

## CODAN A/S ANNUAL REPORT 2015

The annual report 2015 has been reviewed and approved at the Annual General Meeting held on 27 April 2016.



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Vivian Lund  
Chairman of the AGM

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## General information

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**Board of Directors and  
Board of management**

**Board of Directors:**

Lars Nørby Johansen, Chairman  
Anthony Latham, Deputy Chairman  
Christer Arne Bjellert\*  
Marianne Philip  
Maria Elisabeth Sandblom\*  
Christian Sletten\*  
Gavin Wilkinson

\*) Employee representative

**Board of Management:**

Patrick Bergander, CEO  
Stig Pastwa, CFO

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**Auditors**

Auditors elected by the general meeting:

KPMG, Statsautoriseret Revisionspartnerselskab

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**Ownership**

RSA Insurance Group plc., 20 Fenchurch Street, London, England, owns 100 % of the shares in Codan A/S, through the wholly owned Dutch subsidiary RSA Overseas Holding B.V., Netherland.

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## Management's review

### Financial review

#### The company's principal activity

Codan A/S ('Codan') is a financial insurance holding company whose principal activity is to own and manage general insurance companies in Scandinavia, primarily through the Danish subsidiary Codan Forsikring A/S, which offers general insurance products to personal and commercial customers on the Scandinavian markets.

#### Annual Report 2015

Codan's ultimate parent company RSA Insurance Group plc prepares consolidated financial statements in accordance with applicable United Kingdom law. Consolidated financial statements are therefore not prepared for the Codan Group.

The financial statements for 2015 have been audited and prepared in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's Executive Order no 112 of 7 February 2013 on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds). The accounting policies are described in Note 1 to the annual report.

A summary of key figures and financial ratios is provided in Note 3 to the annual report.

#### Major events

##### *New CFO*

In May 2015 Stig Pastwa joined the Company as Codan Group CFO and was appointed as member of Board of Management. Stig Pastwa leaves the Codan Group by 1 June 2016.

##### *New members of Board of Directors*

Following the annual general meeting in April 2015 Christer Arne Bjellert, Gavin Wilkinson and Maria Elisabeth Sandblom joined the Board of Directors. They succeed Richard Houghton, Jørgen Koch and Jørgen Lykke. In October 2015 David Weymouth left the Board.

##### *Merger*

As of 31 March 2015 the company's two subsidiaries, Codan Forsikring A/S and Trygg-Hansa Försäkrings AB, was merged with Codan Forsikring A/S being the continuing entity. The Trygg-Hansa business is now included in Codan Forsikring's Swedish branch. The merger supports the Codan Group strategy and the new country based organisation and at the same time the merger will help simplify the organisation and thereby further improve efficiency.

##### *Sale of investment property in Copenhagen*

In November 2015 an agreement was signed between Codan A/S and an external party regarding the sale of the property Vodroffsvej. The sale was concluded in December 2015.

##### *Dividend for 2014*

At the end of April 2015 Codan received dividend from the Danish subsidiary Codan Forsikring A/S of DKK 2,900 million.

The Board of Management decided to distribute dividend to the parent company, RSA Overseas Holding B.V., Netherland, amounting to DKK 1,800 million. Furthermore the Board of Management decided to repay the loan from Codan Forsikring A/S of SEK 1,200 million.

##### *Loans from Group entities*

As of 31 December 2015 the company had the following long term loans from its subsidiaries: Codan Ejendomme II A/S of DKK 220 million and NIS Norway AS of NOK 979 million. Both loans are obtained on an arms length principle. The loan from Codan Forsikring A/S of SEK 1,200 million has been repaid during 2015.

As of 31 December 2015 the company had a loan from the RSA subsidiary RSA Insurance plc. of DKK 1,100 million. The loan was obtained on an arm's length basis. The loan originally expired May 2016 but has been extended until May 2017.

## Management's review

The currency exposure regarding the loans between Group entities has been hedged by means of forward exchange contracts.

### Profit for the year

Profit for the year amounted to DKK 495 million against a profit of DKK 2,025 million for 2014. The profit is lower than expected in the outlook announced in the annual report for 2014 of maintaining satisfactory insurance operating profits in Codans' subsidiaries. The profit for 2015 has been materially impacted by the movements in the investment markets whereby the subsidiaries have recognised large unrealised losses on their investment portfolios. The profit from subsidiaries amounted to DKK 520 million compared to a profit from subsidiaries at DKK 2,098 million last year.

### Investments

The company's investments are made in subsidiaries and other financial assets. The total investment return was DKK 494 million for 2015 against DKK 2,044 million for 2014.

At the end of 2015, the company's investment portfolio consisted of the following assets (all amounts in DKK million):

	2015	2014
Investment properties	-	19
Investments in Group entities	10,645	12,732
Equity investments and units in open-ended funds	150	150
Bonds	97	-
Cash and cash equivalents	96	100
	<b>10,988</b>	<b>13,001</b>

### Investment properties

The last of the company's properties was sold in December 2015. The sale resulted in a gain of DKK 12 million. The gain is recorded in value adjustments.

### Investments in Group entities

Income from Group entities amounted to DKK 520 million for 2015 against DKK 2,098 million last year.

Income from Group entities can be broken down as follows: Codan Forsikring A/S posted a profit of DKK 521 million (a profit of DKK 2,074 million in 2014), while other subsidiaries generated a loss of DKK -1 million in 2014 (DKK 24 million in 2014). The profit for Codan Forsikring A/S is stated in accordance with the financial statements of the company, which has been prepared to reflect the merger of Codan Forsikring A/S and Trygg-Hansa Försäkrings AB.

### Codan Forsikring A/S

Codan Forsikring A/S offers almost all types of general insurance products to private individuals and companies in the Nordic countries. Codan Forsikring A/S holds a leading position in the general insurance market in Scandinavia and offers a comprehensive range of general insurance products.

The company has branches in Norway and Sweden.

The profit for the year is below expectations but delivers on the company's objective of improving the underlying results. The profit is affected by run-off losses and strong impacts from the increasing interest rates in the financial markets. Earned premiums, net of reinsurance, declined by DKK 325 million from DKK 15,920 million to DKK 15,595 million, a decrease of approx. 2%. Gross earned premiums (gross premiums written less change in provision for unearned premiums) showed a decrease of 2.5% from DKK 16,498 million to DKK 16,085 million in 2015. The decrease is primarily caused by the disposal of the Estonian branch in 2014 and declining exchange rates in Sweden and Norway compared to last year. The Norwegian branch shows growth measured in NOK.

### Management's review

Gross claims incurred amounted to DKK 11,674 million in 2015 against DKK 11,708 million in 2014, corresponding to a decrease of DKK 34 million. The Personal portfolio saw an increase in claims incurred on Personal Accident in Sweden relating primarily to a product in run off, changes in assumptions related to claims settling and actuarial estimates. This effect is partly offset by other products within Personal lines. The Commercial portfolio developed overall positively, with declining claims ratio.

The gross expense ratio was 21.0% in 2015 compared with 21.2% in 2014. During 2015 the company has focused 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.

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

The company continued to have an exposure to shares. The company's equity investments and units in open-ended funds amounted to DKK 150 million at 31 December 2015, equal to 1.3% of the total investment portfolio (1.1% in 2014).

The company's equity investments generated a positive return of DKK 19 million, primarily due to receiving dividend from the investment in the unlisted share, Dansk Skribskredit.

#### **Bonds**

Due to negative interest rates in the Danish banks, the company invested in AAA – rated mortgage bonds during 2015.

At 31 December 2015 the company's investments in bonds amounted to DKK 97 million (2014 DKK 0 million). The portfolio has a duration of less than one year and the bonds are rated AAA. The total return on the bond portfolio was approximately 0 for the year.

#### **Balance sheet**

The total assets for Codan amounted to DKK 12,086 million at year-end 2015, which is a decrease of DKK 2,045 million compared to total assets of DKK 14,131 million in 2014. The decrease is primarily a result of a decline in Investments in Group entities due to distributed dividend and the sale of an investment property.

Equity decreased by DKK 1,029 million from DKK 10,940 million to DKK 9,911 million. Apart from profit for the year, equity is particularly affected by dividend payments of DKK -1,800 million.

#### **Business initiatives**

##### ***Key strategies***

The Codan Group is in the middle of a transformation, which will help drive the strategic initiatives:

- Deliver on our customers' needs and our brand ambitions – close to customers. Supported by an agile customer-centric 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 will look to protect the current leadership positions in areas such as Motor, Personal Accident and Renewable Energy, while continue improving 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 scale player in the region with a global presence.

##### ***Market conditions***

Throughout 2015, trading conditions continued to be challenging in Denmark; however, the Danish insurance market remains stable and attractive. The market has announced that it will continue to focus on profitability and cost reduction, and Codan has the same focus. As in the Danish market, the Swedish market has experienced a decline in the economy. Norway has seen, after several years of positive conditions, a flattening in the trading conditions as a consequence of the economical development and recent drop in oil prices.

### Management's review

#### **Customers**

Codan continues to work on delivering the brand and customer journey and implementing a customer mindset 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.

#### **Variable remuneration**

With effect from 1 January 2011, new rules came into force imposing financial undertakings to draw up a remuneration policy for the undertaking, including rules on the payment of variable remuneration to the Board of Directors, the Board of Management and material risk takers. Codan has implemented the rules and observes the special restrictions applicable to the remuneration of the Board of Directors, the Board of Management and material risk takers. Consequently, the company complies with the provisions of sections 71 and 77a-d of the Danish Financial Business Act. In accordance with section 77d of the Danish Financial Business Act, information about the total remuneration for members of the Board of Directors and Board of Management is provided in this annual report, and the information to be published in the remuneration report in accordance with the remuneration rules is available on Codan's website under 'Employee remuneration reports'.

#### **Audit & Risk Committee**

The Board of Directors of Codan has set up 'the Codan Group Audit & Risk Committee'.

The Committee consists of five members of the Board of Directors with Anthony Latham as chairman. As the independent member with special qualifications in accounting, the Board of Directors of the company 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 and Codan Forsikring A/S.

The tasks of the Committee are 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 both the financial reporting process 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.

When performing its tasks, the Audit & Risk Committee ensures that due regard is given to matters important to the individual companies, regardless of whether such matters are important for the Group.

In 2015, the Audit & Risk Committee held seven meetings. The five meetings were held in connection with reporting to the company's Board of Directors and the Danish Financial Supervisory Authority.

#### **Events subsequent to 31 December 2015**

##### *Dividend for 2015*

The Board of Directors do not propose declaration of a dividend. The proposal will be considered by the annual general meeting on 25 April 2016.

##### *New Executive Order on accounting*

The Danish Financial Supervisory Authority has issued a new executive order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds effective from 1 January 2016. The new executive order comprises new presentation and changes in the measurement of Insurance Contract Provisions, but do also introduce new items as Risk Margin and Future Profit Margin. In addition to this, a new interest curve, calculated by the European Insurance and Occupational Pension Authority (EIOPA) is introduced.

Future Profit Margin is recognised as the expected future profit on bound, but not yet incepted insurance contracts, meaning the insurance contracts that today are covered by the provision for unearned premiums.

Risk Margin is the risk premium that a third party in principle will demand, to take over the insurance contracts with the inherent risk. Risk Margin is calculated separately for unearned premium provision and outstanding claims provision.

## Management's review

The Provision for unearned premiums is still covering compensation for claims that have not yet incurred, but the insurance company has taken on the risk. According to the new executive order, the part of the provision that is attributable to the expected future profit on the provision for unearned premiums, shall be recognised in the new balance sheet item "Future Profit Margin", just like a Risk Margin shall be recognised for the premium provision to cover the uncertainty regarding claims that occur after the balance sheet date.

In addition, the criterion for recognising an insurance contract in the premium provision and related balance sheet items, is changed. According to the new executive order, a contract is recognised when the insurer is bound, where the previous rules of recognition stated time of inception. Furthermore all premium provisions are discounted going forward, where the current rules only require discounting when the impact is significant. The new rules will have negative impact on Codan's equity with approximately DKK 1,265 million.

### *Solvency II*

As of 1 January 2016 Solvency II regulation, a set of EU rules, came into force for insurance companies. The former Danish individual solvency rules are in many respects an early implementation of a Solvency II like regime. The Codan Group has since 2009 prepared for Solvency II in a project coordinated with the RSA Group.

In December 2015, the insurance subsidiaries Codan Forsikring and Privatsikring, as part of the RSA Group received approval to use an internal model to calculate the solvency capital requirement as of 1 January 2016.

As no sub-consolidation is required for the Codan Group, and whereas the Danish Executive Order on Solvency applicable up to Solvency II was revoked as of 1 January 2016, there is no solvency capital requirement for Codan, however, the company will ensure to hold sufficient capital to meet its obligations

### *Transfer of Loss of Earning Capacity portfolio*

Codan Forsikring has made an agreement to transfer the Loss of Earning Capacity portfolio to SEB as originally agreed in 2005. The transfer of the portfolio is subject to approval by the Danish Financial Supervisory Authority and is expected to be concluded during third quarter of 2016. The transfer does not significantly impact Codan Forsikring's profit in 2016.

### *Extension of Marine reinsurance*

From 1 January 2016 Codan Forsikring has entered a new reinsurance contract with Royal & Sun Alliance Insurance plc. The reinsurance contract is a quota share agreement which covers 100% of Codan Forsikring's exposure towards the Marine portfolio for damage related to insurance contracts written in 2016. Hence, damage occurring in 2016 related to an insurance contract written in 2015 or before is not covered by the reinsurance contract. The contract is agreed on market terms and Codan Forsikring receives commission. *Other events*  
No other events of material importance to the company's financial position or business affairs have occurred subsequent to 31 December 2015.

## Outlook for 2016

In 2016, Codan expects to maintain the satisfactory insurance operating profit in its subsidiaries.

Codan's insurance subsidiaries continue to focus on delivering long-term profitable growth in their insurance operations with strict management control of underwriting. Diversified portfolios of the subsidiaries, reasoned insurance programmers and conservative reserving ensure stable insurance operating profits. The subsidiaries are expected to post satisfactory results from their insurance operations, provided weather-related claims are at a normal level in 2016. Based on the guidelines and investment policy laid down by the Codan Group, no major changes are expected in the allocation of the Groups assets in 2016.

The management of Codan 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 2016.



## **Management's review**

### **Employees and the company's community involvement**

The cornerstone of Codan's performance and success is the company's ability to attract, retain and develop the best talents. Codan wants to be one of the best workplaces in the insurance market, which also contributes towards attracting employees to work in the insurance industry in general. By focusing on the development of the individual employee and manager, the company provides the framework for a dynamic, informative and stimulating environment based on respect.

Codan strives to be a responsible employer. By focusing on all aspects of diversity and equal opportunities for all employees, Codan wants to be a workplace where differences are considered a strength and source of inspiration.

#### **Corporate responsibility efforts**

The Codan Group has decided to work strategically with corporate social responsibility (CSR) as a prerequisite for attracting the best employees, customers, suppliers and business partners – and thus for building a profitable and sustainable business. The Group has published a CSR report which is publicly available at [www.codan.dk/csr](http://www.codan.dk/csr). The report describes how the Group complies with the AA1000 principles (inclusivity, materiality and responsiveness), and data is audited by independent auditors.

More information is available on the website about the CSR policies as prepared and approved by Codan's Board of Directors and CEO. The policies serve as overall guidelines for Codan's CSR activities, including the approach to human rights, the environment, donations and volunteering activities. The website also contains more information on the Group's values and business principles which help strengthen the CSR activities throughout the organization.

Moreover, the Group has introduced an internal 'Guide to Business Conduct' which all employees must complete via e-learning. The Group also has a Whistle blowing Policy, which ensures that the employees know how to act and who to contact if they discover or suspect fraud, bribery and embezzlement, or if any of the Group's own business principles are not followed in the day-to-day work.

#### **Strategy**

In 2013 a Corporate Responsibility Strategy for Scandinavia for 2014-16 was developed. The Corporate Responsibility Strategy builds upon the strong foundation of our previous corporate responsibility work and supports the overall themes in the global Corporate Responsibility Strategy of RSA Group. The strategy continues to focus on the needs of our customers and supports our vision of insuring a sustainable future with focus on prevention of accidents and claims.

The Corporate Responsibility Strategy is based on customer surveys and interviews with key internal and external stakeholders. The results of these interviews have given valuable insights into our customers' and stakeholders' expectations and from this we have drafted the strategy vision and themes where loss prevention regarding climate and safety are main themes.

The top 10 challenges our customers expect us to help manage are:

1. Insurance fraud
2. Children's accidents
3. Fire accidents
4. Burglary claims in buildings
5. Water claims in buildings (broken pipes)
6. Traffic accidents (by increasing traffic safety)
7. Claims caused by extreme weather
8. Swimming accidents
9. Boat accidents
10. Corruption

## Management's review

### Climate

In recent years, Codan has seen an increase in weather-related claims. In the short term, the Group would like to raise awareness of damage caused by extreme weather, and in the long term, the company would like to contribute to reversing the negative climate trend.

In Denmark, for example, Codan offers a rebate on home buildings insurance if customers install anti-flooding devices to prevent the basement from being flooded by sewage during cloudbursts. In addition, Codan has launched videos focusing on how Danish homeowners can avoid damage to their homes when a cloudburst hits the country. Moreover, Codan offers a free text message alert to all Danes to notify them of cloudburst or storm forecasts. Codan is also a member of the Danish think tank CONCITO, with the company contributing to the think tank's climate adaptation work.

The RSA division Global Renewable Energy insures global companies in the renewable energy sector. RSA's Centre of Excellence for wind energy is situated at the Copenhagen headquarter. The centre educates employees and develops insurance products to customers globally. Codan is involved in 80% of all offshore wind turbines projects in the world.

### Safety

All accidents, whether they occur at home, at work, in traffic or on holiday, are unpleasant experiences that the people involved would rather do without. This also applies to us as an insurance company. An essential part of Codan's business is therefore to help prevent such accidents.

In Denmark and Norway the focus in 2015 was on the importance of being visible in traffic, for example by having 150 voluntary employees handing out 100,000 free reflectors. This year Codan also promoted road safety and the use of reflective clothing in a different way. Following research with a group of 15 - 34 year olds, Codan found that young people would wear reflective clothes if they were 'cool' with an 'integrated' reflector. Therefore Codan has teamed up with a young designer, Soulland, to design a reflector collection. To make sure they had a broad reach, Danish rapper Kesi also got involved by modelling for the collection, spreading the message through social media and using the collection on his tour. The collection, which consists of seven pieces, including shoes, a sweatshirt, cap, jacket and t-shirts are all made in a reflective material which will help to highlight the use of reflectors in the dark winter months. The cap has been sold nation wide in Denmark and has been sold out several times.

Trygg-Hansa has a long standing partnership with the Swedish Life Saving Society (SLS) in regards to promoting water safety. Our shared vision is that no child should have to drown. As an insurer who insures every other child in Sweden, we believe water safety is an obvious and suitable area to focus on.

Drowning is one of the most common fatal accidents among children aged one to six years old, and every year an average of nine children die in drowning accidents. Being able to float in water can save lives and is the first step to a swimming ability. Trygg-Hansa and the Swedish Life Saving Society has initiated the Baby Buoy concept to help parents and children how to practice water safety and floating home in the bathtub or the bath, and thus increase safety in and around water.

Every summer since 2012, Trygg-Hansa has funded around 350 outdoor summer swim schools with materials and resources, where more than 20,000 children have learned to swim. Summer swim lessons are one of the most important activities when it comes to promoting swimming skills among children in Sweden.

Trygg-Hansa is also funding the initiative "Swim School for Everyone", which aims to reach children who, for various reasons, such as language barriers, find it difficult to absorb information on water safety and swimming. SLS educates approximately 12 multilingual swim instructors per year to be able to teach children, who, for cultural, religious, linguistic or economic reasons, or otherwise cannot attend regular swimming lessons.

In 2015 Trygg-Hansa also wanted to address the problem that water related accidents cost more lives than road traffic accidents. Most of the adult drowning victims were middle aged men and a majority had consumed alcohol. Therefore we initiated "Don't Drink and Dive", a film project that spread around the world and that was rewarded many times during 2015.

### Management's review

Codan is also focusing on reducing the number of burglaries. In Denmark Codan has launched videos focusing on how homeowners can avoid burglaries. We also offer a rebate on the home contents insurance to customers having installed an approved alarm system in their home.

Safety in traffic was the main focus area for Codan in Norway in 2015. In November we launched a campaign focusing on the danger of using the mobile phone while driving. Surveys show that about every fourth car accident is related to the use of mobile phones while driving. Figures from more and more countries draw a clear pattern: mobile use while driving is dangerous and deadly. As more people, all over the world, gain access to smart phones, the number of accidents likely will increase dramatically. The aim of our campaign is to tell people to focus on the traffic while driving and leave the mobile untouched.

#### **Focus on capabilities, culture and engagement**

Codan invests considerable resources on developing the right capabilities for the future. We believe that the company's future success is dependent on ensuring that our employees and leaders have knowledge and expertise 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. This is done through a combination of internal and external training.

Through 2014, we had particular focus on leadership and culture in relation to our re-branding of Codan, and during 2015 we continue to do so. We also continue with the "Great conversations" programme to help leaders and their team to create Awareness, Desire, Knowledge, Ability and reinforcement towards our Brand, Culture and Expectations.

We also continue with our annual engagement survey 'Yoursay', which gives all our employees the opportunity to shout out and help us make things better. Actions on the survey and feedback will continue in 2016.

#### **Focus on more women in management**

Codan focuses on women in management positions. Our aim is to increase the share of female managers on all levels of the organisation. Our specific target is to increase the share of women on our Board of Directors, excluding employee representatives, for Codan A/S and Codan Forsikring A/S from 20% in 2012 to 33% in 2017, while the corresponding target for Forsikringselskabet Privatsikring is from 25% in 2012 to 40% in 2017. We have also set up a target and policy for the share of women on other management levels – from 35% in 2012 to 40% in 2020. In addition, Codan has signed the Charter for More Women in Management (Denmark).

In 2015, the share of women on the Board of Directors went up by 3 percentage points to 20% in Codan A/S and Codan Forsikring A/S and 20% in Forsikringselskabet Privatsikring, respectively.

The share of women on other management levels, has increased from 35% in 2012, 36% in 2013 to 37% in 2014 and 38% 2015.

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. Also, the efforts will contribute to our CSR objective of creating a sustainable future and provide equal opportunities for our employees and talent pool in society.

## Management's review

### Risk management

The most significant risks of the Codan Group are the risks relating to its insurance subsidiaries. The following description of risks includes both the risks of Codan and of its insurance subsidiaries.

The subsidiaries of Codan are exposed to various types of risks, of which insurance risks, financial risks and operational risks are the most prominent. Insurance risks pertain primarily to underwriting risk, counterparty risk and reserving risk. Financial risks consist primarily of market risks including the impact of changes in interest rates, particularly in the bond portfolio and technical provisions. Operational risks include the risk of loss from inadequate or failed internal processes, people and systems, or from external events. Codan's management of these risks is described below and further detailed in Note 2.

#### Risk management in Codan

The overarching strategy and guidelines for Codan are laid down 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, suppliers and others has been reviewed and challenged through continuous assessment of the current risk profiles of Codan's subsidiaries by the Own Risk & Solvency committee (ORSA), which serves as an advisory body to the management. The risk profiles are reported to the respective Boards of Directors quarterly. For further information on risk management, see Note 2.

Codan's subsidiaries have implemented necessary and relevant monitoring systems, business processes and controls in order to minimise risks. The most significant risks for the Codan group are outlined below:

#### **Insurance risks**

The Codan Group's insurance risks comprise:

- Underwriting risk and premium rating risk
- Counterparty risk, also referred to as credit risk or default risk (see Credit Risk section below)
- Reserving risk

Underwriting risk is the risk that the premium charged is not sufficient to cover future claims and expenses. Codan's exposure to underwriting risk is exclusively indirect via the company's subsidiaries.

Reserving risk is the risk that technical provisions will not be sufficient to settle incurred claims. Codan's exposure to reserving risk is exclusively indirect via the company's subsidiaries.

For a risk description of underwriting and reserving risks of subsidiaries, please refer to the Annual Report for 2015 of Codan Forsikring A/S.

#### **Financial risks**

Financial risks consist of market risk, credit risk, and liquidity risk. Market risk is the most important of these for Codan since a significant part of the company's activities consist 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. Note that Codan's exposure to financial risk is primarily indirect via the company's subsidiaries. The financial risks described below are considered on an aggregated level, i.e. including subsidiaries.

Codan's direct investment portfolio is allocated mainly to cash (28%), equity (43%) and short- and medium-term bonds (29%). Codan's subsidiaries have the majority of their investments in Danish and Swedish government and mortgage bonds. The vast majority of the bonds is considered liquid and can be sold at short notice close to market price.

#### **Market risks**

##### **Interest rate risk**

Changes in interest rates are one of the main financial risks that Codan is exposed to, mainly through its subsidiaries. If interest rates decrease, the value of bond portfolios held by Codan's subsidiaries will rise. At the same

## Management's review

time, technical provisions increase in connection with downwards changes in the discount rate. 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. The equity portfolios held by subsidiaries consists primarily of direct investments in listed European equities, whereas the equities held directly by Codan are focused on a few unlisted shareholdings.

### **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 is exposed to spread risk mainly via investments in mortgage bonds and corporate bonds through its subsidiaries. However, the spread risk is considered limited as the subsidiaries primarily holds AAA-rated mortgage bonds and investment grade corporate bonds.

### **Currency risk**

Currency risk arises as a result of a mismatch in the value of assets and liabilities in the same foreign currency. Codan has a large net exposure to SEK through one of its subsidiaries which, however, mitigates this risk through the use of currency derivatives. Apart from the SEK exposure, Codan has limited currency risk as the technical provisions in subsidiaries are generally matched by investments in the same currency. In Codan's financial statements, results and equity of subsidiaries are translated into DKK. Consequently, significant changes in foreign exchange rates may affect Codan's results and equity.

### **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. A significant part of the technical provisions in Codan's subsidiaries is index-linked, and Codan is consequently exposed to inflation through its subsidiaries. Codan also has direct exposure to inflation risk as annuities linked to Swedish Motor business are generally indexed with a consumer price index. The inflation risk is mitigated through the holding of investment assets that increase in value when inflation rises.

### **Liquidity risk**

Most of Codan's investments held in Codan's subsidiaries are in liquid, listed bonds that can be liquidated at short notice. Further, should the need arise; a credit facility can be obtained from the company's primary banks given the RSA Group's A rating.

### **Credit risk**

Credit risk (default risk) is the risk of incurring a loss in case a counterparty cannot meet its obligations. Codan's investment portfolio in its subsidiaries consists primarily of AAA-rated Danish and Swedish government and mortgage bonds, for which the credit risk is considered very low. In addition, a limited number of European corporate bonds are held, though with a credit rating of at least BBB. Codan's counterparty-related credit risks are primarily tied to holdings of cash and deposits in banks and exposure on reinsurance counterparties.

### **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 non-compliance with laws, regulations and internal rules as well as good practice or generally accepted good business standard regarding the regulated 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 of the company's strategic decisions and planning affecting 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 longer than the planning horizon. Emerging risks can for instance relate to technological development, health research and other matters in relation to the above described risks developing over time.

## **Management's review**

Codan manages these risks on an ongoing basis in line with risk appetite and quarterly assesses documents and reports operational risks to the Board of Directors. Where the risk exposure is judged to be unacceptable (outside risk appetite), actions are taken to mitigate and/or manage the risk. An annual assessment is performed of the direct and indirect financial impact that could arise in various scenarios.

### **Capital structure**

Codan is subject to the rules governing insurance holding companies and bases its capital management approach on these rules. The rules governing insurance holding companies stipulate that until 1 January 2016, capital requirements of directly or indirectly owned insurance subsidiaries are deducted from Codan's adequate base capital. The adequate base capital must be above zero after the deduction.

For capital management purposes of the Danish insurance subsidiaries, the Codan Group uses an internal capital model to assess and calculate capital requirements and scenarios. The model is used to calculate the capital requirement and for performance review purposes based on capital allocations derived from the model. The model is further used for impact analysis when assessing impact of major strategic decisions. The model is 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 the Codan insurance subsidiaries and is developed on a regular basis, which includes an annual reparametrisation. 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 capital requirement is calculated as the capital required to resist a worst-case scenario, defined as a once in every 200-year occurrence. The Swedish insurance subsidiary, Holmia Livförsäkring AB uses the standard formula to calculate the capital requirement when Solvency II becomes effective.

Codan's adequate base capital (before deduction of capital requirement in insurance subsidiaries) amounted to DKK 6,795 million at 31 December 2015. At the end of 2015, the individual solvency requirement of Codan was DKK 4,552 million.

## Management's review

### Directorships and executive positions

#### Board of Directors

At the time of the adoption of the annual report, the members of the company's Board of Directors held the following directorships and executive positions in other enterprises.

<b>Board of Directors</b>	<b>Directorships and executive positions in other enterprises</b>
Lars Nørby Johansen, Chairman	Fonden Oluf Høst Museet, Index Award A/S, Bornholms Mosteri A/S, Danmarks Underholdningsorkester A/S, Den Erhvervsdrivende Fond Bornholms Mosteri, (Chairman): Københavns Lufthavne A/S, William Demant Holding A/S, Dansk Vækstkapital K/S, Codan Forsikring A/S, Fonden for Entreprenørskab – Young Enterprise, Dansk Vækstkapital Komplementar ApS, Montana Møbler A/S, (Deputy Chairman): Arp-Hansen Hotel Group A/S.
Anthony Latham, Deputy Chairman	Ecclesiastical Insurance Group plc., Ecclesiastical Insurance Office plc., (Chairman): Pool Reinsurance (Nuclear) Ltd, Pool Reinsurance Ltd, (Deputy Chairman): Codan Forsikring A/S.
Christer Arne Bjellert *	Codan Forsikring A/S.
Marianne Philip	Aktieselskabet af 1. januar 1987, Anpartsselskabet af 17. december 2014, Bitten og Mads Clausens Fond, Brenntag Nordic A/S, Codan Forsikring A/S, HD Ejendomme A/S, Hedgeforeningen Nordea Invest Portefølje (kapitalforening), Investeringsforeningen MS Invest, Investeringsforeningen Nordea Invest, Investeringsforeningen Nordea Invest Bolig, Investeringsforeningen Nordea Invest Engros, Investeringsforeningen Nordea Invest Kommune, Investeringsforeningen Nordea Invest Portefølje, Investeringsinstitutforeningen Nordea Invest, Investeringsinstitutforeningen Nordea Invest Portefølje (kapitalforening), Kapitalforeningen Nordea Invest, Novo Nordisk Fonden, Kirsten og Peter Bangs Fond, (Chairman): Gerda og Victor B. Strands Fond/Toms Gruppens Fond, Gerda og Victor B. Strand Holding A/S, Holdingselskabet Af 17. August 2011 ApS, Movement A/S, Scan Office A/S, Redoffice Scan Office A/S, Scan Office Ejendomme ApS, Stiholt Holding A/S, (Liquidator): ALPS ApS under konkurs, Amati Optic ApS under konkurs, Aros Pharma ApS under frivillig likvidation, B. B. Byggeservice ApS under konkurs, Christie Holding ApS under tvangsopløsning, CLELCL54-Holding ApS under konkurs, Copenhagen Bikes ApS under tvangsopløsning, DSS Holding ApS under konkurs, Efficia Consulting IVS under konkurs, Fall Holding ApS under konkurs, FJ Rengøring ApS under konkurs, God Energi Invest ApS under konkurs, HGPedersen Holding ApS under tvangsopløsning, Holm Byg IVS under tvangsopløsning, Inventar One ApS under konkurs, Isoleringnu.dk ApS under konkurs, Jakobsen Holding 2014 ApS under konkurs, Juhl Ejendomme ApS under konkurs, Jørgen Jakobsen Holding ApS under konkurs, Klaus Bertelsen Holding ApS under tvangsopløsning, Linned Design Holding ApS under konkurs, MR Service København ApS under tvangsopløsning, MR Service København Holding ApS under tvangsopløsning, MSV og MF Holding ApS under konkurs, Nana Service ApS under konkurs, NN Holding 2011 ApS under tvangsopløsning, N.P. Rafn Holding ApS under konkurs, NW Biotech Invest ApS under tvangsopløsning, Preben Laust og Steen Holtermann HOLDING ApS under tvangsopløsning, Prime Care ApS under tvangsopløsning, Raas ApS under konkurs, Restaurationsselskabet ApS under konkurs, Sakan Holding ApS under konkurs, Selskabet af 17. november 2011 ApS under konkurs, Sky Company ApS under konkurs, SPG Group ApS under konkurs, Studieassistenterne IVS under konkurs, Systemlink ApS under tvangsopløsning, Søren Skak ApS under tvangsopløsning,

## Management's review

<b>Board of Directors (continued)</b>	løsning, Torben Odgaard Holding ApS under konkurs, TRT Holding ApS under konkurs, Widinberg Management A/S under konkurs, 3D Laserfoto Holding ApS under konkurs.
Maria Elisabeth Sandblom *	Codan Forsikring A/S.
Christian Sletten *	Codan Forsikring A/S.
Gavin Wilkinson	Codan Finance Limited, Royal & Sun Alliance Benelux Holdings NV, Royal Insurance Holdings plc, Royal International Insurance Holdings Limited, RSA Finance, RSA Finance (Isle of Man) Limited, RSA Manx Holdings Limited, RSA Overseas (No.3) Limited, RSA Overseas Holdings (No 1), RSA Overseas Holdings (No. 2), RSA Overseas Holdings (UK) Limited, Sun Alliance Finance B.V., Sun Alliance Insurance Overseas Limited, The Globe Insurance Company Limited, Codan Forsikring A/S and RSA Insurance Ireland Limited.

### Board of Management

Pursuant to section 80 of the Danish Financial Business Act, the Board of Directors of Codan A/S 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	Försäkringsgivarnas Arbetsgivarorganisations Serviceaktiebolag, Svensk Försäkring, Forsikring og Pension, (Chairman): Codan Ejendomme II A/S, NIS Denmark A/S, NIS 2 A/S, (Directorship): Codan Forsikring A/S.
Stig Pastwa	Det Danske Hedeselskab, DalgasGroup A/S, Global Knowledge Inc., NIS Sweden I AB, NIS Sweden II AB, (Chairman): AlliancePlus A/S, AlliancePlus Holding A/S, Chr. Olesen & Co. A/S, (Directorship): Codan Forsikring A/S, SP Holding 2015 ApS.

\* 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 A/S for the financial year 1 January to 31 December 2015.

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 2015 and of its financial performance for the financial year 1 January to 31 December 2015. 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 which the Company is facing.

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

Copenhagen, 25 April 2016

**Board of Management**



Patrick Bergander  
CEO

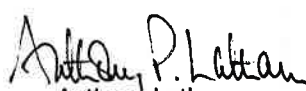


Stig Pastwa  
CFO

**Board of Directors**



Lars Nørby Johansen  
Chairman



Anthony Latham  
Deputy Chairman



Christer Arne Bjellert



Marianne Philip



Maria Elisabeth Sandblom



Christian Sletten



Gavin Wilkinson

## **Independent auditors' report**

**To the shareholder of Codan A/S**

### **Independent auditors' Report on the financial statements**

We have audited the financial statements of Codan A/S for the financial year 1 January - 31 December 2015. The financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Business Act.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements 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.

### **Auditors' responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors considers internal control relevant to the Company's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Our audit has not resulted in any qualification.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of its operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Business Act.

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

Pursuant to the Danish Financial Business Act, we have read the management's review. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Copenhagen, 25 April 2016

### **KPMG**

Statsautoriseret Revisionspartnerselskab

  
Anja Bjørnholt Luthcke  
State Authorised  
Public Accountant  
CVR: 25 57 81 98

  
Mark Palmberg  
State Authorised  
Public Accountant  
CVR: 25 57 81 98

## Income statement

Note	DKK million	2015	2014
<b>Investment return</b>			
		519.7	2,098.0
4	Income from investment properties	0.5	0.8
5	Interest income and dividends, etc.	21.7	7.8
6	Value adjustments	1.0	20.1
7	Interest expenses	-46.0	-74.1
	Investment management expenses	-3.0	-8.8
<b>Total investment return</b>		<b>493.9</b>	<b>2,043.8</b>
8	Other expenses	-6.4	-53.0
<b>Profit before tax</b>		<b>487.5</b>	<b>1,990.8</b>
9	Tax	7.8	33.7
<b>Profit for the year</b>		<b>495.3</b>	<b>2,024.5</b>
<b>Proposal for the distribution of profit:</b>			
	Transfer to reserve for net revaluation according to the equity method	519.7	2,102.0
	Value adjustment of dividends at time of declaration	-	1.6
	Interim dividend paid in 2014	-	2,247.4
	Proposed dividend	-	1,800.0
	Transferred to retained earnings	-24.4	-4,126.5
		<b>495.3</b>	<b>2,024.5</b>

## Statement of comprehensive income

	Revaluation of Group occupied properties in subsidiaries	-	-2.0
	Currency translation adjustment, foreign subsidiaries	296.5	-392.6
	Currency translation adjustment, goodwill relating to foreign subsidiaries	-14.2	-18.6
	Actuarial gains/losses on pension obligations	-3.9	-0.7
	Tax on actuarial gains/losses on pension obligations	0.8	0.2
	Actuarial gains/losses on pension obligations in	0.0	0.4
	Other comprehensive income	-3.3	0.8
<b>Other comprehensive income</b>		<b>275.9</b>	<b>-412.5</b>
Profit for the year		495.3	2,024.5
<b>Total comprehensive income</b>		<b>771.2</b>	<b>1,612.0</b>

**Balance sheet at 31 December**

<b>Note</b>	<b>DKK million</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
10 <b>Intangible assets</b>		<b>1,077.8</b>	<b>1,092.0</b>
11 <b>Investment properties</b>		-	<b>18.5</b>
12 <b>Investments in Group entities</b>		10,645.1	12,732.1
<b>Total investments in Group entities</b>		<b>10,645.1</b>	<b>12,732.1</b>
13 <b>Equity investments</b>		149.7	149.9
13 <b>Bonds</b>		97.3	-
<b>Total other financial assets</b>		<b>247.0</b>	<b>149.9</b>
<b>Total investments</b>		<b>10,892.1</b>	<b>12,900.5</b>
13 <b>Receivables from Group entities</b>		-	26.1
13 <b>Other receivables</b>		0.2	7.2
14 <b>Total receivables</b>		<b>0.2</b>	<b>33.3</b>
15 <b>Current tax assets</b>		12.4	-
19 <b>Deferred tax assets</b>		5.7	5.8
13 <b>Cash and cash equivalents</b>		96.3	99.8
14 <b>Total other assets</b>		<b>114.4</b>	<b>105.6</b>
<b>Accrued interest and rent</b>		1.2	-
<b>Total assets</b>		<b>12,085.7</b>	<b>14,131.4</b>

**Balance sheet at 31 December**

Note	DKK million	2015	2014
<b>Equity and liabilities</b>			
17 <b>Share capital</b>		860.0	860.0
Reserve for net revaluation according to the equity method		1,983.1	4,068.9
Translation reserve		-40.5	-25.1
<b>Total reserves</b>		1,942.6	4,043.8
<b>Retained earnings</b>		7,108.2	4,235.8
<b>Proposed dividend</b>		-	1,800.0
16 <b>Total equity</b>		<b>9,910.8</b>	<b>10,939.6</b>
18 Pension obligations		22.7	21.0
20 Other provisions		4.8	10.4
21 <b>Total provisions</b>		<b>27.5</b>	<b>31.4</b>
Amounts owed to Group entities		2,144.4	3,114.1
15 Current tax liabilities		-	8.0
Other payables		3.0	38.3
22 <b>Total payables</b>		<b>2,147.4</b>	<b>3,160.4</b>
<b>Total equity and liabilities</b>		<b>12,085.7</b>	<b>14,131.4</b>

**Notes without reference**

- 1 Accounting policies
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## Statement of changes in equity

DKK million

	Share capital	Net revaluation according to the equity method	Translation reserve	Retained earnings	Proposed dividend	Total equity
<b>2015</b>						
<b>Equity, beginning of the year</b>	<b>860.0</b>	<b>4,068.9</b>	<b>-25.1</b>	<b>4,235.8</b>	<b>1,800.0</b>	<b>10,939.6</b>
<b>Changes in equity for 2015:</b>						
Currency translation adjustment, foreign subsidiaries	-	297.8	-1.3	-	-	296.5
Currency translation adjustment, goodwill relating to foreign subsidiaries	-	-	-14.2	-	-	-14.2
Actuarial gains/losses on pension obligations	-	-	-	-3.9	-	-3.9
Tax on actuarial gains/losses on pension obligations	-	-	-	0.8	-	0.8
Actuarial gains/losses on pension Other comprehensive income	-	-3.2	0.1	-0.2	-	-3.3
	-	294.6	-15.4	-3.3	-	<b>275.9</b>
<b>Profit for the year</b>	-	<b>519.7</b>	-	<b>-24.4</b>	-	<b>495.3</b>
<b>Total comprehensive income for the year</b>	-	<b>814.3</b>	<b>-15.4</b>	<b>-27.7</b>	-	<b>771.2</b>
Merger of Trygg Hansa and Codan Release of net revaluation reserve according to the equity method on disposal of subsidiaries	-	-0.1	-	0.1	-	-
Dividend paid	-	-	-	-	-1,800.0	-1,800.0
Value adjustment of dividends at Dividends received from subsidiaries	-	-2,900.0	-	2,900.0	-	-
<b>Changes in equity for the year</b>	-	<b>-2,085.8</b>	<b>-15.4</b>	<b>2,872.4</b>	<b>-1,800.0</b>	<b>-1,028.8</b>
<b>Equity, end of the year</b>	<b>860.0</b>	<b>1,983.1</b>	<b>-40.5</b>	<b>7,108.2</b>	-	<b>9,910.8</b>

## Statement of changes in equity

DKK million

	Share capital	Net revaluation according to the equity method	Translation reserve	Retained earnings	Proposed dividend	Total equity
<b>2014</b>						
<b>Equity, beginning of the year</b>	<b>860.0</b>	<b>4,750.4</b>	<b>128.6</b>	<b>5,837.6</b>	<b>-</b>	<b>11,576.6</b>
<b>Changes in equity for 2014:</b>						
Revaluation of Group occupied properties in subsidiaries	-	-2.0	-	-	-	-2.0
Currency translation adjustment, foreign subsidiaries	-	-392.3	-0.3	-	-	-392.6
Currency translation adjustment, goodwill relating to foreign subsidiaries	-	-	-18.6	-	-	-18.6
Actuarial gains/losses on pension obligations	-	-	-	-0.7	-	-0.7
Tax on actuarial gains/losses on pension obligations	-	-	-	0.2	-	0.2
Actuarial gains/losses on pension obligations in subsidiaries	-	0.4	-	-	-	0.4
Other comprehensive income	-	1.4	-	-0.6	-	0.8
	-	-392.5	-18.9	-1.1	-	<b>-412.5</b>
<b>Profit for the year</b>	<b>-</b>	<b>2,102.0</b>	<b>-</b>	<b>-4,126.5</b>	<b>4,049.0</b>	<b>2,024.5</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>1,709.5</b>	<b>-18.9</b>	<b>-4,127.6</b>	<b>4,049.0</b>	<b>1,612.0</b>
Merger of Trygg Hansa and Codan Forsikring	-	134.8	-134.8	-	-	-
Release of net revaluation reserve according to the equity method on disposal of subsidiaries	-	-0.2	-	0.2	-	-
Dividend paid	-	-	-	-	-2,247.4	-2,247.4
Value adjustment of dividends at time of declaration	-	-	-	-	-1.6	-1.6
Dividend received from subsidiaries	-	-2,525.6	-	2,525.6	-	-
<b>Changes in equity for the year</b>	<b>-</b>	<b>-681.5</b>	<b>-153.7</b>	<b>-1,601.8</b>	<b>1,800.0</b>	<b>-637.0</b>
<b>Equity, end of the year</b>	<b>860.0</b>	<b>4,068.9</b>	<b>-25.1</b>	<b>4,235.8</b>	<b>1,800.0</b>	<b>10,939.6</b>

## Notes to the financial statements

### Note

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#### 1 Accounting policies

The financial statements for 2015 have been audited and prepared in accordance with the Danish Financial Business Act and the Danish Financial Supervisory Authority's Executive Order no. 112 of 7 February 2013 on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds.

Codan's 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 Group.

Codan has received permission to prepare the annual report solely in English from the Danish Financial Supervisory Authority.

Minor reclassifications to comparative numbers have been made in tables and relative to the annual report for 2014. The reclassifications are of no importance to the informative value of the individual tables and notes.

The accounting policies remain unchanged from the annual report for 2014.

#### **General information**

The annual report is presented in DKK, rounded to the nearest million by one decimal. The business of Codan consists mainly of holding investments in general insurance companies conducting transactions in a number of different currencies, but primarily in DKK and SEK. The functional currency is the currency of the primary economic environment in which each individual company operates. Codan has adopted DKK as its presentation currency.

#### **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 thus 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. In Codan and in Codan's Group entities, 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, properties, 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 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 in Group entities conducting general insurance business***

The provisions for outstanding claims are 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 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.

#### ***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.

Provisions have not been made for deferred tax on contingency funds in Codan's Group entities. 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.

#### ***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**

In 2015, changed assumptions and estimates by Codan's subsidiary Codan Forsikring concerning goodwill and related intangible assets resulted in a total impairment loss of DKK 74 million before tax.

The actuarial assumptions regarding Swedish Personal Accident were changed during 2015. As an outcome of the updating of assumptions, the reserves were strengthened with DKK 642 million.

#### **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.

## Notes to the financial statements

### Note

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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 A/S and Trygg-Hansa Försäkrings AB constitutes an intra-group business combination. The statutory accounts for Codan Forsikring A/S 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's 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.

Any additional price paid in connection with the purchase of minority interests is written down directly against equity.

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

Business transactions between consolidated companies are conducted on an arm's length basis or on a cost-covering basis.

#### **Foreign currency translation**

The company's functional currency is DKK.

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 entities 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 entities 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.

## Notes to the financial statements

### Note

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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**

##### ***Expenses***

Expenses are recognised in the income statement as other expenses and as investment management expenses. As a general rule, expenses that are not attributable to a function will be distributed proportionally on the basis of the amount of the directly attributable expenses.

##### ***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.

In connection with sale and leaseback transactions (sale of an asset and leaseback of the same asset) resulting in operating leases, the sale 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.

##### ***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 only comprise foreign exchange contracts.

##### ***Incentive schemes***

The RSA Group operates share option schemes satisfied by shares in RSA Insurance Group plc. 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. Codan 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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#### Income statement

##### Investment return

Income from investment properties, excluding interest and fair value adjustments, includes rental income and other operating income less direct operating expenses, including property management costs.

Interest and interest-related income from bonds, other securities, loans and receivables as well as dividends on equity investments are recognised as 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 Codan's share of Group entities' net profit after tax.

##### Other income and expenses

Other income and expenses include items that are not attributable to the management of the company's investments. Other expenses thus include part of Codan's staff costs and amortisation on intangible assets as well as an administration fee payable to the subsidiary Codan Forsikring A/S.

##### Tax

Codan is taxed jointly with the Danish subsidiaries. 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.

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'.

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.

## Notes to the financial statements

### Note

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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.

Codan's Group entities do not make provisions for deferred tax on contingency funds. According to the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pensions Funds (*Regnskabsbekendtgørelsen*), 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 companies cease to carry on insurance business.

### 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 Codan's interest in an acquired entity over Codan'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. The determination of cash-generating units is 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.

## Notes to the financial statements

### Note

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#### ***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.

#### **Property and equipment**

##### ***Group-occupied properties in Group entities***

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 development projects, other intangible assets and property and equipment***

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.

Goodwill 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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#### **Investment properties**

Properties held for long-term rental yields that are not occupied by the Codan companies for their own operations are classified as investment properties. Investment properties are measured at fair value according to the guidelines issued by the Danish Financial Supervisory Authority. A value for each individual property has been calculated using an expected future operating profit and a rate of return (return requirement). This value is adjusted for special factors which temporarily affect the earnings of the property, and the property's maintenance standard is taken into account. The rate of return has been determined by considering current market conditions for the individual property types as well as location, use, tenancy agreements, etc.

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.

#### **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 Codan.

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, 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 are recognised at fair value and subsequently measured at amortised cost using the effective interest method, and this 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 includes 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.

## Notes to the financial statements

### Note

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

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

#### **Liabilities**

##### **Equity**

##### **Share capital**

Shares in Codan are recognised at nominal value.

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

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

#### **Revaluation reserve**

The revaluation reserve includes gains arising from the revaluation of property and equipment at fair value. The reserve will be dissolved in the event of any reversal of revaluations made or in the event of disposal of the individual assets.

#### **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.

#### **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).

#### **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.

#### **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.



## Notes to the financial statements

### Note

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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 financial expenses. 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.

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 a former employee.

#### 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 reductions 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. Changes in present values during the financial year are recognised as investment return.

#### Prepayments and accrued income

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

#### Methods for calculating financial ratios

The financial ratios have been calculated in accordance with the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pensions Funds. The ratios included in the five year summary have been calculated as follows:

**Return on equity in %**                      Profit for the year in relation to average equity.

**Solvency ratio in %**                      Capital base less deductions in relation to capital requirement.

## Notes to the financial statements

### Note

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#### 2 Risk information

##### **Risk management and control**

For Codan and its subsidiaries, as insurers and companies that take on risks, it is important that risks are managed in a controlled manner. This requires structured risk management. Risk management covers all situations that could affect the future operation and development of the company.

The Board of Directors is responsible for setting 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 the management of these within the risk appetite framework.

The Boards of Directors of Codan and its subsidiaries are responsible for ensuring the soundness of the companies with regard to capital requirements, liquidity, financial position and business practice. Codan's subsidiaries operate in accordance to a three lines of defence model. The operative activities make up the first line of defence. Risk and Compliance units constitute the second line of defence, and Internal Audit makes up the third line of defence.

##### **Insurance risks**

The Underwriting Policy, issued by the Boards of Directors of Codan's subsidiaries, determine the risk the companies can accept. These guidelines clearly describe the risk appetite and the amount of capital the Boards are prepared to allocate to the various risks that have been evaluated, priced and accepted by the companies' underwriters.

Codan's subsidiaries build on underwriting capability as one of the key drivers of a 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 the subsidiary 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's subsidiaries place major focus on risk selection and risk quality alongside a disciplined approach to pricing to deliver these objectives. A majority of the customers are offered a premium which is set according to tariffs and risk factors calculated by price actuaries. For large 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's subsidiaries place great emphasis on portfolio management to provide overview to their 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'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.

The subsidiaries' 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 of each subsidiary. 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 the company is willing to underwrite contracts. 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.

## Notes to the financial statements

### Note

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In order to ensure that tariffs remain updated and are positioned to deliver the results set out in the business plans of subsidiaries, 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. 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's subsidiaries review the insurance risks accepted on a regular basis and assess these in relation to the underwriting, reinsurance and capital policies adopted.

#### *Insurance risk concentrations*

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.

Reinsurance is purchased partly in proportion to the total risk that the company is exposed to in various areas and partly as an upper limit to how large the risk may be in a given area. Reinsurance can also be purchased on a facultative basis for large, individual contracts. The costs of Codan's subsidiaries per claim event, their 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 for the various types of insurance risks is decided by the Board of Directors in Codan's subsidiaries. The level is reviewed annually by the Board of Directors to ensure that it is acceptable.

The Reinsurance Policy determines how reinsurance protection is to be structured to reduce the insurance risks of subsidiaries.

The insurance risks of Codan's subsidiaries are geographically located in Denmark, Sweden and Norway from where the majority of the premium income derives.

To ensure adequate exposure to insurance risks and to protect the capital base, a structured reinsurance programme is maintained which also protects Codan's subsidiaries against single large losses and catastrophe events such as weather-related events.

#### *Non-catastrophe risks*

The Codan Group's reinsurance programme for 2015 was an excess of loss programme with a maximum retention of DKK 100 million for any one risk, any one event in respect of buildings, contents and business interruption insurance. The retention for accident claims was DKK 100 million, DKK 25 million for liability and DKK 30 million for motor third party liability claims. All 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 risks*

The Codan Group has taken out reinsurance cover for catastrophe events together with other companies in the RSA Group. In respect of natural disaster claims, reinsurance cover for a once-in-200-years event has been purchased, with the exception of a total RSA Group retention of GBP 25 million.

## Notes to the financial statements

### Note

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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 2015, the maximum net retention for Codan Forsikring was DKK 100 million per event.

Reinsurance contracts are subject to a certain credit risk, which is described in more detail in the section on credit risk below. The creditworthiness of reinsurers is monitored on an ongoing basis to ensure the efficiency of the selected reinsurance cover.

#### *Reserving risk*

The 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 the Codan Group's experiences and generally accepted actuarial techniques for estimating provisions. The Codan Group 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 in Codan's subsidiaries 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.

#### **Financial risks**

Codan's exposure to financial risks is primarily indirect via its subsidiaries. The financial risks described below are considered on an aggregated level, i.e. including subsidiaries, while the tables show Codan's direct exposure.

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

## Notes to the financial statements

## Note

*Investment management*

Codan has chosen an outsourcing strategy for managing its investments. External portfolio managers have been approved by the Board of Directors, and their investment authority is subject to Codan's investment policy laid down by the Board of Directors.

The investment policies of Codan and its subsidiaries lay 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 risks*

The majority of investments held by Codan's subsidiaries are in liquid listed bonds. Codan maintains conservative investment guidelines with a large share of the portfolios consisting of government bonds and highly rated securities. If the need should arise, it is expected that a credit facility can be obtained from the Group's primary banks on the basis of the RSA Group's A rating.

The short-term liquidity of Codan and its subsidiaries is monitored through ongoing cash management. Long-term cash management is managed and reviewed on an ongoing basis in connection with ALM-reporting (Asset Liability Management) to the management.

Changes in interest rates are among the risk factors which affect Codan's financial risks – either directly or through its subsidiaries. A significant aspect of Codan's risk management is to have a portfolio of fixed-income securities in the subsidiaries, which acceptably balances the opposing P&L effects of interest rate movements on assets and liabilities.

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

<b>Contractual repricing or maturity dates</b>	<b>DKK million</b>		
<b>2015</b>	<b>1 - 2 år</b>	<b>&lt; 1 year</b>	<b>Total</b>
Danish fixed rate mortgage bonds	-	97.3	<b>97.3</b>
Call deposits etc.	-	96.3	<b>96.3</b>
<b>Financial assets</b>		<b>193.6</b>	<b>193.6</b>
Amounts owed to Group entities	1,100.0	1,044.4	<b>2,144.4</b>
Other payables	-	3.0	<b>3.0</b>
<b>Financial liabilities</b>	<b>1,100.0</b>	<b>1,047.4</b>	<b>2,147.4</b>
<b>2014</b>	<b>1 - 2 år</b>	<b>&lt; 1 year</b>	<b>Total</b>
Call deposits etc.	-	99.8	<b>99.8</b>
Receivables from Group entities	-	26.1	<b>26.1</b>
<b>Financial assets</b>		<b>125.9</b>	<b>125.9</b>
Amounts owed to Group entities	1,100.0	2,014.1	<b>3,114.1</b>
Other payables	0.3	38.0	<b>38.3</b>
<b>Financial liabilities</b>	<b>1,100.3</b>	<b>2,052.1</b>	<b>3,152.4</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	
	2015	2014	2015	2014
<b>Financial assets</b>				
Other loans, deposits with credit institutions, call deposits, etc.	-	0.1	-	-
<b>Financial liabilities</b>				
Amounts owed to Group entities	-	0.2	-	-

*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 has a large net exposure to SEK through one of its subsidiaries which, however, mitigates this risk through the use of FX forward contracts. Apart from the SEK exposure, Codan has limited currency risk as the technical provisions in subsidiaries are generally matched by investments in the same currency. In Codan's financial statements, results and equity of subsidiaries are translated into DKK. Consequently, significant changes in foreign exchange rates may affect Codan's results and equity.

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

Currency risk	DKK million				
	2015				
	EUR	GBP	NOK	SEK	Total
Investments in Group entities	-	-	24.6	0.5	25.1
Intangible assets	-	-	233.3	-	233.3
Other loans, deposits with credit institutions, call deposits,	0.4	0.1	780.0	0.1	780.6
Amounts owed to Group entities	-	-	-760.1	-	-760.1
Other payables	-	0.4	-	-	0.4
Other provisions	-	-	-4.8	-	-4.8
<b>Currency risk</b>	<b>0.4</b>	<b>0.5</b>	<b>273.0</b>	<b>0.6</b>	<b>274.5</b>
	2014				
	EUR	GBP	NOK	SEK	Total
Investments in Group entities	-	-	42.3	0.5	42.8
Intangible assets	-	-	247.5	-	247.5
Other loans, deposits with credit institutions, call deposits,	0.4	0.1	-10.3	4.3	-5.5
Amounts owed to Group entities	-	-	-806.3	-942.7	-1,749.0
Other payables	-	0.4	-	-	0.4
Other provisions	-	-	-9.2	-1.6	-10.8
<b>Currency risk</b>	<b>0.4</b>	<b>0.5</b>	<b>-536.0</b>	<b>-939.5</b>	<b>-1,474.6</b>

## Notes to the financial statements

## Note

*Equity risk*

On 31 December 2015, Codan had invested a total amount of DKK 150 million of its other financial assets in equities. In addition to this, Codan's subsidiaries had invested a total amount of DKK 1,382 million in equities at 31 December 2015.

*Inflation risk*

A significant part of technical provisions in Codan's subsidiaries is index-linked, and Codan 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.

*Real estate risk*

Codan has only onedirect investment in property through a subsidiary. In addition to direct investment in property, Codan 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.

**Credit risks**

Codan 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 in respect of reinsurers is monitored continuously. For a reinsurer to be considered, 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's investment portfolio in its subsidiaries consists primarily of AAA-rated Danish and Swedish government and mortgage bonds. Codan's credit and counterparty risks are primarily tied to holdings of European corporate bonds, holdings of cash and deposits in banks and exposure on reinsurance counterparties – all through its subsidiaries. For European corporate bonds, issuers must have a credit rating of at least BBB.

Codan's maximum direct exposure to credit risk is shown in the table below.

<b>Maximum credit risk</b>	<b>DKK million</b>	<b>2015</b>	<b>2014</b>
Danish fixed rate mortgage bonds		97.3	-
Receivables from Group entities		-	26.1
Other receivables		0.2	7.2
Current tax assets		12.4	-
Cash and cash equivalents		96.3	99.8
Accrued interest and rent		1.2	-
<b>Maximum credit risk</b>		<b>207.4</b>	<b>133.1</b>

**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, among other things 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.

## Notes to the financial statements

### Note

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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 the Enterprise 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. This information is reported periodically to the Risk and Assurance Oversight Committee and subsequently provided to the Board of Directors with risk reporting.

#### **Compliance Risk**

Compliance risk is the risk of non-compliance with applicable laws, regulations and internal rules as well as good practice or generally accepted good business standard regarding the regulated activities. Deficient compliance may lead to increased operational risks, risk of legal sanctions, supervisory sanctions, financial loss or loss of reputation.

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

The day-to-day responsibility to manage compliance risk lies 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 lies with the Board of Management and the Board of Directors.

#### **Emerging risks**

Emerging risks are identified in the discussions with each business function with input from industry surveys and reports, and reported to the Board of Directors and Audit & Risk Committee on a quarterly basis.

#### **Sensitivity analysis**

The Codan Group uses a number of sensitivity or stress test-based risk management tools to understand the impact on the Group's results and financial position in both normal and stressed market conditions.



## Notes to the financial statements

### Note

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#### **Capital and solvency**

Codan and its subsidiaries calculate and monitors on capital measures. Capital measures include accounting equity, capital available, and capital requirements as set out in the Danish Financial Supervisory Authority's and Solvency II regulation. The capital requirements are for the Danish subsidiaries calculated using an internal model, and are stress-tested using, for example, the traffic light scenarios of the Danish Financial Supervisory Authority. For the Swedish subsidiary, the capital requirement is calculated using the standard formula.

The capital available is calculated as the difference between the allowed assets and liabilities. Allowed assets and liabilities are determined by the applicable rules for each evaluation basis. The base capital, calculated in accordance with the rules of the Danish Financial Supervisory Authority, is set out in Note 16.

The Board of Directors has established two different warning levels for the size of the capital. If the red or amber levels are reached, the Board of Directors must be notified immediately. The red level aims to give the management sufficient time to act before the capital strength level required for an insurance holding company according to the Danish Financial Supervisory Authority is reached. 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 yellow alert is based on an overall risk assessment.

Codan has implemented a process for the continuous monitoring of the above-mentioned capital measures and has set up an advisory Capital Management Committee. A Capital Scorecard is used as a tool in this process. All capital requirements are currently met for all capital categories.

#### *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. When determining the dividend potential, the contingent liabilities are also included in the assessment.

## Notes to the financial statements

### Note

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#### 3 Key figures and financial ratios

<b>Five year summary</b>	<b>DKK million</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Total investment return		493.9	2,043.8	1,462.0	1,936.1	2,380.1
Profit for the year		495.3	2,024.5	1,418.3	1,897.8	2,368.5
Total equity		9,910.8	10,939.6	11,576.6	13,032.2	13,307.1
Total assets		12,085.7	14,131.4	15,067.0	14,122.6	14,435.2
Return on equity in %		4.8	18.0	12.0	14.4	16.6

## Notes to the financial statements

Note	DKK million	2015	2014
<b>4 Income from investment properties</b>			
Rental income		0.9	0.8
Direct operating expenses relating to investment properties let during the financial year		-0.4	-
<b>Income from investment properties</b>		<b>0.5</b>	<b>0.8</b>
<b>5 Interest income and dividends, etc.</b>			
Interest income from bonds, loans and deposits		2.4	1.8
Income from units in open-ended funds and other equity investments		19.3	6.0
<b>Interest income and dividends, etc.</b>		<b>21.7</b>	<b>7.8</b>
<b>6 Value adjustments</b>			
Investment properties		12.2	-0.7
Equity investments		-0.2	-1.9
Bonds		-2.9	-1.5
Derivatives		-24.2	-105.7
Total investment assets		-15.1	-109.8
Loans in foreign currency		-40.5	120.9
Other value adjustments		56.6	9.0
<b>Value adjustments</b>		<b>1.0</b>	<b>20.1</b>
Realised gains and losses on investments		-44.5	-204.5
Unrealised gains and losses on investments		29.4	94.7
Other realised gains and losses		61.0	44.5
Other unrealised gains and losses		-44.9	85.4
<b>Value adjustments</b>		<b>1.0</b>	<b>20.1</b>
Unrealised gains and losses on securities where the fair value is determined			
<b>7 Interest expenses</b>			
Interest payable to Group entities		-45.7	-73.9
Other financial expenses		-0.3	-0.2
<b>Interest expenses</b>		<b>-46.0</b>	<b>-74.1</b>

## Notes to the financial statements

Note	DKK million	2015	2014
<b>8 Other expenses</b>			
Administrative expenses in Codan			
Staff costs:			
Wages and salaries		-3.4	-13.2
Defined contribution schemes		-0.4	-0.5
Payroll tax		-0.9	-0.8
Other staff costs		1.0	-1.2
Total staff costs		-3.7	-15.7
Administration fee to Codan Forsikring A/S		-7.3	-37.9
Amortisation		-	-8.3
Rent		-	-0.2
Other administrative expenses		-1.6	-1.2
Transferred to investment management expenses		2.9	8.7
Reimbursement from Group entities		3.3	1.6
<b>Total administrative expenses in Codan</b>		<b>-6.4</b>	<b>-53.0</b>
<b>Other expenses</b>		<b>-6.4</b>	<b>-53.0</b>
Converted into full-time employees, the average number of persons employed during the financial year was 2 persons (3 persons i 2014).			
<b>Earned remuneration of current and former members of the Board of Directors and Board of</b>			
Remuneration of the Board of Directors (fixed remuneration)			
Lars Nørby Johansen		-0.7	-0.4
Christer Bjellert		-0.2	-
Anthony Latham		-0.6	-0.4
Jørgen Lykke		-	-0.2
Jørgen Koch		-	-0.2
Marianne Philip		-0.4	-0.3
Maria Elisabeth Sandblom		-0.2	-
Christian Sletten		-0.2	-0.2
<b>Remuneration to the Board of Directors</b>		<b>-2.3</b>	<b>-1.6</b>
Remuneration of the Board of Management:			
Wages and salaries (fixed remuneration)		-9.7	-8.8
Bonuses (variable remuneration)		-1.1	-1.6
Pension benefits (fixed remuneration)		-2.1	-1.2
Share-based payment (variable remuneration)		-1.5	-2.6
<b>Remuneration of the Board of Management</b>		<b>-14.4</b>	<b>-14.2</b>
CEO Patrick Bergander		-7.0	-6.3
CFO Stig Pastwa		-2.7	-
Former CEO, Michael Holliday-Williams		-	-3.2
Former member of the Board of Management Vibeke Krag		-4.7	-4.7
<b>Paid remuneration to the Board of Management</b>		<b>-14.4</b>	<b>-14.2</b>
<b>Number of employees in the Board of Management at 31 December</b>		<b>2</b>	<b>1</b>

## Notes to the financial statements

Note	DKK million	2015	2014
<b>8 Other expenses (continued)</b>			
Except for the board of management, only one other employee has been identified as having material influence on the company's risk profile. Individual remuneration for this person is not disclosed.			
Other disclosures on remuneration to current and former members of the Board of Directors and Board of Management of Codan:			
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 and its subsidiary Codan Forsikring A/S. The above specification includes the total remuneration for employment.			
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.			
Bonuses are linked to the bonus earned in 2015 but paid in 2016.			
The Board of Management participates in a number of incentive schemes. For further evaluation, see note 26.			
Members of the Board of Directors do not participate in incentive schemes as a result of their board duties at Codan.			
Unfunded pension commitments were made to former member of the Board of Management Peter Zobel, cf. Note 18. These pension commitments are not included in the above specification.			
<b>Fee to the company's auditor:</b>			
KPMG prior year		-	-0.1
KPMG current year		-0.5	-0.4
<b>Remuneration, statutory audit</b>		<b>-0.5</b>	<b>-0.5</b>
KPMG current year		-	-0.1
<b>Remuneration, other assurance engagements</b>		<b>-</b>	<b>-0.1</b>
KPMG current year		-	-0.1
<b>Remuneration, advisory services and assistance</b>		<b>-</b>	<b>-0.1</b>
<b>Fee, statutory audit</b>		<b>-0.5</b>	<b>-0.7</b>

In addition to the above remuneration, costs have been paid in respect of the company's Internal Audit

## Notes to the financial statements

Note	DKK million	2015	2014
<b>9 Tax</b>			
Tax on total income for the year:			
Current tax expense		8.3	24.5
Change in deferred tax on temporary differences		-0.2	0.4
<b>Tax on total income for the year</b>		<b>8.1</b>	<b>24.9</b>
Adjustments relating to previous years:			
Current tax for previous years		0.4	8.6
Adjustment of deferred tax at 1 January		0.1	0.4
<b>Adjustments relating to previous years</b>		<b>0.5</b>	<b>9.0</b>
<b>Tax expense</b>		<b>8.6</b>	<b>33.9</b>
Tax is included as follows:			
Tax in the income statement		7.8	33.7
Tax on changes in equity		0.8	0.2
<b>Tax expense</b>		<b>8.6</b>	<b>33.9</b>
Total tax on total income for the year can be explained as follows:			
Profit before tax		487.5	1,990.8
Reversal of income from Group entities		-519.7	-2,098.0
Actuarial gains and losses on pension obligations recognised in equity		-3.9	-0.7
<b>Total income</b>		<b>-36.1</b>	<b>-107.9</b>
Applicable tax rate		23.5%	24.5%
Tax calculated on total income		8.5	26.4
Tax on permanent differences:			
Properties and other equity investments		-0.3	-0.6
Income not subject to tax		-	-0.7
Other adjustments		-0.1	-0.2
<b>Tax on total income for the year</b>		<b>8.1</b>	<b>24.9</b>
Adjustment of tax relating to previous years		0.5	9.0
<b>Tax expense</b>		<b>8.6</b>	<b>33.9</b>

## Notes to the financial statements

Note	DKK million		
<b>10 Intangible assets</b>			
	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total intangible assets</b>
<b>2015</b>			
Cost, beginning of the year	1,092.0	90.6	1,182.6
Currency translation adjustments, foreign subsidiaries	-14.2	0.0	-14.2
Cost, end of the year	1,077.8	90.6	1,168.4
Amortisation and impairment, beginning of the year	-	-90.6	-90.6
Amortisation and impairment, end of the year	-	-90.6	-90.6
Carrying amount, end of the year	<b>1,077.8</b>	-	<b>1,077.8</b>
Carrying amount, beginning of the year	1,092.0	-	1,092.0
Amortised on a straight-line basis over	5 and 10 years		
Amortisation is included in other expenses.			
<b>2014</b>			
Cost, beginning of the year	1,110.7	90.6	1,201.3
Currency translation adjustments, foreign subsidiaries	-18.7	0.0	-18.7
Cost, end of the year	1,092.0	90.6	1,182.6
Amortisation and impairment, beginning of the year	-	-82.4	-82.4
Impairment losses recognised in the income statement	-	-6.7	-6.7
Amortisation during the year	-	-1.5	-1.5
Amortisation and impairment, end of the year	-	-90.6	-90.6
Carrying amount, end of the year	<b>1,092.0</b>	-	<b>1,092.0</b>
Carrying amount, beginning of the year	1,110.7	8.2	1,118.9
Amortised on a straight-line basis over	5 and 10 years		
	<b>Net book value</b>	<b>Calculated headroom</b>	<b>WACC</b>
The value of goodwill can be broken down as follows:			
Acquired goodwill in relation to the purchase of Trygg-Hansa Försäkrings AB	844.6	17,859.6	7.71%
Acquired goodwill in relation to the purchase of Norwegian portfolios relating to Codan Forsikring	233.2	1,372.9	7.71%
Total goodwill 2015	<b>1,077.8</b>	<b>19,232.6</b>	

## Notes to the financial statements

Note	DKK million	2015	2014
<b>11 Investment properties</b>			
Carrying amount, beginning of the year		18.5	263.0
Additions		0.0	1.2
Disposals		-19.5	-245.0
Adjustment to fair value during the year		1.0	-0.7
Carrying amount, end of the year		-	<b>18.5</b>

Investment properties were valued at the end of 2014 by independent external valuers.

In 2015 the remaining investment property was sold.

Required rate of return for land and buildings on which the market value of the individual properties is based:

All land and buildings:

Weighted average required rate of return	0.0%	2.3%
Highest required rate of return	0.0%	2.3%
Balance sheet value of land and buildings using the highest required rate of return	-	18.5
Lowest required rate of return	0.0%	2.3%
Balance sheet value of land and buildings using the lowest required rate of return	-	18.5



## Notes to the financial statements

Note	DKK million	2015	2014
<b>12 Investments in Group entities</b>			
Cost, beginning of the year		9,780.1	9,740.1
Additions		-	0.1
Disposals		-	-244.6
Capital increase		-	284.5
<b>Cost, end of the year</b>		<b>9,780.1</b>	<b>9,780.1</b>
Adjustments, beginning of the year		2,952.0	3,768.6
Exchange gains and losses		-1.3	-0.3
Total comprehensive income for the year		814.3	1,709.5
Dividend received from subsidiaries		-2,900.0	-2,525.6
Reversal of adjustments relating to disposals during the year		-	-0.2
<b>Adjustments, end of the year</b>		<b>865.0</b>	<b>2,952.0</b>
<b>Carrying amount, end of the year</b>		<b>10,645.1</b>	<b>12,732.1</b>

The carrying amount of investments in Group entities includes goodwill of DKK 503 million (DKK 558 million in 2014).

The value of investments in Group entities can be broken down as follows:

NIS Denmark A/S	0.5	0.5
NIS Sweden I AB*	-	-
NIS Sweden II AB*	-	-
Codan Ejendomme II A/S	24.6	42.4
Codan Finance Ltd	1.3	1.3
Codan Forsikring A/S	10,618.7	12,687.9
<b>Investments in Group entities</b>	<b>10,645.1</b>	<b>12,732.1</b>

Equity in Group entities, which has formed the basis for the calculation of the Codan Group's shares as specified above, has been determined in accordance with Codan's accounting policies.

All subsidiaries are separate entities.

\* The companies are valued at less than 0,1 mio. DKK.

Additional information on investments in Group entities:

	Registered office	Ownership interest %	Results	Equity
Companies carrying on insurance business:				
Codan Forsikring A/S	Frederiksberg	100.00	521.0	10,618.7
Dormant companies:				
NIS Denmark A/S (SEK)	Frederiksberg	100.00	-	0.5
NIS Sweden I AB (SEK)	Sweden	100.00	-	-
NIS Sweden II AB (SEK)	Sweden	100.00	-	-
Investment companies:				
Codan Ejendomme II A/S (NOK)	Frederiksberg	100.00	-1.0	31.7
Codan Finance Ltd, 2014	England	100.00	-	1.3

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	2015	2014
<b>13 Financial instruments (assets)</b>			
The company's financial instruments below are broken down by the method according to which the assets are measured in the balance sheet.			
Assets measured at fair value:			
Financial instruments measured at fair value are adjusted through the income statement.			
Equity investments:			
Unlisted shares		149.7	149.9
Equity investments:		149.7	149.9
Other listed bonds		97.3	-
Fixed rate bonds		97.3	-
Financial instruments measured at fair value		247.0	149.9
Assets measured at amortised cost:			
Receivables from Group entities		-	26.1
Other receivables		0.2	7.2
Cash and cash equivalents		96.3	99.8
Financial instruments measured at amortised cost		96.5	133.1
Financial instruments		<b>343.5</b>	<b>283.0</b>
<b>14 Total receivables and other assets</b>			
All receivables and other assets are to be settled within 12 months, except from deferred tax assets.			
<b>15 Current tax assets and liabilities</b>			
Current tax assets/liabilities, beginning of the year		-8.0	-13.1
Current tax for the year		8.3	24.5
Adjustment of current tax relating to previous years		0.4	8.6
Corporation tax received/paid during the year		11.7	-28.0
Current tax assets and liabilities, end of the year		<b>12.4</b>	<b>-8.0</b>

## Notes to the financial statements

Note	DKK million	2015	2014
<b>16 Total equity</b>			
Solvency statement:			
Share capital		860.0	860.0
Reserves		1,942.6	4,043.8
Retained earnings		7,108.2	4,235.8
<b>Core capital</b>		<b>9,910.8</b>	<b>9,139.6</b>
Intangible assets		-1,077.8	-1,092.0
Recognised deferred tax assets		-5.7	-5.8
Capital requirement in subsidiaries carrying on insurance business and declared dividends		-4,649.1	-4,575.2
<b>Core capital after deductions</b>		<b>4,178.2</b>	<b>3,466.6</b>
<b>Capital base after deductions</b>		<b>4,178.2</b>	<b>3,466.6</b>
Connection with the Annual Report:			
Total equity		9,910.8	10,939.6
Proposed dividend		-	-1,800.0
Intangible assets		-1,077.8	-1,092.0
Recognised deferred tax assets		-5.7	-5.8
Capital requirement in subsidiaries carrying on insurance business and declared dividends		-4,649.1	-4,575.3
<b>Capital base after deductions</b>		<b>4,178.2</b>	<b>3,466.5</b>
<b>17 Share capital</b>		<b>2015</b>	<b>2014</b>
The company's fully paid share capital can be broken down as follows:			
42,998,500 shares of DKK 20 each		860.0	860.0
<b>Share capital</b>		<b>860.0</b>	<b>860.0</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.

## Notes to the financial statements

Note	DKK million	2015	2014
<b>18 Pension obligations</b>			
Pension obligations in Codan 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).			
Codan has one pension obligation that is not fully funded to former member of the Management, Peter Zobel.			
Present value of defined benefit schemes		22.7	21.0
Net liability recognised in the balance sheet		22.7	21.0
No assets have been separated to cover pension obligations.			
<b>Development in present value of defined benefit obligations:</b>			
Pension obligations, beginning of the year		21.0	22.3
Calculated interest on obligation		0.2	0.4
Actuarial gains and losses		3.9	0.7
Benefits paid		-2.4	-2.4
Pension obligations, end of the year		22.7	21.0
<b>Pension costs recognised in the income statement:</b>			
Calculated interest on obligation		-0.2	-0.4
Total recognised for defined benefit schemes		-0.2	-0.4
Total recognised for defined contribution schemes		-0.4	-0.5
Pension costs recognised in the income statement		<b>-0.6</b>	<b>-0.9</b>

Assumptions used in the calculation of pension obligations:

Calculated interest on the obligation is based on the Danish FSA's yield curve.

The pension obligations are discounted using the Danish FSA's yield curve

## Notes to the financial statements

Note	DKK million	2015	2014
<b>19 Deferred tax assets and liabilities</b>			
Deferred tax assets/liabilities, beginning of the year		5.8	5.0
Change relating to intangible assets		-	1.9
Change relating to property and equipment		-0.2	-0.3
Change relating to investments		-0.4	-0.4
Change relating to pension obligations		0.4	-0.4
Change relating to short-term payables		0.1	-
		<b>5.7</b>	<b>5.8</b>
Specification of deferred tax assets and liabilities at the end of the year:			
Property and equipment		0.6	0.8
Investments		-	0.4
Pension obligations		5.0	4.6
Short-term payables		0.1	0.0
		<b>5.7</b>	<b>5.8</b>
<b>20 Other provisions</b>			
Other provision, beginning of the year		10.4	5.4
Provisions made during the year		-	5.3
Value adjustments		-0.3	-0.3
Paid during the year		-5.3	-
		<b>4.8</b>	<b>10.4</b>
Other provisions consists of:			
Reorganisation provisions		-	5.3
Provision related to the acquisition of Group entities		4.8	5.1
		<b>4.8</b>	<b>10.4</b>
<b>21 Total provisions</b>			
Current portion (less than one year)		2.3	7.6
Non-current portion (more than one year)		25.2	23.8
		<b>27.5</b>	<b>31.4</b>
<b>22 Total payables</b>			
No payables fall due more than five years after the balance sheet date.			

## Notes to the financial statements

### Note

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#### 23 Related parties

##### Information on related parties

RSA Insurance Group plc., 20 Fenchurch Street, London, England owns 100% of the shares in Codan through a wholly-owned subsidiary in the Netherlands and consequently holds a controlling interest in the company.

##### Board of Directors, Board of Management and employees

The company's related parties furthermore include members of the Board of Directors and the Board of Management of Codan, the boards of directors, the 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, the Board of Management, executives, major shareholders or other related parties. The management remuneration is shown in note 8.

##### Related party transactions

In 2015, DKK 1,800 million were distributed as dividend to RSA Insurance Group plc.

The main part of the company's administrative tasks are carried out by its subsidiary Codan Forsikring A/S, while the company's own employees also carry out tasks for other companies in the Codan Group.

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 2015 Codans income thereof amounted to DKK 6.2 million (DKK 6.4 million in 2014) and the expense thereof amounted to DKK 2.9 million in 2015 (DKK 4.8 million in 2014).

Administration fees payable to and receivable from subsidiaries are settled on a cost-covering basis. Administration fee payable to Codan Forsikring A/S amounted to DKK 7.3 million in 2015 (DKK 37.9 million in 2014). Administration agreement between Codan A/S and Codan Forsikring A/S was renegotiated in 2015 resulting in a significantly reduced fee

Agreements on interest on inter-company balances on an arm's length basis were made. Codan's interest income from other Group companies amounted to DKK 0.0 million in 2015 (DKK 0 million in 2014).

As of 31 December 2015 the company had the following long-term loans from the subsidiaries: Codan Ejendomme II A/S of DKK 220 million and NIS Norway AS of NOK 979 million. The loans were obtained on an arm's length basis. The interest expenses amounted to DKK 29.5 million in 2015 (DKK 59.7 million

As of 31 December 2015 the company had a loan from the RSA subsidiary RSA Insurance plc. of DKK 1,100.0 million. The loan was obtained on an arm's length basis. The interest expense amounted to DKK 16.2 million in 2015 (DKK 14.2 million in 2014).

The company has entered in to a DKK/NOK hedge of DKK 780.0 million with the subsidiary Codan Ejendomme II A/S. The hedge were agreed on an arm's length basis.

#### 24 Security

At 31 December 2015, no assets were pledged as security.

## Notes to the financial statements

### Note

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#### 25 Contingent assets, contingent liabilities and financial liabilities

##### Contingent assets

The company is involved in a few tax-related lawsuits, but in the Management's opinion, these lawsuits do not have a significant impact on the company's financial position.

##### Contingent liabilities

The company entered into inter-company agreements on the provision of administrative services, property management, etc.

The company is jointly registered with the majority of the 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.

#### 26 Incentive schemes

RSA Insurance Group plc. operates a number of incentive schemes. Until and including 2005, RSA Insurance Group plc. had an Executive Share Option Plan and a Share Matching Plan for executives and other key employees. In 2006, these plans were replaced by a Long Term Incentive Plan. The plans are all subject to different performance conditions and are based on shares in RSA Insurance Group plc. As of 2014 the long term incentive plan is replaced by the Performance Share Plan (PSP). In addition, RSA Insurance Group plc. operates the Savings Related Share Option Plan providing all employees with the opportunity of buying shares in RSA Insurance Group plc. at a favourable price.

##### Executive Share Option Plan

The options are exercisable between three and ten years after grant, provided that specific performance conditions are met. The exercise price of all options is equal to the fair value of the underlying stock at the date of the grant.

The fair value of the options granted is based on all performance conditions being met.

##### Share Matching Plan

The options granted 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 Sharesave Plan (savings related) can, through a savings contract, receive options to purchase ordinary shares of RSA Insurance Group plc.'s common stock at a price equal to 80% of the fair value of the ordinary shares at the date of the grant. The number of shares available for purchase from the plan by each participant is limited to the whole number of shares purchasable from the aggregate value of the individual's savings contract upon maturity. An individual's maximum monthly contribution to all current savings contracts is £250. All options expire in three or five years from the grant date and expire six months after vesting.

## Notes to the financial statements

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#### **Long Term Incentive Plan**

The structure of the plan allowed for a number of different types of awards to be made. Voluntary Deferred Shares are purchased by the participants from net bonus payable (limited to a maximum value of 33% of net bonus); in addition, for senior executives, the Remuneration Committee may defer a portion of an individual's bonus (limited to 33% of that bonus) into an award over shares referred to for the purpose of the plan as Compulsory Deferred Shares. Deferred shares are held in trust for three years and normally forfeited on an employee leaving the Group. No further performance conditions apply. The Remuneration Committee may make a conditional award of shares on a "matched" basis to Voluntary and Compulsory Deferred Shares ("Matching Shares").

Additionally, the Remuneration Committee may make conditional awards of Performance Shares to senior Executives, and conditional awards of Restricted Shares to other executives and senior managers.

Awards of Performance Shares and Matching Shares related to Compulsory Deferred Shares are subject to a performance condition consisting of a combination of a return on equity target and a total shareholder return target (with performance measured by comparison against other European insurance companies) over a single three year performance period. Matching Shares related to Voluntary Deferred Shares are subject only to the return on equity performance condition. Restricted Shares are not subject to performance conditions. All awards vest on the third anniversary of the date of the grant.

#### **Performance Share 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. Part of the individual's bonus may be awarded in the form of Deferred Bonus Shares. 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.

Furthermore Performance Shares and Restricted Shares may be granted, where the 2015 grant, was subjected to the following performance conditions: Development in Group underlying Return on Tangible equity, relative Total Shareholder Return and a Business Review Scorecard over a three year performance period. If an employee resigns from the Group, then Performance Shares and Restricted Shares lapse at the date of leaving the Group. The Remuneration Committee may however exert discretion as to the treatment of a leaver's share awards based on leaving circumstances.



## Notes to the financial statements

## Note

## 26 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 the CFO Stig Pastwa in incentive schemes at 31 December:

DKK million	Long Term Incentive Plan		Share Matching Plan		Savings Related Share Option Plan	
	Shares	Value	Shares	Value	Shares	Value
Outstanding at 31 December 2014	-	-	-	-	-	-
Granted during the year	5,690	0.2	-	-	-	-
Outstanding at 31 December 2015	<b>5,690</b>	<b>0.2</b>	-	-	-	-

Participation of the CEO Patrick Bergander in incentive schemes at 31 December:

DKK million	Long Term Incentive Plan		Share Matching Plan		Savings Related Share Option Plan	
	Shares	Value	Shares	Value	Shares	Value
Outstanding at 1 January 2014	137,581	1.0	181,232	1.4	-	-
Correction, beginning balances	8,870	4.9	-	6.0	-	-
Granted during the year	53,789	1.1	-	-	-	-
Adjustments due to Rights Issue	18,215	0.7	22,217	0.9	-	-
Adjustments due to Share consolidation	-131,733	-5.3	-162,759	-6.6	-	-
Outstanding at 31 December 2014	<b>86,722</b>	<b>2.4</b>	<b>40,690</b>	<b>1.7</b>	-	-
Correction, beginning balances	-	1.3	-	0.1	-	-
Granted during the year	33,177	1.5	-	-	-	-
Exercised during the year	-565	-0.0	-	-	-	-
Forfeited during the year	-5,390	-0.2	-2,242	-0.1	-	-
Outstanding at 31 December 2015	<b>113,944</b>	<b>5.0</b>	<b>38,448</b>	<b>1.7</b>	-	-

No employees with material influence on the company's risk profile is identified in 2014 and 2015, except from the board of management.

Value has been calculated as number of shares times the fair value at the exchange rate prevailing at 31 December 2015.

## Notes to the financial statements

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#### 27 Ownership information

##### **Ownership**

RSA Insurance Group plc., 20 Fenchurch Street, London, England, owns 100 % of the shares in Codan A/S, through the wholly owned Dutch subsidiary RSA Overseas Holding B.V., Netherland.

##### **Group relationship**

RSA Insurance Group plc., 20 Fenchurch Street, London, England, prepares consolidated financial statements, in which Codan A/S is included as a subsidiary.