TrygVesta

11 November 2008

Capitalisation

Highlights of the Q3-2008 update

Main changes during Q3-2008 in the simplified internal model are the following:

• Required capital	Decreased	DKK -27m
o Asset risk	DKK -114m	
o Liability risk	DKK 85m	
o Diversification	DKK 3m	
• Available capital	Increased	DKK 198m

The increase in available capital over required capital increases the buffer to “A” range by 3% point during third quarter. By Q3-2008 the buffer is DKK 1.481m corresponding to 18%.

Further specification can be found in the table on page 5.

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 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.

On this page, 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 the corresponding lines in the capital model presented below.

Target capital

The target capital for TrygVesta consists of three 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. The 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

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

The proportion of equities was 11.9% in 2007 and has been reduced to 3.9% by Q3-2008.

The total asset charge is in consequence reduced from 6.5% of the total assets (D) in 2007 to 5.0 % by Q3-2008, giving a charge of DKK 2,849m in 2007 and DKK 2,114m by Q3-2008. During third quarter the asset risk has been reduced by DKK 114m, which is driven by a reduction in the proportion of equities from 4.6% to 3.9%.

Liability risk

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

The premium risk (F) is calculated in the full model by multiplying different factors to the net written premium per line of business. These factors range from 13% to 30% depending on line of business. In the simplified model, this is on average 19.7% of the net earned premium (A) with the current business mix. The premium for Q3 - 2008 is DKK 16,573m giving a capital charge of DKK 3,265m compared with 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 Q3-2008 DKK 3,271m.

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 Q3-2008 this is DKK 15m.

A capital charge for catastrophe risk was added for testing to the capital model in 2007. 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 approximately DKK 124m. 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 with DKK 8,964m in Q3-2008. Diversification effects results in a Diversified Target Capital (M) of DKK 8,802m in 2007 and DKK 8,193m in Q3-2008.

The diversification effect is a relatively stable component on the liability side, but since the total capital requirement, driven by a reduction in the asset risk, has decreased, the relative diversification effect has increased from 8.0% to 8.6% by Q3-2008.

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 1,103m in Q3-2008.
Expected pay-out (Q)	Deduct current dividend and expected share buy-back from capital. The pay-out for 2007 was DKK 2,561m of which DKK 1,156m was paid out as cash dividend, and the remaining DKK 1,405m was to be used for buy-back of own shares. By Q3-2008 share buy backs of DKK 797m have been realised.
Equalization reserves (R)	Can be counted as available capital. Post-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 S&P available capital (TAC), these reserves are included in full (without deduction for deferred tax), whence the deferred tax liability is being added. In 2007 this amount was DKK 1,021m and in Q3-2008 this is DKK 1,010m.
Intangible assets (S)	Is deducted from the available capital with DKK 335m in 2007 and DKK 453m in Q3-2008. The increase in intangible assets comes from investments in our internal IT project DOP, with the main objective to simplify and streamline sales process and customer dialog.

Standard & Poor’s applies a simplistic approach to discounting of claims reserves, where TrygVesta uses current marked value discounting as regulated and approved by the Danish FSA. In the model below we have maintained TrygVesta’s internal discounting when deciding the capital adequacy and pay-out level.

The adjustments result in a total available capital ”TAC” (T) net of pay-out of DKK 9,235m by year end 2007. By Q3-2008 the total available capital “TAC” (T) amounts to DKK 9.674m.

Simplified Capital Model	2006	2007	2008 Q1	2008 Q2	2008 Q3	Change 2008 Q3	Change 2008 YTD
Net premiums	15.293	15.890	16.135	16.384	16.573	189	683
Net reserves excl. Annuities	19.034	19.676	19.671	19.305	19.873	568	197
Annuities	1.558	1.698	1.645	1.615	1.700	85	2
Total assets	42.783	43.830	44.409	42.854	42.078	(776)	(1.752)
Asset risk (5,0% x D)	**2.781**	**2.849**	**2.087**	**2.228**	**2.114**	**(114)**	**(735)**
Premium risk (19,7% x A)	3.059	3.178	3.227	3.277	3.265	(12)	87
Reserve risk (18% x (B))	3.146	3.236	3.245	3.184	3.271	87	35
Life reserve risk (0,9% x C)	14	15	15	15	15	1	0
Catastrophe	174	174	174	174	174	-	-
Bond insurance	100	115	115	115	124	9	9
Liability risk	**6.492**	**6.718**	**6.775**	**6.765**	**6.850**	**85**	**132**
Target capital "A"	9.273	9.567	8.863	8.993	8.964	(29)	(603)
Diversification (8% x K) 8,6%	(742)	(765)	(762)	(774)	(771)	3	(6)
Diversified target capital	**8.531**	**8.802**	**8.101**	**8.220**	**8.193**	**(27)**	**(609)**
Equity	9.951	10.010	10.057	8.847	8.622	(225)	(1.388)
Hybrid capital	1.099	1.101	1.101	1.102	1.103	1	2
Expected pay-out	(2.244)	(2.561)	(2.561)	(981)	(608)	373	1.953
Deferred tax	945	1.021	969	948	1.010	62	(11)
Intangibles	(220)	(335)	(379)	(440)	(453)	(13)	(118)
Discounting (only 2006)	(328)	-	-	-			-
Total Available Capital	**9.203**	**9.235**	**9.187**	**9.476**	**9.674**	**198**	**439**
Buffer to "A" range	8%	5%	13%	15%	18%	3%	13%
Buffer in mDKK	672	434	1.086	1.256	1.481	225	1.047
						-	-
Full S&P Internal Capital Model	498	441	1087	1.267	1.481	214	1.040

The simplified model underestimates the buffer by DKK 7m in 2007 relative to the full S&P model. By Q3-2008 this discrepancy is DKK 0m.

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.