19 August 2008

Capitalisation

Highlights of the second quarter 2008

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

• Required capital	Increased	DKK 119m
o Asset risk (acquisition of own domicile in Ballerup)	DKK 141m	
o Liability risk	DKK -10m	
o Diversification	DKK -12m	
• Available capital	Increased	DKK 289m

The increase in available capital over required capital increases the buffer to "A" range by 2% point during the second quarter. By the half year the buffer is DKK 1,256m corresponding to 15%.

Further specification can be found in the table at the end of this document.

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 optimised 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 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

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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.

Standard & Poor's new 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-' corresponds to an equity plus hybrid capital less dividend of 52% - 56% of the net premiums.

Below a simplified version of the new 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 capital model presented below.

Target capital

The target capital for TrygVesta consists of 3 parts:

- Requirement for asset risk
- Requirement for liability risk
- Reduction for diversification

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. 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 reinsures' credit rating
- A general credit risk adjustment of 6,6% on assets not otherwise in the model

Especially the charges for equity risk have changed in the new model, but in general this risk charge is very dependent on the actual investment mix. In the simplified model, this is in average 6.5% of the total assets (D) with the current investment mix. This results in a charge of DKK 2,781m in 2006 and DKK 2,849m in 2007. Due to changes in the investment mix in the first half year of 2008 this has been reduced to an average of 5.2% of the total assets (D), corresponding to a charge of DKK 2,228m.

Liability risk

The required capital for liability risk is comprised of 5 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 20% of the net earned premium (A) with the current business mix. Annualised premiums are DKK 16,384m giving a capital charge of DKK 3,277m 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% 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 first half year of 2008 DKK 3,184m.

Reserves for annuities in Danish workers compensation insurance is separated out and treated as a life insurance risk in the new model. The capital required for life reserve risk (H) is equal to 0.9 % of annuity reserves (C). Both in 2007 and in the first half year of 2008 this was DKK 15m.

A capital charge for catastrophe risk was added for testing to the previous capital model in 2007 and this has become a permanent component of the new capital model. 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 DKK 115m. 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 to DKK 8,993m by half year 2008. Diversification effects results in a Diversified Target Capital (M) of DKK 8,802m in 2007 and DKK 8,220m by half year 2008. The diversification effect has increased from 8% in 2007 to 8.6% by half year 2008 and was mainly caused by change in asset mix and dividend pay-out..

Total available capital (TAC)

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

Hybrid / Subordinated Capital (P)	Up to 25% of hybrid and subordinate capital can be counted as available capital for “A” rated companies. The hybrid capital is DKK 1,101m by half year 2008.
Expected pay-out (Q)	Deduct current dividend and expected share buy-back from capital. The dividend for 2006 was DKK 33 per share equalling DKK 2,244m. The expected pay-out for 2007 was DKK 2,561m of which DKK 1,156m is cash dividend to be paid out following the general assembly. The remaining DKK 1,405m will be a buy-back of own shares during the following 12 months. By Q2 2008 pay-outs of DKK 1,156m and share buy backs of DKK 424m have been realized.
Equalization reserves (R)	Can be counted as available capital. Post-IFRS the equalisation and security reserves are no longer booked in the liabilities, but part of the equity position. However, as these funds are not taxed, a deferred tax liability is set up and this is added to capital. In 2007 this amount was DKK 1,021m and by half year 2008 this is DKK 948m.
Intangible assets (S)	Is deducted from the available capital with DKK 335m in 2007 and 440 m for the first half year of 2008. The increase in intangible assets comes from our internal IT project DOP, with the main objective to simplify and streamline sales process and customer dialog.

Standard & Poor’s applies a model-based discount approach, causing fluctuations relative to TrygVesta’s discounting model. TrygVesta has adapted the capital model in accordance with TrygVesta’s discounting method, which is regulated and approved by the Danish Financial Supervisory Authority. TrygVesta does not regulate the available capital due to discounting when deciding the capital adequacy and pay-out level.

The adjustments results in a total available capital ”TAC” (T) of DKK 9,203m in 2006 and in 2007 it increased to DKK 11,796m pre-pay-out and net of pay-out to DKK 9,235m. By half year 2008 the total available capital “TAC” (T) net of pay-out amounts to DKK 9,514m.

	Simplified Capital Model	2006	2007	2008 Q1	2008 Q2	Change 2008 Q2	Change 2008 Half year
A	Net premiums	15.293	15.890	16.135	16.384	249	494
B	Net reserves excl. Annuities	19.034	19.676	19.671	19.305	(366)	(371)
C	Annuities	1.558	1.698	1.645	1.615	(31)	(84)
D	Total assets	42.783	43.830	44.409	42.854	(1.555)	(976)
						-	-
						-	-
E	**Asset risk (6,5%/5,2% x D)**	**2.781**	**2.849**	**2.087**	**2.228**	**141**	**(621)**
F	Premium risk (20% x A)	3.059	3.178	3.227	3.277	50	99
G	Reserve risk (18% x (B))	3.146	3.236	3.245	3.184	(61)	(52)
H	Life reserve risk (0,9% x C)	14	15	15	15	(0)	(1)
I	Catastrophe	174	174	174	174	-	-
J	Bond insurance	100	115	115	115	-	-
	Liability risk	**6.492**	**6.718**	**6.775**	**6.765**	**(10)**	**46**
K	Target capital "A"	9.273	9.567	8.863	8.993	130	(574)
L	Diversification (8% x K) 8,6% Q2-2008	(742)	(765)	(762)	(774)	(12)	(8)
M	**Diversified target capital**	**8.531**	**8.802**	**8.101**	**8.220**	**119**	**(582)**
						-	-
O	Equity	9.951	10.010	10.057	8.847	(1.210)	(1.163)
P	Hybrid capital	1.099	1.101	1.101	1.102	1	1
Q	Expected pay-out	(2.244)	(2.561)	(2.561)	(981)	1.580	1.580
R	Deferred tax	945	1.021	969	948	(21)	(73)
S	Intangibles	(220)	(335)	(379)	(440)	(61)	(105)
	Discounting (only 2006)	(328)	-	-	-	-	
T	**Total Available Capital**	**9.203**	**9.235**	**9.187**	**9.476**	**289**	**240**
U	Buffer to "A" range	8 %	5 %	13 %	15 %	2 %	10 %
V	Buffer in mDKK	672	434	1.086	1.256	170	823
	Full S&P Internal Capital Model	498	441	1087	1.267	180	826

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.