

Europæiske ERV

The Solvency and Financial Condition Report (SFCR)

2017 - Europæiske Rejseforsikring A/S



Table of Contents

Summary.....	3	D. Valuation for Solvency Purposes.....	22
Introduction.....	4	D.1 Assets.....	22
A. Business and Performance	5	D.2 Technical provisions.....	28
A.1 Business.....	5	D.3 Other liabilities.....	32
A.2 Underwriting Performance.....	7	D.4 Alternative valuation methods.....	34
A.3 Investment Performance.....	9	D.5 Any other information.....	34
A4. Performance of other activities.....	9	E. Capital Management.....	35
A.5 Any other information.....	9	E.1 Own funds.....	35
B. System of Governance.....	10	E.2 Solvency Capital Requirement and Minimum Capital Requirement.....	36
B.1 General information on the System of Governance.....	10	E.3 Use of the duration-based equity risk sub- module in the calculation of the Solvency Capital Requirement	38
B.2 Fit and proper requirements.....	12	E.4 Differences between the standard formula and any internal model used.....	38
B.3 Risk management system including the own risk and solvency assessments	12	E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement.....	38
B4. Internal control system.....	14	E.6 Other Information	38
B.5 Internal audit function	15	Abbreviations.....	39
B.6 Actuarial function.....	16		
B.7 Outsourcing.....	17		
B.8 Any other information.....	17		
C. Risk Profile	18		
C.1 Underwriting risk.....	18		
C.2 Market risk.....	19		
C.3 Credit risk.....	19		
C.4 Liquidity risk.....	20		
C.5 Operational risk.....	21		
C.6 Other material risks.....	21		
C.7 Any other information.....	21		

Summary

A - BUSINESS AND PERFORMANCE	<p>Primary business areas are sale of travel insurance to private customers in the leisure market including BtC, BtBtC; as well as in the corporate market together with health insurance for companies' employees stationed abroad. Main distribution channels are direct business or brokers which are focused on the markets in Sweden and Denmark. Main line of business is medical expense insurance and miscellaneous financial loss.</p>
B - GOVERNANCE SYSTEM	<p>There is a continued focus on the development of the governance system. In 2017, special attention has been given to strengthen the compliance setup, on improving the norms structure as well as on improving the outsourcing process. The four key functions play an important role in this development and are described in this chapter.</p>
C - RISK PROFILE	<p>The company is in a position to manage the risks incurred. The material risks are underwriting risk and market risk. There is a quantitative and qualitative assessment for each risk included in the standard formula. For those risks that are excluded, there is a qualitative assessment only.</p>
D - VALUATION FOR SOLVENCY PURPOSES	<p>Solvency II makes new rules for the accounting of assets, actuarial provisions and other liabilities. We explain differences between Solvency II and Local GAAP, including their bases, methods and underlying assumptions. Our valuation methodology did not change in 2017.</p>
E - CAPITAL MANAGEMENT	<p>The company is adequately capitalized and has met the requirements for the provision of solvency capital and minimum capital at all times. The Solvency Capital Requirement (SCR) is DKK 145m in 2017 and eligible own funds to cover the SCR is DKK 268m. The Minimum Capital Requirement (MCR) is DKK 47.6m and eligible own funds to cover the MCR is DKK 268m. The solvency ratio in 2017 is 185 % and is expected to be stable during the planning period. The company did not have any basic own-fund items subject to a transitional arrangement in the reporting period.</p>

Introduction



For the first time, Europæiske Rejseforsikring A/S is presenting the Solvency and Financial Condition Report (SFCR) including its Swedish entity. The merger of ERV Försäkringsaktiebolag (publ) was realised during 2017 and retroactive from 2017.01.01 in alignment with the longterm strategy.

If not explicitly stated in each section, the quantitative and qualitative information in this report refers to both entities.

This report relates to the financial year of 2017.

One ERV company in the Nordics

Two years ago in 2015, Europæiske

Rejseforsikring A/S in Denmark and our Swedish sister company ERV Försäkringsaktiebolag (publ), implemented one cross-company organizational structure as a first major step towards acting as one Nordic company. In October 2017, we aligned the legal structure of the two companies and thereby cemented the position as one Nordic insurance company – ERV Nordic.

In legal terms, Europæiske Rejseforsikring A/S in Denmark is the continuing entity whereas ERV Försäkringsaktiebolag (publ) continues as a branch of Europæiske Rejseforsikring A/S by the legal name of Europeiska ERV Filial. Both the Danish and Swedish entities

will locally continue with their current brand names and logos; Europæiske ERV and Europeiska ERV.

For clarification and simplicity reasons, we will use the term ERV Nordic when referring to both Europæiske ERV and Europeiska ERV. When only referring to Europæiske ERV we will use ERV Denmark and similarly with Europeiska ERV we will use the term ERV Sweden.

Branching ERV Sweden to ERV Denmark constitutes a number of regulatory advantages. By becoming one legal structure, ERV Nordic will be able to reduce large amount of complexity and double work with legal and financial topics, steering and reporting.

A. Business and Performance

A.1 Business

Name and legal form

Europæiske Rejseforsikring A/S, hereafter referred to as "ERV Nordic", is operated in the legal form of a limited liability company (aktieselskab) in accordance with the Danish Companies Act (Selskabsloven).

Supervisory authority

The responsible supervisory authority for ERV Nordic is the Federal Financial Supervisory Authority (Finanstilsynet). Finanstilsynet is located at Århusgade 110, 2100 København Ø.

Group supervisor

The responsible supervisory authority for the group is the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin), Graurheindorfer Str.108, 53117 Bonn.

External auditor

KPMG (KPMG Statsautoriseret Revisionspartnerselskab) was appointed to audit the financial year 2017. Responsible persons for this audit were State Authorised Public Accountants Anja Bjørnholt Lüthcke and Mark Palmberg, KPMG Denmark, Copenhagen.

Holders of ERV Nordic and legal structure of the group

ERV Nordic is a subsidiary 100 % owned by Europäische Reiseversicherung AG (ERV AG), which in turn is part of ERGO Group AG (ERGO) and Munich RE Group (Munich RE) - the international reinsurance leader.



ERV Nordic is associated with the following companies:		
	Registered office	Activity
Affiliated company		
ERV Pojistovna a.s.	Czech Republic	Insurance
Associated company		
Euro-Center Holding SE	Czech Republic	Assistance
European Assistance Holding	Germany	Assistance

Line of business and geographical areas where ERV Nordic carries out business

Primary business areas are sale of travel insurance to both the leisure and corporate market, health insurance for companies' employees stationed abroad and travel insurance through Card schemes as well as more affinity group centred business. The majority of travel insurance policies are sold either as trip-by-trip insurance or as annual travel insurance in connection with customers' holiday trips, business trips or expatriation.

Main distribution channels for all travel insurance policies and health insurance policies are either direct business or brokers in relevant markets.

Besides being on the local travel insurance market, ERV Nordic is also represented internationally in the health and travel insurance market. By using cooperation partners from inside and outside Munich RE, one of the leading global Risktaking and Insurance Groups, ERV Nordic is able to offer relevant business solutions to service international customers.

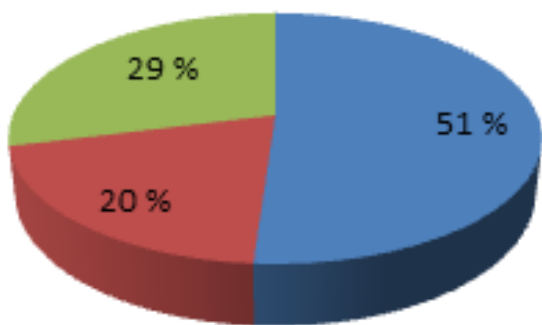
Significant business or other events occurred during the reporting period

As stated in the Introduction, in October 2017, the alignment of the legal structure between ERV Denmark and ERV Sweden was completed and the position as one Nordic insurance company – ERV Nordic was realized.

The run-off of the unemployment portfolio continues and this business will no longer be part of the portfolio by the end of 2018.

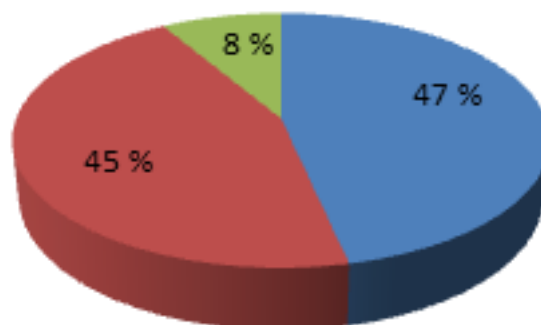
The run-off of the unemployment portfolio continues and this business will no longer be part of the portfolio by the end of 2018.

Lines of business



- Medical expense insurance
- Miscellaneous financial loss
- All others

Geographical areas



- DK
- SE
- All others

A.2 Underwriting Performance

The local GAAP underwriting result amounts to a profit of DKK 4.2m and was therefore much lower than in 2016 where it was DKK 19.3m. The major part of the business for the ERV Nordic is medical insurance written in Denmark and Sweden.

The local GAAP gross premium earned amounts to DKK 416.0m against DKK 425.1m in 2016, a decrease of DKK 9.1m.

The decrease is primarily due to decreasing turnover of our ERV Denmark Unemployment product and Nordic Health Care products which has been in line with our strategy.

In both ERV Denmark and ERV Sweden we have however also seen sales decrease on our Leisure segment, whereas the corporate segment has seen quite stable sales results. In ERV Sweden we have on the other hand seen a substantial increase of gross written

premium in the Card segment due to a couple of new major Card-business agreements.

In the below table this development is shown per Solvency II Line of Business (please note that the figures in the below table is in accordance to IFRS and among other excl. release of our NHC age reserve).

Gross Premium Earned per Solvency II LoB (in DKK million)		2017	2016
1	Medical expense insurance	211.0	199.6
2	Income protection insurance	24.7	26.0
6	Marine, aviation and transport insurance	35.2	34.4
7	Fire and other damage to property insurance	37.1	35.5
8	General liability insurance	15.7	11.2
10	Legal expenses insurance	0.8	1.8
11	Assistance	6.3	6.8
12	Miscellaneous financial loss	82.8	103.8
Total Gross Premium earned - DKK		413.6	419.1

The local GAAP gross claims incurred amount to DKK 207.6m against DKK 209.2m in 2016 which is a decrease of DKK 1.6m. The gross claims costs for 2017 have been partly satisfactory with a gross claims ratio of 50.3 %.

We have seen satisfactory claims records of our products in the ERV Denmark leisure market, which has

been quite positively affected by run-off gains and we have also in total had an acceptable claims record of our ERV Nordic corporate products.

But in comparison to last year we have however seen an increased claims ratio on the ERV Sweden Leisure segment, where we have seen an increase in major claims and within the ERV Swe-

den Card segment we have also seen higher than expected claim levels.

In the below table this development is shown per Solvency II Line of Business (please note that the figures in the below table is in accordance to IFRS and among other excl. release of risk margin).

Claims Incurred Gross per Solvency II LoB (in DKK million)		2017	2016
1	Medical expense insurance	99.2	103.0
2	Income protection insurance	5.0	3.9
6	Marine, aviation and transport insurance	12.2	10.9
7	Fire and other damage to property insurance	7.3	8.1
8	General liability insurance	3.8	0.7
10	Legal expenses insurance	-0.1	-0.1
11	Assistance	0.1	0.0
12	Miscellaneous financial loss	81.4	84.8
Total Claims incurred (incl. claims management)		208.8	211.3

The result of reinsurance recoveries and change of reinsurer's share of claim provisions shows a compensation for ERV Nordic of DKK 2.9m in 2017 against DKK 21.0m in 2016. The decrease is primarily due to lowered volume of the ERV Denmark Unemployment product which is 100 % reinsured to AmTrust International Underwriters Limited based in Ireland.

The claims costs net of reinsurance amount to DKK 204.7m against DKK 188.2m in 2016 which is an increase of DKK 16.5m. The claims ratio net of reinsurance is 50.5 % against 48.4 % in 2016.

Net operating expenses for 2017 amount to DKK 195.3m against DKK 180.9m in 2016, an increase of DKK 14.4m.

Acquisition costs amount to DKK 103.3m against DKK 100.3m in 2016, an increase of DKK 3.0m. The increase is partly driven by increased sales of specific products and sales through certain sales channels with relative high commission costs. Further to this organizational adjustments effecting a more sales and customer oriented approach has increased the acquisition costs.

The administrative expenses amount to DKK 92.4m against DKK 84.9m in 2016 which is an increase of DKK 7.5m. Mainly amortization costs related to the finished parts of our new Nordic IT, redundancy costs due to adjustments of the organisation and increased costs for external consultants related to mainly the ERV Sweden-to-ERV Denmark branching project means that the operating expenses are higher in 2017 than in 2016.

The gross cost ratio including acquisition costs amount to 47.3 % against 43.9 % in 2016.

Commissions and profit commissions from reinsurance amount to an income of DKK 0.5m compared to 4.2m in 2016. The development is due to the decreased volume of our Unemployment product.

The total result of business ceded shows a loss for ERV Nordic of DKK 6.4m in 2017 against a loss of DKK 8.6m in 2016. The decrease is primarily due to lowered volume of the ERV Denmark Unemployment product as already described.

Total combined ratio net of reinsurance (total costs measured in relation to earned premiums) is 99.2 % against 95.9 % in 2016.

A.3 Investment Performance

The result of investment activities before transfer of technical interest amounts to a profit of DKK 6.4m against a profit of DKK 29.0m in 2016.

The result from affiliated companies is created by ERV Pojistovna a.s of which ERV Nordic owns 75 % of the share capital. In 2017, it shows a profit of DKK 3.5m against a profit of DKK 18.2m in 2016. The main reason for the decreased result is because ERV Pojistovna a.s delivered an extraordinary good result in 2016, significantly influenced by the sale of its subsidiary Euro-Center Prague to Euro-Center Holding. Further to that, the result decreased due to an adjustment of the 2016 income from this company, which had a negative effect of DKK 3.3m in 2017.

The result from associated companies is created by Euro-Center Holding of which ERV Nordic owns 33,33 % of the share capital. In 2017, it shows a profit of DKK 3.7m against a profit of DKK 1.6m in 2016.

Income from investment properties amount to DKK 2.8m against DKK 2.3m in 2016. The increased income is affected by a couple of new tenants moving into our Copenhagen office building during the second part of 2016.

Interest income and dividends etc. for the year amount to DKK 10.4m compared to DKK 8.4m in 2016. As in 2016, our investment portfolio mainly consists of Danish and Swedish government bonds.

ERV Nordic is relatively sensitive to the development of the prices of bonds and exchange rates, etc. The company has had a net loss in connection with realised and unrealised gains & losses of bonds, bond-based unit trusts and exchange rates of a total of DKK 13.2m against a loss of DKK 0.7m in 2016. This year's loss is primarily due to unrealised losses in connection with value write-down of bonds.

Interest expenses amount to DKK 0.1m against DKK 0.3m in 2016. We focus on keeping these expenses as low as possible and have been successful in reducing them during 2017 compared to 2016.

Administrative expenses related to investments amounts to DKK 0.7m which is in the same level as last year. These expenses are primarily triggered by the services delivered by MEAG (Munich Ergo Asset management GmbH) that is our appointed investment asset manager.

A.4 Performance of other activities

ERV Nordic does not have any other material income and/or expenses.

A.5 Any other information

ERV Nordic has no other material information to provide regarding the business and performance.



B. System of Governance

B.1 General information on the System of Governance

A functioning and effective governance system is of fundamental importance for effective company control and monitoring. ERV Nordic has a governance system that takes into account the individual business (nature, scope and complexity) as well as the underlying risk profile in an appropriate form. The governance system therefore provides an appropriate and transparent organizational structure with clearly defined organs, structures and responsibilities. The four key functions have a prominent importance.

Structure and responsibilities of the governing bodies

The governing bodies of ERV Nordic are the Board of Directors, Board of Management and the Nordic Management Team.

Board of Directors: Tasks and Responsibilities

The Board of Directors (BoD) is responsible for the overall management of ERV Nordic's business and to determine the policies (goal setting, policies, risk assessment and activities of major importance) in accordance with the articles of association and with all valid and relevant legislation. The Board of Directors must ensure conformance and is to undertake revision of measures taken to ensure conformity whenever it is needed.

Currently, the BoD consists of six members.

Board of Management: Tasks and Responsibilities

The Board of Management manages the daily operations of ERV Nordic and must ensure that the running of ERV Nordic is done in accordance with the articles of association, group guidelines, the directions given by the BoD and current legislation.

The Board of Management must ensure that the book keeping of ERV Nordic is in compliance with the law and that the asset management is handled in a safe manner. Moreover, the Board of Management has to ensure that the capital resources of ERV Nordic is secure at all times, including sufficient liquidity to fulfil the current and future obligations of ERV Nordic as they fall due.

Currently, the Board of Management only consists of one person; the Chief Executive Officer (CEO).

Nordic Management Team: Tasks and Responsibilities

To assist the Board of Management in fulfilling its duties and responsibilities and securing a 4-eye principle, the CEO has appointed a chief financial officer (CFO), a chief sales officer (CSO), and a chief operations officer (COO), which together forms the Nordic Management Team (NMT).

The NMT is a supporting function to the Board of Management. The members of the NMT may not, on their own, make decisions on significant matters of the day to day business without the approval of the Board of Management and/or the Board of Directors. The liability of the day to day management and the overall management of ERV Nordic still lies with the Board of Management and the Board of Directors.

Key functions

Solvency II defines the following four key functions that insurance companies must set up:

- Risk management function (RMF)
- Compliance function (CF),
- Internal audit function (IAF), and
- Actuarial function (AF)

The introduction of the four key functions under Solvency II supports the system of the three lines of defence.

This system refers to the acceptance or rejection of risks. In the so-called first line, the operating business units are responsible for the initial acceptance or rejection of a risk. The risk management function, the actuarial function and the compliance function in the second line perform a regular monitoring as well as the control of all risks on an aggregated level. In the third line of defence, the internal audit regularly reviews the entire governance system and all activities within ERV Nordic.

ERV Nordic is together with its parent company ERV AG and its parent company ERGO, an integral part of Munich RE and is integrated into key corporate processes within the framework of regulatory and corporate legal requirements. The "Guideline for Cooperation and Corporate Governance in the Munich RE (Group Guideline)" regulates the responsibilities and competences between the Group Management of Munich RE and ERGO in the case of decisive decisions. It defines the rights and obligations for the Group functions.

The Group Guidelines stipulate that the Governance Functions under the Solvency II Directive, entrusted with the tasks of RMF, IAF, CF and the AF, should be organized on a Group basis and have further-reaching rights and obligations than the other Group Functions of Munich RE. This includes for example guideline competency, involvement in decisions concerning the filling of positions in the mirror functions of the business areas, or information rights and obligations.

The topics of the four governance functions are overlapping in some places. Nevertheless, we want to avoid duplicate responsibilities and activities. Therefore, we have defined fixed interfaces between the governance functions. These include task description, support activities, and interchanges,

including exchanges of documents of the respective function.

The four key functions meet with the Legal Department at least quarterly in the so-called "Governance Committee". In this way, they regularly exchange information and form a unified opinion on the topics discussed. In terms of content, the "Governance Committee" considers in particular the following points:

- Reconciliation of procedures concerning similar questions / issues,
- Exchange of information on proposed legislation of particular relevance for the Governance Functions,
- Discussion of results /meeting preparations of relevant bodies,
- Reconciliation of reporting activities,
- Discussion of monitoring plans (CF/RMF/AF) and audit plan (IAF),
- Optimisation of interfaces, and
- Ad hoc questions / issues of relevance to several Governance Functions/Legal.

Material changes in the system of governance

The system of governance as described above has not been subject to material changes during 2017.

Remuneration policies and remuneration practices

The remuneration system of ERV Nordic is based on legal requirements and regulations. In principle, our remuneration system is designed in such a way that:

- It achieves the objectives laid down in the strategy and
- It avoids negative incentives, in particular conflicts of interest and the assumption of disproportionately high risks

The remuneration system has been determined based on an overall assess-

ment of size, organization and the extent and complex nature of ERV Nordic's activities. The objective is to have a remuneration system which promote sound and efficient risk management, and at the same time comply with the strategy, values and goals of ERV Nordic and meet the customers' and investors' interests at all times.

The remuneration system consists of two components; a fixed remuneration component and a variable remuneration component.

Board of Directors

The Board of Directors are paid a fixed fee. There is no paid pension included. There is no variable fee, and there are no paid incentive programs of any kind. The Board of Directors seeks to adjust the amount of the fee in accordance with the extent and responsibility connected with the tasks of the Board of Directors. Board members from ERV AG and ERGO are not compensated.

Board of Management and Nordic Management Team

The Board of Management and Nordic Management Team receives a set basic salary and has an agreement on variable pay, which is endeavoured to be determined so it is competitive with the remuneration of a corresponding job in the financial sector. In addition to the salary, ERV Nordic pays pension contribution, company car of a suitable size, free telephone and other normal salary items (health insurance and health check-ups).

Other employees

Where remuneration schemes include both fixed and variable components, such components shall be balanced so that the fixed or guaranteed component represents a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on the variable components. This allows the undertaking to operate a fully flexible bonus policy, including the

possibility of paying no variable component.

Remuneration to individual employees must not counteract with the firm's long-term interests. ERV Nordic monitors that the firm's total remuneration for a given period of time does not jeopardise the firm's ability to report a positive result over the life of a business cycle.

Early retirement schemes

According to the collective agreement in Sweden, employees born 1955 or earlier and has been employed in the insurance business since 1985, are entitled to early retirement from the day they turn 62. ERV Nordic will in those cases be required to pay the full pension fee for the years between 62 and 65.

During 2017, one employee for ERV Sweden has given notice of early retirement and will end the employment in May 2018. There is one employee left within ERV Sweden that is entitled to the early retirement scheme. No notice has been given. There are no employees within ERV Denmark entitled to this scheme.

Information on essential transactions

In the reporting period, there were no material transactions with shareholders or persons with a material influence on ERV Nordic.

Adequacy of the governance system

We ensure that we have an organizational structure that enables and supports the effective operation of our governance system. In particular, the prerequisites for an appropriate governance system are fulfilled on the following core issues:

- Appropriate and transparent organizational structure (business organization),
- Definition of tasks, responsibility of reporting lines,

- Adequate separation of responsibilities,
- Establishment of organizational procedures,
- Implementation of organizational arrangements,
- Documentation of the structure and process organization,
- Internal audit of the governance system,
Establish written guidelines, review and compliance,
- Interaction between the Board of Management and the Board of Directors,
- Key functions, and
- Creation and implementation of emergency plans.

B.2 Fit and proper requirements

A Fit and Proper Policy is established within ERV Nordic. All persons who effectively run ERV Nordic or who are responsible for key functions must at all times meet the "fit and proper" requirements under regulatory laws based on or resulting from the implementation of the Solvency II framework.

In accordance with the Fit and Proper policy, ERV Nordic considers the following criteria when determining the fitness and propriety of key persons:

- A key person is considered "fit" if his/her relevant professional and formal qualifications, knowledge and experience within the insurance sector, other financial sectors or other businesses are adequate to enable sound and prudent management,
- The fitness assessments include, but are not limited to, a review of employment history, references and educational and professional qualifications in relation to the respective duties allocated to the relevant key function. The fitness assessment is based on the definition of the required knowledge, experience and qualifications for the allocated

duties,

- A key person is considered "proper" if he/she is of good reputation and integrity,
- When assessing the propriety of key persons, their honesty and financial soundness is assessed based on evidence regarding their character, personal behaviour and business conduct, including any criminal, financial or supervisory concerns raised in any pertinent jurisdiction.

The assessment of each key person's fitness and propriety is conducted prior to his/her appointment, or if circumstances indicate that a reassessment is required. Responsible for the assessment or reassessment is the body or department which appoints the key person or nominates the key person for an election if the key person is elected. The results and conclusions of the assessment are documented. In the event that the reassessment of the fitness and propriety of a key person concludes that a key person can no longer be regarded as fit and proper, the respective responsible body takes appropriate measures. Such measures include considerations of a revocation.

Each key person is obliged to notify ERV Nordic, without undue delay, if he/she no longer meets the propriety requirement set out in this Fit and Proper Policy or are in danger of no longer meeting such requirements. In an environment with changing and expanding requirements, each key person is obliged to contribute to the maintenance of his/her fitness for the role by actively searching for and taking on opportunities to improve their professional qualifications, knowledge and experience. ERV Nordic supports such training.

B.3 Risk management system including the own risk and solvency assessment

Strategy

Risk management includes all strategies, methods and processes to identify, analyse, assess, control, monitor and report the short and long term risks ERV Nordic faces or may face in the future. Risk management is performed at all levels of ERV Nordic and is organized according to the three "lines of defence";

- 1st line: Risk takers,
- 2nd line: Risk Management Function (RMF), Actuarial Function (AF), Compliance Function (CF) (2nd line), and
- 3rd line: Internal Audit Function (IAF).

ERV Nordic in accordance with Solvency II defines the 2nd and 3rd line of defence as the "Key Functions".

Processes and reporting procedures

The operational implementation of risk management includes the identification, analysis and assessment of risks. With our risk management processes, we ensure that we continuously monitor all risks. If necessary, we can actively control them.

Risk identification:

The risk identification phase of the risk management ensures a complete and consistent identification of relevant risks for ERV Nordic. Risks are systematically and consistently identified on a regular (quarterly) basis as well as on an ad hoc basis. New risks are identified while existing ones are (re)evaluated.

Risk assessment and measurement:

Based on the results from the risk identification, risks can be quantified or assessed qualitatively. Having assessed risks and identified all material ones, ERV Nordic is able to manage

them. The frequency of the assessment may differ depending on the nature of the risk and the significance of a single risk or group of risks. Stress tests and scenario analyses are implemented where appropriate. For all risks covered by the standard formula, the module results are used in general as basis for the risk quantification. Risks that are not modelled, thus not covered by the standard formula, such as strategic risks, reputational risks and liquidity risks, are evaluated qualitatively within the regular risk identification process.

Risk steering: ERV Nordic manages risks according to the business and risk strategy. It is necessary to keep risks within appropriate and approved risk limits and to take actions where necessary on specific risk triggers. ERV Nordic strives to reduce the probability of the risk occurring or the financial impact and ensures the achievement of business objectives. The measures have to be within the scope of the risk bearing capacity and relevant regulatory and group requirements.

Risk monitoring and reporting: Risk monitoring focuses on the risk profile and takes into account predefined risk ratios and measures. The efficiency of steering measures is analysed by

comparing the actual to the target risk position. With our risk reporting, we not only meet current legal requirements, but also provide internal transparency for management, the Board of Directors and ERGO. Internal risk reporting states both quantitative and qualitative information in each individual risk category and requires action by management where necessary.

Key tasks of the risk management function (RMF):

- **Coordination tasks:** The RMF coordinates the risk management activities at all levels and in all business areas. In this role, RMF is responsible for the development of strategies, methods, processes and procedures for the identification, assessment, monitoring and management of risks and ensures the correct implementation of risk management guidelines.
- **Risk control tasks:** The RMF is responsible for mapping the overall risk situation of ERV Nordic and in particular the identification of risks that jeopardize existence.
- **Early warning tasks:** The responsibility of the RMF is also to implement a system that ensures the

early identification of risks and develops proposals for appropriate counter-measures.

- **Advisory tasks:** The RMF advises the Nordic Management team on risk management issues and supports strategic decisions.
- **Monitoring tasks:** The RMF monitors the effectiveness of the risk management system, identifies potential weaknesses, reports to the management and develops suggestions for improvement.

The RMF also ensures comprehensive reporting to the management. In addition to presenting the current risk situation, it also includes the results of ERV Nordic's risk and solvency assessment (known as ORSA).

Process in regards to the Own Result and Solvency Assessment (ORSA)

ORSA is a central component of the risk management system. It encompasses all processes and procedures for the identification, assessment, monitoring and management of short- and long-term risks.

ORSA covers all qualitative and quantitative risk management topics and links the business strategy with the



risk strategy and capital management. This is done according to the planning horizon for current and future deadlines.

The Board of Directors plays an active role in the setup of ORSA and has the overall responsibility whereas the RMF has the operative responsibility. The ORSA report compiles detailed information and results of ERV Nordic's risk and solvency assessment. The results are discussed, formally adopted and actively used for the purposes of steering.

The ORSA report includes the following:

- Assessment of the risk profile,
- Assessment of overall solvency needs,
- Compliance with regulatory capital requirements.

The activities of the regular ORSA are linked to the business planning process and are carried out annually. Regular monitoring of the significant risks and ad hoc reporting has been established.

B4. Internal control system

Description of the Internal Control System (ICS)

Our ICS is primarily used to ensure that business operations can run efficiently and effectively. In doing so, our ICS ensures that internal policies as well as legal and regulatory requirements are adhered to.

ICS is a system that manages operational risks (OpRisk). A properly functioning ICS helps to reduce or avoid losses from OpRisk. Nevertheless, even a highly developed ICS cannot provide absolute protection and is no substitute for the risk awareness expected of all staff and managers in their daily work.

Within the ICS, significant OpRisks and corresponding controls are identified, analysed, assessed and documented across all important risk dimensions (financial reporting, compliance and operations) with the aim of achieving a harmonised holistic approach to risk controls. Clear responsibilities for risks, controls and control measures are allocated which create transparency, efficiency and effectiveness.

The ICS is based on the concept of the "three lines of defence" represented by three roles: risk-takers (those who accept risk), risk controllers (those who monitor risk) and independent assurance (those who are independent of the operating business and examine the design and performance of the risk controls). The overall responsibility for risks and their control, and for setting the overall risk tolerance, lies with the Board of Directors (Risk owner).

Description of the Compliance Function (CF)

ERV Nordic has established a function that is responsible for monitoring adherence to compliance, the compliance function (CF).

The CF of ERV Nordic is part of the governance system and the internal control system (ICS).

The task of the CF is to advise the management bodies on adherence to laws and regulations adopted pursuant to Directive 2009/138/EC. It also includes an assessment of the possible impact of any changes in the legal environment on the operations of the undertaking and the identification and assessment of the risk of compliance with legal requirements.

In addition, the CF should assess the potential impact of changes in the legal environment for ERV Nordic and identify and assess the risk caused by violation of legal requirements (compliance risk).

Compliance has the following tasks:

- Risk control tasks,
- Early warning tasks,
- Advisory tasks, and
- Monitoring tasks.

ERV Nordic defines compliance as acting in accordance with the applicable legal and regulatory requirements and ERV Nordic's internal rules and principles.

The CF carries out its tasks autonomously and independently, without prejudice to the overall responsibility of the management. When assessing compliance-relevant issues they are not subject to instructions.

Management assures the independence of the CF and provides the necessary adequate supply of personnel and material.

With the implementation of a comprehensive compliance management system, ERV Nordic has the following objectives:

- comply with legal, regulatory and internal requirements,
- avoidance of liability and criminal liability risks,
- avoid reputational risks,
- appropriate management of conflicts of interest, and
- protect the interests of our customers.

Compliance bears the responsibility for the above objectives under the following subject areas:

- Code of Conduct,
- Reputational risks,
- Incentives / gifts / gratuities / invitations,
- Bribery / corruption,
- Sales Compliance,
- Fraud prevention,
- Financial Sanctions, and
- Regulatory requirements.

For these topics, CF is responsible for risk analysis, strategy, policies, communication, training and inspections.

For financial sanctions, CF has a coordinating role, the operational responsibilities lie in the departments.

A sound and comprehensive risk analysis forms the basis for an effective compliance management system. It serves for the systematic identification and assessment of risks by CF. Findings from the risk analysis are the starting point for the compliance program. CF provides the RMF at least annually the results of the compliance risk analysis.

Based on the compliance risk analysis, measures and controls are defined risk-oriented, thereby achieving an appropriate handling of compliance risks (Compliance Program).

The Compliance Program refers to the respective compliance subpart. It shows with which measures ERV Nordic encounters identified risks and which implications these have. The measures of the Compliance Program are of preventative or detective nature and can relate to the organization, processes or systems.

Regular communication of compliance issues is an integral part of the compliance management system. It is important to raise staff awareness of the relevant issues and thus to strengthen the compliance culture within ERV Nordic. Various communication channels are used, for example the intranet, staff newsletter or regular training events.

CF creates a risk-based monitoring approach on the basis of the risk analysis. The monitoring concept is intended to identify possible deficits via control over the respective departments and to improve and adjust existing processes and measures accordingly. The aim is to improve the compliance risk situation of ERV Nordic continuously.

Compliance Processes will be docu-

mented in norms or, where applicable, in ERV Nordic's process documentation tool.

The Board of Directors and the Nordic Management team receive at least annually a report with the main findings of the compliance risk analysis, the results of the compliance monitoring, substantial compliance incidents and top measures.

B.5 Internal audit function

ERV Nordic has established an Internal Audit function (IAF). The IAF supports ERV Nordic's Board of Directors in carrying out its monitoring tasks. In particular, it is responsible for evaluating the effectiveness of the internal governance system, including the risk management system, internal control system and the three key functions compliance, risk management and actuarial function.

Organisation

The IAF is an independent division. The IAF is headed by the Head of Internal Audit. The Head of Internal Audit reports directly to the Board of Directors and the Audit Committee. Recruitment and dismissal of the Head of Internal Audit may only be carried out by the Board of Directors.

As ERV Nordic is part of ERGO and Munich RE, the IAF works closely together with the IAF from these companies. The IAF operates within the framework of the standards applicable throughout Munich RE. These are based on standards issued by the Institute of Internal Auditors (IIA).

Audit process

The core tasks of the IAF include:

Audit Performance: The IAF audits the governance system, consequently the entire business organization, and in particular the internal control system in terms of appropriateness and effectiveness. The auditing work of the IAF

must be carried out objectively, impartially and independently at all times. The audit area of the IAF covers all activities and processes of the governance system, and explicitly includes the other key functions. The audit assignment includes the following areas in particular:

- Effectiveness and efficiency of processes and controls,
- Adherence to external and internal standards, guidelines, rules of procedure and regulations,
- Reliability, completeness, consistency and appropriate timing of the external and internal reporting system,
- Reliability of the IT systems, and
- Nature and manner of performance of tasks by the employees.

Reporting tasks: A written report is submitted promptly following each audit by the IAF. At least once per year, the IAF will prepare a report comprising the main audit findings for the past financial year. Within the follow-up process, the IAF is also responsible for monitoring the rectification of deficiencies.

Consulting tasks: The IAF can provide consulting work, for example within projects or project-accompanying audits, and advise other units concerning the implementation or improvement of controls and monitoring processes. The prerequisite is that this does not lead to conflicts of interest and that the independence of the IAF is ensured.

Independence and objectivity
The Head of Internal Audit is aware and adhere to the national and international standards for Internal Audit.

This also applies to the principles and rules for safeguarding the independence and objectivity of Internal Audit. Numerous measures (adequate positioning in the organizational structure, consistent segregation of duties, and comprehensive quality assurance



during the audit) ensure that the independence and objectivity of the IAF is adequately ensured.

Independence and objectivity

The Head of Internal Audit is not allowed to have an economic interest in ERV Nordic and must comply with the fit and proper requirements.

In order to ensure independence, the IAF does not assume any non-audit-related tasks.

When assigning the auditor, attention is paid to the fact that there are no conflicts of interest and that the auditors can perform its duties impartially. In particular, it is ensured that an auditor does not audit any activities for which he/she was responsible for in the course of the previous twelve months.

IAF is not subject to any instructions during the audit planning, the performance of audits, the evaluation of the audit results and the reporting of the audit results. The right of the Board of Directors to order additional audits does not impair the independence of Internal Audit.

During the reporting period, the independence and objectivity of the Internal Audit department was not impaired at any time.

The Audit Committee evaluates the independence, objectivity and qualifications of the Internal Audit on an annual basis. The conclusions of the evaluation are reported to the Board of Directors.

B.6 Actuarial function

Implementation of the Actuarial Function

The actuarial function (AF) for ERV Nordic was established in 2015 and is performed by the Financial Specialist. Organizationally, the AF is part of the Finance department and reports directly to the CFO. The organizational structure ensures the independence of the AF. The AF and the CFO meets the requirements for professional qualification and personal reliability ("Fit & Proper" requirements).

ERV Nordic has established the actuarial function (AF) which is entrusted

with the following tasks, as a result from the supervisory law:

- Coordination of the valuation of the technical provisions according to Solvency II,
- Ensure the appropriateness of the data, assumptions, methods and models used for the valuation of the technical provisions in Solvency II as well as in Local GAAP,
- Information to the Board of Management on the adequacy of the underwriting provisions,
- Opinion on the adequacy of underwriting policy and reinsurance agreements,
- Support for the effective implementation of risk management, related to the development of risk and solvency capital models, and
- Preparation of a report to the Board of Management at least once a year.

The AF is exercised by a person with appropriate knowledge of financial and insurance mathematics and has an appropriate knowledge of professional and other standards for the pursuit of the activity.

The Management Board of ERGO has approved a policy establishing the processes of the AF. The Policy applies uniformly to all Group companies of which ERV Nordic is one. The Board of Directors in ERV Nordic has approved the guidelines issued by ERGO.

The AF is a second line of defence function and as such independent from the first line of defence tasks where risk taking activities within ERV Nordic takes place. In this constellation, conflicts of interest are avoided. For other potential conflicts between the independent functions, additional measures are in place. E.g. well defined and documented methodologies for the calculation of technical provisions (MR TP MoM) and regular reviews performed by independent parties, namely ERV AG and ERGO IRM.

Operational tasks are performed by the AF and input is received from the Finance Department. The final controls done by the AF are based on outcome of calculations and reports of the Finance department, but the reporting results reflect the independent opinion of the AF. A direct reporting line to the Board of Management is implemented. The AF has sufficient resources to perform its tasks.

B.7 Outsourcing

Presentation of the outsourcing policy

ERV Nordic has together with its parent company ERV AG and ERGO implemented a policy that states the minimum requirements for outsourcing. It is renewed and updated annually. The outsourcing policy ensures that processes and strategies remain at a certain level even if an activity is managed by a third party. This is to fulfill the expectations from the policyholders and to comply with statutory

requirements.

The principle of proportionality shall apply regarding the extent and way the requirements are fulfilled. The requirements are to be fulfilled by ERV Nordic in a way that is appropriate in view of the character, the scope and the complexity of the risks associated with the business. The freedom of evaluation and organization arising from this principle of proportionality are not static, but rather have to be assessed in each case according to the current situation of ERV Nordic.

The Board of Directors of ERV Nordic is ultimately responsible for the outsourced activities. It must ensure that our company meets the requirements for outsourcing. The policy ensures that our company is responsible for fulfilling all legal obligations, in particular against supervisory authorities.

Outsourcing related to operational or other significant functions of ERV Nordic is not allowed if the outsourcing can lead to:

- significance impairment of the quality of the governance system of the outsourcing company,
- excessive increase in operational risk,
- impairment of the ability of supervisory authorities to supervise compliance with ERV Nordic's obligations,
- jeopardising of a continuous and satisfactory service for policy holders, or
- jeopardising of the other operational procedures for the insurance company.

Outsourcing

An outsourcing arises when a service provider is directly commissioned by ERV Nordic to carry out certain activities and processes in connection with the performance of insurance, financial or other services that:

- are otherwise provided by the insurance company or the financial services provider itself (insurance-specific), and betydelig forringelse af kvaliteten af ledelsessystemet af outsourcing-virksomheden
- are important for ERV Nordic.

An activity is insurance-specific only when there is a relation between the outsourced activities and the original insurance business. A transferred task is considered important for ERV Nordic when it is long-term or occurs with a certain frequency (not once-off business or business with occasional external character) and is also of significance for ERV Nordic (thus not ancillary, preparatory or subordinate activities). ERV Nordic has outsourced the following important functions or important insurance activities including the jurisdiction:

- Asset Management, Germany
- SAP, Germany
- Solvency II support, Germany
- Claims handling and Assistance , Czech Republic Sales of watch
- Sales of watch and clock insurance for ERV Sweden, Sweden and
- IT infrastructure for ERV Sweden, Sweden

B.8 Any other information

The Board of Directors regularly reviews the system of governance. The conclusion is that the system of governance is organised appropriately and has been effective during 2017. ERV Nordic has on a continuously basis developed and strengthened the four functions. Further improvements are planned for 2018.

ERV Nordic has no other material information to provide regarding the system of governance.

C. Risk profile

The Risk Profile of ERV Denmark has changed during the past year due to the following strategic decisions:

- The unemployment business which is 100 % reinsured is no longer part of the future strategy and policies have gradually been cancelled at renewal since the autumn of 2016. As a consequence, this business will no longer be part of ERV Nordic by the end of 2018.
- ERV Denmark has a health portfolio of International health care insurances which is in run off since August 2013. As it is no longer part of the future strategy, no new business is written and existing customers actively leave the scheme. This will cause a material decrease in the health business volume over the planning period.

Despite the changes mentioned above, the risk profile will remain stable during the planning period.

Investment of assets under the prudent person principle

The investment management policy ensures its compliance with the Prudent Person Principle as laid down in Article 132 of the Directive 2009/138/EC.

It is ERGO together with the Asset Management Company MEAG in Germany that defines the investment strategy for ERV Nordic and it is then the Board of Directors of ERV Nordic that approves the strategy. Thereafter it is MEAG, which carries out the strategy and ERV Nordic that manages the strategy. This setup is made in order to secure the proper asset management for ERV Nordic.

According to internal policies, investments should be made in assets whose underlying risks can be properly identified, measured, monitored, controlled and reported. This is to ensure that the interests of the policyholders and the

beneficiaries are managed in the best possible way.

In order to secure that the value of the registered assets are, at least, equal to the value of the total technical provisions cf. § 167 section 1 in the Financial Business Act, the value of the registered assets must correspond to the value of the technical provisions including an excess coverage cf. § 3 of the Executive Order.

Description of Stress-tests and Scenario analyses

Stress tests

The stress tests are derived on the basis of expert assessment. They reflect the potential adverse developments that ERV Nordic may face. ERV Nordic is sensitive to stress but the stresses are considered highly unlikely.

Reverse Stress tests

ERV Nordic defines reverse stress tests as tests that identify the circumstances that jeopardize the viability of ERV Nordic and describe its precautions. This study examines which events that can potentially lead to a solvency ratio of less than 100 %. ERV Nordic has not been able to verify any probable circumstances that could significantly affect the solvency of ERV Nordic.

Scenario analyses

No scenarios were explicitly calculated this year, as the good capitalization is unlikely to lead to any developments that jeopardize the capitalization of ERV Nordic.

C.1 Underwriting risk

Risk exposure

The core activities are corporate travel, accident and expatriate insurance, leisure travel and affinity insurance. The key risk drivers for these lines of business are geo-political, public health, financial/currency crisis or increased prices for medical treatment, wrong assumptions in underwriting of

new products or actuarial calculations of risk events.

The risk for underwriting is connected with the business lines and business strategy and needs to be considered when dealing with new business and the negotiation of reinsurance contracts.

Significant risk concentrations

Internal policies and guidelines, in conjunction with the internal control system, ensure that no undesirably high risks are recorded in the course of business processes. This includes both peak risks (check reinsurance capacities) and accumulation risks (cumulative control). For ERV Nordic, the 200-year scenarios for catastrophes apply.

Risk reduction techniques

When identifying underwriting risks, ERV Nordic analyses the risks that exist in the insurance portfolio. New business, the assumptions behind the new business plan and the impact this could have on underwriting risk is analysed. During the year, there is an exchange between different business functions to increase the understanding and improve the modelling or the risk in the portfolio.

It is the policy of ERV Nordic to ensure that risks originating from underwriting activities shall be covered or limited to such a level that ERV Nordic will be able to maintain a normal operation and carry out planned initiatives even in case of a very unfavourable development. A variety of models and methods are used to quantify underwriting risks:

- Underwriting guidelines have been established, and
- Suitable reinsurance programmes.

Use of special purpose vehicles

ERV Nordic does not use any special purpose vehicles within the meaning of article 211 in the Directive 2009/138/EC of the European Parliament and of the Council.

C.2 Market risk

Risk exposure

Market risk expresses the risk of losses or negative effects on the financial strength of ERV Nordic. It results from price changes and fluctuations in the capital markets. Market risks are the most important capital risks. Market risks consist of property risk, equity risk, currency risks, market risk concentration, interest rate risk and spread risk. Our aim is to control the market risks in such a way that a return corresponding to the risks taken are obtained.

Key risk drivers are geo-political environment and financial/currency crisis. Especially financial crises can have a major impact on the risk concerning currency, market value of bonds and interest rate risk.

Significant risk concentrations

The total risk is dominated by currency risk, equity risk, property risk and market risk concentrations. Especially equity risk, currency and concentration risk are connected.

Risk reduction techniques

When identifying market risks, ERV Nordic looks at the risks which are inherent to the asset portfolio. It is analysed what impact internal or external

influences could have on bonds and equities and the impact that e.g. changes in real estate process, interest rate levels and volatility, or adverse changes in currency rates could have on the portfolio. In addition, it is analysed what impact a new investment strategy could have on the existing portfolio and risk profile.

Various identification and monitoring procedures have been established to ensure that market risks can be managed appropriately, these include regular monthly processes, ad-hoc reports as well as the on-going monitoring of triggers and limits.

The liability-driven investment process is designed to mitigate this risk to an acceptable level.

In terms of capital, ERV Nordic is sensitive towards the development of currency rates and the prices of bonds, shares and participations. The standard model calculation has been used to assess the risks and the necessary capital for this type of risks. This model uses a confidence level of 99.5 %, which means that ERV Nordic can meet the policyholders' claims for 199 years out of 200 years.

ERV Nordic can consume the above mentioned capital and still have a solvency ratio well above 100 %.

C.3 Credit risk

Risk exposure

Credit risk is defined as an economic loss that can arise if the financial situation of a counterparty changes. The credit risk includes both the risk of deterioration of the "rating" of the counterparty and the credit spread risk. Examples are the financial situation of an issuer of securities or a debtor with obligations to ERV Nordic.

Measures for risk assessment

In our fixed-income investments, we control the associated credit risk by selecting issuers with appropriate quality and respecting counterparty limits. The rating of external rating agencies is just one of several criteria that we take into account.

Significant risk concentrations

The majority of our investments consist of securities issued by issuers with very good credit ratings. We consider the credit risk to be very small or non-existent.

Sensitivity test requested by Danish legislation (in DKK million)	Impact on equity	
	2016	2017
Increase interest rate of 0.7 -1.0 % point	-3.9	-3.7
Decrease in interest rate of 0.7- 1.0 % point	3.9	3.7
Price decrease of 12 % on shares	-0.9	-1.0
Decrease in real estate of 8 %	-5.6	-4.5
Exchange rate risk (VaR 99,5 %)	-4.4	-5.6
Loss of contracting parties of 8 %	-0.7	-0.9
Total risk ex decrease in interest of 0.7 % - points	-15.4	-15.6

Risk reduction techniques

When identifying credit risks we look at the risks which are inherent to assets and liabilities. We analyse what impact this risk could have on our financial situation, particularly resulting from a counterparty default, be it asset or liability side.

Investment principles have been defined for steering credit risks. Additionally, guidelines and processes are implemented which includes limits and triggers to steer risks.

C.4 Liquidity risk

Risk exposure

Liquidity risk refers to the risk that ERV Nordic is unable to meet its financial

obligations at maturity due to inadequate assets. The driver is higher claims than expected and major decrease in market value of liquid assets. Based on the positive cash flow associated with the business model, ERV Nordic is in a comfortable liquid position. Therefore, the liquidity risk is limited for ERV Nordic.

Measures for risk assessment

The risk strategy states several liquidity criteria to ensure that sufficient liquidity is maintained.

- Known and expected payments can be fulfilled at all times
- Claims payments can be fulfilled even in shock events

Significant risk concentrations

There are no risk concentrations for liquidity.

Risk reduction techniques

The strategy for managing liquidity risk is to reach the most exact match of assets and liabilities, a so called "asset-liability management". The duration of investments is slightly longer than for the technical liabilities. Therefore, ERV Nordic needs more cash or very liquid investments to secure its technical commitments.



C.5 Operational risk

Risk exposure

Operational risks are risks stemming from inadequate or failed internal processes, people and systems or from external events. Strategic and reputational risks are not included as these are assessed in separate sections below. Compliance risks are included under reputational risks below.

Measures for risk assessment

Operational risks are addressed in an internal control system (ICS) which is performed on an annual basis. Each risk is discussed and evaluated, and a responsible person is assigned. The Risk Manager follows up on the status for each risk.

Significant risk concentrations

Weaknesses in the control environment, as well as in IT systems, can have an impact on the insurance-related operating processes and thus have a cumulative impact.

Risk reduction techniques

It is the strategy of ERV Nordic to avoid operational risks as far as possible, and suitable frameworks are implemented to help identify, manage and mitigate these risks. The ICS provides a framework for identifying and mitigating so-called high frequency, low impact losses. The primary focus here is on losses that have not yet occurred. On the other hand, the implemented risk management system and risk reporting deals with risks that have occurred and are still not mitigated sufficiently.

C.6 Other material risks

Strategic Risks

We identify strategic risks as risks arising from wrong business decisions

and poor implementation of decisions already taken. We also reflect the lack of adaptability to the changes in the environment. Strategic risks exist with regard to existing and new potentials, for the success of ERV Nordic.

ERV Nordic is exposed to a variety of strategic risks such as changes in the customer structure ("demography") and the buying behaviour ("Internet"). Additional risks may arise as a result of changes in the competitive environment.

Strategic risks relate in particular to current and future risk potential for success (risk of "future foregone profits") and are in interdependence with other risk categories. Strategic risks develop typically over a longer period of time (e.g. competitive topics), but it can also happen suddenly (e.g. legal risks). It usually has an impact on ERV Nordic over several years and is partly included in the planning process. The risk is identified and analysed in a structured process and remedial measures are taken when necessary.

Reputational Risks

We define reputational risk as the risk of damage that occurs if the reputation of ERV Nordic deteriorates. Relevant groups in this regard are the public, customers, shareholders, employees, sales partners or other stakeholders, such as supervisory authorities.

The impacts range from reduced opportunities (new business, sales partners, etc.) to administrative additional expenses (for example, preparation of requested information by the press or supervision)

An identification process of reputational risks is put into place through

ad hoc reporting and regular quarterly communication between the governance functions. In addition, internal control systems, where a basic assessment of potential reputational loss for each operational risk is done, are completed by both the Compliance Officer and the Risk Manager. If the risk is assessed as being above the process owner's acceptable range, then a measure is required and monitored.

C.7 Any other information

ERV Nordic has no other material information to provide regarding the risk profile.

D. Valuation for Solvency Purposes

The accounting and valuation methods in the financial statement are based on Danish GAAP (Regnskabsbekendtgørelsen). On July 27th 2015, the Danish FSA issued a new executive order for insurance companies and pension funds. Among other things, this should meet the new entry of the Solvency II regulation starting January 1st 2016. Because of these actions, differences between the local GAAP and Solvency II for each class will be few.

Differences concerning the recognition and valuation compared to the Solvency II requirements lead to value differences in single accounts. These differences will be explained under each asset class individually.

D.1 Assets

This section provides information regarding the valuation of assets for solvency purposes. In the following

tabular overview, all relevant assets are displayed including their Solvency II- and Local GAAP-value. Afterwards each item will be presented in detail, including the valuation approaches in the solvency balance sheet as well as financial reporting following Local GAAP. Furthermore, an explanation of differences arising from the use of both valuation approaches will be provided.

Assets (in DKK million)	Solvency II- value	Local GAAP	Difference
Intangible assets	0.0	37.4	-37.4
Deferred tax assets	0.0	1.2	-1.2
Property, plant & equipment held for own use	40.9	40.9	0.0
Investments (other than assets held for index-linked and unit-linked contracts)	467.5	461.6	5.8
Property (other than for own use)	49.0	49.0	0.0
Holdings in related undertakings, including participations	88.5	85.9	2.6
Equities	0.0	0.0	0.0
Equities - unlisted	0.0	0.0	0.0
Bonds	309.6	306.5	3.1
Government Bonds	177.7	176.2	1.5
Corporate Bonds	131.9	130.3	1.6
Collective Investment Undertakings	20.3	20.3	0.0
Reinsurance recoverable from:	2.0	2.1	-0.1
Non-life and health similar to non-life	2.0	2.1	-0.1
Non-life excluding health	1.4	1.3	0.0
Health similar to non-life	0.6	0.8	-0.2
Insurance and intermediaries receivables	17.9	18.1	-0.1
Reinsurance receivables	0.0	1.3	-1.3
Receivables (trade, not insurance)	19.4	18.4	1.0
Cash and cash equivalents	10.2	10.2	0.0
Any other assets, not elsewhere shown	3.2	3.2	0.0
Total assets	561.1	594.4	-33.4

The following asset categories were not held by ERV Nordic as of December 31st 2017:

- Goodwill,
- Deferred acquisition cost,
- Pension benefit surplus,
- Equities – listed,
- Derivatives,
- Deposits other than cash equivalents,
- Other investments,
- Assets held for index-linked and unit-linked funds,
- Loans and mortgages,
- Deposit to cedants,
- Own shares, and
- Amounts due in respect of own fund items or initial fund called up but not yet paid in.

Intangible assets (in DKK million)	Solvency II	Local GAAP	Difference
Software	0.0	34.4	-34.4
Software development projects	0.0	3.0	-3.0
Total software	0.0	37.4	-37.4

Solvency II:

The given intangibles are valued at zero in the solvency balance sheet since there were no active markets for these.

Valuation difference Local GAAP:

Due to the value zero in Solvency II, the difference between Solvency II and local GAAP corresponds to the acquisition costs with deductions of the write down, which is described under Danish GAAP §60-61.

A straightline write down is applied based on the following assessment of the assets' expected useful lives:

Software, presently			3-5 years
Deferred tax assets (in DKK million)	Solvency II	Local GAAP	Difference
Deferred tax assets	0.0	1.2	-1.2

Solvency II:

For Solvency II purposes, deferred tax assets and liabilities are recognized according to the local tax requirements of ERV Denmark due to the temporary differences between valuation principles of assets and liabilities within the solvency balance sheet. The deferred tax assets are calculated using specific rate of taxation. Deferred tax is in Solvency II netted and therefore shown as a liability.

Valuation difference Local GAAP:

The tax rate in both Denmark and Sweden is 22 % whereas deferred tax stand for 22 % on all time differences between the result reported in the yearly report, the result reported in the tax return, and between the book value and taxable value of ERV Nordic's intangible assets, investment assets, operating equipment and debts.

The difference corresponds to the difference in the Solvency II valuation described above and §76 in the Danish GAAP. The main reason for the difference is the deferred tax regarding risk margin in ERV Sweden and deferred tax for equipment.

Property, plant and equipment (in DKK million)	Solvency II	Local GAAP	Difference
Domicile	39.6	39.6	0.0
Plant and equipment	1.3	1.3	0.0
Total Property, plant and equipment	40.9	40.9	0.0
Property (other than for own use)	49.0	49.0	0.0

Solvency II:

According to the Solvency II-valuation principles, undertakings shall apply the fair value model and the revaluation model of IAS 40 and IAS 16 respectively when valuing property, plant and equipment. Furthermore, it is permitted to apply valuation models that value at the lower of the carrying amount and fair value less costs to sell.

Revaluation model: After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impair-

ment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period (IAS 16.31).

The value of the domicile is the same in Solvency II as in Local GAAP and is valued at Fair value.

With regard to the technical standard 15 of EIOPA, fixed assets have to be recognized at their revalued amount (IAS 16), if the economic value can be measured reliably. The revalued amount is equal to the economic value at the valuation date less accumulated

scheduled amortization and impairment losses (see IAS 16.31).

In accordance with EIOPA-BoS-15/113, inventories have to be measured at fair value. Alternatively, recognition at the net sale value (IAS 2) is allowed, if the net sale value is not materially different from the fair value. Then, inventories have to be measured at the lower of acquisition or manufacturing costs and their net realizable value (IAS 2.9).

As the inventories are not considered material, they were recognized at the Local GAAP value.

Local GAAP:

Domiciles are measured in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation.

Revaluations are performed regularly to avoid the carrying amount differing from the domicile's fair value at the balance sheet date.

For reporting under the terms of Danish GAAP, fixtures and operating equipment are measured at cost less accumulated write down and any accumulated impairment losses.

The tangible assets are written down on a straightline basis from the following assessment of the assets' expected useful lives, as follows:

Furniture and other operating equipment	5 years
Computer hard and software, presently	3-5 years
Moter vehicles, presently	5 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

Holdings in related undertakings, including participations (in DKK million)	Solvency II	Local GAAP	Difference
Affiliated company			
ERV Pojistovna a.s.	71.6	64.0	7.6
Associated companies			
Euro-Center Holding SE	7.4	16.0	-8.6
Euro-center Assistance Holding	9.6	5.9	3.7
Holdings in related undertakings, including participations	88.5	85.9	2.6

The following tables give an overview of the shareholdings in related undertakings, including participations.

Shares in affiliated and associated companies	Registered office	Activity	Shareholding	Capital & Reserves	Result
Subsidiary					
ERV Pojistovna a.s.	Czech Republic	Insurance	75.00 %	85.3	4.6
Associated companies					
Euro-Center Holding SE	Czech Republic	Assistance	33.33 %	47.9	6.8
Euro-center Assistance Holding	Germany	Assistance	20.00 %	29.7	6.9

Capital holdings (shares) in affiliated and associated companies are in Local GAAP stated at their equity value using the equity method. As a result, the shareholdings are shown in the balance sheet as the pro rata share of the companies' equity.

Shareholding in the insurance subsidiary ERV Pojistovna a.s. is in Solvency

II stated at their own funds value using a method similar to the equity funds method but with Own Funds instead of equity.

Shareholdings in associated companies are stated at fair value or an equity value similar to SII valuation.

The method is basically the same, but as the assets and liabilities in the shareholdings are not the same in Solvency II according to Danish Local GAAP; the value is different.

Bonds (in DKK million)	Solvency II	Local GAAP	Difference
Government bonds	177.7	176.2	1.5
Corporate bonds	131.9	130.3	1.6
Total bonds	309.6	306.5	3.1

Listed bonds are stated at the price listed at closing time on the date of the balance sheet. However, drawn bonds are stated at fair value.

The valuation methods in Solvency II and Danish GAAP are the same, but the Solvency II value include accrued

interest which in local GAAP are included in the item "Receivables (trade, not insurance)".

The differences are explained by the different allocation of accrued interest.

Collective Investments Undertakings (in DKK million)	Solvency II	Local GAAP	Difference
Investment funds, bond based	10.0	10.0	0.0
Investment funds, share based	10.3	10.3	0.0
Total collective investments undertaking	20.3	20.3	0.0

The valuation methods in Solvency II and Danish GAAP are the same. Thus, there are no differences in the values.

Reinsurance recoverable (in DKK million)	Solvency II	Local GAAP	Difference
Reinsurance recoverable	2.0	2.1	-0.1

The main difference between reinsurance recoverable in Solvency II and Local GAAP is the calculation of premium provision.

The main rule in local GAAP is that the reinsurance part of gross premium provision is calculated based on the relevant quota shares deducted with the relevant commission for the reinsurance contract.

The main difference is normally caused by the reduction of the premium provision in Solvency II with (1- (the claim and expense ratio)), but as ERV Nordic at the moment have nearly no premium provision of reinsurance, it is not visible this year.

Reinsurance receivables (in DKK million)	Solvency II	Local GAAP	Difference
Reinsurance receivables	0.0	1.3	-1.3

Reinsurance receivables are in SII stated after discounting and counterparty default adjustment. But as the debt is short term and the reinsurer is rated A, the default adjustment is not visible.

Reinsurance receivables in local GAAP are stated net of a bad debt reserve calculated on the basis of an individual assessment of the debtors.

The difference between Solvency II and local GAAP are caused by the fact that Reinsurance receivables and liabilities are netted in SII, and therefore, the SII figures are shown under liabilities.

Insurance and intermediaries receivables (in DKK million)	Solvency II	Local GAAP	Difference
Insurance and intermediaries receivables	17.9	18.1	-0.2

Based on Solvency II, and Danish GAAP §46, there are no differences in the valuation of insurance and intermediaries receivables.

But the allocation of the account to account groups in local GAAP and SII are different which cause a minor difference.

Receivables, (trade, not insurance) (in DKK million)	Solvency II	Local GAAP	Difference
Receivables (trade, not insurance)	19.4	18.4	1.0

The valuation methods in Solvency II and Danish GAAP are the same. Thus, there are no differences in the values. However, the allocation of the accounts to account groups in local GAAP and SII are different which cause the differ-

ence of DKK 1m. One of the major allocation differences is accrued interest in bonds. In local GAAP, it is placed here whereas it is placed under bonds in SII. Another difference is accounts which are placed here in SII but under Liabili-

ties Payables (trade, not insurance) in Local GAAP due to netting of VAT and tax accounts.

Cash and cash equivalents (in DKK million)	Solvency II	Local GAAP	Difference
Cash and cash equivalents	10.2	10.2	0.0

The valuation methods in Solvency II and Danish GAAP are the same. Thus, there are no differences in the values.

D.2 Technical provisions

The following table shows the technical provisions per line of business for each calculation method:

Technical provisions (in DKK million)				
Type of insurance	Local Line of Business	Best estimate	Risk margin	Technical Provisions
Direct business and accepted proportional reinsurance	Medical expense insurance	99.9	5.7	105.6
	Income protection insurance	3.8	2.5	6.3
	Other motor insurance	0.1	0.0	0.1
	Marine, aviation and transport insurance	6.0	1.0	7.0
	Fire and other damage to property insurance	6.2	1.0	7.2
	General liability insurance	4.7	3.1	7.8
	Legal expenses insurance	2.7	0.1	2.8
	Assistance	-0.2	0.2	0.0
	Miscellaneous financial loss	46.6	3.3	49.9
Total		169.8	16.9	186.7

The valuation of technical provisions is in accordance with the Solvency II guidelines.

In general, the value of technical provisions is equal to the sum of a best estimate (claims provision and premium provision) and a risk margin as shown above.

The best estimate corresponds to the probability-weighted average of future cash-flows, taking into account the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure. The calculation of the best estimate is based upon up-to-date and credible information and realistic assumptions and performed using adequate, applicable and relevant actuarial and statistical methods according to SII and Munich RE requirements.

Claims provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to claim events prior to the valuation date.

Premium provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums due) relating to future exposure arising from policies that we are obligated to at the valuation date. For all lines of business, premium provision was ascertained using "combined ratio method".

Combined ratio method:

$$BE = UPR * CR$$

BE = best estimate

UPR = unearned premium reserve

CR = combined ratio = loss ratio + expense ratio

Risk margin is intended to be the balance that another (re)insurer taking on the liabilities at the valuation date would require over and above the best estimate. Risk margin according to SII are calculated based on the standard

formula. Risk Margin in local GAAP is calculated based on the balance that another (re)insurer, taking on the liabilities at the valuation date, would require. As the technical provisions do not have the same level in SII and in Local GAAP, the risk margin is different.

Technical provision according to Local GAAP

Technical provision consist of provision for unearned premium and remaining risk and provision for claims outstanding and correspond to obligations arising from applicable insurance agreements.

Provisions for insurance contracts (premium provision)

A simplified calculation of premium provision according to the Danish Executive Order on Financial Statements § 69a is used.

Provisions for insurance contracts are recognized as future payments including payments for administration and claims handling regarding future events for inforce policies. However, as a minimum to the part of the premium calculated using the "pro rata temporis" principle until the next payment date. Adjustments are made to reflect any variations in the incidence of risk. For new annual insurance policies, where a considerable part of the risk is in the immediate continuation of the date they become effective, we add as income 50 % of the premium within the first 2-3 weeks and then distribute the rest according to the "pro rata temporis" principle.

The provisions also include amounts reserved to cover risk in connection with increasing age. These provisions are reserved when there is no longer a natural premium and the risks covered increase with the insured person's age.

The provisions for insurance contracts are recognized, taking into account the deductions for direct acquisition costs.

Provisions for claims

Provisions for claims include direct and indirect claims handling costs arising

from events that have occurred up to the balance sheet date. Provisions for claims are estimated using the input of assessments for individual cases reported to ERV Denmark and statistical analyses for the claims incurred but not reported and the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Claim provisions are discounted if material. Discounting is based on a yield curve reflecting duration applied to the expected future payments from the provision.

Risk margin on insurance contracts

Risk margin on insurance contracts is the expected amount payable, if the portfolio of insurance contracts were transferred to another company.

Uncertainty in the calculation of actuarial provisions

Future trends such as demographic, legal, medical, technological, social, environmental and economic developments affect the future cash inflows and outflows required to fulfil the obligations.

Technical provisions are evaluated by the actuarial function and the development of the technical provisions set aside in the past are compared to the realized figures.

Based on these evaluations, the Actuarial Function estimates that the technical provisions are sufficient to cover the future cash flow related to claims already occurred and to policies already issued.

Valuation differences between Local GAAP and Solvency II

The difference between Local GAAP and SII-TP can be explained as follows:

Valuation differences (in DKK million)	Solvency II	Local GAAP	Difference
Total Gross	169.8	182.4	-12.6
Reinsurance recoverable*	-2.0	-2.1	0.1
Risk margin	16.9	7.7	9.2
Total net	184.7	188.0	-3.3

* in Solvency II, total recoverable from reinsurance after the adjustment of expected losses due to counterparty default.

Technical provision (TP) Gross
Local GAAP TP Gross incl. Local GAAP risk margin
- Local GAAP risk margin
+ Deferred acquisition cost gross
- Reduction of Premium provision calculated as the premium provision multiplied with (1-(claim and expense ratio))
- Expected profit included in future premiums
-/+Effect of discounting
+ Risk margin according to SII
= Total Gross TP according to SII

The main difference between Solvency II TP Gross and Local GAAP TP gross is the calculation of premium provision where the main rule in local GAAP is

according to the "pro rata temporis" principle (until next premium date deducted for the corresponding acquisition cost).

The main difference is caused by the reduction by (1- the claim & expense ratio) which is done in the Solvency II calculation.

Reinsurance Recoverable	
Local GAAP TP ceded part	
+ Deferred acquisition cost ceded part according to Local GAAP	
- Reduction of Premium provision calculated as the premium provision multiplied with (1-claim & expense ratio)	
-/+ Effect of discounting	
- Adjustments for expected losses due to counterparty default	
= Reinsurance recoverable according to SII	

The main difference between Solvency II reinsurance recoverable and Local GAAP reinsurance recoverable is the calculation of the premium provision where the main rule in local GAAP is that the reinsurance part of the gross premium provision is calculated based on the relevant quota shares deducted

with the relevant commission for the reinsurance contract. The main difference is caused by the reduction of the premium provision in Solvency II with (1- (the claim and expense ratio)).

A specification of the revaluation from local GAAP to SII valuation of technical provision before risk margin is shown below:

Revaluation of technical provision from local GAAP to SII (in DKK million)	Gross	Ceded
Local GAAP technical provision	182.4	-2.1
+ Deferred acquisition cost	14.6	0.0
Reduction (1-claim ratio & expense ratio)	-29.7	0.0
Expected loss included in future premiums	2.0	0.0
+/- effect of discounting etc.	0.5	0.0
Counterparty default adjustment	0.0	0.1
Technical provision gross according to SII before risk margin	169.8	-2.0

Risk margin according to SII are calculated based on the standard formula. Risk Margin in local GAAP is calculated based on estimates.

Matching adjustments

A matching adjustment in accordance with Article 77b, a volatility adjustment pursuant to Article 77d and a transitional deduction pursuant to Article 308d of Directive 2009/138/EC were not made.

A transitional risk-free interest rate-term structure pursuant to Article 308c of Directive 2009/138/EC was also not used.

Recoverable from reinsurance contracts and special purpose vehicles

The calculation of the recoverable

amounts from reinsurance contracts is based on the same principles as for the technical provisions. In particular, claims to counterparties, less the agreed payments (for example, reinsurance contributions), must be taken into account among the counterparties. The contractual limits, as well as the consideration of the insurance obligation, are respected. In addition, the recoverable amounts from reinsurance contracts are to be adjusted for the expected loss due to counterparty's default.

Material changes in the reporting period

There were no material changes in the assumptions made in the calculation of technical provisions during the reporting period.

D.3 Other liabilities

This section provides information regarding the valuation of other liabilities of ERV Nordic for solvency purposes.

In the following table, all material liabilities, other than technical provisions are displayed, including their Solvency II and Local-GAAP-value. Afterwards, each class will be presented in detail, including the valuation approaches in the solvency balance sheet as well as financial reporting following Local GAAP. An explanation for the differences between the two will be provided.

Other Liabilities (in DKK million)	Solvency II	Local GAAP Value	Difference
Other Liabilities			
Deferred tax liabilities	41.4	9.8	31.6
Insurance & intermediaries payables	13.3	10.6	2.7
Reinsurance payables	-0.1	0.2	-0.3
Payables (trade, not insurance)	52.3	51.9	0.4
Total Other Liabilities	106.8	72.5	34.4

The following other liabilities were not held by ERV Nordic as of December 31st 2017:

- Contingents liabilities
- Provisions other than technical provisions,
- Pension benefit obligations,
- Deposits from reinsurers,
- Derivatives,
- Debts owed to credit institutions,
- Financial liabilities other than debts owed to credit institutions, and
- Subordinated liabilities.

Deferred tax liabilities (in DKK million)	Solvency II	Local GAAP	Difference
Deferred tax liabilities	41.4	9.8	31.6

Solvency II:

ERV Nordic recognizes and values deferred taxes in relation to all assets and liabilities, including technical provisions that are recognized for solvency or tax purposes in conformity with international accounting standards, as endorsed adopted by the Commission in accordance with Regulation (EC) No 1606/2002.

The methodology of the calculation of deferred tax liabilities follows the requirements of IAS 12. Deferred tax liabilities for Solvency II purposes are formed due to temporary differences between the recognition principles of assets and liabilities in the Solvency Balance Sheet and the tax balance sheet values according to local tax regulations.

Local GAAP:

In Danish GAAP, deferred taxes provide with 22 % on all time differences between the balance sheet values reported in the Annual report, the values reported in the tax return, and between the book value and taxable value of intangible assets, investment assets, operating equipment and debts. The tax liable on the contingency reserve (contingent tax DKK 22.8m) is not provided for in the balance sheet as the technical provision is not expected to fall below the level of 90 % of December 31st 1994. The Swedish contingency reserve is reported as an untaxed reserve. The calculation is based on a directive from the Swedish Financial Supervisory Authority. The directive indicates the maximum amount that may be allocated to the

contingency reserve, based on written premium and the provision for claims outstanding. ERV Sweden continuously calculates the maximum scope for provisions. At year-end, the company had not utilized the maximum scope. We do not expect further release from the Swedish contingency reserve.

Difference SII versus Local GAAP:

The difference corresponds to the difference in the Solvency II valuation described above and \$76 in the Danish GAAP. The deviation is mainly caused by deferred tax DKK 40,2m at the untaxed Contingency Funds amounting to DKK 182.9m.

Insurance and intermediaries payables (in DKK million)	Solvency II	Local GAAP	Difference
Insurance & intermediaries payables	13.3	10.6	2.7

For Solvency II and Danish GAAP, insurance and intermediaries payables are recognized as the fair value. As the methods used are the same, no

valuation differences arise, but several accounts are allocated differently in Solvency II and in Local GAAP which cause the difference of DKK 2.7m.

These posting are in SII included in the item Insurance and intermediaries receivables and Payables (trade not insurance).

Reinsurance payables (in DKK million)	Solvency II	Local GAAP	Difference
Reinsurance payables	-0.1	0.2	-0.3



For Solvency II and Danish GAAP, reinsurance payables are recognized as the fair value. Thus, there are no differences in the values, but some accounts

are allocated differently. The difference of DKK 0,3m is because all reinsurance liabilities related to affiliated companies in local GAAP are placed

under Payables (trade, not insurance) and the fact that reinsurance receivables and payables in SII are netted here.

Payables (trade, not insurance) (in DKK million)	Solvency II	Local GAAP	Difference
Payables (trade, not insurance)	52.3	51.9	0.4

Under Solvency II and Danish GAAP §72, all other liabilities are to be measured at their fair value. As the methods used are the same, no valuation differences arise, but several accounts are allocated differently in Solvency II and in Local GAAP which sum up to zero.

The payables consist of holiday pay obligations (salaried staff), liability accrued bonuses to employees, VAT liability, Social security benefit & other duties, tax liability, other creditors and accrued costs.

D.4 Alternative valuation methods

ERV Nordic did not use alternative valuation methods in the reporting year.

D.5 Any other information

For the reporting year, ERV Nordic has no other material information to provide.

E. Capital Management

E.1 Own funds

Management of own funds

With active capital management, ERV Nordic ensures that the capital adequacy is appropriate at all times. ERV Nordic calculates the solvency demand and coverage on a quarterly basis and the figures are reported to the Board of Management and the Board of Directors.

ERV Nordic has a strict capital management policy which describes both the necessity to monitor the capital and an emergency plan if something unforeseen would happen and bring the capital below the level decided by the Board of Directors.

In addition to the above, sensitivity analyses defined by the Danish Supervisory body are performed quarterly.

These analyses show how much certain values in the balance sheet can be stressed before ERV Nordic reaches a solvency coverage of 150 % or 100 %.

This ensures that existing own funds cover the capital requirements and the requirements set by the supervisory authorities.

In order to achieve these objectives, regulatory and own capital limit requirements are an integral part of the annual planning cycle. Within the scope of this planning, we project the available capital and capital requirements over a planning horizon of four years. As part of the planning process, stress tests are done in order to ensure that ERV Nordic will be able to fulfil its capital obligation if something unforeseen happens.

Within the planning process, solvency quotas are required for internal steering purposes and to fulfil legal requirements.

Development of solvency situation - Own funds

The table below shows Own Funds (OF) and classification according to Solvency II. Note that all capital is classified as tier 1. Hence, all capital can be used to cover both the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR).

The figures for reporting year 2016 are made as if ERV Sweden would have been merged into ERV Denmark already in 2016 despite that it only have been since 1/1 2017.

Eligible own funds (in DKK million)	2017	2016
Excess of assets over liabilities	267.0	333.6
thereof issued capital and capital reserve	10.0	10.0
thereof Surplus Funds		
Foreseeable dividends	0.0	0.0
Other items and deductions		
Basic own funds after adjustments - total	267.6	333.6
Ancillary own funds - total		
Funds not eligible for Eligible own funds (SCR)		
Eligible own funds to meet the SCR - total	267.6	333.6
EOF thereof - Tier 1 unrestricted	267.6	333.6
EOF thereof - Tier 1 restricted		
EOF thereof - Tier 2		
EOF thereof - Tier 3		
Funds not eligible for Eligible own funds (MCR)		
Eligible own funds to meet the MCR - total	267.6	333.6

No material changes in the development of own funds have occurred in 2017.

The following table shows material differences between the equity shown in the financial statement and Eligible own funds according to Solvency II.

Eligible own funds (in DKK million)	2017	2016
Total capital and reserves, according to annual report	331.9	384.2
Intangible assets	-37.4	-30.9
Deferred tax liability at Contingency reserve	-40.2	-45.0
Lower technical provision in SII, net	3.3	33.5
Deferred tax - technical provision above	-0.7	-8.3
Deferred tax - software	8.2	4.8
Different valuation of associated and affiliated in SII	2.6	-2.3
Other minor valuation differences not specified	-0.1	-2.4
Eligible own funds (Solvency II)	267.6	333.6

An explanation of the valuation differences can be found under section D1, D2 and D3.

ERV Nordic does not have any own-fund item that is subject to the transitional arrangements referred to in Articles 308b (9) and 308b (10) of Directive 2009/138/EC.

ERV Nordic does not have any ancillary own funds as mentioned in article 297 (1g) in the Regulation 2015/35.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Summary of the Solvency Capital Requirement and the Minimum Capital Requirement

The following table shows the SCR, split by risk module, calculated according to the Standard formula:

Solvency Capital Requirement (in DKK million)	2017	2016	Change
Market risk	70.3	69.6	0.8
Counterparty default risk	11.9	6.4	5.5
Health underwriting risk	88.7	97.6	-8.9
Non-life underwriting risk	93.4	66.0	27.4
Diversification	-90.7	-80.2	-10.5
Basic Solvency Capital Requirement	173.6	159.4	14.2
Operational risk	12.3	12.6	-0.3
Loss-absorbing capacity of deferred taxes	-40.9	-37.8	-3.1
Solvency Capital Requirement	145.0	134.2	10.8
Minimum Capital Requirement	47.6	41.7	5.8
Solvency Ratio	185 %	249 %	

Material Changes to the Solvency Capital Requirement and Minimum Capital Requirement:

Solvency Capital Requirement

Underwriting risk / non-life:

Non-life has increased as we, for 31/12 2017, calculated catastrophe risk at Marine & aviation insurance and Other Financial Loss insurance which have not been done in the past. This is due to the fact that these business lines were not judged to have any catastrophe risk at all, caused by very small sum insured and no cumulated risk. But as the Standard formula does not allow any exemptions, ERV Nordic will calculate this catastrophe risk fully according to the stipulated rules.

Counterparty default risk:

The Counterparty default risk has increased which is connected with the changed catastrophe risk mentioned above, as the counterparty default risk increase for reinsurance as a consequence of these new catastrophe risk.

General comments to the Solvency Capital Requirement (SCR)

The main driver for Solvency Capital Requirement (SCR) based on the Standard model is the underwriting risk (premium and reserve risk) of NSLT health and Non-life which counts for 67 % of total risk capital demand before diversification. The main risks included in underwriting risk are pandemic

risk, non-life premium and reserve risk and NSLT health premium and reserve risk.

Next main driver is market risk which count for 27 % of the risk capital demand before diversification. The main risks under market risk are Currency risk, Equity risk and Property risk.

Minimum Capital Requirement

Minimum Capital Requirement (MCR) has increased in 2017 mainly caused by a combination of increased premium and an increased claim ratio for miscellaneous financial loss insurance.

The following input is used to calculate the MCR:

Minimum Capital Requirements (in DKK million)	2017	2016
Linear MCR	476	41.7
SCR	145.0	134.2
MCR cap (45 % of SCR)	65.2	60.4
MCR floor (25 % of SCR)	36.2	33.5
Combined MCR	476	41.7
Absolute floor of the MCR	275	275
Minimum Capital Requirement	476	41.7

According to the Delegated Acts Article 248, the MCR is calculated with the help of a linear formula, limited by percentages of the SCR (floor of 25 %, cap of 45 %) and an overall absolute floor. The amount of the absolute floor depends on the type of business.

The absolute floor for ERV Nordic amounts to EUR 3.7m corresponding to DKK 275m.

The linear formula is based on the technical provision net of reinsurance without risk margin and premium writ-

ten during the last 12 months net of reinsurance. Each figure is multiplied by a factor given in the delegated act per Solvency II line of business and added together.

Combined MCR is calculated as follows:

Combined MCR = min(max(MCR linear or MCR Floor) or MCR cap)

Simplified calculations

No simplified calculations have been made pursuant to Chapter III, Section 6, of the Commission Delegate Regulation (EU) 2015/35 of 10 October 2014.

ERV Nordic does not use any undertaking-specific parameters pursuant to Article 104(7) of Directive 2009/138/EC.

ERV Nordic has no use of the option provided for in the 3rd subparagraph of Article 51(2) of Directive 2009/138/EC.

ERV Nordic has not applied any undertaking-specific parameters pursuant to Article 110 of Directive 2009/138/EC.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

ERV Nordic did not use a duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement in the reporting period.

E.4 Differences between the standard formula and any internal model used

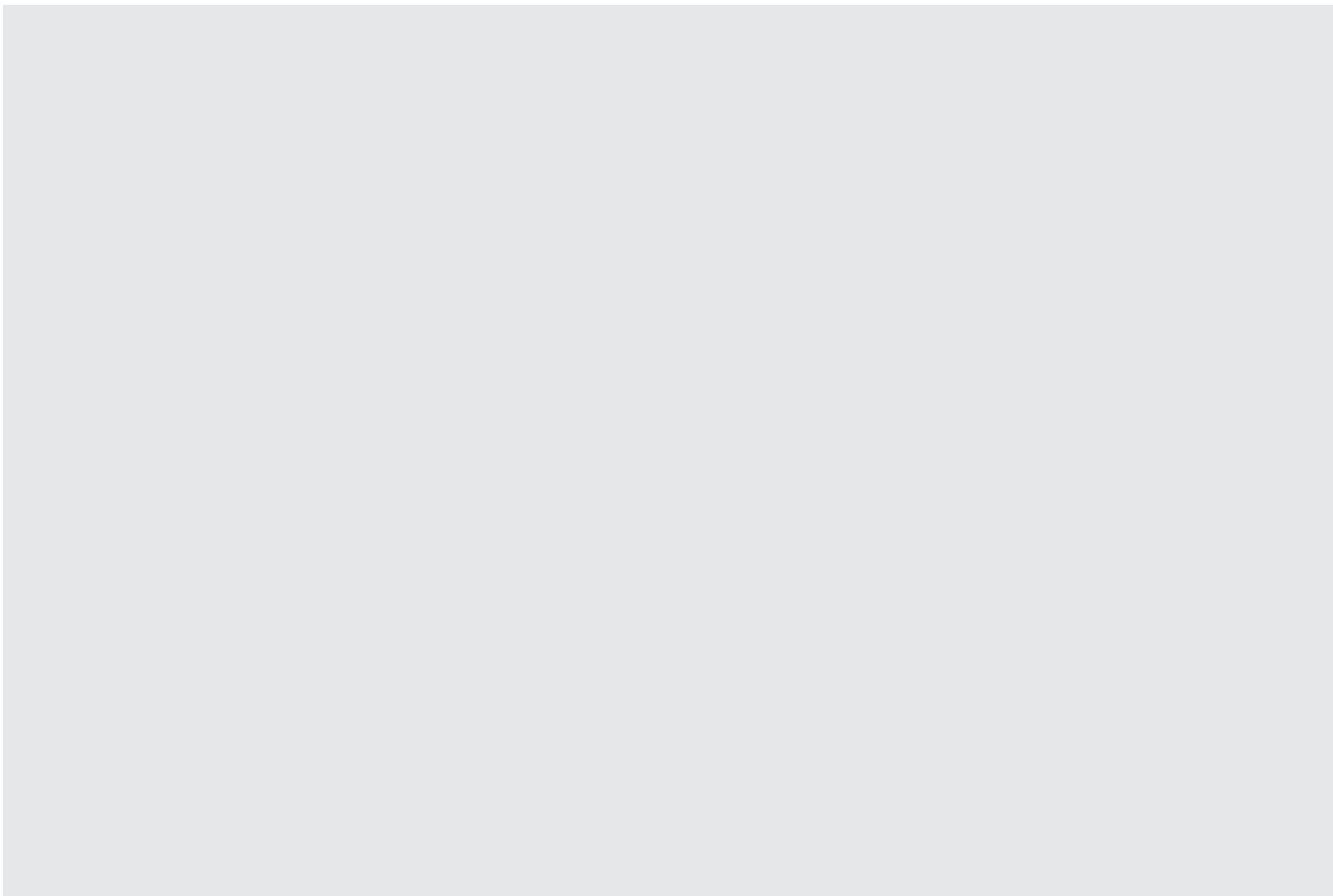
ERV Nordic did not use an internal model in the reporting period.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

In the reporting period, ERV Nordic complied with both the Minimum Capital Requirement and the Solvency Capital Requirement.

E.6 Other Information

ERV Nordic has no other material information to provide.



Abbreviations

AF	Actuarial Function
RMF	Risk Management Function
IAF	Internal Audit Function
CF	Compliance Function
ORSA	Own Risk and Solvency assessment
ICS	Internal Control System
SFCR	Solvency and Financial Condition Report
QRT	Quantitative Reporting Templates
BoD	Board of Directors
CEO	Chief executive officer/Board of Management
CFO	Chief financial officer
CSO	Chief sales officer
COO	Chief operating officer
BOF	Basic own funds
EOF	Eligible own funds
PLA	Profit & Loss attribution
OF	Own funds
SCR	Solvency Capital Requirement
MCR	Minimum Capital Requirement

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