

CODAN A/S

ANNUAL REPORT

1 January – 31 December 2019

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

Chairman of the AGM

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General information

**Board of Directors and
Board of management**

Board of Directors:

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

*) Employee representative

Board of Management:

Kenneth Michael Norgrove, CEO
Vivian Lund, EO

Auditors

Auditors elected by the general meeting:

KPMG, Statsautoriseret Revisionspartnerselskab

Ownership

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

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Company Reg. No. 56 77 12 12

Management's review

Financial review

The Company's principal activity

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

Annual Report 2019

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

The financial statements for 2019 have been prepared in accordance with the Danish Financial Business Act (*Lov om finansiel virksomhed*), including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds (*Bekendtgørelse om finansielle rapporter for forsikringselskaber og tværgående pensionskasser*).

The accounting policies are described further in Note 1 to the annual report.

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

Major events

Dividend in 2019

In June 2019 Codan has received interim dividend of DKK 750 million from the Danish subsidiary Codan Forsikring A/S and in December 2019 Codan has received an additional interim dividend of DKK 500 million.

In June 2019 Codan distributed interim dividend to the parent company, RSA Overseas Holding B.V., Netherlands, amounting to DKK 750 million.

In December 2019 Codan distributed interim dividend to the parent company, RSA Overseas Holding B.V., Netherlands, amounting to DKK 450 million.

Loans from Group entities

As of 31 December 2019 the Company had a loan from its subsidiary Codan Forsikring A/S of DKK 1,000 million. This intercompany loan was renewed in 2019 and is obtained on an arm's length basis.

As of 31 December 2019 the Company had a loan from the RSA subsidiary RSA Insurance plc. of DKK 3,500 million. The loan was obtained on an arm's length basis. The loan expires in 2047.

Profit for the year

For 2019 Codan generated a profit of DKK 1,957 million compared to a profit of DKK 1,045 million for 2018. The profit is in line with the expectations announced in the annual report for 2018 of maintaining satisfactory insurance operating profits in Codan's subsidiaries. The profit for 2019 has been impacted by the balance on the technical account from general insurance of the subsidiary Codan Forsikring A/S. The profit from subsidiaries amounted to DKK 2,090 million compared to a profit from subsidiaries of DKK 1,174 million last year.

Investments

The Company's investments consist of subsidiaries and other financial assets. The total investment return was DKK 1,930 million in 2019 compared to DKK 1,015 million in 2018.

Management's review

At 31 December 2019, the Company's investment portfolio consisted of the following assets (all amounts in DKK million):

	2019	2018
Investment in Group entities	8,283.7	7,605.0
Equity investments and units in open-ended funds	12.3	12.0
Bonds	190.0	230.9
Cash and cash equivalents	15.9	56.0
	8,501.9	7,903.9

Investments in Group entities

Income from Group entities amounted to DKK 2,090 million for 2019 compared to DKK 1,174 million in 2018.

Income from Group entities consists of a profit from Codan Forsikring A/S of DKK 2,086 million (DKK 1,232 million in 2018) and a loss from other subsidiaries of DKK 0 million in 2019 (DKK 1 million last year). 2019 was further affected by a DKK 5 million release of provision related to the purchase of the Norwegian business of Codan Forsikring in 2006 whereas the comparative income in 2018 was affected by an impairment write down on goodwill related to the Norwegian branch of Codan Forsikring DKK of 57 million.

Codan Forsikring A/S

Codan Forsikring A/S offers almost all types of general insurance products to private individuals and companies in the Nordic countries. Codan Forsikring A/S holds a leading position in the general insurance market in Scandinavia and offers a comprehensive range of general insurance products. The Company has branches in Norway, Sweden and the USA.

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

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

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

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

The gross expense ratio was 16.0% in 2019 compared with 16.1% in 2018. In 2019 the Company has continued to focus on reducing expenses and the decreasing number of employees has reduced staff costs. The Company's updated strategy and three-year plan has some clear objectives that include delivering on growth opportunities and improving the expense base.

Equity investments

The Company's equity investments amounted to DKK 12 million at 31 December 2019 (DKK 12 million in 2018).

Management's review

The Company's equity investments generated a positive return of DKK 0.4 million (DKK 0.5 million in 2018).

Bonds

The Company have during 2019 invested in AAA – rated Danish mortgage bonds.

At year end the Company's investments in bonds amounted to DKK 190 million (DKK 231 million in 2018). The full portfolio (100%) have a total modified duration of more than twenty year at day of reporting. All bonds were rated AAA. The total return on the bond portfolio was DKK -1 million for the year (DKK 0 million in 2018).

Balance sheet

The total assets for Codan increased by DKK 591 million from DKK 8,965 million in 2018 to DKK 9,556 million at 31 December 2019. The increase is primarily attributed to the profit from Codan Forsikring in 2019 partly offset by dividend payments.

Total equity amounted to DKK 5,049 million at 31. December 2019 compared to DKK 4,448 million in 2018. Apart from profit for the year, equity is particularly affected by dividend payments of DKK 1,200 million and currency revaluations in subsidiaries.

Business initiatives

Key strategies

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

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

The Group is focused on protecting its leadership positions in key areas such as Motor and Personal Accident whilst also actively seeking to improve profitability across all three regions and achieving contribution from all areas that it operates within.

Market conditions

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

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

Customers

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

Management's review

Variable remuneration

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

The Chairman reports on the Remuneration Policy each year in connection with the annual report at the general meeting. At the general meeting the remuneration of the Board of Directors was approved for the current year. Remuneration to the Board of Management and the Material Risk Takers is approved by the Board of Directors according to the requirements in the Remuneration Policy.

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

Remuneration Committee

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

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

No experts have been consulted to support the Remuneration Committee.

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

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

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

Events subsequent to 31 December 2019

Dividend for 2019

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

Brexit

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

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

Coronavirus outbreak

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

For Codan A/S, most of the impact on business operations, assets and liabilities is not a direct consequence of the outbreak, but a result of the measures taken to contain it. Codan A/S concludes that the event did not pro-

Management's review

vide evidence of conditions that existed at the end of the reporting period and assess it is a non-adjusting event.

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

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

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

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

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

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

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

Other events

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

Outlook for 2020

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

As it is too early to assess the full impacts from Covid-19 the Company does not consider it appropriate to express any expectations to the result for the subsidiary Codan Forsikring A/S for 2020 at this point.

Codan's insurance subsidiaries continue to focus on delivering long-term profitable growth in their insurance operations with strict management control of underwriting as well as leveraging the benefits from the transformation program. This will focus on driving simplification and effectiveness. Codan Forsikring A/S will also focus on leveraging previous years' investments making targeted efforts to support the Corporate Strategy and to grow profitable business portfolios.

Based on the guidelines and investment policy laid down by the Codan Group, no major changes are expected in the allocation of the Group's assets in 2020.

The management of Codan does not consider it appropriate to make any statements as to the expected developments in the interest rate, currency rates and stock markets or the expected value adjustments for 2020.

Management's review

Sustainability Report

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

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

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

Corporate Social Responsibility

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

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

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

Business model

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

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

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

Smarter Tomorrow

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

Traffic Safety in Denmark and Norway

One of the major CSR initiatives of Codan Denmark in 2019 was a campaign on traffic safety. The film for Social Medias has been seen 7 million times in 2019 by 2,5 million viewers, which is high numbers taking into account that Denmark has 5,6 inhabitants. Almost 200,000 Danes have taken an online theoretical driver's test in 2019 on www.codan.dk, and the campaign has raised the national debate in Denmark on the competencies of drivers and traffic safety with airtime in local and national media and television.

"Årets Refleksdag" (The Annual Reflector Day). Codan partnered up with "Børneulykkesfonden" (The Child Accident Prevention Foundation). The purpose of the Annual Reflector Day is to increase traffic safety by creat-

Management's review

ing awareness about how much reflectors increase people's visibility in the dark. 150 Codan employees volunteered to hand out 40,000 reflectors in the streets of Denmark as well as in schools, pre-schools and nurseries. Codan Forsikring in Norway supported the annual National Reflector Day in Norway on 17th October. This is an important safety campaign to prevent accidents in traffic, especially targeting families with children. Codan in Norway therefore conducted an internal campaign as well as SoMe outreach and competition where people could ask for reflector vests with the aim to keep children safe when traveling to and from school, sport activities after school etc. This campaign reached 16,000 people and Codan branded reflectors were donated to kids around the country.

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

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

Safety online in Denmark

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

Preventing accidents caused by weather

Considering the changing climate and the risks that more extreme weather poses to our business, customers and stakeholders, this is an important issue to address for us as an insurance company. We are actively trying to prevent accidents caused by weather by offering a free SMS service that everyone can sign up for – also non-customers. In 2019, the weather alert was sent out 220 times to 17.699 people in Denmark, which is an increase from last year.

Water safety in Sweden

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

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

Supporting mental well-being in Sweden

Since 2018 our Swedish branch have a collaborative partnership with one of Sweden's leading organizations of children's rights in society, Barnens rätt i samhället (Bris). There is an increasing problem with still more children and young people suffering from mental illnesses. As an insurer of approximately 750,000 children and young

Management's review

people in Sweden, we have a responsibility to respond to this challenge. Together with Bris Trygg-Hansa aim to increase awareness and knowledge about children's mental health and how important it is to get the required help and support as soon as possible. The financial support in 2019 also enables Bris to fund a support coordinator to help the children and young people who contact Bris and that help is available around the clock.

Excellence in Customer Care

Family aid-a service to our customers with child insurance

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

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

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

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

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

Photo inspections

Photo inspection is an example of how Trygg-Hansa use new technologies to make it easier for the customer while creating more environmental management of claims. Since 2017 customers with our car insurance can use their smart phone to take pictures of the damage and share these with the workshop via Trygg Hansa's app, instead of driving the car to the workshop for inspection. During 2019 the number of customers using photo inspections were approximately 6,000. This results in 32 tonnes less CO2 emissions.

Active in Communities

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

Christmas at Codanhus

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

Hotline for kids and youth

In Codan Norway, Kors på halsen (cross my heart) is The Red Cross hotline where kids and youth can make anonymous calls and tell/ask about anything that troubles them. Codan has supported the organisation for two years. Codan has donated NOK 85,000 (about £ 8,500). The organisation will participate in an internal seminar in November 2019 and has also supported Codan in media stories related to ID theft and online safety.

Management's review

Managing the everyday well

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

Sustainable operations reducing our climate and environmental impact

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

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

For more detailed information about RSA reporting on Greenhouse Gas emissions, please see the CR report from RSA: www.rsagroup.com/responsibility/resources/ (available 25 March 2020).

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

Less printing

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

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

Certified brochures

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

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

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

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

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

Management's review

Responsible Supply Chain

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

Responsible Underwriting

Making a green difference - globally

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

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

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

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

Business Ethics

To us, being a responsible business means that we should always act ethically, respect human rights, treat our employees with dignity and respect and aim to minimise our impact on the environment and the climate. Being a responsible business also means being open and transparent with our stakeholders about how we manage our operations and deliver our products. We are a signatory to the UN Global Compact, which means we are committed to implement universal sustainability principles and to take steps to support UN goals. As part of RSA we are also signatory to The UNEP FI Principles for Sustainable Insurance. For detailed reporting on responsible business, please see CR report from RSA: <https://www.rsagroup.com/responsibility/> (available 25 March 2020).

Training

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

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

Our People

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

Management's review

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

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

1. Leadership and leadership pipeline

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

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

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

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

2. Accountable employees

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

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

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

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

3. Functional knowledge and capabilities

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

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

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

Management's review

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

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

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

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

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

4. Diverse and inclusive workplace who engages employees at work

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

Focus on Inclusion & Diversity (I&D)

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

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

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

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

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

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

Management's review

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

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

Focus on women in management positions

Codan A/S and Codan Forsikring A/S have a minimum target on our Board of Directors of 33% females. This should be kept and sustained until Jan 1, 2021. It is the aim of the Company to increase the share of females on level 1-3 in the organization. The diversity in gender composition should reach a 33/67 ratio no later than 1st January 2021. Furthermore, the diversity in gender composition for manager positions at all levels should reach a 40/60 ratio no later than 1st January 2021. These targets should be valid for both genders, so we should not allow for any of the genders to be underrepresented. In addition, Codan has signed the Charter for More Women in Management (Denmark).

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

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

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

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

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

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

Management's review

Risk management in Codan

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

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

Insurance risks

The Codan Group's insurance risks comprise:

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

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

For a risk description of the underwriting, catastrophe and reserve risks of subsidiaries, please refer to the Annual Report for 2019 of Codan Forsikring A/S.

Financial risks

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

Codan's direct investment portfolio, other than investments in subsidiaries, is allocated mainly to short- and medium-term bonds (87%), equity (6%), and cash (7%). Codan's subsidiaries have the majority of their investments in Danish and Swedish government and mortgage bonds. The vast majority of the bonds is considered liquid and can be sold at short notice close to market price.

Market risks

Interest rate risk

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

Equity risk

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

Management's review

Spread risk

Spread risk is the risk that the value of bonds with an inherent credit element declines due to spread increases caused, for example, by an increase in risk aversion in the market. Codan is exposed to spread risk mainly via investments in mortgage bonds and corporate bonds through its subsidiaries. However, the spread risk is considered limited as the subsidiaries primarily holds AAA-rated mortgage bonds and investment grade corporate bonds.

Currency risk

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

Inflation risk

Inflation risk is the risk that claims payments in future years will escalate given an increase in inflation due to indexation of claims cash flows. A significant part of the technical provisions in Codan's subsidiaries is index-linked, and Codan is consequently exposed to inflation through its subsidiaries. Codan also has direct exposure to inflation risk as annuities linked to Swedish Motor business are generally indexed with a consumer price index. The inflation risk is mitigated through the holding of investment assets that increase in value when inflation rises. Further, inflation derivatives are used to limit this risk.

Liquidity risk

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

Credit risk

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

Operational risks

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

Compliance risk

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

Other risks

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

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

Management's review

Capital structure

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

For capital management purposes of the Danish insurance subsidiaries, the Codan Group uses an internal capital model to assess and calculate capital requirements and scenarios. The model is used to calculate the solvency capital requirement (SCR) and for performance review purposes capital allocations are derived from the model. The model is further used for assessing impact of major strategic decisions and updates to the operational plan. The model has been developed over a number of years in cooperation with the RSA Group and was approved by the College of Supervisors in December 2015. In June 2019, RSA Group, in collaboration with Codan Forsikring, made an application to the College of Supervisors to implement Major Model Changes to the Internal Model. This application was approved in December 2019. In addition to these, some minor model changes were also implemented in the Internal Model in 2019 as part of ongoing improvements to the model. These did not result in a material change to the Solvency Capital Requirement.

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

Codan's equity amounted to DKK 5,049 million at 31 December 2019. As of 1 January 2016, there is no regulatory required capital requirement at a Codan level since the Company is an intermediate insurance holding company.

Management's review

Directorships and executive positions

Board of Directors

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

Board of Directors

Directorships and executive positions in other enterprises

Lars Nørby Johansen, Chairman

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

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

Board Director of Danmarks Underholdningsorkester A/S;

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

Philip Wynford Moore

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

Trustee of The Royal British Legion;

Governor of Hart Learning Group/North Hertfordshire College

Marianne Philip

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

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

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

Charlotte Claire Jones

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

Marie Elisabeth Sandblom *

Board Director Codan Forsikring A/S, Förbundsstyrelsen för Forena.

Christian Sletten *

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

Christer Arne Bjellert *

Board Director of Codan A/S

*) Employee representative

Management's review

Board of Management

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

Kenneth Norgrove

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

Executive Member of RSA Insurance Group Plc

Chief Executive Officer of Codan Forsikring A/S

Vivian Lund

Chairman of Forsikringselskabet Privatsikring A/S

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

Managing Director of Codan Forsikring A/S

Statement by the management on the annual report

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

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

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

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

Copenhagen, 27 March 2020

Board of Management

Ken Norgrove
CEO

Vivian Lund
EO

Board of Directors

Lars Nørby Johansen
Chairman

Christer Arne Bjellert

Philip Wynford Moore

Marie Elisabeth Sandblom

Marianne Philip

Charlotte Claire Jones

Christian Sletten

Independent auditors' report

To the shareholders of Codan A/S

Opinion

We have audited the financial statements of Codan A/S for the financial year 1 January – 31 December 2019 comprising income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Business Act.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

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

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

Management's responsibility for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Independent auditors' report

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Copenhagen, 27 March 2019

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Henrik Barner Christiansen
State Authorised
Public Accountant
MNE10778

Kim Schmidt
State Authorised
Public Accountant
MNE 34552

Income statement

Note	DKK million	2019	2018
Investment return			
		2,090.4	1,173.6
4	Income from Group entities		
	Interest income and dividends, etc.	2.6	2.2
5	Value adjustments	-3.1	-0.1
6	Interest expenses	-159.0	-159.8
	Investment management expenses	-1.1	-1.1
	Total investment return	1,929.8	1,014.8
7	Other expenses	-8.2	-6.0
	Profit before tax	1,921.6	1,008.8
8	Tax	35.5	36.1
	Profit for the year	1,957.1	1,044.9
Proposal for the distribution of profit:			
	Transfer to reserve for net revaluation according to the equity method	2,085.7	1,231.3
	Distributed interim dividend	1,200.0	1,657.4
	Transferred to retained earnings	-1,328.6	-1,843.8
		1,957.1	1,044.9

Statement of comprehensive income

	Currency translation adjustment, foreign subsidiaries	-159.8	-157.0
	foreign subsidiaries	0.8	-1.2
	Currency translation adjustment, disposal of foreign subsidiaries	0.0	1.9
	Other comprehensive income	2.8	-0.1
	Other comprehensive income	-156.2	-156.4
	Profit for the year	1,957.1	1,044.9
	Total comprehensive income	1,800.9	888.5

Balance sheet at 31 December

Note	DKK million	2019	2018
Assets			
9	Intangible assets	1,013.9	1,013.1
10	Investments in Group entities	8,283.7	7,605.0
	Total investments in Group entities	8,283.7	7,605.0
11	Equity investments	12.3	12.0
11	Bonds	190.0	230.9
	Total other financial assets	202.3	242.9
	Total investments	8,486.0	7,847.9
11	Receivables from Group entities	0.4	3.9
11	Other receivables	0.6	6.1
12	Total receivables	1.0	10.0
13	Current tax assets	11.7	37.1
14	Deferred tax assets	26.1	0.2
11	Cash and cash equivalents	15.9	56.0
12	Total other assets	53.7	93.3
	Accrued interest and rent	1.0	0.9
	Total accrued income	1.0	0.9
	Total assets	9,555.6	8,965.2

Balance sheet at 31 December

Note	DKK million	2019	2018
Equity and liabilities			
15 Share capital		860.0	860.0
Reserve for net revaluation according to the equity method		1,122.9	444.2
Translation reserve		-45.7	-46.5
Total reserves		1,077.2	397.7
Retained earnings		3,111.4	3,190.0
Total equity		5,048.6	4,447.7
16 Other provisions		0.0	4.7
17 Total provisions		0.0	4.7
Amounts owed to Group entities		4,502.7	4,508.3
Other payables		4.3	4.5
18 Total payables		4,507.0	4,512.8
Total equity and liabilities		9,555.6	8,965.2

Notes without reference

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Statement of changes in equity

DKK million

	Share capital	Net revaluation according to the equity method	Translation reserve	Proposed dividend	Retained earnings	Total equity
2019						
Equity, beginning of the year	860.0	444.2	-46.5	-	3,190.0	4,447.7
Changes in equity for 2019:						
Currency translation adjustment, foreign subsidiaries	-	-159.8	-	-	-	-159.8
Currency translation adjustment, goodwill relating to foreign subsidiaries	-	-	0.8	-	-	0.8
Other comprehensive income	-	2.8	-	-	-	2.8
	-	-157.0	0.8	-	-	-156.2
Profit for the year	-	2,085.7	-	-	-128.6	1,957.1
Total comprehensive income for the year	-	1,928.7	0.8	-	-128.6	1,800.9
Dividend paid	-	-	-	-1,200.0	-	-1,200.0
Distributed interim dividend	-	-	-	1,200.0	-1,200.0	-
Dividends received from subsidiaries	-	-1,250.0	-	-	1,250.0	-
Changes in equity for the year	-	678.7	0.8	-	-78.6	600.9
Equity, end of the year	860.0	1,122.9	-45.7	-	3,111.4	5,048.6

Statement of changes in equity

DKK million

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

Notes to the financial statements

Note

1 Accounting policies

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

General information

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

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

The Danish Financial Supervisory Authority has issued an update of the executive order no. 1442 of 3 December 2018 on Financial Reports for Insurance Companies and Lateral Pension Funds with effect from 2019. Changes implemented in 2019 relates to leasing and new disclosures on assets and liabilities measured at Fair Value in subsidiaries.

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

Recognition and measurement

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

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

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

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

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

Notes to the financial statements

Note

Key assumptions and estimates

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

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

Risk management is described in Note 2.

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

Insurance contract liabilities in Group entities conducting general insurance business

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

Deferred tax

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

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

Contingent liabilities

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

Changes in assumptions and estimates

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

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

Business combinations

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

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

Notes to the financial statements

Note

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

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

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

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

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

Intra-group transactions

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

Foreign currency translation

The Company's functional currency is DKK.

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

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

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

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

Notes to the financial statements

Note

Individual areas in the annual report

Expenses

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

Financial instruments

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

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

Financial derivatives

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

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

Currently financial derivatives only comprise foreign exchange contracts.

Incentive schemes

The RSA Group operates a long-term incentive plan (Performance Share Plan) for CEOs and other key employees. The scheme is based on various performance targets and is based on shares in RSA Insurance Group plc. For further details on the program, see note 7.

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

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

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.

Notes to the financial statements

Note

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

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

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

Other income and expenses

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

Tax

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

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

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

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

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

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

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

Notes to the financial statements

Note

Other comprehensive income

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

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

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

Balance sheet

Assets

Intangible assets

Goodwill

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

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

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

Impairment losses on goodwill are not reversed.

Development projects

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

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

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

Notes to the financial statements

Note

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

Other intangible assets

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

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

Property and equipment in subsidiaries

Equipment

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

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

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

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

Leasing

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

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

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

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

ROU assets are tested for impairment.

Notes to the financial statements

Note

Lease liability

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

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

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

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

Investments in Group entities

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

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

Other financial assets

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

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

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

Currency translation adjustments are recognised directly in the income statement.

Receivables

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

Notes to the financial statements

Note

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

Cash and cash equivalents

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

Prepayments and accrued income

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

Investments in Group entities

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

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

Other financial assets

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

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

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

Currency translation adjustments are recognised directly in the income statement.

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.

Notes to the financial statements

Note

Translation reserve

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

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

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

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

Proposed dividend

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

Payables and liabilities, general information

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

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

Pension obligations

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

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

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.

Notes to the financial statements

Note

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

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

Provisions

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

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

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

Prepayments and accrued income

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

Methods for calculating key figures

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

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

Notes to the financial statements

Note

2 Risk information

Risk management and control

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

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

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

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

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

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

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

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

Insurance risks

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

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

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

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exercised by the respective underwriters is controlled by a personal underwriting licence based on underwriter's capabilities.

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

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

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

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

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

Insurance risk concentrations

Risk limitation is also conducted through reinsurance. Insurance business is by nature exposed to major fluctuations. By ceding business to reinsurers, the consequences of very large claims can be limited, and the size of exposures can thus be managed, and the Company's equity protected. The costs of Codan's subsidiaries per claim event, their net retention and the upper limit to which the reinsurance protection covers costs per claim event vary from product to product. The amount of net retention is decided by the Board of Directors in Codan's subsidiaries. The level is reviewed annually by the Board of Directors to ensure that it is acceptable.

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

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

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Non-catastrophe risks

The Codan Group's reinsurance programme for 2019 was primarily an excess of loss programme with a maximum retention of DKK/NOK 100 million for any one risk (SEK 125 million for the Swedish branch), in respect of buildings, contents and business interruption insurance. The retention for personal accident claims was DKK 100 million, DKK/NOK 25 million (SEK 30 million for the Swedish branch) for liability and

DKK 30 million (SEK 40 million for the Swedish branch) for motor third party liability claims. In respect of Renewable off-shore Energy sector the retention was USD 25 million.

In respect of Marine Hull business Codan Forsikring has a 100% Quota Share for claims related to insurance contracts written in 2019. The 2019 Quota Share Treaty is placed with RSA Insurance Ltd and placed on market terms and Codan Forsikring receives commission. All other reinsurance contracts are purchased on a Scandinavian or global basis, thereby reducing costs.

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

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

Storm and catastrophe risks

The Codan Group has together with other companies in the RSA Group taken out reinsurance cover for catastrophe events. In respect of natural disaster, reinsurance cover for a once-in-200-years event has been purchased, with a combined RSA Group retention of GBP 25 million. Should the Catastrophe occur in Northe America, Central America or the Caribbean the retention will be CAD 75 million. The same reinsurance programme will cover property claims where more than one risk is involved in a non-natural peril's loss event.

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

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

Reserving risk

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

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

Notes to the financial statements

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

Financial risks

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

Market risks and investment strategy

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

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

- Legislative and risk compliance
 - o Ensuring that investments are compliant with the investment rules set out in legislation;
 - o Ensuring full compliance with the Investment Policy laid down by the Board of Directors;
 - o Ensuring that the exposure of the investment portfolio is within the set limits;

- Operational efficiency
 - o Ensuring that liability cash flows are reflected in the structure of the investment portfolio;
 - o Ensuring that an investment management policy has been adopted;
 - o Ensuring cost control.

Investment management

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

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

Liquidity and interest rate risks

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

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

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

Notes to the financial statements

Note

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

Contractual repricing or maturity dates	DKK million					Total
	< 1 year	1-5 years	5-10 years	10-20 years	> 20 years	
2019						
Danish fixed rate mortgage bonds	-	-	-	-	190.0	190.0
Call deposits etc.	15.9	-	-	-	-	15.9
Receivables from Group entities	0.4	-	-	-	-	0.4
Financial assets	16.3	-	-	-	190.0	206.3
Amounts owed to Group entities	1,002.7	-	-	-	3,500.0	4,502.7
Other payables	4.3	-	-	-	-	4.3
Financial liabilities	1,007.0	-	-	-	3,500.0	4,507.0
2018						
Danish fixed rate mortgage bonds	184.5	12.0	-	-	34.4	230.9
Call deposits etc.	56.0	-	-	-	-	56.0
Receivables from Group entities	3.9	-	-	-	-	3.9
Financial assets	244.4	12.0	-	-	34.4	290.8
Amounts owed to Group entities	1,008.3	-	-	-	3,500.0	4,508.3
Other payables	4.5	-	-	-	-	4.5
Financial liabilities	1,012.8	-	-	-	3,500.0	4,512.8

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

	Effective interest rates		Duration	
	2019	2018	2019	2018
Financial assets				
Danish fixed rate mortgage bonds	-1.4	0.2	1.3	0.3
Financial liabilities				
Amounts owed to Group entities	3.5	3.5	0.3	0.4

Notes to the financial statements

Note

Currency risk

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

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

Currency risk	DKK million				
	2019				
	EUR	GBP	NOK	SEK	Total
Investments in Group entities					
Intangible assets	-	-	169.3	-	169.3
Currency risk	-	-	169.3	-	169.3
	2018				
	EUR	GBP	NOK	SEK	Total
Investments in Group entities					
Intangible assets	-	-	168.6	-	168.6
Other loans, deposits with credit institutions, call deposits,	0.1	-	-	0.3	0.4
Receivables from Group entities	-	-	-	-0.2	-0.2
Amounts owed to Group entities	0.3	0.1	-	-	0.4
Other provisions	-	-	-4.7	-	-4.7
Currency risk	0.4	0.1	163.9	0.1	164.5

Equity risk

On 31 December 2019, Codan had invested a total amount of DKK 12 million of its other financial assets in equities. In addition to this, Codan's subsidiaries had invested a total amount of DKK 1,935 million in equities at 31 December 2019.

Inflation risk

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

Notes to the financial statements

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Real estate risk

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

Credit risks

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

Credit risk relating to investments

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

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

Maximum credit risk	DKK million	2019	2018
Danish fixed rate mortgage bonds		190.0	230.9
Receivables from Group entities		0.4	3.9
Other receivables		0.6	6.1
Current tax assets		11.7	37.1
Cash and cash equivalents		15.9	56.0
Accrued interest and rent		1.0	0.9
Maximum credit risk		219.6	334.9

As financial markets are affected by the Corvid-19 outbreak Codan continues to monitor this closely.

Operational risks

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

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

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

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

Notes to the financial statements

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Compliance Risk

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

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

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

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

Emerging risks

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

Capital and solvency

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

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

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

Dividend potential

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

Notes to the financial statements

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3 Key figures and financial ratios

Five year summary	DKK million	2019	2018	2017	2016	2015*
Total investment return		1,929.8	1,014.8	1,868.3	2,197.9	384.7
Profit for the year		1,957.1	1,044.9	1,887.4	2,195.3	386.1
Total equity		5,048.6	4,447.7	5,216.6	8,107.4	8,646.1
Total assets		9,555.6	8,965.2	9,741.9	10,334.0	10,821.0
Return on equity in %		41.2	21.6	28.3	26.2	4.2

*) Key figures and financial ratios have been restated to reflect the changes in accounting policies.

Notes to the financial statements

Note	DKK million	2019	2018
4 Interest Income and dividends, etc.			
Interest income from bonds, loans and deposits		2.5	2.0
Income from units in open-ended funds and other equity investments		0.1	0.2
Interest income and dividends, etc.		2.6	2.2
5 Value adjustments			
Equity investments		0.3	-1.6
Bonds		-3.5	-2.2
Derivatives		0.0	20.2
Total investment assets		-3.2	16.4
Other value adjustments		0.1	-16.5
Value adjustments		-3.1	-0.1
Realised gains and losses on investments		-5.3	18.9
Unrealised gains and losses on investments		2.1	-2.5
Other realised gains and losses		0.1	-0.1
Other unrealised gains and losses		0.0	-16.4
Value adjustments		-3.1	-0.1
6 Interest expenses			
Interest payable to Group entities		-155.6	-159.8
Other financial expenses		-3.4	0.0
Interest expenses		-159.0	-159.8

Notes to the financial statements

Note	DKK million	2019	2018
7 Other expenses			
Administrative expenses			
Staff costs:			
Wages and salaries		-7.3	-3.7
Defined contribution schemes		-0.1	-0.3
Payroll tax		-0.4	0.0
Total staff costs		-7.8	-4.0
Administration fee to Codan Forsikring A/S		-4.2	-5.7
Other administrative expenses		-1.1	-0.5
Transferred to investment management expenses		1.0	1.0
Reimbursement from Group entities		3.9	3.2
Total administrative expenses in Codan		-8.2	-6.0
Other expenses		-8.2	-6.0
Average number of full-time employees during the year		1	1

Remuneration of the Board of Directors and the Board of Management is disclosed in note 20 Related parties.

Incentive schemes

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

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

Performance Shares

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

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

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

Notes to the financial statements

Note

7 Other expenses (continued)

Deferred Bonus Shares

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

Restricted Shares

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

	Patrick Bergander		Vivian Lund		Risk-takers	
	Number of shares	Value DKK million	Number of shares	Value DKK million	Number of shares	Value DKK million
Long-term Incentive Plan (PSP)						
Beginning balance 1 January 2018	142,590	7.6	15,813	0.8	21,267	1.1
Adj. to beginning balance	-	-1.6	-	-0.2	-	-0.2
Adj. due to change in Risk-takers	-	-	-	-	-21,267	-0.9
Granted during the year	40,233	1.7	6,379	0.3	-	-
Vested during the year	-26,466	-1.1	-5,373	-0.2	-	-
Forfeited during the year	-33,862	-1.4	-3,939	-0.2	-	-
Balance 31 December 2018	122,495	5.2	12,880	0.5	-	-
Long-term Incentive Plan (PSP)						
Beginning balance 1 January 2019	122,495	5	12,880	1	-	-
Adj. to prior year	-	0.7	-	0.1	-	-
Vested during the year	23,012	1.1	7,965	0.4	-	-
Forfeited during the year	-25,430	-1.2	-	-	-	-
Lapsed during the year	-16,937	-0.8	-	-	-	-
Balance 31 December 2019	103,140	5.0	20,845	1.0	-	-

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

Notes to the financial statements

Note	DKK million	2019	2018
8 Tax			
Tax on total income for the year:			
Current tax expense		11.7	36.1
Change in deferred tax on temporary differences		24.8	-0.1
Tax on total income for the year		36.5	36.0
Adjustments relating to previous years:			
Current tax for previous years		-2.0	0.2
Adjustment of deferred tax at 1 January		1.0	-0.1
Adjustments relating to previous years		-1.0	0.1
Tax expense		35.5	36.1
Tax is included as follows:			
Tax in the income statement		35.5	36.1
Tax on changes in equity		0.0	0.0
Tax expense		35.5	36.1
Total tax on total income for the year can be explained as follows:			
Profit before tax		1,921.6	1,008.8
Reversal of income from Group entities		-2,090.4	-1,173.6
Transfer to equity related to translation reserve		0.8	-1.0
Total income		-168.0	-165.8
Applicable tax rate		22.0%	22.0%
Tax calculated on total income		37.0	36.5
Tax on permanent differences:			
Other equity investments		0.1	-0.3
Expenses disallowed for tax purposes		-0.6	-0.2
Tax on total income for the year		36.5	36.0
Adjustment of tax relating to previous years		-1.0	0.1
Tax expense		35.5	36.1

Notes to the financial statements

Note	DKK million		
9 Intangible assets			
	Goodwill	Other intangible assets	Total intangible assets
2019			
Cost, beginning of the year	1,070.8	90.6	1,161.4
Currency translation adjustments, foreign subsidiaries	0.8	-	0.8
Cost, end of the year	1,071.6	90.6	1,162.2
Amortisation and impairment, beginning of the year	-57.7	-90.6	-148.3
Amortisation and impairment, end of the year	-57.7	-90.6	-148.3
Carrying amount, end of the year	1,013.9	-	1,013.9
Carrying amount, beginning of the year	1,013.1	-	1,013.1
Amortised on a straight-line basis over	N/A	5 and 10 years	
Amortisation is included in other expenses.			
2018			
Cost, beginning of the year	1,072.0	90.6	1,162.6
Currency translation adjustments, foreign subsidiaries	-1.2	-	-1.2
Cost, end of the year	1,070.8	90.6	1,161.4
Amortisation and impairment, beginning of the year	-	-90.6	-90.6
Impairment losses recognised in the income statement	-57.7	-	-57.7
Amortisation and impairment, end of the year	-57.7	-90.6	-148.3
Carrying amount, end of the year	1,013.1	-	1,013.1
Carrying amount, beginning of the year	1,072.0	-	1,072.0
Amortised on a straight-line basis over	N/A	5 and 10 years	
	Net book value	Calculated headroom	WACC
The value of goodwill can be broken down as follows:			
Acquired goodwill in relation to the purchase of Trygg-Hansa Försäkrings AB	885.2	21,546.8	7.61%
Acquired goodwill in relation to the purchase of Norwegian portfolios relating to Codan Forsikring A/S*	128.7	583.8	9.07%
Total goodwill 2019	1,013.9	22,130.6	

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

Notes to the financial statements

Note	DKK million	2019	2018
10 Investment in Group entities			
Cost, beginning of the year		8,220.2	8,770.2
Disposals		-	-550.0
Cost, end of the year		8,220.2	8,220.2
Adjustments, beginning of the year		-615.2	-360.1
Exchange gains and losses		0.0	0.2
Currency translation adjustment, disposal of foreign subsidiaries		0.0	1.9
Total comprehensive income for the year		1,928.7	1,074.0
Dividend received from subsidiaries		-1,250.0	-1,857.4
Reversal of adjustments relating to disposals during the year		-	526.2
Adjustments, end of the year		63.5	-615.2
Carrying amount, end of the year		8,283.7	7,605.0

The carrying amount of investments in Group entities includes goodwill of DKK 459 million (DKK 471 million in 2018).

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

Codan Forsikring A/S	8,283.7	7,605.0
Investments in Group entities	8,283.7	7,605.0

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.

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	2,085.7	8,283.7

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

Notes to the financial statements

Note	DKK million	2019	2018
11 Financial instruments (assets)			
The company's financial instruments below are broken down by the method according to which the assets are measured in the balance sheet.			
Assets measured at fair value:			
Financial instruments measured at fair value are adjusted through the income statement.			
Equity investments:			
Unlisted shares		12.3	12.0
Equity investments:		12.3	12.0
Other listed bonds		190.0	230.9
Fixed rate bonds		190.0	230.9
Financial instruments measured at fair value		202.3	242.9
Assets measured at amortised cost:			
Receivables from Group entities		0.4	3.9
Other receivables		0.6	6.1
Cash and cash equivalents		15.9	56.0
Financial instruments measured at amortised cost		16.9	66.0
Financial instruments		219.2	308.9
12 Total receivables and other assets			
All receivables and other assets are to be settled within 12 months, except from deferred tax assets.			
13 Current tax assets and liabilities			
Current tax assets/liabilities, beginning of the year		37.1	21.8
Transfer from other receivables		0.0	1.1
Current tax for the year		11.7	36.1
Adjustment of current tax relating to previous years		-2.1	0.2
Corporation tax received/paid during the year		-35.0	-22.1
Current tax assets and liabilities, end of the year		11.7	37.1

Notes to the financial statements

Note	DKK million	2019	2018
14 Deferred tax assets and liabilities			
Deferred tax assets/liabilities, beginning of the year		0.2	0.4
Change relating to property and equipment		-0.1	-0.1
Change relating to short-term payables		-	-0.1
Change relating to tax losses		26.0	-
		26.1	0.2
Deferred tax, end of the year		26.1	0.2
Specification of deferred tax assets and liabilities at the end of the year:			
Property and equipment		0.2	0.2
Tax losses		25.9	0.0
		26.1	0.2
Deferred tax liabilities, end of the year		26.1	0.2
15 Share capital			
The company's fully paid share capital can be broken down as follows:			
42,998,500 shares of DKK 20 each		860.0	860.0
		860.0	860.0
Share capital		860.0	860.0
No shares carry special rights. All shares carry full dividend rights. The company does not hold own shares. There has been no change in the Share Capital during the past 5 years.			
16 Other provisions			
Other provision, beginning of the year		4.7	4.7
Reversed during the year		-4.8	-
Value adjustments		0.1	-
		-	4.7
Provision relating to the acquisition of Group entities, end of the year		-	4.7
Other provisions consists of:			
Provision related to the acquisition of Group entities		-	4.7
		-	4.7
17 Total provisions			
Non-current portion (more than one year)		-	4.7
		-	4.7
Total provisions		-	4.7
18 Total payables			
Loan to parent company DKK 3,500 million fall due 31 May 2047. No other payables fall due more than five years after the balance sheet date.			

Notes to the financial statements

Note DKK million

19 Assets and liabilities measured at fair value

	Quoted prices (Level 1)	Observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
2019				
Equity investments	-	-	12.3	12.3
Bonds	-	190.0	-	190.0
Assets measured at fair value	-	190	12	202.3

2018

Equity investments	-	-	12.0	12.0
Bonds	196.5	34.4	-	230.9
Assets measured at fair value	197	34	12	242.9

Specification of level 3 assets

	Equity investments
Opening balance	12.0
Total gains or losses for the period	0.3
Settlements	12.3
Closing balance	12.3
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	0.3

The investment in financial assets classified at level 3 are primarily investments in other equities. The fair value calculations are based upon the latest received reporting, annual reports and other informations from the companies.

Notes to the financial statements

Note DKK million

20 Related parties

Information on related parties

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

Board of Directors, Board of Management and employees

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

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

Remuneration of the Board of Directors, Board of Management and Risk-takers are allocated between the Company and the Company's subsidiaries. The specifications below contain the total remuneration.

	2019	2018
Remuneration of the Board of Directors		
Lars Nørby Johansen (joined 27 April 2012)	-0.7	-0.7
Anthony Piers Latham (resigned 26 April 2018)	-	-0.1
Gunilla Astrid Henriette Asker (resigned 30 August 2018)	-0.2	-0.2
Christer Arne Bjellert (joined 29 April 2015)	-0.2	-0.2
Scott Egan (resigned 22 March 2019)	-	-
Charlotte Jones (joined 31 July 2019)	-	-
Philip Wynford Moore (joined 26 April 2018)	-0.6	-0.4
Marianne Phillip (joined 29 April 2011)	-0.4	-0.4
Maria Elisabeth Sandblom (joined 29 April 2015)	-0.2	-0.2
Christian Sletten (joined 4 May 2000)	-0.2	-0.2
Remuneration to the Board of Directors	-2.5	-2.4
Remuneration of the Board of Management		
Wages and salaries (fixed remuneration)	-7.4	-7.8
Bonuses (variable remuneration)	-0.7	-0.6
Pension benefits (fixed remuneration)	-1.2	-1.7
Share-based payment (variable remuneration)	-1.7	-1.4
Redundancy benefits (variable remuneration)	-6.5	-
Remuneration of the Board of Management	-17.5	-11.5
CEO Ken Norgrove	-3.4	-
EO Vivian Lund	-2.9	-2.8
Former CEO Patrick Bergander	-11.4	-8.7
Paid remuneration to the Board of Management	-17.7	-11.5
Number of employees in the Board of Management at 31 December	2	2

Notes to the financial statements

Note	DKK million	
20 Related parties (continued)		
Remuneration of Risk-takers	2019	2018
Wages and salaries (fixed remuneration)	-6.4	-7.0
Pension benefits (fixed remuneration)	-0.5	-0.6
Remuneration of Risk-takers	-6.9	-7.6
Number of Risk-takers	4	4

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

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

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

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

The Company's CEO has a separate contract with Codan Forsikring and its parent company Codan A/S. The above specification includes the total remuneration for employment. CEO Ken Norgrove replaced Patrick Bergander as CEO on 13th September 2019. Ken Norgrove has a dual payroll, in Denmark (see table) and in his home Country. The total remuneration (incl. home country) for Ken Norgrove for the period as CEO is DKK 4,1 million. Redundancy benefits are included for former CEO for the 12 months' notice period.

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

Members of the Board of Management and Material Risk Takers may receive variable pay in the form of RSA Top 50 bonus Plan (short-term, cash-based variable incentive plan). Bonuses earned in 2019 have been fully expensed in 2019 but will be paid out from 2020 on a pro-rata basis over a three or a four year deferral period depending on position.

Members of the Board of Management and Material Risk Takers may participate in RSA Insurance Group pl's Long Term Incentive Plan (share-based variable incentive plan), see note 7.

Notes to the financial statements

Note

20 Related parties (continued)

Related party transactions

In 2019, DKK 1,200 million were distributed as dividend to RSA Insurance Group plc.

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

The company is a part of the Codan Group, whose companies work in a Nordic operating model. This means that there is co-operation on management, projects and certain functions in between the companies. In 2019 Codans income thereof amounted to DKK 3.2 million (DKK 3.2 million in 2018) and the expense thereof amounted to DKK 0.0 million in 2019 (DKK 0.0 million in 2018).

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 4.2 million in 2019 (DKK 5.7 million in 2018).

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

As of 31 December 2019 the company had a loan from the RSA subsidiary RSA Insurance plc. of DKK 3,500.0 million. (DKK 3,500.0 million in 2018). The loan was obtained on an arm's length basis. The interest expense amounted to DKK 152.5 million in 2019 (DKK 154,2 million in 2018).

21 Security

At 31 December 2019, no assets were pledged as security.

22 Contingent assets, contingent liabilities and financial liabilities

Contingent assets

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

Contingent liabilities

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

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

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

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

Notes to the financial statements

Note

23 Ownership information

Ownership

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

Group relationship

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