

**CODAN FORSIKRING A/S**  
**ANNUAL REPORT 2007**



Company Reg. No. 10 52 96 38

**Contents**

---

General information	2
Management's review	
Key figures and financial ratios	3
Financial review	4
Directorships and executive positions	9
Statement by the Boards of Directors and Management on the Annual Report	11
Independent Auditor's Report	12
Income statement	13
Balance sheet at 31 December	14
Statement of changes in equity	16
Cash flow statement	17
Notes to the financial statements	18

---

## General information

---

### Boards of Directors and Management

#### Board of Directors:

Simon Lee, Chairman  
Anthony Latham, Deputy Chairman  
Jan Hjulmand \*  
Kaare Lønholdt \*  
Andrew Kirkland  
Henrik Müllertz \*  
Clare Salmon  
Rowan Saunders  
Christian Sletten \*  
Roy Philip Smith

\*) Elected by employees

#### Board of Management:

Rickard Gustafson, CEO  
Vibeke Krag

---

### Auditors

#### Auditors elected by the general meeting:

Deloitte, Statsautoriseret Revisionsaktieselskab

---

### Ownership

Codan A/S, Frederiksberg, is the sole shareholder of Codan Forsikring A/S

---

### Address, etc.

Gammel Kongevej 60  
DK-1790 Copenhagen V  
Telephone: +45 33 21 21 21  
Telefax: +45 33 55 21 22  
Company Reg. No. 10 52 96 38

## Management's Review

### Key figures (in DKK m) and financial ratios

Five year summary*	2007	2006	2005	2004	2003
Gross earned premiums	6,033	5,436	5,218	5,164	5,026
Gross claims incurred	-4,485	-2,441	-4,008	-3,707	-3,305
Total operating expenses	-1,242	-1,044	-1,026	-965	-260
Profit/loss from reinsurance	132	-335	124	-219	-309
Balance on the technical account	621	1,686	362	333	149
Investment return after technical interest	155	180	1	40	313
Profit for the year	592	1,387	259	464	445
Run-off gain/loss	187	1,049	146	-97	-8
Total technical provisions	9,692	8,579	9,445	8,726	8,217
Total insurance assets	1,282	1,017	1,425	1,568	1,018
Total equity	3,840	4,446	3,052	4,531	4,168
Total assets	15,408	15,108	13,606	14,812	12,356
<b>Financial ratios</b>					
Gross claims ratio	75.4	45.5	77.8	72.9	66.6
Gross expense ratio	20.9	19.5	19.9	19.0	24.4
Combined ratio	94.1	71.2	95.3	96.2	97.3
Operating ratio	90.0	69.4	93.1	93.6	94.7
Relative run-off result	3.2	16.0	2.5	-1.8	-0.1
Return on equity in %	14.3	37.0	6.8	10.7	11.3
Solvency ratio	323	307	309	309	304

\* The key figures and financial ratios for 2004-2007 have been calculated in accordance with the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds). The comparative figures for 2003 have not been restated to reflect the changed accounting policies but calculated in accordance with the previous accounting policies.

## **Management's Review**

### **Financial review**

#### **The Company's principal activity**

Codan Forsikring A/S provides almost all types of general insurance to both individuals and companies in the Nordic countries. Being the third largest player in both the personal and commercial markets and the largest marine insurer, Codan Forsikring A/S holds a leading position in the Danish general insurance market.

#### **The Annual Report for 2007**

Codan Forsikring A/S is a subsidiary of Royal & Sun Alliance Insurance Group plc, which prepares consolidated financial statements in accordance with applicable United Kingdom law. Consolidated financial statements have therefore not been prepared for the Codan Forsikring A/S Group.

On 1 October 2004, the life insurance subsidiaries of Codan Forsikring A/S were sold. All accounting items relating to the disposal of these operations are included in one line in the income statement.

#### **Major events in 2007**

In 2007, Codan continued to focus on profitable growth, driven by distribution agreements with, among others, car dealers, local banks and the DaneAge Association.

During the year, Codan developed a new Nordic business concept – Atava. The concept offers purely internet based insurance services: All transactions are carried out on the Internet, and the products are simple and easily accessible with no complex optional covers. Atava will be launched in Denmark in 2008.

In September 2006, Codan A/S acquired the underwriting agencies White Label Holding AS and Duborgh Skadeforsikring AS, including subsidiaries in Norway, Sweden and Denmark. During 2007, the two underwriting agencies became fully integrated into the Codan Group and have written insurance with Codan Forsikring A/S as insurer throughout the year.

In 2007, Codan Forsikring A/S set up a branch in Estonia. The branch has yet to be fully established and did not start writing insurance until the end of 2007.

In March 2007, Codan Forsikring A/S acquired the marine insurance activities of the Finnish insurance company Pohjola Non-Life Insurance Company Ltd. In this connection, Codan Forsikring A/S established its own branch in Helsinki, Finland. Following the acquisition, Codan Forsikring A/S holds 40% of the Finnish marine insurance market.

#### **Profit for the year and development of the Company**

Codan Forsikring A/S recorded a profit of DKK 592m for 2007. This is in accordance with the expectation for 2007, as stated in the Annual Report for 2006, to maintain the satisfactory insurance operating profit.

The profit from continuing operations comprises a balance on the technical account of DKK 621m, an investment result of DKK 155m, other income of DKK 7m and tax expenses of DKK 191m.

The profit for the year is considered satisfactory.

## **Management's Review**

### ***General insurance***

In 2007, gross earned premiums increased by 11% to DKK 6,033m compared with an increase in 2006 of 4.2%. The increase in gross earned premiums in 2007 is in accordance with the forecast for 2007 of an increase of approx. 10% as stated in the Annual Report for 2006. Net earned premiums rose by DKK 621m to DKK 5,675m, equal to a 12.3% increase.

The balance on the technical account, net of reinsurance, was a profit of DKK 621m against a profit of DKK 1,686m for 2006.

In 2006, Codan focused material efforts on actuarial analyses, and the year-end reserve review for 2006 was based on these analyses. Following this review, a year-end reserve rebalancing was completed in order to reposition reserves, which substantially impacted the fourth quarter numbers for 2006. Reserves relating to the motor business were released, whereas reserves concerning Workers' Compensation were strengthened considerably. Adjustments were also made in respect of other reserves.

The gross claims ratio was 75.4% in 2007 as compared with 45.5% in 2006. The gross claims ratio for 2006 was affected by the comprehensive actuarial review. The gross claims ratio for 2007 was adversely affected by 3.8% as compared with 2006 following a higher number of large and weather related claims than in the previous year.

The gross claims ratio was positively affected by adjustments to the discounting methods in relation to technical provisions in 2007. These method changes positively impacted the gross claims ratio by 1.8 percentage point in 2007.

The gross expense ratio was 20.9% in 2007 as compared with 19.5% in 2006. In the Annual Report for 2006, the gross expense ratio for 2007 was expected to be below the 2006 level. The forecast variance is due to the gross expense ratio for 2007 being impacted by an increase in expenses resulting from the integration of the recently acquired portfolios, the branch start-up in Estonia and the development of the new insurance concept - Atava.

Reinsurance activities generated a profit of DKK 132m in 2007 whereas for 2006, the result was a loss of DKK 335m. The loss from reinsurance activities for 2006 was affected by the reserve review described above.

### ***Business initiatives***

Also 2007 was characterised by innovation and development of distribution channels and customer propositions. Personal Lines strengthened its position in the distribution of motor insurance products. As a result of the new rules governing the Danish national health insurance card which entered into force on 1 January 2008, Codan's customers were in need of a more comprehensive travel insurance. Consequently, Codan opted to extend the cover of all customers with a Family Insurance to include world travel.

In 2007, Codan introduced new car insurance rates which, apart from the customer's mileage per year, also take into account the exact address of the customer and not just the postal code.

During the year, Codan also focused on Children, Safety and Health. In this connection, Codan entered into affinity agreements with, among others, the Danish Football Association (DBU), Libero and Falck, providing information on children's accident insurance. As part of the safety aspect, Codan has launched a new website for families with children ([www.codanbarn.dk](http://www.codanbarn.dk)). The site offers advice on home accident prevention as well as information on children's accident insurance to families with children. In addition, Codan has been visible in the Danish market through press releases on Children and Accidents, and through a presence at children's fairs and conferences attended by health visitors and midwives.

## **Management's Review**

In 2007, Codan maintained its strong position in the health insurance market, while implementing a number of measures to ensure that products are both competitive and flexible and that the business area continues to be profitable - also in future.

Codan carries out regular customer satisfaction surveys in recognition of the fact that customer satisfaction is a key factor in delivering profitable growth. In 2007, Codan's customers once again expressed a high level of satisfaction with Codan. In Personal Lines, Codan maintained the high customer satisfaction and loyalty ratings obtained in 2006, while Codan Commercial Lines improved its ratings for both satisfaction and loyalty. Codan Commercial Lines is now the leading market player in respect of these parameters. High quality services and products, as well as continued enhancement of customer satisfaction and loyalty, will also be focal points for the Company in 2008.

### ***Investments***

The Company's investments are made in subsidiaries and in other financial assets. The investment return for 2007 was affected by capital losses on the bond portfolio, driven by increasing interest rates throughout 2007. On the other hand, the investment return was positively affected by exchange rate adjustments of the Company's provisions and balances arising from insurance transactions in GBP and USD.

The profits generated by subsidiaries are as follows: Privatsikring generated a profit of DKK 42m and Trekroner Forsikring generated a profit of DKK 30m. Ejendomsselskabet Gammel Kongevej 60 and other subsidiaries returned a profit of DKK 26m.

### ***Privatsikring***

Privatsikring generated a profit of DKK 42m for 2007 against a profit of DKK 60m for 2006. The result comprises a balance on the technical account of DKK 56m, an investment result of DKK 1m and tax expenses of DKK 15m. The profit of Privatsikring for 2006 was affected by a reserve review corresponding to the above-mentioned reserve review carried out by Codan Forsikring A/S in 2006.

Gross earned premiums for Privatsikring increased from DKK 274m in 2006 to DKK 326m in 2007. Like the previous year, several banks joined the bancassurance agreement between Privatsikring and the Association of Local Banks in Denmark in 2007.

During 2007, Privatsikring focused material efforts on the following:

- Improvement of insurance products
- Further development of sales training programmes for the banks' financial advisers
- Improvement and extension of the PrivatSikring portal

### ***Trekroner Forsikring***

Trekroner Forsikring generated a profit of DKK 30m for 2007 against a profit of DKK 60m for 2006. The result comprises a balance on the technical account of DKK 36m, an investment result of DKK 5m and tax expenses of DKK 11m. The profit of Trekroner Forsikring for 2006 was affected by a reserve review corresponding to the above-mentioned reserve review carried out by Codan Forsikring A/S in 2006.

Gross earned premiums for Trekroner Forsikring increased from DKK 352m in 2006 to DKK 395m in 2007.

Throughout 2007, Trekroner Forsikring continued its efforts to develop profitable sales channels and to enhance the competencies of its sales team.

### ***Bonds***

In 2007, the Company's bond portfolio consisted mainly of short-term Danish government and mortgage bonds. A large proportion of the Company's investments are held in bonds with a nominal interest rate

## **Management's Review**

which is higher than the market rate. Consequently, capital losses arise in connection with the pull to par effect.

In 2007, the Company invested in short-term bonds to match the payment pattern of its insurance contract provisions.

The total return on bonds amounted to DKK 322m as compared with DKK 210m in 2006. Danish bonds yielded an acceptable return of 3.2% in 2007 against 2.3% in 2006. USD bonds yielded a negative return of 4.9% in 2007 compared with a negative return of 6.5% in 2006. The negative return was the result of the decline in the value of the US dollar.

### *Loans to subsidiaries*

The Company had extended a loan of DKK 310m to its subsidiary Ejendomsselskabet Gammel Kongevej 60 ApS. In the first half of 2007, interest on the loan was payable at 6.35%, and at 6.85% in the second half of the year.

### *Shares*

The Company continued to have a low exposure to shares. The Company's share portfolio showed a negative return of DKK 0.2m in 2007 as compared with a return of DKK 0m in 2006. The share investments held by the Company in 2007 consisted exclusively of unlisted shares.

### *Properties*

Unrealised value adjustments in respect of Group occupied properties amounted to DKK 1m in 2007 against DKK 10m in 2006. These value adjustments were recognised directly in equity as part of the revaluation reserve. Realised gains on the sale of Group occupied properties amounted to DKK 3m against DKK 0m in 2006.

In addition to properties owned directly by the Company, the Group head office is owned by the subsidiary Ejendomsselskabet Gammel Kongevej 60.

Ejendomsselskabet Gammel Kongevej 60 returned a profit of DKK 22m for 2007 against a profit of DKK 37m for 2006.

## **Special risks**

### **Business risk**

The business risk of Codan Forsikring A/S comprises:

- Acceptance and premium rating risk
- Reinsurance risk
- Reserve risk (determination of future claims payments)
- Foreign exchange risk
- Credit risk

Codan Forsikring A/S monitors insurance risks on an ongoing basis, assessing these risks in relation to the acceptance, reinsurance and capital policies adopted. Codan Forsikring A/S uses reinsurance to hedge the risk of single large losses and events.

Technical provisions to cover future claims payments have been calculated by applying generally accepted actuarial methods. Codan Forsikring A/S applies several statistical methods and analyses to determine the probable amount of future claims payments.

Codan Forsikring A/S has no significant exposure to foreign exchange risk as significant technical provisions are generally matched by investments in the same currency.



## **Management's Review**

It is the policy of Codan Forsikring A/S only to make reinsurance arrangements with carefully selected, sound reinsurers with a view to reducing credit risk.

### **Market risk**

A significant part of the assets of Codan Forsikring A/S consists of investments recorded at market value on an ongoing basis. Thus, the Company's equity and results are affected by the regional and global performance of stock, bond and foreign exchange markets. The investment policy guidelines of Codan Forsikring A/S lay down criteria for limiting and managing risks in respect of individual investments as well as accumulation of risks. Codan Forsikring A/S has an Investment Committee, which sets out the framework for and monitors the implementation of the Company's investment strategy.

### **Liquidity risk**

The majority of the Company's investments consist of liquid quoted bonds, which are realisable at market price at short notice.

### **Credit risk of investments**

Bond investments consist of government or mortgage bonds with a rating of at least AA.

### **Operational risk**

Codan Forsikring A/S registers operational risk events in order to continuously assess and remedy these. This information is reported periodically to the Risk Committee and forms the basis of the work to determine costs and capital tied up in connection with these types of risk and to limit risks.

### **Events subsequent to 31 December 2007**

As of 1 January 2008, Codan Forsikring A/S has taken over the insurance activities of the Norwegian branch previously operated by the affiliated company Trygg-Hansa Försäkrings AB. Also as of 1 January 2008, Codan Forsikring A/S has taken over the marine insurance activities undertaken by Trygg-Hansa Försäkrings AB in Sweden.

No other events of material importance to the Company's financial position or business affairs have occurred subsequent to 31 December 2007.

### **Outlook for 2008**

Codan Forsikring A/S expects to maintain the satisfactory insurance operating profit in 2008.

The expense ratio is expected to improve on 2007. Apart from this, the operating profit depends on developments in relation to personal injury claims, weather related claims and large claims.

The Management of Codan does not consider it appropriate to comment on the expected developments in interest rates and stock markets nor on the expected value adjustments for 2008.

## Management's Review

### Directorships and executive positions

#### Board of Directors

At the time of the adoption of the Annual Report, the Company's Board of Directors held the following directorships and executive positions in other Danish public limited companies with the exception of wholly-owned subsidiaries.

<b>Board of Directors</b>	<b>Directorships and executive positions in other Danish public limited companies</b>
Simon Lee, Chairman	Codan A/S (Chairman)
Anthony Latham, Deputy Chairman	Codan A/S (Deputy Chairman)
Jan Hjulmand *	Codan A/S
Kaare Lønholdt *	Codan A/S
Andrew Kirkland	Codan A/S
Henrik Müllertz *	Codan A/S
Clare Salmon	Codan A/S
Rowan Saunders	Codan A/S
Christian Sletten *	Codan A/S
Roy Philip Smith	Codan A/S

#### Board of Management

Pursuant to S. 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 who were registered during 2007 held or hold the following directorships and executive positions:

<b>Board of Management</b>	<b>Directorships and executive positions</b>
Rickard Gustafson, CEO	Directorships in: White Label Danmark A/S (Chairman); Resonia Leasing Danmark, branch of Resonia Leasing AB**; Codan Ejendomme II A/S (in liquidation) (Chairman).  Executive positions in: Codan Forsikring A/S; Trygg-Hansa Försäkrings AB (publ.)
Vibeke Krag	Directorships in: Codan Ejendomme II A/S; Tre Kroner Forsikring A/S; Forsikringsselskabet Privat-sikring A/S; Besigtelses Kontoret af 1914 A/S

## Management's Review

### Board of Management

Jesper Rasmussen  
(resigned as of 31 August  
2007)

### Directorships and executive positions

Directorships in: Codan Ejendomme II A/S\*\*; Besigtelses Kontoret af 1914 A/S\*\*; Trekroner Forsikring A/S\*\*; Forsikringselskabet Privatsikring A/S\*\*; Trygg-Hansa Försäkrings AB (publ.)\*\*, Sweden; the Codan Foundation\*\*; the Codan Group's Staff Foundation\*\*; Codan Marine Services AS\*\*, Norway; Lietuvos Draudimas AB\*\*, Lithuania; AAS Balta\*\*, Latvia; Haffina Pte Ltd.\*\*, Singapore; The Institute for the War Risk Insurance of Ships; Young Enterprise Foundation; Forsikringsakademiet A/S\*\* (The Danish Insurance Academy); The Danish Employers' Association for the Financial Sector

Executive position in: Codan Marine Services AS\*\*, Norway

\* Elected by employees

\*\* Resigned before the end of the year

## **Statement by the Boards of Directors and Management on the Annual Report**

The Board of Directors and the Board of Management have today adopted the Annual Report of Codan Forsikring A/S for 2007. It comprises the Statement by the Boards of Directors and Management on the Annual Report, the Management's review, income statement, balance sheet, statement of changes in equity, cash flow statement, accounting policies and notes.

The Annual Report of Codan Forsikring A/S has been prepared in accordance with the Danish Financial Business Act.

The Management's review gives a true and fair view of the development in the Company's operations and financial situation and describes the most significant risks and uncertainties influencing the Company.

It is our opinion that the accounting policies applied are appropriate, and that the Annual Report gives a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2007 as well as of the results of the Company's operations and cash flows for the period 1 January to 31 December 2007 as stipulated in the Danish Financial Business Act.

We recommend that the Annual Report be adopted by the Annual General Meeting.

Copenhagen, 26 February 2008

### **Board of Management**

Rickard Gustafson  
*Chief Executive Officer*

Vibeke Krag

### **Board of Directors**

Simon Lee  
*Chairman*

Anthony Latham  
*Deputy Chairman*

Jan Hjulmand

Kaare Lønholdt

Andrew Kirkland

Henrik Müllertz

Clare Salmon

Rowan Saunders

Christian Sletten

Roy Philip Smith

## **Independent Auditor's Report**

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

We have audited the Annual Report of Codan Forsikring A/S for the financial year 1 January to 31 December 2007. The Annual Report comprises the statement by Management on the Annual Report, the Management's review, the income statement, the balance sheet, the statement of changes in equity, the cash flow statement, the accounting policies and the notes to the financial statements. The Annual Report has been prepared in accordance with the Danish Financial Business Act.

### **Management's responsibility for the annual report**

Management is responsible for the preparation and fair presentation of an Annual Report in accordance with the Danish Financial Business Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an Annual Report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility and basis of opinion**

Our responsibility is to express an opinion on this Annual Report based on our audit. We conducted our audit in accordance with Danish and International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Annual Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of an Annual Report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Annual Report.

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

Our audit has not resulted in any qualification.

### **Opinion**

In our opinion, the Annual Report gives a true and fair view of the Company's financial position at 31 December 2007 and of its financial performance and its cash flows for the financial year 1 January to 31 December 2007 in accordance with the Danish Financial Business Act.

Copenhagen, 26 February 2008

### **Deloitte**

Statsautoriseret Revisionsaktieselskab

Henrik Priskorn  
State Authorised  
Public Accountant

Per Rolf Larssen  
State Authorised  
Public Accountant

## Income statement

Note	DKK '000	2007	2006
<b>General insurance</b>			
2	Gross premiums written	6,211,389	5,525,086
	Premiums ceded to reinsurers	-330,527	-377,698
2	Change in the provision for unearned premiums	-177,919	-88,899
	Change in the provision for unearned premiums, reinsurers' share	-27,875	-4,237
	<b>Earned premiums, net of reinsurance</b>	<b>5,675,068</b>	<b>5,054,252</b>
3	<b>Technical interest, net of reinsurance</b>	<b>268,403</b>	<b>143,143</b>
	Claims paid, gross	-3,708,277	-3,314,787
	Claims paid, reinsurers' share	194,439	284,212
	Change in the provision for claims	-776,654	873,851
	Change in the provision for claims, reinsurers' share	284,090	-246,463
4	<b>Claims incurred, net of reinsurance</b>	<b>-4,006,402</b>	<b>-2,403,187</b>
	<b>Bonuses and rebates</b>	<b>-86,756</b>	<b>-73,068</b>
	Acquisition costs	-799,811	-633,745
	Administrative expenses	-441,868	-410,587
	Reinsurance commissions and profit participation	12,064	9,165
5	<b>Net operating expenses</b>	<b>-1,229,615</b>	<b>-1,035,167</b>
6	<b>Balance on the technical account, general insurance</b>	<b>620,698</b>	<b>1,685,973</b>
<b>Investments</b>			
	Income from Group entities	97,609	161,164
	Income from associates	-	280
	Income from investment properties	26	-5
	Interest income and dividends, etc.	573,231	535,484
7	Value adjustments	-100,108	-182,432
	Interest expenses	-28,907	-13,713
	Investment management expenses	-19,175	-24,074
	<b>Total investment return</b>	<b>522,676</b>	<b>476,704</b>
	<b>Technical interest transferred to general insurance</b>	<b>-368,066</b>	<b>-296,607</b>
	<b>Total investment return after technical interest</b>	<b>154,610</b>	<b>180,097</b>
8	Other income	7,391	-
9	Profit from discontinued operations	-	9,182
	<b>Profit before tax</b>	<b>782,699</b>	<b>1,875,252</b>
10	Tax	-190,631	-488,000
	<b>Profit for the year</b>	<b>592,068</b>	<b>1,387,252</b>
<b>Proposal for the distribution of profit:</b>			
	Profit for the year	592,068	1,387,252
	Retained earnings, beginning of the year	2,283,544	902,772
	Transferred from revaluation reserve	11,014	-
	Actuarial gains on pension obligations	909	-
	Transferred to equalisation reserve	-7,412	-6,480
	Amount available for distribution	2,880,123	2,283,544
	Final dividend	-1,200,000	-
	Transferred to retained earnings	1,680,123	2,283,544

## Balance sheet at 31 December

Note	DKK '000	2007	2006
<b>Assets</b>			
11	<b>Intangible assets</b>	<b>257,829</b>	<b>177,413</b>
	Equipment	83,456	92,822
	Group occupied properties	5,821	41,120
12	<b>Total property and equipment</b>	<b>89,277</b>	<b>133,942</b>
13	<b>Investment properties</b>	-	-
14	Investments in Group entities	570,531	472,922
	Loans to Group entities	310,000	310,000
15	Investments in associates	-	-
	<b>Total investments in Group entities and associates</b>	<b>880,531</b>	<b>782,922</b>
	Equity investments	3,762	4,045
	Bonds	10,449,284	10,910,965
	Other loans	144,304	137,872
	<b>Total other financial assets</b>	<b>10,597,350</b>	<b>11,052,882</b>
	<b>Deposits with ceding undertakings</b>	<b>6,201</b>	<b>7,130</b>
	<b>Total investments</b>	<b>11,484,082</b>	<b>11,842,934</b>
	Reinsurers' share of provision for unearned premiums	35,169	53,817
	Reinsurers' share of provision for claims	1,247,120	962,775
	<b>Total reinsurers' share of insurance contract provisions</b>	<b>1,282,289</b>	<b>1,016,592</b>
	Receivables from policyholders	519,124	411,087
	Receivables from brokers	8,206	30,440
	<b>Total receivables arising from direct insurance contracts</b>	<b>527,330</b>	<b>441,527</b>
	Receivables from insurance companies	68,082	56,975
	Receivables from Group entities	530,720	509,322
	Other receivables	158,410	392,656
	<b>Total receivables</b>	<b>1,284,542</b>	<b>1,400,480</b>
	Assets in temporary possession	38	454
16	Current tax assets	20,575	-
17	Deferred tax assets	33,597	52,807
	Cash and cash equivalents	557,851	309,186
	<b>Total other assets</b>	<b>612,061</b>	<b>362,447</b>
	Accrued interest and rent	154,240	168,094
	Other prepayments	11,856	6,398
	<b>Total prepayments and accrued income</b>	<b>166,096</b>	<b>174,492</b>
	<b>Total assets</b>	<b>15,176,176</b>	<b>15,108,300</b>

## Balance sheet at 31 December

Note	DKK '000	2007	2006
<b>Equity and liabilities</b>			
18	<b>Share capital</b>	15,000	15,000
	<b>Share premium account</b>	1,732	1,732
	<b>Revaluation reserve</b>	955	11,382
19	Contingency funds	2,082,106	2,082,106
	Translation reserve	190	-
	Equalisation reserve	60,135	52,723
	<b>Total reserves</b>	2,142,431	2,134,829
	<b>Retained earnings</b>	1,680,123	1,083,544
	<b>Proposed dividend</b>	-	1,200,000
20	<b>Total equity</b>	<b>3,840,241</b>	<b>4,446,487</b>
	Provision for unearned premiums	2,026,263	1,764,577
	Provision for outstanding claims	7,614,110	6,769,335
	Provision for bonuses and rebates	51,591	44,875
	<b>Total insurance contract provisions</b>	<b>9,691,964</b>	<b>8,578,787</b>
21	Pension obligations	3,556	4,920
22	Other provisions	931	-
	<b>Total provisions</b>	<b>4,487</b>	<b>4,920</b>
	<b>Deposits received from reinsurers</b>	<b>544</b>	<b>1,843</b>
	Payables arising from direct insurance contracts	21,917	14,709
	Payables arising from reinsurance contracts	147,338	130,171
	Amounts owed to Group entities	192,255	232,220
23	Current tax liabilities	2,334	304,988
	Other payables	1,235,147	1,329,619
24	<b>Total payables</b>	<b>1,598,991</b>	<b>2,011,707</b>
	<b>Deferred income</b>	<b>39,949</b>	<b>64,556</b>
	<b>Total equity and liabilities</b>	<b>15,176,176</b>	<b>15,108,300</b>

## Notes without reference

- 1 Accounting policies
- 26 Market risk
- 27 Credit risk
- 28 Related parties
- 29 Security
- 30 Contingent assets, contingent liabilities and financial liabilities
- 31 Incentive schemes
- 32 Consolidated financial statements



## Statement of changes in equity

Note	DKK '000				
	Share capital	Share premium* account	Revaluation and other reserves	Retained earnings	Total equity
<b>2006</b>					
<b>Equity, beginning of the year</b>	<b>15,000</b>	<b>1,732</b>	<b>2,132,455</b>	<b>902,772</b>	<b>3,051,959</b>
<b>Changes in equity for 2006:</b>					
Revaluation of Group occupied properties			10,105		10,105
Tax on revaluation of Group occupied properties			-2,829		-2,829
Profit for the year				1,387,252	1,387,252
Total income for the year	-	-	7,276	1,387,252	1,394,528
Equalisation reserve (credit and guarantee)			6,480	-6,480	-
<b>Changes in equity for the year</b>	<b>-</b>	<b>-</b>	<b>13,756</b>	<b>1,380,772</b>	<b>1,394,528</b>
<b>Equity, end of the year</b>	<b>15,000</b>	<b>1,732</b>	<b>2,146,211</b>	<b>2,283,544</b>	<b>4,446,487</b>
<b>2007</b>					
<b>Equity, beginning of the year</b>	<b>15,000</b>	<b>1,732</b>	<b>2,146,211</b>	<b>2,283,544</b>	<b>4,446,487</b>
<b>Changes in equity for 2007:</b>					
Revaluation of Group occupied properties			781		781
Tax on revaluation of Group occupied properties			-194		-194
Currency translation adjustment, foreign subsidiaries			190		190
Actuarial gains on pension obligations				909	909
Profit for the year				592,068	592,068
Total income for the year			777	592,977	593,754
Equalisation reserve (credit and guarantee)			7,412	-7,412	-
Transferred to retained earnings in connection with the sale of Group occupied properties			-11,014	11,014	-
Final dividend				-1,200,000	-1,200,000
<b>Changes in equity for the year</b>	<b>-</b>	<b>-</b>	<b>-2,825</b>	<b>-603,421</b>	<b>-606,246</b>
<b>Equity, end of the year</b>	<b>15,000</b>	<b>1,732</b>	<b>2,143,386</b>	<b>1,680,123</b>	<b>3,840,241</b>

\* According to the Danish Public Companies Act, the share premium account is no longer an undistributable reserve as from the date of the Annual General Meeting in 2005.

## Cash flow statement

Note	DKK '000	2007	2006
Premiums received		6,108,567	5,377,434
Claims and benefits paid		-3,702,223	-3,304,663
Amounts received in respect of outwards business		209,486	438,663
Amounts paid in respect of outwards business		-309,491	-389,133
Payments relating to development projects		-12,011	-24,721
Operating expenses paid		-1,174,388	-1,005,136
Cash flows from insurance operations		1,119,940	1,092,444
Corporation tax paid		-495,200	-185,675
<b>Cash flows from operating activities</b>		<b>624,740</b>	<b>906,769</b>
Interest income and dividends received		585,679	521,168
Interest paid		-28,907	-13,713
Investment expenses paid		-19,175	-24,074
Cash flows from direct investment returns		537,597	483,381
Purchase of property and equipment		-34,029	-41,601
Sale of property and equipment		55,151	16,624
25 Acquisition of operations		-87,862	-
Capital injection in subsidiaries		-	-50,000
Purchase of securities		-5,413,018	-5,133,582
Sale of securities		5,746,794	3,804,974
Proceeds from/repayments of loans		-6,383	-7,039
Cash flows from changes in investments		260,653	-1,410,624
<b>Cash flows from investing activities</b>		<b>798,250</b>	<b>-927,243</b>
Dividends paid		-1,200,000	-
Cash flows from dividend payments		-1,200,000	-
Lease payments under finance leases		-8,109	-14,610
Cash flows from changes in financing activities		-8,109	-14,610
<b>Cash flows from financing activities</b>		<b>-1,208,109</b>	<b>-14,610</b>
Cash flow changes, net		214,881	-35,084
Exchange differences on cash and cash equivalents		-5,390	-3,841
25 Additions relating to the acquisition of operations		39,174	-
Cash flow changes, gross		248,665	-38,925
Cash and cash equivalents, beginning of the year		309,186	348,111
<b>Cash and cash equivalents, end of the year</b>		<b>557,851</b>	<b>309,186</b>
Cash and cash equivalents, end of the year can be specified as follows:			
Cash balances and call deposits		293,841	117,327
Deposits with credit institutions		264,010	191,859
Cash and cash equivalents, end of the year		557,851	309,186

## Notes to the financial statements

### Note

---

#### 1 Accounting policies

The Annual Report of Codan Forsikring A/S has been prepared in accordance with the Danish Financial Business Act as well as the executive orders and guidelines on financial reporting of insurance companies issued by the Danish Financial Supervisory Authority.

Codan Forsikring A/S is a subsidiary of Royal & Sun Alliance Insurance Group plc, which prepares consolidated financial statements in accordance with applicable United Kingdom law. Consolidated financial statements have therefore not been prepared for the Codan Forsikring A/S Group.

In 2004, Codan Forsikring A/S sold all of its life insurance subsidiaries to SEB Trygg Liv Holding AB. Results of the subsidiaries disposed of are recognised in the income statement as profit from discontinued operations.

The accounting policies remain unchanged from the Annual Report for 2006.

#### **Basis of preparation**

The Annual Report is presented in DKK, rounded to the nearest thousand. The business of Codan Forsikring A/S consists mainly of selling general insurance products on the Danish market and investing in Danish securities. DKK is therefore functional as well as presentation currency.

#### **General information about 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.

Assets are recognised in the balance sheet when it is highly probable that future economic benefits will flow to the Company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Company has a legal obligation arising from a past event, 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. Value adjustments of financial assets and liabilities which are measured at fair value are also recognised in the income statement, unless otherwise stated below.

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

Determination of the carrying amount of assets and liabilities requires an estimate of how future events will affect the value at the balance sheet date. Estimates having a material impact on the financial reporting are e.g. 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 Forsikring A/S is furthermore subject to risks and uncertainties that could cause actual results to differ from the estimates used.

#### **Insurance contract liabilities**

The provision for outstanding claims is affected by key actuarial assumptions and estimates, including expectations of the number and size of claims incurred but not reported as well as inflation developments. In some cases, the historical data forming part of the actuarial methods does not necessarily reflect the expected future level of claims, for instance in connection with amended legislation where an a priori estimate is prepared, forming the basis of premium increases necessitated by an expected higher level of claims.

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

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

## Notes to the financial statements

### Note

---

The Company's run-off result is shown in Note 3 Claims incurred, net of reinsurance.

#### *Allocations in Codan Forsikring A/S*

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

#### *Measurement of intangible assets*

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

#### *Deferred tax*

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

Codan Forsikring A/S does not make provisions for deferred tax on contingency funds. The reason for this is that in the opinion of the Management, taxation will only take place if the insurance portfolio is transferred or if the Company ceases to carry on insurance business.

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

Discounting of technical provisions was previously made for insurance lines if this had a significant impact. As from 2007, all provisions for outstanding claims are discounted. The change in the discounting method had a positive impact on results and thus the equity of Codan Forsikring A/S of DKK 111m before tax, of which DKK 5m is attributable to the subsidiaries Forsikringsselskabet PrivatSikring A/S and Tre Kroner Forsikring A/S.

#### **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 adjusted for entities recently acquired, sold or terminated.

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

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

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

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

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

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

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

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

#### **Foreign currency translation**

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 and other monetary items in foreign currencies 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

## Notes to the financial statements

### Note

---

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 operations are translated 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 operations 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 operation 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 operations are treated as belonging to the foreign operation and are translated at the exchange rate ruling at the balance sheet date.

### Individual areas in the Annual Report

#### *Insurance contracts*

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

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

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

#### *Reinsurance*

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

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

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

#### *General insurance contracts*

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

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

The provision for unearned premiums is calculated as the sum of amounts which the Company, according to its best estimate, is expected to pay in connection with insured events that are expected to take place after the balance sheet date and which are covered by the insurance contracts entered into by the Company. The provision for unearned premiums furthermore includes the direct and indirect costs that the Company, according to its best estimate, is expected to incur after the balance sheet date in connection with the administration of insurance contracts entered into by the Company.

However, the provision for unearned premiums constitutes at least the sum of the gross premium share calculated for each individual insurance contract which corresponds to that part of the period of insurance falling after the balance sheet date. Codan Forsikring A/S does not discount the provision for unearned premiums as this does not significantly affect the amount of the provision for unearned premiums.

The difference between the provision for unearned premiums, gross at the beginning and at the end of the accounting period is recognised as change in the provision for unearned premiums. However, the proportion of the balance attributable to currency translation differences is recognised in the income statement as value adjustments.

## Notes to the financial statements

### Note

---

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

The provision for bonuses and rebates includes the expected amounts payable to policyholders based on their claims experience during the accounting period.

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

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

The provision for outstanding claims is recognised as the sum of the amounts that the Company, according to its best estimate, is expected to pay in connection with insured events that have occurred up to the balance sheet date in addition to the amounts already paid in connection with such events. The provision for outstanding claims furthermore includes the direct and indirect claims settlement costs that the Company, according to its best estimate, is expected to incur.

The provision for outstanding claims is calculated as the sum of expected claims payments and costs on the basis of:

- a case-by-case assessment of reported events comprising all significant events reported;
- an experience-based estimate of events that have been subject to a case-by-case assessment and where the information available is insufficient;
- an experience-based estimate of reported events that have not been subject to a case-by-case assessment; and
- an experience-based estimate of events that have occurred prior to the balance sheet date, but which have not yet been reported at the time of preparing the financial statements.

The methods used for the determination of the provision for outstanding claims are classical actuarial methods. For most of the business, the methods are based on run-off triangles containing paid or reported claim amounts. When using these methods, a joint provision is made for the last three bullets above (the methods do not attempt to separate not reported claims from reported claims).

The main assumptions of the methods are that the claims run-off is relatively stable over time. It is for instance assumed that a claim occurred in 2007 more or less has the same run-off pattern as a claim occurred in 2004. To the extent that specific knowledge is available which makes such assumption unlikely, the model will be adjusted accordingly.

Reserves are determined in accordance with an internal reserving process. Data used in the reserving process are reconciled with the primary systems. By using the models described above, the size of reserves is subsequently determined. Any application of models to data requires choices and related estimates. These choices and estimates affect the size of reserves. The choices/estimates are therefore reviewed by an internal review process to ensure that the final reserve level is appropriate.

The calculation of the provision for outstanding claims, gross takes into account income and expenses resulting from the acquisition and realisation of assets and rights that the Company, according to its best estimate, expects to be entitled to in connection with claims payments.

All provisions for outstanding claims are discounted. All provisions for outstanding claims, except claims for which compensation is paid in the form of annuities in accordance with the Danish Workers' Compensation Act, are discounted at a term dependent discount rate based on interest rate series for zero-coupon rates. Claims for which compensation is paid in the form of annuities in accordance with the Workers' Compensation Act are discounted at a fixed annual interest rate in accordance with the transitional provisions of the Danish Financial Supervisory Authority's Executive order on the Presentation of Financial Statements.

The difference between the provision for outstanding claims at the beginning and at the end of the accounting period is recognised as change in the provision for claims. However, the proportion of the balance attributable to currency translation differences and changes in the discount rate used is recognised in the income statement as value adjustments. The proportion of change in the provision for claims attributable to discounting of the provision for outstanding claims during the period is adjusted in the technical interest.

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

## Notes to the financial statements

### Note

---

Reinsurers' share of provision for unearned premiums includes the Company's rights under reinsurance contracts calculated as the net premium less that part of the net premium relating to the time prior to the balance sheet date. The net premium is the premium paid by the Company for reinsurance contracts. The asset is tested for impairment.

Change in the provision for unearned premiums, reinsurers' share includes the difference between the proportion of the provision for unearned premiums attributable to reinsurance cover at the beginning and at the end of the financial year. However, as is the case with change in the provision for unearned premiums, gross, the proportion of the balance attributable to currency translation differences is included in the income statement as value adjustments.

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

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

Change in the provision for claims, reinsurers' share includes the difference between the proportion of the provision for outstanding claims attributable to reinsurance cover at the beginning and at the end of the financial year. As is the case with change in the provision for claims, gross, the proportion of the balance attributable to currency translation differences and changes in the discount rate applied is recognised in the income statement as value adjustments. The proportion of the change attributable to the discounting of reinsurers' share of provision for claims during the period is adjusted in the technical interest.

A proportion of the total investment result is transferred to the part of the income statement that relates to general insurance and is designated 'Technical interest'. The amount transferred is calculated as the yield on the average technical provisions, net of reinsurance, for the year. The interest rate applied is a term dependent yield curve.

#### **Operating expenses**

Expenses for the acquisition and management of the Company's portfolio of insurance contracts are included in operating expenses. The item includes the corresponding share of staff costs, commissions, marketing expenses, rent, expenses for stationary and office supplies, and depreciation, amortisation and impairment of property and equipment as well as intangible assets.

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

#### **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.

#### **Leases**

Assets held under finance leases are recognised from the time when Codan Forsikring A/S is entitled to use the leased asset. On initial recognition, the asset is measured at the lower of the fair value and the present value of the agreed lease payments. When calculating the present value, the interest rate implicit in the lease is used as discount rate or an approximate value for this. Changes in present values during the financial year are recognised as financial expenses.

The capitalised remaining lease commitment is recognised in the balance sheet as a liability, and the interest element of the lease payment is charged to the income statement as incurred.

Assets held under operating leases are not recognised in the balance sheet, and lease payments are recognised in the income statement on a straight-line basis over the period of the lease.

#### **Incentive schemes**

The Royal & SunAlliance Group operates equity-settled, share-based payment schemes. 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 become exercisable. Codan Forsikring A/S 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.

## Notes to the financial statements

### Note

---

#### *Assets held for sale and discontinued operations*

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

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

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

Cash flows from discontinued operations are included in separate lines in the cash flow statement.

#### **Income statement**

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

#### **Investment return**

The proportionate share of the profit/loss of associates after tax is recognised in the income statement after elimination of the proportionate share of inter-company profits/losses. The profit/loss of associates is calculated using the same accounting policies as for Codan Forsikring A/S.

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, including indexation of index-linked bonds and 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, apart from associates, are recognised as value adjustments.

Interest on and interest-related expenses in connection with payables and liabilities are recognised as interest expenses. Borrowing costs are charged to the income statement on an ongoing basis, 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 Forsikring A/S' share of subsidiaries' net profit after tax.

#### **Tax**

Codan Forsikring A/S is taxed jointly with Danish subsidiaries and Codan A/S as well as the Danish subsidiaries of this company. Full allocation is made to all jointly taxed companies.

Tax for the year, consisting of current tax for the year and any change in deferred tax, 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. Moreover, adjustments concerning previous years are recognised in the income statement.

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

Current tax liabilities and receivables 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



## Notes to the financial statements

### Note

---

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 financial 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.

Codan Forsikring A/S does not make provisions for deferred tax on contingency funds. According to the Financial Supervisory Authority's Executive Order on the Presentation of Financial Statements, 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 that will result in taxation. In the opinion of the Management, taxation will only take place if the insurance portfolio is transferred or if Codan Forsikring A/S ceases to carry on insurance business.

#### **Balance sheet**

##### **Assets**

##### **Intangible assets**

##### ***Goodwill***

Goodwill is initially recognised in the balance sheet at the amount corresponding to the excess of the cost of acquisition of Codan Forsikring A/S' interest in an acquired entity over Codan Forsikring A/S' interest in the fair value of the acquired assets and liabilities at the time of acquisition. Reference is made to the section 'Business combinations'.

The carrying amount of goodwill is allocated to cash-generating units at the date of acquisition. Cash-generating units are determined in accordance with the legal structure (the individual branch) and goodwill is tested for impairment at the end of the financial year.

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.

##### ***IT development projects***

Computer software 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 software, 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.

Computer software development costs include salaries and amortisation attributable to the Company's development activities – currently development of IT programmes and platforms.

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

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

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

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

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

## Notes to the financial statements

### Note

---

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

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

#### **Property and equipment**

##### ***Group occupied properties***

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

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

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

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

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

The Group occupied properties of Codan Forsikring A/S consist of holiday homes let to employees of the Codan Group. No depreciation has been charged to the income statement in relation to these properties.

##### ***Equipment***

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

Cost includes the acquisition costs and costs directly related to the acquisition until the time when the asset is ready 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 four 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.

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

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

#### **Investment properties**

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

## Notes to the financial statements

### Note

---

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

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

Investments in subsidiaries are measured according to the equity method, and this 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 Forsikring A/S.

The net profits of subsidiaries are included in the Parent Company income statement for the same financial year. The net profits of subsidiaries are 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 subsidiaries.

#### **Investments in associates**

Associates are entities that are not subsidiaries but in which Codan companies, directly or indirectly, hold more than 20% of the voting rights and exercise or could exercise significant influence.

Investments in associates are measured in the balance sheet at the proportionate share of the entities' equity value calculated in accordance with Codan Forsikring A/S' accounting policies.

When the Codan companies' share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Codan companies will not recognise further losses, unless the companies have incurred a legal or constructive obligation to cover the negative balance of the associate.

#### **Other financial assets**

Financial assets are measured at fair value and value adjustments are included in the income statement. The financial assets are controlled and assessed by the Company's Investment Committee based on fair value.

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

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

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

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

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

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

#### **Equity and liabilities**

##### **Equity**

##### ***Share capital***

Shares in Codan Forsikring A/S are recognised at nominal value.

##### ***Share premium account***

The share premium account comprises amounts paid as premium on subscription for shares less costs arising from issues carried through.

## Notes to the financial statements

### Note

---

#### **Revaluation reserve**

The revaluation reserve includes gains arising from the revaluation of property and equipment at fair value.

#### **Contingency funds**

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

#### **Translation reserve**

The translation reserve comprises exchange differences arising from the translation of the equity of foreign subsidiaries and associates 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.

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

#### **Equalisation reserve**

The equalisation reserve is a separate item under equity calculated in accordance with the provisions of the Danish Financial Supervisory Authority's Executive Order on Equalisation Reserves for Credit and Guarantee Insurance. Any adjustments made to the equalisation reserve are not shown in the income statement.

#### **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 and derivatives 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, and this usually corresponds to the nominal value in respect of short-term non-interest-bearing receivables.

Interest-bearing liabilities are classified as long-term liabilities if the term exceeds 12 months.

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.

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 also recognised in the income statement.

If changes in benefits relating to employee services in current and prior years result in changes in the actuarial present value, the changes are recognised as past service costs. Past service costs are recognised immediately, provided that employees have already earned the changed benefits. Otherwise, the past service costs are recognised in the income statement over the period in which the changed benefits are earned by the employees. If a pension scheme constitutes a net asset, the asset is only recognised if it offsets future refunds from the scheme or will lead to reduced future payments to the scheme.

#### **Provisions**

Provisions for jubilee bonuses and payments on retirement are gradually being 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.

## Notes to the financial statements

### Note

---

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 factor 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 financial expenses.

#### **Deposits received from reinsurers**

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

#### **Deferred income**

Deferred income includes income relating to future financial years. Deferred income is measured at cost.

#### **Cash flow statement**

The cash flow statement is presented using the direct method and shows cash flows from operating, investing and financing activities for the year, changes in cash and cash equivalents for the year and cash and cash equivalents at the beginning and at the end of the year.

The effect on cash flow from acquisitions and disposals of entities is shown separately under cash flows from investing activities. Cash flows from entities acquired are recognised in the cash flow statement from the date of acquisition, and cash flows from entities disposed of are recognised up to the time of sale.

#### ***Cash flows from operating activities***

Cash flows from operating activities include dividends from Group entities and associates, operating expenses paid and payment of corporation tax.

#### ***Cash flows from investing activities***

Cash flows from investing activities include interest income and dividends, interest paid and payments made in connection with the acquisition and disposal of entities and operations, purchase and sale of intangible assets, property and equipment as well as financial assets, and payments made in connection with the purchase and sale of securities not recognised as cash and cash equivalents.

#### ***Cash flows from financing activities***

Cash flows from financing activities include capital increases and reductions, including dividends paid. Also included are borrowings and repayments of interest-bearing borrowings.

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

Cash and cash equivalents include cash in hand, including fixed-term deposits with banks with a maturity of less than three months. Also included are securities with a maturity of less than three months, calculated from the date when the Company acquired such securities, which are readily convertible into cash.

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

The financial ratios have been calculated in accordance with 'Recommendations and Financial Ratios 2005' published by the Danish Society of Financial Analysts. The ratios included in the five year summary have been calculated as follows:

#### **Combined ratio =**

Claims ratio calculated as

$$\frac{\text{Gross claims incurred} \times 100}{\text{Gross earned premiums less bonuses and rebates}}$$

to which a percentage is added or deducted, and this result shows outwards business in proportion to gross earned premiums less bonuses and rebates plus the expense ratio calculated as

$$\frac{\text{Gross operating expenses} \times 100}{\text{Earned premiums less bonuses and rebates}}$$

## Notes to the financial statements

### Note

---

**Operating ratio =**

Calculated as the combined ratio, but based on the claims ratio, the expense ratio and the net reinsurance ratio where the allocated investment return has been added to earned premiums in the denominator.

**Relative run-off result =**

The run-off result in relation to the corresponding opening provision.

**Return on equity in % =**

$\frac{\text{Profit for the year} \times 100}{\text{Average equity}}$

**Solvency ratio=**

$\frac{\text{Capital base less deductions} \times 100}{\text{Capital requirement}}$

## Notes to the financial statements

Note	DKK '000	2007	2006
<b>2 Gross earned premiums</b>			
Gross premiums written		6,211,389	5,525,086
Change in the provision for unearned premiums, gross		-177,919	-88,899
<b>Gross earned premiums</b>		<b>6,033,470</b>	<b>5,436,187</b>
Gross earned premiums from direct insurance by geographical location of the risk:			
Denmark		5,531,360	5,155,986
Other EU countries		70,431	5,843
Other countries		313,967	127,057
<b>Direct insurance</b>		<b>5,915,758</b>	<b>5,288,886</b>
Gross earned premiums from indirect insurance:			
General insurance		117,456	131,978
Life insurance		256	15,323
<b>Indirect insurance</b>		<b>117,712</b>	<b>147,301</b>
<b>Gross earned premiums</b>		<b>6,033,470</b>	<b>5,436,187</b>
<b>3 Technical interest, net of reinsurance</b>			
Yield calculated on technical provisions		367,739	295,817
Interest on deposits with ceding undertakings		327	790
Technical interest transferred to general insurance		<b>368,066</b>	<b>296,607</b>
Increase in technical provisions attributable to discounting		-99,663	-153,464
<b>Technical interest, net of reinsurance</b>		<b>268,403</b>	<b>143,143</b>
<b>4 Claims incurred, net of reinsurance</b>			
Claims incurred include the following run-off results:			
Run-off gain, gross		109,965	1,174,321
Run-off gain/loss, outwards business		77,038	-124,933
<b>Run-off gain, net of reinsurance</b>		<b>187,003</b>	<b>1,049,388</b>

## Notes to the financial statements

Note	DKK '000	2007	2006
<b>5 Net operating expenses</b>			
Staff costs:			
Wages and salaries		-757,221	-791,032
Defined contribution schemes		-114,745	-117,200
Defined benefit schemes		-	-266
Other social security costs		-6,381	-2,897
Payroll tax		-91,101	-85,918
Share-based payment costs		-11,422	-8,694
Other staff costs		-26,647	-26,258
		<b>-1,007,517</b>	<b>-1,032,265</b>
Commissions, direct insurance		-275,135	-143,985
Depreciation on property and equipment		-27,742	-27,763
Amortisation on intangible assets		-20,508	-18,661
Other acquisition costs and administrative expenses		-337,697	-270,969
Reimbursements from Group entities		160,821	154,355
Development costs capitalised as intangible assets		11,955	17,719
Claims handling costs transferred to claims incurred		241,178	263,759
Transferred to investment management expenses		12,966	13,478
Reinsurance commissions and profit participation		12,064	9,165
		<b>-1,229,615</b>	<b>-1,035,167</b>
Total payroll costs, including commissions to tied agents, in respect of direct insurance		-850,213	-889,007
Converted into full-time employees, the average number of persons employed during the financial year was 1447 (1531 persons in 2006).			
Remuneration of current and former members of the Board of Directors and Board of Management of Codan Forsikring A/S:			
Remuneration of the Board of Directors		-	-
Remuneration of the Board of Management:			
Wages and salaries		-5,299	-3,957
Bonuses		-2,670	-1,944
Pension benefits		-1,032	-721
Share-based payments		-928	-300
		<b>-9,929</b>	<b>-6,922</b>
Remuneration to the Board of Management is allocated between Codan A/S and its subsidiaries. The specification above contains the total remuneration.			
A few unfunded pension commitments were made to former members of the Board of Directors and the Board of Management of Codan Forsikring A/S, cf. Note 20. These pension commitments are not included in the above specification.			
Remuneration of the Company's auditor:			
Audit:			
Deloitte		-2,923	-
PricewaterhouseCoopers		-	-9,105
Remuneration, audit		<b>-2,923</b>	<b>-9,105</b>
Advisory services and assistance:			
Deloitte		-6,542	-
PricewaterhouseCoopers		-	-1,730
Remuneration, advisory services and assistance		<b>-6,542</b>	<b>-1,730</b>
Remuneration of the Company's auditor		<b>-9,465</b>	<b>-10,835</b>

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



## Notes to the financial statements

Note	2007	DKK '000		
<b>6 Balance on the technical account, general insurance</b>				<b>Motor Third Party Liability</b>
Balance on the technical account for general insurance in 2007 by line of business:	<b>Personal Accident</b>	<b>Health Insurance</b>	<b>Workers' Compensation</b>	
Gross premiums written	321,583	227,753	716,913	720,969
Gross earned premiums	311,552	210,787	684,382	692,123
Gross claims incurred	-185,168	-166,122	-608,777	-368,110
Bonuses and rebates	-	4	-	-195
Operating expenses, gross	-137,222	-31,745	-71,210	-137,390
Profit/loss from reinsurance	-2,815	-1,217	-5,892	783
Technical interest, net of reinsurance	16,905	6,129	90,765	31,474
<b>Balance on the technical account</b>	<b>3,252</b>	<b>17,836</b>	<b>89,268</b>	<b>218,685</b>
Number of claims paid	5,450	14,023	7,792	18,071
Average claims paid in DKK	33,976	11,846	78,128	20,370
Claims frequency	3.7%	169.3%	34.6%	11.0%
	<b>Motor, Accidental Damage, Fire and Theft</b>	<b>Marine, Aviation and Cargo</b>	<b>Fire and Contents (Personal)</b>	<b>Fire and Contents (Commercial)</b>
Gross premiums written	976,429	502,639	888,125	1,403,408
Gross earned premiums	914,806	570,402	839,153	1,372,044
Gross claims incurred	-482,950	-417,441	-582,253	-1,435,375
Bonuses and rebates	-38,420	-6,266	-25,417	-13,375
Operating expenses, gross	-209,078	-76,435	-155,332	-292,980
Profit/loss from reinsurance	-6,478	-53,806	-19,768	224,984
Technical interest, net of reinsurance	21,066	19,060	22,280	45,040
<b>Balance on the technical account</b>	<b>198,946</b>	<b>35,514</b>	<b>78,663</b>	<b>-99,662</b>
Number of claims paid	41,071	3,777	38,338	19,574
Average claims paid in DKK	11,759	110,522	15,187	73,331
Claims frequency	26.6%	41.8%	14.6%	19.9%
	<b>Liability</b>	<b>Credit and Guarantee</b>	<b>Other insurance</b>	<b>Total general insurance</b>
Gross premiums written	282,287	47,307	123,976	6,211,389
Gross earned premiums	276,222	44,286	117,713	6,033,470
Gross claims incurred	-162,037	6,901	-83,599	-4,484,931
Bonuses and rebates	-3,087	-	-	-86,756
Operating expenses, gross	-72,069	-7,639	-50,579	-1,241,679
Profit/loss from reinsurance	-38,862	-189	35,451	132,191
Technical interest, net of reinsurance	9,714	941	5,029	268,403
<b>Balance on the technical account</b>	<b>9,881</b>	<b>44,300</b>	<b>24,015</b>	<b>620,698</b>
Number of claims paid	6,702	35		154,833
Average claims paid in DKK	24,177	-197,171		28,966
Claims frequency	12.1%	1.1%		16.7%

Gross earned premiums from non-proportional indirect general insurance amount to DKK 22,000.

## Notes to the financial statements

Note	2006	DKK '000		
<b>6 Balance on the technical account, general insurance (continued)</b>				
Balance on the technical account for general insurance in 2006 by line of business:	<b>Personal Accident*</b>	<b>Workers' Compensation</b>	<b>Motor Third Party Liability</b>	<b>Motor, Accidental Damage, Fire and Theft</b>
Gross premiums written	456,457	587,019	650,408	843,631
Gross earned premiums	442,868	562,648	643,104	837,560
Gross claims incurred	-191,378	-700,765	525,599	-445,784
Bonuses and rebates	-9	-	-33	-35,964
Operating expenses, gross	-96,665	-64,577	-120,768	-169,950
Profit/loss from reinsurance	-4,277	351	-66,037	-4,975
Technical interest, net of reinsurance	21,472	52,915	-65,495	12,667
<b>Balance on the technical account</b>	<b>172,011</b>	<b>-149,428</b>	<b>916,370</b>	<b>193,554</b>
Number of claims paid	15,356	6,572	17,330	39,887
Average claims paid in DKK	12,463	106,629	-30,329	11,176
Claims frequency	9.8%	29.4%	12.5%	21.5%
* In 2006, Health Insurance was included in Personal Accident				
	<b>Marine, Aviation and Cargo</b>	<b>Fire and Contents (Personal)</b>	<b>Fire and Contents (Commercial)</b>	<b>Liability</b>
Gross premiums written	517,689	705,081	1,343,641	265,413
Gross earned premiums	492,725	707,199	1,302,541	261,881
Gross claims incurred	-466,721	-335,186	-688,415	-43,195
Bonuses and rebates	-4,226	-23,615	-7,676	-1,545
Operating expenses, gross	-69,882	-178,673	-250,078	-50,953
Profit/loss from reinsurance	19,976	-47,380	-176,886	-36,494
Technical interest, net of reinsurance	19,765	19,764	42,745	26,810
<b>Balance on the technical account</b>	<b>-8,363</b>	<b>142,109</b>	<b>222,231</b>	<b>156,504</b>
Number of claims paid	3,439	36,553	18,678	6,300
Average claims paid in DKK	135,714	9,170	36,857	6,856
Claims frequency	40.8%	13.1%	18.6%	11.4%
	<b>Credit and Guarantee</b>	<b>Other insurance</b>	<b>Total general insurance</b>	
Gross premiums written	39,250	116,497	5,525,086	
Gross earned premiums	38,359	147,302	5,436,187	
Gross claims incurred	2,246	-97,337	-2,440,936	
Bonuses and rebates	-	-	-73,068	
Operating expenses, gross	-5,444	-37,342	-1,044,332	
Loss from reinsurance	-576	-18,723	-335,021	
Technical interest, net of reinsurance	833	11,667	143,143	
<b>Balance on the technical account</b>	<b>35,418</b>	<b>5,567</b>	<b>1,685,973</b>	
Number of claims paid	21		144,136	
Average claims paid in DKK	-106,952		16,935	
Claims frequency	0.6%		15.2%	

Gross earned premiums from non-proportional indirect general insurance amount to DKK 100,000.

## Notes to the financial statements

Note	DKK '000	2007	2006
<b>6 Balance on the technical account, general insurance (continued)</b>			
The average claims paid are calculated as claims costs for the year relative to the number of claims paid and are therefore affected by run-off gains and losses.			
The claims frequency is calculated as the number of claims paid relative to the average number of insurance contracts in the period, cf. the guidelines issued by the Danish Financial Supervisory Authority.			
<b>7 Value adjustments</b>			
Group occupied properties		2,891	-132
Investments:			
Investment properties		-	1,496
Equity investments		-283	19
Bonds		-173,995	-258,060
Other loans		48	1,468
Currency translation adjustments		43,182	11,857
Total Group occupied properties and investments		<b>-128,157</b>	<b>-243,352</b>
Other assets and liabilities		28,049	60,920
<b>Value adjustments</b>		<b>-100,108</b>	<b>-182,432</b>
Realised gains and losses on investments		-233,500	-112,477
Unrealised gains and losses on investments		59,270	-142,599
Realised gains and losses on other assets and liabilities		-156	-
Unrealised gains and losses on other assets and liabilities		74,278	72,644
<b>Value adjustments</b>		<b>-100,108</b>	<b>-182,432</b>
Unrealised gains and losses on securities where the fair value is determined using valuation techniques which are not based on official market values or prices		-180	1,889
<b>8 Other income</b>			
Contribution to the Company's Norwegian branch from other Norwegian activities in the Codan group for tax optimisation purposes		7,391	-
<b>9 Profit from discontinued operations</b>			
Profit from discontinued life and pensions business:			
Gain on sale of life and pensions business		-	12,753
Tax in Codan Forsikring A/S		-	-3,571
<b>Profit from discontinued operations</b>		<b>-</b>	<b>9,182</b>

## Notes to the financial statements

Note	DKK '000	2007	2006
<b>10 Tax</b>			
Tax on total income for the year:			
Current tax expense		-172,475	-504,542
Change in deferred tax on temporary differences		-11,929	10,330
Change in deferred tax resulting from change in tax rate		-5,526	-
<b>Tax on total income for the year</b>		<b>-189,930</b>	<b>-494,212</b>
Adjustments relating to previous years:			
Current tax for previous years		506	19,093
Adjustment of deferred tax at 1 January		-1,401	-19,281
<b>Adjustments relating to previous years</b>		<b>-895</b>	<b>-188</b>
<b>Tax expense</b>		<b>-190,825</b>	<b>-494,400</b>
Tax is included as follows:			
Tax on continuing operations in the income statement		-190,631	-488,000
Tax on profit/loss from discontinued life and pensions business in the income statement		-	-3,571
Tax on changes in equity		-194	-2,829
<b>Tax expense</b>		<b>-190,825</b>	<b>-494,400</b>
Total tax on total income for the year can be explained as follows:			
Profit before tax		782,699	1,875,252
Reversal of income from Group entities		-97,609	-161,164
Revaluation of properties taken to equity		781	10,105
<b>Total income</b>		<b>685,871</b>	<b>1,724,193</b>
Applicable tax rate		25%	28%
Tax calculated on total income		-171,468	-482,774
Tax on permanent differences:			
Properties and other equity investments		-1	27
Income not subject to tax		719	-
Expenses not allowable for tax purposes		-5,531	-1,400
Different tax rates in countries where branches are located		-2,845	-
Change in tax rate		-5,526	-
Other permanent differences		-5,278	-10,065
<b>Tax</b>		<b>-189,930</b>	<b>-494,212</b>
Tax on the total income for the year		-189,930	-494,212
Adjustment of tax relating to previous years		-895	-188
<b>Tax expense</b>		<b>-190,825</b>	<b>-494,400</b>

## Notes to the financial statements

Note	DKK '000		
	Completed IT development projects	Goodwill	IT development projects in progress
<b>11 Intangible assets</b>			
<b>2007</b>			
Cost, beginning of the year	72,127	131,160	17,843
Additions	-	64,707	11,955
Transferred from development projects in progress	20,138	-	-20,138
<b>Cost, end of the year</b>	<b>92,265</b>	<b>195,867</b>	<b>9,660</b>
Amortisation and impairment, beginning of the year	-48,385	-	-
Amortisation during the year	-15,342	-	-
<b>Amortisation and impairment, end of the year</b>	<b>-63,727</b>	<b>-</b>	<b>-</b>
<b>Carrying amount, end of the year</b>	<b>28,538</b>	<b>195,867</b>	<b>9,660</b>
Carrying amount, beginning of the year	23,742	131,160	17,843
<b>2006</b>			
Cost, beginning of the year	56,978	131,160	15,273
Additions	-	-	17,719
Transferred from development projects in progress	15,149	-	-15,149
<b>Cost, end of the year</b>	<b>72,127</b>	<b>131,160</b>	<b>17,843</b>
Amortisation and impairment, beginning of the year	-32,059	-	-
Impairment losses recognised in the income statement	-	-	-
Amortisation during the year	-16,326	-	-
<b>Amortisation and impairment, end of the year</b>	<b>-48,385</b>	<b>-</b>	<b>-</b>
<b>Carrying amount, end of the year</b>	<b>23,742</b>	<b>131,160</b>	<b>17,843</b>
Carrying amount, beginning of the year	24,919	131,160	15,273
	<b>Acquired software licenses</b>	<b>Customer lists</b>	<b>Total intangible assets</b>
<b>2007</b>			
Cost, beginning of the year	7,003	-	228,133
Additions	55	24,207	100,924
Transferred from development projects in progress	-	-	-
<b>Cost, end of the year</b>	<b>7,058</b>	<b>24,207</b>	<b>329,057</b>
Amortisation and impairment, beginning of the year	-2,335	-	-50,720
Amortisation during the year	-2,341	-2,825	-20,508
<b>Amortisation and impairment, end of the year</b>	<b>-4,676</b>	<b>-2,825</b>	<b>-71,228</b>
<b>Carrying amount, end of the year</b>	<b>2,382</b>	<b>21,382</b>	<b>257,829</b>
Carrying amount, beginning of the year	4,668	-	177,413
<b>2006</b>			
Cost, beginning of the year	-	-	203,411
Additions	7,003	-	24,722
Transferred from development projects in progress	-	-	-
<b>Cost, end of the year</b>	<b>7,003</b>	<b>-</b>	<b>228,133</b>
Amortisation and impairment, beginning of the year	-	-	-32,059
Amortisation during the year	-2,335	-	-18,661
<b>Amortisation and impairment, end of the year</b>	<b>-2,335</b>	<b>-</b>	<b>-50,720</b>
<b>Carrying amount, end of the year</b>	<b>4,668</b>	<b>-</b>	<b>177,413</b>
Carrying amount, beginning of the year	-	-	171,352

Amortisation is included in operating expenses and claims incurred.

## Notes to the financial statements

Note	DKK '000			
	Group occupied properties	IT equipment under finance leases	Other equipment	Total equipment
<b>12 Total property and equipment</b>				
<b>2007</b>				
Cost, beginning of the year	26,071	52,345	129,571	207,987
Additions, including improvements	-	16,961	17,068	34,029
Disposals during the year	-21,389	-10,989	-20,599	-52,977
<b>Cost, end of the year</b>	<b>4,682</b>	<b>58,317</b>	<b>126,040</b>	<b>189,039</b>
Revaluations, beginning of the year	15,271	-	-	15,271
Revaluations during the year	781	-	-	781
Revaluations on disposals during the year	-14,781	-	-	-14,781
<b>Revaluations, end of the year</b>	<b>1,271</b>	<b>-</b>	<b>-</b>	<b>1,271</b>
Depreciation and impairment, beginning of the year	-222	-22,929	-66,165	-89,316
Depreciation during the year	-	-13,878	-13,864	-27,742
Impairment losses during the year	-	-	-81	-81
Depreciation on disposals during the year	90	5,265	10,751	16,106
<b>Depreciation and impairment, end of the year</b>	<b>-132</b>	<b>-31,542</b>	<b>-69,359</b>	<b>-101,033</b>
<b>Carrying amount, end of the year</b>	<b>5,821</b>	<b>26,775</b>	<b>56,681</b>	<b>89,277</b>
Carrying amount, beginning of the year	41,120	29,416	63,406	133,942
Depreciated on a straight-line basis over	30 years	3-5 years	4-10 years	
Fair value of Group occupied properties valued at the end of the year by independent external valuers	3,400			
Depreciation is included in operating expenses and claims incurred.				
<b>2006</b>				
Cost, beginning of the year	26,071	77,612	129,888	233,571
Additions, including improvements	-	15,739	25,862	41,601
Disposals during the year	-	-41,006	-26,179	-67,185
<b>Cost, end of the year</b>	<b>26,071</b>	<b>52,345</b>	<b>129,571</b>	<b>207,987</b>
Revaluations, beginning of the year	5,166	-	-	5,166
Revaluations during the year	10,136	-	-	10,136
Reversal of previous revaluations	-31	-	-	-31
<b>Revaluations, end of the year</b>	<b>15,271</b>	<b>-</b>	<b>-</b>	<b>15,271</b>
Depreciation and impairment, beginning of the year	-90	-39,315	-67,755	-107,160
Depreciation during the year	-	-12,660	-15,103	-27,763
Impairment losses during the year	-132	-	-	-132
Depreciation on disposals during the year	-	29,046	16,693	45,739
<b>Depreciation and impairment, end of the year</b>	<b>-222</b>	<b>-22,929</b>	<b>-66,165</b>	<b>-89,316</b>
<b>Carrying amount, end of the year</b>	<b>41,120</b>	<b>29,416</b>	<b>63,406</b>	<b>133,942</b>
Carrying amount, beginning of the year	31,147	38,297	62,133	131,577
Fair value of Group occupied properties valued at the end of the year by independent external valuers	18,500			

## Notes to the financial statements

Note	DKK '000	2007	2006
<b>12 Total property and equipment (continued)</b>			
Additional information on Group occupied properties:			
Proportion of properties used for the Company's own operations		100.0%	100.0%
Specific land and buildings not valued on the basis of required rate of return:			
Balance sheet value, Danish properties		1,671	34,849
Balance sheet value, foreign properties		4,150	6,271
<b>13 Investment properties</b>			
Carrying amount, beginning of the year		-	4,943
Disposals during the year		-	-4,943
Carrying amount, end of the year		-	-
<b>14 Investments in Group entities</b>			
Cost, beginning of the year		809,728	759,728
Additions during the year		-	50,000
Cost, end of the year		<b>809,728</b>	<b>809,728</b>
Adjustments, beginning of the year		-336,806	-497,970
Profit for the year from Group entities		97,609	161,164
Adjustments, end of the year		<b>-239,197</b>	<b>-336,806</b>
Carrying amount, end of the year		<b>570,531</b>	<b>472,922</b>
The value of investments in Group entities can be broken down as follows:			
Besigtelses Kontoret af 1914 A/S		8,500	4,183
Ejendomsselskabet Gammel Kongevej 60 ApS		142,904	121,187
Forsikringselskabet Privatsikring A/S		187,567	145,418
Trekroner Forsikring A/S		231,560	202,134
		<b>570,531</b>	<b>472,922</b>

Equity in Group entities, which has formed the basis for the calculation of Codan Forsikring A/S' share as specified above, has been determined in accordance with the accounting policies of Codan Forsikring A/S.

All subsidiaries are separate entities.

## Notes to the financial statements

Note		DKK '000	2007	2006
<b>14 Investments in Group entities (continued)</b>				
Additional information on investments in Group entities:			<b>Results</b>	<b>Equity</b>
	<b>Registered office</b>	<b>Ownership interest %</b>	<b>2007 DKK '000</b>	<b>31.12.2007 DKK '000</b>
Companies carrying on insurance business:				
Forsikringselskabet Privatsikring A/S	Frederiksberg	100	42,150	187,567
Trekroner Forsikring A/S	Frederiksberg	100	29,426	231,560
Property companies:				
Ejendomsselskabet Gammel Kongevej 60 ApS	Frederiksberg	100	17,580	142,904
Companies providing insurance-related services:				
Besigtelses Kontoret af 1914 A/S	Frederiksberg	100	4,318	8,500
Results and equity in Group entities as stated above are in accordance with the latest Annual Report.				
<b>15 Investments in associates</b>				
Cost, beginning of the year			-	9,000
Disposals during the year			-	-9,000
Cost, end of the year			-	-
Adjustments, beginning of the year			-	-9,000
Profit for the year from associates			-	280
Reversal of adjustments relating to disposals during the year			-	8,720
Adjustments, end of the year			-	-
Carrying amount, end of the year			-	-
<b>16 Current tax assets</b>				
Current tax assets, beginning of the year			-	-
Transfer from current tax liabilities			20,575	-
Current tax assets, end of the year			<b>20,575</b>	-



## Notes to the financial statements

Note	DKK '000	2007	2006
<b>17 Deferred tax assets and liabilities</b>			
Deferred tax assets, beginning of the year		52,807	61,758
Deferred tax on acquired operations		-320	-
Currency translation adjustments		-33	-
Change relating to intangible assets		1,985	-5,184
Change relating to property and equipment		-885	1,700
Change relating to investments		-21,810	38,636
Change relating to technical provisions		-4,676	-19,952
Change relating to liabilities and payables		-2,546	-24,151
Change relating to tax losses		9,075	-
<b>Deferred tax assets, end of the year</b>		<b>33,597</b>	<b>52,807</b>
Deferred tax assets expected to be recovered within 12 months of the end of the financial year		-	-
Deferred tax assets expected to be recovered more than 12 months after the end of the financial year		33,597	52,807
<b>Deferred tax assets, end of the year</b>		<b>33,597</b>	<b>52,807</b>
Deferred tax for the year recognised in the income statement		-17,650	10,330
Deferred tax for the year recognised in equity		194	-
<b>Total deferred tax for the year</b>		<b>-17,456</b>	<b>10,330</b>
Specification of deferred tax assets and liabilities at the end of the year:			
Intangible assets		-10,760	-12,426
Property and equipment		341	1,225
Investments		46,651	68,462
Technical provisions		38	4,715
Liabilities and payables		-11,715	-9,169
Net tax losses, carried forward		9,042	-
<b>Deferred tax assets, end of the year</b>		<b>33,597</b>	<b>52,807</b>
In accordance with the rules issued by the Danish Financial Supervisory Authority no provisions are made for deferred tax on untaxed transfers to contingency funds, cf. Note 19.			
<b>18 Share capital</b>			
The Company's fully paid share capital can be broken down as follows:			
2 shares of DKK 1,000,000		2,000	2,000
1 share of DKK 2,000,000		2,000	2,000
2 shares of DKK 3,000,000		6,000	6,000
1 share of DKK 5,000,000		5,000	5,000
<b>Share capital</b>		<b>15,000</b>	<b>15,000</b>
The Company does not hold own shares.			
<b>19 Contingency funds</b>			
The contingency funds can be broken down as follows:			
Contingency fund A, created by resolution at the Annual General Meeting on 17 May 1966		313,461	313,461
Contingency fund B for general insurance, cf. Section 138(2) of Act No. 630 of 23 December 1980		1,749,889	1,749,889
Contingency fund C for workers' compensation insurance		18,756	18,756
<b>Contingency funds</b>		<b>2,082,106</b>	<b>2,082,106</b>
Of which untaxed		1,395,059	1,395,059

## Notes to the financial statements

Note	DKK '000	2007	2006
<b>20 Total equity</b>			
Solvency margin and capital base:			
Calculated solvency margin		<b>913,461</b>	<b>848,922</b>
<b>Capital base to cover the solvency margin</b>		<b>2,952,124</b>	<b>2,608,145</b>
Capital base is calculated as follows:			
Equity	3,840,241	4,446,487	
Proposed dividend	-	-1,200,000	
Equalisation reserves within credit and guarantee insurance	-60,135	-52,723	
Value of intangible assets	-257,829	-177,413	
Value of tax assets	-33,597	-52,807	
Solvency margin in subsidiaries	-127,775	-111,765	
Value of intangible assets and tax assets in subsidiaries carrying on insurance business	-3,941	-5,338	
Deduction for discounting in the provision for outstanding claims	-368,767	-216,840	
Deduction for discounting in the provision for outstanding claims in subsidiaries carrying on insurance business	-36,073	-21,456	
<b>Capital base to cover the solvency margin</b>	<b>2,952,124</b>	<b>2,608,145</b>	
<b>21 Pension obligations</b>			
Pension obligations in Codan Forsikring A/S are generally funded.			
In respect of defined contribution schemes, the employer is under an obligation to pay a defined contribution (e.g. a fixed amount or a fixed percentage of the salary). In a defined contribution scheme, the Company does not bear the risk in relation to future developments in interest rates, inflation, mortality and disability. This is opposed to defined benefit schemes, where the employer is under an obligation to pay a defined benefit, e.g. a fixed amount or a percentage of the final salary.			
Codan Forsikring A/S has a few pension obligations that are not fully funded.			
Present value of defined benefit schemes	3,556	4,920	
Fair value of scheme assets	-	-	
<b>Net liability recognised in the balance sheet</b>	<b>3,556</b>	<b>4,920</b>	
No assets have been separated to cover pension obligations.			
<b>Development in present value of defined benefit obligations:</b>			
Pension obligations, beginning of the year	4,920	3,889	
Current service costs	-	266	
Calculated interest on obligation	168	1,544	
Actuarial gains and losses	-912	-	
Benefits paid	-620	-779	
<b>Pension obligations, end of the year</b>	<b>3,556</b>	<b>4,920</b>	
Pension costs recognised in the income statement:			
Current service costs	-	-266	
Calculated interest on obligation	-168	-1,544	
Total recognised for defined benefit schemes	-168	-1,810	
Total recognised for defined contribution schemes	-114,745	-117,200	
<b>Pension costs recognised in the income statement</b>	<b>-114,913</b>	<b>-119,010</b>	
Assumptions used in the calculation of pension obligations:			
Discount rate for Danish pension schemes	4%	4%	
Future rate of salary increase for Danish pension schemes	0%	0%	

## Notes to the financial statements

Note	DKK '000	2007	2006
<b>22 Other provisions</b>			
Provision relating to discontinued life and pensions business, beginning of the year		-	31,972
Used during the year		-	-19,219
Reversal of unused provisions		-	-12,753
Provision relating to discontinued life and pensions business, end of the year		-	-
Other provisions, beginning of the year		-	-
Provisions made during the year		931	-
Other provisions, end of the year		931	-
<b>Other provisions</b>		<b>931</b>	<b>-</b>
<b>23 Current tax liabilities</b>			
Current tax liability, beginning of the year		304,988	5,288
Transfer from other receivables		2	-74
Current tax for the year		172,475	504,542
Adjustment of current tax relating to previous years		-506	-19,093
Corporation tax paid during the year		-495,200	-185,675
Transfer to current tax assets		20,575	-
<b>Current tax liability, end of the year</b>		<b>2,334</b>	<b>304,988</b>

### 24 Total payables

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

Included in other payables are unsettled transactions in investments etc. with DKK 685,527,000 in 2007 (DKK 883,701,000 in 2006).

## Notes to the financial statements

Note	DKK '000	
<b>25 Acquisition of operations</b>		
In March 2007, Codan Forsikring A/S acquired the marine insurance operations of the Finnish insurance company Pohjola Non-Life Insurance Company Ltd.		
	<b>Fair value at the time of acquisition</b>	<b>Carrying amount before the acquisition</b>
Intangible assets	24,207	-
Receivables from insurance companies	68,307	68,307
Cash and cash equivalents	39,174	39,174
Reinsurers' share of insurance contract provisions	2,592	2,592
Deferred tax liabilities	-320	-
Insurance contract provisions	-71,718	-72,848
Other provisions	-931	-
<u>Payables arising from direct insurance contracts and other payables</u>	<u>-37,225</u>	<u>-37,225</u>
<u>Net assets acquired</u>	<u>24,086</u>	<u>-</u>
Goodwill	64,707	
<u>Acquisition cost</u>	<u>88,793</u>	
Amount payable	-931	
<u>Cash consideration</u>	<u>87,862</u>	
<u>Of which cash and cash equivalents</u>	<u>-39,174</u>	
<u>Net cash consideration</u>	<u>48,688</u>	

In connection with the acquisition of the Finnish marine operations, Codan Forsikring A/S determined the value of identifiable intangible assets, including customer lists, which has been recognised in the acquisition balance sheet with DKK 24,207,000.

Goodwill in connection with the acquisition amounted to DKK 64,707,000 after recognising identifiable assets, liabilities and contingent liabilities at fair value. Goodwill represents the value of existing staff and know-how as well as expected synergies arising from the merger with Codan Forsikring A/S

## Notes to the financial statements

Note

DKK '000

## 26 Market risk

The Company may be exposed to the following market risks: Interest rate risk is defined as the risk of losses arising from fluctuations in interest rates. Share price risk is defined as the risk of losses arising from fluctuations in stock market values. Property risk is defined as the risk of losses arising from fluctuations in property market values. Foreign exchange risk is defined as the risk that changes in exchange rates decrease the value of foreign currency assets or increase the value of liabilities denominated in foreign currencies.

## Interest rate risk

The fair value of the Company's portfolio of fixed rate bonds is inversely correlated to changes in the market interest rates. Thus, if market rates fall, the fair value of the portfolio would tend to rise and vice versa. The Company is also exposed to the risk of changes in future cash flows from such bonds in connection with re-investments arising from changes in market interest rates.

## Maturity periods or contractual repricing

The following table summarises the contractual repricing or maturity dates (whichever is earlier) for financial assets and liabilities that are subject to fixed or floating interest rates.

## Contractual repricing or maturity dates

2007	< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	> 5 years	Total
Danish government bonds	2,116,296	288,512	1,656,871	185,203	-	417,650	4,664,532
Danish fixed rate mortgage bonds	585,126	128,081	73,550	250,665	24,558	1,798,300	2,860,280
Danish floating rate mortgage bonds	-	-	-	-	-	2,720,238	2,720,238
US bonds	101,657	-	102,577	-	-	-	204,234
Other loans, deposits with credit institutions, call deposits, etc.	702,155	-	-	-	-	-	702,155
Receivables from Group entities	530,720	-	-	-	-	310,000	840,720
<b>Financial assets</b>	<b>4,035,954</b>	<b>416,593</b>	<b>1,832,998</b>	<b>435,868</b>	<b>24,558</b>	<b>5,246,188</b>	<b>11,992,159</b>
Amounts owed to Group entities	192,255	-	-	-	-	-	192,255
Lease payables	12,950	7,587	4,608	1,901	-	-	27,046
<b>Financial liabilities</b>	<b>205,205</b>	<b>7,587</b>	<b>4,608</b>	<b>1,901</b>	<b>-</b>	<b>-</b>	<b>219,301</b>
2006	< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	> 5 years	Total
Danish government bonds	1,481,046	2,000,391	-	962,346	-	-	4,443,783
Danish fixed rate mortgage bonds	3,724	657,756	399,800	24,213	298,590	2,556,961	3,941,044
Danish floating rate mortgage bonds	-	-	-	-	-	2,303,870	2,303,870
US bonds	112,534	-	-	109,734	-	-	222,268
Other loans, deposits with credit institutions, call deposits, etc.	447,058	-	-	-	-	-	447,058
Receivables from Group entities	509,322	-	-	-	-	310,000	819,322
<b>Financial assets</b>	<b>2,553,684</b>	<b>2,658,147</b>	<b>399,800</b>	<b>1,096,293</b>	<b>298,590</b>	<b>5,170,831</b>	<b>12,177,345</b>
Amounts owed to Group entities	232,220	-	-	-	-	-	232,220
Lease payables	14,778	10,600	2,256	-	-	-	27,634
<b>Financial liabilities</b>	<b>246,998</b>	<b>10,600</b>	<b>2,256</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>259,854</b>

## Notes to the financial statements

Note	DKK '000				
<b>26 Market risk (continued)</b>					
The below table shows the effective interest rate and the duration for financial assets and liabilities as of 31 December 2007.					
	<b>Effective interest rate</b>		<b>Duration</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	
<b>Financial assets</b>					
Danish government bonds	4.3	3.9	1.9	1.7	
Danish mortgage bonds	5.2	4.5	5.3	3.5	
US bonds	3.2	4.9	1.1	1.6	
Other loans	8.3	8.6			
Deposits with credit institutions, call deposits, etc.	4.0	2.8			
Receivables from Group entities	4.5	4.0			
<b>Financial liabilities</b>					
Amounts owed to Group entities	4.5	4.0			
Lease payables	4.6	3.1			
<b>Foreign exchange risk</b>					
Foreign exchange risk is managed in accordance with the Company's foreign exchange policy, which is to match assets to the currency of the related liability.					
The following table shows the Company's primary exposure to foreign exchange risks in DKK '000.					
<b>Foreign exchange risk</b>					
	<b>2007</b>				
	<b>USD</b>	<b>SEK</b>	<b>GBP</b>	<b>EUR</b>	<b>NOK</b>
<b>Financial assets</b>					
Bonds	204,234	-	-	-	-
Other loans, deposits with credit institutions, call deposits, etc.	14,624	30,220	11,481	28,103	63,259
Intangible assets	-	-	-	87,915	-
Receivables from policyholders, brokers and insurance companies	69,608	21,921	-	65,287	64,516
Receivables from Group entities	368	25,030	-	47,420	134,074
Other receivables	3	-	-	2,875	589
Deferred tax assets	-	3,133	-	-	5,909
Prepayments and accrued income	2,189	-	-	-	-
Reinsurers' share of insurance contract provisions	146,557	815	18,391	223,562	-
<b>Financial liabilities</b>					
Payables arising from direct insurance and reinsurance contracts	-	-	-139,720	-94,723	-2,592
Amounts owed to Group entities	-	-28,354	-	-38,885	-137,283
Other payables	-2,164	-14,641	-1,365	-3,480	-481
Current tax liabilities	-	-	-	-2,334	-
Deferred tax liabilities	-	-330	-	-	-1,323
<b>Insurance liabilities</b>	<b>-489,166</b>	<b>-73,677</b>	<b>-103,128</b>	<b>-243,578</b>	<b>-220,056</b>
<b>Foreign exchange risk</b>	<b>-53,747</b>	<b>-35,883</b>	<b>-214,341</b>	<b>72,162</b>	<b>-93,388</b>

## Notes to the financial statements

Note	DKK '000				
<b>26 Market risk (continued)</b>					
	<b>2006</b>				
	<b>USD</b>	<b>SEK</b>	<b>GBP</b>	<b>EUR</b>	<b>NOK</b>
<b>Financial assets</b>					
Bonds	222,268	-	-	-	-
Other loans, deposits with credit institutions, call deposits, etc.	17,391	4,669	15,604	7,469	2,280
Receivables from policyholders, brokers and insurance companies	5,570	558	-	11,878	9,862
Reinsurers' share of insurance contract provisions	177,194	-	20,318	24,507	-
<b>Financial liabilities</b>					
Payables arising from direct insurance and reinsurance contracts	-	-	-136,968	-32,305	-476
Amounts owed to Group entities	-1,822	-1,212	-	-	-
<b>Insurance liabilities</b>	<b>-495,724</b>	<b>-19,700</b>	<b>-102,563</b>	<b>-74,095</b>	<b>-42,672</b>
<b>Foreign exchange risk</b>	<b>-75,123</b>	<b>-15,685</b>	<b>-203,609</b>	<b>-62,546</b>	<b>-31,006</b>
<b>Sensitivity information</b>					
<b>Impact on the Company's equity</b>				<b>2007</b>	<b>2006</b>
Occurrence:					
0.7 percentage point increase in interest rates				-209,163	-206,742
0.7 percentage point decrease in interest rates				209,163	206,742
12 per cent fall in share prices				-451	-485
8 per cent fall in property prices				-78,866	-76,250
Foreign exchange risk (Value-at-risk 99.5)				-9,658	-7,096
Counterparty losses of 8 per cent (credit and counterparty risk)				-44,279	-51,968
Interest rate risk arising from the provision for outstanding claims is included in the sensitivity information as of 2006.					
<b>27 Credit risk</b>					
Credit risk is defined as the risk of non-performance of contractual payment obligations and adverse changes in creditworthiness.					
<b>Maximum credit risk</b>					
Danish government bonds				4,664,532	4,443,783
Danish fixed rate mortgage bonds				2,860,280	3,941,044
Danish floating rate mortgage bonds				2,720,238	2,303,870
US bonds				204,234	222,268
Other loans, deposits with credit institutions and call deposits, etc.				702,155	447,058
Deposits with ceding undertakings				6,201	7,130
Reinsurers' share of provision for unearned premiums				35,169	53,817
Reinsurers' share of provision for claims				1,247,120	962,775
Receivables from policyholders				519,124	411,087
Receivables from brokers				8,206	30,440
Receivables from insurance companies				68,082	56,975
Receivables from Group entities				840,720	819,322
Other receivables				158,410	392,656
Accrued interest and rent				154,240	168,094
<b>Maximum credit risk</b>				<b>14,188,711</b>	<b>14,260,319</b>

## Notes to the financial statements

Note	DKK '000	2007	2006
<b>28 Related parties</b>			
<b>Related party disclosures</b>			
Codan A/S owns 100% of the shares in Codan Forsikring A/S and consequently holds a controlling interest in the Company.			
The Company's related parties furthermore include the members of the Board of Directors and the Board of Management, and the boards of directors and boards of management and executives of Group entities as well as their related family members. Related parties also include companies in which the above persons have significant interests.			
Apart from normal management remuneration, no transactions, except for those listed below, were entered into during the year with the Board of Directors and the Board of Management, executives, major shareholders or other related parties. The management remuneration is shown in Notes 5 and 31.			
<b>Related party transactions</b>			
The Company undertakes all administrative tasks for all wholly-owned Danish subsidiaries in the Codan Group. The Company furthermore undertakes all administrative tasks for the Parent Company, Codan A/S.			
Administration fees payable to and receivable from Group entities in the Codan Group are settled on a cost-covering basis. Rent payments to Group entities are made on an arm's length basis.			
The Company entered into securities transactions with other companies in the Codan Group. All transactions have taken place at market value.			
Agreements on interest on inter-company balances on an arm's length basis were made between the companies in the Codan Group. These amounted to DKK 12.6m in 2007 (DKK 7.1m in 2006).			
Agreements on reinsurance were entered into with companies in the Codan Group and with companies in the Royal & Sun Alliance Group on an arm's length basis.			
In 2007, the Company paid for the use of joint IT systems and various advisory services to companies in the Royal & Sun Alliance Group. Payments were made on a cost-covering basis.			
Business transactions with Group entities and associates included the following:			
Sale of reinsurance to Group entities	93,195		87,149
Purchase of reinsurance from Group entities	-23,716		-21,483
Sale of services to Group entities	735		1,894
Purchase of services from Group entities	-33,227		-35,352
Sale of administrative services to Group entities	163,480		154,925
<b>Business transactions with Group entities</b>	<b>200,467</b>		<b>187,133</b>



## Notes to the financial statements

Note	DKK '000	2007	2006
<b>29 Security</b>			
The following assets are held under trust for the benefit of policyholders to cover technical provisions:			
Land and buildings of subsidiaries		486,103	-
Bonds		10,316,138	9,830,566
Interest receivable		156,095	131,746
Cash and cash equivalents		577,377	-
<b>Security</b>		<b>11,535,713</b>	<b>9,962,312</b>

### 30 Contingent assets, contingent liabilities and financial liabilities

#### Financial liabilities

Operating lease commitments fall due within ten years and constitute		62,667	66,929
Service agreements (IT and telephony)		238,770	231,350
Sponsorships		8,229	16,348
Asset management agreements		100,000	100,000
<b>Financial liabilities</b>		<b>409,666</b>	<b>414,627</b>

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

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

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

The Company is jointly and severally liable together with other companies participating in the joint taxation before 2005 for any corporation tax imposed during the accounting period 2004 and previously.

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

## Notes to the financial statements

Note

DKK '000

### 31 Incentive schemes

Royal & SunAlliance operates a number of incentive schemes. Until and including 2005, Royal & SunAlliance had an Executive Share Option Plan and a Share Matching Plan for executives and other key employees. In 2006, these plans were replaced by a Long Term Incentive Plan. The plans are all subject to different performance conditions and are based on shares in Royal & SunAlliance. In addition, Royal & SunAlliance operates the Savings Related Share Option Plan providing all employees with the opportunity of buying shares in Royal & SunAlliance at a favourable price.

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

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

The fair value of the options granted is based on all performance conditions being met.

#### **Share Matching Plan**

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

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

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

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

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

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

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

## Notes to the financial statements

Note

DKK '000

## 31 Incentive schemes (continued)

## Board of Directors and Board of Management

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

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

2007	Executive Share Option Plan		Share Matching Plan		Long Term Incentive Plan		Savings Related Share Option Plan	
	Shares	Prices (a)	Shares	Prices (a)	Shares	Prices (a)	Shares	Prices (a)
Outstanding at 1 January	131,266	208	26,619	-	101,868	-	13,205	68
Appointment of members of the Board of Management	-	-	-	-	55,009	-	7,743	122
Retirement of members of the Board of Management	-131,266	-208	-26,619	-	-	-	-13,205	-
Granted during the year	-	-	-	-	149,010	-	2,632	105
<b>Outstanding at 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>305,887</b>	<b>-</b>	<b>10,375</b>	<b>118</b>
Potential Matching Share awards	-	-	-	-	165,703	-	-	-
Options exercisable at year end	-	-	-	-	-	-	-	-

(a) Price refers to weighted average exercise price in sterling (pence)

2006	Executive Share Option Plan		Share Matching Plan		Long Term Incentive Plan		Savings Related Share Option Plan	
	Shares	Prices (a)	Shares	Prices (a)	Shares	Prices (a)	Shares	Prices (a)
Outstanding at 1 January	131,266	208	26,619	-	-	-	14,289	68
Granted during the year	-	-	-	-	101,868	-	-	-
Exercised during the year	-	-	-	-	-	-	-1,084	66
<b>Outstanding at 31 December</b>	<b>131,266</b>	<b>208</b>	<b>26,619</b>	<b>-</b>	<b>101,868</b>	<b>-</b>	<b>13,205</b>	<b>68</b>
Potential Matching Share awards	-	-	61,315	-	48,387	-	-	-
Options exercisable at year end	79,666	289	-	-	-	-	3,441	75

(a) Price refers to weighted average exercise price in sterling (pence)

## Notes to the financial statements

Note	DKK '000	2007	2006
32 <b>Consolidated financial statements</b>			
Royal & Sun Alliance Insurance Group plc, One Plantation Place, London, England, prepares the consolidated financial statements, in which Codan Forsikring A/S is included as a subsidiary.			

## Aruande digitaalallkirjad

Codan Forsikring A/S Eesti filiaal (registrikood: 11299485) 01.01.2007 - 31.12.2007 majandusaasta aruande andmete õigsust on elektrooniliselt kinnitanud:

Allkirjastaja nimi	Allkirjastaja roll	Allkirja andmise aeg
DMITRI VOLKOV	Sisestaja	14.07.2010
KAIDO KEPP	Filiaali juhataja	19.07.2010

## Müügitulu jaotus tegevusalade lõikes

Tegevusala	EMTAK kood	Müügitulu (EEK)	Müügitulu %	Põhitegevusala
Kahjukindlustus	65121	6705515	100.00%	Jah

## Sidevahendid

Liik	Sisu
Telefon	+372 6224550
Faks	+372 6030779
E-posti aadress	dmitri.volkov@rsagroup.ee