Tryg

November 2010

Capitalisation

Results of the third quarter 2010

- From the third quarter of 2010 new risk charges on bonds, equities and properties are introduced, which require DKK 349m in additional capital.
- Also, when calculating the total adjusted capital, discounting effect on unearned premium reserves is now included together with ancillary funds recognized by Standard & Poor's. This has a positive effect of DKK 346m. All changes in the simplified capital model are consistent with the full S&P model (version 3). The changes have a net effect of DKK -3m. As a result the total adjusted capital after third quarter is DKK 10,268m compared to a required capital of DKK 9,736m.
- During the third quarter the buffer to `A´ range has decreased by 1% point (DKK 43m) to 5% (DKK 532m). If the non-executed share buy back programme is included, the buffer to `A´range is 9%.

DKKm	Q2 2010	Q3 2010	Change quarter
Asset risk	2,663	2,748	85
Liability risk	7,712	7,902	190
Diversification	(892)	(913)	(22)
Required capital	**9,483**	**9,736**	253
Available capital	**10,058**	**10,268**	210
Buffer	**575**	**532**	(43)
Buffer %	6%	5%	-1%

**Q2 2010 figures updated with new risk charges and the effect of discounting of premium reserves for the sake of comparison.*

Asset risk

The average asset charge by the third quarter of 2010 is 5.6% of the total assets (D) giving a charge of DKK 2,748m. This represents an increase of DKK 85m compared to Q2 (when Q2 figures are updated with new risk charges). The increase is driven by an increase in the credit risk of the bond portfolio. Also, the proportion of equities has slightly increased to 4.4% in the current quarter, which is a result of a value increase.

Liability risk

Liability risk has increased by DKK 190m to 7,902m, which is explained by the increase in net reserves (excl. annuities) and a minor increase in premiums. The average risk charges for the two largest components within liability risk, premium risk and reserve risk are 19.7% and 18.4%, respectively.

Total adjusted capital (TAC)

The total adjusted capital amounts to DKK 10,268m – an increase of DKK 210m compared to last quarter. This corresponds to a buffer of 5% to the `A´ target. The DKK 210m increase in available capital is mainly made up of the third quarter's result of DKK 198m. If the non-executed share buy back programme is included, the buffer to `A´range is 9%.

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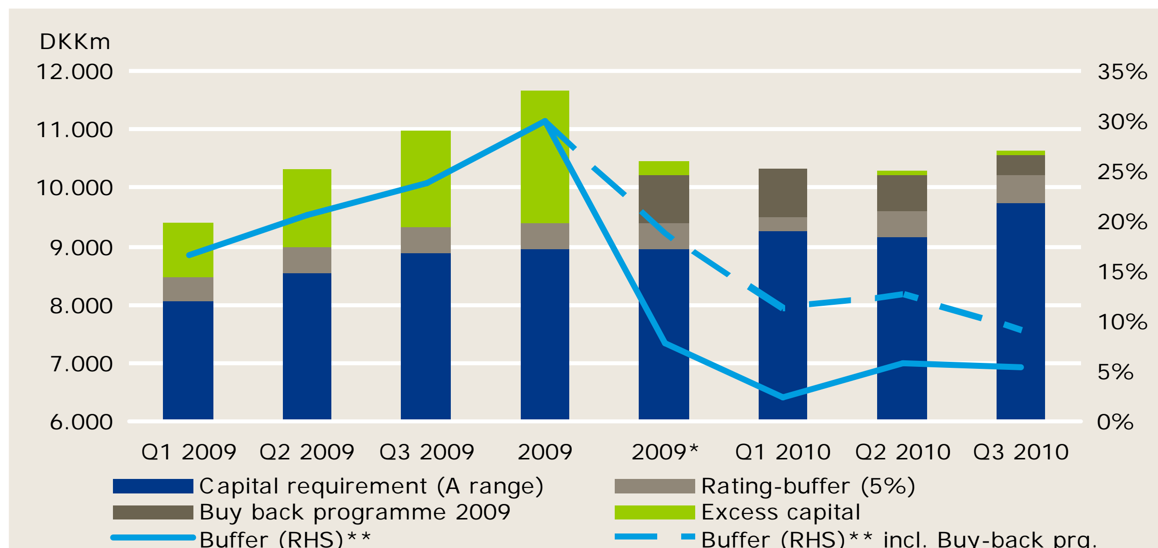
Development in total adjusted capital and target capital

The figure below shows the development in the capital requirement, the self imposed rating buffer, excess capital, and the buffer to the `A´range. The sum of the first three mentioned is the available capital.



* *After dividends*
** *The buffer includes the 5% self imposed buffer to the A-range*
*** *Q3 2010 figures include new risk charges and the effect of discounting of premium reserves. Q2 is not restated.*

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 157m after diversification, corresponding to a 2% reduction of the buffer to the A range.

DKKm	Scenario A: Equities	Scenario B: Exchange rate	Scenario C: Growth	Scenario D: Reserves
Asset risk	164	125	137	0
Liability risk	0	249	395	198
Diversification	(7)	(33)	(60)	(21)
Required capital	**157**	**341**	**473**	**177**
Available capital	**0**	**109**	**1**	**0**
Buffer	**(157)**	**(232)**	**(472)**	**(177)**
Buffer %	-2%	-2%	-5%	-2%

Scenario A: 1% increase in weight of equities in total investment portfolio
Scenario B: 10% increase in the NOK/DKK exchange rate
Scenario C: 5% growth of businesses
Scenario D: 5% strengthening of reserves in all line of businesses

Results from the simplified capital model

DKKm		Risk charges Q3	FY 2009	Q2 2010	Q3 2010	Change Quarter	Change YTD
A	Net premiums (12 months) *		17,601	18,101	18,231	130	630
B	Net reserves incl. annuities		21,305	22,843	23,650	807	2,345
C	Annuities		1,989	2,012	2,044	32	55
D	Total assets		44,743	48,530	48,889	359	4,145
E	**Asset risk**	5.6%	**2,423**	**2,663**	**2,748**	85	324
F	Premium risk	19.7%	3,483	3,564	3,588	24	105
G	Reserve risk	18.4%	3,574	3,822	3,972	150	398
H	Life reserve risk	0.9%	17	17	18	0	1
I	Catastrophe		174	174	174	-	-
J	Bond insurance		135	135	151	17	16
	Liability risk		**7,383**	**7,712**	**7,902**	190	519
K	Required capital, `A´ range		9,806	10,375	10,650	275	843
L	Diversification	8.6%	(848)	(892)	(913)	(22)	(66)
M	**Diversified required capital**		**8,959**	**9,483**	**9,736**	253	778
N	Diversified required capital +5% buffer		9,406	9,957	10,223	266	817
O	Equity		9,666	8,443	8,411	(32)	(1,255)
P	Hybrid capital		1,586	1,588	1,590	1	4
Q	Expected pay-out		(1,790)	(621)	(350)	271	1,440
R	Deferred tax		1,125	1,225	1,236	11	111
S	Discounting unearned premium reserves		-	230	194	(36)	194
T	Intangibles		(934)	(958)	(967)	(9)	(33)
U	Ancillary funds			150	155	4	155
V	**Total available capital**		**9,653**	**10,058**	**10,268**	210	615
X	**Buffer to `A´ range**		**8%**	**6%**	**5%**	-1%	-3%
Y	Buffer in DKKm		694	575	532	(43)	(163)

* *Includes a full year Moderna effect*
** *Q2 2010 figures updated with new risk charges and the effect of discounting of premium reserves for the sake of comparison*

The simplified model is disclosed to give insight into the capital planning in Tryg and will be updated on the www.tryg.com/Investor every quarter on the same dates as the financial results. The model is a simplified version of the internal Standard & Poor's capital model, however, the results give guidance to the capitalisation of the Group. The results can not be viewed as the opinion of either rating agencies.

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 ALM 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 results as a cash dividend and to return 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 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.

Total adjusted capital (TAC)
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.