKK 70m