

CODAN A/S  
REMUNERATION REPORT 2016

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### **Remuneration rules**

With effect from 1 January 2011, new rules introduced an obligation for financial undertakings to draw up a remuneration policy, including rules on the payment of variable remuneration to the Board of Directors, Board of Management and material risk takers.

Codan A/S ('Codan', the 'Company') has implemented the new rules and observes the special restrictions applicable to the remuneration of the Board of Directors, the Board of Management and material risk takers. Consequently, the Company complies with the provisions of sections 71 and 77a-e of the Danish Financial Business Act (Lov om finansiel virksomhed) and Solvency II.

In accordance with section 77d of the Danish Financial Business Act, information about the total remuneration for members of the Board of Directors and the Board of Management is provided in the annual report. The information to be published under the remuneration rules is also available on the website [www.codan.dk](http://www.codan.dk) under 'Rapporter og finans'. The Company's remuneration rules are also published in this document.

### **Remuneration policy**

Codan's Board of Directors has on 25 April 2016 adopted an updated remuneration policy (the 'Remuneration Policy'), which applies to Codan A/S and its subsidiaries. The policy was approved at the Company's general meeting on 27 April 2016. The purpose of the Remuneration Policy is to establish general rules on the structuring of remuneration programmes.

### **Decision-making process**

The Remuneration Policy and the respective remuneration programmes covered by the Remuneration Policy are laid down by the company's Board of Directors. Codan's and Codan Forsikring A/S's Boards of Directors have appointed a Joint Nomination/Remuneration Committee, consisting of 2-3 members, incl. an employee representative. The committee holds 3 annual meetings. The committee is responsible for preparing important remuneration-related decisions and for monitoring the implementation of and compliance with the Remuneration Policy.

### **Principles of variable remuneration**

The Remuneration Policy stipulates that Codan must factor in the long-term impact of the Company's variable remuneration on the Company's results. In the laying-down of the basis for remuneration, special focus must be on ascertaining whether the results may subsequently be impacted by current and future risks. In the performance follow-up, special consideration must be given to the capital and liquidity requirements agreed in advance by the Company.

The individual variable remuneration programmes must be based on individual employee performance and business unit results as well as the Group's overall results, and in some cases the results generated by other companies in the Group. In deciding the remuneration for individual employees, Codan must take account of qualitative criteria such as the employees' compliance with the internal policies and procedures as well as their compliance with the rules of conduct to be followed in relations with clients and investors. It is also taken into consideration whether the relevant employee has participated in or been responsible for conduct which has caused Codan to suffer significant losses or whether the employee has failed to meet the fit and proper requirements.

Codan wants to strike a suitable balance between fixed and variable remuneration while at the same time aiming to ensure that a portion of all employees' remuneration is based on employee performance. For the Board of Management variable remuneration may not exceed 50 % of the fixed pay, including pension contribution. For other Material Risk Takers the variable component must not exceed 200%, although as a main principle the variable remuneration does not exceed 75%.

Finally, Codan focuses on the size and costs of the extra capital required to cover the risks affecting the results for the period, the size and costs of the Company's liquidity risks and the possibility that future earnings prospects are not realised. In certain cases, the variable remuneration may be fixed at zero.

## **CODAN'S VARIABLE REMUNERATION PROGRAMMES 2016**

Codan has a number of variable remuneration programmes which reward the employees in both the short and long term.

### **Short-term programmes**

Since 2006, staff have been covered by a short-term bonus scheme (the 'Bonus Scheme'), which for the Danish part of 'the Group' is agreed between Codan Forsikring A/S and the staff association in Codan and its Danish subsidiaries and revised annually. As a main rule, all employees in Codan are covered by the Bonus Scheme, apart from employees in control functions (including Internal Audit), who are not covered. The purpose of the Bonus Scheme is to support Codan's performance management work, to reward a good work effort and to attract and retain competent employees. The result for the individual employee depends on Codan's financial results as well as the employee's performance relative to individually adapted targets.

The financial results are measured via the underwriting result, and are included in the Bonus Scheme to create a link between value creation in the Group and in the individual business areas. The assessment of individual performance targets takes qualitative criteria into account, such as compliance with internal rules and the employee's work compared with the Group's values. The weighting in the Bonus Scheme of the Group's/individual legal units' or divisions' financial results and the individual employee's performance depends on the employee's position in the organisation.

### **Long-term programmes**

The management may participate in RSA Insurance Group plc's (the ultimate parent) Long Term Incentive Plan ('LTIP'). The purpose of the Long Term Incentive Plan is to increase focus on and interest in RSA Insurance Group plc's long-term objectives. The design of the plan includes various types of share grant, most of which are based on performance criteria. LTIP entails typical share grants with three-year vesting and/or goal achievement periods.

## **RISK IMPACT OF CODAN'S REMUNERATION PROGRAMMES**

The primary risk associated with Codan's remuneration programmes is linked to the variable remuneration. Codan wants to strike a balance between fixed and variable remuneration components and to ensure that the variable remuneration does not inspire excessive risk acceptance.

The variable remuneration is therefore limited to an amount or grant agreed in advance in proportion to the base salary. The portion of variable remuneration relative to the fixed remuneration generally increases in line with the level of seniority in the organisation. To limit remuneration-related risks, the disbursement of at least 40% of the variable remuneration (60% in connection with large amounts) for material risk takers must be deferred for at least three years. The disbursement of variable remuneration which has been deferred, may lapse in part or in full if it turns out at a later point that the criteria on which the calculation of the variable remuneration component was based are not fulfilled at the time of disbursement, or if the Company's situation has seriously deteriorated compared with its situation at the time of the calculation of the variable remuneration, or if the relevant risk taker has participated in or been responsible for conduct which has caused Codan to suffer significant losses or if the risk taker has failed to meet the fit and proper requirements. Codan may thus refrain from disbursing deferred variable remuneration if its financial position would thereby deteriorate significantly, particularly if Codan would subsequently no longer be deemed to be a going concern.

To ensure Codan's compliance with the Remuneration Policy an annual independent control of whether the remuneration paid by the Company is in accordance with the Remuneration Policy is conducted. The result of the control is reported to the Board of Directors once a year at the time when the financial statements are complete.

### Identification of material risk takers

Codan has identified the Company's group of material risk takers on the basis of the Company's risks<sup>1</sup> and the risk the individual employee may assume. The group of material risk takers consists of part of the Group Management and other material risk takers. The Company has performed a risk assessment for the 'material risk takers' group with a view to identifying staff with significant influence on the Company's risk level.

Through its risk management procedure and the limits defined, the Company has adequately reduced the risk impact for other staff to ensure that these can no longer be deemed to materially impact the Company's risk level.

The Remuneration Policy, which defines the Company's material risk takers, is reviewed and updated at least once a year to ensure that the risk-taker definition is up-to-date and to identify any new material risk takers.

In 2016, Codan A/S had the following four material risk takers, whereof the first three are members of the Board of Management:

1. Group CEO
2. CFO
3. Head of Legal
4. Chief Internal Auditor

The Chief Actuary, Head of Risk and Head of Compliance are employed by Codan Forsikring A/S, but also perform work for Codan A/S and Privatsikring A/S. Their remuneration is included in the remuneration report for Codan Forsikring A/S.

### MAIN BENEFITS

Codan A/S offers market aligned benefit package, including pension schemes, company car for managers and various insurances.

Reference to Executive Order no. 1583 §23, DKKm		Total
7	Total amount of remuneration earned in the financial year	Amount earned
		N/A*

Reference to Executive Order no. 1583 §23, DKKm		Board of Directors	Board of Management	Other material risk takers
8* a	Total fixed remuneration	2.4 (6)	10.2 (3)	N/A*
	Earned amount (# of recipients)			
	Total variable remuneration	0	3.6 (3)	N/A*
8 b	Cash part of variable remuneration	0	2.2	N/A*
	Earned amount			
	Share part of variable remuneration	0	1.4	N/A*
8 c	Deferred bonus - Vested	0.0	2.7	N/A*
	Accumulated			
	Deferred bonus - Non-vested	0.0	14.7	N/A*
8 d	Deferred bonus - Granted	0.0	1.3	N/A*
	Amount			
	Deferred bonus - Paid	0.0	2.5	N/A*
	Deferred bonus - Reduced	0.0	1.0	N/A*
8 e	Sign on bonus	0.0 (0)	N/A*	N/A*
	Paid amount (# of recipients)			
	Severance pay	0.0 (0)	N/A*	N/A*

<sup>1</sup> Please refer to the annual report for a description of the Company's risks

8 f	Severance pay	Amount granted	0.0 (0)	0	N/A*
		# of recipients	0	0	N/A*
		Largest amount	0	0	N/A*
9	Employees with remuneration exceeding 1 EURm	Earned amount (# of recipients)	1.0-1.5 EURm (1)		

\* Due to anonymity the remuneration is not disclosed

Reported remuneration earned for 2016 is based on short-term variable remuneration earned during 2015 (paid in the first half of 2017) and long-term variable remuneration earned under RSA's Long Term Incentive Plan with allocation in the second quarter of 2017.