

ARAG ALLGEMEINE VERSICHERUNGS-AG

2016 Solvency and Financial Condition Report



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Key Figures

Gross premiums written:

€ **176** million

Net income for the year (before profit transfer):

€ **14** million

Combined ratio:

92.7 %

Eligible own funds:

€ **222** million

Solvency capital requirement:

€ **66** million

Solvency ratio:

334.9 %

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Summary

The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established more than 80 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products. At the end of 2016, the Group sold its shares in ARAG Lebensversicherungs-AG as part of a strategic realignment to focus squarely on property and health insurance. The sale is subject to approval by the German Federal Financial Supervisory Authority (BaFin). The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 17 countries (Germany, 14 other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It generates sales revenue and premiums of approximately €1.8 billion and employs more than 4,000 people. ARAG SE is responsible for strategic Group management and the legal insurance operating business at both domestic and international levels. The other ARAG insurance and service companies are responsible for the operational management of their respective lines of business. ARAG Holding SE manages the assets and is the parent company of the Group from a company law perspective.

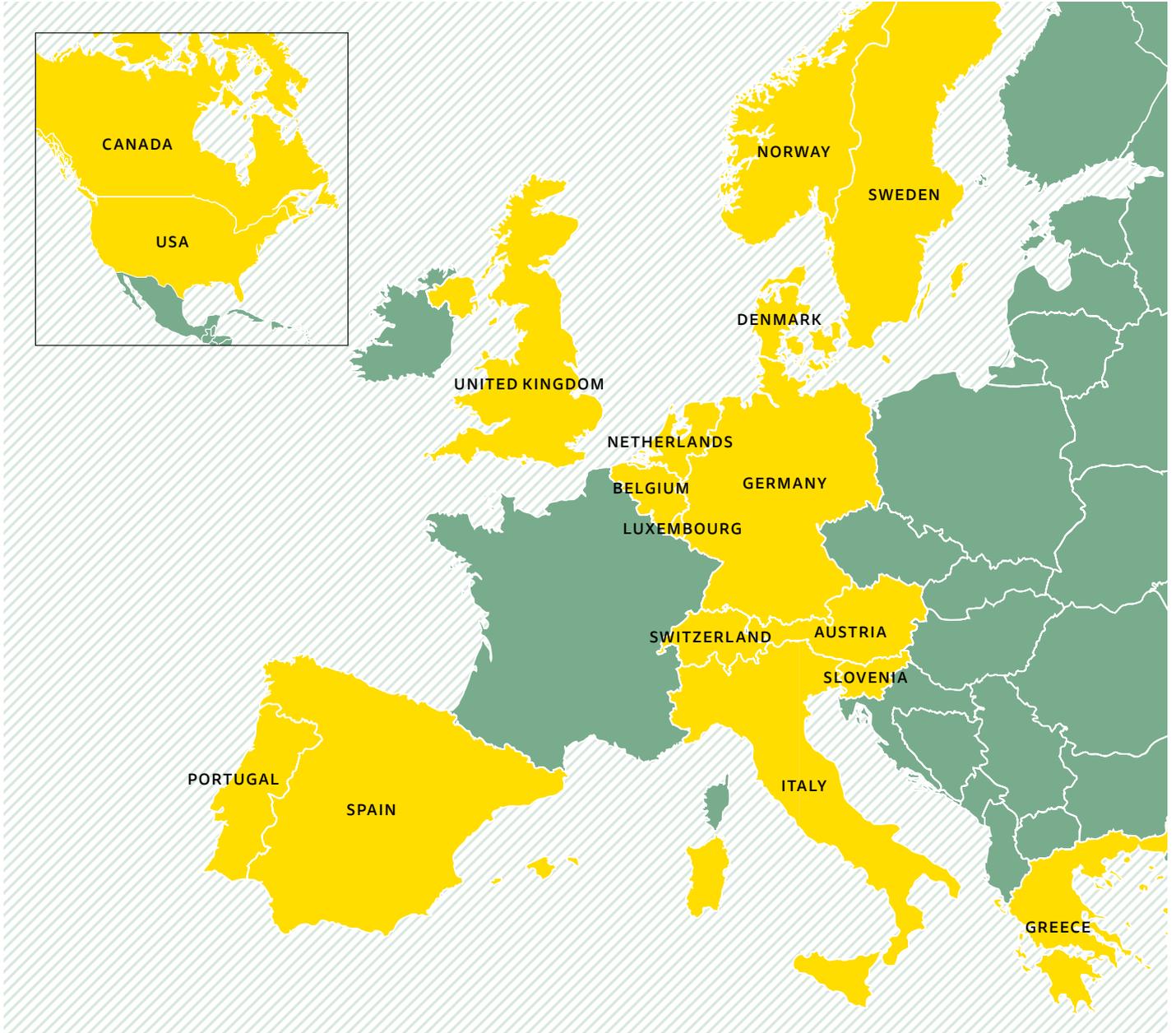
ARAG Allgemeine offers modular insurance cover for general accident insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to its predominantly private and small business customers. ARAG Allgemeine also considers itself to be a partner of the sports community, based on long-established ties in this area of business. The Company's objective is to provide needs-based insurance cover for clubs and associations involved in sports and the arts, most of which are insured under group policies.

In the period under review, ARAG Allgemeine increased its premiums by 4.4 percent to €175.869 million. The insurance segments with the strongest premium volumes are general accident insurance (€48.008 million) and liability insurance (€41.406 million).

Due to the effect of the addition to the equalization provision, the underwriting result after the equalization provision decreased to €7.322 million. By contrast, the net gain under gains and losses on investments rose by a substantial €1.921 million to €8.914 million, partly as a result of the reversal of write-downs on securities and partly because of lower depreciation, amortization, and write-downs on the investment portfolio at the end of the year. The Company generated net income for the year before profit transfer of €14.019 million, a good result that was slightly below the figure for 2015.

The new European regulatory regime, Solvency II, came into force for all insurance companies on January 1, 2016 and is aimed at harmonizing regulation and affording customers greater protection. It contains rules on capital adequacy, risk management, and reporting. Valuations for solvency purposes are based on market values, whereas under accounting rules pursuant to the German Commercial Code (HGB), assets are recognized at their carrying amounts in accordance with the prudence principle. Consequently, some parts of the report cannot be compared with each other. A reconciliation of the line items is

Countries in which the ARAG Group operates



provided in chapters D. 'Valuation for Solvency Purposes' and E. 'Capital Management'. This report does not contain any comparisons with the previous year because the Solvency II rules are new and the report for the year ended December 31, 2016 is thus the first of its kind.

In a process lasting five years, ARAG Allgemeine made use of the options made available by the supervisory authorities and developed a partial internal model for which it obtained certification from BaFin in December 2015 in time for the start of Solvency II. ARAG Allgemeine is one of only a small number of German insurers that have successfully completed the certification process, which is a particularly good achievement given its size. As a result of approval being granted, the Company is able to measure its risks in a way that is tailored to its business and manage them accordingly in order to provide customers with greater protection. ARAG Allgemeine uses an internal model for market risk, non-life underwriting risk, and counterparty default risk. This enables the conservative investment policy and the interdependencies of the individual risk exposures to be reflected appropriately in the risk calculation. In addition, the modeling benefits from the expertise that has been accumulated over many years of providing insurance with a clearly defined product and underwriting policy and from the extensive proportional and non-proportional reinsurance program.

In connection with the introduction of Solvency II, ARAG Allgemeine has not only completely redesigned how it values risk but also updated its operational and organizational structure. It thus has a governance system with an appropriate structure and complexity that is based on the organization's relationship with the risks assumed. ARAG Allgemeine makes use of the following key functions that have been created at Group level as autonomous, independent functions: Compliance, Internal Audit, the Actuarial function, and Risk Management. In this regard, the Company has been guided by German legislation and also complies with European directives and recommendations from various bodies and organizations, as well as with internal policies governing processes, roles, and responsibilities.

ARAG Allgemeine's risk profile is shaped by the two internally modeled major risks: market risk and underwriting risk. The solvency capital requirement for market risk, which is the more dominant, is €56.428 million. The drivers are equity risk and interest-rate risk. Underwriting risk, for which the solvency capital requirement is €13.751 million, is mainly influenced by premium and reserve risk. ARAG Allgemeine's overall solvency capital requirement is €66.414 million. To cover the solvency capital requirement, ARAG Allgemeine has eligible own funds of €222.431 million, giving a coverage ratio of 335 percent. ARAG Allgemeine thus has a very high level of capital adequacy, a clear sign of the Company's excellent financial strength.

A. Business and Performance

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A.1 Business

Legal basis

ARAG Allgemeine Versicherungs-Aktiengesellschaft was founded in Saarbrücken, Germany, on January 5, 1962 as Terra Allgemeine Versicherungs-Aktiengesellschaft. Headquartered in Düsseldorf, it has been entered in the commercial register of the Düsseldorf local court under the number HRB 10418 since June 13, 1965. Its contact details are:

ARAG Allgemeine Versicherungs-Aktiengesellschaft
ARAG Platz 1, 40472 Düsseldorf, Germany

Tel: +49 (0)211 98 700 700
Fax: +49 (0)211 963 2850
Email: service@ARAG.de
Website: www.ARAG.com

Supervisory authority

The contact details of the authority that supervises ARAG Allgemeine and the ARAG Group as a whole are:

Bundesanstalt für Finanzdienstleistungsaufsicht
Gaurheindorfer Strasse 108, 53117 Bonn, Germany
Postfach 1253, 53002 Bonn, Germany

Tel: +49 (0)228 4108 0
Fax: +49 (0)228 4108 1550
Email: poststelle@bafin.de
De-Mail: poststelle@bafin.de-mail.de
Website: www.bafin.de

Auditor

The contact details of the appointed auditor are:

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft
Moskauer Strasse 19, 40227 Düsseldorf, Germany

Tel: +49 (0)211 981 0
Fax: +49 (0)211 981 1000
Email: webkontakt_anfragen@de.pwc.com
Website: www.pwc.de

Structure of ARAG Allgemeine

ARAG Allgemeine Versicherungs-AG belongs to the ARAG Holding SE Group, Düsseldorf, due to the existence of a controlling interest within the meaning of section 16 (1) in conjunction with (4) of the German Stock Corporation Act (AktG). ARAG Allgemeine is included in the consolidated financial statements of ARAG Holding SE. The consolidated financial statements of ARAG Holding SE are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection. ARAG Allgemeine does not prepare its own consolidated financial statements and group management report, as the consolidated financial statements and group management report of ARAG Holding SE have an exempting effect pursuant to section 291 HGB.

In 2006, ARAG SE, Düsseldorf, acquired the remaining shares in the Company from ARAG Holding SE, Düsseldorf. Since then, ARAG SE has held all the shares in ARAG Allgemeine and thus has a controlling interest within the meaning of section 16 (1) AktG. ARAG SE has notified ARAG Allgemeine of this controlling interest in accordance with section 20 (1) and (4) AktG. ARAG Holding SE indirectly holds a majority interest in ARAG SE. ARAG Allgemeine is therefore indirectly controlled by ARAG Holding SE and is a dependent entity within the meaning of section 17 (1) AktG in accordance with article 9 (1) of the Regulation on the statute for a European company (SE) of November 10, 2001 in conjunction with section 17 (2) AktG.

ARAG Allgemeine and the parent company holding all of its shares entered into a profit-and-loss transfer agreement on October 31, 2006. Given this profit-and-loss transfer agreement with the controlling entity, there was no requirement, as permitted by section 316 AktG, to prepare a report on relationships with affiliated companies in accordance with section 312 AktG. From the net income for 2016, a profit of €14.019 million (2015: €15.015 million) will be transferred to ARAG SE.

ARAG Allgemeine entered into a profit-and-loss transfer agreement with Interlloyd Versicherungs-AG, Düsseldorf, with effect from January 1, 1999. In the year under review, this led to the absorption of losses of €115 thousand (2015: €877 thousand) by ARAG Allgemeine.

List of the main affiliated companies

Name	Legal form	Headquarters	Direct share	Group's share
1 ARAG 2000 Grundstücksgesellschaft bR	GbR (partnership under the German Civil Code)	Düsseldorf	25.00 %	94.79 %
2 ARAG Service Center GmbH	GmbH (private limited company)	Düsseldorf	20.00 %	100.00 %
3 Interlloyd Versicherungs-AG	AG (stock corporation)	Düsseldorf	100.00 %	100.00 %
4 ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG	KG (limited partnership)	Düsseldorf	50.00 %	100.00 %
5 ALIN 2 GmbH & Co. KG	KG	Düsseldorf	100.00 %	100.00 %
6 ALIN 2 Verwaltungs-GmbH	GmbH	Düsseldorf	100.00 %	100.00 %

Description of the main affiliated companies

1. ARAG 2000 Grundstücksgesellschaft manages the plot of land at ARAG Platz 1, 40472 Düsseldorf, where the ARAG Group's headquarters are located.
2. ARAG Service Center GmbH operates the customer service center for all German insurance companies in the ARAG Group. It provides telephone services outside office hours along with international claim settlement services. It also acts as a mediator in the resolution of legal disputes.
3. Interlloyd Versicherungs-AG is a wholly owned subsidiary of ARAG Allgemeine Versicherungs-AG and, like its parent company, operates the casualty and property insurance business. Unlike its parent company, however, it operates its business through insurance brokers rather than directly. Interlloyd Versicherungs-AG also has a branch in Spain.
4. ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG is a company whose object is to acquire – directly or through special-purpose companies – and to finance, develop, and remarket both land that has been built on and undeveloped land.
5. ALIN 2 GmbH & Co. KG is a company whose purpose is to establish, hold, manage, and realize a portfolio of passive investments including, but not limited to, equity investments in companies with a similar object.
6. ALIN 2 Verwaltungs-GmbH is a company whose main object is to hold an equity investment in, and be the general and managing partner of, ALIN 2 GmbH & Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.

Line of business

ARAG Allgemeine offers modular insurance cover for general accident insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to its predominantly private and small business customers.

ARAG Allgemeine provides a broad spectrum of competitive products in which the variable modules allow the policyholders in the target groups to obtain precisely tailored insurance cover and minimize their risks exactly in accordance with their requirements.

Examples include the 'Recht&Heim' all-round cover product (with legal, liability, home contents, and residential buildings insurance modules) and the 'Business Aktiv' product for commercial policyholders (separate commercial general liability insurance and contents insurance including business interruption cover that complement business legal insurance).

The Company also offers the 'ARAG Haushalt-Schutz' product, which offers all-round protection for private households. Modular components such as cycle theft cover (which includes 24-hour cycle theft protection and loss compensation at the replacement value of the cycle), innovative electronics cover (with payment of the replacement value for electrical or gas equipment up to two years after purchase), insurance for glass breakages, or the home special service package can be combined with each other to meet policyholder requirements.

ARAG Allgemeine also considers itself to be a partner of the sports community, based on long-established ties in this area of business. The Company's objective is to provide needs-based insurance cover for clubs and associations involved in sports and the arts, most of which are insured under group policies. The extra services provided by the Company continue to represent a key factor in the successful performance of this business line. These services include product benefits focused on the wishes and needs of recreational sports and claims processing support.

The territory covered by ARAG Allgemeine includes the Federal Republic of Germany and, for some classes of insurance, Spain and the United Kingdom. The UK business is operated by a branch established in 2016.

Insurance portfolio

At the end of the year under review, the portfolio of direct insurance contracts comprised 863,300 policies (December 31, 2015: 859,310 policies). Of this total, 861,242 policies (December 31, 2015: 859,310 policies) were attributable to the business in Germany, while the UK branch accounted for 2,058 policies. In addition to its head office in Düsseldorf, ARAG Allgemeine maintains 15 offices at insured state sports associations and one office at the German Ski Association.

Significant business or other events in the reporting period

In 2015, ARAG Allgemeine received authorization from BaFin to use a partial internal model from January 1, 2016 onward to calculate its solvency capital requirement. Following the successful completion of the project phase covering the preparation for Solvency II and the development phase for the partial internal model, the testing phase also demonstrated that the partial internal model is used extensively in the Company and plays a key role in corporate management.

ARAG Allgemeine is one of only a small number of German insurers that have successfully completed the certification process, which is a particularly good achievement given its size.

The management of underwriting risk in line with the risk involved and the market risk assumed represents a significant success factor for ARAG Allgemeine. Only by using a partial internal model is it possible to model the special features of ARAG Allgemeine's business structure in line with the risk and to calculate the capital requirement accordingly. The use of the partial internal risk model will be an important contributing factor in helping ARAG Allgemeine to sustainably enhance its competitiveness over the long term.

No reportable events or transactions took place during the year under review.

A.2 Underwriting Performance

Once again, ARAG Allgemeine achieved a level of premium growth significantly above the market average, confirming the premium turnaround that it reached several years ago. Despite fierce competition in the insurance market and at times difficult conditions in the financial environment, premium growth was strong at 4.4 percent.

Income from gross premiums written amounted to €175.870 million in the year under review (2015: €168.476 million). This increase was more than sufficient to offset the fall in premium income in the motor insurance segment. Given the sometimes ruinous price wars involved in attracting new motor insurance business, ARAG Allgemeine ceased writing new insurance in this segment back in its 2010 year-end business and entered into a strategic sales partnership with Helvetia Schweizerische Versicherungsgesellschaft AG. Since then, ARAG has been marketing Helvetia motor insurance policies. In return, Helvetia acts as a broker for the sale of new legal insurance and special service packages on behalf of companies in the ARAG Group.

Premium income in the domestic direct business grew by 3.5 percent. If motor insurance is excluded, the increase in direct business in Germany was as much as 4 percent. The income from gross premiums written in motor insurance declined again, decreasing by €545 thousand or approximately 14 percent. The reason was ARAG Allgemeine's withdrawal from the motor insurance business, as described above.

In the domestic business for the organization as a whole, income from gross premiums written grew by approximately 3.9 percent year on year (2015: 3.8 percent). The most significant proportions were accounted for by general liability, composite residential buildings, and home contents insurance. One of the most notable features in these classes of insurance was the significant expansion in the number of policies involving 'Recht&Heim' all-round cover. It is therefore clear that there was once again a positive impact in 2016 from the action initiated by the Company over the last few years, particularly the action aimed at revamping and bringing a strategic focus to the product portfolio. The lapse rate in organizational business held steady compared with 2015, remaining at a low level of 7.5 percent as a result of a number of factors, including policy renewals involving the premium 'Recht&Heim' product.

In sports business, ARAG Allgemeine sees itself as a partner of the sports community and plays a leading role in this area of activity in Germany. Although this business typically tends to be rather stable, the Company was able to achieve noticeable premium growth of €861 thousand.

In the inward reinsurance business, gross premiums written advanced by 4.4 percent to €29.413 million. The rise in premium income in the inward reinsurance business was accounted for by the long-term growth in the wholly owned subsidiary Interlloyd Versicherungs-AG, with which ARAG Allgemeine holds a quota-share reinsurance treaty. Interlloyd Versicherungs-AG's quota share of 50 percent remained unchanged in the year under review.

The premiums earned for own account amounted to €168.212 million in the year under review (2015: €162.766 million).

Heavy rain was one of the factors with a significant negative impact on the entire insurance industry's level of claims incurred last year. However, ARAG Allgemeine remained largely unaffected by these extreme weather phenomena in 2016, which tended to affect only specific regions. As a result, the number of reported claims in the composite residential buildings insurance segment dropped by more than 800. Across all lines of insurance in the organization business, claims reported for 2016 were down by more than 4 percent year on year. However, there was a strong countervailing effect from the greater need for provisions for claims incurred but not reported (IBNR claims) and for benefit reserves for annuities. As a result, the overall gross claims ratio increased slightly, from 50 percent in 2015 to 51.9 percent in the year under review.

Insurance business operating expenses increased in 2016, primarily due to the increase in premium income and the resulting additional commissions incurred. A change to the discount rate applied in the calculation of defined benefit obligations had a countervailing effect. Under the new rules, the average market interest rate for the past ten financial years is applied, whereas previously the average for the past seven financial years was used. This change had a favorable one-off effect on insurance business operating expenses. Overall, the gross cost ratio fell to 37.5 percent (2015: 38.5 percent).

The volume of outward reinsurance, measured on the basis of insurance premiums paid, rose by €940 thousand in 2016 to €5.992 million. The reinsurance program was not subject to any material changes. It continued to be focused on using non-proportional reinsurance agreements to minimize the risk from large claims and accumulation. The reinsurers benefited from greater reversals of unused claims provisions and improved their positive underwriting result significantly, from €1.873 million in 2015 to €6.311 million in 2016.

In 2016, the underwriting result before the equalization provision amounted to €12.345 million (2015: €17.114 million), and was therefore well below the 2015 figure. In accordance with the calculation requirements specified in the German Regulation on the Accounting of Insurance Undertakings (RechVersV), a sum of €5.024 million was added to the equalization provision (2015: €2.458 million) on the basis of the trends in claims and premiums. The underwriting result for own account in 2016 therefore amounted to €7.322 million (2015: €14.656 million). The net combined ratio of 92.7 percent (2015: 89.3 percent) confirmed the profitability of the operating business.

Detailed information is provided in the following table:

Underwriting result

	Total insurance business		Direct insurance business (total)		Accident insurance		Liability insurance		Motor liability insurance	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Gross premiums written	175,870	168,476	146,456	140,313	48,008	47,928	41,406	39,954	2,369	2,612
Gross premiums earned	174,188	167,745	145,010	139,822	48,042	47,815	40,834	40,248	2,369	2,612
Net premiums earned	168,212	162,766	139,048	134,860	46,705	46,753	38,781	38,397	2,140	2,382
Gross expenses for claims	90,238	83,875	75,263	68,505	24,629	17,420	15,870	15,491	1,695	1,046
Gross insurance business operating expenses	65,275	64,620	53,359	53,008	15,515	15,684	16,106	15,996	289	435
of which front-end fees	15,101	14,539	13,086	12,730	0	0	0	0	0	0
of which administrative expenses	50,174	50,081	40,273	40,278	0	0	0	0	0	0
Reinsurance balance	6,325	1,891	6,311	1,873	840	-906	4,284	3,400	-146	-936
Underwriting result for own account before equalization provision	12,345	17,114	10,630	16,740	7,799	16,248	4,695	5,406	544	2,081
Underwriting result for own account after equalization provision	7,322	14,656	7,966	15,601	7,799	16,248	3,270	2,354	1,097	3,483
Gross technical provision (total)	267,816	257,516	226,352	219,818	89,884	86,618	75,652	76,238	19,601	20,344
of which gross provision for outstanding claims	194,433	190,660	177,983	175,392	84,380	81,003	56,844	59,376	15,954	16,127
of which cancellation provision	1,655	1,815	1,320	1,470	386	447	308	345	21	27
of which equalization provision and similar provisions	46,258	41,235	28,185	25,522	0	0	13,135	11,709	3,626	4,179
Number of insurance policies with a term of at least one year	863,300	859,310	863,300	859,310	167,238*	168,380*	306,785*	292,862*	8,339	10,726
Technical interest income for own account relating to benefit reserves for annuities (1.75 percent)	595	565	595	565	590	564	5	0	1	1

* These insurance segments contain 18 group contracts (2015: 18) with 20,789,020 insured risks (2015: 20,721,002).

A.3 Investment Performance

The turmoil in international financial markets at the start of 2016, the unexpected result of the Brexit referendum in the United Kingdom last summer, and the surprising outcome of the US presidential election have not had a lasting detrimental effect on the pace of global economic growth. Although the vote for Brexit and the new political regime in the US created heightened uncertainty in financial markets for a time, the impact on the real economy has been limited so far.

In the eurozone, the expansionary monetary policy of the European Central Bank (ECB) has played a key part in economic growth. The proportion of government bonds with negative yields over the medium to long term has risen sharply. Purchase programs for government bonds and other securities have been hugely expanded in the past two years. Quantitative easing led to devaluation of the euro on the one hand and a significant increase in prices of equities, real estate, and other assets on the other. The continuation of the ECB's expansionary monetary policy is impacting on current income from securities. Interest rates on low-risk investments even dropped into negative territory at times.

As a consequence, ordinary income from investment fund shares/units sank from €9.313 million in 2015 to €8.145 million in the year under review. In response to low interest rates and as a consequence of market valuations of non-fungible investments, it was possible to reverse write-downs on investment fund shares/units in an amount of €1.603 million (2015: €0.00). At the same time, interest-rate-induced write-downs on securities amounted to only €199 thousand (2015: €1.768 million). Net gains on the investments of ARAG Allgemeine were up by €1.920 million year on year, reaching €8.914 million.

Detailed information about investment performance is provided in the following table:

Gains and losses on the investments of ARAG Allgemeine

(€'000)	2016	2015	Change
Income from equity investments	61	25	36
Income from land	933	764	169
Income from other investments	8,145	9,313	-1,169
Expenses for the management of investments	977	998	-21
Income from profit-transfer agreements	0	0	0
Expenses from the transfer of losses	115	877	-763
Ordinary gains and losses on investments	8,048	8,227	-179
Income from reversals of write-downs	1,603	0	1,603
Depreciation, amortization and write-downs of investments	199	1,768	-1,569
Gains on the disposal of investments	63	1,100	-1,038
Losses on the disposal of investments	-5	0	-5
Technical interest income	595	565	30
Extraordinary gains and losses on investments	867	-1,233	2,100
Net gain on investments	8,914	6,994	1,920

A.4 Performance of Other Activities

Other net income/expense includes staff costs and general and administrative expenses that were not allocated to an insurance or investment-related function in accordance with function-based accounting (distribution of secondary costs). These are expenses that are incurred on behalf of the Company as a whole (e.g. remuneration for members of supervisory bodies, the auditor's fees, general costs for legal advice and tax advice, or interest expense for provisions for pensions and other post-employment benefits) or that arise from the performance of services for other Group companies and third parties. The following table provides an overview of other net income/expense:

Other income

(€'000)	2016	2015	Change
German			
Income from services	1,095	1,143	-48
Miscellaneous income	2,515	395	2,120
Total German	3,610	1,538	2,072
International branches	0	0	0
Offsetting of income from services of the international branches	0	0	0
Total income	3,610	1,538	2,072

Other expenses

(€'000)	2016	2015	Change
German			
Expenses for services	1,948	3,108	-1,160
Sundry expenses	3,841	5,042	-1,201
Total German	5,789	8,150	-2,361
International branches	22	0	22
Offsetting of the expenses for services of the international branches	0	0	0
Total expenses	5,811	8,150	-2,339
Other net income/expense	-2,201	-6,612	-4,411

A.5 Any Other Information

The preceding chapters contain all of the important information about business and performance.

B. System of Governance

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B.1 General Information on the System of Governance

ARAG Allgemeine Versicherungs-AG's clear corporate objectives and the strategy aimed at achieving them provide a clear operational framework both for senior management and for employees. At the same time, they enable each employee to make his or her own valuable contribution to achieving the objectives. The strategy and objectives were developed in collaboration with senior management and are consistent with the overarching business idea.

The ARAG Group and its German companies have a dual management and control system comprising the Supervisory Board and Management Board. A transparent organizational structure with clearly defined roles and responsibilities provides the optimum framework for the successful implementation of the business strategy. The main responsibilities, together with the related processes and reporting lines, have been documented in writing and agreed upon with the relevant committees at the different levels. The documentation can be accessed by those who need to use it. The resulting guidelines are reviewed at least once a year to ensure that they are up to date and are actively communicated.

In terms of scope, the operational and organizational structure reflects the business lines and areas. The sales channel mix, the extent of the different underwriting risks, and the degree of internationalization all play an important role in this regard.

The Group encourages a well-developed risk-taking culture and a strong understanding of risk at all levels. The deliberate assumption of risk is of course part of an insurance company's business activities. Continual refinements in all areas are necessary in order to manage this process successfully, not only for the Company but also for customers. This affects firstly the risks assumed, which evolve in a constantly changing environment and require the Company to develop new solutions over time. But the Company and the organization itself are also exposed to processes of continual change and development, particularly as a result of regulation, the market environment, and the competitive situation. ARAG provides continuing professional development (CPD) activities – both internal and external – for all employees and all senior managers to ensure that the organization is always equipped to rise to the latest challenges and can proactively tackle emerging risks.

The Company also ensures that employees always have the necessary knowledge and information about processes to be able to carry out their tasks properly. They are assisted in this by an information system that provides comprehensive, robust, clearly defined, consistent, timely, and relevant data on the various business activities and on the related risks that are deliberately assumed. Moreover, the clear reporting lines ensure that information is communicated promptly in such a way that those receiving it are able to immediately recognize the significance of the information and formulate the necessary steps to be taken in their area of responsibility. The security, completeness, and confidentiality of the information are of course maintained at all times.

The Company has structured its system of governance in such a way that its business activities can be managed soundly and conservatively in line with the business and risk strategies. As part of its overall responsibilities, the Management Board ensures that there is an orderly system of governance in place, so that it:

- Is effective, is fit for purpose, and – in terms of its nature, scope, and complexity – is commensurate with the Company's business activities
- Ensures compliance with laws, regulations, and regulatory requirements
- Ensures sound and prudent management of the Company
- Has an adequate, transparent organizational structure with clearly allocated and separated responsibilities
- Has an effective inhouse communications system
- Is regularly reviewed.

The responsibilities of the Management Board of ARAG Allgemeine are organized as follows: 'Sales/Operations/Claims/Sports Insurance' and 'Risk Management/Controlling/Finance and Accounting'. Each area of responsibility is assigned to a specific member of the Management Board.

The Supervisory Board is responsible for appointing and monitoring the Company's Management Board. To facilitate the decision-making process, the Supervisory Board has delegated individual tasks to the Finance Committee and Human Resources Committee.

By the nature of its remit, the Finance Committee deals mainly with investment decisions and fundamental strategic decisions on asset allocation. The Finance Committee also discusses business decisions involving the Company's portfolio.

By the nature of its remit, the Human Resources Committee deliberates primarily on personnel matters relating to the members of the Management Board. As well as appointing, dismissing, and reappointing Management Board members, this also involves discussing the remuneration system, target achievement, and evaluation of targets.

The establishment of controls in the Company lies at the heart of the system of governance. These controls are mainly carried out by the four key functions: Risk Management, Compliance, Internal Audit, and the Actuarial function. ARAG Allgemeine Versicherungs-AG has outsourced these key functions within the Group to ARAG SE. As these functions are kept strictly separate from the operational departments, they can perform their duties objectively and independently. Moreover, they have a direct reporting line to the relevant Management Board member and can also communicate directly with the Supervisory Board. The employees in these functions have the knowledge they need to be able to carry out their tasks adequately.

Risk management

The tasks of the independent risk control function are performed by the Group Risk Management Central Department. It operates at an overarching level and reports directly to the member of the Management Board of ARAG SE responsible for Group Risk Management and Group Controlling. As part of the risk management system that is in place, this department is responsible for the risk management process, which includes submitting regular reports to the Management Board. Its work does not include the operational management of risks, which is carried out directly by the relevant managers and process owners in compliance with internal rules. All risk-relevant decisions to be made by the Management Board take into account the information and opinions of the Group Risk Management Central Department.

Compliance

The tasks of the compliance function are performed by the Group Legal/Compliance Central Department. It operates at an overarching level and reports directly to the member of the Management Board of ARAG SE responsible for the Central Group Functions. The main compliance task is to draw up guidelines and policies designed to ensure legal requirements are fulfilled and corporate objectives are achieved. Responsibility for implementing the guidelines and policies lies with the individual managers. The Chief Compliance Officer advises the Management Board on compliance with laws and administrative regulations and submits regular reports to the Management Board on his or her work.

Internal audit

Internal audit tasks are performed by the Group Audit Central Department. It operates at an overarching level and reports directly to the member of the Management Board of ARAG SE responsible for the Central Group Functions. The Group Audit Central Department is a process-independent function that examines and assesses structures and activities within the Group. This auditing is carried out on behalf of the Management Board and covers all processes relating to business operations. The Group Audit Central Department has to assess and evaluate the integrity, propriety, effectiveness, efficiency, and adequacy of the internal control system. Audit findings are presented to the members of the Management Board in the form of an audit report.

Actuarial function

The Actuarial Function department is responsible for the actuarial functions. It operates at an overarching level and reports directly to the Chief Risk Officer. The department is essentially responsible for verifying the methodology used to calculate the technical provisions and for ensuring the adequacy of the underwriting and reinsurance policies. This includes verifying the methods applied, the assumptions made, and the data used as well as validating the partial internal model. The department submits reports on its findings to the Management Board and the supervisory authority.

Remuneration of the administrative, management, and supervisory bodies

As a core element of the Company's system of governance, the remuneration of the members of the governing bodies – and that of all those working for the Company – is based on the principles of appropriateness and transparency and is focused on sustainability.

This includes ensuring that the remuneration of members of governing bodies and employees is consistent with market rates and individual performance, and therefore appropriate. Those responsible for remuneration in the Company monitor remuneration levels in the relevant market and make changes accordingly, taking account of the performance of the individual employees and members of the governing bodies.

Transparency means that the general principles of the remuneration policy are disclosed to all employees. But it also means that remuneration structures are designed to be only as complex as necessary and as simple as possible.

Sustainability is ensured by adequately aligning the remuneration structure with the Company's business strategy and risk profile.

Risks for the Company arising in relation to remuneration are managed effectively. For example, particular attention is paid to avoiding, as far as possible, any conflicts of interest that could arise between the individual tasks assigned to an employee or member of a governing body and their remuneration structure. Suitable measures are also put in place to prevent such risks materializing.

The remuneration of the Company's Management Board members comprises a fixed basic salary and a variable element. The remuneration fulfills the regulatory requirements, primarily that the fixed remuneration is calculated in such a way that the member of a governing body is not heavily dependent on the variable element. The variable element, which is divided into short-term and long-term components, is equivalent to a percentage of the basic salary. The relevant targets are based on a mixture of objective Group and Company key performance indicators drawn from the strategic planning and of individual targets for each member of the governing body. The weighting of the targets is defined beforehand. Target achievement in respect of each target is capped at predefined limits. The variable remuneration never exceeds the basic salary.

ARAG does not have any share plans or share option programs for members of governing bodies or for employees. Supervisory Board members receive only fixed remuneration for their work.

The Company grants members of the Management Board (or their surviving dependents) rights to a retirement pension, a widow's/widower's pension, and an orphan's pension. The retirement pension is calculated as a percentage of pensionable salary, which equates to the basic salary (excluding bonuses, remuneration in kind, etc.). There is also a cap on the absolute maximum amount. The widow's/widower's pension is equivalent to two-thirds of the retirement pension; the orphan's pension for each child is equivalent to one-third of the widow's/widower's pension. The total of the surviving dependents' pensions is limited to the amount of the retirement pension.

Early retirement arrangements are not made with Management Board members. However, the Company is entitled to make them retire five years before the standard retirement age with the contractually agreed deductions. The Management Board members do not have a corresponding right themselves.

B.2 Fit and Proper Requirements

The requirements for members of governing bodies, the CEOs of the Company's international branches, and other people in key functions are set out below.

Management Board members/CEOs of international branches

To ensure they are fit for the role in terms of their professional suitability, these people are required to have the professional qualifications, knowledge, and experience that ensures they can manage the Company soundly and prudently at all times. This calls for adequate theoretical and practical knowledge of insurance business and, in the case of managerial tasks, for sufficient leadership experience. Management Board members must be familiar with all of the material risks to which the Company is exposed and must be able to assess their potential impact.

Besides having the essential expertise in the individual areas for which they are responsible, all members of the Management Board must, as a minimum, have knowledge, skills, and experience pertaining to insurance and financial markets, business strategy and business models, the system of governance, financial analysis and actuarial analysis, the regulatory framework, and the regulatory requirements. Each individual member of the Management Board is expected to have not only specialist knowledge of the areas for which he or she is responsible but also adequate knowledge in all of the aforementioned areas. This is so that they can monitor each other's work.

Many years of experience working in the insurance industry or in another financial services company are crucial requirements for this role, as are managerial experience and the willingness to undertake continuing professional development.

The aforementioned qualifications also apply to the CEOs of the Company's international branches *mutatis mutandis*, i.e. they must also have in-depth knowledge of the insurance and financial markets, business strategy and business models, the system of governance, financial analysis and actuarial analysis, the regulatory framework, and the regulatory requirements. However, this knowledge must relate primarily to the particular branch for which they are responsible. They also need to know about the domestic market in which their branch operates.

One standard benchmark is used to assess whether members of governing bodies, CEOs of international branches, and other people in key functions are personally suited to their role. Someone is assumed to be of good repute ('proper') if there is nothing to indicate the contrary. Someone is assumed not to be of good repute if, based on general life experience, his or her personal circumstances justify the assumption that these circumstances might negatively affect the careful and proper performance of his or her role or of the tasks assigned to him or her. The factors considered are personal behavior and business conduct with regard to criminal-law, financial, property-law, and regulatory aspects. The laws of both Germany and other jurisdictions apply.

The Company's Supervisory Board assesses whether a potential Management Board member meets the 'fit and proper' requirements. This assessment is based not only on personal interviews but also on the candidate's CV – which should be informative and, in particular, contain details of all of his or her previous jobs – and associated documents. Good repute is checked by obtaining a criminal records check and an extract from the central register of companies and by having the candidate complete, sign, and submit to the Company a form requesting details about his or her good repute.

The Company's Management Board assesses whether Branch CEOs meet the 'fit and proper' requirements. In other respects, the information pertaining to Management Board members applies *mutatis mutandis*.

Supervisory Board members

The members of the Supervisory Board must have the necessary knowledge, skills, and experience to be able to perform their monitoring role. They must always have the expertise needed to adequately monitor and oversee the Management Board and to actively support the Company's growth. Each member must therefore understand the Company's business and be able to assess the relevant risks. He or she must also be familiar with the main statutory requirements applicable to the Company. The individual members are not required to have specialist knowledge. However, they must be capable of identifying when they need to take advice and of obtaining this advice. In any case, the expertise of the Supervisory Board as a whole must cover investments, underwriting, and financial reporting. Having the necessary professional suitability entails undertaking continuing professional development.

Before the Annual General Meeting appoints someone to the Supervisory Board, both the potential Supervisory Board member and the Supervisory Board that proposed the candidate are expected to make sure that the potential member is sufficiently qualified. The special requirements published by BaFin apply to employee representatives.

With regard to the assessment of whether someone is of good repute, the information pertaining to Management Board members/Branch CEOs applies *mutatis mutandis*.

Key functions

The people working in key functions must have extensive knowledge and many years of experience of working in their particular field. They must also have sufficient managerial experience. Because of the overlapping nature of many areas of the business, it is important that they have not only extensive knowledge of the work carried out in their own central department but also adequate knowledge of other departments with which they come into contact. In addition, the people in key functions must have very good knowledge of the relevant operating processes, business systems, and the insurance industry. It is also essential that they are willing to undertake continuing professional development.

Job applicants must submit a detailed CV so that their career history and relevant previous experience can be examined. For both internal and external candidates, recruitment is based on a structured assessment process in which internal and external auditors assess their specialist and interdisciplinary qualifications in an assessment center. Each candidate's professional suitability is assessed individually, taking all the circumstances into consideration. The Management Board of the individual company is responsible for assessing whether people in key functions meet the 'fit and proper' requirements.

If outsourcing officers are appointed, the same fundamental requirements apply. However, the critical factors here are the requirements profile and, particularly in the case of internal candidates, relevant prior experience.

With regard to the assessment of whether someone is of good repute, the information pertaining to Management Board members/Branch CEOs applies *mutatis mutandis*.

Continuing professional development as an ongoing process

The responsible departments in the Company check whether all of the aforementioned members of governing bodies and holders of key functions undertake the necessary continuing professional development and document the activities undertaken.

Cause for reassessment

ARAG's Fit&Proper guidance defines circumstances that will result in a reassessment of whether someone is deemed 'fit and proper'.

The general rule regarding professional suitability is that the type and extent of any action to be taken by the Company depend on the supposed/actual shortcoming of the individual member of a governing body or holder of a key function. For example, he or she may be asked to undergo further training in a particular subject area. In extreme cases, however, the Company may consider removal from office or dismissal.

Doubts about personal suitability are investigated without delay. If there are circumstances that, based on general opinion, indicate that someone is not of good repute, the appropriate people within the Company will take immediate action. This action depends on the specific case in question and, above all, on the severity of the alleged or proven misconduct and may be temporary or permanent.

B.3 Risk Management System Including the Own Risk and Solvency Assessment

The assumption of risk is the core business of ARAG as an insurer. This means that its activities aimed at achieving its strategic business objectives naturally involve taking on risks in order to achieve the desired success. To deal with these risks, ARAG has implemented a risk management system of which the operational risk management process forms the core element. Taking a multifaceted approach, including a risk strategy, a limit system, and an own risk and solvency assessment (ORSA), ARAG ensures that its risk management activities to control its business operations remain within the prescribed risk-bearing capacity requirements.

Based on the business strategy, the Management Board specifies the risk strategy and defines the capital adequacy requirements and the required limits for the Company. Risks are therefore managed in the round, ensuring at all times that the overall risk profile is consistent with the risk strategy. The Supervisory Board deliberates on these matters and receives regular reports on the risk situation.

To implement the risk strategy, the Company has implemented a risk management system, which is the responsibility of the risk management function that has been delegated to ARAG SE. This function is performed by the Group Risk Management Central Department. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level and therefore performs the role of an independent risk control function. The Chief Risk Officer of ARAG SE is responsible for the implementation of the risk management system in all Group companies. Group Risk Management bears process responsibility for the risk management system and, by means of quarterly risk reports to the Management Board, ensures that there is comprehensive transparency with regard to the risk position and any changes. Group Risk Management is also responsible for refining the risk management system and for drawing up proposals for uniform standards to be applied throughout the Group. The remit of the central department also includes developing models for determining risk-bearing capacity, solvency capital requirements, and the allocation of solvency capital.

Decisions about whether or not to pursue opportunities and/or take on risk are made in the operating units. The roles and responsibilities of all the people involved in the process, such as members of the Management Board, managers, local and central risk controllers and managers, are clearly defined and documented in the ARAG Group's risk management guidelines.

The core element of the risk management system is the risk management process, comprising the identification, analysis, measurement, management, and monitoring of risk as well as risk reporting.

Risk identification

The aim of risk identification is to identify the emergence of new risks or changes in existing risks at an early stage and to assess them using a standard procedure. For example, risks arising in connection with the development of new markets or the launch of new products are identified, analyzed, assessed, and submitted to the Management Board for decision using an appropriate cross-functional new-product process. Corresponding processes have also been put in place for new investment products and reinsurance instruments. These procedures are also integrated into the existing limit and monitoring processes.

Risk analysis

To ensure risks are managed appropriately, the influencing factors determining the relevant exposures on the Solvency II balance sheet are examined. These influencing factors are regularly validated to check that they are appropriate for the measurement of risk.

Risk assessment

All identified risks are constantly quantified using suitable methods and on the basis of systematically captured and continuously updated data. This process also includes checks to ensure that the risk profile is within the specified limits.

The key element in this process is the solvency capital requirement calculated for all quantified downside risk (value-at-risk). The purpose is to ensure that unexpected losses are covered. A partial internal model is used to calculate the solvency capital requirement. The model calculates the maximum loss from risk exposures covered in the model within a specific holding period (one year in this model) and with a specified level of probability (99.5 percent in this model). The loss could arise as a result of unfavorable movements affecting investments or as a result of unexpected developments in the insurance business. The methodology is regularly reviewed using backtesting and validation tests. Stress tests are also continually carried out in respect of the risk exposures.

Risk management

The Company's approach is to manage risk where it arises. Operational management of risk is thus carried out by the managers and process owners in those departments where the risks occur. Risk management consists of implementing measures to reduce, mitigate, transfer, and diversify identified and analyzed risks.

Risk monitoring and reporting

A key element of risk monitoring is examining changes in the risk profile over time, focusing on risk-bearing capacity and utilization of the limits. The risk-bearing capacity of the Company is determined on the basis of the aggregated solvency capital requirement and the eligible own funds that are available. This takes into account the regulatory and internal requirements regarding minimum cover. The actual utilization of limits is determined by reconciling the individual risks assumed and the aggregated risk with the specified limits.

To calculate the limits, the minimum coverage ratio determined by business policy requirements and the eligible own funds are used to determine the maximum permitted solvency capital requirement for the Company. The Management Board sets an overall limit in accordance with its risk tolerance. This overall limit is then apportioned to the risks.

The results from the risk monitoring process and the associated recommendations for action are reported to the Management Board promptly, without restriction, and on a continual basis.

Own risk and solvency assessment (ORSA)

The annual review of the ORSA policy provides the starting point for all regular ORSA processes. After the ORSA framework has been defined, risks pertaining to the strategic positioning are analyzed. This analysis consists of a top-down assessment based on the outcome of the strategic dialog followed by a bottom-up assessment conducted by the managers involved.

The second risk analysis examines the Solvency II balance sheet, which provides the input for calculating the solvency capital requirements (SCR) and serves as the basis for projecting the balance sheet line items and related solvency capital requirements.

The result is a ranking of the identified risks. For the sake of completeness, the risk model used is also assessed on the basis of the results from validating the internal models and from assessing the assumptions used in the standard formula.

The Management Board is actively involved in the ORSA process. Using the budgeted figures signed off by the Management Board, the Solvency II balance sheet and the solvency capital requirements are projected beyond the strategic planning period. The results of the risk analysis and the projections are used to determine the overall solvency requirement.

All results are aggregated in the ORSA report and signed off by the Management Board. Once approved, the report is sent to all the relevant responsible parties so that they can incorporate the results into their decision-making processes.

In addition to workshops at which the Company's strategic positioning is discussed with the Management Board members, the Management Board also makes decisions on key elements of the ORSA process (e.g. stress tests). The Management Board is thus always aware of relevant developments affecting the risk profile. In the event of a significant change to the risk profile, the Management Board can trigger an ORSA process on an ad hoc basis.

Governance of the partial internal model

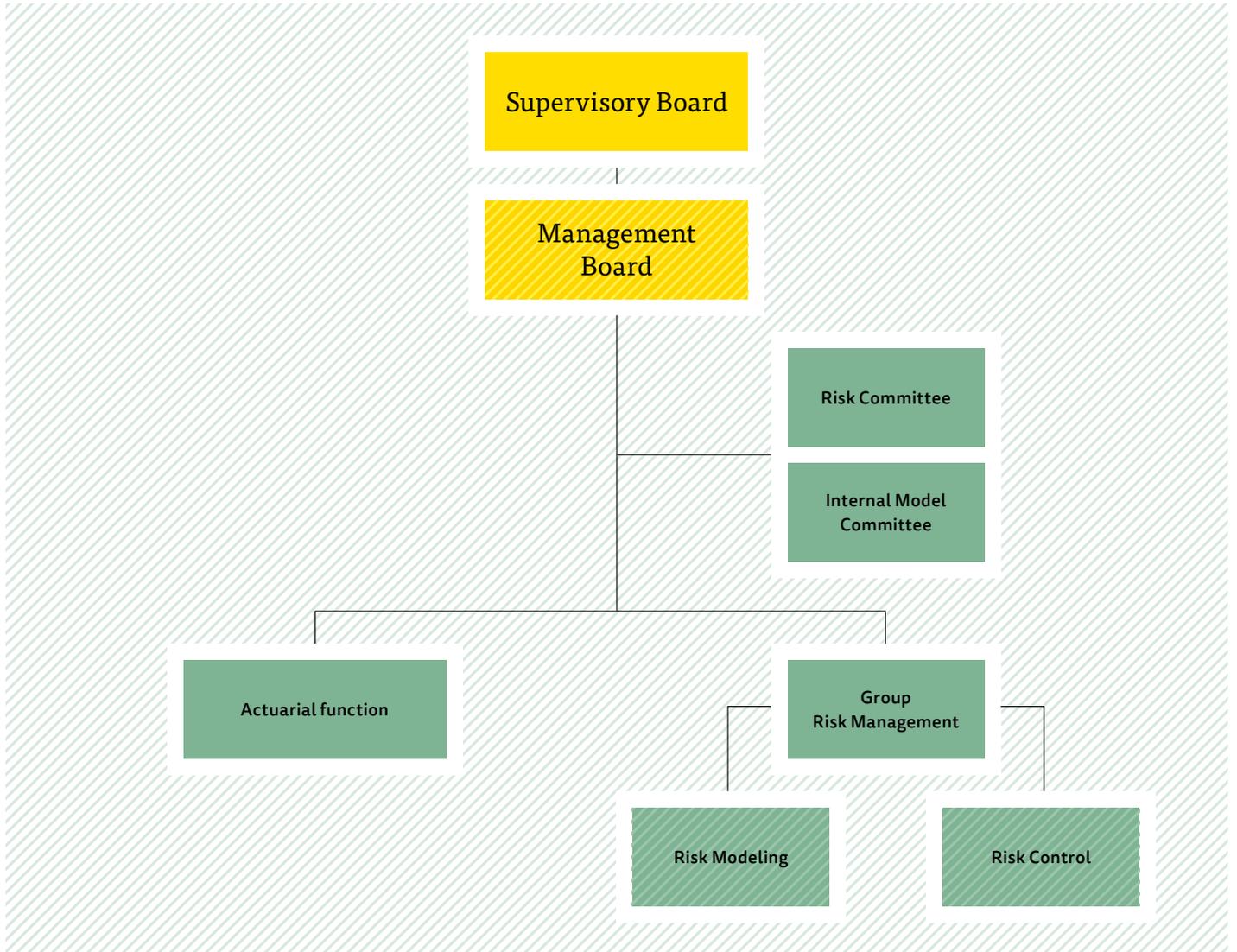
The Management Boards of the companies in the ARAG Group have formed a Risk Committee (RiCo) in order to incorporate the partial internal model into corporate management.

The Risk Committee's main task is to assist the individual Management Boards with performing their risk management tasks in accordance with all statutory and internal requirements. In particular, this includes the establishment and monitoring of the Group-wide risk management system. To ensure the regulatory requirements concerning the use of a partial internal model are met in day-to-day operations, the Risk Committee has set up a subcommittee, the Internal Model Committee (IMC). The Risk Committee and Internal Model Committee act in both an advisory capacity and a decision-making/monitoring capacity that are clearly defined in the internal guidance.

A regular validation process ensures that ARAG Allgemeine's partial internal model is always effective and its specifications are appropriate. Responsibility for validating the model lies with the Actuarial function. By assigning the task of model validation to this department, ARAG Allgemeine ensures the necessary independence of the validation process. Moreover, this organizational decision reflects the size and complexity of the Company.

Validation involves using qualitative and quantitative processes to check whether the results and forecasts of the partial internal model are sufficiently accurate. Both the mathematical and statistical methods used in the model and the governance processes relating to ARAG Allgemeine Versicherungs-AG's partial internal model are verified. At the end of the annual validation cycle, the Actuarial function submits a comprehensive validation report to the Allgemeine Versicherungs-AG Management Board, which makes sure that the partial internal model is suitable for measuring solvency in accordance with Solvency II and can be used as a basis for management decisions and corporate management.

The Risk Committee's position within the organization



B.4 Internal Control System

Internal control system

ARAG Allgemeine defines the internal control system (ICS) as follows:

“The internal control system refers to all control and monitoring mechanisms as well as other measures that help to support the effectiveness and profitability of business activities and to identify and minimize risk at an early stage. It also ensures compliance with the applicable laws and regulations, all regulatory requirements, and internal rules.”

The ICS is based on the principles, functions, processes, measures, and policies implemented by the Management Board and on statutory and regulatory requirements that ensure the decisions of the Management Board are implemented operationally. ARAG Allgemeine pursues four main objectives with its internal control system:

- Ensuring legal conformity: The internal control system is designed to create and maintain compliance with the organizational framework that ensures that statutory and regulatory requirements are implemented.
- Helping to maintain the independence of the ARAG Group: The internal control system is designed to help with identifying and reducing risks that may jeopardize the continued independence of the ARAG Group.
- Creating the framework for using the partial internal model in accordance with Solvency II: The internal control system is designed to create the regulatory environment required for use of the partial internal model under Solvency II.
- Ensuring the effectiveness and profitability of business activities: Thanks to a functioning operational and organizational structure, the internal control system contributes to effective and profitable business activities.

Organizational structure of the ICS

An organizational structure that is transparent and appropriate to the Company's risk profile requires tasks and responsibilities to be clearly defined and delineated. Clear rules have to be imposed about who in the Company is responsible for tasks and who is responsible for signing off decisions. Above all, conflicts of interest between the establishment of risk exposures and the monitoring and control of these exposures must be avoided.

The Management Board occupies a special position within the organizational structure because it is responsible for ensuring an orderly and effective system of governance and thus for ensuring that the Company's risk management and its internal control system are appropriate and effective. This means that the Management Board is directly responsible for the ARAG Group's ICS. *Vis-à-vis* third parties, it is responsible for the appropriate specification of the internal control system, i.e. its design, establishment, integrity, and monitoring as well as ongoing adjustments and refinements.

The Management Board has delegated the day-to-day running of the entire ICS to the responsible managers at ARAG Allgemeine, i.e. the Senior Vice Presidents (in Germany) and Branch CEOs (internationally). ARAG Allgemeine structures its internal control system in accordance with the 'three lines of defense' model:

First line of defense The first line of defense is formed by all employees and managers in operational roles. Responsibility for risks and processes lies with the Senior Vice Presidents and Branch CEOs. If an organizational unit does not have a Senior Vice President, responsibility lies with the Vice President. The people in this first line are directly responsible for the risks and processes in their departments. In the risk control process, the risk managers are responsible for identifying and evaluating the risks in their area.

Second line of defense The monitoring of the business and central units is carried out by various interdisciplinary functions (Group Controlling Central Department, Group Legal/Compliance Central Department, Group Risk Management Central Department, and the Actuarial function) that are also part of the organizational structure of the ICS. They specify standards for the design and monitoring of controls and for the handling of risk.

Third line of defense The Group Audit Central Department conducts internal audits of the functions in the first and second lines of defense within the ARAG Group. The Group Audit Central Department is also the internal auditor for the Group companies that have appointed it to this role.

Operational structure of the ICS

As part of the internal control system's operational structure, the processes relevant to the ICS are documented using a process and control system. This is made up of three elements: the process map (providing an overview of the overall operational structure), the process documentation, and the annual approval process. Processes are classified as being relevant to the ICS on the basis of the following criteria:

- Processes that, if not implemented, will jeopardize the achievement of ARAG Allgemeine's targets (e.g. due to high financial losses, significant loss of reputation, sanctions imposed by the supervisory authority)
- Frequent/high-volume processes (particularly those tying up a large amount of employee capacity)
- Processes relating to a department's main tasks
- Processes that have to be documented by law.

Compliance

Because of their intangible nature, insurance products require customers to place a great deal of trust in their insurance company. The leap of faith that customers have to make is based on the expectation that ARAG Allgemeine as an insurance company will comply with the contractual arrangements and legal requirements and, moreover, will measure itself by its own high standards. Customers also need to be able to rely on the Company having adequate and systematic management, control, and sanctioning mechanisms in place to ensure that it lives up to its value proposition. The ARAG Group's compliance management system therefore focuses on fulfilling these objectives.

The compliance function, which has been outsourced to ARAG SE, is part of the Group Legal/Compliance Central Department at Group level and is the responsibility of the CEO. Although the Compliance Officer submits reports to the Management Board as a whole, he or she is directly and exclusively accountable to the CEO of ARAG SE.

The Risk Management, Compliance, and Internal Audit functions regularly share information with each other. This helps to ensure a risk-appropriate compliance structure, avoid duplication of work, and take account of the findings of the other functions when action is to be taken. Furthermore, the Compliance function is regularly audited by Internal Audit.

At Group level, there is also a Compliance Steering Group to which the managers in the following areas belong:

- Company data protection officers
- Internal audit
- IT Security
- Corporate Communications
- Risk Management.

This committee holds interdisciplinary discussions on compliance-relevant matters and coordinates management measures. The steering group meets regularly – and on an ad hoc basis if required – and can be expanded to include additional managers if necessary or reduced for reasons of efficiency.

B.5 Internal Audit Function

In accordance with a service agreement, ARAG SE performs all internal auditing tasks – in particular the actual auditing but also the reporting – for ARAG Allgemeine Versicherungs-AG. The exception is the fundamental decision, which is still the responsibility of the Company's Management Board, about the manner in which internal auditing is set up and carried out.

Group Audit assists the Management Board of ARAG Allgemeine with corporate management and helps it to fulfill its managerial and monitoring duties. Group Audit ensures that auditing activities are carried out professionally and in a manner appropriate to the risk situation, in relation to both the Company's targets and its operations.

Following the orders issued by the Management Board, Group Audit examines the operational and organizational structure as well as the internal control system for all operating and business processes from a risk perspective.

The Management Board ensures that Group Audit carries out its duties autonomously and independently of the units that it audits, particularly in respect of its audit planning, audit procedures, and evaluation of audit results.

To ensure that it is able to fulfill its role and responsibilities properly, Group Audit does not get involved in operational processes. It is not permitted to assign tasks to employees of Group Audit that would conflict with Group Audit's independence within the ARAG Group, nor are they allowed to carry out non-auditing work or operational activities. Group Audit itself does not have any authority to issue instructions to employees in other departments.

To avoid conflicts of interest, ARAG Group Audit does not conduct any project-related audit procedures. Its involvement in projects is limited to an advisory role, in particular regarding the design of the ICS. Group Audit does not sign off the results of (sub) projects. This safeguards its independence and ensures it does not have any responsibility for the outcome of the projects in question.

B.6 Actuarial Function

The Management Board of ARAG Allgemeine Versicherungs-AG has appointed ARAG SE's Actuarial function to perform the actuarial function under a service agreement. The Actuarial function is directly accountable to the member of the Management Board of ARAG SE responsible for Group Risk Management and Group Controlling. It acts independently of the units at ARAG Allgemeine Versicherungs-AG with profit-and-loss responsibility. Its core tasks include ensuring that the methods, models, and assumptions used to calculate the technical provisions are appropriate. In addition, it ensures the appropriateness of ARAG Allgemeine's underwriting, contracting, and reinsurance policies. The Actuarial function has also been assigned responsibility for validating ARAG Allgemeine's partial internal model, so it plays an important part in implementing the risk management system.

To ensure that they are able to fulfill the tasks assigned to the Actuarial function adequately, the head of the Actuarial function and his or her employees must be able to communicate with all relevant employees at ARAG Allgemeine independently. They therefore have unrestricted access to the information that they need to complete their tasks and are notified of relevant matters promptly, including on an ad hoc basis if necessary. Each year, the Actuarial function submits an Actuarial function report to the Management Board containing information about the results of the work of the Actuarial function carried out over the year. Above all, this report provides evidence that the appropriateness of ARAG Allgemeine's technical provisions, underwriting and contracting policies, and reinsurance agreements is assured. Besides this general reporting channel, the head of the Actuarial function is also able to report directly to the Management Board and Supervisory Board of ARAG Allgemeine Versicherungs-AG if necessary.

B.7 Outsourcing

ARAG defines any kind of outsourcing as “an agreement in any form between an insurance company and a service provider, on the basis of which the service provider carries out a process, service, or task directly or by outsourcing it to another company that the insurance company would otherwise carry out itself; the service provider may or may not be subject to regulatory supervision”. This includes services previously carried out by the insurance company itself and services that the insurance company could carry out itself.

Apart from the Management Board’s own tasks (in particular ensuring a proper system of governance and making strategic decisions), all activities can in principle be outsourced to service providers within or outside the Group. The outsourcing of a key function represents a special situation, however. The Management Board has to appoint an outsourcing officer for the outsourced function who is responsible for the proper performance of the key function by the service provider and has to meet the ‘fit and proper’ requirements because of his or her monitoring role. This applies regardless of whether the service provider is an external company or a Group company. Where outsourcing within the Group takes place, no less care is taken in respect of the outsourced projects and their monitoring and control, for example by the service provider’s dedicated points of contact. Outsourcing within the Group may justify a more flexible approach in individual cases if this involves fewer risks than with outsourcing to an external company. Nevertheless, it is still essential that service activities in the individual Group companies are adequately separated from an organizational perspective. In general, ARAG Allgemeine ensures that outsourcing never has an adverse impact on the proper performance of the outsourced functions or insurance activities, on the Management Board’s ability to manage and control them, or on the supervisory authority’s ability to verify and control them. Moreover, the monitoring of the service provider by the supervisory authority is ensured at all times.

Apart from service provision and operations, ARAG Allgemeine Versicherungs-AG has outsourced to ARAG SE, i.e. within the Group, all operational activities and, in particular, the key functions of Compliance, Internal Audit, the Actuarial function, and Risk Management. This means that the outsourced functions and activities are still performed under the jurisdiction of German law and under the supervision of BaFin.

The Company has appointed an outsourcing officer for each key function to verify that they are carried out properly by ARAG SE. In all outsourcing arrangements, responsibility for complying with the regulatory requirements always remains with ARAG Allgemeine as the company that is outsourcing its functions.

B.8 Any Other Information

ARAG Allgemeine Versicherungs-AG has established an adequate system of governance based on clear business and risk strategies, an operational and organizational structure that is appropriate to its business activities and risk profile, and an actively encouraged risk-taking culture.

The policies and related processes of the internal control system at ARAG Allgemeine Versicherungs-AG are continually reviewed and updated by the various departments involved – particularly the independent Internal Audit function – and are validated. This ensures that there is always optimum communication between the Supervisory Board, Management Board, key functions, and other senior managers based on short, direct reporting channels and defined escalation procedures. The different hierarchy levels are supported in this by the use of cutting-edge technologies that deliver consistent and reliable data and make information available promptly in a manner that is suitable for the recipients.

ARAG Allgemeine Versicherungs-AG believes that the effective interplay between governance, risk management, and compliance creates the necessary transparency for the supervisory authority, the auditors and, above all, its customers.

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In 2015, following a five-year preparatory phase, ARAG Allgemeine received authorization from BaFin for its partial internal model, on the basis of which it has been calculating its solvency capital requirement (SCR) since the introduction of Solvency II on January 1, 2016. ARAG Allgemeine is one of only a small number of German insurers that have successfully completed the certification process, which is a particularly good achievement given its size.

Using a partial internal model rather than the standard formula results in an appropriate assessment of the conservative risk position and enables ARAG Allgemeine to manage itself effectively in the context of the prescribed strategy. Overall, the partial internal model provides greater protection for customers because risks are recognized adequately.

ARAG Allgemeine uses an internal model for the two biggest risk components: underwriting risk and market risk. The latter includes credit risk attaching to investments. The material risk concentrations are, on the assets side, investments in fixed-income securities and, on the equity and liabilities side, technical provisions.

Stress tests, backtesting, and scenario analysis for risk modules, sub-risks, and individual parameters are conducted as part of model validation, the ORSA process, and other regular analyses. The internally stipulated coverage ratio of 150 percent means that customers are protected by a considerably larger risk buffer than required by the supervisory authority. Various influencing factors were stress-tested and the impact on the coverage ratio in different scenarios was analyzed. Because of the Company's very good capital adequacy, no relevant scenarios were identified that would be a threat to the protection of customers or in terms of the Company's exposure to risk. The findings of the various analyses are discussed in detail with the relevant risk managers and the Management Board and possible solutions for reducing or mitigating risk are drawn up.

The solvency requirements used in the following chapters should be considered in the context of article 297 (2) (a) of Delegated Regulation (EU) No. 2015/35.

C.1 Underwriting Risk

Underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities arising from inadequate pricing and inadequate provisioning assumptions. These losses result from the following risk categories:

- Premium/reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the duration of claims settlement and the amount involved
- Catastrophe risk: significant uncertainties regarding pricing and assumptions in respect of the recognition of technical provisions for extreme or exceptional events
- Lapse risk: changes in the level or volatility of the rates of insurance policy lapses and terminations.

These risks are measured with an internal model. Using a simulation, the losses and adverse changes in liabilities that could occur within one year are forecast. The value of the risk equates to the negative simulation result expected only every 200 years (1 in 200 year event). Each risk is measured separately. For premium and reserve risk, specified criteria are used to aggregate historical losses into groups of risks sharing similar characteristics. These are then used for 200,000 simulations of future unexpected claims and/or required additions to reserves. Likewise, catastrophe risk is assessed by simulating losses that may arise from natural disasters or large claims caused by people. Lapse risk is calculated on the basis of exceptional cancellations in the past. The actual underwriting risk arises from the aggregation of the individual risks, taking diversification effects into account.

To minimize the risks, the Company uses a reinsurance program that focuses mainly on insuring the risk from large claims and accumulation through non-proportional reinsurance treaties. There are also facultative reinsurance arrangements for large risks and special risks. The risk-mitigating effect is expressed by a gross/net comparison.

The solvency capital requirement for underwriting risk is €13.751 million net and €116.527 million gross, the main risk drivers being premium and reserve risk.

C.2 Market Risk

Market risk is the risk of loss or of adverse changes to market prices of assets, liabilities, and financial instruments. The risk arises directly or indirectly from the following sub-risks:

- Interest-rate risk: changes in the term structure or volatility of interest rates
- Equity risk: changes in the level or volatility of the market prices of equities
- Property risk: changes in the level or volatility of the market prices of real estate
- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure
- Migration/default risk: rating level changes or changes in the extent of projected defaults
- Currency risk: changes in the level or volatility of exchange rates
- Concentration risk: all risk exposures with a loss potential that is large enough to threaten solvency or financial position.

These risks are measured with an internal model. An economic scenario generator is used to simulate capital market scenarios looking at interest rates, share prices, real estate prices, credit spreads, credit ratings/defaults, and exchange rates. These risk factors are used to determine the possible fair values of investments in one year's time. The market risk itself results from the 1 in 200 year event considering all risk factors simultaneously, and from concentration risk, taking diversification effects into account.

The strategic asset allocation is defined in order to manage the risks. This allocation is used to optimize the investment portfolio so that the desired risk/return ratio can be achieved. Portfolio management is based on the prudent person principle and follows the related regulatory requirements. Interest-rate risk is contained separately by means of asset-liability management. In addition, derivatives are used within institutional funds to hedge changes in interest rates, share prices, and exchange rates. Investments in hedge funds, the funding of investments by borrowing, and the sale of shares not owned by ARAG Allgemeine (short selling) are not permitted.

The solvency capital requirement for market risk is €56.428 million, the main risk drivers being equity risk and interest-rate risk.

C.3 Credit Risk

While default risk attaching to investments is calculated as part of overall market risk, counterparty default risk in the insurance business is treated as a separate item under credit risk. Counterparty default risk is the downside risk arising from the unexpected default or deterioration in the credit standing of counterparties and debtors of insurance and reinsurance companies during the next twelve months.

Counterparty default risk is measured with the partial internal model. The risk is an aggregation of the solvency capital requirement for receivables from reinsurers and the solvency capital requirement for receivables from policyholders/insurance brokers. This aggregation takes account of specified correlations.

The risk of default on receivables from reinsurers is measured on the basis of the information available and proportionality considerations. The reinsurers' individual credit ratings are explicitly used.

Default risk in connection with reinsurance contracts is managed in accordance with the reinsurance strategy, which is reviewed at regular intervals.

To measure the risk of default on receivables from policyholders and insurance brokers, a constant factor is applied to the fair value of the relevant exposures on the Solvency II balance sheet. Receivables from policyholders are managed by means of an automated reminder and dunning process.

The solvency capital requirement for counterparty default risk is €2.057 million.

C.4 Liquidity Risk

Liquidity risk is the risk that insurance companies are unable to realize investments and other assets in order to settle their financial obligations when they fall due.

Currently, there is no regulatory solvency capital requirement for the coverage of liquidity risk so it is not measured. Instead, the monthly excess liquidity cover and liquidity shortfall are calculated on a rolling basis.

Each line item on the balance sheet is assigned to a liquidity class so that the liquidity of the non-trading portfolio can be adjusted if necessary. To ensure the Company can always meet its due liabilities, most investments are made in the 'available-for-sale at short notice' liquidity class.

The liquidity planning is updated constantly so that liquidity can be managed. The Company thus has early warning of whether it will require liquidity in the coming months. If it becomes apparent that selling securities is also becoming more difficult, the Company responds by increasing the liquidity that it holds as a safety buffer. Further protection is provided by the current investment policy, which stipulates diversification across a broad range of security types and issuers.

C.5 Operational Risk

Operational risk is the risk arising from inadequate or failed internal processes or systems, employee misconduct, or unexpected external events that disrupt or even prevent business operations. Operational risk also encompasses legal risk but does not include reputational risk or risks arising from strategic decisions.

The Company uses the standard formula to determine the solvency capital requirement.

Measurement for operational purposes is derived from the estimated gross and net values of each individual operational risk based on the risk's probability of occurrence and its impact on the income statement. The probability of occurrence describes the likelihood that an operational risk will materialize within a defined period. Both a qualitative and a quantitative estimate of the impact can be prepared. In the case of a quantitative estimate, the risk is classified directly using a risk matrix. With a qualitative estimate, the impact is determined by comparing the risk matrix classification with the class limits. This risk matrix enables the risks to be prioritized. As risks are measured using subjective estimates carried out by experts, the employees responsible have an additional instrument, the loss event database, that helps them to determine the values. This contains data on all loss events that have occurred and their actual impact on the income statement.

Specific measures are agreed upon and carried out at operational level in order to reduce the identified risks. The following strategies for dealing with a risk are possible:

- Accept – no measures to reduce the effects are possible or considered necessary
- Mitigate – the effects are mitigated by taking suitable measures
- Transfer – the effects are transferred to another risk carrier, e.g. by means of outsourcing or reinsurance
- Avoid – measures are taken to avoid the risk, even as far as not carrying out the activities that give rise to the risk.

The strategy put in place is documented and its implementation is monitored on an ongoing basis.

The solvency capital requirement for operational risk is €4.353 million.

C.6 Other Material Risks

The Company is not exposed to any other material risks.

C.7 Any Other Information

The preceding chapters contain all of the important information about the risk profile.

D. Valuation for Solvency Purposes

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The explanation below of each balance sheet line item's valuation methods and their differences starts with a description of their valuation (gross) under the German Commercial Code (HGB) followed by a description of their valuation for solvency purposes and then an explanation of any material differences.

D.1 Assets

Comparison between the Solvency II balance sheet and HGB balance sheet: Assets

Assets as of December 31, 2016

(€'000)

A. Intangible assets

- I. Goodwill
- II. Deferred acquisition costs
- III. Intangible assets

B. Deferred tax assets

C. Pension benefit surplus

D. Property and equipment and land and buildings held for own use

E. Investments

- I. Land, land rights and buildings, including buildings on third-party land
- II. Investments in affiliated companies and equity investments
- III. Equities
 - 1. Listed equities
 - 2. Unlisted equities

IV. Fixed-income securities

- 1. Government bonds
- 2. Corporate bonds
- 3. Structured finance products
- 4. Asset-backed securities

V. Investment fund shares/units

VI. Derivatives

VII. Deposits other than cash and cash equivalents

VIII. Miscellaneous investments

Carried forward:

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	73,059	34,324	38,735
	0	0	0
	0	0	0
	0	0	0
	25,722	24,471	1,251
	48,836	47,415	1,420
	0	0	0
	0	0	0
	74,558	71,886	2,671
	244,123	219,053	25,070
	0	0	0
	88	88	0
	3,049	2,156	892
	394,877	327,508	67,369
	394,877	327,508	67,369

Comparison between the Solvency II balance sheet and HGB balance sheet: Assets

Assets as of December 31, 2016

(€'000)

Brought forward:

F. Investments for the account and at the risk of the policyholder

G. Loans and mortgages

- I. Loans on policies
- II. Loans and mortgages to individuals
- III. Other loans and mortgages

H. Reinsurers' share of technical provisions

- I. Casualty and property insurance
 - 1. Casualty and property insurance excluding health insurance
 - 2. Health insurance similar to casualty and property insurance
- II. Health and life insurance excluding unit-linked insurance business
 - 1. Health insurance
 - 2. Life insurance
- III. Unit-linked life insurance business

I. Receivables

- I. Deposits with ceding insurers
- II. Receivables from direct insurance business
- III. Receivables from reinsurance business
- IV. Miscellaneous receivables

J. Miscellaneous assets

- I. Cash and cash equivalents
- II. Miscellaneous assets

Total assets

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	394,877	327,508	67,369
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	17,026	27,652	- 10,626
	0	0	0
	17,026	27,652	- 10,626
	0	0	0
	6,248	0	6,248
	6,248	0	6,248
	0	0	0
	23,274	27,652	- 4,378
	95	95	0
	10,365	10,365	0
	387	387	0
	8,186	8,186	0
	19,034	19,034	0
	3,272	3,272	0
	11	11	0
	3,283	3,283	0
	440,468	377,476	62,991

No **intangible assets** were recognized on the HGB balance sheet or on the Solvency II balance sheet as of December 31, 2016.

If differences arise between the carrying amounts on the HGB balance sheet and those in the tax base and these differences are expected to reverse in subsequent years, **deferred taxes** are recognized on the HGB balance sheet in respect of these differences using separate entity-specific tax rates determined according to the country in which the registered office of the permanent establishment concerned is situated. This also includes differences for which the timing of the reversal is not yet precisely known or depends on action by the entity concerned, and differences that will only reverse in the event of any liquidation. For the purpose of recognition on the HGB balance sheet, the effects of the reversal of the differences between the HGB balance sheet and the tax base are reviewed in terms of their impact on the basis of tax assessment. Differences that would not be accompanied by sufficient taxable income at the time of reversal or would not be offset by countervailing effects in deferred taxes are not recognized. A simplified tax planning process on the basis of the multi-year planning is used for the evaluation. Loss carryforwards are not included when determining deferred taxes. Deferred tax asset balances from international branches are subject to an individual markdown to factor in the uncertainty regarding the impact on current taxes when the differences reverse. Future tax expense resulting from the reversal effects is always recognized. Deferred taxes from subsidiaries (companies controlled by the parent company and/or with which a profit-and-loss transfer agreement has been concluded) are recognized by the parent company.

The method for calculating deferred taxes for solvency purposes does not differ fundamentally from valuation under the HGB. Again, future income taxes are recognized on the Solvency II balance sheet on the basis of valuation differences compared with the tax base. Deferred taxes already recognized on the HGB balance sheet are not included. As with the HGB balance sheet, the calculation is based on the current income tax rate in the country whose tax laws govern the reversal effect. Deferred tax assets and deferred tax liabilities that arise as a result are always recognized on the Solvency II balance sheet. This is because the deferred tax liabilities are dominant on the Solvency II balance sheet and an analysis of the timing of the reversal effects proves that the time until reversal of the deferred tax expense is shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit, as a result of which the tax benefit will certainly impact on current taxes in the future due to the loss carryforward mechanism in income tax legislation.

As ARAG Allgemeine and ARAG SE form a single entity for corporation tax, trade tax, and VAT purposes, the deferred taxes are recognized at the level of the parent company.

No **pension benefit surplus** had to be recognized as of the end of 2016.

There was no **property and equipment** to recognize.

Investments in affiliated companies and equity investments are valued at cost, in some cases reduced by write-downs to fair value and by specific equity investment risk arising on the equity investments. Write-downs are reversed to no more than the historical cost if the reason for recognizing them ceases to apply. The fair value is determined using an income capitalization approach based on a planning horizon of usually three years. As of December 31, 2016, ARAG Allgemeine's equity investment in Interlloyd Versicherungs-AG, ALIN 2 Verwaltungs-GmbH, and ALIN 2 GmbH & Co. KG was 100 percent in each case. ARAG Allgemeine's holding in ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG was 50 percent and its stake in ARAG Service Center GmbH was 20 percent as of the reporting date. The office tower completed in 2001, in which the Company holds a 25 percent stake through ARAG 2000 GbR, is used by companies in the ARAG Group. In 2016, there was no requirement for the recognition of impairment losses for write-downs pursuant to section 253 (3) sentence 5 HGB that are expected to be permanent nor for the recognition of reversals of write-downs pursuant to section 253 (5) HGB.

For solvency purposes, subsidiaries are valued using the adjusted equity method in accordance with article 13 (3) in conjunction with (4) of the Delegated Regulation. The valuation of the subsidiaries is based on the companies' HGB financial statements. Adjustments pursuant to section 74 of the German Insurance Supervision Act (VAG) are not required.

The equity investment in ARAG 2000 GbR is valued using the adjusted equity method in accordance with article 13 (3) in conjunction with (4) of the Delegated Regulation. The basis for the valuation is the HGB balance sheet of ARAG 2000 GbR, which is revalued using the market values for solvency purposes in accordance with section 74 VAG. An external valuation report provides the basis for valuing the office building. Its current value is determined on the basis of the capitalized income.

The differences between the values recognized in the HGB annual financial statements and those recognized on the Solvency II balance sheet arise from the different valuation methods used for insurance subsidiaries. Under the HGB, the values are limited by the historical costs, which in some cases date back a long way. Valued for HGB purposes, shares in corporations amounted to €6.347 million and shares in partnerships amounted to €27.977 million. Shares in affiliated companies therefore totaled €34.324 million. This figure under the HGB was €38.735 million lower than the figure on the Solvency II balance sheet at the end of last year.

Equities that, overall, are not intended for permanent use in insurance operations are valued at the lower of their cost or quoted market price or market value as of the balance sheet date. This applies even if the quoted market price or market value is only temporarily lower than the cost.

For solvency purposes, equities are valued at their quoted market price or market value. Bonds that are not traded on active markets are valued using alternative valuation models within the meaning of article 10 (5) et seq. of the Delegated Regulation. Securities are valued under the discounted cash flow method using an interest-rate curve and an appropriate spread. If the necessary spread information for the security or issuer is not available, the spread is determined – where available – on the basis of the investment's credit rating; otherwise, the credit rating of the issuer or the sector is used.

Despite the variation in the valuation rules, there were no valuation differences as of the reporting date.

Fixed-income bearer securities that, overall, are not intended for permanent use in insurance operations are valued under the HGB at the lower of their cost or quoted market price or market value as of the balance sheet date. This applies even if the quoted market price or market value is only temporarily lower than the cost.

Registered bonds are accounted for at their nominal or redemption amount. Discounts are deferred using the straight-line method. Premiums are treated as a prepaid expense and recognized in income using the straight-line method over the term to maturity. The economic values of interest-bearing financial instruments are calculated for solvency purposes at the quoted market price or market value that contains the accrued interest income as of the valuation date. Premiums and discounts are not recognized separately.

The amount recognized on the Solvency II balance sheet was higher than on the HGB balance sheet both for government bonds (by €1.251 million) and for corporate bonds (by €1.420 million).

Under the HGB, **investment fund shares/units** that have not been classified as permanent fixed assets are valued at the lower of cost or quoted market price/market value as of the reporting date in accordance with section 341 b (2) HGB in conjunction with section 253 (1) and (4) HGB. In application of the strict principle of lower of cost or market value, write-downs of €199 thousand were recognized on securities in this line item. ARAG Allgemeine may make use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341 b (2) second half-sentence HGB for those institutional investment fund shares/units and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. Subsequent valuation of the investment fund shares/units classified as fixed assets is based on the long-term market value determined in a fund review. Subsequent valuation of the bearer bonds classified as fixed assets is at cost, taking account of the individual debtor's creditworthiness. In 2016, no write-downs were required on these investments. Reversals of write-downs pursuant to section 253 (5) HGB were recognized in an amount of €1.603 million in 2016, whereas no such reversals had occurred in 2015.

In accordance with Delegated Regulation (EU) No. 2015/2450, Annex II, collective investment undertakings (CIUs) in which ARAG Allgemeine's stake is at least 20 percent (Alltri Fonds INKA) are recognized under investment fund shares/units and not under shares in affiliated companies including equity investments. For solvency purposes, the redemption price determined by the investment management company for the investment fund units/shares is used to determine the economic value in accordance with section 56 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV). This value is not restricted to the cost.

The investment funds recognized on the Solvency II balance sheet were €25.070 million higher than their value of €219.053 million on the HGB balance sheet as of December 31, 2016.

ARAG Allgemeine Versicherungs-AG did not have any direct investments in **derivatives** during the reporting year or as of the balance sheet date.

Bank deposits are recognized at their nominal amount. Taking account of the materiality principle, the nominal amount is also used as the economic value.

Because of the identical valuation methods, the value under the HGB and the value for solvency purposes are the same. Bank deposits amounted to €88 thousand as of December 31, 2016, both on the HGB balance sheet and on the Solvency II balance sheet.

Miscellaneous investments are valued at cost, in some cases reduced by write-downs to the lower fair value. The fair value is determined by the net asset value (NAV) published by the investment management company.

For solvency purposes, the net asset value reported by the private equity company is recognized as the economic value, even if it is higher than the cost.

Miscellaneous investments amounted to €2.156 million on the HGB balance sheet. The value on the Solvency II balance sheet was €892 thousand higher than the value on the HGB balance sheet.

There were no **investments for the account and at the risk of policyholders** to be recognized as of the end of 2016.

No **loans or receivables secured by mortgages or land charges, or other lending items** had to be recognized either on the HGB balance sheet or on the Solvency II balance sheet.

To calculate the **amounts recoverable from reinsurance contracts**, the reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements. The proportions of the provision for outstanding claims relating to outward reinsurance business are calculated in accordance with the stipulations in the reinsurance treaties.

For solvency purposes, the amounts recoverable from reinsurance contracts and from special-purpose vehicles are calculated separately for the premiums provision and the claims provision in accordance with article 41 no. 4 of the Delegated Regulation. In order to discount them, ARAG Allgemeine breaks down the amounts recoverable from reinsurance contracts and from special-purpose vehicles according to the payment patterns of the technical provisions (gross). The expected loss arising from the counterparty's default is deducted from the amounts recoverable from reinsurance contracts in accordance with section 86 (3) VAG. Default probabilities pursuant to article 199 of the Delegated Regulation are applied on the basis of the credit rating of the individual reinsurer. This adjustment reflects the assessment of the counterparty's default probability and the resulting average expected loss.

ARAG Allgemeine uses a partial internal model to determine the amounts recoverable from reinsurance contracts and from special-purpose vehicles for the premiums provision. This involves the Company simulating suitable gross/net ratios with stochastic scenarios. The ratios are applied to the best estimate of the premiums provision (gross). ARAG Allgemeine determined the contractual scope of the underwritten reinsurance contracts defined in accordance with article 18 of the Delegated Regulation on a contract-specific basis. It also assumed that the reinsurance structure would remain unchanged going forward and would thus continue to be applicable for the maximum term of the premiums provision.

ARAG Allgemeine also uses the partial internal model to determine the amounts recoverable from reinsurance contracts and from special-purpose vehicles for the claims provision. Based on the best estimate of the claims provision (gross) and the valid reinsurance program, a best estimate (net) of the claims provision is determined using stochastic scenarios.

ARAG Allgemeine validates the calculation of the amounts recoverable from reinsurance contracts and from special-purpose vehicles in accordance with article 264 of the Delegated Regulation annually, or more frequently in some areas. As part of this validation, a comparison with empirical values pursuant to article 83 of Directive 2009/138/EC is carried out.

The value for the reinsurers' share of technical provisions amounted to €27.652 million on the HGB balance sheet; the figure on the Solvency II balance sheet was €4.378 million lower owing to the aforementioned valuation differences.

Deposits with ceding insurers are recognized at their nominal amount, which equates to their cost.

The economic value of those maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is determined using an internal credit rating process based on historical default rates and is reflected in the valuation accordingly.

Deposits with ceding insurers amounted to €95 thousand on both the HGB balance sheet and the Solvency II balance sheet. There were no valuation differences.

Receivables from direct insurance business are generally recognized at their nominal amount. A general allowance for latent credit risk is deducted from receivables from policyholders. Past-due receivables from policyholders that are the subject of court proceedings to recover the debt are written off in full. Receivables from insurance brokers are not written down as they are considered to be recoverable due to significant part payments having already been made.

The economic value of those maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is recognized in accordance with the method used for specific and general allowances under the HGB.

Receivables from direct insurance business amounted to €10.365 million on both the Solvency II balance sheet and the HGB balance sheet.

Receivables from reinsurance business are recognized at the nominal amount of the outstanding balances. In the event of actual default risk relating to rating downgrades, specific allowances are recognized in the amount that is no longer likely to be recovered.

The economic value of those maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is recognized in accordance with the method used for specific allowances under the HGB.

Receivables from reinsurance business amounted to €387 thousand on both the HGB balance sheet and the Solvency II balance sheet, so there were no valuation differences.

Miscellaneous receivables are generally recognized at their nominal amount. In the event of actual default risk relating to rating downgrades, specific allowances are recognized in the amount that is no longer likely to be recovered.

The economic value of those maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is recognized in accordance with the method used for specific allowances under the HGB.

Miscellaneous receivables amounted to €8.186 million on the HGB balance sheet and on the Solvency II balance sheet, so there were no valuation differences.

Cash and cash equivalents are recognized at their nominal amount, which equates to their cost.

There are no valuation differences due to use of the nominal amount as the economic value.

Miscellaneous assets are recognized at their nominal amount, which equates to their cost. Where the other assets constitute rights to payment in connection with corporation tax credits within the meaning of the German 'law on accompanying tax measures for the introduction of the European company and the amendment of further tax legislation' (SEStEG), which came into force in 2006, these receivables were discounted to December 31, 2016 at a discount rate of 4.5 percent.

There are no valuation differences due to use of the nominal amount as the economic value.

D.2 Technical Provisions

Comparison between the Solvency II balance sheet and HGB balance sheet:
Technical provisions

Technical provisions as of December 31, 2016

(€'000)

A. Technical provisions

I.	Casualty and property insurance
1.	Casualty and property insurance excluding health insurance
a)	Technical provisions if calculated as a whole
b)	Best estimate
c)	Risk margin
2.	Health insurance similar to casualty and property insurance
a)	Technical provisions if calculated as a whole
b)	Best estimate
c)	Risk margin
II.	Health and life insurance excluding unit-linked insurance business
1.	Health insurance
a)	Technical provisions if calculated as a whole
b)	Best estimate
c)	Risk margin
2.	Life insurance
a)	Technical provisions if calculated as a whole
b)	Best estimate
c)	Risk margin
III.	Unit-linked life insurance business
1.	Technical provisions if calculated as a whole
2.	Best estimate
3.	Risk margin

B. Other technical provisions

Total technical provisions

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	0	219,891	- 219,891
	107,402	0	107,402
	3,233	0	3,233
	110,635	219,891	- 109,256
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	35,464	0	35,464
	0	0	0
	35,464	0	35,464
	0	0	0
	6,405	0	6,405
	559	0	559
	6,963	0	6,963
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	153,062	219,891	- 66,829
	0	47,925	- 47,925
	153,062	267,816	- 114,754

Gross technical provisions include the provision for unearned premiums, the actuarial reserve, the provision for outstanding claims, the equalization provision, and miscellaneous technical provisions.

Under the HGB, **gross unearned premiums** for direct insurance business are calculated pro rata temporis on the basis of the premiums and cancellations posted, less the installment surcharges.

Accordingly, 85 percent of the commissions and other remuneration for agents is recognized as non-transferable income components. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

The **provision for outstanding claims** is calculated separately for each insurance segment. The provision for outstanding claims is made up of the following partial provisions for each claim event year:

- Provision for claims occurring and reported in the event year (normal claims)
- Provision for claims occurring in the event year and reported in a subsequent financial year (late claims previously not reported)
- Provision for claims occurring in the event year but not yet reported (claims incurred but not reported)
- Provision for claim settlement costs.

The provision for outstanding claims is generally determined individually and measured according to specific requirements. The claims reserve for reported claims is determined and regularly monitored by the responsible claims handlers, who adhere to the following principles:

Principle of individual valuation The provision for outstanding claims (here: reported claims) is recognized in respect of each individual claim. To this end, the responsible claims handler values all liabilities expected to arise from the reported claim in accordance with internal claim reserving guidelines. When the value of the claims reserve is determined, specific features of the individual classes of insurance are taken into account in the calculation of the expected liabilities in accordance with the internal rules on claims handling.

Prudence principle The prudence principle is applied in the valuation of each individual claim. Claim-related facts – e.g. taken from the claim report or a medical expert's report – form the basis for the individual valuation. Furthermore, claim-related eventualities (e.g. the policyholder brings further-reaching claims or additional claimants come forward) and non-claim-related eventualities (e.g. labor market situation, expected price rises caused by inflation, changes to the tax system) are taken into account when measuring the provision.

Nominal amount/no discounting principle All individual reserves are valued at their expected payout amount. They are not discounted to the present value of the future liability.

Continual updating and monitoring of the reserve level The initial reserve for each claim is constantly adjusted during claims handling to reflect the latest information available. This continual updating is based on the latest claims-related information (e.g. correspondence, reports from experts, final and binding legal rulings). Procedural measures ensure that claims for which no new information is available are still regularly reviewed. Each claim is reviewed at least once per quarter.

Realization principle in respect of recourse claims, excess proceeds, and claims under loss sharing agreements The expected receivables from recourse claims, excess proceeds, and claims under loss sharing agreements must be deducted from the nominal amount of the individual claim provision recognized in accordance with the prudence principle. This deduction may only be made if there are no doubts about the legal enforceability of the receivable and if the receivable is deemed realizable after the solvency risk has been examined.

In accordance with section 341g (2) sentence 2 HGB, ARAG Allgemeine's **provision for claims incurred but not reported** is calculated using empirical values regarding the expected number of such claims, the averages for such claims, and settlements in previous years. To determine the expected number of claims incurred but not reported as of December 31 of a particular financial year, late claims statistics are recorded at the level of class of insurance and broken down by year of occurrence. The late claims statistics provide information about the number of such claims in previous event years and the year in which they were eventually reported. These statistics cover the last five event years. A chain-ladder method is used to calculate the expected number of claims incurred but not reported on the basis of the actual figures for the past five event years. The expected average expense for the provision for claims incurred but not reported for the reporting year is based on the mean expense for claims incurred that had previously not been reported for the last five years. This amount is calculated by dividing the sum of the recovery payments for claims incurred that had previously not been reported and the provision for such claims (as valued individually by the claims handlers) by the number of claims incurred that had previously not been reported.

The **provision for claim settlement expenses** is based on the coordinated regulations issued by the German federal states on February 2, 1973. The provision for claim settlement costs is recognized in accordance with section 341g (1) sentence 2 HGB. The benefit reserves for annuities, which are recognized in accordance with actuarial principles, were not included in the calculation. Claim settlement costs comprise both direct costs (e.g. cost of experts or fees for external claims settlement agents) and indirect costs. Indirect costs are the cost of inhouse claims departments and inhouse attorneys, and pro rata expenses for central departments (e.g. accounting, human resources).

The total amount of claim settlement costs is determined for each unit subject to financial reporting requirements on the basis of a multi-level cost allocation sheet. This sheet sets out the main cost centers, one of which will bear the cost of claim settlement. Indirect cost centers (cost centers that bear the primary costs structured by organizational unit within the unit subject to financial reporting requirements) are assigned either directly or indirectly to the main cost centers using appropriate cost allocation keys based on principles of cost causation.

The benefit reserve for annuities contained in the provision for outstanding claims is calculated individually using actuarial principles and in accordance with the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) – based on the prevailing maximum interest rate of 1.25 percent – by the Company's responsible actuary, taking the expenses required for settlement into account.

The claims provisions for inward reinsurance business were recognized in accordance with the information provided by the primary insurer.

The **equalization provision** for direct insurance business and inward reinsurance business is recognized as additional actuarial reserves that can be used to offset fluctuations in the course of business. The calculation is carried out separately for the direct insurance business and for the inward reinsurance business, in each case broken down by class of insurance. The legal requirements for valuation are set out in detail in the annex to section 29 RechVersV.

Miscellaneous technical provisions include the cancellation provision for discontinuation and reduction of risk in direct insurance business, which was calculated using a cancellation rate based on empirical values in the year under review. The breakdown by individual insurance segment is based on the allocation formula for premiums.

The technical provisions in the **valuation for solvency purposes** are determined by the Group Risk Management Central Department. The individual components of the technical provisions are:

- Claims provision (including provision for external claim payments and internal claim settlement costs)
- Premiums provision
- Risk margin
- Amounts recoverable from reinsurance recognized as asset items on the Solvency II balance sheet.

The **claims provision** is calculated for each previously defined homogeneous risk group of ARAG Allgemeine (segments). It contains expected claim payments and claim settlement costs that are necessary for the settlement of claims already incurred. The claims reserve is valued using the standard actuarial reserving methods used in the market: the chain-ladder method, the additive method based on accident-year-independent growth of the claims ratio (AUSQZ), and the Bornhuetter-Ferguson method. Alternative reserving methods may be used in exceptional cases, for example if all three of these methods produce implausible results. The New York method is used to value the claim settlement provision.

The **premiums provision** is made up of the provision for premiums written but not yet earned and the expected profit/loss from in-force policies. The provision for premiums written but not yet earned is recognized in the amount of the present values of the expected claim payments and costs relating to the relevant policies. The expected profit or loss is determined for the outstanding premium income from in-force policies (installment payments and premiums from multi-year policies). Results from the internal model are used for the valuation of these two line items on the Solvency II balance sheet.

The **risk margin** is calculated using the cost-of-capital method described in article 37 of the Delegated Regulation.

Amounts recoverable from reinsurance contracts are very significant to ARAG Allgemeine. The reinsurers' share is determined in the partial internal model by applying the historical and current reinsurance treaties to the gross reserves.

The claims provision recognized on the Solvency II balance sheet is a best estimate, which means it does not include any safety margins. The level of uncertainty in the provision estimate is quantified individually for each homogeneous risk group using a stochastic simulation as part of internal modeling.

Differences in the carrying amounts of the technical provisions under the HGB and those calculated for regulatory purposes arise for the following reasons:

Purpose The overriding principle that shapes the HGB balance sheet is the protection of creditors. This is particularly applicable to insurance companies: Technical provisions therefore have to be recognized in an amount that, according to prudent business practice, ensures the obligations under insurance policies can always be met.

The purpose of the Solvency II balance sheet is to present the economic capital as of the balance sheet date. Obligations are therefore recognized at their likely present value rather than at a prudently calculated nominal amount.

Calculation method The principle of itemized valuation applies to the HGB balance sheet. Therefore, the obligations are inventoried and valued individually using a prudently estimated settlement value. Time and quantity are not explicitly taken into account, but are indirectly factored into the valuation assumptions used to determine the average value of an obligation.

According to the principles of valuation for solvency purposes, the entire portfolio is valued rather than the individual claims. The quantitative data plays only a minor role. The expected payments from the portfolio are estimated as the total of all probable payments until final settlement. This provides an implicit consideration of risk in the valuation of the portfolio. The expected payments are discounted to the valuation date.

Time aspect of valuations The valuation rules under the HGB do not take account of the time to maturity in relation to technical provisions. According to supervisory principles, all payments are discounted to the balance sheet date.

Technical provisions amounted to €153.062 million on the Solvency II balance sheet and €267.816 million on the HGB balance sheet.

D.3 Other Liabilities

Comparison between the Solvency II balance sheet and HGB balance sheet:
Miscellaneous liabilities

Miscellaneous liabilities as of December 31, 2016

(€'000)

A. Contingent liabilities
B. Miscellaneous provisions
C. Provisions for pensions and other post-employment benefits
D. Deposits received from reinsurers
E. Deferred taxes
F. Liabilities from financial transactions
I. Liabilities from derivatives
II. Liabilities to banks
III. Other financial liabilities
G. Other liabilities
I. Liabilities from direct insurance business
II. Liabilities from reinsurance business
III. Trade payables
H. Subordinated liabilities
I. Subordinated liabilities not included in basic own funds
II. Subordinated liabilities included in basic own funds
I. Miscellaneous liabilities
Total liabilities

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	0	0	0
	4,094	2,933	1,161
	38,075	28,599	9,475
	343	343	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	6,041	6,041	0
	757	757	0
	15,665	15,665	0
	22,462	22,462	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	64,974	54,338	10,637

Contingent liabilities arise from taking on a liability, e.g. guarantees, indemnities, miscellaneous warranties, and rediscounted bills of exchange, if, as of the balance sheet date, there is uncertainty as to whether and when they will become actual liabilities. ARAG Allgemeine currently does not have any contingent liabilities that have become a liability that has to be recognized.

For solvency purposes, the contracts entered into that might give rise to a payment obligation or contingent liability are examined. Any identified obligations or liabilities are then valued, taking account of the amount of the possible obligation and its probability of occurrence. The possible effect of the time value of money is also considered. If the value of the contingent liability thus calculated exceeds the defined materiality threshold, the contingent liability is recognized on the Solvency II balance sheet in accordance with article 13 of the Delegated Regulation.

There were no such contingent liabilities as of December 31, 2016.

The **miscellaneous provisions** are recognized in the amount that is necessary according to prudent business practice. If the liability's settlement period is more than twelve months, they are discounted. A long-service provision was recognized in the year under review for long-service awards to be paid to employees. The provision was calculated pursuant to section 253 (2) no. 2 HGB and a residual maturity of 15 years was assumed. The corresponding seven-year average was 3.24 percent. Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles. In 2016, a provision was recognized in accordance with the pre-retirement part-time employment agreement for the private insurance industry dated June 11, 1997 and the pronouncement of the Institute of Public Auditors in Germany (IDW) dated November 18, 1998. The provision was calculated pursuant to section 253 (2) no. 2 HGB and a residual maturity of 15 years was assumed. The corresponding seven-year average was 3.24 percent. In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements was taken into account. A bank guarantee was provided as collateral for the provisions pursuant to section 8a of the German Pre-retirement Part-time Employment Act (AltTZG).

For solvency purposes, provisions for long-service awards, early retirement obligations, and pre-retirement part-time employment obligations are valued using the projected unit credit method (PUC method) as required by International Accounting Standard (IAS) 19. The discount rate is determined on the basis of the yields achieved for senior industrial bonds on the balance sheet date. Expected growth in income (2.5 percent) and the Company's projections for staff turnover (1.5 percent) are taken into account. The amount calculated in this way equates to the economic value pursuant to section 74 VAG. Other provisions are valued on the basis of the best estimate of the expected settlement amount. The residual maturity for all provisions is less than one year. On grounds of materiality, they were not discounted.

Miscellaneous provisions amounted to €2.933 million on the HGB balance sheet and €4.094 million on the Solvency II balance sheet.

In accordance with standard international practice, the **pension benefit obligations (provisions for pensions and other post-employment benefits)** are calculated using the PUC method and applying section 253 (1) sentence 2 HGB on the basis of the 2005 G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. In accordance with section 253 (2) sentence 2 HGB, the discount rate used is the average interest rate for the past ten years published by Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. A discount rate of 4.01 percent was applied for the valuation as of December 31, 2016 (December 31, 2015: 3.89 percent). Reflecting the statutory discount rate in force at the time, the average interest rate for the past seven years had been used in 2015. The difference in the amount prohibited from being distributed, which arises from the application of the percentage rate for the ten-year average rather than the percentage rate for the seven-year average pursuant to section 253 (6) HGB, amounted to €2.988 million at the end of 2016. The following actuarial parameters were used to calculate the obligations: pension age of 63 years, annual increase in salaries of 2.5 percent, annual increase in pension benefits of 1.75 percent, discount rate of 4.01 percent. The level of staff turnover taken into account reflects the generally observable age-dependent average for the industry and has only a minor impact on the settlement value.

For the Solvency II balance sheet, pension benefit obligations are valued using the PUC method as required by IAS 19. The discount rate is determined on the basis of the yields achieved for senior industrial bonds on the balance sheet date. Expected growth in income (2.5 percent), rising pension benefits (1.75 percent), and the Company's projections for staff turnover (1.5 percent) are taken into account. The amount calculated in this way equates to the economic value pursuant to section 74 VAG.

As a result of the valuation differences described, the provisions for pensions and other post-employment benefits were recognized at €28.599 million on the HGB balance sheet and at €38.075 million on the Solvency II balance sheet at the end of the reporting year.

Deposits received from reinsurers are recognized at their repayment amount on the HGB balance sheet.

The economic value of those maturing within twelve months is based on the nominal amount. If the maturity period is longer (more than twelve months), the economic value is determined using the present value method.

Deposits received from reinsurers amounted to €343 thousand on both the HGB balance sheet and the Solvency II balance sheet, so there were no valuation differences as of December 31, 2016.

If differences arise between the carrying amounts on the HGB balance sheet and those in the tax base and these differences are expected to reverse in subsequent years, **deferred taxes** are recognized on the HGB balance sheet in respect of these differences using separate entity-specific tax rates determined according to the country in which the registered office of the permanent establishment concerned is situated. This also includes differences for which the timing of the reversal is not yet precisely known or depends on action by the entity concerned, and differences that will only reverse in the event of any liquidation. For the purpose of recognition on the HGB balance sheet, the effects of the reversal of the differences between the HGB balance sheet and the tax base are reviewed in terms of their impact on the basis of tax assessment. Differences that would not be accompanied by sufficient taxable income at the time of reversal or would not be offset by countervailing effects in deferred taxes are not recognized. A simplified tax planning process on the basis of the multi-year planning is used for the evaluation. Loss carryforwards are not included when determining deferred taxes. Deferred tax asset balances from international branches are subject to an individual markdown to factor in the uncertainty regarding the impact on current taxes when the differences reverse. Future tax expense resulting from the reversal effects is always recognized. Deferred taxes from subsidiaries (companies controlled by the parent company and/or with which a profit-and-loss transfer agreement has been concluded) are recognized by the parent company.

The method for calculating deferred taxes for solvency purposes does not differ fundamentally from valuation under the HGB. Again, future income taxes are recognized on the Solvency II balance sheet on the basis of valuation differences compared with the tax base. Deferred taxes already recognized on the HGB balance sheet are not included. As with the HGB balance sheet, the calculation is based on the current income tax rate in the country whose tax laws govern the reversal effect. Deferred tax assets and deferred tax liabilities that arise as a result are always recognized on the Solvency II balance sheet. This is because the deferred tax liabilities are dominant on the Solvency II balance sheet and an analysis of the timing of the reversal effects proves that the time until reversal of the deferred tax expense is shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit, as a result of which the tax benefit will certainly impact on current taxes in the future due to the loss carryforward mechanism in income tax legislation.

As ARAG Allgemeine and ARAG SE form a single entity for corporation tax, trade tax, and VAT purposes, the deferred taxes are recognized at the level of the parent company.

There were no **liabilities from financial transactions** to recognize at the end of 2016.

Liabilities from direct insurance business are valued at their nominal amount.

Taking account of the materiality principle, liabilities to policyholders and brokers are recognized at their HGB value. The effect of the time value of money on liabilities to policyholders and brokers that have a maturity of more than one year is immaterial.

Liabilities from direct business amounted to €6.041 million on both the HGB balance sheet and the Solvency II balance sheet, so there were no valuation differences.

Liabilities to reinsurers are recognized at their settlement value. There are no differences in their recognition and valuation on the HGB and Solvency II balance sheets. Liabilities from reinsurance business amounted to €757 thousand on both the HGB balance sheet and the Solvency II balance sheet, so there were no valuation differences.

Trade payables are recognized at their settlement value. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value. There are no differences in their recognition and valuation on the HGB and Solvency II balance sheets. Trade payables amounted to €15.665 million on both the HGB balance sheet and the Solvency II balance sheet.

There were no **subordinated liabilities** to be recognized on the HGB balance sheet or on the Solvency II balance sheet as of the reporting date.

There were no **miscellaneous liabilities** as of December 31, 2016 either.

D.4 Alternative Methods for Valuation

No alternative valuation methods other than those listed in D.3 have been used.

D.5 Any Other Information

The preceding chapters contain all of the important information about the valuation for solvency purposes.

E. Capital Management

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E.1 Own Funds

Components and quality of own funds

As of December 31, 2016, ARAG Allgemeine Versicherungs-AG held basic own funds in the form of an excess of assets over liabilities of €222.431 million according to the Solvency II balance sheet.

This results in eligible own funds of €222.431 million, all of which can be classified as Tier 1 own funds. ARAG Allgemeine has no Tier 2 and Tier 3 own funds.

Based on the differences, the equity on the HGB balance sheet can be reconciled to eligible own funds as follows:

Reconciliation of the equity on the HGB balance sheet to eligible own funds

Line item	(€'000)
Equity as of December 31, 2016 on the HGB balance sheet	55,323
Revaluation of investments	67,369
Revaluation of reinsurers' share of technical provisions	-4,378
Revaluation of technical provisions	114,753
Revaluation of provisions for pensions and other post-employment benefits	-9,475
Revaluation of miscellaneous provisions	-1,161
Excess of assets over liabilities according to the Solvency II balance sheet	222,431
Additional basic own funds	0
Total basic own funds as of December 31, 2016	222,431

Changes in own funds

In 2016, Solvency II balance sheets were prepared for the planning horizon on the basis of the budgeted results of operations.

In view of the existing solvency profile, the coverage ratio is not expected to fall below the regulatory requirements. If, contrary to expectations, a shortfall compared with the solvency requirements in the planning period is identified, there are various measures that can be taken to make up for this shortfall.

The examination of whether one or more of the measures is suitable will involve assessing when the measures can be implemented, what effect they will have, and whether multiple measures can be implemented in parallel. Possible measures for strengthening own funds are:

- Restriction on distribution/profit transfer
- Additional payment into the capital reserve
- Borrowing to supplement own funds
- Capital increase.

Provided certain conditions are met, components of basic own funds may be borrowed for up to ten years after December 31, 2016. In 2016, the Company did not identify any need to replace components of basic own funds within its planning horizon. Accordingly, no plans for the aforementioned measures were drawn up in the year under review.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

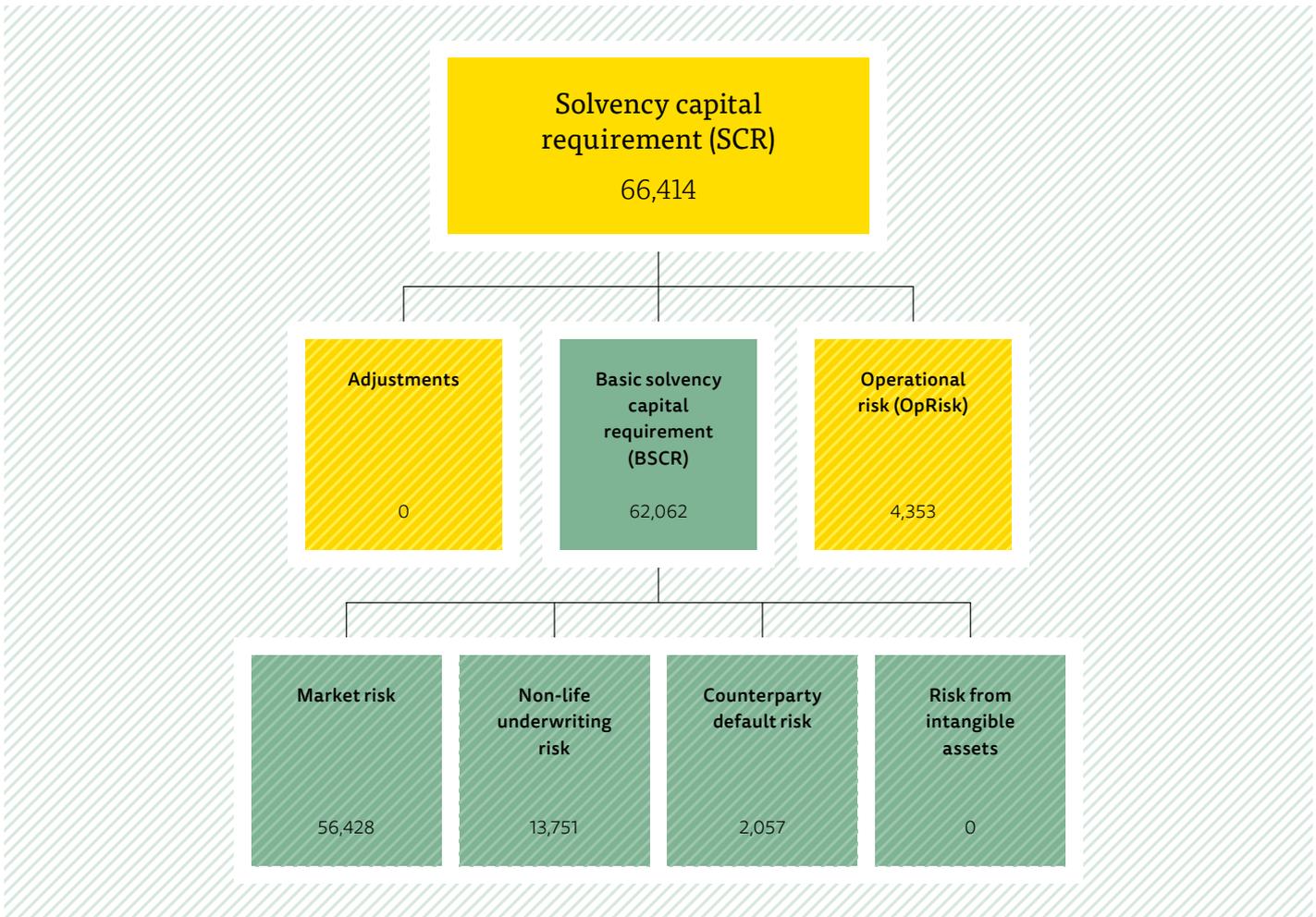
ARAG Allgemeine Versicherungs-AG uses a partial internal model to calculate the solvency capital requirement. In this certified model, the modules for market risk, non-life underwriting risk, and counterparty default risk are calculated using internal modeling. The other risk modules (e.g. operational risk) and the aggregation of the risk modules for the overall solvency requirement are based on the standardized approach.

As a result of the Company-specific calculation using the certified partial internal model, the solvency capital requirement decreased to €66.414 million, compared with €128.325 million using the standardized approach. At 335 percent, the coverage ratio is significantly higher than the regulatory requirement and, in ARAG Allgemeine's view, constitutes a substantial risk buffer for customers.

Neither a simplified calculation of the SCR standard formula nor undertaking-specific parameters (USPs) are used in any of the modules.

The minimum capital requirement is calculated on the basis of the technical provisions (excluding the risk margin) and net premiums written in the past twelve months in each line of business; it must not fall below 25 percent and not exceed 45 percent of the solvency capital requirement. As of December 31, 2016, the minimum capital requirement was €24.617 million, which equated to 37 percent of the solvency capital requirement at that time and resulted in a coverage ratio for the minimum capital requirement of 904 percent.

EIOPA risk tree for ARAG Allgemeine Versicherungs-AG (€'000)



Solvency capital requirement (SCR) is the amount of own funds required to be held in case of an unlikely but large loss

Adjustments contain the loss-absorbing capacity of technical provisions and deferred taxes

Basic solvency capital requirement (BSCR) is the sum of the correlated individual risks or the solvency capital requirement (SCR) before adjustments, operational risk (OpRisk), and any non-controlled participations (NCPs)

Operational risk (OpRisk) quantifies the risk arising from inadequate or failed internal processes, personnel, or systems, or from external events

Market risk is the risk arising from the level or volatility of market prices of financial instruments that have an impact on the value of the assets and liabilities of a company

Non-life underwriting risk is the risk arising from the risks covered and the processes used in the course of property insurance business

Counterparty default risk reflects possible losses due to unexpected default or deterioration in the credit standing of counterparties and debtors in the insurance business and of reinsurance companies over the following twelve months

Risks from intangible assets result from the underlying risks in the form of price fluctuations or illiquidity and from those that are derived directly from the specificity of the assets.

E.3 Use of the Duration-Based Equity Risk Sub-Module in the Calculation of the Solvency Capital Requirement

Using the duration-based equity risk sub-module in the calculation of the solvency capital requirement is not relevant to ARAG Allgemeine Versicherungs-AG.

E.4 Differences Between the Standard Formula and Any Internal Model Used

ARAG Allgemeine Versicherungs-AG obtained approval for its partial internal model on December 10, 2015 when BaFin certified the model. At the start of the initial consultation phase, ARAG Allgemeine had examined the possibilities offered by the standardized approach and quickly realized that the only way to adequately represent the risks was by using a partial internal model. The six months required for the approval process alone were preceded by a five-year pre-application phase, during which in-depth discussions were held with BaFin, an appropriate governance structure was established, and a wide range of elements were introduced – with a view to using the partial internal model – such as the ORSA process, a limit system, internal risk modeling, risk-oriented management, stakeholder-oriented reporting, uniform quality standards for data, and general process modifications. Once all of the individual components were in place, the Group had to provide evidence that it had implemented the partial internal model – made up of all the individual elements – and was using it for operational management.

From the perspective of ARAG Allgemeine, it was important to ensure that the development reflected, as far as possible, the conservative investment and underwriting policy dictated by the ownership structure. ARAG Allgemeine's focus was therefore to fulfill a number of prerequisites that highlighted the greater benefit of a partial internal model compared with the standardized approach:

- Appropriate valuation of ARAG Allgemeine's risk
- Risk-oriented management of ARAG Allgemeine
- Analysis of the financial year as part of a risk-based review, and
- Customer protection.

Internal modeling of non-life underwriting risk offers significant advantages for ARAG Allgemeine Versicherungs-AG. The Company was able to draw on its extensive inhouse knowledge and claims history going back many years in order to model the individual risks internally in accordance with its own requirements, thus ensuring the risks can be presented and managed adequately. Furthermore, the extensive reinsurance program is examined and modeled separately in the partial internal model of Interlloyd, as is appropriate to a far more reality-based approach to risk modeling. The partial internal model also incorporates the characteristics of the customer structure with a heavy emphasis on retail business. This would not adequately be taken into account in the standardized approach due its broader applicability.

The internal modeling of market risk enables the scope and structure of the non-trading portfolio to be examined and analyzed more accurately. Furthermore, the use of an economic scenario generator enables capital market risks to be depicted much more precisely than with the scenario-based key figures used in the standardized approach. This is particularly the case for the non-linear maturity profiles that can be found with callable bonds, for example, or for the risk-based valuation of government bonds.

In both cases, the results in respect of the internally modelled market risk and the internally modeled non-life underwriting risks are used for management on the basis of key risk indicators adjusted to the Company's specific requirements.

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

Taking a prudent view, ARAG Allgemeine Versicherungs-AG does not believe it is exposed to any foreseeable risk of non-compliance with the minimum capital requirement or the solvency capital requirement.

E.6 Any Other Information

The preceding chapters contain all of the important information about capital management.

Appendix

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	0
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	394,877
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	73,059
Equities	R0100	0
Equities – listed	R0110	0
Equities – unlisted	R0120	0
Bonds	R0130	74,558
Government Bonds	R0140	25,722
Corporate Bonds	R0150	48,836
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investment Undertakings	R0180	244,123
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	88
Other investments	R0210	3,049
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	0
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	0
Reinsurance recoverables from:	R0270	23,274
Non-life and health similar to non-life	R0280	17,026
Non-life excluding health	R0290	17,026
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	6,248
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	6,248
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	95
Insurance and intermediaries receivables	R0360	10,365
Reinsurance receivables	R0370	387
Receivables (trade, not insurance)	R0380	8,186
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	3,272
Any other assets, not elsewhere shown	R0420	11
Total assets	R0500	440,468

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	110,635
Technical provisions – non-life (excluding health)	R0520	110,635
TP calculated as a whole	R0530	0
Best Estimate	R0540	107,402
Risk margin	R0550	3,233
Technical provisions – health (similar to non-life)	R0560	0
TP calculated as a whole	R0570	0
Best Estimate	R0580	0
Risk margin	R0590	0
Technical provisions – life (excluding index-linked and unit-linked)	R0600	42,427
Technical provisions – health (similar to life)	R0610	35,464
TP calculated as a whole	R0620	0
Best Estimate	R0630	35,464
Risk margin	R0640	0
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	6,963
TP calculated as a whole	R0660	0
Best Estimate	R0670	6,405
Risk margin	R0680	559
Technical provisions – index-linked and unit-linked	R0690	0
TP calculated as a whole	R0700	0
Best Estimate	R0710	0
Risk margin	R0720	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	4,094
Pension benefit obligations	R0760	38,075
Deposits from reinsurers	R0770	343
Deferred tax liabilities	R0780	0
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	6,041
Reinsurance payables	R0830	757
Payables (trade, not insurance)	R0840	15,665
Subordinated liabilities	R0850	0
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	-
Any other liabilities, not elsewhere shown	R0880	0
Total liabilities	R0900	218,036
Excess of assets over liabilities	R1000	222,431

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Premiums, claims and expenses by line of business

		Medical expense insurance C0010	Income protection insurance C0020
Premiums written			
Gross – Direct Business	R0110	0	48,008
Gross – Proportional reinsurance accepted	R0120	0	5,879
Gross – Non-proportional reinsurance accepted	R0130	-	-
Reinsurers' share	R0140	0	1,337
Net	R0200	0	52,550
Premiums earned			
Gross – Direct Business	R0210	0	48,042
Gross – Proportional reinsurance accepted	R0220	0	5,880
Gross – Non-proportional reinsurance accepted	R0230	-	-
Reinsurers' share	R0240	0	1,338
Net	R0300	0	52,583
Claims incurred			
Gross – Direct Business	R0310	0	18,106
Gross – Proportional reinsurance accepted	R0320	0	2,641
Gross – Non-proportional reinsurance accepted	R0330	-	-
Reinsurers' share	R0340	0	107
Net	R0400	0	20,640
Changes in other technical provisions			
Gross – Direct Business	R0410	0	70
Gross – Proportional reinsurance accepted	R0420	0	-2
Gross – Non-proportional reinsurance accepted	R0430	-	-
Reinsurers' share	R0440	0	0
Net	R0500	0	68
Expenses incurred	R0550	0	27,240
Other expenses	R1200	-	-
Total expenses	R1300	-	-

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)							
Workers' compensation insurance C0030	Motor vehicle liability insurance C0040	Other motor insurance C0050	Marine, aviation and transport insurance C0060	Fire and other damage to property insurance C0070	General liability insurance C0080	Credit and suretyship insurance C0090	
0	2,369	942	0	42,110	41,406	0	
0	0	0	0	19,938	2,762	0	
-	-	-	-	-	-	-	
0	229	0	0	2,341	2,071	0	
0	2,140	942	0	59,708	42,097	0	
0	2,369	942	0	41,850	40,834	0	
0	0	0	0	19,736	2,753	0	
-	-	-	-	-	-	-	
0	229	0	0	2,334	2,065	0	
0	2,140	942	0	59,252	41,522	0	
0	1,398	629	0	19,444	9,320	0	
0	0	0	0	10,368	854	0	
-	-	-	-	-	-	-	
0	375	-0	0	791	-2,231	0	
0	1,023	630	0	29,022	12,406	0	
0	559	131	0	-1,875	-1,389	0	
0	0	0	0	-2,382	34	0	
-	-	-	-	-	-	-	
0	0	0	0	0	0	0	
0	559	131	0	-4,256	-1,354	0	
0	1,151	345	0	31,684	25,911	0	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	

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Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		
		Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0100	C0110	C0120
Premiums written				
Gross – Direct Business	R0110	0	5,775	5,846
Gross – Proportional reinsurance accepted	R0120	0	165	669
Gross – Non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	0	0	14
Net	R0200	0	5,940	6,502
Premiums earned				
Gross – Direct Business	R0210	0	5,459	5,514
Gross – Proportional reinsurance accepted	R0220	0	165	644
Gross – Non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	0	0	10
Net	R0300	0	5,625	6,148
Claims incurred				
Gross – Direct Business	R0310	0	1,412	2,706
Gross – Proportional reinsurance accepted	R0320	0	55	431
Gross – Non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	0	0	-1
Net	R0400	0	1,467	3,138
Changes in other technical provisions				
Gross – Direct Business	R0410	0	7	-8
Gross – Proportional reinsurance accepted	R0420	0	0	-0
Gross – Non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	0	7	-8
Expenses incurred	R0550	0	4,154	3,851
Other expenses	R1200	-	-	-
Total expenses	R1300	-	-	-

Line of Business for: accepted non-proportional reinsurance					Total
Health	Casualty	Marine, aviation, transport	Property		
C0130	C0140	C0150	C0160		C0200
0	0	0	0		146,456
0	0	0	0		29,413
-	-	-	-		-
0	0	0	0		5,992
0	0	0	0		169,878
0	0	0	0		145,010
0	0	0	0		29,178
-	-	-	-		-
0	0	0	0		5,977
0	0	0	0		168,212
0	0	0	0		53,016
0	0	0	0		14,348
-	-	-	-		-
0	0	0	0		- 959
0	0	0	0		68,324
0	0	0	0		-2,504
0	0	0	0		-2,350
-	-	-	-		-
0	0	0	0		0
0	0	0	0		-4,854
0	0	0	0		94,336
-	-	-	-		-
-	-	-	-		-

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Premiums, claims and expenses by line of business

		Health insurance	Insurance with profit participation
		C0210	C0220
Premiums written			
Gross	R1410	0	0
Reinsurers' share	R1420	0	0
Net	R1500	0	0
Premiums earned			
Gross	R1510	0	0
Reinsurers' share	R1520	0	0
Net	R1600	0	0
Claims incurred			
Gross	R1610	0	0
Reinsurers' share	R1620	0	0
Net	R1700	0	0
Changes in other technical provisions			
Gross	R1710	0	0
Reinsurers' share	R1720	0	0
Net	R1800	0	0
Expenses incurred	R1900	0	0
Other expenses	R2500	-	-
Total expenses	R2600	-	-

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Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance
		C0020	C0030
Technical provisions calculated as a whole	R0010	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	-	-
Technical provisions calculated as a sum of BE and RM		-	-
Best Estimate		-	-
Gross Best Estimate	R0030	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	-	-
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090	-	-
Risk margin	R0100	-	-
Amount of the transitional on Technical Provisions		-	-
Technical Provisions calculated as a whole	R0110	-	-
Best estimate	R0120	-	-
Risk margin	R0130	-	-
Technical provisions – total	R0200	-	-

Index-linked and unit-linked insurance		Other life insurance		Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	
Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees				
C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	6,356	48	6,405
-	-	-	-	-	6,248	0	6,248
-	-	-	-	-	109	48	157
-	-	-	-	-	554	4	559
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	6,911	52	6,963

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Life and Health SLT Technical Provisions

Technical provisions calculated as a whole	R0010
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020
Technical provisions calculated as a sum of BE and RM	
Best Estimate	
Gross Best Estimate	R0030
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090
Risk Margin	R0100
Amount of the transitional on Technical Provisions	
Technical Provisions calculated as a whole	R0110
Best estimate	R0120
Risk margin	R0130
Technical provisions – total	R0200

Health insurance (direct business)		Annuities stemming from non-life insurance contracts and relating to health insurance obligations		Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
Contracts without options and guarantees		Contracts with options or guarantees			
C0160	C0170	C0180	C0190	C0200	C0210
-	0	0	-	-	-
-	0	0	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
0	-	-	34,004	1,460	35,464
0	-	-	0	0	0
0	-	-	34,004	1,460	35,464
-	0	0	0	0	0
-	-	-	-	-	-
-	0	0	-	-	-
0	-	-	-	-	-
-	0	0	-	-	-
-	0	0	34,004	1,460	35,464

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Non-Life Technical Provisions

		Medical expense insurance	Income protection insurance
		C0020	C0030
Technical provisions calculated as a whole	R0010	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	-	-
Technical provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross	R0060	-	-1,171
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-	-1,053
Net Best Estimate of Premium Provisions	R0150	-	-118
Claims provisions			
Gross	R0160	-	41,119
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	-	2,978
Net Best Estimate of Claims Provisions	R0250	-	38,141
Total Best estimate – gross	R0260	-	39,948
Total Best estimate – net	R0270	-	38,023
Risk margin	R0280	-	0
Amount of the transitional on Technical Provisions			
Technical Provisions calculated as a whole	R0290	-	-
Best estimate	R0300	-	-
Risk margin	R0310	-	-
Technical provisions – total			
Technical provisions – total	R0320	-	39,948
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	-	1,925
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	-	38,023

Direct business and accepted proportional reinsurance						
Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
C0040	C0050	C0060	C0070	C0080	C0090	C0100
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	6	3	-	5,136	6,444	-
-	-2	0	-	-15	3,087	-
-	8	3	-	5,150	3,357	-
-	10,999	103	-	14,368	31,678	-
-	5,497	0	-	634	5,985	-
-	5,502	103	-	13,734	25,693	-
-	11,005	106	-	19,504	38,122	-
-	5,510	106	-	18,884	29,050	-
-	612	6	-	799	1,763	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	11,617	112	-	20,303	39,885	-
-	5,495	0	-	620	9,072	-
-	6,122	112	-	19,683	30,813	-

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Non-Life Technical Provisions

Technical provisions calculated as a whole	R0010
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050
Technical provisions calculated as a sum of BE and RM	
Best estimate	
Premium provisions	
Gross	R0060
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140
Net Best Estimate of Premium Provisions	R0150
Claims provisions	
Gross	R0160
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240
Net Best Estimate of Claims Provisions	R0250
Total Best estimate – gross	R0260
Total Best estimate – net	R0270
Risk margin	R0280
Amount of the transitional on Technical Provisions	
Technical Provisions calculated as a whole	R0290
Best estimate	R0300
Risk margin	R0310
Technical provisions – total	
Technical provisions – total	R0320
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340

Legal expenses insurance	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance			Total Non-Life obligation
	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,791	-4,036	-	-	-	-	8,172
-	0	-86	-	-	-	-	1,932
-	1,791	-3,950	-	-	-	-	6,240
-	168	794	-	-	-	-	99,229
-	0	0	-	-	-	-	15,094
-	168	794	-	-	-	-	84,135
-	1,959	-3,243	-	-	-	-	107,402
-	1,959	-3,157	-	-	-	-	90,376
-	9	44	-	-	-	-	3,233
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,968	-3,199	-	-	-	-	110,635
-	0	-86	-	-	-	-	17,026
-	1,968	-3,113	-	-	-	-	93,609

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Non-life insurance claims

Total Non-Life Business

Accident year/Underwriting year	Z0010	Accident year
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Gross Claims Paid (non-cumulative)*(absolute amount)*

		Development year					
Year		0	1	2	3	4	5
		C0010	C0020	C0030	C0040	C0050	C0060
Prior	R0100	-	-	-	-	-	-
N-9	R0160	40,104	17,773	5,627	3,171	573	363
N-8	R0170	35,597	17,040	6,299	3,473	1,009	977
N-7	R0180	33,342	16,648	4,756	2,658	2,458	511
N-6	R0190	32,626	14,671	5,550	3,084	884	528
N-5	R0200	28,818	16,240	5,487	3,224	775	219
N-4	R0210	28,780	15,847	3,928	3,651	1,359	
N-3	R0220	29,366	19,349	4,423	2,577		
N-2	R0230	28,522	17,136	4,771			
N-1	R0240	27,432	15,341				
N	R0250	44,810					

Gross undiscounted Best Estimate Claims Provisions*(absolute amount)*

		Development year					
Year		0	1	2	3	4	5
		C0200	C0210	C0220	C0230	C0240	C0250
Prior	R0100	-	-	-	-	-	-
N-9	R0160	0	0	0	0	0	0
N-8	R0170	0	0	0	0	0	0
N-7	R0180	0	0	0	0	0	0
N-6	R0190	0	0	0	0	0	0
N-5	R0200	0	0	0	0	0	2,742
N-4	R0210	0	0	0	0	3,140	
N-3	R0220	0	0	0	4,373		
N-2	R0230	0	0	6,482			
N-1	R0240	0	12,188				
N	R0250	27,307					

Development year					In Current year	Sum of years (cumulative)
6	7	8	9	10 & +		
C0070	C0080	C0090	C0100	C0110	C0170	C0180
-	-	-	-	1,216	R0100	127
260	146	202	42		R0160	42
504	1,242	297			R0170	297
820	402				R0180	402
533					R0190	533
					R0200	219
					R0210	1,359
					R0220	2,577
					R0230	4,771
					R0240	15,341
					R0250	26,880
				Total	R0260	52,828
						924,112

Development year					Year end (discounted data)	
6	7	8	9	10 & +		
C0260	C0270	C0280	C0290	C0300	C0360	
-	-	-	-	3,544	R0100	2,177
0	0	0	1,340		R0160	1,311
0	0	844			R0170	820
0	2,255				R0180	2,231
3,565					R0190	3,538
					R0200	2,720
					R0210	3,105
					R0220	4,367
					R0230	6,487
					R0240	12,215
					R0250	27,387
				Total	R0260	69,884

S.23.01.01**Own funds****Basic own funds before deduction for participations in other financial sectors as foreseen in article 68 of Delegated Regulation (EU) 2015/35**

Ordinary share capital (gross of own shares)	
Share premium account related to ordinary share capital	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	
Subordinated mutual member accounts	
Surplus funds	
Preference shares	
Share premium account related to preference shares	
Reconciliation reserve	
Subordinated liabilities	
An amount equal to the value of net deferred tax assets	
Other own fund items approved by the supervisory authority as basic own funds not specified above	

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	
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Deductions

Deductions for participations in financial and credit institutions	
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Total basic own funds after deductions**Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	
Unpaid and uncalled preference shares callable on demand	
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	
Other ancillary own funds	

Total ancillary own funds**Available and eligible own funds**

Total available own funds to meet the SCR	
Total available own funds to meet the MCR	
Total eligible own funds to meet the SCR	
Total eligible own funds to meet the MCR	

SCR**MCR****Ratio of Eligible own funds to SCR****Ratio of Eligible own funds to MCR****Reconciliation reserve**

Excess of assets over liabilities	
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	
Other basic own fund items	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	

Reconciliation reserve**Expected profits**

Expected profits included in future premiums (EPIFP) – Life business	
Expected profits included in future premiums (EPIFP) – Non-life business	

Total Expected profits included in future premiums (EPIFP)

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
	-	-	-	-	-
R0010	44,000	44,000	-	0	-
R0030	-	-	-	-	-
R0040	-	-	-	-	-
R0050	-	-	-	-	-
R0070	-	-	-	-	-
R0090	-	-	-	-	-
R0110	-	-	-	-	-
R0130	178,431	178,431	-	-	-
R0140	-	-	-	-	-
R0160	0	-	-	-	0
R0180	-	-	-	-	-
	-	-	-	-	-
R0220	-	-	-	-	-
	-	-	-	-	-
R0230	0	0	0	0	0
R0290	222,431	222,431	0	0	0
	-	-	-	-	-
R0300	-	-	-	-	-
	-	-	-	-	-
R0310	-	-	-	-	-
R0320	-	-	-	-	-
R0330	-	-	-	-	-
R0340	-	-	-	-	-
R0350	-	-	-	-	-
R0360	-	-	-	-	-
R0370	-	-	-	-	-
R0390	-	-	-	-	-
R0400	-	-	-	-	-
	-	-	-	-	-
R0500	222,431	222,431	0	0	0
R0510	222,431	222,431	0	-	-
R0540	222,431	222,431	-	-	-
R0550	222,431	222,431	-	-	-
R0580	66,414	-	-	-	-
R0600	24,617	-	-	-	-
R0620	3.35	-	-	-	-
R0640	9.04	-	-	-	-
	-	-	-	-	-
	C0060				
R0700	222,431				
R0710	0				
R0720	0				
R0730	44,000				
R0740	0				
R0760	178,431				
R0770					
R0780					
R0790					

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Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	64,831	-	-
Counterparty default risk	R0020	2,297	-	-
Life underwriting risk	R0030	97	-	-
Health underwriting risk	R0040	56,189	-	-
Non-life underwriting risk	R0050	60,920	-	-
Diversification	R0060	-61,216	-	-
Intangible asset risk	R0070	0	-	-
Basic Solvency Capital Requirement	R0100	123,117	-	-
Calculation of Solvency Capital Requirement		C0100		
Operational risk	R0130	5,208		
Loss-absorbing capacity of technical provisions	R0140	0		
Loss-absorbing capacity of deferred taxes	R0150	0		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	-		
Solvency capital requirement excluding capital add-on	R0200	128,325		
Capital add-on already set	R0210	-		
Solvency capital requirement	R0220	128,325		
Other information on SCR				
Capital requirement for duration-based equity risk sub-module	R0400	0		
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	-		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0		
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0		
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0		

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Solvency Capital Requirement – for undertakings using the standard formula and partial internal model

Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0080	C0090
1	Market risk	56,428	56,428		
2	Counterparty default risk	2,057			
3	Life underwriting risk	0			
4	Health underwriting risk	0			
5	Non-life underwriting risk	13,751	13,751		
6	Intangible asset risk	0			
7	Operational risk	4,353			
8	LAC Technical Provisions	0			
9	LAC Deferred Taxes	0			
Calculation of Solvency Capital Requirement		C0100			
	Total undiversified components	R0110	76,588		
	Diversification	R0060	- 10,173		
	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0		
	Solvency capital requirement excluding capital add-on	R0200	66,414		
	Capital add-ons already set	R0210	0		
	Solvency capital requirement	R0220	66,414		
	Other information on SCR				
	Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	0		
	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	0		
	Capital requirement for duration-based equity risk sub-module	R0400	0		
	Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0		
	Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	0		
	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0		
	Diversification effects due to RFF nSCR aggregation for article 304	R0440	0		

S.28.01.01

Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	23,941

				Net (of reinsurance/SPV best estimate and TP calculated as a whole C0020	Net (of reinsurance) written premiums in the last 12 months C0030
Medical expense insurance and proportional reinsurance		R0020		-	-
Income protection insurance and proportional reinsurance		R0030		38,023	46,675
Workers' compensation insurance and proportional reinsurance		R0040		-	-
Motor vehicle liability insurance and proportional reinsurance		R0050		5,510	2,140
Other motor insurance and proportional reinsurance		R0060		106	942
Marine, aviation and transport insurance and proportional reinsurance		R0070		-	-
Fire and other damage to property insurance and proportional reinsurance		R0080		18,884	42,775
General liability insurance and proportional reinsurance		R0090		29,050	29,619
Credit and suretyship insurance and proportional reinsurance		R0100		-	-
Legal expenses insurance and proportional reinsurance		R0110		-	-
Assistance and proportional reinsurance		R0120		1,959	5,774
Miscellaneous financial loss insurance and proportional reinsurance		R0130		0	12,575
Non-proportional health reinsurance		R0140		-	-
Non-proportional casualty reinsurance		R0150		-	-
Non-proportional marine, aviation and transport reinsurance		R0160		-	-
Non-proportional property reinsurance		R0170		-	-

S.28.01.01

Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	748

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	0	–
Obligations with profit participation – future discretionary benefits	R0220	0	–
Index-linked and unit-linked insurance obligations	R0230	0	–
Other life (re)insurance and health (re)insurance obligations	R0240	35,621	–
Total capital at risk for all life (re)insurance obligations	R0250	–	–

Overall MCR calculation

		C0070
Linear MCR	R0300	24,689
SCR	R0310	66,414
MCR cap	R0320	29,886
MCR floor	R0330	16,604
Combined MCR	R0340	24,617
Absolute floor of the MCR	R0350	3,700
		C0070
Minimum Capital Requirement	R0400	24,617

Information

ARAG provides you with a broad range of information in many publications and on the internet about the Group and its insurance products and services. And as legal insurance is a core competency of ARAG, it also offers selected tips and advice on legal matters. If you have any questions, require an insurance quote, or are simply looking for some basic information, please get in touch or visit our website.

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