TrygVesta capitalisation

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 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, and this rating is the basis for 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 the 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. TrygVesta pays out a minimum of 50% of the results and will return any excess capital to the shareholders.

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 be 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 over 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

TrygVesta
Klausdalsbrovej 601 DK-2750 Ballerup
trygvesta@trygvesta.com www.trygvesta.com
TrygVesta A/S CVR nr. 26460212 Ballerup

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 explanation of the elements and difference in results to the full, internal capital model that is not disclosed in 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 first three quarters of 2006 is calculated as the last 4 quarters premium. This is done by deducting the premium of Q3 2005 (DKK 11,086m) from the full year premium of 2005 (DKK 14,900m) and adding the premium of Q3 2006 (DKK 11,320m). The result is a rolling 4 quarter premium of DKK 15,134m.

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.

As a new addition to the capital model S&P now requires multi-line non-life insurers to add a capital requirement related to catastrophe risk in a similar way that is has been in place for reinsurers. 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 that have been added to the required capital (G).

In total the required capital (G) was DKK 5,262m in 2005 compared to DKK 4,800m in 2004. In Q3 2006 the required capital increased slightly to DKK 5,574m.

Risk adjusted capital

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

Hybrid / Subordinated Capital (I)	Add to capital of up to 15% of the capital base for “A” rated companies. In Q3 2006 this is DKK 1,099m compared to DKK 1,098m in 2005 and DKK 700m in 2004 due to the refinancing of the internal hybrid capital.
Dividend (J)	Deduct current dividend from capital. For 2005 this was DKK 1,428m compared to DKK 650m in 2004. The dividend for 2005 was approved on the general assembly in March 2006 and thereby deducted from the equity. No further regulations are done in Q3 2006.
Equalisation reserves (K)	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 2005 DKK 934m was added to capital, which largely the same amount as in 2004. In Q3 2006 this amount decreased to DKK 902m.
Discounting (L)	In the capital model the booked effect of discounting is removed and substituted by a computed discount effect based on reserve duration and a 10 year government bond yield. The model then deducts one third of the computed discount effect. In 2005 the booked and the computed discount effect was roughly equal but in 2004 this showed a deduction of DKK 100m in the capital. For Q3 2006 the model for computation of the discounting has been revised, which gives a net negative result of DKK 297m.
Intangible assets (M)	Deduct from capital with DKK 135m in 2005 compared to DKK 112m in 2004. This amount is DKK 189m by Q3 2006.

The adjustments results in a total available capital ”TAC” (N) of DKK 8,682m in 2005 compared to DKK 7,572m in 2004. For Q3 2006 this is 10,390, an increase of DKK 1,708m since year end 2005.

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 reinsures' credit rating
- A general credit risk adjustment of 3% on assets not otherwise in the model

The result (O) 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 (P) was DKK 6,765m in 2005 compared to DKK 5,835m in 2004. For Q3 2006 this is DKK 8,410m.

	Simplified Capital Model	2004	2005	2006 Q1	2006 H1	2006 Q3	Change
A	Net earned premium	13,782	14,900	15,071	15,148	15,134	+ 234
B	Net loss reserve	16,834	18,777	19,059	18,768	19,005	228
C	Total assets (less ceded loss reserve)	34,744	38,327	40,538	40,563	39,607	+ 1,280
D	Premium risk (17% x A)	2,343	2,533	2,562	2,575	2,573	+ 40
E	Reserve risk (14% x B)	2,357	2,629	2,668	2,628	2,661	+32
F	Insurance bond portfolio	100	100	100	100	100	0
	Catastrophe risk					241	**+241**
G	**Required capital**	**4,800**	**5,262**	**5,330**	**5,303**	**5.574**	**+312**
H	Equity	6,802	8,215	7,264	7,960	8.875	+660
I	Hybrid capital	700	1,098	1,099	1,099	1,099	+ 1
J	Dividend	(650)	(1,428)				+ 1,428
K	Deferred tax liability	935	934	939	956	902	(67)
L	Discounting	(103)	(2)	133	(243)	(298)	(296)
M	Intangible assets	(112)	(135)	(163)	(164)	(189)	(54)
N	**Total Available Capital**	**7,572**	**8,682**	**9,272**	**9,608**	**10,390**	**+ 1673**
O	Asset risk (5% x C)	(1,737)	(1,916)	(2,027)	(2,028)	(1,980)	(64)
P	**Risk Adjusted Capital**	**5,835**	**6,765**	**7,245**	**7,580**	**8,410**	**+ 1610**
P/G	**Capital Adequacy Ratio (CAR)**	**121.6%**	**128.6%**	**135.9%**	**142.9%**	**150.9%**	**+ 22.3%**
	Full Internal Capital Model	121.3%	128.5%	135.1%	140.2 %	150.7 %	+ 22.2%

The simplified model overestimates the CAR by 0.3% points in 2004 and 0.1% points in 2005. For the first three quarters of 2006 the difference is 0.1% points.

For Q3 2006 DKK 297m 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. The deduction equals 5.3 %-points in CAR. TrygVesta is matching the interest rate risk of the loss reserve with the interest rate risk on the asset on a duration based metric. If no regulation for discounting of loss reserves were made the CAR by Q3 2006 would be 156.2%.

Similarly, the impact from catastrophe capital requirement, mentioned above, equals 4,3% in CAR.

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.

At the moment Standard & Poor's is working on a new capital model that will be implemented along the current model during 2006. This will result in changes to both the simplified and the full model during the year.