

## **CODAN FORSIKRING A/S**

### **ANNUAL REPORT**

#### **1 January – 31 December 2018**

The Annual Report 2018 has been reviewed and approved by the Annual General Meeting on 22nd March 2019

Chairman of the AGM

Gammel Kongevej 60  
1850 Frederiksberg C  
Company Reg. No. 10 52 96 38

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## General information

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**Board of Directors and  
Board of Management**

**Board of Directors:**

Lars Nørby Johansen, Chairman  
Christer Arne Bjellert\*  
Scott Egan  
Philip Wynford Moore  
Marianne Philip  
Maria Elisabeth Sandblom\*  
Christian Sletten\*

\*) Employee representative

**Board of Management:**

Patrick Bergander, CEO  
Vivian Lund, EO

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**Auditors**

**Auditors elected by the general meeting:**

KPMG, Statsautoriseret Revisionspartnerselskab

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**Ownership**

Codan A/S, Frederiksberg, owns all of the shares in Codan Forsikring A/S

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**Address, etc.**

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Company Reg. No.: 10 52 96 38

## Management's review

### Financial review

#### The Company's Business model

Codan Forsikring A/S ('Codan Forsikring') is a part of the Codan Group, one of the largest non-life insurance providers in Scandinavia. We work closely together with our branches in Scandinavia and share certain resources, services, knowledge and best practice within all parts of the insurance business to ensure an optimal and efficient administration. We conduct a non-life insurance business in Norway through our Norwegian branch and in Sweden via our Swedish branch and compete with other non-life general insurance companies in this market. The Codan Group is owned by RSA Insurance Group plc, one of the world's leading insurance groups with the benefits that naturally follow.

#### Annual report for 2018

Codan Forsikring is a subsidiary of Codan A/S whose ultimate parent company is RSA Insurance Group plc, which prepares consolidated financial statements in accordance with applicable United Kingdom law. Consolidated financial statements have therefore not been prepared for the Codan Forsikring Group, which comprise the insurance companies Codan Forsikring A/S, Forsikringsselskabet Privatsikring A/S and Holmia Livförsäkring AB.

The financial statements for 2018 of Codan Forsikring have been prepared in accordance with the Danish Financial Business Act (Lov om finansiel virksomhed), including the Danish Financial Supervisory Authority's Executive on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds) (Bekendtgørelse om finansielle rapporter for forsikringsselskaber og tværgående pensionsskasser).

The accounting policies are described further in Note 1 to the Annual Report.

A five-year summary of key figures and financial ratios is provided in Note 3 to the Annual Report.

#### Major events

##### *Sale of property*

In July 2018 the property held in Sweden was sold with a profit of DKK 3 million recognised in the income statement.

##### *Dividend in 2018*

In June 2018, Codan Forsikring distributed DKK 1,857 million in interim dividends to the parent company Codan A/S.

##### *Loans to Group entities*

Codan Ejendomme II A/S was liquidated in 2018, and loan to the Company of DKK 1,000 million was repaid in March 2018 and simultaneously a new loan agreement on a loan to Codan A/S of DKK 1,000 million was established. Both loans were arranged on an arms-length basis.

#### Profit for the year and development of the Company

The profit for Codan Forsikring for the year was DKK 1,232 million compared to a profit of DKK 1,965 million for 2017. Profit for the year breaks down as follows (all amounts in DKK million):

DKK million	2018	2017
Balance on the technical account, general insurance	1,738.0	1,811.8
Investment return after return on and value adjustment on technical provisions	35.8	685.9
Other income and expenses	-	2.1
Tax	-541.6	-535.1
<b>Profit for the year</b>	<b>1,232.2</b>	<b>1,964.7</b>



### Management's review

The profit for the year is in line with expectations with balance on the technical account slightly below that of 2017. Run-off gains have affected the profit by DKK 562 million against DKK 395 million in 2017 leaving the Company's combined ratio at 88.4% against 88.2% in 2017, which is within an expected COR range of 85-90%.

The Company's equity decreased by DKK 782 million from DKK 8,386 million at 31 December 2017 to DKK 7,604 million at 31 December 2018. The decrease is driven by payment of dividend in 2018 of DKK 1,857 million and foreign currency translation partly offset by the profit for the year.

#### **Insurance result**

##### *Earned premiums*

Gross earned premiums (gross premiums written less change in premium provision and change in profit margin and risk margin) has declined by 2.8% from DKK 15,461 million in 2017 to DKK 15,032 million in 2018. The decrease is primarily caused by decreasing premiums in Norway and Sweden (measured in DKK) partly offset by increased premiums in Denmark. The decrease in Norway is mostly seen on commercial lines where especially the care products have decreased. The Swedish branch shows growth of 3.2% measured in SEK but the declining SEK rates have had a negative effect on gross earned premiums measured in DKK. The increase in Sweden in local currency mainly consists of an increase in personal line where especially personal accident shows growth. In Denmark the increase in earned premiums is mainly driven by increases in Commercial Property.

The Swedish branch shows a 3.2% growth in SEK. Due to exchange rate declines on the SEK/DKK rate the branch shows a decline in premiums of 3.0% measured in DKK. The growth in Sweden is mainly seen in the Personal portfolio (5.0%) where we have experienced increases in Personal accident, Private Motor and House and Contents. The Commercial portfolio has a small overall decline in premiums (0.6%), which comprises declines in Commercial motor and Commercial Liability lines partly offset by increases in Nordic Care.

In Denmark the growth in premiums mainly comes from the Commercial portfolio where especially Commercial property lines and Commercial liability lines increase which is partly offset by declines in Marine and Commercial Motor. The personal portfolio premiums declined slightly overall. The decrease is seen on House and Contents which is partly offset by growth in private motor.

The Norwegian branch shows declines in premiums of 17.5% measured in NOK primarily related to commercial care and property products partly offset by a small growth in personal lines primarily attributed to motor products. Declines in NOK exchange rate increases the decline measured in DKK slightly.

Overall earned premiums, net of reinsurance, declined by DKK 476 million from DKK 14,759 million to DKK 14,283 million, a decrease of approx. 3%.

##### *Claims incurred*

Gross claims incurred increased by DKK 89 million from 10,139 million in 2017 to DKK 10,228 million in 2018. The negative development with increasing gross claims incurred and claims ratios is made up of increases in the Commercial portfolios of DKK 251 million partly offset by decreases in Personal portfolios of DKK 162 million. The commercial portfolios are affected by large claims within property and technical lines where the Commercial liability lines and Care products on the other hand shows declines in claims incurred during 2018.

Gross claims incurred were impacted by run-off gains totalling 737.3 DKK million against a DKK 575.1 million gain in 2017.

The gross claims ratio was 68.5% in 2018 against 65.9% in 2017. The increased ratio is materially affected by the large losses in Commercial Property and Technical lines.

The net run-off gain amounted to DKK 561 million against a DKK 395 million gain in 2017. The run-off gain in 2018 mainly relates to the commercial portfolio in Denmark and Sweden which also accounted for a run off gain in 2017.

## Management's review

### *Operating expenses*

The gross expense ratio was 16.1% in 2018 compared with 18.6% last year. In 2018 the Company has continued to focus on reducing expenses and the decreasing number of employees has reduced staff costs. The Company's updated strategy and three-year plan has some clear objectives that include delivering on growth opportunities and improving the expense base.

### *Profit/loss from reinsurance*

Reinsurance generated a loss of DKK 561 million in 2017 against a loss of DKK 583 million in 2017. The reinsurance loss includes the internal quota-share program with RSA on the marine business with DKK 60 million.

### *Balance on the technical account*

The balance on the technical account is positive with DKK 1,738 million in 2018 against a positive balance of DKK 1,812 million last year. The decrease reflects the decrease in earned premiums and increase in claims incurred. The balance on the technical account before run-off changed from DKK 1,416 million in 2017 to DKK 1,176 million in 2018, i.e. a decrease of 17%.

## Investments

Codan Forsikring's investments consist of subsidiaries and other financial assets. The total investment return was DKK 429 million for 2017 compared to DKK 825 million for 2017. The investment return after return on and value adjustments on technical provisions amounted to DKK 36 million in 2018 against DKK 686 million in 2017, corresponding to a decrease of DKK 650 million.

The investment return for 2018 was affected by increasing long-term interest rates, which resulted in capital losses of DKK 363 million on bonds compared to losses of DKK 571 million in 2017.

Foreign exchange movements regarding investment assets had a positive impact on the investment result of DKK 100 million against a negative effect of DKK 74 million in 2017.

The Company uses a conservative investment strategy in order to minimise interest rate risk between assets and technical reserves. The shares of government or government-secured and mortgage bonds are therefore relatively high and account for approx. 28% and 67%, respectively, of the bond portfolio.

At the end of 2018, the Company's investment portfolio consisted of the following assets (all amounts in DKK million):

	<b>2018</b>	<b>%</b>	<b>2017</b>	<b>%</b>
Investments in Group and associated entities	810.0	2.3	676.4	1.8
Loans to Group entities	1,000.0	2.8	1,000.0	2.7
Equity investments and units in open-ended funds	2,752.3	7.8	2,857.1	7.8
Bonds	30,060.9	85.1	30,779.4	83.9
Other loans	3.0	0.0	43.8	0.1
Other	92.7	0.3	86.9	0.2
Deposits with ceding undertakings	1.4	0.0	2.0	0.0
Cash and cash equivalents	620.2	1.8	1,225.8	3.3
	<b>35,340.5</b>	<b>100.0</b>	<b>36,671.4</b>	<b>100.0</b>

### *Return on and value adjustments on technical provisions*

The return on and value adjustments on technical provisions includes the proportion of the changes to the present value of the technical provisions attributable to:

- currency translation on technical provisions,
- changes in the yield curve used for discounting, and
- the current revaluation of the present value of the provision until the expected settlement date (impact of unwind of discount).

The return on and value adjustments on technical provisions have amounted to a loss of DKK 393 million in 2018 compared to a loss of DKK 139 million last year corresponding to a decrease of DKK 254 million. The ma-

### Management's review

majority of the technical provisions are denominated in SEK and are therefore sensitive to the Swedish interest rates.

#### **Investments in Group entities**

The profits generated by subsidiaries are as follows: Forsikringsselskabet Privatsikring generated a profit of DKK 58 million (a profit of DKK 13 million for 2017), Holmia Livförsäkring AB generated a profit of DKK 78 million (a profit of DKK 71 million for 2017) and other subsidiaries generated DKK 0 million (a loss of DKK 6 million in 2017). The sale of Besigtelses Kontoret af 1914 A/S in 2017 (a loss of DKK 1 million) and adjustments to gain related to the sale of Brødstepeln Fastighets AB of DKK 86 million, impacted the comparative figures for 2017.

#### *Forsikringsselskabet Privatsikring A/S*

Forsikringsselskabet Privatsikring writes direct general insurance business through Lokale Pengeinstitutter (the Association of Local Banks, Savings Banks and Co-operative Savings Banks in Denmark).

The profit for 2018 comprises a balance on the technical account of DKK 77 million (DKK 16 million in 2017), a negative investment result of DKK 3 million (DKK 0 million in 2017) and tax expenses of DKK 16 million (DKK 3 million in 2017).

Gross premiums written for Forsikringsselskabet Privatsikring amounted to DKK 773 million against DKK 706 million last year which is an increase of DKK 67 million. Premiums have increased for all products, with the exception of unemployment. The balance on the technical account before run-off has increased from DKK 1 million in 2017 to DKK 66 million in 2018 primarily due to positive development in premiums and the underlying claims ratios regarding current year. The Company had a positive claims run-off regarding previous years, primarily attributable to motor partly offset by run-off losses on house and contents.

#### *Holmia Livförsäkring AB*

Holmia Livförsäkring has licence to write direct and indirect life insurance where the payments are dependent on one or more person's life and additional insurance complementing this. The Company primarily works together with Codan Forsikring's Swedish branch to cover the mortality risk in the branch's large portfolio of Health and Accident insurances.

The profit for the year consists of a balance on the technical account of DKK 80 million (DKK 74 million last year), an investment result of DKK 0 million (DKK 0 million last year) and tax expenses of DKK 2 million (DKK 3 million in 2017).

The Company's total premium volume decreased, and gross earned premium was DKK 158 million against DKK 159 million in 2017. In SEK the premium volume increases but due to declining SEK rates the effect in DKK is a decrease in the year. Claims costs have been stable in SEK with only minor increases compared to the increasing premiums. Also, here the decreasing SEK rates has had an effect driving the positive development in the balance on the technical account.

#### **Equity investments and units in open-ended funds**

The Company's exposure to shares is low. The Company has investments in loan funds in which the underlying assets are primarily made up of loans in European commercial property companies. The Company's equity investments and units in open-ended funds amounted to DKK 2,752 million at 31 December 2018 (DKK 2,857 million in 2017), equal to 8% (8% last year) of the total investment portfolio.

The Company's equity investments and units in open-ended funds generated a negative return of DKK 141 million in 2018 compared to a positive return of DKK 234 million in 2017.

#### **Bonds**

At year end, bonds totalled DKK 30,061 million (DKK 30,779 million in 2017) or 91% (91% in 2017) of the Company's total investment portfolio and had duration of approx. 4.9 years. Of the total investment portfolio, Swedish mortgage bonds accounts for approx. 41%, Swedish government bonds for approx. 18%, Danish government bonds for approx. 3%, Danish mortgage bonds for approx. 20%, Norwegian government bonds for approx. 2%, EUR-denominated government bonds for approx. 1%. A total of approx. 84% of the bond portfolio is invested in AAA-rated bonds. The investments in Swedish and Norwegian bonds are used to hedge the business in Codan Forsikring's Scandinavian branches.

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The total return on the bond portfolio was a gain of DKK 423 million (DKK 325 million in 2017), equal to approx. 1.4% (1.0% in 2017).

#### Balance sheet

Total assets for the Company decreased by DKK 1,591 million from DKK 40,290 million in 2017 to DKK 38,699 million in 2018. The decrease is primarily attributable to decrease in bonds and cash and cash equivalents used to finance the interim dividend.

#### *IT – software development projects*

Codan Forsikring continues to invest in IT, insurance software and related systems, as having the best available insurance systems to support the customers is a key part in maintaining the Company's position on the Scandinavian insurance market. Codan Forsikring sees the IT investment as essential to keep providing the best products and support to our customers.

### Business initiatives

#### **Key strategies**

The Codan Group is committed to an ongoing process of transformation, which is targeting the following strategic initiatives:

- Deliver on our customers' needs and our brand ambitions – close to customers. Supported by an agile customer-centric effortless delivery model
- Clear and strong ownership of entire profit and loss account
- Improve cost effectiveness through process optimisation and digitalisation
- Innovation and fast paced execution to improve time to market

The Codan Group is focused on protecting leadership positions in areas such as Motor, Personal Accident and Renewable Energy, whilst also seeking to improve profitability across all three countries. The Group also plans to fully capitalise on the opportunities in Specialty and with global brokers that arise from being the only large-scale player in the region with a global presence.

#### **Market conditions**

The Danish insurance market remains stable and attractive, although it is also characterised by low levels of growth. Hence larger competitors tend to focus more on profit margin improvement strategies. Codan Forsikring has the same focus. The Swedish insurance market is still showing strong growth although at a slower pace than seen in recent years, with evidence of increased digitization. Profitability levels in Sweden are generally still relatively healthy. In Norway the market is still dominated by a small number of insurers, and there is some evidence that historical levels of strong profitability are under threat from higher market loss ratios.

#### **Customers**

Codan Forsikring continues to work on delivering the brand and customer journey and implementing a customer mind-set in all parts of the business. A key focus area in the Codan Group strategy is to understand customer needs and requirements and adapt our service and propositions to meet the expectations. This includes ever increasing focus on digitization.

#### **Variable remuneration**

Codan Forsikring has adopted a Remuneration Policy for Codan Group which contains specific remuneration schemes for the Board of Directors, Board of Management and employees with material influence of the Company's risk profile (Material Risk Takers). The Remuneration Policy for 2018 was adopted by the Board of Directors 25 April 2018 and approved at the annual general meeting 26 April 2018.

The Chairman reports on the Remuneration Policy each year in connection with the annual report at the general meeting. At the general meeting the remuneration of the Board of Directors was approved for the current year. Remuneration to the Board of Management and the Material Risk Takers is approved by the Board of Directors according to the requirements in the Remuneration Policy.

### Management's review

Codan Forsikring strives to achieve an appropriate balance between the remuneration of the management, predictable risk and value creation for the Company's shareholders both short and long term.

#### Remuneration Committee

The Board of Directors meets for six scheduled meetings. The Board of Directors of Codan Forsikring has set up a Remuneration Committee in accordance with the Rules of Procedure of the Board of Directors. The Remuneration Committee consists of two members, of which one is an employee representative. The Committee advises the Board of Directors in remuneration matters.

The Board of Directors receives a fixed fee and is not compensated by any form of variable remuneration or pension scheme. Their remuneration is based on trends in peer companies. The members of the Board of Directors employed at the RSA Insurance Group do not receive any remuneration. The Board of Management is employed on a contractual basis and receives competitive remuneration including base salary, bonus, pension contribution, share based variable remuneration and other benefits.

No experts have been consulted to support the Remuneration Committee.

Codan Forsikring complies with the Executive Order on remuneration policies and remuneration in insurance undertakings and insurance holding undertakings.

For more information on Codan Forsikring's performance criteria, variable remuneration restrictions, usage of fixed and variable compensation in the Remuneration Policy refer to <https://www.codan.dk/om-codan/rapporterogfinans>.

#### Audit and Risk Committee

The Board of Directors of Codan Forsikring has set up a combined audit and risk committee, the 'Codan Forsikring Audit & Risk Committee' in accordance with the Rules of Procedure of the Board of Directors.

The Committee is appointed by the Board and shall comprise at least three members with Philip Moore as chairman. As the independent member with special qualifications in accounting, the Company's Board of Directors has appointed Lars Nørby Johansen. The Board of Directors found that his qualifications met the statutory requirements. The Danish Financial Supervisory Authority has been informed accordingly. Lars Nørby Johansen is Chairman of the Boards of Directors of Codan A/S and Codan Forsikring.

The Audit and Risk Committee is an advisory committee to the Board of Directors in accordance with the applicable regulations and is not empowered with a decision mandate. The tasks of the Committee as set out in the Terms of Reference based on Executive Order no. 1393 of 19 December 2011 on Audit Committees in Undertakings and Groups Subject to Supervision by the Danish Financial Supervisory Authority (*Bekendtgørelse om revisionsudvalg i virksomheder samt koncerner, der er underlagt tilsyn af Finanstilsynet*). The tasks of the Committee include monitoring of both the financial reporting process, including calculation of the individual solvency requirements, and the Company's internal control system and risk management systems. The Committee also monitors the statutory audit of the financial statements, which includes controlling the auditors' independence and the effectiveness of the internal audit function.

In 2018, the Audit and Risk Committee held seven meetings.

#### General IT Controls

During 2018 the Company has had an increased focus on our general IT controls as weaknesses in these have been identified. This has resulted in extended mitigation analyses and implementation of compensating controls. The Company will continue the focus to improve the general IT controls in 2019.

### Management's review

#### Events subsequent 31 December 2018

##### *Dividend for 2018*

The Board of Directors do not propose declaration of a dividend. The proposal will be considered by the annual general meeting on 22 March 2019.

##### *New executive order*

The Danish Financial Supervisory Authority has issued an update of the executive order on Financial Reports for Insurance Companies and Lateral Pension Funds with effect from 2019. The update includes an adaptation to IFRS16 regarding leasing. The update is expected to have the following effect on recognition and measurement in the financial statements at 1 January 2019. Total assets will increase by DKK 540 million and liabilities will increase with the corresponding amount. As we expect to use method A for adopting IFRS16 the change in accounting policy will not have any effect on equity.

##### *Other events*

No other events of material importance to the Company's financial position or business affairs have occurred subsequent to 31 December 2018.

#### Outlook for 2019

Scandinavian economies are expected to show modest growth of around 2% with continued low inflation.

For Codan Forsikring the transformation program will continue to drive simplification and effectiveness, which will result in further improvements in expense and claims ratios. The Company will focus on leveraging previous years investments meeting targeted efforts in supporting the corporate strategy and in growing profitable business portfolios.

The Company expects a positive balance on the technical account slightly below this year. The balance on the technical account is sensitive to developments in yield curves, weather and large claims. The expectation is based on a normal year for these assumptions.

Codan Forsikring does not consider it appropriate to make any statements as to the expected developments in the interest rate and stock markets or the expected value adjustments for 2019.

In March 2017, the UK Government announced that it had invoked Article 50 to instigate the process of leaving the European Union. In general, Codan Forsikring has limited risk related to this decision. In May 2018, EIOPA published an opinion paper discussing impacts of the UK leaving the EU and indicated that should no transition period be agreed, and a 'Hard' Brexit occur UK Groups with Group Internal Model approval would see the approval lapse for any solo entity in the rest of the EU. As this applies to Codan Forsikring, and with the risk of a 'Hard' Brexit, the Company submitted a major model change of the internal model to secure ongoing approval of the internal model for Codan Forsikring. In the case of a 'Hard' Brexit, there is a risk that the Company will revert to the standard formula for a period of up to 6 months before model approval is received.

A change from internal model to standard model will not affect the Board of Management's assessment of the going concern assumption.

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#### Sustainability Report

RSA Group issues a report on non-financial issues according to UK requirements, which is equivalent to the sustainability report requirements introduced in Danish accounting acts (Danish Financial Supervisory Authority's executive orders (no. 937 of 7 July 2015 and no. 688 of 1 June 2016 on Financial Reports for Insurance Companies). The sustainability report is part of the RSA Strategic Report 2018, published 26 March 2019 and the information required is set out on pages 35-39 and page 94. Since this report covers the business of Codan Group, a separate Codan Group report has not been prepared. Codan Group refers to Group's report in regard to risks and the management of risks. The report can be found here: <https://www.rsagroup.com/investors/reports/> (available March 2019).

#### Corporate Social Responsibility

Codan Forsikring is committed to be a responsible company by running its business in a way that makes their employees proud to be a part of, ensuring financial strength and transparency, putting customers first and delivering long-term value to its environment and society.

As part of RSA Codan Forsikring's corporate social responsibility (CSR) work is aligned with RSA's CSR strategy, which is available on their website: <https://www.rsagroup.com/responsibility/our-strategy> where annual CR reports are also available for download. In 2014, RSA developed a five-year Corporate Responsibility strategy with four central themes: Safe Secure World, Thriving Communities, Sustainable Future and Responsible Business. During 2018, Codan Forsikring has delivered on the RSA strategy through local campaigns as well as various business activities described below. All strategy themes are not necessarily covered by each country.

#### **Safe, Secure World**

As an insurance company, we have good insight into what creates concern and insecurity in people's lives. We have for a long time been working to reduce the number of injuries in a variety of areas, such as crime, fire, traffic and water, through communication campaigns to increase awareness of risks as well as through strategic partnerships. We have also chosen to engage in social challenges such as keeping children safe online and in a long-term work aimed at preventing the growing mental illness amongst young people. The most significant initiatives of 2018 are summarised in the following paragraphs.

#### **Traffic Safety in Denmark and Norway**

One of Denmark's CSR initiatives in 2018 was "Årets Refleksdag" (The National Reflector Day). Codan Forsikring was the main sponsor of the campaign which was held in a partnership with "Børneulykkesfonden" (The Child Accident Prevention Foundation). The purpose of the National Reflector Day is to increase traffic safety by creating awareness about how much reflectors increase people's visibility in the dark. 160 Codan Forsikring employees volunteered to hand out 40,000 reflectors with local fire brigades in the streets of Denmark as well as in schools. We also sent more than 10,000 reflectors directly to customers who had purchased child insurance policies. In total, 74,000 reflectors were handed out in 2018.

The Norwegian branch also supported this safety initiative. In October, 40 employees handed out 14,000 reflectors to schools, kindergartens, sports clubs and other associations. In Norway, this is also an important safety campaign to prevent accidents in traffic, especially targeting families with children. Just like in Denmark, our Norwegian colleagues distributed reflectors at schools to keep children safe when going to and from school.

Another initiative that supports traffic safety is the partnership "Trafiksikkerhed i Øjenhøjde" (Traffic Safety at Eyelevel), which Codan Forsikring has been a part of since 2013. Six partners with an interest in traffic (e.g. Volvo Trucks and the Danish Transport and Logistics Association) have entered a coalition to reduce traffic related injuries by teaching children from 3<sup>rd</sup> to 5<sup>th</sup> grade about traffic safety. Education is instrumental in this effort and therefore a customised campaign trailer drives around Denmark. In 2018 the caravan of trucks and teachers visited 40 schools and 3 public events over the summer reaching a total of 5,300 children during 2018.

#### **Water safety**

Keeping people safe in the water has always been a serious priority for our Swedish branch. With outdoor swimming being strongly embedded in the national culture, our Swedish branch continues to tackle the everyday risks our customers face in and around water and has for many years been working with the Swedish Life Saving Association to help people stay safe in the water.

During 2018, our Swedish branch also launched "The baby buoy" app, a program that teaches parents how to increase water awareness and water safety for their children. In the program, parents get increased knowledge

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about how to reduce the risk of accidents and how to prevent children's fears associated with water. The baby buoy app can be downloaded, free of charge.

#### **Safety online**

Another safety focus of 2018 was online safety. Codan Forsikring relaunched the Safe Online School Package in June 2018, offering teachers “plug-and-play” teaching material that will give children the necessary knowledge to make them navigate safely online. Codan Forsikring has developed three sets of Safe Online School Packages to cover all classes of the Danish elementary school. All teaching materials are free of charge and available for download at Codan Forsikring's website. More than 1,000 parents and teachers have already downloaded the materials.

The Norwegian branch has also worked with the safe online initiative and introduced a “Sikker på Nett” (Safe Online) campaign in 2018. This is partly a financial donation to and a cooperation with “Kors på Halsen”, the Norwegian Red Cross' call centre for young people. In December 2018, the Norwegian branch donated 85,000 NOK to “Kors på Halsen”.

#### **Thriving communities**

As a responsible company we want to give back to society in various ways. All employees have the possibility to spend two paid days on volunteer work every year. Employees may choose the project themselves, so they can use their skills where they best see fit. Many utilised this opportunity in 2018 to hand out reflectors in connection with the National Reflector Day while others chose to donate manpower during the Christmas event.

#### **Christmas at Codanhus**

For many years, Codan Forsikring has hosted a Christmas event together with the Red Cross. On Christmas Eve, we open the doors to the buildings and invite 200 people who, for lack of family or funds, do not have other ways to spend Christmas. Employees from Codan Forsikring set the tables on the 21<sup>st</sup> of December and volunteer to spend Christmas Day at work, serving dinner and making sure that the guests have a good time. All children who participate, receive a Christmas present bought solely based on donations from Codan Forsikring employees throughout December.

#### **Supporting mental well-being**

During 2018 our Swedish branch initiated a collaborative partnership with one of Sweden's leading organizations of children's rights in society, Barnens rätt i samhället (Bris). There is an increasing problem with still more children and young people suffering from mental illnesses. As an insurer of approx. 750,000 children and young people in Sweden, we have a responsibility to respond to this challenge. Together with Bris we aim to increase awareness and knowledge about children's mental health and how important it is to get the required help and support as soon as possible. The financial support also enables Bris to fund a support coordinator to help the children and young people who contact Bris. In 2018, about 60 employees also received practical training from Bris on how to spot warning signs of mental health issues and how to talk to children about difficult issues. During 2019, these employees will be offered the opportunity to contribute as volunteers for Bris.

#### **Sustainable future**

Our commitment to help build a sustainable future span over several important themes, including managing the impact of our own business on the environment, supporting our customers to adapt and respond to climate changes and insuring renewable energy projects to accelerate the transition to a low-carbon economy.

Considering the changing climate and the risks that more extreme weather poses to our business, customers and stakeholders, this is an important issue to address for us as an insurance company. We are actively trying to prevent accidents caused by weather by offering a free SMS service that everyone can sign up for – also non-customers. In 2018, the weather alert was sent out 37 times to 15.257 people in Denmark, which is an increase from last year.

#### **Reducing our climate and environmental impact**

We are committed to reduce our business' environmental impact and contribution to climate change and to promote sustainable working practices amongst employees and suppliers. We monitor and report our consumption of energy (including fuel), water and paper as well as business travels to RSA on a quarterly basis. The RSA reporting on Green House Gas emissions is then conducted in accordance with guidance set forth by the GHG protocol's corporate standard. Since 2017 the CO<sub>2</sub>e/Full Time Employee (FTE) within RSA has decreased



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by 3.4%. The result for Codan follows the same trend with a 3.6% reduction/FTE since 2017. For more detailed information about RSA reporting on Greenhouse Gas emissions, please see the CR Report from RSA: [www.rsagroup.com/responsibility/resources/](http://www.rsagroup.com/responsibility/resources/) (available 26 of March 2019).

We actively encourage our employees to facilitate online meetings instead of travelling and, when possible, travel by train instead of flying. The number of business flights during 2018 have been reduced by 36 % compared to 2017. Overall, this has resulted in a significant reduction of 16 % in our carbon emissions related to business travels.

It is a strong priority to reduce the use of paper. Codan Forsikring implemented a new claims management system in 2018, which means that in the future, all claims related communication with customers will take place digitally and the number of physical letters will thus be minimized significantly. Already in 2018, the number of letters was almost cut in half.

Our Swedish branch has an ambitious plan to reduce the amount of paper send-outs to customers and move to digital customer communication. In 2018 the stop printing FAL campaign was introduced. FAL is a legal document that the customer can find online when renewing "Illness & Personal Accidents" instead of printing and sending the letter. This is the first business area with the new set-up, but it will be spread to other parts of our business.

#### ***Our contribution to a circular economy through more sustainable handling of claims***

When it comes to reducing the environmental impact and to achieving a more sustainable way of handling claims there are several benefits of a circular economy, where the aim is not only to recycle, but also to repair and reuse. Within motor we have a long tradition of reusing and recycling as much as possible from damaged cars. Undamaged metal parts are being reused instead of being replaced with brand new parts and plastic parts are being repaired. The percentage of plastic repairs as well as the reuse of recycled spare parts are being followed up with KPI's in the business.

Since August 2018, we have started a pilot project, aiming to reduce the environmental impact related to property claims in our Norwegian branch. Codan Forsikring is the first insurance company in Norway to initiate a cooperation with Godsniösen AB (GIAB) regarding circular economy in connection with property claims. The cooperation with GIAB means that GIAB assists Codan Forsikring in dealing with damaged property. Instead of throwing the damaged products away, GIAB extends its life and sells the products through its own distribution channels. The goal of the cooperation is to contribute to a more circular and sustainable model that is positive for all parties involved. Not least for the environment.

#### ***Supporting the transformation to renewable energy and insuring a more sustainable future***

One thing is reducing our own carbon footprint, another thing is supporting the transformation to renewable energy and insuring a fossil-free tomorrow. We are proud to be regarded as a leading insurance partner for offshore wind among the major stakeholders in the industry and in a market that is growing globally. Furthermore, Codan Forsikring is the largest insurer of onshore wind in Denmark and plays a leading role in power plants in Denmark.

We also support the development of offshore wind in general by providing insurance for innovative projects that accelerate the development of renewable energy. Latest additions would be our role as lead insurer for Vattenfall's 605MW Kriegers Flak windfarm, which will be the largest windfarm in Denmark, offering the world's lowest kWh price. Another project we are insuring is the 860MW Triton Knoll project developed in the North Sea by Innogy, which will constitute an important potential source of homegrown renewable energy in the UK.

Onshore, Codan Forsikring is the insurer of the BIO4 project that is working to change the local heat supply in Copenhagen from coal to sustainable biomass, which will make heating much more climate-friendly. The transition from fossil fuels to a greener heat and power production is an important link in Copenhagen's goal of becoming the world's first CO<sub>2</sub> neutral capital by 2025 and we are proud to be a part of that.

In 2018, Codan Forsikring also developed a specific product for solar risk in the production of electricity and Codan Forsikring are now already insuring 10 producing solar cell parks in Europe. This is the first time, we move from single coverages to having a dedicated product that enables us to insure a full solar cell park. According to Denmark's Wind Turbine Association, sun energy is expected to outgrow wind considerably over the next 20 years, which means that Codan Forsikring again takes part in the technological progress and the acceleration towards a greener future.

### Management's review

#### ***Responsible business***

To us, being a responsible business means that we should always act ethically, respect human rights, treat our employees with dignity and respect and aim to minimise our impact on the environment and the climate. We are a signatory to the UN Global Compact, which means we are committed to implement universal sustainability principles and to take steps to support UN goals. Being a responsible business also means being open and transparent with our stakeholders about how we manage our operations and deliver our products. We expect all our suppliers to uphold the same principles as we do and to integrate the requirements included in Codan Forsikring's Supplier Code of Conduct into their businesses. For detailed reporting on responsible business, please see CR report from RSA: <https://www.rsagroup.com/responsibility/> (available 26 of March 2019).

#### ***Training***

Part of being a responsible business includes a continuous education of our employees to ensure they are capable of handling their tasks and that they are aware of the latest rules and legislations. Therefore, it is mandatory across our business for employees to undergo regular e-learning courses. These courses include modules all employees must take e.g. GDPR training and courses targeted towards the business area in which the individual employee works.

One local example of training comes from the Norwegian branch where a country specific legislation caused us to implement new legal rules on money laundering during Q3 and Q4 including business training and awareness to act against money laundering attempts. The scope is training of all relevant staff and setting up relevant procedures to ensure that we can control and stop money laundering attempts through insurances and claims.

#### **Our People**

The cornerstone of Codan Forsikring's performance and success is the ability to attract, retain and develop the best people. High performing, motivated colleagues are our most important asset, which is why we invest considerable resources in them. We strive to be a company, people want to join, want to stay with for a long time and are proud to be a part of. By focusing on the development of the individual employee and manager, Codan Forsikring provides the framework of a dynamic, informative and stimulating environment based on respect.

We believe that the Company's future success is dependent on ensuring that our employees and leaders have knowledge and capabilities to always be able to deliver the best possible solutions for our customers. The Company supports and encourages capability development in order to strengthen both personal and technical development and thereby add value to the business.

We run talent reviews twice a year in all leadership teams with the aim to identify future critical capabilities and key talents and have plans in place for how to develop them. We focus on succession planning and building a strong internal leader bench strength, which has resulted in more open positions to senior roles being filled with internal candidates during 2018.

To drive high engagement, we have put focus on strengthening our leadership. During 2018 we have implemented a leadership pipeline concept with clear expected key behaviours in each leadership role. In 2018 we have run leadership programs for all our leaders at different levels, customized for the role. We are aiming for leaders with a coaching approach who delegate and give mandate and accountability to employees, enabling and requesting a strong self-leadership.

At Codan Forsikring we are also focusing on building change management capabilities in order to drive change in a successful way to adapt to our external environment and customers. We have trained HR and leaders and during 2018 more than 50 change ambassadors in the organization have been trained to better support the business in driving change.

To develop market-leading insurance technical skills we have an internal Technical Academy targeting several of our core technical areas. During 2018 we have run several programs and development initiatives to deliver on our technology capability uplift.

We have run two talent programs during 2018, covering more than 20 people in total, with the aim to grow and develop internal talent and build an internal talent pipeline with the potential of stepping in to more senior roles in the future.

### Management's review

Our aim is to build a capable workforce with the right skills to deliver on our strategy and business challenges ahead.

We want our people to be engaged and included and to consider our company a place where they grow and develop.

It is important for us to listen to the voice of our employees and to have platforms where we can have a two-way communication. We do this through a number of different channels. We are running an annual employee survey, YourSay, to gather the organization's view on areas of strengths and areas of development. Each leadership team are responsible for sharing results with their teams and planning for actions. Many divisions and units have introduced more frequent pulse surveys to measure the engagement, well-being and enablement in the teams.

#### Focus on more women in management

Codan Forsikring focuses on women in management positions. Our aim is to increase the share of female managers on all levels of the organisation.

Codan A/S and Codan Forsikring A/S are to have a minimum target on our Board of Directors of 33% females. This should be kept and sustained until Jan 1, 2020. It is the aim of the Company to increase the share of females on level 1-3 in the organization. The diversity in gender composition should reach a 33/67 ratio no later than 1st January 2020. Furthermore, the diversity in gender composition for manager positions should reach a 40/60 ratio no later than 1st January 2020. These targets should be valid for both genders, so we should not allow for any of the genders to be underrepresented. In addition, Codan Forsikring has signed the Charter for More Women in Management (Denmark).

By end of 2018 the share of women on the Board of Directors for Codan Forsikring A/S, including employee relations representatives, was 29%. This was a decrease from 40% in year 2017 (same figure for 2016 was 20%). One female representative has left the Board and we are currently looking for a replacement.

The share of women on level 1-3 in the organization is 31% in 2018, compared to 32% in 2017. The number of females on level 1-3 is unchanged, however the total population has grown by 1. Our target remains to reach 33% women on level 1-3 before 2020.

The share of women on all management levels, has decreased from 37% in 2017 to 35% in 2018. This is a negative break in an otherwise positive development of % female managers that took place between the years 2012-2017. During 2018 we have decreased our total number of managers and increased span of control in our organization. There is a larger proportion of female managers that have left the Company or moved into a non-managerial role. Our target remains to reach 40% female leaders at all levels by end of 2020.

The long-term aim for more women in management positions is to achieve a representation better reflecting the general distribution of women and men at Codan Forsikring. Also, the efforts will contribute to our CSR objective of creating a sustainable future and providing equal opportunities for our employees and talent pool in society.

The Company is firmly committed to be a great place for women to work and we have a strategic focus on Diversity & Inclusion to achieve this.

Diversity at Codan Forsikring stretches beyond gender and covers all aspects, such as ethnicity, nationality, disability, sexual orientation etc

Our D&I vision is defined as "A culture where everybody can be themselves and develop to their full potential to be their best for our customers everyday".

In our 2018 yearly employee survey we have been following up on engagement and work enablement and analysed the results for different work groups. There was a slight increase of our Diversity & Inclusion index across Scandi (from 73 to 74) and we could see a positive trend among females in many areas of perceived Diversity & Inclusion.

Our global RSA Diversity & Inclusion Steering group, with representatives from Codan A/S and Codan Forsikring A/S, meets quarterly to follow up on diversity measures, to share best practice and activity plans. In

## **Management's review**

2018 we have formed a regional Diversity & Inclusion council for Scandi with representatives from all country and Nordic functions top management teams. The council has the mandate to define and implement the Scandi D&I agenda. To increase involvement and engagement in our organization, we have recently established a D&I ambassador network, currently consisting of around 35 employees who want to engage within the D&I area. Focus for 2019 will be to “Build awareness” in the organization with a focus on “Leadership in the front”. Several initiatives will be planned to increase D&I awareness across the organization during 2019.

We are focusing on ensuring that we build a strong female talent pipeline for the future and we have set a target that there should be a minimum 40% gender representation (both genders) in our internal talent programs.

### Management's review

#### Risk management

Codan Forsikring's overarching strategy and risk appetite statement, are set by the Company's Board of Directors. The connection between strategic considerations regarding accumulated risks in the business operations through day-to-day decisions on whether to enter into agreements with customers, partners and suppliers are reviewed and challenged through continuous assessment of the Company's risk profile by the Own Risk & Solvency Assessment (ORSA) committee, which is an advisory committee to the CEO and senior management. The risk profile is reported on a continuous basis to the Company's Board of Directors. For further information on risk management, see Note 2.

Codan Forsikring has implemented necessary and relevant systems, business processes, controls, control validation, and assurance activities in order to mitigate risks. Codan Forsikring's most significant risks are outlined below:

#### Insurance risk

Codan Forsikring's insurance risks comprise:

- Underwriting Risk covers the (non-catastrophe) risks of unexpected or unplanned losses arising from acceptance of risk that deviates from target risk mix or portfolio strategy, inaccurate pricing or inadequate control over risk accumulation.
- Claims Risk covers the risk of unexpected or unplanned losses arising from new legal and regulatory requirements or inadequate claims management.
- Reserve Risk covers the risks of unexpected or unplanned losses arising from incorrect technical reserves.
- Reinsurance Risk covers the risk of unexpected or unplanned losses arising from the reinsurance protection that deviates from the reinsurance strategy.

The level of insurance risk that the Company can accept is ultimately steered by the Underwriting Policy, which is set by the Board of Directors. In this policy, the Board clearly describes the risk appetite per insurance class and specifies the maximum acceptable limits that the Board is prepared to allocate to the various risks that have been evaluated, priced and accepted by the Company's underwriters.

The Reinsurance Policy steers how reinsurance protection is to be structured to reduce Codan Forsikring's insurance risks to acceptable levels. Reinsurance is purchased to protect the Company from major individual claims, natural catastrophes and other catastrophe events that could impact many different lines of business. The Reinsurance Policy also stipulates, per insurance class, clear demands on what credit ratings the reinsurance companies are to have in order for Codan Forsikring to enter into contracts with them.

The Company's method for setting premiums is defined through an underwriting process that takes into account various individual risks, which products are to be insured, and in some cases also risk management, in order to arrive at the right premiums for different customers. In both the Personal and Commercial business units, a majority of the customers are given a premium that is set according to tariffs that are calculated by pricing actuaries, while for major commercial customers, premiums are based on the respective companies' operations and claims history. The authority exercised by the respective underwriters is steered by a personal underwriting licence based on the underwriter's capabilities.

Technical provisions for future payment of already incurred claims are calculated using standard actuarial methods. The claims trends and reserve levels are reviewed quarterly by the actuarial reserving department and is addressed in a process which involves both the claims department and the Portfolio Heads/Product Directors. The Chief Actuary is responsible for setting reserves and produces reserve reporting to the Reserving Committee and the Board. The Reserving Committee meets at least once a quarter and has an advisory role that is designed to provide both challenge and a more in-depth look at the Chief Actuary's report. The committee reports to the CEO.

## Management's review

### **Financial risk**

Financial risk consists of market risk, credit risk, and liquidity risk. Market risk is the most important of these for Codan Forsikring since a significant part of the Company's activities consists of investment activities. Market risk is the risk that movements in the financial markets affect the value of assets and liabilities and thereby the Company's capital base and return.

Most of Codan Forsikring's investments are in Scandinavian government bonds and Scandinavian mortgage bonds. The vast majority of the bonds are considered liquid and can be sold on short notice close to market price.

### **Market risk**

#### **Interest rate risk**

Changes in interest rates are among the important factors which affect Codan Forsikring's financial risks. If interest rates decrease, the value of the Company's bond portfolio rises. At the same time, technical provisions increase in connection with downwards changes in the discount rates. Changes in interest rates thus have an opposite profit and loss effect on assets and liabilities.

#### **Equity risk**

The value of the equity portfolio fluctuates in line with movements in the stock markets. Codan Forsikring has a limited exposure to equities as less than 7 % of the investment assets are invested in equities.

#### **Spread risk**

Spread risk is the risk that the value of bonds with an inherent credit element declines due to spread increases caused, for example, by an increase in risk aversion in the market. Codan Forsikring's spread risk on Danish mortgage bonds is broadly hedged on a net basis due to the construction of the Danish and Swedish discount curve, which to some extent incorporates Danish mortgage bond yields. Codan Forsikring is primarily exposed to spread risk via investments in corporate bonds. However, the spread risk is considered limited as Codan Forsikring primarily holds AAA-rated mortgage bonds and investment grade corporate bonds.

#### **Real estate risk**

Codan Forsikring has only one smaller direct investment in property. Codan Forsikring has a minor exposure to properties via exchange-traded property trusts through the investment portfolios held by subsidiaries. The overall real estate risk is considered low.

#### **Currency risk**

Currency risk arises as a result of a mismatch in the value of assets and liabilities in the same foreign currency. Codan Forsikring has limited currency risk as the technical provisions are generally matched by investments in the same currency. In Codan Forsikring's financial statements, results and equity of foreign branches are translated into DKK. Consequently, the SEK-denominated NAV constitutes a significant currency risk which is mitigated through hedging.

#### **Inflation risk**

Inflation risk is the risk that claims payments in future years will escalate given an increase in inflation due to indexation of claims cash flows. Codan Forsikring has an indirect exposure to inflation since technical provisions for workers' compensation and health and accident insurances are linked to a wage index which is correlated with inflation. The inflation exposure is to some extent reduced by investments in inflation-linked assets. Further, investments in short-dated nominal bonds, cash products, equity and property (where rent is indexed with inflation) also provide some protection against inflation. Further, inflation derivatives are used to limit this risk.

#### **Liquidity risk**

Most of Codan Forsikring's investments are in liquid, listed bonds that can be liquidated on short notice at close to market price. Further, a credit facility can be obtained from the Company's primary banks given the Company's rating of A.

#### **Credit risk**

Credit risk (default risk) is the risk of incurring a loss if a counterpart cannot meet its obligations. Codan Forsikring's investment portfolio consists primarily of Scandinavian AAA-rated government and mortgage

## Management's review

bonds, for which the credit risk is considered very low. More than 75% of the total investments consist of AAA-rated bonds. In addition, Codan Forsikring holds European corporate bonds with a credit rating of at least BBB. Codan Forsikring's counterparty-related credit risks are primarily tied to holdings of cash and deposits in banks and exposure on reinsurance counterparties, but also receivables from policyholders and group companies comprises credit risk.

### Sensitivity analysis

The Company's analysis of how changes in different risk factors impact the capital position is illustrated in below table.

	SCR 125 pct.			SCR 100 pct.		
	Stress	Own funds	Solvency surplus	Stress	Own funds	Solvency surplus
Interest rate risk	(200) bps	8,163	161%	(200) bps	8,163	161%
Equity market risk	(82)%	5,505	125%	(100)%	5,011	114%
Real estate risk	(100)%	7,773	174%	(100)%	7,773	174%
<i>Spread risk:</i>						
Danish government bonds	(53)%	5,566	125%	(80)%	4,447	100%
Other government bonds	(23)%	5,558	125%	(34)%	4,438	100%
Other bonds	(14)%	5,534	125%	(21)%	4,413	100%
Currency risk (DKK)	(100)%	9,937	169%	(100)%	9,937	169%
Counterparty losses		7,282	159%		7,282	159%
Catastrophe	1388%	7,773	125%	1712%	7,773	100%
	MCR 125 pct.			MCR 100 pct.		
	Stress	Own funds	Solvency surplus	Stress	Own funds	Solvency surplus
Interest rate risk	(200) bps	8,045	353%	(200) bps	8,045	353%
Equity market risk	(100)%	4,892	248%	(100)%	4,892	248%
Real estate risk	(100)%	7,654	380%	(100)%	7,654	380%
<i>Spread risk:</i>						
Danish government bonds	(100)%	3,516	175%	(100)%	3,516	176%
Other government bonds	(53)%	2,489	125%	(58)%	1,990	100%
Other bonds	(32)%	2,470	125%	(35)%	1,973	100%
Currency risk (DKK)	(100)%	9,818	371%	(100)%	9,818	371%
Counterparty losses		7,163	347%		7,163	347%
Catastrophe	1094%	7,654	274%	1621%	7,654	219%

### Operational risks

Operational risk is the risk of loss (economic or reputational) resulting from inadequate or failed internal processes, people and systems, or from external events.

### Compliance risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation the Company may suffer as a result of not complying with laws, regulations and administrative provisions as applicable to the activities. Deficient compliance may lead to increased operational risks, risk of legal sanctions, supervisory sanctions, financial loss or loss of reputation.

### Other risks

The Company also faces strategic risks, reputational risks and emerging risks. Strategic risks are the risks that arise from strategic decisions and planning, that can affect the Company's business and capital adversely. Reputational risk is the risk that the Company's intrinsic value is deteriorated through negative perceptions in the market, while emerging risks are risks that the Company may face over a period of time that transcend the planning horizon. Emerging risks can for instance relate to technological development, medical advances, and climate changes.

### Management's review

The Company manages these risks on an ongoing basis in accordance with the Company's risk appetite, and quarterly reports operational risks to the Board of Directors. Where the risk exposure is considered to be outside of risk appetite, actions are required to mitigate and manage the risk within a reasonable timeframe. An annual assessment is performed of the direct and indirect financial impact that could arise from various scenarios identified through the risk profiles.

### Capital structure

For capital management purposes, Codan Forsikring uses an internal capital model to assess and calculate capital requirements and scenarios. The model is used to calculate the solvency capital requirement and for performance review purposes capital allocations are derived from the model. The model is further used for impact analysis when assessing impact of major strategic decisions and updates to the operational plan. The model has been developed over a number of years in cooperation with the RSA Group and was approved by the College of Supervisors in December 2015. The model is fitted for Codan Forsikring and is continuously being developed, which includes an annual re-parameterisation. The model is a cash flow-based stochastic model, which models underwriting risk, reserving risk, catastrophe risk, counterparty risk, investment risk and operational risk. Within this model framework, with run-off on existing obligations and new business for one year, the solvency capital requirement is calculated as the capital required to resist a worst-case scenario, defined as a once in every 200-year occurrence.

There have been a few minor changes to the capital model carried out in 2018. These resulted in a smaller strengthening in modelled market risk as well as modelled reserving risk.

Codan Forsikring's eligible own funds to cover the solvency capital requirement amounted to DKK 7,709 million at 31 December 2018. At the end of 2018, the solvency capital requirement of Codan Forsikring was DKK 4,473 million.

The Solvency II ratio is based on the ratio of eligible own funds to SCR (calculated with the Internal Model):

<b>Five year summary</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Solvency ratio - Solvency II	172.3	192.1	215.0	212.0	-

Until 2015, the key figure was calculated according to the Solvency I calculation method, see note 3.



### Statement by the management on the annual report

#### Directorships and executive positions

##### Board of Directors

At the time of adoption of the Annual Report, the members of the Company's Board of Directors held the following directorships and executive positions in other enterprises.

##### Board of Directors

##### Directorships and executive positions in other enterprises

Lars Nørby Johansen, Chairman	Bornholms Mosteri A/S, Danmarks Underholdningsorkester A/S, Den Erhvervsdrivende Fond Bornholms Mosteri, (Chairman): Codan A/S, Dansk Vækstkapital Komplementar ApS, Dansk Vækstkapital K/S, Fonden For Entreprenørskab, Fonden Oluf Høst Museet, Københavns Lufthavne A/S, Montana Furniture A/S, Rockwool Fonden, SDU (University of Southern Denmark), Trapholt, William Demant Invest A/S, William Demants og Hustru Ida Emilies (Millas) Fond - kaldet Oticonfonden, (Deputy chairman): ARP-Hansen Hotel Group A/S.
Christer Arne Bjellert *	Codan A/S.
Scott Egan	Ascentus Insurance Ltd., Canadian Northern Shield Insurance Company, Codan A/S, Quebec Assurance Company, Roins Financial Services Limited, Royal & Sun Alliance Insurance Company of Canada, Royal & Sun Alliance Insurance plc., Royal & Sun Alliance Reinsurance Limited, RSA Insurance Group plc., The Johnson Corporation, The Marine Insurance Company Limited, Unifund Assurance Company, Western Assurance Company.
Philip Wynford Moore	Aylward Academy, Bank of Ireland (UK) plc, The Royal British Legion, (Deputy Chairman) Codan A/S.
Marianne Philip	Aktieselskabet af 1. januar 1987, Codan A/S, Copenhagen Capacity, Fonden til markedsføring og erhvervsfremme i Region Hovedstaden, Brenntag Nordic A/S, Kirsten og Peter Bangs Fond, Redoffice PKC A/S, (Chairman): IBOB A/S, Investeringsforeningen Nordea Invest, Investeringsforeningen Nordea Invest Kommune, Investeringsforeningen Nordea Invest Bolig, Investeringsforeningen Nordea Invest Engros, Investeringsforeningen Nordea Invest Portefølje, Kontorsupermarked A/S, Redoffice Scan Office A/S, Scan Office A/S, (Deputy Chairman): Bitten og Mads Clausens Fond, Norli Pension Livsforsikring A/S, Novo Nordisk Fonden.
Maria Elisabeth Sandblom *	Codan A/S, Förbundsstyrelsen för FTF-facket för försäkring och finans.
Christian Sletten *	Codan A/S.

##### Board of Management

Pursuant to section 80 of the Danish Financial Business Act, the Board of Directors of Codan Forsikring has approved that the members of the Board of Management of the Company, held or hold the following directorships and executive positions.

##### Board of Management

##### Directorships and executive positions

Patrick Bergander	Försäkringsbranschens Arbetsgivareorganisationens Service AB, SFS Svensk Försäkring Service AB, (Directorship): Codan A/S.
Vivian Lund	Finanssektorens Arbejdsgiverforening, Forsikringsorganisationernes Fællessekretariat F.M.B.A, Forsikring & Pension, Forsikringselskabet Privatsikring A/S, (Directorship): Codan A/S.

\*) Employee representative

**Statement by the management on the annual report**

The Board of Directors and the Board of Management have today considered and approved the annual report of Codan Forsikring A/S for the financial year 1 January to 31 December 2018.

The annual report is presented in accordance with the Danish Financial Business Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2018 and of its financial performance for the financial year 1 January to 31 December 2018. It is also our opinion that the Management's review gives a true and fair view of developments in the Company's activities and financial position and describes the major risks and uncertainties that the Company is facing.

We recommend the annual report for adoption at the annual general meeting.

Copenhagen, 22 March 2019

**Board of Management**

Patrick Bergander  
*CEO*

Vivian Lund  
*EO*

**Board of Directors**

Lars Nørby Johansen  
*Chairman*

Christer Arne Bjellert

Scott Egan

Philip Wynfod Moore

Marianne Philip

Maria Elisabeth Sandblom

Christian Sletten

## **Independent auditors' report**

### **To the Shareholder of Codan Forsikring A/S**

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our long-form audit report to the Board of Directors and the Audit Committee.

#### ***Audited financial statements***

Codan Forsikring A/S' financial statements for the financial year 1 January – 31 December 2018 comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, and notes, including a summary of significant accounting policies (the financial statements).

The financial statements are prepared in accordance with the Danish Financial Business Act.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark.

Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in article 5(1) of the Regulation (EU) no. 537/2014 and that we remained independent in conducting the audit.

We were appointed auditors of Codan Forsikring A/S for the first time on 29 April 2014 for the financial year 2014. We have been re-appointed by resolutions passed by the annual general meeting for a total uninterrupted engagement period of five years, including the financial year ending 31 December 2018.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the financial year 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

## Independent auditors' report

### Key audit matter

### How our audit addressed the key audit matter

#### Valuation of insurance contract provisions

##### **Subjective valuation and inherent uncertainty**

Insurance contract provisions that mainly includes premium provisions, provisions for outstanding claims and risk and profit margin, represent the largest liability for the Company.

Total insurance contract provisions amount to DKK 28,831.4 million at 31 December 2018 (2017: DKK 28,508.8 million).

Valuation of these liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as loss ratios and estimates of frequency and severity of claims.

The determination and application of the methodology and performance of the calculations are also complex.

Consequently, we have considered the audit of insurance contract provisions a key audit matter.

Certain lines of business have greater inherent uncertainty, e.g. those where claims emerge more slowly over time, or where there is greater variability in claims settlement amounts and potential exposure to large losses due to the effect of uncertain or unknown future events. This includes the Danish and Norwegian Workers' Compensation, the Swedish Personal Accident and Swedish Motor and Annuities.

Furthermore, we have assessed that there is also a significant risk related to the following elements that are complex and/or based on

Management's judgements:

- Expectations for future inflation
- Direct and indirect claims handling expenses
- Expectations for future claims
- Calculation of the profit margin and risk margin.

With the assistance of our own actuarial specialists, our procedures included:

**Assessment of control environment:** We have assessed the governance of the claims provision process. Our assessment has included evaluating the qualifications and experience of those responsible for reviewing the provisions and examining the output of the reviews by assessing the scope and depth of these processes.

Our evaluation of the methodologies and key assumptions for the most significant and subjective classes of business has also supported our assessment of the quality of the Company's claims provision process.

We also reviewed and assessed the assumptions for calculating the premium provisions, the risk margin and the profit margin.

**Test of controls:** Evaluation and testing of key controls designed and implemented to ensure the integrity and completeness of the data used in the actuarial claims provision process including both current and prior year case provision data.

The controls included reconciliations between the claims data recorded in the insurance systems and the data used in the actuarial claims provision calculations to test completeness and accuracy of data used.

We tested controls through inspecting or re-performing the Company's reconciliations of data.

We also compared samples of claims case provisions to appropriate documentation in order to test the controls of the valuation of individual claims provisions.

**Replications and independent re-estimation:** We have carried out replications and independent re-estimations of the gross claims provisions covering the lines of business related with the most material risks.

A replication of the provisions is performed by applying identical methods and assumptions as the Company uses in our internal reserving tool.

Independent re-estimation is performed by calculating the level of the provisions using KPMG's own parameters and assumptions.

## Independent auditors' report

### Key audit matter

### How our audit addressed the key audit matter

#### **Valuation of Insurance contract provisions continued**

Management has specified the risks, etc., related to the estimates of the insurance contract provisions in note 1 "Accounting policies", pages 33-38, and in note 2 "Risk information", pages 48-50.

The determination of which lines of business to replicate or re-estimate was based on our risk assessment.

#### **Completeness and accuracy of data**

The valuation of the insurance contract provisions depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements of key assumptions, is not complete and accurate, then material impacts on the valuation of insurance liabilities may arise.

**Sector experience and benchmarking:** We evaluated the Company's applied assumptions, provision methodologies and estimates of losses to expectations based on the Company's historical experience and taking into account current trends, benchmarking and our own industry knowledge including information relating to forthcoming legislation that may materially affect speed or amount of the claims settlement.

We also reviewed and assessed the assumptions for calculating the premium provisions, the risk margin and the profit margin.

### IT systems and control environment

#### **Completeness and accuracy of financial data**

Preparation of financial information is highly dependent on financial IT applications. Design and implementation of general IT controls (change management and access controls) and application controls are essential for creating an adequate control environment, and the operational effectiveness of these controls is important for generating reliable financial data.

With the assistance of our IT audit specialists, our procedures included:

**Test of controls:** Testing general IT controls on system access, change management and computer operations within specific applications pertinent to the financial statements by assessing if appropriate policies and controls are in place and adhered to and by inspecting supporting evidence.

Our work included testing manual compensating controls and reconciliations between systems and other information sources, through re-performance or inspection.

Due to the complexity of the Company's IT infrastructure and systems and IT transformation activities, including continued system implementations and transitioning, there is an increased risk of general IT controls and application controls not continuing to operate effectively and of reliable financial data not being generated as expected and presumed.

**Extended scope:** Where general IT controls and compensating manual controls did not operate to mitigate a risk to an acceptable low level, we performed additional substantive testing such as using extended sample sizes and performing data analysis routines of impacted accounts, etc.

Therefore, we have considered IT systems and the control environment a key audit matter.

## **Independent auditors' report**

### **Statement on the Management's review**

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act.

We did not identify any material misstatement of the Management's review.

### **Management's responsibilities for the financial statements**

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### **Auditor's Responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that

## **Independent auditors' report**

may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 22 March 2019

**KPMG**

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Anja Bjørnholt Lüthcke  
State Authorised  
Public Accountant  
MNE 26779

Henrik Barner Christiansen  
State Authorised  
Public Accountant  
MNE 10778

## Income Statement

Note	DKK million	2018	2017
<b>General insurance</b>			
4	Gross premiums written	15,045.0	15,448.9
	Premiums ceded to reinsurers	-586.1	-658.5
4	Change in premium provision	-126.9	264.9
	Change in profit margin and risk margin	114.3	-252.9
	Change in the provision for unearned premiums, reinsurers' share	-163.6	-43.8
	<b>Earned premiums, net of reinsurance</b>	<b>14,282.7</b>	<b>14,758.6</b>
	Claims paid, gross	-9,851.6	-10,795.6
	Claims paid, reinsurers' share	208.1	297.1
	Change in the provision for claims	-387.0	715.1
	Change in risk margin	10.4	-58.7
	Change in the provision for claims, reinsurers' share	-39.7	-241.6
5	<b>Claims incurred, net of reinsurance</b>	<b>-10,059.8</b>	<b>-10,083.7</b>
	<b>Bonuses and rebates</b>	<b>-107.6</b>	<b>-67.1</b>
	Acquisition costs	-1,724.2	-1,893.0
	Administrative expenses	-673.2	-966.6
	Reinsurance commissions and profit participation	20.1	63.6
6	<b>Net operating expenses</b>	<b>-2,377.3</b>	<b>-2,796.0</b>
7	<b>Balance on the technical account, general insurance</b>	<b>1,738.0</b>	<b>1,811.8</b>
<b>Investments</b>			
	Income from Group entities	136.2	162.7
	Income from associated entities	5.0	2.7
	Income from Group occupied properties	-0.3	-0.7
8	Interest income and dividends, etc.	955.8	1,059.1
9	Value adjustments	-604.9	-323.4
	Interest expenses	-0.3	-0.9
	Investment management expenses	-62.4	-74.3
	<b>Total investment return</b>	<b>429.1</b>	<b>825.2</b>
	<b>Return on and value adjustments on technical provisions</b>	<b>-393.3</b>	<b>-139.3</b>
	<b>Total investment return after return on and value adjustment on technical provisions</b>	<b>35.8</b>	<b>685.9</b>
10	Other income	-	2.1
	<b>Profit before tax</b>	<b>1,773.8</b>	<b>2,499.8</b>
11	Tax	-541.6	-535.1
	<b>Profit for the year</b>	<b>1,232.2</b>	<b>1,964.7</b>



**Income Statement**

	DKK million	2018	2017
<b>Proposal for the distribution of profit:</b>			
Transferred to reserve for net revaluation according to the equity method		136.3	77.6
Transferred to retained earnings		1,095.9	1,887.1
		<b>1,232.2</b>	<b>1,964.7</b>

**Statement of comprehensive income**

Currency translation adjustment, foreign subsidiaries		-7.3	-9.7
Currency translation adjustment, foreign associates		-0.5	0.0
Currency translation adjustment, foreign branches		-151.4	-159.5
Intra-group contribution		0.0	1.4
Tax on intra-group contribution		0.0	-0.4
Unrealised gain/losses operational hedge		2.5	0.0
Tax re operational hedge		-0.5	0.0
Other comprehensive income		0.1	-1.6
Tax on other comprehensive income		0.0	0.0
<b>Other comprehensive income</b>		<b>-157.1</b>	<b>-169.8</b>
Profit for the year		1,232.2	1,964.7
<b>Total comprehensive income</b>		<b>1,075.1</b>	<b>1,794.9</b>

## Balance sheet at 31 december

Note	DKK million	2018	2017
<b>Assets</b>			
12	<b>Intangible assets</b>	<b>1,250.1</b>	<b>1,254.6</b>
13	Equipment	24.8	31.9
14	Group occupied properties	-	15.1
	<b>Total property and equipment</b>	<b>24.8</b>	<b>47.0</b>
15	Investments in Group entities	785.0	656.0
	Loans to Group entities	1,000.0	1,000.0
	Investments in associated entities	25.0	20.4
	<b>Total investments in Group entities</b>	<b>1,810.0</b>	<b>1,676.4</b>
	Equity investments	1,669.2	1,965.3
	Units in open-ended funds	1,083.1	891.8
	Bonds	30,060.9	30,779.4
	Other loans	3.0	43.8
	Other	92.7	86.9
	<b>Total other financial assets</b>	<b>32,908.9</b>	<b>33,767.2</b>
	Deposits with ceding undertakings	1.4	2.0
	<b>Total investments</b>	<b>34,720.3</b>	<b>35,445.6</b>
16	Reinsurers' share of provision for unearned premiums	-	161.3
	Reinsurers' share of provision for claims	614.1	615.0
	<b>Total reinsurers' share of insurance contract provisions</b>	<b>614.1</b>	<b>776.3</b>
	Receivables from policyholders	268.2	289.3
	Receivables from brokers	150.2	122.3
	<b>Total receivables arising from direct insurance contracts</b>	<b>418.4</b>	<b>411.6</b>
	Receivables from insurance companies	89.0	104.6
	Receivables from Group entities	48.3	211.5
	Other receivables	153.2	46.7
	<b>Total receivables</b>	<b>1,323.0</b>	<b>1,550.7</b>
	Assets held for sale	2.2	2.3
17	Current tax assets	274.4	29.1
18	Deferred tax assets	62.1	345.6
	Cash and cash equivalents	620.2	1,225.8
	<b>Total other assets</b>	<b>958.9</b>	<b>1,602.8</b>
19	Accrued interest and rent	320.1	320.6
	Other prepayments	101.7	69.0
	<b>Total prepayments and accrued income</b>	<b>421.8</b>	<b>389.6</b>
	<b>Total assets</b>	<b>38,698.9</b>	<b>40,290.3</b>

**Balance sheet at 31 december**

Note	DKK million	2018	2017
<b>Equity and liabilities</b>			
20	<b>Share capital</b>	15.0	15.0
21	Contingency funds	5,312.6	5,417.3
	Reserve for net revaluation according to the equity method	554.9	401.5
	Translation reserve	63.5	118.0
	Operational hedge reserve incl tax	2.0	-
	<b>Total reserves</b>	<b>5,933.0</b>	<b>5,936.8</b>
	<b>Retained earnings</b>	<b>1,655.9</b>	<b>2,434.4</b>
22	<b>Total equity</b>	<b>7,603.9</b>	<b>8,386.2</b>
	Reinsurers' share of premium provisions	1.2	-
	Premium provisions	475.4	522.0
	Profit margin on general insurance contracts	1,565.0	1,702.7
	Provision for outstanding claims	24,735.9	24,303.0
	Risk margin on general insurance contracts	1,976.0	2,023.4
	Provision for bonuses and rebates	77.9	29.7
	<b>Total insurance contract provisions</b>	<b>28,831.4</b>	<b>28,580.8</b>
23	Pension obligations	13.4	28.1
18	Deferred tax liabilities	104.6	107.1
24	Other provisions	91.4	352.1
25	<b>Total provisions</b>	<b>209.4</b>	<b>487.3</b>
	<b>Deposits with ceding undertakings</b>	<b>0.1</b>	<b>1.5</b>
	Payables arising from direct insurance contracts	265.6	266.3
	Payables arising from reinsurance contracts	63.7	72.2
	Debt to credit institutions	470.0	997.6
	Amounts owed to Group entities	32.7	70.1
17	Current tax liabilities	-	31.7
26	Other payables	1,128.5	1,317.5
26	<b>Total payables</b>	<b>1,960.5</b>	<b>2,755.4</b>
	<b>Accruals and deferred income</b>	<b>93.6</b>	<b>79.1</b>
	<b>Total equity and liabilities</b>	<b>38,698.9</b>	<b>40,290.3</b>
<b>Notes without reference</b>			
1	Accounting policies		
2	Risk information		
3	Key figures and financial ratios		
27	Related parties		
28	Security		
29	Contingent assets, contingent liabilities and financial liabilities		
30	Incentive schemes		
31	Ownership information		

## Statement of changes in equity

DKK million

	Share - capital	Revaluation reserves, equity method	Other reserves	Proposed dividend	Retained earnings	Total equity
<b>2018</b>						
<b>Equity, beginning of the year</b>	<b>15.0</b>	<b>401.5</b>	<b>5,535.3</b>	<b>-</b>	<b>2,434.4</b>	<b>8,386.2</b>
<b>Changes in equity for 2018:</b>						
Currency translation adjustment, foreign subsidiaries	-	-	-7.3	-	-	<b>-7.3</b>
Currency translation adjustment, foreign associated entities	-	-	-0.5	-	-	<b>-0.5</b>
Currency translation adjustment, foreign branches	-	-	-151.4	-	-	<b>-151.4</b>
Unrealised gain/losses operational hedge	-	-	2.5	-	-	<b>2.5</b>
Tax re operational hedge	-	-	-0.5	-	-	<b>-0.5</b>
Other comprehensive income	-	-	-	-	0.1	<b>0.1</b>
Profit for the year	-	-	<b>-157.2</b>	-	<b>0.1</b>	<b>-157.1</b>
Total comprehensive income for the year	-	136.3	-	-	1,095.9	<b>1,232.2</b>
Reserve equity method, Distributed interim dividend	-	17.1	-	-	-17.1	-
Paid dividend	-	-	-	1,857.4	-1,857.4	-
Changes in equity for the year	-	153.4	-157.2	-	-778.5	<b>-782.3</b>
<b>Equity, end of the year</b>	<b>15.0</b>	<b>554.9</b>	<b>5,378.1</b>	<b>-</b>	<b>1,655.9</b>	<b>7,603.9</b>

## Statement of changes in equity

	DKK million					
	Share - capital	Revaluation reserves, equity method	Other reserves	Proposed dividend	Retained earnings	Total equity
<b>2017</b>						
<b>Equity, beginning of the year</b>	<b>15.0</b>	<b>415.8</b>	<b>5,704.6</b>	<b>-</b>	<b>2,655.9</b>	<b>8,791.3</b>
<b>Changes in equity for 2017:</b>						
Currency translation adjustment, foreign subsidiaries	-	0.1	-9.8	-	-	<b>-9.7</b>
Currency translation adjustment, foreign branches	-	-	-159.5	-	-	<b>-159.5</b>
Sale of Besigtelses Kontoret af	-	3.3	-	-	-3.3	<b>-</b>
Intra-group contribution	-	-	-	-	1.4	<b>1.4</b>
Tax on intra-group contribution	-	-	-	-	-0.4	<b>-0.4</b>
Other comprehensive income	-	0.1	-	-	-1.7	<b>-1.6</b>
Profit for the year	-	3.5	-169.3	-	-4.0	<b>-169.8</b>
Profit for the year	-	77.6	-	-	1,887.1	<b>1,964.7</b>
Total comprehensive income for the year	-	81.1	-169.3	-	1,883.1	<b>1,794.9</b>
Equalisation reserve (credit and Received dividend, subsidiaries	-	-95.4	-	-	95.4	<b>-</b>
Distributed interim dividend	-	-	-	2,200.0	-2,200.0	<b>-</b>
Paid dividend	-	-	-	-2,200.0	-	<b>-2,200.0</b>
<b>Changes in equity for the year</b>	<b>-</b>	<b>-14.3</b>	<b>-169.3</b>	<b>-</b>	<b>-221.5</b>	<b>-405.1</b>
<b>Equity, end of the year</b>	<b>15.0</b>	<b>401.5</b>	<b>5,535.3</b>	<b>-</b>	<b>2,434.4</b>	<b>8,386.2</b>

## Notes to the financial statements

### Note

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#### 1 Accounting policies

The annual report for 2018 of Codan Forsikring has been prepared in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's executive orders no. 937 of 7 July 2015 and no. 688 of 1 June 2016 and no. 1442 of 3 December 2018 on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds).

#### General information

The annual report is presented in DKK, rounded to the nearest million by one decimal. The business of Codan Forsikring consists mainly of selling general insurance products on the Scandinavian market and investing in Scandinavian securities. The Company has branches in Norway, Sweden and USA.

Codan Forsikring is a subsidiary to Codan A/S whose ultimate parent company is RSA Insurance Group plc, which prepares consolidated financial statements in accordance with applicable United Kingdom law. Consolidated financial statements have therefore not been prepared for the Codan Forsikring Group.

The Danish Financial Supervisory Authority has issued an update of the executive order no. 1442 of 3 December 2018 on Financial Reports for Insurance Companies and Lateral Pension Funds with effect from 2019. The changes relating to disclosure of sensitivities have been implemented already for 2018. Furthermore, capital coverage is now disclosed under Management's Review instead of under note 3.

Besides this the accounting policies remain unchanged from the Annual Report for 2017.

#### Recognition and measurement

On initial recognition, assets and liabilities are measured at fair value. However, intangible assets and property and equipment are measured at cost on initial recognition. Subsequent measurements are made as described for each individual item below. Measurement at amortised cost involves recognition of a constant effective interest rate over the life of the asset or liability. Amortised cost is calculated as the original cost less repayments and with addition/deduction of the accumulated amortisation of the difference between cost and the nominal amount. In this way, capital gains and losses are allocated over the life of the asset or liability.

Assets are recognised in the balance sheet when, due to an event occurring before or on the balance sheet date, it is probable that future economic benefits will flow to the Company and the value of the asset can be measured reliably. Financial instruments are recognised in accordance with this principle, and the trade date is used as the date of recognition.

Liabilities are recognised in the balance sheet when, due to an event occurring before or on the balance sheet date, the Company has a legal obligation, and when it is probable that future economic benefits will flow from the Company and the value of the liability can be measured reliably.

The recognition and measurement of assets and liabilities take into account information received after the balance sheet date but before the presentation of the annual report if such information proves or disproves circumstances prevailing on the balance sheet date.

Income is recognised in the income statement as earned. Expenses incurred to achieve the earnings for the year, including depreciation, amortisation, impairment losses and provisions, are recognised in the income statement. Adjustments resulting from changes in accounting estimates of items previously recognised in the income statement are also recognised in the income statement. Value adjustments of financial assets and liabilities which are measured at fair value are also recognised in the income statement, unless otherwise stated below.

## Notes to the financial statements

### Note

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#### **Key assumptions and estimates**

Determination of the carrying amount of assets and liabilities requires an estimate of how future events will affect the value at the balance sheet date. Estimates having a material impact on the financial reporting are, for example, made in connection with the determination of technical provisions, depreciation, amortisation and impairment losses, pension obligations as well as contingent assets and liabilities. The assumptions and estimates used are reviewed on a continuous basis and are, among other things, based on historical experience and expectations of future events.

The estimates used are based on assumptions, which the management believes to be reasonable, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur. Codan Forsikring is furthermore subject to risks and uncertainties that could cause actual results to differ from the estimates used.

Risk management is described in Note 2.

The following accounting assumptions and estimates are considered material to the annual report:

#### ***Insurance contract liabilities***

The provision for outstanding claims is generally affected by key actuarial assumptions and estimates, including expectations of the number and size of claims incurred but not yet reported as well as inflation developments. In some cases, the historical data forming part of the actuarial methods do not necessarily reflect the expected future level of claims, for instance in connection with amended legislation, legal practice or the practice of the Danish National Board of Industrial Injuries for awarding compensation, where an a priori estimate of the effect is prepared. This estimate is communicated to the business and forms the basis of premium changes necessitated by an expected change in the level of claims.

For general insurance companies, a run-off result is calculated as the difference between:

- a. the provision for outstanding claims in the opening balance sheet, adjusted for currency translation differences and discounting effects, and
- b. the sum of claims paid during the financial year relating to claims incurred in previous financial years, and that part of the provision for outstanding claims relating to claims incurred in previous financial years.

Run-off results for the past five years are shown in the five-year summary in Note 3.

#### ***Allocations in Codan Forsikring***

Expenses that are not directly attributable to individual lines of business or cannot be identified as either claims handling costs, operating expenses (acquisition costs and administrative expenses) or investment management expenses are allocated on the basis of estimated time consumption or cost charge.

#### ***Measurement of intangible assets***

Impairment testing of intangible assets may be significantly affected by major changes in the estimates and assumptions on which the calculations of recoverable amounts are based.

#### ***Deferred tax***

The tax liability arising on a temporary difference between the carrying amount and the tax value is generally recognised as deferred tax. If the temporary difference is negative, and it is considered likely that it can be used to reduce future tax liabilities, a deferred tax asset will be recognised.

Deferred tax assets have been recognised on the basis that future taxable profits will be available against which these deferred tax assets can be utilised. The evidence for the future taxable profits is a forecast consistent with the three-year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

## Notes to the financial statements

### Note

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Codan Forsikring does not make provisions for deferred tax on contingency funds. The reason for this is that, in the opinion of the management, taxation will only take place if the insurance portfolio is transferred or if the Company ceases to carry on insurance business. However, according to new Swedish tax rules contingency funds should be taxed at a temporary standard income calculated at 6 per cent of the contingency funds at the beginning of the tax year 2020. The temporary standard income is either raised by one-sixth of the tax year and by one sixth per year for the following five tax years, or by the full amount during the first tax year. This tax has been provided for as deferred tax.

#### **Contingent liabilities**

Contingent liabilities, including the outcome of pending legal proceedings, are inherently uncertain. The management has estimated these on the basis of legal assessments of the specific cases.

#### **Changes in assumptions and estimates**

No material changes in assumptions or estimates have been made during 2018.

#### **Business combinations**

Newly acquired or established entities are included in the financial statements from the date of acquisition or foundation. Entities sold or terminated are included in the income statement up to the date of disposal. Comparative figures are not restated for entities recently acquired, sold or terminated.

Identifiable assets, liabilities and contingent liabilities of newly acquired entities are measured at fair value at the date of acquisition.

The cost of business combinations is measured as the total fair value at the date of acquisition of transferred assets, known or predicted liabilities, and all costs directly attributable to the business combination.

Positive balances (goodwill) between the cost of business combinations and the fair value of identifiable assets, liabilities and contingent liabilities acquired are recognised as goodwill under intangible assets.

Goodwill is not amortised but tested at least annually for impairment and written down to the recoverable amount through the income statement if the carrying amount is higher. Negative balances (negative goodwill) are recognised in the income statement at the date of acquisition.

In connection with intra-group business combinations or portfolio transfers, the aggregation method is used whereby the difference between the purchase consideration and the net assets acquired is recognised directly in equity and comparative figures are restated.

The merger between Codan Forsikring and Trygg-Hansa Försäkrings AB in 2015 constitutes an intra-group business combination. The statutory accounts for Codan Forsikring has been prepared using the aggregation method, so that the profit and loss and balance sheet items of the two merged entities have been added as if the companies had been merged from the beginning of the earliest year presented in the financial statement. The parent company of the merged entities is Codan A/S. No purchase consideration has been paid in connection with the merger. The Company's activities in Sweden will continue to be carried out by the Codan Forsikring Swedish branch.

When the initial accounting for a business combination can be determined only provisionally, any adjustments to goodwill and the fair values of assets, liabilities and contingent liabilities are recognised within 12 months of the date of acquisition. Subsequently, goodwill will only be adjusted as a result of changes in estimates of contingent purchase considerations. If, 12 months after the acquisition, it is ascertained that the fair value of assets or liabilities at the date of acquisition differs from the values initially recognised, the adjustments are recognised in the income statement.

#### **Intra-group transactions**

Business transactions between group companies are conducted on market-based conditions or on a cost-covering basis.



## Notes to the financial statements

### Note

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#### **Foreign currency translation**

The Company's functional currency is DKK in respect of business and investments originating from Denmark. The functional currencies used by the Company's branches in Sweden and Norway are the currencies of the respective countries.

On initial recognition, foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of transaction. Exchange differences resulting from translation at the exchange rate prevailing at the date of transaction and the exchange rate prevailing at the date of payment are recognised in the income statement as value adjustments.

Receivables, payables, other monetary items as well as non-monetary items recognised on the basis of the fair value in foreign currency are translated at the exchange rate prevailing at the balance sheet date. The difference between the exchange rate prevailing at the balance sheet date and the exchange rate prevailing at the time when such receivables or payables arose or were recognised in the latest annual report is recognised in the income statement as value adjustments.

Results of foreign branches are translated into the presentation currency (DKK) at the exchange rate prevailing at the date of transaction. An average exchange rate for the period is used as the exchange rate at the date of transaction to the extent that this does not significantly distort the presentation. The value of foreign branches is translated at the exchange rates prevailing at the balance sheet date. Currency translation differences are recognised directly in equity as part of the translation reserve. If the foreign entity is disposed of, any currency translation differences will be recognised in the income statement in connection with the disposal.

Goodwill and other fair value adjustments of assets and liabilities arising on the acquisition of foreign entities are treated as belonging to the foreign entity and are translated at the exchange rate ruling at the balance sheet date.

#### **Individual areas in the annual report**

##### ***Insurance contracts***

Insurance contracts are defined as contracts under which one party (the insurer) accepts an insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is defined as risk, other than financial risk, transferred from the policyholder to the issuer of an insurance contract.

Insurance liabilities are recognised in the balance sheet from the time when the insurance risk is transferred to the insurer. The liability or part thereof is removed from the balance sheet when the liability, as specified in the contract, is met, cancelled or has expired.

The provision for insurance liabilities is recognised so that it, by taking into account what can reasonably be anticipated, is sufficient to cover all the Company's liabilities, but at the same time, the level of provision should not be higher than required.

##### ***Reinsurance***

Reinsurance contracts are defined as insurance contracts entered into with reinsurers under which the Company is fully or partially compensated for losses on one or more insurance contracts issued by the Company.

Codan Forsikring uses reinsurance as a normal part of its business for the purpose of limiting possible losses through the spreading of risk. Reinsurance does not change the Company's liabilities towards the policyholders. Conclusion of reinsurance contracts therefore means that the Company is exposed to credit risk as far as receivables from reinsurers are concerned.

Earned premiums, claims incurred, and technical provisions are shown on a gross basis in the income statement and the balance sheet, i.e. gross of reinsurance.

## Notes to the financial statements

### Note

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#### **General insurance contracts**

Gross premiums include amounts received by the Company during the accounting period or amounts owed to the Company for direct and indirect insurance contracts whose period of insurance commenced prior to the end of the accounting period.

Gross premiums are recognised less any return of premiums, bonuses and rebates offered to policyholders irrespective of claims experience and excluding any charges payable to public authorities collected together with the premiums. In connection with co-insurance, the share of the total premium belonging to the Company is included.

Premium provision is recognised when the insurer is bound. Premium provisions are calculated as present value of the future cash flows related to the remaining risk periods on already incepted insurance contracts and including bound but not incepted contracts not due for payment by the policyholder.

The cash flows include claims payments, direct and indirect expenses and (remaining) premium payments that the Company according to its best estimate is expected to incur. Premiums are calculated as premium income in accordance with the risk exposure over the cover period, calculated separately for each individual insurance contract.

For both claims and premium provision the present value assessment of the cash flows (discounting) is based upon the yield curve published by EIOPA. No matching adjustment or volatility adjustments are made.

The part of the provision that is attributable to the expected future profit on the provision for premium provision shall be recognised in “Profit margin on insurance contracts”. A risk margin shall be recognised for the premium provision to cover the uncertainty regarding claims that occur after the balance sheet date. The risk margin is recognised in the balance sheet item “Risk margin on general insurance contracts”. Cash inflows related to not collected premiums are reclassified from receivables.

The difference between the premium provisions gross, at the beginning and at the end of the accounting period is recognised as change in the premium provision. However, the proportion of the balance attributable to currency translation differences is recognised in the income statement as “Return on and value adjustments on technical provisions”.

Return on value adjustment on technical provision are calculated as the proportion of the changes to the present value of the premium provisions attributable to changes in the yield curve used for discounting and attributable to the current revaluation of the present value of the provision until the expected settlement date (impact of unwind of discount).

#### *Risk margin on insurance contracts*

Risk Margin is the risk premium that a third party in principle would demand to take over the insurance liabilities and associated risk. We calculate using a cost of capital approach with a yearly update at Q3 using latest full year information.

The difference between the risk margin related to the premium provision, at the beginning and at the end of the accounting period is recognised as “Change in profit margin and risk margin”. The difference between the risk margin related to the technical provision, at the beginning and at the end of the accounting period is recognised as “Change in risk margin”.

#### *Profit margin on insurance contracts*

Profit margin on insurance contracts is recognised as the expected future profit on bound, but not yet incepted insurance contracts, and incepted insurance contracts with remaining risk period, meaning the insurance contracts covered by the premium provision. In case the future claims payments and risk margin for a line of business are expected to exceed the future premiums, the profit margin has been set to zero.

## Notes to the financial statements

### Note

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Profit margin on insurance contracts is measured as the difference between premiums related to bound but not yet incepted insurance contracts and incepted insurance contracts with remaining risk period and the expected claims payments included in the premium reserve. The difference between the profit margin, at the beginning and at the end of the accounting period is recognised as “Change in profit margin and risk margin”.

The premium amounts repaid or to be repaid to policyholders are recognised as bonuses and rebates when the repayment amount is determined on the basis of the claims experience during the financial year for the individual insurance contract or a portfolio of insurance contracts based on criteria laid down prior to the beginning of the accounting period or when the insurance contracts are taken out. The provision for bonuses and rebates includes the expected amounts payable to policyholders based on their claims experience during the accounting period.

Claims paid include amounts paid in respect of insurance claims during the accounting period. The amount includes internal and external costs for the survey and assessment of claims, costs for the limitation of claims incurred as well as other direct and indirect costs for the settlement of claims incurred. Claims paid are recognised after deducting amounts received as a result of the Company taking over insured values or being subrogated to the insured's rights in connection with claims payments.

Run-off gains or losses on previous years' provision for outstanding claims are included in claims incurred.

The provision for outstanding claims is recognised as the present value of the amounts that the Company, according to its best estimate, is expected to pay in connection with insured events that have occurred up to the balance sheet date in addition to the present value of amounts already paid in connection with such events. The provision for outstanding claims furthermore includes the direct and indirect claims handling costs that the Company, according to its best estimate, is expected to incur.

Claims provisions are calculated as the present value of the future cash flows associated with already occurred claims. The payments include claims payments (including salvage and subrogation) and direct and indirect expenses. The methods used for the determination of the provision for outstanding claims are classical actuarial methods. For most of the business, the methods are based on run-off triangles containing paid or reported claim amounts. Methods are classical triangle based actuarial such as Chain-Ladder or Bornhuetter-Ferguson.

The main assumptions of the methods are that the claims run-off is relatively stable over time. To exemplify: a claim occurring in 2018 is more or less assumed to have the same run-off behaviour as a claim that occurred in 2014. To the extent that specific knowledge is available which makes such assumption unlikely, the model is adjusted accordingly. In several segments, reserves relating to claims incurred in the last few years are affected by assumptions concerning underlying changes in premium level, claims inflation and portfolio mix. These assumptions are therefore quantified explicitly and are included as part of the basis for determining the reserve.

For most lines of business, future inflation is handled implicitly in the statistical models. The assumption is that the future claims inflation is equal to the historical claims inflation. In respect of larger lines of business with long settlement periods, this assumption is important for the amount of the provision for outstanding claims. This especially applies to workers' compensation insurance and annuities related to motor insurance in Sweden where inflation assumptions therefore are handled explicitly.

Data used in the reserving process are reconciled with the primary systems. Any application of actuarial methods requires choices and related estimates. These choices and estimates affect the reserve amount. The choices/estimates are therefore reviewed in an internal review process to ensure that the final reserve level is appropriate.

The present value assessment of the cash flows (discounting) is based upon the Solvency II yield curve published by EIOPA. No matching adjustment or volatility adjustments are made.

## Notes to the financial statements

### Note

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The difference between the provision for outstanding claims at the beginning and at the end of the accounting period is recognised as change in the provision for claims. However, the proportion of the balance attributable to currency translation differences and changes in the discount rates used is recognised in the income statement as “Return on value adjustment on technical provisions”.

Return on value adjustment on technical provision are calculated as the proportion of the changes to the present value of the premium provisions attributable to changes in the yield curve used for discounting and attributable to the current revaluation of the present value of the provision until the expected settlement date (impact of unwind of discount).

Amounts paid or payable by the Company to reinsurers for reinsurance cover during the financial year are recognised as premiums ceded to reinsurers.

#### *Reinsurers share of provisions for insurance contracts*

Reinsurers' share of premium provision includes the Company's rights under reinsurance contracts calculated as the premiums ceded to reinsurers less that part of the ceded premiums relating to the time prior to the balance sheet date. The ceded premiums is the premiums paid by the Company for reinsurance contracts. The asset is tested for impairment and written down to any lower recoverable amount.

Amounts received by the Company during the financial year from the Company's reinsurers to cover claims incurred under reinsurance contracts are recognised as claims paid, reinsurers' share.

Reinsurers' share of provision for claims includes the Company's rights under reinsurance contracts as regards insured events that have occurred. The rights are determined on the basis of the terms of the reinsurance contracts, using the same estimates and discounting principles that have formed the basis for the calculation of the provision for outstanding claims, gross. As is the case with reinsurers' share of premium provision, the asset is tested for impairment and written down to any lower recoverable amount.

Change in the provision for claims, reinsurers' share includes the difference between the proportion of the provision for outstanding claims attributable to reinsurance cover at the beginning and at the end of the financial year. As is the case with change in the provision for claims, gross, the proportion of the balance attributable to currency translation differences and changes in the discount rate applied is recognised in the income statement as “Return on value adjustment on technical provisions”. Furthermore, the proportion of the change attributable to the impact of the unwinding of discount of the reinsurers' share of provision for claims during the period is also included in “Return on value adjustment on technical provisions”.

#### **Operating expenses**

Operating expenses include staff costs, commissions, marketing expenses, rent, expenses for stationary and office supplies, and depreciation, amortisation and impairment of property and equipment as well as intangible assets.

The proportion of operating expenses attributable to the acquisition and renewal of the portfolio of insurance contracts is included in 'Acquisition costs'. Acquisition costs are recognised when the cost is spent.

Commissions received from reinsurers are accrued over the period of cover of the insurance contracts.

#### **Financial instruments**

In connection with the acquisition and disposal of financial instruments under normal market conditions, the trade date is used as the date of recognition or the date where the asset/liability is no longer recognised in the balance sheet. When the financial instrument is recognised, an asset/liability equal to the agreed price is also recognised. On the disposal of a financial instrument, an asset/liability equal to the agreed price is similarly recognised. The liability or the asset will no longer be recognised in the balance sheet on the settlement date.

## Notes to the financial statements

### Note

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#### **Financial derivatives**

For financial derivatives, which do not qualify for hedge accounting, changes in fair value are recognised in the income statement.

The fair value of financial derivatives is determined on the basis of the closing price at the balance sheet date, or, if such a price is not available, another public price which is deemed to be the closest possible equivalent.

Currently financial derivatives comprise foreign exchange contracts, repo contracts and inflation swaps.

#### *Sale and repurchase contracts*

Securities sold subject to repurchase agreements (repos) remain on the balance sheet; the counterparty liability is recognised in “Debt to credit institutions”. The difference between the sale and repurchase price is treated as interest and accrued over the life of the contract using the effective interest method.

#### **Leases**

Assets held under finance leases are recognised on equal terms with other equipment from the time when the Company is entitled to use the leased asset. On initial recognition, the asset is measured at the lower of the fair value and the present value of the agreed lease payments. When calculating the present value, the interest rate implicit in the lease is used as discount rate or an approximate value for this. Changes in present values during the financial year are recognised as financial expenses.

The capitalised remaining lease commitment is recognised in the balance sheet as a liability, and the interest element of the lease payment is charged to the income statement as incurred.

Assets held under operating leases are not recognised in the balance sheet, and lease payments are recognised in the income statement on a straight-line basis over the period of the lease.

In connection with sale and leaseback transactions (sale of an asset and leaseback of the same asset) resulting in operating leases, the selling price and lease payments will be assessed relative to the fair value. If the transaction has been agreed at fair value, any profit or loss relative to the carrying amount will be recognised immediately.

If the selling price is below fair value, any profit or loss will also be recognised immediately, unless the loss is compensated for by future lease payments below market price. In such cases, the loss is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

If the selling price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

The Company has no sale and leaseback transactions where the leaseback is a finance lease.

#### **Incentive schemes**

The RSA Group operates a long-term incentive plan (Performance Share Plan) for CEOs and other key employees. The scheme is based on various performance targets and is based on shares in RSA Insurance Group plc. For further details on the program, see note 30.

The fair value of the employee services received in exchange for the grant of options or shares is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares granted. The fair value is determined at the grant date. At each balance sheet date, the Company revises the estimates of the number of options expected to be exercised. The Company recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the remaining vesting period.

## Notes to the financial statements

### Note

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Share options are included in the disclosure on remuneration to management as the share options are earned, whereas the disclosure on incentive schemes includes share options as they are issued.

#### **Assets held for sale and discontinued operations**

Discontinued operations are defined as one entity whose operations and cash flows can clearly be separated from the remaining business – both operationally and financially – and where the operations have either been disposed of or separated for the purpose of sale. Operations/assets are classified as 'Assets held for sale' or 'Discontinued operations' if their carrying amount will be recovered principally through a sales transaction within 12 months according to a formal plan rather than through continuing use. Discontinued operations also include businesses acquired for resale, where the sale is likely to be completed within one year.

Discontinued operations are presented in a separate line in the income statement together with comparative figures and are specified in the notes. Balance sheet items relating to discontinued operations and assets held for sale are recognised as separate items in assets and liabilities, respectively. Comparative figures for assets and liabilities are not restated.

Assets held for sale are measured at the lower of the fair value less costs to sell and the carrying amount. The assets are not subject to depreciation.

#### **Income statement**

As regards the technical account in the income statement, reference is made to the specifications in 'General insurance contracts' and 'Operating expenses'.

#### **Investment return**

Interest and interest-related income from bonds, other securities, loans and receivables, including indexation of index-linked bonds and dividends on equity investments, are recognised in interest income and dividends, etc.

Total value adjustments, including currency translation adjustments as well as net gains and losses from the sale of assets falling within the group of investments in the balance sheet, are recognised as value adjustments.

Interest on and interest-related expenses in connection with payables and liabilities are recognised as interest expenses. Borrowing costs are charged to the income statement as incurred, as borrowing costs related to qualifying assets are not capitalised (e.g. in connection with the construction of Group-occupied properties).

Costs attributable to trading in and management of the Company's investments are recognised as investment management expenses. The investment return further includes income from Group entities, which consists of the Company's share of Group entities' net profit after tax.

#### **Other income and expenses**

Income and expenses which are not attributable to the Company's insurance portfolio or investments and profit from sale of portfolios are included in other income and expenses.

#### **Tax**

The Company is taxed jointly with Danish subsidiaries and Codan A/S as well as the Danish subsidiaries of this company. Full allocation is made to all jointly taxed companies. Tax for the year, consisting of current tax for the year, any change in deferred tax and adjustments relating to previous years, is recognised in the income statement with the proportion attributable to the profit for the year, and directly in equity with the proportion attributable to transactions recognised directly in equity.

## Notes to the financial statements

### Note

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The Company is subject to the Danish tax prepayment scheme. Additions, deductions and allowances relating to tax payments are included in 'Interest income and dividends, etc.' and 'Interest expenses'. Tax payments are made to Codan A/S, which, according to the rules on joint taxation, acts as administration company.

Current tax liabilities and assets are recognised in the balance sheet as tax calculated on the taxable income for the year, adjusted for tax on taxable income for previous years and tax paid on account.

Deferred tax liabilities are measured using the balance sheet liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, no provision is made for deferred tax on temporary differences arising from amortisation of goodwill disallowed for tax purposes and other items where such differences – except in connection with acquisitions – have arisen at the date of acquisition without having an impact on the financial results or the taxable income. In those cases where the tax base can be determined according to alternative taxation rules, deferred tax liabilities will be measured on the basis of the planned use of the asset and the settlement of the liability.

Deferred tax assets, including the tax base of tax losses that may be carried forward, are recognised in 'Other assets' at the value at which they are expected to be used, either through elimination of tax on future earnings or by offsetting against deferred tax liabilities within the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates in the respective countries which, based on the legislation in force at the balance sheet date, will apply when the deferred tax liability is expected to be settled or when the deferred tax asset is expected to be realised. Change in deferred tax resulting from changes in tax rates is recognised in the income statement with the proportion attributable to the profit for the year, and directly in equity with the proportion attributable to transactions recognised directly in equity.

The Company does not make provisions for deferred tax on contingency funds. According to the Danish Financial Business Act, including the Danish Financial Supervisory Authority's executive orders no. 937 of 7 July 2015 and no. 688 of 1 June 2016 and no. 1442 of 3 December 2018 on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds) a provision for deferred tax on contingency funds should only be made if it is likely that a situation will arise within the foreseeable future which will result in taxation. In the opinion of the management, taxation will only take place if the insurance portfolio is transferred or if the Company ceases to carry on insurance business.

### Other comprehensive income

In a separate section named "Other comprehensive income", following the income statement, the below listed value changes are recognised:

- Fair value revaluation related to group occupied property and reversal of previous revaluations.
- Exchange rate adjustments arising from revaluation of transactions and balance sheet items, including goodwill, for entities with a functional currency that differs from the presentational currency of Codan Forsikring A/S (DKK).
- Changes in value of hedges instruments which relates to hedging of fluctuations in future cash flow.
- Changes in value of hedges instruments which relates to hedging of currency exposure on investments in foreign entities.
- Changes in actuarial gains and losses related to pension obligations

For each item recognised under other comprehensive income the related tax effects are recognised as separate items under Other comprehensive income as well.

## Notes to the financial statements

### Note

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#### Balance sheet

##### Assets

##### Intangible assets

##### *Goodwill*

Goodwill is initially recognised in the balance sheet at the amount corresponding to the excess of the cost of acquisition of the Company's interest in an acquired entity over the Company's interest in the fair value of the acquired assets and liabilities at the time of acquisition. Goodwill relating to acquisitions prior to 2004 is recognised at the carrying amount at 1 January 2004. This goodwill has thus been recognised on the basis of the cost recognised in accordance with the previous accounting policies less amortisation and impairment losses up to 1 January 2004. Reference is made to the section 'Business combinations'. The carrying amount of goodwill is allocated to cash-generating units at the date of acquisition. Cash-generating units are determined in accordance with the business structure, and goodwill is tested for impairment at the end of the financial year. In connection with intra-group business combinations, existing goodwill is allocated to the new cash-generating unit in which the activities creating the goodwill are included.

The carrying amount of goodwill is tested for impairment together with all other assets in the cash-generating unit to which goodwill has been allocated and is written down to the recoverable amount through the income statement if the carrying amount is higher.

Negative balances (negative goodwill) are recognised in the income statement at the date of acquisition.

Impairment losses on goodwill are not reversed.

##### *Development projects*

Development projects that are clearly defined and identifiable, where the technical rate of utilisation, adequate resources and development opportunities in the Company can be demonstrated, and where the intention is to produce or use the project outcome, are recognised as intangible assets, provided that the cost can be determined reliably and that there is sufficient certainty that the asset will generate economic benefits exceeding costs.

Costs include materials and services attributable to the Company's development activities.

All other costs associated with developing or maintaining computer software are recognised in the income statement as incurred.

Completed development projects are measured at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the asset. The amortisation period is usually three years but can be five to seven years. Development projects in progress are measured at cost less any impairment losses.

The Company's development activities include the development of IT programs and platforms as well as major strategic efforts within insurance systems.

##### *Other intangible assets*

Customer lists acquired in connection with business combinations are measured at cost less accumulated amortisation and impairment losses. The amortisation period for customer lists is five years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Acquired computer software licences are measured at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the asset. The depreciation period is usually three years.



## Notes to the financial statements

### Note

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#### **Property and equipment**

##### ***Equipment***

Equipment is measured at cost less accumulated depreciation and impairment losses, if any.

Cost comprises the acquisition cost and costs directly attributable to the acquisition up to the date when the asset is available for use. Subsequent costs are included in the carrying amount when it is probable that they will result in future economic benefits and can be measured reliably. Costs of normal repairs and maintenance are charged to the income statement.

The basis of depreciation is the cost less the residual value and any impairment losses, and depreciation is charged on a straight-line basis over the estimated useful lives of the assets, which are mainly in the range from three to ten years. The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

Gains and losses on assets disposed of or scrapped are determined by comparing proceeds with the carrying amount. Gains and losses are recognised in the income statement.

##### ***Group occupied properties***

Group-occupied properties are properties used by the Codan companies for their own operations. On initial recognition, Group-occupied properties are measured at cost. Group-occupied properties are subsequently measured at revalued amount, equal to the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is made on a continuous basis to ensure that the carrying amount does not differ significantly from the value that would be determined by using the fair value at the balance sheet date.

Any increases in the carrying amount arising from the revaluation of Group-occupied properties are recognised directly in equity as part of the revaluation reserve, unless the increase corresponds to any decrease in value previously recognised in the income statement. Decreases that offset previous increases of the same asset are charged against the asset revaluation reserve directly in equity, whereas other decreases are recognised in the income statement.

Valuations used to determine the fair value are primarily carried out by independent external valuers with the necessary professional knowledge about each property category and the area in which the property is located.

Subsequent costs are included in the carrying amount when it is probable that they will result in future economic benefits and can be measured reliably. Costs of normal repairs and maintenance are charged to the income statement.

Depreciation is charged to the income statement on a systematic basis over the estimated useful life of the asset. Depreciation is calculated on the basis of the revalued amount of the property less the expected residual value of the property at the end of its useful life. The depreciation period is usually 30 years. The properties' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

##### **Impairment of intangible assets and property and equipment**

Goodwill, finalised development projects and development projects in progress are tested for impairment in connection with the annual report and during the year if there is any indication of impairment. The carrying amount of other intangible assets and property and equipment is reviewed at least annually to determine whether there is any indication of impairment. If there are indications of impairment, the carrying amount is written down to the estimated recoverable amount of the asset if this is lower than the carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the expected value in use.

## Notes to the financial statements

### Note

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Impairment losses on development projects and other intangible assets are reversed to the extent that changes have been made to the assumptions and estimates underlying the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

#### **Investments in Group entities**

Investments in Group entities are measured according to the equity method, which means that the value is equal to the proportion of equity in the entities which corresponds to the ownership interest and is calculated in accordance with the accounting policies applied by the Company.

The profit or loss of Group entities is included in the parent company income statement for the same financial year. The profit or loss of Group entities is transferred to the reserve for net revaluation according to the equity method under equity. This reserve may not be used for dividend or distribution. The reserve in the parent company is reduced by dividend payments from Group entities.

#### **Other financial assets**

Financial assets are measured at fair value, and value adjustments are included in the income statement.

The fair value of listed securities is determined on the basis of the closing price at the balance sheet date, or, if such a price is not available, another public price which is deemed to be the closest possible equivalent.

For securities that are not listed on a stock exchange, or for which no market price exists which reflects the fair value of the asset, the fair value is determined using valuation techniques, the purpose of which is to determine the transaction price which would result from arm's length transactions between independent parties at the date of measurement. These techniques include the use of similar recent arm's length transactions between independent parties, reference to other instruments that are substantially the same and a discounted cash flow analysis. All value adjustments of financial assets are recognised in the income statement as value adjustments.

Currency translation adjustments are recognised directly in the income statement.

#### **Receivables**

Receivables, including deposits with ceding undertakings and receivables arising from insurance contracts, are recognised at fair value and subsequently measured at amortised cost using the effective interest method, which usually corresponds to the nominal value in respect of short-term non-interest-bearing receivables and floating rate receivables.

An estimated provision for expected losses is recognised in the income statement when there is a clear indication that the asset is impaired. The recognised provision is measured as the difference between the asset's carrying amount and a possible lower recoverable amount.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks as well as securities with a maturity of less than three months at the date of acquisition which are readily convertible into cash and which are subject to insignificant risks of changes in value.

#### **Prepayments and accrued income**

Prepayments and accrued income are measured at cost, equivalent to the measurement made on initial recognition.

## Notes to the financial statements

### Note

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#### **Liabilities**

#### **Equity**

#### **Share capital**

Shares in Codan Forsikring are recognised at nominal value.

#### **Contingency funds**

The Danish contingency funds are separate reserves within equity, which, until 1989, were set aside to strengthen the capital position and which were subject to tax relief. Contingency funds may only be used to strengthen the technical provisions or otherwise benefit the policyholders.

#### **Reserve for net revaluation according to the equity method**

The reserve includes net revaluation of investments in Group entities according to the equity method.

The Swedish contingency reserve is reported as an untaxed reserve. Changes are recognised through profit or loss. The basis for calculation is based on a directive from the Swedish Financial Supervisory Authority on a so-called normal plan for calculating the contingency reserve. The directive indicates the maximum amount that may be allocated to the contingency reserve, based on written premiums and the provision for claims outstanding in certain lines of insurance. Codan Forsikring Swedish branch continuously calculates the maximum scope for provisions. At year-end the Company had not utilised the maximum scope.

#### **Translation reserve**

The translation reserve comprises exchange differences arising from the translation of the equity of foreign subsidiaries and branches at the beginning of the year at the exchange rates prevailing at the balance sheet date and from the translation of income statements from the exchange rate prevailing at the date of transaction into the exchange rates prevailing at the balance sheet date.

The reserve also comprises foreign currency translation of intangible assets relating to acquisitions. The translation reserve has been determined in accordance with the guidelines issued by the Danish Financial Supervisory Authority as from 1 January 2004.

Currency translation adjustments are recognised in the income statement if the foreign entity is dissolved or disposed of.

#### **Operational hedge reserve incl. tax**

The operational hedge reserve comprises the unrealised gains and losses on cash flow hedges related to hedging of the currency risk of future cash flows. The tax effects of these gains and losses are included in the hedge reserve as well.

#### **Proposed dividend**

Proposed dividend is shown as a separate item under equity. Dividend distribution is recognised as a liability at the time of approval by the annual general meeting (time of declaration).

#### **Intra-group contributions**

Intra-group contributions are treated as capital increases in respect of contributions from the parent company or companies affiliated with the Company and as dividends in respect of contributions from the Company to the parent company or affiliated companies.

#### **Payables and liabilities, general information**

Amounts owed to credit institutions are measured at fair value. The fair value of amounts owed to credit institutions usually corresponds to the nominal value. Other financial liabilities are measured at amortised cost, which usually corresponds to the nominal value in respect of short-term non-interest-bearing payables.

The capitalised residual lease obligation in respect of finance leases is also recognised as liabilities.

## Notes to the financial statements

### Note

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#### **Pension obligations**

The Company has entered into pension agreements and similar agreements with the majority of its employees.

Contributions to defined-contribution schemes under which fixed contributions are paid to independent pension funds on an ongoing basis are recognised in the income statement in the period to which they relate, and any contributions payable are recognised in the balance sheet as other payables. When contributions to defined-contribution schemes have been paid, the Company has no further obligations to present or former employees.

For defined-benefit schemes, an annual actuarial calculation (Projected Unit Credit Method) is made of the present value of future benefits payable under the defined-benefit scheme. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the Company. The actuarial present value less the fair value of any scheme assets is recognised in the balance sheet under pension obligations.

Current service costs are recognised in the income statement based on actuarial estimates and calculated financial expense. Any difference between the expected development in pension scheme assets and liabilities and realised amounts determined at year end constitutes actuarial gains or losses and is recognised directly in equity as other comprehensive income.

If changes in benefits relating to employee services in current and prior years result in changes in the actuarial present value, the changes are recognised as past service costs. Past service costs are recognised immediately, provided that employees have already earned the changed benefits. Otherwise, the past service costs are recognised in the income statement over the period in which the changed benefits are earned by the employees.

If a pension scheme constitutes a net asset, the asset is only recognised if it offsets future refunds from the scheme or will lead to reduced future payments to the scheme.

The Company's obligations in respect of defined-benefit schemes constitute obligations towards employees in the Swedish and Norwegian branches.

#### **Provisions**

Provisions for jubilee bonuses and payments on retirement are gradually accumulated over the period of employment. The liability is calculated by taking into account expected staff turnover based on the Company's experience.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation.

On measurement of provisions, the expenditure required to settle the obligation is discounted if the amounts fall due more than 12 months after the period in which they are earned. A pre-tax discount rate is used that reflects the current market interest rate level and the risks specific to the obligation.

#### **Deposits with ceding undertakings**

Deposits with ceding undertakings include amounts received from reinsurers, which have been deposited to cover the liabilities of reinsurers towards the Company. Deposits with ceding undertakings are measured at amortised cost, which usually corresponds to the nominal value.

#### **Accruals and deferred income**

Accruals and deferred income are measured at cost, equivalent to the measurement made on initial recognition.

## Notes to the financial statements

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#### Methods for calculating financial ratios

The financial ratios have been calculated in accordance with the the Danish Financial Business Act, including the Danish Financial Supervisory Authority's executive orders no. 937 of 7 July 2015 and no. 688 of 1 June 2016 on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds). The ratios included in the fiveyear summary have been calculated as follows:

<b>Gross claims ratio</b>	The relation between claims incurred and earned premiums. Earned premiums are reduced by bonuses and rebates.
<b>Gross expense ratio</b>	The relation between operating expenses and earned premiums. Earned premiums are reduced by bonuses and rebates. Operating expenses are calculated as the sum of acquisition costs and administrative expenses.
<b>Combined ratio</b>	The sum of the gross claims ratio, the gross expense ratio and the net reinsurance ratio, which shows profit/loss from reinsurance in proportion to gross earned premiums less bonuses and rebates.
<b>Operating ratio</b>	Calculated as the combined ratio, but based on the claims ratio, the expense ratio and the net reinsurance ratio where the allocated investment return has been added to earned premiums in the denominator.
<b>Relative run-off result</b>	The run-off result in relation to the corresponding opening provision.
<b>Return on equity in %</b>	Profit for the year in relation to average equity.
<b>Solvency ratio – Solvency I</b>	Capital base less deduction in relation to capital requirement

## Notes to the financial statements

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## 2 Risk information

### Risk management and control

For Codan Forsikring it is important that risks are managed in a controlled manner. This requires structured risk management that covers all situations that could affect the future operation and development of the Company.

The Board of Directors is responsible for ensuring that the Company is financially strong, taking into account the Company's funding needs, liquidity, financial position and generally accepted business practice.

The Board of Directors is ultimately responsible for risk management and internal control, including establishing a framework for risk management and risk control. The Company's risk management must permeate the organisation, and efforts are made to ensure accountability and transparency in terms of clear ownership of risks and management of these within the risk appetite framework.

Codan Forsikring operates with four key governance functions as defined by law. The functions are required to have a clearly defined independence in order to ensure the governance of the Company. The functions consist of:

- The Actuarial Function
- The Risk Function
- The Compliance Function
- The Internal Audit Function

The Actuarial Function provides assurance that the actuarial information used to set insurance provisions uses appropriate methods, models, and assumptions. The Actuarial Function also confirms the adequacy of the Solvency II Technical Provisions and informs areas where experience is different and how this has influenced methods, models and assumptions.

The Risk Function ensures that relevant risk information is discussed and addressed by presenting its independent view to the relevant committees. The Risk Function also monitors the risk management system and suggest amendments in terms of risk strategy and risk appetite, to be adopted by the Board of Directors.

The Compliance Function serves in a supporting role to ensure that operations are conducted in accordance with applicable rules as well as monitors regulatory compliance.

The Internal Audit Function performs independent risk management assessments on a regular basis in accordance with the agreed Internal Audit Year Plan and verifies that controls are appropriate for their purpose. Internal Audit reports to the Board of Directors on a quarterly basis.

The Own Risk & Solvency Assessment (ORSA) Committee ensures that the CEO and Management on a quarterly basis receive adequately prepared and detailed material as a basis for their respective decisions. The Committee serves as an advisory body and reports to the CEO. The work of the ORSA forms the basis of risk reporting to the Board of Directors.

As an integral part of the reporting, it is monitored whether the Company's exposure is within the risk appetite as defined by the Board of Directors.

### Insurance risks

The Underwriting Policy issued by the Board of Directors sets out the risks which the Company can accept. This policy clearly describes the risk appetite and the acceptance limits that the Board of Directors is prepared to allocate to the various risks which have been evaluated, priced and accepted by the Company's underwriters.

## Notes to the financial statements

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Codan Forsikring builds on underwriting capability as one of the key drivers for delivering sustainable profitable performance. To support the sound implementation of the Underwriting Policy, an underwriting framework outlines the classes and nature of the insurance risks which Codan Forsikring is willing to underwrite, how these are to be priced and the levels of capital that are acceptable to put at risk.

The focus of the Underwriting function is to ensure that premiums charged are sufficient to cover the cost of claims and expenses and provide a suitable margin for delivering a sustainable return for shareholders. Codan Forsikring places major focus on risk selection and risk quality and takes a disciplined approach to pricing in order to meet these objectives. A majority of the customers are offered a premium which is set according to tariffs and risk factors calculated by pricing actuaries. For major commercial customers, premiums are based on the respective companies' operations and performance history. The authority exercised by the respective underwriters is controlled by a personal underwriting licence based on the underwriter's capabilities.

Codan Forsikring places great emphasis on portfolio management to provide overview to its front-line underwriting activities and ensure that a clear strategy is defined for each class of business and at an aggregate level across the portfolio. Each portfolio manager/product director reviews and communicates an annual Portfolio Strategy Statement. It outlines the direction of the portfolio, establishes a clear underwriting risk appetite and sets clear financial targets for the coming year. As part of Codan Forsikring's Risk Management Framework, the portfolio manager/product director makes assessments against a standard set of KPIs on a quarterly basis. These are reported by the Underwriting function to the Board of Directors in an effort to monitor portfolio performance, identify areas of interest and plan risk mitigation actions.

Codan Forsikring's ability to underwrite a diversified portfolio of business is another key control in relation to insurance risk. An annual operational business plan is adopted by the Board of Directors. This plan lays out the operating targets for each line of business, insurance classes within which insurance may be underwritten and in which geographical areas and sectors Codan Forsikring is willing to underwrite insurance risks. The plan also stipulates quantitative maximum limits of exposure in various risk areas. The business plan is implemented in the organisation via Portfolio Strategy Statements and underwriting guidelines issued to the Company's underwriters.

To ensure that tariffs remain updated and are positioned to deliver the results set out in Codan Forsikring's business plan, dedicated personal and commercial pricing teams follow a structured pricing process. The pricing and portfolio management teams interact and challenge each other to ensure a clear link between portfolio strategy and pricing actions. All insurance contracts have terms with limits specified in the authority delegated by the Board of Directors. All insurance contracts are written for specified terms. The ability to alter the terms of a contract is controlled via the Delegated Authority Framework. All policies have a built-in right for the Company to decline a renewal or to amend the terms and conditions in connection with renewal. Exceptions are handled through Executive Licence Extensions or Special High-Risk Licences.

Codan Forsikring reviews its accepted insurance risk on a regular basis and assesses these in relation to the Company's underwriting, reinsurance and capital policies.

#### *Insurance risk concentration*

Risk limitation is also conducted through reinsurance. Insurance business is by nature exposed to major fluctuations. By ceding business to reinsurers, the consequences of very large claims can be limited, and the size of exposures can thus be managed, and the Company's equity protected. Codan Forsikring's own costs per claim event, its net retention and the upper limit to which the reinsurance protection covers costs per claim event vary from product to product. The amount of net retention is decided by the Board of Directors for the various types of insurance risks. The level is reviewed annually by the Board of Directors to ensure that it is acceptable.

Insurance risk is concentrated in Denmark, Sweden and Norway, from where most of Codan Forsikring's premium income derives.

## Notes to the financial statements

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To ensure that Codan Forsikring's exposure to underwriting risk and its capital base remain appropriate, a structured reinsurance programme is in place to protect the Company against large losses on individual risks as well as catastrophe events such as weather-related events. Codan Forsikring is included in the Codan Group's overall reinsurance programme.

#### *Non-catastrophe risks*

Codan Forsikring's reinsurance program for 2018 was primarily an excess of loss programme with a maximum retention of DKK/NOK 100 million for any one risk (SEK 125 million for the Swedish branch), in respect of buildings, contents and business interruption insurance. The retention for personal accident claims was DKK 100 million, DKK/NOK 25 million (SEK 30 million for the Swedish branch) for liability and DKK 30 million (SEK 40 million for the Swedish branch) for motor third party liability claims. In respect of Renewable off-shore Energy sector the retention was USD 25 million.

In respect of Marine Hull business Codan Forsikring has a 100% Quota Share for claims related to insurance contracts written in 2018. The 2018 Quota Share Treaty is placed with RSA Insurance Ltd and is placed on market terms and Codan Forsikring receives commission. All other reinsurance contracts are purchased on a Scandinavian or global basis, thereby reducing costs.

The Codan Group offers its customers insurance cover for terrorist attacks, and the risk is reinsured both on a per risk and a per event basis. The Codan Group offers different limits of liability for terrorist attacks in the various regions but always within the Company's reinsurance limit. If additional cover is needed, the Codan Group will purchase additional cover in the reinsurance market. In Denmark, a Nuclear, Biological, Chemical and Radioactive (NBCR) Pool is in place, whereas in the other regions this peril is excluded in the original policies. Predicting the number of claims arising from such events still poses a challenge, but the objective of the Codan Group is to control the allocation of resources to the individual risk.

#### *Storm and catastrophe risk*

Codan Forsikring has together with other companies in the RSA Group taken out reinsurance cover for catastrophe events. In respect of natural disaster, reinsurance cover for a once-in-200-years event has been purchased, with a combined RSA Group retention of GBP 25 million. The same reinsurance programme will cover property claims where more than one risk is involved in a non-natural perils loss event.

For personal accident and life catastrophe events of a sudden nature, like a ferry accident or a tsunami, Codan Forsikring has a shared reinsurance contract with the rest of the Codan Group companies. In 2018, the maximum net retention for Codan Forsikring was DKK 100 million per event.

Reinsurance contracts are associated with a certain level of credit risk. This is described in more detail under the section on financial risks below. Reinsurers' creditworthiness is monitored on a regular basis to ensure that the contracted reinsurance cover is maintained.

#### *Reserving risk*

Reserving risk, i.e. the risk that technical provisions will not be sufficient to settle incurred claims, is managed primarily through actuarial methods and through careful, continuous monitoring of reported claims.

The documentation for determining the level of provisions to cover future risks is based on Codan Forsikring's experiences and generally accepted actuarial techniques for estimating provisions. Codan Forsikring uses numerous statistical methods and analyses to determine the likely outcome of future claims payments. These methods and analyses are affected by the uncertainty that exists in estimating future payments while taking into account the amount and date of payment.

Claims trends and reserve levels are reviewed quarterly and form the documentation for reserve reporting. The Reserve Committee reviews the reserve methodology and monitors the development of reserves. The Reserve Committee, which is chaired by the CFO, serves in an advisory role, reports to the CEO and meets at least once every quarter.



## Notes to the financial statements

### Note

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#### Financial risk

##### **Market risks and investment strategy**

The Company's investment strategy is balanced to achieve a number of goals and to ensure compliance with laws and regulations.

Through close internal and external portfolio management and control, the aim is to maximise the return while at the same time ensuring:

- Legislative and risk compliance
  - Ensuring that investments are in compliance with the investment rules set out in legislation
  - Ensuring full compliance with the Investment Policy laid down by the Board of Directors
  - Ensuring that the exposure of the investment portfolio is within the limits set
  
- Operational efficiency
  - Ensuring that liability cash flows are reflected in the structure of the investment portfolio
  - Ensuring that an investment management policy has been adopted
  - Ensuring cost control

##### *Investment management*

Codan Forsikring has chosen an outsourcing strategy for managing its investments using a combination of advisory and discrete portfolio management which have been approved by the Board of Directors. The external managers and their investment authority is subject to Codan Forsikring's Investment Policy laid down by the Board of Directors.

Codan Forsikring's Investment Policy lays down criteria for limiting and managing risks relating to individual investments and for concentration of risks. The Investment Committee monitors compliance with the investment strategy. The Committee serves in an advisory role, reports to the CEO, and meets at least once every quarter and when required by circumstances.

##### *Liquidity and interest rate risk*

The majority of Codan Forsikring's investments are in liquid listed bonds. Codan Forsikring maintains a conservative investment policy with a large share of the portfolios consisting of government bonds and highly rated securities.

Codan Forsikring's short-term liquidity is monitored through ongoing cash management. Long-term cash management is handled through ALM (Asset Liability Management).

Changes in interest rates are among the risk factors which affect Codan Forsikring's financial risks. A significant aspect of Codan Forsikring's risk management is to have a portfolio of fixed-income securities that acceptably balances the opposing profit and loss effects of interest rate movements on assets and liabilities.

The Company's exposure with respect to fixed income assets and various liabilities is shown in the table below.

## Notes to the financial statements

## Note

<b>Contractual repricing or maturity dates</b>	<b>DKK million</b>					
<b>2018</b>	<b>&lt; 1 year</b>	<b>1-5 years</b>	<b>5-10 years</b>	<b>10-20 years</b>	<b>&gt; 20 years</b>	<b>Total</b>
Government bonds	2,208.2	2,835.6	1,224.9	1,222.5	1,042.5	<b>8,533.7</b>
Government guaranteed bonds	113.9	1,120.2	1,526.4	1,025.3	145.8	<b>3,931.6</b>
Mortgage bonds	861.5	8,489.9	1,346.1	1,924.8	2,558.9	<b>15,181.2</b>
Other bonds	219.5	1,124.9	272.1	724.6	73.3	<b>2,414.4</b>
Other loans, deposits with credit institutions, call deposits, etc.	623.2	-	-	-	-	<b>623.2</b>
Other	0.7	1.7	37.3	18.3	34.7	<b>92.7</b>
Receivables from Group entities	1,048.3	-	-	-	-	<b>1,048.3</b>
<b>Financial assets</b>	<b>5,075.3</b>	<b>13,572.3</b>	<b>4,406.8</b>	<b>4,915.5</b>	<b>3,855.2</b>	<b>31,825.1</b>
Amounts owed to Group entities	32.7	-	-	-	-	<b>32.7</b>
<b>Financial liabilities</b>	<b>32.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32.7</b>

<b>Contractual repricing or maturity dates</b>	<b>DKK million</b>					
<b>2017</b>	<b>&lt; 1 year</b>	<b>1-5 years</b>	<b>5-10 years</b>	<b>10-20 years</b>	<b>&gt; 20 years</b>	<b>Total</b>
Government bonds	148.6	5,000.4	976.0	1,414.8	1,069.8	<b>8,609.6</b>
Government guaranteed bonds	62.6	1,298.9	1,296.9	1,012.0	145.3	<b>3,815.7</b>
Mortgage bonds	2,213.2	7,727.8	1,175.4	1,624.7	3,036.1	<b>15,777.2</b>
Other bonds	216.2	1,289.3	309.7	761.7	-	<b>2,576.9</b>
Other loans, deposits with credit institutions, call deposits, etc.	1,269.6	-	-	-	-	<b>1,269.6</b>
Other	-	-	35.1	20.6	31.2	<b>86.9</b>
Receivables from Group entities	1,211.5	-	-	-	-	<b>1,211.5</b>
<b>Financial assets</b>	<b>5,121.7</b>	<b>15,316.4</b>	<b>3,793.1</b>	<b>4,833.8</b>	<b>4,282.4</b>	<b>33,347.4</b>
Amounts owed to Group entities	70.1	-	-	-	-	<b>70.1</b>
<b>Financial liabilities</b>	<b>70.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70.1</b>

## Notes to the financial statements

## Note

The table below shows the effective interest rate and duration of financial assets and liabilities at 31 December.

	Effective interest rates		Duration	
	2018	2017	2018	2017
<b>Financial assets</b>				
Government bonds	0.1	0.0	5.5	6.0
Government guaranteed bonds	0.7	0.8	6.6	7.2
Mortgage bonds	0.7	0.8	3.7	3.6
Other bonds	1.5	1.0	5.9	2.9
Other loans	0.0	0.0		
Deposits with credit institutions, call deposits, etc.	0.0	0.0		
Receivables from Group entities	0.3	0.5		
<b>Financial liabilities</b>				
Amounts owed to Group entities	0.0	0.0		

## Notes to the financial statements

## Note

*Currency risk*

Currency risk may arise as a result of a mismatch in the value of assets and liabilities in the same foreign currency. If currency exposure is outside certain defined limits, it is minimised through currency derivatives. Codan Forsikring has a large net exposure to SEK through one of its branches which, however, mitigates this risk through the use of FX forward contracts. Apart from the investments in subsidiaries and branches, Codan Forsikring's net exposure to currency risk is limited, as the Company's strategy for managing currency risk is to ensure that the assets match the currency of the corresponding liabilities.

The Company's most significant currency exposures are detailed in the table below (stated in DKK).

Currency risk	DKK million					
	2018					
	USD	SEK	GBP	EUR	NOK	Other currency
<b>Financial assets</b>						
Interests in associates	-	25.0	-	-	-	-
Equity investments	98.3	0.3	-	1,123.6	-	420.8
Units in open-ended funds	0.4	231.7	-	851.0	-	-
Bonds	11.2	19,376.2	428.4	1,579.3	851.4	-
Other loans, deposits with credit institutions, call deposits, etc.	9.3	296.3	6.1	27.5	193.8	8.6
Derivative asset	93.4	456.0	-412.9	-	-	-
Intangible assets	-	415.7	-	-	90.6	-
Property and equipment	-	1.8	-	1.4	0.1	-
Receivables from policyholders, brokers and insurance companies	16.7	249.4	41.1	273.2	383.1	52.2
Receivables from Group entities	14.0	11.1	20.5	4.4	2.5	0.1
Other receivables	0.1	49.8	0.1	0.1	0.1	-
Assets held for sale	-	2.2	-	-	-	-
Current tax asset	-	219.4	-	-	-	-
Deferred tax assets	-	7.8	-	-	54.3	-
Prepayments and accrued income	3.5	263.7	-	25.8	23.0	-
Reinsurers' share of insurance contract	213.5	63.9	21.0	149.0	34.8	0.8
<b>Financial liabilities</b>						
Payables arising from direct insurance and reinsurance	-18.2	-152.3	-18.3	48.0	11.9	0.9
Amounts owed to Group entities	-	-1.3	-	-	-0.1	-
Provisions	-	-33.1	-	-	-10.5	-
Other payables	-12.6	-2,585.2	1.8	-1,904.2	-148.2	-0.1
Accruals and deferred income	-	-2.2	-	-	-52.9	-
Deferred tax liabilities	-	180.3	-	-	86.0	-
Insurance liabilities	-327.3	-18,076.8	-321.7	-1,173.7	-1,121.1	-18.7
<b>Currency risk</b>	<b>102.3</b>	<b>999.7</b>	<b>-233.9</b>	<b>1,005.4</b>	<b>398.8</b>	<b>464.6</b>

## Notes to the financial statements

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Currency risk	DKK million	2017					Other currency
		USD	SEK	GBP	EUR	NOK	
<b>Financial assets</b>							
Interests in associates		-	20.4	-	-	-	-
Equity investments		100.9	0.3	-	1,512.1	-	326.5
Units in open-ended funds		-	149.9	-	742.0	-	-
Bonds		11.2	20,476.4	433.4	1,585.8	900.6	-
Other loans, deposits with credit institutions, call deposits, etc.		17.3	553.8	5.6	78.0	222.9	5.3
Derivative assets		-	506.3	-419.6	-	-	-
Intangible assets		-	412.4	-	-	55.5	-
Property and equipment		-	20.7	-	1.4	0.3	-
Receivables from policyholders, brokers and insurance companies		8.0	169.4	66.4	421.8	396.6	30.2
Receivables from Group entities		10.7	9.3	10.6	-0.3	12.7	0.1
Other receivables		3.5	7.5	0.1	1.4	0.3	4.8
Assets held for sale		-	2.3	-	-	-	-
Deferred tax assets		-	172.8	-	-	165.8	-
Prepayments and accrued income		2.2	256.1	0.2	20.0	17.4	-
Reinsurers' share of insurance contract provisions		341.9	97.5	48.8	92.1	47.8	0.4
<b>Financial liabilities</b>							
Payables arising from direct insurance and reinsurance		-18.2	-97.9	-25.5	-9.5	-12.1	0.6
Amounts owed to Group entities		-	-1.1	-	-	-1.8	-
Provisions		-	-133.7	-	-	-16.6	-
Other payables		-3.4	-2,736.2	-2.9	-1,930.4	-154.2	-
Accruals and deferred income		-	-	-	-	-21.0	-
Current tax liabilities		-	-31.7	-	-	-	-
Debt to credit institutions		-	-747.6	-	-	-	-
Insurance liabilities		-406.4	-18,156.8	-213.5	-1,076.7	-1,055.4	-21.2
<b>Currency risk</b>		<b>67.7</b>	<b>950.1</b>	<b>-96.4</b>	<b>1,437.7</b>	<b>558.8</b>	<b>346.7</b>

*Equity risk*

Codan Forsikring has chosen to place a small share of its investments in equity investments, thereby limiting the Company's equity risk. Codan Forsikring has less than 6 % of its other financial assets invested in equities.

*Inflation risk*

A significant part of technical provisions in Codan Forsikring's subsidiaries is index-linked, and Codan Forsikring is consequently exposed to inflation through its subsidiaries. The inflation exposure is to some extent reduced by investments in inflation-linked assets. Further, investments in short-dated nominal bonds, cash products, equity and property (where rent is indexed with inflation) also provide some protection against inflation. Further, inflation derivatives are used to limit this risk.

*Credit risk*

Codan Forsikring has a policy for receivables from policyholders and reinsurers. In accordance with this policy, reinsurance contracts are only concluded with selected sound reinsurers in order to reduce the credit risk. The credit risk relating to reinsurers is monitored continuously. For a reinsurer to be considered,

## Notes to the financial statements

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a rating of at least A (Standard & Poor's) or the equivalent is normally required. This minimum standard is set out in the Board of Directors' guidelines, and quarterly reports are submitted to the Board of Directors for the purpose of monitoring and evaluating the exposure.

*Credit risk relating to investments*

Codan Forsikring's investment portfolio primarily consists of AAA-rated government and mortgage bonds. European corporate bonds with a lower rating are also included in the investment portfolio must have a credit rating of at least BBB. Furthermore, Codan Forsikring has a minor exposure to unrated loans via funds. These investments are made to achieve a higher return and build a more diversified investment portfolio.

The credit quality of Codan Forsikring's bond portfolio based on S&P ratings is shown in the following table:

Rating	DKK million	2018	2017
AAA		25,143.7	25,880.7
AA		3,183.3	2,829.4
A		1,201.4	1,530.7
BBB		532.5	532.9
Non-rated		-	5.7
<b>Bonds</b>		<b>30,060.9</b>	<b>30,779.4</b>

The maximum exposure to credit risk is shown in the table below.

Credit risk is defined as the risk of failure to meet contractual payment obligations and negative developments in credit rating.

Maximum credit risk	DKK million	2018	2017
Government bonds		8,533.7	8,609.6
Government guaranteed bonds		3,931.6	3,815.7
Mortgage bonds		15,181.2	15,777.2
Other bonds		2,414.4	2,576.9
Other loans, deposits with credit institutions and call deposits, etc.		623.2	1,269.6
Other		92.7	86.9
Deposits with ceding undertakings		1.4	2.0
Reinsurers' share of provision for unearned premiums		-	161.3
Reinsurers' share of provision for claims		614.1	615.0
Receivables from policyholders		268.2	289.3
Receivables from brokers		150.2	122.3
Receivables from insurance companies		89.0	104.6
Receivables from Group entities		1,048.3	1,211.5
Other receivables		153.2	46.7
Current tax assets		274.4	29.1
Accrued interest and rent		320.1	320.6
<b>Maximum credit risk</b>		<b>33,695.7</b>	<b>35,038.3</b>

*Spread risk*

Codan Forsikring has a large part of its bond portfolio invested in mortgage- and corporate bonds. These bonds are associated with credit spread risk as the credit spread over government yields can fluctuate. This credit spread risk is managed by having well-defined risk appetite statements and investment limits to credit exposure.

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#### **Operational risks**

Operational risk is the risk of loss (economic or reputational) resulting from inadequate or failed internal processes, people and systems, or from external events.

Codan Forsikring focuses on maintaining good internal control through suitable routines and instructions, clearly defined responsibilities and division of duties between employees, IT support with automated reconciliation, controls and authorisation systems, and internal information and reporting processes to meet the management's requirements for information on the Company's risk exposure.

Responsibility for management of risks rests with the risk owner in the relevant business function. It is the risk owners' responsibility to assess and report to Risk Management function on the size and nature of the risks and related controls, with the supporting rationale of the assessments including gauging against prevailing risk appetite. The information is reported periodically to the Own Risk & Solvency Assessment (ORSA) committee and subsequently provided to the Board of Directors with risk reporting.

#### **Compliance risk**

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation the undertaking may suffer as a result of not complying with laws, regulations and administrative provisions as applicable to the activities. Deficient compliance may lead to increased operational risks, risk of legal sanctions, supervisory sanctions, financial loss or loss of reputation.

Codan Forsikring focuses on maintaining good internal control by appropriate routines and instructions and clearly defined roles and responsibilities for the employees. The Compliance function follows up that the business remains compliant.

The day-to-day responsibility to manage compliance risk rests with the risk owners in the respective businesses. It is the responsibility of the risk owner to evaluate and manage the risk, with support from the Compliance function. The Compliance function deliver quarterly reports on compliance risks to the Board of Directors, and the CEO.

The ultimate responsibility of the business remaining compliant rests with the Board of Management and the Board of Directors.

#### **Emerging risk**

Emerging risks are identified in risk assessment workshops with each business function with input from industry surveys and reports and reported to the Board of Directors and senior management on a yearly basis.

## Notes to the financial statements

### Note

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#### **Capital and solvency**

Codan Forsikring and its insurance subsidiaries calculate and monitor solvency across a variety of measures. Capital measures include accounting equity, own funds, and capital requirements as set out in the Danish Financial Supervisory Authority's regulation and the Solvency II regulation. The solvency capital requirements are calculated using an internal model for the Danish insurance subsidiaries, and are validated by, for example, sensitivity testing and stress & scenario testing.

The available own funds is calculated as the difference between the eligible assets and liabilities. Eligible assets and liabilities are determined by the applicable rules for each evaluation basis. The own funds calculated in accordance with the rules of the Danish Financial Supervisory Authority, is set out in Note 22.

The Board of Directors has established two warning levels, red and amber, for the size of the held capital. If the red or amber level is reached, the Board of Directors must be notified immediately. The amber level is intended to alert the management and allow for the capital contingency plan to be enacted ensuring that the red level is not reached. The level for the amber alert is based on an overall risk assessment. The red level is set such that it is intended to give the management sufficient time to take the necessary actions to avoid breaching the solvency capital requirement.

The Board of Directors has laid down directions for registration of assets needed to cover the technical provisions and specified a minimum and maximum excess cover. In addition, a required excess cover based on the risk of the current technical provisions is calculated monthly.

Codan Forsikring continuously monitors the above-mentioned capital measures. A capital scorecard is reported to the Board of Directors and an advisory Capital Management Committee. All capital requirements are currently met.

#### *Dividend potential*

When the distribution of profits is determined, the above-mentioned risks and capital position form part of the assessment as to whether dividends can be distributed in accordance with the Danish Financial Business Act and the Companies' Act.



## Notes to the financial statements

Note

DKK million

## 3 Key figures and financial ratios

Five year summary	2018	2017	2016	2015*	2014
Gross earned premiums	15,032.4	15,460.9	15,672.7	15,923.8	16,497.9
Gross claims incurred	-10,228.2	-10,139.2	-9,958.3	-10,942.1	-11,708.7
Total operating expenses	-2,397.4	-2,859.6	-3,015.9	-3,181.6	-3,490.3
Profit/loss from reinsurance	-561.2	-583.2	-451.2	-500.5	-310.1
Balance on the technical account	1,738.0	1,811.8	2,167.2	1,212.3	919.4
Total investment return after return on and value adjustment on technical provisions	35.8	685.9	770.5	106.7	1,330.8
Profit for the year	1,232.2	1,964.7	2,277.7	411.5	2,100.7
Run-off gain/loss, net of reinsurance	561.6	395.4	987.3	377.5	103.6
Total technical provisions	28,830.2	28,580.8	31,274.7	32,239.2	31,561.9
Total insurance assets	612.9	776.3	1,130.8	1,788.5	2,340.0
Total equity	7,603.9	8,386.2	8,791.3	9,354.0	12,687.9
Total assets	38,698.9	40,290.3	43,518.5	44,125.8	48,261.3
<b>Financial ratios</b>					
Gross claims ratio	68.5	65.9	63.9	71.3	71.3
Gross expense ratio	16.1	18.6	19.3	20.4	21.2
Combined ratio	88.4	88.2	86.1	95.0	94.4
Operating ratio	88.4	88.2	86.1	95.0	94.2
Relative run-off result	2.4	1.6	4.1	1.6	0.5
Return on equity in %	15.5	23.1	22.9	3.6	15.8
Solvency ratio - Solvency I				344.0	318.0

\* Key figures and financial ratios have been restated to reflect the change in accounting policy (2014 not restated).

Solvency ratio - Solvency I are in 2014-2015 the ratio between the base capital solvency margin calculated using the Solvency I calculation method. The ratios are audited.

## Notes to the financial statements

Note	DKK million	2018	2017
<b>4 Gross earned premiums</b>			
Gross premiums written		15,045.0	15,448.9
Change in profit margin and risk margin		114.3	-252.9
Change in the provision for unearned premiums, gross		-126.9	264.9
		<b>15,032.4</b>	<b>15,460.9</b>
Gross earned premiums from direct insurance by geographical location of the risk:			
Denmark		4,416.9	4,195.2
Other EU countries		9,261.0	9,525.7
EEA countries		1,178.4	1,536.9
Other countries		2.8	1.6
Direct insurance		14,859.1	15,259.4
Gross earned premiums from indirect insurance:			
General insurance		173.3	201.5
Indirect insurance		173.3	201.5
		<b>15,032.4</b>	<b>15,460.9</b>
<b>5 Claims incurred, net of reinsurance</b>			
Claims incurred include the following run-off results:			
Run-off loss/gain, gross		737.3	575.1
Run-off loss, ceded business		-175.7	-179.7
		<b>561.6</b>	<b>395.4</b>

In 2018 the run-off result relates primarily to the commercial portfolio in Denmark and Sweden. Mostly on workers compensation and motor products. Also Personal motor has generated run-off gains in 2018.

## Notes to the financial statements

Note	DKK million	2018	2017
<b>6 Net operating expenses</b>			
Staff costs:			
Wages and salaries		-1,238.7	-1,709.4
Defined contribution schemes		-227.4	-256.5
Other social security costs		-205.6	-238.4
Payroll tax		-120.0	-126.4
Share-based payment costs		-13.7	-1.1
Employment agency costs		-52.1	-62.1
Other staff costs		-68.0	-70.9
		<b>-1,925.5</b>	<b>-2,464.8</b>
Commissions, underwriters and brokers		-446.0	-462.8
Commissions, other insurance companies		-16.9	-15.5
Depreciation		-161.4	-262.6
Rent		-104.1	-145.5
Other acquisition costs and administrative expenses		68.5	254.7
Reimbursements from Group entities		188.0	236.9
Reinsurance commissions and profit participation		20.1	63.6
<b>Net operating expenses</b>		<b>-2,377.3</b>	<b>-2,796.0</b>
Total payroll costs, including commissions to tied agents, in respect of direct insurance		-1,320	-1,786

Converted into full-time employees, the average number of persons employed during the financial year was 2.725 persons (2.921 persons in 2017).

## Notes to the financial statements

Note	DKK million	2018	2017
<b>6 Net operating expenses (continued)</b>			
<b>Earned remuneration to current and former members of the Board of Directors and Board of Management of Codan Forsikring:</b>			
Remuneration of the Board of Directors (fixed remuneration)			
Member of the Board of Directors:			
Lars Nørby Johansen (joined 27 April 2012)		-0.7	-0.7
Anthony Piers Latham (resigned 26 April 2018)		-0.1	-0.6
Gunilla Astrid Henriette Asker (resigned 30 August 2018)		-0.2	-0.2
Christer Arne Bjellert (joined 29 April 2015)		-0.2	-0.2
Philip Wynford Moore (joined 26 April 2018)		-0.4	-
Scott Egan (joined 27 April 2016)		-	-
Marianne Phillip (joined 29 April 2011)		-0.4	-0.4
Maria Elisabeth Sandblom (joined 29 April 2015)		-0.2	-0.2
Christian Sletten (joined 4 May 2000)		-0.2	-0.2
<b>Remuneration to the Board of Directors</b>		<b>-2.5</b>	<b>-2.5</b>
Remuneration of the Board of Management:			
Wages and salaries (fixed remuneration)		-7.8	-8.8
Bonuses (variable remuneration)		-0.6	-1.5
Pension benefits (fixed remuneration)		-1.7	-1.6
Share-based payments (variable remuneration)		-1.4	-1.4
<b>Remuneration of the Board of Management</b>		<b>-11.5</b>	<b>-13.3</b>
CEO Patrick Bergander		-8.7	-10.6
EO Vivian Lund		-2.8	-2.7
<b>Remuneration to the Board of Management</b>		<b>-11.5</b>	<b>-13.3</b>
<b>Number of employees in the Board of Management at 31 December</b>		<b>2</b>	<b>2</b>
Employees with material influence on the company's risk profile:			
Wages and salaries (fixed remuneration)		-62.9	-62.3
Redundancy payment (variable remuneration)		-	-
Bonuses (variable remuneration)		-2.7	-6.0
Pension benefits (fixed remuneration)		-11.2	-11.3
Share-based payments (variable remuneration)		-10.1	-9.5
<b>Remuneration of employees with material influence on the company's risk profile</b>		<b>-86.9</b>	<b>-89.2</b>
<b>Numbers of employees with material influence on the Company's risk profile</b>		<b>46</b>	<b>45</b>

Redundancy payment has been paid out to one person with material influence on the Company's risk profile in 2018. For anonymity reasons this amount has not been disclosed.

## Notes to the financial statements

## Note

**6 Net operating expenses (continued)**

Below table shows remuneration to employees with material influence on the Company's risk profile split on functions:

<b>2018</b> <b>DKK million</b>	Number of roles	Wages & Salaries	Bonuses	Pension Benefits	Share-based payments
Audit, Risk & Compliance	8	7.5	-	1.0	-
Finance Support	6	9.4	0.3	0.8	1.3
Functions	7	8.1	0.7	2.6	2.3
Product & Sales	25	37.9	1.7	6.8	6.5
	46	62.9	2.7	11.2	10.1

<b>2017</b> <b>DKK million</b>	Number of roles	Wages & Salaries	Bonuses	Pension Benefits	Share-based payments
Audit, Risk & Compliance	5	6.4	-	0.9	-
Finance Support	8	12.8	0.6	2.1	0.4
Functions	6	5.4	0.8	2	1.5
Product & Sales	26	37.7	4.6	6.3	7.6
	45	62.3	6.0	11.3	9.5

Other disclosures on remuneration to current and former members of the Board of Directors and Board of Management of Codan Forsikring:

Members of the Board of Directors employed by RSA Group do not receive Board fees. The Board member Scott Egan is an Executive Director in RSA Insurance Group and his total remuneration for 2018 was DKK 16,3 million. Other Board members employed in RSA Group do not have any Executive Directorship posts within the Group entity.

Remuneration to the Board of Management, Board of Directors and employees with influence on the Company's risk profile are allocated between Codan A/S and Codan A/S's subsidiaries. The specification above contains the total remuneration.

Fixed remuneration includes fixed cash salary, fixed salary shares in parent company and other benefits.

The company provides car, telephone and health insurance available to members of the Board of Management. The taxable income hereof is included in the numbers above.

The Company's CEO has a separate contract with Codan Forsikring and its parent company Codan A/S. The above specification includes the total remuneration for employment.

Bonuses earned in 2018 have been fully expensed in 2018 but will be paid out from 2019 on a pro-rata basis over a three or a four year deferral period depending on position.

The Board of Management participates in a number of incentive schemes, see note 30.

The Board of Directors do not participate in incentive schemes as a result of their board duties at Codan Forsikring.

## Notes to the financial statements

Note	DKK million				2018
<b>7 Balance on the technical account, general insurance</b>					
Balance on the technical account for general insurance in 2018 by line of business:	<b>Personal Accident</b>	<b>Health Insurance</b>	<b>Workers' Compensation</b>	<b>Motor Third Party Liability</b>	
Gross premiums written	2,902.8	336.2	577.3	1,192.2	
Gross earned premiums	2,801.5	380.3	558.7	1,142.0	
Gross claims incurred	-1,731.5	-233.4	-311.0	-602.2	
Bonuses and rebates	-	-	-	-0.6	
Operating expenses, gross	-296.6	-64.6	-126.9	-257.9	
Profit/loss from reinsurance	-2.5	-0.4	-0.2	-7.4	
Balance on the technical account	770.9	81.9	120.6	273.9	
Number of claims paid	8,766	26,004	9,064	18,276	
Average claims paid in DKK million	197.5	9.0	34.3	33.0	
Claims frequency	6.3%	48.1%	29.3%	7.9%	
	<b>Motor, Accidental Damage, Fire and Theft</b>	<b>Marine, Aviation and Cargo</b>	<b>Fire and Contents (Personal)</b>	<b>Fire and Contents (Commercial)</b>	
Gross premiums written	3,414.0	338.0	2,561.8	2,858.7	
Gross earned premiums	3,274.1	341.7	2,558.1	3,118.4	
Gross claims incurred	-2,255.0	-237.9	-1,692.6	-2,780.0	
Bonuses and rebates	-24.2	-3.8	-25.7	-45.2	
Operating expenses, gross	-582.6	-42.5	-388.8	-473.9	
Profit/loss from reinsurance	-4.0	-114.0	-22.5	-236.2	
Balance on the technical account	408.3	-56.5	428.5	-416.9	
Number of claims paid	70,146	2,216	55,055	15,805	
Average claims paid in DKK million	32.1	107.4	30.7	175.9	
Claims frequency	32.6%	16.1%	20.6%	4.8%	
	<b>Liability</b>	<b>Tourist Assistance*</b>	<b>Other insurance</b>	<b>Total general insurance</b>	
Gross premiums written	479.7	201.6	182.6	15,045.0	
Gross earned premiums	474.9	194.8	187.8	15,032.4	
Gross claims incurred	-243.0	-200.3	58.7	-10,228.2	
Bonuses and rebates	-7.6	-0.3	-	-107.6	
Operating expenses, gross	-87.2	-27.1	-49.4	-2,397.4	
Profit/loss from reinsurance	-7.8	-0.1	-166.1	-561.2	
Balance on the technical account	129.3	-33.0	31.0	1,738.0	
Number of claims paid	3,524	14,616		223,480	
Average claims paid in DKK million	69.0	13.7		45.8	
Claims frequency	6.0%	48.4%		16.3%	

Gross earned premiums from non-proportional indirect general insurance amount to DKK 0.

\*) Tourist assistance include collective insurance contract.

## Notes to the financial statements

Note	DKK million				2017
<b>7 Balance on the technical account, general insurance (continued)</b>					
Balance on the technical account for general insurance in 2017 by line of business:	<b>Personal Accident</b>	<b>Health Insurance</b>	<b>Workers' Compensation</b>	<b>Motor Third Party Liability</b>	
Gross premiums written	2,812.0	559.7	625.5	1,233.1	
Gross earned premiums	2,795.7	590.1	562.3	1,255.2	
Gross claims incurred	-1,901.0	-421.7	-599.4	-808.3	
Bonuses and rebates	-	-	-	-1.9	
Operating expenses, gross	-316.4	-148.5	-136.1	-281.6	
Profit/loss from reinsurance	-2.1	-0.3	-1.3	1.0	
Balance on the technical account	576.2	19.6	-174.5	164.4	
Number of claims paid	118,637	32,419	9,189	69,767	
Average claims paid in DKK million	16.0	13.0	65.2	11.6	
Claims frequency	6.5%	22.9%	28.6%	6.9%	
	<b>Motor, Accidental Damage, Fire and Theft</b>	<b>Marine, Aviation and Cargo</b>	<b>Fire and Contents (Personal)</b>	<b>Fire and Contents (Commercial)</b>	
Gross premiums written	3,364.1	392.9	2,629.2	2,974.1	
Gross earned premiums	3,298.2	408.5	2,607.7	3,088.6	
Gross claims incurred	-2,067.7	-184.0	-1,797.7	-2,050.9	
Bonuses and rebates	-18.3	-2.1	-17.2	-21.6	
Operating expenses, gross	-647.1	-87.4	-441.6	-585.5	
Profit/loss from reinsurance	-1.9	-93.2	-31.3	-213.4	
Balance on the technical account	563.2	41.8	319.9	217.2	
Number of claims paid	271,805	7,120	176,789	24,995	
Average claims paid in DKK million	7.6	25.8	10.2	82.1	
Claims frequency	15.9%	20.6%	19.8%	5.4%	
	<b>Liability</b>	<b>Tourist Assistance*</b>	<b>Other insurance</b>	<b>Total general insurance</b>	
Gross premiums written	465.3	197.0	196.0	15,448.9	
Gross earned premiums	466.8	187.1	200.7	15,460.9	
Gross claims incurred	-323.8	-171.4	186.7	-10,139.2	
Bonuses and rebates	-3.9	-	-2.2	-67.1	
Operating expenses, gross	-121.5	-32.5	-61.4	-2,859.6	
Profit/loss from reinsurance	-11.5	-0.1	-229.1	-583.2	
Balance on the technical account	6.1	-16.9	94.7	1,811.8	
Number of claims paid	6,257	27,470		744,515	
Average claims paid in DKK million	51.8	6.2		13.6	
Claims frequency	10.5%	95.4%		11.8%	

Gross earned premiums from non-proportional indirect general insurance amount to DKK 0.

\*) Tourist assistance include collective insurance contract.

## Notes to the financial statements

Note	DKK million	2018	2017
<b>7 Balance on the technical account, general insurance (continued)</b>			
The average claims paid are calculated as claims costs for the year relative to the number of claims paid and are therefore affected by run-off gains and losses.			
The claims frequency is calculated as the number of claims paid relative to the average number of insurance contracts in the period, cf. the guidelines issued by the Danish Financial Supervisory Authority.			
<b>8 Interest income and dividends, etc.</b>			
Interest income from Group entities		3.7	6.4
Interest income from bonds, loans and deposits		789.0	901.6
Non-taxable interest income		-0.8	1.8
Income from units in open-ended funds and other equity investments		141.9	138.6
Other interest income		22.0	10.7
<b>Interest income and dividends, etc.</b>		<b>955.8</b>	<b>1,059.1</b>
<b>9 Value adjustments</b>			
Group occupied properties		3.0	2.7
Equity investments		-290.5	94.0
Units in open-ended funds		7.7	1.5
Bonds		-363.2	-570.9
Other loans		14.3	26.1
Other investment assets		47.9	2.6
<b>Total investments</b>		<b>-580.8</b>	<b>-444.0</b>
Value adjustments and other unrealised gain and losses		-24.1	120.6
<b>Value adjustments</b>		<b>-604.9</b>	<b>-323.4</b>
Realised gains and losses on investments		-143.4	-123.5
Unrealised gains and losses on investments		-437.4	-320.5
Other realised gains and losses		2.5	34.2
Value adjustments and other unrealised gains and losses		-26.6	86.4
<b>Value adjustments</b>		<b>-604.9</b>	<b>-323.4</b>
<b>10 Other income</b>			
Profit from sale of insurance activities in Estonia		-	2.1
<b>Other income</b>		<b>-</b>	<b>2.1</b>



## Notes to the financial statements

Note	DKK million	2018	2017
<b>11 Tax</b>			
Tax on total income for the year:			
Current tax expense		-304.3	-587.7
Change in deferred tax on temporary differences		-277.1	59.6
<b>Tax on total income for the year</b>		<b>-582.0</b>	<b>-528.1</b>
Adjustments relating to previous years:			
Current tax for previous years		40.0	-8.4
Adjustment of deferred tax at 1 January		0.4	1.0
<b>Adjustments relating to previous years</b>		<b>40.4</b>	<b>-7.4</b>
<b>Tax expense</b>		<b>-541.6</b>	<b>-535.5</b>
Tax is included as follows:			
Tax in the income statement		-541.6	-535.1
Tax on changes in equity		-0.5	-0.4
<b>Tax expense</b>		<b>-542.1</b>	<b>-535.5</b>
Total tax on total income for the year can be explained as follows:			
Profit before tax		1,773.8	2,499.8
Reversal of income from Group entities		-136.2	-162.7
Intra-group contribution recognised in equity		-	1.4
Total income		1,637.6	2,338.5
Applicable tax rate		22.0%	22.0%
Tax calculated on total income		-360.3	-514.5
Tax on permanent differences:			
Properties and other equity investments		0.9	0.8
Income not subject to tax		-0.2	0.4
Expenses disallowed for tax purposes		-3.9	-5.5
Non- refundable dividend taxes		-0.2	-2.6
Different tax rates in countries where branches are located		4.9	3.3
Impairment on Norwegian deferred tax asset		-173.0	-
Provision to one-off taxation in 2021 of 6% of contingency funds, Sweden		-51.0	-
Other permanent differences relating to branches		-0.7	-0.4
Taxable part of gain related to sale of subsidiaries, Sweden		-	-10.3
Other permanent differences		0.6	0.7
<b>Tax</b>		<b>-582.5</b>	<b>-528.1</b>
Tax on total income for the year		-582.5	-528.1
Adjustment of tax relating to previous years		40.4	-7.4
<b>Tax expense</b>		<b>-542.1</b>	<b>-535.5</b>

## Notes to the financial statements

Note	DKK million		
<b>12 Intangible assets</b>	<b>Completed</b>		<b>IT development</b>
<b>2018</b>	<b>IT development</b>	<b>Goodwill</b>	<b>projects in</b>
	<b>projects</b>		<b>progress</b>
Cost, beginning of the year	1,498.1	548.1	355.8
Currency translation adjustments, foreign branches	-11.2	-9.1	-1.7
Additions	-	-	161.6
Disposals	-	-	-
Transferred from development projects in progress	129.7	-	-129.7
<b>Cost, end of the year</b>	<b>1,616.6</b>	<b>539.0</b>	<b>386.0</b>
Amortisation and impairment, beginning of the year	-1,079.3	-68.4	-
Currency translation adjustments, foreign branches	10.0	0.1	-
Impairment losses recognised in the income statement	-	-	-
Reversal of impairment losses relating to disposals	-	-	-
Amortisation	-153.9	-	-
Reversal of amortisation relating to disposals	-	-	-
<b>Amortisation and impairment, end of the year</b>	<b>-1,223.2</b>	<b>-68.3</b>	<b>-</b>
<b>Carrying amount, end of the year</b>	<b>393.4</b>	<b>470.7</b>	<b>386.0</b>
Carrying amount, beginning of the year	418.8	479.7	355.8
<b>2017</b>			
Cost, beginning of the year	1,641.9	558.5	202.9
Currency translation adjustments, foreign branches	-23.4	-10.4	-3.5
Additions	3.6	-	270.9
Disposals	-238.5	-	-
Transferred from development projects in progress	114.5	-	-114.5
<b>Cost, end of the year</b>	<b>1,498.1</b>	<b>548.1</b>	<b>355.8</b>
Amortisation and impairment, beginning of the year	-1,094.0	-68.5	-
Currency translation adjustments, foreign branches	21.4	0.1	-
Impairment losses recognised in the income statement	-72.7	-	-
Reversal of impairment losses relating to disposals	2.4	-	-
Amortisation	-172.5	-	-
Reversal of amortisation relating to disposals	236.1	-	-
<b>Amortisation and impairment, end of the year</b>	<b>-1,079.3</b>	<b>-68.4</b>	<b>-</b>
<b>Carrying amount, end of the year</b>	<b>418.8</b>	<b>479.7</b>	<b>355.8</b>
Carrying amount, beginning of the year	547.9	490.0	202.9
	<b>Net book</b>	<b>Calculated</b>	<b>WACC</b>
	<b>value</b>	<b>headroom</b>	
The value of goodwill can be broken down as follows:			
Acquired goodwill in relation to the purchase of:			
the Trekroner portfolio	131.2	5,740.8	7.89%
the Norwegian portfolios	2.8	7.3	9.52%
the Trygg Hansa portfolios	336.7	6,803.5	8.18%
<b>Total goodwill 2018</b>	<b>470.7</b>	<b>12,551.6</b>	

## Notes to the financial statements

Note	DKK million		
<b>12 Intangible assets (continued)</b>	<b>Acquired software licenses</b>	<b>Customer lists etc.</b>	<b>Total intangible assets</b>
<b>2018</b>			
Cost, beginning of the year	25.4	46.1	2,473.5
Currency translation adjustments, foreign branches	-0.5	-0.1	-22.6
Additions	-	-	161.6
Disposals	-	-	-
Transferred from development projects in progress	-	-	-
<b>Cost, end of the year</b>	<b>24.9</b>	<b>46.0</b>	<b>2,612.5</b>
Amortisation and impairment, beginning of the year	-25.0	-46.1	-1,218.8
Currency translation adjustments, foreign branches	0.1	0.1	10.3
Impairment losses recognised in the income statement	-	-	-
Reversal of impairment losses relating to disposals	-	-	-
Amortisation	-	-	-153.9
Reversal of amortisation relating to disposals	-	-	-
<b>Amortisation and impairment, end of the year</b>	<b>-24.9</b>	<b>-46.0</b>	<b>-1,362.4</b>
<b>Carrying amount, end of the year</b>	<b>-</b>	<b>-</b>	<b>1,250.1</b>
Carrying amount, beginning of the year	0.4	-	1,254.7
<b>2017</b>			
Cost, beginning of the year	27.4	47.9	2,478.6
Currency translation adjustments, foreign branches	-2.0	-1.8	-41.1
Additions	-	-	274.5
Disposals	-	-	-238.5
<b>Cost, end of the year</b>	<b>25.4</b>	<b>46.1</b>	<b>2,473.5</b>
Amortisation and impairment, beginning of the year	-27.0	-47.9	-1,237.4
Currency translation adjustments, foreign branches	2.0	1.8	25.3
Impairment losses recognised in the income statement	-	-	-72.7
Reversal of impairment losses relating to disposals	-	-	2.4
Amortisation	-	-	-172.5
Reversal of amortisation relating to disposals	-	-	236.1
<b>Amortisation and impairment, end of the year</b>	<b>-25.0</b>	<b>-46.1</b>	<b>-1,218.8</b>
<b>Carrying amount, end of the year</b>	<b>0.4</b>	<b>-</b>	<b>1,254.7</b>
Carrying amount, beginning of the year	0.4	-	1,241.2

Amortisation is included in operating expenses and claims incurred.

## Notes to the financial statements

Note	DKK million		2018	2017
<b>13 Total equipment</b>	<b>IT equipment under</b>	<b>Other</b>	<b>Total</b>	
<b>2018</b>	<b>finance leases</b>	<b>equipment</b>	<b>equipment</b>	
Cost, beginning of the year	0.1	283.2	283.3	
Currency translation adjustments, foreign branches	-	-6.8	-6.8	
Additions, including improvements	-	1.5	1.5	
Disposals	-0.1	-1.2	-1.3	
<b>Cost, end of the year</b>	<b>-</b>	<b>276.7</b>	<b>276.7</b>	
Depreciation and impairment, beginning of the year	-0.1	-251.3	-251.4	
Currency translation adjustments, foreign branches	-	5.9	5.9	
Depreciation and impairment	-	-7.2	-7.2	
Depreciation on disposals	0.1	0.7	0.8	
<b>Depreciation and impairment, end of the year</b>	<b>-</b>	<b>-251.9</b>	<b>-251.9</b>	
<b>Carrying amount, end of the year</b>	<b>-</b>	<b>24.8</b>	<b>24.8</b>	
Carrying amount, beginning of the year	-	31.9	31.9	
Depreciated on a straight-line basis over a period of	3-5 years	4-10 years		
<b>2017</b>				
Cost, beginning of the year	41.1	277.9	319.0	
Currency translation adjustments, foreign branches	-0.1	-8.7	-8.8	
Additions, including improvements	-	24.7	24.7	
Disposals	-40.9	-10.7	-51.6	
<b>Cost, end of the year</b>	<b>0.1</b>	<b>283.2</b>	<b>283.3</b>	
Depreciation and impairment, beginning of the year	-29.4	-256.4	-285.8	
Currency translation adjustments, foreign branches	0.1	7.9	8.0	
Depreciation	-8.4	-9.1	-17.5	
Depreciation on disposals	37.6	6.3	43.9	
<b>Depreciation and impairment, end of the year</b>	<b>-0.1</b>	<b>-251.3</b>	<b>-251.4</b>	
<b>Carrying amount, end of the year</b>	<b>0.0</b>	<b>31.9</b>	<b>31.9</b>	
Carrying amount, beginning of the year	11.7	21.5	33.2	
Depreciated on a straight-line basis over a period of	3-5 years	4-10 years		

## Notes to the financial statements

Note	DKK million	2018	2017
<b>14 Group occupied properties</b>			
Revalued amounts, beginning of the year		15.1	12.5
Additions during the year, including improvements		-	0.4
Disposals during the year		-15.7	-
Depreciation		-	-0.1
Value adjustments		0.6	2.3
Revalued amounts, end of the year		-	15.1

Group occupied property was valued in 2017 by independent external valuers. The valuation was based on an active market for similar properties.

**15 Investments in Group entities**

Cost, beginning of the year		262.4	263.2
Capital increase		-	3.2
Disposals		-	-4.0
Cost, end of the year		<b>262.4</b>	<b>262.4</b>
Adjustments, beginning of the year		393.6	417.8
Exchange gains and losses		-7.3	-9.8
Currency translation adjustment, subsidiaries		-	0.1
Profit for the year from Group entities		136.3	77.6
Dividends paid, capital reduction, etc.		-	-95.4
Value adjustments re disposals, during the year		-	3.3
Adjustments, end of the year		<b>522.6</b>	<b>393.6</b>
Carrying amount, end of the year		<b>785.0</b>	<b>656.0</b>
The value of investments in Group entities can be broken down as follows:			
Holmia Livförsäkring AB		395.8	324.5
Forsikringsselskabet Privatsikring A/S		389.2	331.5
		<b>785.0</b>	<b>656.0</b>

Equity in Group entities, which has formed the basis for the calculation of Codan Forsikring's share as specified above, has been determined in accordance with the accounting policies of Codan Forsikring. All subsidiaries are separate entities.

Additional information on investments in Group entities:

	Registered office	Ownership interest %	Results	Equity
Companies carrying on insurance business:				
Holmia Livförsäkring AB, SEK	Stockholm	100	108.0	536.2
Forsikringsselskabet Privatsikring	Frederiksberg	100	57.7	389.2

Results and equity in Group entities as stated above are in accordance with the latest annual report.

## Notes to the financial statements

Note	DKK million	2018	2017
<b>16 Reinsurers' share of provision for unearned premiums</b>			
Premium provision		-133.8	-78.6
Profit margin on general insurance contracts		132.6	239.9
Reinsurers' share of provision for unearned premiums		<b>-1.2</b>	<b>161.3</b>
<b>17 Current tax assets and liabilities</b>			
Current tax assets and liabilities, beginning of the year		-2.6	256.4
Transfer related to sale of subsidiaries		-	5.8
Currency translation adjustments		3.9	-1.2
Current tax for the year		-304.3	-587.7
Adjustment of current tax relating to previous years		40.0	-8.3
Corporation tax paid during the year		537.4	332.4
Current tax assets and liabilities, end of the year		<b>274.4</b>	<b>-2.6</b>
Current tax assets and liabilities are included as follows:			
Current tax assets		274.4	29.1
Current tax liabilities		-	-31.7
Current tax assets and liabilities		<b>274.4</b>	<b>-2.6</b>

## Notes to the financial statements

Note	DKK million	2018	2017
<b>18 Deferred tax assets and liabilities</b>			
Deferred tax assets, beginning of the year		238.5	196.1
Currency translation adjustments		-3.9	-18.1
Change relating to intangible assets		15.5	3.8
Change relating to property and equipment		-2.4	-2.4
Change relating to investments		-137.8	-
Change relating to other receivables and assets		-	1.0
Change relating to contingency funds in Sweden		-51.0	-
Change relating to technical provisions		40.2	55.4
Change relating to liabilities and payables		-10.9	-21.2
Change relating to tax losses		-130.7	23.9
<b>Deferred tax assets and liabilities, end of the year</b>		<b>-42.5</b>	<b>238.5</b>
Deferred tax for the year recognised in the income statement		-277.5	59.6
<b>Total deferred tax for the year</b>		<b>-277.5</b>	<b>59.6</b>
Specification of deferred tax assets and liabilities at the end of the year:			
Intangible assets		-175.9	-192.9
Property and equipment		5.9	8.3
Investments		-139.0	-
Other receivables and assets		4.0	4.0
Contingency funds		-48.4	-
Technical provisions		259.0	228.6
Liabilities and payables		19.9	31.0
Net tax losses carried forward		32.0	159.5
<b>Deferred tax assets and liabilities, end of the year</b>		<b>-42.5</b>	<b>238.5</b>
Deferred tax assets and liabilities are included as follows:			
Deferred tax assets		62.1	345.6
Deferred tax liabilities		-104.6	-107.1
<b>Deferred tax assets and liabilities</b>		<b>-42.5</b>	<b>238.5</b>
In accordance with the rules issued by the Danish Financial Supervisory Authority no provisions are made for deferred tax on untaxed transfers to contingency funds, cf. note 21.			
<b>19 Accrued interest and rent</b>			
Accrued interest from Group entities		2.5	-
Accrued interest from investments		317.6	320.6
<b>Accrued interest and rent</b>		<b>320.1</b>	<b>320.6</b>

## Notes to the financial statements

Note	DKK million	2018	2017
<b>20 Share capital</b>			
The company's fully paid share capital can be broken down as follows:			
2 shares of DKK 1,000,000		2.0	2.0
1 share of DKK 2,000,000		2.0	2.0
2 shares of DKK 3,000,000		6.0	6.0
1 share of DKK 5,000,000		5.0	5.0
<b>Share capital</b>		<b>15.0</b>	<b>15.0</b>

No shares carry special rights. All shares carry full dividend rights. The company does not hold own shares. There has been no change in the share capital during the past 5 years.

**21 Contingency funds**

The contingency funds can be broken down as follows:

Contingency fund in the Swedish branch	3,917.5	4,022.2
Contingency fund A, created by resolution at the Annual General Meeting on 17 May 1966	313.5	313.5
Contingency fund B for general insurance, cf. Section 138(2) of Act No. 630 of 23 December 1980	1,062.8	1,062.8
Contingency fund C for workers' compensation insurance	18.8	18.8
<b>Contingency funds</b>	<b>5,312.6</b>	<b>5,417.3</b>
<b>Of which untaxed</b>	<b>5,312.6</b>	<b>5,417.3</b>

The contingency fund in Trygg-Hansa Försäkrings AB amounts to SEK 5,318.3 million in 2018 (SEK 5,318.3 million in 2017).

**22 Total equity**

<b>Capital base to cover the solvency requirement</b>	<b>7,708.7</b>	<b>8,441.5</b>
Capital base is calculated as follows:		
Equity	7,603.9	8,386.2
Value of intangible assets	-1,250.1	-1,254.6
Value of equipment	-5.0	-6.4
Adjustment regarding subsidiaries	85.5	35.1
Profit margin on general insurance contracts	1,565.0	1,702.7
Reinsurers' share of profit margin on general insurance contracts	-132.6	-239.9
Deferred tax effect	-60.0	-112.6
Prepayments	-98.0	-69.0
<b>Capital base to cover the solvency requirement</b>	<b>7,708.7</b>	<b>8,441.5</b>



## Notes to the financial statements

### Note

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#### 23 Pension obligations

Pension obligations in Codan Forsikring are generally funded.

In respect of defined contribution schemes, the employer is under an obligation to pay a defined contribution (e.g. a fixed amount or a fixed percentage of the salary). In a defined contribution scheme, the company does not bear the risk in relation to future developments in interest rates, inflation, mortality and disability. This is opposed to defined benefit schemes, where the employer is under an obligation to pay a defined benefit (e.g. a fixed amount or a percentage of the final salary).

#### 62-year pensions

Together with other financial companies present in Sweden, the Company has entered a collective agreement regarding the employees' pensions. The pension agreement has been made through the Insurance Industry's Pensionfund (Försäkringsbranchens Pensionskassa, FPK) and it implies that Codan Forsikring together with the other companies in cooperation has obligations to pay the pension of their own employees in accordance with set rules. The pension plan in FPK can be viewed as a defined benefit plan.

Codan Forsikring does not have access to information which allows the accounting for the pension plan as a defined benefit plan, and the plan is therefore accounted for as a defined contribution plan.

As part of the collective agreement the company has also entered agreement about defined benefit plans. The company's obligations under the defined benefit plan are recorded as expenses in the profit and loss account on an accrual basis.

Employees in Codan Forsikring Swedish branch born before or in 1955 are, according to the collective agreement, entitled to retire at 62. Those who choose to accept this opportunity obtain a pension from the employer for the time between the chosen retirement age and the ordinary retirement age. The pension is based on a calculation from FPK.

#### Norwegian branch pensions scheme

Codan Forsikring Norwegian branch pension scheme includes 271 active employees. The plan entitles to defined future benefits depending on number of years of service, salary level reached at pension age and size of national insurance benefits. The scheme is administered externally.

	DKK million	2018	2017
Present value of defined benefit schemes		13.4	28.1
Net liability recognised in the balance sheet		<b>13.4</b>	<b>28.1</b>

No assets have been separated to cover the pension obligation.

## Notes to the financial statements

Note	DKK million	2018	2017
<b>23 Pension obligations (continued)</b>			
<b>Development in present value of defined benefit obligations:</b>			
Pension obligations, beginning of the year		28.1	55.3
Currency translation adjustments		-0.8	-1.3
Pension costs for the year		-	3.3
Pension costs for prior years		-2.3	-13.0
Calculated interest on obligation		-	0.1
Benefits paid		-11.6	-16.3
		<b>13.4</b>	<b>28.1</b>
Pension obligations, end of the year			
Pension costs recognised in the income statement:			
Calculated interest on obligation		-	-0.1
Total recognised for defined benefit schemes		-	-0.1
Total recognised for defined contribution schemes		-227.4	-256.5
Pension costs recognised in the income statement		<b>-227.4</b>	<b>-256.6</b>
Assumptions used in the calculation of pension obligations:			
Discount rate		0.0%	0.0%
Expected increase in salaries		2.5%	2.5%
Proportion of employees opting to use the plan		85.0%	85.0%
<b>24 Other provisions</b>			
Other provisions, beginning of the year		352.0	172.0
Currency translation adjustments		-5.8	-4.3
Used during the year		-95.0	-119.4
Reversal of unused provisions		-252.9	-63.1
Provisions made during the year		93.1	366.8
Other provisions		<b>91.4</b>	<b>352.0</b>
Other provisions consists of:			
Provision regarding VAT-cases		0.0	77.0
Profit in Group Life Pool		0.0	28.7
Reorganisation		62.9	194.4
Environmental duties		11.4	12.6
Dilapidation provision		2.9	30.1
Other		14.2	9.1
Other provisions		<b>91.4</b>	<b>352.0</b>

## Notes to the financial statements

Note	DKK million	2018	2017
<b>25 Total provisions</b>			
Current portion (less than one year)		64.7	228.5
Non-current portion (more than one year)		144.7	258.8
		<b>209.4</b>	<b>487.3</b>

### 26 Total payables

No payables fall due more than five years after the balance sheet date.

Included in other payables are unsettled investment transactions etc. with DKK 0,1 million in 2018 (DKK 1,3 million in 2017).

### 27 Related parties

#### Information on related parties

Codan A/S, Frederiksberg, owns 100% of the shares in Codan Forsikring and thus holds a controlling interest in the company.

The company's related parties furthermore include the members of the Board of Directors and the Board of Management, and the boards of directors and boards of management and executives of Group entities as well as their related family members. Related parties also include companies in which the above persons have significant interests.

Apart from normal management remuneration, no transactions, except for those listed below, were entered into during the year with the Board of Directors and the Board of Management, executives, major shareholders or other related parties. The management remuneration is shown in notes 6 and 30.

#### Related party transactions

The company undertakes all administrative tasks for all wholly-owned Danish subsidiaries in the Codan Group. The company also undertakes all administrative tasks for the parent company, Codan A/S.

The company is a part of the Codan Group, whose companies work in a Nordic operating model. This means that there is co-operation on management, projects and certain functions in between the companies. In this connection the requirements set by the local Financial Supervisory Authorities are fulfilled.

The Company has paid dividends to its parent company.

The company has received intragroup contributions from related parties of DKK 0,0 million in 2018 (DKK 1,2 million in 2017).

Administration fees payable to and receivable from Group entities in the Codan Group are settled on a cost-covering basis. Rent payments to Group entities are made on market-based conditions.

Agreements on interest on inter-company balances on an arm's length basis were made between the companies in the Codan Group. Interest income from Group entities amounted to DKK 0,0 million in 2018 (DKK 0,0 million in 2017).

Agreements on interest on loans on market-based conditions were made between the companies in the Codan Group. Interest income from Group entities amounted to DKK 3,4 million in 2018 (DKK 5,1 million in 2017).

## Notes to the financial statements

Note	DKK million	2018	2017
<b>27 Related parties (continued)</b>			
The company has lent out DKK 1,000.0 million to the parent company Codan A/S.			
Agreements on interest on loans on market-based conditions were made between the Company and RSA Group. Interest income from RSA Group amounted to DKK 0,3 million in 2018 (DKK 1,3 million in 2017).			
Agreements on reinsurance were entered into with companies in the Codan Group and with companies in the RSA Group on an arm's length basis. Included in this is the quota sharing program on Marine portfolio with RSA Reinsurance UK Ltd.			
The company has paid for the use of joint IT-systems and the company's share of joint services in the RSA Group. Payments were made on a cost-covering basis.			
The company has entered in to a DKK/SEK hedge of DKK 2,032.3 million with the ultimate parent company Royal & Sun Alliance Insurance Plc. The Hedge was agreed on a arm's length basis. Total net Book value of Intercompany hedges (liability) amounted to DKK 31,9 million in 2018 (DKK 26,4 million in 2017).			
Business transactions with Group entities and associates included the following:			
Premiums ceded to reinsurers		-500.5	-566.0
Claims paid, reinsurers' share		197.3	120.2
Sale of reinsurance to Group entities		223.6	217.5
Ceded reinsurance cover		-103.7	-111.9
Reinsurance commissions and profit participation		44.5	53.7
Commissions and profit participation for reinsurance		-11.6	-7.1
Purchase of services from Group entities		-154.1	-157.6
Sale of administrative services to Group entities		188.0	236.9
<b>Business transactions with Group entities</b>		<b>-116.5</b>	<b>-214.3</b>

**28 Security**

The following assets are held under trust for the benefit of policyholders to cover technical provisions:

Equity investments	1,642.7	1,939.5
Bonds	29,542.1	29,770.6
Other loans	1,000.0	-
Insurance assets etc.	625.2	807.8
Interest receivable	320.0	320.4
<b>Security</b>	<b>33,130.1</b>	<b>32,838.3</b>

Bonds pledged as security for loans for standard repo contracts:

Danish government bonds	470.0	250.0
Swedish government bonds	-	747.6
<b>Security</b>	<b>470.0</b>	<b>997.6</b>

## Notes to the financial statements

Note	DKK million	2018	2017
<b>29 Contingent assets, contingent liabilities and financial liabilities</b>			
<b>Financial liabilities</b>			
VAT adjustment liability in connection with purchase of intangible assets		5.0	0.9
VAT cases		77.2	-
Operating lease commitments		405.9	580.3
Non-technical Recourse and Non-recourse Guarantee Commitments		56.6	125.9
Service agreements (IT and telephony)		128.7	121.5
Guarantee in connection with the disposal of Group occupied property		3.3	3.9
Commitment to invest in units in open-ended funds		779.0	280.4
<b>Financial liabilities</b>		<b>1,455.7</b>	<b>1,112.9</b>

The company is cooperating with other insurers to provide joint cover of certain types of insurance risks. In addition to the company's own share of such risks, which is included in the annual report, the company is jointly and severally liable for the other insurers' share of the insurance liabilities. However, in view of the fact that these insurers are sound companies, the risk is largely minimal.

The company signed contracts with external companies for the purpose of selling insurance products.

The company is jointly registered with the majority of the Codan Group's Danish companies for the purpose of payment of VAT and payroll tax and is jointly and severally liable for the payment of such taxes.

The company is jointly and severally liable together with other companies participating in the joint taxation for any dividend tax and royalties imposed within the joint taxation payable by 1 July 2012 or later.

Likewise, the company is jointly and severally liable together with other companies participating in the joint taxation for any company tax imposed within the joint taxation from and including the income year 2013.

The company entered into agreements with other companies in the Codan Group on the sale of insurance products, investment management, reinsurance, provision of administrative services, etc.

## Notes to the financial statements

### Note

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#### 30 Incentive schemes

As a subsidiary of RSA Insurance Group plc.(RSA) Codan Forsikring A/S participate in a number of incentive schemes for executives and other key employees. A description of the current long-term plan named Performance Share Plan (PSP) as well as historic incentives plans is listed below.

##### **Performance Share Plan/Long Term Incentive Plan**

The Structure of the plan allows for different types of awards to be made. All awards are settled in the form of ordinary shares in RSA.

##### ***Performance Shares***

Performance Shares is an award where the outcome of the Company performance measures determines the number of shares that vest. Conditional long-term incentive awards are granted annually in the form of Performance Shares and may vest wholly or partially subject to company performance conditions.

A retention period applies to vested Performance Shares. Awards can be reduced or otherwise amended, provided the action is fair and justifiable, for example, to guard against a windfall award or the converse generated by an accounting treatment. Vesting can be adjusted downwards for current or future risk exposure. Before vesting, they will normally lapse if the participant leaves and may be subject to performance conditions.

Performance conditions are reviewed for each new cycle and set in line with the Company's operational plan, long-term strategy and considering shareholder interests. The normal maximum LTIP opportunity is 40% of salary.

##### ***Deferred Bonus Shares***

Deferred Bonus Shares is an award made when part of a bonus is deferred in shares i.e. not paid immediately. For Material Risk Takers 50% of the bonus is deferred into a share award for a period of three years, and 50% is awarded in cash. Deferred Bonus Shares are generally retained if the employee leaves the Group unless the employee is dismissed for cause. The awards are not subject to performance conditions. Awards are subject to malus and claw back provisions, which is reviewed annually.

##### ***Restricted Shares***

Restricted Shares is an award made for recruitment purposes or in highly exceptional circumstances, such as for retention. This would be considered as a 'one-off' award. Where an exceptional award is made, full disclosure will be given on the rationale.

##### **Share Matching Plan**

Options granted in the Share Matching Plan are exercisable between three and five years after grant at a price per share of nil. 25% of the options granted are not subject to performance conditions, while the remaining 75% can be exercised only if a number of performance conditions are met.

##### **Savings Related Share Option Plan**

Employees eligible to participate in the RSA Insurance Group plc. International Share Save Plan can through a savings contract, receive options to purchase ordinary shares of RSA Insurance Group plc.'s common stock. All options mature in three or five years from the grant date and expire six months after vesting.

## Notes to the financial statements

## Note

## 30 Incentive schemes (continued)

**Board of Directors and Board of Management**

There are no bonus schemes or incentive schemes for the Board of Directors. The Board of Management is covered by the general bonus scheme and by RSA's incentive schemes as set out above.

Participation of CEO Patrick Bergander in incentive schemes:

DKK million	Long Term Incentive Plan (PSP)	
	Shares	Value
Outstanding at 1 January 2017	112,709	6.0
Granted during the year	46,957	2.5
Exercised during the year	-17,076	-0.9
<b>Outstanding at 31 December 2017</b>	<b>142,590</b>	<b>7.6</b>
Adjustment, beginning balances	-	-1.6
Granted during the year	40,233	1.7
Exercised during the year	-26,466	-1.1
Forfeited during the year	-33,862	-1.4
<b>Outstanding at 31 December 2018</b>	<b>122,495</b>	<b>5.2</b>

The value has been calculated as number of shares times the fair value at the exchange rate prevailing at 31 December 2017 and 31 December 2018. Adjustment to beginning balance is due to fair value and exchange rate.

Participation of EO Vivian Lund in incentive schemes at 31 December:

DKK million	Share Matching Plan		Long Term Incentive Plan (PSP)	
	Shares	Value	Shares	Value
Outstanding at 1 January 2017	2,304	0.1	11,366	0.6
Granted during the year	-	-	6,501	0.3
Exercised during the year	-	-	-2,054	-0.1
Adjustment during the year	-2,304	-0.1	-	-
<b>Outstanding at 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>15,813</b>	<b>0.8</b>
Adjustment, beginning balances	-	-	-	-0.2
Granted during the year	-	-	6,379	0.3
Exercised during the year	-	-	-5,373	-0.2
Forfeited during the year	-	-	-3,939	-0.2
<b>Outstanding at 31 December 2018</b>	<b>-</b>	<b>-</b>	<b>12,880</b>	<b>0.5</b>

The value has been calculated as number of shares times the fair value at the exchange rate prevailing at 31 December 2017 and 31 December 2018. Adjustment to beginning balance is due to fair value and

Shares under the Share Matching Plan were incorrectly allocated to Vivian Lund in 2016. This was adjusted in 2017.

## Notes to the financial statements

## Note

## 30 Incentive schemes (continued)

Employees with material influence on the Company's risk profile:

DKK million	Savings Related Share Option Plan		Long Term Incentive Plan (PSP)	
	Shares	Value	Shares	Value
Outstanding at 1 January 2017	2,014	0.1	415,256	22.2
Adjustment, beginning balances	-	-	-	-0.1
Granted during the year	58	-	275,364	14.6
Exercised during the year	-	-	-108,043	-5.7
Forfeited during the year	-	-	-10,917	-0.6
<b>Outstanding at 31 December 2017</b>	<b>2,072</b>	<b>0.1</b>	<b>571,660</b>	<b>30.4</b>
Adjustment, beginning balances	-2,072	-0.1	-	-6.1
Adjustment, prior year	-	-	18,116	0.8
Adjustment due to change in in the group of employees with material influence	-	-	-204,246	-8.7
Granted during the year	-	-	175,925	7.5
Exercised during the year	-	-	-76,960	-3.3
Forfeited during the year	-	-	-36,944	-1.6
<b>Outstanding at 31 December 2018</b>	<b>-</b>	<b>-</b>	<b>447,551</b>	<b>19.0</b>

The value has been calculated as number of shares times the fair value at the exchange rate prevailing at 31 December 2017 and 31 December 2018. Adjustment to beginning balance is due to fair value and

## 31 Ownership information

**Ownership**

Codan A/S, Gammel Kongevej 60, 1850 Frederiksberg C, owns all of the shares in Codan Forsikring.

**Group relationship**

RSA Insurance Group plc., 20 Fenchurch Street, London, England prepares consolidated financial statements, in which Codan Forsikring is included as a subsidiary. This is both the highest and lowest level at which consolidated financial statements are prepared. The consolidated financial statements can be required at [www.rsagroup.com/investors/](http://www.rsagroup.com/investors/).