

# PAY POLICY

**Contact**

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**Scope of application**

ERV DK incl SE branch "ERV Nordic"; Board of Directors, the Board of Management, and employees, whose professional activities have a considerable influence on the company's risk profile

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2.0

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General Assembly

**Authorized on**

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10 years

**Classification**

Policy

**Level of obligation**

Binding

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# 1. Purpose

This policy is based upon the Munich Re - Group Compensation Policy (MR GCP) version 2.0 valid from 01 January 2019. The MR GCP seeks to ensure that regulatory requirements concerning compensation arising from Solvency II (in particular Article 275 of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014) and the Final Report on Public Consultation No. 14/017 on Guidelines on system of governance of 28 January 2015 (particularly Section 2: Remuneration, Guidelines 9 and 10) are implemented on the basis of consistent principles. Existing compensation policies and practices remain in force, and apply in addition to this policy.

The pay policy has been determined to comply with the executive order on pay policy and payment of the management in insurance companies (BEK nr. 16 04/01/2019) and the Swedish Act (1995:1560) on Annual Report for Insurance Companies chapter 5 § 1 regarding the duty to disclose material facts about salaries in financial businesses and financial holding companies (hereinafter Executive Order).

The pay policy has been determined based on an overall assessment of the company's size, organization and the extent and complex nature of the company's activities. The objective is to have a pay policy which is in accordance with and promote sound and efficient risk management and at the same time comply with the company's strategy, values and goals and meet the customers' and investors' interests.

## 1.1 Interaction with other norms

This Norm interacts with the, Salary Process SE Working Instruction and Pay Roll Working Instruction.

## 2. Scope of application

The pay policy comprises all agreements about salaries to the below mentioned group of persons in ERV Nordic, when these agreements have been entered:

The pay policy comprises the Board of Directors, Board of Management, and other employees, whose activities have a considerable influence on the company's risk profile, together with employees who are involved in supervisory duties and auditing.

The decision on the employees to be included in the present pay policy is decided by Board of Directors on the basis of a recommendation from Board of Management and is based on an assessment of the following criteria:

- The authorization and/or financial authorities of the employees in question, as it is considered that these persons could potentially pose financial risk to the company of such a nature that it is considered substantial.
- The duties of the employees in question within supervision and risk mitigation.

Based on this it has been decided that the following employees have a considerable influence on the company's risk profile:

The Board of Management:

- Chief Executive Officer (CEO)
  - Chief Financial Officer (CFO)
  - Chief Operating Officer (COO)

C-function, whose activities have a considerable influence on the company's risk profile:

- Chief Sales Officer/MD (CSO)

Other employees, whose activities have a considerable influence on the company's risk profile:

- Nordic Head of Product Management
- Chief Internal Auditor (Key function)
- Risk Manager (Key function)
- Nordic Head of Legal and Compliance (Key function)
- Actuary function (Key function)

### **3. Pay policy for Europæiske Rejseforsikring A/S for the Board of Directors, the Board of Management and employees, whose professional activities have a considerable influence on the company's risk profile**

#### **3.1 Principle**

This policy shall ensure that the internal organisational structure of *the Company* and the nature, scope, and complexity of the risks inherent in its business operations are taken into account, and that there is clear, transparent and effective governance with respect to compensation, including monitoring of the policy.

#### **3.2 General requirements for compensation schemes**

Based on the provisions and rules of Solvency II and the relevant EIOPA Guidelines, the following general principles apply:

1. Compensation schemes shall be established, implemented and maintained in line with the undertaking's business and risk management strategy, its risk profile, objectives, risk management practices and the long-term interests and performance of the undertaking as a whole, and shall incorporate measures aimed at avoiding conflicts of interest.
2. Compensation schemes shall promote effective risk management and shall not encourage risk-taking that exceeds the risk tolerance limits of the undertaking.
3. Compensation schemes may not affect the undertaking's ability to maintain appropriate capitalisation.
4. Compensation agreements with service providers may not encourage risk-taking that is inappropriate in light of the undertaking's risk management strategy.
5. This policy shall be disclosed to each of the undertaking's employees.

#### **3.3 Specific requirements for compensation schemes**

Based on the provisions and rules of Solvency II, the following specific requirements (as a minimum) shall be taken into account when drawing up compensation schemes for groups of persons mentioned below from 3.4-3.6.

1. Where compensation schemes include both fixed and variable components, such components shall be balanced so that the fixed or guaranteed component represents a sufficiently high proportion of the total compensation to avoid employees being overly dependent on the variable components. This allows the undertaking to operate a fully flexible bonus policy, including the possibility of paying no variable component.
2. Where variable compensation is performance-related, the total amount of the variable compensation is based on a combination of assessments of the performance of the individual and of the business unit concerned, and of the overall result of the undertaking or the group to which the undertaking belongs (subgroup or Munich Re (Group)).
3. Irrespective of the form in which it is to be paid, the payment of a substantial portion of the variable compensation component shall contain a flexible, deferred component that takes account of the nature and time horizon of the undertaking's business. This deferral period shall be no less than three years, and the period shall be correctly aligned with the nature of the business, its risks, and the activities of the employees in question. The appraisal period and the deferral period may overlap.

4. Financial and non-financial criteria shall be taken into account when assessing an individual's performance. Individual objectives concerning compliance and effective risk management do not need to be agreed explicitly but should be taken into appropriate account when assessing performance.
5. The measurement of performance, as a basis for variable compensation, shall include a downwards adjustment for exposure to current and future risks, taking into account the undertaking's risk profile and the cost of capital.
6. Termination payments shall be related to performance achieved over the whole period of activity and be designed in a way that does not reward failure. Reference may be made here to the current function.
7. Persons concerned shall commit to not using any personal hedging strategies or compensation and liability-related insurance which would undermine the risk alignment effects embedded in their compensation agreements.

The variable part of compensation of the staff responsible for the key functions shall be independent from the performance of the operational units and areas that are submitted to their control.

### **3.4 The Board of Directors' remuneration**

The Board of Directors is paid a fixed fee. However, board members appointed by, and representing, Europäische Reiseversicherung AG shall not receive a fixed fee. There is no paid pension included.

There is no variable fee, and there are no paid incentive programs of any kind.

The Board of Directors seeks to adjust the amount of the fee for any external members of the Board of Directors and employee representative in accordance with the extent and responsibility connected with the tasks of the Board of Directors.

### **3.5 Remuneration of the Board of Management and C-function**

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

The remuneration of the management is evaluated each year by the Chairman of the Board of Directors.

### **3.6 The remuneration of other employees, whose activities have a considerable influence of the company's risk profile and/or are involved in supervisory duties and auditing**

The Actuary Officer, Nordic Head of Product Management and Nordic Head of Legal and Compliance have a salary agreement. In addition to the salary the company pays a variable pay, pension contribution, free telephone and other normal salary items (health insurance). The before-mentioned employees are not entitled to general company bonus since they have variable pay.

The Chief of Internal Audit and the Risk Manager have a salary agreement. In addition to the salary the company pays pension contribution, free telephone and other normal salary items (health insurance). The Chief of Internal Audit, the Risk Manager are not paid a variable salary, except for any general company bonus.

### 3.7 Principles for variable pay

The variable pay cannot be more than 50 % of the set salary including pension for each person.

The total variable salary is determined on the basis of the persons own performance, the performance of the relevant department, the company's financial and actual results and the group financial result.

Where remuneration schemes include both fixed and variable components, such components shall be balanced so that the fixed or guaranteed component represents a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on the variable components. This allows the undertaking to operate a fully flexible bonus policy, including the possibility of paying no variable component.

For employees employed in Denmark the bonus earned each year, if any, is paid with the maximum possible payment in year 1 (which means 60 % if the total bonus is below 750,000 DKK, and 40 % if the total bonus is above 750,000 DKK<sup>1</sup>) and the remaining amount is paid out in equally large portions over a period of the following 4 years for the Board of Management and 3 years for other employees, whose activities have a considerable influence of the company's risk profile and/or are involved in supervisory duties and auditing, under the Guidelines on the interpretation of §77a, section 1, No. 5, in the Financial Business Act. Any bonus below DKK 100.000 is paid in full in year 1, if the total variable pay is below 100.000 DKK<sup>2</sup>.

For employees employed in SE Branch, whose actions can impact on the risk level of ERV Nordic, at least 60 % of the variable remuneration mentioned above shall be deferred for at least 3 years. The earliest date on which the deferred component may be paid should be determined by the risks to the long-term, sustainable performance of the business in which the employee is active. The firm can decide that a deferred payment shall be cancelled in part or in full if at a later date it is demonstrated that the employee did not fulfil the performance criteria. The firm should also be able to refrain from paying deferred variable remuneration if its position is significantly weakened, in particular if the firm no longer is considered to be able to continue conducting business or if it needs to receive government funding in accordance with the Swedish Government Support to Credit Institutions Act (2008:814).

The postponed installments of a granted bonus can only be paid out if the criteria that formed the basis of the bonus are still met at the time of the payment of each installment and on the condition that the relevant person has fulfilled relevant demands to fit- and properness and has not been involved in or responsible for any behavior resulting in significant loss and finally that the financial situation of the company is not significantly impaired compared to the financial situation at the time the bonus was granted.

ERV Nordic can refrain from paying out variable pay partly or in whole, if the company doesn't fulfill the solvency requirements in §§ 126c & 175b in the Danish Act on Financial Business, or if the FSA assesses that there is a reasonable risk thereof. Furthermore, ERV Nordic will not pay out variable pay to the Board of Management, C-function and other employees if the FSA demands that ERV Nordic drafts a plan for restoring the company's financial position, cf. § 248 a in the Danish Act on Financial Business.

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<sup>1</sup> cf. Vejledning om fortolkning af § 71, stk. 1 nr. 9, og §§ 77a-d i lov om finansiel virksomhed, samt bekendtgørelse om lønpolitik samt oplysningsforpligtelser om aflønning i finansielle virksomheder og finansielle holdingvirksomheder.

<sup>2</sup> Analog interpretation of Bekendtgørelse 2016-12-02 nr. 1582 om lønpolitik og aflønning i pengeinstitutter, realkreditinstitutter, fondsmæglerselskaber, investeringsforvaltningsselskaber, finansielle holdingvirksomheder og investeringsforeninger.

At least half of the variable payment must consist of a subordinated debt to the company. Such subordinated debt can at the earliest be collected 6 months after the debt is granted.

The bonus schemes are thus aiming at supporting long-term behavior.

### **3.8 Guidelines for severance pay**

There are no agreements of severance pay with the Board of Directors.

Notice period for Board of Management and C-function are regulated in the individual contract.

For other employees, whose activities have a considerable influence on the company's risk profile and the Chief Internal Auditor, an extension of the notice period has been agreed. Such extended period is individual and can be up to 12 months plus an additional compensation according to the Consolidation Act on Danish Employers' and Salaried Employees' Legal relationship, the Swedish Employment Act (1982:80) or the in-house agreement/collective agreement.

Any severance payments shall be related to performance achieved over the whole period of activity and be designed in a way that does not reward failure. Reference may be made here to the current function.

All severance pay must be approved by the chairman of the Board of Directors.

### **3.9 Publication**

In accordance with Financial Business Act § 77 d, sections 2-4 and the recommendations from the Danish Commerce and Companies Agency's Committee for Corporate Governance ERV Nordic will annually update the website [erv.dk](http://erv.dk) with the current version of the Pay Policy

### **3.10 Control**

The board of directors will at least once a year perform a control on whether the pay policy is complied with, this control will also secure that the Munich Re Group Compensation Policy are complied with. The board of directors will determine the detailed guidelines for the control

The pay policy is approved by the general assembly. It is reviewed annually by the board of directors and revised if necessary. The control of the pay policy is presented at the general meeting for approval.



## 4. Tasks, Responsibilities and Interfaces

### 4.1 Tasks

Whenever variable pay is determined to the group of people which this policy applies to, the above rules must be complied with.

### 4.2 Responsibilities

Responsibilities in relation to this policy, its implementation and updating are allocated as follows:

Board of Directors and Board of Management:

- Definition of additional principles for pay policy within the area of responsibility, if applicable;
- Passing the necessary resolution to adopt this policy;
- Monitoring implementation of this policy;
- Approving material changes to this policy;

Nordic Head of HR & Internal Communication:

- Conducts a thorough assessment with regard to the Company's significance and the resulting requirement of setting up a local compensation committee<sup>3</sup>.
- Ensuring that Board of Management passes the necessary resolution to adopt this policy;
- Ensuring that the Company implements and complies with this policy (including any updates);
- Taking account of local legal requirements, and making amendments as necessary;
- Communicating deviations of this policy from the requirements of sections 3.2 to 3.4 of the MR GCP due to local law to GEA1 via Global HR Strategy & Governance ERGO (GHRCD);
- Determining those persons for whom specific compensation requirements must be complied with;
- Identifying additional local risk takers, where this is required by local law;
- Drawing up compensation schemes for employees within their remit in accordance with compensation requirements stated in sections 3.3 and 3.4 and other relevant regulations, if applicable;
- Disclosing this policy to all employees and updating the pay policy on the website.

The Board of Directors are responsible for the salary agreement and agreement of variable pay if any for the Board of Management and the Chief Internal Auditor.

The Board of Management is responsible for the salary agreements and agreements on variable pay of all other employees mentioned in the policy. All severance pay must, however, be approved by the chairman of the Board of Directors.

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<sup>3</sup> For ERV Nordic the establishment of a local compensation committee is not required since the Compliance Function assist the AMSB in monitoring the Pay Policy.

### **4.3 Interfaces**

There will be an interface between the responsible body or person and the financial department which carries out the actual payment of variable pay.

# 5. Processes, Controls and Reporting Procedures

## 5.1 Processes

The salary process is described in Payroll Process ERV DK Working Instruction and Salary process SE Branch Working instruction.

Board of Management set the targets for the individual bonus schemes. HR is responsible for collecting and for filing the signed schemes. Finance calculates the amount based on the annual result and Board of Management fills in the non-financial targets and the final bonus schemes approved by Board of Management are submitted to HR for payout with the salary.

## 5.2 Controls

The control activities in connection with the execution of salary and bonus administration are following the “4 eyes” principle and the frequency is monthly with regard to salary with each payroll process and annual with regard to bonus. The involved parties are HR, Finance and the Board of Managers. HR controls the salary figures and the CFO controls Finance’s balance, Board of Management approves all bonus scheme payouts before pay-out.

The Board of Directors has the responsibility for compliance with this policy. To fulfil this responsibility, the Board of Directors, has requested the Legal department to overview the process were the variable pay is being granted and paid out each year, and to report if the Policy is being respected or not.

The Pay Policy has to be approved by the General Assembly, together with the guideline with the basis for awarding variable pay.

## 5.3 Reporting lines

HR shall ensure compliance with the pay policy and shall provide a status report to the Head of Legal and Compliance.

Head of Legal and Compliance must check the appropriateness of the implementation concept with respect to the pay policy and report to Board of Directors

## 5.4 Reporting Procedures

Board of Management signs off the final bonus scheme before submitting to HR for pay-out.

For the reporting procedures in connection with the execution of salary and bonus administration are described in the Payroll Process ERV DK Working instruction and Salary Process SE Branch Working Instruction.

The Chairman of the Board of Directors must in his report to the General Assembly explain the payment made to the Board of Directors and Board of Management. The explanation must contain information about the payment in the previous year, the expected payment in the present and coming year.

The annual report must contain the combined payment to each member of the Board of Directors and the Board of Management. The combined payment also includes payment for positions in the Board of Directors or the Board of Management of other companies in the group.

### **5.5 Review of the norm**

The Board of Directors will review the norm every year, and any changes required will be submitted to the general assembly by following the Checklist for the creation or amendment of a norm. The outcome of the review, even in the case of the outcome that no amendments are needed, will be documented in written form and will be made available to the Compliance Function or Internal Audit on demand.

Before the annual review of the norm by the Board of Directors, HR & Internal Communication will review the norm to determine whether any changes are needed to the norm due to any changes in the legal requirements or requirements from the Group. The outcome of this review will be documented in written form and be made available to the Board of Directors.

## 6. Document history

<b>Version</b>	<b>Date</b>	<b>Amended by</b>	<b>Amendments/ Comments</b>
1.0	13 April 2016	Anders Erlandsen	Updated the old version
1.1	18 April 2016	Anders Erlandsen	Amendments from Compliance Officer
1.2	15 September 2016	Anders Erlandsen	Changes due to answer from the FSA
1.3	05 January 2017	Anders Erlandsen	Changes due to new executive order
1.4	19 February 2018	Niklas Lewenhard Gren	Changes due to the merger of the Danish and the Swedish entity.
1.4	11.04.2018	N/A	Presented to the BoD
1.4	25.04.2018	N/A	Approved at General Assembly
1.5	26.11.2018	Annica Westerman	Updated with amendments
1.5	12.12.2018	N/A	Presented to the BoD
1.5	08.04.2019	Judith Nielsen Marchl	Minor editorial changes
1.5	26.04.2019	N/A	Approval at General Assembly
2.0	03.12.2019	Leela Voigt-Jalving	Merged with Munich Re's compensation policy
2.0	11.12.2019	N/A	Presented to the BoD