

## Capitalisation

### Highlights of the second quarter 2009

- Total adjusted capital after second quarter is DKK 10,306m compared to a required capital of DKK 8,546m.
- During the second quarter of 2009 the buffer to `A´ range has increased by 4% point (DKK 427m) to 21% (DKK 1,760m).
- The NOK/DKK exchange rate has decreased by 1.4%, which has contributed positively to the buffer by DKK 20m.
- Moderna has been included in the figures. The inclusion from second quarter has resulted, as earlier communicated, in a 3% point reduction of the buffer.

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

	Changes Q2	Exchange rate effect (NOK/DKK)	Moderna effect
Required capital	472	-33	306
- <i>Asset risk</i>	248	-9	58
- <i>Liability risk</i>	260	-27	278
- <i>Diversification</i>	-36	3	-30
Available capital (TAC)	899	-13	58
Effect on buffer capital	427	20	-248

Asset risk has increased by DKK 248m of which DKK 58m is explained by the Moderna effect and the rest is mainly explained by an increase in the risk on shares and bonds. Liability risk has increased by DKK 260m, which in full is explained by the acquisition of Moderna.

The DKK 899m increase in available capital is mainly made up of the second quarter's result of DKK 710m, smaller adjustments in shareholders' equity, and a Moderna effect of DKK 58m.

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 the 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, corporate management, current and potential profitability. Moody's does not use 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.

The adjusted 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, TrygVesta adds a rating buffer of 5%, and consequently the capital target is set at 5% above the minimum level for an 'A' level. With the current business mix and investment profile, the target capital of 'A-' plus 5% (N) is DKK 8,973m, which corresponds to a capital requirement of 51% of the net premiums.

In the following, a simplified version of the 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 in the table on page 5.

#### *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 reinsurers' credit rating
- A general credit risk adjustment of 6.6% on other 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.

The proportion of equities was 3.4% by the end of 2008 and has slightly increased to 3.5% by the second quarter of 2009.

The average asset charge is 4.9% of the total assets (D) by the second quarter of 2009 giving a charge of DKK 2,192m. This represents an increase of DKK 248m which is driven by a minor increase in the duration of bonds, and a Moderna effect of DKK 58m.

#### *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 annualised net 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 annualised net premium (A) with the current business mix. The annualised premium for the second quarter of 2009 is DKK 17,446m giving a capital charge of DKK 3,438m compared with DKK 3,250m by first quarter 2009. The increase is in full explained by the acquisition of Moderna.

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 18.5% of the booked net reserves (B) less the reserves annuities (C) with the current reserve mix. In the first quarter of 2009 this was DKK 3,343m, and by second quarter 2009 the amount has increased to DKK 3,413m. The increase is in full explained by the acquisition of Moderna.

Reserves for annuities in Danish workers' compensation insurance is separated out and treated as a life insurance risk in the model. The capital required for life reserve risk (H) is equal to 0.9% of annuity reserves (C). This has not changed during the second quarter of 2009 and is therefore still at DKK 15m.

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. TrygVesta's reinsurance programme 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 129m. 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 8,853m in the first quarter of 2009 compared with DKK 9,361m in the second quarter of 2009. Diversification effects result in a Diversified Target Capital (M) of DKK 8,074m in the first quarter of 2009 and DKK 8,546m in the second quarter of 2009.

The diversification effect is a relatively stable component and is 8.7% in second quarter of 2009.

*Total adjusted capital (TAC)*

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

Hybrid / Subordinated Capital (P)	Can count for up to 25% of the available capital for 'A' rated companies. The hybrid capital has increased to DKK 1,586m in the second quarter of 2009. This is due to the Moderna acquisition, which has contributed with DKK 484m in hybrid capital.
Payout (Q)	Deduct current dividend and expected share buy back from capital. The payout for the 2008 fiscal year amounts to a total of DKK 410m in cash dividends and has been paid out during the second quarter of 2009.
Equalisation reserves (R)	Can 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 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. In the first quarter of 2009 this amount was DKK 935m and in the second quarter of 2009 this is DKK 1,023m.
Intangible assets (S)	Is deducted from the available capital with DKK 463m by the first quarter of 2009 and DKK 925m by the second quarter of 2009. The increase in intangible assets comes mainly from the Moderna acquisition.

Standard & Poor's applies a simplistic approach to discounting of claims reserves, where TrygVesta uses current market 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 payout level.

The adjustments result in a total adjusted capital (T) net of payout of DKK 9,407m by the first quarter of 2009. By the second quarter of 2009 the total adjusted capital amounts to DKK 10,306m. This corresponds to a buffer of 21% to the 'A-' target, which is 16% point larger than what TrygVesta's capital strategy dictates. It should be noted that the Moderna acquisition has had a negative effect on the buffer corresponding to 3%.

Results from the simplified capital model

DKKm	Risk charges Q2	FY 2008	Q1 2009	Q2 2009	Change Quarter	Change YTD	
A	Net premiums	16,635	16,583	17,446	863	811	
B	Net reserves incl. annuities	18,855	19,685	20,179	494	1,325	
C	Annuities	1,822	1,712	1,692	(20)	(129)	
D	Total assets	38,453	44,192	45,082	890	6,630	
<b>E</b>	<b>Asset risk</b>	4.9%	<b>1,769</b>	<b>1,944</b>	<b>2,192</b>	248	423
F	Premium risk	19.7%	3,260	3,250	3,438	188	178
G	Reserve risk	18.5%	3,134	3,343	3,413	70	279
H	Life reserve risk	0.9%	16	15	15	-	(1)
I	Catastrophe		174	174	174	-	-
J	Bond insurance		126	126	129	3	3
	<b>Liability risk</b>		<b>6,711</b>	<b>6,909</b>	<b>7,169</b>	260	458
K	Target capital, `A` range		8,479	8,853	9,361	508	882
L	Diversification	8.7%	(755)	(779)	(815)	(36)	(60)
<b>M</b>	<b>Diversified target capital</b>		<b>7,725</b>	<b>8,074</b>	<b>8,546</b>	472	821
N	Diversified target capital +5% rating buffer		8,111	8,478	8,973	496	862
O	Equity		8,244	8,256	8,622	367	378
P	Hybrid capital		1,102	1,102	1,586	484	484
Q	Pay-out		(788)	(423)	-	423	788
R	Deferred tax		843	935	1,023	88	180
S	Intangibles		(450)	(463)	(925)	(462)	(475)
<b>T</b>	<b>Total available capital</b>		<b>8,951</b>	<b>9,407</b>	<b>10,306</b>	899	1,355
<b>U</b>	<b>Buffer to `A` range</b>		<b>16%</b>	<b>17%</b>	<b>21%</b>	4%	5%
V	Buffer in DKKm		1,227	1,333	1,760	427	533
X	Buffer to `A` range + 5% rating buffer		10%	11%	15%	4%	5%

The simplified model is disclosed to give insight to the capital planning in TrygVesta and will be updated on the [www.trygvesta.com/investor](http://www.trygvesta.com/investor) 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.