



EUROPÆISKE REJSEFORSIKRING A/S

ANNUAL REPORT

2018

**Europæiske Rejseforsikring A/S
Frederiksberg Allé 3
1790 Copenhagen V
DENMARK
CVR nr. 62 94 05 14**

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COMPANY NAME

EUROPÆISKE REJSEFORSIKRING A/S

3, Frederiksberg Allé
DK 1790 Copenhagen V
Tel.: +45 33 25 25 25

Registered in: Copenhagen

Company Reg. No. CVR 62 94 05 14

BOARD OF DIRECTORS:

Richard Bader (Chairman), Oliver Wild, Jørn Sønderup,
Gabriele Bayer, *Christian Søndergaard, *Peter Fobian
*Elected by the staff

AUDIT COMMITTEE:

Oliver Wild (Chairman), Jørn Sønderup, Gabriele Bayer

BOARD OF MANAGEMENT:

Beata Danuta Kalitowska-Zborowska (Chief Executive Officer)
David Kraul (Chief Operating Officer)
Peter Steen Olsen (Chief Financial Officer)

AUDIT:

KPMG

Statsautoriseret Revisionspartnerselskab
Company Reg. No. CVR: 25 57 81 98

Anja Bjørnholt Lüthcke
State Authorised Public Accountant

Jette Kjær Bach
State Authorised Public Accountant

MANAGEMENT REVIEW

Introduction

One ERV company in the Nordics

In 2015 Europæiske Rejseforsikring A/S in Denmark and ERV Försäkringsaktiebolag (publ) in Sweden implemented one cross-company organizational structure as a first major step towards acting as one Nordic company. In 2017 we aligned the legal structure of the two companies and thereby cemented the position as one Nordic insurance company – ERV Nordic.

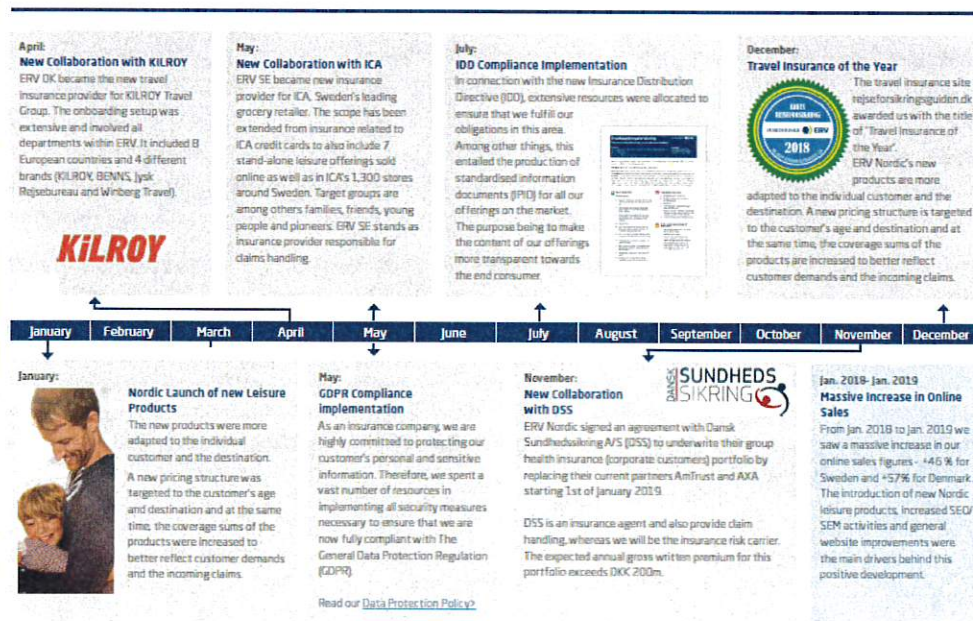
In legal terms Europæiske Rejseforsikring A/S in Denmark was the continuing entity whereas ERV Försäkringsaktiebolag (publ) continued as a branch of Europæiske Rejseforsikring A/S by the legal name of Europeiska ERV Filial. Both the Danish and Swedish entities have locally continued with their brand names and logos; *Europæiske ERV* and *Europeiska ERV*.

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

A satisfying financial result in 2018

ERV Nordic delivered a profitable financial result of DKK 13.3m in 2018. This was in line with expectations, but still partly dissatisfying considering lowered sales and higher than expected claims costs in one of our main segments.

Events in 2018



Our mission

Our mission is to ensure that travelers and people with special, mostly free time related insurance needs always will be rightly insured with us.

Our vision

Our vision is to be the market leading, internationally capable, Nordic niche insurer that enhances quality of life of our customers with customized, simple, easy and quick solutions relating to travel and other mostly free time related special risks. This vision is also reflected in the ERV Groups 8 values, which are:

- **Customer focus**
- **Excellence**
- **Courage**
- **Passion**
- **Teamwork**
- **Forward looking & Sustainable**
- **Openness & Trust**
- **Leadership & Responsibility**

Ownership and related parties

ERV Nordic is a subsidiary 100% owned by ERV AG, which in turn is part of ERGO Group AG and Munich RE Group¹ - the international reinsurance leader. Our financial system, investment portfolio management and some data reporting are outsourced to companies within the group. Furthermore, a part of the claims handling abroad is outsourced to Euro-Center Holding SE that is mainly owned by us and ERV AG.



ERV Nordic is associated with the following companies:

Subsidiary:	<u>Registered office</u>	<u>Activity</u>	<u>Shareholding</u>
ERV Pojistovna a.s.	Czech Republic	Insurance	75.00%
Associated companies:			
Euro-Center Holding SE	Czech Republic	Assistance	33.34%
European Ass. Holding	Germany	Assistance	20.00%

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

ERV Nordic is member of the European Travel Insurance Group (ETI Group) uniting specialized insurers bearing similar name from all around Europe. Via this association we can closely co-operate with many travel insurers on an international level and deliver international solutions to our partners.



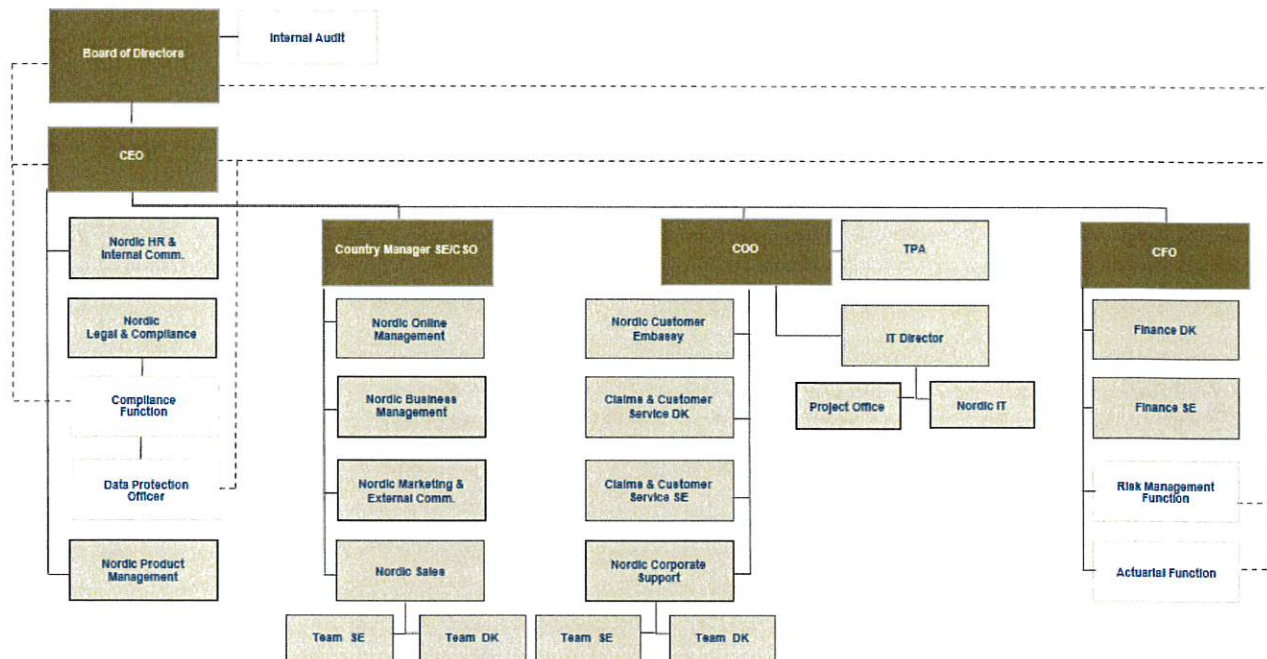
ETI Group Members

- | | |
|----------------|----------------|
| Austria | Portugal |
| Czech Republic | Russia |
| Denmark | Slovakia |
| Finland | Spain |
| Germany | Sweden |
| Hungary | Switzerland |
| Italy | Turkey |
| Netherlands | Ukraine |
| Norway | United Kingdom |
| Poland | |



Organizational chart

ERV Nordic has the below shown organizational structure:



Our core business

ERV Nordic's 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. Our direct business is focused on the markets in Sweden and Denmark. Through insurance professionals and Distribution partners we are also active in Norway and Finland.

ERV Sweden offer travel insurance through Card schemes as well as more affinity group centred business especially in the areas of jewellery and watches. The majority of travel insurance policies are sold either as trip-by-trip insurance or as annual travel insurance in connection with ERV Nordic's customers' holiday trips, business trips or expatriation. Main distribution channels for all travel insurance policies and health insurance policies are either direct business or brokers in the relevant markets.

In addition, for many years ERV Denmark wrote so called Unemployment insurance which were 100% reinsured. This business is no longer part of the business strategy and policies have gradually been cancelled at renewal since the autumn of 2016. ERV Denmark also has a health portfolio of International health care insurance which is in run off since August 2013.

Since 1st of January 2019 ERV Denmark has started to sell domestic health care insurances through our new Danish partner Dansk Sundhedssikring A/S, this will significantly add volume to our existing insurance portfolio.

Strong reputation, digitalization and customer focus

ERV Nordic has a strong business-to-business and end-consumer reputation. As a well-established specialty brand, Europæiske ERV and Europeiska ERV focus on providing coverage customized to the policyholders needs, rather than offering products with the lowest premium. In addition, it has been a major priority in recent years to invest in our digital platform where we interact with potential new customers (Sales) as well as existing customers (Policy Administration, Corporate Support and Claims) in state-of-the-art technical applications. Obviously, also our sales partners` sales approach has changed and we adjusted to that. Our broker relations mainly build on large international insurance brokers or strong domestic broker networks or local travel agencies, both individual and organized in groups.

The Nordic insurance market

The customer base consists mainly of cross-border travellers from Denmark and Sweden. The small geographical size and northern location of the countries ensures the stability of the market potential as these two factors creates a desire for the citizens to travel outside the country. The market competition consists primarily of larger insurance companies, which offers the product as part of a package deal with family insurance. In addition to this, the Danish public health care system in 2014 changed from covering a part of the health risks related to travel insurance in Europe to cover none (from the yellow card to the blue), which actually has provided a larger market potential. Changes in the public health care system can theoretically influence the markets` potential further in the future.

Industry analysis

Amadeus/Oxford Economics expect global overnight visitor flows to grow significantly faster than GDP growth in years to come. In terms of regional overnight visitors, Amadeus/Oxford Economics predicts that Asia Pacific, the Middle East and Africa will be the fastest growing regions. Europe`s share of visitor flows will remain dominant out to 2023, and then North East Asia will overtake the dominant role. Even though Europeans are to become relatively less important globally, they will still account for a large part of the outbound travel and will increase travel to emerging markets.

With this follows the need for travel insurance, both for private and corporate customers.

Business Travel Trends

Travel budgets have always fluctuated in line with the economy. Firms are more relaxed about travel spend in the good times and tighten their belts in the bad. In Europe, companies have become more cost-conscious, introducing more sophisticated tools to control business expenses and making smarter use of technological alternatives such as videoconferencing.

But as videoconferencing is increasingly a supplement, it will not replace business travel. In Asia, for example, direct face-to-face contact is a particularly important component of ongoing business relationships.

Leisure Trends

The trends for leisure and travels are changing and we use more of our time and income on travel and free-time related activities. The trend is also to take more frequent, shorter trips, as opposed to the longer, more leisurely vacations of years past. This trend also comes as a result of some forward-thinking start-ups that are stressing the importance of work/life balance for as part of their corporate culture. In addition, Millennials (who have shown themselves to value "recharging the batteries" and the "work hard play hard" ethos), now have the disposable income to help shape travel trends.

New entrants are disrupting all facets of the travel industry. New companies, products, and trends will alter the way we fly, drive, and stay. The development of internet based and mobile technologies drives the demand for a seamless travel experience. Seamless travel refers to travel utilising a variety of products and services organised through a single booking process. At present, many providers appear to be focused on improving their own offering, seamless travel is effectively left for "someone else" to worry about.

Trends for Travel insurance market

The Nordic market for free-time and travel insurance is defined by fierce competition, and competitors include both general insurers and niche insurers. In travel insurance ERV plays a dominating role in the Swedish and Danish market. Profitable growth opportunities are limited with the traditional products and channels.

In Sweden (different from DK) all large (that is 4) P&C insurers decided to package a travel insurance base cover into their existing home insurance offerings around 15-20 years back. This changed the business model for ERV Sweden significantly and switched the offerings to become largely a supplement cover to the (new) market standard base cover. 98 % of all Swedes have a home insurance cover. The coverage is however only up to 45 days and is a basic travel insurance offering.

Claims handling

ERV Nordic's Assistance Network handles emergency assistance cases that occur in all parts of the world from small cases such as outpatient cases to bigger and more complex cases involving air transport. Many cases are complex medical cases, which are handled in close cooperation with our specialized assistance company Euro-Center Holding SE. Since 2016 the Euro-Center Assistance office in Madrid has handled all ERV Nordic's assistance service and with service offices on six continents ERV Nordic's customers have one of the world's largest medical networks of experienced professionals and Nordic speaking staff available.

ERV Nordic Strategy

In order to be a niche leader ERV Nordic needs to grow faster than market average. At the same time offerings have to adapt to the driving forces and competitive arena on

the market. This requires a two-pronged, yet interlinked, strategy. One for sustainability of current business and one for development, launch and market penetration of future business. This will be achieved by strategic initiatives in these four focus areas:

- Sustainability
- New Business
- Efficiency & insights
- Digitalization & IT Landscape

Sustainability

We will strive to sustain current business, customer base and revenues. This will be done by positioning ERV Nordic as premium supplier through customized service and offerings, leading in quality as well as ease of use.

New Business

We will develop new products and offerings within our niche through advanced customer analytics and efficient development processes. This done in close collaboration with customers in order to secure demand.

Efficiency & insights

We will increase our capability to be compliant towards stakeholders, and at the same time be efficient and customer focused. This will be achieved by using digital systems and tools aligned with clear responsibilities and objectives.

Digitalization & IT Landscape

A basis for all initiatives above. IT and digitalization has to move from IT department to be the centre of all we do. Digitalization is not just systems, but also requires a new way of working for all functions within ERV Nordic.

ERV Nordic's financial result

In 2018 ERV Nordic realised a profit after tax of DKK 13.3m, which is approximately DKK 2.4m above last year. The slight increase in profit can primarily be attributed to the substantially increased income from affiliated companies.

Gross written premium amounts to DKK 394.4m against DKK 413.2m in 2017, a substantial decrease of DKK 18.8m. The decrease is primarily due to decreasing turnover of our ERV Sweden Card and Affinity business, but also effected by strategically decided decrease of our ERV Denmark Nordic Health Care products. In both ERV Denmark and ERV Sweden we have however 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.

Gross claims incurred amount to DKK 191.1m against DKK 207.6m in 2017 which is a decrease of DKK 16.5m. This can be seen as a direct effect of the lowered portfolio. The gross claims costs for 2018 have been partly satisfactory with a gross claims ratio of 48.7%, which is 1.6 percentage-points lower than in 2017. We have seen increased but still satisfactory claims records of our products in the ERV Denmark leisure market, as in 2017, again in 2018 to some extent positively affected by run-off gains. On the ERV Sweden Leisure segment we have seen an improved claims result compared to last year where we were substantially hit by a number of major claims. We have also in total had an acceptable claims record of our ERV Nordic corporate products. But we have however seen a quite negative development on the ERV Sweden Card segment with higher than expected claim levels.

The result of reinsurance recoveries and change of reinsurer's share of claim provisions shows a compensation for ERV Nordic of DKK 1.5m in 2018 against DKK 2.9m in 2017. The decrease is primarily due to lowered volume of the ERV Denmark Unemployment product which is 100% reinsured to AmTrust International Underwriters Limited based in Ireland.

The claims costs net of reinsurance amount to DKK 189.6m against DKK 204.7m in 2017 which is a decrease of DKK 15.1m. The claims ratio net of reinsurance is 49.1% against 50.5% in 2017.

Net operating expenses for 2018 amounted to DKK 200.6m against DKK 195.3m in 2017, an increase of DKK 5.3m.

Acquisition costs amount to DKK 114.1m against DKK 103.3m in 2017, an increase of DKK 10.8m. The increase is partly driven by increased sales of specific products and sales through certain sales channels with higher commission costs. Further to this we have focused our organizational efforts on obtaining more sales which has also affected increased acquisition costs.

The administrative expenses amount to DKK 86.9m against DKK 92.4m in 2017 which is a decrease of DKK 5.5m. The decrease is mainly driven by less personnel costs in ERV Sweden and lowered office costs and telecommunication costs compared to in 2017. Further to this the above mentioned sales focus has also shifted personnel costs from regular administration towards acquisition.

Commissions and profit commissions from reinsurance amount to an income of DKK 0.4m compared to 0.5m in 2017. The development is due to the decreased volume of our Unemployment product.

The total result of business ceded shows a loss for ERV Nordic of DKK 5.7m in 2018 against a loss of DKK 6.4m in 2017. The decrease is due to less premium ceded for the ERV Denmark Unemployment product and more reinsurance recovery and change of reinsurer's share of claim provisions on our other reinsurance agreements.

The above described development in sales, claims and operating expenses results in a negative underwriting result of DKK 4.8m compared to a profitable result DKK 4.2m in 2017. The cost ratio including acquisition costs amount to 51.4% against 47.3% in 2017. Total combined ratio net of reinsurance (total costs measured in relation to earned premiums) is 101.5% against 99.2% in 2017.

The result of investment activities before transfer of technical interest amounts to a profit of DKK 16.2m against a profit of DKK 6.4m in 2017.

The result from affiliated companies is created by ERV Pojistovna a.s of which ERV Nordic owns 75% of the share capital. In 2018 it shows a profit of DKK 15.3m against a profit of DKK 3.5m in 2017. The main reason for the improved result is because ERV Pojistovna a.s has delivered a better result than in 2017. Further to that the 2017 result in our books was effected by an adjustment of the 2016 income from this company, which had a negative effect of DKK 3.3m in 2017.

The result from associated companies is created by Euro-Center Holding 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 2018 the result of associated companies shows a profit of DKK 3.0m against a profit of DKK 3.7m in 2017.

Income from investment properties amounts to DKK 2.6m against DKK 2.8m in 2017. The decreased income is mainly affected by more costs for maintenance of the building in 2018 compared to 2017.

Interest income and dividends etc. for the year amounts to DKK 8.5m compared to DKK 10.4m in 2017. As in 2017 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 12.3m against a loss of DKK 13.2m in 2017. 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 against DKK 0.1m in 2017. We focus on keeping these expenses as low as possible, but have however seen a slight increase compared to 2017.

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

Interest on insurance provisions amounts to DKK 0.5m compared to DKK 0.8m in 2017. The decrease is due to decreased interest rate and decreased insurance provisions.

Other income amounts to DKK 5.5m compared to DKK 3.8m in 2017 and other expenses amounts to DKK 4.0m compared DKK 2.5m in 2017. 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.

Due to the negative underwriting result we will only have a small tax cost of DKK 0.1m in 2018 compared to a cost of DKK 1.8m last year.

Receivables from policy holders amount to DKK 8.6m against DKK 8.9m in 2017, whereas receivables from insurance brokers amount to DKK 5.0m against DKK 9.2m in 2017.

At 31 December 2018, the company's total capital and reserves amount to DKK 343.2m and total assets amount to DKK 599.0m.

Uncertainty in respect of recognition and measurement

The statement of the accounted value of certain assets and liabilities is conditioned by applying accounting estimates. The estimates made are based on assumptions which the management finds justifiable but uncertain. The statement of the insurance provisions is in particular connected to estimates.

Events after 31 December 2018

The Danish Financial Supervisory Authorities has issued an updated Executive Order on financial reports for insurance companies and profession-specific pension funds. The new order has effect from 2019. The updated order amongst others implements the updated requirements in relation to IFRS 16 (leasing). It has been assessed that the updated requirements will not have a material impact on the recognition and measurement in the annual report for 2019.

No events have occurred subsequent to the balance sheet date, which would have a material influence on the financial position of the company.

The result of the year compared to earlier statements

The company expected earlier the following for 2018:

"We expect continued decrease in gross written premium in ERV Denmark for our international health insurance portfolio and in ERV Sweden we expect a decrease in the Card business due to a major discontinued Card-account agreement. At the same time ERV Nordic does not expect run-off gains in 2018 to the same extent as for 2017. On the other hand we in 2018 expect to see benefits of our new Nordic Leisure products and sales increases related to cooperation with new business partners on both the Danish and the Swedish market. Further we expect an improved result from our affiliated company ERV Pojistovna a.s. and less realised and unrealised losses on our investment portfolio.

In total this means that the expectations to the result for 2018 are at the same level as what ERV Nordic delivered for 2017."

The result of 2018 was in line with expectations, but still partly dissatisfying due to the lowered sales and higher than expected claims costs in one of our main segments.

Outlook for 2019

We expect significant increase in gross written premium in ERV Denmark through our newly started sales of domestic health insurance. At the same time ERV Nordic expect to see continued Leisure sales increases related to Online sales and cooperation with new business partners on both the Danish and the Swedish market. Further we expect less realised and unrealised losses on our investment portfolio.

In total this means that the expectations to the result for 2019 are above the result ERV Nordic delivered for 2018.

Management Positions

The Board of Management of ERV Nordic has the following management positions.

Beata Danuta Kalitowska-Zborowska, Chief Executive Officer:

- Managing Director Europeiska ERV Filial, Stockholm, Sweden

David Kraul, Chief Operating Officer:

- Member of the Supervisory Board of Euro-Center Holding SE, Prague, Czech Republic

Peter Steen Olsen, Chief Financial Officer:

- Deputy Managing Director Europeiska ERV Filial, Stockholm, Sweden

The Board of Directors of ERV Nordic has the following management positions.

Richard Bader, Chairman:

- Chairman of the Management Board of Europäische Reiseversicherung AG, Munich, Germany
- Chairman of the Supervisory Board of ERV Pojistovna A.S., Prague, Czech Republic
- Chairman of the Board of Directors of Globality S. A., Munsbach, Luxembourg
- Vice chairman of the Supervisory Board of Europäische Reiseversicherungs-Aktiengesellschaft, Vienna, Austria
- Vice chairman of the Supervisory Board of Europai Utazasi Biztosito Rt., Budapest, Hungary
- Member of the Board of Directors of ERV (China) Travel Service and Consulting Ltd., Beijing, China
- President of European Travel Insurance Group, Utrecht, The Netherlands
- Chairman of the Supervisory Board of Euro-Center Holding SE, Prague, Czech Republic
- Deputy Member of the managing Steering Committees of Bundesverband der Deutschen Tourismuswirtschaft e. V., Berlin, Germany
- Member of the Steering Committee of the Tysk-Svenska Handelskammaren, Stockholm, Sweden

Oliver Wild, Board Member and Chairman of the audit committee:

- Member of the Supervisory Board of Legial AG, Munich, Germany
- Member of the Supervisory Board of ERV Pojistovna A.S., Prague, Czech Republic

Gabriele Bayer, Board Member and Member of the audit committee:

- Member of the Supervisory Board of CJSIC European Travel Insurance, Moscow, Russia

Jørn Sønderup, Board Member and Member of the audit committee:

- No other managing positions

Christian Søndergaard, Board Member:

- No other managing positions

Peter Fobian, Board Member:

- No other managing positions

Pay Policy

In accordance with the executive order on pay policy and disclosure requirements on pay roll in financial companies and financial holding companies, ERV Nordic has prepared a pay policy which can be found at this link:

<https://www.europaeiske.dk/privat/om-europaeiske/virksomheden/lonpolitik/>

Please also see note 7.

Gender Composition in the Company's Governing Body

Section 132a of the Executive Order issued by the Danish Financial Supervisory Authority on financial reports for insurance companies and profession-specific pension funds requires that companies of a certain size set targets for the gender composition of the Board of Directors and the composition of the management and report on the matter. Regarding composition of management, a policy for increasing representation of the underrepresented gender must be established in case the requirements on composition are not met. On the Board of Directors as well as in management the composition should be a 40/60 pct. distribution or the number/pct. which is closest to 40/60 pct. in accordance to guidance from the Danish Business Authority.

Currently, women are the underrepresented gender on the Board of Directors, as there is only 1 woman out of 6 board members. ERV Nordic does therefore not meet the gender distribution of 40/60 pct. that in accordance to guidance from the Danish Business Authority would stipulate at least 2 women.

The Board of Directors has set the target that the composition of the board of directors should be at least 2 women out of 6 by 2022.

Regarding management level and the composition hereof, the Board of Management of ERV Nordic currently consists of 3 persons. One member is woman and 2 members are men. Board of Management thereby meets the composition requirements for even gender distribution.

Audit Committee

The Board of Directors of ERV Nordic has established an Audit Committee. The Committee consists of three members of the Board of Directors.

The tasks of the Committee are set out in the "Audit Committee Charter" based on the Act on Approved Auditors and Audit Firms no. 1167 of 9 September 2016. The tasks of the Committee includes monitoring and control of the financial reporting process, the company's internal control system, risk management systems as well as the effectiveness of the internal audit function. Furthermore, the Committee monitors the statutory audit of the Annual Report and the independence of the auditors.

When performing its tasks, the Audit Committee ensures that due regard is given to matters important to the company. The work of the Audit Committee is based on supervision of historical events and does therefore not include future events, expectations or forecasts.

The Audit Committee held three meetings during 2018. These meetings were spread out during the year and among other held in connection with the yearly and half yearly reporting to the Company's Board of Directors and the Danish Financial Supervisory Authority.

Risk Management

ERV Nordic is exposed to various types of risks in the daily business and is committed to turning risk into value. Risk management is an integral part of our business with regard to achieving this goal and includes all strategies, methods and processes to identify, analyse, assess, control, monitor and report, both short- and long-term risks ERV Nordic face or may face in the future.

The Board of Directors has the ultimate responsibility for deciding on ERV Nordic's risk strategy, including the risk appetite. It is reviewed at least on a yearly basis and is considered in all strategic initiatives. ERV Nordic manages risks on a continuous basis to ensure that the risk exposure is within the risk appetite. If the risk exposure is assessed to be outside the approved risk appetite, then actions are taken to manage and/or mitigate the risks. The risk profile is reported on a quarterly basis to the Board of Directors.

Risk management is performed at all levels and is organized according to the three "lines of defence";

1st line: Risk takers

2nd line: Risk Management Function, Actuarial Function, Compliance Function

3rd line: Internal Audit Function

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

Outline

Main risks of ERV Nordic:

- Underwriting risks
- Market risks
- Operational risks

Underwriting risks

Underwriting risk arises from inaccurate assessments of the compensations and other costs related to insurance policies. Significant underwriting risks are premium, if losses are higher than expected, and reserve risks, if the reserves set side are not sufficient to cover the ultimate losses.

Relevant policies exist which are set by the Board of Directors. The overarching policy for underwriting risks states that risks originating from the company's insurance business shall be covered or limited to such a level that the company will be able to maintain a normal operation and carry out planned initiatives even in case of a very unfavourable development. One measure taken to limit the underwriting risk, is reinsurance agreements. This limits the risks for most events to a certain level according to the risk appetite set by the Board of Directors.

In the Standard model, this risk is estimated to DKK 204.7m.

Market Risks

It is the aim of ERV Nordic to control the market risks in such a way that the company obtains a return corresponding to risks taken.

Main market risks:

- Currency risk
- Equity risk
- Property risk
- Market risk concentrations

Currency risk arises as a result of a mismatch in the value of assets and liabilities in the same foreign currency. Internal guidelines, set by the Board of Directors, limits the exposure to a certain level. In terms of the result, the company is sensitive towards the development in currency rates and the prices of bonds, shares and participations.

Currency risk for ERV Nordic is mainly related to the investment in affiliated and associated companies denominated in Czech koruna ("CZK") and the net assets in ERV Sweden denominated in Swedish krona ("SEK"). The investments in foreign entities and merger with ERV Sweden are based on strategic decisions and in line with the risk appetite set by the Board of Directors.

The standard model calculation has been used to assess the risks and the necessary capital for this type of risks. This model demands a capital of DKK 59.5m in order to be able to cover the risk sufficiently with a confidence level at 99.5%, which means that ERV Nordic can meet the policyholders' claims for 199 years out of 200 years.

Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is inevitably linked to the business activities of ERV Nordic. They are addressed in a comprehensive internal control system or through ad-hoc reporting.

ERV Nordic manages operational risks in accordance with internal guidelines and the risk appetite on an ongoing basis. It is reported to the Board of Directors as part of the risk report on a quarterly basis.

The standard model calculation demands a capital of DKK 11.5m in order to be able to cover the operational risk sufficiently with a confidence level at 99.5%, which means that ERV Nordic can meet the policyholders' claims for 199 years out of 200 years.

Other material risks

ERV Nordic is also exposed to strategic and reputational risks.

Strategic risks are risks arising from wrong business decisions or poor implementation of decisions already taken. ERV Nordic is exposed to a variety of strategic risks such as changes in the customer structure ("demography") and the buying behaviour ("digital disruption"). Additional risks may arise as a result of changes in the competitive environment. Strategic risks usually have an impact lasting over several years and when identified, they are analysed and remedial measures are taken when necessary.

Reputational risk is defined as the risk of damage that occurs if the value or brand name of ERV Nordic deteriorates. The impact ranges from reduced business opportunity to administrative additional expenses.

Ad hoc reporting and regular quarterly communication between the governance functions takes place. In addition, as part of the internal control system, a basic assessment of potential reputational loss for each operational risk is 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.

Sensitivity Analysis

According to rules stipulated in BEK no. 615 of May 25th 2018, ERV Nordic shall calculate sensitivity analysis every quarter. The rules for calculating the sensitivity analysis were changed in the 3rd quarter of 2018 to become more comprehensive analysis.

The sensitivity analysis done as of 31st December 2018, shows that we are able to withstand changes in the significant risk categories. The only stresses that will lead to a solvency ratio of 125% is regarding credit spread: Danish Government bonds can be 70% stressed, and Other bonds can be 97% stressed.

It is possible to make the maximum stress in all other risk categories and reach a solvency ratio between 127% to 176%.

There are no changes in the risk categories that will lead to an MCR of 125% nor 100%. The MCR ratios with maximum stress leads to MCR ratios between 329% to 564%.

Sensitivity Analysis as of 31.12.2018, SCR 125 pct.		Stress (Pct.)	SCR (Pct.)
1.	Interest rate risk	200 basis points	176,1%
2.	Equity risk	100%	128,0%
3.	Property risk	100%	127,0%
4.	Spread risk	Danish government bonds	70%
		Other government bonds	100%
		Other bonds	97%
5.	Currency risk	Exposure 1 (CZK)	100%
		Exposure 2 (SEK)	100%
		Exposure 3 (USD)	100%
6.	Counterparty default risk		100,6%

Capital management and requirements

ERV Nordic's Solvency II requirement is calculated on the basis the company's risk profile, and therefore takes into consideration the composition of ERV Nordic's insurance portfolio, cash flow profile, technical provisions, reinsurance program, investment mix and risk diversification.

The Board of Directors of the company has estimated that a security level of 99.5% has to be used for the capital demands. ERV Nordic has calculated the capital requirement based on a security level of 99,5% and according to the Standard model under Solvency II which means that ERV Nordic can meet the policyholders' claims for 199 years out of 200 years. The model has been tested during the last 3 years and ERV Nordic has always had more than sufficient capital to meet the security level of 99.5%.

The solvency capital requirements (SCR) have been calculated to DKK 158.5m and shall be covered by the company's eligible own funds of DKK 278.3m as of 31st December 2018 affecting a solvency ratio of 176%.

Below is shown a five-year overview of the solvency ratio. Please note that Solvency cover for 2015-2018 is based on Solvency II calculation method (standard formula) and a ratio of eligible own funds to SCR. Solvency cover for 2014 is based on Solvency I calculation method in percent of base capital.

	2018	2017	2016	2015	2014
Solvency ratio	176%	185%	249%	306%	455%

Fitch rating

ERV Nordic has an 'A+' (stable outlook) Insurer Financial Strength (IFS) Rating from Fitch.

Appropriation of profit

Available for appropriation:

Amount in DKK'000

	2018	2017
Total comprehensive income	<u>22,228</u>	<u>10,457</u>

Recommended to be allocated as follows:

	2018	2017
To the Shareholder	0	10,893
Transferred to other reserves	8,926	2,061
Transferred to reserves	13,302	-2,497
	<u>22,228</u>	<u>10,457</u>

SIGNATURES OF THE BOARD OF MANAGEMENT AND THE BOARD OF DIRECTORS

We have today presented the annual report for 1 January – 31 December 2018 to ERV Nordic.

The annual report has been prepared in accordance with Financial Business Act.

The annual report gives a true and fair view of the company's assets, liabilities and financial position as of 31 December 2018 together with the results of the company's activities for the financial year 1 January – 31 December 2018.

The management report contains a fair and true review of the development of the company's activities and financial performance together with a description of the most significant risks and elements of uncertainty that may have an impact on the company.

We recommend the annual report to be approved at the annual general meeting.

Copenhagen, 3rd of April 2019

Board of Management:

Beata Danuta Kalitowska-Zborowska
Chief Executive Officer

David Kraul
Chief Operating Officer

Peter Steen Olsen
Chief Financial Officer

Board of Directors:

Richard Bader
Chairman of the Board

Oliver Wild
Board Member and
Chairman of the Audit Committee

Gabriele Bayer
Board Member and Member of the
Audit Committee

Peter Fobian
Board Member, elected by the
employees

Christian Søndergaard
Board Member, elected by the
employees

Jørn Sønderup
Board Member and Member of the
Audit Committee

Independent Auditors' report

To the shareholder of Europæiske Rejseforsikring A/S

Opinion

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our long-form audit report to the Board or Directors and the Audit Committee.

Audited financial statements

Europæiske Rejseforsikring A/S' financial statements for the financial year 1 January – 31 December 2018 comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, and notes, including summary of significant accounting policies (the financial statements).

The financial statements are prepared in accordance with the Danish Financial Business Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark.

Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in Article 5(1) of the Regulation (EU) 537/2014 and that we remained independent in conducting the audit.

We were appointed auditors of Europæiske Rejseforsikring A/S for the first time on 20 August 2014 for the financial year 2014. We have been re-appointed by resolutions passed by the annual general meeting for a total uninterrupted engagement period of five years up to and including the financial year ending 31 December 2018.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2018. These

matters were addressed in the context of our audit of the financial statements as a whole, and in the forming of our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matters

Valuation of claims provision

Claims provisions amount to DKK 56,440 thousand at 31 December 2018 (2017: 62,638 thousand) representing 9.4% of the Company's total liabilities (2017: 10.5%).

Valuation of these liabilities is judgmental because it requires a number of assumptions to be made with estimation uncertainty such as loss ratios and estimates of the frequency and severity of claims.

The determination and application of the methodology and performance of the calculations are also complex.

Consequently, we have considered the audit of claims provisions a key audit matter.

We have assessed that the most significant risks are related to the following elements that are complex and/or based on Management's judgements:

Expectations for future inflation

Direct and indirect claims handling expenses

Expectations for future claims.

The valuation of the claims provisions depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating claims provisions, or for forming judgements over key assumptions, is not complete and accurate, then material impacts on the valuation of claims provisions may arise.

Management has specified the risks, etc., related to the estimates of the claims provisions in note 1 "Accounting Policies Applied" and in note 24 "Risk Management".

How our audit addressed the key audit matter

With the assistance of our actuarial specialists, our procedures included:

Assessment of control environment: We have assessed of the governance over the claims provision process. Our assessment has included evaluating the qualifications and experience of those responsible for reviewing the provisions and examining the output of the reviews by assessing the scope and depth of these processes.

Our evaluation of the methodologies and key assumptions for the most significant and subjective classes of business has also supported our assessment of the quality of the Company's claims provision process.

Test of controls: Evaluation and testing of key controls designed and implemented to ensure the integrity and completeness of the data used in the actuarial claims provision process including both current and prior year case provision data. The controls included reconciliations between the claims data recorded in the insurance systems and the data used in the actuarial claims provision calculations to test completeness and accuracy of data used.

We tested controls through inspecting or re-performing the Company's reconciliations of data.

In addition, we tested the operation of controls over the valuation of individual claims provisions, such as case provision review controls and claims approvals. We assessed whether such controls were performed in line with the Company's policies and with reference to underlying claims data.

We also compared samples of claims case provisions to appropriate documentation in order to test the controls over the valuation of individual claims provisions.

Replications and independent re-estimations: We have carried out replications and independent re-estimations of the gross claims provisions covering lines of business related with the most material risks.

A replication of the provisions is performed by applying identical methods and assumptions as the Company in our internal reserving tool.

Independent re-estimation is performed by calculation the provisions using KPMG's own parameters and assumptions.

The determination of which lines of business to replicate and to re-estimate was based on our risk assessment.

Sector experience and benchmarking: We evaluated the Company's applied assumptions, provision methodologies and estimates of losses to expectations based on the Company's historical experience and taking into account current trends, benchmarking and our own industry knowledge including information relating to forthcoming legislation that may materially affect claims settlement speed or -amount.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act.

We did not identify any material misstatement of the Management's review.

Management's responsibility for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Danish Financial Business Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with government with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Copenhagen, 3rd of April 2019

KPMG
Statsautoriseret
Revisionspartnerselskab
Company Reg. No. CVR: 25 57 81 98

Anja Bjørnholt Lüthcke
State Authorised Public Accountant
MNE: 26779

Jette Kjær Bach
State Authorised Public Accountant
MNE: 19812

Profit and loss account

Note In DKK'000

	2018	2017
<i>Earned premiums</i>		
3		
Gross premiums written	394.411	413.174
Ceded insurance premiums	-7.536	-7.884
Change in the provision for unearned premiums	-531	2.862
Change in the provision for unearned premiums, reinsurers' share	-5	-1.846
Total premium income, net of reinsurance	386.339	406.306
4		
Technical interest, net of reinsurance	-525	-771
<i>Claims incurred</i>		
Claims paid	197.167	226.673
Reinsurance recoveries	-2.988	-10.987
Change in the provision for claims	-5.693	-18.048
Change in Risk margin	-406	-1.054
Change in the provision for claims, reinsurers' share	1.470	8.128
Total claims incurred, net of reinsurance	189.550	204.712
Bonus and premium discounts	469	1.310
<i>Net operating expenses</i>		
5		
Acquisition costs	114.047	103.328
6		
Administrative expenses	86.937	92.445
Commission and profit share from reinsurers	-366	-491
7		
Total net operating expenses, net of reinsurance	200.618	195.282
8		
UNDERWRITING RESULT	-4.823	4.231
<i>Income from investment assets</i>		
9		
Income from affiliated companies	15.309	3.486
Income from associated companies	2.993	3.657
Income from investment properties	2.629	2.793
10		
Interest income and dividends etc.	8.545	10.399
11		
Value adjustment	-12.321	-13.165
Interest expenses	-271	-91
Administrative expenses on investments	-716	-668
Total return on investment activities	16.168	6.411
4		
Interest on insurance provisions	525	771
TOTAL RETURN ON INVESTMENT ACTIVITIES AFTER TECHNICAL INTEREST	16.693	7.182
12		
Other income	5.531	3.823
12		
Other expenses	3.978	2.512
PROFIT BEFORE TAX	13.423	12.724
13		
Tax	121	1.831
PROFIT FOR THE YEAR	13.302	10.893
STATEMENT OF COMPREHENSIVE INCOME		
Other comprehensive income		
Exchange rate adjustment of foreign entities	-87	3.848
Tax release Contingency reserve	0	-4.284
Other comprehensive income, currency adjustment	-705	0
Revaluation of property	9.923	0
Revaluation of property, tax	-205	0
Comprehensive income	8.926	-436
Result of the year	13.302	10.893
TOTAL COMPREHENSIVE INCOME	22.228	10.457

Balance Sheet as of

Note in DKK '000

	31/12 2018	31/12 2017
ASSETS		
<i>Intangible assets</i>		
14 Software	27.652	30.342
Software, development projects	7.681	7.053
TOTAL INTANGIBLE ASSETS	<u>35.333</u>	<u>37.395</u>
<i>Tangible assets</i>		
15 Operating equipment	1.788	1.347
16 Domicile	97.957	88.537
TOTAL TANGIBLE ASSETS	<u>99.745</u>	<u>89.884</u>
<i>Investments in affiliated and associated companies</i>		
17 Capital holdings (shares) in affiliated companies	61.026	63.968
17 Capital holdings (shares) in associated companies	25.042	21.910
Total investments in affiliated and associated companies	<u>86.068</u>	<u>85.878</u>
<i>Other financial investments</i>		
Participating interests	33	33
Unit trusts	24.494	20.278
25 Bonds	280.234	306.473
Total other financial investments	<u>304.761</u>	<u>326.784</u>
TOTAL INVESTMENT ASSETS	<u>390.829</u>	<u>412.662</u>
<i>Reinsurance share of technical provision</i>		
Reinsurance share of unearned premiums	52	56
Reinsurance share of claim provision	575	2.043
Total reinsurance share of technical provision	<u>627</u>	<u>2.099</u>
<i>Debtors</i>		
Amounts owed by policy holders	6.662	8.857
Amounts owed by insurance brokers	5.019	9.208
Debtors arising out of direct insurance contracts, in total	<u>11.681</u>	<u>18.065</u>
<i>Other debtors</i>		
Amounts owed by insurance companies	1.016	1.295
Amounts owed by affiliated companies	7.875	8.098
Other debtors	18.844	7.162
Total other debtors	<u>27.735</u>	<u>16.555</u>
TOTAL DEBTORS	<u>40.043</u>	<u>36.719</u>
<i>Other assets</i>		
Cash in hand and cash equivalent	14.009	10.192
Tax asset	7.800	0
Deferred tax assets	4.689	1.208
Other	100	58
TOTAL OTHER ASSETS	<u>26.598</u>	<u>11.458</u>
<i>Prepayments and accrued income</i>		
Accrued interest	2.130	3.104
18 Other prepayments and accrued income	4.281	3.227
TOTAL PREPAYMENTS AND ACCRUED INCOME	<u>6.411</u>	<u>6.331</u>
TOTAL ASSETS	<u>598.959</u>	<u>594.449</u>

Balance Sheet as of

Note in DKK '000

	31/12 2018	31/12 2017
LIABILITIES		
<i>Capital and reserves</i>		
Share capital	10.001	10.001
Revaluation provisions	9.811	798
<i>Reserves</i>		
Contingency reserve, untaxed	174.049	182.900
Net revaluation reserve	70.580	70.770
Total reserves	244.629	253.670
Profit brought forward	78.766	56.510
Proposed dividend for the accounting year	0	10.893
19 TOTAL CAPITAL AND RESERVES	343.207	331.872
<i>Provisions for insurance contracts</i>		
Provision for unearned premiums	120.560	119.734
Claim provisions	56.440	62.638
Risk margin on insurance contracts	7.376	7.727
TOTAL PROVISION FOR INSURANCE CONTRACTS	184.376	190.099
<i>Provisions for other risks and charges</i>		
20 Deferred taxation	11.923	9.836
TOTAL PROVISIONS FOR OTHER RISKS AND CHARGES	11.923	9.836
<i>Creditors</i>		
Amounts owed in connection with direct insurance business	7.993	10.577
Amounts owed to reinsurance companies	1.442	196
Amounts owed to affiliated companies	1.459	3.063
Actual tax liabilities	0	1.994
21 Other creditors	48.559	46.812
TOTAL CREDITORS	59.453	62.642
TOTAL LIABILITIES	598.959	594.449
22 Contingency liabilities		
23 Group ownership		
24 Risk Management		
25 Registered assets		
26 Split of classes of insurance		

Equity specification	Share Capital	Revaluation Provisions	Net revaluation reserve	Translation reserve	Contingency Reserve	Transferred result	Proposed Dividend	Total
Amount in DKK '000								
Equity as of 1st January 2017	10.000	798	68.709	0	204.529	37.379	62.817	384.232
Profit for the year						10.893		10.893
Other comprehensive income, release of Contingency reserve					-19.473	15.189		-4.284
Other comprehensive income, currency adjustment for foreign entities			3.848					3.848
Total comprehensive income	0	0	3.848	0	-19.473	26.082	0	10.457
Increase of share capital	1					-1		0
Currency adjustment Contingency Reserve					-2.156	2.156		0
Provisions for other reserves			-1.787			1.787		0
Dividend paid out							-62.817	-62.817
Proposed dividend						-10.893	10.893	0
Equity as of 31st December 2017	10.001	798	70.770	0	182.900	56.510	10.893	331.872
Equity as of 1st January 2018	10.001	798	70.770		182.900	56.510	10.893	331.872
Profit for the year						13.302		13.302
Other comprehensive income, currency adjustment				-705				-705
Other comprehensive income, currency adjustment for foreign entities			-87					-87
Other comprehensive income Revaluation of property		9.923						9.923
Other comprehensive income Revaluation of property, tax		-205						-205
Total comprehensive income	0	9.718	-87	-705	0	13.302	0	22.228
Currency adjustment Contingency Reserve					-2.201	2.201		0
Release of Contingency reserve					-6.650	6.650		0
Provisions for other reserves						103		0
Dividend paid out			-103				-10.893	-10.893
Proposed dividend							0	0
Equity as of 31st December 2018	10.001	10.516	70.580	-705	174.049	78.766	0	343.207

Note 1 – Accounting Policies Applied

General

The annual report has been prepared in accordance with Financial Business Act and the executive order issued by the Danish Financial Supervisory Authority on financial reports for insurance companies and profession-specific pension funds.

The Danish Financial Supervisory Authorities has issued an updated Executive Order on financial reports for insurance companies and profession-specific pension funds. The new order has effect from 1 January 2019. The Company has implemented the requirements in relation to the presentation of the solvency ratio cover in 2018, and has consequently moved the information on the solvency ratio cover from the five-year review in note 2 to the Management Review.

The company has received permission to prepare the annual report solely in English from the Danish Financial Supervisory Authority.

The annual report is presented in thousand DKK.

Accounting policies are unchanged from last year.

Accounting estimate

The preparation of annual reports under the Danish Financial Supervisory Authority's executive order requires the use of certain critical accounting estimates and requires the management to exercise its judgment in the process of applying the company's accounting policies.

The statement of the accounted value of certain assets and liabilities is conditioned by applying accounting estimates. The estimates made are based on assumptions which the management finds justifiable but uncertain. The statement of the insurance provisions is in particular connected to estimates. These estimates are described in more details in the below-mentioned under the individual accounting items.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be reliably measured.

Liabilities are recognised in the balance sheet when the company has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the company, and the value of the liabilities can be measured reliably.

On initial recognition, assets and liabilities are measured at fair value, however tangible and intangible assets are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement as earned, whereas costs are recognised by the amounts attributable to this financial period. Value adjustments of financial assets and liabilities are recorded in the income statement unless otherwise described below.

Intra-group transactions

The remuneration for the administration of the group's companies is based on the costs of such administration. The interest charged on intra-group accounts is the market rate when these accounts are not considered current business accounts.

Other services (including reinsurance) rendered as part of ordinary insurance operations to and from intra-group buyers are settled at market rates.

Intra-group trading in assets, including securities, is conducted at market prices. No significant intra-group trading with assets has taken place during the accounting year.

Foreign currency transactions

The company's functional currency is DKK in respect of business and investments originating from Denmark. The functional currency used by the company's branch in Sweden is SEK.

Receivables and payables recognised in foreign currency are translated at the exchange rate prevailing at the balance sheet date. The difference between the exchange rate prevailing at the balance sheet date and the exchange rate prevailing at the time when such receivables or payables arose or were recognised in the latest annual report is recognised in the income statement as value adjustments.

Profit and loss of the foreign branch is translated into the company's functional currency, DKK, at the exchange rate prevailing at the date of transaction. The value of the branch's balance sheet items are translated at the exchange rate prevailing at the balance sheet date.

Consolidated accounts

The company has chosen not to prepare consolidated accounts in accordance with §134 in the executive order issued by the Danish Financial Supervisory Authority on financial reports for insurance companies and profession-specific pension funds, as the company's ultimate parent company, Münchener Rückversicherungsgesellschaft, Munich, Germany, prepares consolidated accounts in which the company and its subsidiaries are included.

PROFIT AND LOSS ACCOUNT

RESULT OF INSURANCE OPERATIONS

Premium income, net of reinsurance

Premium income, net of reinsurance consists of the premiums collected for the year less ceded reinsurance premiums, adjusted for movements in the unearned premium provision.

Technical interest, net of reinsurance

According to the Danish FSA's executive order, technical interest is presented as a calculated return on the year's average insurance liability provisions, net of reinsurance. The interest is applied according to the expected run-off pattern of the provisions.

Technical interest is reduced by the portion of the increase in net provisions that relates to unwinding of discounting.

Claims incurred, net of reinsurance

Claims incurred, net of reinsurance consist of the claims paid together with direct and indirect costs for claims handling less reinsurance recoveries, adjusted for movements in the outstanding claims reserve.

As a result, claims incurred, net of reinsurance consist of reported and expected claims for the accounting year. Furthermore, run-of gains or losses on previous years' provision for outstanding claims are included in claims incurred. The portion of the increase of the provisions that relates to reduction of term has been transferred to technical interest.

Changes in provisions of claims due to changes in the yield curve and exchange rates are recognized as a value adjustment.

Bonus and premium rebates

Bonus and premium rebates represent anticipated and reimbursed premiums where the amount reimbursed depends on the claims record, and for which the criteria for payment have been defined prior to the financial year or when the business was written.

Insurance operating expenses, net

Insurance operating expenses represent acquisition costs and administrative expenses less reinsurance commissions received. Expenses relating to acquiring and renewing the insurance portfolio are recognised at the time of writing the business. Administrative expenses are accrued to match the financial period.

Investment activities

Income from affiliated companies includes the company's share of the affiliates' net profit.

Income from associates includes the company's share of the associates' net profit.

Income from investment properties before fair value adjustment represents the profit from property operations less property management expenses for the part of the property which is not used by the company.

Interest, dividends, etc. represent interest earned, dividends received, etc. during the financial period.

Realised and unrealised investment gains and losses are gains and losses on investments, value adjustment of land and buildings and exchange rate adjustments.

Investment management charges represent expenses relating to the management of investments.

OTHER ITEMS

Other income and expenditure

Other income and expenditure contain income and expenses on administration agreements, which cannot be attributed to the insurance portfolio.

Taxation

Tax on the profit for the year is calculated on the basis of the profit for the year before tax, adjusted for non-taxable income and expenditure.

The company is jointly taxed with Danish group companies. Full intra-group tax equalisation is effected so that the company pays for the utilisation of contingent negative taxable income from the jointly taxed company and the company is refunded by the jointly taxed company for its utilisation of contingent taxable deficits of the company.

Deferred tax related to recapture of previously deducted deficits in foreign branches or affiliates' entities is included based on an actual assessment of the purpose of the individual entity.

Deferred tax is measured according to the tax rules and at the tax rates in Denmark and Sweden which based on the legislation in force at the balance sheet date will apply when the deferred tax liability is expected to be settled or when the deferred tax asset is expected to be realised.

If deferred tax constitutes a tax asset, it is included in the assets, if it is most probably that it can be used in the future. The tax liable on the contingency reserve (contingent tax) is not provided for in the balance sheet.

The company has not made provisions for deferred tax on contingency funds as it is not likely that a situation will arise within the foreseeable future which will result in taxation.

BALANCE SHEET

Intangible assets

The assets are measured at the acquisition costs with deductions of the write down. A straight-line write down is applied based on the following assessment of the assets' expected useful lives:

Software, presently

3-5 years

Costs that are directly associated with the production of identifiable and unique software products are recognised as intangible assets. Direct costs include the software development team's employee costs and other directly related overheads. All other costs associated with developing or maintaining computer software are recognised as an expense as incurred.

After completion of the development the asset is written down on a straight-line basis over the expected useful life, however, presently with a maximum period of 5 years. The basis of writing down is reduced by any impairment write downs.

Operating equipment

Fixtures and operating equipment are measured at cost less accumulated write down and any accumulated impairment losses. Cost encompasses the purchase price and costs directly attributable to the acquisition of the relevant assets until the time when the asset is ready to be brought into use.

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, presently
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.

Gains and losses on disposals and retirements are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Impairment of intangible assets and operating equipment

Finalized development projects and development projects in progress are tested for impairment in connection with the annual report and during the year if there is any indication of impairment. The carrying amount of other intangible assets and operating equipment is reviewed at least annually to determine whether there is any indication of impairment.

If there are indications of impairment, the carrying amount is written down to the estimated recoverable amount of the asset if this is lower than the carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the expected value in use.

Domicile

Domiciles are measured in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation. Revaluations are performed regularly to avoid the carrying amount differing from the domicile's fair value at the balance sheet date.

The fair value is calculated based on a market-determined rental income, as well as operating expenses in proportion to the property's required rate of return in percent.

Increases in the revalued carrying amount of domiciles are credited in equity, unless the increase corresponds to a decrease previously credited to the income

statement. Decreases are credited to the income statement unless the decrease corresponds to an increase previously credited to equity.

The write downs are recognized in the profit and loss account over their useful lives. The expected useful life is measured regularly.

Europæiske Rejseforsikring A/S assessed at the time of the change-over to the rules of Danish Financial Supervisory Authority's executive order on financial reports that the useful life is 50 years and the scrap value is 70%.

Capital holdings (shares) in affiliated and associated companies

Shareholdings are 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 value, and the company's share of the result is included in the profit and loss account under "income from affiliated or associated companies".

The total net revaluation of capital holdings in affiliated and associated companies are included in the net revaluation reserve in equity, if the book value is higher than the cost price.

Other financial assets

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

Unlisted capital investments are stated as the estimated market value, based on the last available annual accounts of the company in question.

Secured loans are stated as the estimated fair value at the balance sheet date.

The settling day is used as the time of calculation for all investment assets.

Reinsurers' share of provisions for insurance contracts

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance share of the technical provision.

Amounts recoverable from reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The benefits to which the company is entitled under its reinsurance contracts held are recognised as assets and reported as reinsurers' share of claim provisions for insurance contracts.

The reinsurers' share of the provisions for claims is measured at discounted value if such discounting is material. The future payments will be discounted back according to the zero coupon interest rate structure set by the Danish Financial Supervisory Authority.

The company assesses continuously its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the company

reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement.

Debtors

Debtors are stated net of a bad debt reserve calculated on the basis of an individual assessment of the debtors.

Accruals

Accruals, reported under assets, comprise cost paid relating to the following financial period.

EQUITY

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Revaluation provisions

Revaluation of owner-occupied property is recognized in other comprehensive income unless the revaluation offsets a previous impairment loss. Revaluation reserves show the net revaluation of the owner-occupied property.

Contingency reserves

The Danish contingency reserve is recognized as part of retained earnings under equity. The reserve may only be used when so permitted by the Danish Financial Supervisory Authority and when it is for the benefit of the policyholders. The funds allocated to the contingency reserve are not taxed and there has been no deferred tax allocated in the balance sheet.

The Swedish contingency reserve is reported as an untaxed reserve. Changes are recognized through equity. The basis for 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 premiums 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.

Other reserves

The total net revaluation of capital holdings in affiliated and associated companies is recognized via appropriation of profit to the net revaluation reserve in equity (other reserves), if the book value is higher than the cost price.

Currency adjustments comprise exchange differences arising from translation of the contingency reserve and the equity of foreign entities at the beginning of the year to the exchange rate prevailing at the balance sheet date.

Proposed dividend

The proposed dividend is recognized as a liability at the time of the adoption by the shareholders at the annual general meeting. Dividend to be paid out for the year is shown as a separate item under equity.

TECHNICAL RESERVES

Provisions for insurance contracts

The company have chosen to use the simplified calculation of premium provision according to the Danish Executive Order on Financial Statements § 69a.

Provisions for insurance contracts are recognised 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 no longer is a natural premium and the risks covered increase with the insured person's age.

The provisions for insurance contracts are recognised, 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 the company 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).

Claims provisions are discounted. 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 are the expected amount payable if the company's portfolio of insurance contracts were transferred to another company.

Provisions for bonus and premium rebates

Provisions for bonus and premium rebates represent amounts expected to be paid to policyholders in view of the claims experience during the financial year.

Liability adequacy test

Tests are continuously performed to ensure the adequacy of the technical provisions. In performing these tests, current best estimates of future cash flows of claims, gains and direct and indirect claims handling costs are used. Any deficiency is charged to the income statement by raising the relevant provision.

Financial liabilities

Bond loans, debt to credit institutions, etc. are recognised at the raising of the loan at a fair value plus transaction costs incurred.

Debt

Other liabilities are measured at net realisable value.

Methods for calculating financial ratios

The financial ratios have been calculated in accordance to the Danish Financial Business Act. The ratios included in the five-year review have been calculated as described below:

Gross claims ratio is the relation between gross claims incurred and gross earned premiums, where earned premiums are reduced by bonuses and rebates.

Gross expense ratio is the relation gross operating expenses and gross earned premiums less bonuses and rebates.

Reinsurance ratio is the profit/loss from reinsurance in proportion to gross earned premiums less bonuses and rebates.

Combined ratio is the sum of the gross claims ratio, the gross expense ratio and the net reinsurance ratio.

Operating ratio is calculated as the combined ratio, but based on the claims ratio, the expense ratio and the net reinsurance ratio where the allocated investment return has been added to earned premiums in the denominator.

Relative run-off result is the run-off result in relation to the corresponding opening provision.

Return on capital and reserves is profit of the year in relation to average capital & reserves.

2 Five-year review *

Profit and Loss	2018	2017	2016	2015	2014
Gross premiums earned	393.880	416.036	425.065	292.576	315.504
Gross claims incurred	191.068	207.571	209.240	151.508	144.747
Total operating expenses	200.984	195.773	185.172	96.399	96.287
Result of reinsurance (-=net cost)	-5.657	-6.380	-8.616	-18.494	-28.233
Underwriting result	-4.823	4.231	19.313	24.444	45.000
Profit/loss of investment after transfer of technical interest	16.693	7.182	29.607	15.627	19.614
Profit for the year	13.302	10.893	43.010	33.741	50.882
Gross run-off profit/loss	2.154	11.836	7.174	4.536	15.039
Run-off profit/loss, net of reinsurance	2.741	9.655	10.171	4.350	14.582
Assets and Liabilities at	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Insurance assets	627	2.099	14.828	14.828	20.219
Technical provisions	184.376	190.099	212.075	162.368	166.963
Capital and reserves at year-end	343.207	331.872	384.232	263.342	282.414
Total assets	598.959	594.449	679.793	479.092	516.966
Key figures	2018	2017	2016	2015	2014
Gross claims ratio	48,67%	50,30%	49,94%	52,05%	46,10%
Gross expense ratio	51,43%	47,33%	43,92%	33,68%	31,36%
Reinsurance ratio	1,44%	1,54%	2,04%	6,35%	8,99%
Combined ratio	101,54%	99,17%	95,90%	92,08%	86,45%
Operating ratio	101,33%	99,23%	95,90%	91,70%	85,68%
Relative run-off result	3,44%	18,93%	7,96%	8,05%	18,04%
Return on capital and reserves	3,94%	3,04%	12,90%	12,36%	18,79%

(*) For the period 2014-2015 it has not been possible to present a merged profit and loss and balance sheet because of historical differences in bookkeeping methodology and solvency calculation rules between Europæiske Rejseforsikring A/S and ERV Försikringsaktiebolag (publ). In the period 2014-2015 it is therefore only figures for Europæiske Rejseforsikring A/S.

Note

In DKK'000		2018	2017
3	Gross earned premiums		
	Gross premiums	394.411	413.173
	Change in the gross provision for unearned premiums	-531	2.862
	Gross earned premiums for the year	393.880	416.035
	<i>Distribution:</i>		
	Direct business	419.435	415.448
	Indirect business	-25.555	587
		393.880	416.035
	<i>Geographic distribution of direct business:</i>		
	Denmark	217.207	194.176
	EU countries	176.719	194.431
	Non-EU countries	25.509	26.842
		419.435	415.448
4	Technical interest, net of reinsurance		
	Interest yield from the year's average technical provisions, net of reinsurance, transferred from investment business		
	Provision for insurance contracts, year start	190.099	212.075
	Reinsurers share of technical provisions, year start	-2.099	-12.069
	Provisions for insurance contracts, year end	184.376	190.099
	Reinsurers share of technical provisions, year end	-627	-2.099
	Total	371.749	279.827
	Average	185.875	194.003
	Interest rate in accordance with the Danish FSA	-0,28%	-0,40%
	Interest on technical provisions	-525	-771
	Technical interest, net of reinsurance	-525	-771
5	Acquisition costs		
	Total acquisition costs	114.047	103.328
	of which:		
	Commission for direct business	56.770	50.192
	Commission for indirect business	3	33
		56.773	50.225
6	Administrative expenses		
	Administrative expenses	65.132	75.643
	Duties and contributions etc	9.328	8.014
	Depreciation	12.477	8.963
	Reimbursements from affiliated and associated companies	0	-175
		86.937	92.445

Note

in DKK'000

	<u>2018</u>	<u>2017</u>
7 Staff costs		
Net operating expenses include the following staff costs:		
Wages and salaries	77.125	77.880
Other expenses for social security	8.019	11.307
Pension scheme contributions	10.134	9.623
Payroll tax	9.328	8.014
	<u>104.606</u>	<u>106.824</u>
Total remuneration paid to:		
Board of Directors		
Number	6	6
Fixed salary	4.793	2.791
Variable salary	2.377	1.974
	<u>7.170</u>	<u>4.765</u>
Remuneration of the Board of directors:		
Richard Bader (entered 20.12.2011)*	7.050	4.645
Oliver Wild (entered 23.11.2015)	0	0
Gabrielle Bayer (entered 10.04.2013)	0	0
Jørn Sønderup (entered 17.08.2011)	40	40
Peter Fobian (entered 13.03.2012)	40	40
Christian Søndergaard (entered 20.04.2016)	40	40
	<u>7.170</u>	<u>4.765</u>
Audit Committee:		
Jørn Sønderup	30	30
	<u>30</u>	<u>30</u>
Board of Management: *		
Number	3	1
Wages and salaries (Fixed remuneration)	5.518	2.903
Bonuses (variable remuneration)	1.223	690
Pension benefits (Fixed remuneration)	667	293
Remuneration of the Board of Management	<u>7.408</u>	<u>3.886</u>
CEO Beata Kalitowska	3.540	0
COO David Kraul	2.220	0
CFO Peter Steen Olsen	1.648	0
Former CEO Johannes Von Hülsen	0	3.886
Paid remuneration to the Board of Management	<u>7.408</u>	<u>3.886</u>
Other employees with activities of considerable influence on the company's risk profile:		
Number	7	7
Wages and salaries (Fixed remuneration) **	5.820	7.472
Bonuses (variable remuneration)	378	1.050
Pension benefits (Fixed remuneration)	849	1.140
	<u>7.047</u>	<u>9.662</u>
There is no pension obligations towards the BoD or the BoM.		
* Remuneration is the total remuneration for CEO or board positions within the Munich Re Group.		
** The entry fixed salary includes fixed salary and tax value of company car, telephone etc.		
Incentive Schemes		
The Board of Management, i.e. the CEO, has the possibility to receive a bonus of maximum TDKK 1.598 if specific targets are reached in accordance with the contract however meeting local legislation.		
The average of full-time staff	<u>154</u>	<u>146</u>

The company has been informed that the Board of Directors and Board of Management has not received any fees from other companies in the Group.

Note

in DKK'000		2018	2017
8	Breakdown of underwriting result		
	Earned premiums	393.411	414.725
	Underwriting interest, net of reinsurance	-525	-771
	Claims incurred incl change in Risk Margin	-191.068	-207.571
	Administrative expenses	-86.937	-92.445
	Acquisition costs	-114.047	-103.328
	Profit from gross operations	834	10.610
	Ceded insurance premiums	-7.541	-9.730
	Reinsurance recoveries	1.518	2.859
	Reinsurance commissions and profit participation	366	491
	Result of ceded business	-5.657	-6.380
	Underwriting result	-4.823	4.230
	Total claims incurred, net of reinsurance, run-off		
	Gross run-off profit/loss	2.154	11.836
	Run-off profit/loss, ceded	588	-2.181
	Total claims incurred, net of reinsurance, run-off, total	2.741	9.655
		2018	2017
9	Income from affiliated companies		
	The year's net result in Evropská Cestovní Pojistovna a.s. Czechia	15.309	3.486
		15.309	3.486
10	Interest income and dividends etc		
	Interest income	8.493	10.334
	Dividend from participating interests	52	65
		8.545	10.399
11	Realised and unrealised gains and losses, net		
	Participating in unit trusts, bond based	-133	31
	Participating in unit trusts, share based	-1.175	1.296
	Bonds	-11.154	-12.153
	Capital loss on instalments and redemptions	-66	0
	Exchange rate adjustments	207	-2.339
		-12.321	-13.165
12	Other income and expenses		
	Income from administration arrangements	5.531	3.823
	Expenses from administration arrangements	3.978	2.512
		1.553	1.311
13	Tax of the profit for the year		
	Current tax	137	2.373
	Change in deferred tax	382	-542
	Adjustment regarding prior years	-398	0
		121	1.831
	Taxes paid on account for the current year	8.056	8.414
	Effective tax rate	%	%
	Tax rate	22,0	22,0
	Adjustment of tax from previous years	13,5	0,0
	Tax of non-taxable income and expenses	-34,5	-8,0
		1,0	14,0

Note

In DKK'000

	2018	2017
14 Software		
Cost at the beginning of the year	69.508	59.908
Currency translation adjustment, foreign branch	-2.177	0
Disposals during the year	0	0
Additions and improvements of the year	8.884	9.600
Cost at the end of the year	<u>76.214</u>	<u>69.508</u>
Depreciation and write-downs at beginning of year	39.166	32.068
Currency translation adjustment, foreign branch depreciation	-1.472	0
Depreciation and write-downs of the year	10.875	7.098
Disposals during the year	0	0
Total depreciation and write-downs at year-end	<u>48.569</u>	<u>39.166</u>
Revaluations of the year	0	0
Total revaluations at year-end	<u>6</u>	<u>0</u>
Net book value	<u>27.652</u>	<u>30.342</u>
15 Operating Equipment		
Cost at the beginning of the year	37.944	37.630
Disposals during the year	-86	-440
Additions and improvements of the year	1.372	754
Cost at the end of the year	<u>39.230</u>	<u>37.944</u>
Depreciation and write-downs at beginning of the year	36.597	36.022
Depreciation and write-downs of the year	888	974
Disposals during the year	-43	-374
Exchange rate adjustments	0	-25
Total depreciation and write-downs at year-end	<u>37.442</u>	<u>36.597</u>
Net book value	<u>1.788</u>	<u>1.347</u>
16 Land and buildings		
Cost at the beginning of the year	117.426	117.426
Additions and improvements of the year	230	0
Cost at the end of the year	<u>117.656</u>	<u>117.426</u>
Depreciation and write-downs beginning of the year	31.933	30.988
Depreciation and write-downs of the year	733	945
Total depreciation and write-downs at year-end	<u>32.666</u>	<u>31.933</u>
Revaluations beginning the year	3.044	3.044
Revaluations via comprehensive income	9.923	0
Total revaluations at year-end	<u>12.967</u>	<u>3.044</u>
Net book value	<u>97.957</u>	<u>88.537</u>
Net book value of land and buildings used for company operations	<u>43.679</u>	<u>39.523</u>
Real property value according to the last public assessment	<u>82.000</u>	<u>82.000</u>
The property has not been evaluated by external parties		
In 1992 the company acquired the building at 3, Frederiksberg Allé, in which the registered office is located. The yield used for the assessment of the market value of the building is	<u>5,50%</u>	<u>6,00%</u>
17 Affiliated and associated companies		
	<u>Affiliated company</u>	<u>Associated companies</u>
Acquisition cost, balance, beginning of the year	12.020	3.088
Acquisition cost, balance, year-end	<u>12.020</u>	<u>3.088</u>
Revaluations, balance, beginning of the year	51.948	18.822
Price adjustment of opening balance of capital and reserves	-226	139
Share of profit for the year	15.309	2.993
Dividends paid	-18.025	0
Revaluations, balance, year-end	<u>49.006</u>	<u>21.954</u>
Net book value, year-end 2018	<u>61.026</u>	<u>25.042</u>
Net book value, year-end 2017	<u>63.968</u>	<u>21.910</u>

Note

in DKK'000

17 Affiliated and associated companies (continued)**Group Ownership**

Europæiske ERV is associated with the following companies :

Subsidiary:	Registered office	Activity	Share-holding	Capital & Reserves	Result
ERV Pojistovna a.s.	Czech Republic	Insurance	75.00%	81.368	20.412
Associated companies:					
Euro-Center Holding SE	Czech Republic	Assistance	33.33%	52.961	4.230
European Assistance Holding	Germany	Assistance	20.00%	36.942	7.918

18 Other prepayments and accrued income

	2018	2017
Prepaid wages and salaries	250	384
Other prepayments and accrued income	4.031	2.843
	<u>4.281</u>	<u>3.227</u>

19 Total capital and reserves

The company's share capital consists of:

801 shares of DKK 500
200 shares of DKK 2,000
400 shares of DKK 8,000
6 shares of DKK 1,000,000

During the merger of Europæiske Rejseforsikring A/S and our Swedish sister company ERV Försäkringsaktiebolag (publ) in 2017, Europæiske Rejseforsikring A/S issued a share to the parent company ERV AG at DKK 500 into Europæiske Rejseforsikring A/S.

The shares are not divided into classes.

DK contingency reserve	103.500	103.500
SE contingency reserve	70.549	79.400
Total contingency reserve, untaxed	<u>174.049</u>	<u>182.900</u>

Base capital and solvency margin:

Total capital and reserves, according to annual report	343.207	331.872
Intangible assets	-35.333	-37.395
Deferred tax liability at Contingency reserve	-37.298	-40.238
Lower technical provision in SII	4.622	3.286
Deferred tax at technical provision above	-990	-723
Deferred tax at software	7.654	8.161
Different valuation of affiliated companies	1.400	7.598
Different valuation of associated companies, net of tax	-4.495	-4.950
Change deferred tax at associated companies	360	0
Other minor valuation differences not specified	-861	-58
Eligible own funds (Solvency II)	<u>278.266</u>	<u>267.553</u>

20 Provisions for taxation

Deferred tax is incumbent on the following items:

Owner-occupied property	6.498	6.258
Bonds and mortgage debt	0	194
Affiliated. Companies owned by Swedish Branch	2.223	0
Intangible fixed assets	3.202	3.383
Operating equipment	-382	-455
Pension & similar obligations by Swedish Branch	-3.409	
Tax loss carried forward	-154	0
Risk margin	-744	-753
Total provisions for deferred taxation	<u>7.234</u>	<u>8.627</u>

Is presented in the balance sheet as:

Deferred tax assets	-4.689	-1.208
Reserves for deferred tax	11.923	9.835
	<u>7.234</u>	<u>8.627</u>

Contingency tax

A release of the contingency reserve will trigger a tax of	25.300	25.300
	<u>25.300</u>	<u>25.300</u>

The technical provision is not expected to fall below the level of 90% of 31 December 1994. No provision for deferred tax on the contingency reserve has therefore been made.

Note

in DKK'000

	<u>2018</u>	<u>2017</u>
21 Other creditors		
PAYE taxes and labour market contribution	783	755
Holiday pay obligations, salaried staff	9.770	9.814
Social security benefit and other duties	5.373	908
Other accrued costs	<u>32.633</u>	<u>35.335</u>
	<u>48.559</u>	<u>46.812</u>
22 Contingency liabilities		
Leased cars	70	282
Office space rental	2.013	1.874
Other office equipment	72	0
IT hardware lease	<u>348</u>	<u>482</u>
	<u>2.503</u>	<u>2.638</u>

The Company is jointly tax liable with the Danish enterprises in the Munich RE group and is administrating the joint taxation. The Company is liable jointly and severally with other enterprises in the joint taxation of Danish company tax, withholding taxes on dividends, interests and royalties in the joint taxation. The joint tax obligation represents nominal net payable of approximately DKK 25.000 as at 31 December 2018 in addition to the liability shown above.

23 Ownership and related parties

Europæiske Rejseforsikring A/S is a 100% owned subsidiary of ERV AG, Munich, Germany

ERV AG, Munich, is a 100% owned subsidiary of ERGO Group AG, Düsseldorf, Germany.

ERGO Group AG, Düsseldorf, Germany, is 100% owned by Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft, Munich, Germany.

The annual report for ERGO Group AG can be ordered on <http://www.ergo.com/>

The annual report for Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft can be ordered on <http://www.munichre.com/>

Intra-group transactions

The remuneration for the administration of the group's companies is based on the costs of such administration. The interest charged on inter-company accounts is the market rate when these accounts are not considered current business accounts.

Other services (including assistance services, asset management and reinsurance) rendered as part of ordinary insurance operations to and from inter-company buyers are settled at market rates.

Inter-company trading in assets, including securities, is conducted at market prices. No significant inter-company trading with assets has taken place during the accounting year.

	<u>2018</u>	<u>2017</u>
Premium ceded to reinsurers	-6.601	-6.270
Claims paid, reinsurers share	1.736	1
Reinsurance commissions and profit participation	48	48
Purchase of services from Group entities	-13.609	-13.097
Sales of services to Group entities	<u>2.166</u>	<u>1.605</u>
	<u>-16.260</u>	<u>-17.713</u>

Consolidated accounts

The company has chosen not to prepare consolidated accounts in accordance with §134 in the executive order issued by the Danish Financial Supervisory Authority on financial reports for insurance companies and profession-specific pension funds, as the company's ultimate parent company, Münchener Rückversicherungsgesellschaft, Munich, Germany, prepare consolidated accounts for the whole group.

in DKK'000

24 Risk Management

Underwriting risks

Underwriting risk arises from inaccurate assessments of the compensations and other costs related to insurance policies. Significant underwriting risks are premium, if losses are higher than expected, and reserve risks, if the reserves set aside are not sufficient to cover the ultimate losses.

Relevant policies exist which are set by the Board of Directors. The overarching policy for underwriting risks states that risks originating from the company's insurance business shall be covered or limited to such a level that the company will be able to maintain a normal operation and carry out planned initiatives even in case of a very unfavourable development. One measure taken to limit the underwriting risk, is reinsurance agreements. This limits the risks for most events to a certain level according to the risk appetite set by the Board of Directors.

In the Standard model, this risk is estimated to DKK 204.7m.

Market risks

It is the aim of ERV Nordic to control the market risks in such a way that the company obtains a return corresponding to risks taken.

Main market risks:

- Currency risk
- Equity risk
- Property risk
- Market risk concentrations

Currency risk arises as a result of a mismatch in the value of assets and liabilities in the same foreign currency. Internal guidelines, set by the Board of Directors, limits the exposure to a certain level. In terms of the result, the company is sensitive towards the development in currency rates and the prices of bonds, shares and participations.

Currency risk for ERV Nordic is mainly related to the investment in affiliated and associated companies denominated in Czech koruna ("CZK") and the net assets in ERV Sweden denominated in Swedish krona ("SEK"). The investments in foreign entities and merger with ERV Sweden are based on strategic decisions and in line with the risk appetite set by the Board of Directors.

The standard model calculation has been used to assess the risks and the necessary capital for this type of risks. This model demands a capital of DKK 59.5m in order to be able to cover the risk sufficiently with a confidence level at 99.5%, which means that ERV Nordic can meet the policyholders' claims for 199 years out of 200 years.

Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is inevitably linked to the business activities of ERV Nordic. They are addressed in a comprehensive internal control system or through ad-hoc reporting.

ERV Nordic manages operational risks in accordance with internal guidelines and the risk appetite on an ongoing basis. It is reported to the Board of Directors as part of the risk report on a quarterly basis.

The standard model calculation demands a capital of DKK 11.5m in order to be able to cover the operational risk sufficiently with a confidence level at 99.5%, which means that ERV Nordic can meet the policyholders' claims for 199 years out of 200 years.

In DKK'000

24 Risk Management (continued)

Other material risks

ERV Nordic is also exposed to strategic and reputational risks.

Strategic risks are risks arising from wrong business decisions or poor implementation of decisions already taken. ERV Nordic is exposed to a variety of strategic risks such as changes in the customer structure ("demography") and the buying behaviour ("digital disruption"). Additional risks may arise as a result of changes in the competitive environment. Strategic risks usually have an impact lasting over several years and when identified, they are analysed and remedial measures are taken when necessary.

Reputational risk is defined as the risk of damage that occurs if the value or brand name of ERV Nordic deteriorates. The impact ranges from reduced business opportunity to administrative additional expenses.

Ad hoc reporting and regular quarterly communication between the governance functions takes place. In addition, as part of the internal control system, a basic assessment of potential reputational loss for each operational risk is 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.

25 Registered assets

The company has registered DKK 208.9m in bonds as security for payment in full to the policyholders cf. Financial Business Act §167

Note

in DKK'000

26 Split of classes of insurance in accordance with §113 in order on non-life insurance companies' annual reports

	Accident and health insurance	Fire and personal property (corporate)	Liability insurance	Other insurance	Total
1 Gross premiums written	218.758	64.461	10.584	100.607	394.411
2 Gross premiums earned	219.008	62.948	10.584	101.339	393.880
3 Gross claims incurred	-114.760	-12.325	-7.547	-56.843	-191.474
4 Bonus and premium discounts	-469				-469
5 Change in Risk Margin	909			-503	406
<i>Administration costs</i>	-48.339	-13.894	-2.336	-22.368	-86.937
<i>Acquisition costs</i>	-46.146	-32.052	-2.046	-33.802	-114.046
6 Gross operating expenses	-94.486	-45.945	-4.382	-56.170	-200.983
Profit from gross operations	10.202	4.678	-1.344	-12.176	1.360
7 Result of business ceded	-3.619	0	-2.039	1	-5.657
9 Technical interest o.o.a.	-291	-86	-14	-134	-525
10 Underwriting result	6.292	4.592	-3.397	-12.309	-4.822

Number of compensations paid 17.481 38.066
Average compensation for claims incurred 45,2 5,0
Compensation ratio 51,9% 9,3%
5,4%