

ARAG ALLGEMEINE VERSICHERUNGS-AG

# 2017 Solvency and Financial Condition Report



Dive into life.

# ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

CEO and Central Group Functions

Group Development/ Business Organization

Group Sales/ Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management/ Controlling

Operating insurance companies

ARAG Allgemeine Versicherungs-AG

(Casualty and property insurance)

ARAG Krankenversicherungs-AG

(Health insurance)

Interlloyd Versicherungs-AG

(Specialized in broker sales)

International companies

(Legal insurance/ legal services)

Service companies

ARAG IT GmbH

(IT services for the ARAG Group)

Cura Versicherungsvermittlung GmbH

(Brokerage firm)

ARAG Service Center GmbH

(Emergency telephone service)

# Structure of ARAG Allgemeine Versicherungs-AG

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Company

ARAG Allgemeine Versicherungs-AG

Members of the  
Management Board  
and areas of  
responsibility

Sales/Operations/Claims/  
Sports Insurance

Christian Vogée

Risk Management/Controlling/  
Finance and Accounting

Wolfgang Mathmann

## Key Figures

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Gross premiums written:

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€ **180** million

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↗ 2016: €176 million

Net income for the year (before profit transfer):

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€ **18** million

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↗ 2016: €14 million

Combined ratio:

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**94.3**%

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↘ 2016: 92.7%

Eligible own funds:

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€ **235** million

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↗ 2016: €222 million

Solvency capital requirement:

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€ **68** million

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↘ 2016: €66 million

Solvency ratio:

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**344.4**%

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↗ 2016: 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. This sale was completed in 2017. 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 more than €1.6 billion and employs around 4,000 people. ARAG SE is responsible for strategic Group management and the legal insurance operating business at both domestic and international levels. The ARAG insurance and service companies are responsible for the other lines of business and the related operational management. ARAG Holding SE manages the assets and is the parent company of the Group from a company law perspective.

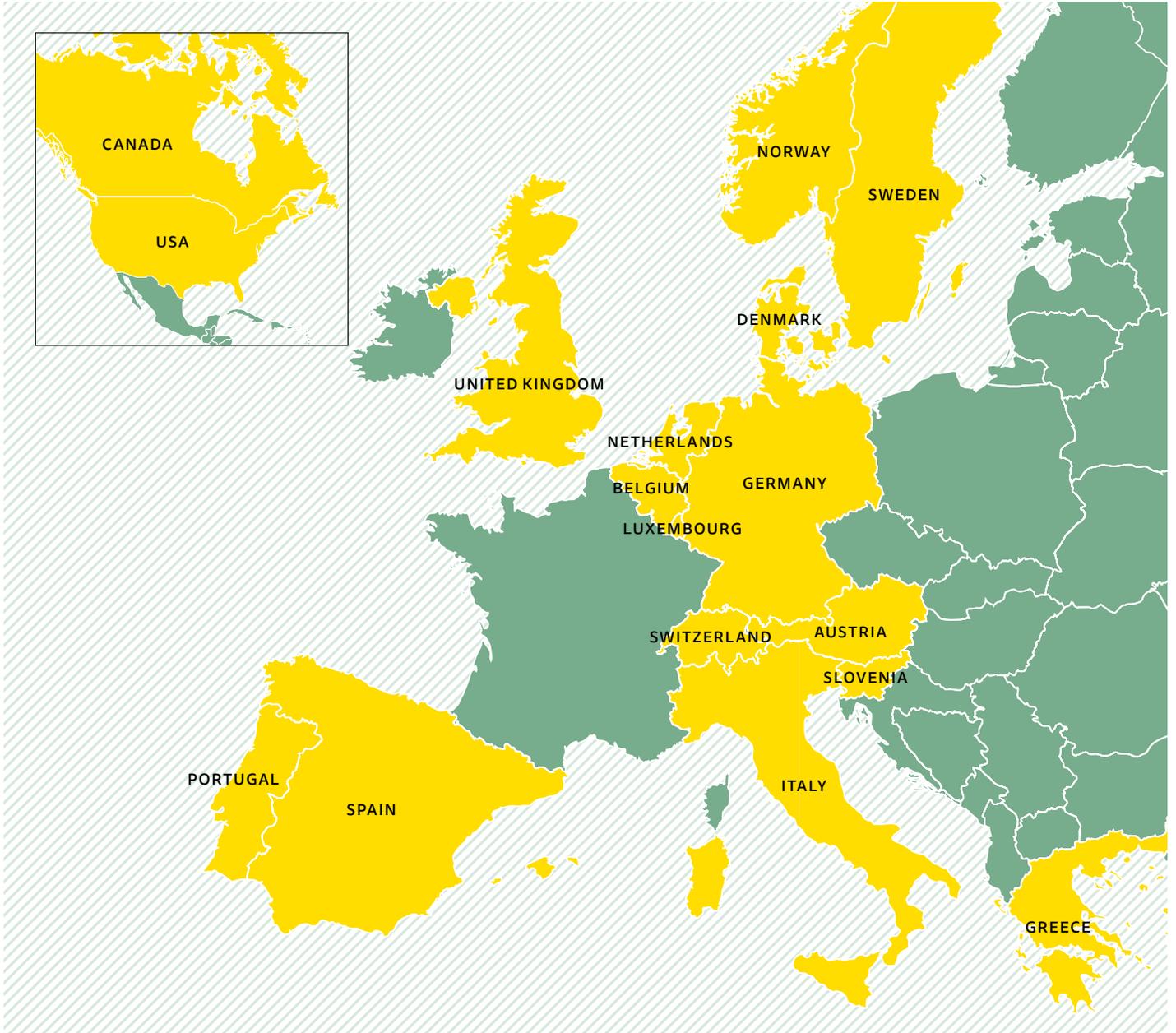
ARAG Allgemeine Versicherungs-AG offers modular insurance cover for general accident insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to its predominantly private and small business customers. ARAG Allgemeine also 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 2.4 percent to €180,036 thousand. The insurance segments with the strongest premium volumes in direct business are general accident insurance (€47,684 thousand) and liability insurance (€41,864 thousand).

Due to the effect of a reversal of the equalization provision, the underwriting result after the equalization provision increased to €11,404 thousand. The net gain under gains and losses on investments also rose, by €2,315 thousand, to €11,229 thousand, mainly due to income from profit transfer agreements. The Company generated net income for the year before profit transfer of €17,964 thousand, a good result that was significantly higher than the figure for 2016.

The new European regulatory regime, Solvency II (SII), 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

Countries in which the ARAG Group operates



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 provided in chapters D. 'Valuation for Solvency Purposes' and E. 'Capital Management'.

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 the German Federal Financial Supervisory Authority (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, underwriting risk (primarily 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. The modeling process also benefits from the expertise that has been accumulated over many years of providing insurance with a clearly defined product and underwriting policy, the focus on private customers and small and medium-sized enterprises (SMEs), and 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 of the two, is €55,849 thousand. The drivers are equity risk and spread risk. Underwriting risk, for which the solvency capital requirement is €18,265 thousand, is mainly influenced by premium and reserve risk. ARAG Allgemeine's overall solvency capital requirement is €68,153 thousand. To cover the solvency capital requirement, ARAG Allgemeine has eligible own funds of €234,707 thousand, giving a coverage ratio of 344.4 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](mailto:service@ARAG.de)  
Website: [www.ARAG.com](http://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  
Graurheindorfer 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](mailto:poststelle@bafin.de)  
De-Mail: [poststelle@bafin.de-mail.de](mailto:poststelle@bafin.de-mail.de)  
Website: [www.bafin.de](http://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](mailto:webkontakt_anfragen@de.pwc.com)  
Website: [www.pwc.de](http://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). The shareholders of ARAG Holding SE are FABI GmbH, Düsseldorf, which holds 45.5 percent, and Dr. Dr. h. c. Paul-Otto Faßbender personally, who holds the remaining 54.5 percent. 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 2017, a profit of €17,964 thousand (2016: €14,019 thousand) will be transferred to ARAG SE.

### List of the main affiliated companies

Name	Legal form	Headquarters	Direct share	Group's share
1 ARAG Holding SE	SE	Düsseldorf, Germany	0.0 %	Group parent company
2 AFI Verwaltungs-Gesellschaft mbH	GmbH (private limited company)	Düsseldorf, Germany	0.0 %	100.0 %
3 ARAG SE	SE	Düsseldorf, Germany	0.0 %	100.0 %
4 ARAG IT GmbH	GmbH	Düsseldorf, Germany	0.0 %	100.0 %
5 ARAG Krankenversicherungs-AG	AG (stock corporation)	Munich, Germany	0.0 %	94.0 %
6 Interlloyd Versicherungs-AG	AG	Düsseldorf, Germany	100.0 %	100.0 %
7 ARAG 2000 Grundstücksgesellschaft bR	GbR (partnership under the German Civil Code)	Düsseldorf, Germany	25.0 %	94.9 %
8 ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG	KG (limited partnership)	Düsseldorf, Germany	50.0 %	100.0 %
9 ALIN 2 GmbH & Co. KG	KG	Düsseldorf, Germany	100.0 %	100.0 %
10 ALIN 2 Verwaltungs-GmbH	GmbH	Düsseldorf, Germany	100.0 %	100.0 %
11 ARAG Service Center GmbH	GmbH	Düsseldorf, Germany	20.0 %	100.0 %

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 transfer of a profit of €2,424 thousand to ARAG Allgemeine (2016: absorption of losses of €115 thousand).

### **Description of the main affiliated companies**

1. ARAG Holding SE is the parent company of the ARAG Group from a company law perspective. It does not exercise influence in the sense of acting as an overarching Group management entity. The operational management of the ARAG Group is the responsibility of ARAG SE. As well as managing the equity investments, ARAG Holding SE rents out real estate.
2. AFI Verwaltungs-Gesellschaft mbH manages 50 percent of the shares in ARAG SE. This management remit is limited to exercising its rights and fulfilling its obligations as a shareholder in the equity investment.
3. ARAG SE is the Operating Group Holding Company of the ARAG Group and is one of the world's three leading providers of legal insurance. Its business is focused on private customers and on small and medium-sized business customers. It is not involved in diversified corporate business with individual risks. In addition to the Group headquarters in Düsseldorf, ARAG SE has operational branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, and Spain.
4. ARAG IT GmbH, which is located at the Düsseldorf site, carries out all data center activities and IT services required by the ARAG Group. It does not have any customers outside the ARAG Group.
5. ARAG Krankenversicherungs-AG operates the private health insurance business. The need to separate the different segments (section 8 (4) of the German Insurance Supervision Act [VAG]) means that a separate company has to operate the health insurance business. ARAG Krankenversicherungs-AG has established itself in its market as a provider of high-quality full-coverage and supplementary private health insurance.
6. 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.
7. ARAG 2000 Grundstücksgesellschaft manages the plot of land at ARAG Platz 1, 40472 Düsseldorf, where the ARAG Group's headquarters are located.
8. 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.
9. 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.
10. 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.

11. 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.

### **Qualitative and quantitative disclosures on relevant events and significant intragroup transactions**

The Operating Group Holding Company, ARAG SE, manages the Group from a strategic perspective. In this role, it holds material equity investments in Group companies and performs centralized services for the insurance companies in the Group, e.g. investment management, risk management, and personnel development. There are contracts with ARAG SE concerning the performance of services, insurance brokerage, the use of trademark rights, and support for and shared use of real estate, office furniture, and equipment. All of the contracts have been concluded on arm's-length terms.

Since June 2000, there has been a cash-pooling agreement between ARAG SE, which manages the cash pool, and the other Group companies in Germany. Under this agreement, all cash and cash equivalents held by the members of the cash pool are managed centrally by ARAG SE and invested in the money markets. Interest at money market rates is applied to the intercompany balances between the members of the cash pool arising from these transactions.

ARAG SE has a rental agreement with ARAG 2000 GbR concerning the rental of office space and ancillary areas at ARAG's headquarters in Düsseldorf. The rent and secondary costs were agreed upon on an arm's-length basis.

Service fees of €9,797 thousand were paid to ARAG IT GmbH in 2017 for data center operation, software solution development, and software maintenance.

### **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 ARAG Recht&Heim all-round cover product (with legal, liability, home contents, and residential buildings insurance modules) and the ARAG 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 960,346 policies (December 31, 2016: 863,300 policies). Of this total, 858,873 policies (December 31, 2016: 861,242 policies) were attributable to the business in Germany, while the UK branch accounted for 101,473 policies (December 31, 2016: 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**

ARAG Allgemeine believes it is critical to take the lead and shape the market with innovative, trend-setting product and service ideas. This approach is reflected in a wide variety of activities – most notably in the targeted expansion of the portfolio, which is constantly refined in the interests, and for the benefit, of customers. For example, ARAG CyberSchutz – launched in 2017 by ARAG Allgemeine – is aimed particularly at small businesses and the self-employed, and provides comprehensive cover for online risks and cyberattacks, such as theft of sensitive customer data by hackers or damage to business IT systems caused by a virus. The policy includes the costs of restoring data, the provision of expert IT support with effective emergency measures, and even crisis management following a cyberattack. The ARAG CyberSchutz Plus product variant also includes cyber liability and loss-of-income insurance; it offers significantly higher sums insured, which can be up to €250 thousand. In 2017, the Company also launched its new ARAG Business Assistance product, the first solution in the German market providing assistance for small businesses. The cover, which can also be taken out completely independently, offers substantial support for smaller businesses and the self-employed. It includes comprehensive support services in the event of a claim or emergency, and also during business trips (e.g. car rental or locksmith services). In addition to a prevention and training offering, ARAG Business Assistance also encompasses legal-insurance-related services, such as an online contract check and receivables management.

## A.2 Underwriting Performance

Once again, ARAG Allgemeine achieved premium growth, 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 encouraging at 2.4 percent.

Income from gross premiums written amounted to €180,036 thousand in the year under review (2016: €175,870 thousand). 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 1.0 percent. If motor insurance is excluded, the increase in direct business in Germany was as much as 1.7 percent. The income from gross premiums written in motor insurance declined again, decreasing by €985 thousand or approximately 30 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 1.6 percent year on year (2016: 3.9 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 expansion in the number of policies involving ARAG Recht&Heim all-round cover. It is therefore clear that there was once again a positive impact in 2017 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 2016, remaining at a low level of 7.9 percent as a result of a number of factors, including policy renewals involving the premium ARAG 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. This business typically tends to be rather stable, and the Company registered a small decrease in premiums of €187 thousand.

In the inward reinsurance business, gross premiums written advanced by 0.7 percent to €29,634 thousand. 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 €173,822 thousand in the year under review (2016: €168,212 thousand).

Claims incurred in 2017 were adversely affected by, among other factors, a number of comparatively small storm events. As a result, the number of reported claims in the composite residential buildings insurance segment increased by more than 1,000. Across all lines of insurance in the organization business, claims reported for 2017 were up by almost 2 percent year on year. Moreover, the expense for major claims for 2017 in the direct organization and sports business, particularly in the accident class of insurance, was up by €1,125 thousand compared with 2016. Gross expenses for claims incurred rose by approximately €11,297 thousand. The gross claims ratio increased by 4.7 percentage points to 56.5 percent in the year under review.

Insurance business operating expenses rose again slightly last year, primarily due to a positive one-off effect recognized in 2016 as a result of the change to the discount rate applied in the calculation of defined benefit obligations. 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. Overall, the gross cost ratio rose slightly in 2017 to reach 37.7 percent (2016: 37.5 percent). The gross operating expenses for the insurance business went up by 3.7 percent to €67,660 thousand in total. The ratio of own account insurance business operating expenses to net premiums earned was slightly higher, by 0.2 percentage points, compared with 2016 at 38.6 percent.

The volume of outward reinsurance, measured on the basis of insurance premiums paid, was virtually unchanged year on year at €5,872 thousand (2016: €5,992 thousand). The reinsurance program is focused on insuring the risk from large claims and accumulation, with the Company making use of traditional proportional and non-proportional reinsurance. In the reinsurance business, there was a higher share of claims incurred in 2017. In total, the reinsurers' underwriting result fell to €627 thousand in 2017 (2016: €6,325 thousand).

In 2017, the underwriting result before the equalization provision amounted to €9,813 thousand (2016: €12,345 thousand), and was therefore below the prior-year figure. In accordance with the calculation requirements specified in the German Regulation on the Accounting of Insurance Undertakings (RechVersV), there was a reversal of the equalization provision of €1,591 thousand (2016: addition of €5,024 thousand) on the basis of the trends in claims and premiums. The underwriting result for own account in 2017 therefore amounted to €11,404 thousand (2016: €7,322 thousand). The net combined ratio of 94.3 percent (2016: 92.7 percent) confirmed the profitability of the operating business.

Based on the quantitative reporting required for regulatory purposes, the underwriting result for the reporting period amounted to €9,021 thousand. The following table shows this underwriting result with a reconciliation to the underwriting result in accordance with HGB, as published in the 2017 Annual Report.

### Underwriting result

(€'000)	2017	2016
Net premiums earned	173,822	168,212
Claims incurred (net, excluding claim settlement costs)	- 70,277	- 68,324
Changes in other technical provisions (net)	358	170
Insurance business operating expenses incurred and miscellaneous underwriting expenses (net)	- 94,882	- 88,679
<b>Underwriting result in accordance with template S.05.01.02</b>	<b>9,021</b>	<b>11,379</b>
Technical interest income	329	595
Miscellaneous underwriting income	463	371
Expenses for non-performance-based bonuses and rebates	0	0
<b>Underwriting result in accordance with HGB*</b>	<b>9,813</b>	<b>12,345</b>

\* Underwriting result before change in the equalization provision and similar provisions

The structure of the presentation follows that of template S.05.01 in the Appendix. The items are valued according to HGB principles. The breakdown of the components of the underwriting result can be found in template S.05.01. In accordance with the primary costs principle, the expenses incurred are stated after the allocation to the functional areas 'Services' and 'Company as a whole'. Claim settlement costs are included in the disclosed insurance business operating expenses. The following table shows a breakdown of the underwriting result by main line of business.

**Underwriting result by main line of business\***

(€'000)	Net premiums earned	Claims incurred (net, excluding claim settlement costs)	Change in sundry technical provisions (net)	Insurance business oper- ating expenses incurred and miscellaneous underwriting expenses (net)	Underwriting result	Underwriting result
					2017	2016
General accident insurance	51,754	-20,131	77	-28,792	2,908	8,005
General liability insurance	42,694	-11,387	39	-21,927	9,419	8,391
Miscellaneous insurance	79,374	-38,759	242	-44,163	-3,306	-5,017
<b>Total</b>	<b>173,822</b>	<b>-70,277</b>	<b>358</b>	<b>-94,882</b>	<b>9,021</b>	<b>11,379</b>

\* In accordance with template S.05.01.02

ARAG Allgemeine operates insurance business in Germany and the United Kingdom. The following table shows a breakdown of the underwriting result by geographical area.

**Underwriting result by main geographical area\***

(€'000)	Net premiums earned	Claims incurred (net, excluding claim settlement costs)	Change in sundry technical provisions (net)	Insurance business oper- ating expenses incurred and miscellaneous underwriting expenses (net)	Underwriting result	Underwriting result
					2017	2016
Germany	170,491	-68,752	358	-93,155	8,943	11,264
United Kingdom	3,331	-1,525	0	-1,727	78	115
<b>Total</b>	<b>173,822</b>	<b>-70,277</b>	<b>358</b>	<b>-94,882</b>	<b>9,021</b>	<b>11,379</b>

\* In accordance with template S.05.01.02

### A.3 Investment Performance

In 2017, the recovery in the global economy gained significant momentum compared with the previous year. The pace of growth in global gross domestic product (GDP) picked up markedly. Together with the favorable financing terms available, the high levels of capacity utilization already reached in many businesses, and an expansionary monetary policy, this has led to an increase in capital spending and an accompanying upturn in global trade. In the eurozone, the unexpectedly strong economic recovery has extended to all the member countries. Currently, consumer spending is the most significant driver behind the upturn, although some of the growth has also been attributable to the continuation in the very expansionary monetary policy. In addition, the structural adjustments in many of the member countries since the financial crisis are likely to have been significant factors contributing to the brighter economic conditions.

Following the fall in the capital market rate (yield on listed German government securities with a residual maturity of nine to ten years) in the summer of 2016 to a historic low of minus 0.2 percent, this rate rose again in the period up to July 2017 to just over 0.6 percent. Overall, however, the capital market rate has remained at a relatively low level. Share prices benefited from these favorable macroeconomic conditions. Whereas the EURO STOXX 50's increase of 6.5 percent was still notable, the performance of the German DAX share index was even more significant, climbing by 12.6 percent to 12,918 points at the end of the year.

Ordinary income from investment fund shares/units rose from €6,282 thousand in 2016 to €6,313 thousand in the year under review. In response to sustained low interest rates and as a consequence of market valuations of non-fungible investments, it was again possible to reverse write-downs on investment fund shares/units and bearer securities in an amount of €1,033 thousand (2016: €1,603 thousand). There were no interest-rate-induced write-downs on securities in the year under review (2016: €199 thousand). The net gain on investments (including administrative expenses) came to €11,229 thousand in 2017 (2016: €8,914 thousand). The net yield on investments (net gain or loss on investments (including administrative expenses) divided by the average investment portfolio value in accordance with HGB) was 3.4 percent (2016: 2.8 percent).

The following table shows the breakdown of ARAG Allgemeine's gains and losses on investments in accordance with HGB by individual asset class as required by Solvency II.

### Gains and losses on the investments of ARAG Allgemeine

Type of investment (€'000)							Change in gains and losses	
	Current income	Realized gains	Realized losses	Reversals of write-downs	Depreciation, amortization and write-downs	Current expense/loss transfers	Gains and losses on investments in 2017	Gains and losses on investments in 2016
Property, plant & equipment held for own use	0	0	0	0	0	0	0	0
Property (other than for own use)	0	0	0	0	0	0	0	0
Holdings in related undertakings, including participations	3,271	0	0	0	0	0	3,271	994
Equities – listed	0	0	0	0	0	0	0	0
Equities – unlisted	0	0	0	0	0	0	0	0
Government bonds	716	11	0	0	0	0	727	856
Corporate bonds	561	9	9	0	0	0	561	699
Structured notes	0	0	0	0	0	0	0	0
Collateralized securities	175	0	0	14	0	0	189	-38
Collective investment undertakings	6,313	453	0	1,018	0	0	7,784	7,948
Derivatives	0	0	0	0	0	0	0	0
Deposits other than cash equivalents	0	0	0	0	0	0	0	0
Other investments	0	0	0	0	0	0	0	0
Deposits to cedants	0	0	0	0	0	0	0	0
Cash and cash equivalents	135	0	0	0	0	0	135	142
Current expense (unallocated)/ loss transfers	0	0	0	0	0	1,440	-1,440	-1,687
<b>Total</b>	<b>11,172</b>	<b>473</b>	<b>9</b>	<b>1,033</b>	<b>0</b>	<b>1,440</b>	<b>11,229</b>	<b>8,914</b>

### Information on securitization instruments

Investments in securitization instruments also contributed to investment performance. As defined in HGB accounting rules, this category of investments mainly comprises instruments such as asset-backed securities and mortgage-backed securities. Pfandbriefs, on the other hand, are not classified as investments in securitization instruments because they are treated as corporate bonds. ARAG Allgemeine held no asset-backed securities or mortgage-backed securities as of the reporting date.

## 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 the components of other net income/expense:

### Other income

(€'000)	2017	2016	Change
German			
Income from services	1,298	1,085	213
Miscellaneous income	680	2,525	-1,845
<b>Total German</b>	<b>1,978</b>	<b>3,610</b>	<b>-1,632</b>
International branches	148	-43	191
Offsetting of income from services of the international branches	10	43	-33
<b>Total income</b>	<b>2,136</b>	<b>3,610</b>	<b>-1,474</b>

### Other expenses

(€'000)	2017	2016	Change
German			
Expenses for services	-804	-670	-134
Sundry expenses	-5,841	-5,120	-721
<b>Total German</b>	<b>-6,645</b>	<b>-5,790</b>	<b>-855</b>
International branches	-163	-21	-142
Offsetting of the expenses for services of the international branches	0	0	0
<b>Total expenses</b>	<b>-6,808</b>	<b>-5,811</b>	<b>-997</b>
<b>Other net income/expense</b>	<b>-4,672</b>	<b>-2,201</b>	<b>-2,471</b>

### Information on leases

A distinction is made between finance leases and operating leases. ARAG Allgemeine is a lessee under leases that are accounted for as operating leases. It is not involved in any material finance leases. The operating leases mainly relate to company cars used by employees of ARAG Allgemeine. As lessee, the Company recognizes the lease payments as an expense.

## A.5 Any Other Information

Chapters A.1 to A.4 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 culture in which risk is actively embraced as well as 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.

Together with the Management Boards of the other companies, the Management Board of ARAG Allgemeine has set up the Risk Committee to help it fulfill its risk management duties. 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.

ARAG Allgemeine Versicherungs-AG does not currently have an independent remuneration committee in accordance with article 275 (1) (f) of Delegated Regulation (EU) 2015/35 (the Delegated Regulation). The size of the Company (particularly the number of employees) in relation to the internal structure means that, at the moment, the organization itself along with the relevant units at the parent company ARAG SE are able to help the Management Board and the Supervisory Board supervise the remuneration guidelines and policies as well as the way they are put into practice and how they function. Therefore, it does not appear to be necessary to appoint an independent remuneration committee.

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 and Audit Committee and Human Resources Committee.

By the nature of its remit, the Finance and Audit Committee deals mainly with investment decisions and fundamental strategic decisions on asset allocation. The 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 ARAG Allgemeine Management Board member with relevant responsibility and to the ARAG SE Management Board member with relevant responsibility at a higher level, 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 (ICS). 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 Chief Risk Officer is a member of the Management Board of ARAG SE and responsible for Group Risk Management and Group Controlling. The Actuarial Function 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.

### **Information on remuneration guidelines and policies**

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 markets and make adjustments 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 the 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 in advance to prevent such risks materializing.

The remuneration of the Company's **Management Board members** comprises a fixed basic salary and a variable element and is in line with regulatory requirements. In particular, the basic salary is set at a level that ensures the members of the Management Board are not heavily reliant on the variable component. This is especially important to ensure that the variable component rewards good performance but does not create such a significant incentive that it could encourage actions counter to the interests of the Company.

The variable element is equivalent to a percentage of the basic salary. No share plans or share option programs are offered anywhere in the ARAG Group. Against this background and with a view to ensuring that the Company offers attractive, market-level remuneration, the variable element of the remuneration for Management Board members is set at 60 percent of basic salary and is subdivided into short-term and long-term components. The long-term component equates to 60 percent of the aforementioned variable remuneration and, in accordance with article 275 (2) (c) and (f) of the Delegated Regulation, is deferred and takes into account the outcome of a review to establish whether there is any requirement for a potential downward adjustment as a result of exposure to current or future risks. The targets relevant to variable remuneration 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.

If members of the Management Board simultaneously hold positions at the parent company ARAG SE, they receive no additional remuneration other than the remuneration under their principal employment contract. However, such multiple roles can be acknowledged in the various categories within target agreements related to the variable remuneration granted under the principal employment contract. In this case, particular attention is paid to ensuring that this does not give rise to conflicts of interest.

If an individual does hold such multiple positions or fulfill multiple roles, a proportion of the costs is passed on to the relevant company by the company responsible for paying the remuneration.

**Members of the Supervisory Board** of ARAG Allgemeine Versicherungs-AG only receive fixed remuneration for their activities; the amount is specified in accordance with the articles of incorporation. If a Supervisory Board member is also a member of the Management Board at the parent company ARAG SE, the remuneration is offset against the remuneration for the Management Board activities.

**Employees** only receive variable remuneration components when they reach a certain management level. The variable remuneration for these managers is based on annual target agreements, which include a mix of objective Group and division key performance indicators and individual targets. The variable element is equivalent to a percentage of the basic salary (maximum of 30 percent) and varies depending on management level and function.

The variable remuneration never exceeds the relevant basic salary. Target achievement is capped at predefined limits. The basic salary for the postholder concerned is set at an appropriate level to ensure that he or she is not substantially dependent on the variable remuneration components. Once again, the variable remuneration must encourage good performance but not create such a significant incentive that it could encourage actions counter to the interests of the Company.

The **key functions** of Risk Management (and the independent risk control function), Compliance, Internal Audit, and the Actuarial function have been outsourced to the parent company ARAG SE. An outsourcing officer has been appointed for each key function. The outsourcing officers do not receive additional remuneration for this role, nor do the people performing the functions at the service provider ARAG SE receive additional remuneration for this activity.

The Company grants **members of the Management Board** and their surviving dependants 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 dependants' pensions is limited to the amount of the retirement pension.

No early retirement arrangements have been 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.

The remuneration details set out for Management Board members who simultaneously fulfill roles for the parent company ARAG SE apply mutatis mutandis to pension and early retirement agreements.

**Supervisory Board members** do not receive any supplementary pensions.

The **key functions** of Risk Management, Compliance, Internal Audit, and the Actuarial function have been outsourced to the parent company ARAG SE. ARAG Allgemeine therefore does not grant any supplementary pensions.

In the period under review, there were no material transactions with shareholders, persons able to exercise significant influence over the Company, or members of the administrative, management, or supervisory bodies. No significant changes were made to the system of governance in the reporting period.

## B.2 Fit and Proper Requirements

The ARAG Fit&Proper guidance specifies requirements, responsibilities, and processes to ensure that the members of governing bodies, other postholders in key functions, and their employees are always professionally and personally suitable ('fit and proper') for the roles concerned. The main points are set out below.

### Management Board members

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 each Management Board member is responsible, the Management Board as a whole 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.

One standard benchmark is used to assess whether members of governing bodies 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.

### **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 applies *mutatis mutandis*.

### **Other key functions**

ARAG Allgemeine Versicherungs-AG has outsourced the key functions of Risk Management, Compliance, Internal Audit, and the Actuarial function to the relevant functions at the parent company ARAG SE. Outsourcing officers have been appointed. To enable tasks to be executed properly, outsourcing officers themselves must be of good repute and have the professional skills and qualifications to ensure that the mandate to monitor the outsourced key function concerned is carried out in accordance with the relevant requirements. The Management Board of the company that appoints the outsourcing officer assesses whether the 'fit and proper' requirements are satisfied.

A uniform standard applies throughout the Group for assessing whether a person is of good repute. As the outsourcing of key functions involves outsourcing arrangements within the Group, particular attention is paid to identifying and avoiding any conflicts of interest.

### **Continuing professional development as an ongoing process**

The responsible departments in the Company check whether all of the aforementioned members of governing bodies and postholders undertake the continuing professional development necessary to satisfy the requirements of their position. The professional development activities undertaken are documented in detail.

### **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, as a member of the Management Board 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 to the risk position. 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. The policy sets out the guidelines for each ORSA process. A risk analysis of strategic positioning is then carried out; this takes the form of a bottom-up assessment 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.

The ORSA process is the link between the risk management system and the Company's capital management. The ORSA report describes the extent to which the Company can maintain its risk profile over the planning horizon. The comparison between the overall solvency capital requirement and eligible own funds provides an indication of future coverage. The Management Board can then use this information to assess whether there may be a need for action regarding the level and structure of own funds and the structure of the risk profile. This may involve the implementation of measures related to capital management and/or adjustments to the risk management system.

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 internal policies and guidance.

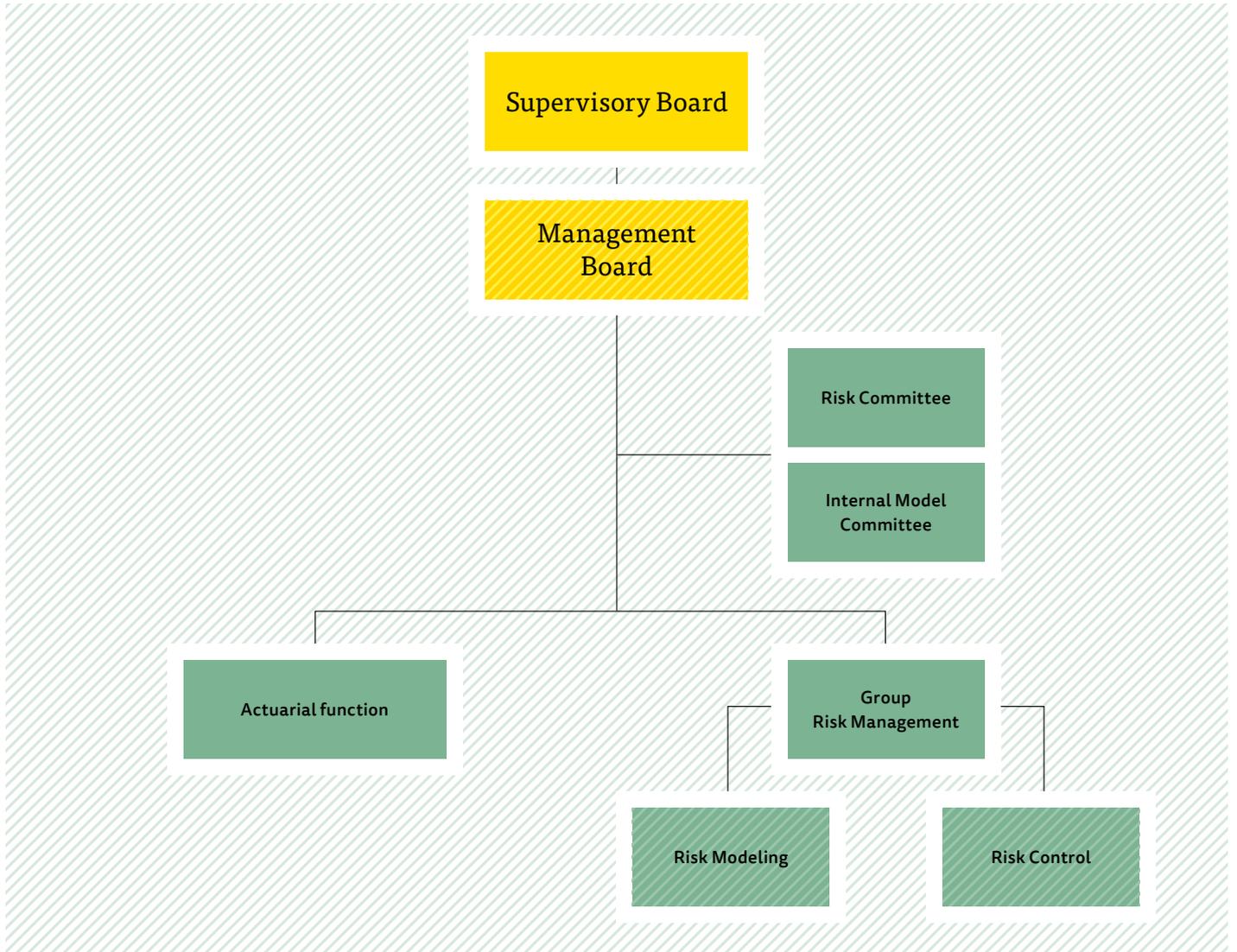
A regular validation process ensures that ARAG Allgemeine's partial internal model is always effective and its specifications are appropriate. Responsibility for validating the model lies with the Actuarial function. By assigning the task of model validation to this department, ARAG Allgemeine ensures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

Should it be necessary to modify the model as a result of the validation report or for other reasons, these changes are carried out using a process that is clearly defined in the model modification policy. Firstly, the Internal Model Committee classifies the intended change as either a major or a minor model modification. Model enhancements are not the responsibility of the Internal Model Committee. In such cases, a process to obtain new authorization from BaFin must be initiated. Major model modifications must be approved in writing by the Management Board and then submitted to BaFin for authorization. Minor model modifications are approved and initiated by the Risk Committee on the recommendation of the Internal Model Committee. All approved changes must be implemented without delay. BaFin is informed in writing on a quarterly basis of any minor model modifications that have been applied. The Actuarial function carries out an ad hoc validation process to review the implementation of major model modifications. BaFin is informed in good time if there are any plans for major model modifications. This ensures that the internal model is accurately tailored to the Company's circumstances at all times.

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## The Risk Committee's position within the organization



## B.4 Internal Control System

### Internal control system

The ARAG Group 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 has a consistent structure throughout the Group, ensuring that the connected systems and reports in the Group can be verified.

It 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. The ARAG Group pursues four main objectives with the ICS:

- Ensuring legal conformity: The ICS is designed to create and maintain compliance with an organizational framework that ensures that statutory and regulatory requirements are implemented.
- Helping to maintain the independence of the ARAG Group: The ICS 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 ICS 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 ICS contributes to effective and profitable business activities.

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 of the ICS 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 ICS 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 ICS, 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 in the ARAG Group, i.e. the Senior Vice Presidents (in Germany) and Branch CEOs (internationally). The ARAG Group structures its ICS 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 contractually appointed it to this role.

As part of the ICS'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 the ARAG Group'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.

At Group level, the compliance function is part of the Group Legal/Compliance Central Department 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, it is also possible to establish 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. If required, the steering group can be expanded to include other managers or reduced in size to make it more efficient.

## 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

In accordance with section 7 no. 2 VAG, 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.

Outsourcing in the regulatory sense therefore encompasses the outsourcing of functions and insurance activities by an insurance company to another entity.

Apart from the Management Board’s primary tasks (in particular ensuring a proper system of governance and making strategic decisions), all activities can in principle be outsourced. Third parties can only be involved in these primary tasks in an advisory or support capacity.

Every outsourcing project must be assessed to establish whether it involves the outsourcing of a function or activity subject to the regulatory outsourcing requirements. Section 32 VAG specifies that this includes functions and insurance activities subject to enhanced requirements where the functions or insurance activities concerned are classified as important. If a project is to be classified as ‘outsourcing’, there must always be a relationship between the outsourced function or activity and the insurance business.

The outsourcing of a key function represents a special situation, however. In this case, 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 (including its branches outside Germany) 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. The prices agreed with the service providers are deemed to be typical for the market. 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.

No new outsourcing relationships, either within the Group or with third parties, were established in 2017 in respect of important functions or insurance activities.

## 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 a culture in which risk is actively embraced.

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 appropriate 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.

## C. Risk Profile

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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. This strategy does not generally allow any risk to be transferred to special-purpose vehicles. 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. These two risks were the principal risks over the entire period under review. They also include the main risk concentrations to which the Company is exposed.

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 the Delegated Regulation. All quantitative disclosures relate to the figures in the quantitative reporting formats set out in the Appendix.

## 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.

Despite the use of the aforementioned risk mitigation techniques, a concentration of risk could arise as a result of natural disasters or large claims caused by people. However, a limit system is used to make sure that this risk is kept to a level that the Company can bear.

Various stress tests and sensitivity analyses were carried out in the reporting period. These tests and analyses included measurements of the impact from changes of up to 20 percent in the premiums, claims incurred, and costs. In these extreme scenarios, ARAG Allgemeine's coverage ratios fell to a minimum of 291 percent, which would still be sufficient and continue to represent a significant risk buffer for customers based on the Company's very good level of capital adequacy.

As of December 31, 2017, the solvency capital requirement for underwriting risk amounted to €18,265 thousand, which equated to a year-on-year rise of €4,514 thousand, or 36 percent, compared with the prior-year figure of €13,751 thousand. The main risk drivers were premium and reserve risk resulting from the Company's growth. There was also an increase in the risks stemming from natural disasters as a result of a particular exposure in the small business segment and the general rise in commission rates.

There were no significant changes in the risk assessment methodology in the period under review.

## 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

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, 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.

Potential risk concentrations in the investment portfolio are countered by applying a policy of diversification, which is integral to the prudent person principle. The system of limits also restricts an excessive concentration of market risk. Various stress tests and sensitivity analyses were carried out in the reporting period. These tests and analyses included measurement of the potential impact from changes of up to 210 basis points in

individual market parameters such as real estate, equities, and spreads on government and corporate bonds. In these extreme scenarios, ARAG Allgemeine's coverage ratios fell to a minimum of 260 percent, which would still be sufficient and continue to represent a significant risk buffer for customers based on the Company's very good level of capital adequacy.

As of December 31, 2017, the solvency capital requirement for market risk was €55,849 thousand, which equated to a decline of €579 thousand or 1 percent compared with December 31, 2016, the main risk drivers being equity risk and spread risk.

Based on a recommendation from the Actuarial function, no calculation of concentration risk was carried out in the period under review as such risk was not deemed to be material. The extent to which concentration risk is material or not will continue to be reviewed on an ongoing basis and the approach will be adjusted, if appropriate. Otherwise, there were no significant changes in the risk assessment methodology in the period under review.

### C.3 Credit Risk

While counterparty default risk attaching to investments is calculated as part of market risk, counterparty default risk in the insurance business is treated separately. Counterparty default risk in the insurance business largely arises in connection with receivables from reinsurers, receivables from policyholders, and receivables from insurance brokers. It is the downside risk arising from the unexpected default or deterioration in the credit standing of counterparties and debtors during the next twelve months.

Counterparty default risk is measured with the partial internal model. 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 treaties 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 amounted to €1,837 thousand as of December 31, 2017, which equated to a year-on-year fall of €220 thousand (11 percent).

There were no significant changes in the risk assessment methodology in the period under review.

## 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 or liquidity shortfall is calculated on a rolling basis.

Each line item on the balance sheet is assigned to a liquidity class so that the liquidity of the investment portfolio can be adjusted if necessary. To ensure the Company can always meet its liabilities when due, 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.

The expected profits included in future premiums represent a very illiquid component of basic own funds. These profits are therefore associated with a potential liquidity risk. Even if the expected profits contained in future premiums are not factored into basic own funds, the resulting liquidity risk is still classified as very low because of the significant excess cover. The expected profits included in future premiums amount to €17,375 thousand net.

## 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. It also includes losses from cyber risk. In addition, operational risk 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.

With regard to cyber risk, these strategies include information technology security measures and insurance solutions. Additional measures have been taken to counter the potential impact from a cyberattack. These include, for example, appropriate countermeasures in a business continuity management system. The strategy put in place is documented and its implementation is monitored on an ongoing basis. The solvency capital requirement for operational risk amounted to €4,505 thousand as of December 31, 2017 and therefore increased only marginally year on year (by €152 thousand or 3 percent). There were no significant changes in the risk assessment methodology in the period under review.

## 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 (Solvency II, SII) and then an explanation of any material differences. The SII figures are also compared with the equivalent prior-year figures.

Other than in the case of the valuation of investments in affiliated companies and in equity investments, there were no changes in the reporting period in the valuation bases used on the Solvency II balance sheet for the individual assets and liabilities described below.

All quantitative disclosures relate to the figures in the quantitative reporting formats set out in the Appendix. Figures are presented in thousands of euros.

\* The breakdown of the line items corresponds to that in the SII structure.

## D.1 Assets

### Comparison of assets on the HGB balance sheet and Solvency II balance sheet

#### Assets as of December 31, 2017

(€'000)

<b>Intangible assets</b>
<b>Deferred tax assets</b>
<b>Pension benefit surplus</b>
<b>Property, plant &amp; equipment held for own use</b>
<b>Investments (other than assets held for index-linked and unit-linked contracts)</b>
Property (other than for own use)
Holdings in related undertakings, including participations
Equities
Equities – listed
Equities – unlisted
Bonds
Government bonds
Corporate bonds
Structured notes
Collateralized securities
Collective investment undertakings
Derivatives
Deposits other than cash equivalents
Other investments
Carried forward:

	Solvency II as of Dec. 31, 2017	HGB as of Dec. 31, 2017	Difference as of Dec. 31, 2017	Solvency II as of Dec. 31, 2016	Solvency II year-on-year change
	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
	78,893	35,133	43,760	73,059	5,834
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	22,704	22,076	629	25,722	-3,018
	50,524	49,620	904	48,836	1,689
	0	0	0	0	0
	0	0	0	0	0
	<b>73,229</b>	<b>71,696</b>	<b>1,533</b>	<b>74,558</b>	<b>-1,329</b>
	253,594	223,425	30,170	244,123	9,471
	0	0	0	0	0
	84	84	0	88	-3
	3,033	1,876	1,157	3,049	-16
	<b>408,833</b>	<b>332,214</b>	<b>76,619</b>	<b>394,877</b>	<b>13,957</b>
	<b>408,833</b>	<b>332,214</b>	<b>76,619</b>	<b>394,877</b>	<b>13,957</b>

## Comparison of assets on the HGB balance sheet and Solvency II balance sheet

### Assets as of December 31, 2017

(€'000)

Brought forward:

#### Assets held for index-linked and unit-linked contracts

##### Loans and mortgages

Loans on policies

Loans and mortgages to individuals

Other loans and mortgages

##### Reinsurance recoverables from

Non-life and health similar to non-life

Non-life excluding health

Health similar to non-life

Life and health similar to life, excluding health and index-linked and unit-linked

Health similar to life

Life excluding health and index-linked and unit-linked

Life index-linked and unit-linked

##### Receivables

Deposits to cedants

Insurance and intermediaries receivables

Reinsurance receivables

Receivables (trade, not insurance)

##### Other assets

Own shares (held directly)

Amounts due in respect of own fund items or initial fund called up but not yet paid in

Cash and cash equivalents

Any other assets, not elsewhere shown

#### Total assets

	Solvency II as of Dec. 31, 2017	HGB as of Dec. 31, 2017	Difference as of Dec. 31, 2017	Solvency II as of Dec. 31, 2016	Solvency II year-on-year change
	408,833	332,214	76,619	394,877	13,957
	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
	18,170	29,024	-10,854	17,026	1,144
	0	0	0	0	0
	18,170	29,024	-10,854	17,026	1,144
	0	0	0	0	0
	4,937	0	4,937	6,248	-1,310
	4,937	0	4,937	6,248	-1,310
	0	0	0	0	0
	23,107	29,024	-5,917	23,274	-167
	112	112	0	95	17
	8,239	8,239	0	10,365	-2,126
	1,286	1,286	0	387	898
	20,460	20,460	0	8,186	12,274
	30,097	30,097	0	19,034	11,063
	0	0	0	0	0
	0	0	0	0	0
	2,342	2,342	0	3,272	-929
	8	8	0	11	-4
	2,350	2,350	0	3,283	-933
	464,387	393,685	70,702	440,468	23,920

**Intangible assets**

No intangible assets were recognized on the HGB balance sheet or on the Solvency II balance sheet as of December 31, 2017.

**Deferred tax assets**

If differences arise between the carrying amounts on the Solvency II balance sheet and those in the tax base and these differences are expected to reverse in subsequent years, deferred taxes are recognized on the Solvency II 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 Solvency II balance sheet, the effects of the reversal of the differences between the Solvency II 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. Future tax expense resulting from the reversal effects is always recognized. Deferred taxes from tax group 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 because the income of the tax group is aggregated for tax purposes and taxed overall at the level of the parent company. The deferred tax assets on the Solvency II balance sheet are deemed not to be impaired. 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.

Deferred tax assets totaling €20,110 thousand and deferred tax liabilities totaling €46,523 thousand were passed on to the parent company for 2017. This resulted in a net deferred tax liability of €26,413 thousand.

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 changes in the recognition and valuation methods compared with the previous year.

**Pension benefit surplus**

No pension benefit surplus had to be recognized as of the end of 2017.

**Property, plant & equipment held for own use**

There was no property, plant & equipment held for own use to recognize.

**Property (other than for own use)**

Likewise, there was nothing to recognize under property (other than for own use) as of December 31, 2017.

**Holdings in related undertakings, including participations**

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
<b>Total holdings in related undertakings, including participations</b>	<b>78,893</b>	<b>35,133</b>	<b>43,760</b>	<b>73,059</b>	<b>5,834</b>

Holdings in related undertakings, including participations 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, 2017, 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 2017, 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 companies' HGB financial statements, revalued in accordance with section 74 VAG, form the basis of their valuation.

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. Under the HGB, the values are limited to the historical costs. Valued for HGB purposes, shares in corporations amounted to €6,347 thousand (December 31, 2016: €6,347 thousand) and shares in partnerships amounted to €28,786 thousand (December 31, 2016: €27,977 thousand). Shares in affiliated companies therefore totaled €35,133 thousand (December 31, 2016: €34,324 thousand). This figure under the HGB was €43,760 thousand (December 31, 2016: €38,735 thousand) lower than the figure on the Solvency II balance sheet at the end of last year.

The increase in the economic value for solvency purposes was largely attributable to the higher carrying amount of the equity investment in Interlloyd Versicherungs-AG.

### Equities

ARAG Allgemeine did not have any direct investments in equities as of the balance sheet date or as of the prior-year reporting date.

### Bonds

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Government bonds	22,704	22,076	629	25,722	-3,018
Corporate bonds	50,524	49,620	904	48,836	1,689
Structured notes	0	0	0	0	0
Collateralized securities	0	0	0	0	0
<b>Total bonds</b>	<b>73,229</b>	<b>71,696</b>	<b>1,533</b>	<b>74,558</b>	<b>-1,329</b>

Bonds 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.

There were no changes in the recognition and valuation methods compared with the previous year.

The amount recognized on the HGB balance sheet was lower than on the Solvency II balance sheet both for government bonds (by €629 thousand; December 31, 2016: by €1,251 thousand) and for corporate bonds (by €904 thousand; December 31, 2016: by €1,364 thousand).

The year-on-year decrease in the economic value for solvency purposes was predominantly due to market movements.

### Collective investment undertakings

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Equities	62,502	53,563	8,938	58,898	3,604
Bonds	178,208	157,774	20,434	173,663	4,545
Other	12,884	12,087	798	11,562	1,322
<b>Total collective investment undertakings</b>	<b>253,594</b>	<b>223,425</b>	<b>30,170</b>	<b>244,123</b>	<b>9,471</b>

Collective investment undertakings that have not been classified as permanent fixed assets are valued under the HGB at the lower of their cost or quoted market price or market value as of the balance sheet date. In application of the strict principle of lower of cost or market value, no write-downs were recognized on securities in this line item (2016: €199 thousand). ARAG Allgemeine may make use of the option to select the discretionary principle of lower of cost or market value 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 2017 and 2016, no write-downs were required on these investments. Reversals of write-downs were recognized in an amount of €1,033 thousand in 2017 (2016: €1,603 thousand).

In accordance with Delegated Regulation (EU) No. 2015/2450, Annex II, collective investment undertakings in which the stake held is at least 20 percent are reported under collective investment undertakings and not under holdings in related undertakings, including participations. 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 RechVersV. This value is not restricted to the cost.

There were no changes in the recognition and valuation methods compared with the previous year.

As of December 31, 2017, the investment funds recognized on the Solvency II balance sheet were €30,170 thousand (December 31, 2016: €25,070 thousand) higher than their value of €223,425 thousand (December 31, 2016: €219,053 thousand) on the HGB balance sheet.

The year-on-year rise in the economic value for solvency purposes was mainly attributable to the rise in volume.

### Derivatives

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

### Deposits other than cash equivalents

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
<b>Total deposits other than cash equivalents</b>	<b>84</b>	<b>84</b>	<b>0</b>	<b>88</b>	<b>- 4</b>

Deposits other than cash equivalents 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 €84 thousand as of December 31, 2017, both on the HGB balance sheet and on the Solvency II balance sheet.

There were no changes in the recognition and valuation methods compared with the previous year.

The year-on-year changes in the economic value were attributable to ongoing business operations.

**Other investments**

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
<b>Total other investments</b>	<b>3,033</b>	<b>1,876</b>	<b>1,157</b>	<b>3,049</b>	<b>-16</b>

Other 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.

There were no changes in the recognition and valuation methods compared with the previous year.

Miscellaneous investments amounted to €1,876 thousand (December 31, 2016: €2,156 thousand) on the HGB balance sheet. The value on the Solvency II balance sheet was €1,157 thousand (December 31, 2016: €892 thousand) higher than the value on the HGB balance sheet.

The year-on-year fall in the economic value for solvency purposes was mainly attributable to the reduction in volume.

**Assets held for index-linked and unit-linked contracts**

There were no assets held for index-linked and unit-linked contracts to be recognized at the end of 2017.

**Loans and mortgages**

No loans or mortgages had to be recognized either on the HGB balance sheet or on the Solvency II balance sheet.

**Reinsurance recoverables from:**

(€'000)

	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Non-life and health similar to non-life	18,170	29,024	-10,854	17,026	1,144
of which: non-life excluding health	18,170	29,024	-10,854	17,026	1,144
of which: health similar to non-life	0	0	0	0	0
Life and health similar to life, excluding health and index-linked and unit-linked	4,937	0	4,937	6,248	-1,310
of which: health similar to life	0	0	0	0	0
of which: life excluding health and index-linked and unit-linked	4,937	0	4,937	6,248	-1,310
Life index-linked and unit-linked	0	0	0	0	0
<b>Total reinsurance recoverables</b>	<b>23,107</b>	<b>29,024</b>	<b>-5,917</b>	<b>23,274</b>	<b>-167</b>

To calculate the reinsurance recoverables, 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 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. Default probabilities 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 defined contractual scope of the underwritten reinsurance contracts 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 annually, or more frequently in some areas. A comparison with past experience is one of the methods used.

There were no changes in the recognition and valuation methods compared with the previous year.

The value for the reinsurers' share of technical provisions amounted to €29,024 thousand (December 31, 2016: €27,652 thousand) on the HGB balance sheet; the figure on the Solvency II balance sheet was €5,917 thousand (December 31, 2016: €4,378 thousand) lower owing to the aforementioned valuation differences.

### Receivables

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Deposits to cedants	112	112	0	95	17
Insurance and intermediaries receivables	8,239	8,239	0	10,365	-2,126
Reinsurance receivables	1,286	1,286	0	387	898
Receivables (trade, not insurance)	20,460	20,460	0	8,186	12,274
<b>Total receivables</b>	<b>30,097</b>	<b>30,097</b>	<b>0</b>	<b>19,034</b>	<b>11,063</b>

Deposits to cedants 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 to cedants amounted to €112 thousand (December 31, 2016: €95 thousand) on both the HGB balance sheet and the Solvency II balance sheet. There were no valuation differences.

Insurance and intermediaries receivables 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 €8,239 thousand (December 31, 2016: €10,365 thousand) on both the Solvency II balance sheet and the HGB balance sheet.

Reinsurance receivables 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 €1,286 thousand (December 31, 2016: €387 thousand) on both the HGB balance sheet and the Solvency II balance sheet, so there were no valuation differences.

Receivables (trade, not insurance) 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.

There were no changes in the recognition and valuation methods compared with the previous year.

Miscellaneous receivables amounted to €20,460 thousand (December 31, 2016: €8,186 thousand) on the HGB balance sheet and on the Solvency II balance sheet, so there were no valuation differences.

The year-on-year changes in the economic value were attributable to ongoing business operations.

### **Own shares (held directly)**

As of the reporting date, there were no own shares (held directly) to be recognized.

### **Amounts due in respect of own fund items or initial fund called up but not yet paid in**

Likewise, there was nothing to report as of December 31, 2017 for amounts due in respect of own fund items or initial fund called up but not yet paid in.

**Cash and cash equivalents**

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
<b>Total cash and cash equivalents</b>	2,342	2,342	0	3,272	- 930

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.

There were no changes in the recognition and valuation methods compared with the previous year.

The year-on-year changes in the economic value were attributable to ongoing business operations.

**Any other assets, not elsewhere shown**

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
<b>Total of any other assets, not elsewhere shown</b>	8	8	0	11	- 3

Any other assets, not elsewhere shown 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, 2017 at a discount rate of 4.5 percent.

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

There were no changes in the recognition and valuation methods compared with the previous year.

The year-on-year changes in the economic value were attributable to ongoing business operations.

Please refer to section A.4 for disclosures relating to leases. There were no material off-balance-sheet assets.

## D.2 Technical Provisions

### Comparison of technical provisions on the HGB balance sheet and Solvency II balance sheet

#### Technical provisions as of December 31, 2017

(€'000)

Technical provisions – non-life
Technical provisions – non-life (excluding health)
Technical provisions calculated as a whole
Best estimate
Risk margin
Technical provisions – health (similar to non-life)
Technical provisions calculated as a whole
Best estimate
Risk margin
Technical provisions – life (excluding index-linked and unit-linked)
Technical provisions – health (similar to life)
Technical provisions calculated as a whole
Best estimate
Risk margin
Technical provisions – life (excluding health and index-linked and unit-linked)
Technical provisions calculated as a whole
Best estimate
Risk margin
Technical provisions – index-linked and unit-linked
Technical provisions calculated as a whole
Best estimate
Risk margin
<b>Other technical provisions</b>
<b>Total provisions</b>

	Solvency II as of Dec. 31, 2017	HGB as of Dec. 31, 2017	Difference as of Dec. 31, 2017	Solvency II as of Dec. 31, 2016	Solvency II year-on-year change
	0	229,552	- 229,552	0	0
	113,457	0	113,457	107,402	6,056
	3,675	0	3,675	3,233	442
	<b>117,133</b>	<b>229,552</b>	<b>- 112,420</b>	<b>110,635</b>	<b>6,498</b>
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	0	0	0	0	0
	34,379	0	34,379	35,464	- 1,085
	0	0	0	0	0
	<b>34,379</b>	<b>0</b>	<b>34,379</b>	<b>35,464</b>	<b>- 1,085</b>
	0	0	0	0	0
	5,107	0	5,107	6,405	- 1,297
	598	0	598	559	39
	<b>5,705</b>	<b>0</b>	<b>5,705</b>	<b>6,963</b>	<b>- 1,258</b>
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>157,217</b>	<b>229,552</b>	<b>- 72,336</b>	<b>153,062</b>	<b>4,155</b>
	<b>0</b>	<b>45,974</b>	<b>- 45,974</b>	<b>0</b>	<b>0</b>
	<b>157,217</b>	<b>275,527</b>	<b>- 118,310</b>	<b>153,062</b>	<b>4,155</b>

**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.

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 341 g (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, HR).

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 0.9 percent – by the Company’s appointed 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. It is valued and recognized in accordance with section 341h HGB in conjunction with section 29 RechVersV. 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.

**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 **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. The calculation of technical provisions is subject to some uncertainty because the actual level of claims incurred in the future may differ from current forecasts. The degree of uncertainty can be measured on the basis of the extent to which future cash flows can be predicted. Technical provisions are determined using a wide range of assumptions relating to future trends in claims payments and reported claims. Wherever possible, these assumptions are based on historical patterns or estimates drawn up by experts.

The main source of uncertainty in connection with the claims provision is the potential for an unexpectedly high level of late reported claims or payments. The level of uncertainty in relation to both the premiums provision and the claims provision is quantified individually for each homogeneous risk group as part of internal modeling. The assumptions made are regularly reviewed, particularly as part of the validation process, and the uncertainty inherent in the technical provisions can therefore be considered manageable from an overall perspective.

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.

#### Reinsurance recoverables from:

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Non-life and health similar to non-life	18,170	29,024	- 10,854	17,026	1,144
of which: non-life excluding health	18,170	29,024	- 10,854	17,026	1,144
of which: health similar to non-life	0	0	0	0	0
Life and health similar to life, excluding health and index-linked and unit-linked	4,937	0	4,937	6,248	- 1,310
of which: health similar to life	0	0	0	0	0
of which: life excluding health and index-linked and unit-linked	4,937	0	4,937	6,248	- 1,310
Life index-linked and unit-linked	0	0	0	0	0
<b>Total reinsurance recoverables</b>	<b>23,107</b>	<b>29,024</b>	<b>- 5,917</b>	<b>23,274</b>	<b>- 167</b>

As of December 31, 2017, ARAG Allgemeine had not recognized any technical provisions for health insurance (similar to non-life) or for index-linked and unit-linked insurance.

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 €157,217 thousand (December 31, 2016: €153,062 thousand) on the Solvency II balance sheet and €275,527 thousand (December 31, 2016: €267,816 thousand) on the HGB balance sheet.

The gross total carrying amount of the technical provisions in accordance with Solvency II rose by €4,155 thousand year on year. As of December 31, 2017, the economic value of the claims provisions was revalued at segment level and definitively determined at the annual Reserve Committee meeting. At overall level, the provision for outstanding payments relating to claims incurred advanced by €3,945 thousand, primarily as a consequence of the growth in business. The increase in the gross provision was offset by a €1,569 thousand rise in the claims incurred that are to be reimbursed by the reinsurer. Consequently, the net increase in the claims provision was €2,375 thousand. The premiums provision changed only marginally year on year. The risk margin changed more or less in line with the change in the solvency capital requirement for future periods, as a result of which there was a rise of €442 thousand in this figure. The increase in the risk margin was also attributable to the growth of the business.

## D.3 Other Liabilities

### Comparison of other liabilities on the HGB balance sheet and Solvency II balance sheet

#### Other liabilities as of December 31, 2017

(€'000)

<b>Contingent liabilities</b>
<b>Provisions other than technical provisions</b>
<b>Pension benefit obligations</b>
<b>Deposits from reinsurers</b>
<b>Deferred tax liabilities</b>
<b>Derivatives</b>
<b>Debts owed to credit institutions</b>
<b>Financial liabilities other than debts owed to credit institutions</b>
Insurance & intermediaries payables
Reinsurance payables
Payables (trade, not insurance)
<b>Subordinated liabilities</b>
Subordinated liabilities not in basic own funds
Subordinated liabilities in basic own funds
<b>Any other liabilities, not elsewhere shown</b>
<b>Total liabilities</b>

	Solvency II as of Dec. 31, 2017	HGB as of Dec. 31, 2017	Difference as of Dec. 31, 2017	Solvency II as of Dec. 31, 2016	Solvency II year-on-year change
	0	0	0	0	0
	5,169	3,556	1,613	4,094	1,074
	37,776	29,762	8,015	38,075	- 299
	0	0	0	343	- 343
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	6,313	6,313	0	6,041	272
	945	945	0	757	188
	22,261	22,261	0	15,665	6,596
	<b>29,518</b>	<b>29,518</b>	<b>0</b>	<b>22,462</b>	<b>7,056</b>
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	<b>72,463</b>	<b>62,836</b>	<b>9,628</b>	<b>64,974</b>	<b>7,489</b>

### Contingent liabilities

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 changes in the recognition and valuation methods compared with the previous year.

There were no such contingent liabilities as of December 31, 2017.

### Provisions other than technical provisions

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
<b>Total provisions other than technical provisions</b>	<b>5,169</b>	<b>3,556</b>	<b>1,613</b>	<b>4,094</b>	<b>1,074</b>

A long-service provision was recognized in the year under review for long-service awards to be paid to employees. A residual maturity of 15 years was assumed. The seven-year average discount rate used by Deutsche Bundesbank was 2.80 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 2017, 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. A residual maturity of 15 years was assumed. The seven-year average discount rate used by Deutsche Bundesbank was 2.80 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 8 a 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. 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.

There were no changes in the recognition and valuation methods compared with the previous year.

The different discount rates gave rise to a difference of €1,613 thousand by which the economic value exceeded the HGB value. Under the HGB, the provisions other than technical provisions are recognized using a higher discount rate, so they are discounted to a greater degree. The other provisions amounted to €3,556 thousand on the HGB balance sheet (December 31, 2016: €2,933 thousand) and €5,169 thousand on the Solvency II balance sheet (December 31, 2016: €4,094 thousand).

The year-on-year rise in the Solvency II carrying amount was largely explained by a drop in the level of interest rates on the IAS 19 term structure used to discount the cash flows back to the reporting date.

### Pension benefit obligations

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
<b>Total pension benefit obligations</b>	37,776	29,762	8,015	38,075	- 299

In accordance with standard international practice, the pension benefit obligations are calculated using the PUC method and applying section 253 (1) sentence 2 HGB on the basis of the 2005G 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 3.68 percent was applied for the valuation as of December 31, 2017 (December 31, 2016: 4.01 percent). 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. 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.

There were no changes in the recognition and valuation methods compared with the previous year.

As a result of the valuation differences described, the provisions for pensions and other post-employment benefits were recognized at €29,762 thousand (December 31, 2016: €28,599 thousand) on the HGB balance sheet and at €37,776 thousand (December 31, 2016: €38,075 thousand) on the Solvency II balance sheet at the end of the reporting year.

### Deposits from reinsurers

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
<b>Total deposits from reinsurers</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>343</b>	<b>- 343</b>

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.

There were no changes in the recognition and valuation methods compared with the previous year.

No deposits received from reinsurers were recognized on either the HGB balance sheet or the Solvency II balance sheet as of the reporting date (December 31, 2016: €343 thousand). There are generally no valuation differences in respect of this line item.

### Deferred tax liabilities

An explanation of deferred tax liabilities can be found in section D.1 'Deferred tax assets'.

### Derivatives

No liabilities from derivatives were recognized as of December 31, 2017.

### Debts owed to credit institutions

ARAG Allgemeine did not have any debts owed to credit institutions as of December 31, 2017.

### Financial liabilities other than debts owed to credit institutions

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Insurance & intermediaries payables	6,313	6,313	0	6,041	272
Reinsurance payables	945	945	0	757	188
Payables (trade, not insurance)	22,261	22,261	0	15,665	6,596
<b>Total financial liabilities other than debts owed to credit institutions</b>	<b>29,518</b>	<b>29,518</b>	<b>0</b>	<b>22,462</b>	<b>7,056</b>

Insurance and intermediaries payables are valued at their nominal amount.

Liabilities to policyholders and brokers are recognized at their HGB value.

Liabilities from direct business amounted to €6,313 thousand (December 31, 2016: €6,041 thousand) on both the HGB balance sheet and the Solvency II balance sheet, so there were no valuation differences.

Reinsurance payables 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 €945 thousand (December 31, 2016: €757 thousand) on both the HGB balance sheet and the Solvency II balance sheet, so there were no valuation differences.

Payables (trade, not insurance) 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 €22,261 thousand (December 31, 2016: €15,665 thousand) on both the HGB balance sheet and the Solvency II balance sheet.

There were no changes in the recognition and valuation methods compared with the previous year.

The increase in payables (trade, not insurance) compared with December 31, 2016 was mainly due to ARAG Allgemeine's very good profit for 2017, which led to the recognition of higher liabilities to the parent company in connection with the profit transfer.

### **Subordinated liabilities**

There were no subordinated liabilities to be recognized as of December 31, 2017.

### **Any other liabilities, not elsewhere shown**

Likewise, no other liabilities, not elsewhere shown had to be recognized as of December 31, 2017.

## D.4 Alternative Methods for Valuation

No alternative valuation methods other than those listed in D.1 to 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 and about business and performance.

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## E.1 Own Funds

### Objectives, guidance, and procedures for managing own funds

In 2017, Solvency II balance sheets were prepared for the planning horizon on the basis of the budgeted results of operations. The internal capital management guidance states that if it is identified that solvency coverage is about to fall below a threshold value that is higher than the intervention value specified by BaFin, various measures should be considered to offset the fall in the level of coverage. If such a situation were to be identified, the governing bodies would be informed in accordance with the escalation path specified in the Company's capital management policy. Various measures would then be drawn up and examined as to their suitability before being submitted in turn to the decision-making bodies for implementation. The examination of whether one or more of the measures would be suitable would involve assessing when the measures could be implemented, what effect they would have, and whether multiple measures could be implemented in parallel.

In view of the existing solvency profile, the coverage ratio is not currently expected to fall below the internal reporting threshold, and certainly not below regulatory requirements. If, contrary to expectations, too great a fall in solvency coverage were to materialize in the medium term, the following measures would be considered with a view to increasing own funds:

- Restriction on distribution/profit transfer
- Additional payment into the capital reserve, increase in share capital
- Borrowing pursuant to section 89 (3) no. 2 VAG.

Subject to prior authorization from the supervisory authority, subordinated liabilities can also be used as basic own funds by companies that do not have securities admitted to trading on a regulated market in the EU. This method does provide a way of significantly bolstering own funds, although operating performance is adversely impacted by the interest that needs to be paid.

In 2017, the Company did not identify any need to strengthen components of basic own funds within its planning horizon. Accordingly, none of the measures listed above were drawn up or submitted to the decision-making bodies for implementation.

### Components and quality of own funds

As of December 31, 2017, ARAG Allgemeine Versicherungs-AG held basic own funds in the form of an excess of assets over liabilities of €234,707 thousand (December 31, 2016: €222,431 thousand) according to the Solvency II balance sheet.

This results in eligible own funds of €234,707 thousand (December 31, 2016: €222,431 thousand), 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

(€'000)	Dec. 31, 2017	Dec. 31, 2016
<b>Equity as of December 31 on the HGB balance sheet</b>	<b>55,323</b>	<b>55,323</b>
Revaluation of investments	76,619	67,369
Revaluation of reinsurance recoverables	-5,917	-4,378
Revaluation of technical provisions	118,310	114,753
Revaluation of provisions other than technical provisions	-1,613	-1,161
Revaluation of pension benefit obligations	-8,015	-9,475
<b>Excess of assets over liabilities according to the Solvency II balance sheet</b>	<b>234,707</b>	<b>222,431</b>
Additional basic own funds	0	0
<b>Total basic own funds as of December 31</b>	<b>234,707</b>	<b>222,431</b>

Please refer to chapter D. for information on the qualitative differences between the equity reported in the Company's financial statements and the excess of assets over liabilities calculated for solvency purposes as well as on the year-on-year changes.

### Own funds reconciliation reserve

(€'000)	Total	Tier 1 own funds	Tier 2 own funds	Tier 3 own funds
Share capital	44,000	44,000	0	0
Share premium account related to ordinary share capital	0	0	0	0
Reconciliation reserve	190,707	190,707	0	0
<b>Basic own funds</b>	<b>234,707</b>	<b>234,707</b>	<b>0</b>	<b>0</b>
Ancillary own funds (subordinated liabilities)	0	0	0	0
<b>Eligible own funds</b>	<b>234,707</b>	<b>234,707</b>	<b>0</b>	<b>0</b>

The reconciliation reserve amounted to €190,707 thousand and consisted of revenue reserves of €832 thousand, capital reserves pursuant to section 272 (2) HGB of €10,491 thousand, and valuation differences of €179,384 thousand.

All quantitative disclosures relate to the figures in the quantitative reporting formats set out in the Appendix.

## 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.

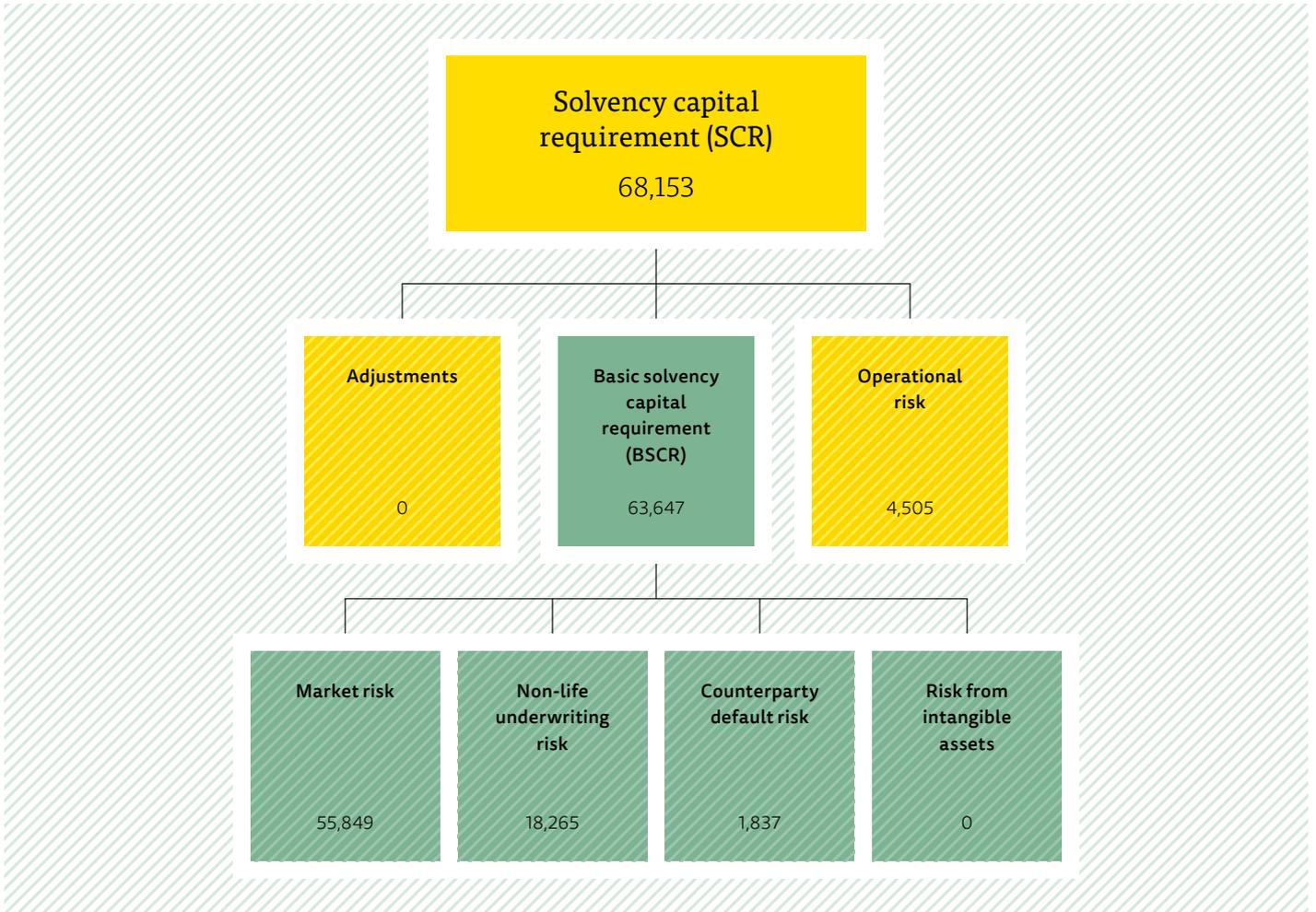
The solvency capital requirement increased only slightly year on year, by 3 percent, from €66,414 thousand as of December 31, 2016 to €68,153 thousand as of the reporting date. Please refer to chapter C. 'Risk Profile' for further information on the changes in the individual risks. At 344 percent, the coverage ratio is significantly higher than the regulatory requirement and, in ARAG Allgemeine's view, constitutes a substantial risk buffer for customers. This represented a further rise of 9 percentage points compared with the figure of 335 percent as of December 31, 2016, with the small rise in the solvency capital requirement being offset by the significantly larger increase in own funds.

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, 2017, the minimum capital requirement was €27,704 thousand (December 31, 2016: €24,617 thousand), which equated to 40 percent of the solvency capital requirement at that time and resulted in a coverage ratio for the minimum capital requirement of 847 percent (December 31, 2016: 904 percent).

The final amount of the solvency capital requirement is still subject to verification by the supervisory authority. All quantitative disclosures relate to the figures in the quantitative reporting formats set out in the Appendix.

## 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** 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's partial internal model was approved 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 were preceded by a five-year pre-application phase, during which in-depth discussions were held with BaFin, an appropriate governance structure was established (including the Risk Committee and Internal Model Committee described earlier), and a wide range of elements were introduced – with a view to using the partial internal model – such as a limit system, internal risk modeling, risk-oriented management, stakeholder-oriented reporting, and uniform quality standards for data.

From the perspective of ARAG Allgemeine, it was important to ensure that the development of the model 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:

- **Experience:** ARAG Allgemeine has operated successfully in the German insurance market for many years. In its relationships with customers, the Company sees itself as rather more than just an organization for reimbursing costs. It is always looking for new ways to provide comprehensive assistance for the customer if the worst-case scenario should arise. At ARAG Allgemeine, customer benefit and customer protection go hand in hand at all times.
- **Business model:** ARAG Allgemeine Versicherungs-AG is part of the ARAG Group, the largest family enterprise in the German insurance industry. The Group positions itself as a quality insurance provider focusing on private customers, associations, and small and medium-sized enterprises (SMEs). It is not involved in diversified corporate business with the special risks typical of this business.

- **Independence:** Independence is at the core of the ARAG Group, the largest family enterprise in the German insurance industry, and plays a key role at ARAG Allgemeine. It provides a great deal of business latitude, enabling the Company to make decisions without having to worry about short-term shareholder returns. ARAG Allgemeine also pursues a conservative business strategy with a long-term focus, offering stability, reliability, and continuity to both the Company and its customers.
- **Quality:** The success of the ARAG Group is based on quality and the particular innovative strength of the Group. The Group is always open to new ideas – reflected, not least, in its state-of-the-art insurance products and services. These are consistently focused on customer needs to ensure that customers enjoy both optimum insurance cover in line with their requirements and also genuine added value and benefits. The high quality of the services is reflected, among other things, in the numerous regular awards and seals of approval received from independent organizations.

This self-image, which is mirrored in the Group's business model, was one of the major factors behind the development of a partial internal model for ARAG Allgemeine. ARAG Allgemeine's specific risk profile cannot be accurately reflected using the standard formula.

The Company is able to draw on its extensive inhouse knowledge from its many years of experience and its claims history and combine this with a clear product and underwriting policy 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 analyzed and modeled separately in the partial internal model of ARAG Allgemeine, as is appropriate to a far more reality-based approach to risk modeling.

The internal modeling of market risk enables the scope and structure of the investment 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 – i.e. in the case of both internally modeled market risk and internally modeled non-life underwriting risk – the results are used for management on the basis of key risk indicators adjusted to the Company's specific requirements.

ARAG Allgemeine's partial internal model draws on the following internally modeled modules: market risk, non-life underwriting risk, and counterparty default risk. The non-life underwriting risk module and the market risk module are modeled up to the top module level as a distribution. The counterparty default risk module is scenario-based at the top level and contains parts of the standard formula. The counterparty default risk arising in connection with securities is integrated into the market risk module.

### Probability distribution forecast

The interest-rate, spread, equity, real-estate, and currency sub-risks are analyzed as part of the internal modeling of market risk. The concentration sub-risk is classified as not material and therefore not analyzed. However, changes in this sub-risk are continuously monitored as part of the validation process. The analysis is carried out according to various criteria, such as asset class, currency area, maturity, and credit quality level. The underlying stochastic models correspond to generally accepted methodologies in financial mathematics. A critical factor in the calculation of risk is the calibration of the underlying risk factors and their correlations. The calibration is carried out for each calculation reference date using the latest market data. Separate performance indices are calibrated on the basis of current risk calculations for relevant strategic equity investments in insurance companies within the ARAG Group.

Non-life underwriting risk comprises the following components: premium risk, reserve risk, and catastrophe risk, which consists of the modules for natural disasters and claims caused by people as well as lapse risk. The modules do not differ materially from the structure of the standard formula. The casualty segment as well as liability, accident, and motor insurance pensions, in which risk arises in connection with premiums, reserves, longevity, and costs, are also classified under non-life underwriting risk and quantified using the partial internal model. A critical factor in the calculation of risk is the calibration of the underlying risk factors and their correlations. The standard industry method is the main approach used to aggregate the distributions into an overall risk distribution for underwriting. The correlations applied for this purpose are determined internally using the ARAG Group's own history, which is supplemented with input from experts.

In the market risk and non-life underwriting risk modules, stochastic simulations are used to project the Company's own funds one year ahead without taking any tax effects into account. For the market risk and non-life underwriting risk modules, the solvency capital requirement then equates to the value-at-risk around the 99.5 percent quantile of the relevant loss distribution. A going-concern approach is assumed when determining underwriting risk. This means, in particular, that the forecast new business for the coming twelve months is included.

ARAG Allgemeine's underwriting portfolio is broken down into various segments according to management and risk considerations. This segmentation enables management-relevant information to be determined from the partial internal model and used for the management of the Company on a value-driven basis. The principle whereby groups sharing similar risk characteristics are modeled is also applied in this segmentation.

In ARAG Allgemeine's internal modeling, counterparty default risk is covered partially in the market risk module and partially in the counterparty default risk module. However, between the two modules, all default risk is covered. Those default risks that are not addressed in the market risk module are quantified in the counterparty default risk module. The remaining risks determined in this way are calculated using a factor approach based on the standard formula.

The individual market risk, non-life underwriting risk, and counterparty default risk modules are aggregated into the basic solvency capital requirement using a correlation approach. The total solvency capital requirement is determined by adding the solvency capital requirement for operational risk calculated in accordance with the standard formula and by applying the risk-mitigating effect from deferred taxes. No capital add-ons are recognized.

### Main differences between the internal model and the standard formula for each risk module

The differences between the internal model and the standard formula are explained below for each market risk sub-module.

#### Comparison between the market risk sub-modules in the internal model and the standard formula

Sub-module	Standard formula	Internal model
Interest rate	For each currency area, the risk-free interest-rate term structure is shifted upwards and downwards with maturity-dependent shocks.	A distribution for the underlying interest rate calibrated using current market data is simulated for each currency area and each maturity. Turns and bulges in the risk-free interest-rate term structure are observed in addition to shifts.
Spread	The market values of investments sensitive to spread risk are reduced with a factor dependent on asset class, credit quality level, and maturity.	In the internal model, firstly, a distribution for the underlying spread calibrated using current market data is simulated for each investment class, credit quality level, and maturity. Secondly, a change in the risk classification and payment defaults are simulated for each issuer. In addition to bonds, other items taken into account in this case (in contrast to the standardized approach) include cash exposures and government bonds.
Equities	A factor is used to stress the market values of all equity investments. A distinction is made between equity type 1 (listed equities from an OECD or EEA country) and equity type 2 (equities from other countries, strategic equity investments, and qualifying infrastructure). The solvency capital requirements resulting from the 'equity type 1' and 'equity type 2' scenarios are aggregated as the equity solvency capital requirement using a correlation approach.	A distribution of equity performance calibrated using current market data is simulated for each currency area. A similar distribution for private equity investments is also simulated. Separate distributions of performance are calibrated and simulated for strategic equity investments.
Real estate	The market values of all real estate investments are reduced by a particular factor.	A distribution of real estate performance calibrated using current market data is simulated for each currency area.
Currency	The market values of all assets and liabilities denominated in foreign currency are increased/decreased by a particular factor. This gives rise to a currency increase and a currency decrease risk for each currency area, reported as the corresponding loss of own funds.	A distribution for the change in the foreign currency/euro exchange rate calibrated using current market data is simulated for each currency area.

The differences between the internal model and the standard formula in respect of the counterparty default risk module are explained below.

### Comparison between the counterparty default risk module in the internal model and the standard formula

Risk module	Standard formula	Internal model
Default	Cash exposures and various receivables exposures are subjected to a shock using a factor approach.	Only receivables exposures are included because defaults relating to cash exposures are simulated in the market risk module on a stochastic basis. The default risk on receivables is valued in accordance with the standardized approach.

The differences between the internal model and the standard formula are explained below for each non-life underwriting risk sub-module.

### Comparison between the underwriting risk sub-modules in the internal model and the standard formula

Sub-module	Standard formula	Internal model
Premium and reserve risk	A factor-based approach is used in the standard formula. The standard volatility factors (market average) for each line of business are applied to the relevant volume measure (reserve or premiums). Specified correlation parameters are used in a linear correlation approach. Regional diversification is taken into account.	In the partial internal model, casualty and property insurance is broken down into groups of risks sharing similar characteristics and these risk groups form the ARAG segments. The risk calculation is based on company-specific data and internal calibration. Reinsurance is precisely reflected in the model, especially in relation to major losses. The aggregation method follows a copula approach. Well-established actuarial methods are used.
Lapse risk	A stress scenario is applied to the forecast profits from the current portfolio.	A lapse distribution is modeled, with calibration based on company-specific data.
Large claims caused by people	Predefined scenarios in the standard formula.	A committee of experts specifies company-specific scenarios for the risk model.
Natural disaster risk	Predefined scenarios in the standard formula.	Natural disaster risk is quantified with special geophysical models. The company-specific portfolio is used for this purpose.
Underwriting risk – life/health	Longevity and cost risk are quantified using predefined stress scenarios.	Longevity and cost risk are handled in the same way as in the standard formula.

Diversification effects are highlighted by aggregating the risk distributions for the individual sub-risks into the total risk capital requirement. The diversification effect between the modules for ARAG Allgemeine amounted to €12,304 thousand. Diversification effects arise if the risks to be aggregated are independent or only partially dependent on each other. Key diversification factors include, for example:

- Classes of insurance or segments – accident and liability risks
- Risk categories – natural disaster risks and risks caused by people
- Regions – occurrence of natural disasters in various regions.

To value the diversification effects within ARAG Allgemeine's partial internal model, the dependencies between the risk sub-modules and risk categories are quantified. The ARAG Group's own historical data is used to measure the dependencies. The parameters are reviewed annually by a committee of experts to check that they remain plausible.

**Appropriateness of data**

ARAG Allgemeine's partial internal model uses a variety of data sources as inputs for calibration and parameterization purposes. The basis is provided by the Company's own data. By using internal historical data for the calibration, it is possible to ensure that the risk profile is modeled accurately and an adequate forecast is generated.

The quality of the data used in the partial internal model's calculations is regularly reviewed. To this end, data quality standards have been laid down in a data quality policy. The objective of the standards is to safeguard the quality and appropriateness of the necessary data over the long term. ARAG examines data quality from the following perspectives:

- Accuracy – data must be error-free, consistent, and trustworthy.
- Completeness – data must be up to date and provide the necessary level of detail/granularity.
- Appropriateness – data must reflect current reality, be relevant to the business, and be fit for the intended purpose.

## **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
<b>Assets</b>		
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	408,833
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	78,893
Equities	R0100	0
Equities – listed	R0110	0
Equities – unlisted	R0120	0
Bonds	R0130	73,229
Government bonds	R0140	22,704
Corporate bonds	R0150	50,524
Structured notes	R0160	0
Collateralized securities	R0170	0
Collective investment undertakings	R0180	253,594
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	84
Other investments	R0210	3,033
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	23,107
Non-life and health similar to non-life	R0280	18,170
Non-life excluding health	R0290	18,170
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	4,937
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	4,937
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	112
Insurance and intermediaries receivables	R0360	8,239
Reinsurance receivables	R0370	1,286
Receivables (trade, not insurance)	R0380	20,460
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	2,342
Any other assets, not elsewhere shown	R0420	8
<b>Total assets</b>	R0500	<b>464,387</b>

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Liabilities</b>		
Technical provisions – non-life	R0510	117,133
Technical provisions – non-life (excluding health)	R0520	117,133
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	113,457
Risk margin	R0550	3,675
Technical provisions – health (similar to non-life)	R0560	0
Technical provisions calculated as a whole	R0570	0
Best estimate	R0580	0
Risk margin	R0590	0
Technical provisions – life (excluding index-linked and unit-linked)	R0600	40,084
Technical provisions – health (similar to life)	R0610	34,379
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	34,379
Risk margin	R0640	0
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	5,705
Technical provisions calculated as a whole	R0660	0
Best estimate	R0670	5,107
Risk margin	R0680	598
Technical provisions – index-linked and unit-linked	R0690	0
Technical provisions calculated as a whole	R0700	0
Best estimate	R0710	0
Risk margin	R0720	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	5,169
Pension benefit obligations	R0760	37,776
Deposits from reinsurers	R0770	0
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	6,313
Reinsurance payables	R0830	945
Payables (trade, not insurance)	R0840	22,261
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
<b>Total liabilities</b>	R0900	<b>229,680</b>
<b>Excess of assets over liabilities</b>	R1000	<b>234,707</b>

## S.05.01.02

## Premiums, claims and expenses by line of business

		Medical expense insurance	Income protection insurance
		C0010	C0020
<b>Premiums written</b>			
Gross – direct business	R0110	0	47,684
Gross – proportional reinsurance accepted	R0120	0	5,577
Gross – non-proportional reinsurance accepted	R0130	-	-
Reinsurers' share	R0140	0	1,523
Net	R0200	0	51,738
<b>Premiums earned</b>			
Gross – direct business	R0210	0	47,711
Gross – proportional reinsurance accepted	R0220	0	5,565
Gross – non-proportional reinsurance accepted	R0230	-	-
Reinsurers' share	R0240	0	1,523
Net	R0300	0	51,754
<b>Claims incurred</b>			
Gross – direct business	R0310	0	19,330
Gross – proportional reinsurance accepted	R0320	0	2,336
Gross – non-proportional reinsurance accepted	R0330	-	-
Reinsurers' share	R0340	0	1,535
Net	R0400	0	20,131
<b>Changes in other technical provisions</b>			
Gross – direct business	R0410	0	16
Gross – proportional reinsurance accepted	R0420	0	309
Gross – non-proportional reinsurance accepted	R0430	-	-
Reinsurers' share	R0440	0	0
Net	R0500	0	324
<b>Expenses incurred</b>	R0550	<b>0</b>	<b>29,345</b>
<b>Other expenses</b>	R1200	-	-
<b>Total expenses</b>	R1300	-	-

Line of business for: non-life insurance and reinsurance obligations (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	
C0030	C0040	C0050	C0060	C0070	C0080	C0090	
0	1,564	762	0	45,259	41,864	0	
0	0	0	0	20,365	2,780	0	
-	-	-	-	-	-	-	
0	167	0	0	2,316	1,857	0	
0	1,397	762	0	63,308	42,786	0	
0	1,564	762	0	45,113	41,814	0	
0	0	0	0	20,294	2,780	0	
-	-	-	-	-	-	-	
0	167	0	0	2,252	1,900	0	
0	1,397	762	0	63,156	42,694	0	
0	1,577	304	0	23,964	12,450	0	
0	0	0	0	8,726	685	0	
-	-	-	-	-	-	-	
0	220	-1	0	1,112	1,748	0	
0	1,357	305	0	31,578	11,387	0	
0	1,347	59	0	762	872	0	
0	0	0	0	-1,268	326	0	
-	-	-	-	-	-	-	
0	0	0	0	0	0	0	
0	1,347	59	0	-505	1,198	0	
<b>0</b>	<b>321</b>	<b>259</b>	<b>0</b>	<b>33,029</b>	<b>22,244</b>	<b>0</b>	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	

## S.05.01.02

## 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
<b>Premiums written</b>				
Gross – direct business	R0110	0	4,823	8,447
Gross – proportional reinsurance accepted	R0120	0	125	787
Gross – non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	0	0	10
Net	R0200	0	4,948	9,224
<b>Premiums earned</b>				
Gross – direct business	R0210	0	5,179	8,007
Gross – proportional reinsurance accepted	R0220	0	125	758
Gross – non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	0	0	10
Net	R0300	0	5,304	8,755
<b>Claims incurred</b>				
Gross – direct business	R0310	0	1,380	3,792
Gross – proportional reinsurance accepted	R0320	0	14	335
Gross – non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	0	0	0
Net	R0400	0	1,393	4,127
<b>Changes in other technical provisions</b>				
Gross – direct business	R0410	0	16	-497
Gross – proportional reinsurance accepted	R0420	0	0	8
Gross – non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	0	16	-489
<b>Expenses incurred</b>	R0550	<b>0</b>	<b>4,245</b>	<b>5,389</b>
<b>Other expenses</b>	R1200	-	-	-
<b>Total expenses</b>	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		150,402
0	0	0	0		29,634
-	-	-	-		-
0	0	0	0		5,872
0	0	0	0		174,164
0	0	0	0		150,150
0	0	0	0		29,522
-	-	-	-		-
0	0	0	0		5,851
0	0	0	0		173,822
0	0	0	0		62,797
0	0	0	0		12,094
-	-	-	-		-
0	0	0	0		4,615
0	0	0	0		70,277
0	0	0	0		2,575
0	0	0	0		-626
-	-	-	-		-
0	0	0	0		0
0	0	0	0		1,949
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>94,831</b>
-	-	-	-		<b>1,161</b>
-	-	-	-		<b>95,992</b>

## S.05.01.02

## Premiums, claims and expenses by line of business

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



## S.12.01.02

## Life and health SLT technical provisions

		Insurance with profit participation	Index-linked and unit-linked insurance
		C0020	C0030
<b>Technical provisions calculated as a whole</b>	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	-	-
<b>Technical provisions calculated as a sum of BE and RM</b>		-	-
<b>Best estimate</b>		-	-
<b>Gross best estimate</b>	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	-	-
<b>Risk margin</b>	R0100	-	-
<b>Amount of the transitional on technical provisions</b>		-	-
Technical provisions calculated as a whole	R0110	-	-
Best estimate	R0120	-	-
Risk margin	R0130	-	-
<b>Technical provisions - total</b>	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
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	5,063	44	5,107
-	-	-	-	-	4,937	0	4,937
-	-	-	-	-	126	44	170
-	-	-	-	-	593	5	598
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	5,655	50	5,705

## S.12.01.02

## Life and health SLT technical provisions

<b>Technical provisions calculated as a whole</b>	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
<b>Technical provisions calculated as a sum of BE and RM</b>	
<b>Best estimate</b>	
<b>Gross best estimate</b>	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
<b>Risk margin</b>	R0100
<b>Amount of the transitional on technical provisions</b>	
Technical provisions calculated as a whole	R0110
Best estimate	R0120
Risk margin	R0130
<b>Technical provisions – total</b>	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	-	-	32,983	1,396	34,379
0	-	-	0	0	0
0	-	-	32,983	1,396	34,379
-	0	0	0	0	0
-	-	-	-	-	-
-	0	0	-	-	-
0	-	-	-	-	-
-	0	0	-	-	-
-	0	0	32,983	1,396	34,379

## S.17.01.02

## Non-life technical provisions

		Medical expense insurance	Income protection insurance
		C0020	C0030
<b>Technical provisions calculated as a whole</b>	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	-	-
<b>Technical provisions calculated as a sum of BE and RM</b>			
Best estimate			
Premium provisions			
Gross	R0060	-	-1,548
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0140	-	-998
Net best estimate of premium provisions	R0150	-	-550
<b>Claims provisions</b>			
Gross	R0160	-	42,081
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0240	-	3,057
<b>Net best estimate of claims provisions</b>	R0250	-	<b>39,024</b>
<b>Total best estimate - gross</b>	R0260	-	<b>40,533</b>
<b>Total best estimate - net</b>	R0270	-	<b>38,474</b>
<b>Risk margin</b>	R0280	-	<b>0</b>
<b>Amount of the transitional on technical provisions</b>			
Technical provisions calculated as a whole	R0290	-	-
Best estimate	R0300	-	-
Risk margin	R0310	-	-
<b>Technical provisions - total</b>			
Technical provisions - total	R0320	-	40,533
Recoverable from reinsurance contract/SPV and finite re after the adjustment for expected losses due to counterparty default - total	R0330	-	2,059
Technical provisions minus recoverables from reinsurance/SPV and finite re - total	R0340	-	38,474

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
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-1	0	-	7,368	3,102	-
-	-3	-2	-	76	2,555	-
-	2	2	-	7,292	546	-
-	9,688	80	-	19,073	33,335	-
-	4,703	0	-	1,147	7,757	-
-	<b>4,985</b>	<b>80</b>	-	<b>17,926</b>	<b>25,578</b>	-
-	<b>9,687</b>	<b>80</b>	-	<b>26,441</b>	<b>36,437</b>	-
-	<b>4,987</b>	<b>82</b>	-	<b>25,218</b>	<b>26,125</b>	-
-	<b>565</b>	<b>5</b>	-	<b>1,111</b>	<b>1,943</b>	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	10,252	85	-	27,552	38,380	-
-	4,700	-2	-	1,223	10,312	-
-	5,552	87	-	26,330	28,067	-

## S.17.01.02

## Non-life technical provisions

<b>Technical provisions calculated as a whole</b>	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
<b>Technical provisions calculated as a sum of BE and RM</b>	
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
<b>Claims provisions</b>	
Gross	R0160
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0240
<b>Net best estimate of claims provisions</b>	R0250
<b>Total best estimate – gross</b>	R0260
<b>Total best estimate – net</b>	R0270
<b>Risk margin</b>	R0280
<b>Amount of the transitional on technical provisions</b>	
Technical provisions calculated as a whole	R0290
Best estimate	R0300
Risk margin	R0310
<b>Technical provisions – total</b>	
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
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,916	-2,531	-	-	-	-	8,306
-	0	-121	-	-	-	-	1,506
-	1,916	-2,410	-	-	-	-	6,800
-	173	721	-	-	-	-	105,151
-	0	0	-	-	-	-	16,664
-	<b>173</b>	<b>721</b>	-	-	-	-	<b>88,488</b>
-	<b>2,089</b>	<b>-1,810</b>	-	-	-	-	<b>113,457</b>
-	<b>2,089</b>	<b>-1,689</b>	-	-	-	-	<b>95,287</b>
-	<b>10</b>	<b>42</b>	-	-	-	-	<b>3,675</b>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	2,099	-1,768	-	-	-	-	117,133
-	0	-121	-	-	-	-	18,170
-	2,099	-1,647	-	-	-	-	98,963

## S.19.01.21

## 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	35,576	17,030	6,297	3,476	1,010	978
N-8	R0170	33,323	16,635	4,753	2,657	2,458	511
N-7	R0180	32,602	14,660	5,548	3,085	883	528
N-6	R0190	28,793	16,228	5,486	3,224	774	219
N-5	R0200	28,756	15,835	3,927	3,651	1,359	481
N-4	R0210	29,340	19,330	4,422	2,577	542	
N-3	R0220	28,491	17,118	4,762	3,157		
N-2	R0230	27,405	15,326	5,093			
N-1	R0240	26,855	16,961				
N	R0250	27,135					

**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	2,362
N-4	R0210	0	0	0	0	2,779	
N-3	R0220	0	0	0	3,911		
N-2	R0230	0	0	7,679			
N-1	R0240	0	13,259				
N	R0250	34,494					

Development year					In current year	Sum of years (cumulative)
6	7	8	9	10 & +		
C0070	C0080	C0090	C0100	C0110	C0170	C0180
-	-	-	-	365	R0100	365
505	1,242	297	134		R0160	134
820	402	40			R0170	40
533	1,853				R0180	1,853
281					R0190	281
					R0200	481
					R0210	542
					R0220	3,157
					R0230	5,093
					R0240	16,961
					R0250	27,135
				<b>Total</b>	R0260	<b>56,326</b>
						<b>901,517</b>

Development year					Year end (discounted data)	
6	7	8	9	10 & +		
C0260	C0270	C0280	C0290	C0300	C0360	
-	-	-	-	2,757	R0100	2,700
0	0	0	842		R0160	809
0	0	2,221			R0170	2,173
0	1,784				R0180	1,752
2,179					R0190	2,137
					R0200	2,304
					R0210	2,751
					R0220	3,888
					R0230	7,674
					R0240	13,261
					R0250	34,541
				<b>Total</b>	R0260	<b>79,111</b>

**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)**



## S.25.02.21

## 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 modeled	USP	Simplifications
C0010	C0020	C0030	C0070	C0080	C0090
1	Market risk	55,849	55,849		
2	Counter-party default risk	1,837	1,837		
3	Life underwriting risk	0			
4	Health underwriting risk	0			
5	Non-life underwriting risk	18,265	18,265		
6	Intangible asset risk	0			
7	Operational risk	4,505			
8	LAC technical provisions	0			
9	LAC deferred taxes	0			
<b>Calculation of solvency capital requirement</b>		<b>C0100</b>			
	Total undiversified components	R0110	80,456		
	Diversification	R0060	- 12,304		
	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0		
	<b>Solvency capital requirement excluding capital add-on</b>	<b>R0200</b>	<b>68,153</b>		
	Capital add-ons already set	R0210	0		
	<b>Solvency capital requirement</b>	<b>R0220</b>	<b>68,153</b>		
	<b>Other information on SCR</b>				
	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	26,978

		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	38,474	51,186
Workers' compensation insurance and proportional reinsurance	R0040	-	-
Motor vehicle liability insurance and proportional reinsurance	R0050	4,987	1,397
Other motor insurance and proportional reinsurance	R0060	82	762
Marine, aviation and transport insurance and proportional reinsurance	R0070	-	-
Fire and other damage to property insurance and proportional reinsurance	R0080	25,218	70,529
General liability insurance and proportional reinsurance	R0090	26,125	32,820
Credit and suretyship insurance and proportional reinsurance	R0100	-	-
Legal expenses insurance and proportional reinsurance	R0110	-	-
Assistance and proportional reinsurance	R0120	2,089	4,696
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0	12,543
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**

<b>C0040</b>		
MCRL result	R0200	726

		<b>Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0050</b>	<b>Net (of reinsurance/SPV) total capital at risk C0060</b>
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	34,549	–
Total capital at risk for all life (re)insurance obligations	R0250	–	–

**Overall MCR calculation**

<b>C0070</b>		
Linear MCR	R0300	27,704
SCR	R0310	68,153
MCR cap	R0320	30,669
MCR floor	R0330	17,038
Combined MCR	R0340	27,704
Absolute floor of the MCR	R0350	3,700
<b>C0070</b>		
Minimum capital requirement	R0400	27,704

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