

CODAN FORSIKRING A/S

ANNUAL REPORT

1 January – 31 December 2019

The Annual Report 2019 has been reviewed and approved by the Annual General Meeting on 31st March 2020

Chairman of the AGM

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General information

**Board of Directors and
Board of Management**

Board of Directors:

Lars Nørby Johansen, Chairman
Christer Arne Bjellert*
Charlotte Claire Jones
Philip Wynford Moore
Marianne Philip
Maria Elisabeth Sandblom*
Christian Sletten*

*) Employee representative

Board of Management:

Ken Norgrove, CEO
Vivian Lund, EO

Auditors

Auditors elected by the general meeting:

KPMG, Statsautoriseret Revisionspartnerselskab

Ownership

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

Address, etc.

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Company Reg. No.: 10 52 96 38

Management's review

Financial review

The Company's Business model

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

Annual report for 2019

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

The financial statements for 2019 of Codan Forsikring have been prepared in accordance with the Danish Financial Business Act (Lov om finansiel virksomhed), including the Danish Financial Supervisory Authority's Executive on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds) (Bekendtgørelse om finansielle rapporter for forsikringsselskaber og tværgående pensionsskasser). Changes have been implemented in 2019 related to leasing under IFRS 16 new disclosures on assets and liabilities measured at Fair Value. IFRS 16 'Leases' have been implemented using the modified retrospective approach. Comparative figures have not been changed. The implementation of IFRS 16 has no significant impact on neither profit or loss nor equity. In the balance sheet additional DKK 451.3 million of right-of-use assets and DKK 451.3 million of lease liabilities are recognised.

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

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

Major events

Adjustment to sales price related to sale of subsidiary in 2014

In December 2019 we have received additional payment of SEK 12 million related to sale of the subsidiary Brädstapeln Fastighets AB in 2014. The payment has been received as a final settlement releasing the buyer from a contractual clause.

Dividend in 2019

In June 2019, Codan Forsikring distributed DKK 750 million in interim dividends to the parent company Codan A/S and in December an additional interim dividend of DKK 500 million was distributed to Codan A/S.

Loans to Group entities

In 2019 the loan agreement on the loan to Codan A/S of DKK 1,000 million was renewed. The loan is arranged on an arms-length basis.

Profit for the year and development of the Company

The profit for Codan Forsikring for the year amounted to DKK 2,086 million compared to a profit of DKK 1,232 million for 2018. Profit for the year breaks down as follows (all amounts in DKK million):

DKK million	2019	2018
Balance on the technical account, general insurance	1,822.9	1,738.0
Investment return after return on and value adjustment on technical provisions	821.0	35.8
Tax	-558.2	-541.6
Profit for the year	2,085.7	1,232.2

Management's review

The profit for the year is in line with expectations with balance on the technical account slightly above 2018. Run-off gains have affected the profit by DKK 657 million against DKK 562 million in 2018 leaving the Company's combined ratio at 87.6% against 88.4% in 2018, which is within an expected COR range of 85-90%.

The Company's equity increased by DKK 680 million from DKK 7,604 million at 31 December 2018 to DKK 8,284 million at 31 December 2019. The increase is driven by the profit for the year, partly offset by payment of dividend in 2019 of DKK 1,250 million and foreign currency translation.

Insurance result

Earned premiums

Gross earned premiums (gross premiums written less change in premium provision and change in profit margin and risk margin) has declined by 1.5% from DKK 15,032 million in 2018 to DKK 14,807 million in 2019. The decrease is primarily caused by decreasing premiums in Denmark partly offset by increased premiums in Norway and Sweden (measured in DKK). The decrease in Denmark is seen across most lines of business but in particular on commercial property, content and motor products. The increase in premium in Norway is primarily driven by increase in motor products. Measured in NOK the Norwegian business experienced an increase in premium of 3.5%. Due to decrease in NOK rates this is, however, reduced to an increase of 0.3% measured in DKK. The Swedish branch shows growth of 3.6% measured in SEK but the declining SEK rates have had a negative effect on gross earned premiums measured in DKK reducing the growth to 0,6%. The increase in Sweden in local currency mainly consists of an increase in personal line and motor products.

The Swedish branch shows a 3.6% growth in SEK. The growth in Sweden is mainly seen in the Motor products which increased by 6.3% and the Personal portfolio where we have experienced increases in Personal accident (2.7%), and Fire and Contents (3.2%).

In Denmark the decline in premiums mainly comes from Motor products and Fire and Content primarily from the Commercial portfolio but also related to the Personal portfolio. The general decline in premium is partly offset by growth in Workers compensation.

The Norwegian branch shows growth in premiums of 3.5% measured in NOK primarily related to Motor products and personal accident partly offset by Health insurance and Fire and Content. Declines in NOK exchange rate decreases the growth measured in DKK.

Overall earned premiums, net of reinsurance, declined by DKK 155 million from DKK 14,283 million in 2018 to DKK 14,128 million in 2019, a decrease of approx. 1%.

Claims incurred

Gross claims incurred decreased by DKK 67 million from 10,228 million in 2018 to DKK 10,161 million in 2019. The negative development with increasing claims ratios is made up of increases in the Motor portfolios of DKK 367 million (primarily in Sweden), Workers Compensations of DKK 233 million (Denmark), and indirect property (Denmark) of DKK 221 million partly offset by decreases in Personal accident of DKK 320 million (Sweden) and Fire and Content of DKK 234 million (Norway and Denmark).

Gross claims incurred were impacted by run-off gains totalling 701 DKK million against a DKK 737 million gain in 2018.

The gross claims ratio was 69.0% in 2019 against 68.5% in 2018. The increased ratio is materially affected by the large losses in Motor in Sweden and Workers compensation and Indirect property in Denmark.

The net run-off gain amounted to DKK 657 million against a DKK 561 million gain in 2018. The run-off gain in 2019 mainly relates to the Personal Accident and motor products mainly in Sweden.

Operating expenses

The gross expense ratio was 16.0% in 2019 compared with 16.1% in 2018. In 2019 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

Profit/loss from reinsurance

Reinsurance generated a loss of DKK 376 million in 2019 against a loss of DKK 561 million in 2018. The decrease in reinsurance loss primarily relates to Commercial Fire and Content indirect insurance related to the Suecia agreement in the USA and Marine. The reinsurance loss includes the internal quota-share program with RSA on the marine business with DKK 29 million compared to DKK 60 million in 2018.

Balance on the technical account

The balance on the technical account is positive with DKK 1,823 million in 2019 against a positive balance of DKK 1,738 million in 2018. The increase reflects the decrease in earned premiums, decrease in claims incurred and decrease in loss from reinsurance. The balance on the technical account before run-off decreased by 1% from DKK 1,176 million in 2018 to DKK 1,166 million in 2019.

Investments

Codan Forsikring's investments consist of subsidiaries and other financial assets. The total investment return was DKK 1,533 million for 2019 compared to DKK 429 million for 2018. The investment return after return on and value adjustments on technical provisions increased by DKK 785 million from DKK 36 million in 2018 to DKK 821 million in 2019.

The investment return for 2019 was affected by decreasing long-term interest rates, which resulted in capital gains of DKK 145 million from bonds compared to losses of DKK 363 million in 2018.

Foreign exchange movements regarding investment assets had a positive impact on the investment result of DKK 90 million against a positive effect of DKK 100 million in 2018.

The Company uses a conservative investment strategy in order to minimise interest rate risk between assets and technical reserves. The shares of government or government-secured and mortgage bonds are therefore relatively high and account for approx. 19% and 73%, respectively, of the bond portfolio.

At the end of 2019, the Company's investment portfolio consisted of the following assets (all amounts in DKK million):

	2019	%	2018	%
Investments in Group and associated entities	755.5	2.1	810.0	2.3
Loans to Group entities	1,000.0	2.7	1,000.0	2.8
Equity investments and units in open-ended funds	2,990.5	8.2	2,752.3	7.8
Bonds	30,571.2	83.5	30,060.9	85.1
Other loans	621.4	1.7	3.0	0.0
Other	21.5	0.1	92.7	0.2
Deposits with ceding undertakings	1.3	0.0	1.4	0.0
Cash and cash equivalents	610.3	1.7	620.2	1.8
	36,571.7	100.00	35,340.5	100.0

Return on and value adjustments on technical provisions

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

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

The return on and value adjustments on technical provisions decreased by DKK 319 million from a loss of DKK 393 million in 2018 to a loss of 712 million in 2019. The majority of the technical provisions are denominated in SEK and are therefore sensitive to the Swedish interest rates.

Management's review

Investments in Group entities

The profits generated by subsidiaries are as follows: Forsikringselskabet Privatsikring generated a profit of DKK 77 million (a profit of DKK 58 million for 2018), Holmia Livförsäkring AB generated a profit of DKK 72 million (a profit of DKK 78 million for 2018) adjustments to gain related to the sale of Brädstapeln Fastighets AB of impacted the income from group entities by DKK 8 million in 2019.

Forsikringselskabet Privatsikring A/S

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

The profit for 2019 comprises a balance on the technical account of DKK 104 million (DKK 77 million in 2018), a negative investment result of DKK 5 million (DKK 3 million in 2018) and tax expenses of DKK 22 million (DKK 16 million in 2018).

Gross premiums written for Forsikringselskabet Privatsikring amounted to DKK 817 million against DKK 773 million in 2018 which is an increase of DKK 44 million. Premiums have increased for all products, with the exception of change in ownership. The balance on the technical account before run-off has increased from DKK 66 million in 2018 to DKK 102 million in 2019 primarily due to positive development in premiums and the underlying claims ratios regarding current year. The Company had a positive net claims run-off regarding previous years of DKK 2 million compared to DKK 11 million in 2018.

Holmia Livförsäkring AB

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

The profit for the year consists of a balance on the technical account of DKK 75 million (DKK 80 million in 2018), a negative investment result of DKK 1 million (DKK 0 million in 2018) and tax expenses of DKK 2 million (DKK 2 million last year).

The Company's total premium volume increased, and gross earned premium was DKK 160 million against DKK 158 million in 2018. In SEK the premium volume increases even more but due to declining SEK rates the effect in DKK is limited. Claims incurred increased from DKK 56 million in 2018 to DKK 62 million in 2019. Also, here the decreasing SEK rates has had an effect as claims incurred increased 15.4% measured in SEK.

Equity investments and units in open-ended funds

The Company's exposure to shares is low. The Company has investments in loan funds in which the underlying assets are primarily made up of loans in European commercial property companies. The Company's equity investments and units in open-ended funds amounted to DKK 2,991 million at 31 December 2019 (DKK 2,752 million at 31 December 2018), equal to 9% (8% last year) of the total investment portfolio.

The Company's equity investments and units in open-ended funds generated a positive return of DKK 550 million in 2019 compared to a negative return of DKK 141 million last year.

Bonds

At year end, bonds totalled DKK 30,571 million (DKK 30,061 million in 2018) or 90% (91% in 2018) of the Company's total investment portfolio and had duration of approx. 6.9 years. Of the total investment portfolio, Swedish mortgage bonds accounts for approx. 45%, Swedish government bonds for approx. 13%, Danish government bonds for approx. 1%, Danish mortgage bonds for approx. 20%, Norwegian government bonds for approx. 1%, EUR-denominated government bonds for approx. 1%. A total of approx. 84% of the bond portfolio is invested in AAA-rated bonds. The investments in Swedish and Norwegian bonds are used to hedge the business in Codan Forsikring's Scandinavian branches.

The total return on the bond portfolio for 2019 was a gain of DKK 861 million (DKK 423 million in 2018), equal to approx. 2.8% (1.4% in 2018).

Management's review

Other loans

Other loans increased by DKK 618 million from DKK 3 million in 2018 to DKK 621 million in 2019. The increase is related to new investments in infrastructure loans during the year.

Balance sheet

Total assets for the Company increased by DKK 1,582 million from 38,699 million in 2018 to DKK 40,281 million in 2019. The increase is primarily attributable to increase in bonds, other loans and implementation of IFRS 16 for right-of-use assets.

IT – software development projects

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

Business initiatives

Key strategies

The Codan Group has a strong commitment to the following strategic initiatives, enabling market leading performance within targeted areas:

- Deliver on our customers' needs and our brand ambitions – close to customers with an effortless experience. 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 Group is focused on protecting its leadership positions in key areas such as Motor and Personal Accident whilst also actively seeking to improve profitability across all three regions and achieving contribution from all areas that it operates within.

Market conditions

The Danish insurance market remains attractive, where the impact of disruption and aggregators remains low. Growth is modest, and the market is mature. The general theme is that larger competitors tend to focus on profit margin improvements, and this is true also in Codan Forsikring.

The Swedish insurance market is demonstrating similar characteristics where growth is also limited, and the rate of consolidation is even higher, and a few major companies compete for the majority of the market. Digitalization has shown a high level of adaptation in Sweden and digital distribution is starting to become standard, especially within the personal lines segment. In Norway the market is still dominated by a small number of insurance companies. The historic high level of strong profitability has been impacted by increasing losses in the market, and it is still to be seen if loss ratios will recover fully.

Customers

One key focus for Codan Forsikring is to continue to deliver on the brand and customer journey and to have a customer focused mind-set in all parts of the business, across all countries and product lines. Therefore, a priority is to understand customer needs and requirements, and in turn adapt our service and propositions to meet the expectations set by the customers. In today's insurance market, the digital journey and an online experience is increasing in importance and Codan Forsikring is striving to service the customer where the customer wants to be serviced, and in turn offer a satisfactory customer experience both online and offline.

Variable remuneration

Codan Forsikring has adopted a Remuneration Policy for Codan Group which contains specific remuneration schemes for the Board of Directors, Board of Management and employees with material influence of the Company's risk profile (Material Risk Takers). The Remuneration Policy for 2019 was adopted by the Board of Directors 22 March 2019 and approved at the annual general meeting on the same date.

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

Management's review

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

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

Remuneration Committee

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

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

No experts have been consulted to support the Remuneration Committee.

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

For more information on Codan Forsikring's performance criteria, variable remuneration restrictions, usage of fixed and variable compensation in the Remuneration Policy refer to:

<https://www.codan.dk/om-codan/rapporterogfinans>.

Audit and Risk Committee

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

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

The Audit and Risk Committee is an advisory committee to the Board of Directors in accordance with the applicable regulations and is not empowered with a decision mandate. The tasks of the Committee include monitoring of both the financial reporting process, including calculation of the individual solvency requirements, and the Company's internal control system and risk management systems. The Committee also monitors the statutory audit of the financial statements, which includes controlling the auditors' independence and the effectiveness of the internal audit function.

In 2019, the Audit and Risk Committee held seven meetings.

General IT Controls

During 2019 the Company has continued to have an increased focus on our general IT controls as weaknesses in these have been identified in the previous years. This has resulted in extended mitigation analyses and implementation of compensating controls. The Company will continue the focus to improve the general IT controls in 2020.

Events subsequent 31 December 2019

Dividend for 2019

The Board of Directors proposes no declaration of dividend. The proposal will be considered by the annual general meeting on 31 March 2020.

Management's review

Brexit

Following the UK General Election in December 2019, the UK and European Union ratified the withdrawal agreement and the UK left the EU at the end of January 2020. During 2020, the transitional arrangements apply during which time the nature of the ongoing relationship will be negotiated. In general, Codan Forsikring has limited risk related to this decision. Management is confident that the use of the approved internal model will continue irrespective of the outcome of the talks. In the event that there is a change from internal model to standard model this will not affect the Board of Management's assessment of the going concern assumption.

In May 2018, EIOPA published an opinion paper discussing impacts of the UK leaving the EU and indicated that national supervisors should consider whether or not supervision of European sub-groups should occur. If this were to occur there is the possibility that the Codan Group would be obliged to publish Solvency II returns.

Coronavirus outbreak

During the spring of 2020 Europe experienced a rapid development in the outbreak and spread of Coronavirus ("Covid-19").

For Codan Forsikring A/S, most of the impact on business operations, assets and liabilities is not a direct consequence of the outbreak, but a result of the measures taken to contain it. Codan Forsikring A/S concludes that the event did not provide evidence of conditions that existed at the end of the reporting period and assess it is a non-adjusting event.

Being part of the RSA Group, Codan Forsikring A/S has benefitted from an early, thorough and well-coordinated operational Risk Assessment, monitoring of the Coronavirus spread and common management actions to mitigate the risks and to prevent material business disruption.

Codan Forsikring A/S expects an increased number of claims due to Covid-19 in particular from Travel policies including the different covers: Medical Examination, Evacuation, Cancellations and Quarantine. Travel policies account for less than 0.5% of gross premiums written. Other lines of business will also be impacted even though we do not have any reliable indications of this at this stage.

Further-more, financial markets are affected by the Covid-19 outbreak. Financial market volatility is noticeably higher and yields lower. Codan Forsikring A/S faces this with its high-quality investment portfolio and asset-liability matching. Nevertheless, market movements can have a material short-term impact on the SCR coverage ratio, and Codan Forsikring A/S continues to monitor this closely. For more information on the sensitivity to changes in financial market terms please refer to the sensitivity analysis on page 20.

Codan Forsikring A/S is ready for high levels of staff absence. Many roles can work from home. The most challenging situation will be if one or more contact-centre sites is out of action. For these centres detailed contingency plans are in place.

The operational resilience setup in Codan Forsikring is currently operating well with customer service maintained at high levels, well organized and plentiful communication to employees and networks and system availability working well. Codan Forsikring continues to prepare and test contingency plans with priority to customer-facing operations.

The vast majority of the Company's total workforce is working from home with good availability scores. A remote working setup with critical security controls has been established and two user manuals have been produced to inform the employees of required behaviour.

All major outsourcing partners have been contacted to understand their Business Continuity Management (BCM) readiness. Generally, no major concerns have been raised as most companies, particularly the IT partners, have existing pandemic BCM plans and have been able to adjust these to the present situation. The services provided by outsourcing partners in India are being monitored closely to mitigate any impact of the lock down.

Other events

No other events of material importance to the Company's financial position or business affairs have occurred subsequent to 31 December 2019.

Management's review

Outlook for 2020

Scandinavian economies are expected to be negatively impacted by the Covid-19 outbreak in 2020 which may have an adverse impact on the Company's business.

For Codan Forsikring the transformation program will continue to drive simplification and effectiveness, which will result in further improvements. The Company will focus on leveraging previous years' investments making targeted efforts to support the corporate strategy to grow.

As it is too early to assess the full impacts from Covid-19 the Company does not consider it appropriate to express any expectations to the balance on the technical account for 2020 at this point. Likewise, the Company does not consider it appropriate to make any statements as to the expected developments in the interest rate, currency rates and stock markets or the expected value adjustments for 2020.

Management's review

Sustainability Report

RSA Group issues a report on non-financial issues according to UK requirements, which is equivalent to the sustainability report requirements introduced in Danish accounting acts (Danish Financial Supervisory Authority's executive orders no. 937 of 7 July 2015 and no. 688 of 1 June 2016 on Financial Reports for Insurance Companies). The sustainability report is part of the RSA Strategic Report 2019, published 25th March 2020 and the information required is set out on pages 44-49.

Since this report covers the business of Codan Group, a separate Codan Group report has not been prepared. Codan Group refers to RSA Group's report in regard to risks and the management of risks. The report can be found here:

<https://www.rsagroup.com/investors/reports/> (available March 2020).

Corporate Social Responsibility

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

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

<https://www.rsagroup.com/responsibility/our-strategy> where annual CR reports are also available for download.

Business model

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

In our business model we have identified the following significant SCR-related risks:

- **Environment/Climate:** CO2 reduction related to travels and use of paper.
- **Anti-bribery and corruption:** Anti-Bribery and Corruption Policy and Conflicts of Interest, Gifts and Hospitality Policy
- **Human rights:** Securing a responsible supply chain
- **Social/employee:** Customer and employee safety and accident prevention
- **Customer privacy and data security:** Compliance with GDPR policy

Smarter Tomorrow

As an insurance company, we have good insight into what creates concern and insecurity in people's lives. We have for a long time been working to reduce the number of injuries in a variety of areas, such as crime, fire, traffic, online safety, and water, through communication campaigns to increase awareness of risks as well as through strategic partnerships. We have also chosen to engage in social challenges such as keeping children safe online and in a long-term work aimed at preventing the growing mental illness amongst young people. The most significant initiatives of 2019 are summarised in the following paragraphs.

Traffic Safety in Denmark and Norway

One of the major CSR initiatives of Codan Denmark in 2019 was a campaign on traffic safety. The film for Social Medias has been seen 7 million times in 2019 by 2,5 million viewers, which is high numbers taking into account that Denmark has 5,6 inhabitants. Almost 200.000 Danes have taken an online theoretical driver's test in 2019 on www.codan.dk, and the campaign has raised the national debate in Denmark on the competencies of drivers and traffic safety with airtime in local and national media and television.

Management's review

“Årets Refleksdag” (The Annual Reflector Day). Codan Forsikring partnered up with “Børneulykkesfonden” (The Child Accident Prevention Foundation). The purpose of the Annual Reflector Day is to increase traffic safety by creating awareness about how much reflectors increase people's visibility in the dark. 150 Codan Forsikring employees volunteered to hand out 40,000 reflectors in the streets of Denmark as well as in schools, pre-schools and nurseries.

Codan Forsikring in Norway supported the annual National Reflector Day in Norway on 17th October. This is an important safety campaign to prevent accidents in traffic, especially targeting families with children. Codan Forsikring in Norway therefore conducted an internal campaign as well as SoMe outreach and competition where people could ask for reflector vests with the aim to keep children safe when traveling to and from school, sport activities after school etc. This campaign reached 16,000 people and 1,200 Codan Forsikring branded reflectors were donated to kids around the country.

Another initiative that supports traffic safety is the partnership “Trafiksikkerhed i Øjenhøjde” (Traffic Safety at Eyelevel). Six partners with an interest in traffic (e.g. Volvo Trucks and the Danish Transport and Logistics Association) have entered a coalition to reduce traffic related injuries by teaching children from 3rd to 5th grade about traffic safety. Education is instrumental in this effort and therefore a customised campaign trailer drives around Denmark.

10,000 children in 2019 have been taught about trucks and right-turn accidents which are the most severe in traffic for kids on bicycles. Trucks have been visiting 40 public schools and outdoor fairs all over Denmark during the spring in 2019 letting children experience from the driver's seat how difficult it can be to see pedestrians and cyclists. Since the beginning of the campaign 17 years ago more than 100,000 children have been educated by the campaign.

Safety online in Denmark

Another safety focus of 2019 was online safety. Codan Forsikring relaunched the Safe Online School Package in June 2018, offering teachers “plug-and-play” teaching material that will give children the necessary knowledge to make them navigate safely online. This year it was extended to more class-levels. Codan Forsikring has developed three sets of Safe Online School Packages to cover all classes of the Danish elementary school. All teaching materials are free of charge and available for download at Codan Forsikring's website. More than 1,000 parents and teachers have already downloaded the materials since the campaign started back in 2018. This year over 300 visited or re-visited the website.

Preventing accidents caused by weather

Considering the changing climate and the risks that more extreme weather poses to our business, customers and stakeholders, this is an important issue to address for us as an insurance company. We are actively trying to prevent accidents caused by weather by offering a free SMS service that everyone can sign up for – also non-customers. In 2019, the weather alert was sent out 220 times to 17,699 people in Denmark, which is an increase from last year.

Water safety in Sweden

Water safety is very close to our Swedish brand Trygg-Hansa. Trygg-Hansa have been working with water safety since the first lifebuoy was as donated in 1954 and today more than 80,000 of Trygg-Hansa bouys can be found close to water all over Sweden. The partnership with Swedish lifesaving society extends in principle as far back in time as the lifebuoy. Trygg-Hansa have been supporting their summer swimming schools for many years. The support means among other things, enabling more swimming school teachers to be trained and insuring the children during their time in the swimming school. The children learn water habits and practical swimming exercises as well as how to throw lifebuoys. Learning to swim involves more than just being able to swim a certain distance, it is also about learning what risks are associated with staying in and at the water. Summer swimming schools are for children between the ages of 5 and 12 and all teaching takes place outdoors. During this summer, SLS ran 295 summer swimming schools around the country and more than 32,000 children have learned more about water safety and been given the opportunity to learn how to swim.

During the summer Trygg-Hansa also carried out a major water safety campaign, "The Sound of Drowning". In order to alert the Swedes that a real drowning often happens quietly and how to act, Trygg-Hansa produced a soundtrack of a simulated drowning using so-called ASMR technology. The campaign got a lot of attention in Sweden and even internationally.

Management's review

Supporting mental well-being in Sweden

Since 2018 our Swedish branch have a collaborative partnership with one of Sweden's leading organizations of children's rights in society, Barnens rätt i samhället (Bris). There is an increasing problem with still more children and young people suffering from mental illnesses. As an insurer of approximately 750,000 children and young people in Sweden, we have a responsibility to respond to this challenge. Together with Bris Trygg-Hansa aim to increase awareness and knowledge about children's mental health and how important it is to get the required help and support as soon as possible. The financial support in 2019 also enables Bris to fund a support coordinator to help the children and young people who contact Bris and that help is available around the clock.

Excellence in Customer Care

Family aid-a service to our customers with child insurance

Based on our insights into the situation of many Swedish families, Trygg-Hansa offer a unique service Family Aid, to all our childcare policyholders. Family aid provides guidance on issues relating to community protection and helps families with different difficulties to get a holistic approach to their situation. As a customer you are entitled to guidance regardless of diagnosis and you do not need to be entitled to any compensation from the insurance. Since "Family-aid" was introduced in 2013 the number of customers using the service have increased continuously. During 2019 the number of customers using the service increased by 59% compared to 2018.

AV1 robot help physically unable children to get access to school and friends

There are many children and young people with extensive school absence who feel isolated and that it is hard to lose contact with school and friends. Therefore, Trygg-Hansa have started a collaboration with No Isolation where we in a project offer a limited number of customers with Trygg-Hansa's child insurance, in contact with Family aid, to use the school robot AV1. If a child with Trygg-Hansa's child insurance has or will have extensive school absence, they can borrow AV1 without charge for up to 12 months, with the possibility of extension if needed.

AV1 is a small personal robot that helps the child participate in the school even when they cannot physically attend. AV1 becomes the child's deputy in the classroom and through an app can control AV1 from home. AV1 gives the opportunity to ask questions, participate in conversations and follow the teaching.

Security and personal integrity have the highest priority at our partner No Isolation who has developed AV1. Everyone should feel safe around the use of the robot.

Photo inspections

Photo inspection is an 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. During 2019 the number of customers using photo inspections were approximately 6,000. This results in 32 tonnes less CO2 emissions.

Active in Communities

As a responsible company we want to give back to society in various ways. All employees have the possibility to spend two paid days on volunteer work every year. Employees may choose the project themselves, so they can use their skills where they best see fit. Many utilised this opportunity in 2019 to hand out reflectors in connection with the National Reflector Day while others chose to donate manpower during the Christmas event.

Christmas at Codanhus

For many years, Codan Forsikring has hosted a Christmas event together with the Red Cross. On Christmas Eve, we open the doors to the buildings and invite 240 people who, for lack of family or funds, do not have other ways to spend Christmas. Employees from Codan Forsikring set the tables on the 23rd of December and volunteer to spend Christmas Day at work, serving dinner and making sure that the guests have a good time. All children who participate, receive a Christmas present bought solely based on donations from Codan Forsikring employees throughout December. This year employees donated DKK 13,000.

Hotline for kids and youth

In Codan Forsikring Norway, Kors på halsen (cross my heart) is The Red Cross hotline where kids and youth can make anonymous calls and tell/ask about anything that troubles them. Codan Forsikring has supported the organisation for two years. Codan Forsikring has donated NOK 85,000 (about £ 8,500). The organisation will

Management's review

participate in an internal seminar in November 2019 and has also supported Codan Forsikring in media stories related to ID theft and online safety.

Managing the everyday well

We are committed to managing our operations in a responsible and transparent way. This means being responsible in our investment and underwriting practices, thoughtful in our choice of suppliers and partners, and mindful of our environmental impact. We must also ensure we have robust practices in place to protect our own data and that of our customers and govern our business with integrity.

Sustainable operations reducing our climate and environmental impact

We are committed to reduce our business' environmental impact and contribution to climate changes and to promote sustainable working practices amongst employees and suppliers. We measure, monitor and manage the factors that influence our overall carbon footprint and report our consumption of energy (including fuel), water and paper as well as business travels to RSA on a quarterly basis. We actively encourage our employees to facilitate online meetings instead of travelling and, when possible, travel by train instead of flying. During 2019 we launched a new travel policy with a clearer focus on sustainability. Overall, this has resulted in a significant reduction of 37 % in our carbon emissions (CO₂e) related to business travels.

The RSA reporting on Green House Gas emissions is then conducted in accordance with guidance set forth by the GHG protocol's corporate standard. Since 2018 the CO₂e/Full Time Employee (FTE) for Codan has decreased with 29%.

For more detailed information about RSA reporting on Greenhouse Gas emissions, please see the CR report from RSA: www.rsagroup.com/responsibility/resources/ (available 26 March 2019).

We actively encourage our employees to facilitate online meetings instead of travelling and, when possible, travel by train instead of flying. During 2019 we launched a new travel policy with a clearer focus on sustainability. Overall, this has resulted in a significant reduction of 29 % in our carbon emissions related to business travels.

Less printing

In Denmark, a thrust was made to ensure internally commissioned documents such as policies and charges were not printed centrally anymore. With the new solution, a system generated pdf is sent to internal recipient for control before e-mailing to customer. This approach can be used 90% of the time. This means no printing, no postal cars, no waste of internal resources and envelopes. Additionally, a solution for mass-printing has been expanded to be able to handle E-boks mailing. This led to 60% of all letters being sent via E-boks; including a notice of 40,000 customers regarding NBCR terror coverage.

Our Swedish branch has an ambitious plan to reduce the number of paper send-outs to customers and move to digital customer communication. In 2019 the number of printed pages was reduced with 25% and the number of customers who choose to receive their insurance papers on My Pages increased with 17%.

Certified brochures

In Denmark, the marketing department is running a pilot for implementing the Nordic Swan Ecolabel and the FSC®-Certification on larger printed brochures and pamphlets.

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

When it comes to reducing the environmental impact and to achieving a more sustainable way of handling claims there are several benefits of a circular economy, where the aim is not only to recycle, but also to repair and reuse. Within motor we have a long tradition of reusing and recycling parts from damaged cars. Undamaged metal parts are being reused instead of being replaced with brand new parts and plastic parts are being repaired.

Also, by encouraging customers to repair chipped windscreens promptly, we're promoting more sustainable claims. Repairing a chip instead of replacing a windscreen not only saves time, it's also more cost-effective and resource efficient.

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In 2019, about 29,000 chip repairs avoided more than 1,000 tonnes of carbon emissions, kept approximately 400 tonnes of glass waste out of landfill and saved about 107 MDKK.

Responsible Supply Chain

We're committed to work with supply chain partners who share our values and who seek to have a positive social and environmental impact. Above all, we seek to partner with suppliers who uphold our high standards of conduct, providing safe working conditions, treating workers with dignity and respect, acting fairly and ethically and using environmentally responsible practices. We expect all our suppliers to integrate the requirements included in Codan Forsikring's Supplier Code of Conduct into their businesses. During 2019 the Supplier Code of Conduct was updated to better reflect our expectations and a review to ensure compliance with the updated Code of Conduct was conducted on a selected segment of suppliers.

Responsible Underwriting

Making a green difference - globally

Codan continues to support the transformation to renewable energy and insuring a fossil-free tomorrow.

We are proud to be regarded as a leading insurance partner for offshore wind among the major stakeholders in the industry and in a market that is growing globally. Codan insured the first offshore wind farm ever built and have maintained a leading position in the industry ever since. We are the insurer of a large portion of European offshore wind; a position obtained through extensive technical skillsets and a partnership approach towards project developers, manufacturers and other industry stakeholders.

As the renowned insurance leader for offshore wind; Codan continues to support and grow with the global industry development. For instance; we are actively involved in several offshore windfarms under construction in Taiwan securing clean energy to more than 200,000 Taiwanese households.

From an onshore view, we are proud to have developed a 25% market share of wind in Sweden whilst maintaining our market leading position in Denmark. We continue to invest resources in understanding and insuring solar cell parks throughout Europe and we remain involved as insurer for the BIO4 project in Denmark which is working to change the local heat supply in Copenhagen from coal to sustainable biomass which will make heating much more climate-friendly.

Business Ethics

To us, being a responsible business means that we should always act ethically, respect human rights, treat our employees with dignity and respect and aim to minimise our impact on the environment and the climate. Being a responsible business also means being open and transparent with our stakeholders about how we manage our operations and deliver our products. We are a signatory to the UN Global Compact, which means we are committed to implement universal sustainability principles and to take steps to support UN goals. As part of RSA we are also signatory to The UNEP FI Principles for Sustainable Insurance. For detailed reporting on responsible business, please see CR report from RSA: <https://www.rsagroup.com/responsibility/> (available 26 March 2019).

Training

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

One local example of training comes from the Norwegian branch six live training sessions on GDPR, AML and incident management. The scope is training of all staff and raising awareness of the importance of being compliant.

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Our People

The cornerstone of Codan Forsikrings's performance and success is the ability to attract, retain and develop the best people. High performing, motivated colleagues are our most important asset. We strive to be a company people want to join, want to stay with for a long time and are proud to be a part of. We put focus on development of the individual employee and leader.

We have expressed Codan Forsikrings' s people vision in four different pillars:

1. Leaders apply the right behaviours in their roles, to drive change, performance and development. The leadership pipeline is strong
2. Employees are accountable and have the mandate to drive their own performance and development
3. Functional knowledge and capabilities are attracted and developed, supporting our strategy
4. The work environment is diverse and inclusive and engages employees at work

1. Leadership and leadership pipeline

We have put focus on clarifying expected key behaviours as a leader at different levels. During 2018 we implemented a leadership pipeline concept with clear expected key behaviours in each leadership role. All leaders at all levels were trained in leadership behaviours customized at different levels.

During 2019 we have focused on training and supporting leaders in setting clear goals, following up by coaching and feedback, evaluating performance and having dialogues with employees.

In 2020 we will continue to put focus on continuous development to ensure that our leaders apply the desired leadership behaviours in their roles.

We run people reviews twice a year in all leadership teams with the aim to identify future critical capabilities and roles. We focus on succession planning and building a strong internal leadership pipeline, which has resulted in an increasing number of internal open leadership positions being filled with internal candidates during 2018/2019.

2. Accountable employees

We have also clarified what is expected in terms of behaviours for our employees – Leading Self. All leaders and employees are expected to have continuous dialogues about both business (what) and behaviour (how) goals. Employees should be able to understand what is expected from them, how they are performing and what they need to develop.

We believe that every employee should be able to answer to four questions:

1. What am I accountable for?
2. Why is what I do important?
3. How am I performing?
4. How should I develop to improve?

We focus on developing leaders to coach, delegate and give mandate and accountability to employees as well as on developing employees to develop a strong self-leadership.

3. Functional knowledge and capabilities

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

During 2019 we have ended a recruitment outsourcing agreement and we have established an internal Talent Acquisition hub to handle external recruitments to our business. We make recruitment our core business and enable a best-in-class candidate and customer experience by building an internal Talent Acquisition hub. We now have possibilities to increase candidate experience throughout the recruitment process and our internal recruiters will have a solid business understanding that enables more high-quality recruitments. We will have a better overview of how to source, find and attract our key critical competences and capabilities moving forward.

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

We have run internal development programs during 2018/19 covering more than 60 people in total, with the aim to grow and develop our employees and build an internal pipeline of leaders and specialists with the potential of stepping in to more senior roles in the future.

To develop market-leading insurance technical skills we have an internal Technical Academy targeting several of our core technical areas. During 2019 we have run several programs and development initiatives to deliver on our technology capability uplift.

In 2019 we also initiated a specific development program for experienced Specialists from different functions and countries with the aim to cross-collaborate and share knowledge in order to drive innovation and speed.

On top of this we are also focusing on building change management capabilities in order to drive change in a successful way to adapt to our external environment and customers. During 2019 we have trained HR and about 150 leaders in change management capabilities. We have a network of more than 50 change ambassadors in the organization who are trained to support the business in driving change. We see it as crucial to focus on building in-house change management capabilities among leaders and project managers to ensure a successful delivery of benefits in change initiatives.

Upskilling and reskilling of our employees will be increasingly important in the whole organization in order to ensure a sustainable and successful organization that can deliver on our business strategy and goals. We are aiming at building a learning organization to close capability gaps, reach performance expectations and enable continuous learning anytime-anywhere and to ensure communities where employees can knowledge share. In 2020 we will focus on enabling this even more, also with support from digital tools and platforms.

4. Diverse and inclusive workplace who engages employees at work

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

Focus on Inclusion & Diversity (I&D)

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

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

Our global RSA Inclusion & Diversity Steering group, with representatives from Codan A/S and Codan Forsikring A/S, meets quarterly to follow up on diversity measures, to share best practice and activity plans. In 2018 we formed a regional Inclusion & Diversity council for Scandinavia with representatives from all country and Nordic functions top management teams. The council has the mandate to define and implement the Scandinavia I&D agenda. The council meets quarterly to define and follow up on activity plans.

To increase involvement and engagement in our organization, we have established an I&D ambassador network, currently consisting of around 60 employees who want to engage within the I&D area. You could either be an active member, signing up for working with I&D activities during the year or a passive member showing

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your support and encouragement for our I&D strategy and activities. The core team of ambassadors have been trained in I&D during the year.

Focus for 2019 has been to build I&D awareness in the organization.

During the year we have acknowledged and celebrated several international I&D events such as International Women's Day, International Men's Day, Mental Health Day, Pride etc.

We have also had several events in the different countries to increase the awareness among leaders and employees of what inclusion & diversity means and how this can support us to deliver on our business strategy.

In 2020 we will continue our focus on building I&D awareness and we will also focus on our leaders' knowledge and ability to work for a more inclusive and diverse workplace.

Focus on women in management positions

Codan Forsikring A/S have a minimum target on our Board of Directors of 33% females. This should be kept and sustained until Jan 1, 2021. 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 2021. Furthermore, the diversity in gender composition for manager positions at all levels should reach a 40/60 ratio no later than 1st January 2021. These targets should be valid for both genders, so we should not allow for any of the genders to be underrepresented. In addition, Codan Forsikring has signed the Charter for More Women in Management (Denmark).

By end of 2019 the share of women on the Board of Directors for Codan Forsikring A/S, including employee relations representatives, was 43%. This is an increase from 40% in year 2018.

The share of women on level 1-3 in the organization is 29% in 2019, compared to 31% in 2018. The number of females on level 1-3 is unchanged, however the total population has grown by 1. Our target remains to reach 33% women on level 1-3 before 2021.

Whereas the total population of managers at all levels was reduced by 5, the number of female managers was reduced by 3 resulting in a minor change in the share of women on all management levels from 34.8% in 2018 to 34.4% in 2019. Our target remains to reach 34% female leaders at all levels by end of 2021.

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

For each recruitment and internal promotion to a managerial position we have an active focus on gender balance, and we will work towards appointing a higher % of female leaders. In our succession planning process, we aim for an equal gender composition and we work with leadership and skills development continuously.

The Company is firmly committed to be a great place for women to work. In our 2018 yearly employee survey we have been following up on engagement and work enablement and analysed the results for different work groups. There was a slight increase of our Diversity & Inclusion index across Scandinavia (from 73 to 74) and we could see a positive trend among females in many areas of perceived Diversity & Inclusion. We will conduct a new employee survey in 2020 to follow up on progress.

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Risk management

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

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

Insurance risk

Codan Forsikring's insurance risks comprise:

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

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

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

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

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

Financial risk

Financial risk consists of market risk, credit risk, and liquidity risk. Market risk is the most important of these for Codan Forsikring since a significant part of the Company's activities consists of investment activities. Market

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risk is the risk that movements in the financial markets affect the value of assets and liabilities and thereby the Company's capital base and return.

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

Market risk

Interest rate risk

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

Equity risk

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

Spread risk

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

Real estate risk

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

Currency risk

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

Inflation risk

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

Liquidity risk

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

Credit risk

Credit risk (default risk) is the risk of incurring a loss if a counterpart cannot meet its obligations. Codan Forsikring's investment portfolio consists primarily of Scandinavian AAA-rated government and mortgage bonds, for which the credit risk is considered very low. More than 75% of the total investments consist of AAA-rated bonds. In addition, Codan Forsikring holds European corporate bonds with a credit rating of at least BBB. Codan Forsikring's counterparty-related credit risks are primarily tied to holdings of cash and deposits in banks

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and exposure on reinsurance counterparties, but also receivables from policyholders and group companies comprises credit risk.

Sensitivity analysis

The Company's analysis of how changes in different risk factors impact the capital position is illustrated in below table. (All amounts in DKK million).

	SCR 125 pct.			SCR 100 pct.		
	Stress	Own funds	Solvency surplus	Stress	Own funds	Solvency surplus
Interest rate risk	(200) bps	8,990	157%	(200) bps	8,990	157%
Equity market risk	80%	6,035	125%	100%	5,447	113%
Real estate risk	100%	8,437	173%	100%	8,437	173%
<i>Spread risk:</i>						
Danish government bonds	33%	6,038	125%	50%	4,810	100%
Other government bonds	32%	5,903	125%	46%	4,747	100%
Other bonds	15%	6,066	125%	23%	4,843	100%
Currency risk (DKK)	(100)%	9,725	153%	(100)%	9,725	153%
Counterparty losses		8,274	168%		8,274	168%
Catastrophe	1213%	8,437	125%	1422%	8,437	100%
	MCR 125 pct.			MCR 100 pct.		
	Stress	Own funds	Solvency surplus	Stress	Own funds	Solvency surplus
Interest rate risk	(200) bps	8,923	347%	(200) bps	8,923	347%
Equity market risk	100%	5,380	248%	100%	5,380	248%
Real estate risk	100%	8,370	382%	100%	8,370	382%
<i>Spread risk:</i>						
Danish government bonds	79%	2,686	125%	86%	2,145	100%
Other government bonds	71%	2,692	125%	78%	2,150	100%
Other bonds	37%	2,715	125%	40%	2,170	100%
Currency risk (DKK)	100%	7,082	315%	100%	7,082	315%
Counterparty losses		8,207	370%		8,207	370%
Catastrophe	1978%	8,370	125%	2222%	8,370	100%

Operational risks

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

Compliance risk

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

Other risks

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

The Company manages these risks on an ongoing basis in accordance with the Company's risk appetite, and quarterly reports operational risks to the Board of Directors. Where the risk exposure is considered to be outside of risk appetite, actions are required to mitigate and manage the risk within a reasonable timeframe. An

Management's review

annual assessment is performed of the direct and indirect financial impact that could arise from various scenarios identified through the risk profiles.

Capital structure

For capital management purposes, Codan Forsikring uses an internal capital model to assess and calculate capital requirements and scenarios. The model is used to calculate the Solvency Capital Requirement (SCR) and for performance review purposes capital allocations are derived from the model. The model is further used for 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. In June 2019, RSA Group, in collaboration with Codan Forsikring, made an application to the College of Supervisors to implement Major Model Changes to the Internal Model. This application was approved in December 2019. In addition to these, some minor model changes were also implemented in the Internal Model in 2019 as part of ongoing improvements to the model. These did not result in a material change to the Solvency Capital Requirement.

The model is fitted for Codan Forsikring and is continuously developed, which includes an annual re-parameterisation. The model is a cash flow-based stochastic model, which models underwriting risk, reserving risk, catastrophe risk, counterparty risk, investment risk and operational risk. Within this model framework, with run-off on existing obligations and new business for one year, the solvency capital requirement is calculated as the capital required to withstand a worst-case scenario, defined as a once in every 200-year occurrence.

Codan Forsikring's eligible own funds to cover the solvency capital requirement amounted to DKK 8,437 million at 31 December 2019. At the end of 2019, the solvency capital requirement of Codan Forsikring was DKK 4,871million.

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

Five year summary	2019**	2018	2017	2016	2015
Solvency ratio - Solvency II	173.2	172.3	192.1	215.0	212.0

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

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Directorships and executive positions

Board of Directors

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

Board Directors

Lars Nørby Johansen, Chairman

Directorships and executive positions in other legal entities

Chairman of Codan A/S; Dansk Vækstkapital Komplementar ApS; Dansk Vækstkapital K/S; Fonden For Entreprenørskab; Fonden Oluf Høst Museet; Københavns Lufthavne A/S; Montana Furniture A/S; Rockwool Fonden; Den selvejende institution kunstmuseet Trapholt; William Demant Invest A/S; William Demant Fonden; DMA International ApS;

Deputy Chairman of ARP-Hansen Hotel Group A/S;

Board Director of Danmarks Underholdningsorkester A/S;

Managing Director of Bornholms Mosteri A/S; Den Erhvervsdrivende Fond Bornholms Mosteri; Efterår 2019 ApS

Philip Wynford Moore

Board Director of Codan A/S; Bank of Ireland (UK) plc;

Trustee of The Royal British Legion;

Governor of Hart Learning Group/North Hertfordshire College

Marianne Philip

Chairman of Gerda og Victor B. Strands Fond; Gerda og Victor B. Strands Holding A/S; Investeringsforeningen Nordea Invest; Investeringsforeningen Nordea Invest Kommune; Investeringsforeningen Nordea Invest Bolig; Investeringsforeningen Nordea Invest Engros; Investeringsforeningen Nordea Invest Portefølje; Bestyrelsesforeningen Center for Cyberkompetencer A/S; Komitéen for god Fondsledelse;

Deputy Chairman of Bitten og Mads Clausens Fond; Novo Nordisk Fonden; Norli Pension Livsforsikring A/S;

Board Director of Codan A/S; Axcellfuture; Aktieselskabet af 1. januar 1987; Copenhagen Capacity (Fonden til markedsføring og erhvervsfremme i Region Hovedstaden); Brenntag Nordic A/S; Kirsten og Peter Bangs Fond;

Charlotte Claire Jones

Board Director of Codan A/S; Ascentus Insurance Ltd; Canadian Northern Shield Insurance Company; The Johnson Corporation; The Marine Insurance Company Limited; Quebec Assurance Company; Roins Financial Services Limited; Royal & Sun Alliance Insurance Company of Canada; Royal & Sun Alliance Reinsurance Limited; Royal & Sun Alliance Insurance plc; RSA Insurance Group plc; Unifund Assurance Company; Western Assurance Company

Maria Elisabeth Sandblom *

Board Director of Codan A/S; Förbundsstyrelsen för Forena.

Christian Sletten *

Board Director of Codan A/S; Codan Fonden; Codan Koncernens Medarbejderfond; Forsikringsforbundet

Christer Arne Bjellert *

Board Director of Codan A/S

*) Employee representative

Management's review

Board of Management

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

Kenneth Norgrove

Directorships and executive positions in other legal entities

Board Director of Insurance Ireland; RSA Broker Motor Insurance Ireland Limited; Benchmark Underwriting Limited; RSA Luxembourg SA; RSA Insurance Group Plc

Executive Member of RSA Insurance Group Plc

Chief Executive Officer of Codan A/S

Vivian Lund

Chairman of Forsikringselskabet Privatsikring A/S

Board Director of Forsikring & Pension (F&P); Finanssektorens Arbejdsgiverforeningen (FA); Codan Fonden; Codan Koncernens Medarbejderfond

Managing Director of Codan A/S

Statement by the management on the annual report

The Board of Directors and the Board of Management have today considered and approved the annual report of Codan Forsikring A/S for the financial year 1 January to 31 December 2019.

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 2019 and of its financial performance for the financial year 1 January to 31 December 2019. It is also our opinion that the Management's review gives a true and fair view of developments in the Company's activities and financial position and describes the major risks and uncertainties that the Company is facing.

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

Copenhagen, 27 March 2020

Board of Management

Ken Norgrove
CEO

Vivian Lund
EO

Board of Directors

Lars Nørby Johansen
Chairman

Christer Arne Bjellert

Charlotte Claire Jones

Philip Wynfod Moore

Marianne Philip

Maria Elisabeth Sandblom

Christian Sletten

Independent auditors' report

To the Shareholder of Codan Forsikring A/S

Opinion

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Business Act.

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

Audited financial statements

Codan Forsikring A/S' financial statements for the financial year 1 January – 31 December 2019 comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, and notes, including a summary of significant accounting policies (the financial statements).

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

Basis for Opinion

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

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

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

Independence

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

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

We were appointed auditors of Codan Forsikring A/S for the first time on 29 April 2014 for the financial year 2014. We have been re-appointed by resolutions passed by the annual general meeting for a total uninterrupted engagement period of six years, including the financial year ending 31 December 2019.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the financial year 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Independent auditors' report

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of insurance contract provisions</p> <p><i>Subjective valuation and inherent uncertainty</i></p> <p>Insurance contract provisions that mainly includes premium provisions, provisions for outstanding claims and margin for risk and profit, represent the largest liability for the Company.</p> <p>Total insurance contract provisions amount to DKK 28,871.5 million at 31 December 2019 (2018: DKK 28,831.4 million).</p> <p>Valuation of these liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as loss ratios and estimates of frequency and severity of claims.</p> <p>The determination and application of the methodology and performance of the calculations are also complex.</p> <p>Certain lines of business have greater inherent uncertainty, e.g. those where claims emerge more slowly over time, or where there is greater variability in claims settlement amounts and potential exposure to large losses due to the effect of uncertain or unknown future events. This includes the Danish and Norwegian Workers' Compensation, the Swedish Personal Accident and Swedish Motor and Annuities.</p>	<p>With the assistance of our own actuarial specialists, our procedures included:</p> <p>Assessment of control environment: We have assessed the governance of the claims provision process. Our assessment has included evaluating the qualifications and experience of those responsible for reviewing the provisions and examining the output of the reviews by assessing the scope and depth of these processes.</p> <p>Our evaluation of the methodologies and key assumptions for the most significant and subjective classes of business has also supported our assessment of the quality of the Company's claims provision process.</p> <p>We also reviewed and assessed the assumptions for calculating the premium provisions, the risk margin and the profit margin.</p> <p>Test of controls: Evaluation and testing of key controls designed and implemented to ensure the integrity and completeness of the data used in the actuarial claims provision process including both current and prior year case provision data.</p> <p>The controls included reconciliations between the claims data recorded in the insurance systems and the data used in the actuarial claims provision calculations to test completeness and accuracy of data used.</p> <p>We tested controls through inspecting or re-performing the Company's reconciliations of data.</p> <p>We also compared samples of claims case provisions to appropriate documentation in order to test the controls of the valuation of individual claims provisions.</p> <p>Replications and independent re-estimation: We have carried out replications and independent re-estimations of the gross claims provisions covering the lines of business related with the most material risks.</p> <p>A replication of the provisions is performed by applying identical methods and assumptions as the Company uses in our internal reserving tool.</p>
<p>Valuation of Insurance contract provisions continued</p> <p>Furthermore, we have assessed that there is also a significant risk related to the following elements that are complex and/or based on Management's judgements:</p> <ul style="list-style-type: none">— Expectations for future inflation— Direct and indirect claims handling expenses— Expectations for future claims— Calculation of the profit margin and risk margin.	

Independent auditors' report

Key audit matter

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

Management has specified the risks, etc., related to the estimates of the insurance contract provisions in note 1 "Accounting policies", pages 36-51, and in note 2 "Risk information", pages 52-62.

Completeness and accuracy of data

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

IT systems and control environment

Completeness and accuracy of financial data

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

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

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

How our audit addressed the key audit matter

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

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

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

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

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

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

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

Independent auditors' report

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

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

Management's responsibilities for the financial statements

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

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

Auditor's Responsibilities for the audit of the financial statements

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

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

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

Independent auditors' report

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

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

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

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

Copenhagen, 27 March 2020

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Henrik Barner Christiansen
State Authorised
Public Accountant
MNE 10778

Kim Schmidt
State Authorised
Public Accountant
MNE 34552

Income statement

Note	DKK million	2019	2018
General insurance			
4	Gross premiums written	14,781.1	15,045.0
	Premiums ceded to reinsurers	-631.8	-586.1
4	Change in premium provision	66.9	-126.9
	Change in profit margin and risk margin	-40.8	114.3
	Change in the provision for unearned premiums, reinsurers' share	-47.6	-163.6
Earned premiums, net of reinsurance		14,127.8	14,282.7
	Claims paid, gross	-10,317.3	-9,851.6
	Claims paid, reinsurers' share	227.9	208.1
	Change in the provision for claims	356.4	-387.0
	Change in risk margin	-200.0	10.4
	Change in the provision for claims, reinsurers' share	42.5	-39.7
5	Claims incurred, net of reinsurance	-9,890.5	-10,059.8
Bonuses and rebates		-87.7	-107.6
	Acquisition costs	-1,684.7	-1,724.2
	Administrative expenses	-675.1	-673.2
	Reinsurance commissions and profit participation	33.1	20.1
6	Net operating expenses	-2,326.7	-2,377.3
7	Balance on the technical account, general insurance	1,822.9	1,738.0
Investments			
	Income from Group entities	157.9	136.2
	Income from associated entities	6.2	5.0
	Income from Group occupied properties	-	-0.3
8	Interest income and dividends, etc.	904.9	955.8
9	Value adjustments	520.1	-604.9
8	Interest expenses	-4.9	-0.3
	Investment management expenses	-51.4	-62.4
Total investment return		1,532.8	429.1
Return on and value adjustments on technical provisions		-711.8	-393.3
Total investment return after return on and value adjustment on technical provisions		821.0	35.8
Profit before tax		2,643.9	1,773.8
10	Tax	-558.2	-541.6
Profit for the year		2,085.7	1,232.2

Income statement

Note	DKK million	2019	2018
Proposal for the distribution of profit:			
Transferred to reserve for net revaluation according to the equity method		155.6	136.3
Transferred to retained earnings		1,930.1	1,095.9
		2,085.7	1,232.2

Statement of comprehensive income

Currency translation adjustment, foreign subsidiaries		-13.0	-7.3
Currency translation adjustment, foreign branches		-146.0	-151.4
Currency translation adjustment, foreign associates		-0.8	-0.5
Unrealised gain/losses operational hedge		4.4	2.5
Tax re operational hedge		-0.9	-0.5
Other comprehensive income		0.4	0.1
Other comprehensive income		-155.9	-157.1
Profit for the year		2,085.7	1,232.2
Total comprehensive income		1,929.8	1,075.1

Balance sheet at 31 december

Note	DKK million	2019	2018
Assets			
11	Intangible assets	1,239.5	1,250.1
12	Equipment	23.0	24.8
12	Equipment (ROU)	185.1	-
13	Land and Buildings (ROU)	268.6	-
	Total property and equipment	476.7	24.8
14	Investments in Group entities	729.3	785.0
	Loans to Group entities	1,000.0	1,000.0
	Investments in associated entities	26.2	25.0
	Total investments in Group entities	1,755.5	1,810.0
	Equity investments	1,935.0	1,669.2
	Units in open-ended funds	1,055.5	1,083.1
	Bonds	30,571.2	30,060.9
	Other loans	621.4	3.0
	Other	21.5	92.7
15	Total other financial assets	34,204.6	32,908.9
	Deposits with ceding undertakings	1.3	1.4
	Total investments	35,961.4	34,720.3
	Reinsurers' share of provision for claims	659.8	614.1
	Total reinsurers' share of insurance contract provisions	659.8	614.1
	Receivables from policyholders	432.6	268.2
	Receivables from brokers	30.0	150.2
	Total receivables arising from direct insurance contracts	462.6	418.4
	Receivables from insurance companies	101.3	89.0
	Receivables from Group entities	14.8	48.3
	Other receivables	169.5	153.2
	Total receivables	1,408.0	1,323.0
	Assets held for sale	2.1	2.2
16	Current tax assets	71.9	274.4
17	Deferred tax assets	51.3	62.1
	Cash and cash equivalents	610.3	620.2
	Total other assets	735.6	958.9
18	Accrued interest and rent	275.7	320.1
	Other prepayments	105.9	101.7
	Total prepayments and accrued income	381.6	421.8
	Total assets	40,202.8	38,698.9

Balance sheet at 31 december

Note	DKK million	2019	2018
Equity and liabilities			
19	Share capital	15.0	15.0
20	Contingency funds	5,178.2	5,312.6
	Reserve for net revaluation according to the equity method	514.3	554.9
	Translation reserve	38.2	63.5
	Operational hedge reserve incl. tax	5.4	2.0
	Total reserves	5,736.1	5,933.0
	Retained earnings	2,532.6	1,655.9
21	Total equity	8,283.7	7,603.9
22	Reinsurers' share of premium provisions	91.0	1.2
	Premium provisions	398.0	475.4
	Profit margin on general insurance contracts	1,540.6	1,565.0
	Provision for outstanding claims	24,596.6	24,735.9
	Risk margin on general insurance contracts	2,161.6	1,976.0
	Provision for bonuses and rebates	83.7	77.9
	Total insurance contract provisions	28,871.5	28,831.4
23	Pension obligations	7.7	13.4
17	Deferred tax liabilities	143.4	104.6
24	Other provisions	21.4	91.4
25	Total provisions	172.5	209.4
	Deposits with ceding undertakings	-	0.1
	Payables arising from direct insurance contracts	366.3	265.6
	Payables arising from reinsurance contracts	3.9	63.7
15	Debt to credit institutions	889.2	470.0
	Amounts owed to Group entities	65.1	32.7
	Lease liability	456.5	-
16	Current tax liabilities	26.8	-
15	Other payables	1,012.2	1,128.5
26	Total payables	2,820.0	1,960.5
	Accruals and deferred income	55.1	93.6
	Total equity and liabilities	40,202.8	38,698.9
Notes without reference			
1	Accounting policies		
2	Risk information		
3	Key figures and financial ratios		
27	Related parties		
28	Contingent assets, contingent liabilities and financial liabilities		
29	Ownership information		

Statement of changes in equity

	DKK million					
	Share - capital	Revaluation reserves, equity method	Other reserves	Proposed dividend	Retained earnings	Total equity
2019						
Equity, beginning of the year	15.0	554.9	5,378.1	-	1,655.9	7,603.9
Changes in equity for 2019:						
Currency translation adjustment, foreign subsidiaries	-	-	-13.0	-	-	-13.0
Currency translation adjustment, foreign branches	-	-	-146.0	-	-	-146.0
Currency translation adjustment, foreign associated entities	-	-	-0.8	-	-	-0.8
Unrealised gain/losses operational hedge	-	-	4.4	-	-	4.4
Tax re operational hedge	-	-	-0.9	-	-	-0.9
Other comprehensive income	-	-	-	-	0.4	0.4
Profit for the year	-	155.6	-156.3	-	0.4	-155.9
Total comprehensive income for the year	-	155.6	-156.3	-	1,930.1	2,085.7
Received dividend, subsidiaries	-	-192.1	-	-	192.1	-
Received dividend, associated companies	-	-4.1	-	-	4.1	-
Distributed interim dividend	-	-	-	1,250.0	-1,250.0	-
Paid dividend	-	-	-	-1,250.0	-	-1,250.0
Changes in equity for the year	-	-40.6	-156.3	-	876.7	679.8
Equity, end of the year	15.0	514.3	5,221.8	-	2,532.6	8,283.7

Statement of changes in equity

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

Notes to the financial statements

Note

1 Accounting policies

The annual report for 2019 of Codan Forsikring has been prepared in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's executive orders no. 937 of 7 July 2015 and no. 688 of 1 June 2016 and no. 1442 of 3 December 2018 on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds).

General information

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

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

The Danish Financial Supervisory Authority has issued an update of the executive order no. 1442 of 3 December 2018 on Financial Reports for Insurance Companies and Lateral Pension Funds with effect from 2019. The changes relating to disclosure of sensitivities and capital coverage were implemented already for 2018. Changes implemented in 2019 relates to leasing under IFRS 16 new disclosures on assets and liabilities measured at Fair Value.

IFRS 16 'Leases' have been implemented using the modified retrospective approach. Under this method, the cumulative effect of initially applying the standard is recognised at 1 January 2019. Right-of-use assets and lease liabilities have been recognised for those leases previously classified as operating leases, except for short-term leases and leases of low value assets. The right-of-use assets have been recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities are recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The comparative information has not been restated. Adoption of IFRS 16 replaces IAS 17 with no impact on the balance sheet 1 January 2019. All leases have been classified as operating leases 31 December 2018. The implementation of IFRS 16 has no significant impact on either profit or loss or equity.

The total impact on the balance sheet 1 January 2019, using the modified retrospective approach was:

Assets (DKKm)	
<i>Equipment (ROU)</i>	226.0
<i>Land & Buildings (ROU)</i>	<u>225.3</u>
<i>Total assets</i>	451.3

Equity and liabilities (DKKm)	
Lease liability	<u>451.3</u>
Total equity and liabilities	451.3

Reconciliation of lease liabilities pursuant to IFRS 16 on transition:

DKKm	
Operating lease commitments 31-12-2018	405.9
Effect from change in usefull life	221.5
Short term leases excluded	-3.9
Leases of low value assets excluded	-75.4
Service commitments excluded	-66.0
Fx and other	-11.9
Discounting	-18.9
<u>Lease liability on recognised on transition</u>	<u>451.3</u>

Notes to the financial statements

Note

On transition to IFRS 16 Codan recognised lease liabilities in relation to leases which had previously been classified as operating leases in accordance with IAS 17.

Besides this the accounting policies remain unchanged from the Annual Report for 2018.

Recognition and measurement

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

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

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

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

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

Key assumptions and estimates

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

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

Risk management is described in Note 2.

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

Insurance contract liabilities

The provision for outstanding claims is generally affected by key actuarial assumptions and estimates, including expectations of the number and size of claims incurred but not yet reported as well as inflation developments. In some cases, the historical data forming part of the actuarial methods do not necessarily reflect the expected future level of claims, for instance in connection with amended legislation, legal practice

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or the practice of the Danish National Board of Industrial Injuries for awarding compensation, where an a priori estimate of the effect is prepared. This estimate is communicated to the business and forms the basis of premium changes necessitated by an expected change in the level of claims.

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

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

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

Allocations in Codan Forsikring

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

Measurement of intangible assets

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

Deferred tax

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

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

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

Contingent liabilities

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

Changes in assumptions and estimates

In 2019 we have reassessed the useful life of our main insurance system in Denmark and Norway (Tia) and on the basis of this reassessment we have changed the depreciation period from 7 to 10 years for the remaining part of the carrying value. The effect of this change in assumptions amounts to approximately DKK 32 million in 2019.

No other material changes in assumptions or estimates have been made during 2019.

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Business combinations

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

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

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

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

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

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

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

Intra-group transactions

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

Foreign currency translation

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

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

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

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

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

Individual areas in the annual report

Insurance contracts

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

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

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

Reinsurance

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

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

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

General insurance contracts

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

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

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

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

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

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

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

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

Risk margin on insurance contracts

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

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

Profit margin on insurance contracts

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

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

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

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

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

The provision for outstanding claims is recognised as the present value of the amounts that the Company, according to its best estimate, is expected to pay in connection with insured events that have occurred up

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

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

The main assumptions of the methods are that the claims run-off is relatively stable over time. To exemplify: a claim occurring in 2019 is more or less assumed to have the same run-off behaviour as a claim that occurred in 2015. To the extent that specific knowledge is available which makes such assumption unlikely, the model is adjusted accordingly. In several segments, reserves relating to claims incurred in the last few years are affected by assumptions concerning underlying changes in premium level, claims inflation and portfolio mix. These assumptions are therefore quantified explicitly and are included as part of the basis for determining the reserve.

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

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

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

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

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

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

Reinsurers share of provisions for insurance contracts

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

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

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

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

Operating expenses

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

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

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

Financial instruments

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

Financial derivatives

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

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

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

Sale and repurchase contracts

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

Incentive schemes

The RSA Group operates a long-term incentive plan (Performance Share Plan) for CEOs and other key employees. The scheme is based on various performance targets and is based on shares in RSA Insurance Group plc. For further details on the program, see note 6.

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

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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.

Assets held for sale and discontinued operations

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

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

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

Income statement

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

Investment return

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

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

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

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

Other income and expenses

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

Tax

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

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

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

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

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

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

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

Other comprehensive income

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

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

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

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Balance sheet

Assets

Intangible assets

Goodwill

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

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

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

Impairment losses on goodwill are not reversed.

Development projects

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

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

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

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

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

Other intangible assets

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

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

Property and equipment

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Equipment

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

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

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

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

Leasing

It is assessed whether a contract is, or contains, a lease at the time of inception. A lease contract exists when the underlying asset is identifiable, Codan has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use and Codan holds the right to direct the use of the asset.

Right-of-use assets and corresponding lease liabilities are recognised with respect to all lease agreements in which Codan is the lessee, excluding short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

At inception or on reassessment of a contract that contains lease components, the consideration in the contract is allocated to each lease component based on their relative stand-alone prices.

Right-of-use asset (ROU asset) and lease liability are recognised at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the commencement date, any initial direct cost incurred, estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset and/or lease incentives received.

ROU assets are tested for impairment.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. Alternatively, if this rate cannot be readily determined, the incremental borrowing rate is used. Subsequently, the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments and a corresponding adjustment is made to the carrying amount of the ROU asset.

Impairment of intangible assets and property and equipment

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

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

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loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

Investments in Group entities

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

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

Other financial assets

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

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

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

Currency translation adjustments are recognised directly in the income statement.

Receivables

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

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

Cash and cash equivalents

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

Prepayments and accrued income

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

Liabilities

Equity

Share capital

Shares in Codan Forsikring are recognised at nominal value.

Notes to the financial statements

Note

Contingency funds

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

Reserve for net revaluation according to the equity method

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

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

Translation reserve

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

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

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

Operational hedge reserve incl. tax

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

Proposed dividend

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

Intra-group contributions

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

Payables and liabilities, general information

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

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

Pension obligations

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

Notes to the financial statements

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

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

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

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

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

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

Provisions

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

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

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

Deposits with ceding undertakings

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

Accruals and deferred income

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

Notes to the financial statements

Note

Methods for calculating financial ratios

The financial ratios have been calculated 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). The ratios included in the five-year summary have been calculated as follows:

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

Notes to the financial statements

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2 Risk information

Risk management and control

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

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

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

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

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

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

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

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

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

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

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

Insurance risks

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

Notes to the financial statements

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

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

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

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

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

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

The Covid-19 outbreak is mainly expected to impact Travel policies which accounts for less than 0.5% of gross premiums written. Other lines of business might also be impacted even though we do not have indications of this at this stage.

Insurance risk concentration

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

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rectors for the various types of insurance risks. The level is reviewed annually by the Board of Directors to ensure that it is acceptable.

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

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

Non-catastrophe risks

Codan Forsikring's reinsurance program for 2019 was primarily an excess of loss programme with a maximum retention of DKK/NOK 100 million for any one risk (SEK 125 million for the Swedish branch), in respect of buildings, contents and business interruption insurance. The retention for personal accident claims was DKK 100 million, DKK/NOK 25 million (SEK 30 million for the Swedish branch) for liability and DKK 30 million (SEK 40 million for the Swedish branch) for motor third party liability claims. In respect of Renewable off-shore Energy sector the retention was USD 25 million.

In respect of Marine Hull business Codan Forsikring has a 100% Quota Share for claims related to insurance contracts written in 2019. The 2019 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.

Additionally, a Multiline aggregate cover protecting against frequency of losses between DKK 20 million and DKK 100 million was bought for 2019. This cover protects the entities in the Codan Group on the Property, Engineering and Catastrophe business.

The Codan Group offers its customers insurance cover for conventional terrorist attacks, and the risk is re-insured 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. From July 2019 a new Law (no 367 af 9 april 2019) came into force in Denmark. According to this law a state scheme takes on the cover for Nuclear, Chemical, Biological and Radioactive (NCBR) Terror Risk. There may be some residual NCBR exposures not covered by the State Scheme which will remain with Codan. In the other Territories this peril is excluded in the original policies. Predicting the number of claims arising from such events still poses a challenge, but the objective of the Codan Group is to control the allocation of resources to the individual risk.

Storm and catastrophe risk

Codan Forsikring has together with other companies in the RSA Group taken out reinsurance cover for catastrophic events. In respect of natural disaster, reinsurance cover for a once-in-200-years event has been purchased, with a combined RSA Group retention of GBP 25 million (CAD 75 million for claims occurring in North America, Central America and the Caribbean). The same reinsurance programme will cover property claims where more than one risk is involved in a non-natural perils-loss event.

For personal accident and life catastrophe events of a sudden nature, like a ferry accident or a tsunami, Codan Forsikring has a shared reinsurance contract with the rest of the Codan Group companies. In 2019, the maximum net retention for Codan Forsikring was DKK 100 million per event.

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

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Reserving risk

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

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

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

Financial risk

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

Investment management

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

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

Liquidity and interest rate risk

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

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

Notes to the financial statements

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

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

Contractual repricing or maturity dates	DKK million					
2019	< 1 year	1-5 years	5-10 years	10-20 years	> 20 years	Total
Government bonds	1,509.4	849.1	1,222.4	2,219.2	142.1	5,942.2
Government guaranteed bonds	899.3	588.7	1,293.3	1,233.0	-	4,014.3
Mortgage bonds	2,432.3	9,235.6	2,058.6	1,259.1	2,739.6	17,725.2
Other bonds	511.6	1,013.3	679.1	605.3	80.2	2,889.5
institutions, call deposits, etc.	615.2	-	280.2	336.3	-	1,231.7
Other	10.4	4.3	-1.5	0.3	8.0	21.5
Receivables from Group entities	1,014.8	-	-	-	-	1,014.8
Financial assets	6,993.0	11,691.0	5,532.1	5,653.2	2,969.9	32,839.2
Amounts owed to Group entities	65.1	-	-	-	-	65.1
Debt to credit institutions	889.2	-	-	-	-	889.2
Lease payables	130.7	314.6	11.2	-	-	456.5
Financial liabilities	1,085.0	314.6	11.2	-	-	1,410.8

Contractual repricing or maturity dates	DKK million					
2018	< 1 year	1-5 years	5-10 years	10-20 years	> 20 years	Total
Government bonds	2,208.2	2,835.6	1,224.9	1,222.5	1,042.5	8,533.7
Government guaranteed bonds	113.9	1,120.2	1,526.4	1,025.3	145.8	3,931.6
Mortgage bonds	861.5	8,489.9	1,346.1	1,924.8	2,558.9	15,181.2
Other bonds	219.5	1,124.9	272.1	724.6	73.3	2,414.4
institutions, call deposits, etc.	623.2	-	-	-	-	623.2
Other	0.7	1.7	37.3	18.3	34.7	92.7
Receivables from Group entities	1,048.3	-	-	-	-	1,048.3
Financial assets	5,075.3	13,572.3	4,406.8	4,915.5	3,855.2	31,825.1
Amounts owed to Group entities	32.7	-	-	-	-	32.7
Financial liabilities	502.7	-	-	-	-	502.7

Notes to the financial statements

Note

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

	2019		2018	
	Effective interest rates (%)	Duration	Effective interest rates (%)	Duration
Financial assets				
Government bonds	0.1	7.0	0.1	5.5
Government guaranteed bonds	0.5	6.3	0.7	6.6
Mortgage bonds	0.6	3.8	0.7	3.7
Other bonds	0.8	4.3	1.5	5.9
Other loans	2.9		3.4	
Receivables from Group entities	0.3		0.3	
Financial liabilities				
Amounts owed to Group entities	-		-	
Debt to credit institutions	-0.6		-0.7	
Lease payables	1.0		-	

Currency risk

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

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

Notes to the financial statements

Note

Currency risk	DKK million		2019				
	USD	SEK	GBP	EUR	NOK	Other currency	
Financial assets							
Interests in associates	-	26.2	-	-	-	-	
Equity investments	96.7	0.3	-	1,289.7	-	521.4	
Units in open-ended funds	0.9	320.5	-	734.1	-	-	
Bonds	10.5	19,939.0	465.6	1,940.7	1,046.0	-	
Other loans, deposits with credit institutions, call deposits, etc.	17.7	173.0	46.3	709.0	24.6	9.0	
Derivative asset	68.9	-1,034.7	-	-149.5	-	-	
Intangible assets	-	472.0	-	-	105.9	-	
Property and equipment	-	235.2	-	1.3	35.4	-	
Receivables from policyholders, brokers and insurance companies	111.4	168.2	93.4	229.5	64.5	-0.2	
Receivables from Group entities	-	10.8	2.8	0.1	2.0	-	
Other receivables	4.0	11.8	0.2	43.8	50.3	2.0	
Assets held for sale	-	2.1	-	-	-	-	
Current tax asset	0.2	-	-	-	-	-	
Deferred tax assets	-	-	-	-	51.3	-	
Prepayments and accrued income	8.5	240.6	-	28.2	25.2	-	
Reinsurers' share of insurance contract	203.0	136.4	3.5	87.9	54.4	0.2	
Financial liabilities							
Payables arising from direct insurance and reinsurance	-34.0	-136.5	-43.0	-	1.1	1.7	
Amounts owed to Group entities	-	3.4	-	-	-4.0	-	
Provisions	-	-5.9	-	-	-6.3	-	
Other payables	-34.0	-1,650.4	-476.8	-1,925.1	-153.6	-0.2	
Accruals and deferred income	-	-	-	-	-14.4	-	
Current tax liabilities	-	-26.8	-	-	-	-	
Deferred tax liabilities	-	-76.0	-	-	-	-	
Debt to credit institutions	-	-889.2	-	-	-	-	
Lease payables	-	-236.9	-	-	-35.2	-	
Insurance liabilities	-357.6	-17,693.6	-372.7	-1,055.0	-1,038.1	-22.0	
Currency risk	96.2	-10.5	-280.7	1,934.7	209.1	511.9	

Notes to the financial statements

Note

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

Equity risk

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

Inflation risk

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

Notes to the financial statements

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Credit risk

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

Credit risk relating to investments

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

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

Rating	DKK million	2019	2018
AAA		25,786.6	25,143.7
AA		2,910.4	3,183.3
A		1,322.3	1,201.4
BBB		551.9	532.5
Bonds		30,571.2	30,060.9

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

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

Maximum credit risk	DKK million	2019	2018
Government bonds		5,942.2	8,533.7
Government guaranteed bonds		4,014.3	3,931.6
Mortgage bonds		17,725.2	15,181.2
Other bonds		2,889.5	2,414.4
Other loans, deposits with credit institutions and call deposits, etc.		1,231.7	623.2
Other		21.5	92.7
Deposits with ceding undertakings		1.3	1.4
Reinsurers' share of provision for claims		659.8	614.1
Receivables from policyholders		432.6	268.2
Receivables from brokers		30.0	150.2
Receivables from insurance companies		101.3	89.0
Receivables from Group entities		1,014.8	1,048.3
Other receivables		169.5	153.2
Current tax assets		71.9	274.4
Accrued interest and rent		275.7	320.1
Maximum credit risk		34,581.3	33,695.7

Notes to the financial statements

Note

Spread risk

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

As financial markets are affected by the Covid-19 outbreak, which can have a material short-term impact on the SCR coverage ratio, Codan Forsikring continues to monitor this closely.

Operational risks

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

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

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

In relation to the Covid-19 outbreak Codan Forsikring is prepared for high levels of staff absence as many roles can work from home. For employees working in contact-centres detailed contingency plans are in place. Please also refer to the management review description of the Coronavirus outbreak.

Compliance risk

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

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

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

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

Emerging risk

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

Capital and solvency

Codan Forsikring and its insurance subsidiaries calculate and monitor solvency across a variety of measures. Capital measures include accounting equity, own funds, and capital requirements as set out in the Danish Financial Supervisory Authority's regulation and the Solvency II regulation. The solvency capital

Notes to the financial statements

Note

requirements are calculated using an Internal Model for the Danish insurance subsidiaries, and are validated by, for example, sensitivity testing and stress & scenario testing.

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

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

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

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

Dividend potential

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

Notes to the financial statements

Note

DKK million

3 Key figures and financial ratios

Five year summary	2019**	2018	2017	2016	2015*
Gross earned premiums	14,807.2	15,032.4	15,460.9	15,672.7	15,923.8
Gross claims incurred	-10,160.9	-10,228.2	-10,139.2	-9,958.3	-10,942.1
Total operating expenses	-2,359.8	-2,397.4	-2,859.6	-3,015.9	-3,181.6
Profit/loss from reinsurance	-376.0	-561.2	-583.2	-451.2	-500.5
Balance on the technical account	1,822.9	1,738.0	1,811.8	2,167.2	1,212.3
Total investment return after return on and value adjustment on technical provisions	821.0	35.8	685.9	770.5	106.7
Profit for the year	2,085.7	1,232.2	1,964.7	2,277.7	411.5
Run-off gain/loss, net of reinsurance	656.9	561.6	395.4	987.3	377.5
Total technical provisions	28,780.5	28,830.2	28,580.8	31,274.7	32,239.2
Total insurance assets	568.8	612.9	776.3	1,130.8	1,788.5
Total equity	8,283.7	7,603.9	8,386.2	8,791.3	9,354.0
Total assets	40,202.8	38,698.9	40,290.3	43,518.5	44,125.8
Financial ratios					
Gross claims ratio	69.0	68.5	65.9	63.9	71.3
Gross expense ratio	16.0	16.1	18.6	19.3	20.4
Combined ratio	87.6	88.4	88.2	86.1	95.0
Operating ratio	87.6	88.4	88.2	86.1	95.0
Relative run-off result	2.5	2.4	1.6	4.1	1.6
Return on equity in %	25.6	15.5	23.1	22.9	3.6
Solvency ratio - Solvency I					344.0

* Key figures and financial ratios have been restated to reflect the change in accounting policy.

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

** IFRS 16 'Leases' have been implemented on 1 January 2019. Amounts for 2015-2018 have not been restated.

Notes to the financial statements

Note	DKK million	2019	2018
4 Gross earned premiums			
Gross premiums written		14,781.1	15,045.0
Change in profit margin and risk margin		-40.8	114.3
Change in the provision for unearned premiums, gross		66.9	-126.9
Gross earned premiums		14,807.2	15,032.4
Gross earned premiums from direct insurance by geographical location of the risk:			
Denmark		4,195.4	4,416.9
Other EU countries		9,222.6	9,261.0
EEA countries		1,228.8	1,178.4
Other countries		2.3	2.8
Direct insurance		14,649.1	14,859.1
Gross earned premiums from indirect insurance:			
General insurance		158.1	173.3
Indirect insurance		158.1	173.3
Gross earned premiums		14,807.2	15,032.4
5 Claims incurred, net of reinsurance			
Claims incurred include the following run-off results:			
Run-off loss/gain, gross		701.0	737.3
Run-off loss, ceded business		-44.1	-175.7
Run-off gain, net of reinsurance		656.9	561.6

In 2019 the run-off result relates primarily to the commercial portfolio in Denmark and Sweden. Mostly on workers compensation and motor products. Also Personal motor has generated run-off gains in 2018.

Notes to the financial statements

Note	DKK million	2019	2018
6 Net operating expenses			
Staff costs:			
Wages and salaries		-1,287.5	-1,238.7
Defined contribution schemes		-198.5	-227.4
Other social security costs		-189.5	-205.6
Payroll tax		-119.6	-120.0
Share-based payment costs		-4.0	-13.7
Employment agency costs		-44.8	-52.1
Other staff costs		-49.1	-68.0
		-1,893.0	-1,925.5
Commissions, underwriters and brokers		-465.4	-446.0
Commissions, other insurance companies		-19.3	-16.9
Depreciation		-308.4	-161.4
Rent		-16.2	-104.1
Other acquisition costs and administrative expenses		140.4	68.5
Reimbursements from Group entities		202.1	188.0
Reinsurance commissions and profit participation		33.1	20.1
Net operating expenses		-2,326.7	-2,377.3
Total payroll costs, including commissions to tied agents, in respect of direct insurance		-1,360	-1,320

Converted into full-time employees, the average number of persons employed during the financial year was 2.616 persons (2.725 persons in 2018).

Remuneration to the Board of Directors and Board of Management is disclosed in note 27 Related parties.

Notes to the financial statements

Note

6 Net operating expenses (continued)

Incentive schemes

The Company is covered by the Performance Share Plan/Long Term Incentive Plan established by RSA Insurance Group plc (RSA). The Company is covered by the Performance Share Plan/Long Term Incentive Plan established by RSA Insurance Group plc (RSA). Members of the board of Management and Material Risk Takers may be eligible to this incentive scheme. The members of the Board of Directors of the Company do not receive any incentive-based remuneration.

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

Performance Shares

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

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

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

Deferred Bonus Shares

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

Restricted Shares

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

Notes to the financial statements

Note DKK million

6 Net operating expenses (continued)

	Patrick Bergander		Vivian Lund		Risk-takers	
	Shares	Value	Shares	Value	Shares	Value
Long-term Incentive Plan (PSP)						
Beginning balance 1 January 2018	142,590	7.6	15,813	0.8	571,660	30.4
Adj. to beginning balance	-	-1.6	-	-0.2	-	-6.1
Adj. to prior year	-	-	-	-	18,116	0.8
Adj. due to change in Risk-takers	-	-	-	-	-204,246	-8.7
Granted during the year	40,233	1.7	6,379	0.3	175,925	7.5
Vested during the year	-26,466	-1.1	-5,373	-0.2	-76,960	-3.3
Forfeited during the year	-33,862	-1.4	-3,939	-0.2	-36,944	-1.6
Balance 31 December 2018	122,495	5.2	12,880	0.5	447,551	19.0
Long-term Incentive Plan (PSP)						
Beginning balance 1 January 2019	122,495	5.2	12,880	0.5	447,551	19.0
Adj. to beginning balance	-	0.7	-	0.1	-	2.6
Adj. to prior year	-	-	-	-	49,964	2.4
Adj. due to change in Risk-takers	-	-	-	-	-232,422	-11.2
Granted during the year	23,012	1.1	7,965	0.4	195,267	9.4
Vested during the year	-25,430	-1.2	-	-	-57,576	-2.8
Forfeited during the year	-16,937	-0.8	-	-	-20,474	-1.0
Balance 31 December 2019	103,140	5.0	20,845	1.0	382,310	18.4

The value has been calculated as number of shares times the fair value at the exchange rate prevailing at 31 December 2018 and 31 December 2019. Adjustment to beginning balance is due to fair value and exchange rate.

Notes to the financial statements

Note	DKK million				2019
7 Balance on the technical account, general insurance					
Balance on the technical account for general insurance in 2019 by line of business:	Personal Accident	Health Insurance	Workers' Compensation	Motor Third Party Liability	
Gross premiums written	2,858.1	318.7	565.9	1,128.9	
Gross earned premiums	2,825.1	326.5	593.6	1,146.5	
Gross claims incurred	-1,411.8	-231.8	-543.7	-917.3	
Bonuses and rebates	-0.5	-0.1	-0.1	-0.9	
Operating expenses, gross	-318.6	-71.8	-131.0	-234.9	
Profit/loss from reinsurance	-2.2	-0.4	-0.5	-16.2	
Balance on the technical account	1,092.0	22.4	-81.7	-22.8	
Number of claims paid	116,882	35,043	8,809	71,208	
Average claims paid in DKK million	12.1	6.6	61.7	12.9	
Claims frequency	6.2%	24.7%	8.5%	7.4%	
	Motor, Accidental Damage, Fire and Theft	Marine, Aviation and Cargo	Fire and Contents (Personal)	Fire and Contents (Commercial)	
Gross premiums written	3,402.3	344.0	2,510.7	3,006.5	
Gross earned premiums	3,351.3	338.4	2,496.3	2,991.0	
Gross claims incurred	-2,307.2	-174.0	-1,642.0	-2,596.7	
Bonuses and rebates	-35.5	-1.1	-12.2	-35.4	
Operating expenses, gross	-539.9	-52.6	-367.7	-500.3	
Profit/loss from reinsurance	-1.6	-31.8	-22.2	-102.0	
Balance on the technical account	467.1	78.9	452.2	-243.4	
Number of claims paid	293,232	7,302	183,648	26,367	
Average claims paid in DKK million	7.9	23.8	8.9	98.5	
Claims frequency	17.6%	27.2%	16.1%	6.6%	
	Liability	Tourist Assistance*	Other insurance	Total general insurance	
Gross premiums written	431.7	66.4	147.8	14,781.1	
Gross earned premiums	431.5	154.2	152.8	14,807.2	
Gross claims incurred	-225.4	-107.4	-3.6	-10,160.9	
Bonuses and rebates	-2.0	-	0.1	-87.7	
Operating expenses, gross	-83.3	-13.0	-46.7	-2,359.8	
Profit/loss from reinsurance	-23.3	-0.1	-175.6	-375.9	
Balance on the technical account	97.5	33.7	-73.0	1,822.9	
Number of claims paid	6,133	27,599		776,347	
Average claims paid in DKK million	36.8	3.9		13.1	
Claims frequency	10.9%	88.1%		11.9%	

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

*) Tourist assistance include collective insurance contract.

Notes to the financial statements

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

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

*) Tourist assistance include collective insurance contract.

Notes to the financial statements

Note	DKK million	2019	2018
7 Balance on the technical account, general insurance (continued)			
The average claims paid are calculated as claims costs for the year relative to the number of claims paid and are therefore affected by run-off gains and losses.			
The claims frequency is calculated as the number of claims paid relative to the average number of insurance contracts in the period, cf. the guidelines issued by the Danish Financial Supervisory Authority.			
8 Interest and dividends, etc.			
Interest income from Group entities	4.7	3.7	
Interest income from bonds, loans and deposits	721.1	789.0	
Non-taxable interest income	9.6	-0.8	
Income from units in open-ended funds and other equity investments	153.3	141.9	
Other interest income	16.2	22.0	
Interest income and dividends, etc.	904.9	955.8	
Interest expenses from lease liability	-4.7	-	
Non-taxable interest expenses	-0.2	-0.3	
Interest expenses	-4.9	-0.3	
9 Value adjustments			
Group occupied properties	-	3.0	
Equity investments	394.7	-290.5	
Units in open-ended funds	2.0	7.7	
Bonds	144.9	-363.2	
Other loans	14.8	14.3	
Other investment assets	-94.0	47.9	
Total investments	462.4	-580.8	
Value adjustments and other unrealised gain and losses	57.7	-24.1	
Value adjustments	520.1	-604.9	
Realised gains and losses on investments	-162.9	-143.4	
Unrealised gains and losses on investments	625.3	-437.4	
Other realised gains and losses	60.5	2.5	
Value adjustments and other unrealised gains and losses	-2.8	-26.6	
Value adjustments	520.1	-604.9	

Notes to the financial statements

Note	DKK million	2019	2018
10 Tax			
Tax on total income for the year:			
Current tax expense		-502.2	-304.3
Change in deferred tax on temporary differences		-52.1	-277.6
Change in deferred tax resulting from change in tax rate		3.2	-0.6
Tax on total income for the year		-551.1	-582.5
Adjustments relating to previous years:			
Current tax for previous years		-8.0	40.0
Adjustment of deferred tax at 1 January		-	0.4
Adjustments relating to previous years		-8.0	40.4
Tax expense		-559.1	-542.1
Tax is included as follows:			
Tax in the income statement		-558.2	-541.6
Tax on changes in equity		-0.9	-0.5
Tax expense		-559.1	-542.1
Total tax on total income for the year can be explained as follows:			
Profit before tax		2,643.9	1,773.8
Reversal of income from Group entities		-157.9	-136.2
Other taxable total income		2.9	-
Total income		2,488.9	1,637.6
Applicable tax rate		22.0%	22.0%
Tax calculated on total income		-547.5	-360.3
Tax on permanent differences:			
Sale of shares in Group entities		-1.9	-
Adjustments regarding Equities (Unrealised gains/losses)		1.4	1.0
Properties and other equity investments		0.1	0.9
Income not subject to tax		8.0	-0.2
Expenses disallowed for tax purposes		-3.2	-3.9
Non- refundable dividend taxes		-0.2	-0.2
Different tax rates in countries where branches are located		16.1	4.9
Change in tax rate		3.3	-0.6
Impairment on Norwegian deferred tax asset		-22.5	-173.0
Provision to one-off taxation in 2021 of 6% of contingency funds, Sweden		-	-51.0
Other permanent differences relating to branches		-	-0.7
Other permanent differences		-4.7	0.6
Tax		-551.1	-582.5
Tax on total income for the year		-551.1	-582.5
Adjustment of tax relating to previous years		-8.0	40.4
Tax expense		-559.1	-542.1

Notes to the financial statements

Note	DKK million		
11 Intangible assets	Completed		IT development
2019	IT development	Goodwill	projects in
	projects		progress
Cost, beginning of the year	1,616.6	539.0	386.0
Currency translation adjustments, foreign branches	-15.1	-11.6	-1.2
Additions	-	-	171.8
Disposals	-99.9	-	-
Transferred from development projects in progress	355.3	-	-355.3
Cost, end of the year	1,856.9	527.4	201.3
Amortisation and impairment, beginning of the year	-1,223.2	-68.3	-
Currency translation adjustments, foreign branches	13.9	0.1	-
Amortisation	-168.5	-	-
Reversal of amortisation relating to disposals	99.9	-	-
Amortisation and impairment, end of the year	-1,277.9	-68.2	-
Carrying amount, end of the year	579.0	459.2	201.3
Carrying amount, beginning of the year	393.4	470.7	386.0
2018			
Cost, beginning of the year	1,498.1	548.1	355.8
Currency translation adjustments, foreign branches	-11.2	-9.1	-1.7
Additions	-	-	161.6
Transferred from development projects in progress	129.7	-	-129.7
Cost, end of the year	1,616.6	539.0	386.0
Amortisation and impairment, beginning of the year	-1,079.3	-68.4	-
Currency translation adjustments, foreign branches	10.0	0.1	-
Amortisation	-153.9	-	-
Amortisation and impairment, end of the year	-1,223.2	-68.3	-
Carrying amount, end of the year	393.4	470.7	386.0
Carrying amount, beginning of the year	418.8	479.7	355.8
	Net book	Calculated	
	value	headroom	WACC
The value of goodwill can be broken down as follows:			
Acquired goodwill in relation to the purchase of:			
the Trekrøner portfolio	131.2	8,385.9	7.30%
the Norwegian portfolios	2.8	12.7	9.07%
the Trygg Hansa portfolios	325.2	7,916.7	7.61%
Total goodwill 2019	459.2	16,315.3	

Notes to the financial statements

Note	DKK million		
11 Intangible assets (continued)	Acquired software licenses	Customer lists etc.	Total intangible assets
2019			
Cost, beginning of the year	24.9	46.0	2,612.5
Currency translation adjustments, foreign branches	0.1	0.1	-27.7
Additions	-	-	171.8
Disposals	-	-24.2	-124.1
Transferred from development projects in progress	-	-	-
Cost, end of the year	25.0	21.9	2,632.5
Amortisation and impairment, beginning of the year	-24.9	-46.0	-1,362.4
Currency translation adjustments, foreign branches	-0.1	-0.1	13.8
Amortisation	-	-	-168.5
Reversal of amortisation relating to disposals	-	24.2	124.1
Amortisation and impairment, end of the year	-25.0	-21.9	-1,393.0
Carrying amount, end of the year	-	-	1,239.5
Carrying amount, beginning of the year	-	-	1,250.1
2018			
Cost, beginning of the year	25.4	46.1	2,473.5
Currency translation adjustments, foreign branches	-0.5	-0.1	-22.6
Additions	-	-	161.6
Transferred from development projects in progress	-	-	-
Cost, end of the year	24.9	46.0	2,612.5
Amortisation and impairment, beginning of the year	-25.0	-46.1	-1,218.8
Currency translation adjustments, foreign branches	0.1	0.1	10.3
Amortisation	-	-	-153.9
Amortisation and impairment, end of the year	-24.9	-46.0	-1,362.4
Carrying amount, end of the year	-	-	1,250.1
Carrying amount, beginning of the year	0.4	-	1,254.7

Amortisation is included in operating expenses and claims incurred.

Notes to the financial statements

Note	DKK million		
12 Total equipment			
2019	Leases ROU equipment	Other equipment	Total equipment
Cost, beginning of the year	-	276.7	276.7
Recognition of leased assets (ROU), beginning of the year	226.0	-	226.0
Currency translation adjustments, foreign branches	0.9	-9.1	-8.2
Additions, including improvements	13.0	3.0	16.0
Disposals	-0.9	-79.1	-80.0
Cost, end of the year	239.0	191.6	430.6
Depreciation and impairment, beginning of the year	-	-251.9	-251.9
Currency translation adjustments, foreign branches	-0.3	8.2	7.9
Depreciation and impairment	-53.6	-3.7	-57.3
Depreciation on disposals	-	78.8	78.8
Depreciation and impairment, end of the year	-53.9	-168.6	-222.5
Carrying amount, end of the year	185.1	23.0	208.1
Carrying amount, beginning of the year	-	24.8	24.8
Depreciated on a straight-line basis over a period of	1-3 years	4-10 years	
2018			
Cost, beginning of the year	0.1	283.2	283.3
Currency translation adjustments, foreign branches	-	-6.8	-6.8
Additions, including improvements	-	1.5	1.5
Disposals	-0.1	-1.2	-1.3
Cost, end of the year	-	276.7	276.7
Depreciation and impairment, beginning of the year	-0.1	-251.3	-251.4
Currency translation adjustments, foreign branches	-	5.9	5.9
Depreciation	-	-7.2	-7.2
Depreciation on disposals	0.1	0.7	0.8
Depreciation and impairment, end of the year	-	-251.9	-251.9
Carrying amount, end of the year	-	24.8	24.8
Carrying amount, beginning of the year	-	31.9	31.9
Depreciated on a straight-line basis over a period of	3-5 years	4-10 years	

Notes to the financial statements

Note	DKK million	2019	2018
13 Land and Buildings (ROU)			
Cost, beginning of the year		-	-
Recognition of leased assets (ROU), beginning of the year		225.3	-
Currency translation adjustments, foreign branches		1.4	-
Additions, including improvements		136.8	-
Disposals		-11.9	-
		351.6	-
Depreciation and impairment, beginning of the year		-	-
Currency translation adjustments, foreign branches		-0.3	-
Depreciation		-82.7	-
		-83.0	-
Carrying amount, end of the year		268.6	-
Carrying amount, beginning of the year		-	-
Depreciated on a straight-line basis over a period of		1-6 years	

Notes to the financial statements

Note	DKK million	2019	2018
14 Investments in Group entities			
Cost, beginning of the year		262.4	262.4
Cost, end of the year		262.4	262.4
Adjustments, beginning of the year		522.6	393.6
Exchange gains and losses		-13.0	-7.3
Profit for the year from Group entities		149.4	136.3
Dividends paid, capital reduction, etc.		-192.1	-
Adjustments, end of the year		466.9	522.6
Carrying amount, end of the year		729.3	785.0
The value of investments in Group entities can be broken down as follows:			
Holmia Livförsäkring AB		262.8	395.8
Forsikringsselskabet Privatsikring A/S		466.5	389.2
		729.3	785.0

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

Additional information on investments in Group entities:

	Registered office	Ownership interest %	Results	Equity
Companies carrying on insurance business:				
Holmia Livförsäkring AB, SEK	Stockholm	100	102.1	368.3
Forsikringsselskabet Privatsikring A/S	Frederiksberg	100	77.3	466.5

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

15 Assets and liabilities measured at fair value

Levels:	Quoted prices (Level 1)	Observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
2019				
Equity investments	1,907.8	0.0	27.2	1,935.0
Units in open-ended funds	0.9	0.0	1,054.6	1,055.5
Bonds	18,385.3	12,003.8	182.1	30,571.2
Other loans	0.0	0.0	621.4	621.4
Other	0.0	21.5	0.0	21.5
Assets measured at fair value	20,294.0	12,025.3	1,885.3	34,204.6
Debt to credit institution	889.2	0.0	0.0	889.2
Other payables	0.0	57.4	0.0	57.4
Liabilities measured at fair value	889.2	57.4	0.0	946.6
2018				
Equity investments	1,642.7	0.0	26.5	1,669.2
Units in open-ended funds	0.4	0.0	1,082.7	1,083.1
Bonds	17,975.6	11,896.6	188.7	30,060.9
Other loans	0.0	0.0	3.0	3.0
Other	0.0	92.7	0.0	92.7
Assets measured at fair value	19,618.7	11,989.3	1,300.9	32,908.9
Debt to credit institutions	470.0	0.0	0.0	470.0
Other payables	0.0	33.2	0.0	33.2
Liabilities measured at fair value	470.0	33.2	0.0	503.2

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements are those derived from data other than quoted prices included within level 1 that are observable for the asset.

Level 3: Fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability valuation that are not based on observable market data (unobservable inputs).

Specification of level 3 assets

	Credit investments	Equity investments
Opening balance	1,274.4	26.5
Currency translation adjustments	-18.0	-0.8
Total gains or losses for the period	1.0	1.5
Purchases	835.3	-
Sales	-234.6	-
Closing balance	1,858.1	27.2
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	1.0	1.5

The investment in financial assets classified at level 3 are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The fair value calculations are based upon the latest received reporting, annual reports and other informations from the companies.

Notes to the financial statements

Note	DKK million	2019	2018
16 Current tax assets and liabilities			
Current tax assets and liabilities, beginning of the year		274.4	-2.6
Currency translation adjustments		-9.4	3.9
Current tax for the year		-502.2	-304.3
Adjustment of current tax relating to previous years		-8.0	40.0
Corporation tax paid during the year		290.3	537.4
		45.1	274.4
Current tax assets and liabilities are included as follows:			
Current tax assets		71.9	274.4
Current tax liabilities		-26.8	-
		45.1	274.4

Notes to the financial statements

Note	DKK million	2019	2018
17 Deferred tax assets and liabilities			
Deferred tax assets, beginning of the year		-42.5	238.5
Currency translation adjustments		-0.7	-3.9
Change relating to intangible assets		14.8	15.5
Change relating to property and equipment		-89.5	-2.4
Change relating to investments		-90.6	-137.8
Change relating to other receivables and assets		-136.4	-
Change relating to contingency funds in Sweden		-	-51.0
Change relating to technical provisions		-9.6	40.2
Change relating to liabilities and payables		241.6	-10.9
Change relating to tax losses		20.8	-130.7
Deferred tax assets and liabilities, end of the year		-92.1	-42.5
Deferred tax for the year recognised in the income statement		-48.9	-277.5
Total deferred tax for the year		-48.9	-277.5
Specification of deferred tax assets and liabilities at the end of the year:			
Intangible assets		-159.4	-175.9
Property and equipment		-84.0	5.9
Investments		-225.5	-139
Other receivables and assets		-132.3	4.0
Contingency funds		-46.8	-48.4
Technical provisions		241.2	259.0
Liabilities and payables		261.8	19.9
Net tax losses carried forward		52.9	32.0
Deferred tax assets and liabilities, end of the year		-92.1	-42.5
Deferred tax assets and liabilities are included as follows:			
Deferred tax assets		51.3	62.1
Deferred tax liabilities		-143.4	-104.6
Deferred tax assets and liabilities		-92.1	-42.5
In accordance with the rules issued by the Danish Financial Supervisory Authority no provisions are made for deferred tax on untaxed transfers to contingency funds, cf. note 21.			
18 Accrued interest and rent			
Accrued interest from Group entities		2.3	2.5
Accrued interest from investments		273.4	317.6
Accrued interest and rent		275.7	320.1

Notes to the financial statements

Note	DKK million	2019	2018
19 Share capital			
The company's fully paid share capital can be broken down as follows:			
2 shares of DKK 1,000,000		2.0	2.0
1 share of DKK 2,000,000		2.0	2.0
2 shares of DKK 3,000,000		6.0	6.0
1 share of DKK 5,000,000		5.0	5.0
Share capital		15.0	15.0

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

20 Contingency funds

The contingency funds can be broken down as follows:

Contingency fund in the Swedish branch	3,783.1	3,917.5
Contingency fund A, created by resolution at the Annual General Meeting on 17 May 1966	313.5	313.5
Contingency fund B for general insurance, cf. Section 138(2) of Act No. 630 of 23 December 1980	1,062.8	1,062.8
Contingency fund C for workers' compensation insurance	18.8	18.8

Contingency funds	5,178.2	5,312.6
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Of which untaxed	5,178.2	5,312.6
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The contingency fund in Trygg-Hansa Försäkrings AB amounts to SEK 5,318.3 million in 2019 (SEK 5,318.3 million in 2018).

21 Total equity

Capital base to cover the solvency requirement	8,436.8	7,708.7
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Capital base is calculated as follows:

Equity	8,283.7	7,603.9
Value of intangible assets	-1,239.5	-1,250.1
Value of equipment	-4.6	-5.0
Adjustment regarding subsidiaries	116.9	85.5
Profit margin on general insurance contracts	1,540.6	1,565.0
Reinsurers' share of profit margin on general insurance contracts	-78.8	-132.6
Deferred tax effect	-75.6	-60.0
Prepayments	-105.9	-98.0

Capital base to cover the solvency requirement	8,436.8	7,708.7
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Notes to the financial statements

Note	DKK million	2019	2018
22 Reinsurers' share of provision for unearned premiums			
Premium provision		169.8	133.8
Profit margin on general insurance contracts		-78.8	-132.6
Reinsurers' share of provision for unearned premiums		91.0	1.2

Notes to the financial statements

Note

DKK million

23 Pension obligations

Pension obligations in Codan Forsikring are generally funded.

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

62-year pensions

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

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

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

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

Norwegian branch pensions scheme

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

	DKK million	2019	2018
Present value of defined benefit schemes		7.7	13.4
Net liability recognised in the balance sheet		7.7	13.4

No assets have been separated to cover the pension obligation.

Notes to the financial statements

Note	DKK million	2019	2018
24 Other provisions			
Other provisions, beginning of the year		91.4	352.0
Currency translation adjustments		-1.0	-5.8
Used during the year		-39.0	-95.0
Reversal of unused provisions		-42.5	-252.9
Provisions made during the year		12.5	93.1
Other provisions		21.4	91.4
Other provisions consists of:			
Reorganisation		6.1	62.9
Environmental duties		9.5	11.4
Dilapidation provision		-	2.9
Other		5.8	14.2
Other provisions		21.4	91.4
25 Total provisions			
Current portion (less than one year)		20.8	64.7
Non-current portion (more than one year)		151.7	144.7
Total provisions		172.5	209.4
26 Total payables			
As an effect from change in accounting policies a lease liability of DKK 483.3m is recognised in total payables of DKK 2,820m. The maturity of the lease liabilities is specified below:			
Due 1 year or less		130.7	-
Due 1-5 years		314.6	-
Due more than 5 years		11.2	-
Total lease liabilities		456.5	-

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

Included in other payables are unsettled investment transactions etc. with DKK 0.0 million in 2019 (DKK 0.1 million in 2018).

Notes to the financial statements

Note	DKK million
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27 Related parties**Information on related parties**

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

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

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

Remuneration of the Board of Directors, Board of Management, and Material Risk Takers is allocated between Codan Forsikring and the parent company Codan A/S. The specifications below contain the total remuneration.

Remuneration of the Board of Directors	2019	2018
Lars Nørby Johansen (joined 27 April 2012)	-0.7	-0.7
Anthony Piers Latham (resigned 26 April 2018)	-	-0.1
Gunilla Astrid Henriette Asker (resigned 30 August 2018)	-0.2	-0.2
Christer Arne Bjellert (joined 29 April 2015)	-0.2	-0.2
Philip Wynford Moore (joined 26 April 2018)	-0.6	-0.4
Scott Egan (resigned 22 March 2019)	-	-
Charlotte Jones (joined 31 July 2019)	-	-
Marianne Phillip (joined 29 April 2011)	-0.4	-0.4
Maria Elisabeth Sandblom (joined 29 April 2015)	-0.2	-0.2
Christian Sletten (joined 4 May 2000)	-0.2	-0.2
Remuneration to the Board of Directors	-2.5	-2.5
<hr/>		
Remuneration of the Board of Management	2019	2018
Wages and salaries (fixed remuneration)	-7.4	-7.8
Bonuses (variable remuneration)	-0.7	-0.6
Pension benefits (fixed remuneration)	-1.2	-1.7
Share-based remuneration (variable remuneration)	-1.7	-1.4
Redundancy benefits (variable remuneration)	-6.5	-
Remuneration of the Board of Management	-17.6	-11.5
<hr/>		
CEO Ken Norgrove	-3.4	-
EO Vivian Lund	-2.9	-2.8
Former CEO Patrick Bergander	-11.3	-8.7
Remuneration to the Board of Management	-17.6	-11.5
Number of employees of the Board of Management at 31 December	2	2

Notes to the financial statements

Note	DKK million
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27 Related parties (continued)**Remuneration of Risk-takers**

	Number of persons	Wages & Salaries	Bonuses	Share- based payment	Pension Benefits	Redun- dancy payment	Total
2019							
Audit, Risk & Compliance	8	-5.6	-	-	-0.6	-	-6.2
Finance functions	7	-10.5	-0.5	-0.8	-0.9	-	-12.7
Support functions	11	-11.4	-0.8	-2.9	-3.6	-	-18.7
Product & Sales	29	-37.6	-2.9	-5.0	-6.8	-4.0	-56.3
	55	-65.1	-4.2	-8.7	-11.9	-4.0	-93.9
2018							
Audit, Risk & Compliance	8	-7.5	-	-	-1.0	-	-8.5
Finance functions	6	-9.4	-0.3	-1.3	-0.8	-	-11.8
Support functions	7	-8.1	-0.7	-2.3	-2.6	-	-13.7
Product & Sales	25	-37.9	-1.7	-6.5	-6.8	-	-52.9
	46	-62.9	-2.7	-10.1	-11.2	-	-86.9

The members of the Board of Directors are paid fixed remuneration and are not participating in pension schemes or incentive schemes.

Members of the Board of Directors employed by RSA Group do not receive Board fees. Board member Scott Egan was replaced by Charlotte Jones on 31st July 2019. Their total remuneration as Executive Directors in RSA Group for 2019 was DKK 16,9 million and DKK 12,6 million (includes compensatory awards made to replace forfeited awards leaving previous employer) respectively. Other Board members employed in RSA Group do not have any Executive Directorship positions within the Group entity.

The Company's CEO has a separate contract with Codan Forsikring and its parent company Codan A/S. The above specification includes the total remuneration for employment. CEO Ken Norgrove replaced Patrick Bergander as CEO on 13th September 2019. Ken Norgrove has a dual payroll, in Denmark (see table) and in his home Country. The total remuneration (incl. home country) for Ken Norgrove for the period as CEO is DKK 4.1 million.

Redundancy benefits are included for former CEO for the 12 months' notice period.

The Board of Management and Material Risk Takers receive fixed remuneration consisting of base salary, pension benefits and other benefits such as company car, telephone and health insurance.

Members of Board of Management and Material Risk Takers may receive variable pay in the form of bonus and Long-Term Incentives. Bonuses earned in 2019 have been fully expensed in 2019 but will be paid out from 2020 on a pro-rata basis over a three or a four year deferral period depending on position.

Members of Board of Management and Material Risk Takers may participate in RSA Insurance Group plc's Long Term Incentive Plan (share-based variable incentive plan), see note 6.

The group of Material Risk Takers are determined by the Board of Directors. Material Risk Takers include employees who on the basis of their job positions have a significant influence on the Company's risk profile.

Redundancy benefits are included for two Material Risk Takers in 2019 for their respective notice period.

Notes to the financial statements

Note

27 Related parties (continued)

Related party transactions

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

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

The Company has paid dividends of DKK 1.250.0 million to its parent company.

The company has received intragroup contributions from related parties of DKK 0.0 million in 2019 (DKK 0.0 million in 2018).

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

Agreements on interest on inter-company balances on an arm's length basis were made between the companies in the Codan Group. Interest income from Group entities amounted to DKK 0.0 million in 2019 (DKK 0.0 million in 2018).

Agreements on interest on loans on market-based conditions were made between the companies in the Codan Group. Interest income from Group entities amounted to DKK 3.1 million in 2019 (DKK 3.4 million in 2018).

The company has lent out DKK 1,000.0 million to the parent company Codan A/S. The loan was renewed during 2019.

The company provided a short-term loan of SEK 2.500.0 million to RSA Group in 2019. The loan has been settled by the end of the year. Agreements on interest on loans on market-based conditions were made between the Company and RSA Group. Interest income from RSA Group amounted to DKK 1.6 million in 2019 (DKK 0.3 million in 2018).

Agreements on reinsurance were entered into with companies in the Codan Group and with companies in the RSA Group on an arm's length basis. Included in this is the quota sharing program on Marine portfolio with RSA Reinsurance UK Ltd.

The company has paid for the use of joint IT-systems and the company's share of joint services in the RSA Group. Payments were made on a cost-covering basis.

The company has entered in to a DKK/SEK hedge of DKK 827.8 million with the ultimate parent company Royal & Sun Alliance Insurance Plc. The Hedge was agreed on an arm's length basis. Total net Book value of Intercompany hedges (liability) amounted to DKK 3.4 million in 2019 (DKK 31.9 million in 2018).

Notes to the financial statements

Note	DKK million	2019	2018
27 Related parties (continued)			
Business transactions with Group entities and associates included the following:			
Premiums ceded to reinsurers		-505.5	-500.5
Claims paid, reinsurers' share		146.6	197.3
Sale of reinsurance to Group entities		208.7	223.6
Ceded reinsurance cover		-75.2	-103.7
Reinsurance commissions and profit participation		45.0	44.5
Commissions and profit participation for reinsurance		-16.8	-11.6
Purchase of services from Group entities		-172.8	-154.1
Sale of administrative services to Group entities		202.1	188.0
		-167.9	-116.5

Notes to the financial statements

Note	DKK million	2019	2018
28 Contingent assets, contingent liabilities and financial liabilities			
Financial liabilities			
VAT adjustment liability in connection with purchase of intangible assets		4.0	5.0
VAT cases		78.0	77.2
Operating lease commitments		63.0	405.9
Non-technical Recourse and Non-recourse Guarantee Commitments		27.3	56.6
Service agreements (IT and telephony)		70.9	128.7
Guarantee in connection with the disposal of Group occupied property		3.5	3.3
Commitment to invest in units in open-ended funds		794.9	779.0
Financial liabilities		1,041.6	1,455.7

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

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

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

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

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

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

Notes to the financial statements

Note

29 Ownership information

Ownership

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

Group relationship

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