

# CODAN

**CODAN A/S**  
**ANNUAL REPORT**  
**1 January – 31 December 2017**

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

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## General information

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**Board of Directors and  
Board of management**

**Board of Directors:**

Lars Nørby Johansen, Chairman  
Anthony Latham, Deputy Chairman  
Scott Egan  
Gunilla Astrid Henriette Asker  
Christer Arne Bjellert\*  
Marianne Philip  
Elisabeth Sandblom\*  
Christian Sletten\*

\*) Employee representative

**Board of Management:**

Patrick Bergander, CEO  
Vivian Lund, EO

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**Auditors**

Auditors elected by the general meeting:

KPMG, Statsautoriseret Revisionspartnerselskab

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**Ownership**

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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**Address, etc.**

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Company Reg. No. 56 77 12 12

## 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 2017

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 2016 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 2017*

Codan has received interim dividend of DKK 2,200 million from the Danish subsidiary Codan Forsikring A/S in May 2017.

In May 2017 the Board of Management decided to distribute interim dividend to the parent company, RSA Overseas Holding B.V., Netherland, amounting to DKK 4,600 million.

##### *Loans from Group entities*

As of 31 December 2016 the company had the following long term loans from its subsidiaries: Codan Ejendomme II A/S of DKK 220 million and NIS Norway AS of NOK 979 million. Both loans are obtained on an arms length principle.

As of 31 December 2017 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. In May 2017 the original short term loan of DKK 1,100 million was replaced by the new loan of DKK 3,500 million which expires in 2047.

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

##### *New IT-Systems*

During the year, a new general ledger system has been implemented along with new claims handlings systems and a new system to handle the company's investment. Additionally, IT systems were migrated to a new service provider. Due to the complexity of the IT infrastructure and systems, we have worked hard to implement all the various integrations between the new systems. The systems should help the company to fulfill its long time plans, being more cost effectively and better supporting the business and customers. The way the new systems support this is by supporting the business and customers with more value adding information and providing the information on the right time.

##### *Sale of subsidiaries*

In June 2017 Codan Forsikring A/S sold the subsidiary Besigtelses Kontoret af 1914 A/S in a management buy-out. Before the sale Codan Forsikring made a capital injection of DKK 3.2 million. The sale resulted in a loss of DKK 0.7 million.

During 2017 the Codan Forsikring A/S has renegotiated the lease contract on the Swedish lease. This renegotiation has led to a release of provisions related to the sale-and-lease-back contract from 2014 of DKK 85.8



## Management's review

million which has been registered as a gain on sale of subsidiaries as the property was sold through a subsidiary in 2014.

### **Profit for the year**

Profit for the year amounted to DKK 1,887 million against a profit of DKK 2,195 million for 2016. The profit is in line with the expectations announced in the annual report for 2016 of maintaining satisfactory insurance operating profits in Codans' subsidiaries. The profit for 2017 has been impacted by the Balance on the technical account from general insurance of the subsidiaries. The profit from subsidiaries amounted to DKK 1,961 million compared to a profit from subsidiaries at DKK 2,271 million in 2016.

### **Investments**

The company's investments consists of subsidiaries and other financial assets. The total investment return was DKK 1,863 million in 2017 compared to DKK 2,198 million last year

At the end of 2017, the company's investment portfolio consisted of the following assets (all amounts in DKK million):

	<u>2017</u>	<u>2016</u>
Investment in Group entities	8,410.1	8,822.7
Equity investments and units in open-ended funds	11.7	10.5
Bonds	115.2	215.1
Cash and cash equivalents	84.2	174.0
	<u>8,621.2</u>	<u>9,222.3</u>

### **Investments in Group entities**

Income from Group entities amounted to DKK 1,961 million for 2017 against DKK 2,271 in 2016.

Income from Group entities consists of a profit from Codan Forsikring A/S of DKK 1,965 million (DKK 2,278 million in 2016) and a loss from other subsidiaries of DKK -4 million in 2017 (DKK -4 million in 2016).

### **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 as expected with balance on the technical account slightly below that of 2016. Run-off gains have affected the profit by DKK 395 million compared to DKK 987 million last year leaving the company's combined ratio at 88.2% against 86.1% in 2016, which is within an expected COR range of 85-90%. Overall earned premiums, net of reinsurance, declined by DKK 309 million from DKK 15,068 million to DKK 14,759 million, a decrease of approx. 2%. Gross earned premiums (gross premiums written less change in premium provision and change in profit margin and risk margin) has declined from DKK 15,673 million in 2016 to DKK 15,461 million in 2017 corresponding to a decrease of 1.4%. The decrease is primarily caused by decreasing premiums in Norway and Denmark. The decreases in Norway and Denmark are seen on most lines of business except for Workers Compensation in Norway and Commercial Property in Denmark which shows growths. Declining exchange rates in Sweden and Norway compared to last year has also had a negative influence on earned premiums. The Swedish branch shows growth measured in SEK.

Gross claims incurred amounted to DKK 10,139 million in 2017 against DKK 9,958 million in 2016, corresponding to an increase of DKK 181 million. The negative development with increasing gross claims incurred and claims ratios is seen in both the Personal portfolio as well as in the Commercial portfolio.

The gross expense ratio was 18.6% in 2017 compared with 19.3% in 2016. During 2017 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.

### Management's review

#### **Equity investments**

The company's equity investments amounted to DKK 12 million at 31 December 2017 (DKK 11 million in 2016).

The company's equity investments generated a positive return of DKK 0.3 million (DKK 6.5 million in 2016). The decrease is primarily due to received dividend from the investment in the unlisted share, Dansk Skribskredit in 2016 which was subsequently sold in 2016.

#### **Bonds**

The company have during 2017 chosen to invest in AAA – rated Danish mortgage bonds.

At 31 December 2017 the company's investments in bonds amounted to DKK 115 million (DKK 215 million in 2016). The portfolio 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 6 million for the year (DKK 3 million in 2016).

#### **Balance sheet**

The total assets for Codan amounted to DKK 9,742 million at 31. December 2017, which is a decrease of DKK 592 million compared to total assets of DKK 10,334 million in 2016. The decrease is primarily a result of a decline in Investments in Group entities due to distributed dividend.

Equity decreased by DKK 2,890 million from DKK 8,107 million in 2016 to DKK 5.217 million in 2017. Apart from profit for the year, equity is particularly affected by dividend payments of DKK -4,600 million.

#### **Business initiatives**

##### **Key strategies**

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

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

The Codan Group will look to protect the current leadership positions in areas such as Motor, Personal Accident and Renewable Energy, while continue improving profitability across all three countries. The Group also plans to fully capitalise on the opportunities in Specialty and with global brokers that arise from being the only scale player in the region with a global presence.

##### **Market conditions**

The Danish insurance market remains stable and attractive although with low growth. Largest competitors are focus on profitability and to a lesser extent on growth. Codan has the same focus. The Swedish insurance market is still showing strong growth although at slower pace that seen in recent years. In Norway the insurance market was weakened by the oil price drop – in particular within the commercial segment.

##### **Customers**

Codan continues to work on delivering the brand and customer journey and implementing a customer mindset in all parts of the business. A key focus area in the Codan Group strategy is to understand customer needs and requirements and adapt our service and propositions to meet the expectations.

##### **Variable remuneration**

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

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this annual report, and the information to be published in the remuneration report in accordance with the remuneration rules is available on Codan's website under 'Employee remuneration reports'.

### **Events subsequent to 31 December 2017**

#### *Dividend for 2017*

The Board of Directors do not propose declaration of a dividend. The proposal will be considered by the annual general meeting on 25 April 2018.

#### *Liquidation of companies*

We are planning to liquidate NIS Norway AS and Codan Ejendomme II A/S during 2018. The reason for the liquidation is that there are no activities in the companies.

#### *Other events*

No other events of material importance to the company's financial position or business affairs have occurred subsequent to 31 December 2017.

### **Outlook for 2018**

In 2018 Codan expects to maintain the satisfactory insurance operating profit in its subsidiaries.

Codan's insurance subsidiaries continue to focus on delivering long-term profitable growth in their insurance operations with strict management control of underwriting. Diversified portfolios of the subsidiaries, reasoned insurance programmers and conservative reserving ensure stable insurance operating profits. The subsidiaries are expected to post satisfactory results from their insurance operations, provided weather-related claims are at a normal level in 2018. Based on the guidelines and investment policy laid down by the Codan Group, no major changes are expected in the allocation of the Groups assets in 2018.

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 2018.

## Management's review

### Employees and the company's community involvement

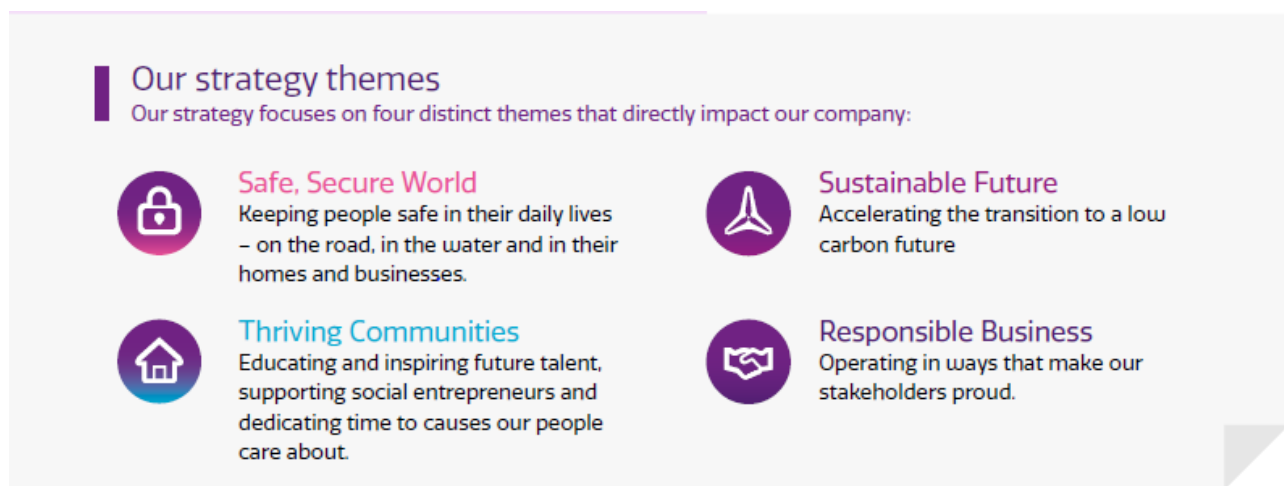
Safeguarding customers against everyday risks is at the heart of our business as an insurance company. Our work to mitigate and prevent the unexpected is more important to people's lives than ever before. Therefore, Codan's CSR strategy addresses the most important material challenges that our business, society and the world face today. Today, there is a greater need for organisations like ours to address risk avoidance, not simply risk transfer. This means actively helping customers avoid risk, accelerating the transition to a low carbon economy and improving resilience to extreme weather. It also means an additional focus to ensure we keep performing in a world of rapid digital innovation and increased instability.

By actively preventing risk, we strive to create a more secure future for all. Thus, as we protect customers on their journeys, we also work to make the roads safer. As we protect homes, families and businesses, we help communities to thrive. Finally yet importantly, as we support people in managing uncertainty, we try to tackle our greatest environmental threats.

### Corporate social responsibility

The Codan Group is part of RSA Insurance Group plc. (hereafter referred to as Group). As such, Codan's corporate responsibility strategy is aligned with [Group's Corporate Responsibility Strategy](#), which outlines our commitment to being a responsible business. This means that we run the business in a way that our employees can be proud of, that we ensure financial strength and transparency for our shareholders, that we put our customers first and that we deliver long-term value for our environment and society.

Group developed a five-year CSR strategy in 2014 with four focal points as illustrated below:



In Codan, we have built our corporate social responsibility efforts on these four pillars and developed separate initiatives within all four areas. However, in order to link our CSR efforts closely to our business activities, we have placed great emphasis on safety, which was a continued business focus in 2017. Initiatives included being safe in traffic and online.

Codan does not produce its own CSR report but refers to [Group's Corporate Responsibility report from 2017](#): In continuation hereof, Codan has not formulated own KPI's for the CSR areas, but aligns with the Group's KPIs within Safety, Communities, Sustainable future and Responsible business. Group's approach to corporate responsibility and performance against key metrics may be available at their website: <https://www.rsagroup.com/responsibility>

### Anti-Corruption

As a company, we are very committed to preventing bribery and corruption and we have a zero tolerance for any breaches, fines or other enforcement actions in relation to bribery and corruption.

Codan adheres to Group's policy on Anti-Corruption & Compliance incl. Gifts & Hospitality and Conflicts of Interest, which is available to all employees on the intranet. This policy clearly explains how employees at Codan are expected to behave in relation to this area. The Anti-Corruption Compliance Policy covers all kinds of gifts,

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rewards and other benefits. Benefits without significant financial value may also be covered by the policy such as a membership of an exclusive club or a prestigious award. These benefits may not have substantial, direct financial value, but can be very valuable to the recipient for other reasons (e.g. sentimental value or indirect financial value by boosting a career etc.) These kinds of benefits can therefore be attractive as part of an attempt of bribery. The Anti-Corruption & Compliance incl. Gifts & Hospitality and Conflicts of Interest policy is supported by extensive resources and guidance, including an anti-bribery toolkit. Our mandatory Group-wide Anti-bribery and Corruption training is supplemented by targeted training for staff in higher risk roles.

In addition, our annually reviewed Group wide whistleblowing policy sets out the procedure for colleagues where they confidentially can raise genuine concerns regarding suspected wrongdoing and malpractice. Where a breach is material or an issue does not comply with regulations, we will report externally.

When it comes to suppliers, all employees at Codan must be familiar with Group's 'Guide to Business Conduct', which is secured through the mandatory e-learning system. The Guide details the way we must put customers first, support each other to act ethically, respect our local environments and communities, keep regulators updated and deliver a sustainable, profitable performance to our shareholders.

The Codan Code of Conduct (COC) supports the principles of Human Rights as set out in the Universal Declaration of Human Rights, the International Labour Organization's (ILO) core conventions and is a signatory of the United Nations Global Compact. The COC states that suppliers to Codan shall respect the fundamental social demands in their business just like products and services delivered to Codan must be produced in accordance with UNDRH, ILO core conventions, all work related health and safety legislation, and environmental legislation in the production country. One of the eight principles of the COC addresses the fact that Codan and its suppliers do not pay bribes. Suppliers must not give or accept bribes or facilitation payments, nor give or accept inappropriate hospitality. Hospitality could be incidents where the supplier could gain a commercial, contractual or regulatory advantage or which gives or gains any personal advantage financial or otherwise.

Therefore, employees at Codan must register all gifts such as lunches, tickets to events, or any other type of benefit that have a value exceeding 500 DKK/SEK. Any gifts above this amount should be reported to ensure there are no conflicts of interest or intention of influencing Codan's business and thus that we as a company uphold high ethical standards.

We believe that with these regulations in place, our employees are equipped to identify and escalate issues and behaviours, which may constitute corruption. We seek to maintain the right culture by regular reminders of our expectations and continued education of our employees. In 2017, there were not breaches to our COC.

#### Environment and Climate

All of Codan works actively on reducing the use of paper, both when it comes to letters and printing. In general, Codan will scan and upload a document rather than printing and sending a letter any time possible. Thus, in 2017, Codan increased the use of E-boks (an online digital mailbox that companies and public institutions use to distribute information to all Danes) to support the paperless ambition. This focused effort led to sending out 426,357 letters digitally in 2017 compared to roughly 17,000 digital letters in 2016. Furthermore, Workers Compensation has transferred approx. 1100 monthly salary deposits to E-boks. Another example worth mentioning is "MEDIconnect", where we book doctors online for personal injury cases in Claims instead of sending out letters. All these initiatives contribute to making Codan increasingly digital, which delivers an improved customer experience, as the process is transparent and immediate, eliminating the need to wait for the postal service. An added benefit is higher security since there is no risk of physical letters containing sensitive data end up in the wrong hands. Economically, Codan has saved almost DKK 5 million by transferring this many customers to E-boks while the environment has benefitted tremendously by eliminating 409,340 printed letters and the associated emissions by delivering them.

Codan has implemented the Claims Service Platform (CSP), which is the best claims portal the market has to offer. The CSP minimises paper and at the same time it provides an improved customer experience, as it offers a track & trace function, where the customer, the claimant and other parties can follow the progress of the case online. From July 2017, all new work related injuries are filed directly from virk.dk (an online portal for companies), archived on the desktop and then dragged directly into the CSP, which saves the scanning department many work hours, Codan a lot of paper while giving the customer a better service.

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In recent years, Codan has experienced an increase in weather-related claims. October 29, the storm Ingolf hit Denmark qualified by the Danish Weather Institute to be a class NW1 storm, which means that at least 30 % of the country experienced average winds of more than 21 m/s. Following the storm, inland waters and lakes experienced increased water levels, which caused many damages due to the flooding. As an insurance company, it is important to raise awareness of damage caused by such extreme weather and that we support our customers in building resilience to changing environmental risks. To accommodate this development, Codan offers a free service available to all Danes, where people can sign up for a text message that notifies them on their mobile phones about upcoming hazardous weather, for instance cloudbursts as well as pieces of advice on what to do. This allows the receiver to safeguard their property in due time, but it also keeps people safe by giving them time to get home safely and knowing that it is not advisable to go out. In 2017, the weather alert went out 22 times to 14,628 individual receivers.

Another preventive initiative is to offer a price reduction on home building insurance when customers install anti-flooding devices that prevent their basement from being flooded by sewage during cloudbursts. In addition, Codan has launched videos focusing on how Danish homeowners can avoid damage to their homes when a cloudburst hits the country to further strengthen our customers' awareness about preventive measures.

We also recognise that we can play a role in supporting the transition to a low carbon economy and have implemented a series of measures to support that journey. For instance, we have limited the number of flights in Scandinavia and instead we encourage people to conduct meetings through Skype for Business, which Codan implemented in 2017. This was one of the contributing factors to a decline in hotel stays of more than 50 % from 3,399 hotel nights in 2016 to 1,522 hotel nights in 2017; however, it also contributed to significantly less CO<sub>2</sub> emissions due to less transportation while also reducing costs significantly.

When it comes to wind, Codan is a leading global insurer of renewable energy projects and insures 90 % of the world's current offshore operational windfarm capacity. RSA's Centre of Excellence for wind energy is situated at the Copenhagen Headquarters, where they educate employees and develop insurance products to customers globally. Applying their expertise, the centre enables wind projects to develop while reducing risks and costs. Two projects to highlight here is that Codan insured one of the first floating offshore wind farms, the Fukushima in Japan. This is a truly innovative project that is being built as a response to the Fukushima nuclear power plant accident in 2011.

The other project is that Codan provides insurance for innovative companies that are coming up with the next generation of renewable energy products, like HVDC power transmission systems and ever-larger offshore wind turbines.

Motor is another business area where Codan has initiated some initiatives for the benefit of the environment. For instance, Motor Inspection encourages the use of used spare parts for cars older than five years and places great emphasis on this internally as well as when dealing with suppliers. This means that contracts with garages now include goals for the utilisation of used spare parts and alternative parts to new ones. One of the garages that Codan collaborates with is currently using 37 % used parts on repairs. In addition, they are attentive to water consumption when washing the cars after a repair (a service that Codan offers customers). Instead of using a car wash, which consumes large amounts of water and soap, they have chosen to hand wash cars - and they filter the used water in order to reuse it multiple times. This is of great benefit to the environment.

At Codanhus, there used to be paper cups by all the coffee machines. In September 2017, Facility Management ran a pilot project where they replaced paper cups with glass cups on three floors of the building. As this proved to be a success, all paper cups were removed from the kitchens November 1 and from the coffee machines in the lobby. Although the change leads to a slight increase when it comes to water and dish soap consumption, this initiative is a plus for the environment, as we will save around five tonnes of waste a year.

#### Human Rights

All accidents, whether they occur at home, at work, in traffic or on holiday, are unpleasant experiences. This applies particularly to us as an insurance company and an essential part of our business is in its essence to help prevent such accidents.

As mentioned earlier, one of the focal points of Codan's CSR efforts in 2017 was safety. One of the main safety activities was being safe in traffic, which translated into Denmark's Reflector Day October 26 with Codan as the

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main sponsor. Surveys demonstrate that “soft” traffic users reduce their risks of being overlooked by a car by 85 % if they use a reflector. In addition, people are visible up to a distance of 140 meters when a car drives at 50 km/h, using the low beams, which gives the driver 10 seconds to spot another road user. People without reflectors are on the other hand visible at a distance of 25-30 meters, which gives the driver only 2 seconds to react. To shine a light on this effect, 163 Codan employees volunteered to get up very early to hand out 40,000 reflectors on the streets of Denmark as well as in schools. In Total, 80,000 reflectors were handed out on the National Reflector Day in 2017.

To further support the strategy of being safe in traffic, Codan has entered into the partnership “Trafiksikkerhed i Øjenhøjde” (Safety at Eyelevel), where several partners related to traffic (e.g. Volvo Trucks) join forces to reduce the number of truck-related injuries. A caravan visits schools around the country to promote how school kids should behave when they are around trucks. Codan's contribution is the Traffic Hero centred on good traffic behaviour among children. Everyone can nominate a traffic hero, who during the year has demonstrated some sort of heroic action in traffic. In 2017, the Traffic Hero of the Year was 9-year old Jonas Gotthardsen, who had assisted a woman who had fallen off her bike and was so bruised she was not able to help herself. Jonas readily called the woman's daughter and stayed with the woman until the daughter arrived to help her mother home safely.

Another safety focus of 2017 was being safe online. In March, Codan launched a campaign with the purpose of keeping children safe when they navigate online. The campaign video, where parents watch their own children download malware that gives a hacker access to their computers and cameras, was watched by more than 2 million Danes and created a debate in Denmark whether parents actually knew what their children did online and whether they had the required information about how to be safe online. Following up on this success, Codan entered into a partnership with “Ungdomsbyen” (Youth City) to educate older schoolchildren further about how to act online and how to be guarded against online threats. Codan developed an online school package in collaboration with pedagogical consultant from the “Youth City's” learning lab, who are specialists within pedagogical development and the conduction of courses for the Danish elementary school and high school. The package called Smart Online contains free educational material to be used during teaching and another set of material aimed at parents to be used at parent-teacher conferences. It is free of charge and available to all Danes, whether they wish to use in school or at home. With this effort, Codan will ensure that more children will know how to act safely online in order to ensure that their identity, credit card information or private pictures are safe and protected when they surf the internet.

### Our People

The cornerstone of Codan's performance and success is the ability to attract, retain and develop the best talents. High performing, motivated colleagues are our most important asset, which is why we invest considerable resources in them. We strive to be a company, which 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. In 2017, Management in Codan placed great emphasis on this through a series of articles published on the intranet, reinforcing employees to treat each other respect. In the light of the #MeToo campaign, it was an important message to send that at Codan we do not accept any kind of harassment and that we have a zero tolerance policy for harassment at the workplace.

Codan invests considerable resources in developing the right capabilities for the future. We believe that the company's future success is dependent on ensuring that our employees and leaders have knowledge and expertise to always be able to deliver the best possible solutions for our customers. The company supports and encourages capability development in order to strengthen both personal and technical development and thereby add value to the business. In order to support this, Codan introduced regular performance management meetings in all departments in 2017. These meetings help employees understand the goals of the company and how each department or team tap into these goals. An added bonus is improved collaboration, as all teams get a better understanding of what other team members are working on and how they can support the common goals.

In 2017, HR initiated a collective agreement for Consultants, which enables them to buy an extra holiday week to increase flexibility and employee satisfaction. Secured through another collective agreement, all employees at Codan actually have the possibility to use two paid days per year to do volunteer work and we take great pride in the volunteer work our employees contribute with every year. Besides supporting our CSR goals, the

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employee activities are a great way to build and strengthen the corporate culture as well as employee engagement and the Codan brand. As described earlier, 163 employees distributed reflectors on the National Reflectors Day, but our employees are also a great capacity during the yearly Christmas event at Codanhus. We host this event every year with the Red Cross for people who do not have other places or the means to spend Christmas. In 2017, 240 people celebrated Christmas this way and around 60 Codan volunteers helped set the scene for a lovely day. Our employees helped by decorating, setting the tables, greeting the guests and generally ensured that they had a good time. In addition, the 49 participating children received presents for the money raised by Codan employees during the month of December.

Another way to keep employees content as well as safe was to introduce a significant employee discount on Codan insurances. All Codan employees are now entitled to a 30 % discount, which may increase to up to 40.5 % depending on the amount of products purchased. Effective December 2017, this offer ensures that our people can rest assured that they are covered in case an injury should occur. Furthermore, Codan offers a private health care program to all employees, which allows our people to recover quicker from illness or injuries, so they can return faster to work.

#### **A regional approach to corporate responsibility**

Taking guidance from RSA Group and following customer surveys and interviews with key internal and external stakeholders, we developed a Scandinavian Corporate Responsibility Strategy (2014-16). The strategy supports the overall themes of RSA Group's CSR Strategy; however, due to customer insight places, there is additional focus on climate and safety specifically around the prevention of accidents and claims.

#### **Norway**

##### **Christmas donation**

We have an annual Christmas donation in november/december, where we donate 100 000 NOK to a charity by choice. We execute this through an engaging campaign on Facebook, and other channels, and let our followers and customers participate. Earlier this year we decided to implement Safety Online, copying the campaign from Denmark, but downsizing the scope. This will launch in 2018, and this years Christmas donation was a pre-launch where we decided to donate to an organisation that works with this matter.

Our work with Safety online will continue in 2018.

##### **Health week**

This year's health week was held last week of September, with more than 90 participants spread throughout activities such as bootcamp, step classes, golf, cycling (with Stefan), competition, etc. The most successful health week we've had in Codan.

##### **National reflector day**

Codan employees hand out reflectors in Oslo to set focus on the importance of reflectors. Only 4/10 use reflectors, which is not close to being good enough and it is our responsibility to bring the cause forward. This year more than 50 employees participated in Oslo, handing our 10 000 reflectors. A great way to spend time with colleagues while focusing on safety.

##### **Golf tournament**

As a partner of the Norwegian Golf Association, we participate on an annual tournament for people with special needs, and Codan is the main sponsor. The purpose is giving participants the ability to be active regardless of their physical health, while maintaining the social aspect. This year Codan participated with five employees, who facilitated the tournament with NGA.

#### **Sweden**

##### **Safe secure world**

##### ***Water safety- Summer swimming schools***

Water safety has been a strong focus aligned with Trygg-Hansa's brand for many years. Trygg-Hansa has a long standing partnership with the Swedish Life Saving Society (SLS) in regards to promoting water safety



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among children and prevention of drowning. Our shared vision zero is no children drowning - a vision well aligned with Trygg-Hansa's business as we insure every other child in Sweden.

Drowning is one of the most common fatal accidents among children aged one to six years old, and every year an average of nine children drown. Every summer since 2012, Trygg-Hansa has funded outdoor summer swim schools with materials and resources. This year, just like last year, Trygg-Hansa cooperated with Disney to attract even more children to the swimming schools using "Dory" from the popular film – "Finding Dory". The campaign was distributed in Facebook, Instagram and Disney Channel with a short film, banners etc. During 2017 16 500 children attended the summer swimming schools and were able to learn about water safety and improve their ability to swim.

#### ***Water safety- Alcohol buoys***

To raise awareness of the risks of swimming under the influence of alcohol, Trygg-Hansa have also strategically equipped 12 life buoys with breathalyzers for people to assess the blood alcohol levels before swimming. The equipped life buoys are in areas, 12 different places, in Sweden that are known where people come together for parties before swimming. The "alcohol buoy" was awarded as an "IQ-project", an award from the independent subsidiary of Systembolaget AB, with the mission to prevent damages in society due to alcohol.

#### **Sustainable future**

##### ***More "paper-free" customers***

As part of Trygg-Hansa's work to facilitate our customers' everyday lives as well as reducing our carbon footprint we continue to digitize our communication with customers. In October 2017 nearly 460 000 of our customers were "paper-free".

##### ***Photo inspection-effortless for the customer and better for the environment***

Photo inspection is a good example of how Trygg-Hansa use new technologies to make it easier for the customer while creating more environmental management of claims. Since 2017 customers with our car insurance can use their smart phone to take pictures of the damage and share these with the workshop via Trygg Hansa's app, instead of driving the car to the workshop for inspection.

#### **Responsible Business**

##### ***Commitment to the mental health of children and adolescences***

With the customer support program of Trygg-Hansa, "Familjehjälpen", Trygg-Hansa continue to offer families with, for example neuropsychiatric disabilities, guidance on what support they are entitled to from different parts of society. In 2017, we recorded an NPS score of 82 among 1000 customers responding to a survey after contact with "Familjehjälpen". During 2017 Trygg-Hansa also collaborated with Attention (the association of people with neuropsychiatric disabilities, relatives and professionals) to conduct a survey on how parents perceive the support for children with neuropsychiatric disabilities is provided by schools. The results of the survey were presented at Trygg-Hansa's seminar in Almedalen, an annual Swedish political forum.

From 2018, Trygg-Hansa will start a partnership with the Swedish children's rights organization BRIS, Children's Rights in Society. This will enable us to work preventively and increase our commitment to the mental health of children and adolescences.

#### **A regional approach to corporate responsibility**

During 2017, Trygg-Hansa started to implement a new sustainability strategy meeting regional stakeholder expectations and relevant trends and drivers in society. The strategy is divided into four focus areas including Trygg-Hansa's social commitment and environment impact, security and claim prevention, sustainable management of claims and Trygg-Hansa's role as a driver for a sustainable economic development through cooperation, digitalization and product development.

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

Codan invests considerable resources on developing the right capabilities for the future. We believe that the company's future success is dependent on ensuring that our employees and leaders have knowledge and expertise to always be able to deliver the best possible solutions for our customers. The company supports and encourages capability development in order to strengthen both personal and technical development, and there-

### Management's review

by add value to the business. This is done through a combination of internal and external training. All Codan/Trygg Hansa leaders will, during 2018, attend leadership training customized at different levels to develop their leadership skills and capabilities.

We have continued to focus on a number of platforms where we can have a two way communication with our employees and where our employees can give us feedback. We will run our annual employment survey, Your-say in Q2, 2018 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. We are using Yammer as a communication channel and engagement tool in the UK, Scandinavia and Canada.

#### 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, excluding employee representatives, 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 under-represented. In addition, Codan has signed the Charter for More Women in Management (Denmark).

In beginning of 2017 the share of women on the Board of Directors for Codan Forsikring A/S was increased from 20% to 40% and should be kept sustained at this level.

The share of women on other management levels, has increased from 35% in 2012, 36% in 2013 and 37% in 2014 to 38% in 2015-2016, decreased slightly in 2017 to 37%.

The share of women on level 1-3 in the organization is 32% in 2017.

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

The Company is firmly committed to being a great place for women to insure and work and we have a strategic focus on Diversity & Inclusion to achieve this. The Company will work on a number of initiatives to support the development of female leadership and increase of proportion of female leaders. The initiatives may over time vary depending on what at each time is deemed to best support the effort to reach our targets.

In our 2017 yearly employee survey we have been following up on engagement and work enablement and analysed the results for different work groups. We have a Diversity & Inclusion index of questions that we follow up on and compare the results between genders in order to take adequate measures and actions. The same diversity focus will apply to our employee survey in 2018 and we will also look at trends over time.

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 2017 we have had a Diversity & Inclusion workshop for our Scandinavian Management team with focus on target setting, awareness and identifying actions. In 2018 we will focus on further Diversity & Inclusion workshops in certain divisions with the purpose to increase awareness among our leaders and employees. We have also started female networks in some divisions with the aim to improve how we both attract and retain female employees. 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

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

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

#### Risk management in Codan

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

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

#### **Insurance risks**

The Codan Group's insurance risks comprise:

- Underwriting Risk 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 2017 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 cash (40%), equity (6%) and short- and medium-term bonds (55%). 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.

## Management's review

### **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 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.

## **Management's review**

### **Other risks**

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

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

### 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 reparametrisation. The model is a cash flow-based stochastic model, which models underwriting risk, reserving risk, catastrophe risk, counterparty risk, investment risk and operational risk. Within this model framework, with run-off on existing obligations and new business for one year, the 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 5,217 million at 31 December 2017. 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.

## Statement by the management on the annual report

### Directorships and executive positions

#### Board of Directors

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

<b>Board of Directors</b>	<b>Directorships and executive positions in other enterprises</b>
Lars Nørby Johansen, Chairman	Bornholms Mosteri A/S, Danmarks Underholdningsorkester A/S, Den Erhvervsdrivende Fond Bornholms Mosteri, (Chairman): Københavns Lufthavne A/S, William Demants og Hustru Ida Emilies (Millas) Fond, William Demant Invest A/S, Dansk Vækstkapital K/S, Codan Forsikring A/S, Fonden for Entreprenørskab, Dansk Vækstkapital Komplementar ApS, Fonden Oluf Høst Museet, Montana Furniture A/S, (Deputy Chairman): Arp-Hansen Hotel Group A/S.
Anthony Latham, Deputy Chairman	Ecclesiastical Insurance Group plc., Ecclesiastical Insurance Office plc., (Chairman): Argo Managing Agency Limited, (Deputy Chairman): Codan Forsikring A/S.
Christer Arne Bjellert *	Codan Forsikring A/S.
Marianne Philip	Aktieselskabet af 1. januar 1987, Brenntag Nordic A/S, Codan Forsikring A/S, Copenhagen Capacity, Fonden til Markedsføring og erhvervsfremme i Region Hovedstaden, Investeringsforeningen MS Invest, Kromann Reumert, Novo Nordisk Fonden, Kirsten og Peter Bangs Fond, (Chairman): Gerda og Victor B. Strands Fond/Toms Gruppens Fond, Gerda og Victor B. Strand Holding A/S, Scan Office A/S, Redoffice PKC A/S, Redoffice Scan Office A/S, Stiholt Holding A/S, Investeringsforeningen Nordea Invest, Investeringsforeningen Nordea Invest Portefølje, Investeringsforeningen Nordea Invest Kommune, Investeringsforeningen Nordea Invest Engros, Kapitalforeningen Nordea Invest, (Deputy Chairman): Bitten og Mads Clausens Fond, Investeringsforeningen Nordea Invest Bolig, Investeringsinstitutforeningen Nordea Invest Portefølje (kapitalforening), Hedgeforeningen Nordea Invest Portefølje (kapitalforening), Norli Pension Livsforsikring A/S, (Liquidator): Binger Holding ApS under tvangsopløsning, Delaney Holding ApS under tvangsopløsning, NW Biotech Invest ApS under tvangsopløsning, Motivere ApS under tvangsopløsning, Lux B L apS under tvangsopløsning, Andersen Innovation IvS under tvangsopløsning, CEEI Energy Management ApS under tvangsopløsning, Opta Engineering IVS under tvangsopløsning, Paepcke Holding ApS under tvangsopløsning, BusinessBetterlife IvS under tvangsopløsning, Intero-IT IvS under tvangsopløsning, Ketil Dehn Holding IvS under tvangsopløsning, Kilian Fys IvS under tvangsopløsning, Gejl Group Holding IvS under tvangsopløsning, OCs Holding IvS under tvangsopløsning, Hatch Holdings ApS under tvangsopløsning, Dayafter IvS under tvangsopløsning, Miljøkemi ApS (Environmental Protection Ltd) under tvangsopløsning, Malerpakken.dk IvS under tvangsopløsning, Nejro ApS under tvangsopløsning, Genticap Holding ApS under tvangsopløsning, 12Timer ApS under tvangsopløsning, Hoffmann Holding ApS under tvangsopløsning, Tadoo Group ApS under tvangsopløsning, TBM Holding 2013 ApS under tvangsopløsning, Osterbye Invest IvS under tvangsopløsning, Sonjas Rengøring ApS under tvangsopløsning.
<b>Board of Directors (continued)</b>	
Gunilla Astrid Henriette Asker	Codan Forsikring A/S, Handelsbolaget Svenska Dagbladets Aktiebolag & Co, Lendo AB, Kundkraft Sverige AB, SvD Börstus AB, Aktiebolaget Göta Kanalbolag, Personal Finance Sverige AB, Schibsted Tillväxtmedier An-

## Statement by the management on the annual report

nonsförsäljning AB, Compricer AB, Aftenposten Norway, (Chairman): A Perfect Guide Scandinavia AB, (Directorship): Svenska Dagbladets Aktiebolag, Svenska Dagbladet Holding AB, Svenska Dagbladet Annons AB.

Scott Egan	Codan Forsikring A/S, RSA Insurance Group plc., Royal & Sun Alliance Insurance plc., Royal & Sun Alliance Reinsurance Limited, The Marine Insurance Company Limited.
Elisabeth Sandblom *	Codan Forsikring A/S, Förbundsstyrelsen för FTF-facket för försäkring och finans.
Christian Sletten *	Codan Forsikring A/S.

### Board of Management

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

### Board of Management

### Directorships and executive positions

Patrick Bergander	Försäkringsgivarnas Arbetsgivarorganisations Serviceaktiebolag, (Chairman): Codan Ejendomme II A/S, (Deputy Chairman): SFS Svensk Försäkring, (Directorship): Codan Forsikring A/S.
Vivian Lund	Codan Ejendomme II A/S, Forsikringsselskabet Privatsikring A/S, Forsikring & Pension, Finanssektorens Arbejdsgiverforening, Codan Forsikring A/S

\* Employee representative



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

The Board of Directors and the Board of Management have today considered and approved the annual report of Codan A/S for the financial year 1 January to 31 December 2017.

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 2017 and of its financial performance for the financial year 1 January to 31 December 2017. It is also our opinion that the Management's review gives a true and fair view of developments in the Company's activities and financial position and describes the major risks and uncertainties which the Company is facing.

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

Copenhagen, 25 April 2018

### **Board of Management**

Patrick Bergander  
*CEO*

Vivian Lund  
*EO*

### **Board of Directors**

Lars Nørby Johansen  
*Chairman*

Anthony Latham  
*Deputy Chairman*

Scott Egan

Gunilla Astrid Henriette Asker

Christer Arne Bjellert

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 2017 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 2017 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2017 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, 25 April 2018

### **KPMG**

Statsautoriseret Revisionspartnerselskab  
CVR no. 25 57 81 98

Anja Bjørnholt Lüthcke  
State Authorised  
Public Accountant  
MNE no. 26779

Mark Palmberg  
State Authorised  
Public Accountant  
MNE no. 34319

## Income statement

Note	DKK million	2017	2016
<b>Investment return</b>			
		1,961.1	2,271.2
4	Income from Group entities	3.8	11.8
5	Interest income and dividends, etc.	14.6	-57.1
6	Value adjustments	-110.3	-26.9
	Interest expenses	-0.9	-1.1
	Investment management expenses		
	<b>Total investment return</b>	<b>1,868.3</b>	<b>2,197.9</b>
7	Other expenses	-3.4	-6.2
	<b>Profit before tax</b>	<b>1,864.9</b>	<b>2,191.7</b>
8	Tax	22.5	3.6
	<b>Profit for the year</b>	<b>1,887.4</b>	<b>2,195.3</b>
<b>Proposal for the distribution of profit:</b>			
	Transfer to reserve for net revaluation according to the equity method	1,961.1	2,271.4
	Proposed dividend	4,600.0	2,500.0
	Transferred to retained earnings	-4,673.7	-2,576.1
		<b>1,887.4</b>	<b>2,195.3</b>

## Statement of comprehensive income

	Currency translation adjustment, foreign subsidiaries	-172.1	-251.5
	Currency translation adjustment, goodwill relating to foreign subsidiaries	-18.6	12.7
	Actuarial gains/losses on pension obligations	17.0	1.8
	Tax on actuarial gains/losses on pension obligations	-3.7	-0.4
	Other comprehensive income	-0.8	3.4
	<b>Other comprehensive income</b>	<b>-178.2</b>	<b>-234.0</b>
	Profit for the year	1,887.4	2,195.3
	<b>Total comprehensive income</b>	<b>1,709.2</b>	<b>1,961.3</b>

## Balance sheet at 31 December

Note	DKK million	2017	2016
<b>Assets</b>			
9	<b>Intangible assets</b>	<b>1,072.0</b>	<b>1,090.5</b>
10	Investments in Group entities	8,410.1	8,823.2
	<b>Total investments in Group entities</b>	<b>8,410.1</b>	<b>8,823.2</b>
11	Equity investments	11.7	10.5
11	Bonds	115.2	215.1
13	Derivatives	3.8	0.0
	<b>Total other financial assets</b>	<b>130.7</b>	<b>225.6</b>
	<b>Total investments</b>	<b>8,540.8</b>	<b>9,048.8</b>
11	Receivables from Group entities	21.0	0.0
11	Other receivables	0.5	2.4
12	<b>Total receivables</b>	<b>21.5</b>	<b>2.4</b>
13	Current tax assets	21.8	9.6
14	Deferred tax assets	0.4	5.2
11	Cash and cash equivalents	84.2	174.0
12	<b>Total other assets</b>	<b>106.4</b>	<b>188.8</b>
	Accrued interest and rent	1.2	3.5
	<b>Total accrued income</b>	<b>1.2</b>	<b>3.5</b>
	<b>Total assets</b>	<b>9,741.9</b>	<b>10,334.0</b>

**Balance sheet at 31 December**

<b>Note</b>	<b>DKK million</b>	<b>2017</b>	<b>2016</b>
<b>Equity and liabilities</b>			
15 <b>Share capital</b>		860.0	860.0
Reserve for net revaluation according to the equity method		759.0	140.7
Translation reserve		-47.4	-26.8
<b>Total reserves</b>		711.6	113.9
<b>Retained earnings</b>		3,645.0	7,133.5
<b>Total equity</b>		<b>5,216.6</b>	<b>8,107.4</b>
16 Pension obligations		0.0	18.8
17 Other provisions		4.7	5.1
18 <b>Total provisions</b>		<b>4.7</b>	<b>23.9</b>
Amounts owed to Group entities		4,517.5	2,200.9
Other payables		3.1	1.8
19 <b>Total payables</b>		<b>4,520.6</b>	<b>2,202.7</b>
<b>Total equity and liabilities</b>		<b>9,741.9</b>	<b>10,334.0</b>

**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
<b>2017</b>						
<b>Equity, beginning of the year</b>	<b>860.0</b>	<b>140.7</b>	<b>-26.8</b>	<b>-</b>	<b>7,133.5</b>	<b>8,107.4</b>
<b>Changes in equity for 2017:</b>						
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	<b>-178.2</b>
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	<b>1,709.2</b>
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	-
Dividends received from subsidiaries	-	-2,201.3	-	-	2,201.3	-
<b>Changes in equity for the year</b>	<b>-</b>	<b>618.3</b>	<b>-20.6</b>	<b>-</b>	<b>-3,488.5</b>	<b>-2,890.8</b>
<b>Equity, end of the year</b>	<b>860.0</b>	<b>759.0</b>	<b>-47.4</b>	<b>-</b>	<b>3,645.0</b>	<b>5,216.6</b>

## Statement of changes in equity

DKK million

	Share capital	Net revaluation according to the equity method	Translation reserve	Proposed dividend	Retained earnings	Total equity
<b>2016</b>						
<b>Equity, beginning of the year</b>	<b>860.0</b>	<b>718.4</b>	<b>-40.5</b>	<b>-</b>	<b>7,108.2</b>	<b>8,646.1</b>
<b>Changes in equity for 2016:</b>						
Currency translation adjustment, foreign subsidiaries	-	-252.5	1.0	-	-	-251.5
Currency translation adjustment, goodwill relating to foreign subsidiaries	-	-	12.7	-	-	12.7
Actuarial gains/losses on pension obligations	-	-	-	-	1.8	1.8
Tax on actuarial gains/losses on pension obligations	-	-	-	-	-0.4	-0.4
Other comprehensive income	-	3.3	-	-	0.1	3.4
	-	-249.2	13.7	-	1.5	<b>-234.0</b>
<b>Profit for the year</b>	<b>-</b>	<b>2,271.4</b>	<b>-</b>	<b>-</b>	<b>-76.1</b>	<b>2,195.3</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>2,022.2</b>	<b>13.7</b>	<b>-</b>	<b>-74.6</b>	<b>1,961.3</b>
Release of net revaluation reserve according to the equity method on disposal of subsidiaries	-	0.5	-	-	-0.5	-
Dividend paid	-	-	-	-	-2,500.0	-2,500.0
Dividend received from subsidiaries	-	-2,600.4	-	-	2,600.4	-
<b>Changes in equity for the year</b>	<b>-</b>	<b>-577.7</b>	<b>13.7</b>	<b>-</b>	<b>25.3</b>	<b>-538.7</b>
<b>Equity, end of the year</b>	<b>860.0</b>	<b>140.7</b>	<b>-26.8</b>	<b>-</b>	<b>7,133.5</b>	<b>8,107.4</b>



## Notes to the financial statements

### Note

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#### 1 Accounting policies

The annual report for 2017 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 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 a number of different currencies, but primarily in DKK and SEK. The functional currency is the currency of the primary economic environment in which each individual company operates. Codan has adopted DKK as its presentation currency.

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

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

The accounting policies remain unchanged from the Annual Report for 2016.

##### **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

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

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

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

Risk management is described in Note 2.

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

#### ***Insurance contract liabilities in Group entities conducting general insurance business***

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

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

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

Provisions have not been made for deferred tax on contingency funds in Codan's Group entities. The reason for this is that, in the opinion of the management, taxation will only take place if the insurance portfolio is transferred or if the company ceases to carry on insurance business.

#### ***Contingent liabilities***

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

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

No material changes in assumptions or estimates have been made during 2017.

#### **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.

## Notes to the financial statements

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

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

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

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

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

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

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

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

#### **Foreign currency translation**

The company's functional currency is DKK.

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

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

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

## Notes to the financial statements

### Note

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any currency translation differences will be recognised in the income statement in connection with the disposal.

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

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

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

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

##### ***Financial instruments***

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

On the disposal of a financial instrument, an asset/liability equal to the agreed price is similarly recognised. The liability or the asset will no longer be recognised in the balance sheet on the settlement date.

##### ***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.

## Notes to the financial statements

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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.

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

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

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

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#### Income statement

##### Investment return

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

Interest and interest-related income from bonds, other securities, loans and receivables as well as dividends on equity investments are recognised as interest income and dividends, etc.

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

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

Costs attributable to trading in and management of the company's investments are recognised as investment management expenses.

The investment return further includes income from Group entities, which consists of Codan's share of Group entities' net profit after tax.

##### Other income and expenses

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

##### Tax

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

The company is subject to the Danish tax prepayment scheme. Additions, deductions and allowances relating to tax payments are included in 'Interest income and dividends, etc.' and 'Interest expenses'.

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

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

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

## Notes to the financial statements

### Note

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

Codan's Group entities do not make provisions for deferred tax on contingency funds. According to the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pensions Funds (*Regnskabsbekendtgørelsen*), a provision for deferred tax on contingency funds should only be made if it is likely that a situation will arise within the foreseeable future which will result in taxation. In the opinion of the management, taxation will only take place if the insurance portfolio is transferred or if the companies cease to carry on insurance business.

### Balance sheet

#### Assets

#### Intangible assets

#### Goodwill

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

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

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

Impairment losses on goodwill are not reversed.

#### Development projects

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

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

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

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

## Notes to the financial statements

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#### ***Other intangible assets***

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

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

#### **Property and equipment**

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

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

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

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

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

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

##### ***Impairment of development projects, other intangible assets and property and equipment 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.



## Notes to the financial statements

### Note

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#### **Investment properties**

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

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

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

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

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

#### **Other financial assets**

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

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

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

Currency translation adjustments are recognised directly in the income statement.

#### **Receivables**

Receivables are recognised at fair value and subsequently measured at amortised cost using the effective interest method, and this usually corresponds to the nominal value in respect of short-term non-interest-bearing receivables and floating rate receivables.

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

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

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

## Notes to the financial statements

### Note

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

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

#### **Liabilities**

##### **Equity**

##### **Share capital**

Shares in Codan are recognised at nominal value.

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

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

#### **Revaluation reserve**

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

#### **Translation reserve**

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

The reserve also comprises foreign currency translation of intangible assets relating to acquisitions.

The translation reserve has been determined in accordance with the guidelines issued by the Danish Financial Supervisory Authority as from 1 January 2004.

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

#### **Proposed dividend**

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

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

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

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

#### **Pension obligations**

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

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

## Notes to the financial statements

### Note

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

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

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

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

The company's obligations in respect of defined-benefit schemes constitute obligations towards a former employee.

#### **Provisions**

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

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

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

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

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

#### **Methods for calculating 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

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#### 2 Risk information

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

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

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

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

The Risk function ensures that relevant risk information is discussed and addressed by Codan Forsikring's management, with a view to analyse the risk exposure. One of the function's main activities is to build capability as well as challenge and control the risk assessment provided by the first line of defence. The Risk function also monitors the risk management system's maturity in the organisation and suggests developments of the governance in terms of risk, i.e. risk strategy and appetite to be adopted by the Board of Directors. With regard to risks, the Risk function presents independent views to relevant committees, which in turn are challenged and reviewed by the Own Risk & Solvency Assessment committee (ORSA).

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 committee (ORSA) 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 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.

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.

## Notes to the financial statements

### Note

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Codan's subsidiaries place major focus on risk selection and risk quality alongside a disciplined approach to pricing to deliver these objectives. A majority of the customers are offered a premium which is set according to tariffs and risk factors calculated by price actuaries. For large commercial customers, premiums are based on the respective companies' operations and performance history. The authority exercised by the respective underwriters is controlled by a personal underwriting licence based on the underwriter's capabilities.

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

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

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

Codan's subsidiaries review the insurance risks accepted on a regular basis and assess these in relation to the underwriting, reinsurance and capital policies adopted.

#### *Insurance risk concentrations*

Risk limitation is also conducted through reinsurance. Insurance business is by nature exposed to major fluctuations. By ceding business to reinsurers, the consequences of very large claims can be limited, and the size of exposures can thus be managed and the company's equity protected.

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

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

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

## Notes to the financial statements

### Note

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#### *Non-catastrophe risks*

The Codan Group's reinsurance programme for 2017 was an excess of loss programme with a maximum retention of DKK 100 million for any one risk in respect of buildings, contents and business interruption insurance. The retention for personal accident claims was DKK 100 million, DKK 25 million for liability and DKK 30 million for motor third party liability claims. All reinsurance contracts are purchased on a Scandinavian or global basis, thereby reducing costs.

In respect of Marine Hull business Codan Forsikring has a 100% Quota Share for claims related to insurance contracts written in 2017. The 2017 Quota Share Treaty is placed with RSA Insurance Ltd and is placed on market terms and Codan Forsikring receives commission. All other reinsurance contracts are purchased on a Scandinavian or global basis, thereby reducing costs.

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

#### *Storm and catastrophe risks*

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

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 2017, the maximum net retention for Codan Forsikring was DKK 100 million per event.

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

#### *Reserving risk*

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

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

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

## Notes to the financial statements

### Note

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#### **Financial risks**

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

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

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

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

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

#### *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	
<b>2017</b>						
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
<b>Financial assets</b>	<b>159.3</b>	<b>12.1</b>	-	-	<b>49.0</b>	<b>220.4</b>
Amounts owed to Group entities	1,017.5	-	-	-	3,500.0	4,517.5
Other payables	3.1	-	-	-	-	3.1
<b>Financial liabilities</b>	<b>1,020.6</b>	-	-	-	<b>3,500.0</b>	<b>4,520.6</b>
<b>2016</b>						
Danish fixed rate mortgage bonds	70.0	145.1	-	-	-	215.1
Call deposits etc.	174.0	-	-	-	-	174.0
<b>Financial assets</b>	<b>244.0</b>	<b>145.1</b>	-	-	-	<b>389.1</b>
Amounts owed to Group entities	1,100.9	1,100.0	-	-	-	2,200.9
Other payables	1.8	-	-	-	-	1.8
<b>Financial liabilities</b>	<b>1,102.7</b>	<b>1,100.0</b>	-	-	-	<b>2,202.7</b>

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

	Effective interest rates		Duration	
	2017	2016	2017	2016
<b>Financial assets</b>				
Danish fixed rate mortgage bonds	0.9	-2.7	-0.6	0.8
Other loans, deposits with credit institutions, call deposits, etc.	-	-	-	-
<b>Financial liabilities</b>				
Amounts owed to Group entities	-	-	-	-



## 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				
	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, Receivables from Group entities	0.1	0.1	783.8	0.1	784.1
Amounts owed to Group entities	-	-	-741.0	-	-741.0
Other payables	-	-	-	-	-
Other provisions	-	-	-4.7	-	-4.7
<b>Currency risk</b>	<b>0.1</b>	<b>0.2</b>	<b>289.3</b>	<b>0.1</b>	<b>289.7</b>
	2016				
	EUR	GBP	NOK	SEK	Total
Investments in Group entities	-	-	30.6	-	30.6
Intangible assets	-	-	245.9	-	245.9
Other loans, deposits with credit institutions, call deposits, Amounts owed to Group entities	0.1	0.1	782.6	0.1	782.9
Other payables	-	-	-801.4	-	-801.4
Other provisions	-	0.4	-	-	0.4
Other provisions	-	-	-5.4	-	-5.4
<b>Currency risk</b>	<b>0.1</b>	<b>0.5</b>	<b>252.3</b>	<b>0.1</b>	<b>253.0</b>

*Equity risk*

On 31 December 2017, 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 1,965 million in equities at 31 December 2017.

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

**Credit risks**

Codan has a policy for receivables from policyholders and reinsurers. In accordance with this policy, reinsurance contracts are only concluded with selected sound reinsurers in order to reduce the credit risk. The credit risk in respect of reinsurers is monitored continuously. For a reinsurer to be considered, a rating of at least A- (Standard & Poor's) or the equivalent is normally required. This minimum standard is set out in the Board of Directors' guidelines, and quarterly reports are submitted to the Board of Directors for the purpose of monitoring and evaluating the exposure.

*Credit risk relating to investments*

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

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

<b>Maximum credit risk</b>	<b>DKK million</b>	<b>2017</b>	<b>2016</b>
Danish fixed rate mortgage bonds		115.2	215.1
Derivatives		3.8	-
Receivables from Group entities		21.0	-
Other receivables		0.5	2.4
Current tax assets		21.8	9.6
Cash and cash equivalents		84.2	174.0
Accrued interest and rent		1.2	3.5
<b>Maximum credit risk</b>		<b>247.7</b>	<b>404.6</b>

**Operational risks**

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

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

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

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

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

#### **Emerging risks**

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

#### **Sensitivity analysis**

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

#### **Capital and solvency**

Codan and its insurance subsidiaries calculate and monitor capital 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 for the Danish insurance subsidiaries calculated using an internal model, and are stress-tested using, 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. As a tool in this process, a Capital Scorecard is used which is being reported to the Board of Directors and an advisory Capital Management Committee. All capital measures for Codan and its insurance subsidiaries are currently met for all capital categories.

#### **Dividend potential**

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

## Notes to the financial statements

## Note

## 3 Key figures and financial ratios

Five year summary	DKK million	2017	2016	2015*	2014	2013
Total investment return		1,868.3	2,197.9	384.7	2,043.8	1,462.0
Profit for the year		1,887.4	2,195.3	386.1	2,024.5	1,418.3
Total equity		5,216.6	8,107.4	8,646.1	10,939.6	11,576.6
Total assets		9,741.9	10,334.0	10,821.0	14,131.4	15,067.0
Return on equity in %		28.3	26.2	4.2	18.0	12.0

\*) Key figures and financial ratios have been restated to reflect the changes in accounting policies (2012-2014 not restated).

## Notes to the financial statements

Note	DKK million	2017	2016
<b>4 Interest Income and dividends, etc.</b>			
Interest income from bonds, loans and deposits		3.5	5.3
Income from units in open-ended funds and other equity investments		0.3	6.5
<b>Interest income and dividends, etc.</b>		<b>3.8</b>	<b>11.8</b>
<b>5 Value adjustments</b>			
Equity investments		1.2	-65.0
Bonds		-2.9	-2.9
Derivatives		-45.0	52.5
Total investment assets		-46.7	-15.4
Loans in foreign currency		0.0	-41.2
Other value adjustments		61.3	-0.5
<b>Value adjustments</b>		<b>14.6</b>	<b>-57.1</b>
Realised gains and losses on investments		-53.2	105.3
Unrealised gains and losses on investments		6.5	-120.7
Other realised gains and losses		0.0	-41.9
Other unrealised gains and losses		61.3	0.2
<b>Value adjustments</b>		<b>14.6</b>	<b>-57.1</b>
<b>6 Interest expenses</b>			
Interest payable to Group entities		-110.3	-26.7
Other financial expenses		0.0	-0.2
<b>Interest expenses</b>		<b>-110.3</b>	<b>-26.9</b>

## Notes to the financial statements

Note	DKK million	2017	2016
<b>7 Other expenses</b>			
Administrative expenses in Codan			
Staff costs:			
Wages and salaries		-3,6	-4,4
Defined contribution schemes		-0,2	-0,2
Payroll tax		-0,2	-0,4
Other staff costs		-0,3	1,6
Total staff costs		-4,3	-3,4
Administration fee to Codan Forsikring A/S		-0,2	-3,5
Other administrative expenses		-1,3	-1,4
Transferred to investment management expenses		0,8	1,0
Reimbursement from Group entities		1,6	1,1
Total administrative expenses in Codan		-3,4	-6,2
Other expenses		-3,4	-6,2
Converted into full-time employees, the average number of persons employed during the financial year was 1 persons (1 person i 2016).			
<b>Earned remuneration of current and former members of the Board of Directors and Board of Management of Codan:</b>			
Remuneration of the Board of Directors (fixed remuneration)			
Lars Nørby Johansen (joined 27 April 2012)		-0,7	-0,7
Anthony Piers Latham (joined 4 May 2000)		-0,6	-0,6
Gunilla Astrid Henriette Asker (joined 1 September 2016)		-0,2	-0,1
Christer Arne Bjellert (joined 29 April 2015)		-0,2	-0,2
Scott Egan (joined 27 April 2016)		-	-
Marianne Phillip (joined 29 April 2011)		-0,4	-0,4
Maria Elisabeth Sandblom (joined 29 April 2015)		-0,2	-0,2
Christian Sletten (joined 4 May 2000)		-0,2	-0,2
Derek Walsh (resigned 26 February 2016)		-	-
Gavin Wilkinson (resigned 27 April 2016)		-	-
Remuneration to the Board of Directors		<b>-2,5</b>	<b>-2,4</b>
Remuneration of the Board of Management:			
Wages and salaries (fixed remuneration)		-8,8	-8,5
Bonuses (variable remuneration)		-1,5	-2,2
Pension benefits (fixed remuneration)		-1,6	-1,7
Share-based payment (variable remuneration)		-1,4	-1,4
Remuneration of the Board of Management		<b>-13,3</b>	<b>-13,8</b>
CEO Patrick Bergander		-10,6	-9,0
EO Vivian Lund		-2,7	-2,5
Former CFO Stig Pastwa		-	-2,3
Paid remuneration to the Board of Management		<b>-13,3</b>	<b>-13,8</b>
Number of employees in the Board of Management at 31 December		<b>2</b>	<b>2</b>

## Notes to the financial statements

Note	DKK million	2017	2016
<b>7 Other expenses (continued)</b>			
Employees with material influence on the Company's risk profile			
Wages and salaries (fixed remuneration)		-7.5	-7.4
Bonuses (variable remuneration)		-	-0.3
Pension benefits (fixed remuneration)		-0.7	-0.7
Share-based payment (variable remuneration)		-	-0.1
		<b>-8.3</b>	<b>-8.5</b>
Remuneration of employees with material influence on the company's risk		<b>-8.3</b>	<b>-8.5</b>
Numbers of employees with material influence on the company's risk prof		<b>4</b>	<b>4</b>

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 2017 was 9.893 kDKK. Other Board members employed in RSA Group do not have any Executive Directorship posts 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 2017 have been fully expensed in 2017 but will be paid out from 2018 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. For further evaluation, see note 23.

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

Unfunded pension commitments were made to former member of the Board of Management Peter Zobel, cf. Note 16. These pension commitments are not included in the above specification. Peter Zobel died in

**Fee to the company's auditor:**

KPMG prior year	-0.1	-
KPMG current year	-0.5	-0.5
Remuneration, statutory audit	-0.6	-0.5
KPMG current year	-0.1	-0.1
Remuneration, other assurance engagements	-0.1	-0.1
Fee, statutory audit	<b>-0.7</b>	<b>-0.6</b>

## Notes to the financial statements

Note	DKK million	2017	2016
<b>8 Tax</b>			
Tax on total income for the year:			
Current tax expense		21.9	8.5
Change in deferred tax on temporary differences		-4.2	-6.3
<b>Tax on total income for the year</b>		<b>17.7</b>	<b>2.2</b>
Adjustments relating to previous years:			
Current tax for previous years		1.6	-4.8
Adjustment of deferred tax at 1 January		-0.5	5.8
<b>Adjustments relating to previous years</b>		<b>1.1</b>	<b>1.0</b>
<b>Tax expense</b>		<b>18.8</b>	<b>3.2</b>
Tax is included as follows:			
Tax in the income statement		22.5	3.6
Tax on changes in equity		-3.7	-0.4
<b>Tax expense</b>		<b>18.8</b>	<b>3.2</b>
Total tax on total income for the year can be explained as follows:			
Profit before tax		1,864.9	2,191.7
Reversal of income from Group entities		-1,961.1	-2,271.2
Actuarial gains and losses on pension obligations recognised in equity		17.0	1.8
<b>Total income</b>		<b>-79.2</b>	<b>-77.7</b>
Applicable tax rate		22.0%	22.0%
Tax calculated on total income		17.4	17.1
Tax on permanent differences:			
Other equity investments		0.3	-13.9
Expenses disallowed for tax purposes		0.0	-1.0
<b>Tax on total income for the year</b>		<b>17.7</b>	<b>2.2</b>
<b>Adjustment of tax relating to previous years</b>		<b>1.1</b>	<b>1.0</b>
<b>Tax expense</b>		<b>18.8</b>	<b>3.2</b>



## Notes to the financial statements

Note	DKK million		
<b>9 Intangible assets</b>			
	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total intangible assets</b>
<b>2017</b>			
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	1,072.0	90.6	1,162.6
Amortisation and impairment, beginning of the year	-	-90.6	-90.6
Amortisation and impairment, end of the year	-	-90.6	-90.6
Carrying amount, end of the year	<b>1,072.0</b>	-	<b>1,072.0</b>
Carrying amount, beginning of the year	1,090.5	-	1,090.5
Amortised on a straight-line basis over	5 and 10 years		
Amortisation is included in other expenses.			
<b>2016</b>			
Cost, beginning of the year	1,077.8	90.6	1,168.4
Currency translation adjustments, foreign subsidiaries	12.7	-	12.7
Cost, end of the year	1,090.5	90.6	1,181.1
Amortisation and impairment, beginning of the year	-	-90.6	-90.6
Amortisation and impairment, end of the year	-	-90.6	-90.6
Carrying amount, end of the year	<b>1,090.5</b>	-	<b>1,090.5</b>
Carrying amount, beginning of the year	1,077.8	-	1,077.8
Amortised on a straight-line basis over	5 and 10 years		
	<b>Net book value</b>	<b>Calculated headroom</b>	<b>WACC</b>
The value of goodwill can be broken down as follows:			
Acquired goodwill in relation to the purchase of Trygg-Hansa Försäkrings AB	844.6	14,959.6	8.55%
Acquired goodwill in relation to the purchase of Norwegian portfolios relating to Codan Forsikring	227.4	200.8	9.32%
Total goodwill 2017	<b>1,072.0</b>	<b>15,160.4</b>	

## Notes to the financial statements

Note	DKK million	2017	2016
<b>10 Investment in Group entities</b>			
Cost, beginning of the year		9,799.6	9,780.1
Disposals		-1,029.4	-0.5
Capital increase		-	20.0
Cost, end of the year		8,770.2	9,799.6
Adjustments, beginning of the year		-976.4	-399.7
Exchange gains and losses		-2.0	1.0
Total comprehensive income for the year		1,790.2	2,022.2
Dividend received from subsidiaries		-2,201.3	-2,600.4
Reversal of adjustments relating to disposals during the year		1,029.4	0.5
Adjustments, end of the year		-360.1	-976.4
Carrying amount, end of the year		<b>8,410.1</b>	<b>8,823.2</b>

The carrying amount of investments in Group entities includes goodwill of DKK 480 million (DKK 490 million in 2016).

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

NIS Sweden I AB*	-	-
Codan Ejendomme II A/S	23.9	30.6
Codan Finance Ltd (Company liquidated during 2017)	-	1.3
Codan Forsikring A/S	8,386.2	8,791.3
Investments in Group entities	<b>8,410.1</b>	<b>8,823.2</b>

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

All subsidiaries are separate entities.

\* The company is 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	1,964.7	8,386.2
Dormant companies:				
NIS Sweden I AB (SEK)	Sweden	100.00	-	-
Investment companies:				
Codan Ejendomme II A/S (NOK)	Frederiksberg	100.00	-4.6	31.4

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	2017	2016
<b>11 Financial instruments (assets)</b>			
The company's financial instruments below are broken down by the method according to which the assets are measured in the balance sheet.			
Assets measured at fair value:			
Financial instruments measured at fair value are adjusted through the income statement.			
Equity investments:			
Unlisted shares		11.7	10.5
Equity investments:		11.7	10.5
Other listed bonds		115.2	215.1
Fixed rate bonds		115.2	215.1
Financial instruments measured at fair value		126.9	225.6
Assets measured at amortised cost:			
Receivables from Group entities		21.0	-
Other receivables		0.5	2.4
Cash and cash equivalents		84.2	174.0
Financial instruments measured at amortised cost		105.7	176.4
Financial instruments		<b>232.6</b>	<b>402.0</b>
<b>12 Total receivables and other assets</b>			
All receivables and other assets are to be settled within 12 months, except from deferred tax assets.			
<b>13 Current tax assets and liabilities</b>			
Current tax assets/liabilities, beginning of the year		9.6	12.4
Current tax for the year		22.0	8.4
Adjustment of current tax relating to previous years		1.6	-4.8
Corporation tax received/paid during the year		-11.4	-6.4
Current tax assets and liabilities, end of the year		<b>21.8</b>	<b>9.6</b>

## Notes to the financial statements

Note	DKK million	2017	2016
<b>14 Deferred tax assets and liabilities</b>			
Deferred tax assets/liabilities, beginning of the year		5.2	5.7
Change relating to property and equipment		-0.1	-0.1
Change relating to pension obligations		-4.2	-0.9
Change relating to tax losses		-0.5	0.5
		<b>0.4</b>	<b>5.2</b>

Specification of deferred tax assets and liabilities at the end of the year:

Property and equipment	0.3	0.5
Pension obligations	0.0	4.1
Short-term payables	0.1	0.1
Tax losses	0.0	0.5
	<b>0.4</b>	<b>5.2</b>

**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
	<b>860.0</b>	<b>860.0</b>

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

## Notes to the financial statements

Note	DKK million	2017	2016
<b>16 Pension obligations</b>			
Pension obligations in Codan are generally funded.			
In respect of defined contribution schemes, the employer is under an obligation to pay a defined contribution (e.g. a fixed amount or a fixed percentage of the salary). In a defined contribution scheme, the company does not bear the risk in relation to future developments in interest rates, inflation, mortality and disability. This is opposed to defined benefit schemes, where the employer is under an obligation to pay a defined benefit (e.g. a fixed amount or a percentage of the final salary).			
Codan had one pension obligation that was not fully funded to former member of the Management, Peter Zobel. Peter Zobel died in 2017.			
Present value of defined benefit schemes		0.0	18.8
Net liability recognised in the balance sheet		0.0	18.8
No assets have been separated to cover pension obligations.			
<b>Development in present value of defined benefit obligations:</b>			
Pension obligations, beginning of the year		18.8	22.7
Calculated interest on obligation		-	0.2
Actuarial gains and losses		-17.0	-1.8
Benefits paid		-1.8	-2.3
Pension obligations, end of the year		0.0	18.8
<b>Pension costs recognised in the income statement:</b>			
Calculated interest on obligation		-	-0.2
Total recognised for defined benefit schemes		-	-0.2
Total recognised for defined contribution schemes		-0.2	-0.2
Pension costs recognised in the income statement		-0.2	-0.4

Assumptions used in the calculation of pension obligations:

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

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

## Notes to the financial statements

Note	DKK million	2017	2016
<b>17 Other provisions</b>			
Other provision, beginning of the year		5.1	4.8
Value adjustments		-0.4	0.3
		<b>4.7</b>	<b>5.1</b>
Provision relating to the acquisition of Group entities, end of the year		<b>4.7</b>	<b>5.1</b>
Other provisions consists of:			
Provision related to the acquisition of Group entities		4.7	5.1
		<b>4.7</b>	<b>5.1</b>
<b>18 Total provisions</b>			
Current portion (less than one year)		0.0	2.3
Non-current portion (more than one year)		4.7	21.6
		<b>4.7</b>	<b>23.9</b>
<b>19 Total payables</b>			

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.

## Notes to the financial statements

### Note

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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 2017, DKK 4,600.0 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 2017 Codans income thereof amounted to DKK 1.6 million (DKK 1.2 million in 2016) and the expense thereof amounted to DKK 0.0 million in 2017 (DKK 0.0 million in 2016).

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 0,2 million in 2017 (DKK 3,5 million in 2016). Administration agreement between Codan A/S and Codan Forsikring A/S was renegotiated in 2017 resulting in a reduced fee.

Agreements on interest on inter-company balances on an arm's length basis were made. Codan's interest income from other Group companies amounted to DKK 0.0 million in 2017 (DKK 0.0 million in 2016).

As of 31 December 2017 the company had the following long-term loans from the subsidiaries: Codan Ejendomme II A/S of DKK 220,0 million and NIS Norway AS of NOK 979,4 million. The loans were obtained on an arm's length basis. The interest expenses amounted to DKK 14,2 million in 2017 (DKK

As of 31 December 2017 the company had a loan from the RSA subsidiary RSA Insurance plc. of DKK 3,500.0 million. (DKK 1,100,0 million in 2016) The loan was obtained on an arm's length basis. The interest expense amounted to DKK 96,1 million in 2017 (DKK 13,2 million in 2016).

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

#### 21 Security

At 31 December 2017, no assets were pledged as security.

## Notes to the financial statements

### Note

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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

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

##### Share Matching Plan

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

##### Long Term Incentive Plan

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

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

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



## Notes to the financial statements

### Note

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#### 23 Incentive schemes (continued)

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

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

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

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

##### **Performance Share Plan**

The Structure of the plan allows for different types of awards to be made. All awards are settled in the form of ordinary shares. Part of the individual's bonus may be awarded in the form of Deferred Bonus Shares. De-ferred Bonus Shares are generally retained if the employee leaves the Group unless the employee is dismissed for cause. The awards are not subject to performance conditions.

Furthermore Performance Shares and Restricted Shares may be granted, where the 2016 grant, was subject to the following performance conditions: Development in Group underlying Return on Tangible Equity, relative Total Shareholder Return and a Business Review Scorecard over a three year performance period. If an employee resigns from the Group, then Performance Shares and Restricted Shares lapse at the date of leaving the Group. The Remuneration Committee may however exert discretion as to the treatment of a leaver's share awards based on leaving circumstances.

## Notes to the financial statements

## Note

## 23 Incentive schemes (continued)

**Board of Directors and Board of Management**

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

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

DKK million	Long Term Incentive Plan		Share Matching Plan	
	Shares	Value	Shares	Value
Outstanding at 1 January 2016	113,944	6.1	38,448	2.1
Granted during the year	29,634	1.5	-	-
Exercised during the year	-15,465	-0.8	-	-
Forfeited during the year	-15,404	-0.8	-38,448	-2.1
<b>2016</b>	<b>112,709</b>	<b>6.0</b>	-	-
Granted during the year	46,957	2.5	-	-
Exercised during the year	-17,076	-0.9	-	-
<b>2017</b>	<b>142,590</b>	<b>7.6</b>	-	-

The value has been calculated as number of shares times the fair value at the exchange rate prevailing at 31 December 2017.

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

DKK million	Long Term Incentive Plan		Share Matching Plan	
	Shares	Value	Shares	Value
Outstanding at 1 January 2016	-	-	-	-
Correction, beginning balances	13,291	0.7	-	-
Exercised during the year	-1,925	-0.1	2,304	0.1
<b>2016</b>	<b>11,366</b>	<b>0.6</b>	<b>2,304</b>	<b>0.1</b>
Granted during the year	6,501	0.3	-	-
Exercised during the year	-2,054	-0.1	-2,304	-0.1
<b>2017</b>	<b>15,813</b>	<b>0.8</b>	-	-

The value has been calculated as number of shares times the fair value at the exchange rate prevailing at 31 December 2017.

## Notes to the financial statements

## Note

## 23 Incentive schemes (continued)

Employees with material influence on the company's risk profile

DKK million	Long Term Incentive Plan	
	Shares	Value
Outstanding at 1 January 2016	25,008	1.3
Granted during the year	4,744	0.3
Exercised during the year	-3,850	-0.2
<b>Outstanding at 31 December 2016</b>	<b>25,902</b>	<b>1.4</b>
Granted during the year	2,554	0.1
Exercised during the year	-7,189	-0.4
<b>Outstanding at 31 December 2017</b>	<b>21,267</b>	<b>1.1</b>

The value has been calculated as number of shares times the fair value at the exchange rate prevailing at 31 December 2017.

## 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.