Financial Institutions

CREDIT OPINION

12 December 2024

Update

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RATINGS

Tryg Forsikring A/S

Domicile	BALLERUP, Denmark
Long Term Rating	A1
Type	Insurance Financial Strength
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Tryg Forsikring A/S

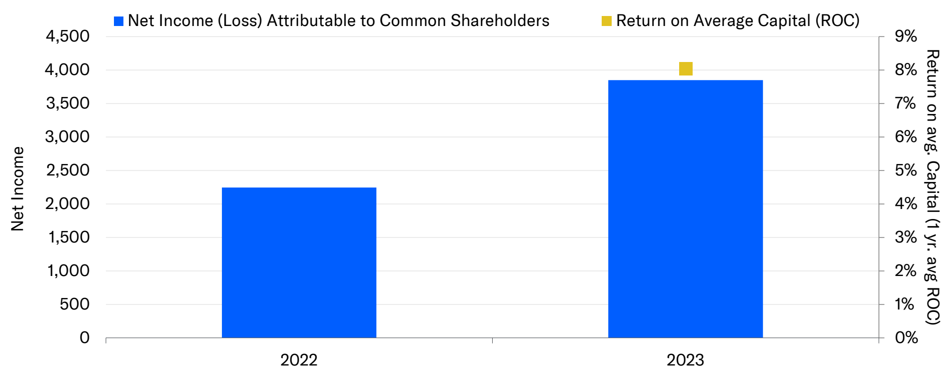
Update to Credit Analysis

Summary

The A1 insurance financial strength rating (IFSR) on Tryg Forsikring A/S, the main operating company of the Tryg Group ("Tryg" or "Group"), reflects Tryg's strong market position in Property & Casualty (P&C) insurance in Denmark, Norway and Sweden, its strong profitability, conservative investment policy, low sensitivity of its Solvency II ratio to negative market movements, and relatively low financial leverage. These strengths are partially offset by Tryg's lack of brand reach outside the Nordic region relative to other European P&C insurers. Furthermore, the capitalization of Tryg, although robust, is constrained by its ambitious shareholder return targets.

Exhibit 1

Net income and return on capital (1 yr avg.)



Information based on IFRS 17 financial statements as of the fiscal year 2022, 2023.
Source: Company filings and Moody's Ratings

Credit strengths

» Good geographic diversification within Nordic countries with top tier P&C market positions in Denmark, Norway and Sweden

» Relatively low risk of the book of business with orientation towards short-medium tail/non-industrial lines

» Strong profitability both from a return on capital and underwriting perspective

» Relatively conservative investment portfolio and low sensitivity of its capital adequacy to negative market movements

» Relatively low financial leverage

Credit challenges

» Tryg's capitalisation, although supported by strong capital generation, is constrained by ambitious shareholder return targets

» Very high earnings ambitions and de-emphasizing of commercial business could result in narrower business profile

» Reserving risk with regard to longer tailed classes of business

Rating outlook

The rating outlook is stable reflecting our expectation that Tryg's strong underlying profitability, both from a return on capital and underwriting perspective, as well as its capitalization on the current levels will be sustained.

Factors that could lead to an upgrade

Positive rating pressure could arise from a combination of:

» a successful integration of former Codan's Swedish and Norwegian operations and a significant strengthening of Tryg's market position in the Nordics;

» Solvency II ratio managed to levels close to 200% on a sustainable basis;

» maintenance of exceptionally strong operating performance, reflected in a return on capital close to 12% and low volatility earnings across the cycle; and

» an adjusted financial leverage sustainably below 15%

Factors that could lead to a downgrade

Negative rating pressure could arise from:

» failure to integrate former Codan's operations or erosion of market position in the Nordics; or

» meaningfully reduced capital adequacy, as indicated by Solvency II coverage sustainably below 150%; or

» meaningful deterioration in profitability with the combined ratio above 95% and return on capital below 10%; or

» an adjusted financial leverage consistently above 25%

Key indicators

Exhibit 2
Tryg Forsikring A/S

Tryg Forsikring A/S [1] [2]	2023	2022
As Reported (Danish Krone Millions)		
Total Assets	112,940	113,387
Total Shareholders' Equity	40,351	42,504
Net Income (Loss) Attributable to Common Shareholders	3,851	2,247
Moody's Adjusted Ratios		
High Risk Assets % Shareholders' Equity	27.1%	28.5%
Reinsurance Recoverables (or Reinsurance Contract Assets) /Shareholders’ Equity	7.2%	6.4%
Goodwill & Intangibles % Shareholders' Equity	75.8%	74.2%
Gross Underwriting Leverage	2.0x	1.9x
Return on Average Capital (ROC)	8.0%	NA
Sharpe Ratio of ROC (5 yr.)	NA	NA
Adv. (Fav.) Loss Dev. % Beg. Reserves	-2.7%	-2.9%
Financial Leverage	9.6%	9.9%
Total Leverage	15.8%	13.1%
Earnings Coverage	21.3x	16.9x

[1] Information based on IFRS17 financial statements as of the fiscal year ended December 31; previous years' financial statements were prepared under legacy IFRS 4, which are not comparable to IFRS17 and are not included in the exhibit. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Source: Company Filings and Moody's Ratings

Profile

Tryg is the second largest Nordic P&C insurers, operating in three main markets: Denmark, Norway and Sweden and across three key business segments: Private, Commercial, and Corporate.

TryghedsGruppen, a mutual foundation based in Denmark, is the majority shareholder of Tryg, owning around 48% of its total shares, while the remaining 52% freely traded. TryghedsGruppen's stake has temporarily reduced from a controlling stake following the acquisition of Codan, with the aim to increase it to above 50% in the medium term, according to Tryg.

On 1st April 2022, Tryg acquired full ownership of Codan's Swedish and Norwegian business, which it consolidates since Q2 2022.

Effective from 1 October 2023, Tryg has merged its corporate and commercial businesses into a single commercial unit as part of broader strategic and structural changes designed to enhance the company's competitiveness and resilience in the short and long term.

Detailed credit considerations

Insurance financial strength rating

Market Position, Brand and Distribution: Strong market positions and brands in Denmark, Norway and Sweden

Tryg is the second largest Nordic P&C insurer, holding a leading position in Denmark, along with very strong positions in Norway and Sweden. The acquisition of Codan's Swedish and Norwegian business has strengthened Tryg's market presence in the Nordic

P&C sector. In Sweden particularly, the integration of Trygg-Hansa (former Codan's Swedish brand) has significantly enhanced Tryg's franchise, positioning it as the third largest P&C insurer in the Swedish market and substantially improving its market share.

Moody's considers the Nordic P&C market as one of the most attractive and profitable P&C markets globally, as reflected by high underwriting margins. At the same time, the strong customer loyalty and the high degree of cost efficiency achieved by local market players implies very significant barriers to entry.

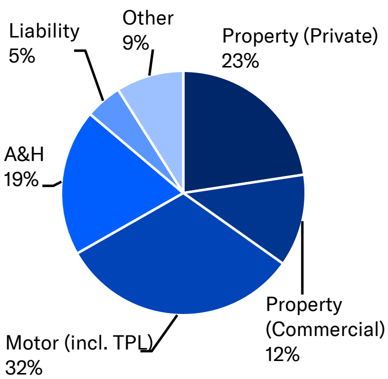
Tryg's distribution capabilities are strong, with the majority of its business being sold directly to customers in both the retail and commercial sectors. This allows for strong control over the distribution channel. These capabilities are enhanced by a relatively high level of digitalization, which also contributes to Tryg's strong record of maintaining a low expense ratio.

Moody's considers the Tryg brand to be strong, helping the Group to maintain very strong retention of existing customers and in gaining additional customers. In Sweden, the Group focuses on the well-established Trygg-Hansa brand.

Product Risk and Diversification: Well diversified business and low product risk, although concentrated in the Nordics
Product diversification is very good, with four distinctive lines of business mainly comprising property, motor, accident and health and liability (Exhibit 2). Tryg's product risk is relatively low, with over two-thirds of its products being mainly retail-oriented (Exhibit 3), which we consider short-tailed risk. As part of its strategic initiatives, Tryg has reduced its exposure to large corporate clients in recent years and shifted its focus towards smaller local customers, thereby reducing its overall risk exposure. The presence of longer-tail lines, including Danish workers' compensation, child and liability insurance, exposes Tryg to some reserving risk.

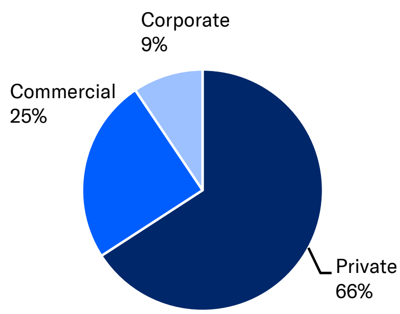
Although Tryg remains concentrated in the Nordic markets, the acquisition of the Codan's Norwegian and Swedish operations has improved diversification and contributed to a more balanced business profile within the Nordic market (Exhibit 4).

Exhibit 3
Lines of business
Insurance revenue - FY 2023



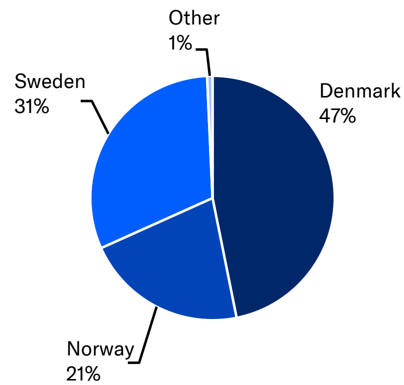
Source: Company filings and Moody's Ratings

Exhibit 4
Business diversification
Insurance revenue - FY 2023



Source: Company filings and Moody's Ratings

Exhibit 5
Geographic diversification
Insurance revenue - FY 2023

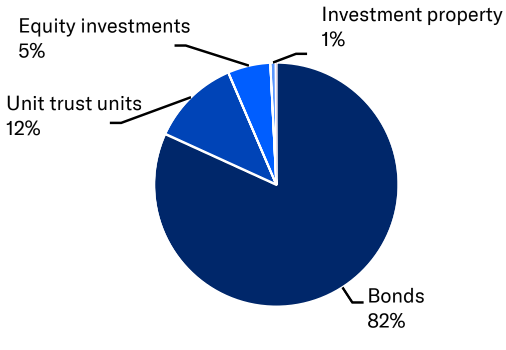


Source: Company filings and Moody's Ratings

Asset Quality: Conservative investment portfolio compared to direct Nordic peers, but high amount of goodwill and intangibles on the balance sheet
We consider Tryg's overall asset quality to be strong and stable driven by a conservative investment strategy, with invested assets predominantly allocated to fixed income securities (Exhibit 6). The quality of the fixed income portfolio also remains high with the vast majority invested in Aaa-rated bonds (Exhibit 7). Accordingly, Tryg's allocation to equities, investment property, and below investment grade/unrated debt securities is relatively low, resulting in a low high-risk assets ratio as a % of shareholders' equity.

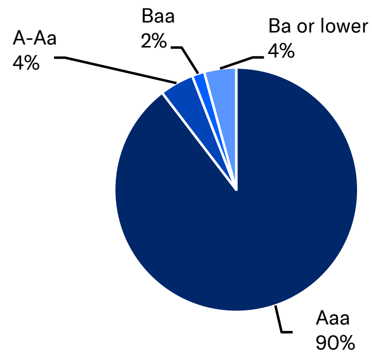
Tryg manages its investment portfolio separately via a free portfolio (around one third of invested assets) and a matching portfolio, with the latter backing technical reserves. The matching portfolio is primarily invested in covered bonds, which are almost entirely Aaa-rated and have a meaningful Nordic issuer concentration.

Exhibit 6
Investment portfolio
YE 2023



Source: Company filings and Moody's Ratings

Exhibit 7
Fixed income allocation
YE 2023



Source: Company filings and Moody's Ratings

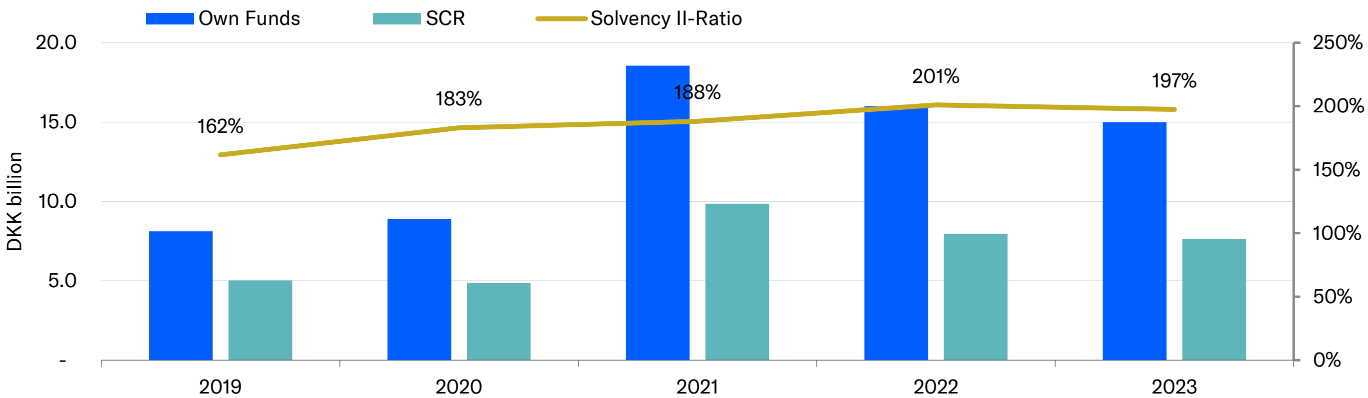
The acquisition of former Codan operations have negatively impacted Tryg's asset quality, mainly due to the sizable goodwill and capitalised customer relationships. This resulted in a relatively high goodwill and intangibles ratio (goodwill and intangibles as a percentage of shareholders' equity). However, the customer relationships will be amortized over the next 5-8 years, thus reducing the weight of intangible assets over time, a positive.

Capital Adequacy: Strong and resilient capitalization, although constrained by sharp focus on shareholder returns
We view Tryg's capital adequacy as strong benefitting from strong Solvency II capital coverage, outstanding internal capital generation ability and relatively low sensitivity to financial market risks. At year-end (YE) 2023, Tryg's Solvency II ratio was strong at 197%, down slightly from 201% at YE 2022 (Exhibit 8). Over 2024, the Solvency II ratio has remained broadly stable.

In line with its conservative investment portfolio, Tryg has relatively low sensitivity to market movements with the largest being against widening of credit spreads on covered bonds, followed by decline in property valuations. Sensitivities towards falling equity market and interest rate movements remain low.

Tryg has a long-standing track record of maintaining high shareholder payouts via regular dividends, extraordinary dividends and share buybacks. Over the next strategic cycle 2025-27, Tryg aims to distribute a total of around DKK 17-18 billion to shareholders through an ordinary dividend range of DKK 15-16 billion, alongside with the announced DKK 2.0 billion share buyback programme. Despite ambitious shareholder return targets, we expect Tryg to gradually reduce its Solvency II ratio, but to remain strong in the range of 170-190%.

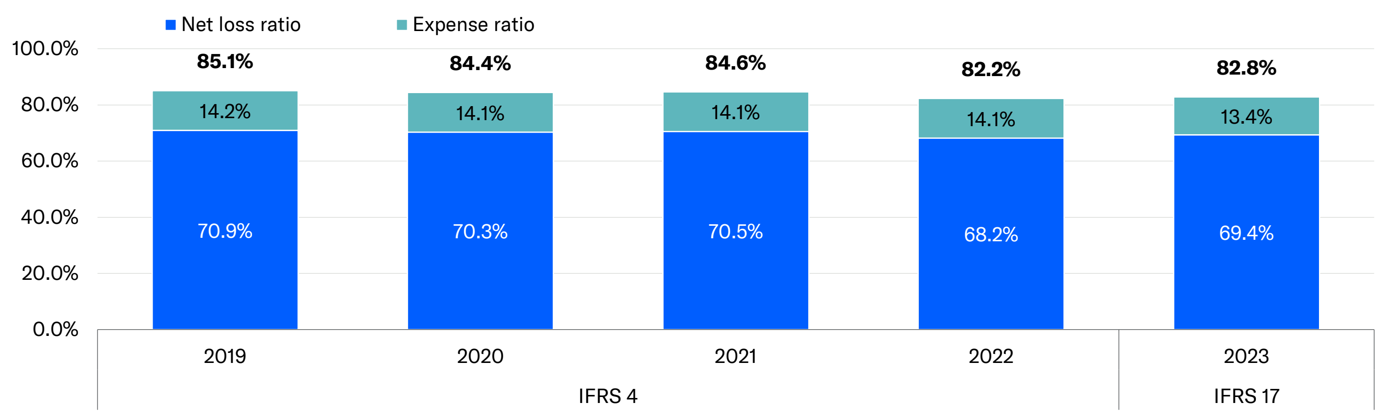
Exhibit 8
Solvency II ratio development



Source: Company filings and Moody's Ratings

Profitability: Sustained very strong underwriting profitability
Tryg's level of profitability is outstanding compared to other European peers, supported by its strong and stable underwriting results as reflected by consistently reported combined ratios in the low 80s (Exhibit 9). Despite the challenges of higher claims inflation, rising claims frequencies, and above-average number of weather-related claims in 2023, Tryg maintained very strong combined ratio of 82.8% at YE2023, thanks to robust price increases and very high retention levels.

Exhibit 9
Combined ratio development



Source: Company filings and Moody's Ratings

We expect earnings to remain strong, further bolstered by enhanced diversification following the acquisition of Codan's operations. We expect Tryg will continue to implement adequate price increases, while its strong procurement agreements will also support cost-effective claims management. Tight cost control and synergies resulting from the acquisition will continue to support low expense ratio. As part of its new strategic targets, the company aims an insurance service result of between DKK 8.0-8.4 billion in 2027, supported by a combined ratio of around 81%.

Tryg has set ambitious profitability targets related to the acquisition of Codan, aiming to realise annual synergies totaling DKK900 million by end of 2024. With a proven track record of successfully achieving synergies, Tryg had realized over 95% of its synergy target related to the acquisitions of Codan Norway and Trygg-Hansa by the end of Q3 2024.

Reserve Adequacy: Consistent reserve releases over the last few years, slightly declining over time
Tryg's reserve adequacy is strong as reflected by consistent reserve releases, benefiting from a conservative reserving policy. However, on the advice of the Danish authorities, Tryg has been lowering its previously high reserve margin in recent years to the extent that

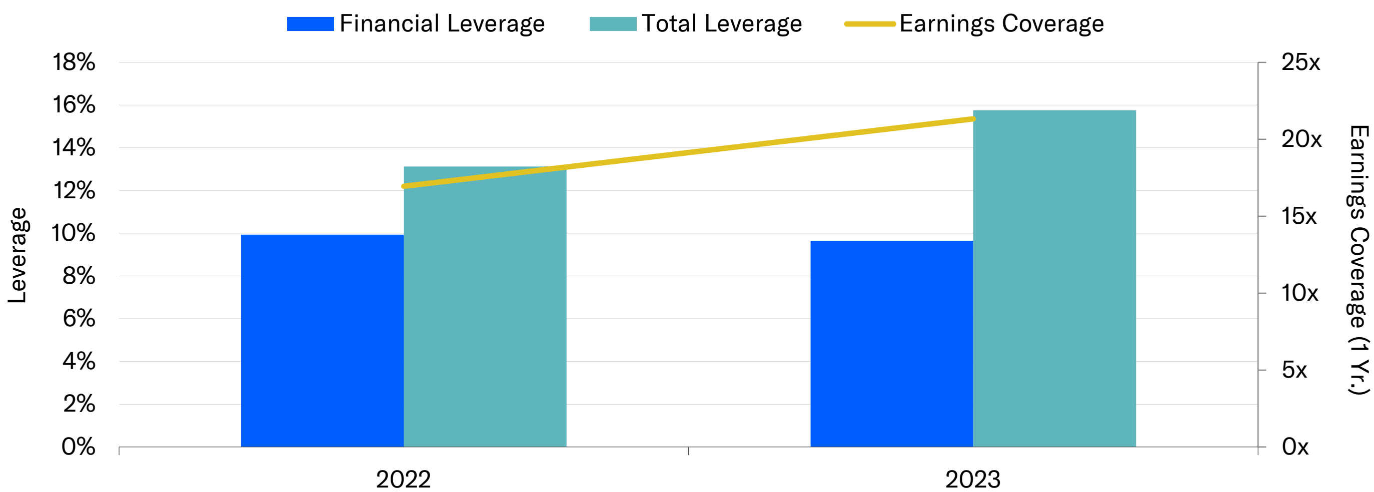
although it expects its combined ratio to continue to benefit from prior year releases, the level of reserve releases will be lower going forward. The Group expects its run-off result to be between 3% and 5% in 2024.

Tryg's reserving risk is largely low given the group's focus on retail business. However, the presence of longer-tail lines (including workers compensation, liability insurance and child insurance in Sweden) in Tryg's book of business, adds to reserving risk and also expose the company to inflation and interest rate risk. Moody's expects elevated claims inflation will continue to add pressure to reserving levels, although this is mitigated by existing strong reserve buffers and Tryg's prudent reserving approach.

Financial flexibility: Financial leverage expected to remain relatively low
We consider Tryg to have good financial flexibility based on relatively low financial leverage and frequent access to capital markets. The leverage metric has decreased over recent years following the acquisition, reflecting an increase in capital resulting from the right issue. Tryg's leverage profile also benefits from consistent and very good earnings coverage.

Tryg has currently no plan to issue further debt hence we expect leverage will remain at the current level in the short to medium term, also given relatively limited capacity to issue Tier 1 and Tier 2 debt under Solvency II framework.

Exhibit 10
Financial flexibility

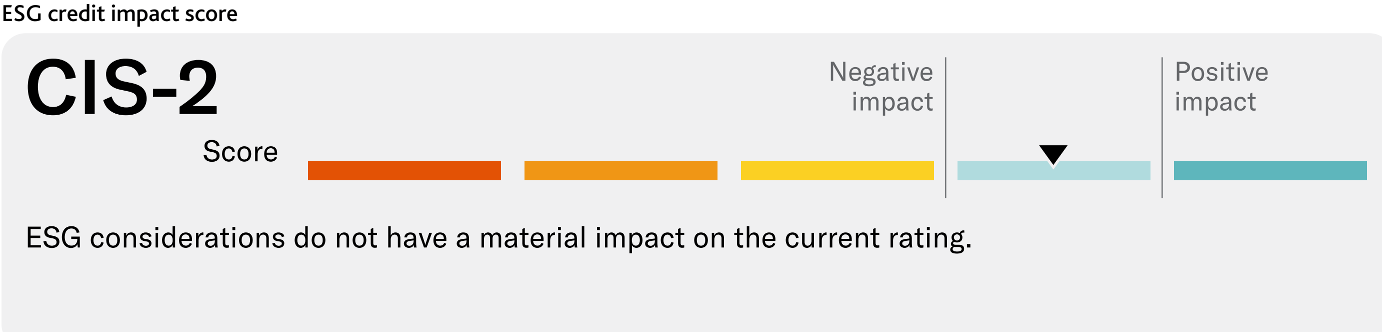


Information based on IFRS 17 financial statements as of the fiscal year 2022, 2023.
Source: Company filings and Moody's Ratings

ESG considerations

Tryg Forsikring A/S' ESG credit impact score is CIS-2

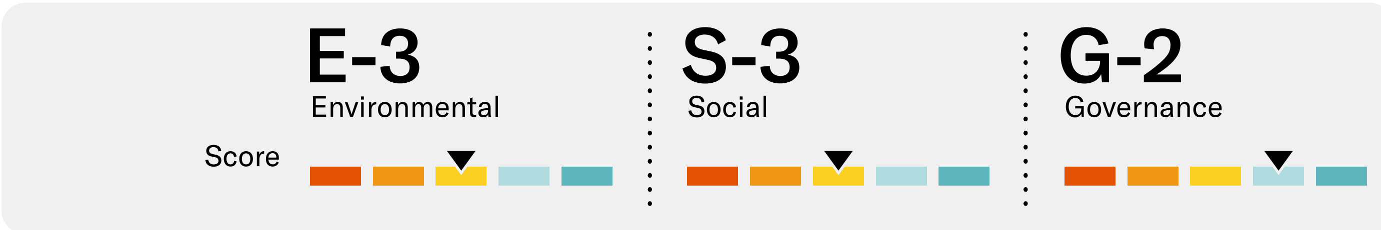
Exhibit 11
ESG credit impact score



Source: Moody's Ratings

Tryg's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating. Tryg's strong risk management helps mitigate the exposure to environmental and social risks, in particular physical risk and customer relations risk.

Exhibit 12
ESG issuer profile scores



Source: Moody's Ratings

Environmental
Tryg has moderate environmental risks, in particular physical climate risk related to the effects of natural catastrophes on its P&C insurance operations. The company has a good track record of managing this risk through underwriting, pricing and reinsurance. Tryg also benefits from good diversification of its P&C underwriting exposures across Scandinavia.

Social
Tryg is exposed to moderate social risk, most notably with respect to customer relations and changing societal and demographic trends in its retail P&C business. Customer relations risk are elevated in relation to the group's insurance products and significant interactions with retail customers. This is mitigated by well-developed policies and procedures. Changes in societal attitudes and the legal environment can impact P&C claims costs and reserve development. Rising digitization and interconnectedness of devices will increase customer privacy and data security risks, although these are mitigated by Tryg’s technology risk framework.

Governance
Tryg faces low governance risks, and its risk management, policies and procedures are in line with industry best practices. Management follows ambitious profitability and shareholder payout targets, but has built a strong track record in consistently meeting objectives and financial targets and maintaining capital adequacy in line with its risk appetite.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Notching considerations
The spread between the company's subordinated debt rating of A3(hyb) and its A1 IFSR is two notches, which is consistent with Moody's typical notching practice for European insurance operating companies. The notching of the restricted tier 1 notes is model-based, taking into account Tryg's A1 IFSR and expected Solvency II ratios.

Rating methodology and scorecard factors

Exhibit 13
Rating Factors

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								Aa	A
Market Position, Brand and Distribution (25%)								Aa	A
-Relative Market Share Ratio		X							
-Net Underwriting Expense Ratio	13.3%								
Product Focus and Diversification (10%)								A	A
-Product Risk		X							
-P&C Insurance Product Diversification			X						
-Geographic Diversification					X				
Financial Profile								Aa	A
Asset Quality (10%)								Aa	A
-High Risk Assets % Shareholders' Equity		27.1%							
-Reinsurance Recoverables (or Reinsurance Contract Assets) / Shareholders' Equity	7.2%								
-Goodwill & Intangibles % Shareholders' Equity						75.8%			
Capital Adequacy (15%)								Aa	A
-Gross Underwriting Leverage		2.0x							
Profitability (15%)								Aa	Aa
-Return on Capital (5 yr. avg.)		8.0%							
-Sharpe Ratio of ROC (5 yr.)									
Reserve Adequacy (10%)								Aa	A
-Net Loss Reserves Development / Beginning Net Loss Reserves (5 yr. wtd. avg.)		-2.8%							
Financial Flexibility (15%)								Aa	A
-Financial Leverage		9.6%							
-Total Leverage		15.8%							
-Earnings Coverage (5 yr. avg.)	19.1x								
-Cash Flow Coverage (5 yr. avg.)									
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								Aa2	A1

[1] Information based on IFRS17 financial statements as of fiscal year ended 12/31/2023. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.
Source: Moody's Ratings

Ratings

Exhibit 14

Category	Moody's Rating
TRYG FORSIKRING A/S	
Rating Outlook	STA
Insurance Financial Strength	A1
Subordinate	A3 (hyb)
Pref. Stock Non-cumulative	Baa3 (hyb)

Source: Moody's Ratings

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CLIENT SERVICES

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454