STATEMENT TO THE EXTRAORDINARY GENERAL MEETING, INSR

Brief overview

On June 26 2020, Insr Insurance Group ASA (Insr) received the final inspection report from the Norwegian Financial Supervisory Authority (NFSA) in connection with an on-site inspection carried out in August 2019. On the same day, Insr received a notice of a decision to revoke the company's licence to conduct insurance business.

Insr was given a deadline of 14 August 2020 to submit its comments in response to the notice and has complied with such deadline. Insr submitted that the notified decision lacked the necessary factual and legal bases, and in any event, that it would constitute a disproportionate sanction. Insr is not in breach of the solvency capital requirements and there are no circumstances which entail that customer protection is threatened.

Upon receipt of the notice, and during subsequent interactions with the NFSA, the board of directors firmly assessed it to be very likely that the NFSA would decide to revoke the company's license in accordance with the notice. According to the Financial Institutions Act, a decision in accordance with the notice would entail that the company's insurance operation would not only be wound up, but that the company would be placed under liquidation and dissolved as a company. In such a situation, the NFSA would appoint a board of liquidators and a managing director to manage the dissolution process.

The company would, in this case, be dissolved regardless of whether the company was solvent at the time of the decision. If, at the time of the decision or during the dissolution period, the company should become insolvent, it would be placed under public administration.

In order to maximise shareholder value in light of the NFSA's notice, the board of directors decided to initiate a comprehensive strategic process. This process led to an agreement with Storebrand Forsikring AS (Storebrand), signed on 14 August 2020 (the Agreement). The Agreement implies a sale of substantially all of the company's Norwegian insurance portfolio. It is a condition for completion of the Agreement that it is approved by the extraordinary general meeting of the company.

The board of directors believes that completion of the Agreement with Storebrand is the solution that gives the highest expected shareholder value and recommends that the shareholders approve the Agreement at the extraordinary general meeting.

More about the NFSA's notice of revocation of the license

The NFSA's main observations

The NFSA expressed the view that the company's board of directors and management have not complied with their supervisory duties, and that breach of these duties is both material and persistent. It is particularly alleged that the board of directors have violated the duty to ensure a proper organisation of the company and the establishment of proper governance and control systems. This is based on a number of observations, including:

- repeated and significant accounting errors for several years (2013 up to and including 2019), revealing that the internal control system has not been sound, and that staffing and competence have been insufficient;
- the lack of satisfactory follow-up, monitoring and reporting of identified insurance risks to the board of directors, including lack of appropriate guidelines for entering new markets or products;
- the lack of sufficient control mechanisms and systems to control insurance distributors and thus good risk selection;

- the lack of proper follow-up of outsourced activities, including the establishment of guidelines and procedures to identify risks and the likelihood of a risk occurring, and the governance and control of outsourced activities;

- the establishment of what the NFSA concluded to be a branch as opposed to the mere rendering of cross-border insurance services in Denmark without complying with the regulations for the establishment of such branch;

- insufficient communication with the NFSA; and

- other issues such as a lack of independence of control functions and suitability assessments and non-compliant variable remuneration.

The NFSA has documented their view on all items pointed out in the report following the on-site inspection that took place in August 2019, and the notice refers to the report for a further explanation of the details regarding several points.

In the notice, the NFSA states that the identified issues are of such a nature that Insr's licence may be revoked. Thereafter, an overall assessment is made of whether Insr's license should be revoked. The NFSA's preliminary assessment is that such sanction is proportionate, as the breaches relate to requirements of fundamental importance to non-life insurance companies, and that they are considered to be material and persistent.

The NFSA then assessed whether any alternative measures would be sufficient. They have considered an administrative order for rectification, an order for amendments to the board of directors and management, an order for increased solvency capital requirements and an order for the cessation of new policies until the conditions have been rectified, but conclude that such measures would not be sufficient. Finally, the NFSA conducted an overall assessment, in which the consequences for owners and employees are also assessed, but which were not found to be sufficiently important.

The board of directors' response to the NFSA

The board of directors stongly disagreed with the NFSA. A summary of the board of directors' response to the NFSA is as follows:

- A majority of the breaches referred to by the NFSA concern historical issues that have been rectified. There is no basis for concluding that there are currently serious deficiencies in the company's organisation, governance and control. Consequently, the board of directors and management are not guilty of breaching statutory duties.

- The NFSA has not made a real assessment of the proportionality of the notified sanction. The company is not in breach of the solvency capital requirements. There are no circumstances which entail that customer protection is threatened. As of today, the company has stable, long-term owners and a professional board of directors and management. The lack of governance and control the NFSA has identified are mainly historical. There is little risk of recurrence. The revocation of the licence is not a proportionate measure.

- In its proportionality assessment, the NFSA has not considered the significant challenges to which the company's board of directors and management have been exposed to over a long period. These challenges existed before the appointment of the present board of directors and management. It has been the task of the board of directors and management to identify and correct weaknesses in the business. The company's operations are a continuation of the operations in Vardia and Nemi, with their respective significant challenges. The work of rectifying errors has involved the identification of further challenges along the way. It is not a weakness of the company, but a strength, that better systems and increased control have been established, which enables the company to uncover otherwise hidden historical errors. There is no doubt that the company is in a far better condition than in 2016. Therefore, the sanction would be disproportionate. In any case, the proportionality assessment must emphasise that the company is now well under way with the assignment of its insurance business, and that the company has set a short deadline for when agreements on the assignment of the total insurance risk must be concluded.

- A revocation will cause delays and uncertainty for insurance customers. It could also lead to Norwegian regulated companies being considered unpredictable by international investors and thus reduce access to capital for such companies. These factors must be emphasised when assessing whether the notified decision is reasonable and proportionate.
- Other administrative law measures, such as an order for rectification, would be more proportionate than the notified measure, including increased capital adequacy requirements.
- In any case, a winding-up should be limited to the licensed business, and not include the company as such.

The board's assessment of the probability of a decision based on the notice

The NFSA's procedures prior to a notice of a decision to revoke a license are expected to be very thorough, given the serious effect the possible decision will have for all affected parties. A notice expresses the NFSA's assessment based on the facts it has relied on. This means that if the company cannot refute the NFSA's actual understanding of areas that are essential for the justification of the notified decision, the NFSA will make the decision as notified in the notice.

Insr is a non-life insurance company. A revocation of a license has almost never happened. Insr is also listed on a stock exchange, and it currently meets the solvency capital requirements. The NFSA therefore has no reason to expect that Insr and its shareholders will accept such a decision, meaning that such a decision may be appealed and that legal action may be brought. A decision could also attract international attention, and reduce investors' confidence in Norwegian regulated companies as possible investment objects. This in turn may have negative consequences for regulated companies' access to capital.

There is no reason to assume that the NFSA did not consider all relevant counterarguments before sending the notice.

Although the board of directors is of the opinion that the NFSA's assessments lack the necessary legal and factual bases, there is no reason to doubt that the NFSA believes that it is sufficient. The ongoing communication throughout the summer has reinforced this impression.

The board of directors therefore considered it very likely that continued operations in combination with responding to the notice would lead to a revocation of the licence with an overwhelming probability. This would be the likely outcome even if the company had implemented further measures to improve the identified issues, as such measures were already considered insufficient in the notice.

The consequences of Insr having its licence revoked is, as mentioned in the introduction, that the company would be dissolved under the management of a liquidation board appointed by the NFSA. Such a decision may be appealed, and may be given suspensive (delayed) effect at the discretion of the NFSA. The NFSA has historically set strict terms for suspensive effect when given. It must be expected that the prohibition of new subscriptions and possibly renewals would be imposed. This would lead to a gradually reduced portfolio meaning that the remaining value of the company would deteriorate rapidly and consequently further reduce the chances of a sale.

Such a strategy would also have been very unpredictable for the company and its customers, employees, agents and other involved parties.

Sales process

Based on the assessment set out above, and seeking to maximise shareholder value, the board of directors initiated a comprehensive strategic process immediately following the receipt of the notice with the purpose of divesting the company through facilitating an offer for the company's shares. The company was in contact with several potential buyers, none of which were interested in making an offer for the company's shares at that time.

As the NFSA's primary mandate in addition to ensuring stability of the financial system is to protect the interests of customers of financial institutions, the board considered that the elimination of all insurance risk from the company and the finding of new insurance providers for all of the company's customers as soon as possible would be the best alternative chance of avoiding the company having its licence revoked.

Some of the parties with which the company had dialogue were interested in proceeding with smaller transactions and of these, Storebrand offered the best commercial terms in addition to offering the most comprehensive transaction.

Portfolio purchase agreement

The contemplated portfolio transfer under the Ageement with Storebrand is structured in two parts.

Part 1 comprises the substantial part of the company's active insurance policies in the Norwegian market (the Active Portfolio). The transaction will be completed as a portfolio transfer and will be structured in a manner whereby Storebrand has the right and obligation to offer new insurance policies to the substantial part of Insr's customers, including customers under the Nemi and Tide brands. The insurance portfolio will be gradually transferred over to Storebrand as policies are renewed or amended. The transfer process is expected to commence before the end of 2020 and last until the end of 2021.

Part 2 comprises the substantial part of the company's historical insurance policies in the Norwegian market (the Run-Off Portfolio). The transfer of the Run-Off Portfolio is contemplated to take effect following completion of the transfer of the Active Portfolio, expected on 1 January 2022.

In addition to approval from the extraordinary general meeting, completion of the purchase of the Active Portfolio is subject to customary conditions such as there being no material breach of warranties and obligations and approval from the NFSA and the Norwegian Competition Authority on terms acceptable to the parties. Approval from the Competition Authority was granted on 25 August 2020. Completion is further conditional upon that the company maintains its license to operate on conditions that enables it to fulfil its obligations under the Agreement and that the NFSA has not initiated any adverse actions on the company such as public administration, liquidation or winding-up of the company. The transfer of the Run-Off Portfolio is also conditional upon consent from the company's current contractual parties under re-insurance agreements and entry into of retroactive re-insurance agreements (LPT-agreements) under which a third party assumes the run-off risk transferred to Storebrand under the Agreement. The company is currently negotiating with relevant third parties for a timely execution of such LPT agreements.

The company has provided customary representations and warranties relating to the portfolios.

Purchase price and settlement

The purchase price for the Active Portfolio shall be calculated as a percentage of the first year's annual premium at the first ordinary renewal or policy change for each customer under new policies written by Storebrand. For the Nemi portfolio, this is 30 % for aggregate annual premiums up to and including NOK 500 million, and 35 % for aggregate annual premiums exceeding NOK 500 million (calculated on marginal volume exceeding NOK 500 million). For the Tide portfolio, this is 20 %. The substantial part of the purchase price for the Tide portfolio will be transferred to Tide.

The minimum consideration for the Active Portfolio is NOK 70 million, subject to the company not being in breach of the Agreement. The base case net estimated purchase price for the Active Portfolio included in the financial forecast is NOK 170 million. The consideration shall be paid on a monthly basis from Storebrand's initiation of renewals. A final settlement of the total consideration shall be completed 18 months thereafter.

The company's funds relating to the Norwegian Natural Perils Pool, being NOK 36.3 million as at 30 June 2020, shall subject to necessary approvals by governmental bodies be transferred to Storebrand and compensated on a NOK for NOK basis less a discount of 37.5%.

The company shall pay Storebrand a consideration for assuming the risk under the Run-Off Portfolio to compensate for its increased capital costs due to the transaction. The consideration is expected to be low in light of the contemplated execution of the LPT agreements. In addition, the company shall pay a cash payment to Storebrand to cover any difference between transferred rights and assumed obligations. The consideration becomes payable upon completion of the transfer of the Run-Off Portfolio.

Winding-up of the insurance business

The company's primary remarks to the NFSA was that the notified decision lacked the necessary factual and legal bases, and in any event it would constitute a disproportionate sanction. As an alternative measure to recovation of the license, the company has presented the NFSA with a plan for winding-up of the company's insurance business under control of the company itself, without dissolution of the company as such. The board of directors considers this to be the best realistically available opportunity to maximise value for shareholders in the present situation.

The Agreement with Storebrand constitutes the main component of this alternative course of action, but is part of a wider suggested plan to wind-up the company's insurance business. According to the articles of association of the company, the company's purpose is to be a non-life insurance company. As the implementation of the Agreement is the main part of a wider plan to wind-up the company's insurance business, and also considering the financial effects of the Agreement, the board of directors considers that the Agreement requires approval by Insr's general meeting with 2/3 majority. Following completion of the winding-up of the company's insurance business, Insr will de facto be required to amend its name, purpose and articles of association which will all be subject to approval by the general meeting with 2/3 majority. Given that Insr will continue to be an insurance company until the winding-up is completed, the actual amendments to the articles of association cannot be implemented now.

The Agreement does not comprise all of the company's insurance business, as the transfer of certain smaller portfolios requires approval by or co-operation of agents/distributors. Active policies excluded from the Agreement further relate to the Danish market, and products within the so called affinity-portfolio. Historical insurance policies excluded from the Agreement relate to the Danish market, affinity products, policies written prior to 2010 (2017 for occupational illness), and energy policies (including dam-liability). The company is currently negotiating with several parties, mainly specialized run-off companies, to ensure timely transfer of all insurance risk excluded under the Agreement.

The claims reserves for the excluded portfolio in Norway is approximately NOK 6 million.

The board's assessment of the probability of a license revocation if the agreement with Storebrand is rejected by the general meeting

The sale to Storebrand is the most important element in the alternative winding-up plan that the company has presented to the NFSA. Should the general meeting decide to reject the Agreement, the board of directors' assessment is that the NFSA will revoke the company's licence and place the company under solvent dissolution. This is because the company will, in such case, not have a credible plan for winding-up the insurance business.

The board's assessment of the probability of a license revocation despite of the implemented measures

The board of directors have also considered the likelihood that the NFSA adopts a decision of revocation even despite of the company's alternative course of action to withdraw from the insurance market. The board of directors considers it to be a possible scenario that the NFSA would revoke the license, however, most likely then with effect from the company's withdrawal from the insurance market, expected to be 1 January 2022. Such a decision could be combined with a dispensation to maintain Insr as a legal entity (i.e. avoid a dissolution).

Another alternative is that the NFSA will await reaching its decision until the NFSA finds that the winding-up plan has not been complied with, that circumstances occur which indicates that the company should not continue to manage the winding-up process, or when all of the insurance risk is transferred. In such a case, a decision to revoke the license could be made at any stage of the winding-up process, and at the latest when the winding up of the insurance business is completed.

The board's assessment of the probability of winning an administrative law appeal

There is currently no decision from the NFSA which can be subject to appeal.

To initiate the winding up of the insurance business before a decision is made by the NFSA, and consequently before it has been appealed, implies that the company partially anticipates the consequences of a decision. As mentioned above, the board of directors is of the view that not initiating a winding-up of the insurance business would leave the company in an even more challenging situation. In such a case, a decision by the NFSA to revoke the company's license had to be expected shortly after expiration of the company's deadline to respond. Even though such a decision by the NFSA could have been subject to an appeal and suspensive effect could have been granted, it's not likely that the company either formally or actually could have maintained normal operations thereafter.

The company's initiatives based on the consequences of a decision by the NFSA before such a decision is made does, however, not affect the legal standing in a possible administrative appeal. If a decision by the NFSA is made before the winding-up is completed it will be possible to apply for suspensive effect. Furthermore, the final decision of the NSFA will be subject to administrative appeal.

The board of directors considers the probability of a successful administrative appeal within a time frame that would support the going concern, to be remote. The Ministry of Finance would decide the appeal. The objective breaches are normally already clarified before the appeal process, and the appeal would be based on the proportionality of the decision by the NFSA. A decision will be at the core of the NFSA's expertise. In the eyes of the board, it is unlikely that the Ministry of Finance will overrule this expert assessment. As up to date, the Ministry of Finance has not reversed any decisions of this type made by the NFSA.

To submit an administrative appeal does not exclude the possibility to initiate legal proceedings through the ordinary courts.

Financial forecast

The board has updated its financial forecast for the company, assuming that the Agreement with Storebrand is approved by the general meeting and the NFSA and that the remaining insurance portfolios are divested. The updated financial forecast assumes that all financial insurance risk is transferred to other parties from 31. December 2020. The company's only income will be portfolio transfer considerations and reinsurance commissions. Operating and winding up costs are expected to be substantial through 2021, as most IT systems and functions will be maintained. There will also be redundancy costs. In 2022, the only costs assumed relate to closing current activity and producing annual accounts for 2021.

The forecast is expected to give the value presented in the table below to Insr’s shareholders.

The company has issued a NOK 75 million Tier 1 hybrid loan. This loan will be written off if the solvency ratio is below 100%. At a solvency ratio of 75%, the entire loan is written off. Both the case where the Tier 1 loan is written off and where the loan is repaid are presented, as both are likely outcomes.

Scenario	Shareholders’ Equity (MNOK)	Tier 1 and Tier 2 Bond Value (MNOK)	Additional value of being listed (MNOK)
Tier 1 written off	175	75	50
Tier 1 repaid	100	150	50

The board has not yet decided on its suggested use of proceeds from the transaction and will leave this to the shareholders to decide at a later stage. The use of proceeds may include distribution to shareholders, that the company explores future business and investment opportunities in other markets than non-life insurance, or combinations thereof. The board believes that additional value may be generated by the fact that the company is a listed entity and may seek to facilitate transactions for the benefit of the shareholders. Historic transactions point to a listing value of NOK 20-50 million. No value has been assigned to the tax position of the company pending a decision on use of proceeds. The accumulated tax loss is approximately NOK 1.6 billion as of 30 June 2020, which would correspond to around NOK 400 million in tax savings if it is used in the future.

Range of Outcomes

Shareholders’ equity could be wiped out and could also double compared to this forecast. Foreseeable changes to the financial assumptions give a range of potential upsides and potential downsides of NOK 100-150 million. Please refer to the risk factors on page 13 of the Second Quarter and First Half 2020 Report:

https://www.insr.io/s/Insr-Q2-and-H1-2020-Report-Final-h3rx.pdf

Shareholders are partly protected against downside risk through the possibility of a Tier 1 loan write-off.

Tier 2 bond holders are expected to be repaid in full, whilst the Tier 1 loan may be written off or repaid.

Summary of the board's assessment of the alternatives

Although, the commercial terms under the Agreement with Storebrand is not in line with what the company envisaged when initiating the strategic process, the board of directors believes that completion of the Agreement with Storebrand is the solution that gives the highest probability weighted expected return to shareholders assuming that the NFSA approves the Agreement and does not decide to put the company into dissolution.

If the company's license is revoked immediately and the company is dissolved, the expected shareholder value is zero.

If the company's license is revoked, but with suspensive effect to accommodate an appeal, the remaining value of the company would most likely deteriorate rapidly pending the outcome of an appeal process that is unlikely to be successful and the expected shareholder value is lower than in the presented case.

The board of directors therefore recommends that the shareholders vote in favour of the resolution to approve the Agreement with Storebrand.