Qudos Insurance A/S

Kongevejen 371
2840 Holte

CVR No.: 33 95 69 67

Annual Report
for the period 1 January 2016 – 31 December 2016

Chairman of the Annual General Meeting

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Date of the Annual Meeting

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Company Information

The Company	Qudos Insurance A/S Kongevejen 371 DK-2840 Holte Telephone: +45 31 26 55 50 E-mail: info@qudosinsurance.dk Web: www.qudosinsurance.dk CVR No.: 33 95 69 67 Reg. No.: 53112 Established: 3 October 2011 Registered office: Rudersdal Financial year: 1 January – 31 December
Board of Directors	Serge Lavoie (Chairman) (Appointed February 2016) Robert Thornedahl (Vice Chairman) Robert Gordon Victor Purves Alvin Sharma (Appointed July 2016) Stephen Michael Dobronyi (Resigned July 2016) Russell John English (Resigned August 2016)
Executive Management	Michel Trudeau (CEO) (Appointed as CEO April 2016) Brian Michael Clausen (CEO) (Resigned April 2016) Preben Larsen (CFO) Troels Risom (CUO) (Appointed to the Executives in June 2016)
Auditor	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup
Bank	Nordea

Management Review

Background

Qudos Insurance A/S' ("Qudos") business model is to write European direct non-life insurance as program business through insurance brokers and insurance agents within the property area, motor area and other niche and specialty insurance areas not covered by the traditional insurance companies.

Insurance brokers and insurance agents are responsible not only for sales and distribution of the insurance products, but also in some cases the claims handling. All activities are carried out in compliance with the guidelines of – and under the control of Qudos.

Qudos, which has been established with capital from Echelon Financial Holdings Inc., a leading, publicly traded Canadian insurance company with an issuer credit rating of bb+ from AM Best, has a strong financial base which makes it possible for Qudos to write many direct insurance products throughout Europe.

Ownership

Qudos Insurance A/S is a 100 % owned subsidiary of QIC Holdings ApS, which in turn is majority owned by Echelon Financial Holdings Inc. in Canada.

Change of control

Echelon Financial Holdings Inc. (Qudos Insurance A/S ultimate parent company) has received approval from the Danish Financial Supervisory Authority to the sale of QIC Holdings ApS' shares from Echelon Financial Holdings Inc. ("EFH") to New Nordic. The sale is scheduled to close on 7 March 2017.

New Nordic is a European investment management group with expertise in the general insurance and a strong desire to expand Qudos' business development within its current market.

2016 Results

Financial Highlights

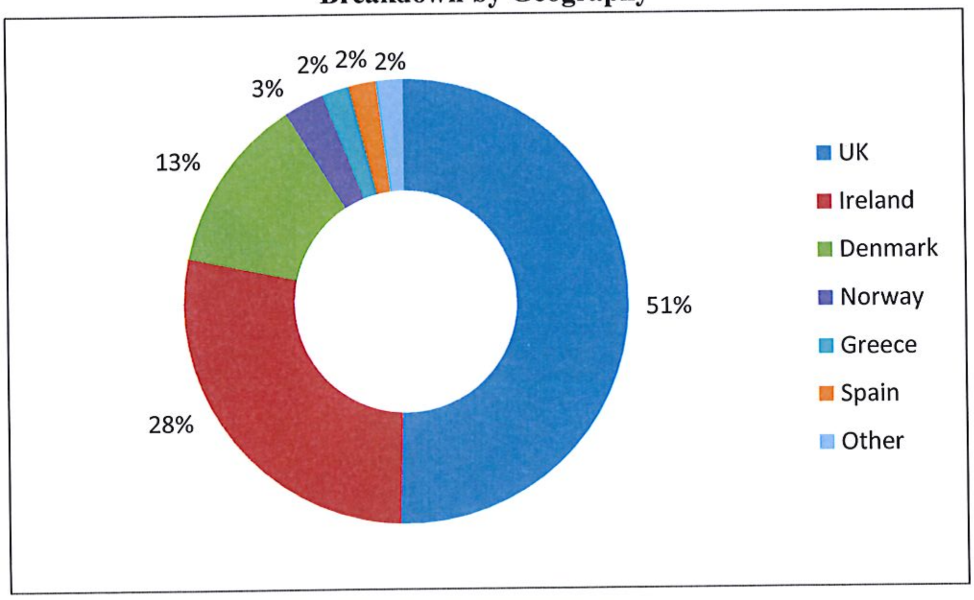
- Profit after tax for the year was MDKK -135.8 (MDKK -41.9)
- Technical result amounted to a loss of MDKK -95.2 (MDKK -38.0)
- Combined ratio of 106.7 (103.1)
- Gross written premium decreased from MDKK 1,548.4 to MDKK 1,257.8, corresponding to a drop of 19%
- Claims ratio of 76.3 (61.0)
- Reinsurance expense of MDKK -22.6 (MDKK -5.8), corresponding to a reinsurance ratio of 1.6 (0.5)
- The commission ratio decreased from 39.1 to 26.5
- General expense ratio improved from 2.6 to 2.4
- Return on investments including currency adjustments MDKK -35.4 (MDKK -11.5)

The gross written premium decreased from MDKK 1,548.4 to MDKK 1,257.8. The gross written premiums are coming from Binders in U.K., Denmark, Ireland, Norway, Greece, France, Italy, Spain and Sweden.

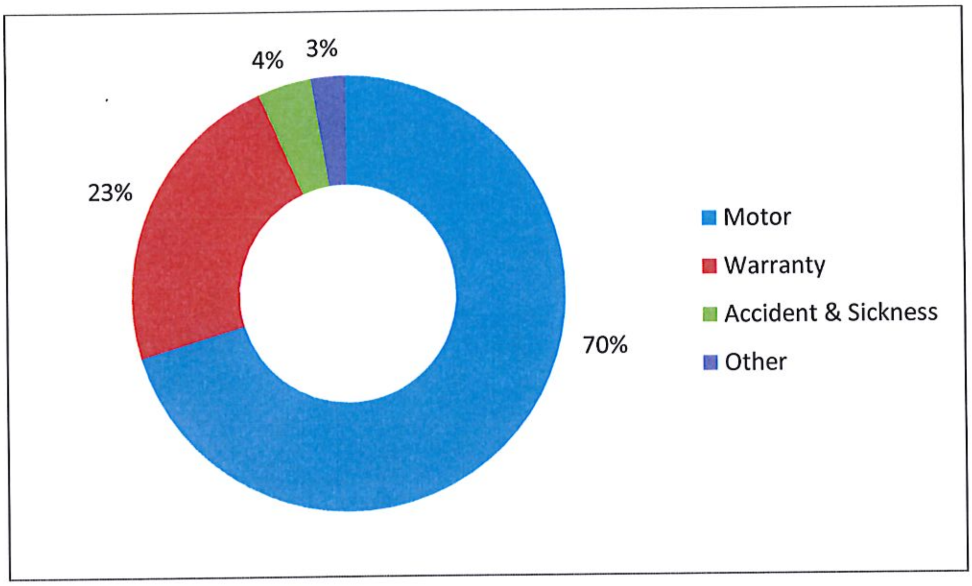
The decrease in gross written premiums is in line with management expectations and the underwriting actions taken by the new executive management to limit the risk on primarily the motor segment in UK.

The increase in the net earned premiums is due to commutation of the Quota Share Intercompany Reinsurance Agreement with CIM Re, Barbados effective 1 January 2016.

Breakdown by Geography



Breakdown by segment



The UW result amounted to a loss of MDKK 95.2 compared with a loss of MDKK 38.0 in 2015. The UW result is not satisfactory with a combined ratio of 106.7 (103.1) primarily due to a gross claims ratio of 76.3%.

The gross claims ratio was affected by strengthening of the provisions for claims liabilities and by a negative run-off from 2015 and previous years of MDKK 105.0 net of reinsurance. The negative prior year's claims development primarily relates to a combination of latent claims reported and adverse development on already known claims in UK and Ireland. The adverse development on known claims on the UK and Irish motor segment is also a result of a review of a large number of personal injuries cases related to the UK and Irish motor segment initiated by the new executive management and strengthening of the technical provision on programs on terminated programs and programs in run-off. Finally, the claims trend is affected by a strengthening of the risk margin by MDKK 5.2 in 2016.

The new executive management continues to review programs that are not profitable and underwriting actions are taken to improve the profitability and to reduce the risks. We believe that these actions will result in a smaller premium volume in 2017, however, one that is profitable, less volatile and less capital intensive. Furthermore, the actions implemented will lead to a more balanced profile and greater diversification by both product and geography.

The Scandinavian and UK Warranty lines continue to produce positive results.

The administrative expenses are negatively affected be severance pay to former CEO and a number of employees of MDKK 5.0.

The return on investments amounted to MDKK -35.4 (MDKK -11.5). The returns on investments are affected by a negative development in the bond market and a larger volatility and uncertainty up to and after the UK Electorate to vote to leave the European Union and the US president election which affected both the interest rates and the currency rates.

Management is currently reviewing the investment strategy and it is expected that structural changes to the investment portfolio will contribute to an improvement of the investment performance in 2017.

The loss on tax for the year amounts to MDKK 7.8. The deferred tax assets beginning of 2016 of MDKK 7.8 have been fully written off in 2016 and the deferred tax assets relating to the loss for the year has not been recognized in the balance sheet.

The result is proposed carried forward to next year.

Capital position

The share capital was increased in 2016 by MDKK 114.6, and the equity amounted to MDKK 167.1 after transfer of the net loss for the year, changes in accounting policies and correction of material error booked directly on the opening equity.

The excess capital (own fund less solvency capital requirement) amounted to MDKK 0.6, corresponding to a solvency ratio of 100.3 end of 2016. The Company uses the standard formula under Solvency II to calculate the Solvency Capital Requirement.

It is the executive management assessment that under New Nordic's control, Qudos will continue to operate as a going concern company concentrating its efforts towards the achievement of an effective recovery of Qudos operating performance for 2017 onward.

Following New Nordic's acquisition and the injection of MDKK 22.5 of capital, Qudos' capital resources will be strengthened so that the Solvency Ratio above will improve. See note 1 on page 26-27, which describes the assessment.

Solvency II and new accounting rules as from 1 January 2016

The Danish FSA has issued a new Executive Order on Financial Reports, which came into force on 1 January 2016. The purpose of the new Executive Order is to harmonize the principles applicable to the Financial Reports including calculation of the solvency capital requirement and own funds with the solvency II rules. The transition to the new accounting policies are described in note 17 on page 35-36.

Correction of material error

During the year Qudos' Management identified prior year's errors that required restatement of the results for the year ended 31 December 2015 and at 1 January 2015. Due to the materiality, Management has treated the matter as a material error.

Management determined that the calculation of deferral of original commissions was incorrect. The error has led to a wrong treatment of original commission and an understatement of the unearned premium provisions. See note 17 on page 37, which describes the impact on the comparative figures and the equity 1 January 2015 and 31 December 2015.

Events after the balance sheet date

In the opinion of Management, from the balance sheet date to the present date, no other matters of major significance have arisen that are likely to materially influence the assessment of the company's financial position.

Change of control

Echelon Financial Holdings Inc. (Qudos Insurance A/S ultimate parent company) has received approval from the Danish Financial Supervisory Authority to the sale of QIC Holdings ApS' shares from Echelon Financial Holdings Inc. ("EFH") to New Nordic. The sale is scheduled to close on 7 March 2017.

New Nordic is a European investment management group with expertise in the general insurance and a strong desire to expand Qudos' business development within its current market.

Expectations for 2017

We expect a reduction in gross written premium as well as in the net earned premium as a result of a number of initiatives implemented by the new executive management.

The underwriting focus for 2017 continues to be on profitability.

Based on this, as well as the implemented underwriting actions we expect a positive underwriting result for the 2017.

Risk Information

Risk Profile
Qudos' policy is to hedge against risks arising from the Company's activities or to limit such risks to a level that allows the Company to maintain normal operations and implement its planned measures even in the case of highly unfavorable events in the outside world.
The Board of Directors determines the overall policies and guidelines.

Review
Qudos Insurance's risk management relates to the following main areas:

- Insurance Risk
- Market Risk
- Credit Risk
- Operational Risk

Insurance risk
The insurance risks assumed include the acceptance and follow-up of policies, claims handling, reserving risk and reinsurance risk. The company assesses insurance risk based on statistical risk analyses which we incorporate in our pricing. To limit the risk the company has established necessary and relevant procedures for all essential business processes and carries out follow-ups and control thereof. The size of the claims reserves, to cover future payment of losses that have occurred, is determined both through individual assessment of each claim and actuarial calculations.

An important part of the company's risk management is the use of reinsurance.

Market risk
Market risk represents the risk of losses due to changes in the market value of the Company's assets, liabilities and off-balance items as a result of changes in market conditions. Market risk includes interest rate, currency, inflation and liquidity risk.

Policies and guidelines for the financial risks are determined by Qudos' Board of Directors.

Credit risk
Credit risk is the risk of losses caused by one or more counter-parties' breach of their payment obligations. The company is exposed to credit risk in both its insurance and investment business. Within insurance the reinsurance companies' ability and will to pay is the most important risk factor. This risk is minimized by the purchase of reinsurance cover from reinsurance companies with a minimum rating of A- (S&P), or by the retention of deposits equal to the premium provisions and claims provisions.

To limit the risk in the investment business the investments are made in government bonds, mortgage bonds, corporate bonds and deposits with credit institutions with a minimum rating of A.

Operational risk

Operational risk is the risk of incurring a loss due to insufficient or faulty procedures, human or systematic errors. Operational risk includes the risk of breakdown in the IT systems.

In practice, this work is organized through a framework of policies, procedures and guidelines that cover the various aspects of the company's operations.

For all main areas there are established guidelines and procedures, which are frequently reviewed and changed, if necessary.

The procedures and internal controls in all essential and risky areas are regularly checked by the auditors in order to assess the risks, and recommend measures to limit each individual risk.

Corporate Governance

Employees

The Boards of Directors and Executives and our core staff, have a deep insurance experience, and are actively empowered to share and utilize this knowledge to help our insurance brokers and our insurance agents and thus their insurance customers.

Remuneration structure

Qudos' remuneration policy is intended to optimize long-term value creation at a group level. In accordance with Section 77(d) of the Danish Financial Business Act and Section 139 of the Danish Companies Act the Annual General Meeting has adopted "Remuneration policy".

Besides salary policy, the remuneration policy also includes pension policies. The remuneration policy covers Board of Directors, Executive Management and significant risk takers.

The remuneration of the Executive Management and significant risk takers is based upon a fixed basic salary and a pension contribution of 13.5% to 20% hereof and a variable salary element. Consequently, Qudos has no pension commitments towards the Executive Management and significant risk takers and no type of pension compensation on retirement is granted. The amount is paid to the chosen pension provider and consequently all pension obligations are fully covered by them.

The fixing of the fixed basic salary paid to the Executive Management and significant risk takers is based on a specific assessment of the employee. In its assessment Qudos includes, among other factors, their position, characteristics and performance.

The variable salary element is based on a combination of underwriting results, personal performance and contribution to the Company and the Group.

A variable salary is dealt with in accordance with the conditions of section 77 (a-e) of the Danish Financial Business Act.

Gender composition

According to the Danish Financial Business Act the Board of Directors must establish targets for the share of the under-represented gender on the Board and draw up a policy on gender balance of the company's other management levels.

The Board's aim for the Board of Directors is that in 2018 there will be a distribution, where the underrepresented gender accounts for 20% out of 5 members. It is, however, important, that the board positions continue to be filled on the basis of the qualifications needed in the company's Board of Directors.

Audit Committee

The Board of Directors of Qudos Insurance A/S has set up an Audit Committee. The Committee consists of three members of the Board of Directors. The Board of Directors has elected Robert Thornedahl as Chairman of the Committee and as the independent member with appropriate qualifications in accounting and auditing.

The tasks of the Committee are set out in Audit Committee Charter which is based on the Executive Order on Audit Committees in Undertakings and Groups subject to supervision by the Danish Financial Supervisory Authority.

The tasks of the committee include monitoring of:

- the financial reporting process
- the internal control system and Risk Management System
- the statutory audit of the financial statement, and
- the auditor's independence

The Audit Committee holds at least four meetings in connection with the quarterly reporting to the Company's Board of Directors.

Management positions

Board of Directors

Serge Lavoie

- Echelon Financial Holdings Inc. (Director, President and CEO)
- Echelon Insurance (Director, President and CEO)
- QIC Holdings ApS (Director, Chairman of the Board)
- The Insurance Company of Prince Edward Island (Director)
- CUISA Managing General Agency Corporation (Director, Chairman of the Board)

Robert Thornedahl

- QIC Holdings ApS (Vice Chairman)

Robert Gordon Victor Purves

- Echelon Financial Holdings Inc., Canada and 1 wholly owned subsidiary (Chairman)
- QIC Holdings ApS, Denmark (Director)
- Purves Redmond Limited, Canada (Chairman)
- Purvest Inc. (President)
- Bladder Cancer, Canada (Director)

Alvin Sharma

- Echelon Insurance (CFO)
- Echelon Financial Holdings Inc. (CFO and Corporate Secretary)
- QIC Holdings ApS (Director)
- The Insurance Company of Prince Edward Island (Director, Chairman of the Board)
- CUISA Managing General Agency Corporation (Director)

Executive Management

Michel Trudeau

- 1712302 Ontario Inc. (Director)
- 1714970 Ontario Inc. (Director)
- Dion Durrell and Associates Inc. (Director)

Preben Larsen

- QIC Holdings ApS, Denmark (CEO)

Troels Risom

Financial Highlights and Key Ratios

DKK '000	2016	2015	2014	2013	2012
Gross premium income	1,421,370	1,258,336	782,383	348,264	64,217
Gross claims incurred	-1,084,175	-766,703	-507,641	-201,453	-40,812
Total insurance operating costs	-409,859	-523,853	-265,727	-120,599	-38,727
Result of ceded business	-22,563	-5,801	-16,114	-26,603	-3,604
Insurance technical result	-95,227	-38,021	-6,836	-207	-18,853
Return on investments	-35,384	-11,477	13,162	336	4,626
Net profit for the year	-135,944	-41,490	5,789	2	-10,670
Run-off result, net of reinsurance	-105,015	-8,853	-6,912	-486	0
Total insurance technical provisions	1,472,821	1,285,251	607,071	293,474	104,360
Total insurance assets	761,869	870,207	410,505	197,809	65,831
Total equity	167,054	188,417	144,253	73,540	45,181
Total assets	1,725,323	1,990,517	1,036,256	537,143	218,645
Key ratios:					
Gross claims ratio	76.3%	61.0%	64.9%	57.8%	63.6%
Gross expense ratio	28.8%	41.6%	33.9%	34.6%	60.3%
Reinsurance ratio	1.6%	0.5%	2.1%	7.7%	5.6%
Combined ratio	106.7%	103.1%	100.9%	100.1%	129.5%
Operating ratio	106.7%	103.1%	100.9%	100.0%	129.3%
Relative run-off result	-22.7%	-4.1%	-16.8%	-5.2%	N/A
Return on equity after tax	-76.5%	-24.9%	5.3%	0.0%	-16.9%
Solvency ratio*	1.00	1.62	1.75	0.91	1.60

*) Solvency I ratios in 2012-2015 are ratios between base capital and Solvency I requirement. Solvency II ratio in 2016 is the ratio between own funds and the solvency capital requirement and is exempt from the requirement for auditing and thus not audited.

Comparative figures for 2015 have been restated to reflect the changes in accounting policies due to the new Executive Order on Financial Report and correction of material error.

Statement by the Management

Today the Board of Directors and the Executive Management have considered and approved the Annual Report of Qudos Insurance A/S for the period 1 January 2016 – 31 December 2016.

The Annual Report has been presented in accordance with the Financial Business Act and the Danish Financial Supervisory Authority Order on financial reporting requirements for insurance companies.

We consider the adopted accounting policies to be appropriate and in our opinion, the Financial Statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of its operations for the financial year from 1 January 2016 – 31 December 2016.

We believe that the management review contains a fair assessment of the development of the Company's activities and financial position, together with a description of the principal risks and uncertainties that the Company can be affected by.

We recommend that the Annual Report be approved at the Annual General Meeting.

Holte, 7th March, 2017

Executive Management

Michel Trudeau CEO	Preben Larsen CFO	Troels Risom CUO

Board of Directors

Serge Lavoie (Chairman)	Robert Thornedahl (Vice Chairman)
Alvin Sharma (Director)	Robert Gordon Victor Purves (Director)

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Michel Trudeau CEO	Preben Larsen CFO	Troels Risom CUO

Board of Directors

Serge Lavoie (Chairman)	Robert Thornedahl (Vice Chairman)
Alvin Sharma (Director)	Robert Gordon Victor Purves (Director)

Independent Auditor's Report

To the shareholders of Qudos Insurance A/S

Our opinion

In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January to 31 December 2016 in accordance with the Danish Financial Business Act.

What we have audited

Qudos Insurance A/S's Financial Statements for the financial year 1 January to 31 December 2016 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including summary of significant accounting policies. Collectively referred to as the "financial statements".

Basis for Opinion

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

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

Independence

We are independent of the Company in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Statement on Management's Review

Management is responsible for Management's Review.

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

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

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Business Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement in Management's Review.

The key figure Solvency ratio

Management is responsible for the key figure Solvency ratio, included in Financial highlights and key ratios on page 15 ref. note 16 of the financial statements.

As disclosed in Financial highlights and key ratios on page 15 ref. note 16 the key figure is exempt from audit requirement. Accordingly, our opinion on the financial statements does not cover the key figure Solvency ratio, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to consider, whether the key figure Solvency ratio is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on this, we conclude that the key figure Solvency ratio is materially misstated, we are required to report that fact. We have nothing to report in this respect.

Management's Responsibility for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Copenhagen, 7 March 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Jesper Edelbo	Kim Schmidt
State Authorised Public Accountant	State Authorised Public Accountant

Income Statement and Statement of Comprehensive Income for the period 1 January 2016 – 31 December 2016

Note		2016	2015
2-3	Gross Premiums	1,257,836	1,548,356
	Insurance premiums ceded	-648,930	-1,105,633
	Change in premium reserve	186,726	-285,857
	Change in profit margin and risk margin	-23,192	-4,163
	Change in reinsurers' share of premium provisions	-88,716	216,299
	Premium income net of reinsurance, total	**683,724**	**369,002**
	Gross claims paid	-649,072	-461,571
	Reinsurance cover received	277,438	307,638
	Change in gross claims provisions	-429,951	-300,548
	Change in risk margin	-5,152	-4,584
	Change in reinsurers' share of claims provisions	271,023	206,433
4	**Costs of claims net of reinsurance, total**	**-535,714**	**-252,632**
	Acquisition costs	-375,986	-491,239
5-6	Administrative expenses	-33,873	-32,614
	Reinsurance commissions and profit participations with reinsurers	166,622	369,462
	Insurance operating costs net of reinsurance, total	**-243,237**	**-154,391**
	INSURANCE TECHNICAL RESULTS	**-95,227**	**-38,021**

Income Statement and Statement of Comprehensive Income for the period 1 January 2016 – 31 December 2016

Note		2016	2015
	Interest income and dividend etc.	14,095	16,368
7	Currency and marketable securities adjustments	-27,142	-6,953
	Interest expenses	-419	-4,257
	Administrative expenses relating to investment activities	-2,976	-2,208
	Return on investments, total	**-16,442**	**2,950**
	Return and value adjustment on technical provisions	**-18,942**	**-14,427**
	TOTAL INVESTMENT RETURN AFTER RETURN AND VALUE ADJUSTMENT ON TECHNICAL PROVISIONS	**-35,384**	**-11,477**
	Other income	**4,438**	**1,752**
	Other expenses	**-1,977**	**-**
	NET PROFIT BEFORE TAX	**-128,150**	**-47,746**
8	Tax	-7,794	6,256
	NET PROFIT FOR THE YEAR	**-135,944**	**-41,490**
	STATEMENT OF COMPREHENSIVE INCOME		
	Net profit for the period	-135,944	-41,490
	Other comprehensive income	-	-
	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-135,944**	**-41,490**

Balance Sheet as at 31 December 2016

Assets

Note		31/12 2016	31/12 2015
9	Software	2,687	1,940
	IMMATERIAL ASSETS, TOTAL	**2,687**	**1,940**
9	Office equipment etc.	263	318
	TANGIBLE ASSETS, TOTAL	**263**	**318**
	Bonds	352,434	549,007
	Other financial investment assets, total	**352,434**	**549,007**
	INVESTMENT ASSETS, TOTAL	**352,434**	**549,007**
	Reinsurers' share of premium provisions	250,145	419,557
	Reinsurers' share of claims provisions	511,724	450,650
	Reinsurers' share of provisions for insurance contracts, total	**761,869**	**870,207**
	Amounts receivable from intermediaries	178,310	370,517
	Amounts receivable in connection with direct insurance contracts, total	**178,310**	**370,517**
	Amounts receivable from insurance companies	**-**	**13,995**
	Amounts receivable from affiliated companies	**2,195**	**87,492**
	Other amounts receivable	**314**	**309**
	AMOUNTS RECEIVABLE, TOTAL	**942,688**	**1,342,520**

Assets (continued)

Note		31/12 2016	31/12 2015
10	Deferred tax assets	0	7,794
	Cash and bank deposits	421,506	73,369
	OTHER ASSETS, TOTAL	**421,506**	**81,163**
	Accrued interest income	1,723	6,016
	Other prepayments	4,022	9,553
	PREPAYMENTS AND ACCRUED INCOME, TOTAL	**5,745**	**15,569**
	TOTAL ASSETS	**1,725,323**	**1,990,517**

Liabilities and Equity

Note		31/12 2016	31/12 2015
	Share Capital	366,263	251,682
	Retained earnings	-199,209	-63,265
11	**EQUITY, TOTAL**	**167,054**	**188,417**
	Premium provisions, gross	451,732	600,778
	Profit margin - Non-life contracts	21,969	-
	Claims provisions, gross	974,285	666,013
	Risk margin - Non-life contracts	24,835	18,460
	TECHNICAL PROVISIONS, TOTAL	**1,472,821**	**1,285,251**
	REINSURANCE DEPOSITS	**-**	**303,720**
	Amounts payable in connection with direct insurance	46,525	82,735
	Amounts payable in connection with reinsurance	20,721	103,390
	Amounts payable to credit institutions	-	-
	Amounts payable to affiliated companies	262	124
	Other payables	17,940	18,722
	LIABILITIES OTHER THAN PROVISIONS, TOTAL	**85,448**	**204,971**
	ACCRUALS AND DEFERRED INCOME	**-**	**8,158**
	LIABILITIES AND EQUITY, TOTAL	**1,725,323**	**1,990,517**

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Statement of changes in equity

2016	Share Capital	Retained earnings	Total
Equity at 1 January 2016 – Restated	251,682	-63,265	188,417
Profit for the year	-	-135,944	-135,944
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	-135,944	-135,944
Increase of the share capital in 2016	114,581	-	114,581
Dividend	-	-	-
Equity at 31 December 2016	**366,263**	**-199,209**	**167,054**

2015	Share Capital	Retained earnings	Total
Equity at 1 January 2015	149,132	-4,879	144,253
Effect from changes in accounting policies	-	-9,713	-9,713
Effect from adjustment of material error	-	-7,183	-7,183
Equity at 1 January 2015 - Restated	149,132	-21,775	127,357
Profit for the year	-	-41,490	-41,490
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	-41,490	-41,490
Increase of the share capital in 2015	102,550	-	102,550
Dividend	-	-	-
Equity at 31 December 2015	**251,682**	**-63,265**	**188,417**

Notes

Note 1 - Going concern

On 7 March 2017, New Nordic Odin Denmark ApS ("New Nordic") purchased all outstanding shares of QIC Holdings ApS ("QICH") held by Echelon Financial Holdings Inc. ("EFH"), thus acquiring controlling ownership interest (99.3%) of QICH. Qudos Insurance A/S ("Qudos") being wholly-owned by QICH, New Nordic effectively acquired control of Qudos from that day.

Under New Nordic's control, Qudos will continue to operate as a going concern company concentrating its efforts towards the achievement of an effective recovery of Qudos operating performance for 2017 onward.

Concurrent with the purchase of EFH shares, New Nordic also injected cash of an additional MDKK 22.5 of contributed common share equity to strengthen Qudos' capital position.

As part of Qudos business recovery plan, the following initiatives undertaken in 2017 by Qudos management will impact the 2017 fiscal year:

- The current expected gross written premium volume for 2017 will be further reduced as relationships with a number of major UK motor agents were terminated in November 2016. In addition a number of agents with limited growth potential have and will be terminated. The impact of this reduced volume will enable the company to improve the balance of its underwriting exposure with its supporting capital resources and reduce its capital financing costs.
- Operating expense savings are expected from taking direct claims management control of a number of terminated motor portfolios and reduced management costs associated with a streamlined number of agents.
- Structural changes to the investment portfolio will also contribute to an improvement of the investment performance.

Impact of the current and future financial condition of the company

Following New Nordic's acquisition and the injection of MDKK 22.5 of capital, Qudos' capital resources will be strengthened so that the Solvency Ratio above will improve. Further, New Nordic has committed to inject additional capital resources in Qudos if required.

Management's assessment of the current financial condition of the company is that most of the major management remedial actions that urgently needed to be addressed have been implemented since the leadership took place in mid-April 2016.

The impact of a significantly reduced volume combined with the expected improvement of its underwriting performance where it gradually starts producing an underwriting income in 2017 will start the process of improving the company's capital position.

By year-end 2017, we expect the Solvency Capital Requirement to have reduced as the technical provisions for policyholders liabilities will start reducing. The reduction will be driven by the company settling its inventory of claims incurred up to 31 December 2016. Although it will add new claims for newly acquired business in 2017, it will be at a much reduced rate given the reduction in volume.

Concurrently with the reduction in the Solvency Capital Requirement, we expect the company's own funds to gradually increase from the net income expected to be generated throughout 2017. We expect the capital adequacy ratio to substantially increase at year-end.

Note 2 – Insurance technical result
(Classes of business)

2016	**Motor**	**Other Direct**	**Health**	**Latent Defects**	**Various**	**Total**
Gross premiums	843,772	132,476	2,362	86,458	192,768	1,257,836
Gross premium income	1,010,606	130,030	8,936	78,526	193,272	1,421,370
Gross claims incurred	-873,272	-53,022	-9,610	-39,083	-109,188	-1,084,175
Gross operating expenses	-216,862	-90,589	-1,255	-29,837	-71,316	-409,859
Net result reinsurance	-17,631	435	10	-3,318	-2,059	-22,563
Technical result	**-97,159**	**-13,146**	**-1,919**	**6,288**	**10,709**	**-95,227**
Number of claims incurred	33,138	17,232	3,296	2,961	10,675	67,302
Average value of claims incurred	26	3	3	13	10	16
Annual frequency of claims	25%	12%	17%	55%	32%	22%

2015 - Restated	**Motor**	**Other Direct**	**Health**	**Latent Defects**	**Various**	**Total**
Gross premiums	1,006,000	197,474	77,949	71,850	195,083	1,548,356
Gross premium income	749,900	208,320	78,158	55,524	166,434	1,258,336
Gross claims incurred	-573,326	-50,186	-38,339	-25,404	-79,448	-766,703
,Gross operating expenses	-255,086	-134,768	-36,998	-23,281	-73,720	-523,853
Net result reinsurance	23,156	-13,736	108	-6,699	-8,630	-5,801
Technical result	**-55,356**	**9,630**	**2,929**	**140**	**4,636**	**-38,021**
Number of claims incurred	9,758	5,201	14,451	1,357	3,103	33,870
Average value of claims incurred	25	2	2	7	7	9
Annual frequency of claims	5%	3%	20%	39%	6%	6%

	2016	2015
Note 3 - Gross premium income - restated		
Gross premiums	1,257,836	1,548,356
Change in gross premium provisions	186,726	-285,857
Change in profit and risk margin	-23,192	-4,163
Gross premium income	**1,421,370**	**1,258,336**
Gross premium income direct business by location of the risk:		
Denmark	143,562	193,290
Other EU countries	1,251,236	1,024,597
Other countries	26,572	40,449
Direct insurance	**1,421,370**	**1,258,336**

Note 4 - Run-off result

Gross business	-162,111	-26,584
Reinsurance ceded	57,096	17,731
Run-off result net of reinsurance	**-105,015**	**-8,853**

Note 5 - Auditor's fee

Fee for the auditors elected by the Annual General Meeting		
PricewaterhouseCoopers:		
Fee for statutory audit of the annual accounts	476	307
Fee for other assurance engagements	488	250
Fee for other advisory services	12	101
Total fee	**976**	**658**

Note 6 - Staff costs	**2016**	**2015**
Total staff costs can be specified as follows:		
Wages and salaries	16,547	13,596
Pensions	1,128	1,063
Other expenses to social security	165	138
Payroll tax	1,532	1,309
Staff costs total	**19,372**	**16,106**
Average number of employees	**17**	**17**

Board of Directors' Fee		
The Board of Directors' fee for the accounting year amounts to tDKK		
Douglas Edgar McIntyre (resigned February 2016)	0	0
Russell John English (resigned 30.8.2016)	0	0
Stephen Michael Dobronyi (resigned 31.07.2016)	0	0
Robert Thornedahl (joined 14.08.2014)	285	180
Robert Gordon Victor Purves (joined 17.11.2014)	0	0
Total fee	**285**	**180**

Executive Managements fee	**2016**	**2015**
The Executive Managements fee for the accounting year amounts to TDKK		
Brian Michael Clausen (salary 2,600 including severance pay, pension 0)	2,600	2,649
Preben Larsen (salary 1,343, pension 269, company car 68)	1,680	1,243
Michel Trudeau (joined 18.04.2016) (salary 1,505, pension 207)	1,712	0
Troels Risom (joined 01.06.2016) (salary 700, pension 95)	795	0
Total fee	**6,787**	**3,892**

The remuneration of the Executive Management and significant risk takers is based upon a fixed basic salary and a pension contribution of 13.5% to 20% hereof and a variable salary element.

No other than the Executive Management has a significant impact on the company's risk profile.

Incentive programs

The Executive Management has been awarded a sale completion bonus in 2017 on condition of a successful sale of QICH's share to New Nordic and that the individual member of the Executive Management is employed at the time of the sale. The sale completion bonus is calculated as 15-20% of the annual base salary.

Note 7 – Currency and marketable securities adjustments	**2016**	**2015**
Unrealized marketable adjustments on bonds	1,855	-8,680
Realized marketable adjustments on bonds	1,311	-3,203
Currency adjustments	-29,931	-7,060
Discounting	-377	-2,130
	-27,142	**-6,953**

Note 8 – Tax on net results

Tax on taxable result of the year:		
Adjustment of deferred tax	0	6,256
	0	**6,256**

Tax on net results can be specified as follows:		
Calculated 22.0% tax on net profit before tax	0	7,017
Adjustment as a consequence of future change in tax rate	0	-761
Impairment of deferred tax asset	-7,794	0
	-7,794	**6,256**
Effective tax rate	**-6.0**	**-13.1%**

	2016	2015
Note 9 – Intangible assets		
Cost at 1 January	3,721	2,664
Additions during the year	1,846	1,057
Cost at 31 December	5,567	3,721
Impairment and depreciation at 1 January	1,781	602
Depreciation for the year	1,099	1,179
Impairment and depreciation at 31 December	2,879	1,781
Net asset value at 31 December	**2,687**	**1,940**
Tangible asets		
Cost at 1 January	438	90
Additions during the year	58	348
Cost at 31 December	496	438
Impairment and depreciation at 1 January	121	46
Depreciation for the year	112	74
Impairment and depreciation at 31 December	233	120
Net asset value at 31 December	**263**	**318**

Note 10 – Deferred tax		
Net income before tax - restated	-128,150	-47,746
Deferred tax	0	6,256
Recognized as:		
Deferred tax assets as at 1 January	7,794	1,538
Deferred tax related to profit/loss for the year	0	6,256
Impairment	-7,794	0
Deferred tax assets as at 31 December	0	7,794

The Company has deferred tax assets relating to the losses in period 2012-2016 amounting to TDKK 43,564. The deferred tax assets beginning of 2016 have been fully written off and the deferred tax assets relating to the loss for the year has not been recognized in the balance sheet.

Note 11 – Equity

From 1 January 2016 new Solvency II rules are effective:

	2016
Equity at 31 December	167,054
Profit margin, Solvency purpose	24,701
Intangible assets	-2,687
Other adjustments	680
Own funds at 31 December	**189,748**

The calculation of Own funds does not include comparisons figures to the solvency ratio and own funds at 31 December 2015 as these numbers were calculated in accordance with then applicable rules.

Share capital

The company's share capital comprises TDKK 366,263 distributed on 36.500 shares with the same class.

Note 12 – Related parties, etc.

Related parties to Qudos Insurance A/S comprise the following:

Controlling interest

QIC Holdings ApS	Principal shareholder

Ownership

The following shareholders are registered in the register of shareholders as owners of at least 5% of the voting rights or at least 5% of the share capital.

QIC Holdings ApS
Kongevejen 371
DK-2840 Holte

The ultimate owner is:

Echelon Financial Holdings Inc.
2680 Matheson Blvd. East,
Suite 300
Mississauga, Ontario, L4W 0A5
Canada

The annual report for Qudos Insurance A/S is included in the consolidated accounts for QIC

Holdings ApS, which in turn is included in the consolidated accounts for the ultimate owner, Echelon Financial Holdings Inc.

Qudos Insurance A/S has also entered into an agreement with the parent company about administrative services. Settlement is carried out on cost recovery basis.

Note 13 – Information on sensitivity

Effect on Equity in DKK '000

Event	**2016**	**2015**
Increase in interest rate of 0.7-1.0%	822	-4,183
Decrease in interest rate of 0.7-1.0%	-968	4,127
Foreign currency risk (VaR 99.0%)	14	-400

Note 14 – Securities

	2016	**2015**
The company has registered the following assets as security for technical provisions:		
Bonds	352,434	549,007
Deposits with credit institutions	416,569	71,260
Accrued interest	2,078	6,016
Reinsurance contracts	726,156	489,817
	1,497,237	1,116,100

Note 15 – Contingent liabilities

The Company and the parent company, QIC Holdings ApS, are jointly liable for A-tax and payroll tax etc. and VAT and company tax chargeable to the jointly registered companies.

The Company has entered into leasing and software contracts with accumulated payments of TDKK 6,010 over the next three year's.

Note 16 – Other note information

In accordance with § 91a in the Danish executive order on Financial Reports for Insurance Companies and Lateral Pension Funds the five-year summary is the last page of Management review, see page no. 15. For further details see "Risk information" page nos. 9-10 in Management review.

Note 17 - Accounting policies

The Annual Report has been prepared in accordance with the executive order on Financial Reports presented by Insurance Companies and Lateral Pension Funds issued by the Danish FSA.

Changes in accounting policies

Accounting policies have been adapted to reflect the changes required under the Danish Executive Order on Financial Statements. The Executive Order has been adapted to the new EU Solvency II rules, which took effect from 1 January 2016.

Solvency II lays down the basic principles for calculation of the technical insurance provisions:

- Best estimate of the present value of expected future cash flows for insurance contracts written and a profit margin as a separate item reflecting the expected profit over the remaining period of written contracts;
- A risk margin to cover the risk of deviation between best estimate and the final execution of future cash flows; and
- An interest rate curve laid down for the Solvency II regime. Qudos uses the interest rate curve without adjustments.

In addition to the changes in the accounting policy changes have been made in the presentation of the income statement and liabilities according to the new Executive Order on Financial Reports.

Comparative figures including the key ratios have been adjusted effective from the 2015 opening balance.

Profit margin

Solvency II incorporates the expected profit in the capital base at the time when the insurance is incurred.

From an accounting standpoint, the expected profit on incurred insurance contracts must be reflected in the balance sheet as a separate item under the technical insurance provisions, and referred to the profit margin. The profit margin is booked over the term of the insurance until all obligations under such insurance contracts have been met.

Profit margin is the expected profit over the remaining period for all written insurance contracts. Profit margin is calculated as the difference between premiums for future periods of all written insurance contracts, and the expected payments included in the unearned premium provisions.

The Company's models for calculation of the premium provisions and profit margin have been established in accordance with the new accounting policies. No profit margin has been recognised in the opening balance 1 January 2015 and 1 January 2016. At 31 December 2016 a profit margin of TDKK 21,969 has been recognised in the balance sheet reflecting the embedded profit in the unearned premium provisions.

Risk Margin

Risk margin is the amount a business will have to pay any acquirer of an insurance portfolio for taking over the risk that the actual expenses in connection with the settlement of insurance provisions deviate from best estimate.

The risk margin is calculated using the Solvency II model Cost of Capital. The factor used is 6%.

The impact on the opening balance 1 January 2015 amounts to TDKK 9,713 and is booked directly on equity. The risk margin amounts to TDKK 18,460 at 31 December 2015.

Change in accounting estimates

Qudos has implemented the changes which prescribe the application of a new yield curve as stipulated in the Executive Order on Financial Reports by Insurance companies issued by the Danish FSA from 1 January 2016. The Executive Order prescribes a change from applying a yield curve issued by the Danish FSA to applying a new yield curve published by EIOPA. The net impact amounts to loss of less than MDKK 1.0 at 31 December 2016.

The Company has previously discounted both premium and claims liabilities using the national discount rates.

Correction of material error

During the year Qudos' Management identified prior year's errors that required restatement of the results for the year ended 31 December 2015 and at 1 January 2015. Due to the materiality, Management has treated the matter as a material error. Consequently, the comparatives for 2015 and the equity 1 January 2015 have been restated in the Financial Statement 2016.

Management determined that the calculation of deferral of original commissions was incorrect. The error has led to a wrong treatment of original commission and an understatement of the unearned premium provisions.

The restatement impacts the comparatives and the opening balance as follows:

- The unearned premium provisions have been increased by TDKK 67,338 and reinsurers' share of premium provisions increased by TDKK 51,018 at 31 December 2015; the net amount of TDKK 16,320 has reduced equity at 31 December 2015.
- Net income for 2015 is TDKK 9,137 lower due to change in premium provisions gross and ceded and historical earned premium currency adjustments.
- The equity 1 January 2015 has been reduced by TDKK 7,183 due to the change in the unearned premium provisions of TDKK 7,183 net of reinsurance.

Accounting estimates and judgements

In the preparation of the accounts for Qudos Insurance A/S, estimates and judgements have been used which affect the size of assets and liabilities and consequently the results in this and subsequent year.

Such estimates and judgements are most material to the following sections of the accounts:

- Provisions for outstanding claims

Provisions for outstanding claims

The provision risk is significant, in particular for lines with a long period of claims settlement.

Over the period of settlement the levels of compensation could be significantly affected by any changes in legislation, case-law or practice in the award of damages adopted.

General

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and where the asset has a value that can be measured reliably. Liabilities are recognised in the balance sheet when the company has a legal or constructive obligation due to a previous event, when it is probable that future economic benefits will flow from the Company and where the value of the liability can be measured reliably. The recognition and measurement take into consideration predictable losses and risks which have occurred prior to the presentation of the Report and which provide evidence of conditions that existed at the balance sheet date.

Income is recognised in the profit and loss account when earned. Similarly, all expenses are recognised which relate to the financial year, including amortisation and impairment.

Insurance Contracts

The Company writes contracts which transfer insurance risk.

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate if a specified uncertain future event adversely affects the policyholder. Insurance risk is always considered to be material in non-life insurance.

Currencies

DKK is the Company's functional currency and the presentation currency of the Report.

The initial recognition of transactions in currencies other than DKK is made at the exchange rates prevailing at the date of the transactions. Debtors, creditors and other monetary items which have not been settled on 31 December are translated at the closing exchange rates on 31 December. Translation differences are disclosed in revaluations in the profit and loss account.

Expenses

Expenses are recognised in the Company's profit and loss account and disclosed classified by function: Claims incurred, claims handling, acquisition and administrative expenses. Expenses which do not directly relate to a function are allocated proportionally on the basis of the size of the direct expenses.

Profit and loss account

Premiums earned

Gross premiums comprise premiums due relating to insurance and contracts.

Premium income, net of reinsurance, is the gross premiums for the year adjusted for movements in unearned premium provisions, profit margin and the part of the risk margin attributable to unearned premium provisions, and less reinsurers' share. Effectively, this means the premiums are being recognised in line with the distribution of risk over the period of cover.

Claims incurred

Claims incurred include claims paid during the insurance year adjusted for movements in claims provisions corresponding to known and anticipated unknown claims relating to the year. Also included is any change in the part of the risk margin attributable to claims provisions.

Amounts to cover expenses for surveying and assessment and other direct or indirect staff administration costs, etc. associated with claims handling are included in the item. In addition, the item includes run-off results regarding previous years.

Operating expenses

Technical operating expenses which relate, either directly or indirectly, to the acquisition and renewal of the portfolios are included in acquisition costs. New business commission is generally recorded in the profit and loss account on the date the insurance takes effect. Administrative expenses comprise other costs incurred in the administration of the portfolios which relate to the financial year and which have been accounted for on an accruals basis. Commissions and overrider received from reinsurers have been accounted for on an accruals basis over the policies' period of cover.

Investment activities

Interest, dividends etc. comprise all interest, dividends etc. earned in the financial year. Realised and unrealised gains and losses on investment assets are included in revaluations, which also includes exchange rate adjustments. Administrative expenses on investment activities comprise the cost of asset management including transaction costs.

Other income and expenses

Other income and expenses include income and expenses which cannot be ascribed to the Company's Insurance portfolio or Investment assets.

Taxation

The tax charge for the year comprises the current corporation tax for the year and any changes in deferred tax. The share of the tax charge that relates to the profit for the year is included in the profit and loss account.

Qudos Insurance A/S is jointly taxed with QIC Holdings ApS. The tax effect of the joint taxation with QIC Holdings ApS is allocated between the companies in proportion to their taxable incomes.

Assets

Intangible assets

Software is measured at cost less depreciation on a straight-line basis and net of any impairment. Depreciation on a straight-line basis is calculated on the basis of the expected useful life, as a principal rule 3 years, and the residual value, which is annually revalued. If there is an indication of impairment, the book value is written down to its recoverable amount.

Tangible assets

Office equipment is measured at cost less depreciation on a straight-line basis and net of any impairment. Depreciation on a straight-line basis is calculated on the basis of the expected useful life, as a principal rule 3 years, and the residual value, which is annually revalued. If there is an indication of impairment, the book value is written down to its recoverable amount.

Financial assets

Financial assets at fair value with any value adjustment taken to the profit and loss account are financial assets which are either included in a trading portfolio, are derivatives or at the time of their first recognition are included in this classification because the assets are managed and measured on a fair value basis.

Measurement of fair value

The calculation at fair value is based on the listed prices of transactions in active markets. If there is an active market for bonds etc., the measuring is generally based on the closing price at the Balance Sheet date. If there is no closing price, another public price is used which is believed to be the most appropriate. Valuation methods or other publicly available information are used to value listed securities where the closing price does not reflect the fair value.

Valuation methods are based, as far as possible, on publicly available market data. If there is no active market for the financial instrument, depending on the nature of the asset or liability, the calculation is based on underlying parameters such as interest and foreign exchange rates, volatility or comparison with the market prices or corresponding instruments.

The settlement date is used as the timing of the recognition of all instruments.

Debtors that are measured at amortised cost

The initial recognition of debtors is made at fair value and subsequent recognitions are made at amortised cost.

Reinsurers' share

Reinsurers' share of provisions for unearned premiums represents the proportion of reinsurance premiums paid which, net of commission received and based on the spread of risk during the period of cover, relate to the period after the end of the financial year.

Reinsurers' share of provisions for outstanding claims has been calculated as the amounts expected to be received from reinsurance companies according to the reinsurance contracts concluded.

Liabilities

Provisions for insurance contracts

The provisions for insurance provisions are discounted based on a yield curve published by EIOPA.

Provisions for unearned premiums

These provisions represent the proportion of premiums collected which, based on the spread of risk during the period of cover, relates to the period after the end of the financial year. The provisions for unearned premiums cover future payments of claims not yet incurred in the remaining period of risk as well as administration costs of the insurance contracts written. Therefore they are calculated per line of business at the present value of these amounts, as a minimum. The sufficiency of the provisions is regularly tested on the basis of the current expectations of future cash flow.

Profit margin

Profit margin is the expected future earnings for the risk periods not yet expired for the insurance contracts which the company have entered into at the end of the year. The profit margin is measured as the present value of the accrued profit on the portfolio of insurance contracts.

Provisions for outstanding claims

Provisions for outstanding claims cover future payments of claims incurred and their administration.

Provisions for outstanding claims are assessed for each line of business either on a claim by claim basis (individual provisions) or by using statistical methods (collective as well as incurred but not reported (IBNR) and incurred but not enough reported (IBNER) provisions). Claims exceeding a fixed amount, dependent on the line of business, are assessed individually and provisions for smaller claims are assessed collectively. IBNR provisions cover expenses on post-notified large claims. IBNER provisions cover individually assessed claims which have been reported but which have been inadequately provided for. The IBNR and IBNER provisions are calculated using in-house developed models.

Inflation is taken into account when calculating the value of the provisions. Future inflation is implicitly included in a number of the statistical models as the average of the actual inflation in the period of record used. Therefore, an expected higher future inflation rate would generally be included in the provisions with a specific time delay.

For most of our contracts it is agreed that the claims handling is carried out by our agents, and for this they are remunerated through their commission.

The provisions for outstanding claims include the amounts that are expected to be included to cover direct and indirect expenses on settlement of the liabilities.

The technical provisions are discounted on the basis of the estimated duration of the provisions and interest rates based on interest rate curves for the different currencies the provisions are denominated in.

The sufficiency of the provisions is regularly tested on the basis of the current expectations of future cash flow.

Risk margin

The risk margin comprises the amount which the company in a hypothetical situation is expected to have to pay to a third party to take over the risk that the realized future costs deviate from the estimated level stated under unearned premium and claims provisions at the end of the accounting period.

The risk margin is measured as the present value of the future cost of capital related to maintaining the solvency capital required for settlement of the company's current liabilities and risks.

The measurement is based on the company's solvency capital requirement and is consistent with the Solvency II principles, as the future solvency capital requirements are calculated by the current solvency capital requirement written down proportionally by the remaining share of the expected cash flow for the unearned premium and claims provisions. The risk margin development tracks the development in the company's solvency capital requirement.

The calculation of the cost of capital is based on the Cost-of-Capital rate of 6% under Solvency II.

Other liabilities

Corporation tax and deferred tax

Current tax liabilities and tax receivable, including joint tax contributions, are included in the balance sheet as calculated tax on taxable income for the year adjusted for tax on previous years' taxable income and prepaid tax on account. Deferred tax on temporary differences between the accounting and tax value of assets and liabilities is charged in accordance with the balance sheet liability method.

Deposits received from reinsurers

Deposits received from reinsurers represent amounts deposited to cover reinsurers' liabilities to the Company.

Creditors

Amounts due to credit institutions and other payables are measured at their amortised cost.

Other matters

Generally all the amounts in the report are disclosed in whole numbers of TDKK. The amounts have been rounded and consequently the sum of the rounded amounts and totals may differ slightly.