Tryg

November 2011

Capitalisation

Results for the third quarter 2011

- Tryg's available capital at the end of the third quarter 2011 is DKK 10,936m, compared with a required capital of DKK 9,923m.
- During the third quarter of 2011 the buffer to `A-´ range has decreased by 3 percentage points (DKK 276m) to 10% (DKK 1,013m).
- The buffer decreased as a consequence of falling market interest rates, which partly increased the Norwegian pension fund liability by approximately DKK 190m and partly decreased the discounting effect on premium reserves by approximately DKK 115m.

DKKm	Q2 2011	Q3 2011	Change quarter
Asset risk	2,745	2,661	-84
Liability risk	8,013	8,204	191
Diversification	-928	-942	-14
Required capital	**9,830**	**9,923**	93
Available capital	**11,119**	**10,936**	-183
Buffer	**1,289**	**1,013**	-276
Buffer %	13%	10%	-3%

Asset risk

The average asset charge at the end of the third quarter 2011 is 5.1% of the total assets (D), corresponding to a charge of DKK 2,661m. This represents a decrease of DKK 84m compared with the second quarter of 2011. The decrease is driven mainly by a reallocation of a part of the equity and bond portfolio into bonds of superior rating, which also resulted in a reduction of the credit risk of bonds.

Liability risk

The average risk charges for the two largest components of liability risk, premium risk and reserve risk are 19.7% and 18.1%, respectively. Liability risk has increased by DKK 191m to 8,204m compared with the second quarter of 2011.

Available capital

The available capital amounts to DKK 10,936m – a decrease of DKK 183m compared with the second quarter of 2011. This corresponds to a buffer of 10% to the `A-´ target required capital. The DKK 183m decrease in available capital is mainly explained by the decrease in market interest rates, which had a negative effect on the Norwegian pension fund liability and also on the discounting of unearned premium reserves.

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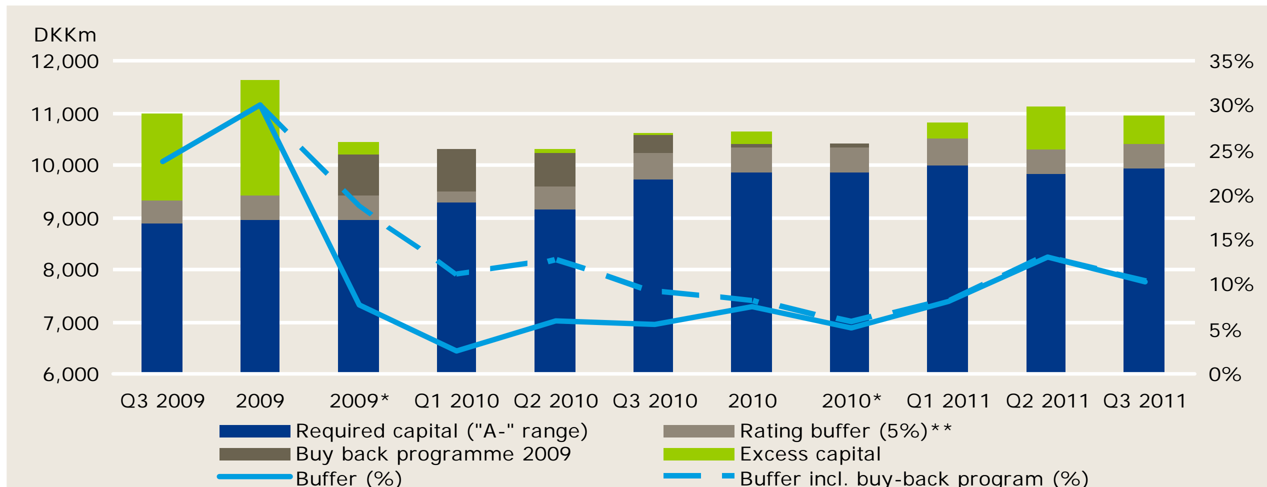
Development in available capital and required capital

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 159m 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	167	106	133	0
Liability risk	0	284	410	201
Diversification	-8	-34	-47	-21
Required capital	**159**	**357**	**496**	**180**
Available capital	**0**	**112**	**547**	**0**
Buffer	**-159**	**-245**	**51**	**-180**
Buffer %	-2%	-3%	0%	-2%

*NB: There is no immediate effect of Scenario B on P/L due to employed FX hedge

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

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Results from the simplified capital model

	DKKm	Risk charges Q3	FY 2010	Q2 2011	Q3 2011	Change Quarter	Change YTD
A	Net premiums (12 months)		18,550	19,250	19,561	311	1,011
B	Net reserves incl. annuities		23,449	23,677	24,367	690	918
C	Annuities		2,118	2,081	2,176	95	58
D	Total assets		50,591	50,741	52,146	1,405	1,555
E	**Asset risk**	5.1%	**2,893**	**2,745**	**2,661**	(84)	(232)
F	Premium risk	19.7%	3,660	3,792	3,848	56	188
G	Reserve risk	18.1%	3,877	3,898	4,027	129	150
H	Life reserve risk	0.9%	18	18	19	1	1
I	Catastrophe		174	174	174	-	-
J	Bond insurance		150	131	136	5	(14)
	Liability risk		**7,879**	**8,013**	**8,204**	191	325
K	Required capital, `A-´ range		10,772	10,758	10,865	107	93
L	Diversification	8.7%	(915)	(928)	(942)	(14)	(27)
M	**Diversified required capital**		**9,857**	**9,830**	**9,923**	93	66
N	Diversified required capital +5% buffer		10,350	10,322	10,419	97	69
O	Equity		8,458	8,801	8,786	(15)	327
P	Hybrid capital		1,591	1,593	1,590	(3)	(1)
Q	Expected pay-out		(293)	-	-	-	293
R	Deferred tax		1,212	1,217	1,196	(21)	(15)
S	Discounting unearned premium reserves		204	273	159	(114)	(45)
T	Intangibles		(968)	(938)	(971)	(33)	(3)
U	Ancillary funds		161	173	176	3	15
V	**Total available capital**		**10,365**	**11,119**	**10,936**	(183)	571
X	**Buffer to `A´ range**		**5%**	**13%**	**10%**	-3%	5%
Y	Buffer in DKKm		508	1,289	1,013	(276)	505

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 applies 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.