Gefion Insurance A/S

Østergade 10, DK-1100 Copenhagen K
CVR No. 36016493

Annual Report 2018

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 27 May 2019

Per Bergmann
Chairman

Contents

Company Information

The Company	Gefion Insurance A/S Østergade 10, 4. DK-1100 Copenhagen K Telephone: +45 70 60 69 00 E-mail: info@gefioninsurance.com Web: www.gefioninsurance.com CVR No.: 36 01 64 93 DFSA Reg. No.: 53117 Established: 2 June 2014 Financial year: 1 January – 31 December
Board of Directors	Jørn Anker-Svendsen (Chairman) Antoine Roland Spillmann (Vice Chairman) Troels Knut Rørbæk Askerud Robert Aron Robertsson Nancy Hasley Corbett (Joined 4 March 2019)
Board of Executive	Tonny Anker-Svendsen
Auditor	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup
Banks	Nykredit A/S Danske Bank A/S Jyske Bank A/S

Management's Review

Main Activity

The main activity of Gefion Insurance A/S ("Gefion Insurance" or "the Company") is to write non-life insurance risks in the European Union through underwriting agencies, commonly known as coverholders or managing general agencies ("MGA's"). The Company is primarily targeting short tail business with low catastrophe exposure and attractive loss ratios.

The operational model is based on a high degree of outsourcing that makes it highly scalable. This is reflected in the fact that most of the distribution of insurance products is carried out by insurance brokers and MGA'S operating under the strict oversight of Gefion Insurance and under the supervision by local regulatory authorities. Gefion Insurance and its advisors closely monitors the outsourced activities and regularly perform audits in situ and on-line by way of a bespoke agent management and audit IT system as part of its business as usual procedures.

Gefion Insurance can write business as published on the homepage of the Danish Financial Supervisory Authority ("DFSA") (www.finanstilsynet.dk).

The majority of the shares are held by the management team and the remainder by a Swiss partner.

Developments in 2018

Gefion Insurance has since its inception pursued the policy of entering into portfolios of insurance products with a combination of a few and newly established agents and a majority of agents who have several years of proven records of accomplishment both in terms of premium income and loss ratio. The majority of the start-ups that Gefion Insurance started supporting at the inception of their business have now matured into MGA's of volume and profitability leaving the Company in the position to reap the upside of the initial years of investment. The passing of time and the transitioning of Gefion Insurance from a start-up into a more matured market participant have also allowed Gefion Insurance to identify non-performing parts of the business Gefion Insurance, which will lead to the Company leaving non-performing areas to improve its profitability.

The maturing of the business has led to gross written premiums of MDKK 2.421 in 2018, which is above the expectations for the year. The gross written premiums are coming from 20 active binding authority agreements with coverholders in the United Kingdom, Republic of Ireland, Poland, Germany, France, Denmark and Italy.

It is a core part of the Company's business model to cede a substantial part of its risk (on average no less than 80%) in quota share arrangements with established A-rated ("S&P") reinsurance companies and always in a combination with Excess of Loss reinsurance with an attachment point of no more than EUR 500,000. As a result, Gefion Insurance retains a limited share of own risk and the premium income net of quota share reinsurance and excess of loss reinsurance in 2018 accordingly amounted to MDKK 330.3 compared to MDKK 296.9 in 2017.

The underwriting result in 2018 amounted to a loss of MDKK 39.4 compared with a profit of MDKK 18.3 in 2017. The underwriting result is considered unsatisfactory with a combined ratio of 101.8 compared to a combined ratio of 98.7 in 2017.

Management's Review

Gross claims incurred increased by MDKK 1,031.5 from MDKK 957.1 in 2017 to MDKK 1,988.6 in 2018. The negative development with increasing gross claims and a negative claims trend is made up of a combination of growth in the business and reserve strengthening as referred to in more detail below.

The negative result in 2018 had a negative impact on the solvency position at year-end. This is further described under "Capital and Solvency" below.

Gefion Insurance has in the context of the increased market focus on unrated carriers, but also as a trust building measure towards clients and other stakeholders asked an international independent actuarial firm to estimate the Company's outstanding claims costs as at 31 December 2018. The business reviewed covers the Company's written business in the United Kingdom, Republic of Ireland, Poland, Germany and France, representing approximately 98% of the entire business written by Gefion Insurance.

The independent actuarial reserve review generally demonstrated that Gefion Insurance was adequately reserved in the United Kingdom, which account for the majority of our business. The review also showed that there was a need to strengthen primarily bodily injury reserves in the Republic of Ireland, Germany and Poland. These conclusions were primarily driven by the unavailability of sufficient claims year data, which called for a more conservative and cautious approach as further alluded to below. In order to be fully aligned with the recommendations from the independent actuarial reserve review, the Executive Management accordingly decided to strengthen the reserves in these countries.

To recognize uncertainty in establishing best estimates, to allow for possible deterioration in experience, and to provide larger comfort that the outstanding claims liabilities are adequate to pay future claims, Gefion Insurance furthermore decided to include additional provisions for potential adverse deviations. The provision for adverse development is allocated to binding authority agreements with coverholders where the Company has limited data and/or observations, due to the fact that Gefion Insurance only has been writing business for a short period of time, and where the Company does not have access to historical data. If these additional provisions do not crystallize in actual claims expenses, this can lead to future reserve releases.

The gross claims ratio was 90.5 in 2018 against 66.8 in 2017. The increased claims ratio is primarily affected by large claims in United Kingdom and Poland, as well as reserve strengthening.

As a result of the relatively high proportion of quota share and Excess of Loss reinsurance, the strengthening of the reserves and the large claims reduces the impact on Gefion Insurance's underwriting result and financial conditions.

The underwriting result was adversely affected by a negative run-off net of reinsurance from 2017 and prior years' of MDKK 34.8, see Note 3.

Gefion Insurance pays commission to its coverholders for introducing business to the Company. The commission paid covers the coverholder's costs for underwriting, distribution, marketing, policy administration, etc., and in some cases also claims handling.

The commission costs amounted to MDKK 489.8 in 2018 compared to MDKK 387.0 in 2017. The increase in the commission costs is mainly driven by the increase in the gross earned premiums in 2018 by 53 % compared to 2017. The commission ratio decreased from 27.0 in 2017 to 22.3 in 2018, corresponding to an improvement of 17.4 %. The improvement is primarily a consequence of sliding scale adjustments of commissions based on underwriting performance and a change in the composition of the commission where claims handling to a larger extent is invoiced and paid separately and therefore not included in the commission as we have found this approach to generate more focus on efficiency and cost savings.

Reinsurance commission and profit participation from reinsurers cover the quota share reinsurers' share of the commission paid to coverholders for introducing business to Gefion Insurance. Furthermore, Gefion Insurance receives a ceding commission usually between 2-5 % of the ceded premiums depending on the line of business for introducing the business to the reinsurers. The reinsurance commission and profit participation from reinsurers are in some cases subject to adjustments based on underwriting performance. The commission income amounted to MDKK 533.3 in 2018 compared to MDKK 397.9 in 2017. The main drivers behind the increase in the commission income from reinsurers is due to a combination of growth in the business and an increase in the ceded business.

The gross expense ratio before acquisitions costs after allocation of expenses to claims was 3.3 in 2018 and 4.1 in 2017. The improvement can primarily be explained by an increase in gross earned premiums. The operating expenses have increased to MDKK 72.2 in 2018, an increase of MDKK 13.3 compared to 2017. Gefion Insurance has continued its focus on improving the organisation, investing in people, IT-infrastructure and governance, which has led to a general increase in the operating expenses whereof, however, a non-insignificant amount is attributable to non-recurring one-off cost. In 2018, the organization has been significantly expanded and almost doubled in size with additional actuarial, claims handling and underwriting resources that will enable Gefion Insurance to improve profitability, governance and focus even stronger on the customer experience by providing a strong foundation for the monitoring and management of its coverholders and TPA's. Gefion Insurance is committed to continuously improving its business and will continue investing in people and systems in the coming years.

Gefion Insurance maintains a conservative approach to investments focusing primarily on capital preservation as opposed to risk taking with a view to obtaining high returns. In our current negative interest climate such approach comes at a cost. The return on investments accordingly represents a loss of MDKK 11.5, of which, however, MDKK 7.5 relates to interest payments on subordinated loans (Tier II capital). Gefion Insurance has furthermore written off its receivables against an affiliated company by MDKK 1.5 which has also affected the investment result negatively.

In conclusion 2018 was a difficult year for Gefion Insurance with increased market focus on unrated insurers following the demise of several competitors with similar business models and the commencement of the ordinary inspection review by DFSA with resulting focus on internal matters and pressure from partners and stakeholders. The year shows a net loss of MDKK 48.4 primarily driven by reserve strengthening compared to a net income of MDKK 11.6 in 2017, which result is considered unsatisfactory. The result for the year is proposed carried forward to next year.

Capital and Solvency

At the beginning of 2018 the expectation was that a strengthening of the capital base by a third-party investor was imminent. Uncertainty surrounding BREXIT (affecting Gefion Insurance's biggest market), and the general market turmoil surrounding unrated carriers, however, delayed a successful conclusion of such capital raising efforts. To address the envisaged business trajectory of 2018, the shareholders accordingly decided to increase the capital in May 2018 by MDKK 15 to MDKK 108.3 in anticipation of the further contribution of capital later in 2018 from a third-party investor. Later in 2018, a new hurdle for capital sourcing occurred when the DFSA announced their intent to conduct a scheduled ordinary inspection late in the year and hence further efforts in such regard had to be put on hold.

After realising a negative result in 2018 the solvency position is tenuous, and it is Management's assessment that future strengthening of the capital is necessary. Therefore, the Company is vulnerable to future losses including a decline in underwriting income and other adverse financial development.

Such losses decline in income and adverse financial development is a risk as a result of uncertainties related to technical provisions, and there is a risk that the impact on the capital base as a result of such development will be materially negative. Reference is made to note 21 regarding the uncertainties relating to measurement of technical provisions. Other external factors, including Brexit developments and bankruptcy of one or more reinsurers could also have a significantly negative impact on the Company's financial and solvency position.

Furthermore, the Company is vulnerable to changes to the Solvency Capital Requirement. Calculation of the Solvency Capital Requirement is based on the knowledge and interpretation of the rules regarding capital adequacy in particular the Solvency II regulation. There is a risk that other informed parties, including the DFSA, may interpret the rules differently which could lead to a supervisory action ordering an increase in the Solvency Capital Requirement and that such an increase could be material. A deterioration of the solvency position could in itself lead to Supervisory actions against the Company, which could limit the Company's ability to realise its financial plans.

When Gefion Insurance obtained the conclusions in April 2019 of the international independent actuarial firm's estimation of the Company's outstanding claims costs as per the balance sheet date it was decided by the Executive to align with the recommendations made by such firm. The increase of the reserves led to a substantial drop in the SCR ratio as per the balance sheet date. Such drop was, however, absorbed by the capital increase effected by shareholder decision earlier in 2019 with a view to generally increasing the SCR ratio of the Company.

The share capital was increased in May 2019 by approximately MDKK 40 and now amounts to MDKK 147.9. With the increase of MDKK 39.6 added to the equity at 31 December 2018, the equity amounts to MDKK 78.0.

The Solvency Capital Requirement of Gefion Insurance is calculated based on a full implementation of the Solvency II regulation using the standard formula, and amounts to MDKK 178.7 at 31 December 2018 (2017: MDKK 120.6). The eligible own funds to meet the Solvency Capital Requirement amount to MDKK 128.7 (2017: MDKK 143.4). This results in a Solvency ratio of 0.72 (2017: 1.19).

Gefion Insurance's Executive Management have taken the necessary Management actions to re-establish a Solvency ratio above 1.25. The Company has increased the level of reinsurance with an existing reinsurer, which both improves the SCR and own funds significantly as at 30 April 2019. Together with the capital injection of MDKK 39.6 as at 6 May 2019 these Executive Management actions have led to a re-establishment of the Solvency ratio as at 6 May 2019, where the Solvency ratio amounts to 1.30.

If the measures to further strengthen the Company's capital, do not materialise timely, and considering the Company's tenuous solvency position and the risk of this position deteriorating in combination with the uncertainty relating to measurement of technical provisions as well as supervisory actions, there is a material uncertainty, that may result in the capital base becoming insufficient.

This could ultimately lead to the Company losing its insurance license or being forced to wind up, with resulting negative effects on the Company's results of operation, financial position and going concern status. In the current situation, this results in material uncertainty, that may raise doubts about the Company's ability to continue as a going concern.

Please refer to the section "Events after the balance sheet date" in the Management's Review and Note 0 for further information.

The Solvency ratio for 2014 to 2018 is specified below:

	6 May 2019 Proforma	2018	2017	2016	2015	2014
Solvency ratio	1.30	0.72	1.19	0.95	1.5	N/A

The Solvency ratio for 2017 is restated from 1.23 to 1.19, corresponding to a decrease of 4 points, and the Solvency ratio for 2016 is restated from 1.02 to 0.95, due to correction of deferred tax asset, see section "Overview of Changes to the Annual Report 2017 and the Comparative Figures for 2016" in the Management's Review.

Sensitivity analysis

In accordance with § 126 g of the Danish Financial Business Act, Gefion Insurance has prepared a sensitivity analyses as at 31 December 2018. The sensitivity analysis is published on the Company's website: www.gefioninsurance.com.

Risk and Uncertainties regarding the Figures in this Report

The risk factors that Gefion Insurance is exposed against are disclosed in Note 22. Regarding accounting estimates and judgements reference is made to Note 21.

Furthermore, it is an integral part of Gefion Insurance's business model to protect its policyholders and capital base by ceding 80 % to 100 % of its business to quota share reinsurers and by purchasing excess of loss reinsurance cover limiting the maximum single net of reinsurance claim loss to below EUR 500k. Because of the Company's very limited risk exposure, large claims will only affect the Company's financial performance marginally.

Gefion Insurance primarily buys reinsurance coverage from international reinsurance companies with a minimum rating of A- ("S&P") and with local market knowledge.

As Gefion Insurance writes a significant share of the business in the United Kingdom, the Company is exposed to the outcome of the on-going Brexit negotiations. There are both risks, and uncertainties related to the outcome of these negotiations, which can have an impact on the underwriting, results of operations, financial conditions and economic factors etc.

Management's Review

Expectations for 2019

Gefion Insurance has from inception supported a number of start-up coverholders and expects the coverholders to deliver improved results in 2019 as these portfolios mature, consolidate and renewal become a more prevalent feature.

Focus will be on the existing business with a continued focus on implementing profitability initiatives and improving the organisation and further developing the IT infrastructure to support decision making by more granular transparency leading to increased profitability. Continued investment in technology and people will enable the Company to drive partnerships with coverholders as well as underwriting and claims handlings improvement initiatives into 2019 and beyond.

Gefion Insurance expects a year of consolidation with no growth and a stable or slightly declining (<10%) premium volume both gross and net of reinsurance and a strong focus on profitability and cost saving initiatives.

As a result, the Company expects a positive underwriting result and net result in the level of MDKK 50 for 2019. Parts of this result is a one-off income due to retrospective contracts.

Gefion Insurance's feedback and customer communication process as well as the insights provided by the DFSA ordinary inspection process have presented meaningful insights as to areas of improvement, which includes:

- A commitment to create a more positive customer journey and customer accessibility;
- Improved management of MGA's;
- Integration of business enabling technology; and
- Improvement of analytical and decision-making tools to support management decisions.

The recruitment drive of 2018 provides a main supporting feature for the implementation of the value creation plan.

The recent strengthening of the underwriting functions with the hire of a new Chief Underwriting and Reinsurance Director will enable the Company to focus on and improve technical underwriting with view to drive further performance improvements. Having reached material critical size, Gefion Insurance is now in a position to optimize its distribution network, reclassify its capacity, or take steps to leave non-performing areas to optimize its profitability.

In 2018, the claims handling function of Gefion was significantly expanded and the claims handling department will in 2019 focus on initiatives to improve Gefion Insurance's underwriting profitability through improved claims handling performance. The focus will be to take an increasingly active role in setting claims handling standards and implementing cost mitigating strategies as well as enhancing the performance management framework and oversight controls over MGA's and Third-Party Administrators ("TPAs").

Our operational department will focus on the integration of our systems to provide a more efficient data flow and a better experience to our stakeholders in accessing the information they need, timely and efficiently. Gefion Insurance will continue strengthening its agent oversight framework to drive standardization in underwriting, claims, actuarial and finance. During 2019 Gefion Insurance will launch a number of initiatives to become a centre of knowledge, to provide meaningful technical and management insights to its MGAs, and reinsurance partners. Gefion Insurance plans to use technology to optimize its communication processes with key stakeholders.

Detailed actionable plans for each functional unit have been presented to the Executive and are already implemented.

On the capital side, Gefion Insurance will restart and reinforce its efforts to include a sector knowledgeable investor and strengthen the capital base substantially. Gefion Insurance has engaged corporate finance advisors to assist in such efforts by way of a structured capital raising effort.

Whilst 2018 was a difficult year for Gefion Insurance, as explained above, it has in many ways prompted the actions that have laid the foundation for a positive outlook for 2019 - both in terms of financial performance, increased operational stability and the ability to attract further capital.

Events after the Balance Sheet Date

On 6 May 2019, Gefion Insurance's share capital has been increased by MDKK 39.6. The increase of the share capital by MDKK 39.6 improves the ratio of eligible own funds to meet the Solvency Capital Requirement.

The Company has entered into a reinsurance agreement with an existing reinsurer that has increased its participation on some of our existing programs, which both improves the SCR and own funds significantly as at 30 April 2019. Notwithstanding that these agreements take effect for 2017 and 2018, income from them will not accrue in respect of 2018. A normalized result for 2018 taking the additional reinsurance measures into account would have improved the underwriting result and the net income by approx. MDKK 23, and hence increasing own funds by a similar amount. Furthermore, the additional reinsurance would have improved the SCR by approx. 31 point, al-in-al leading to a SCR ratio slightly above 100. The injection of capital of MDKK 39.6 improves the SCR ratio to a level of 125-130.

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

Overview of Changes to the Annual Report 2017 and the Comparative Figures for 2016

On the 8th of April 2019, Gefion Insurance received an order from the DFSA regarding recognition of a deferred tax asset in the Annual Report for 2017 as well as the half-year report for 2018 ("the Order"). The deferred tax asset represents a value of approx. MDKK 5 as at 31 December 2017.

The order required Gefion Insurance to disregard the deferred tax asset and amend and restate the Annual Report for 2017 as well as the half-year report for 2018 accordingly. In addition, Gefion Insurance was required to provide a sufficient description of its specific financial risks and insurance risks, as well as policies and goals for managing these risks, cf. section 91 b of the Executive Order on Financial Reporting for Insurance Companies, and comparatives figures regarding the Company's solvency position in the Management's Review. The Company was furthermore required to provide information to the effect that the Company did not comply with the Solvency Capital Requirement without recognition of the deferred tax asset as at 31 December 2016.

As a result, the previously published Annual Report for 2017 is not correct and Gefion Insurance has provided the additional and corrective information in the Annual Report for 2018 in accordance with the Order.

More information about the effect of the additional and corrective information is provided in Note 20, sub-section "Correction of Material Error".

Corporate Governance

Gefion Insurance's system of governance has been designed to ensure effective monitoring of the Company's risk profile and places risk management at the centre of the business activity to ensure that **risk management is embedded in the day-to-day management of the Company. The system of governance is based on a three-lines of defence structure and aims to promote effective decision-making.**

The Board of Directors of Gefion Insurance has handled the tasks of the Audit Committee during 2018. During the year, the Board of Directors initiated the establishment of an Audit Committee (as referred to in more detail below), which will be responsible for the tasks of the Audit Committee from the beginning of 2019.

Gefion Insurance has also implemented a whistle-blower framework to ensure that employees can raise and report any suspicious activity.

Gefion Insurance is committed to maintaining and further developing a sound and robust governance structure. The objective is to promote transparency and sound decision making at every level of the governance structure. Gefion Insurance will also continue strengthening its assurance framework to ensure that active independent challenge of its internal environment. Gefion Insurance is always looking to ways of using technology to support the achievement of such goals.

With the establishment of an Audit Committee and the introduction of the whistle-blower framework the current system of governance is considered adequate to the nature, scale and complexity of the risks inherent in the business of Gefion Insurance.

Board of Directors

The Board of Directors is responsible for the overall and strategic management of Gefion Insurance, including making decisions on the company's business model. The tasks and responsibilities of the Board of Directors are described in more detail in the Rules of Procedure for the Board of Directors.

Gefion Insurance's strategy and risk appetite statement are set by the Board of Directors.

Managing and minimising business risks is an important and fundamental part of how Gefion Insurance conducts its business and the Board of Directors determines the overall policies and guidelines. Gefion

Management's Review

Insurance is by nature a truly European organisation conducting business in different jurisdictions and cultures. The Board of Directors - seeking to mirror such premise and promote diversity and equality - is actively pursuing the inclusion in the Board of Directors of people, who can add state-of-the-art skill-sets and cultural insights of the Board.

Audit Committee

The Board of Directors of Gefion Insurance has handled the tasks of the Audit Committee during 2018. During the year, the Board of Directors initiated the establishment of an Audit Committee, which will be responsible for the tasks of the Audit Committee from the beginning of 2019. The committee reports to the Board of Directors and does not affect the authority or responsibilities of the Board of Directors.

The Audit Committee serves as an independent monitor of the organization's financial reporting processes, risk management activities, systems of internal control and financial compliance.

The Audit Committee has two members, both of whom are considered independent. Both members have competencies relevant to the business of Gefion Insurance. As required by the regulation, at least one member has qualifications in accounting or auditing and is able to independently assess whether the financial reporting, internal control, risk management and statutory audits are organized and implemented in an appropriate manner in relation to the size and complexity of Gefion Insurance. Furthermore, the qualifications are sufficient to assess the independence of the external audit.

The Audit Committee will hold at least four meetings in connection with the quarterly reporting to the Board of Directors.

The Board of Directors has adopted a charter for the Audit Committee, which describes in more detail its responsibilities and duties.

Executive Management

The Board of Directors has appointed an Executive Management, which is the registered management of Gefion Insurance. The Executive Management is responsible for the day-to-day management of Gefion Insurance.

Governance Committees

The Board of Directors has established four governance committees to assist the Executive Management in carrying out its duties and making informed decisions:

- The Financial and Operations Committee ("FinOC") monitors the evolution of the market, liquidity, inwards credit and operational risk areas of the risk profile and adherence to the related risk policies.
- The Reserving Committee ("ResCo") monitors the evolution of the reserve risk element of the risk profile and adherence to the related risk policies.
- The Risk, Capital and Compliance Committee ("RiskCo") monitors the adequacy of the Solvency and Capital Requirement in line with the risk profile.

- The Underwriting, Reinsurance and Claims Committee ("URCC") monitors the evolution of the insurance and outwards credit risk areas of the risk profile and adherence to the related risk policies.

The governance committees are part of the first line of defence and as such do not have any decision authority and are only advisory to the Executive Management. Each committee has its own terms of reference defining its role and the authority delegated to it.

Key Functions

The Executive Management has established four key functions: The Risk Management Function, the Compliance Function, the Actuarial Function and the Internal Audit Function, and appointed a key function holder for each function. In 2018, a new key function holder for the Risk Management Function was appointed.

The Risk Management Function, the Compliance Function and the Actuarial Function are part of the second line of defence and reports, as a rule, to the Executive Management. When necessary, the functions may report directly to the Board of Directors.

The Internal Audit Function is part of the third-line of defence and reports directly to the Board of Directors. The Executive Management has decided to strengthen the Internal Audit Function in 2019 with a view to ensuring that Gefion Insurance's internal control system remains adequate and effective.

The Executive Management has issued terms of references that further set out the tasks and responsibilities of each key function and its cooperation with the other key functions.

The **Risk Management Function** monitors the risk management system and the risk profile, identifies and assesses new risks as well as ensures that all risks are identified, measured, monitored, controlled and reported correctly.

The Risk Management also ensures that the CEO and the Management on a quarterly basis receive adequately detailed and prepared documentation for their decision taking. The work of the function forms the basis of the ORSA reporting to the Board of Directors.

The **Actuarial Function** has the overall responsibility for oversight of the technical provisions, including the calculation hereof, and ensuring that the underlying methods and assumptions used when calculating the technical provisions are appropriate. Additionally, the function assesses whether the data used for the calculation of technical provisions is sufficient and has the required quality and compares the best estimate with previous experiences.

The **Compliance Function** operates within the context of the risk management framework and undertakes a preventive, advisory and supervisory role with the aim of ensuring that Gefion Insurance has sufficient methods and procedures to detect and minimize the risk of non-compliance with the applicable legislation as well as with internal guidelines and procedures. Furthermore, the Compliance Function advises the management on compliance with the financial regulation, assesses consequences of changes to the regulation as well as identifies and assesses the risk of non-compliance with the financial regulation.

Management's Review

The **Internal Audit Function** assesses whether Gefion Insurance's internal control system is adequate and effective and performs independent and objective examinations and reviews of the effectiveness of the risk management, control and governance processes of the company and present analyses and advice for improvement.

Employees

In 2018 Gefion Insurance substantially strengthened its management team and functional units by recruitment of industry experts of different nationalities thereby prioritizing access to relevant industry knowledge and diversity.

The Board of Directors, Executive Management and core staff, totals around 30 people with office locations in Copenhagen and London. This increased resource and expertise will enable Gefion Insurance to drive further performance improvements to its existing business and support its initiatives to seek industry investors, and potentially obtain a rating in the future.

Gender composition

Section 79a of the Danish Financial Business Act requires the Board of Directors to set targets for the gender composition of the Board of Directors. The Board of Directors welcomes an increase in the underrepresented gender and a female board member has been elected to the Board of Directors as of 4 March 2019. Further changes are expected in the composition of Gefion Insurance's Board of Directors, which until recently mainly consisted of the Company's shareholders. The aim is to ensure that the Executive Management is sufficiently challenged by independent experts with the required skillset.

Remuneration structure

The Board of Directors has issued a Remuneration Policy for the remuneration of the Board of Directors, the Executive Management and key employees (employees whose activities have a significant impact on the risk profile of the Company) in accordance with section 6 of Executive Order on Remuneration Policy and Remuneration in Insurance Companies, Insurance Holding Companies and Company Pension Funds.

The Remuneration Policy is intended to promote a conservative and efficient management of risks, which does not encourage any excessive risk taking. Consequently, the fundamental principle of the remuneration policy is that Gefion Insurance does not base its remuneration payment on any kind of performance-based components and consequently no elements of variable salary is part of any remuneration to be paid by the Company.

The members of the Board of Directors receive a remuneration based upon a fixed basic salary without any pension contribution whereas the Management has standard pension commitments. No other staff is granted pension contribution.

The determination of the fixed basic salary to be paid is based on a specific assessment of the individual employee and with due consideration to prevailing market benchmarks. In its assessment, Gefion Insurance includes, among other factors, the employee's position, characteristics and performance.

Management's Review

Management positions

Board of Directors

Chairman: Jørn Anker-Svendsen
- Gefion Forsikringsholding Aktieselskab (Chairman)

Vice Chairman: Antoine Roland Spillmann
- Bondpartners SA, Switzerland (Director)
- Bruellan SA, Switzerland (Director)
- Semper Finance Group SA, Switzerland (Director)

Troels Knut Rørbæk Askerud
- A/S af 1. Juli 2003 (Director & CEO)
- A/S af 24. juli 1995 (Director)
- A/S Codanova (Chairman)
- Acushnet Investment ApS (CEO)
- Consiglio Management Services ApS (Director)
- Cultural Adventures ApS (Chairman)
- Dance ApS (Chairman)
- Den Kongelige Danske Ballets Fond (Chairman)
- Ejendomsselskabet Esplanaden 44 ApS (CEO)
- Ejendomsselskabet Øresund Strandpark ApS (CEO)
- Elaphus Investments ApS (Director)
- Emporium 1 ApS (CEO)
- Esplanaden Invest ApS (Chairman)
- Eye oh ApS (Director)
- Gefion Forsikringsholding Aktieselskab (Director)
- Gefion Insurance Global Solutions ApS (Director)
- GICA Insurance Solutions ApS (Director)
- K/S Thoravej 28 (Director)
- Kraken ApS (Chairman)
- Kraken Holding ApS (CEO)
- Pecunia MIIM Anpartsselskab (Director & CEO)
- Ricco's Kaffe ApS (Chairman)
- Ruds Foodlab ApS (Chairman)
- Selskabet af 31.12.2015 (Director & CEO)
- Sensa A/S (Chairman)
- Star Box A/S (Director)
- Star Box Holding A/S (Director)
- Twin Raven Ltd. (Director)
- Vich 4918 A/S (Chairman)
- 21st North ApS (Chairman)

Management's Review

Management positions (continued)

Robert Aron Robertson
- Asia Seafood Inc, S-Korea (Director)
- ASI ehf, Iceland (Chairman of the Board)
- Festing EHF, Iceland (Director)
- Festir EHF, Iceland (CEO and Director)
- Gefion Forsikringsholding Aktieselskab (Director)
- Kimi Sarl, Luxembourg (Director)
- Lumar Seafood International S.L., Spain (Director)
- Neptune Holding BV, The Netherlands (Director)
- Nora Capital EHF (Director)
- Oryggismidstod Islands hf, Iceland (Director)
- Samskip Holding BV, The Netherlands (Director)

Nancy Hasley Corbett
- Black Diamond Partners Limited (Executive Vice President for Europe)

Board of Executive

Chief Executive Officer: Tonny Anker-Svendsen
- Anker-Svendsen ApS (Director & CEO)
- Gefion Forsikringsholding Aktieselskab (CEO)
- Gefion Insurance Global Solutions ApS (Chairman)
- GICA Insurance Solutions ApS (Chairman)
- Kraken ApS (Director)
- Kraken Holding ApS (CEO)
- TAS Group ApS (Chairman & CEO)
- TAS Group Ejendomme ApS (CEO)
- TAS 1 Rudkøbing ApS (CEO)
- TAS 3 Bagsværd ApS (CEO)

Statement by the Management

Today, the Board of Directors and the Board of Executive have considered and approved the Annual Report of Gefion Insurance A/S for the financial year 1 January to 31 December 2018. The Annual Report has been prepared in accordance with the Financial Business Act and the Executive Order on Financial Reporting Requirements for Insurance Companies.

We consider the adopted accounting policies to be appropriate, and in our opinion, the Annual Report gives a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January to 31 December 2018. It is also our opinion that the Management's Review contains a true and fair review of the development of the Company's activities and financial position and describes the principal risks and uncertainties that the Company can be affected by.

Finally, we believe that the additional and corrective information has been prepared in accordance with the Order issued by the DFSA.

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

Copenhagen, 27 May 2019

Board of Executive

Tonny Anker-Svendsen
CEO

Board of Directors

Jørn Anker-Svendsen
Chairman

Antoine Roland Spillmann
Vice Chairman

Nancy Hasley Corbett

Robert Aron Robertsson

Troels Knut Rørbæk Askerud

Independent Auditor's report

To the shareholders of Gefion 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 2018 and of the results of the Company's operations for the financial year 1 January to 31 December 2018 in accordance with the Danish Financial Business Act.

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

What we have audited

Gefion Insurance A/S's financial statements for the financial year 1 January to 31 December 2018 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 Gefion Insurance A/S on 2 June 2014 for the financial year ending 31 December 2014. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 5 years including the financial year 2018.

Material uncertainty relating to going concern

Without modifying our opinion, we draw attention to the material uncertainty described in the Financial Statements note 0 "Material uncertainty relating to going concern". As described in the note the Company's tenuous solvency position and the risk of this position deteriorating in combination with the uncertainty especially related to measurement of technical provisions and potential effect of Supervisory actions from the Danish FSA ("Finanstilsynet"), results in material uncertainty, that may raise doubts about the Company's ability to continue as a going concern.

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 2018. 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.

In addition to the matter described in the Material uncertainty relating to Going Concern section, we have determined that the matter described below to be the key audit matters to be communicated in our report.

Independent Auditor's report

Key audit matter	*How our audit addressed the key audit matter*
Measurement of provisions for insurance contracts The Company's provisions for insurance contracts (Technical provisions) amount to a total of DKK 2,567 million (2017: DKK 1,353 million), which represents 81% (2017: 74%) of the Total of liabilities and equity. Technical provisions comprise: Premium provisions amounting to DKK 857 million (2017: DKK 654 million), claims provisions amounting to DKK 1,662 million (2017: DKK 662 million), profit margin amounting to DKK 31 million (2017: DKK 25 million) and risk margin amounting to DKK 18 million (2017: DKK 12 million). Premium provisions are recognised as the present value of estimated future payments, including payments for administration and claims handling, regarding unexpired risk periods for in-force policies. 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. Profit margin is recognised as the estimated future profit on bound insurance contracts, corresponding to the contracts covered by premium provisions. Risk margin is recognised as the estimated amount of an acquirer for taking over the risk of the insurance portfolio. In the calculation the Solvency II standard formula is used. We focused on the Technical provisions because these are significant for the Financial Statements and are based on management estimates and actuarial methods that include assumptions about future events. Reference is made to the Financial Statements note 20 "Accounting Policies", note 21 "Accounting estimates and judgments" and note 22 "Risk factors".	We reviewed and assessed the business processes and relevant internal controls implemented by the Company regarding premiums and claims processing and provisioning. We assessed and challenged the models, methods and assumptions used based on our experience and industry knowledge in order to ensure that 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. 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 assessed the accuracy and completeness of the data used in the actuary calculations. 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. We reviewed and assessed the report prepared by the independent actuarial firm that the Company had engaged to assess outstanding claims costs and met with representatives of the actuarial firm in order to ensure that their results were aligned with our observations. For premium provisions we tested the calculation, including the assumptions applied and calculation of amounts provided in respect of expected future claims costs included in premium provisions. For profit margin we tested the calculation, including the assumptions applied and calculation of amounts provided in respect of expected future profits of in-force insurance contracts included in the provision. For risk margin we assessed the fairness of the calculation, including that it is compliant with the Solvency II standard formula. Based on our knowledge and observations relating to the insurance portfolio we reviewed and challenged Management's judgements and add-ons made in addition to the model-based calculations.

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.

Independent Auditor's report

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.

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.

Independent Auditor's report

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, 27 May 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Jesper Edelbo
State Authorised Public Accountant
mne10901

Income Statement and Statement of Comprehensive Income for the Period 1 January – 31 December 2018

Note	DKK '000	2018	2017
1-2	Gross premiums	2,421,156	1,783,773
	Ceded premiums	-2,077,958	-1,455,693
	Change in gross premium provisions	-214,264	-342,134
	Change in risk margin	-3,534	8,952
	Changes in profit margin	-5,626	-17,952
	Change in ceded premium provisions	210,520	319,988
	Premium income net of reinsurance, total	**330,294**	**296,934**
	Gross paid claims	-975,224	-418,518
	Ceded paid claims	768,762	311,858
	Change in gross claims provisions	-1,010,992	-531,614
	Change in risk margin	-2,379	-7,014
	Change in ceded claim provisions	908,878	414,706
3	**Cost of claims net of reinsurance, total**	**-310,954**	**-230,583**
	Acquisition costs	-489,805	-387,017
4-5	Administration expenses	-72,228	-58,885
	Reinsurance commission and profit participations with reinsurers	503,256	397,884
	Insurance operating costs net of reinsurance, total	**-58,777**	**-48,018**
	Insurance technical results	**-39,437**	**18,336**
12	Income from affiliated companies	-1,313	-257
	Interest income and dividend etc.	2,117	2,381
6	Currency and marketable securities adjustments	-992	-305
	Interest expenses	-7,821	-5,655
	Administrative expenses relating to investment activities	-730	-539
	Return on investments, total	**-8,739**	**-4,374**
	Return and revaluations, insurance provisions	-2,776	-3,738
	Return on investments after return and revaluations of Insurance provisions	**-11,515**	**-8,112**
7	Other income	2,564	1,369
	Net result before tax	**-48,389**	**11,593**
8	Tax on net result	-	-
	Net result for the year	**-48,389**	**11,593**
	Statement of comprehensive income		
	Net result for the year	-48,389	11,593
	Total comprehensive income for the year	**-48,389**	**11,593**
	Proposed distribution of profit		
	Transferred to retained profit or deficit	**-48,389**	**11,593**

Balance Sheet at 31 December 2018

Assets

Note	DKK '000	2018	2017
	Software	3,761	2,480
9	**Intangible assets, total**	**3,761**	**2,480**
10	Office equipment etc.	1,479	1,423
11	Leasehold improvements	3,983	1,663
	Tangible assets, total	**5,461**	**3,085**
12	Shares in affiliated companies	219	8
	Investments in affiliated companies, total	**219**	**8**
	Equities	18	18
	Bonds	50,026	224,817
	Other financial investments assets, total	**50,045**	**224,836**
	Investment assets, total	**50,264**	**224,844**
	Reinsurer's share of premium provisions	771,341	571,004
	Reinsurer's share of claim provisions	1,406,443	507,318
	Reinsurer's share of provision for insurance contracts, total	**2,177,784**	**1,078,322**
	Amounts receivable from policy holders	391,272	212,292
	Amounts receivable from intermediaries	416,630	125,529
	Amounts receivable - direct insurance contracts, total	**807,901**	**337,821**
	Amounts receivable from affiliated companies	2,301	4,318
	Other amounts receivable	2,090	1,883
	Amounts receivable, total	**2,990,076**	**1,422,345**
13	Deferred tax assets	-	-
	Cash and bank deposits	102,302	161,111
	Other	302	107
	Other assets, total	**102,603**	**161,217**
	Accrued interest income	5,320	2,166
	Other prepayments	19,998	16,121
	Prepayments and accrued income, total	**25,319**	**18,287**
	Assets, total	**3,177,484**	**1,832,258**

Balance Sheet at 31 December 2018

Liabilities and Equity

DKK '000		2018	2017
Note			
	Share capital	108,101	93,166
	Retained earnings	-69,934	-21,546
14	**Equity, total**	**38,167**	**71,620**
	Subordinated loan	71,424	71,093
15	**Subordinated loans, total**	**71,424**	**71,093**
	Premium provisions, gross	857,192	654,159
	Profit margin	30,570	24,944
	Claims provisions, gross	1,661,563	662,051
	Risk margin	18,016	12,103
	Technical provisions, total	**2,567,341**	**1,353,257**
	Provisions total	**2,567,341**	**1,353,257**
	Amounts payable in connection with direct insurance	160,866	33,282
	Amounts payable in connection with reinsurance	320,157	288,826
	Other payables	5,289	3,337
	Liabilities other than provisions, total	**486,313**	**325,446**
	Accruals and deferred income	**14,240**	**10,843**
	Liabilities and Equity, total	**3,177,484**	**1,832,258**

0 Material Uncertainty relating to Going Concern
16 Related Parties etc.
17 Securities
18 Contingent Liabilities
19 Financial Highlights and Key Figures
20 Accounting Policies
21 Accounting Estimates and Judgements
22 Risk Factors

Statement of changes in Equity

2018 (DKK '000)	Share capital	Retained earnings	Total
Shareholder's equity at 31 December 2017	93,166	-21,545	71,621
Profit for the period	-	-48,389	-48,389
Other comprehensive income	-	-	-
Total comprehensive income	**93,166**	**-69,934**	**23,232**
Increase in share capital in 2018	14,935	-	14,935
Allocation to the owners	-	-	-
Shareholder's equity at 31 December 2018	**108,101**	**-69,934**	**38,167**

2017 (DKK '000)			
Shareholder's equity at 31 December 2016	55,980	-26,231	29,749
Impairment of deferred tax	-	-6,907	-6,907
Profit for the period	-	11,593	11,593
Other comprehensive income	-	-	-
Total comprehensive income	**55,980**	**-21,545**	**34,435**
Increase in share capital in 2017	37,186	-	37,186
Allocation to the owners	-	-	-
Shareholder's equity at 31 December 2017	**93,166**	**-21,545**	**71,621**

Notes

Note 0 - Material Uncertainty relating to Going Concern

As described in note 21 and 22, Gefion Insurance is subject to a range of significant exposures and risks. The inherent nature of these exposures and risks are partly beyond the control of the Company. Accordingly, the exposures and risks represent a material uncertainty in respect of the financial position of the Company.

Solvency position

Management has continuously worked towards strengthening the solvency position of the Company. Following this additional share capital of MDKK 14.9 was injected in 2018 and included in the capital base of the Company. Additional share capital of MDKK 39.6 million was injected on 6 May 2019 and included in the capital base from this date. Furthermore, additional reinsurance coverage has been established, reducing the Company's insurance risk. This includes an increase of the average quota share reinsurance from approximately 77 % in 2017 to 82 % in 2018 and 86 % as from April 2019. This reduced the net insurance risk exposures and thereby also the requirement of eligible own funds to meet the Solvency Capital Requirement of the Company.

Given unchanged market conditions, Gefion Insurance's total business volume is expected to have the capacity to generate an underwriting income as well as a net income as included in the current budget for 2019.

However, due to the negative result in 2018 the current solvency position remains, tenuous, and it is Management's assessment that further strengthening of the capital is necessary. Management continually focuses on possible measures to strengthen the Company's eligible own funds and to maintain a limited risk exposure.

Furthermore, the Company has appointed an external capital advisor to support the capital structure of the Company with the purpose of obtaining increased efficiency of capital management. The Company is currently engaged in negotiations with potential third-party institutional investors with a view to further increasing the share capital of the Company before the end of 2019.

Concurrently, with the focus on maintaining a relatively limited risk exposure, Management expects the Company's eligible own funds to gradually improve from the underwriting income to be generated in 2019 as well as from the capital injection on 6 May 2019 and potential further capital injection resulting from the current negotiations with third-party investors. Overall, this is expected to improve the solvency position at year-end 2019 compared with year-end 2018. Furthermore, the increased quota share in 2019 will improve the solvency position.

Going concern – adverse financial development and supervisory actions

On the basis of the matters described under "Solvency position", Management has prepared the Financial Statements for the Company under the going concern assumption.

In the current situation, however, the Company is vulnerable to future losses including a decline in underwriting income and other adverse financial development.

Notes

This include losses, decline in income and adverse financial development as a result of the uncertainties related to technical provisions, and there is a risk that the impact on the capital base as a result of such development will be materially negative. Reference is made to note 21 regarding the uncertainties relating to measurement of technical provisions. Other external factors, including Brexit developments and bankruptcy of one or more reinsurers could also have a significantly negative impact on the Company's financial and solvency position.

Furthermore, the Company is vulnerable to changes to the Solvency Capital Requirement. Calculation of the Solvency Capital Requirement is based on the knowledge and interpretation of the rules regarding capital adequacy in particular the Solvency II regulation. There is a risk that other informed parties, including the DFSA, may interpret the rules differently which could lead to a supervisory action ordering an increase in the Solvency Capital Requirement and that such an increase could be material. A deterioration of the solvency position could in itself lead to Supervisory actions against the Company, which could limit the Company's ability to realise its financial plans.

If the measures to strengthen the Company's capital, including the current negotiations described under "Solvency position", do not materialise timely, and considering the Company's tenuous solvency position and the risk of this position deteriorating in combination with the uncertainty relating to measurement of technical provisions as well as supervisory actions, there is a material uncertainty, that may result in the capital base becoming insufficient.

This could ultimately lead to the Company losing its insurance license or being forced to wind up, with resulting negative effects on the Company's results of operation, financial position and going concern status. In the current situation, this results in material uncertainty, that may raise doubts about the Company's ability to continue as a going concern.

Note 1 – Insurance Technical Result by Class of Business

2018 (DKK '000)	Liability	Motor Liability	Motor Hull	Various	Total
Gross premiums	30,975	613,036	1,739,086	38,059	2,421,156
Gross premium income	23,191	567,672	1,579,262	27,608	2,197,732
Gross claims incurred	-12,791	-358,131	-1,673,194	-8,599	-2,052,714
Gross operating expenses	-6,722	-120,970	-363,928	-6,295	-497,915
Net ceded result	-3,580	-38,980	364,055	-8,036	313,460
Technical result	**98**	**49,591**	**-93,804**	**4,678**	**-39,437**
Number of claims incurred	36	32,228	22,906	896	56,066
Average value of claims incurred	355	11	73	10	37
Annual claims frequency	2.3%	6.5%	8.8%	0.6%	6.2%

2017 (DKK '000)	Liability	Motor Liability	Motor Hull	Various	Total
Gross premiums	19,277	1,278,052	467,574	18,870	1,783,773
Gross premium income	15,563	1,018,672	382,740	15,664	1,432,639
Gross claims incurred	-4,359	-708,967	-241,500	-2,321	-957,146
Gross operating expenses	-5,645	-324,587	-111,834	-3,836	-445,902
Net ceded result	-4,418	17,690	-16,962	-7,566	-11,257
Technical result	**1,141**	**2,808**	**12,444**	**1,942**	**18,334**
Number of claims incurred	30	26,004	9,771	93	35,898
Average value of claims incurred	145	27	25	25	27
Annual claims frequency	2.4%	3.6%	6.6%	8.3%	5.0%

Note 2 – Gross Premium Income

DKK '000	2018	2017
Gross premiums	2,421,156	1,783,773
Change in gross premium provisions incl. risk and profit margin	-223,424	-351,134
Gross premium income incl. change in risk and profit margin	**2,197,732**	**1,432,639**
Gross premium income direct business by location of the risk		
Denmark	34,064	39,298
Other EU countries	2,163,668	1,393,341
Other countries	-	-
Direct insurance	**2,197,732**	**1,432,639**

Note 3 – Run-Off Result, Net of Reinsurance

DKK '000	2018	2017
Gross business	-192,503	-69,637
Ceded business	157,698	50,646
Run-off result net of reinsurance	**-34,805**	**-18,991**

The negative claims development of prior year's primarily relates to latent claims reported on motor programmes in the United Kingdom and adverse development as a consequence of the strengthening of the reserves at year-end 2018.

Note 4 – Auditor's Fee

DKK '000	2018	2017
Fee for the auditors elected by the Annual General Meeting:		
Fee for statutory audit of the annual accounts	969	781
Fee for other assurance statements	108	45
Fee for tax advisory services	175	25
Fee for other advisory services	511	1,069
Total fee	**1,763**	**1,920**

Fee for other assurance statements rendered by PwC consist of quarterly statements regarding registered assets and a yearly statement to the Motor Insurers Bureau of Ireland.

Fee for tax advisory services rendered by PwC consist of tax advice in respect of restructuring and reorganization considerations.

Fee for other advisory services rendered by PwC consist of sundry accounting advisory, advice on capital rules, Danish FSA Inspection and Half-Year Report.

Note 5 – Staff Costs

DKK '000	2018	2017
Staff costs can be specified as follows:		
Wages and salaries	29,140	21,008
Pensions	1,988	1,218
Other expenses to social security	107	94
Payroll tax	4,454	3,119
Total staff costs (excluding Board of Directors fees)	**35,689**	**25,439**
Average number of employees	**17**	**12**
Board of Directors' fee		
Jørn Anker-Svendsen	500	300
Troels Knut Rørbæk Askerud*	-	-
Antoine Roland Spillmann	300	225
Robert Aron Robertson	200	150
Total fee	**1,000**	**675**

The Board of Directors receives a fixed fee only.

* Troels Knut Rørbæk Askerud receives no separate Board of Directors' fee in addition to the remuneration included in Total staff costs above.

Board of Executive's fee		
Tonny Anker-Svendsen	4,909	4,125
Total fee	**4,909**	**4,125**

The Board of Executives receives a fixed fee only.

No other than the Board of Executive has a significant impact on the Company's risk profile.

Note 6 – Currency and Marketable Securities Adjustments

DKK '000	2018	2017
Unrealized marketable adjustments on bonds and equities	-837	253
Realized marketable adjustments on bonds and equities	-35	-2,784
Currency adjustments	-119	2,227
	-992	**-304**

Notes

Note 7 – Other Income

DKK '000	2018	2017
Other income from service contracts	51,128	27,531
Other expenses related to service contracts	-48,565	-26,162
	2,564	**1,369**

Note 8 – Tax on Net Result

DKK '000

	2018	2017
Adjustment of deferred tax	-	-
Tax on net results can be specified as follows:		
Calculated 22.0% tax on net profit before tax	-	-
Tax value of not tax deductible costs	-	-
Adjustment as a consequence of future change in tax rate	-	-
Adjustment related to prior years	-	-
	-	-
Effective tax rate	0.0%	0.0%

Note 9 – Intangible Assets – Software

DKK '000	2018	2017
Cost at 1 January	4,043	2,657
Additions during the year	2,224	1,386
Cost at 31 December	6,267	4,043
Impairment and depreciation at 1 January	1,563	706
Depreciation for the year	943	857
Impairment and depreciation at 31 December	2,506	1,563
Net asset value at 31 December	**3,761**	**2,480**

Notes

Note 10 – Tangible Assets – Office Equipment etc.

DKK '000

	2018	**2017**
Cost at 1 January	3,003	2,897
Additions during the year	501	106
Cost at 31 December	3,505	3,003
Impairment and depreciation at 1 January	1,580	338
Depreciation for the year	445	1,242
Impairment and depreciation at 31 December	2,026	1,580
Net asset value at 31 December	**1,479**	**1,423**

Note 11 – Tangible Assets – Leasehold Improvements

DKK '000

	2018	**2017**
Cost at 1 January	2,137	2,015
Additions during the year	3,104	122
Cost at 31 December	5,242	2,137
Impairment and depreciation at 1 January	475	265
Depreciation for the year	784	210
Impairment and depreciation at 31 December	1,259	475
Net asset value at 31 December	**3,983**	**1,663**

Notes

Note 12 – Shares in Affiliated Companies

DKK '000

	2018	2017
Cost at 1 January	75	75
Additions during the year	25	-
Cost at 31 December	100	75
Revaluation at 1 January	-67	190
Share of profit/loss for the year	187	-257
Impairment and depreciation at 31 December	120	-67
Net asset value at 31 December	**220**	**8**

Shares in affiliated companies are specified as follows:

Name	Reg. Office	Ownership share	Share capital	Equity	Net profit/loss for the year
Gefion Insurance Global Solutions ApS	Copenhagen	100%	50	220	187

Gefion Insurance A/S owns 100% of **Gefion Insurance Global Solutions ApS** (share capital tDKK 50), Østergade 10 4., DK-1100 Copenhagen K, which in turn owns 100% of **GICA Insurance Solutions** ApS (share capital tDKK 50), Østergade 10 4, DK-1100 Copenhagen K and 50% of **Nordic Insurance Solutions** ApS (share capital tDKK 50), Palægade 3, DK 1261 Copenhagen K.

Note 13 – Deferred Tax

DKK '000	**2018**	**2017**
Net income before tax for the year	-48,389	11,593
Change in deferred tax	-	-
Recognized as:		
Deferred tax assets	**-**	**-**

The Company has a deferred tax asset relating to losses in the period 2016 to 2018 amounting to MDKK 14.0 The deferred tax asset as of the beginning of 2018 have been fully written off and any deferred tax asset relating to the loss for the year has not been recognized in the balance sheet.

Note 14 – Equity

DKK '000	2018	2017
Equity at 31 December	38,167	71,620
Subordinated loan capital	74,673	60,309
Profit margin after deferred tax	28,602	19,456
Intangible assets	-3,761	-2,480
Accrued interest on subordinated loan	-5,269	-
Capitalised loan fees	-3,249	-
Other items	-430	-597
Eligible own funds at 31 December	**128,733**	**148,307**

Share Capital

Gefion Insurance's share capital comprises of 14,500,000 shares of a nominal value of EUR 1, of which no shares carry any special rights.

Note 15 - Subordinated Loan

Gefion Insurance has subordinated loan capital of MEUR 10, corresponding to MDKK 74.7.

The subordinated loan was raised on July 2017. The costs of raising a new subordinated loan in 2017 amounted to MDKK 3.8. The loan costs are amortized over the term of the loan.

The subordinated loan carries interest at a floating rate at EURIBOR01. If such rate is below zero, EURIBOR01 is deemed to be zero plus a margin of 10.0 %. In 2018, the interest rate on the loan was 10.0 %. The interest expense amounted to MDKK 7.5 for 2018.

Regarding the calculation of the total eligible own funds to meet the Solvency Capital Requirement, MDKK 71.4 of the Company's subordinated loan capital of MDKK 74.7 was recognised in accordance with the applicable rules.

The creditors have no rights to call the loan before maturity or otherwise terminate the loan agreement. The loan is automatically accelerated upon the bankruptcy or liquidation of the Company. The loan respects all other creditors of the Company before the loan will be settled.

Note 16 - Related Parties, etc.

Gefion Forsikringsholding Aktieselskab, Copenhagen, is the principal shareholder of Gefion Insurance A/S with 50.3 % of the share capital.

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.

Gefion Forsikringsholding Aktieselskab
Østergade 10, 4.
DK-1100 Copenhagen K

Elaphus Investment ApS
Østergade 10, 3
DK-1100 Copenhagen K

The Annual Report for Gefion Insurance is included in the consolidated accounts for Gefion Forsikringsholding Aktieselskab.

Gefion Insurance has entered into an agreement with Anker-Svendsen ApS regarding the rental of office locations. Settlement is carried out on cost recovery basis.

Note 17 - Securities

DKK '000	**2018**	**2017**
Bonds	49,526	213,572
Deposits with credit institutions	283,555	72,904
Other	-	-
Reinsurance contracts	2,015,838	1,079,063
	2,348,919	**1,365,539**

Note 18 - Contingent Liabilities

Gefion Insurance and the parent company, Gefion Forsikringsholding Aktieselskab, are jointly liable for employee income tax, payroll tax etc. and company tax chargeable to the jointly registered companies.

The Company has entered into leasing contracts with accumulated leasing payments of tDKK 918 over the next 9 months.

The Company has entered into a tenancy agreement with accumulated rent payments of tDKK 2,550 over the next 17 months.

Notes

Note 19 – Financial Highlights and Key Figures

DKK '000	2018	2017	2016	2015	2014
Gross premium income	2,197,732	1,432,639	482,918	10,037	-
Gross claims incurred	-1,988,595	-957,146	-187,720	-5,996	-
Total insurance operating costs	-562,033	-445,902	-251,531	-29,684	-2,535
Result of ceded business	313,458	-11,257	-48,131	-928	-
Insurance technical result	-39,437	18,336	-4,464	-26,573	-2,535
Return on investments after insurance technical interest	-11,515	-8,112	931	-513	-145
Net result for the year	-48,389	11,593	-3,051	-21,089	-2,091
Run-off result, net of reinsurance	-34,805	18,991	-319	-	-
Total insurance technical provisions	2,567,341	1,353,257	479,216	16,181	-
Total insurance assets	2,985,685	1,416,144	551,172	16,530	-
Total equity and subordinated loan	109,590	142,713	67,666	70,861	53,889
Total assets	3,177,484	1,832,258	842,606	97,437	56,742
Key ratios:					
Gross claims ratio	90.5%	66.8%	38.9%	59.7%	N/A
Gross expense ratio	-25.6%	31.1%	52.1%	295.7%	N/A
Reinsurance ratio	-14.3%	0.8%	10.0%	9.2%	N/A
Combined ratio	101.8%	98.7%	100.9%	364.7%	N/A
Operating ratio	101.8%	98.7%	100.9%	382.0%	N/A
Relative run-off result	-12.7%	-35.2%	0.0%	0.0%	N/A
Return on equity after tax	-88.2%	-24.5%	-7.3%	-49.0%	N/A

Gross claims ratio	(Gross claims incurred/Gross premium income)*100
Gross expense ratio	(Total insurance operating costs/Gross premium income)*100
Reinsurance ratio	(Result of ceded business/Gross premium income)*100
Combined ratio	(Gross claims ratio+Expense ratio+Reinsurance ratio)
Operating ratio	(Combined ratio, where allocated return on investments is added to the Gross premium income)
Relative run-off results	(Run-off results compared to reserves at the beginning of the run-off)
Return on equity	(Result for the year/The average equity)*100
Solvency ratio	(Base capital/Capital requirement)

* The key figure Solvency ratio is exempt from audit requirement, cf. executive order no. 937 dated 27 July 2015 on Financial Reporting on Insurance Companies and cross-sectored Pension Funds, and therefore is unaudited.

Note 20 – Accounting Policies

The Annual Report is presented in accordance with the Financial Business Act and the accounting regulations stipulated for insurance companies issued by the DFSA.

The DFSA has issued an update of the executive order no 1442 of 3 December 2018 on Financial Reports for Insurance Companies and Lateral Pension Funds with effect from 2019. Changes relating to disclosure of sensitivities have been pre-implemented for 2018. Furthermore, solvency capital coverage is now disclosed under Management's Review instead of previously under Note 19.

Notes

Besides this Accounting Policies remain unchanged compared to the Annual Report 2018.

With reference to section 134 of the Executive Order on Financial Reports for Insurance Companies and Lateral Pension Funds, no consolidated accounts have been prepared.

The Annual Report covers the period 1 January to 31 December 2018 and is presented in DKK '000.

Correction of Material Error

In April 2019, Gefion Insurance received an order from the DFSA regarding derecognition of a deferred tax asset in the Annual Report for 2017 as well as the half-year report for 2018 ("the Order").

Consequently, Gefion Insurance was required to restate the result for the year ending 31 December 2017 and at 1 January 2017. The restatement impacts the comparatives and the opening balance as follows:

- The deferred tax asset recognised in the balance sheet of MDKK 5.0 at 31 December 2017 has been written off. This amount reduces the equity at 31 December 2017.
- The net income in 2017 is MDKK 1.9 higher due to changes in the assumptions for recognition of the deferred tax asset in the balance.
- The equity for 1 January 2017 has been reduced by MDKK 6.9 due to impairment of the deferred tax asset.

Below is an overview of how income statement and balance sheet items, statement of changes in equity and notes related to the Annual Report 2017 are affected by the error.

Notes

Financial Statement 2017

Income Statement and Statement of Comprehensive Income	Original	Adjusted	Difference
Tax on the result	-1,957	0	1,957
Net result for the year	9,635	11,592	1,957
Total comprehensive Income for the year	9,635	11,592	1,957

Balance	Original	Adjusted	Difference
Deferred tax assets	4,950	0	-4,950
Other assets, total	166,167	161,217	-4,950
Assets, total	1,837,208	1,832,258	-4,950
Retained earnings	-16,596	-21,546	-4,950
Equity, total	76,570	71,620	-4,950
Liabilities and Equity, total	1,837,208	1,832,258	-4,950

Statement of changes in Equity	Original	Adjusted	Difference
Shareholder's Equity at 31 December 2016	29,749	22,842	-6,907
Retained earnings	-16,596	-21,546	-4,950
Shareholder's Equity at 31 December 2017	76,570	71,620	-4,950

Financial Highlights and Key Figures	Original	Adjusted	Difference
Return on Equity after tax	18,1%	24.5%	6,4%

General

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, write-downs, provisions and reversals due to changed accounting estimates of amounts previously recognised in the income statement.

Assets are recognised for in the balance sheet, when it is likely that future financial advantages will flow to the Company and the values of the assets can be measured in a reliable way.

Liabilities are recognised in the balance sheet, when the Company has a legal or actual liability, as the consequence of an earlier occurrence, and when it is likely that future financial benefits will be deducted by the Company and the value of the liability can be measured in a reliable way. Income is accounted for in the income statement when it is earned, whereas costs are accounted for with the amounts, which can be related to this accounting year.

Notes

Value adjustments of financial assets and liabilities are accounted for in the income statement, unless otherwise stated above.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report, which confirm or invalidate affairs and conditions existing at the balance sheet date.

Currencies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are converted at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

Insurance Contracts

Gefion Insurance writes contracts which transfer insurance risks.

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 risks are always considered to be material in non-life insurance.

Income Statement

Premium income net of reinsurance

Gross premiums are the premiums which the Company in the accounting period has received, paid or has posted as receivables and payables for direct and indirect insurance contracts, where the insurance period has started before the end of the accounting year. Net premiums are gross premiums with deduction of premiums ceded to reinsurance companies according to reinsurance contracts entered into.

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

Cost of Claims Net of Reinsurance

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

Notes

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

Insurance Operating Costs Net of Reinsurance

Insurance operating costs which relate, either directly or indirectly, to the acquisition and renewal of the portfolio are included in the acquisition costs. Commissions paid to agents and brokers are generally recorded in the income statement on the date the insurance takes effect.

Administration expenses comprise other costs incurred in the administration of the portfolios including rent, staff costs, IT costs, levies etc. The administration expenses are accounted for on an accrual basis. Depreciation is included in the administration expenses.

Reinsurers' commissions have been accounted for on an accrual basis over the insurance contracts' period of cover. Overrider commissions from reinsurers are taken to income when the insurance contracts have been written and are subsequently adjusted to reflect best estimate in accordance with the reinsurance agreements.

Return on Investments

Interest, dividends etc. comprise all interest, dividends etc. earned in the accounting year. Unrealised and realised gains and losses on investments assets are included in the revaluations, which also includes foreign exchange rates adjustments. Interest expenses includes interest payments on subordinated loans.

Administrative expenses relating to investment activities comprise the cost of asset management including transaction costs and amortization of costs associated with raising the subordinated loan.

Income from Affiliated Companies

The income statement includes the proportionate share of the net profits of the individual subsidiaries after full elimination of internal profit/loss.

Tax on Net Result and Deferred Tax Assets

Tax for the period, which consists of current tax for the period and changes in deferred tax, is recognised in the income statement by the portion attributable to the income statement for the year and recognised directly on equity by the portion attributable to entries directly on equity.

The current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this period's taxable income adjusted for prepaid tax.

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities.

Notes

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

The actual tax is distributed between any jointly taxed Danish subsidiaries in relation to their taxable income (full distribution with reimbursement of taxable losses). The jointly taxed companies are part of the on-account tax system.

Balance sheet

Intangible Assets

Intangible assets are measured at cost less accumulated depreciation/amortisation and impairment losses calculated based on the expected useful lives of the assets.

The following useful lives are applied to the individual assets:

- Software: 3-5 years

Tangible Assets

Leasehold improvements and office furniture etc. are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

- Leasehold improvements: Up to 10 years
- Office furniture etc.: Up to 10 years

Shares in Affiliated Companies

Shares in affiliated companies are measured under the equity method according to the accounting policies of the parent company with deduction or addition of unrealized intercompany profits and losses and with addition or deduction of the remaining value of positive or negative goodwill stated under the acquisition method.

Investments in group enterprises are measured in the balance sheet at the proportionate share of the net asset value of the enterprises stated under the accounting policies of the parent company with deduction or addition of unrealized intercompany profits and losses.

Group enterprises with a negative net asset value are recognised at DKK 0 and any receivables from these enterprises are written down by the parent company's share of the negative net asset value to the extent they are considered irrecoverable. If the negative net asset value exceeds the receivables, the remaining amount is recognised under liabilities to the extent that the parent company has a legal or constructive obligation to cover the negative balance of the enterprise.

Notes

Investment Assets

Investment assets are recognised at cost corresponding to fair value and subsequently measured at fair value with any adjustment in value taken to the income statement. The calculation at fair value is based on the listed price of the transactions in active markets. If there is an active market for bonds etc., the measuring is generally based on closing price at the balance sheet date. If there is no closing price, another public price is used which is delivered to the most appropriate. Recognised valuation methods or other public information available are used to value listed securities where the closing price does not reflect fair value.

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

The settlement date is used as the timing of the recognition of financial assets.

Reinsurers' Share of Provision for Insurance Contracts

Reinsurers' share of the 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 accounting year.

Reinsurers' share of the provisions for outstanding claims has been calculated as the amounts expected to be received from reinsurance companies according to the reinsurance contracts concluded. The reinsurers' share is regularly assessed for impairment and written down to its recoverable amount, as required.

Receivables

Receivables are measured at amortized cost usually equaling nominal value less provisions for bad debts.

Prepayments and Accrued Income

Prepayments and accrued income comprise prepaid expenses relating to subsequent years and accrued interest income.

Cash and Bank Deposits

Deposits comprise investments in Money Market Accounts.

Subordinated Loan

The initial recognition of the subordinated loan capital is made at fair value less transaction costs and subsequently measured at amortised cost.

Notes

Premium Provisions

Provisions for premiums are provided to cover obligations and amounts for unexpired risk periods for insurance contracts in force as the present value of estimated future payments, including payments for administration and claims handling. The provisions are calculated pro-rated based on inception and expiry dates. The provision for unearned premiums is covering compensation for claims that have not yet incurred, but where the insurance company has taken on the risk through an insurance contract with an external party.

The part of the provision that is attributable to the expected future profit on the provision for unearned premiums shall be recognised in the balance sheet item "Profit margin".

A risk margin relating to premium provisions to cover the uncertainty regarding claims that occur after the balance sheet date. The risk margin is recognised in the balance sheet item "Risk margin".

Cash inflows related to not collected premiums are reclassified from receivables.

Profit Margin

Profit margin on insurance contracts is recognised as the expected future profit on bound but not yet incepted insurance contracts and incepted insurance contracts with remaining risk period, corresponding to the insurance contracts covered by the provision for unearned premiums.

Profit margin on insurance contracts is measured as the difference between premiums related to bound but not yet incepted insurance contracts and incepted insurance contracts with remaining risk periods and the expected claims payments related to the insurance contracts. In case the future claims payments for a line of business with homogenous risks are expected to exceed the future premiums, no profit margin will be recognised for this line of business.

Claims Provisions

Provisions for claims is the amount for covering claims and costs on insurance events occurred in the accounting year or prior to that year.

Provisions for outstanding claims are assessed for each line of business and country-by-country either on a claims-by-claims basis for reported but not settled claims (RBNS) or by using statistical methods (collective as well as incurred but not reported (IBNR) and incurred but not enough reported (IBNER) provisions). 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. The IBNR and IBNER provisions are calculated based on actuarial models (Chain Ladder or Bornhutter-Ferguson) and benchmarked to market data.

The claims provisions are calculated as the sum of the amounts, which the Company to the best of its knowledge expects to be liable to pay in connection with the insurance events occurred until the day of the balance exceeding the amounts that have already been paid in connection with these insurance events. The claims provisions include a management judgement to provide for situations where management deem the statistical data to be incomplete or inadequate.

The claims provisions also contain amounts, which the Company to the best of its knowledge expects to pay for direct and indirect costs in connection with the future settlement of the claim's provisions. The claims provisions are discounted dependent on line of business and expected payment patterns. This is done using the risk-free yield curve calculated by EIOPA.

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 settlement of technical provisions deviate from best estimate.

The risk margin is calculated using the Solvency II standard formula.

Liabilities other than Provisions

Financial liabilities are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, financial liabilities are measured at amortised cost corresponding to the capitalized value when applying the effective interest rate. The difference between the proceeds and the nominal value is recognised as an interest in the income statement over the loan period.

Other debt is measured at amortised cost corresponding to nominal value.

Accruals and Deferred Income

Accruals and deferred income include not yet paid expenses related to prior years, and income related to subsequent years.

Note 21 – Accounting Estimates and Judgments

Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the financial statements. Those estimates and assumptions are presented in this note. The estimates and assumptions are based on presumptions that management find reasonable, but which are inherently uncertain and unpredictable. The presumptions may be incomplete, unexpected future events or situations may occur, and other parties may arrive at other estimated values.

Provisions for insurance contracts (Technical provisions)

The most material uncertainty relates to measurement of technical provisions.

The Company's estimate for reported and unreported claims and the resulting provisions involves forecasting of future development. Such forecasts are subject to management judgment and those judgments may be sources of measurement uncertainty that involve a significant risk of resulting in a material adjustment to a carrying amount within the next financial year. The incorporation of forward-looking elements reflects the expectations of management and involve continually monitoring and updating of the latest available information. Adjustments resulting from the ongoing review are reflected in the income statement. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. Estimation of claims provisions is a complex process, however, and material uncertainty exists as to the ultimate settlement of these liabilities.

The risk related to measurement of technical provisions is significant, in particular for lines of business with a long period of settlement of claims primarily bodily injury. Over the period of settlement, the levels of compensation could be significantly affected by any changes in the adopted legislation, case-law or practice regarding the award of claims. The estimates made are based on assumptions and to some extent calculated by benchmarking to market data which the management finds justifiable but uncertain. Others may come to another estimate using different assumptions, parameters and/or methods.

Reinsurance coverage

The Company uses reinsurance to a large extent and is substantially dependent on reinsurers taking a significant portion of the Company's insurance risks. The value of reinsurance relates to reinsurers' share of the provisions corresponding to the proportion of premiums ceded. The recognised recoverable amount from the reinsurers is therefore dependent upon the corresponding provisions made. The uncertainty described above is therefore equivalent for the measurement of reinsurance contracts.

Furthermore, uncertainty exists related to the Company being exposed to a counter-party default risk against its reinsurers. This can potentially result in losses if one or more of the Company's reinsurers become unable to meet their financial obligations or disputes an obligation to settle their share of amounts paid by the Company to policyholders.

Professional judgment

A critical estimate included in the Company's balance sheet requiring professional judgment is the estimate for provisions of gross and net claims incurred but not reported (IBNR) and incurred but not enough reported (IBNER). This estimate is included in claims provisions.

Likewise, the estimation of premium provisions and profit margin is based on assumptions requiring professional judgment and involves estimation of ultimate claims costs related to in-force policies incurred during the remainder of the risk period.

General areas of uncertainty

In estimation of technical provisions, the most important components of uncertainty comprise the following:

- Model uncertainty: the projection methods used to estimate ultimate claim amounts are statistical models, which do not capture all potential developments that might influence the actual future claim payments. Accordingly, the statistical models represent an estimate with a degree of uncertainty and potential mismatch between the model output and reality.

Notes

- Parameter uncertainty: parameters in the models are set with reference to past experience, adjusted for interpretation of the data and expectations of what might happen in the future. There will always be some degree of uncertainty regarding the appropriateness of the selected parameters (or assumptions) as potential changes in external conditions cannot be predicted based on historical observation only.
- Process uncertainty: process uncertainty is about the fact that the future outcome will itself be uncertain and even if the parameter uncertainty was zero, there would still be a range of possible outcomes.
- Data uncertainty: the models and parameters depend upon data which might be flawed due to erroneous records, systems limitations, and timing differences (e.g. between outward payments and inwards recoveries against third parties).
- Seasonality: the business that the Company writes, primarily motor, is seasonal in nature. While net earned premiums are more stable from quarter to quarter, the underwriting income can be driven by weather conditions which may vary significantly by quarters.

Areas of uncertainty specific to Gefion Insurance's business

Further to these uncertainties the below mentioned matters of more specific nature related to Gefion Insurance's business result in increased uncertainty.

- Data uncertainty – the Company relies considerably on claims reporting (bordereaux), provided from binders. Bordereau data may contain errors, as well as delays in production. Any imperfections in data add a degree of uncertainty to the results based upon the data.
- New portfolios – the Company's business is relatively new. As actuarial projection methods largely rely upon historic data to provide a guide to future claim development, this means that the available data does not provide a robust basis for projection, and thus management judgment is required.
- Use of benchmarks – While benchmarks are useful when there is little own experience from which to base projections, there is inherent uncertainty as a result of using them as benchmarks are based on businesses that are more mature and may have different claims management processes. For binders writing niche business benchmarks may be less useful.
- Rapidly increasing business – the Company's business has increased significantly. Rapid growth put a strain on underwriting control and claims management, resulting in a risk of the quality of the business deteriorating.
- Regulatory changes – The claims are subject to changes in regulation, which can be retrospective in nature, e.g. related to personal injury. The possibility of future regulatory changes increases the uncertainty of the estimates.

Material uncertainty related to future development

As a result, subsequent experience related to the above and other matters, involves a material uncertainty that the future development will be different than assumed in respect of the amounts measured on insurance contracts at the balance sheet date.

This uncertainty may result in a different future loss emergence of the Company's insurance contracts than assumed. This involves a risk that future claims expenses may be different than assumed, and that future results may be materially affected due to inadequate estimates to the provisions.

Material uncertainty related to assessment of others, including the DFSA

Further, there is material uncertainty that others, including the DFSA, may come to different results by using different assumptions in the measurement of technical provisions than the Company. This involves a risk that the DFSA may order the Company to book changes to estimates to the technical provisions and that such changes may be material.

Involvement of experts

In order to support the robustness of provisions the Company asked an international independent actuarial firm to estimate the Company's outstanding claims costs as at 31 December 2018. The Company chose to follow the recommendations of the independent actuarial firm.

While the involvement of an international independent actuarial firm reduces the risk of outstanding **claims costs being different than assumed this does not eliminate the material uncertainty related to the measurement of technical provisions, including the risk that the Company may be ordered by the DFSA to change the provisions.**

Note 22 – Risk Factors

Careful consideration should be given to the following factors, which must be read in conjunction with the detailed information appearing elsewhere in this Annual Report.

Any of the matters highlighted in this information could have a material adverse effect on the result of operations, financial condition or business prospects of Gefion Insurance.

Nature of the Industry

The non-life insurance business in Europe is affected by many different risk factors which can cause fluctuations in the results of operations of Gefion Insurance. Many of these factors are beyond Gefion Insurance's control.

As a non-life insurance company, Gefion Insurance is subject to claims arising out of catastrophes, which may have a significant impact on the results of the operations and financial conditions of the Company. An economic downturn in those countries in which Gefion Insurance writes business could result in less demand for insurance and lower premiums rates. These factors, together with the insurance industry's historically cyclical competitive pricing, could result in fluctuations in the underwriting results and net income.

A portion of the earnings is derived from income from investments. Gefion Insurance's return on investments will fluctuate depending on interest rates, returns and values of the portfolio of bonds.

Notes

Cyclicality

Historically, the results of the non-life insurance industry have tended to fluctuate in cyclical patterns of "soft" markets characterised by increased competition, resulting in lower underwriting standards and premiums rates, followed by "hard" markets characterised by less competition, tougher underwriting standards and increasing premium rates.

Gefion Insurance's profitability tends to follow this cyclical market pattern for the standard insurance products while the niche insurance products are more stable over time. These fluctuations in competition and demand could lead to underwriting results that would have a negative impact on the Company's underwriting results and financial condition.

History shows that the results of the non-life insurance industry have been subject to significant fluctuations and uncertainties. The underwriting profitability can be affected significantly by many factors, including regulatory regimes, development trends in tort and practice of settlements of claims, **claims handlings procedures, and privacy and consumer protection laws that prevent insurers from assessing risk or factors that have a high degree of correlation with risks considered, such as claims history or scoring of customers etc.**

Competition

Gefion Insurance is writing business in a number of European countries where the insurance business is highly competitive with pricing being a primary driver of competition. Other drivers of competition include quality and availability of products, speed and quality of services, availability of premium financing, distribution network, financial strength and IT solutions.

Gefion Insurance competes with many other insurance companies. Most of these competitors are larger and have greater financial resources than Gefion Insurance. As competitors introduce new products or reduce their premium rates in an apparent attempt to gain market share, the Company may be exposed to additional and tougher competition. There can be no assurance that the Company will continue to see growth in premiums and to be profitable.

There is also a risk that Gefion Insurance will lose market shares if the competitors' price their products below the rates that the Company considers appropriate taking into account numerous factors, including claims frequency and severity, reinsurance and commission expenses as well as special risk factors. The pricing of the products is determined by coverholders, which have detailed market knowledge and underwriting competencies within the segments that Gefion Insurance writes. Gefion Insurance continuously monitor the pricing, profitability and risk selection carried out by the coverholders.

Furthermore, Gefion Insurance is largely dependent on the distribution network that is built up through coverholders and their network of sub-agents and brokers, including their market knowledge, competences and customer contact.

The strategic situation and the risks involved is subject to continuous review and assessment by the Board of Directors in close cooperation with the Board of Executives.

Notes

Reliance on Coverholders and Brokers

Gefion Insurance distributes its insurance products through a network of coverholders and their network of sub-agents and brokers. Some of these coverholders and their network of sub-agents and brokers sell Gefion Insurance's competitors' products and may stop selling Gefion Insurance's products altogether. Strong competition exists among insurers for coverholders with the ability to distribute and sell insurance products.

Premium volumes and profitability could be adversely affected if there is a material decrease in the number of coverholders that choose to sell the Company's insurance products or if some of the key coverholders choose to terminate binder agreements etc.

Underwriting and Claims Risk

Gefion Insurance is exposed to losses resulting from the underwriting of risks being insured and exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs. The Company's success depends upon its ability to accurately assess the risks associated with the insurance products written.

Gefion Insurance's objective is to achieve profitable underwriting results corresponding to a combined ratio below 98 and to target territories and markets in a diversified and prudent way.

Underwriting risk is managed primarily through the Company's insurance policy as outlined in underwriting procedures and guidelines etc. Underwriting risk are monitored based on the Solvency Capital Requirement relating to insurance products.

The underwriting risk management is further supported by due diligence procedures when entering into binder agreements, and continuous follow-up and portfolio reviews on the performance of existing agreements. The underwriting committee has a pivotal role in assisting and advising Management in assessing current risks and defining appropriate actions to mitigate identified risks.

There is no guarantee that Gefion Insurance will assess those risks associated with the insurance products written accurately and the Company may therefore be exposed to increased adjudication, settlement and claims costs.

Claims Management and Claims Provisions Risk

The amount established for outstanding claims provisions is an estimate of future claims costs based on various assumptions, including actuarial judgement and projection of the costs of settlement and the administration of claims carried out by third-party claims administrators, estimate of future claims trends in frequency and severity etc. Many of the above-mentioned factors are not quantifiable and the effects of these, and other unforeseen factors could affect Gefion Insurance's ability to accurately assess the risks of the insurance products that the Company writes. In addition, a significant uncertainty exists as to the ultimate settlement of these outstanding claims. Furthermore, future adjustments to outstanding claims provisions and claims adjustment expenses that are unanticipated by the Executive Management could have an adverse impact on the underwriting results and the financial condition.

The risks are managed through active claims management by the company's claims manager, which involves oversight of claims development and active on-site inspection and meetings with claims handlers and regular reporting to Management on initiatives and action plans.

Claims provision are set on the basis of actuarial calculations performed by the actuarial department and with the Actuarial function being responsible for ensuring a robust process. The assessments made by the internal actuaries is regularly benchmarked by obtaining independent reserve reviews from independent, external actuarial firms with knowledge of the markets and segments that the Company is operating in.

Gefion Insurance's Executive Management believes that the Company's outstanding claims provisions as per 31 December 2018 are adequate to meet the obligations under existing policies. Actual claims may adversely deviate, maybe substantially, from the outstanding claims provisions booked in the balance sheet of the financial statement. If the provisions subsequently prove to be inadequate, the Company will have to increase the outstanding claims provisions, which will lead to a change in future **underwriting results and the financial condition.**

Reinsurance

Gefion Insurance relies to a significant extent on reinsurance to manage its claims exposure and to manage its Solvency Capital Requirement. The Company purchases both proportional and non-proportional reinsurance on the international reinsurance market. The Company has a self-retention of maximum EUR 500k on large claims. Therefore, large claims will only have limited impact on the Company's underwriting results and financial condition.

The use of reinsurance involves by nature a counterparty risk. This risk is monitored by setting minimum requirements to ratings of reinsurers entered into agreements with.

The availability and the cost of both proportional and non-proportional reinsurance are subject to market conditions that are beyond the Company's control and may affect the Company's level of business and profitability.

There can be no guarantee that developments may not occur which might cause a shortage of reinsurance capacity in certain territories or in those lines of business which the Company writes, which could result in the curtailment of issuing policies in a certain territory or in a certain line of business.

Investment Risk

Market risk is the possibility of experiencing adverse changes in market rates and prices, such as currency rates, interest rates or other relevant market rates due to factors that affect the overall performance of the financial markets in which Gefion Insurance is involved. The risk is mitigated by matching assets and liabilities.

The main risk is significant mismatch between assets and liabilities or an unhedged foreign exchange risk.

Notes

The Company's investment assets are exposed to any combination of risks related to interest rates, currency rates and changes in markets values.

The Company's investment portfolio consists of Danish government and mortgage bonds. A decline in returns could reduce the profitability and a change in interest rates, currency rates and market values may affect the Company's regulatory sensitivity tests.

The overall framework for managing investment risk is defined by the investment policy. The policy prescribes limits to interest rate, credit, and currency exposures. Monitoring is made on a current basis with regular reporting where compliance with the investment risk limits are followed up.

Capital Requirements

Gefion Insurance's future capital requirements will depend upon many factors, including growth, reserving, profitability and the status of competition. There can be no assurance that further financing or capital will be available on acceptable terms, or at all. If new capital is raised by issuing new shares, further dilution to the existing shareholders will be the result. If the Company is unable to ensure sufficient own funds to cover the Solvency Capital Requirement, the Company may be required to reduce premium volumes, increase reinsurance or implement other risk mitigating actions. Accordingly, the inability to obtain such financing could have a significant adverse impact on the Company's business, underwriting results and financial condition.

The capital base is continuously measured against the capital requirement calculated according to the standard formula.

Monitoring of the capital position also involves capital projections based on business plans within the strategic planning period and stress on selected scenarios.

As part of the Company's Own Risk and Solvency Assessment (ORSA), the Company assesses the material risks that the Company is or may be exposed to, including an assessment of whether the calculation of the Solvency Capital Requirement is reasonable and reflects the Company's actual risk profile.

Liquidity Risk

Gefion Insurance manages its liquid assets and cash in an effort to ensure there is sufficient cash to meet the Company's financial obligations. There can be no guarantee that the Company's liquid assets and cash will be sufficient to meet any obligations may come due.

The Company management its liquidity risk through cash flow and liquidity budgets, including close monitoring of cash flow to and from MGA's, TPA's, Brokers and reinsurers among others.

Coverholder and Reinsurer Credit Risk

Gefion Insurance reinsures approximately 85-90 % of its business to quota share reinsurers and is therefore substantially dependent on the panel of reinsurers that takes a significant portion of the

Notes

Company's insurance risks. The reinsurance may cause an adverse impact on the underwriting results if one or more of the Company's reinsurers are unable to meet their financial obligations.

Although approximately 98% of reinsurers were rated A- or higher by Standard and Poor's at year-end 2018, these reinsurers' ratings are subject to downgrade and may consequently be lowered.

Despite the fact that the reinsurers are obliged to pay Gefion Insurance to the extent of the risk each reinsurer assumes, the Company is not exempt from its primary obligations to policyholders as the direct insurer. In terms of the distribution through coverholders, it is the coverholders' ability to pay that is the major risk factor. The risk is managed and mitigated by strict follow-up procedures of the cover-holders' holding the Company's funds and the payment thereof to the Company. As a result of this, Gefion Insurance is exposed to a counter-party default risk against both its coverholders and reinsurers.

Gefion Insurance cannot ensure that coverholders or reinsurers will pay all receivables on a timely basis or at all. The Company continuously monitors the coverholders and its reinsurance panel, including provisions for uncollectible reinsurance amounts deemed uncollectible. The Company's underwriting results and financial condition can be adversely affected in a situation where losses on receivables occur.

Regulatory Risk

Gefion Insurance is subject to the laws and rules of the European jurisdictions in which the Company conducts its business. These laws and rules cover many aspects of its business, including rules of excellent customer services, case-law or practice in the award of claims, change in discount rate such as the Ogden rate in the United Kingdom, cross-border business rules and Brexit impact on cross-border insurance for businesses in the United Kingdom.

More restrictive laws and rules may be adapted in the future that could make compliance more difficult and could result in increasing expenses and/or restrictions on Gefion Insurance's business.

Changes to laws and rules are impossible to predict and could significantly adversely affect Gefion Insurance's business, underwriting results and financial conditions. Should the DFSA be concerned about an unsafe course of conduct or an unsound practice in conducting the business, the DFSA may direct the Company to refrain from a course of action or to perform actions to remedy the matter. In certain circumstances, the DFSA may take control of the assets of the Company or take control of the Company itself.

The handling of regulatory risk, including compliance risk, is monitored and coordinated by the Company's internal legal counsel. The Company uses different sources such as legal subscriptions, newsletters, participation in industry committees and educational fora etc. to be informed about regulatory developments.

This is supported by compliance controls defined within the organisation. Compliance risks and compliance controls performed by the Compliance Function are reported to the Board of Executives and Board of Directors.

Gefion Insurance may be negatively affected if its industry engages in practices resulting in increased public awareness to its business. Negative publicity may result in increased regulations and litigations.

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Such consequences may increase the Company's costs of conducting business and adversely affect Gefion Insurance's profitability by preventing the Company's ability to market its products and services through coverholders or increasing the regulatory burdens under which the Company conducts business.