Tryg

February 2011

Capitalisation

Results for the fourth quarter 2010

- The available capital at the end of 2010 is DKK 10,365m, compared to a required capital of DKK 9,857m.
- The available capital is after suggested dividend of 256m, leaving a 5% buffer to the `A-´ target required capital.

DKKm	Q3 2010	Q4 2010	Change quarter
Asset risk	2,758	2,893	135
Liability risk	7,902	7,879	-23
Diversification	-913	-915	-2
Required capital	**9,747**	**9,857**	111
Available capital	**10,268**	**10,365**	97
Buffer	**522**	**508**	-13
Buffer %	5%	5%	0%

Asset risk

The average asset charge at the end of 2010 is 5.7% of the total assets (D), giving a charge of DKK 2,893m. This represents an increase of DKK 135m compared to Q3. The increase is mainly driven by the increase in market value of the equity portfolio. The increase is also partly explained by an increase in the market risk of the bond portfolio. Compared to Q4 2009 the asset risk has increased by DKK 218m.

Liability risk

The average risk charges for the two largest components of liability risk, premium risk and reserve risk, are 19.7% and 18.2%, respectively. Liability risk has decreased by DKK 23m to 7,879m compared to Q3, which is explained by a decrease in net reserves (incl. annuities) partly offset by an increase in premiums. Compared to Q4 2009 the liability risk has increased by DKK 496m.

Available capital

The available capital amounts to DKK 10,365m – an increase of DKK 97m compared to Q3. This corresponds to a buffer of 5.2% to the `A-´ target required capital. The DKK 97m increase in available capital is mainly explained by the fourth quarter's result of DKK 369m (positive effect) and suggested dividends of DKK 256m (DKK 242 after adjustment for own shares). Compared to Q4 2009, the available capital has increased by DKK 365m.

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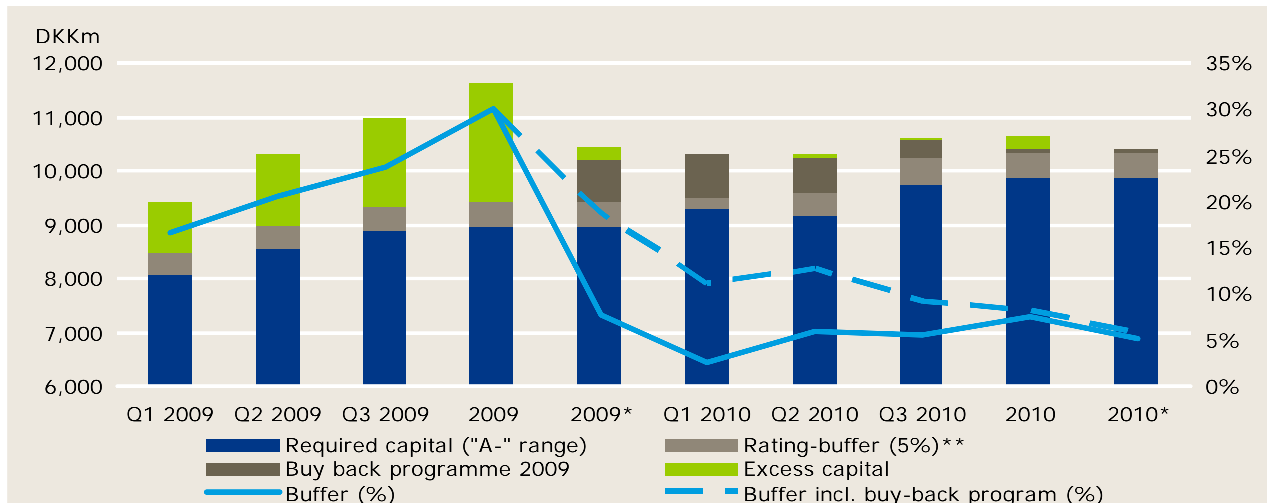
Development in available capital and required capital

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. E.g. a 1% 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%-point reduction to the `A-´ target required capital.

DKKm	Scenario A: Equities	Scenario B: Exchange rate	Scenario C: Growth	Scenario D: Reserves
Asset risk	161	135	145	0
Liability risk	0	309	394	194
Diversification	-7	-38	-46	-20
Required capital	**154**	**407**	**493**	**174**
Available capital	**0**	**127**	**518**	**0**
Buffer	**-154**	**-279**	**25**	**-174**
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 2009*	Q3 2010	Q4 2010	Change Quarter	Change YTD
A	Net premiums (12 months) **		17,601	18,231	18,550	319	949
B	Net reserves incl. annuities		21,305	23,650	23,449	(201)	2,144
C	Annuities		1,989	2,044	2,118	74	129
D	Total assets		44,743	48,889	50,591	1,702	5,848
E	**Asset risk**	5.7%	**2,675**	**2,758**	**2,893**	135	218
F	Premium risk	19.7%	3,483	3,588	3,660	72	177
G	Reserve risk	18.2%	3,574	3,972	3,877	(95)	303
H	Life reserve risk	0.8%	17	18	18	0	1
I	Catastrophe		174	174	174	-	-
J	Bond insurance		135	151	150	(1)	15
	Liability risk		**7,383**	**7,902**	**7,879**	(23)	496
K	Required capital, `A-´ range		10,057	10,660	10,772	112	715
L	Diversification	8.5%	(857)	(913)	(915)	(2)	(58)
M	**Diversified required capital**		**9,201**	**9,747**	**9,857**	111	656
N	Diversified required capital +5% buffer		9,661	10,234	10,350	116	689
O	Equity		9,666	8,411	8,458	47	(1,208)
P	Hybrid capital		1,586	1,590	1,591	1	5
Q	Expected pay-out		(1,790)	(350)	(293)	58	1,498
R	Deferred tax		1,125	1,236	1,212	(25)	87
S	Discounting unearned premium reserves		200	194	204	10	4
T	Intangibles		(934)	(967)	(968)	(1)	(34)
U	Ancillary funds		146	155	161	6	15
V	**Total available capital**		**10,000**	**10,268**	**10,365**	97	365
X	**Buffer to `A´ range**		**9%**	**5%**	**5%**	0%	-4%
Y	Buffer in DKKm		799	522	508	(13)	(291)

* *FY2009 figures updated with new risk charges and the effect of discounting of premium reserves for the sake of comparison*

***Includes a full year Moderna effect*

The simplified model is disclosed in order to provide insight into the capital planning in Tryg. It is available on www.tryg.com/Investor, where it is updated quarterly on the same dates as the financial results. The model is a simplified version of the internal S&P 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.

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

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. Equalization reserves can also be counted as available capital. According to IFRS the equalization 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. Intangible assets and expected dividends are deducted from the available capital.