Tryg

February 2012

Capitalisation

Results for the fourth quarter 2011

- Tryg's available capital at the end of the fourth quarter 2011 is DKK 10,618m, compared with a required capital of DKK 10,097m.
- The available capital is after suggested dividend of DKK 400m, leaving a 5% buffer to the `A-´ target required capital.

DKKm	Q3 2011	Q4 2011	Change quarter
Asset risk	2,661	2,782	121
Liability risk	8,204	8,274	71
Diversification	-942	-959	-17
Required capital	**9,923**	**10,097**	**174**
Available capital	**10,936**	**10,618**	**-318**
Buffer	**1,013**	**521**	**-492**
Buffer %	10%	5%	-5%

Asset risk

The average asset charge at the end of the fourth quarter 2011 is 5.2% of the total assets (D), corresponding to a charge of DKK 2,782m. This represents an increase of DKK 121m compared with the third quarter of 2011. The development is explained by increases in the market value of the equity portfolio and certain types of bonds. Compared to the fourth quarter of 2010, the asset risk decreased by DKK 111m.

Liability risk

The average risk charges for the two largest components of liability risk, premium risk and reserve risk are 19.7% and 18.0%, respectively. Liability risk increased by DKK 71m to 8,274m compared with the third quarter of 2011. Compared to the fourth quarter of 2010, the liability risk increased by DKK 395m.

Available capital

The available capital amounts to DKK 10,618m – a decrease of DKK 318m compared with the third quarter of 2011. This corresponds to a buffer of 5% to the `A-´ target required capital. The DKK 318m decrease in available capital is mainly explained by the fourth quarter's result of DKK 343m (positive effect), suggested dividends of DKK 400m (DKK 394m after adjustment for own shares) and the increase of the Norwegian pension fund liability by DKK 209m, due to the decreasing market interest rates. The available capital is also affected by a decrease of the deferred tax by DKK 162m, due to a change in legislation, which affected the Norwegian administration reserves. Compared to the fourth quarter of 2010, the available capital increased by DKK 253m.

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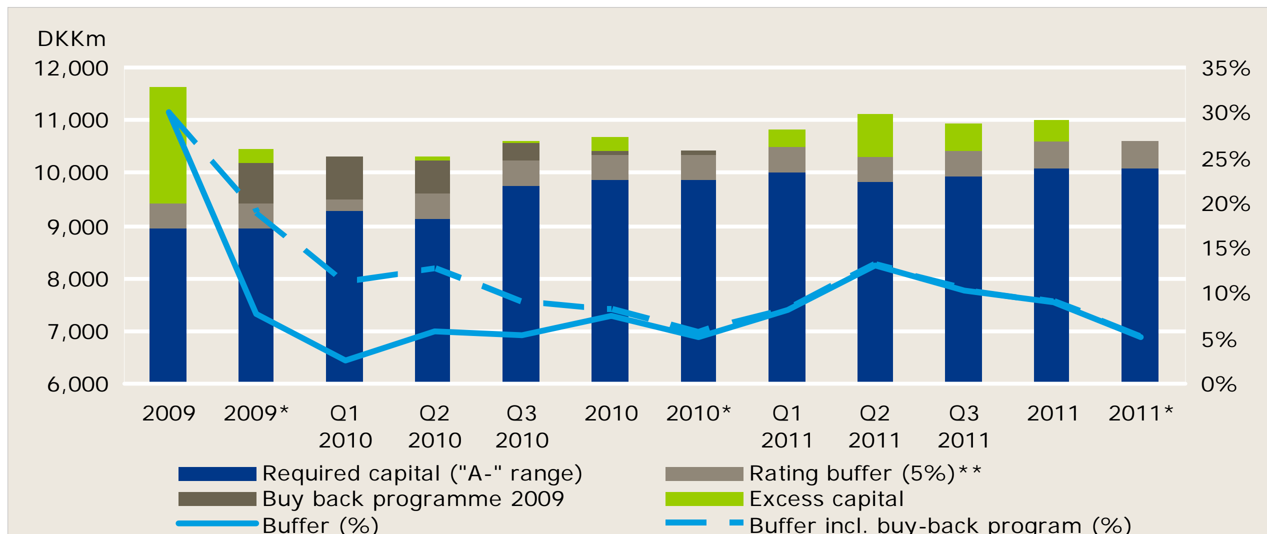
Development in available capital and required capital

The figure below shows the development in available capital split into required capital, the self imposed rating buffer and excess capital. In addition, the buffer to the `A-´ target required capital is depicted on the right hand axis.



* *After proposed dividends*

** *The rating buffer includes the 5% self imposed buffer to the `A-´ range*

Sensitivity analysis

The table below illustrates the impact of four different scenarios. For example a 1 percentage point increase in weight of equities in the total investment portfolio will have an effect on required capital of DKK 154m after diversification, corresponding to a 2 percentage point reduction in the buffer to the `A-´ target required capital.

DKKm	Scenario A: Equities	Scenario B*: Exchange rate	Scenario C: Growth	Scenario D: Reserves
Asset risk	162	115	139	0
Liability risk	0	328	414	204
Diversification	-7	-38	-48	-22
Required capital	**154**	**405**	**505**	**182**
Available capital	**0**	**94**	**531**	**0**
Buffer	**-154**	**-310**	**26**	**-182**
Buffer %	-2%	-3%	0%	-2%

Scenario A: 1%-point increase in weight of equities in total investment portfolio
Scenario B: 10% increase in the NOK/DKK exchange rate
Scenario C: 5% growth of business
Scenario D: 5% strengthening of reserves in all lines of business

Results from the simplified capital model

	DKKm	Risk charges Q4	FY 2010	Q3 2011	Q4 2011	Change Quarter	Change YTD
A	Net premiums (12 months)		18,550	19,561	19,641	80	1,091
B	Net reserves incl. annuities		23,449	24,367	25,066	699	1,617
C	Annuities		2,118	2,176	2,465	288	347
D	Total assets		50,591	52,146	53,221	1,075	2,630
E	**Asset risk**	5.2%	**2,893**	**2,661**	**2,782**	**121**	**(111)**
F	Premium risk	19.7%	3,660	3,848	3,865	17	205
G	Reserve risk	18.0%	3,877	4,027	4,075	47	198
H	Life reserve risk	0.9%	18	19	21	2	3
I	Catastrophe		174	174	174	-	-
J	Bond insurance		150	136	140	4	(10)
	Liability risk		**7,879**	**8,204**	**8,274**	**71**	**395**
K	Required capital, `A-´ range		10,772	10,865	11,056	191	284
L	Diversification	8.7%	(915)	(942)	(959)	(17)	(44)
M	**Diversified required capital**		**9,857**	**9,923**	**10,097**	**174**	**240**
N	Diversified required capital +5% buffer		10,350	10,419	10,602	183	252
O	Equity		8,458	8,786	9,007	221	548
P	Hybrid capital		1,591	1,590	1,589	(1)	(2)
Q	Expected pay-out*		(293)	-	(394)	(394)	(101)
R	Deferred tax		1,212	1,196	1,034	(162)	(177)
S	Discounting unearned premium reserves		204	159	114	(45)	(90)
T	Intangibles		(968)	(971)	(952)	19	16
U	Ancillary funds		161	176	221	45	60
V	**Total available capital**		**10,365**	**10,936**	**10,618**	**(318)**	**253**
X	**Buffer to `A´ range**		**5%**	**10%**	**5%**	**-5%**	**0%**
Y	Buffer in DKKm		508	1,013	521	(492)	13

** Adjusted for dividends on own shares*

The simplified model is disclosed in order to provide insight into the capital planning in Tryg. It is available on tryg.com/Investor, where it is updated quarterly on the same dates as the financial results. The model is a simplified version of the Standard & Poor's capital model. However, the results provide a fair guidance to the capitalisation of the Group. The results cannot be viewed as the opinion of any rating agency.

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Capital strategy

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

Tryg is rated once a year by Standard & Poor's and Moody's. 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 Tryg will be able to execute the business strategy and still service our debtors.

Tryg's dividend policy is to pay out a minimum of 50% of the result as a cash dividend and to return excess capital to the shareholders as share buy back, unless this will bring the self imposed buffer below 5%. 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 Tryg is examined. Other criteria may be risk profile, risk management, strategy, corporate management, current and potential profitability. Moody's does not apply 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. All other transfer effects are not accounted for in the model. In particular risk hedging is not accounted for hereunder the currency effect for premiums and claims in foreign subsidiaries.

In the capital model, Tryg'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.

A simplified version of the capital model is disclosed every quarter with explanation of the elements and differences 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 3.

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:

- Bonds, by credit rating and duration
- Equities, by land of origin
- Real estate portfolio
- Receivables and outstanding reserves by re-insurers' credit rating
- A general credit risk adjustment of 6.6% on assets

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

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

- Premium risk
- Reserve risk
- Workers' compensation insurance risk (annuities)
- Catastrophe risk
- Tryg Garanti

The premium risk (F) is calculated in the full model by multiplying different factors to the annualised net premium per line of business. These factors range from 13% to 30% depending on line of business. Liability risk is the type of risk that has the highest charge i.e. 30%. 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%, where accident & health has the highest risk charge.

Reserves for annuities in Danish workers' compensation insurance are separated out and treated as a life insurance risk in the model.

A capital charge for catastrophe risk was added to the capital model in 2007. The calculation includes the net exposure for the 1-in-250 year scenario for property risk. Tryg's reinsurance programme covers the 1-in-250 year event on an occurrence basis with a retention of DKK 100m.

The required capital for Tryg Garanti's insurance bond portfolio (J) 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.

Available capital
The available capital is based on the equity position adjusted for different accounting measures and hybrid equity. The equity (O) is adjusted for the following accounting issues:

- Hybrid / Subordinated Capital (P)
- Expected payout (Q)
- Equalisation reserves (R)
- Discounting of unearned premium reserves (S)
- Intangible assets (T)
- Ancillary funds (U)

Hybrid Capital can count for up to 25% of the available capital for `A´ rated companies. Equalisation reserves can also 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. In the Standard & Poor's total adjusted capital, these reserves are included in full (without deduction for deferred tax). Intangible assets and expected dividends are deducted from the available capital.