

CODAN

CODAN A/S

ANNUAL REPORT

1 January – 31 December 2018

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

Chairman of the AGM

Gammel Kongevej 60
1850 Frederiksberg C
Company Reg. No. 56 77 12 12

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General information

**Board of Directors and
Board of management**

Board of Directors:

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

*) Employee representative

Board of Management:

Patrick Bergander, CEO
Vivian Lund, EO

Auditors

Auditors elected by the general meeting:

KPMG, Statsautoriseret Revisionspartnerselskab

Ownership

RSA Insurance Group plc., 20 Fenchurch Street, London, England, owns 100 % of the shares in Codan A/S, through the wholly owned subsidiary Royal International Insurance Holding Limited, England

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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 2018

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 2018 have been prepared in accordance with the Danish Financial Business Act (*Lov om finansiel virksomhed*), including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds (*Bekendtgørelse om finansielle rapporter for forsikringselskaber og tværgående pensionskasser*).

The accounting policies are described further 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

Dividend in 2018

Codan has received interim dividend of DKK 1,857 million from the Danish subsidiary Codan Forsikring A/S in June 2018.

In June 2018 Codan distributed interim dividend to the parent company, RSA Overseas Holding B.V., Netherlands, amounting to DKK 1,657 million.

Loans from Group entities

As of 31 December 2018 the Company had a loan from its subsidiary Codan Forsikring A/S of DKK 1,000 million. The former loans from Codan Ejendomme II A/S of DKK 220 million and NIS Norway AS of NOK 979 million have been settled during the year. These intercompany loans were all obtained on an arm's length basis.

As of 31 December 2018 the Company had a loan from the RSA subsidiary RSA Insurance plc. of DKK 3,500 million. The loan was obtained on an arm's length basis. The loan expires in 2047.

Sale of subsidiaries

In December 2018 Codan Ejendomme II A/S was liquidated. NIS Sweden I AB was sold in December 2018. Following the liquidation and the sale Codan Forsikring A/S is the only remaining subsidiary in Codan at 31 December 2018.

Impairment write down on goodwill

Goodwill is regularly being impairment tested to determine the need for write-downs. Based on the impairment tests conducted in December 2018 it was decided to take a partial write-down of NOK 77 million on the goodwill related to the purchase of the Norwegian part of Codan Forsikring A/S.

Profit for the year

For 2018 Codan generated a profit of DKK 1,045 million compared to a profit of DKK 1,887 million for 2017. The profit is in line with the expectations announced in the annual report for 2017 of maintaining satisfactory insurance operating profits in Codan's subsidiaries. The profit for 2018 has been impacted by the balance on the technical account from general insurance of the subsidiary Codan Forsikring A/S. The profit from subsidiaries amounted to DKK 1,174 million compared to a profit from subsidiaries of DKK 1,961 million last year.

Investments

The Company's investments consist of subsidiaries and other financial assets. The total investment return was DKK 1,015 million in 2018 compared to DKK 1,868 million in 2017.

Management's review

At 31 December 2018, the Company's investment portfolio consisted of the following assets (all amounts in DKK million):

	<u>2018</u>	<u>2017</u>
Investment in Group entities	7,605.0	8,410.1
Equity investments and units in open-ended funds	12.0	11.7
Bonds	230.9	115.2
Cash and cash equivalents	56.0	84.2
	<u>7,903.9</u>	<u>8,621.2</u>

Investments in Group entities

Income from Group entities amounted to DKK 1,174 million for 2018 compared to DKK 1,961 million in 2017.

Income from Group entities consists of a profit from Codan Forsikring A/S of DKK 1,232 million (DKK 1,965 million in 2017), a loss from other subsidiaries of DKK 1 million in 2018 (loss of DKK 4 million in 2017) and impairment write down on goodwill related to the Norwegian branch of Codan Forsikring of DKK 57 million (DKK 0 million in 2017).

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, Sweden and the USA.

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

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

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

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

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

Equity investments

The Company's equity investments amounted to DKK 12 million at 31 December 2018 (DKK 12 million in 2017).

Management's review

The Company's equity investments generated a positive return of DKK 0.2 million (DKK 0.3 million in 2017).

Bonds

The Company have during 2018 invested in AAA – rated Danish mortgage bonds.

At year end the Company's investments in bonds amounted to DKK 231 million (DKK 115 million in 2017). The majority of the portfolio (80%) had a total modified duration of less than one year at day of reporting. All bonds were rated AAA. The total return on the bond portfolio was approximately DKK 2 million for the year (DKK 6 million in 2017).

Balance sheet

The total assets for Codan decreased by DKK 777 million from DKK 9,742 million in 2017 to DKK 8,965 million at 31 December 2018. The decrease is primarily a result of a decline in Investments in Group entities due to distributed dividend.

Total equity amounted to DKK 4,448 million at 31. December 2018 compared to DKK 5,217 million in 2017. Apart from profit for the year, equity is particularly affected by dividend payments of DKK 1,657 million.

Business initiatives

Key strategies

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

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

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

Market conditions

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

Customers

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

Variable remuneration

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

The Chairman reports on the Remuneration Policy each year in connection with the annual report at the general meeting. At the general meeting the remuneration of the Board of Directors was approved for the current year.

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Remuneration to the Board of Management and the Material Risk Takers is approved by the Board of Directors according to the requirements in the Remuneration Policy.

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

Remuneration Committee

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

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

No experts have been consulted to support the Remuneration Committee.

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

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

Events subsequent to 31 December 2018

Dividend for 2018

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

New executive order

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

Other events

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

Outlook for 2019

Codan expects to maintain satisfactory insurance operating profit in its subsidiaries in 2019, and expectations for the Scandinavian economies are modest growth of around 2% with continued low inflation.

Codan's insurance subsidiaries continue to focus on delivering long-term profitable growth in their insurance operations with strict management control of underwriting as well as leveraging the benefits from the transformation program with focus on driving simplification and effectiveness, hence improving expense and claims ratio positions. To support the Corporate Strategy the Company will also focus on leveraging previous years investments to meet targeted efforts and grow profitable business portfolios.

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 and large losses are at a normal level in 2019. Based on the

Management's review

guidelines and investment policy laid down by the Codan Group, no major changes are expected in the allocation of the Groups assets in 2019.

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 2019.

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

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

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Sustainability Report

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

<https://www.rsagroup.com/investors/reports/> (available March 2019).

Corporate Social Responsibility

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

As part of RSA Insurance Group plc. (hereafter referred to as RSA) Codan's corporate social responsibility (CSR) work is aligned with RSA's CSR strategy, which is available on their website:

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

Safe, Secure World

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

Traffic Safety in Denmark and Norway

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

The Norwegian branch also supported this safety initiative. In the early hours of an October morning, 40 employees handed out 14,000 reflectors around the offices of Oslo/Akershus. In Norway, this is also an important safety campaign to prevent accidents in traffic, especially targeting families with children. Just like in Denmark, our Norwegian colleagues distributed reflectors at schools to keep children safe when traveling to and from school.

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

Water safety

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

Management's review

During 2018, our Swedish branch also launched “The baby buoy” app, a program that teaches parents how to increase water awareness and water safety for their children. In the program, parents get increased knowledge about how to reduce the risk of accidents and how to prevent children's fears associated with water. The baby buoy app can be downloaded, free of charge.

Safety online

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

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

Thriving communities

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

Christmas at Codanhus

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

Supporting mental well-being

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

Sustainable future

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

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

Reducing our climate and environmental impact

We are committed to reduce our business' environmental impact and contribution to climate change and to promote sustainable working practices amongst employees and suppliers. We monitor and report our consumption of energy (including fuel), water and paper as well as business travels to RSA on a quarterly basis. The RSA reporting on Green House Gas emissions is then conducted in accordance with guidance set forth by the GHG protocol's corporate standard. Since 2017 the CO₂e/Full Time Employee (FTE) within RSA has decreased

Management's review

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

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

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

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

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

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

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

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

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

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

Onshore, Codan is the insurer of the BIO4 project that is working to change the local heat supply in Copenhagen from coal to sustainable biomass, which will make heating much more climate-friendly. The transition from fossil fuels to a greener heat and power production is an important link in Copenhagen's goal of becoming the world's first CO₂ neutral capital by 2025 and we are proud to be a part of that.

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

Management's review

Responsible business

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

Training

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

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

Our People

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

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

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

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

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

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

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

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

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

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

Focus on more women in management

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

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

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

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

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

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

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

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

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

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

Our global RSA Diversity & Inclusion Steering group, with representatives from Codan A/S and Codan Forsikring A/S, meets quarterly to follow up on diversity measures, to share best practice and activity plans. In 2018 we have formed a regional Diversity & Inclusion council for Scandi with representatives from all country

Management's review

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

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

Management's review

Risk management in Codan

The overarching strategy and guidelines for Codan are set out by the Company's Board of Directors. The connection between strategic considerations on accumulated risks in the business operations through day-to-day decisions on whether to enter into agreements with customers, partners, suppliers and others are reviewed and challenged through continuous assessment of Codan's subsidiaries risk profiles by the Own Risk & Solvency Assessment (ORSA) committee, which serves as an advisory body to the CEO and senior management. Risk profiles are reported to the Board of Directors quarterly. For further information on risk management, see Note 2.

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

Codan's exposure to underwriting risk, claims risk, reserve risk and reinsurance risk is exclusively indirect via the Company's subsidiaries.

For a risk description of the underwriting, catastrophe and reserve risks of subsidiaries, please refer to the Annual Report for 2018 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, other than investments in subsidiaries, is allocated mainly to short- and medium-term bonds (78%), equity (4%), and cash (18%). 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 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

Management's review

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. Further, inflation derivatives are used to limit this risk.

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

Other risks

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

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

Management's review

Capital structure

Codan is subject to the rules governing intermediate insurance holding companies and bases its capital management approach on these rules. The rules stipulate that as of 1 January 2016 when Solvency II became effective, capital requirements and own funds does not apply for intermediate insurance holding companies when the ultimate parent is based in the European Union. To ensure the Company is adequately capitalized the Board of Directors of Codan has defined capital measures which is monitored on a regular basis.

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

Codan's equity amounted to DKK 4,448 million at 31 December 2018. As of 1 January 2016, there is no regulatory required capital requirement at a Codan level since the Company is an intermediate insurance holding company.

Management's review

Directorships and executive positions

Board of Directors

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

Board of Directors

Directorships and executive positions in other enterprises

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

*) Employee representative

Management's review

Board of Management

Pursuant to section 80 of the Danish Financial Business Act, the Board of Directors of Codan Forsikring 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

Försäkringsbranschens Arbetsgivareorganisation Service AB, SFS
Svensk Försäkring Service AB, (Directorship): Codan Forsikring A/S.

Vivian Lund

Finanssektorens Arbejdsgiverforening, Forsikringsorganisationernes Fællessekretariat F.M.B.A, Forsikring & Pension, Forsikringsselskabet Privatsikring A/S, (Directorship): Codan Forsikring A/S.

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 2018.

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

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

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

Copenhagen, 22 March 2019

Board of Management

Patrick Bergander
CEO

Vivian Lund
EO

Board of Directors

Lars Nørby Johansen
Chairman

Christer Arne Bjellert

Scott Egan

Philip Wynford Moore

Marianne Philip

Elisabeth Sandblom

Christian Sletten

Independent auditors' report

To the shareholder of Codan A/S

Opinion

We have audited the financial statements of Codan A/S for the financial year 1 January – 31 December 2018 comprising income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Business Act.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Business Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditors' report

- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the Management's review

Management is responsible for the Management's review.

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

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 22 March 2019

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Anja Bjørnholt Lüthcke
State Authorised
Public Accountant
MNE 26779

Henrik Barner Christiansen
State Authorised
Public Accountant
MNE 10778

Income statement

Note	DKK million	2018	2017
Investment return			
		1,173.6	1,961.1
Income from Group entities			
4 Interest income and dividends, etc.		2.2	3.8
5 Value adjustments		-0.1	14.6
6 Interest expenses		-159.8	-110.3
Investment management expenses		-1.1	-0.9
Total investment return		1,014.8	1,868.3
7 Other expenses		-6.0	-3.4
Profit before tax		1,008.8	1,864.9
8 Tax		36.1	22.5
Profit for the year		1,044.9	1,887.4
Proposal for the distribution of profit:			
Transfer to reserve for net revaluation according to the equity method		1,231.3	1,961.1
Distributed interim dividend		1,657.4	4,600.0
Transferred to retained earnings		-1,843.8	-4,673.7
		1,044.9	1,887.4

Statement of comprehensive income

Currency translation adjustment, foreign subsidiaries		-157.0	-172.1
Currency translation adjustment, goodwill relating to foreign subsidiaries		-1.2	-18.6
Actuarial gains/losses on pension obligations		0.0	17.0
Tax on actuarial gains/losses on pension obligations		0.0	-3.7
Other comprehensive income		-0.1	-0.8
Other comprehensive income		-156.4	-178.2
Profit for the year		1,044.9	1,887.4
Total comprehensive income		888.5	1,709.2

Balance sheet at 31 December

Note	DKK million	2018	2017
Assets			
9	Intangible assets	1,013.1	1,072.0
10	Investments in Group entities	7,605.0	8,410.1
	Total investments in Group entities	7,605.0	8,410.1
11	Equity investments	12.0	11.7
11	Bonds	230.9	115.2
13	Derivatives	0.0	3.8
	Total other financial assets	242.9	130.7
	Total investments	7,847.9	8,540.8
11	Receivables from Group entities	3.9	21.0
11	Other receivables	6.1	0.5
12	Total receivables	10.0	21.5
13	Current tax assets	37.1	21.8
14	Deferred tax assets	0.2	0.4
11	Cash and cash equivalents	56.0	84.2
12	Total other assets	93.3	106.4
	Accrued interest and rent	0.9	1.2
	Total accrued income	0.9	1.2
	Total assets	8,965.2	9,741.9

Balance sheet at 31 December

Note	DKK million	2018	2017
Equity and liabilities			
15 Share capital		860.0	860.0
Reserve for net revaluation according to the equity method		444.2	759.0
Translation reserve		-46.5	-47.4
Total reserves		397.7	711.6
Retained earnings		3,190.0	3,645.0
Total equity		4,447.7	5,216.6
16 Other provisions		4.7	4.7
17 Total provisions		4.7	4.7
Amounts owed to Group entities		4,508.3	4,517.5
Other payables		4.5	3.1
18 Total payables		4,512.8	4,520.6
Total equity and liabilities		8,965.2	9,741.9

Notes without reference

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Statement of changes in equity

DKK million

	Share capital	Net revaluation according to the equity method	Translation reserve	Proposed dividend	Retained earnings	Total equity
2018						
Equity, beginning of the year	860.0	759.0	-47.4	-	3,645.0	5,216.6
Changes in equity for 2018:						
Currency translation adjustment, foreign subsidiaries	-	-157.2	0.2	-	-	-157.0
Currency translation adjustment, goodwill relating to foreign subsidiaries	-	-	-1.2	-	-	-1.2
Currency translation adjustment, disposal of foreign subsidiaries	-	-	1.9	-	-	1.9
Other comprehensive income	-	-0.1	-	-	-	-0.1
	-	-157.3	0.9	-	-	-156.4
Profit for the year	-	1,231.3	-	-	-186.4	1,044.9
Total comprehensive income for the year	-	1,074.0	0.9	-	-186.4	888.5
Release of net revaluation reserve according to the equity method on disposal of subsidiaries	-	526.2	-	-	-526.2	-
Release of net revaluation reserve according to the equity method on disposal of subsidiaries	-	-57.6	-	-	57.6	-
Dividend paid	-	-	-	-1,657.4	-	-1,657.4
Distributed interim dividend	-	-	-	1,657.4	-1,657.4	-
Dividends received from subsidiaries	-	-1,857.4	-	-	1,857.4	-
Changes in equity for the year	-	-314.8	0.9	-	-455.0	-768.9
Equity, end of the year	860.0	444.2	-46.5	-	3,190.0	4,447.7

Statement of changes in equity

DKK million

	Share capital	Net revaluation according to the equity method	Translation reserve	Proposed dividend	Retained earnings	Total equity
2017						
Equity, beginning of the year	860.0	140.7	-26.8	-	7,133.5	8,107.4
Changes in equity for 2017:						
Currency translation adjustment, foreign subsidiaries	-	-170.1	-2.0	-	-	-172.1
Currency translation adjustment, goodwill relating to foreign subsidiaries	-	-	-18.6	-	-	-18.6
Actuarial gains/losses on pension obligations	-	-	-	-	17.0	17.0
Tax on actuarial gains/losses on pension obligations	-	-	-	-	-3.7	-3.7
Other comprehensive income	-	-0.8	-	-	-	-0.8
	-	-170.9	-20.6	-	13.3	-178.2
Profit for the year	-	1,961.1	-	-	-73.7	1,887.4
Total comprehensive income for the year	-	1,790.2	-20.6	-	-60.4	1,709.2
Release of net revaluation reserve according to the equity method on disposal of subsidiaries	-	1,029.4	-	-	-1,029.4	-
Dividend paid	-	-	-	-4,600.0	-	-4,600.0
Distributed interim dividend	-	-	-	4,600.0	-4,600.0	-
Dividend received from subsidiaries	-	-2,201.3	-	-	2,201.3	-
Changes in equity for the year	-	618.3	-20.6	-	-3,488.5	-2,890.8
Equity, end of the year	860.0	759.0	-47.4	-	3,645.0	5,216.6

Notes to the financial statements

Note

1 Accounting policies

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

General information

The annual report is presented in DKK, rounded to the nearest million by one decimal. The business of Codan consists mainly of holding investments in general insurance companies conducting transactions in several 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.

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.

The accounting policies remain unchanged from the Annual Report for 2017.

Recognition and measurement

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

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

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 based on legal assessments of the specific cases.

Changes in assumptions and estimates

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

Business combinations

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

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

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

Notes to the financial statements

Note

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 have 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.

Intra-group transactions

Business transactions between Group 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.

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.

Notes to the financial statements

Note

Individual areas in the annual report

Expenses

Expenses are recognised in the income statement as other expenses and as investment management expenses. As a 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.

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.

Leases

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

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

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

In connection with sale and leaseback transactions (sale of an asset and leaseback of the same asset) resulting in operating leases, the 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 parent company has no sale and leaseback transactions where the leaseback is a finance lease.

Notes to the financial statements

Note

Incentive schemes

The RSA Group operates a long-term incentive plan (Performance Share Plan) for CEOs and other key employees. The scheme is based on various performance targets and is based on shares in RSA Insurance Group plc. For further details on the program, see note 23.

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

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

Notes to the financial statements

Note

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 of 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

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.

Other comprehensive income

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

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

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

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.

Notes to the financial statements

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.

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.

Notes to the financial statements

Note

Impairment of development projects, other intangible assets and property and equipment in group entities

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.

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

Notes to the financial statements

Note

Prepayments and accrued income

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

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

Prepayments and accrued income

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

Notes to the financial statements

Note

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

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 employees in the Swedish and Norwegian branches.

Provisions

Provisions for jubilee bonuses and payments on retirement are gradually accumulated over the period of employment. The liability is calculated by taking into account expected staff 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 key figures

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.

Notes to the financial statements

Note

2 Risk information

Risk management and control

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

The Board of Directors is responsible for establishing a framework for risk management and risk control. The Company's risk management must permeate the organisation, and efforts are made to ensure accountability and transparency in terms of clear ownership of risks and 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 regarding 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 makes up the second line of defence, and Internal Audit make up the third line of defence.

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

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

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

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

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

Insurance risks

The Underwriting Policy, issued by the Boards of Directors of Codan's subsidiaries, determine the risk the companies can accept. These guidelines clearly describe the risk appetite per insurance class and specifies the maximum acceptable limits that the Board is prepared to allocate to the various risks that have been evaluated, priced and accepted by the Company's underwriters.

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 Forsikring places major focus on risk selection and risk quality and takes a disciplined approach to pricing in order to meet these objectives. A majority of the customers are offered a premium which is set according to tariffs and risk factors calculated by pricing actuaries. For major commercial customers, premiums are based on the respective companies' operations and performance history. The authority exercised by the respective underwriters is controlled by a personal underwriting licence based on

Notes to the financial statements

Note

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 insurance risks. The plan also stipulates quantitative maximum limits of exposure in various risk areas. The business plan is implemented in the organisation via Portfolio Strategy Statements and underwriting guidelines issued to the Company's underwriters.

To ensure that tariffs remain updated and are positioned to deliver the results set out in 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. 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 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 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 that Codan's subsidiaries' exposure to underwriting risk and remaining an appropriate capital base, a structured reinsurance programme is in place to protect the subsidiaries against large losses on individual risks as well as catastrophe events such as weather-related events. Codan's subsidiaries are included in the Codan Group's overall reinsurance programme.

Non-catastrophe risks

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

Notes to the financial statements

Note

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

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

Storm and catastrophe risks

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

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

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

Reserving risk

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.

Notes to the financial statements

Note

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 compliant 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.

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.

Notes to the financial statements

Note

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

Contractual repricing or maturity dates	DKK million					Total
	< 1 year	1-5 years	5-10 years	10-20 years	> 20 years	
2018						
Danish fixed rate mortgage bonds	184.5	12.0	-	-	34.4	230.9
Call deposits etc.	56.0	-	-	-	-	56.0
Receivables from Group entities	3.9	-	-	-	-	3.9
Financial assets	244.4	12.0	-	-	34.4	290.8
Amounts owed to Group entities	1,008.3	-	-	-	3,500.0	4,508.3
Other payables	4.5	-	-	-	-	4.5
Financial liabilities	1,012.8	-	-	-	3,500.0	4,512.8
2017						
Danish fixed rate mortgage bonds	54.1	12.1	-	-	49.0	115.2
Call deposits etc.	84.2	-	-	-	-	84.2
Receivables from Group entities	21.0	-	-	-	-	21.0
Financial assets	159.3	12.1	-	-	49.0	220.4
Amounts owed to Group entities	1,017.5	-	-	-	3,500.0	4,517.5
Other payables	3.1	-	-	-	-	3.1
Financial liabilities	1,020.6	-	-	-	3,500.0	4,520.6

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

	Effective interest rates		Duration	
	2018	2017	2018	2017
Financial assets				
Danish fixed rate mortgage bonds	0.2	0.9	0.3	-0.6
Financial liabilities				
Amounts owed to Group entities	3.5	-	0.4	-

Notes to the financial statements

Note

Currency risk

Currency risk may arise as a result of a mismatch in the value of assets and liabilities in the same foreign currency. If currency exposure is outside certain defined limits, it is minimised through currency derivatives. Codan 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				
	2018				
	EUR	GBP	NOK	SEK	Total
Investments in Group entities					
Intangible assets	-	-	168.6	-	168.6
Other loans, deposits with credit institutions, call deposits,	0.1	-	-	0.3	0.4
Receivables from Group entities	-	-	-	-0.2	-0.2
Amounts owed to Group entities	0.3	0.1	-	-	0.4
Other provisions	-	-	-4.7	-	-4.7
Currency risk	0.4	0.1	163.9	0.1	164.5
	2017				
	EUR	GBP	NOK	SEK	Total
Investments in Group entities	-	-	23.8	-	23.8
Intangible assets	-	-	227.4	-	227.4
Other loans, deposits with credit institutions, call deposits,	0.1	0.1	783.8	0.1	784.1
Receivables from Group entities	-	0.1	-	-	0.1
Amounts owed to Group entities	-	-	-741.0	-	-741.0
Other provisions	-	-	-4.7	-	-4.7
Currency risk	0.1	0.2	289.3	0.1	289.7

Equity risk

On 31 December 2018, Codan had invested a total amount of DKK 12 million of its other financial assets in equities. In addition to this, Codan's subsidiaries had invested a total amount of DKK 1,669 million in equities at 31 December 2018.

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. Further, inflation derivatives are used to limit this risk.

Notes to the financial statements

Note

Real estate risk

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.

Maximum credit risk	DKK million	2018	2017
Danish fixed rate mortgage bonds		230.9	115.2
Derivatives		-	3.8
Receivables from Group entities		3.9	21.0
Other receivables		6.1	0.5
Current tax assets		37.1	21.8
Cash and cash equivalents		56.0	84.2
Accrued interest and rent		0.9	1.2
Maximum credit risk		334.9	247.7

Operational risks

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

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

Responsibility for management of risks rests with the risk owner in the relevant business function. It is the risk owner's 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 Own Risk & Solvency Assessment (ORSA) committee and subsequently provided to the Board of Directors with risk reporting.

Notes to the financial statements

Note

Compliance Risk

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

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

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

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

Emerging risks

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

Capital and solvency

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

The Board of Directors has established measures to monitor the capital position which is based on an overall risk assessment.

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

Dividend potential

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

Notes to the financial statements

Note

3 Key figures and financial ratios

Five year summary	DKK million	2018	2017	2016	2015*	2014
Total investment return		1,014.8	1,868.3	2,197.9	384.7	2,043.8
Profit for the year		1,044.9	1,887.4	2,195.3	386.1	2,024.5
Total equity		4,447.7	5,216.6	8,107.4	8,646.1	10,939.6
Total assets		8,965.2	9,741.9	10,334.0	10,821.0	14,131.4
Return on equity in %		21.6	28.3	26.2	4.2	18.0

*) Key figures and financial ratios have been restated to reflect the changes in accounting policies (2014 not restated).

Notes to the financial statements

Note	DKK million	2018	2017
4 Interest Income and dividends, etc.			
Interest income from bonds, loans and deposits		2.0	3.5
Income from units in open-ended funds and other equity investments		0.2	0.3
Interest income and dividends, etc.		2.2	3.8
5 Value adjustments			
Equity investments		-1.6	1.2
Bonds		-2.2	-2.9
Derivatives		20.2	-45.0
Total investment assets		16.4	-46.7
Other value adjustments		-16.5	61.3
Value adjustments		-0.1	14.6
Realised gains and losses on investments		18.9	-53.2
Unrealised gains and losses on investments		-2.5	6.5
Other realised gains and losses		-0.1	0.0
Other unrealised gains and losses		-16.4	61.3
Value adjustments		-0.1	14.6
6 Interest expenses			
Interest payable to Group entities		-159.8	-110.3
Interest expenses		-159.8	-110.3

Notes to the financial statements

Note	DKK million	2018	2017
7 Other expenses			
Administrative expenses in Codan			
Staff costs:			
Wages and salaries		-3.7	-3.6
Defined contribution schemes		-0.3	-0.2
Payroll tax		0.0	-0.2
Other staff costs		0.0	-0.3
Total staff costs		-4.0	-4.3
Administration fee to Codan Forsikring A/S		-5.7	-0.2
Other administrative expenses		-0.5	-1.3
Transferred to investment management expenses		1.0	0.8
Reimbursement from Group entities		3.2	1.6
Total administrative expenses in Codan		-6.0	-3.4
Other expenses		-6.0	-3.4
Converted into full-time employees, the average number of persons employed during the financial year was 1 persons (1 person i 2017).			
Earned remuneration of current and former members of the Board of Directors and Board of Management of Codan:			
Remuneration of the Board of Directors (fixed remuneration)			
Lars Nørby Johansen (joined 27 April 2012)		-0.7	-0.7
Anthony Piers Latham (resigned 26 April 2018)		-0.1	-0.6
Gunilla Astrid Henriette Asker (resigned 30 August 2018)		-0.2	-0.2
Christer Arne Bjellert (joined 29 April 2015)		-0.2	-0.2
Scott Egan (joined 27 April 2016)		-	-
Philip Wynford Moore (joined 26 April 2018)		-0.4	-
Marianne Phillip (joined 29 April 2011)		-0.4	-0.4
Maria Elisabeth Sandblom (joined 29 April 2015)		-0.2	-0.2
Christian Sletten (joined 4 May 2000)		-0.2	-0.2
Remuneration to the Board of Directors		-2.5	-2.5
Remuneration of the Board of Management:			
Wages and salaries (fixed remuneration)		-7.8	-8.8
Bonuses (variable remuneration)		-0.6	-1.5
Pension benefits (fixed remuneration)		-1.7	-1.6
Share-based payment (variable remuneration)		-1.4	-1.4
Remuneration of the Board of Management		-11.5	-13.3
CEO Patrick Bergander		-8.7	-10.6
EO Vivian Lund		-2.8	-2.7
Paid remuneration to the Board of Management		-11.5	-13.3
Number of employees in the Board of Management at 31 December		2	2

Notes to the financial statements

Note	DKK million	2018	2017
7 Other expenses (continued)			
Employees with material influence on the Company's risk profile			
Wages and salaries (fixed remuneration)		-7.0	-7.5
Redundancy payment (variable remuneration)		-	-
Bonuses (variable remuneration)		-	-
Pension benefits (fixed remuneration)		-0.6	-0.7
Share-based payment (variable remuneration)		-	-
		-7.6	-8.3
Remuneration of employees with material influence on the company's risk		-7.6	-8.3
Numbers of employees with material influence on the company's risk prof		4	4

The Functions with material influence on the Company's risk profile are: Chief Risk Officer, Head of Compliance, Regional Chief Auditor (3 roles from Audit, Risk & Compliance) and Chief Actuary Scandinavia (1 role from Finance).

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

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

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

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

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

The Company's CEO has a separate contract with Codan 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 earned in 2018 have been fully expensed in 2018 but will be paid out from 2019 on a pro-rata basis over a three or a four year deferral period depending on position.

The Board of Management participates in a number of incentive schemes, see note 23.

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

Notes to the financial statements

Note	DKK million	2018	2017
8 Tax			
Tax on total income for the year:			
Current tax expense		36.1	21.9
Change in deferred tax on temporary differences		-0.1	-4.2
Tax on total income for the year		36.0	17.7
Adjustments relating to previous years:			
Current tax for previous years		0.2	1.6
Adjustment of deferred tax at 1 January		-0.1	-0.5
Adjustments relating to previous years		0.1	1.1
Tax expense		36.1	18.8
Tax is included as follows:			
Tax in the income statement		36.1	22.5
Tax on changes in equity		0.0	-3.7
Tax expense		36.1	18.8
Total tax on total income for the year can be explained as follows:			
Profit before tax		1,008.8	1,864.9
Reversal of income from Group entities		-1,173.6	-1,961.1
Overført til egenkapital vedrørende kursreguleringsreserve		-1.0	0.0
Actuarial gains and losses on pension obligations recognised in equity		0.0	17.0
Total income		-165.8	-79.2
Applicable tax rate		22.0%	22.0%
Tax calculated on total income		36.5	17.4
Tax on permanent differences:			
Other equity investments		-0.3	0.3
Tax on total income for the year		36.0	17.7
Adjustment of tax relating to previous years		0.1	1.1
Tax expense		36.1	18.8

Notes to the financial statements

Note	DKK million		
9 Intangible assets			
	Goodwill	Other intangible assets	Total intangible assets
2018			
Cost, beginning of the year	1,072.0	90.6	1,162.6
Currency translation adjustments, foreign subsidiaries	-1.2	-	-1.2
Cost, end of the year	<u>1,070.8</u>	<u>90.6</u>	<u>1,161.4</u>
Amortisation and impairment, beginning of the year	-	-90.6	-90.6
Impairment losses recognised in the income statement	-57.7	0.0	-57.7
Amortisation and impairment, end of the year	<u>-57.7</u>	<u>-90.6</u>	<u>-148.3</u>
Carrying amount, end of the year	<u>1,013.1</u>	<u>-</u>	<u>1,013.1</u>
Carrying amount, beginning of the year	<u>1,072.0</u>	<u>-</u>	<u>1,072.0</u>
Amortised on a straight-line basis over	N/A	5 and 10 years	
Amortisation is included in other expenses.			
2017			
Cost, beginning of the year	1,090.5	90.6	1,181.1
Currency translation adjustments, foreign subsidiaries	-18.5	-	-18.5
Cost, end of the year	<u>1,072.0</u>	<u>90.6</u>	<u>1,162.6</u>
Amortisation and impairment, beginning of the year	-	-90.6	-90.6
Amortisation and impairment, end of the year	<u>-</u>	<u>-90.6</u>	<u>-90.6</u>
Carrying amount, end of the year	<u>1,072.0</u>	<u>-</u>	<u>1,072.0</u>
Carrying amount, beginning of the year	<u>1,090.5</u>	<u>-</u>	<u>1,090.5</u>
Amortised on a straight-line basis over	N/A	5 and 10 years	
	Net book value	Calculated headroom	WACC
The value of goodwill can be broken down as follows:			
Acquired goodwill in relation to the purchase of			
Trygg-Hansa Försäkrings AB	885.0	17,879.7	8.18%
Acquired goodwill in relation to the purchase of			
Norwegian portfolios relating to Codan Forsikring A/S*	128.1	334.8	9.52%
Total goodwill 2018	<u>1,013.1</u>	<u>18,214.5</u>	

*Headroom calculation is based on the Operational Plan, which does not reflect uncertainties, which have been applied in the impairment test.

Notes to the financial statements

Note	DKK million	2018	2017
10 Investment in Group entities			
Cost, beginning of the year		8,770.2	9,799.6
Disposals		-550.0	-1,029.4
Cost, end of the year		8,220.2	8,770.2
Adjustments, beginning of the year		-360.1	-976.4
Exchange gains and losses		0.2	-2.0
Currency translation adjustment, disposal of foreign subsidiaries		1.9	-
Total comprehensive income for the year		1,074.0	1,790.2
Dividend received from subsidiaries		-1,857.4	-2,201.3
Reversal of adjustments relating to disposals during the year		526.2	1,029.4
Adjustments, end of the year		-615.2	-360.1
Carrying amount, end of the year		7,605.0	8,410.1

The carrying amount of investments in Group entities includes goodwill of DKK 471 million (DKK 480 million in 2017).

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

NIS Sweden I AB (Company sold in 2018)*	-	-
Codan Ejendomme II A/S (Company liquidated during 2018)	-	23.9
Codan Forsikring A/S	7,605.0	8,386.2
Investments in Group entities	7,605.0	8,410.1

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 company was 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	1,232.2	7,605.0

Results and equity in Group entities as stated above are in accordance with the latest Annual Report.

Notes to the financial statements

Note	DKK million	2018	2017
11 Financial instruments (assets)			
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		12.0	11.7
Equity investments:		12.0	11.7
Other listed bonds		230.9	115.2
Fixed rate bonds		230.9	115.2
Financial instruments measured at fair value		242.9	126.9
Assets measured at amortised cost:			
Receivables from Group entities		3.9	21.0
Other receivables		6.1	0.5
Cash and cash equivalents		56.0	84.2
Financial instruments measured at amortised cost		66.0	105.7
Financial instruments		308.9	232.6

12 Total receivables and other assets

All receivables and other assets are to be settled within 12 months, except from deferred tax assets.

13 Current tax assets and liabilities

Current tax assets/liabilities, beginning of the year	21.8	9.6
Transfer from other receivables	1.1	-
Current tax for the year	36.1	22.0
Adjustment of current tax relating to previous years	0.2	1.6
Corporation tax received/paid during the year	-22.1	-11.4
Current tax assets and liabilities, end of the year	37.1	21.8

Notes to the financial statements

Note	DKK million	2018	2017
14 Deferred tax assets and liabilities			
Deferred tax assets/liabilities, beginning of the year		0.4	5.2
Change relating to property and equipment		-0.1	-0.1
Change relating to pension obligations		-	-4.2
Change relating to short-term payables		-0.1	-
Change relating to tax losses		-	-0.5
Deferred tax, end of the year		0.2	0.4
Specification of deferred tax assets and liabilities at the end of the year:			
Property and equipment		0.2	0.3
Short-term payables		0.0	0.1
Deferred tax liabilities, end of the year		0.2	0.4
15 Share capital			
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
Share capital		860.0	860.0
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.			
16 Other provisions			
Other provision, beginning of the year		4.7	5.1
Value adjustments		-	-0.4
Provision relating to the acquisition of Group entities, end of the year		4.7	4.7
Other provisions consists of:			
Provision related to the acquisition of Group entities		4.7	4.7
		4.7	4.7
17 Total provisions			
Non-current portion (more than one year)		4.7	4.7
Total provisions		4.7	4.7

Notes to the financial statements

Note

18 Total payables

Loan to parent company 3,500 million fall due 31 May 2047. No other payables fall due more than five years after the balance sheet date.

19 Pension obligations

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 had one pension obligation that was not fully funded to former member of the Management, Peter Zobel. Peter Zobel died in 2017.

DKK million	2018	2017
Present value of defined benefit schemes	-	-
Net liability recognised in the balance sheet	-	-

No assets have been separated to cover pension obligations.

Development in present value of defined benefit obligations:

Pension obligations, beginning of the year	-	18.8
Calculated interest on obligation	-	-
Actuarial gains and losses	-	-17.0
Benefits paid	-	-1.8
Pension obligations, end of the year	-	-

Pension costs recognised in the income statement:

Calculated interest on obligation	-	-
Total recognised for defined benefit schemes	-	-
Total recognised for defined contribution schemes	-	-0.2
Pension costs recognised in the income statement	-	-0.2

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

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20 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 England 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 2018, DKK 1,657.4 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 2018 Codans income thereof amounted to DKK 3.2 million (DKK 1.6 million in 2017) and the expense thereof amounted to DKK 0.0 million in 2018 (DKK 0.0 million in 2017).

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 5.7 million in 2018 (DKK 0.2 million in 2017).

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 2018 (DKK 0.0 million in 2017).

As of 31 December 2018 the company had a loan from the RSA subsidiary RSA Insurance plc. of DKK 3,500.0 million. (DKK 3,500.0 million in 2017). The loan was obtained on an arm's length basis. The interest expense amounted to DKK 154.2 million in 2018 (DKK 96.1 million in 2017).

21 Security

At 31 December 2018, no assets were pledged as security.

Notes to the financial statements

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22 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.

23 Incentive schemes

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

Performance Share Plan/Long Term Incentive Plan

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

Performance Shares

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

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

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

Deferred Bonus Shares

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

Restricted Shares

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

Notes to the financial statements

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23 Incentive schemes (continued)**Share Matching Plan**

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

Savings Related Share Option Plan

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

Board of Directors and Board of Management

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

Participation of CEO Patrick Bergander in incentive schemes:

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

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

Notes to the financial statements

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23 Incentive schemes (continued)

Participation of EO Vivian Lund in incentive schemes:

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

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

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

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

DKK million

	Long Term Incentive Plan (PSP)	
	Number of shares	Value DKK million
Outstanding at 1 January 2017	25,902	1.4
Granted during the year	2,554	0.1
Exercised during the year	-7,189	-0.4
Outstanding at 31 December	21,267	1.1
Adjustment, beginning balances	-	-0.2
Adjustment due to change in in the group of employees with material influence	-21,267	-0.9
Outstanding at 31 December	-	-

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

Notes to the financial statements

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24 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 English subsidiary Royal International Insurance Holding Limited, England

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. This is both the highest and lowest level at which consolidated financial statements are prepared. The consolidated financial statements can be required at www.rsagroup.com/investors/.