



**CODAN A/S**  
**ANNUAL REPORT 2013**

Company Reg. No. 56 77 12 12

**Contents**

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General information	3
Management's review	4
Financial review	4
Employees and the company's community involvement	9
Risk management	12
Capital structure	14
Directorships and executive positions	15
Statement by the Management on the annual report	18
Independent Auditor's report	19
Income statement	20
Statement of comprehensive income	20
Balance sheet at 31 December	21
Statement of changes in equity	23
Notes to the financial statements	25

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## General information

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**Board of Directors and  
Board of management**

**Board of Directors:**

Lars Nørby Johansen, Chairman  
Anthony Latham, Deputy Chairman  
Richard Houghton  
Jørgen Koch \*  
Jørgen Lykke \*  
Marianne Philip  
Christian Sletten \*  
Derek Walsh  
David Weymouth

\*) Elected by employees

**Board of Management:**

Kai Patrick Bergander, CEO  
Vibeke Krag

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**Auditors**

Auditors elected by the general meeting:

KPMG, Statsautoriseret Revisionspartnerselskab

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**Ownership**

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

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**Address, etc.**

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Company Reg. No. 56 77 12 12

## Management's review

### Financial review

#### The company's principal activity

Codan A/S ('Codan') is a financial holding company whose principal activity is to own and manage general insurance companies in Scandinavia, primarily through the Swedish subsidiary Trygg-Hansa Försäkrings AB and the Danish subsidiary Codan Forsikring A/S, both of which offer general insurance products to personal and commercial customers.

#### Annual Report 2013

Codan is a subsidiary of RSA Insurance Group plc, which prepares consolidated financial statements in accordance with applicable United Kingdom law. Consolidated financial statements are therefore not prepared for the Codan Group.

The financial statements for 2013 have been audited and prepared in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds). The accounting policies are described in Note 1 to the annual report.

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

#### Major events in 2013

##### *Dividend*

In the first half of 2013, Codan received dividends for 2012 from its subsidiary Codan Forsikring A/S DKK 650 million and DKK 1,031 million from the subsidiary Codan Finance Ltd.

In the first half of 2013, Codan paid DKK 2,930 million in dividends to RSA Overseas Holdings B.V., the parent company of Codan.

##### *Loans from Group entities*

During the first half of 2013 Codan has arranged loans from its subsidiary Trygg-Hansa Försäkrings AB of SEK 1,200 million and from Trygg-Hansa's Danish subsidiary NIS 2 A/S of DKK 1,400 million. In addition the loan, which Codan A/S had with Codan Forsikring A/S for DKK 1,000 million has been transferred to Codan's subsidiary NIS Norway A/S and has in that connection been converted to NOK 979 million. The currency exposure regarding the loans between Group entities has been hedged by means of forward exchange contracts. Codan has decided to repay the loan to NIS 2 A/S after the annual general meeting. Codan has in December arranged a loan from its subsidiary Codan Ejendomme II A/S of DKK 30 million.

##### *Capital injection to subsidiaries*

In January 2013, Codan contributed additional capital of DKK 15 million to the wholly owned subsidiary Codan Ejendomme II A/S. The injection was based in the company's increased investment activities in 2013. Also in January 2013 Codan A/S has temporarily injected additional capital of DKK 1,029 million to the wholly owned subsidiary Codan Finance Ltd. In December 2013 Codan contributed additional capital of DKK 40 million to Codan Ejendomme II A/S.

##### *Storms*

In October and December Denmark was hit by two storms. The storms caused over 18,000 insurance claims within a short period of time. The claims department was ready, alert texts had been sent to customers subscribing and all service level targets to our customers were met or exceeded. The storms had a negative impact at Codan Forsikring's profit before tax of approximately DKK 200 million after reinsurance cover.

##### *Quota share reinsurance programme*

As part of its overall international capital and finance management strategy, RSA established the reinsurance company, RSA Reinsurance Ireland Ltd. Trygg-Hansa Försäkrings AB and Codan Forsikring A/S have extended its reinsurance agreement with the Irish company with coverage for 2013.

The agreement does not affect other reinsurance contracts, but will see Codan Forsikring A/S and Trygg-Hansa Försäkrings AB entering into a so-called quota share arrangement, thereby extending their overall reinsurance cover. The programme covers 25% of net earned premiums for Danish policies and all marine policies (25% in 2012) and 10% of Trygg-Hansa Försäkrings AB's net earned premiums in 2013 (10% in 2012). Reinsurance with RSA Reinsurance Ireland Ltd is purchased at market price. The agreements have not been renewed for 2014.

## Management's review

### Profit for the year

In 2013, Codan posted a profit of DKK 1,418 million against a profit of DKK 1,898 million for 2012. The profit is in line with the outlook announced in the annual report for 2012 of maintaining satisfactory results for 2013, including satisfactory results from the subsidiaries' insurance operations. The decline is attributable to a fall in income from Group entities totalling DKK 1,464 in 2013 against DKK 1,955 in 2012.

### Investments

The company's investments are made in subsidiaries and other financial assets. The total investment return was DKK 1,462 million for 2013 against DKK 1,936 million for 2012.

At the end of 2013, the company's investment portfolio consisted of the following assets (all amounts in DKK million):

	2013	2012
Investment properties	263	208
Investments in Group entities	13,509	12,547
Equity investments and units in open-ended funds	150	147
Cash and cash equivalents	16	54
	<b>13,938</b>	<b>12,956</b>

### Investment properties

One of the company's properties is sold in January 2014. This is reflected in the value of the properties which has gone up by DKK 55 million from DKK 208 million in 2012 to DKK 263 million in 2013.

### Investments in Group entities

Income from Group entities amounted to DKK 1,464 million for 2013 against DKK 1,955 million last year.

Income from Group entities can be broken down as follows: Trygg-Hansa Försäkrings AB generated a profit of DKK 1,270 million (DKK 1,225 million in 2012), while Codan Forsikring A/S posted a profit of DKK 199 million (a profit of DKK 730 million in 2012). Other subsidiaries generated a loss of DKK 7 million in 2013 (DKK 0 million in 2012).

### Trygg-Hansa Försäkrings AB

Trygg-Hansa Försäkrings AB primarily carries on general insurance business in Sweden within the Personal and Commercial segments. Trygg-Hansa holds a leading position in the Swedish market and offers a comprehensive range of general insurance products, which also includes a broad portfolio of health and accident insurance products.

Calculated on the basis of Danish accounting policies, the profit for 2013 amounted to DKK 1,270 million against DKK 1,225 million for 2012. The balance on the technical account showed a profit of DKK 1,546 million for 2013 against DKK 322 million for 2012. The investment result was DKK 57 million compared to DKK 1,041 million for 2012. The company continued to show good profitability and stable results.

In 2013, Trygg-Hansa Försäkrings AB recorded an increase in gross earned premiums of approx. 4.6% to SEK 10,405 million against SEK 9,952 million in 2012. As was the case in previous years, the company saw an increase in premium volume especially within health and accident insurance, home buildings and home contents insurance, motor and commercial property insurance, while traffic insurance fell slightly.

Gross claims incurred amounted to SEK 6,261 million in 2013 against SEK 7,731 million in 2012, corresponding to a decrease of SEK 1,478 million or 19.0%. The decrease in gross claims incurred covers an increase in claims paid and a positive development in the run-off result. The increase in claims paid is attributable to an increase in large losses on the commercial property insurance. The run off result shows a gain of SEK 1,203 million against a loss last year of SEK 597 million. The positive run off result relates to motor insurance and health and accident insurances.

The gross expense ratio was 16.8% in 2013 as compared with 15.2% in 2012.

### Codan Forsikring A/S

Codan Forsikring A/S offers almost all types of general insurance products to private individuals and companies in the Nordic countries. Being the third-largest player in both the personal and commercial markets and the largest marine, aviation and cargo insurer, Codan Forsikring A/S holds a leading position in the general insurance market in Denmark. Codan Forsikring A/S offers a comprehensive range of general insurance products.

## Management's review

The company has branches in Norway, Sweden, Finland and Estonia. The Finnish branch no longer has any underwriting and is under termination.

The profit for Codan Forsikring A/S for 2013 was DKK 199 million against a profit of DKK 730 million for 2012.

During 2013 Codan Forsikring A/S has taken actions to restore profitability to the business, which also meant a small decline in the top line. Gross earned premiums (gross premiums written less change in provision for unearned premiums) decreased by approx. 1.1% from DKK 7,906 million in 2012 to DKK 7,821 million 2013.

Gross claims incurred amounted to DKK 5,553 million in 2013 against DKK 5,316 million in 2012, corresponding to an increase of DKK 237 million, or 4.5%. The continued focus on profitability in individual portfolios is not directly visible, as the impacts from the two storms in Denmark (approx. DKK 363 million) and an increased number of large losses blur the picture.

The gross expense ratio was 22.7% in 2013 as compared with 22.4% in 2012. The increase in the expense ratio is a result of increased IT costs, including amortisation and impairment of development costs and costs for the implementation of Solvency II.

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

The company continued to have an exposure to shares. The company's equity investments and units in open-ended funds amounted to DKK 150 million at 31 December 2013, equal to 1.1% of the total investment portfolio (1.1% in 2012).

The company's equity investments and units in open-ended funds did not generate a return in 2013 (a positive return of DKK 9 million in 2012).

### **Balance sheet**

Total assets for Codan increased by DKK 944 million, from DKK 14,123 million in 2012 to DKK 15,067 million in 2013. This is mainly the result of an increase in investment in Group entities.

Equity decreased by DKK 1,455 million to DKK 11,577 million. Apart from profit for the year, equity is particularly affected by dividend payments of DKK -2,930 million.

### **Business initiatives**

#### *Key strategies*

The Codan Group will look to protect the current leadership positions in areas such as Motor, Personal Accident and Renewable Energy, while improving profitability in Denmark and Norway. The Group also plans to fully capitalise on the opportunities in Specialty and with global brokers that arise from being the only scale player in the region with a global presence. Reflecting this, the strategic priorities set by the management team include:

- Increase growth in each of our businesses and improve profitability. We aim to grow profitably in our target core segments, to increase our business with key brokers and to strengthen our position within focus areas such as Care, Bancassurance and key target segments in Commercial Lines.
- Improve the customer experience. We aim to define clearer service promises for our customers and to deliver them more consistently every time. An important element of this is working with measures like customer satisfaction scores and NPS (Net Promoter Score). This will enable us to retain our existing customers and improve our customer proposition to target new ones.
- Improve operational efficiency with the right systems and processes. This will take place through an updated policy administration system and online capabilities that will make it easier for customers to do business with us.
- Invest in our staff. We already offer excellent leadership and technical training to our staff, and we have market-leading employee engagement.

#### *Market conditions*

Throughout 2013, trading conditions continued to be challenging in Denmark; however, the Danish insurance market remains stable and attractive. The market has announced that it will focus on profitability and cost reduction, and Codan

### Management's review

has the same focus. In Norway the trading conditions are continuously positive, while the Swedish market, as in the Danish market, has experienced a decline in the economy.

#### *Customers*

Codan continues to work on embedding our Think!Customer strategy and a customer mindset in all parts of the business. A key focus area in the Codan Group strategy is to understand customer needs and requirements and adapt our service and propositions to meet the expectations. We have rewritten a multitude of customer letters, our online sales flow has been improved, and the phone systems in our call centres have been updated to improve our customers' experience. Another example of our customer focus is the alignment of the CSR agenda with claims prevention activities where we have implemented initiatives like free text message alerts about extreme weather and strategic partnerships on burglar alarms and sewer contractors. Positive results are coming through in our customer dashboards showing better results and improved retention rates.

#### **Variable remuneration**

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

#### **Audit Committee**

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

The Committee consists of four members of the Board of Directors with Anthony P. Latham as chairman. As the independent member with special qualifications in accounting, the Board of Directors of the company has appointed Lars Nørby Johansen. Lars Nørby Johansen is Chairman of the Boards of Directors of Codan and Codan Forsikring A/S.

The tasks of the Committee are set out in the Terms of Reference based on Executive Order no. 1393 of 19 December 2011 on Audit Committees in Undertakings and Groups Subject to Supervision by the Danish Financial Supervisory Authority (*Bekendtgørelse om revisionsudvalg i virksomheder samt koncerner, der er underlagt tilsyn af Finanstilsynet*). The tasks of the Committee include monitoring both the financial reporting process and the company's internal control system and Risk Management Systems. The Committee also monitors the statutory audit of the financial statements, which includes controlling the auditors' independence and the effectiveness of the internal audit function.

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

The work of the Audit Committee is based on supervision of historical events and does therefore not include future events, expectations or forecasts.

In 2013, the Audit Committee held four meetings in connection with the quarterly reporting to the company's Board of Directors and the Danish Financial Supervisory Authority.

#### **Events subsequent to 31 December 2013**

##### *New CEO of Codan A/S*

On 4 March 2014 the company announced Michael Holliday-Williams' resignation from the Codan Group. Patrick Bergander, former CFO of the Codan Group, has been appointed interim CEO.

##### *Sale of renewal rights for Agriculture customers*

With effect from 1 April the subsidiary Codan Forsikring has sold renewal rights of approximately 1,600 Danish agriculture customers to Tryg, to ensure focus on prioritised segments in our strategy.

## **Management's review**

### *Sale of office head quarters in Stockholm*

In January 2014 the subsidiary Trygg-Hansa Försäkrings AB signed an agreement with an external party to sell all the shares in the wholly owned subsidiary Brädstapeln Fastigheds AB. The subsidiary owned two properties located in central Stockholm, of which one is the primary offices of Trygg-Hansa Försäkrings AB. At the same time Trygg-Hansa Försäkrings AB has entered into a rental agreement regarding the offices.

### *Sale of investment property in Copenhagen*

In November 2013 an agreement was signed between the Codan A/S and an external party regarding the sale of the property Trekronergården. The sale was concluded in February 2014. As at 31 December 2013 the property is valued at sales price.

### *Sale of branch in Estonia*

During April 2014 the Codan Group has signed an agreement for the sale of the company's Estonian branch. The sale forms part of the RSA Groups strategy to focus on core operations. The branch was sold together with RSA's two subsidiaries in Latvia and Lithuania. The sale is expected to close before year-end 2014. The Estonian branch is included in the financial statements of Codan Forsikring with gross earned premiums of DKK 221 million, profit after tax of DKK - 11 million and total assets of DKK 98 million.

### *Acquired property*

As a part of its ordinary business, the subsidiary Codan Forsikring A/S acquired a property in January 2014. The purchase price is DKK 301 million. The property has subsequently been taken over and is recorded as assets held for sale.

### *Dividend for 2013*

At the end of April 2014 Codan expects to receive dividend from the Danish subsidiary Codan Forsikring A/S of DKK 300 million and from the Swedish subsidiary Trygg-Hansa Försäkrings AB of SEK 2,700 million. Upon this transaction the solvency coverage will increase from 168% to 428%.

The Board of Management considers distributing an interim dividend to the parent company, RSA Overseas Holding B.V., Netherland, when dividend from the subsidiaries is received.

No other events of material importance to the company's financial position or business affairs have occurred subsequent to 31 December 2013.

### **Outlook for 2014**

In 2014, Codan expects to maintain the satisfactory insurance operating profit in its subsidiaries.

Codan's insurance subsidiaries continue to focus on delivering long-term profitable growth in their insurance operations with strict management control of underwriting. Diversified portfolios of the subsidiaries, reasoned insurance programs and conservative reserving ensure stable insurance operating profits. The subsidiaries are expected to post satisfactory results from their insurance operations, provided that weather-related claims are at a normal level in 2014. Based on the guidelines and investment policy laid down by the Codan Group, no major changes are expected in the allocation of the companies' assets in 2014.

The management of Codan does not consider it appropriate to make any statements as to the expected developments in the interest rate and stock markets or the expected value adjustments for 2014.

## **Management's review**

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

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

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

#### **Corporate responsibility efforts**

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

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

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

In 2013, Codan won the 'CSR Strategy Prize' at the CSR Awards in Denmark. In awarding the prize, the jury stated that Codan has managed to integrate CSR work in the company, thus creating value for society, customers and the Group's own business. Codan's CSR work is centred around the three themes: climate, safety and health.

#### **Climate**

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

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

In the long term, Codan would also like to contribute to reversing the negative climate trend. The Group therefore has a partnership agreement with WWF in Denmark and Sweden, which involves sponsorship of the annual Earth Hour campaign, among other things. In addition, Codan supports RSA's efforts to reduce CO<sub>2</sub> emissions per employee by 20% by the end of 2018.

#### **Safety**

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

In Denmark, Sweden and Norway, the Group focused in 2013 on the importance of being visible in traffic, for example by having 400 voluntary employees handing out 175,000 free reflectors.

Moreover, in Sweden, the Group has about 80,000 lifebuoys at harbours and beaches. The Group is also SkiStar's safety partner in Åre and Sälen and provides advice on piste safety.

## Management's review

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

### Health

Illness and long-term sick leave have unpredictable consequences for individuals, companies and the healthcare sector. Through Codan's health insurance products, the Group tries to help both personal and commercial customers recover from their illness in the best possible way.

The best illnesses are those that do not occur at all. As a result, several of the Group's health insurance products include preventive treatment. In Denmark, Codan offers a Stay Healthy concept as an additional cover for health insurance. Under this cover, it is possible to get regular health checks as well as psychological, legal or social counselling in particularly stressful situations.

We also have a unique rehabilitation programme in both Denmark and Sweden, which helps ensure that customers get on with their lives after serious accidents. The programme includes, among other things, psychological counselling as well as career and training counselling.

The Group makes huge efforts in Denmark, Sweden and Norway to safeguard employee health, for example by organising an annual health week. Since health was put on the agenda in 2008, the number of sick days has gone down, while employee engagement has gone up. In addition, Codan ranked in the top 3 in the competition to be Denmark's Healthiest Company 2013.

### Focus on capabilities and engagement

Codan invests considerable resources on developing the right capabilities for the future. We believe that the company's future success is dependent on ensuring that our employees and leaders have knowledge and expertise to always be able to deliver the best possible solutions for our customers. The company supports and encourages capability development in order to strengthen both personal and technical development, and thereby add value to the business. This is done through a combination of internal and external training.

Through 2013 we have had a particular focus on increasing leadership skills. We have delivered the "Leading Change" programme to improve our leaders' ability to lead the people side of change in our business. We have also delivered a new introduction programme for new leaders to ensure that our new leaders get a strong basic foundation as leaders in our business. For employees we have offered development opportunities that have focused on increasing general business skills such as presentation skills, influencing skills and basic project management skills.

The company has a strong focus on employee commitment, which is measured yearly in a commitment survey. Based on the results of this, focused activities are defined, and the company takes active steps to increase employee commitment. The "Unlocking your full potential" programme for leaders and employees has been integrated into the company culture and provides a variety of tools and techniques for working with development and the company culture throughout the organisation.

### Focus on more women in management

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

In 2013, Codan maintained its share of women on the Board of Directors at 20% in Codan and Codan Forsikring A/S and 25% in Forsikringsselskabet Privatsikring, respectively. This is in accordance with the target for 2013. The share of women on other management levels has increased from 35% in 2012 to 36% in 2013 and meets the target for 2013.

## **Management's review**

The long-term aim for more women in management positions is to achieve a representation better reflecting the general distribution of women and men at Codan. Also, the efforts will contribute to our CSR objective of creating a sustainable future and provide equal opportunities for our employees and talent pool in society. As part of our global Diversity and Multiplicity Project in the RSA Group, we have introduced the following measures:

- Set up a Diversity and Multiplicity Steering Group and Team
- Set up targets for the share of women in management positions each year from 2012 to 2020 for Codan and the individual business units
- Drafted a Diversity and Multiplicity Scorecard containing specific targets for different focus areas and continuous follow-ups
- Supported International Women's Day and participation at events on women in management positions in 2013, among other things, at Børsen and in Copenhagen's Diversity Charter
- Set up supplier requirements for head hunters stipulating that at least 30% of all qualified candidates proposed for management positions must be women
- Continued our structured work with the female talent pool and ensured their representation in our successor plans
- Ensured 50% of female candidates in our talent programmes 2013-14 for both executive, senior and junior talents
- Started a Senior Female Sponsorship Programme in cooperation with the RSA Group with the objective of retaining and supporting our senior female talents
- Planned a new network programme for female talents on all levels at Codan in 2014-15
- Integrated Diversity and Multiplicity in our corporate values and expectations for both managers and employees
- Generally ensured that the equal treatment perspective for both men and women is incorporated into our HR and business processes, including pay adjustment, bonus, flexible working hours etc.

## Management's review

### Risk management

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

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

#### Risk management in Codan

The overarching strategy and guidelines for Codan are laid down by the company's Board of Directors. The connection between strategic considerations regarding risk acceptance and day-to-day decisions on whether to enter into agreements with customers, partners, suppliers and others has been strengthened through continuous assessment of the current risk profiles of Codan's subsidiaries by the Risk Management Forum, which serves as an advisory body to the management. The risk profiles are reported to the respective Boards of Directors quarterly. For further information on risk management, see Note 2.

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

#### *Insurance risks*

The Codan Group's insurance risks comprise:

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

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

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

For a risk description of underwriting and reserving risks of subsidiaries, please refer to the Annual Reports for 2013 of Codan Forsikring A/S and Trygg-Hansa Försäkrings AB.

#### *Financial risks*

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

Codan's direct investment portfolio is exposed mainly (nearly 50%) to properties and a few unlisted shareholdings for strategic reasons. However, Codan's subsidiaries have the majority of their investments in Danish and Swedish government and mortgage bonds. The vast majority of the bonds is considered liquid and can be sold at short notice close to market price.

#### *Market risks*

##### *Interest rate risk*

Changes in interest rates is one of the main financial risks that Codan is exposed to through its subsidiaries. If interest rates decrease, the value of bond portfolios held by Codan's subsidiaries will rise. At the same time, technical provisions increase in connection with downwards changes in the discount rate. Changes in interest rates thus have an opposite profit and loss effect on assets and liabilities.

## Management's review

### *Equity risk*

The value of the equity portfolio fluctuates in line with movements in the stock markets. The equity portfolios held by subsidiaries consist primarily of direct investments in listed European equities, whereas the equities held directly by Codan are focused on a single listed collective investment vehicle and a few unlisted shareholdings.

### *Spread risk*

Spread risk is the risk that the value of bonds with an inherent credit element declines due to spread increases caused, for example, by an increase in risk aversion in the market. Codan is not exposed to spread risk directly, but is exposed to spread risk via investments in mortgage bonds and corporate bonds through its subsidiaries. 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 has only few direct investments in properties. In addition to direct investments in properties, Codan has a minor exposure to properties via exchange-traded property trusts through the investment portfolios held by subsidiaries.

### *Currency risk*

Currency risk arises as a result of a mismatch in the value of assets and liabilities in the same foreign currency. Codan has limited currency risk as the technical provisions in subsidiaries are generally matched by investments in the same currency. In Codan's financial statements, results and equity of subsidiaries are translated into DKK. Consequently, significant changes in foreign exchange rates may affect Codan's results and equity.

### *Inflation risk*

Inflation risk is the risk that claims payments in future years will escalate given an increase in inflation due to indexation of claims cash flows. A significant part of the technical provisions in Codan's subsidiaries is index-linked, and Codan is consequently exposed to inflation through its subsidiaries.

### *Liquidity risk*

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

### *Credit risk*

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

### *Operational risks*

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

## **Management's review**

### **Capital structure**

Codan is subject to the rules governing financial holding companies and bases its capital management approach on these rules. The rules governing financial holding companies stipulate that capital requirements of directly or indirectly owned insurance subsidiaries are fully deductible from Codan's capital. Calculation of the capital requirement of financial holding companies includes risk-weighting of the company's assets. The company's solvency ratio, which must be at least 8%, is calculated by comparing the risk-weighted assets with the company's capital base. Codan's solvency ratio is 13.4% against 20.2% at the end of 2012.

For capital management purposes of the insurance subsidiaries, the Codan Group uses an internal capital model to assess and calculate capital requirements and scenarios. The model is used to calculate the capital requirement and for performance reviews purposes based on capital allocations derived from the model. The model is further used for impact analyses when assessing impact of major strategic decisions. The model is developed over a number of years in cooperation with the RSA Group. The model is used for Codan Forsikring and is developed on a regular basis, which included an annual reparametrisation. The model is a cash flow-based stochastic model which models underwriting risk, premium rating risk, reserving risk, catastrophe risk, counterparty risk, investment risk and operational risk. Within this model framework, with run-off on existing obligations and new business for one year, the capital requirement is calculated as the capital required at all times to resist a worst-case scenario, defined as a once in every 200-year occurrence.

#### **New Danish Individual Solvency Rules**

As of 1 January 2014 new regulation will come into force for Insurance and Insurance Holding Companies. The Codan Group has chosen to take advantage of work done in preparing for Solvency II and have therefore implemented and updated existing internal rules, methods and procedures applicable under Danish rules to be compliant with the new regulation.

#### ***Solvency II***

The Codan Group has since 2009, been working on a Solvency II project coordinated with the RSA Group.

Solvency II is a new set of EU rules, which is expected to come into force as off 1 January 2016. The new rules will among other things, entails that the capital requirements for insurers will be based on the risks in the business. The current capital requirements, Solvency I, are based on absolute figures for premiums and claims alone.

The Codan Group is keeping a close eye on the development of the Solvency II rules.

## Management's review

### Directorships and executive positions

#### Board of Directors

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

#### Board of Directors

#### Directorships and executive positions in other enterprises

Lars Nørby Johansen, Chairman	(Chairman) Københavns Lufthavne A/S, William Demant Holding A/S, Dansk Vækstkapital K/S, Falck A/S, Falck Holding A/S, Codan Forsikring A/S, Fonden for Entreprenørskab – Young Enterprise, Falck Danmark A/S, Vagtcentralen af 9. Februar 1980 ApS, Dansk Vækstkapital Komplementar ApS, (Other directorships) Arp-Hansen Hotel Group A/S, Index Award A/S, Fonden Oluf Høst Museet, Bornholms Mosteri A/S.
Anthony Latham, Deputy Chairman	Codan Forsikring A/S (Deputy Chairman), Pool Reinsurance Ltd (Chairman), Ecclesiastical Insurance Group plc., Pool Reinsurance (Nuclear) Ltd (Chairman), Ecclesiastical Insurance Office plc.
Richard Houghton	Codan Forsikring A/S, Trygg-Hansa Försäkrings AB, RSA Insurance Group plc., The Marine Insurance Company Ltd., Royal & Sun Alliance Reinsurance Ltd., Royal & Sun Insurance plc., Sun Insurance Office Ltd.
Jørgen Koch *	Codan Forsikring A/S
Jørgen Lykke *	Codan Forsikring A/S
Marianne Philip	(Chairman): A.J. Aamund A/S, Gerda Og Victor B. Strand Holding A/S, Holdingselskabet Af 17. August 2011 ApS, Movement A/S, Scan Office A/S, Scan Office Ejendomme ApS, Stiholt Holding A/S, U.D.Group A/S, Gerda Og Victor B. Strands Fond/Toms Gruppens Fond. (Board Of Director): Brenntag Nordic A/S, Codan A/S, Codan Forsikring A/S, Ferdinand Andersens Legat, Kapitalforeningen Nordea Invest, Hedgeforeningen Nordea Invest Portefølje (kapitalforening), Ingrid Zachariaes Fond, Investeringsforeningen Nordea Invest, Investeringsforeningen Nordea Invest Bolig, Investeringsforeningen Nordea Invest Engros, Investeringsforeningen Nordea Invest Kommune, Investeringsforeningen Nordea Invest Portefølje, Investeringsinstitutforeningen Nordea Invest. Investeringsinstitutforeningen Nordea Invest Portefølje (kapitalforening), Placeringsforeningen Nordea Invest, Novo Nordisk Fonden. (Liquidator) A Post Euro Express A/S, Bluestar Telecom ApS, BTB Mercoprint ApS, EKGH Invest ApS, Emborg & Bertelsen Ejendomsinvest ApS, Euroconsultants Af 2004 ApS, Frokostnedkeriet Frokostbørsen ApS, Glostrup Bowling Center ApS, Goodpoison ApS, Handy-Clean Rengøring Smba, Hilal-Sema ApS, Hn Cleantech A/S, Ib Hansen, Rådgivende Ingeniør ApS, Imja ApS, Innovative Medico Products ApS, Isefjorden Holding ApS, Jardins D'osaka ApS, Jmo ApS, Kehling Vvs ApS, Kenneth Holding ApS, Kildedal Enterprise ApS, Komplementarselskabet Sb ApS, Københavnsvej 26, 2001 ApS, Mac Elle Holding ApS, Manskabsgruppen ApS, Mick Poulsen Holding ApS, N. Lundgaard Holding ApS, Nb Ejendomshandel ApS, Nora I ApS, Novi Corp. ApS, Pant Og Handelsbanken A/S, Pbh 25.366 ApS, Pit Service ApS, Prime Care ApS, Proconsul ApS, Quintin A/S, Rumko Holding ApS, SD 2002 ApS, Si 5 ApS, SI 6 ApS, SNH Ejendomme ApS, Sp Berlin Projekt Holding ApS, Sport & Musik ApS, Techno Vision Development A/S, Ticino Investment & Marketing Services ApS, Total Solution ApS, Zulueta ApS, Østerbrogade 110, 2002 ApS, Aab Projekt Holding ApS, Allriott Consulting Statsautoriseret Revisionsaktieselskab, Ejendomsselskabet Københavnsvej 14-16 ApS, Gourmetkaffe S.M.B.A., Komplementarselskabet Sb Boligudvikling ApS.

\* Elected by employees

**Management's review**

**Board of Directors (continued)**

Christian Sletten \*

Codan Forsikring A/S

Derek Walsh

Codan Forsikring A/S, Royal Insurance Holdings Plc. (Executive Officer)

David Weymouth

Codan Forsikring A/S, Trygg-Hansa Försäkrings AB (Chairman), Financial Services Compensation Scheme Ltd (Executive Officer), Royal & Sun Alliance Insurance Plc, Royal & Sun Alliance Reinsurance Ltd, Sun Insurance Office Ltd, The Marine Insurance Company Ltd, Royal London Mutual Insurance Society Ltd.

\* Elected by employees

## Management's review

### Board of Management

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

#### Board of Management

#### Directorships and executive positions

Michael Holliday-Williams

Trygg-Hansa Försäkrings AB (CEO)

Kai Patrick Bergander (CEO)

(Chairman): Codan Ejendomme II A/S, NIS Denmark A/S, NIS 2 A/S. (Directorship in): Försäkringsföretagens Pensionskassa (FPK), Trygg-Hansa Försäkrings AB (CEO)

Vibeke Krag

(Deputy Chairman): Codan Ejendomme II A/S, (Directorship in): Forsikringsakademiet A/S, Besigtelseskotoret Af 1914 A/S, Forsikringsselskabet Privatsikring A/S. Codan Forsikring (CEO)

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

The Board of Directors and the Board of Management have today considered and approved the annual report of Codan A/S for the financial year 1 January to 31 December 2013.

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 2013 and of its financial performance for the financial year 1 January to 31 December 2013. It is also our opinion that the Management's review gives a true and fair view of developments in the Company's activities and financial position and describes the major risks and uncertainties which the Company is facing.

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

Copenhagen, 22 April 2014

**Board of Management**

Kai Patrick Bergander  
*CEO*

Vibeke Krag

**Board of Directors**

Lars Nørby Johansen  
*Chairman*

Anthony Latham  
*Deputy Chairman*

Richard Houghton

Jørgen Koch

Jørgen Lykke

Marianne Philip

Christian Sletten

Derek Walsh

David Weymouth

## **Independent auditors' report**

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

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

We have audited the financial statements of Codan A/S for the financial year 1 January - 31 December 2013. The financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Business Act.

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

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

### **Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors considers internal control relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Our audit has not resulted in any qualification.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2013 and of the results of its operations for the financial year 1 January - 31 December 2013 in accordance with the Danish Financial Business Act.

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

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

Frederiksberg, 22 April 2014

## **KPMG**

Statsautoriseret Revisionspartnerselskab

Jesper Dan Jespersen  
State Authorised  
Public Accountant

Anja Bjørnholt Lütchke  
State Authorised  
Public Accountant

**Income statement**

Note	DKK '000	2013	2012
<b>Investment return</b>			
		1,461,816	1,955,360
4	Income from investment properties	5,217	5,885
5	Interest income and dividends, etc.	4,504	12,887
6	Value adjustments	81,415	-3,470
7	Interest expenses	-84,931	-28,594
	Investment management expenses	-5,989	-6,009
<b>Total investment return</b>		<b>1,462,032</b>	<b>1,936,059</b>
8	Other expenses	-47,439	-52,806
<b>Profit before tax</b>		<b>1,414,593</b>	<b>1,883,253</b>
9	Tax	3,658	14,563
<b>Profit for the year</b>		<b>1,418,251</b>	<b>1,897,816</b>
<b>Proposal for the distribution of profit:</b>			
	Transfer to reserve for net revaluation according to the equity method	1,461,816	1,955,360
	Proposed dividend	-	2,930,000
	Transferred to retained earnings	-43,565	-2,987,544
		<b>1,418,251</b>	<b>1,897,816</b>

**Statement of comprehensive income**

	Revaluation of Group occupied properties in subsidiaries	267,035	30,121
	Currency translation adjustment, foreign subsidiaries	-150,097	237,928
	Tax on currency translation adjustment in subsidiaries	-9,416	-
	Currency translation adjustment, goodwill relating to foreign subsidiaries	-39,468	17,404
	Currency translation adjustment, inter-company balances relating to foreign subsidiaries	-	53
	Actuarial gains/losses on pension obligations	-1,073	-1,152
	Tax on actuarial gains/losses on pension obligations	268	288
	Actuarial gains/losses on pension obligations in subsidiaries	-10	-1,790
	Minority interests' share of tax on intra-group contribution	-	2,489
	Purchase of minority interests' shares in subsidiaries	-11,048	-
	Other comprehensive income	-147	-1,881
<b>Other comprehensive income</b>		<b>56,039</b>	<b>283,460</b>
	Profit for the year	1,418,251	1,897,816
<b>Total comprehensive income</b>		<b>1,474,290</b>	<b>2,181,276</b>

## Balance sheet at 31 December

Note	DKK '000	2013	2012
<b>Assets</b>			
10	<b>Intangible assets</b>	<b>1,118,912</b>	<b>1,161,366</b>
11	<b>Investment properties</b>	<b>263,000</b>	<b>208,000</b>
12	Investments in Group entities	13,508,683	12,547,144
	<b>Total investments in Group entities</b>	<b>13,508,683</b>	<b>12,547,144</b>
13	Equity investments	149,525	146,736
	<b>Total other financial assets</b>	<b>149,525</b>	<b>146,736</b>
	<b>Total investments</b>	<b>13,921,208</b>	<b>12,901,880</b>
13	Other receivables	6,157	3,187
14	<b>Total receivables</b>	<b>6,157</b>	<b>3,187</b>
15	Current tax assets	-	1,624
19	Deferred tax assets	4,988	-
13	Cash and cash equivalents	15,644	54,422
14	<b>Total other assets</b>	<b>20,632</b>	<b>56,046</b>
	Accrued interest and rent	108	138
	<b>Total accrued income</b>	<b>108</b>	<b>138</b>
	<b>Total assets</b>	<b>15,067,017</b>	<b>14,122,617</b>

**Balance sheet at 31 December**

Note	DKK '000	2013	2012
<b>Equity and liabilities</b>			
17 <b>Share capital</b>		859,970	859,970
Reserve for net revaluation according to the equity method		4,750,435	4,521,594
Translation reserve		128,601	519,601
<b>Total reserves</b>		4,879,036	5,041,195
<b>Retained earnings</b>		5,837,514	4,201,065
<b>Proposed dividend</b>		-	2,930,000
16 <b>Total equity</b>		<b>11,576,520</b>	<b>13,032,230</b>
18 Pension obligations		22,366	23,278
19 Deferred tax liabilities		-	4,246
20 Other provisions		5,472	6,283
21 <b>Total provisions</b>		<b>27,838</b>	<b>33,807</b>
Amounts owed to Group entities		3,306,117	1,049,006
15 Current tax liabilities		13,061	-
Other payables		143,481	7,574
22 <b>Total payables</b>		<b>3,462,659</b>	<b>1,056,580</b>
<b>Total equity and liabilities</b>		<b>15,067,017</b>	<b>14,122,617</b>

**Notes without reference**

- 1 Accounting policies
- 2 Risk information
- 3 Key figures and financial ratios
- 23 Related parties
- 24 Security
- 25 Contingent assets, contingent liabilities and financial liabilities
- 26 Incentive schemes
- 27 Ownership information

## Statement of changes in equity

DKK '000						
	Share capital	Net revaluation according to the equity method	Translation reserve	Retained earnings	Proposed dividend	Total equity
<b>2012</b>						
<b>Equity, beginning of the year</b>	<b>859,970</b>	<b>4,865,474</b>	<b>215,166</b>	<b>4,914,124</b>	<b>2,452,340</b>	<b>13,307,074</b>
<b>Changes in equity for 2012:</b>						
Revaluation of Group occupied properties in subsidiaries	-	30,121	-	-	-	30,121
Currency translation adjustment, foreign subsidiaries	-	-49,050	286,978	-	-	237,928
Currency translation adjustment, goodwill relating to foreign subsidiaries	-	-	17,404	-	-	17,404
Currency translation adjustment, inter-company balances relating to foreign subsidiaries	-	-	53	-	-	53
Actuarial gains/losses on pension obligations	-	-	-	-1,152	-	-1,152
Tax on actuarial gains/losses on pension obligations	-	-	-	288	-	288
Actuarial gains/losses on pension obligations in subsidiaries	-	-1,790	-	-	-	-1,790
Minority interests' share of tax on intra-group contribution	-	2,489	-	-	-	2,489
Other comprehensive income	-	-1,856	-	-25	-	-1,881
<b>Profit for the year</b>	<b>-</b>	<b>1,955,360</b>	<b>0</b>	<b>-2,987,544</b>	<b>2,930,000</b>	<b>1,897,816</b>
<b>Total comprehensive income for the year</b>		<b>1,935,274</b>	<b>304,435</b>	<b>-2,988,433</b>	<b>2,930,000</b>	<b>2,181,276</b>
Write down, acquisition cost NIS Norway AS	-	-34	-	34	-	-
Dividend paid	-	-	-	-	-2,456,120	-2,456,120
Value adjustment of dividends at time of declaration	-	-	-	-3,780	3,780	-
Dividend received from subsidiaries	-	-2,279,120	-	2,279,120	-	-
<b>Changes in equity for the year</b>	<b>-</b>	<b>-343,880</b>	<b>304,435</b>	<b>-713,059</b>	<b>477,660</b>	<b>-274,844</b>
<b>Equity, end of the year</b>	<b>859,970</b>	<b>4,521,594</b>	<b>519,601</b>	<b>4,201,065</b>	<b>2,930,000</b>	<b>13,032,230</b>

## Statement of changes in equity

DKK '000

	Share capital	Net revaluation according to the equity method	Translation reserve	Retained earnings	Proposed dividend	Total equity
<b>2013</b>						
<b>Equity, beginning of the year</b>	<b>859,970</b>	<b>4,521,594</b>	<b>519,601</b>	<b>4,201,065</b>	<b>2,930,000</b>	<b>13,032,230</b>
<b>Changes in equity for 2013:</b>						
Revaluation of Group occupied properties in subsidiaries	-	267,035	-	-	-	267,035
Currency translation adjustment, foreign subsidiaries	-	201,430	-351,527	-	-	-150,097
Tax on currency translation adjustment in subsidiaries	-	-9,416	-	-	-	-9,416
Currency translation adjustment, goodwill relating to foreign subsidiaries	-	-	-39,468	-	-	-39,468
Disposal of subsidiaries in period	-	34	-	-34	-	-
Currency translation adjustment, disposal of foreign subsidiaries	-	-	-5	-	-	-5
Actuarial gains/losses on pension	-	-	-	-1,073	-	-1,073
Tax on actuarial gains/losses on pension obligations	-	-	-	268	-	268
Actuarial gains/losses on pension obligations in subsidiaries	-	-10	-	-	-	-10
Purchase of minority interests' shares in subsidiaries	-	-11,048	-	-	-	-11,048
Other comprehensive income	-	-	-	-147	-	-147
	-	448,025	-391,000	-986	-	<b>56,039</b>
<b>Profit for the year</b>	-	<b>1,461,816</b>	-	<b>-43,565</b>	-	<b>1,418,251</b>
<b>Total comprehensive income for the year</b>	-	<b>1,909,841</b>	<b>-391,000</b>	<b>-44,551</b>	-	<b>1,474,290</b>
Dividend paid	-	-	-	-	-2,930,000	-2,930,000
Dividends received from subsidiaries	-	-1,681,000	-	1,681,000	-	-
<b>Changes in equity for the year</b>	-	<b>228,841</b>	<b>-391,000</b>	<b>1,636,449</b>	<b>-2,930,000</b>	<b>-1,455,710</b>
<b>Equity, end of the year</b>	<b>859,970</b>	<b>4,750,435</b>	<b>128,601</b>	<b>5,837,514</b>	-	<b>11,576,520</b>

## Notes to the financial statements

### Note

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#### 1 Accounting policies

The financial statements for 2013 have been audited and prepared in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds).

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

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

When calculating the basecapital and solvency coverage, the deduction of Danish discounting of reserves in Swedish subsidiaries has been re-evaluated. Comparison numbers have been restated accordingly.

In some tables and notes, the comparative figures have been reclassified relative to the annual report for 2012. The reclassifications are of no importance to the informative value of the individual tables and notes.

The accounting policies remain unchanged from the annual report for 2012.

#### **General information**

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

#### **Recognition and measurement**

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

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

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

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

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

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

Determination of the carrying amount of assets and liabilities requires an estimate of how future events will affect the value at the balance sheet date. In Codan and in Codan's Group entities, estimates having a material impact on

## Notes to the financial statements

### Note

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the financial reporting are, for example, made in connection with the determination of technical provisions, depreciation, amortisation and impairment losses, properties, pension obligations as well as contingent assets and liabilities. The assumptions and estimates used are reviewed on a continuous basis and are, among other things, based on historical experience and expectations of future events.

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

Risk management is described in Note 2.

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

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

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

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

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

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

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

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

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

In 2013, changed assumptions and estimates by Codan's subsidiaries Codan Forsikring and Trygg-Hansa Försäkrings AB concerning completed and current development projects resulted in a total impairment loss of DKK 214 million before tax.

#### **Business combinations**

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

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

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

## Notes to the financial statements

### Note

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

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

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

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

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

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

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

#### **Foreign currency translation**

The company's functional currency is DKK.

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

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

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

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

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

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

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

## Notes to the financial statements

### Note

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#### *Financial instruments*

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

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

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

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

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

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

#### *Financial derivatives*

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

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

Currently financial derivatives only comprise foreign exchange contracts.

#### *Incentive schemes*

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

#### **Income statement**

##### **Investment return**

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

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

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

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

## Notes to the financial statements

### Note

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

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

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

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

#### **Tax**

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

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

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

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

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

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

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

#### **Balance sheet**

##### **Assets**

##### **Intangible assets**

##### **Goodwill**

Goodwill is initially recognised in the balance sheet at the amount corresponding to the excess of the cost of acquisition of Codan's interest in an acquired entity over Codan's interest in the fair value of the acquired assets and liabilities at the time of acquisition. Goodwill relating to acquisitions prior to 2004 is recognised at the carrying amount at 1 January 2004. This goodwill has thus been recognised on the basis of the cost recognised in Accord-

## Notes to the financial statements

### Note

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dance with the previous accounting policies less amortisation and impairment losses up to 1 January 2004. Reference is made to the section 'Business combinations'. The carrying amount of goodwill is allocated to cash-generating units at the date of acquisition. The determination of cash-generating units is in accordance with the business structure, and goodwill is tested for impairment at the end of the financial year. In connection with intra-group business combinations, existing goodwill is allocated to the new cash-generating unit in which the activities creating the goodwill are included.

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

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

Impairment losses on goodwill are not reversed.

#### ***Development projects***

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

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

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

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

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

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

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

#### ***Impairment of development projects and other intangible assets***

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

#### **Property and equipment**

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

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

## Notes to the financial statements

### Note

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

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

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

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

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

Goodwill 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.

#### **Investment properties**

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

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

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

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

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

#### **Other financial assets**

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

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

For securities that are not listed on a stock exchange, or for which no market price exists which reflects the fair value of the asset, the fair value is determined using valuation techniques, the purpose of which is to determine the transaction price which would result from arm's length transactions between independent parties at the date of

## Notes to the financial statements

### Note

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measurement. These techniques include the use of similar recent arm's length transactions, reference to other instruments that are substantially the same and a discounted cash flow analysis. All value adjustments of financial assets are recognised in the income statement as value adjustments.

Currency translation adjustments are recognised directly in the income statement.

#### **Receivables**

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

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

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

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

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

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

#### **Liabilities**

##### **Equity**

##### *Share capital*

Shares in Codan are recognised at nominal value.

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

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

##### *Revaluation reserve*

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

##### *Translation reserve*

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

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

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

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

##### *Proposed dividend*

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

## Notes to the financial statements

### Note

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#### **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 receivables.

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

#### **Pension obligations**

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

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

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

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

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

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

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

#### **Provisions**

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

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

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

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

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

## Notes to the financial statements

### Note

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#### **Methods for calculating financial ratios**

The financial ratios have been calculated in accordance with the Danish Financial Supervisory Authority's Executive Order on the Presentation of Financial Statements. The ratios included in the five year summary have been calculated as follows:

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

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

## Notes to the financial statements

### Note

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#### 2 Risk information

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

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

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

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

##### **Insurance risks**

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

Codan's subsidiaries place a premium on underwriting capability as one of the key drivers of a sustainable, profitable performance. To support the sound implementation of the Risk Acceptance Guidelines, an underwriting framework outlines the classes and nature of the insurance risks which the subsidiary is willing to underwrite, how these are to be priced and the levels of capital that are acceptable to put at risk.

The focus of the Underwriting function is to ensure that premiums charged are sufficient to cover the cost of claims and expenses and provide a suitable margin for delivering a sustainable return for shareholders. Codan's subsidiaries place major focus on risk selection and risk quality alongside a disciplined approach to pricing to deliver these objectives. A majority of the customers are offered a premium which is set according to tariffs and risk factors calculated by price actuaries. For 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.

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

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

The Board also stipulates, through its Risk Acceptance Guidelines, the framework for the actuarial review of rates and for calculating tariff-based pricing. In order to ensure that tariffs remain updated and are positioned to deliver the results set out in the business plans of subsidiaries, dedicated Personal and Commercial Pricing teams follow a structured pricing process. The pricing and portfolio management teams interact and challenge each other to ensure a clear link between portfolio strategy and pricing actions. All insurance contracts have terms with limits specified

## Notes to the financial statements

### Note

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in the authority delegated by the Board of Directors. The ability to alter the terms of a contract is controlled via the Delegated Authority Framework. All policies have a built-in right for the company to decline a renewal or to amend the terms and conditions in connection with renewal. Exceptions are handled through Executive Licence Extensions or Special High Risk Licences.

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

#### *Insurance risk concentrations*

The Risk Acceptance Guidelines also determine how reinsurance protection is to be structured to reduce the insurance risks of subsidiaries.

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

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

#### *Non-catastrophe risks*

The Codan Group's reinsurance programme for 2013 was an excess of loss programme with a maximum retention of DKK 100 million for any one risk, any one event in respect of buildings and contents insurance. The retention for accident claims was DKK 100 million, DKK 25 million for liability and DKK 30 million for motor third party liability claims. All reinsurance contracts are purchased on a Nordic or global basis, thereby reducing costs. The above net retention amounts are reduced by way of a quota share cession as mentioned below.

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

Codan Forsikring A/S has entered into a quota share arrangement with RSA Reinsurance Ireland Ltd. The agreement for 2013 covered 25% of net results. Trygg-Hansa Försäkrings AB has a similar agreement with RSA Reinsurance Ireland Ltd. for 2013, covering 10% of net results. Reinsurance with RSA Reinsurance Ireland is purchased at market price.

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

For personal accident and life catastrophe events of a sudden nature, like a ferry accident or a tsunami, Codan Forsikring has a shared reinsurance contract with the rest of the Codan Group companies. In 2013, the maximum net retention for Codan Forsikring was DKK 100 million per event which, however, is reduced by quota share reinsurance.

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

#### *Reserving risk*

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

## Notes to the financial statements

### Note

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

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

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

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

#### **Financial risks**

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

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

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

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

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

#### *Investment management*

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

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

## Notes to the financial statements

## Note

*Liquidity and interest rate risks*

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

The short-term liquidity of Codan and its subsidiaries is monitored through ongoing cash management supported by monthly liquidity reports providing an overview of the risk exposure relative to market and credit risks. Long-term cash management is handled through ALM (Asset Liability Management).

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

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

<b>Contractual repricing or maturity dates</b>	<b>DKK '000</b>	
<b>2013</b>	<b>&lt; 1 year</b>	<b>Total</b>
Call deposits etc.	15,644	<b>15,644</b>
Financial assets	<b>15,644</b>	<b>15,644</b>
Amounts owed to Group entities	3,306,117	<b>3,306,117</b>
Other payables	127,246	<b>127,246</b>
Financial liabilities	<b>3,433,363</b>	<b>3,433,363</b>
<b>2012</b>	<b>&lt; 1 year</b>	<b>Total</b>
Call deposits etc.	54,422	<b>54,422</b>
Financial assets	<b>54,422</b>	<b>54,422</b>
Amounts owed to Group entities	1,049,006	<b>1,049,006</b>
Financial liabilities	<b>1,049,006</b>	<b>1,049,006</b>

## Notes to the financial statements

## Note

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

	Effective interest rate	
	2013	2012
<b>Financial assets</b>		
Other loans, deposits with credit institutions, call deposits, etc.	0.1	0.2
<b>Financial liabilities</b>		
Amounts owed to Group entities	0.3	0.4

*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. One subsidiary uses FX forward contracts to a limited extent to cover its currency risk. Codan's net exposure to currency risk is limited, as Codan's strategy for managing currency risk is to ensure that the assets held either directly or through its subsidiaries match the currency of the corresponding liabilities. In Codan's financial statements, results and equity of subsidiaries are translated into DKK. Consequently, significant changes in foreign exchange rates may affect Codan's results and equity.

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

Currency risk	DKK '000				
	EUR	GBP	2013 NOK	SEK	Total
Investments in Group entities	-	-	21,649	8,597,295	8,618,944
Intangible assets	-	-	266,149	-	266,149
Other loans, deposits with credit institutions, call deposits, etc.	405	106	19,535	-2,619	17,427
Amounts owed to Group entities	-	-	-	-	-
Other payables	-	4	-	-	4
Other provisions	-	-	-5,530	-70	-5,600
<b>Currency risk</b>	<b>405</b>	<b>110</b>	<b>301,803</b>	<b>8,594,606</b>	<b>8,896,924</b>

  

	2012				
	EUR	GBP	NOK	SEK	Total
Investments in Group entities	-	-	639	7,368,928	7,369,567
Intangible assets	-	-	305,618	-	305,618
Other loans, deposits with credit institutions, call deposits, etc.	406	109	-	102	617
Other provisions	-	-	-6,283	-	-6,283
<b>Currency risk</b>	<b>406</b>	<b>109</b>	<b>299,974</b>	<b>7,369,030</b>	<b>7,669,519</b>

## Notes to the financial statements

## Note

*Equity risk*

At 31 December 2013, Codan had invested a total amount of DKK 150 million of its other financial assets in equities. In addition to this, Codan's subsidiaries had invested a total amount of DKK 1,369 million in equities at 31 December 2013.

*Inflation risk*

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

*Real estate risk*

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

**Credit risks**

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

*Credit risk relating to investments*

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

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

<b>Maximum credit risk</b>	<b>DKK '000</b>	<b>2013</b>	<b>2012</b>
Other receivables		6,157	3,187
Current tax assets		-	1,624
Cash and cash equivalents		15,644	54,422
Accrued interest and rent		108	138
<b>Maximum credit risk</b>		<b>21,909</b>	<b>59,371</b>

*Operational risks*

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

Codan and its subsidiaries register and assess operational risks on a continuous basis. Annual assessments are performed of the direct and indirect economic impact that could arise in various scenarios.

## Notes to the financial statements

### Note

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#### ***Compliance Risk***

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

Codan focusses on maintaining good internal control by appropriate routines and instructions and clearly defined roles and responsibilities for the employees. To follow up that the business remains compliant, a compliance function, Regulatory Risk & Compliance, has been established as part of Risk & Compliance.

The responsibility to manage compliance risk lies with the risk owners in the respective businesses. It is the responsibility of the risk owner to evaluate and manage the risk, with support from Regulatory Risk & Compliance. Regulatory Risk & Compliance deliver periodical reports on compliance risks to the CEO and the Board of Directors.

#### ***Emerging risks***

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

#### ***Sensitivity analysis***

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

## Notes to the financial statements

### Note

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#### **Capital and solvency**

Codan and its subsidiaries calculate and follow up on both external and internal capital requirements. External capital requirements include accounting equity, capital base and solvency requirements as set out in the Danish Financial Supervisory Authority's rules. Likewise, the external capital requirements are stress-tested using, for example, the traffic light scenarios of the Danish Financial Supervisory Authority. The internal capital requirements include economic capital, which is calculated by using internal models based on the internal rules of the RSA Group. Capital is also calculated in accordance with the rules of the credit rating companies.

The capital is the difference between the relevant assets and the relevant liabilities. Which assets and liabilities are relevant is determined on the basis of applicable rules. The capital base, calculated in accordance with the rules of the Danish Financial Supervisory Authority, is set out in Note 16. Economic capital assessment is forward-looking and takes into account future cash flows. As a result, the assets and liabilities of the balance sheet are not necessarily directly linked to this assessment. Calculation of the rating capital is less important, as the Codan Group to a wide extent depends on the rating obtained by the RSA Group.

The Board of Directors has established two different warning levels for the size of the capital. If the red or amber levels are reached, the Board of Directors must be notified immediately. The red level is based on an assessment of the capital strength required for a general insurance company according to the Danish Financial Supervisory Authority. The amber level is intended for flexibility to ensure that the red level is never reached and is based on an overall risk assessment.

The directions laid down by the Board of Directors for registration of assets needed to cover the technical provisions specify a preferred excess cover. In addition, a required excess cover based on the risks of the current technical provisions is calculated monthly.

Codan has implemented a process for the continuous monitoring of the above-mentioned capital measurement and has set up an advisory Capital Management Committee. A Capital Scorecard is used as a tool in this process. All capital requirements are currently met for all capital categories. The company is preparing for the upcoming Solvency II rules and is following developments closely.

#### *Dividend*

When the distribution of profits is determined, the above-mentioned risks and capital position form part of the assessment as to whether dividends are to be distributed in accordance with the Danish Financial Business Act. When determining the dividend potential, the contingent liabilities are also included in the assessment.

Notes to the financial statements

Note

3 Key figures and financial ratios

Five year summary	DKK '000	2013	2012	2011	2010	2009
Total investment return		1,462,032	1,936,059	2,380,113	2,520,238	2,957,090
Profit for the year		1,418,251	1,897,816	2,368,539	2,483,182	2,874,855
Total equity		11,576,520	13,032,230	13,307,074	15,265,360	14,797,192
Total assets		15,067,017	14,122,617	14,435,232	16,447,072	15,979,735
Return on equity in %		11.5	14.4	16.6	16.5	18.8
Solvency ratio in %		*168	**252	**158	192	172

\*) Dividends declared by subsidiaries at 31 December 2013 are not included in the solvency ratio for the receiver Codan A/S before the dividends are paid. If the dividends were included, the solvency ratio would increase to 428 for Codan A/S.

\*\*\*) The deduction of Danish discounting of reserves in Swedish subsidiaries have been re-evaluated. Comparison numbers have been restated accordingly.

## Notes to the financial statements

Note	DKK '000	2013	2012
<b>4 Income from investment properties</b>			
Rental income		8,975	9,317
Direct operating expenses relating to investment properties let during the financial year		-3,758	-3,432
<b>Income from investment properties</b>		<b>5,217</b>	<b>5,885</b>
<b>5 Interest income and dividends, etc.</b>			
Interest income from bonds, loans and deposits		70	285
Income from units in open-ended funds and other equity investments		4,396	12,576
Other interest income		38	26
<b>Interest income and dividends, etc.</b>		<b>4,504</b>	<b>12,887</b>
<b>6 Value adjustments</b>			
Investment properties		44,197	110
Equity investments		5,070	5,661
Units in open-ended funds		-	-9,220
Derivatives		-131,571	-
Total investment assets		-82,304	-3,449
Loans in foreign currency		159,451	-
Other value adjustments		4,268	-21
<b>Value adjustments</b>		<b>81,415</b>	<b>-3,470</b>
Realised gains and losses on investments		-4,320	-101,346
Unrealised gains and losses on investments		-77,984	97,897
Other realised gains and losses		-	-57
Other unrealised gains and losses		163,719	36
<b>Value adjustments</b>		<b>81,415</b>	<b>-3,470</b>
Unrealised gains and losses on securities where the fair value is determined using valuation techniques which are not based on official market values or prices		2,789	444
<b>7 Interest expenses</b>			
Interest payable to Group entities		-84,581	-28,341
Other financial expenses		-350	-253
<b>Interest expenses</b>		<b>-84,931</b>	<b>-28,594</b>

## Notes to the financial statements

Note	DKK '000	2013	2012
<b>8 Other expenses</b>			
Administrative expenses in Codan			
Staff costs:			
Wages and salaries		-8,663	-13,851
Defined contribution schemes		-668	-1,192
Payroll tax		-979	-1,251
Other staff costs		-7,654	12
Total staff costs		-17,964	-16,282
Administration fee to Codan Forsikring A/S		-39,274	-40,482
Amortisation		-2,984	-2,984
Other administrative expenses		-3,069	-1,941
Transferred to investment management expenses		5,943	5,820
Reimbursement from Group entities		9,909	3,063
Total administrative expenses in Codan		-47,439	-52,806
Other expenses		<b>-47,439</b>	<b>-52,806</b>
Converted into full-time employees, the average number of persons employed during the financial year was 3 persons (3 persons in 2012).			
<b>Earned remuneration* of current and former members of the Board of Directors and Board of Management of Codan:</b>			
Remuneration of the Board of Directors (fixed remuneration)			
Lars Nørby Johansen		-393	-360
Anthony Latham		-345	-370
Jørgen Lykke		-195	-195
Henrik Müllertz		-	-65
Jørgen Koch		-195	-130
Marianne Philip		-295	-295
Christian Sletten		-195	-195
Remuneration to the Board of Directors		<b>-1,618</b>	<b>-1,610</b>
Remuneration of the Board of Management:			
Wages and salaries (fixed remuneration)		-13,236	-10,403
Bonuses (variable remuneration)		-700	-3,229
Pension benefits (fixed remuneration)		-511	-502
Share-based payment (variable remuneration)		-8,718	-5,784
Remuneration of the Board of Management		<b>-23,165</b>	<b>-19,918</b>
Former CEO, Michael Holliday-Williams		-17,900	-14,315
Member of the Board of Management Vibeke Krag		-5,265	-5,603
Paid remuneration to the Board of Management		<b>-23,165</b>	<b>-19,918</b>
Number of employees in the Board of Management at 31 December		<b>2</b>	<b>2</b>

\* The comparative numbers have been changed amongst other as a consequence of changes to the wording of § 77d in the Danish Financial Business Act.

## Notes to the financial statements

Note	DKK '000	2013	2012
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## 8 Other expenses (continued)

No employees with material influence on the company's risk profile is identified in 2012 and 2013, except from the board of management

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

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

The company's former CEO has a separate contract with Codan and its subsidiary Trygg-Hansa AB. The above specification includes the total remuneration for employment. The contracts are on a net basis. The final allocation of taxable income between Denmark and UK is not settled, which is why the final remuneration number may change.

Upon the resignation of the former CEO, Michael Holliday-Williams, a part of the granted incentive schemes will lapse in 2014. The remuneration disclosed above is on an earned basis and include all incentive schemes, even though some have lapsed in 2014.

Member of the Board of Management is CEO of the subsidiary Codan Forsikring A/S. The specification contains the total remuneration that is allocated between the companies.

The Board of Management participates in a number of incentive schemes. For further evaluation, see note 26.

The CEO, Patrick Bergander, has not received remuneration for this position in 2013.

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

Unfunded pension commitments were made to a surviving relative of a former member of the Board of Directors and Board of Management of Codan, cf. Note 18. These pension commitments are not included in the above

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

Deloitte	-	-531
KPMG	-445	-
<b>Fee, statutory audit</b>	<b>-445</b>	<b>-531</b>

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

## Notes to the financial statements

Note	DKK '000	2013	2012
<b>9 Tax</b>			
Tax on total income for the year:			
Current tax expense		-5,858	18,510
Change in deferred tax on temporary differences		10,063	-333
Change in deferred tax resulting from change in tax rate		-680	-
<b>Tax on total income for the year</b>		<b>3,525</b>	<b>18,177</b>
Adjustments relating to previous years:			
Current tax for previous years		550	-3,624
Adjustment of deferred tax at 1 January		-149	298
<b>Adjustments relating to previous years</b>		<b>401</b>	<b>-3,326</b>
<b>Tax expense</b>		<b>3,926</b>	<b>14,851</b>
Tax is included as follows:			
Tax in the income statement		3,658	14,563
Tax on changes in equity		268	288
<b>Tax expense</b>		<b>3,926</b>	<b>14,851</b>
Total tax on total income for the year can be explained as follows:			
Profit before tax		1,414,593	1,883,253
Reversal of income from Group entities		-1,461,816	-1,955,360
Actuarial gains and losses on pension obligations recognised in equity		-1,073	-1,152
<b>Total income</b>		<b>-45,940</b>	<b>-73,259</b>
Applicable tax rate		25%	25%
Tax calculated on total income		11,485	18,315
Tax on permanent differences:			
Properties and other equity investments		699	122
Income not subject to tax		-	23
Expenses disallowed for tax purposes		-8,566	-
Other adjustments		-2	-283
Change in tax rate		-680	-
<b>Tax on total income for the year</b>		<b>3,525</b>	<b>18,177</b>
Adjustment of tax relating to previous years		401	-3,326
<b>Tax expense</b>		<b>3,926</b>	<b>14,851</b>

## Notes to the financial statements

Note	DKK '000		
<b>10 Intangible assets</b>			
	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total intangible assets</b>
<b>2013</b>			
Cost, beginning of the year	1,150,173	90,568	1,240,741
Currency translation adjustments, foreign subsidiaries	-39,469	-	-39,469
Cost, end of the year	1,110,704	90,568	1,201,272
Amortisation and impairment, beginning of the year	-	-79,375	-79,375
Amortisation during the year	-	-2,985	-2,985
Amortisation and impairment, end of the year	-	-82,360	-82,360
Carrying amount, end of the year	<b>1,110,704</b>	<b>8,208</b>	<b>1,118,912</b>
Carrying amount, beginning of the year	1,150,173	11,193	1,161,366
Amortised on a straight-line basis over		5 and 10 years	
Amortisation is included in other expenses.			
<b>2012</b>			
Cost, beginning of the year	1,132,768	90,568	1,223,336
Currency translation adjustments, foreign subsidiaries	17,405	-	17,405
Cost, end of the year	1,150,173	90,568	1,240,741
Amortisation and impairment, beginning of the year	-	-76,391	-76,391
Amortisation during the year	-	-2,984	-2,984
Amortisation and impairment, end of the year	-	-79,375	-79,375
Carrying amount, end of the year	<b>1,150,173</b>	<b>11,193</b>	<b>1,161,366</b>
Carrying amount, beginning of the year	1,132,768	14,177	1,146,945
Amortised on a straight-line basis over		5 and 10 years	
	<b>Net book value</b>	<b>Calculated headroom</b>	<b>WACC</b>
The value of goodwill can be broken down as follows:			
Acquired goodwill in relation to the purchase of Trygg-Hansa Försäkrings AB	844,555	19,415,758	7.48%
Acquired goodwill in relation to the purchase of Norwegian portfolios relating to Codan Forsikring A/S	266,149	654,266	7.48%
Total goodwill 2013	<b>1,110,704</b>	<b>20,070,023</b>	

## Notes to the financial statements

Note	DKK '000	2013	2012
<b>11 Investment properties</b>			
Carrying amount, beginning of the year		208,000	191,500
Additions		10,803	16,390
Adjustment to fair value during the year		44,197	110
		<b>263,000</b>	<b>208,000</b>

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

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

All land and buildings:

Weighted average required rate of return	3.4%	4.3%
Highest required rate of return	3.5%	4.5%
Balance sheet value of land and buildings using the highest required rate of return	245,000	190,000
Lowest required rate of return	2.7%	3.0%
Balance sheet value of land and buildings using the lowest required rate of return	18,000	18,000

## Notes to the financial statements

Note	DKK '000	2013	2012
<b>12 Investments in Group entities</b>			
Cost, beginning of the year		8,655,871	8,595,871
Disposals		-129	-
Capital increase		1,084,360	60,000
Cost, end of the year		9,740,102	8,655,871
Adjustments, beginning of the year		3,891,273	3,948,175
Exchange gains and losses		-351,527	286,978
Currency translation adjustment, disposal of foreign subsidiaries		-6	-
Total comprehensive income for the year		1,909,841	1,935,274
Dividend received from subsidiaries		-1,681,000	-2,279,120
Adjustments, end of the year		3,768,581	3,891,273
Carrying amount, end of the year		<b>13,508,683</b>	<b>12,547,144</b>

The carrying amount of investments in Group entities includes goodwill of DKK 581 million ( DKK 598 million in 2012).

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

NIS Denmark A/S	493	501
NIS Sweden I AB	42	43
NIS Sweden II AB	42	43
NIS Norway AS *	-	102
Codan Ejendomme II A/S	21,649	537
Codan Finance Ltd	1,284	532
Codan Forsikring A/S	4,888,455	5,177,045
Trygg-Hansa Försäkrings AB	8,596,718	7,368,341
Investments in Group entities	<b>13,508,683</b>	<b>12,547,144</b>

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

All subsidiaries are separate entities.

\* The company has been sold to Codan Ejendomme II A/S.

Additional information on investments in Group entities:

	Registered office	Ownership interest %	Results	Equity
Companies carrying on insurance business:				
Codan Forsikring A/S	Frederiksberg	100.00	198,704	4,888,455
Trygg-Hansa Försäkrings AB (SEK)	Sweden	100.00	1,055,000	2,946,000
Dormant companies:				
NIS Denmark A/S (SEK)	Frederiksberg	100.00	16	591
NIS Sweden I AB (SEK)	Sweden	100.00	-	50
NIS Sweden II AB (SEK)	Sweden	100.00	-	50
Investment companies:				
Codan Ejendomme II A/S (NOK)	Frederiksberg	100.00	-9,937	24,451
Codan Finance Ltd, 2012	England	100.00	-122	410

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

## Notes to the financial statements

Note	DKK '000	2013	2012
<b>13 Financial instruments (assets)</b>			
The company's financial instruments below are broken down by the method according to which the assets are measured in the balance sheet.			
Assets measured at fair value:			
Financial instruments measured at fair value are adjusted through the income statement.			
Equity investments:			
Unlisted shares		149,525	146,736
Equity investments:		149,525	146,736
Financial instruments measured at fair value		149,525	146,736
Assets measured at amortised cost:			
Other receivables		6,157	3,187
Cash and cash equivalents		15,644	54,422
Financial instruments measured at amortised cost		21,801	57,609
Financial instruments		<b>171,326</b>	<b>204,345</b>
<b>14 Total receivables and other assets</b>			
All receivables and other assets are to be settled within 12 months.			
<b>15 Current tax assets and liabilities</b>			
Current tax assets/liabilities, beginning of the year		1,624	7,729
Current tax for the year		-5,858	18,511
Adjustment of current tax relating to previous years		550	-3,624
Corporation tax received/paid during the year		-9,377	-20,992
Current tax assets and liabilities, end of the year		<b>-13,061</b>	<b>1,624</b>

## Notes to the financial statements

Note	DKK '000	
<b>16 Total equity</b>		
<b>2013</b>	<b>Codan A/S</b>	<b>Codan Group</b>
Solvency statement:		
Share capital	859,970	859,970
Reserves	4,879,036	4,879,036
Retained earnings	5,837,514	5,837,514
Core capital	11,576,520	11,576,520
Intangible assets	-1,118,913	-1,118,913
Recognised deferred tax assets	-4,988	-4,988
Capital requirement in subsidiaries carrying on insurance business and declared dividends	-9,354,467	-9,354,467
Core capital after deductions	1,098,152	1,098,152
Capital base after deductions	1,098,152	1,098,152
Connection with the Annual Report:		
Total equity	11,576,520	11,576,520
Proposed dividend	-	-
Intangible assets	-1,118,913	-1,118,913
Recognised deferred tax assets	-4,988	-4,988
Capital requirement in subsidiaries carrying on insurance business and declared dividends	-9,354,467	-9,354,467
Capital base after deductions	1,098,152	1,098,152
Total weighted items	8,164,079	8,148,118
Solvency ratio (min. 8%)*	13.456	13.477
8% of credit risk weighted exposures	366,091	339,314
8% of market risk weighted exposures	287,036	304,152
Solvency requirement for operational risk	-	-

\*) Dividends declared by subsidiaries as of 31 December 2013 are not included in the solvency ratio for the receiver Codan before the dividends are paid. If the dividends were included the solvency ratio would increase to 34.2 for Codan.

## Notes to the financial statements

Note	DKK '000	
<b>16 Total equity (continued)</b>		
<b>2012</b>	<b>Codan A/S</b>	<b>Codan Group</b>
Solvency statement:		
Share capital	859,970	859,970
Revaluation reserve	5,041,195	5,041,195
Retained earnings	4,201,065	4,201,065
<b>Core capital</b>	<b>10,102,230</b>	<b>10,102,230</b>
Intangible assets	-1,161,364	-1,161,366
Recognised deferred tax assets	-	-2
Capital requirement in subsidiaries carrying on insurance business and declared dividends	-6,503,081	-6,503,081
<b>Core capital after deductions</b>	<b>2,437,785</b>	<b>2,437,781</b>
<b>Capital base after deductions</b>	<b>2,437,785</b>	<b>2,437,781</b>
Connection with the Annual Report:		
Total equity	13,032,230	13,032,230
Proposed dividend	-2,930,000	-2,930,000
Intangible assets	-1,161,366	-1,161,366
Recognised deferred tax assets	-	-2
Capital requirement in subsidiaries carrying on insurance business and declared dividends	-6,503,081	-6,503,081
<b>Capital base after deductions</b>	<b>2,437,783</b>	<b>2,437,781</b>
<b>Total weighted items</b>	<b>12,078,896</b>	<b>12,077,016</b>
<b>Solvency ratio (min. 8%)</b>	<b>20.182</b>	<b>20.185</b>
<b>8% of credit risk weighted exposures</b>	<b>513,171</b>	<b>513,081</b>
<b>8% of market risk weighted exposures</b>	<b>445,979</b>	<b>445,919</b>
<b>Solvency requirement for operational risk</b>	<b>7,162</b>	<b>7,162</b>

The deduction of Danish discounting of reserves in Swedish subsidiaries has been re-evaluated. Comparison numbers have been restated accordingly.

<b>17 Share capital</b>	<b>2013</b>	<b>2012</b>
The company's fully paid share capital can be broken down as follows:		
42,998,500 shares of DKK 20 each	859,970	859,970
<b>Share capital</b>	<b>859,970</b>	<b>859,970</b>

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

## Notes to the financial statements

Note	DKK '000	2013	2012
<b>18 Pension obligations</b>			
Pension obligations in Codan are generally funded.			
In respect of defined contribution schemes, the employer is under an obligation to pay a defined contribution (e.g. a fixed amount or a fixed percentage of the salary). In a defined contribution scheme, the company does not bear the risk in relation to future developments in interest rates, inflation, mortality and disability. This is opposed to defined benefit schemes, where the employer is under an obligation to pay a defined benefit (e.g. a fixed amount or a percentage of the final salary).			
Codan has one pension obligation that is not fully funded to former member of the Management, Peter Zobel.			
Present value of defined benefit schemes		22,366	23,278
Net liability recognised in the balance sheet		22,366	23,278
No assets have been separated to cover pension obligations.			
<b>Development in present value of defined benefit obligations:</b>			
Pension obligations, beginning of the year		23,278	24,208
Calculated interest on obligation		349	253
Actuarial gains and losses		1,074	1,152
Benefits paid		-2,335	-2,335
Pension obligations, end of the year		22,366	23,278
<b>Pension costs recognised in the income statement:</b>			
Calculated interest on obligation		-349	-253
Total recognised for defined benefit schemes		-349	-253
Total recognised for defined contribution schemes		-668	-1,192
Pension costs recognised in the income statement		<b>-1,017</b>	<b>-1,445</b>

Assumptions used in the calculation of pension obligations:

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

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

## Notes to the financial statements

Note	DKK '000	2013	2012
<b>19 Deferred tax assets and liabilities</b>			
Deferred tax assets/liabilities, beginning of the year		-4,246	-4,211
Change relating to intangible assets		873	746
Change relating to property and equipment		-488	-520
Change relating to investments		9,890	-248
Change relating to pension obligations		-806	-232
Change relating to short-term payables		-235	219
		<b>4,988</b>	<b>-4,246</b>
Specification of deferred tax assets and liabilities at the end of the year:			
Intangible assets		-1,925	-2,798
Property and equipment		1,073	1,561
Investments		843	-9,048
Pension obligations		5,013	5,820
Short-term payables		-16	219
		<b>4,988</b>	<b>-4,246</b>
<b>20 Other provisions</b>			
Provision relating to the acquisition of Group entities, beginning of the year		6,283	5,925
Value adjustments		-811	358
		<b>5,472</b>	<b>6,283</b>
Non-current portion		0	6,283
Other provisions		<b>5,472</b>	<b>6,283</b>
<b>21 Total provisions</b>			
Current portion (less than one year)		7,807	2,335
Non-current portion (more than one year)		20,031	31,472
		<b>27,838</b>	<b>33,807</b>
<b>22 Total payables</b>			
No payables fall due more than five years after the balance sheet date.			

## Notes to the financial statements

### Note

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#### 23 Related parties

##### Information on related parties

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

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

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

Apart from normal management remuneration, no transaction, except for those listed below, were entered into during the year with the Board of Directors, the Board of Management, executives, major shareholders or other related parties. The management remuneration is shown in note 8.

##### Related party transactions

In 2013, DKK 2,930 million were distributed as dividend to RSA Insurance Group plc.

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

The company is a part of the Codan-group, whose Danish and Swedish 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 2013 Codan's income thereof amounted to DKK 13.8 million (DKK 3.2 million in 2012) and the expense thereof amounted to DKK 3.9 million in 2013 (DKK 0.1 million in 2012).

Administration fees payable to and receivable from subsidiaries are settled on a cost-covering basis. Administration fee payable to Codan Forsikring A/S amounted to DKK 39.3 million in 2013 (DKK 40.5 million in 2012).

Agreements on interest on inter-company balances on an arm's length basis were made. Codan's interest expense from other Group companies amounted to DKK 0.1 million in 2013 (DKK 0 million in 2012).

As of 31 December 2013 the company had the following long-term loans from the subsidiaries: Trygg-Hansa Försäkrings AB of SEK 1,200 million, NIS 2 A/S of DKK 1,400 million, Codan Ejendomme II A/S of DKK 30 million and NIS Norway AS of NOK 979 million. The loans were obtained on an arm's length basis. The interest expenses amounted to DKK 84.5 million in 2013 (DKK 28.3 million in 2012).

During 2013 the company has entered in to a DKK/NOK hedge of DKK 1,000 million with the subsidiary Codan Ejendomme II A/S and a SEK/DKK hedge of SEK 1,200 million with the ultimate parent company Royal & Sun Alliance Insurance Plc. The hedges were agreed on an arm's length basis.

#### 24 Security

At 31 December 2013, no assets were pledged as security.

## Notes to the financial statements

Note	DKK '000	2013	2012
<b>25 Contingent assets, contingent liabilities and financial liabilities</b>			
<b>Contingent assets</b>			
The company is involved in a few tax-related lawsuits, but in the Management's opinion, these lawsuits do not have a significant impact on the company's financial position.			
<b>Contingent liabilities</b>			
The company entered into inter-company agreements on the provision of administrative services, property management, etc.			
The company is jointly registered with the majority of the Group's Danish companies for the purpose of payment of VAT and payroll tax and is jointly and severally liable for the payment of such taxes.			
The company is jointly and severally liable together with other companies participating in the joint taxation for any dividend tax and royalties imposed within the joint taxation payable by 1. July 2012 or later.			
Likevise, 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.			
<b>Financial liabilities</b>			
VAT adjustment liability in connection with the construction of commercial properties		2,221	2,493
<b>Financial liabilities</b>		<b>2,221</b>	<b>2,493</b>
<b>Other liabilities</b>			
Liabilities relating to refurbishment of investment properties		-	7,500
<b>Other liabilities</b>		<b>0</b>	<b>7,500</b>

## Notes to the financial statements

### Note

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#### 26 Incentive schemes

The RSA Group has four types of share based payment plans which are settled in the form of ordinary shares: the Long Term Incentive Plan (LTIP), the Sharesave Plan (SAYE), the Sharebuild Plan and the Executive Share Option Scheme (ESOS). The plans are all subject to different performance conditions and are based on shares in RSA Insurance Group plc. In addition, the RSA Group operates the Savings Related Share Option Plan providing all employees with the opportunity of buying shares in RSA Insurance Group plc. at a favourable price.

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

The Long Term Incentive Plan (LTIP) for Executive Directors and other selected executives was adopted following approval obtained at the 2006 AGM. Awards have been made each year since 2006 following shareholder approval. The structure of the plan allows for a number of different types of awards to be made.

Voluntarily Invested Deferred Shares are purchased by participants from net bonus payable (limited to a maximum value of 33% of net bonus). Voluntarily Invested Deferred Shares are held in trust for three years. In addition, for senior executives, the Remuneration Committee may defer a portion of an individual's gross bonus (limited to 33% of that bonus) into an award over shares referred to for the purpose of the plan as Compulsory Deferred Shares.

Compulsory Deferred Share awards are normally forfeited on an employee leaving the Group. No further performance conditions apply. The Remuneration Committee may make a conditional award of shares on a 'matched' basis to Voluntarily Invested and Compulsory Deferred Shares ('Matching Shares') up to a maximum of 2:1 and these are normally forfeited on an employee leaving the Group. Additionally, the Remuneration Committee may make conditional awards of Performance Shares to senior executives and conditional awards of Restricted Shares to other executives and senior managers. Awards of Performance Shares and Matching Shares related to Compulsory Deferred Shares are subject to a performance condition consisting of a combination of a return on equity target and a total shareholder return target (with performance measured by comparison against other European insurance companies) over a single three year performance period. Matching Shares related to Voluntarily Invested Deferred Shares are subject only to the return on equity performance condition. Restricted Shares are not subject to performance conditions. All awards vest on the third anniversary of the date of grant to the extent that the performance conditions have been met. Performance Shares and Restricted Shares are normally forfeited on an employee leaving the Group.

#### **Executive Share Option Plan**

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

#### **Share Matching Plan**

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

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

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

## Notes to the financial statements

## Note

## 26 Incentive schemes (continued)

**Board of Directors and Board of Management**

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

Participation of the former CEO Michael Holliday-Williams in incentive schemes at 31 December:

	Long Term Incentive Plan		Share Matching Plan		Savings Related Share Option Plan	
	Shares	Value	Shares	Value	Shares	Value
Outstanding at 1 January 2012	257,046	2,574,434	531,367	5,126,775	12,135	128,860
Granted during the year	505,696	3,157,896	243,708	1,629,441	-	-
Exercised during the year	-178,258	-1,738,439	-193,046	-1,917,103	-	-
Forfeited during the year	-19,169	-179,617	-49,722	-465,905	-	-
<b>Outstanding at 31 December 2012</b>	<b>565,315</b>	<b>3,814,274</b>	<b>532,307</b>	<b>4,373,208</b>	<b>12,135</b>	<b>128,860</b>
Correction, beginning balances	331,087	2,816,238	46,370	310,032	-3,135	-33,290
Granted during the year	613,750	4,456,127	431,769	3,271,332	-	-
Exercised during the year	-104,765	-1,025,111	-56,355	-556,895	-	-
Forfeited during the year	-132,028	-1,229,719	-110,368	-1,096,278	-	-
<b>Outstanding at 31 December 2013</b>	<b>1,273,359</b>	<b>8,831,809</b>	<b>843,723</b>	<b>6,301,399</b>	<b>9,000</b>	<b>95,570</b>

Value has been calculated as number of shares times the grant price at the exchange rate prevailing at the grant date.

The company's former CEO has separate executive contracts with Codan A/S and the subsidiary Trygg-Hansa AB. The specification above includes all of the CEO's incentive schemes, regardless of whether the incentive schemes relates to previous assignments in the RSA Group.

## Notes to the financial statements

## Note

## 26 Incentive schemes (continued)

Participation of the member of Board of Management Vibeke Krag in incentive schemes at 31 December:

	Long Term Incentive Plan		Share Matching Plan		Savings Related Share Option Plan	
	Shares	Value	Shares	Value	Shares	Value
Outstanding at 1 January 2012	124,031	1,130,232	185,851	1,701,595	8,998	95,549
Granted during the year	68,805	444,351	82,623	552,600	-	-
<b>Outstanding at 31 December 2012</b>	<b>192,836</b>	<b>1,574,583</b>	<b>268,474</b>	<b>2,254,195</b>	<b>8,998</b>	<b>95,549</b>
Correction, beginning balances	-35,976	-327,831	-	-	-	-
Granted during the year	46,220	356,602	83,734	634,285	-	-
Exercised during the year	-30,405	-311,356	-34,833	-343,889	-	-
Forfeited during the year	-17,713	-160,100	-68,178	-676,565	-	-
<b>Outstanding at 31 December 2013</b>	<b>154,962</b>	<b>1,131,898</b>	<b>249,197</b>	<b>1,868,026</b>	<b>8,998</b>	<b>95,549</b>

Value has been calculated as number of shares times the grant price at the exchange rate prevailing at the grant date.

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

	Long Term Incentive Plan		Share Matching Plan		Savings Related Share Option Plan	
	Shares	Value	Shares	Value	Shares	Value
<b>Outstanding at 31 December 2013</b>	<b>137,581</b>	<b>1,009,574</b>	<b>181,232</b>	<b>1,362,601</b>	<b>-</b>	<b>-</b>

No employees with material influence on the company's risk profile is identified in 2012 and 2013, except from the board of management.

## 27 Ownership information

**Ownership**

RSA Insurance Group plc, One Plantation Place, London, England, owns 100 % of the shares in Codan A/S, Through the wholly owned Dutch subsidiary RSA Overseas Holding B.V., Netherland.

**Group relationship**

RSA Insurance Group plc., One Plantation Place, London, England, prepares consolidated financial statements, in which Codan is included as a subsidiary.