**Qudos Insurance A/S**
Købmagergade 22
1150 København K

CVR No.: 33 95 69 67

**Annual Report**
**for the period 1 January 2017 – 31 December 2017**

Chairman of the Annual General Meeting

Date of the Annual Meeting
3/5 2018

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# Company Information

| | |
|---|---|
| **The Company** | Qudos Insurance A/S<br>Købmagergade 22, 3.<br>1150 København K<br><br>Telephone: +45 31 26 55 50<br>E-mail: info@qudosinsurance.dk<br>Web: www.qudosinsurance.dk<br><br>CVR No.: 33 95 69 67<br>Reg. No.: 53112<br>Established: 3 October 2011<br>Registered office: Rudersdal (Copenhagen from February 15th 2018)<br>Financial year: 1 January – 31 December |
| **Board of Directors** | Tage Reinert (Chairman) (Appointed March 2017)<br>Nicolai Borcher Hansen (Vice Chairman) (Appointed March 2017)<br>Anders Martin Hansen (Appointed March 2017)<br>Niels-Ulrik Mousten (Appointed March 2017)<br>Robert Thornedahl (Resigned April 1017)<br>Serge Lavoie (Resigned March 2017)<br>Robert Gordon Victor Purves (Resigned March 2017) |
| **Executive Management** | Robert Thornedahl (CEO) (Appointed September 2017)<br>Michel Trudeau (CEO) (Resigned September 2017)<br>Preben Larsen (CFO) (Resigned April 2017)<br>Troels Risom (CUO) (Resigned October 2017) |
| **Auditor** | PricewaterhouseCoopers<br>Statsautoriseret Revisionspartnerselskab<br>Strandvejen 44<br>DK-2900 Hellerup |
| **Bank** | Nordea |

# Management Review

## Summary of financial year 2017 and outlook for 2018

### Background

Qudos Insurance A/S is a Nordic insurance company based in Copenhagen, Denmark. We offer attractive and simple insurance products for the private market and small to medium sized businesses.

Qudos has partnerships with well reputed strategic partners and is well positioned for future growth.

Our ambition is to be a respected and profitable insurer in the Nordic market. Doing business with Qudos should be easy and trouble-free.

### Summary of 2017

2017 was a year of transition where Qudos has undergone significant changes in order to successfully focus our business. In March 2017, Qudos Insurance A/S was acquired by New Nordic Holding. The underlying vision and idea is for Qudos to serve as the platform for a Nordic insurance strategy. As part of the new focused Nordic strategy a number of agents have been cancelled and thus classified as discontinued business.

The continued business of Qudos realized a profit of 5 m DKK compared to a loss in 2016 of 95 m DKK. The performance improved mainly due to increases in premiums levels, adoption of new pricing, changes to policy terms and conditions and renegotiation of agent commissions, broker fees etc.

The discontinued business incurred a loss of 111 m DKK mainly due to significant under-reserving at year-end 2016 and contractual commitments in relation to cancelled agent business.

Qudos′ overall result for 2017 shows a loss of 90 m DKK after tax compared to a loss of 136 m DKK in 2016.

The result is considered unsatisfactory.

### Premiums

Gross Premiums written have come down with 28% from 1.258 m DKK to 904 m DKK. The development was planned and a natural consequence of terminating agents and binders that were not profitable or in line with the strategic focus going forward.

**Combined ratio**

The combined ratio on continuing business was improved by 8% from 107% in 2016 to 99% in 2017. The improvement in combined ratio is a combination of stringent and continued focus on profitability, performance alignment with agents, cost focus, etc.

**Capital base**

During the year, additional capital of 67 m DKK was paid in to strengthen the capital base of the company.

Overall, the actions taken during 2017 have increased the Solvency ratio of the company from the low point of reported 101% at year-end 2016 to 122% at year-end 2017.

## Continuing the transformation process

The goal of Qudos is to serve the Nordic market with and become a profitable provider of insurance solutions for private and SME customers.

As part of the transformation Qudos has cancelled non-profitable business and as such no longer writes any general motor business in the UK – a business segment that previously was a large part of Qudos' overall business but also the main problem that resulted in losses for Qudos. Also, other non-profitable agents/binders have been cancelled. All in all, Qudos has gone from 31 active binders at the peak in 2016 to now 12.

Further, Qudos has undergone a clean-up process. All insurance programs have undergone a detailed reserve review, and as a consequence many of the related reserves on these programs have been strengthened significantly as they were under-reserved by the end of 2016.

The organization has been strengthened in key areas with the recruitment of Robert Thornedahl as new Managing Director and other key employees. Qudos will continue to strengthen key positions in the company.

In February 2018 Qudos moved to a new headquarter in Købmagergade 22 in central Copenhagen.

## Outlook 2018: Further improving business

Qudos will continue to trim the business in 2018 and will benefit from the strategic partnership between the parent New Nordic Holding and partners in the re-insurance sector who are working closely together on transferring Qudos' run-off business.

As such, the first tranche of gross reserves of approx. 240 m DKK has been agreed upon and is currently awaiting regulatory approval.

As for the financial performance of Qudos in 2018, lower premiums levels are expected, even though new business will start to be written. The declining premium level is due to the discontinued business running completely off in 2018. A further improvement in the technical result for the continued business is expected. The return on investments is expected to be higher in 2018 than in 2017 due to the new asset management agreement with a specialized solvency II-asset manager, New Nordic Capital. Overall Qudos expects to deliver a positive result in 2018.

The main risks related to this outlook are included in the risk section of this annual report.

### Investments and return

Qudos' investment strategy underwent a change in 2017 in order to address the sub-standard historical performance and the large portion of assets in negatively yielding instruments.

New Nordic Capital, an insurance industry focused asset manager specialized in cross-asset investing and managers of fixed-income and alternative assets, took full control of Qudos' investable assets in March 2017 with the aim of optimizing returns, subject to constraints, and moving the book out of negatively yielding assets.

Qudos' investment activities reported an overall result of -1.6 m DKK for 2017, up from -16.4 m DKK in 2016. The encouraging results were driven in large part by the change in asset management where, despite the capital restrictions, a satisfactory return was generated.

### Investable Assets

The portfolio underwent a structural shift with the newly appointed asset manager, New Nordic Capital, at the helm from March 2017, and several fixed income assets posted very strong returns for 2017. A key shift saw approximately 20% of the portfolio move in to sovereign debt qualifying for a capital charge exemption under Solvency II, with a key focus on peripheral sovereigns, such as Portugal and Spain. Exposures to covered bonds made up almost 50% of the investable assets. A portion of the portfolio was re-positioned with an emphasis on Danish Mortgage Backed Securities to gain exposure to assets with a favourable treatment under Solvency II and yield pick-up relative to sovereign alternatives. Strategic allocation was made in high yield assets with the aim of optimizing yield to SCR and risk, as well as equities where exposures were gained through capital efficient derivative exposures. These exposures provided an uplift to the portfolio and helped improve the 2017 return of investable assets, during New Nordic Capital's nine-month tenure, to 1.6%.

**Tax**

Qudos entered into joint taxation with several sister companies with the New Nordic Group in August 2017. Qudos' deferred tax assets primarily consist of taxable loss realized within the joint taxation period. The tax asset recognized in the accounts amounts to 12,5 m DKK at the balance date. This amount equates the tax on profits from profitable sister companies in the coming maximum 4 years and a portion of tax to be received against jointly taxed profits in sister companies in 2017.

**Capital position**

The capital situation of Qudos has improved significantly under the new ownership. As such, the capital solvency Adequacy ratio (SCR ratio) has improved from end of 2016 at a level of 101 % to end 2017 at 122%. The improvements during 2017 are many but primarily driven by:

1. Capital injection in March 2017 of 22,5 m DKK – impacted the SCR ratio positively by expected 10%
2. Increase of reserves during the year 2017 – impacted negatively on the SCR ratio by 36%
3. Capital injection by the end of year 2017 of 44,7 m DKK – impacted the SCR ratio positively by 22%
4. Reduction in business volume - impacted the SCR ratio positively by 10%
5. Actively increased market risk - impacted the SCR ratio negatively by 3-4%
6. Back book transaction and entering in to a portfolio transfer agreement - impacted the solvency ratio by 12%

At year-end, the excess capital (own fund less solvency capital requirement) amounted to 30 m DKK, corresponding to a solvency ratio of 122. The Company uses the standard formula under Solvency II to calculate the Solvency Capital Requirement.

During 2017, Qudos negotiated a portfolio transfer agreement with a specialized reinsurance/run-off company that was signed after the balance sheet date. The securitization agreement resulted in a transfer of a gross run off portfolio of approximately 240 m DKK and net 82 m DKK. The transfer of the portfolio is now awaiting regulatory approval.

Further to this, Qudos is in the process of transferring additional up to 550 m DKK run off portfolios that in relative size will impact the SCR ratio positively by additional 20-30%.

Overall, Management expects that on the basis of these actions and on the continued business performing at the expected level, the SCR ratio by year-end will be at a level of 130-140%.

The ultimate owners of New Nordic group have issued a letter of support to inject additional capital to Qudos if required.

**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.

## Corporate Governance

Qudos Insurance A/S is a registered insurance company domiciled in Copenhagen, Denmark and is carrying out its business under the supervision of the Danish Financial Supervisory Authority, "Finanstilsynet".

Qudos Insurance A/S is subject to risk management requirements of the Danish Financial Business Act and Solvency II, that requires governance measures to be implemented in Qudos Insurance A/S.

Qudos Insurance A/S have implemented such governance measures in a way that:

- reflects the nature, scope and complexity of a company and the risks that a company faces according to the principle of proportionality.

- Implement the key control functions: Risk Management, Actuarial Function, Compliance Function and the Internal Audit Function, having adopted the 3-line of defense system in the corporate management structure

- Ensures the segregation of functions

- has adopted a risk approach to management

- has adopted an approach to securing personal data compliance in the day-to-day as well as in the overall management

**Board of Directors**

Qudos Insurance A/S is governed by a two-tier management system consisting of a Board of Directors and a Management Board. The Board of Directors consists of minimum four members. The Board of Directors evaluates annually its overall qualifications to ensure that all members of the Board of Directors are sufficiently competent and skilled. The Board of Directors is specially focused on qualifications for: management experience, economic experience, insurance experience, accounting experience, finance experience, experience of Mergers and Acquisitions as well as legal and international experience.

The responsibilities and duties of the Board of Directors and the Management Board are defined in the Rules of Procedure for the Board of Directors and an Annual Cycle for the Board of Directors, an instruction and an authorization provided to the Management Board.

The Board has planned its main activities according to the following schedule:

- February: Status;
- May: Risks and Capital;
- August: Policies and Reporting; and
- November: Strategy, Budget and Planning

**Audit Committee**

The Board of Directors has set up an Audit Committee. The Chairman of the committee is a member of the Board of Directors. The tasks of the Committee are set out in the Audit Committee Charter which is based on the Executive Order on Audit Committees in Undertakings and Groups and is subject to supervision by the Danish Financial Supervisory Authority.

The tasks of the committee include monitoring of:

a) the financial reporting processes
b) the internal control system and Risk Management System
c) the statutory audit of the financial statement, and
d) the auditor's independence

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

**The Management Board**

The Management Board is responsible for the day-to-day management of the Company and is responsible to ensure that the daily activities in the Company runs as smoothly as possible. All members are experienced within the general insurance industry and within their respective field of work.

**Remuneration policy**

The Remuneration policy in Qudos is intended to optimize long-term value creation at group level. Qudos Insurance A/S will annually publish information on the remuneration policy and practice for the Board of Directors and the Management Board in accordance with the rules of the Danish Financial Business Act §77 d, paragraphs 2-4 and in the annual report and at Qudos' general meeting. The Board of Directors monitors that the remuneration policy is up to date and complied with. Amendments, if any, will be submitted to the general meetings for adoption. A variable salary is dealt with in accordance with the conditions of section 77 (a-e) of the Danish Financial Business Act.

**Employees training and knowledge**

Qudos aims to ensure that the management of the organization is based on a framework which includes the rooting of common values, a common business understanding and the shared responsibility for creating value. The company aims to be a dynamic company where each employee is committed, seeks influence and assumes responsibility for the organization and execution of his or her duties. In developing our business, it is essential that we are able to attract and retain qualified employees.

**Outsourcing**

The Company outsources the management of its investments to an independent investment manager contracted according to standards and guidelines approved by the Board of Directors. Furthermore the company´s Internal Audit function has been outsourced.

From time to time, the Company also outsources for specific technical support related to its information technology platform, management of its corporate data base and systems related to its financial and planning system. Those arrangements have been structured within the Company's standards and guidelines specific to each service.

**Whistleblower line**

Qudos Insurance A/S has a whistleblower line, which allows employees, customers and business partners to report any serious wrongdoings or suspected irregularities. Reporting takes place - in confidence if so preferred, to the external and independent consultancy company Deloitte.

**Speculation Control**

Speculation Control is carried out in accordance with FIL § 77 by an external and independent consultancy company, Deloitte on behalf of Qudos Insurance A/S.

## Management positions

### *Board of Directors*

Tage Reinert

- QIC Holdings (Chairman of the Board)
- Edlund Ejendomme A/S (Chairman of the Board)
- Innovative Business Software A/S (Director)
- Jet Time A/S (Director)
- K/S Kingwood (Director)
- New Nordic FinCo Holding A/S (Director)

Nicolai Borcher Hansen

- QIC Holdings ApS (Vice Chairman)
- Blue Energy A/S (Vice Chairman)
- AROS Private Equity I A/S (Director)
- New Nordic Odin Denmark (CEO)
- AROS Affordable Homes A/S (Director)
- New Nordic FinCo Holding A/S (Executive Management)

Niels-Ulrik Mousten

- PFA Holding A/S, PFA Pension Forsikringsaktieselskab (Deputy chairman) and PFA Fonden (Director)
- QIC Holdings ApS (Director)
- Wide Invest ApS (Director)
- NOVARO ApS (Chairman of the board)
- CABA Capital A/S (Chairman of the board)
- Investment Management Distribution ApS (Chairman of the board)
- FinPro ApS (Chairman of the board)
- New Nordic FinCo Holding A/S (Deputy chairman)
- Aeolus Offshore Wind Company UG, Tyskland (Director)
- Investeringsforeningen Nykredit Invest, Investeringsforeningen Nykredit Invest Engros, Kapitalforeningen Nykredit Invest and Placeringsforeningen Nykredit Invest (Chairman of the board)
- Netsuom ApS (Executive management)

Anders Martin Hansen

- New Nordic FinCo Holding A/S (Chairman)
- QIC Holdings (Director)
- Portefølje Management ApS (Executive Management)

### *Executive Management*

Robert Thornedahl

- QIC Holdings (CEO)
- Qudos Insurance A/S (CEO)
- Sorana A/S (Director)
- Fagus A/S (Director)

# 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 2017 – 31 December 2017.

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 2017 and of the results of its operations for the financial year from 1 January 2017 – 31 December 2017.

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.

Copenhagen, 3rd May, 2018

**Executive Management**

Robert Thornedahl
CEO

**Board of Directors**

| | |
|---|---|
| Tage Reinert<br>(Chairman) | Nicolai Borcher Hansen<br>(Vice Chairman) |
| Niels-Ulrik Mousten<br>(Director) | Anders Martin Hansen<br>(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 2017 and of the results of the Company's operations for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our Auditor's Long-form Report to the Board of Directors.

### *What we have audited*

Qudos Insurance A/S's financial statements for the financial year 1 January to 31 December 2017 comprise the income statement and statement of comprehensive income, the balance sheet, the statement of changes in equity and the notes, including summary of accounting policies ("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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

### *Appointment*

We were first appointed auditors of Qudos Insurance A/S on 6 October 2011 for the financial year ending 31 December 2012. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 6 years including the financial year 2017.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2017. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| *Measurement of provisions for insurance contracts*<br>The Company's provisions for insurance contracts amount to a total of DKK 1,284 million, which represents 85% of the Total of liabilities and equity.<br>Premium provisions amount to DKK 331 million, claims provisions amount to DKK 911 million, profit margin amounts to DKK 24 million and risk margin amounts to DKK 18 million.<br>Premium provisions are recognised as future payments, including payments for administration and claims handling, regarding unexpired risk | We reviewed and assessed the business processes and relevant internal controls implemented by the Company regarding premiums and claims processing and provisioning.<br>We assessed and challenged the models, methods and assumptions used based on our experience in order to evaluate whether these are in line with regulatory and accounting requirements. This included an assessment of the continuity in the basis for the calculation of provisions for insurance contracts. |

| | |
|---|---|
| periods for in-force policies.<br>Claims provisions are calculated as the present value of the payments, which the Company is expected to be liable to pay in connection with insurance events that have taken place on or before the balance sheet date exceeding amounts already paid in connection with these events. In addition, direct and indirect costs are included in connection with the settlement of claims.<br>We focused on the measurement of premium and claims provisions because these are significant for the Financial Statements and are based on accounting estimates and actuarial methods that include assumptions about future events.<br>Reference is made to the Financial Statements note 22 "Accounting Policies" section "Significant accounting estimates and assessments". | We used our own actuaries to assess the actuarial methods and models applied by the Company. We considered the assumptions applied and the calculations made, including the assumptions relating to the timing and magnitude of future payments. We tested the accuracy and completeness of the data used in the actuary calculations.<br>For premium provisions we tested the calculation, including the assumptions applied and calculation of amounts provided in respect of unexpired risk included in premium provisions.<br>For claims provisions we tested the calculation, including the assumptions applied and actuarial estimates, analysis of run-off results, triangles and the data used to underlying documentation. |

## 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 in note 3 of the Financial Statements.

As disclosed in Financial highlights and Key Ratios in note 3 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 responsibilities 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 judgement 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 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 3 May 2018
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Jesper Edelbo

Jesper Edelbo
State Authorised Public Accountant
mne10901

## Income Statement and Statement of Comprehensive Income for the period 1 January 2017 – 31 December 2017

| Note | | 2017 | 2016 |
|---|---|---|---|
| 2-5 | Gross Premiums | 904.126 | 1.257.836 |
| | Insurance premiums ceded | -341.599 | -648.930 |
| | Change in gross premium provisions | 119.393 | 186.726 |
| | Change in profit margin and risk margin | 842 | -23.192 |
| | Change in reinsurers' share of premium provisions | -106.016 | -88.716 |
| | **Premium income net of reinsurance, total** | **576.746** | **683.724** |
| 6 | **Insurance technical interest** | **290** | **-** |
| | Gross claims paid | -753.306 | -649.072 |
| | Reinsurance cover received | 318.018 | 277.438 |
| | Change in gross claims provisions | 32.157 | -429.951 |
| | Change in risk margin | 3.644 | -5.152 |
| | Change in reinsurers' share of claims provisions | -8.144 | 271.023 |
| 7 | **Costs of claims net of reinsurance, total** | **-407.631** | **-535.714** |
| | Acquisition costs | -366.366 | -375.986 |
| 8-9 | Administrative expenses | -62.756 | -33.873 |
| | Reinsurance commissions and profit participations with reinsurers | 154.269 | 166.622 |
| | **Insurance operating costs net of reinsurance, total** | **-274.853** | **-243.237** |
| | **INSURANCE TECHNICAL RESULTS** | **-105.448** | **-95.227** |

# Income Statement and Statement of Comprehensive Income for the period 1 January 2017 – 31 December 2017

| Note | | 2017 | 2016 |
|---|---|---|---|
| | Interest income and dividend etc. | 5.839 | 14.095 |
| 10 | Currency and marketable securities adjustments | -3.687 | -27.142 |
| | Interest expenses | -794 | -419 |
| | Administrative expenses relating to investment activities | -2.958 | -2.976 |
| | **Return on investments, total** | **-1.600** | **-16.442** |
| | **Return and value adjustment on technical provisions** | **-2.372** | **-18.942** |
| | **TOTAL INVESTMENT RETURN AFTER RETURN AND VALUE ADJUSTMENT ON TECHNICAL PROVISIONS** | **-3.971** | **-35.384** |
| | Other income | 3.434 | 4.438 |
| | Other expenses | -1.928 | -1.977 |
| | **NET PROFIT BEFORE TAX** | **-107.913** | **-128.150** |
| 11 | Tax | 18.106 | -7.794 |
| | **NET PROFIT FOR THE YEAR** | **-89.807** | **-135.944** |
| | **STATEMENT OF COMPREHENSIVE INCOME** | | |
| | Net profit for the period | -89.807 | -135.944 |
| | Other comprehensive income | - | - |
| | **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **-89.807** | **-135.944** |

# Balance Sheet as at 31 December 2017

## Assets

| Note | | 2017 | 2016 |
|---|---|---|---|
| 12 | Software | 2.516 | 2.687 |
| | **IMMATERIAL ASSETS, TOTAL** | **2.516** | **2.687** |
| 12 | Office equipment etc. | 1.804 | 263 |
| | **TANGIBLE ASSETS, TOTAL** | **1.804** | **263** |
| | Investment funds | 67.067 | - |
| 13 | Bonds | 197.501 | 352.434 |
| | **Other financial investment assets, total** | **264.568** | **352.434** |
| | **INVESTMENT ASSETS, TOTAL** | **264.568** | **352.434** |
| | Reinsurers' share of premium provisions | 145.018 | 250.145 |
| | Reinsurers' share of claims provisions | 493.524 | 511.724 |
| | **Reinsurers' share of provisions for insurance contracts, total** | **638.542** | **761.869** |
| | Amounts receivable from intermediaries | 121.407 | 178.310 |
| | **Amounts receivable in connection with direct insurance contracts, total** | **121.407** | **178.310** |
| | Amounts receivable from insurance companies | 112.992 | - |
| | Amounts receivable from affiliated companies | 2.507 | 2.195 |
| | Other amounts receivable | 4.164 | 314 |
| | **AMOUNTS RECEIVABLE, TOTAL** | **879.611** | **942.688** |

# Assets (continued)

| Note | | 2017 | 2016 |
|---|---|---|---|
| 14 | Assets held temporarily | 104.226 | - |
| 15 | Deferred tax assets | 12.500 | - |
| | Cash and bank deposits | 214.118 | 421.506 |
| | **OTHER ASSETS, TOTAL** | **330.844** | **421.506** |
| | Accrued interest income | 1.766 | 1.723 |
| | Other prepayments | 21.817 | 4.022 |
| | **PREPAYMENTS AND ACCRUED INCOME, TOTAL** | **23.583** | **5.745** |
| | **TOTAL ASSETS** | **1.502.926** | **1.725.323** |

## Liabilities and Equity

| Note | | 2017 | 2016 |
|---|---|---|---|
| | Share Capital | 433.433 | 366.263 |
| | Retained earnings | -289.017 | -199.209 |
| 16 | **EQUITY, TOTAL** | **144.416** | **167.054** |
| | Premium provisions, gross | 331.325 | 451.732 |
| | Profit margin - Non-life contracts | 24.087 | 21.969 |
| | Claims provisions, gross | 910.771 | 974.285 |
| | Risk margin - Non-life contracts | 18.229 | 24.835 |
| | **TECHNICAL PROVISIONS, TOTAL** | **1.284.413** | **1.472.821** |
| | Amounts payable in connection with direct insurance | 39.775 | 46.525 |
| | Amounts payable in connection with reinsurance | - | 20.721 |
| | Amounts payable to affiliated companies | - | 262 |
| | Other payables | 34.323 | 17.940 |
| | **LIABILITIES OTHER THAN PROVISIONS, TOTAL** | **74.097** | **85.448** |
| | **LIABILITIES AND EQUITY, TOTAL** | **1.502.926** | **1.725.323** |

**Other notes:**
1 Going Concern
17 Related parties etc.
18 Information on sensitivity
19 Securities
20 Contingent liabilities
21 Risk information
22 Accounting policies

# Statement of changes in equity

| 2017 | Share Capital | Retained earnings | Total |
|---|---|---|---|
| Equity at January 1st 2017 | 366.263 | -199.209 | 167.054 |
| Profit for the year | - | -89.807 | -89.807 |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | -89.807 | -89.807 |
| Increase of the share capital in 2017 | 67.170 | - | 67.170 |
| Dividend | - | - | - |
| **Equity at 31 December 2017** | **433.433** | **-289.017** | **144.416** |

| 2016 | Share Capital | Retained earnings | Total |
|---|---|---|---|
| Equity at January 1st 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** |

# Notes

**Note 1 – Going Concern**

Since New Nordic gained control, Qudos has continued to operate as a going concern, concentrating its efforts towards achievement of an effective recovery of Qudos operating performance. The capital situation of Qudos at end of 2017 has improved from end of 2016 under the new ownership.

The improvements during 2017 are many but primarily driven by capital injections in March and December 2017 of m DKK 22.5 and m DKK 45 respectively, reduction in business volume and an agreement of back book portfolio transfer.

Increase of reserves, including the run-off losses, during 2017, and actively increased market risk impacted the capital situation negatively.

The back book transaction relates to a portfolio transfer agreement negotiated in 2017 and signed after the balance sheet date. The agreement resulted in a transfer of a gross run off portfolio of approximately 240 m DKK and net 82 m DKK. The transfer of the portfolio is awaiting regulatory approval.

Qudos forecasted loss on a few number of agents that was cancelled in 2017 but continues to write business in the first months of 2018 before ceasing their activity finally. This together with an increase in market risks has short term impacted the solvency level in 2018. As part of the efforts in 2018 towards recovery Qudos is continuing the process of transferring additional run off portfolios. In combination with the business performing at the targeted level in 2018 this will have a significant positive impact on the capital situation. The capital situation continues to be closely monitored by management, and further capital measures will be implemented as required. The ultimate owners of New Nordic group have issued a letter of support to inject additional capital to Qudos if required. On this basis management has prepared the financial statements using the going concern assumption.

The expectation for the capital situation going forward and the company's financial situation is influenced by the risk inherent in the business model and hence could be impacted negatively, particularly if run-off losses occur. The company's insurance liabilities are based on best estimate and actuarial assumptions. Management believes that the reserves are adequate and sufficient. In note 21 "Risk information" and in note 22 "Accounting policies" in the section "Significant accounting estimates and assessments" detailed descriptions are provided on assumptions and uncertainties underlying the business.

**Note 2 - Result of Continued and Ceased Activities 2017**

| | Continued | Ceased | Total |
|---|---|---|---|
| Gross Premiums | 738.612 | 165.514 | 904.126 |
| Insurance premiums ceded | -300.925 | -40.674 | -341.599 |
| Change in premium reserve | -16.193 | 135.586 | 119.393 |
| Change in profit margin and risk margin | 842 | - | 842 |
| Change in reinsurers' share of premium provisions | -18.351 | -87.665 | -106.016 |
| **Premium income net of reinsurance, total** | **403.986** | **172.761** | **576.746** |
| | | | - |
| **Insurance technical interest** | **52** | **237** | **290** |
| | | | - |
| Gross claims paid | -342.159 | -411.147 | -753.306 |
| Reinsurance cover received | 140.438 | 177.580 | 318.018 |
| Change in gross claims provisions | -4.724 | 36.881 | 32.157 |
| Change in risk margin | 3.644 | - | 3.644 |
| Change in reinsurers' share of claims provisions | 10.344 | -18.488 | -8.144 |
| **Costs of claims net of reinsurance, total** | **-192.457** | **-215.174** | **-407.631** |
| | | | - |
| Acquisition costs | -313.061 | -53.305 | -366.366 |
| Administrative expenses | -38.443 | -24.313 | -62.756 |
| Reinsurance commissions and profit participations with reinsurers | 145.100 | 9.169 | 154.269 |
| **Insurance operating costs net of reinsurance, total** | **-206.404** | **-68.449** | **-274.853** |
| **INSURANCE TECHNICAL RESULT** | **5.177** | **-110.625** | **-105.448** |

Continued business is business written by MGAs under an active and ongoing Binder. Ceased business is written under terminated Binders or programs in run off. Administrative costs are allocated to activities according to their share of technical provisions.

**Note 3 – Financial highlights and Key Ratios**

| DKK '000 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Gross premium income | 1.024.362 | 1.421.370 | 1.258.336 | 782.383 | 348.264 |
| Gross claims incurred | -717.505 | -1.084.175 | -766.703 | -507.641 | -201.453 |
| Total insurance operating costs | -429.122 | -409.859 | -523.853 | -265.727 | -120.599 |
| Result of ceded business | 16.528 | -22.563 | -5.801 | -16.114 | -26.603 |
| Insurance technical result | -105.448 | -95.227 | -38.021 | -6.836 | -207 |
| Return on investments | -3.971 | -35.384 | -11.477 | 13.162 | 336 |
| Net profit for the year | -89.807 | -135.944 | -41.490 | 5.789 | 2 |
| Run-off result, net of reinsurance | -75.720 | -105.015 | -8.853 | -6.912 | -486 |
| Total insurance technical provisions | 1.284.413 | 1.472.821 | 1.285.251 | 607.071 | 293.474 |
| Total insurance assets | 864.527 | 761.869 | 870.207 | 410.505 | 197.809 |
| Total equity | 144.416 | 167.054 | 188.417 | 144.253 | 73.540 |
| Total assets | 1.502.926 | 1.725.323 | 1.990.517 | 1.036.256 | 537.143 |
| **Key ratios:** | | | | | |
| Gross claims ratio | 70,0% | 76,3% | 61,0% | 64,9% | 57,8% |
| Gross expense ratio | 41,9% | 28,8% | 41,6% | 33,9% | 34,6% |
| Reinsurance ratio | -1,6% | 1,6% | 0,5% | 2,1% | 7,7% |
| Combined ratio | 110,3% | 106,7% | 103,1% | 100,9% | 100,1% |
| Operating ratio | 110,3% | 106,7% | 103,1% | 100,9% | 100,0% |
| Relative run-off result | -13,4% | -22,7% | -4,1% | -16,8% | -5,2% |
| Return on equity after tax | -57,7% | -76,5% | -24,9% | 5,3% | 0,0% |
| Solvency ratio* | 1,22 | 1,00 | 1,62 | 1,75 | 0,91 |

*) Solvency I ratios in 2012-2015 are ratios between base capital and Solvency I requirement. Solvency II ratios in 2016-2017 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 executive order on Financial Reports presented by Insurance Companies and Lateral Pension Funds.

**Note 4 – Insurance technical result**
**(Classes of business)**

| **2017** | **Motor** | **Other Direct** | **Health** | **Latent Defects** | **Various** | **Total** |
|---|---|---|---|---|---|---|
| Gross Premiums | 295.945 | 331.367 | 61.172 | 177.326 | 38.315 | 904.126 |
| Gross Premiums Income | 512.669 | 277.783 | 57.126 | 139.728 | 37.056 | 1.024.362 |
| Gross claims incurred | -491.436 | -75.755 | -58.627 | -64.074 | -27.611 | -717.505 |
| Gross operating expenses | -120.583 | -209.409 | -21.035 | -65.774 | -12.321 | -429.122 |
| Net result, reinsurance | 13.303 | 10.159 | 1.625 | -6.208 | -2.350 | 16.528 |
| Insurance Technical Interest | -32 | 96 | 55 | 187 | -16 | 290 |
| Technical result | -86.081 | 2.874 | -20.857 | 3.859 | -5.242 | -105.448 |
| Number of claims incurred | 22.136 | 18.166 | 4.076 | 6.858 | 1.790 | 53.026 |
| Average value of claims incurred | 22 | 4 | 14 | 9 | 15 | 14 |
| Annual frequency of claims | 10% | 37% | 91% | 43% | 9% | 17% |

| **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 Premiums 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% | 20% |

| | 2017 | 2016 |
|---|---|---|
| **Note 5 - Gross premium income** | | |
| Gross premiums | 904.126 | 1.257.836 |
| Change in gross premium provisions | 119.393 | 186.726 |
| Change in profit and risk margin | 842 | -23.192 |
| **Gross premium income** | **1.024.362** | **1.421.370** |
| | | |
| Gross premium income direct business by location of the risk: | | |
| Denmark | 198.298 | 143.562 |
| Other EU countries | 794.452 | 1.251.236 |
| Other countries | 31.611 | 26.572 |
| **Direct insurance** | **1.024.362** | **1.421.370** |

| **Note 6 - Insurance technical interest** | **2017** | **2016** |
|---|---|---|
| Calculated interest | 397 | - |
| Reinsurance | 107 | - |
| **Insurance technical interest, net of reinsurance** | **290** | **-** |

| **Note 7 - Run-off result** | **2017** | **2016** |
|---|---|---|
| Gross business | -130.551 | -162.111 |
| Reinsurance ceded | 54.831 | 57.096 |
| **Run-off result net of reinsurance** | **-75.720** | **-105.015** |

**Note 8 - Auditor's fee**

| Fee for the auditors elected by the Annual General Meeting PricewaterhouseCoopers: | **2017** | **2016** |
|---|---|---|
| Fee for statutory audit of the annual accounts | 469 | 476 |
| Fee for other assurance engagements | 41 | 488 |
| Fee for tax and VAT advisory services | 26 | - |
| Fee for other advisory services | 70 | 12 |
| **Total fee** | **606** | **976** |

| **Note 9 - Staff costs** | **2017** | **2016** |
|---|---|---|
| *Total staff costs can be specified as follows:* | | |
| Wages and salaries | 20.654 | 16.547 |
| Pensions | 1.843 | 1.128 |
| Other expenses to social security | 117 | 165 |
| Payroll tax | 2.303 | 1.532 |
| **Staff costs total** | **24.917** | **19.372** |
| | | |
| **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) | - | - |
| Russell John English (resigned 30.8.2016) | - | - |
| Stephen Michael Dobronyi (resigned 31.07.2016) | - | - |
| Robert Thornedahl (resigned 30.04.2017) | 120 | 285 |
| Robert Gordon Victor Purves (resigned 28.02.2017) | - | - |
| Nicolai Borcher Hansen (joined 07.03.2017) | 150 | - |
| Niels-Ulrik Mousten (joined 07.03.2017) | 100 | - |
| Tage Reinert (joined 07.03.2017) | 175 | - |
| Anders M. Hansen (joined 07.03.2017) | 104 | - |
| **Total fee** | **649** | **285** |

| **Executive Managements fee** | **2017** | **2016** |
|---|---|---|
| The Executive Managements fee for the accounting year amounts to TDKK | | |
| Brian Michael Clausen (resigned 30.04.2016) | - | 2.600 |
| Preben Larsen (resigned 28.04.2017) (salary 1636, pension 364, variable 204; including severance) | 2.204 | 1.680 |
| Michel Trudeau (resigned 31.10.2017) (salary 1.330, pension 0, variable 718; including severance) | 2.048 | 1.712 |
| Troels Risom (resigned 31.10.2017) (salary 1735, pension 233, variable 180; including severance) | 2.148 | 795 |
| Robert Thornedahl (joined 01.05.2017) (salary 1.244, pension 146) | 1.390 | - |
| **Total fee** | **7.790** | **6.787** |

The remuneration of the Executive Management and significant risk takers is based upon a fixed basic salary and a pension contribution of 13.5% 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 previous Executive Management were 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 were employed at the time of the sale. The sale completion bonus was calculated as 15-20% of the annual base salary.

| **Note 10 – Currency and marketable securities adjustments** | **2017** | **2016** |
|---|---|---|
| Unrealized marketable adjustments on bonds | 2.465 | 1.855 |
| Realized marketable adjustments on bonds | -1.608 | 1.311 |
| Currency adjustments | -4.544 | -29.931 |
| Discounting | - | -377 |
| | **-3.687** | **-27.142** |

**Note 11 – Tax on net results**

| *Tax on taxable result of the year:* | **2017** | **2016** |
|---|---|---|
| Adjustment of deferred tax | 18.106 | - |
| | **18.106** | **-** |

*Tax on net results can be specified as follows:*

| | | |
|---|---|---|
| Calculated 22.0% tax on net profit before tax | 23.741 | - |
| Impairment | -5.635 | -7.794 |
| | **18.106** | **-7.794** |
| **Effective tax rate** | **16,8%** | **-6,2%** |

| **Note 12 – Intangible assets** | **2017** | **2016** |
|---|---|---|
| Cost at 1 January | 5.567 | 3.721 |
| Additions during the year | 16.206 | 1.846 |
| Cost at 31 December | **21.773** | **5.567** |
| | | |
| Impairment and depreciation at 1 January | 2.880 | 1.781 |
| Impairment for the year | 12.927 | 0 |
| Depreciation for the year | 3.450 | 1.099 |
| Impairment and depreciation at 31 December | **19.257** | **2.880** |
| | | |
| **Net asset value at 31 December** | **2.516** | **2.687** |
| | | |
| **Tangible assets** | | |
| Cost at 1 January | 496 | 438 |
| Additions during the year | 1.841 | 58 |
| Cost at 31 December | **2.337** | **496** |
| | | |
| Impairment and depreciation at 1 January | 233 | 121 |
| Depreciation for the year | 300 | 112 |
| Impairment and depreciation at 31 December | **533** | **233** |
| | | |
| **Net asset value at 31 December** | **1.804** | **263** |

Fixed assets depreciated over a 3 years period, but there are exceptions with a 5-year depreciation.

| **Note 13 - Assets for Sale** | **2017** | **2016** |
|---|---|---|
| Bonds | -24.971 | - |
| Reinsurers' share of premium provisions | -595 | - |
| Reinsurers' share of claims provisions | -11.405 | - |
| Premium provisions, gross | 7.450 | - |
| Claims provisions, gross | 29.521 | - |
| **Assets For Sale** | **-** | **-** |

The technical provisions from Greek MGA Qudos Hellas will be sold for a equivalent amount of investment assets, pending approval from Greek Financial Service Authority.

**Note 14 – Assets held temporarily**

Qudos Insurance entered into an agreement to purchase non-listed shares prior to end December 2017. This agreement was conditioned upon several key elements and conditions being delivered and met. After the balance sheet date, it became clear that these conditions would not be met. As such, these shares were disposed of after the balance sheet date and exchanged to other assets at the same value as the purchase price.

| | 2017 | 2016 |
|---|---|---|
| **Note 15 – Deferred tax** | | |
| Net income before tax | -107.913 | -128.150 |
| Deferred tax | 12.500 | - |
| | | |
| Recognized as: | | |
| Deferred tax assets as at 1 January | - | 7.794 |
| Deferred tax related to profit/loss for the year | 18.106 | - |
| Actual tax – contribution from joint taxed companies | -5.606 | - |
| **Deferred tax assets as at 31 December** | **12.500** | - |

Qudos deferred tax assets consist of taxable loss carried forward within the joint taxation with its sister companies.

The basis for revaluing the deferred tax assets are:

- Qudos is jointly taxed with profit making sister companies from 24 August 2017.
- The taxable loss is recognized within the period of joint taxation
- Qudos' sister companies expect to utilize the tax loss carried forward within the joint taxation
- Qudos' sister companies realized a taxable profit in 2017 and has a history of positive income. An amount of 5 million DKK at tax value is expected to be utilized for 2017
- The basis for sister companies' utilization are based on annual budgeted taxable profits of approximately 10-15 million DKK per year, resulting in utilization of taxable losses under the joint taxation within a period of less than 4 years relating to the remainder of 7.5 million DKK.

Qudos Insurance is also budgeted to create profit from 2018 and ongoing.

Qudos' tax losses can be carried forward indefinitely and will not expire. Tax losses incurred for the period before 24 August 2017 amount to xx million DKK at tax value. None of these losses have been considered in the deferred tax asset.

**Note 16 – Equity**

The company's share capital comprises DKK 433.433.300,00 distributed on 43.433.000 shares with the same class.

| | **2017** | **2016** |
|---|---|---|
| Equity at 31 December | 144.416 | 167.054 |
| Profit margin, Solvency purpose | 24.087 | 24.701 |
| Intangible assets | -2.516 | -2.687 |
| Other adjustments | 60 | 680 |
| **Own funds at 31 December** | 166.047 | 189.748 |

**Note 17 – 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:

New Nordic Holding Ltd.
Lefebvre Street
St Peter Port
Guernsey
GY 2 JP

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

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

**Note 18 – Information on sensitivity**
**Effect on Equity in DKK '000**

| Event | 2017 | 2016 |
|---|---|---|
| Increase in interest rate of 0.7-1.0% | -4.129 | 822 |
| Decrease in interest rate of 0.7-1.0% | 1.252 | -968 |
| Foreign currency risk (VaR 99.0%) | -237 | 14 |
| Loss on counterparties risk, 8% | -23.328 | - |

**Note 19 – Securities**

| | 2017 | 2016 |
|---|---|---|
| The company has registered the following assets as security for technical provisions: | | |
| Bonds | 197.501 | 352.434 |
| Assets held temporarily | 104.226 | - |
| Investment funds | 67.067 | - |
| Assets for Sale (bonds) | 24.971 | - |
| Deposits with credit institutions | 203.008 | 416.569 |
| Accrued interest | 1.766 | 2.078 |
| Reinsurance contracts | 751.534 | 726.156 |
| Reinsurance assets for sale | 12.000 | - |
| | 1.362.073 | 1.497.237 |

**Note 20 – 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 6,250 over the next years.

## Note 21 – Risk Information

The objective of the risk management is to ensure that the risks measured and accounted for reflects and influence the business strategy, the risk profile, the operations and the capital resources of Qudos Insurance A/S.

At least once annually, the Board of Directors specify and approves the policy, the guidelines and the reporting requirements governing the risk management system of Qudos Insurance A/S. The Board of Directors also assess the risks and evaluate whether the risks are acceptable on an on-going basis as well as part of the Own Risk and Solvency Assessment, "ORSA"-process which takes place at least annually or in the event of a major change. A major change is defined as a change that will impact the SCR by more than 10% and/or the SCR-ratio by more than 5%.

### Risk appetite

The Board of Directors determines the maximum risks the Company may undertake within the respective areas, such as the Company's policies and acceptable risk levels in the form of net exposure per risk and per event, for underwriting, reinsurance, investments, etc. as well as the established guidelines and contingency plans within IT and counterparty risks.

The company's management and minimizing of business risks is divided into the following general categories:

- Insurance Risk
- Asset-Liability Risk
- Investment Risk incl. Market Risks
- Liquidity Risk
- Credit Risk
- Concentration Risk
- Operational Risk
- Strategic Risk
- Group Risk and other Risk

### Capital Management

The Capital Management is based on achieving the objectives of securing a solid capital position and to generate a return on the invested capital.

Qudos Insurance A/S is regulated by the Solvency II regime. The capital base is monthly measured against the capital requirement calculated on the basis of the standard formula. At least annually the Board of Directors specify and approves the Capital policy and a Contingency Capital Plan.

**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 type analyses, which are incorporated in pricing. To limit the risk the company has established necessary and relevant procedures for all major business processes and implements follow-ups and control hereof. The financial statement is influenced by estimates that affect assets, debt and the result for the period and future periods. The estimates are most important for premium and claims provisions. 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. In order to have sufficient protection against natural disaster risks, this exposure is measured constantly.

**Asset-Liability Risk**

Asset-Liability Risk is the risk of a duration mismatch between assets and liability. In Qudos Insurance A/S assets and liabilities are matched to minimize risk and there are no interrelated dependencies between asset and liability classes or between insurance and reinsurance obligations. All assets are valued at fair market value where the estimation of the fair market value is derived from widely accepted closing values on recognized trading markets or have been estimated using standards and procedures consistent with international financial reporting standards established by the International Accounting and Standard Board. This is monitored on a monthly basis.

**Investment Risk including Market risk**

Market risk represents the risk of losses due to changes in the market value of the company's assets and liabilities, as a result of changes in market conditions. Market risk includes, among other elements, changes in interest rates, equities and currencies.

At least annually the Board of Directors specify and approves the Investment Policy. The status and the development in the investment portfolio is monitored and reported to the Board of Directors and the Management on a monthly basis.

**Liquidity risk**

Liquidity risk is the risk of a duration mismatch between cash in and out flows. The assets of Qudos Insurance A/S are either highly liquid or with a cash flow corresponding to liabilities becoming due. This is monitored on a monthly basis.

**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 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 bonds and shares with high credit ratings, which is also the case for deposits with credit institutions.

**Concentration Risk**

Measures have been implemented to identify sources of concentration risk and to limit concentration within established limits. The risk is mitigated in accordance with the guiding mix on risk concentration in the Standard model of the Solvency II regime.

**Operational risk**

Operational risk is the risk of incurring a loss due to insufficient or faulty procedures or human or systematic errors. Operational risk includes the risk of breakdowns in the IT systems. In practice, this work is organized through a structure of policies, procedures and guidelines that cover the various aspects of the company's operations. For all main areas, there are established policies and procedures documenting processes, controls and reconciliation processes performed locally and from a central position. This management framework is frequently controlled and changed where necessary.

**Group Risk and other risk**

Outsourced activities provided by a group related company is supervised in the same manner as if the activity was outsourced to a third party.

**Note 22 - 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.

Accounting policies are unchanged compared with last year. Amounts included in the Annual Report are in DKK '000.

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.

*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 transaction date. Debtors, creditors and other monetary items which have not been settled on balance date are valued at the closing exchange rates on December 31th. 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.

**Significant accounting estimates and assessments**

The preparation of financial statements requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

- Liabilities under insurance contracts
- Fair value of financial assets and liabilities
- Deferred tax assets

**Liabilities under insurance contracts**

Estimates of provisions for insurance contracts represent the most critical accounting estimates, as makes claims provisions, in addition to provisions for known claims, which cover estimated compensation for losses that has incurred, but are not yet reported to the company (known as IBNR reserves) and future developments in claims which are known to the company but are not finally settled. Claims provisions also these provisions involve a number of uncertainty factors.

Claims provisions are management's best estimate based on actuarial and statistical projections of claims and administration of claims including uncertainty related to the range of actuarial scenarios and other short and long-term risks not reflected in standard actuarial models. The projections are based on Qudos' knowledge of historical developments, payment patterns, reporting delays, duration of the claims settlement process and other factors that might influence future developments in the liabilities. Others may come to another estimate using different assumptions, parameters and/or methods.

Qudos include direct and indirect claims settlement costs or loss adjustment expenses that arise from events that have occurred up to the statement of financial position date even if they have not yet been reported to Qudos.

The calculation of the claims provisions is therefore inherently uncertain and, by necessity, relies upon the making of certain assumptions as regards factors such as court decisions, amendments to legislation, social inflation and other economic trends, including inflation.

The company's actual liability for losses may therefore be subject to material positive or negative deviations relative to the initially estimated claims provisions.

Claims provisions are discounted. As a result, initial changes in discount rates or changes in the duration of the claims provisions could have positive or negative effects on earnings. Discounting affects the motor third-party liability, general third-party liability.

Several assumptions and estimates underlying the calculation of the claims provisions are mutually dependent. This has the greatest impact on assumptions regarding interest rates and inflation.

**Fair value of financial assets and liabilities**

Securities and investments that are not listed on a stock exchange, or for which no stock exchange price is quoted that reflects the fair value of the instrument, the fair value is first determined at cost and subsequently impairment tested using a model calculation. The valuation models include the discounting of the instrument cash flow using an appropriate market interest rate with due consideration for credit and liquidity premiums and/or comparable market data for similar assets that are adjusted for differences in risk profiles/earnings etc. Impairment testing is performed for each cash-generating unit to which the asset belongs.

**Deferred tax assets**

Deferred tax assets are recognised for tax losses carried forward under the joint taxation with the current group companies to the extent that there is a strong evidence of their realisable value based on utilization against current and future taxable profits in the joint taxation group within a foreseeable future.

Disclosures are provided in the financial statements of the nature of the evidence supporting the recognition, including information on expiry and jointly taxed companies.

Although there is strong evidence that the conditions for the realisable value of the deferred tax asset, it is dependent on future events.

*Income statement*

**Premiums earned**

Gross premiums comprise premiums due in the year 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 received from reinsurers have been accounted for on an accruals basis over the policies' period of cover.

**Investment activities**

Interest income and 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.

The company is jointly taxed with other Danish group companies. The tax effect of the joint taxation with these companies is allocated between the companies in proportion to their taxable incomes.

*Assets*

**Intangible assets**

Software is measured at cost price 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, and the residual value, which is annually revalued. If there is an indication of impairment, the book value is written down to the recoverable amount.

**Tangible assets**

Office equipment is measured at cost price 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, and the residual value, which is annually revalued. If there is an indication of impairment, the book value is written down to the 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 investment assets.

**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 of technical provisions**

Reinsurers' share of provisions for unearned premiums represents the amounts expected to be received from reinsurance companies to cover insurance events up till the balance date.

Reinsurers' share of provisions for outstanding claims has been calculated as the amounts expected to be received from reinsurance companies relating to insurance events after the balance date.

**Deferred tax assets**

Deferred tax assets, including the tax base of tax loss carry forwards, are recognised in the balance sheet at their estimated realizable value either as a set-off against deferred tax liabilities or as net tax assets.

*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 in accordance with §69 of the executive order.

***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 on a claim by claim basis (individual provisions) as well as 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 claims. IBNER provisions cover individually assessed claims which have been reported but which have been inadequately provided for on a claim-by-claim basis. 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 managing 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.