

TrygVesta capital strategy

TrygVesta follows an active capital strategy and coordinates the capital planning with risk management by using the same internal ALM framework in the long term planning of the capital level. The capital structure is continuously optimised while maintaining the necessary security for TrygVesta's stakeholders and room for growth and development in the Group.

TrygVesta is rated once a year by Standard & Poor's and Moody's, and this rating is the basis of the capital target. The targeted rating is to sustain a rating of A minus and A3 respectively.

This target reflects a level of capital that satisfy the demand for security by corporate customers and broker sales channel as well as reducing the risk of fluctuations in the capital affecting TrygVesta's ability to continue the business and service our debtors. On the other hand, TrygVesta does not wish to accumulate capital that exceeds the need for a continuation of the business and realisation of the Group strategy.

The dividend policy reflects TrygVesta's long term profitability and cash generation under a sustainable capital level as well as a flexible and attractive way of distribution the dividends. TrygVesta pays out a minimum of 50% of the results as a cash dividend and will return any excess capital to the shareholders as share buy-backs.

The ratings are given as part of an interactive rating process. Standard & Poor's capital model is thereby only one of many criteria and parameters on which the Group is examined. Other criteria may be risk profile, strategy, management, current profitability and potential profitability. Moody's does not use an explicit capital model.

Standard & Poor's European Capital Model ("the capital model") is the framework for the capital planning and the model is also used for assessing the investment strategy, dividend levels, capital structure, etc. Though the result of the model cannot give the rating directly as the rating process values in several criteria, the result of the model can give guidance to the capital planning.

The capital model is a multi factor model with a required capital based on insurance risk and a capital adjusted for investment risk and accounting measures. By setting the capital above the required capital, the model results in the Capital Adequacy Ratio (CAR). Standard & Poor's gives some indicative ranges for the CAR and corresponding rating:

75% – 100%	BB
100% – 125%	BBB
125% – 150%	A
150% – 175%	AA

TrygVesta's targeted rating of "A minus" corresponds to a minimum CAR of 125%. To avoid adverse changes to the rating, the capital target is set at 130% and thereby building a smaller buffer between the A range and BBB range. The target CAR of 130% is translated into the Equity plus hybrid capital less dividend of 52% - 56% of the net premiums. This capital to premium target is dependent on the current business mix and investment profile.

On this page, a simplified version of the capital model is disclosed with an explanation of the elements and difference in results compared to the full internal capital model that is not disclosed to public. The alphabetic reference is to capital model below.

Required capital

The required capital for TrygVesta consists of 3 parts:

- Requirement for premium risk
- Requirement for reserve risk
- Requirement for insurance bond portfolio (Dansk Kaution)

The required capital for premium risk (D) is calculated in the full model by multiplying different factors to the net written premium per lines of business. These factors range from 12% to 27% depending on line of business. In the simplified model, this is in average 17% of the net earned premium (A) given the current business mix. The premium for the last 4 quarters is DKK 15,669m.

The required capital for reserve risk (E) is calculated in the full model by multiplying different factors to the net discounted reserve for losses per line of business. These factors range from 2% to 28% depending on the line of business. In the simplified model, this is in average 14% of the booked net reserve for losses (B) given the current reserve mix.

The required capital for insurance bond portfolio (F) is approximately DKK 100m. This is the result of taken the historically largest loss in one year related to the gross exposure and then multiplying this to the current exposure. Only proportional reinsurance is credited though Dansk Kaution only has a self retention of DKK 30m per risk.

The capital model requires multi-line non-life insurers to add a capital requirement related to catastrophe risk. The calculation includes the net exposure for the 1-in-250 year scenario for property risk. TrygVestas reinsurance program covers the 1-in-250 year event on an occurrence basis with a retainment of DKK 100m. The 1-in-250 year net exposure is DKK 241m pre-tax, the post-tax amount of DKK 174m has been added to the required capital (G).

In total, the required capital (H) was DKK 5,539m in 2006 compared to DKK 5,731m per Q3 2007.

Risk adjusted capital

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

Hybrid / Subordinated Capital (J)	Add to capital of up to 15% of the capital base for "A" rated companies. The hybrid capital is DKK 1,100m per Q3 2007.
Dividend (K)	Deduct current dividend from capital. The dividend for 2006 was DKK 33 per share equalling to DKK 2,244m and has been deducted from the equity in 2007 as the dividend was paid out to the shareholders.
Equalisation reserves (L)	Add to capital, however post IFRS equalisation and security reserves are no longer booked in the balance sheet. As these funds are not taxed a deferred tax liability is set up. In 2006, this amount was DKK 945m and in Q3 2007 DKK 982m.
Discounting (M)	In the capital model, the accounting effect of discounting is removed and substituted by a computed discount effect based on a standard method given by S&P. This method calculates the discounting based on average reserve duration and the 10 year government bond yield. For prudence measures only two thirds of the computed discounting effect is added. In 2005, the accounting and the reduced computed discount effect was roughly equal but in 2004 this showed a deduction of DKK 100m in the capital. For 2006, the method for computation of the discounting has been revised, which together with the development in interest rates gives a net negative result of DKK 328m. The development in interest rates has changed this number to DKK 551m as per Q3 2007.
Intangible assets (N)	Deduct from capital with DKK 135m in 2005 compared to DKK 112m in 2004. This amount was DKK 220m by 2006 and per Q3 2007 it is DKK 296m.

The adjustments results in a total available capital "TAC" (O) of DKK 8,682m in 2005 compared to DKK 7,572m in 2004. For 2006 this was DKK 9,203m and per Q3 2007 it increased to DKK 10,927m.

Furthermore, the TAC is adjusted for investment and asset risk by different factors that are multiplied to the assets:

- Credit rating of bond portfolio
- Duration of bond portfolio
- Land of origin of shares in portfolio
- Real estate portfolio
- Receivables and outstanding reserves by reinsurers' credit rating
- A general credit risk adjustment of 3% on assets not otherwise in the model

The result (P) is in average 5% of the total assets less ceded loss reserve (C) given the current investment profile.

By deducting the investment risk charge from TAC the risk adjusted capital ("RAC") is determined. RAC (Q) was DKK 6,765m in 2005 compared to DKK 5,835m in 2004. For 2006, this was DKK 7,133m and it increased to DKK 8,839m in Q3 2007.

	<u>Simplified Capital Model</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u> <u>Q1</u>	<u>2007</u> <u>H1</u>	<u>2007</u> <u>Q3</u>	<u>Change</u> <u>06 to 07</u>
A	Net earned premium	13,782	14,900	15,293	15,401	15,611	15,699	+ 376
B	Net loss reserve	16,834	18,777	19,034	19,160	19,307	19,950	+ 916
	Total assets							
C	(less ceded loss reserve)	34,744	38,327	41,407	43,097	41,916	41,757	+ 350
D	Premium risk (17% x A)	2,343	2,533	2,600	2,618	2,654	2,664	+64
E	Reserve risk (14% x B)	2,357	2,629	2,665	2,682	2,703	2,793	+128
F	Insurance bond portfolio	100	100	100	100	100	100	0
G	Catastrophe risk			174	174	174	174	0
H	Required capital	4,800	5,262	5,539	5,575	5,631	5,731	+192
I	Equity	6,802	8,215	9,951	8,192	9,135	9,692	(259)
J	Hybrid capital	700	1,098	1,099	1,098	1,098	1,100	+1
K	Dividend	(650)	(1,428)	(2,244)	-	-	-	+2.244
L	Deferred tax liability	935	934	945	945	1,000	982	37
M	Discounting	(103)	(2)	(328)	(371)	(624)	(551)	(223)

N	Intangible assets	(112)	(135)	(220)	(271)	(275)	(296)	(76)
O	Total Available Capital	7,572	8,682	9,203	9,592	10,335	10,927	+ 1,724
P	Asset risk (5% x C)	(1,737)	(1,916)	(2,070)	(2,155)	(2,096)	(2,088)	(18)
Q	Risk Adjusted Capital	5,835	6,765	7,133	7,437	8,239	8,839	+ 1,707
	Capital Adequacy Ratio							
Q/H	(CAR)	121.6%	128.6%	128.8%	133.4%	146.3%	154.2%	25.5%
	Full Internal Capital Model	121.3%	128.5%	128.0%	132.5 %	144.0 %	151.5%	23.5 %

The simplified model overestimates the CAR by 0.8% points in 2006 and by 2.7% points per Q3 2007.

For the first three quarters of 2007 DKK 551m has been deducted as related to discounting of the loss reserves. This is mainly due to relative developments in short term and long term interest rates and change in method. The deduction equals 10 %-points in CAR. TrygVesta matches the interest rate risk of the loss reserve with the investment assets on a duration based metric. The net interest rate risk that the profit and loss statement is exposed to is very low. If no regulation for discounting of loss reserves were made the CAR by Q3 2007 would be 161.0%.

The buffer to 125% in the full model is approximately DKK 1.524m including the DKK 551m deduction for discounting.

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.

Standard & Poor's has published a new capital model that will be implemented along the current model during 2007. This will result in changes to both the simplified and the full model during the year.