The Solvency and Financial Condition Report (SFCR)

2019 - Europæiske Rejseforsikring A/S

Public

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Summary

A - Business and Performance	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 that focus on the markets in Sweden and Denmark. Main line of business is medical expense insurance and miscellaneous financial loss. The underwriting result was below expectations and showed a loss of DKK 11.4m in 2019.
B - Governance System	ERV Nordic has an effective System of Governance that is adequate for the nature, scale and complexity of the risks inherent in the business. Written policies are implemented and approved at least on an annual basis that forms the processes of the System of Governance. People who run ERV Nordic or perform other key tasks, including the key functions, have the professional qualifications, knowledge and experience to perform the relevant tasks. Outsourcing of operational activities and functions is monitored.
C - Risk Profile	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.
D - Valuation for solvency purposes	According to Solvency II rules, total assets in the end of 2019 were DKK 633.3m, compared with DKK 680.0m as calculated according to the accounting standard used for ERV Nordic statutory financial statements (Local GAAP). There was no change during 2019 in the approach of valuing assets and liabilities according to Solvency II and local GAAP valuation principles. A description of the differences between Solvency II valuation methods and assumptions and the statutory accounts basis is provided in the chapter.
E - Capital Management	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 199.9m in 2019 and eligible own funds to cover the SCR is DKK 285.1m. The Minimum Capital Requirement (MCR) is DKK 65.7m and eligible own funds to cover the MCR is DKK 285.1m. The company did not have any basic own-fund items subject to a transitional arrangement in the reporting period.

Introduction

In accordance with the Solvency II regulation, Europæiske Rejseforsikring A/S is presenting the Solvency and Financial Condition Report (SFCR) relating to the financial year of 2019.

The purpose of this report is to provide transparency to customers and other stakeholders regarding business, performance, governance, risk profile and capital requirement.

The SFCR is published for Europæiske Rejseforsikring A/S including Europeiska ERV Filial in Sweden. For clarification and simplicity reasons, we will use the term ERV Nordic when referring to both entities. When only referring to Europæiske Rejseforsikring we will use ERV Denmark and similarly with Europeiska ERV we will use the term ERV Sweden.

The report was reviewed and approved by the Board of Directors on April 20th, 2020.

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 private (unlisted) limited 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 2019. Responsible persons for this audit were State Authorised Public Accountants Anja Bjørnholt Lüthcke and Jette Kjær Bach, KPMG Denmark, Copenhagen.

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

[1] The legal name of Munich RE Group is Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft

Table A.1.1 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

Lines of business
ERV Nordics material lines of business are the following:

- Medical expense insurance
- Miscellaneous financial loss

Geographical areas
Material geographical areas where ERV Nordic carry out business are Denmark and Sweden.

Significant business or other events occurred during the reporting period
ERV Nordic launched new corporate travel insurance products in 2019. With more than 30 improvements to our coverages and increased flexibility, we now offer the most flexible and complete corporate travel insurance on the market.

ERV Sweden initiated cooperation with SkiStar on a new Accident insurance for children up to 18 years of age. In addition, in 2019, ERV Sweden became the new insurance provider for Skandiabanken and will thereby provide insurance for all the credit card holders in that bank.

The old mainframe system in ERV Denmark was closed, and the new system NIS became the sole system of registration of policies and claims. NIS has been selected to support ERV Nordic's vision of becoming aligned in how we do things and be more business driven. The system enables customization of our products and offerings to the benefit of our partners, and it promises to substantially improve how we process policies and claims.

As part of the overall strategy within ERGO, ERV Nordic is going to change name to ERGO Rejseforsikring in Denmark and ERGO Reseförsäkringar in Sweden. ERV Nordic has already launched a marketing campaign in Sweden and in Denmark targeting leisure customers and started promoting the "A part of ERGO" - logo.

A.2 Underwriting Performance

The local GAAP underwriting result was below expectations, amounted to a loss of DKK 13.4m, and was therefore worse than in 2018 where it was a loss of DKK 4.8m. In IFRS we see a similar development in the underwriting result with a loss of DKK 11.4m in 2019 compared to DKK 5.4m in 2018. The major part of the business for ERV Nordic is medical insurance written in Denmark and Sweden.

Premium Earned

The local GAAP net premium earned (NPE) amounts to DKK 667.4m against DKK 386.3m in 2018, an increase of DKK 281.1m. In IFRS, we see a similar development in NPE with DKK 660.2m in 2019 compared to DKK 377.2m in 2018. The significant increase is primarily due to sales of domestic healthcare insurances through our new Danish partner Dansk Sundhedssikring A/S. In both ERV Denmark and ERV Sweden, we have however also seen substantial sales increases on our Leisure segments through increased Online sales and new business partners. The corporate segments have seen quite stable sales results.
This development is shown per Solvency II Line of Business (LoB) in the table below. Note that the figures are in accordance to IFRS and exclude, among other, the release of our NHC age reserve.

Table A.2.1 Net Premium Earned

(in DKK million)		2019	2018
1	Medical expense insurance	435,8	165,2
2	Income protection insurance	21,1	21,5
5	Other motor insurance	0,6	0,4
6	Marine, aviation and transport insurance	38,3	34,8
7	Fire and other damage to property insurance	28,1	30,5
8	General liability insurance	10,7	14,3
10	Legal expenses insurance	0,6	0,6
11	Assistance	4,2	6,1
12	Miscellaneous financial loss	120,8	103,8
Total		**660,2**	**377,2**

The biggest part of ERV Nordics premium derives from LoB number 1; "Medical expense insurance". This LoB has increased with DKK 270.0m from 2018 to 2019. The significant increase is primarily due to sales of domestic healthcare insurances through our new Danish partner Dansk Sundhedssikring A/S.

The second largest part of the premium is connected to LoB number 12; "Miscellaneous financial loss". For this LoB, premium has increased with DKK 17.0m from 2018 to 2019. This is mainly caused by substantial sales increases on our Leisure segments through increased Online sales and new business partners.

The other LoB's have been quite stable in 2019 compared to 2018.

Claims incurred

Local GAAP net claims incurred (incl. claims management costs) amount to DKK 390.0m against DKK 189.6m in 2018, an increase of DKK 200.4m. In IFRS, we see a similar development with DKK 388.6m in 2019 compared to DKK 190.1m in 2018.

Gross claims incurred amount to DKK 391.7m against DKK 191.1m in 2018, an increase of DKK 200.6m. As a direct effect of the increased portfolio on mainly healthcare insurance, this development was partly expected. The gross claims ratio however increased more than expected to 57.9%, which is 9.2 percentage-points higher than in 2018. Increased major claims costs on the ERV Denmark leisure market negatively affected the gross claims ratio. In addition, on the ERV Sweden Leisure and Corporate segments, we have seen worsened claims result compared to last year due to increased claims frequency and increased average claim costs. This has also affected increased claim settlement costs. The ERV Sweden Card segment have on the other hand improved during 2019.

The result of reinsurance recoveries and change of reinsurer's share of claim provisions shows a compensation for ERV Nordic of DKK 1.7m in 2019 against DKK 1.5m in 2018. The increase is primarily due to recoveries on the major claims we received during 2019. The claims ratio net of reinsurance is 58.4% against 49.1% in 2018.

This development is shown per Solvency II Line of Business in the table below. Note that the figures are in accordance to IFRS and exclude, among other, the release of risk margin.

Table A.2.2 Claims Incurred Net

(in DKK million)		2019	2018
1	Medical expense insurance	282,8	89,9
2	Income protection insurance	2,4	4,1
5	Other motor insurance	0,7	0,6
6	Marine, aviation and transport insurance	11,5	9,2
7	Fire and other damage to property insurance	5,4	4,2
8	General liability insurance	8,2	7,3
10	Legal expenses insurance	-0,2	0,5
11	Assistance	0,7	0,1
12	Miscellaneous financial loss	77,1	74,3
Total		**388,6**	**190,1**

As described above, we have as expected seen a substantial increase of claims incurred on LoB "Medical expense insurance" because of the increased sales of domestic healthcare insurances. In addition, increased number of major claims on our Leisure segment has also effected increased medical expense insurance costs.

The other LoB's have been quite stable in 2019 compared to 2018.

Expenses incurred
Local GAAP net operating expenses for 2019 amounted to DKK 290.2m against DKK 200.6m in 2018, an increase of DKK 89.6m. In IFRS we see a similar development in the net operating expenses with DKK 286.1m in 2019 compared to DKK 194.0m in 2018.

This development is shown per Solvency II Line of Business in the table below. Note that the figures are in accordance to IFRS.

Table A.2.3 Net Expenses Incurred

(in DKK million)		2019	2018
1	Medical expense insurance	181,3	82,7
2	Income protection insurance	5,9	9,0
5	Other motor insurance	0,0	0,1
6	Marine, aviation and transport insurance	15,6	18,5
7	Fire and other damage to property insurance	22,5	28,5
8	General liability insurance	4,2	10,9
10	Legal expenses insurance	0,0	0,1
11	Assistance	0,9	2,6
12	Miscellaneous financial loss	55,6	41,6
Total		**286,1**	**194,0**

Acquisition costs amount to DKK 221.8m against DKK 114.0m in 2018, an increase of DKK 107.7m. The increase is mainly due to acquisition costs in regards to domestic healthcare insurances sold through our new Danish partner Dansk Sundhedssikring A/S. Further to this, Nordic alignment of deferral of acquisition costs has generated extra costs in 2019.

The administrative expenses amount to DKK 68.8m against DKK 86.9m in 2018, which is a decrease of DKK 18.1m. We have had less HR costs compared to 2018 and because of higher claim frequency on the ERV Sweden Leisure and Corporate segments, more costs directed to claim settlement. Further, an aligned Nordic approach on assessing indirect claim and acquisition costs has affected less regular administrative costs in ERV Sweden.

Commissions and profit commissions from reinsurance amount to an income of DKK 0.4m compared to 0.4m in 2018. The reinsurance contracts with commission has the same volume in 2019 as in 2018 so therefore this income has been stable.

The total result of business ceded shows a loss for ERV Nordic of DKK 4.9m in 2019 against a loss of DKK 5.7m in 2018. The decrease is due to DKK 0.6m less ceded insurance premiums due to reinsurance contract adjustments and DKK 0.2m more reinsurance claim recovery incl. reinsurer's share of claim provisions due to increased major claims.

Underwriting result

The local GAAP underwriting result amounts to a loss of DKK 13.4m compared to a negative result DKK 4.8m in 2018. In IFRS we see a similar development in the underwriting result with a loss of DKK 11.4m in 2019 compared to a loss of DKK 5.4m in 2018. The worsened underwriting result is mainly due to increased claims costs net of reinsurance caused by, among other, major medical expense insurance claims on the ERV Danish Leisure segment. Further to this, Nordic alignment of deferral of acquisition costs has generated extra costs in 2019.

This development is shown per Solvency II Line of Business in the table below. Note that the figures are in accordance to IFRS.

Table A.2.4 Underwriting Result

(in DKK million)		**2019**	**2018**
1	Medical expense insurance	-5,7	82,7
2	Income protection insurance	8,5	9,0
5	Other motor insurance	-0,3	0,1
6	Marine, aviation and transport insurance	7,1	18,5
7	Fire and other damage to property insurance	-2,2	28,5
8	General liability insurance	-3,9	10,9
10	Legal expenses insurance	0,0	0,1
11	Assistance	3,4	2,6
12	Miscellaneous financial loss	-12,2	41,6
Total		**-11,4**	**-5,4**

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 16.2m in 2018.

The result from affiliated companies is created by ERV Pojistovna a.s of which ERV Nordic owns 75% of the share capital. In 2019, it shows a profit of DKK 9.4m against DKK 15.3m in 2018 in accordance to the slightly decreased result ERV Pojistovna a.s delivered in 2019.

The result from associated companies is generated by Euro-Center Holding SE of which ERV Nordic owns 33,33% of the share capital and by European Ass. Holding of which ERV Nordic owns 20,00% of the share capital. In 2019, the result of associated companies shows a loss of DKK 2.0m against a profit of DKK 3.0m in 2018. The main reason for the development is the negative 2019 result of European Ass. Holding.

Income from investment properties amounts to DKK 1.8m against DKK 2.6m in 2018. A shift in tenants has affected a one-time cost that decreased income in 2019.

Interest income etc. for the year amounts to DKK 7.2m compared to DKK 8.5m in 2018. As in 2018, 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 9.2m against a loss of DKK 12.3m in 2018. This year's loss is primarily due to unrealised losses in connection with value write-down of bonds.

Interest expenses amount to DKK 0.3m in 2019, which was similarly to 2018.

Administrative expenses related to investments amounts to DKK 0.6m, slightly less than last year. These expenses are primarily triggered by the services delivered by MEAG (Munich Ergo AssetManagement GmbH) that is our appointed investment asset manager.

A.4 Performance of other activities

Other income amounts to DKK 5.7m compared to DKK 5.5m in 2018 and other expenses amounts to DKK 4.6m compared DKK 4.0m in 2018. Other income and expenses mainly stem from a number of administration agreements where we deliver our renowned claims handling and assistance services to customers that prefer to self-cover their insurance risks.

A.5 Any other information

We consider the spread of coronavirus and related actions taken by authorities as non-adjusting post balance sheet events in regards to our 2019 result.

For 2020 we expect significant decrease in gross written premium in ERV Denmark due to lowered sales through Dansk Sundhedssikring A/S. In addition, the spread of coronavirus and the actions taken by authorities during the first part of 2020 effects a significant negative impact in regards to travel insurance sales and claims. Our investment portfolio consists mainly of low-risk Danish and Swedish government bonds, but we expect that the coronavirus will also negative impact the result of our affiliated company.

In total, this means that the expectations for the result for 2020 are below the result ERV Nordic delivered in 2019.

Considering the above-described outlook for 2020, we have performed an assessment of our ability to continue as a going concern covering twelve months from the date of the 2019 financial statements. It is our assessment that the expected solvency ratio is satisfactory and that the company's cash resources are adequate compared to the company's expected cash needs 12 months from the date of the financial statements for 2019.

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 and the Board of Management.

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 BoD are responsible for revising decisions and guidelines to ensure conformity with the overall strategy.

Currently, the BoD consists of six members.

Board of Management: Tasks and Responsibilities

The Board of Management (BoM) 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 BoM 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 BoM 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 BoM consists of the following persons; the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), and the Chief Operation Officer (COO).

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 ERGO Reiseversicherung 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 "Policyon Cooperation and Corporate Management in the Munich RE Group (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.

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.

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 BoM and the BoD,
- Key functions, and
- Creation and implementation of emergency plans.

Material changes in the system of governance

There were no material changes in the system of governance in 2019.

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 interests and the assumption of disproportionately high risks.

The remuneration system has been determined based on an overall assessment 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. The total amount of the variable compensation is based on a combination of assessments of the performance of the individual and of the business unit concerned, and of the overall result of the undertaking or the group to which the undertaking belongs.

Board of Directors
The BoD 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 BoD seeks to adjust the amount of the fee in accordance with the extent and responsibility connected with the tasks of the BoD. Board members from ERGO Reiseversicherung AG and ERGO are not compensated.

Board of Management
The BoM 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).

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.

One employee in ERV Sweden comprised by this ended their employment in April 2019. There are no employees left within ERV Sweden that are entitled to the early retirement scheme according to the collective agreement. The early retirement scheme is not applicable to employees of ERV Denmark.

Information on essential transactions

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

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 when a person has been appointed, or if circumstances indicate that a reassessment is required. Responsible for the assessment or reassessment is the body or department that 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.

<u>Risk identification</u>: 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.

<u>Risk assessment and measurement</u>: 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 BoD 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 countermeasures.

Advisory tasks: The RMF advises the BoM 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 BoD plays an active role in the set-up 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, and
- Compliance with regulatory capital requirements.

The activities of the regular ORSA are linked to the business planning process and are carried out annually. A non-regular ORSA process takes place when there are significant changes to the Risk profile. Regular monitoring of the significant risks and ad hoc reporting has been established.

B.4 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 BoD (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), which is currently performed by two persons; the Nordic Head of Legal & Compliance as well as another Compliance Officer.

The CF of ERV Nordic is part of the governance system and controls Compliance Risks by assessing compliance risk landscape, which is aligned with the results of the ICS on OpRisks, and conducts yearly compliance monitoring (planned by risk based approach and ad hoc).

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 manage-

ment. 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 documented in norms or, where applicable, in ERV Nordic´s process documentation tool.

The BoD and the BoM 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 BoD 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 Chief Internal Auditor. The Chief Internal Auditor reports directly to the BoD and the Audit Committee. Recruitment and dismissal of the Head of Internal Audit may only be carried out by the BoD.

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 Chief Internal Auditor 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.

The Chief Internal Auditor 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 BoD 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 BoD.

B.6 Actuarial function

Implementation of the Actuarial Function

The actuarial function (AF) for ERV Nordic is performed by the Financial Specialist. Organizationally, the AF is part of the Finance department and reports directly to the CFO and BoM. AF also has a dotted reporting-line to the BoD. 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).

The Actuarial Function provides assurance that the information to set technical provisions for Danish GAAP for ERV Nordic and IFRS GAAP for ERGO/Munich Re group purposes use appropriate methods, models, and assumptions. The AF also confirms the adequacy of the Solvency II technical provisions and informs about areas where experience is different and how this has influenced methods, models and assumptions. The Actuarial Function undertakes the duties and responsibilities set out for an Actuarial Function in accordance with Solvency II.

The AF is part of the governance system at ERV Nordic as a key function within the "second line of defence". This ensures the independence from the first line of defence where risk taking activities within the company take place.

On an annual basis, the AF produces the Actuarial Function Report summarising the key conclusions of the Actuarial Function's work. This is presented to the BoM and the BoD.

B.7 Outsourcing

Presentation of the outsourcing policy

ERV Nordic has together with its parent companies implemented a policy that states the minimum requirements for outsourcing. It is renewed and updated at least annually or ad-hoc when needed. 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 fulfil the expectations from the policyholders and to comply with statutory requirements.

The principle of proportionality shall apply regarding the extent and make sure the requirements for outsourcing 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 BoD 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
- 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[1], Czech Republic,
- Sales of clock and watch insurance for ERV Sweden, Sweden,
- IT infrastructure for ERV Sweden, Sweden,
- Sale of domestic health care insurance, Denmark, and
- Selected sale of travel- and cancellation insurance, Denmark.

B.8 Any other information

The BoD regularly reviews the system of governance. The conclusion is that the system of governance is organised appropriately and has been effective during 2019.

[1] Partially outsourced

EUROPÆISKE ERV
En del af ERGO

C. Risk Profile

Changes in ERV Nordic's risk profile

In 2019, ERV Denmark increased its exposure to health insurance in Denmark as we started selling domestic health insurance through Dansk Sundhedssikring A/S. This significantly added volume to our existing insurance portfolio.

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 BoD 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 is 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 for ERV Nordic are sale of travel insurance together with health insurance for employees stationed abroad as well as affinity group centred business in Sweden. 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 ongoing 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.

Risk reduction techniques

When identifying credit risk, 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

The outbreak of the coronavirus has added uncertainties to the risk situation. We are monitoring it closely, both in terms of claims development, credit risk related to our intermediaries and a potential risk of insolvency and also in regards to business continuity management.

D. Valuation for Solvency Purposes

This section of the report sets out the value of the assets (D.1), technical provisions (D.2) and other liabilities (D.3) of the Company. Assets, technical provisions and other liabilities are broken down into material classes and lines of business as required by Solvency II. Two sets of values are presented:
Figures prepared in accordance with Solvency II rules and guidance, and
Figures prepared in accordance with the accounting standard used for ERV Nordic statutory financial statements
A description of the differences between the Solvency II valuation methods and assumptions and the statutory accounts basis is provided.

Table D

(in DKK milions)	Statutory account value	Reclasifi-cation	Local GAAP after reclasifi-cations	SII Valuation adjust-ments	Solvency II value
Assets					
Intangible assets	38,2		38,2	-38,2	0,0
Deferred tax assets	6,7	-6,7	0,0		0,0
Property, plant & equipment held for own use	52,9		52,9		52,9
Investments (other than assets held for index-linked and unit-linked contracts)	440,7		440,7	-1,7	439,0
Property (other than for own use)	57,0		57,0		57,0
Holdings in related undertakings, including participations	86,5		86,5	-1,7	84,8
Equities	0,0		0,0		0,0
Equities - unlisted	0,0		0,0		0,0
Bonds	269,6		269,6		269,6
Government Bonds	169,9		169,9		169,9
Corporate Bonds	99,8		99,8		99,8
Collective Investments Undertakings	27,6		27,6		27,6
Reinsurance recoverables from:	0,6		0,6	-0,3	0,2
Non-life and health similar to non-life	0,6		0,6	-0,3	0,2
Non-life excluding health	0,1		0,1		0,1
Health similar to non-life	0,5		0,5	-0,3	0,2
Insurance and intermediaries receivables	19,0	0,5	19,5		19,5
Reinsurance receivables	0,0	1,0	1,0		1,0
Receivables (trade, not insurance)	79,2	-0,8	78,3	-0,3	78,0
Cash and cash equivalents	39,6		39,6		39,6
Any other assets, not elsewhere shown	3,1		3,1		3,1
Total assets	**680,0**	**-6,1**	**674,0**	**-40,6**	**633,3**
Liabilities					
Technical provisions – non-life	253,4		253,4	-13,9	239,6
Technical provisions – non-life (excluding health)	78,2		78,2	-6,9	71,3
Technical provisions - health (similar to non-life)	175,2		175,2	-7,0	168,2
Deferred tax liabilities	17,6	-6,7	10,9	26,2	37,1
Financial liabilities other than debts owed to credit institutions	5,0		5,0		5,0
Insurance & intermediaries payables	12,7	1,0	13,6		13,6
Reinsurance payables	0,3	0,2	0,5		0,5
Payables (trade, not insurance)	52,0	0,4	52,4		52,3
Total liabilities	**341,1**	**-5,1**	**336,0**	**12,3**	**348,2**
Excess of assets over liabilities	**339,0**	**-1,0**	**338,0**	**-52,9**	**285,1**

D.1 Assets

Valuation of Assets

The assets of ERV Nordic are valued in accordance with Article 75 of the Solvency II Directive, related articles of the Delegated Act, i.e. Solvency II Delegated Regulation 2015/35 and the guidelines issued by EIOPA on the valuation of assets and liabilities other than technical provision.

The following paragraphs describe, for each material class of assets, the bases, methods and main assumptions used in valuing those assets for Solvency II purposes and an explanation of any material differences from the bases, methods and main assumptions used for valuing these in the financial statements.

A description of the valuation method and assumptions for assets are stated below.

Solvency II requires assets and liabilities to be valued on a basis that reflects their fair value (described as 'economic valuation') with the exception that liabilities should not be adjusted to take account of changes in an insurer's own credit standing.

The Company's financial information is prepared using the recognition and measurement bases required in the Danish Financial Business Act, including the Danish FSA's Executive Orders on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds). Therefore, the valuation of assets and liabilities for Solvency II purposes begins with the values from the financial statements and adjusts these for specific differences in valuation between Danish GAAP and Solvency II. The adjustments made are classified into two broad categories:

Reclassifications of the Danish GAAP balance sheet items into the appropriate Solvency II categories

Revaluation adjustments for areas where the Danish GAAP valuation techniques are not considered to be consistent with Solvency II requirements

For further details of the accounting policies adopted for the purposes of preparing statutory accounts, see the accounting policies section of the financial statements of the Company.

The following asset categories were not held by ERV Nordic as of December 31st 2019:

- 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

Table D.1.2

(in DKK million)	SII	Local GAAP
Software	0,0	30,5
Software development projects	0,0	7,7
Total software	**0,0**	**38,2**

Solvency II:

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

Local GAAP:

The local GAAP corresponds to the acquisition costs with deductions of the depreciations and write down, which is described under Danish GAAP §60-61.

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

Software, presently:	3-5 years

Property, plant and equipment

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 re-valued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment 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 valuated at Fair value.

With regard to the technical standard 15 of EIOPA, fixed assets have to be recognized at their re-valued amount (IAS 16), if the economic value can be measured reliably. The re-valued 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 re-valued 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. The domicile is in 2019 revaluated, the effect is an increased value of the domicile of DKK 3.4m.

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 straight-line 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
Motor 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

Table D.1.3

(in DKK million)	SII	Local GAAP
Insurance subsidary		
ERV Pojistovna a.s.	65,1	62,7
Associated companies		
Euro-Center Holding SE	14,7	19,8
European Assistance Holding	5,0	4,0
Holdings in related undertakings, including participations	**84,8**	**86,5**

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 as according to Danish Local GAAP; the value is different.

Bonds

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.

Collective Investments Undertakings

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

Reinsurance recoverable

Table D.1.4

(in DKK million)	SII	Local GAAP
Reinsurance recoverables	0,2	0,6

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.

Reinsurance receivables

Table D.1.5

(in DKK million)	SII	Local GAAP
Reinsurance receivables	0,2	0,6

Reinsurance receivables are in SII stated after discounting and counterparty default adjustment. But as the debt is short term and the reinsurer with debt is rated A or better are 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 or liabilities with affiliated companies in Local GAAP are shown under either Receivables, (trade, not insurance) or under the item Payable Trade not insurance. In the above shown table are a reallocation done so the figures are comparable.

Insurance and intermediaries' receivables

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

Receivables, (trade, not insurance)

Table D.1.6

(in DKK million)	SII	Local GAAP
Receivables (trade, not insurance)	78,0	77,5

The valuation methods in Solvency II and Danish GAAP are the same except for that the figures in SII have a counterparty default adjustment.

Cash and cash equivalents

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 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 below.
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.

Table D.2.1

(in DKK million) Type of business	Line of business	Best estimate	Risk Margin	Technical provision
Direct business and accepted proportional reinsurance	Medical expense insurance	157,5	5,3	162,8
	Income protection insurance	4,3	0,9	5,2
	Other motor insurance	0,2	0,1	0,3
	Marine, aviation and transport insurance	7,0	1,0	8,0
	Fire and other damage to property insurance	8,6	0,7	9,3
	General liability insurance	3,4	3,2	6,6
	Legal expenses insurance	0,2	0,1	0,3
	Assistance	0,3	0,2	0,5
	Miscellaneous financial loss	42,9	3,6	46,5
Total		**224,4**	**15,1**	**239,5**

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: $BE = UPR * CR$
deducted with contract boundary premium calculated as CBP* CRA

BE = best estimate
UPR = unearned premium reserve
CR = combined ratio = loss ratio + expense ratio
CBR = Contract boundary premium
CRA = Combined ratio incl. acquisition cost = loss ratio + expense ratio + acquisition 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 consists 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 in-force 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 Nordic 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

Table D.2.2

(in DKK million)	SII	Local GAAP
Total Gross	224,4	244,6
Reinsurance recoverable*	-0,2	-0,6
Risk Margin	15,1	8,8
Total net	**239,3**	**252,8**

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

Table D.2.3 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.

Table D.2.4 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)
-	Expected profit included in future premiums
-/+	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 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:

Table D.2.5

(in DKK million)	Gross	Ceded
Local GAAP technical provision	**244,6**	**-0,6**
+ Deferred acquisition cost	25,5	0,0
Reduction (1-claim ratio & expense ratio)	-39,7	0,0
Expected profit included in future premiums	-6,1	0,3
+/- effect of discounting etc.	0,1	0,0
Counterparty default adjustment	0,0	0,1
TP according to SII before risk margin	**224,4**	**-0,2**

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.

Table D.3

(in DKK million)	SII	Local GAAP
Financial liabilities other than debts owed to credit institutions	5,0	5,0
Deferred tax liabilities	37,1	10,9
Insurance & intermediaries payables	13,6	13,6
Reinsurance payables	0,5	0,5
Payables (trade, not insurance)	52,3	52,3
Total Other Liabilities	**108,7**	**82,5**

The following other liabilities were not held by ERV Nordic as of December 31st 2019:

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

Financial liabilities other than debts owed to credit institutions
The Financial liabilities are lease liabilities that are measured at the present value of the lease payments that are not yet paid, discounted using the rate implicit in the lease. If this rate cannot be determined, the company uses its incremental borrowing rate. Subsequently, the lease liability is measured at amortised cost using the effective interest method and is presented as part of the amount shown under "Leasing liabilities" within Liabilities. It is re-measured when there is a change in future lease payments. An adjustment is made to the carrying amount of the corresponding ROU asset.

The used method for Solvency II and Danish GAAP are the same meaning that no valuation differences arise.

Deferred tax liabilities

Table D.3.1

(in DKK million)	SII	Local GAAP
Deferred tax liabilities	37,1	10,9

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:
The current tax rate in Denmark is 22% and in Sweden it is 21,44%. The tax rate will decrease in Sweden over the next

years until it reaches a level of 20,6%. Deferred tax stands for 22% on all time differences related to Denmark and 20,6% on all time differences related to Sweden 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 tax liable on the contingency reserves (contingent tax DKK 22.3m) is not shown in the balance sheet. Regarding the Danish contingency reserve is the reason that as the technical provision is not expected to fall further 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 than the once done the last three years. The tax liable on the Swedish contingency reserve is not provided for in the balance sheet due to no further expected releases.

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 22.3m at the untaxed Contingency Funds amounting to DKK 157.0m. The remaining differences are mainly caused by deferred tax at differences at technical provisions and at intangible assets.

Insurance and intermediaries' payables

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.

Reinsurance payables

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

Payables (trade, not insurance) 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.

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 reports the figures to the Board of Management and the Board of Directors.

ERV Nordic has a strict capital management policy that 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. Internal limit and triggers are currently set to 140% (yellow trigger) and 120% (red trigger).

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 125% or 100% and 125% or 100% in minimum capital coverage.
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

Table E.1.1 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).

Table E.1.1 Eligible own funds

(in DKK million)	2019	2018
Excess of assets over liabilities	**285,1**	**278,3**
Issued capital and capital reserve	10,0	10,0
Foreseeable dividends	0.0	0,0
Basic own funds after adjustments - total	**285,1**	**278,3**
Eligible own funds to meet the SCR - total	**285,1**	**278,3**
EOF thereof - Tier 1 unrestricted	285,1	278,3
Eligible own funds to meet the MCR - total	**285,1**	**278,3**

No material changes in the development of own funds have occurred in 2019.

Table E.1.2 Material differences between the equity shown in the financial statement and Eligible own funds according to Solvency II

(in DKK million)	2019	2018
Total capital and reserves, according to annual report	**339,0**	**342,5**
Intangible assets	-38,2	-35,3
Deferred tax liability at Contingency reserve	-33,8	-37,3
Lower technical provision in SII, net	13,9	4,6
Deferred tax at technical provision above	-3,0	-1,0
Deferred tax at software	8,4	7,7
Different valuation of affiliated companies in SII	2,4	2,1
Different valuation of associated companies in SII, net of tax	-4,1	-4,5
Change in deferred tax associated companies	0,4	0,4
Other minor valuation differences not specified	0,2	-1,1
Eligible own funds (Solvency II)	**285,1**	**278,1**

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

Table E.2.1 SCR, split by risk module, calculated according to the Standard formula

(in DKK million)	2019	2018
Market risk	65,6	59,5
Counterparty default risk	42,0	14,1
Health underwriting risk	97,1	84,4
Non-life underwriting risk	116,6	120,3
Diversification	-110,6	-93,6
Basic Solvency Capital Requirement	**210,8**	**184,8**
Operational risk	26,2	11,5
Loss-absorbing capacity of deferred taxes	-37,1	-37,9
Solvency Capital Requirement	**199,9**	**158,5**
Minimum Solvency Capital Requirement	**65,7**	**49,0**

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

Solvency Capital Requirement

Counterparty default risk:
Counterparty default risk has increased in 2019, which is mainly due to increased bank deposit of DKK 27.7m that increased the capital demand by DKK 22.8m. In addition, the increased receivables from the new agreement with Dansk Sundhedssikring A/S has increased capital demand by DKK 6.5m. The above is partly counter balanced by the diversification effect that also increase.

Operational risk:
Operational risk has increased with DKK 14.6m caused by the new agreement with Dansk Sundhedssikring A/S which have increased the earned premium with DKK 282.6m.

Underwriting risk /Health NSLT:
This risk has increased with DKK 12.7m compared to 2018. The reason is manly increased premium and reserve risk caused by the new agreement with Dansk Sundhedssikring A/S with a total increase of DKK 9.3m in capital demand. In addition, the updated law regarding capital demand according to the Standard model has caused that the factor used for disability in the catastrophe risk scenarios for accident increased from 1,5% to 3,5%, which have caused a net increase of our Health NSLT catastrophe risk of DKK 6.7m.

Market risk:
Capital demand for Market risk has increased with DKK 6m mainly caused by increased equity risk (DKK 3.4m) due to increased value of affiliated and associated companies and increased capital demand (DKK 3.3m). The higher value of affiliated and associated companies is related to higher value/exchange rate of CZK, currency relevant for these companies. In addition, the capital demand for property risk has increased by DKK 1.3m based on the write up of the building with DKK 3.4m.

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 of Non-life and NSLT health that counts for 67% of total risk capital demand before diversification. The main risks included in underwriting risk are Non-Life premium and reserve

risk, Non- Life Cat risk, NSLT health premium and reserve risk and pandemic risk. Next main driver is market risk, which count for 20% of the risk capital demand before diversification. The main risks under market risk are Equity risk, Property risk and Currency risk.

Minimum Capital Requirement

Table E.2.2 Calculation of the MCR

(in DKK million)	2019	2018
Linear MCR	65,7	49,0
SCR	199,9	158,5
MCR cap	89,9	71,3
MCR floor	50,0	39,6
Combined MCR	65,7	49,0
Absolute floor of the MCR	27,6	27,6
MCR	**65,7**	**49,0**

Minimum Capital Requirement (MCR) has increased in 2019 mainly caused by an increased premium for Medical expense insurance caused by the new agreement with Dansk Sundhedssikring A/S.

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 DKK 27.6m.

The linear formula is based on the technical provision net of reinsurance without risk margin and premium written 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
BoD	Board of Directors
BOF	Basic own funds
BoM	Board of Management
CEO	Chief executive officer
CF	Compliance Function
CFO	Chief financial officer
COO	Chief operating officer
CSO	Chief sales officer
EOF	Eligible own funds
IAF	Internal Audit Function
ICS	Internal Control System
MCR	Minimum Capital Requirement
OF	Own funds
ORSA	Own Risk and Solvency assessment
PLA	Profit & Loss attribution
QRT	Quantitative Reporting Templates
RMF	Risk Management Function
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report