

ARAG ALLGEMEINE VERSICHERUNGS-AG

2019 Solvency and Financial Condition Report



ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

CEO and Central Group Functions

Investments/ Corporate Development/ Organization

Sales, Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management and Group 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

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

Uwe Grünewald

Human Resources

Dr. Werenfried Wendler

Gross premiums written:

€ **188** million

↗ 2018: €182 million

Net income for the year (before profit transfer):

€ **11** million

↘ 2018: €19 million

Net combined ratio:

96.8 %

↘ 2018: 97.0 %

Eligible own funds:

€ **249** million

↗ 2018: €207 million

Solvency capital requirement:

€ **92** million

↗ 2018: €74 million

Solvency ratio:

270.4 %

↘ 2018: 278.0 %

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Summary

Chapter A. Business and Performance

Chapter A.1 provides detailed information on the position of Allgemeine Versicherungs-AG (referred to as the Company or ARAG Allgemeine) within the legal structure of the ARAG Group. It describes the principal divisions, presents qualitative and quantitative disclosures on relevant events and significant intragroup operations, and sets out material transactions during the year.

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.

The underwriting performance (chapter A.2), investment performance (chapter A.3), and performance of other activities (chapter A.4) at ARAG Allgemeine in the year under review are summarized below.

In 2019, gross premiums written went up by 3.5 percent to €188,134 thousand at ARAG Allgemeine (2018: €181,844 thousand). Premium income in the domestic direct business grew by 2.6 percent (2018: 2.5 percent). The insurance segments with the strongest premium volumes in direct business were general accident insurance (2019: €47,932 thousand; 2018: €47,698 thousand) and liability insurance (2019: €43,741 thousand; 2018: €42,361 thousand). The Company's total gross expenses for claims incurred fell by €4,800 thousand to €101,290 thousand. The gross claims ratio decreased by 4.3 percentage points to 53.9 percent in the year under review. Gross insurance business operating expenses went up by roughly 1.5 percent year on year to €75,796 thousand. The increase in expenses was mainly due to higher commission expenses on the back of the growth in premiums in the reporting year.

Under the German Commercial Code (HGB), the underwriting result before the equalization provision improved from €4,779 thousand to €5,228 thousand in the reporting year. In 2018, there had been exceptionally large reversals of the equalization provision, causing the underwriting result in accordance with HGB after the equalization provision to rise sharply. In 2019, by contrast, various additions to the equalization provision meant that the underwriting result in accordance with HGB after the equalization provision declined to €3,003 thousand (2018: €11,770 thousand).

Gains and losses on investments advanced by €1,098 thousand to a net gain of €11,613 thousand (2018: €10,515 thousand), primarily owing to higher gains on the disposal of investments. These gains amounted to €3,587 thousand and related, in particular, to institutional funds. After taking into account the sundry income and expense items, ARAG Allgemeine once again generated sound net income for the year of €11,282 thousand (2018: €18,525 thousand). All of this profit had to be transferred to ARAG SE.

Chapter B. System of Governance

Chapter B.1 contains information on the Management Board and Supervisory Board as well as on the tasks of the following four key functions: risk management, compliance, internal audit, and the actuarial function. As these functions are kept strictly separate from the operational departments as far as Management Board level, they can perform their duties objectively and independently. Moreover, they have a direct reporting line to the Management Board member with relevant responsibility.

There were changes to the Management Board's composition and the allocation of responsibilities during the reporting period.

The remuneration granted to the members of the Management Board and Supervisory Board and to the holders of key functions is structured such that it is consistent with market rates and rewards performance without creating undesirable incentives.

Chapter B.2 provides an overview of the specific 'fit and proper' requirements that must be satisfied by the members of the Management Board and Supervisory Board, and by the holders of other key functions. It also explains how the Company assesses whether these requirements are met.

Chapter B.3 describes the Company's risk management system and its implementation by the risk management function. The chapter also includes a description of the risk management process and the process for the Own Risk and Solvency Assessment.

A description of the internal control system and the implementation of the compliance function can be found in chapter B.4.

The other key functions (internal audit and actuarial function) are presented in chapters B.5 and B.6. Chapter B.7 describes how the Company handles outsourcing.

The statements in this chapter confirm that ARAG Allgemeine has a system of governance that facilitates sound, prudent management of the insurance business and that is commensurate with the nature, scope, and complexity of the Company's activities.

No significant changes were made to the system of governance in the reporting period.

Chapter C. Risk Profile

ARAG Allgemeine's risk profile is shaped by the two internally modeled major risks: market risk and underwriting risk. The solvency capital requirement (SCR) for market risk is €78,023 thousand. The primary sub-risks in this regard are equity risk, equity investment risk, and credit risk (attaching to investments). Underwriting risk, for which the solvency capital requirement is €20,251 thousand, is mainly influenced by premium and reserve risk and by natural disaster risk.

Chapter D. Valuation for Solvency Purposes

Solvency II lays down requirements for recognizing, valuing, and disclosing assets, technical provisions, and other liabilities. The Solvency II balance sheet presents the line items from an economic perspective, whereas the accounting rules under HGB require the strict or discretionary principle of lower of cost or market value to be applied. Consequently, the individual line items on the Solvency II balance sheet and HGB balance sheet are not directly comparable.

The line items and valuation bases are presented and described in chapter D. 'Valuation for Solvency Purposes'. In the reporting period, there were no changes in the valuation bases used for the Solvency II balance sheet in respect of assets (chapter D.1), technical provisions (chapter D.2), and other liabilities (chapter D.3) apart from the following exceptions.

In 2019, International Financial Reporting Standard (IFRS) 16 was adopted for the first time in connection with leasing arrangements. As a result, property, plant & equipment held for own use (D.1.6) increased by €6,495 thousand; financial liabilities other than debts owed to credit institutions (D.3.8) increased by the same amount. In the reporting year, there was also a change in the method used to generate the IAS 19 curve for discounting pension benefit obligations. This caused an increase of €634 thousand in the amount to be recognized for pension benefit obligations and long-service obligations (D.3.3).

The Company did not apply any transitional measures pursuant to section 352 of the German Insurance Supervision Act (VAG) in the reporting period.

Chapter E. Capital Management

Chapter E. starts with a reconciliation from equity in accordance with HGB to the excess of assets over liabilities pursuant to Solvency II and from equity in accordance with HGB to the own funds eligible to cover the regulatory solvency capital requirement.

ARAG Allgemeine's overall solvency capital requirement is €92,240 thousand. To cover this requirement, the Company has eligible own funds of €249,419 thousand, giving a coverage ratio of 270.4 percent. ARAG Allgemeine thus has a high level of capital adequacy, a clear sign of the Company's excellent financial strength.

The Company's minimum capital requirement is €28,987 thousand, which means the coverage ratio for the minimum capital requirement is 860.4 percent. Market risk and underwriting risk account for the greatest proportion of the solvency capital requirement.

ARAG Allgemeine determines its solvency capital requirement on the basis of a partial internal model. Chapter E.4 provides an overview of the differences between the partial internal model and the standard formula.

The Company complied with the minimum capital requirement and the solvency capital requirement at all times in the reporting year.

COVID-19 Pandemic

The disclosures in this report predominantly relate to 2019, i.e. before COVID-19 had developed into a pandemic with a far-reaching impact. To the extent possible, the information below provides an estimate of the impact of the pandemic on the Company's business and performance, the system of governance, the risk profile, the valuation for solvency purposes, and capital management.

Business and performance

After ARAG Allgemeine's financial statements in accordance with HGB and Solvency II for the year ended December 31, 2019 had been prepared, the COVID-19 epidemic that had emerged in December 2019 developed into a pandemic that is now having a massive impact on all aspects of public life and the economy.

The health risks for the population resulting from the pandemic are not yet known and they vary significantly. According to estimates of the ifo Institute of Economic Research from March 2020, the consequences of the COVID-19 pandemic for the economy and employees may give rise to costs of more than €700 billion in Germany alone, which would exceed anything previously seen with past economic crises and natural disasters. The insurance industry is likely to feel the effects. As well as operational restrictions, the main consequences that are expected are restrictions in sales, higher claim payments, and effects on investment portfolios.

ARAG Allgemeine believes that it also faces major challenges as a result of the COVID-19 pandemic and is making the necessary preparations. If the pandemic continues for a long time, it will not be possible to rule out reductions in new business and an increase in lapse rates. There may also be higher claim payments in the insurance business. The sharp falls observed in the financial markets since the beginning of March 2020 are also affecting ARAG Allgemeine's investment business, which will lead to write-downs if the capital markets do not rally over the course of the year.

However, the extent of COVID-19's economic impact remains very uncertain. To contain the pandemic, governments in most of the affected countries shut down the economy and public life (lockdown) on an unprecedented scale. The restrictions are now gradually being lifted due to the initial success of the measures put in place. If the number of infections increases again, there is a risk that lockdown measures will be reintroduced. Consequently, the Company's financial performance in 2020 cannot be reliably forecast at present.

System of governance

The fundamental structure of the system of governance, such as the key functions and the risk management system, is not normally affected by external events. To the extent that any Group company outsources important functions or services, they are carried out by another company in the Group. This particularly applies to services and specific committees for business continuity management (BCM), enabling their work to be managed and monitored directly in the current situation.

ARAG Allgemeine's system of governance has held up well in the crisis so far, so it remains unlikely that changes will be required.

Risk profile

If the macroeconomic forecasts prove to be correct, there may be an increase in claims incurred and lapse rates. New business may also be adversely affected. Negative trends were observable in the capital markets through into March 2020. Uncertainty is likely to remain at a high level. Investments have been hedged in order to reduce losses. There is a possibility of an increase in the solvency capital requirement due to insurance-related factors and due to the situation in the capital markets.

Liquidity continues to be assured, partly because the holding of cash has been increased.

In the current situation, there is a greater focus on operational risk, particularly business interruption risk. In this context, the ARAG Group has managed to remain fully operational and to reduce the health risks for employees thanks to the implementation of its digitalization strategy, as a result of which almost everyone is now working from home.

Valuation for solvency purposes

The possible economic impact of the COVID-19 pandemic on the Company's results of operations also has consequences for its net assets and financial position. At present, there is expected to be a significant impact on the Company's assets, especially investments. The current downturn in the capital markets is causing the fair value of investments to fall, thereby reducing the excess of assets over liabilities as of the relevant reporting date. An increase in technical provisions, which would also have an adverse effect, cannot be ruled out either. The specific impact depends on the duration of the crisis and cannot be reliably forecast at present.

Capital management

As a result of the COVID-19 pandemic, ARAG Allgemeine's excess of assets over liabilities is expected to decrease compared with December 31, 2019 owing to the anticipated sharp fall in the fair value of assets and the potential increase in technical provisions. At present, however, it is not possible to reliably estimate the decrease or its impact on equity.

The Company's solvency situation is monitored on an ongoing basis. This involves regularly estimating own funds, the SCR, and the solvency ratio on the basis of updated market parameters, valuations of the investment portfolio, and information about the insurance business. These estimates show that the level of cover has reduced but remains high and is above the minimum coverage ratio determined by business policy requirements. On this basis and in view of the stress tests and scenario analysis conducted during the reporting year, ARAG Allgemeine does not believe it is currently exposed to any foreseeable risk of non-compliance with the minimum capital requirement or the solvency capital requirement.

ARAG Allgemeine is closely monitoring developments in the COVID-19 pandemic and its possible impact on an ongoing basis.

A. Business and Performance

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A.1 Business

A.1.1 General disclosures

Legal basis

ARAG Allgemeine Versicherungs-AG was founded in Saarbrücken, Germany, on January 5, 1962 as Terra Allgemeine Versicherungs-AG. 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-AG
 ARAG Platz 1, 40472 Düsseldorf, Germany
 Tel: +49 (0)211 98 700 700
 Fax: +49 (0)211 963 2850
 Email: service@ARAG.de
 Website: www.ARAG.com

Supervisory authority

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

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
 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
 De-Mail: poststelle@bafin.de-mail.de
 Website: www.bafin.de

Independent auditor

The contact details of the appointed auditor are:

PricewaterhouseCoopers GmbH
 Wirtschaftsprüfungsgesellschaft
 Moskauer Strasse 19, 40227 Düsseldorf, Germany
 Tel: +49 (0)211 981 0
 Fax: +49 (0)211 981 1000
 Email: webkontakt_anfragen@de.pwc.com
 Website: www.pwc.de

A.1.2 Structure of ARAG Allgemeine and holders of qualifying holdings

ARAG Allgemeine Versicherungs-AG, Düsseldorf, belongs to the ARAG Holding SE Group, Düsseldorf, due to the existence of a controlling interest within the meaning of section 16 (1) in conjunction with (4) of the German Stock Corporation Act (AktG). ARAG Allgemeine is included in the consolidated financial statements of ARAG Holding SE.

The Company is a wholly owned subsidiary of ARAG SE, Düsseldorf. There is a profit-and-loss transfer agreement between ARAG Allgemeine and its parent company. ARAG Allgemeine has also entered into a profit-and-loss transfer agreement with its wholly owned subsidiary Interlloyd Versicherungs-AG, Düsseldorf.

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.

ARAG SE is responsible for the strategic management of the ARAG Group, whose parent company is ARAG Holding SE. The shareholders of ARAG Holding SE are FABI GmbH, Düsseldorf, which holds 45.5 percent, and Dr. Dr. h.c. Paul-Otto Faßbender, Düsseldorf, who holds the remaining 54.5 percent.

The consolidated financial statements and ARAG Allgemeine's financial statements are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection.

ARAG Holding SE limits itself to exercising its rights and fulfilling its obligations as a shareholder in the investee companies. The ARAG Group comprises 49 Group companies, including seven insurance companies headquartered in Germany, Norway, Switzerland, and the US.

List of the main affiliated companies

Name and location of registered office	Legal form	Country	Direct share	Group's share
1 ARAG Holding SE, Düsseldorf	SE (European company)	Germany	0.0 %	Group parent company
2 ARAG SE, Düsseldorf	SE	Germany	0.0 %	100.0 %
3 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	GmbH (private limited company)	Germany	0.0 %	100.0 %
4 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	GbR (partnership under the German Civil Code)	Germany	25.0 %	94.9 %
5 ARAG Krankenversicherungs-AG, Munich	AG (stock corporation)	Germany	0.0 %	94.0 %
6 ARAG Insurance Company Inc., Des Moines	Corporation	USA	0.0 %	100.0 %
7 ARAG International Holding GmbH, Düsseldorf	GmbH	Germany	0.0 %	100.0 %
8 ARAG IT GmbH, Düsseldorf	GmbH	Germany	0.0 %	100.0 %
9 ARAG North America Inc., Des Moines	Corporation	USA	0.0 %	100.0 %
10 ARAG plc, Bristol	plc (public limited company)	United Kingdom	0.0 %	100.0 %
11 ARAG Service Center GmbH, Düsseldorf	GmbH	Germany	20.0 %	100.0 %
12 Cura Versicherungsvermittlung GmbH, Düsseldorf	GmbH	Germany	0.0 %	100.0 %
13 HELP Forsikring AS, Oslo	AS (private limited liability company)	Norway	0.0 %	100.0 %
14 Interlloyd Versicherungs-AG, Düsseldorf	AG	Germany	100.0 %	100.0 %
15 ALIN 2 GmbH & Co. KG, Düsseldorf	GmbH & Co. KG (limited partnership with a GmbH as general partner)	Germany	100.0 %	100.0 %
16 ALIN 2 Verwaltungs GmbH, Düsseldorf	GmbH	Germany	100.0 %	100.0 %

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. 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.
3. AFI Verwaltungs-Gesellschaft mbH manages 50.0 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.
4. ARAG 2000 Grundstücksgesellschaft bR manages the site at ARAG Platz 1, 40472 Düsseldorf, where the ARAG Group's headquarters are located.
5. ARAG Krankenversicherungs-AG operates the private health insurance business. The need to separate the different segments (section 8 (4) 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. ARAG Insurance Company Inc., USA, operates legal insurance business, mainly through employers and trade associations. Insurance is provided to their employees and members, although coverage varies from state to state depending on the local regulatory rules. ARAG Insurance Company Inc. is part of the subgroup in the USA, which comprises five companies and is managed by ARAG North America Inc.
7. ARAG International Holding GmbH is an intermediate holding company connecting the North American (US and Canadian) subsidiaries to the ARAG Group in Germany. It is purely a financial holding company and limits itself to exercising its rights and fulfilling its obligations as a parent company. Besides its function as a holding company, it is also responsible for winding up the business activities of the ARAG Group's discontinued operations.
8. ARAG IT GmbH, which is located at the Düsseldorf site, primarily carries out data center activities and IT services for the ARAG Group. It also performs services for individual external customers.
9. ARAG North America Inc., USA, is the country-specific holding company for the ARAG Group's US business lines. It holds all of the shares in the four other US subsidiaries.
10. ARAG plc, United Kingdom, works as an intermediary by brokering business with end customers and passing it on to primary insurers within and outside the ARAG Group. The bulk of claims settlement for the primary insurers is handled by ARAG plc itself.

11. ARAG Service Center GmbH is the customer service center for all German insurance companies in the ARAG Group, providing comprehensive assistance services and a telephone hotline around the clock.
12. Cura Versicherungsvermittlung GmbH brokers insurance business to third parties that the ARAG Group does not underwrite itself. The company also takes care of the insurance requirements of the ARAG Group's own employees.
13. HELP Forsikring AS, Norway, primarily offers family legal insurance coverage for interest groups – predominantly members of labor unions – in Norway, Sweden, and Denmark via local branches. In Norway, it also offers a special legal insurance product for homebuyers.
14. 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.
15. 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.
16. ALIN 2 Verwaltungs-GmbH is a company whose purpose is to acquire, hold, and manage shares in companies and various investments as well as to accept the general partner liability and handle management activities in connection with companies or partnerships structured in accordance with HGB. Its main object is to hold an equity investment in, and be the general and managing partner of, ALIN 2 GmbH und Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.

Dividend/profit-and-loss transfer agreements

In October 2006, the Company and ARAG SE entered into a profit transfer agreement. In the year under review, this resulted in ARAG Allgemeine's entire profit of €11,282 thousand being transferred to ARAG SE. ARAG SE would also have been obliged to fully absorb any losses of the Company.

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.

Qualitative and quantitative disclosures on relevant events and significant intragroup transactions

ARAG SE is the lead company in the ARAG Group in terms of operational and strategic management. 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; it also manages overarching projects.

There are also service contracts with ARAG SE concerning insurance brokerage, the use of trademark rights, and support for and shared use of real estate, office furniture, and equipment. All services provided for other Group companies are charged on the basis of arm's-length terms and conditions that are typical in the market. There is also extensive internal documentation kept for tax purposes that contains information about the services provided and the basis on which they were charged.

In addition to the aforementioned contractual arrangements with ARAG SE, the Company entered into the following significant contract-based intragroup transactions with affiliated companies:

ARAG IT GmbH was engaged to perform consultancy/software development services and data center services.

There were no other relevant transactions to report for the period under review.

A.1.3 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, support and advice at local level, and claims processing support.

The territory covered by ARAG Allgemeine includes the Federal Republic of Germany and, for some classes of insurance, the United Kingdom and the Republic of Ireland. The UK business is operated by a branch established in 2016. The permanent establishment in the Republic of Ireland opened in 2019.

Insurance portfolio

At the end of the year under review, the portfolio of direct insurance contracts comprised 1,037,558 policies (December 31, 2018: 914,063 policies). Of this total, 928,337 policies (December 31, 2018: 913,997 policies) were attributable to the business in Germany, while the UK and Irish branches accounted for 109,221 policies (December 31, 2018: 66 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.

A.1.4 Significant business or other events in the reporting period

Products

ARAG Allgemeine believes it is critical to take the lead in its market and help to shape this market by introducing competitive products. The variable modules of these products allow the policyholders in the different target groups to obtain precisely tailored insurance cover and minimize their risks very well. This is also true of ARAG ReiseProtect, a new travel insurance product developed in 2019 and launched in early 2020. Customers can choose between a short-term and an annual policy. The short-term policy is only available online and can be taken out on the ARAG website or through individual brokers. It has four product lines: Basic, All-Inclusive, All-Inclusive Premium, and Backpacker. The features include assistance services, foreign health insurance, and luggage insurance. Depending on the chosen product line, they also include travel cancellation cover and selected legal insurance benefits. Cover is available for trips ranging from one night to a maximum of 90 days. The annual policy, ARAG ReiseProtect 365, is available for individuals, couples, and families and provides all-round protection for a whole year. It is offered through sales agents working exclusively for ARAG, through brokers and sales partners, and online. It includes worldwide cover for luggage, travel cancellation, foreign travel health insurance, emergency and vehicle assistance protection, legal insurance for motorists, travel contract legal insurance, initial advice over the telephone, and access to the ARAG Online Legal Service. The innovativeness and quality of ARAG Allgemeine's products were again confirmed in 2019 by numerous awards and top ratings.

Systems, IT, and digitalization

In 2018, ARAG initiated a holistic, domestic, and international strategy known as the Smart Insurer Program to reinforce the independence of the Group in the digital world and to cater to customers' changing requirements. This program-based approach consists of a broad range of different measures that the Group has already initiated and will continue to develop in the future. ARAG's declared intention is to turn itself and its Group companies into a 'smart insurer' by 2021. The strategy focuses on three core themes:

- **Smart Services** in order to expand digital customer services, products, access methods, and communication channels
- **Smart Data** to make even better use of data for the benefit of the Group's business
- **Smart Culture** to strengthen ARAG's corporate culture for the digital age

All teams in Germany and abroad were involved in determining the areas for action. The units were required to specify core measures that they thought were necessary from their perspective to help them implement the requirements under the ARAG Smart Insurer Program. All ARAG entities dedicated a great deal of effort to this process, as a result of which a total of 85 core measures had been received by the Group Management Board from all the Group units in Germany and abroad by the end of 2018.

The Group Management Board evaluated the proposals in 2019 and finally settled on and prioritized seven core action areas. Once the priorities had been set, projects were defined on the basis of the action areas and they got under way in the reporting year. In addition, the teams were called upon to independently pursue any individual measures that they had submitted but that were not included in the priority list.

Insurance-specific events

The level of gross expenses for claims incurred in 2019 benefited from the absence of major storms and other adverse weather events. The previous year had been adversely affected by severe weather events such as Storm Friederike, which hit Germany at the beginning of 2018. There were no comparable extreme weather events in the reporting year. As a result, the number of reported claims – particularly in the composite residential buildings insurance segment – decreased by more than 1,150. Across all lines of insurance, claims reported for 2019 were down by around 0.4 percent year on year. Moreover, the expense for major claims for 2019 in the direct organization and sports business, particularly in the composite residential buildings class of insurance, fell by €2,341 thousand compared with 2018. Gross expenses for claims incurred went down by approximately €4,800 thousand.

Company changes

The ARAG Group continued to pursue its strategy of internationalization in the reporting year. The company that it had established in Australia in 2018 went into operation in 2019. The primary objective of this company is to sell legal insurance products and services.

After obtaining approval from the competent supervisory authority, the ARAG Group took over the Irish legal insurance portfolio of an insurance firm in 2019.

There were no other material changes to the ARAG Group's structure or to the core business with an impact on the Company.

Dr. Werenfried Wendler was appointed to the Company's Management Board with effect from January 1, 2019. He is in charge of Human Resources, which is a newly created area of board responsibility. Wolfgang Mathmann stepped down from the Company's Management Board on April 14, 2019. His successor, Uwe Grünwald, took up the post on April 15, 2019.

There were no other changes in the Company's shareholdings or material changes in business activities in the reporting year.

In 2019, there were no other material transactions or other events with a significant impact on the Company.

Other events

The Company is monitoring the latest developments in relation to health emergencies, such as COVID-19, on an ongoing basis.

A.2 Underwriting Performance

A.2.1 Underwriting performance – overview

In the year under review, ARAG Allgemeine generated **income from gross premiums written** of €188,134 thousand (2018: €181,844 thousand). In the domestic business for the organization as a whole, income from gross premiums written grew by approximately 2.8 percent year on year (2018: 3.3 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 'Recht&Heim' all-round cover. After deduction of reinsurance premiums and the change in unearned premiums, premiums earned net of reinsurance came to €180,410 thousand (2018: €173,985 thousand).

Claims incurred (gross) declined by 4.5 percent to €101,290 thousand (2018: €106,090 thousand). The aforementioned positive trend in the major claims reported for 2019 had an especially significant influence on the claims ratio. The reduced incidence of storms and severe weather in the year under review also had a particularly favorable impact on the gross claims expense arising from composite residential buildings insurance policies. Although this meant that the gross claims expense decreased in 2019, claims incurred net of reinsurance went up by 4.8 percent due to a lower level of reinsurance. Net of reinsurance, the claims ratio increased to 55.5 percent in 2019 (2018: 54.9 percent).

The **change in other technical provisions (net)** amounted to an expense of €131 thousand (2018: income of €76 thousand). This was attributable to the change in the lapse provision in domestic direct insurance business.

Insurance business operating expenses (gross) went up slightly year on year. The commission expenses included in this figure amounted to €47,863 thousand (2018: €45,726 thousand) because of the increase in premiums. Overall, however, the gross cost ratio decreased slightly to stand at 40.3 percent in 2019 (2018: 41.0 percent) owing to the higher growth in premiums relative to the increase in costs. The ratio of insurance business operating expenses net of reinsurance to net premiums earned fell to 41.3 percent in 2019 (2018: 42.1 percent).

The **other expenses (net)** came to €1,211 thousand (2018: €1,234 thousand). This item predominantly consists of the fire protection tax to be paid.

The **underwriting result** in accordance with HGB net of reinsurance in 2019 amounted to €3,003 thousand (2018: €11,770 thousand). Based on the quantitative reporting (S.05.01.02), the underwriting result for the reporting period amounted to €3,287 thousand (2018: €2,823 thousand).

The following table shows this underwriting result with a reconciliation to the underwriting result in accordance with HGB, as published in the Company's 2019 Annual Report.

Underwriting result (net)

(€'000)	2019	2018
Net premiums earned	180,410	173,985
Claims incurred (net, excluding claim settlement costs)	71,256	65,917
Changes in other technical provisions (net)	- 131	76
Expenses incurred (net)	104,525	104,087
Other expenses (net)	1,211	1,234
Underwriting result in accordance with template S.05.01.02	3,287	2,823
Technical interest income	270	341
Miscellaneous underwriting income	549	447
Expenses for investment management	- 1,122	- 1,168
Underwriting result in accordance with HGB*	5,228	4,779
Change in the equalization provision and similar provisions	- 2,225	6,990
Underwriting result in accordance with HGB	3,003	11,770

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

The structure of the presentation follows that of template S.05.01.02 in the Appendix.

In the year under review, technical interest income decreased from €341 thousand to €270 thousand. This was due to the reduction in the discount rate, from 0.9 percent to 0.7 percent, that is used to calculate the benefit reserves for annuities.

The miscellaneous underwriting income of €549 thousand (2018: €447 thousand) largely comprised late-payment fees in direct business.

The change in the equalization provision in 2019 was primarily caused by additions under the composite home contents and business interruption classes of insurance in direct business, whereas there had been exceptionally large reversals under the general accident and composite home contents classes of insurance in inward reinsurance business in 2018.

A.2.2 Underwriting result by main line of business

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)	Changes in other technical provisions (net)	Expenses incurred and other expenses (net)	Underwriting result	Underwriting result
					2019	2018
General accident insurance	50,966	19,158	-47	24,900	6,861	4,709
General liability insurance	44,062	12,226	-29	28,472	3,335	4,221
Miscellaneous insurance	85,382	39,872	-55	52,364	-6,909	-6,107
Total	180,410	71,256	-131	105,736	3,287	2,823

* In accordance with template S.05.01.02

A.2.3 Underwriting result by main geographical area

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)	Changes in other technical provisions (net)	Expenses incurred and other expenses (net)	Underwriting result	Underwriting result
					2019	2018
Germany	175,834	69,384	-131	103,921	2,398	2,545
United Kingdom	4,071	1,860	0	1,749	462	278
Republic of Ireland	505	12	0	66	428	0
Total	180,410	71,256	-131	105,736	3,287	2,823

* In accordance with template S.05.01.02

A.3 Investment Performance

Investment performance is reported as gains and losses on investments, which, as described below, mainly consist of current income, realized gains and losses, depreciation, amortization, and write-downs, reversals of write-downs, current expenses, and loss transfers.

Gains and losses on investments increased from a net gain of €10,515 thousand to a net gain of €11,613 thousand. The main factors behind this year-on-year change were lower write-downs in an amount of €509 thousand (2018: €2,055 thousand) resulting from the uptrend in the capital markets and higher gains on the disposal of investments in an amount of €3,593 thousand (2018: €6 thousand). Current expenses in respect of investments, including technical interest, came to €1,393 thousand (2018: €1,509 thousand). Total expenses amounted to €1,931 thousand (2018: €4,650 thousand).

The sharp fall in expenses was counterbalanced by the decrease in total income from investments, which came to €13,544 thousand (2018: €15,165 thousand). Of this total, €8,605 thousand was attributable to current income (2018: €15,149 thousand). This reduction was due to the lower net profit transferred from the subsidiary Interlloyd Versicherungs-AG, which declined by €3,629 thousand to €2,298 thousand. The Company generated extraordinary income of €4,939 thousand in 2019 (2018: €16 thousand).

The net gains* on investments of €11,613 thousand described above equated to a net yield** on investments of 3.5 percent (2018: 3.2 percent). The current average yield*** on investments was 2.2 percent (2018: 4.2 percent).

* The expense for the management of investments is included in the net gain or loss.

** Calculation of net yield: net gain or loss on investments/average value of investment portfolio.

*** Calculation of current average yield: ordinary gains and losses on investments/average value of investment portfolio.

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 2019	Gains and losses on investments in 2018
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	3,189	0	0	0	0	0	3,189	7,002
Equities – listed	0	0	0	0	0	0	0	0
Equities – unlisted	0	0	0	0	0	0	0	0
Government bonds	492	20	0	2	340	0	174	645
Corporate bonds	337	5	29	0	169	0	143	359
Structured notes	0	0	0	0	0	0	0	0
Collateralized securities	340	18	0	174	0	0	532	372
Collective investment undertakings	4,101	3,550	0	1,170	0	0	8,821	3,380
Derivatives	0	0	0	0	0	0	0	0
Deposits other than cash equivalents	0	0	0	0	0	0	0	0
Other investments	147	0	0	0	0	0	147	265
Deposits to cedants	0	0	0	0	0	0	0	0
Cash and cash equivalents	0	0	0	0	0	0	0	0
Current expense (unallocated)/loss transfers	0	0	0	0	0	1,393	-1,393	-1,509
Total	8,605	3,593	29	1,345	509	1,393	11,613	10,515

Information on gains or losses recognized directly in equity

In the reporting year, the Company did not recognize any gains or losses directly in equity, for example as a result of the disposal of own shares. However, this does not include gains or losses arising from ordinary activities.

* The total of the gains and losses on investments presented in the table equates to the gains and losses on investments published in ARAG Allgemeine's 2019 Annual Report.

Information on securitization instruments

Investments in securitization instruments also make a contribution to investment performance. As defined in HGB accounting rules, securitization instruments mainly comprise instruments such as asset-backed securities and mortgage-backed securities. Pfandbriefs, on the other hand, are not classified as securitization instruments because they are treated as corporate bonds.

From a Solvency II perspective, the Company held asset-backed securities and mortgage-backed securities with a value of €1,990 thousand as of the reporting date (December 31, 2018: €1,463 thousand).

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. 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, and the 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)	2019	2018	Change
Income from services	1,228	1,104	124
Income from the reversal of provisions	1,048	522	526
Income from sub-letting of premises	16	17	-1
Sundry income	311	333	-22
Total	2,603	1,976	627

Other expenses			
(€'000)	2019	2018	Change
Expenses for services	811	763	48
Expenses incurred on behalf of the Company as a whole	3,163	3,184	-21
Interest expense and similar charges (interest cost from unwinding of discounts, interest on taxes)	1,208	1,279	-71
Sundry expenses	575	503	72
Total	5,757	5,729	28
Total other net income/expense	-3,154	-3,753	599

Tax income/expense

The tax expense amounted to €180 thousand in 2019 (2018: €7 thousand).

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 the company cars, rented offices, and cellphones used by the Company's employees. As lessee, ARAG Allgemeine recognizes the lease payments as an expense. Information about the application of IFRS 16 Leases is provided in chapter D. 'Valuation for Solvency Purposes'.

A.5 Any Other Information

Chapters A.1 to A.4 inclusive contain all of the important information about business and performance.

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B.1 General Information on the System of Governance

ARAG Allgemeine 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. The sections below describe the structure of the Company's Management Board and Supervisory Board, provide an overview of the system of governance, and assess whether this system is adequate.

B.1.1 Management Board and Supervisory Board

Management Board

The Management Board manages the business of ARAG Allgemeine in accordance with legal requirements, the Company's articles of incorporation, and the Management Board's rules of procedure. 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

There were changes to the Management Board during the reporting period. These are described in chapter A.1.4. As of December 31, 2019, the Management Board of ARAG Allgemeine had three members. The responsibilities are allocated as follows:

- Uwe Grünewald: Risk Management/Controlling/Finance and Accounting (since April 15, 2019)
- Christian Vogée: Sales/Operations/Claims/Sports Insurance
- Dr. Werenfried Wendler: Human Resources (since January 1, 2019)

A groupwide body, the Group Executive Committee (GEC), has also been established. It provides a platform for keeping the Group Management Board updated on business performance, discussing strategic matters, and preparing decisions to be made by the Management Board. Groupwide policies and standards that are relevant to subsidiaries in Germany and abroad are also discussed.

Together with the members of the Management Boards of the other ARAG Group companies, the Management Board 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 sub-committee, the Internal Model Committee.

ARAG Allgemeine 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.

Supervisory Board

The Supervisory Board is responsible for appointing and monitoring the Company's Management Board. The members of the Supervisory Board are as follows:

- Dr. Dr. h. c. Paul-Otto Faßbender (Chairman)
- Hanno Petersen (Deputy Chairman)
- Dr. Matthias Maslaton
- Dr. Joerg Schwarze
- Johannes Berg (employee representative)
- Wolfgang Platen (employee representative)

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 transactions that require approval according to the Company's articles of incorporation and the Management Board's rules of procedure. Such transactions include investment decisions, fundamental strategic decisions on asset allocation, and business decisions involving the Company's portfolio. The committee also deals with the approval of loans to members of the Management Board and other employees in senior positions (Prokuristen).

Furthermore, it monitors the awarding of contracts for non-audit services to the Company's current auditor and to firms that might potentially become the Company's auditor in the future. It is also responsible for the invitation to tender and short-listing for the appointment by the full Supervisory Board of a new auditor.

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.

B.1.2 Key functions

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 has outsourced these key functions within the Group to ARAG SE and appointed outsourcing officers. 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. The duties of the four key functions are briefly described below. Detailed information can be found in chapters B.3 to B.6.

Risk management

The tasks of the risk management function (also referred to as 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. Operational management of risk is carried out by the relevant process owners in compliance with internal rules. All risk-relevant decisions to be made by the Management Board must take into account the information from 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 duty of the function is to create the framework for compliance with the obligation to operate within the law, for example by issuing policies and guidelines. Responsibility for implementing the guidelines and policies lies with the manager of each individual department. The Chief Compliance Officer advises the Management Board on the risk resulting from changes to the law and submits regular reports on their work to the Management Board.

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. 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 made available 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 is essentially responsible for verifying the methodology used to calculate the technical provisions and for ensuring the adequacy of both the underwriting and contracting policy and the reinsurance policy. This includes verifying the methods applied, the assumptions made, and the data used. Responsibilities also include validating the partial internal model. The department submits reports on its findings to the Management Board and the supervisory authority.

B.1.3 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 60.0 percent of basic salary and is subdivided into short-term and long-term components. The long-term component equates to 60.0 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 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, this 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 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 postholders concerned is set at an appropriate level to ensure that they are 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, 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 information provided about remuneration for Management Board members who simultaneously fulfill roles for the parent company ARAG SE applies analogously 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.

B.1.4 Material transactions

Information on material transactions with shareholders, persons able to exercise significant influence over the Company, or members of the administrative, management, or supervisory bodies can be found in chapter A.1.2.

B.1.5 Significant changes to the system of governance

No significant changes were made to the system of governance in the reporting period.

B.1.6 Adequacy of the system of governance

ARAG Allgemeine's system of governance facilitates sound, prudent management of the insurance business and is commensurate with the nature, scope, and complexity of the Company's activities. It is regularly reviewed and modified, if required.

The Company has an appropriate organizational structure and an effective information system with clear lines of reporting. There are written guidelines covering the key elements of the system of governance and also detailed descriptions of the key functions, including the roles of the Management Board and Supervisory Board. In addition, the system of governance includes an appropriate remuneration system, business continuity plans, the implementation of the 'fit and proper' requirements, a risk management system (including the own risk and solvency assessment), an internal control system, the establishment of key functions, and rules governing outsourcing.

B.2 Fit and Proper Requirements

The Company's Fit&Proper guidance specifies requirements, responsibilities, and processes to ensure that senior managers, Supervisory Board members, persons responsible for 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. The individual members of the Management Board are each expected to have not only specialist knowledge of the areas for which they are 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.

A standard benchmark is used to assess whether members of governing bodies and other people in key functions are personally suitable for 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, their personal circumstances justify the assumption that these circumstances might negatively affect the careful and proper performance of their role or of the tasks assigned to them. 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 candidates' CVs – which should be informative and, in particular, contain details of all 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 candidates complete, sign, and submit to the Company a form requesting details about their good repute. The Company reserves the right to request additional documents, if necessary.

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. They 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 the German Federal Financial Supervisory Authority (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 analogously.

Key functions

ARAG Allgemeine 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.

Cause for reassessment

The Company'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, they 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, the main elements of which are the risk strategy, a system of limits, a process for own risk and solvency assessment (ORSA), and the operational risk management process, comprising the identification, analysis, measurement, management, monitoring, and reporting of risk.

B.3.1 Implementation of the risk management system

Risk strategy

The Management Board specifies the risk strategy on the basis of the business strategy. The risk strategy sets out the risk policy framework for the changes in the individual risk exposures associated with the strategic business objectives. It defines each risk category and the specifications for the relevant risk management process. It also describes the tools for ensuring compliance with the prescribed risk-bearing capacity based on the specified risk appetite. These tools are the regulatory and business policy minimum coverage ratio and the system of limits. 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.

The risk strategy is reviewed at least once a year to make sure that it is up to date. It is adjusted if required. It also has to be adjusted during the year if there are substantial changes to the overall risk profile.

Risk-bearing capacity and limit system

The risk-bearing capacity describes the extent to which potential losses from the assumed risks can be offset by own funds. The latest Solvency II balance sheet and the resulting regulatory solvency capital requirement are taken into account when assessing the assumed risks. From a regulatory perspective, risk-bearing capacity is in place if the solvency capital requirement does not exceed the value of own funds, i.e. the regulatory coverage ratio is at least 100.0 percent. The minimum coverage ratio in the business policy expresses the maximum extent to which the Company is prepared to take on risk to achieve the objectives specified in the business strategy. As a matter of business policy, the Management Board has set a minimum coverage ratio of 150.0 percent based on ARAG Allgemeine's conservative approach to risk and solvency. The Company therefore aims to maintain a risk buffer that is significantly higher than the regulatory requirement at all times.

The risk contribution from individual risk categories is monitored in addition to the coverage ratio in order to assess risk-bearing capacity. After the Management Board has specified an overall limit, this limit is apportioned to the most important risk categories (including sub-risks). The utilization of the limits is calculated during the year so that an assessment can then be made as to whether further risks can be assumed, risks need to be reduced, or an increase in limits is possible. A traffic light system is used, for both risk-bearing capacity and the limits at risk category level. The system enables ARAG to identify changes in the utilization of limits in good time and initiate corrective measures if necessary.

Risk management function

The risk management function is responsible for implementing the risk management system. This function has been outsourced to the Group Risk Management Central Department at ARAG SE. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level. The Chief Risk Officer is responsible for the implementation of the risk management system in all Group companies. The Chief Risk Officer is a member of the Management Board of ARAG SE and responsible for Group Risk Management and Group Controlling. By reporting regularly to the Management Board, Group Risk Management ensures 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 and operating models for determining risk-bearing capacity, the solvency capital requirement, and the allocation of solvency capital.

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

B.3.2 Risk management process

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, measured, 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 that is calculated for all quantified downside 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 shows the loss occurring within a specific holding period (one year) and with a specified level of probability (99.5 percent). This loss could arise, in particular, 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 suitable validation tests. Material risks that do not form part of the solvency capital requirement are measured as part of the ORSA process.

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.

The results from the risk monitoring process and the associated recommendations for action are reported to the Management Board regularly and promptly.

Unexpected or extreme events can also affect a company's risk profile. For this reason, ad hoc reports may be submitted if necessary.

B.3.3 Own risk and solvency assessment (ORSA)

The annual review of the ORSA guidance, which sets out the framework for each ORSA process, provides the starting point for all regular ORSA processes. A risk analysis of strategic positioning is then carried out; this takes the form of a bottom-up assessment by the managers involved.

Another analysis relates to the Solvency II balance sheet, which is material to calculating the solvency capital requirement and serves as the basis for projecting the balance sheet line items and related solvency capital requirements.

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 responsible for the annual ORSA process and takes a lead role in ensuring it is carried out. Using suitable budgeted figures, 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 positioning. 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.

B.3.4 Governance of the partial internal model

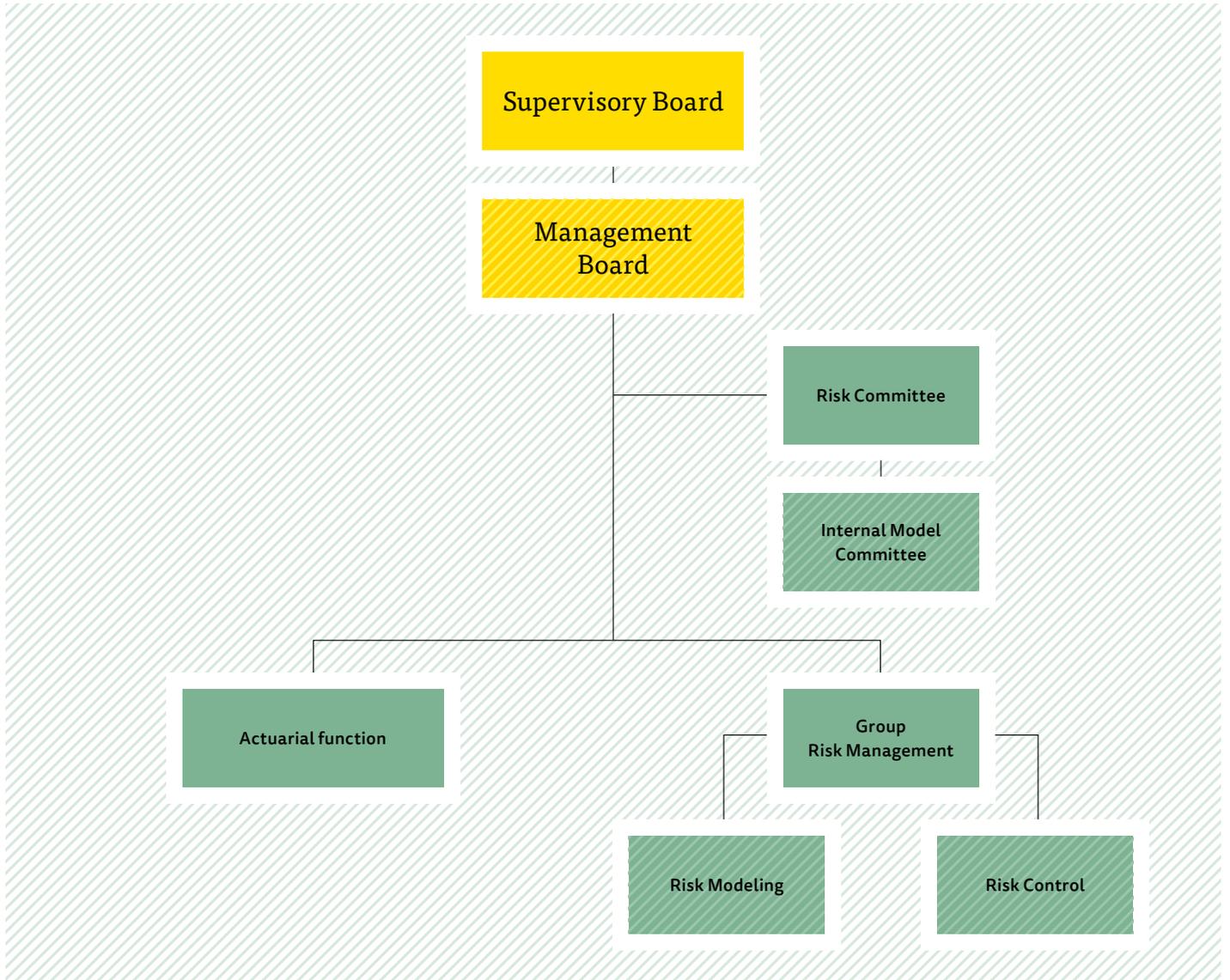
The Management Boards of the companies in the ARAG Group have formed a Risk Committee (RiCo) in order to incorporate the partial internal model into corporate management. The Risk Committee's main task is to assist the individual Management Boards with performing their risk management tasks in accordance 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. 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.

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'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 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 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 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.

The Risk Committee's position within the organization



B.4 Internal Control System

B.4.1 Internal control system

Definition and tasks

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:

- The ICS is designed to create and maintain compliance with an organizational framework that ensures that statutory and, in particular, regulatory requirements are implemented.
- The ICS is designed to help with identifying and reducing risks that may jeopardize the continued independence of the ARAG Group.
- The ICS is designed to create the regulatory environment required for use of the partial internal model under Solvency II.
- 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.

Organizational structure of the ICS

The Management Board occupies a special position within the organizational structure because it is responsible for ensuring an orderly and effective system of governance and thus for ensuring that the Company’s risk management and its 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.

Operational structure of the ICS

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

B.4.2 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 of ARAG SE. Although the Compliance Officer submits reports to the Management Board as a whole, this role 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 the internal audit function.

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

- Chief Information Security Officer
- Internal Audit
- IT Security
- Corporate Communications
- Risk Management
- Tax Department

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. 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.

The Group Audit Central Department assists the Management Board of ARAG Allgemeine with corporate management and helps it to fulfill its managerial and monitoring duties. This department 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 ICS 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 these employees 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 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 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 and employees of the actuarial function 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 a report to the Management Board containing information about the results of its work 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 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 their 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.

With the exception of service provision and operations, ARAG Allgemeine (including its branches outside Germany) has outsourced to ARAG SE (i.e. within the Group) nearly 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 it is the company whose functions are being outsourced.

No new outsourcing relationships, either within the Group or with third parties, were established in 2019 in respect of important functions or insurance activities.

B.8 Any Other Information

The preceding chapters contain all of the important information about the system of governance.

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ARAG Allgemeine's risk profile is derived from its business strategy. The risk strategy records and defines all risks arising from the business model. Most of these risks are either measured with the partial internal model or identified and measured in the ORSA process.

The risks for which the partial internal model is used are included in the risk profile regardless of their solvency capital requirement, whereas the risks identified in the ORSA process are analyzed to assess whether they are material or not. The solvency capital requirement is determined only for risks that exceed a certain threshold and are classified as material. The overall solvency capital requirement is determined from the solvency capital requirement calculated in the partial internal model and any additional capital requirement arising from the ORSA process.

There are no risks arising from off-balance-sheet exposures, nor are any risks transferred to special-purpose entities.

C.1 Underwriting Risk

Risk exposure

Underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities. It can arise from pricing that is subsequently found to be inadequate or from provisioning assumptions that require adjustment. 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: incidence of customers exiting their contracts early that is above the expected lapse rate

The solvency capital requirement for underwriting risk went up from €19,758 thousand as of December 31, 2018 to €20,251 thousand as of December 31, 2019, an increase of €494 thousand or 2.5 percent. The biggest sub-risks were premium/reserve risk and natural disaster risk.

Risk measurement

Risks are measured with an internal model. Using a simulation, possible losses and adverse changes in liabilities that could occur within a one-year observation period are forecast. The value of the risk equates to the 99.5 percent quantile, i.e. a negative result that would only be expected 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 simulations of future claims and/or required additions to reserves. Likewise, catastrophe risk is measured by simulating losses that may arise from disasters or large claims caused by people. Lapse risk is calculated on the basis of historical data. The actual underwriting risk arises from the aggregation of the individual risks, taking diversification effects into account.

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

Risk concentration

The Company focuses on small-scale insurance business for private customers and small businesses. It has a sufficiently large portfolio of products and does not underwrite serious or industry risks. This should avoid concentrations of risk. In individual cases, unfavorable timing in the occurrence of claims could lead to a concentration of catastrophe risk. ARAG Allgemeine has implemented appropriate risk mitigation measures to cover such exceptional losses. The limit system ensures that the underwriting risk as a whole and its sub-risks do not represent undesirable concentrations in the Company's risk profile.

Risk mitigation

To reduce 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.

An annual renewal process for reinsurance treaties ensures that this risk mitigation technique remains effective on an ongoing basis.

Risk sensitivity

Various sensitivity analyses were carried out in the reporting period. In the ORSA process, a number of variables (new policies underwritten, lapses, claims ratio, and cost/income ratio) were stressed with factors of 10.0 percent, 20.0 percent, and 25.0 percent. The budgeted SCR for 2020 increased by a maximum of €6,000 thousand in these scenarios. ARAG Allgemeine's coverage ratio fell by a maximum of 18.1 percentage points to 276.0 percent, which would still represent a significant risk buffer for customers.

C.2 Market Risk**Risk exposure**

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 (including equity investments): 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
- Credit risk (attaching to investments): changes resulting from investments in default (default risk), changes in the level or volatility of credit spreads over the risk-free interest-rate term structure (spread risk), and changes resulting from the migration of investments to different credit ratings (migration risk)
- Currency risk: changes in the level or volatility of exchange rates

The solvency capital requirement for market risk went up from €59,522 thousand as of December 31, 2018 to €78,023 thousand as of December 31, 2019, an increase of €18,500 thousand or 31.1 percent. This change was primarily driven by the growth of equity risk, equity investment risk, and credit risk attaching to investments as a result of larger exposures. The rise in credit risk was also attributable to the use of updated parameters for risk modeling. The biggest sub-risks were equity risk, equity investment risk, and credit risk attaching to investments.

Risk measurement

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.

Risk concentration

The Company applies the prudent person principle to its investments. This requires an appropriate diversification of the portfolio, as a result of which risk concentrations are generally restricted. The Company's limit system takes into account the individual risk profile of the investment and prevents a concentration of the biggest sub-risks, which the Company would not be able to bear. The actuarial function has classified concentration risk as not material and monitors it regularly. The limit system also ensures that market risk as a whole does not represent an undesirable concentration in the risk profile of the Company.

Risk mitigation

The regulatory requirements for implementing the prudent person principle form the framework for the risk mitigation measures. At strategic level, risk is limited by virtue of the fact that market risk limits are taken into account when determining the strategic asset allocation each year. Adherence to the limits is reviewed every quarter. A focus on a target portfolio that is steady over a number of years and an annual review of the asset/liability management (ALM) situation also ensure that these risk mitigation measures remain effective over the long term.

Operational measures to mitigate risk are set out in the investment guidelines. For example, derivatives may be used only to hedge changes in interest rates, share prices, and exchange rates. Investments in hedge funds are not permitted.

Risk sensitivity

In the year under review, analyses were carried out for further risk scenarios as part of the ORSA process. The financial crisis scenario examines the impact of a repetition of the unprecedented events that took place in the capital markets in 2008 on today's own funds. It results in a loss of own funds of €73,000 thousand. The loss in this scenario is higher than the occurrence of the 1 in 200 year event and roughly equates to the 99.7 percent quantile. The recession scenario examines the impact of an economic downturn based on economic performance from 2002 onward. It results in a loss of own funds of €27,000 thousand.

C.3 Credit Risk

Risk exposure

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 and receivables from policyholders/insurance brokers. It is the downside risk arising from the unexpected default of counterparties and debtors during the next twelve months.

The solvency capital requirement for credit risk went down from €4,266 thousand as of December 31, 2018 to €3,402 thousand as of December 31, 2019, a fall of €864 thousand or 20.3 percent.

Risk measurement

Risk is measured using the partial internal model and components of the standardized approach. 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.

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.

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

Risk concentration

The counterparties with a significant exposure are reinsurers. Risk concentrations are avoided because the reinsurance treaties are distributed among multiple reinsurers.

Risk mitigation

Default risk in connection with reinsurance treaties is reduced in accordance with the reinsurance strategy, which is reviewed at regular intervals. An annual renewal process for reinsurance treaties ensures that this risk mitigation technique remains effective on an ongoing basis.

As regards counterparty default risk arising from the insurance business, receivables from policyholders are managed by means of an automated reminder and dunning process. In the case of outstanding receivables from insurance brokers, commission payments to the brokers are automatically blocked until the receivables are settled.

Risk sensitivity

A separate stress test was not carried out for credit risk because of the relatively minor significance of credit risk in the overall risk profile of the Company.

C.4 Liquidity Risk

Risk exposure

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.

Liquidity risk is therefore a derived risk: It is a type of investment risk (assets are not liquid) and a type of underwriting risk (insurance benefits due for payment may exceed available liquidity).

There is no regulatory solvency capital requirement for the coverage of liquidity risk.

Risk measurement

Liquidity risk is measured by calculating the monthly excess liquidity cover or liquidity shortfall on a rolling basis. Liquidity planning is updated constantly so that ARAG has early warning of whether it will require additional liquidity in the coming months. There were no significant changes in the risk measurement methodology in the period under review.

Risk concentration

A risk concentration could arise if the Company had to simultaneously settle an increased number of liabilities because of disasters or accumulation events. 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. Tight counterparty and issuer limits also restrict the liquidity risk for individual issuers, such that a concentration of liquidity risk is unlikely.

Risk mitigation

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.

A medium-term liquidity summary is prepared as part of asset/liability management.

Risk sensitivity

Sensitivity analyses were carried out as part of asset/liability management in order to ensure appropriate liquidity levels even in the event of a business downturn. This involved examining how constraints on the ability to liquidate certain asset classes and any potential markdown would impact on the realizable market values of fungible investments. Liquidity was found to be sufficient in all of the analyses carried out.

Profits contained in future premiums

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 €18,546 thousand.

C.5 Operational Risk

Risk exposure

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 solvency capital requirement for operational risk went up from €5,519 thousand as of December 31, 2018 to €5,633 thousand as of December 31, 2019, an increase of €114 thousand or 2.1 percent.

Risk measurement

The Company uses the standard formula to determine the solvency capital requirement. Measurement for operational purposes is carried out on the basis of two dimensions: probability of occurrence and impact. The probability of occurrence describes the likelihood that an operational risk will materialize within a defined period. The second dimension describes the potential impact of the occurrence of an operational risk and is measured in quantitative or qualitative terms. The gross and net values are recorded for each dimension. The gross values are the values before implementation of possible measures to mitigate the risk; the net values are the values after implementation of the chosen measures. 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.

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

Risk concentration

The Company is not exposed to any operational risk that would lead to an unsustainable loss. There are contingency plans in place, for example in the areas of business continuity management and cybersecurity, for risks that could have an impact on the entire Company.

Risk mitigation

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

- 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, the definition of appropriate countermeasures as part of a business continuity management system. The implementation of each strategy used is continuously monitored to ensure the measures taken to reduce the risk remain effective on an ongoing basis.

Risk sensitivity

A separate stress test was not carried out for operational risk because of the specific nature of this type of risk in terms of the measurement methodology used for solvency and management purposes.

C.6 Other Material Risks

Strategic risk, reputational risk, and emerging risks are further risks specified in the risk strategy. These risks are measured during the annual ORSA process. The risk categories described below do not encompass any risks to the Company's continuing existence as a going concern.

Strategic risk

Strategic risk is the risk that arises from strategic business decisions. It also includes the risk of failure to adapt business decisions in line with changes in the economic environment. Strategic risk is normally a risk that occurs in connection with other risks, but it can also materialize by itself.

Reputational risk

Reputational risk is the risk of potential damage to the reputation of the Company arising from a negative perception of the Company among the general public (for example, among customers, business partners, shareholders, authorities). As in the case of strategic risk, reputational risk is normally a risk that occurs in connection with other risks.

Emerging risks

Emerging risks are risks that arise from changes in the socio-political or scientific/technical environment and that could have an impact on the Company's portfolio that is as yet unrecorded or unknown. The very nature of these risks means that there is a very high degree of uncertainty as to the probability of occurrence and the extent of potential losses.

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 of the valuation methods and their differences starts with a description of valuation under the German Commercial Code (HGB)* followed by a description of 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. The table below provides an overview of the total assets, technical provisions, and other liabilities.

Total assets, technical provisions, and other liabilities

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Assets	489,264	402,411	86,854	443,091	46,173
Technical provisions	172,534	295,313	-122,780	168,207	4,327
Other liabilities	67,312	51,774	15,537	67,918	-606
Excess of assets over liabilities	249,418	55,324	194,094	206,967	42,452

In the reporting period, there were no changes in the valuation bases (including any estimates) described below that are used for the Solvency II balance sheet in respect of assets, technical provisions, and other liabilities, apart from the following exceptions. In 2019, International Financial Reporting Standard (IFRS) 16 was adopted for the first time in connection with leasing arrangements. As a result, property, plant & equipment held for own use (D.1.6) increased by €6,495 thousand; financial liabilities other than debts owed to credit institutions (D.3.8) increased by the same amount. In the reporting year, there was also a change in the method used to generate the IAS 19 curve for discounting pension benefit obligations and long-service obligations. This caused an increase of €634 thousand in the amount to be recognized for pension benefit obligations (D.3.3). All quantitative disclosures relate to the figures in the quantitative reporting formats set out in the Appendix.

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

D.1 Assets

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

Assets as of December 31, 2019

(€'000)

Goodwill
Deferred acquisition costs
Intangible assets
Deferred tax assets
Pension benefit surplus
Property, plant & equipment held for own use
Investments (other than assets held for index-linked and unit-linked contracts)
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, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	0	3,554	-3,554	0	0
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	6,495	0	6,495	0	6,495
	0	0	0	0	0
	85,232	39,806	45,425	77,058	8,174
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	32,759	31,543	1,216	23,330	9,428
	66,826	65,579	1,247	47,503	19,323
	0	0	0	0	0
	0	0	0	0	0
	99,584	97,121	2,463	70,833	28,751
	240,505	201,332	39,173	238,440	2,065
	0	0	0	0	0
	88	88	0	83	5
	2,526	1,201	1,325	2,542	-16
	427,935	339,548	88,387	388,956	38,979
	434,430	343,102	91,328	388,956	45,474

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

Assets as of December 31, 2019

(€'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, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	434,430	343,102	91,328	388,956	45,474
	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
	19,441	31,088	- 11,647	19,408	33
	1,742	0	1,742	1,327	415
	21,184	31,088	-9,904	20,735	448
	0	0	0	0	0
	5,430	0	5,430	4,973	457
	5,430	0	5,430	4,973	457
	0	0	0	0	0
	26,614	31,088	-4,474	25,708	906
	0	0	0	0	0
	14,461	14,461	0	10,541	3,920
	1,130	1,130	0	2,659	- 1,528
	3,612	3,612	0	12,268	-8,657
	19,203	19,203	0	25,468	-6,265
	0	0	0	0	0
	0	0	0	0	0
	9,010	9,010	0	2,955	6,055
	8	8	0	4	4
	9,018	9,018	0	2,959	6,059
	489,264	402,411	86,854	443,091	46,173

D.1.1 Goodwill

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	0	3,554	-3,554	0	0

In the HGB financial statements, goodwill is recognized at cost and reduced by amortization at the applicable rate on a straight-line basis. As of December 31, 2019, its carrying amount was €3,554 thousand.

Goodwill was not recognized on the Solvency II balance sheet as of December 31, 2019, nor as of the prior-year reporting date, in accordance with article 12 (2) of the Solvency II Delegated Regulation.

Due to goodwill not being included for solvency purposes, the Solvency II valuation was €3,554 thousand lower than the carrying amount on the HGB balance sheet.

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

D.1.2 Deferred acquisition costs

As of the reporting date, no deferred acquisition costs were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.3 Intangible assets

Intangible assets consist of purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets.

As of the reporting date, no intangible assets were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.4 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/branch 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. Deferred tax assets and liabilities are not shown on a net basis.

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.

If applicable, 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. Deferred tax assets are not discounted.

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.

Deferred tax assets totaling €37,255 thousand and deferred tax liabilities totaling €69,113 thousand were passed on to the parent company for 2019. As a result, the parent company's net deferred tax liability in respect of ARAG Allgemeine amounted to €31,858 thousand.

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

D.1.5 Pension benefit surplus

As of the reporting date, no pension benefit surpluses were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.6 Property, plant & equipment held for own use

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	6,495	0	6,495	0	6,495

As of the reporting date, no **property held for own use** was recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

Plant and equipment held for own use is recognized at cost on the HGB balance sheet and subsequently depreciated on a straight-line basis over the standard operating useful life. Low-value assets purchased in the reporting year are written off in full in accordance with the regulations. The treatment of plant and equipment held for own use for solvency purposes is no different from its treatment under HGB for reasons of materiality, lower risk, and the disproportionate time, effort, and expense that would otherwise be involved.

The year-on-year rise of €6,495 thousand was mainly due to the first-time adoption of IFRS 16 in connection with leasing arrangements. The recognition of leasing arrangements under Solvency II gave rise to an obligation of €6,495 thousand at ARAG Allgemeine.

There were no other changes in the stated recognition and valuation methods compared with the previous year for the items under property, plant & equipment held for own use.

D.1.7 Property (other than for own use)

As of the reporting date, no property (other than for own use) was recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.8 Holdings in related undertakings, including participations

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	85,232	39,806	45,425	77,058	8,174

Shares in affiliated companies (related undertakings), including equity investments (participations), were valued at cost in accordance with HGB in the reporting year. Where necessary, they were written down to their fair value. 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. The Company's material affiliated companies and equity investments as of December 31, 2019 are listed in chapter A.1.2. They primarily comprise the 25 percent equity investment in ARAG 2000 GbR, Düsseldorf, with a carrying amount of €19,807 thousand (December 31, 2018: €21,312 thousand) and the 100 percent equity investments in ALIN 2 GmbH & Co. KG, Düsseldorf, and Interlloyd Versicherungs-AG, Düsseldorf, with carrying amounts of €10,840 thousand and €6,308 thousand respectively (December 31, 2018: €7,668 thousand and €6,308 thousand).

No write-downs to cover expected permanent impairment were necessary in the year under review, nor were any reversals of write-downs.

The method used to value subsidiaries and equity investments for solvency purposes depends on their type. Insurance subsidiaries, intermediate holding companies, and insurance operating companies are valued on the basis of the pro rata excess of the assets over the liabilities of the subsidiary as recognized on its Solvency II balance sheet. The valuation of the assets and liabilities on a subsidiary's Solvency II balance sheet is based on the valuation rules for solvency purposes. At the first valuation level, other subsidiaries are valued at market price. If no market prices are available, they are recognized at the second valuation level on the basis of their pro rata equity derived from modified financial statements in which special assets and liabilities are valued in accordance with the principles of valuation for solvency purposes and the International Financial Reporting Standards (IFRS).

The carrying amount at cost on the HGB balance sheet was €45,425 thousand lower than the fair value on the Solvency II balance sheet because of the different valuation methods described above.

The €8,174 thousand increase in the Solvency II carrying amount compared with December 31, 2018 was primarily due to the improvement in the excess of assets over liabilities at ALIN 2 GmbH & Co. KG.

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

D.1.9. Equities

As of the reporting date, no directly held listed or unlisted equities were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.10 Bonds

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Government bonds	32,759	31,543	1,216	23,330	9,428
Corporate bonds	66,826	65,579	1,247	47,503	19,323
Structured notes	0	0	0	0	0
Collateralized securities	0	0	0	0	0
Total	99,584	97,121	2,463	70,833	28,751

Bonds that, overall, are not intended for permanent use in insurance operations are valued under 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.

Compared with recognition under HGB, the valuation of bonds in accordance with the rules described above has resulted in valuation reserves of €2,463 thousand (December 31, 2018: €459 thousand) that have not yet been realized. The year-on-year increase in the Solvency II carrying amount of €28,751 thousand (December 31, 2018: decrease of €2,395 thousand) was mainly attributable to the expansion of the portfolio of corporate bonds and, to a lesser extent, expansion of the portfolio of government bonds. This growth was underpinned by price rises in the categories shown, particularly corporate bonds.

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

D.1.11 Collective investment undertakings

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Equities	61,389	49,703	11,686	52,797	8,592
Bonds	168,998	142,490	26,508	174,844	-5,846
Other	10,118	9,139	979	10,800	-682
Total	240,505	201,332	39,173	238,440	2,065

Collective investment undertakings that have not been classified as permanent fixed assets are valued under 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 falls below the cost only for a short time. Write-downs are reversed to no more than the cost if the reason for recognizing them ceases to apply. As of the reporting date, the carrying amount of collective investment undertakings under HGB was €201,332 thousand. Institutional funds that have been classified for permanent use in business operations are valued with the application of the discretionary principle of lower of cost or market value. Reversals of write-downs were recognized in an amount of €1,170 thousand in 2019 (2018: €0 thousand).

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. This value is not restricted to the cost. In accordance with the Delegated Regulation, collective investment undertakings in which the stake held is at least 20.0 percent are reported under collective investment undertakings and not under holdings in related undertakings, including participations. As of December 31, 2019, the Solvency II carrying amount for collective investment undertakings was €240,505 thousand.

The restriction of the valuation under HGB rules as a result of the historical cost convention and the realization principle mean that the valuation for solvency purposes was €39,173 thousand higher as of December 31, 2019. The year-on-year increase of €2,065 thousand was mainly attributable to rises in the market prices of bonds and equities.

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

D.1.12 Derivatives

As of the reporting date, no direct investments in derivatives were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.13 Deposits other than cash equivalents

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	88	88	0	83	5

Under HGB, deposits other than cash equivalents are generally recognized at their nominal amount. The nominal amount is also used as the economic value. These deposits are therefore valued at the amount at which they could be exchanged in an arm's-length transaction between knowledgeable, willing parties.

Because of the identical valuation methods, the value under HGB and the value for solvency purposes are the same. The Solvency II carrying amount went up by €5 thousand year on year, which was entirely attributable to portfolio expansion.

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

D.1.14 Other investments

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	2,526	1,201	1,325	2,542	-16

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. However, no write-downs were recognized in 2019. No reversals of write-downs were required in the year under review either.

For solvency purposes, the NAV reported by the investment management company is recognized as the economic value, even if it is higher than the cost.

As a result of unrealized valuation reserves, the Solvency II carrying amount as of December 31, 2019 was €1,325 thousand higher than the HGB carrying amount. The year-on-year change in the Solvency II carrying amount of €16 thousand was attributable, in particular, to the contraction of the portfolio of private equity and infrastructure investments.

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

D.1.15 Assets held for index-linked and unit-linked contracts

As of the reporting date, no assets held for index-linked and unit-linked contracts were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.16 Loans and mortgages

As of the reporting date, no loans and mortgages were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.17 Reinsurance recoverables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Non-life and health similar to non-life	21,184	31,088	- 9,904	20,735	448
of which: non-life excluding health	19,441	31,088	- 11,647	19,408	33
of which: health similar to non-life	1,742	0	1,742	1,327	415
Life and health similar to life, excluding health and index-linked and unit-linked	5,430	0	5,430	4,973	457
of which: health similar to life	0	0	0	0	0
of which: life excluding health and index-linked and unit-linked	5,430	0	5,430	4,973	457
Life index-linked and unit-linked	0	0	0	0	0
Total	26,614	31,088	- 4,474	25,708	906

On the HGB balance sheet, the reinsurers' share of technical provisions is deducted from the provision for unearned premiums and the provision for outstanding claims. 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.

On the economic balance sheet, the reinsurers' shares are aggregated. To determine the economic value, the reinsurers' pro rata share of the technical provisions is calculated using the reinsurers' best estimate in accordance with the underlying treaty. The reinsurers' share is determined on an individual claim basis in accordance with the contractual terms.

Applying the aforementioned valuation methods, the carrying amount on the Solvency II balance sheet as of December 31, 2019 was €4,747 thousand lower than the HGB carrying amount. The year-on-year increase in the Solvency II carrying amount of €906 thousand was attributable to ongoing business operations.

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

D.1.18 Receivables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Deposits to cedants	0	0	0	0	0
Insurance and intermediaries receivables	14,461	14,461	0	10,541	3,920
Reinsurance receivables	1,130	1,130	0	2,659	-1,528
Receivables (trade, not insurance)	3,612	3,612	0	12,268	-8,657
Total	19,203	19,203	0	25,468	-6,265

As of the reporting date, no **deposits to cedants** were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

Insurance* and intermediaries receivables are generally recognized at their nominal amount (€14,461 thousand). A general allowance for latent credit risk is deducted from insurance receivables after specific allowances have been recognized on a collective basis for receivables that are past due by a predefined period of time.

Insurance receivables past due are valued at the average historical recovery rate. In the case of intermediaries receivables, the HGB carrying amount is also reduced by appropriate specific and general allowances in the amount of the assumed level of defaults.

* Insurance receivables for the most part refer to receivables due from policyholders.

There is no active market for insurance and intermediaries receivables, so the nominal amount of the receivables is also used as the Solvency II carrying amount because of the short-term nature of the asset (due within twelve months) and materiality reasons. Due to this use of the nominal amount (€14,461 thousand) as the economic value, there are no valuation differences.

The year-on-year rise in the Solvency II carrying amount of €3,920 thousand was mainly due to the change in volume, in particular as a result of the start of business operations at the branch in the Republic of Ireland.

There were no changes in the stated recognition and valuation methods used for insurance and intermediaries receivables compared with the previous year.

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.

As these reinsurance receivables are largely payable within twelve months, they are not discounted; the nominal amount is therefore generally recognized as the economic value. Due to use of the nominal amounts as the economic value, there are no valuation differences. The year-on-year fall in the Solvency II carrying amount of €1,528 thousand was mainly due to the pattern of claims in the last quarter of 2019 and the associated reinsurance settlement balances.

There were no changes in the stated recognition and valuation methods used for reinsurance receivables compared with the previous year.

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. Receivables (trade, not insurance) amounted to €3,612 thousand and predominantly consisted of receivables from affiliated companies (€3,193 thousand).

The Company's written-down receivables (trade, not insurance), for which the nominal amounts are reported as the economic value, are thus valued at the amount at which they could be exchanged in an arm's-length transaction between knowledgeable, willing parties. These receivables are mostly classified as current (due within twelve months). Due to use of the nominal amounts as the economic value, there are no valuation differences.

The year-on-year decrease in the Solvency II carrying amount of €8,657 thousand was mainly attributable to the reduction in the volume of the intragroup cash pool as well as to the reduced net income of Interlloyd in the reporting year and the related decrease in the carrying amount of receivables from this subsidiary in connection with the profit transfer.

There were no changes in the stated recognition and valuation methods used for receivables (trade, not insurance) compared with the previous year.

D.1.19 Own shares (held directly)

As of the reporting date, no own shares (held directly) were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.20 Amounts due in respect of own fund items or initial fund called up but not yet paid in

As of the reporting date, no amounts due in respect of own fund items or initial fund called up but not yet paid in were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.21 Cash and cash equivalents

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	9,010	9,010	0	2,955	6,055

Cash and cash equivalents (cash and demand deposits) are recognized at their nominal amount, which equates to their cost. Due to use of the nominal amount as the economic value, there are no valuation differences.

The year-on-year increase in the Solvency II carrying amount of €6,055 thousand was entirely attributable to the rise in the volume for this item in the reporting year and as of the balance sheet date.

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

D.1.22 Any other assets, not elsewhere shown

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	8	8	0	4	4

Any other assets, not elsewhere shown are recognized at their nominal amount, which equates to their cost.

The nominal amount is also used as the economic value. Consequently, there are no valuation differences.

The year-on-year increase in the Solvency II carrying amount of €4 thousand was attributable to inventory differences compared with the end of 2018.

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

D.2 Technical Provisions

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

Technical provisions as of December 31, 2019

(€'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
Other technical provisions
Total provisions

	Solvency II as of Dec. 31, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	0	254,022	-254,022	0	0
	85,683	0	85,683	77,146	8,537
	3,288	0	3,288	3,405	-118
	88,971	254,022	-165,052	80,551	8,419
	0	0	0	0	0
	37,177	0	37,177	46,605	-9,428
	1,094	0	1,094	1,088	6
	38,271	0	38,271	47,693	-9,422
	127,242	254,022	-126,780	128,245	-1,003
	0	0	0	0	0
	39,577	0	39,577	34,728	4,849
	138	0	138	131	7
	39,715	0	39,715	34,859	4,855
	0	0	0	0	0
	5,571	0	5,571	5,097	474
	6	0	6	6	0
	5,577	0	5,577	5,103	474
	45,292	0	45,292	39,962	5,330
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	172,534	254,022	-81,488	168,207	4,327
	0	41,291	-41,291	0	0
	172,534	295,313	-122,780	168,207	4,327

D.2.1 Technical provisions

Technical provisions are reported differently on the Solvency II balance sheet. A summary of the valuation in accordance with HGB requirements is therefore provided as an aid to understanding. The Solvency II valuation methods are then described in detail in accordance with the Solvency II structure (D.2.2 'Technical provisions – non-life (excluding health)').

As of the reporting date, the technical provisions in accordance with HGB amounted to €264,226 thousand. In addition to unearned premiums of €28,183 thousand and the actuarial reserves of €18 thousand, the HGB technical provisions included the provision for outstanding claims of €194,733 thousand and the miscellaneous technical provisions of €41,291 thousand, which under Solvency II include the equalization provision of €39,942 thousand.

Gross unearned premiums for direct insurance business are calculated pro rata for each individual policy on the basis of the premiums and cancellations posted, less the installment surcharges. The calculated unearned premiums are reduced by the income components intended to cover the acquisition costs. An individually determined proportion (international units of the Company) or a flat rate of 85.0 percent (Group headquarters) of the commissions and other remuneration for agents is recognized as a non-transferable income component. The gross unearned premiums for inward reinsurance business are recognized in accordance with the requirements of the primary insurer. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

The provision for outstanding claims is generally determined individually and measured according to specific requirements. 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) and an entity-specific discount rate of 0.7 percent (2018: 0.9 percent) by the Company's appointed actuary, taking the expenses required for settlement into account. General provisions are recognized for claims incurred but not reported and reopened claims on the basis of empirical values. The benefit reserves for annuities, which are recognized in accordance with actuarial principles, are not included in the calculation when determining the provision for claim settlement costs.

The provisions for outstanding claims are divided into provisions for direct insurance business and provisions for inward reinsurance business.

D.2.2 Technical provisions – non-life (excluding health)

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Technical provisions calculated as a whole	0	254,022	-254,022	0	0
Best estimate	85,683	0	85,683	77,146	8,537
Risk margin	3,288	0	3,288	3,405	-118
Total	88,971	254,022	-165,052	80,551	8,419

The individual components of the technical provisions are:

1. Best estimate
 - a) Claims provision
 - b) Premiums provision
2. Risk margin

1. For non-life insurance, the best estimate comprises two components:

- a) The claims provision is calculated for each previously defined homogeneous risk group of ARAG Allgemeine. 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. The New York method is used to value the claim settlement provision.
- b) The premiums provision is made up of the provision for premiums written but not yet earned and the expected future profit or 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).

2. The risk margin is calculated using the cost-of-capital method described in article 58 of the Delegated Regulation.

In addition, there were no changes in the stated recognition and valuation methods compared with the previous year.

D.2.3 Technical provisions – health (similar to non-life)

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Technical provisions calculated as a whole	0	0	0	0	0
Best estimate	37,177	0	37,177	46,605	-9,428
Risk margin	1,094	0	1,094	1,088	6
Total	38,271	0	38,271	47,693	-9,422

The technical provision – health (similar to non-life) includes liabilities under the accident class of insurance. The individual components of the provision are similar to those for non-life insurance:

1. Best estimate
 - a) Claims provision (including unrecognized annuities)
 - b) Premiums provision
2. Risk margin

The calculation methodology for the individual components is similar to that for non-life insurance.

D.2.4 Technical provisions – health (similar to life)

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Technical provisions calculated as a whole	0	0	0	0	0
Best estimate	39,577	0	39,577	34,728	4,849
Risk margin	138	0	138	131	7
Total	39,715	0	39,715	34,859	4,855

The accident annuities recognized as of the reporting date in the business of ARAG Allgemeine are reported under the health insurance provision. The individual components are:

1. Best estimate
2. Risk margin

The best estimate is valued individually in accordance with the actuarial principles used in life insurance. The risk-free yield curve on the date of valuation is used for the purposes of discounting.

The calculation methodology for the risk margin is similar to that for non-life insurance.

D.2.5 Technical provisions – life (excluding health and index-linked and unit-linked)

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Technical provisions calculated as a whole	0	0	0	0	0
Best estimate	5,571	0	5,571	5,097	474
Risk margin	6	0	6	6	0
Total	5,577	0	5,577	5,103	474

The annuities under the 'liability' and 'vehicle liability' classes of insurance recognized as of the reporting date in the business of ARAG Allgemeine are reported under life insurance provisions. The individual components are:

1. Best estimate
2. Risk margin

The best estimate is valued individually in accordance with the actuarial principles used in life insurance. The risk-free yield curve on the date of valuation is used for the purposes of discounting.

The calculation methodology for the risk margin is similar to that for non-life insurance.

D.2.6 Technical provisions – index-linked and unit-linked

As of the reporting date, no technical provisions for index-linked and unit-linked insurance were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.2.7 Other technical provisions

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	0	41,291	-41,291	0	0

The other technical provisions* (miscellaneous technical provisions on the HGB balance sheet) primarily consist of the equalization provision (€39,942 thousand) and the lapse provision (€1,320 thousand). The equalization provision for direct insurance business and inward reinsurance business is recognized as additional actuarial reserves that can be

* In accordance with the Solvency II structure

used to offset fluctuations in the course of business. The calculation is carried out separately for the direct insurance business and for the inward reinsurance business, in each case broken down by class of insurance. These provisions are valued in accordance with the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

The lapse provision reported under miscellaneous technical provisions to cover the discontinuation or reduction of technical risk is recognized in the amount of the estimated requirement.

As the Solvency II balance sheet is a static overview, no items to smooth out future fluctuations in the course of business are recognized under other technical provisions (the equivalent line item). For Solvency II purposes, lapse risk is already included in the best estimate item under technical provisions – non-life. Accordingly, there is no requirement to explain the year-on-year change here.

In addition, there were no changes in the stated recognition and valuation methods compared with the previous year.

D.2.8 Reinsurance recoverables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Non-life and health similar to non-life	21,184	31,088	- 9,904	20,735	448
of which: non-life excluding health	19,441	31,088	- 11,647	19,408	33
of which: health similar to non-life	1,742	0	1,742	1,327	415
Life and health similar to life, excluding health and index-linked and unit-linked	5,430	0	5,430	4,973	457
of which: health similar to life	0	0	0	0	0
of which: life excluding health and index-linked and unit-linked	5,430	0	5,430	4,973	457
Life index-linked and unit-linked	0	0	0	0	0
Total	26,614	31,088	- 4,474	25,708	906

Reinsurance recoverables are the reinsurers' share of the technical provisions. In the case of outward reinsurance business, this means that the figure for reinsurance recoverables equates to the reinsurers' share of the provisions for direct insurance business. Reinsurance cover encompasses liability peaks from individual risks, as needed.

For regulatory purposes, the gross provisions are reported on the liabilities side of the balance sheet without deducting reinsurance recoverables. However, the reinsurers' share is reported as an asset on the other side of the balance sheet.

Retrospective and prospective markdowns are recognized to take into account the default risk on the part of reinsurers. In accordance with HGB, nominal amounts are recognized, these amounts being determined on the basis of the reinsurance treaties.

On the HGB balance sheet, technical provisions are recognized using a net approach in which the gross amount of the obligation is reduced by the portion covered by outward reinsurance. The difference between the Solvency II and HGB figures is attributable to this difference in the valuation methods.

In addition, there were no changes in the stated recognition and valuation methods compared with the previous year.

On the Solvency II balance sheet, the reinsurance recoverables are reported under assets (see chapter D.1.17).

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.

D.2.9 Provisions assumptions

The claims provision recognized on the Solvency II balance sheet is a best estimate. 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 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.

No transitional measures have been applied for calculating the technical provisions at ARAG Allgemeine.

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

D.3 Other Liabilities

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

Other liabilities as of December 31, 2019

(€'000)

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

	Solvency II as of Dec. 31, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	0	0	0	0	0
	3,036	2,974	62	3,744	- 708
	41,359	32,379	8,981	38,375	2,985
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	6,495	0	6,495	0	6,495
	4,852	4,852	0	4,912	- 60
	1,210	1,210	0	1,076	134
	10,354	10,354	0	19,811	- 9,457
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	5	5	0	0	5
	67,312	51,774	15,537	67,918	- 606

D.3.1 Contingent liabilities

As of the reporting date, no contingent liabilities were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.3.2 Provisions other than technical provisions

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	3,036	2,974	62	3,744	- 708

Under HGB, the provisions other than technical provisions are generally recognized in the amount that is necessary according to prudent business practice. If the liability's settlement period is more than twelve months, they are discounted.

The provisions other than technical provisions mainly related to long-service awards (€540 thousand), costs for the financial statements (€432 thousand), provisions for bonuses (€347 thousand), provisions for pre-retirement part-time employment agreements (€154 thousand), vacation and flexitime provisions (€240 thousand), and provisions for reimbursement of the Supervisory Board's expenses (€165 thousand).

The main valuation assumptions that require an explanation concern long-service awards:

The provisions for long-service awards are calculated in accordance with the projected unit credit (PUC) method. The discount rate used in this method is 1.97 percent in accordance with the German Regulation on the Discounting of Provisions (RückAbzinsV). The calculations are also based on future salary increases of 2.5 percent per year, staff turnover of 1.5 percent per year, and the 2018G mortality tables published by Professor Klaus Heubeck.

The provisions other than technical provisions are recognized in the amount that is necessary according to prudent business practice and equating to the estimated utilization. Their residual maturity is less than one year.

For solvency purposes, provisions for long-service awards are valued using the 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.

The provisions other than technical provisions are valued on the basis of the best estimate of the expected settlement amount. The residual maturity for all provisions is less than one year. On grounds of materiality, they were not discounted.

The economic value of the provisions for long-service awards came to €609 thousand and the economic value of the provisions for pre-retirement part-time employment agreements came to €146 thousand. All other items were recognized on the Solvency II balance sheet with their HGB carrying amounts. A valuation difference of €62 thousand arose solely as a result of the differing valuation methods used for the provisions for long-service awards. In the reporting year, there was also a change in the method used to generate the IAS 19 curve for discounting long-service obligations. This caused an increase of €6 thousand in the amount to be recognized for long-service obligations.

The year-on-year decrease in the Solvency II carrying amount of €708 thousand was largely caused by reductions in the individual carrying amounts within this aggregate item.

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

D.3.3 Pension benefit obligations

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	41,359	32,379	8,981	38,375	2,985

The pension benefit obligations are calculated using the PUC method on the basis of the 2018G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. The discount rate used for the HGB valuation was the average interest rate for the past ten years published by the Bundesbank for an assumed residual maturity of 15 years. A discount rate of 2.71 percent was applied for the valuation as of December 31, 2019 (December 31, 2018: 3.21 percent). The following actuarial parameters were used to calculate the obligations: earliest possible age under the German Pension Age Reform Act (RVAGAnpG) 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 term structure used for discounting 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 in accordance with VAG. As of the reporting date, the amount was calculated at €41,359 thousand.

A valuation difference of €8,981 thousand arose as a result of the differing valuation methods, in particular the different discount rates used. The year-on-year increase as of the reporting date of €2,985 thousand was attributable to the regular additions to the pension entitlements and the changes in the discounting of pension benefit obligations. In the reporting year, there was a change in the method used to generate the IAS 19 curve for discounting pension benefit obligations. This caused an increase of €634 thousand in the amount to be recognized for pension benefit obligations.

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

D.3.4 Deposits from reinsurers

As of the reporting date, no deposits from reinsurers were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.3.5 Deferred tax liabilities

An explanation of deferred taxes can be found in chapter D.1.4 'Deferred tax assets'.

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

D.3.6 Derivatives

As of the reporting date, no direct investments in derivatives were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.3.7 Debts owed to credit institutions

As of the reporting date, no debts owed to credit institutions were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.3.8 Financial liabilities other than debts owed to credit institutions

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	6,495	0	6,495	0	6,495

No financial liabilities other than debts owed to credit institutions were recognized under HGB at ARAG Allgemeine. Differences in recognition and valuation between the HGB balance sheet and Solvency II balance sheet therefore arise in connection with the recognition of lease arrangements on the Solvency II balance sheet in accordance with IFRS 16 (see also D.1.6 'Property, plant & equipment held for own use'). The year-on-year increase in the economic value of €6,495 thousand was entirely due to the first-time recognition of a lease obligation.

D.3.9 Insurance and intermediaries payables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	4,852	4,852	0	4,912	-60

Insurance and intermediaries payables* are valued at their nominal amount. As of the reporting date, the breakdown was as follows: insurance payables of €3,785 thousand and intermediaries payables of €1,068 thousand. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value. The economic value of the payables maturing within twelve months is based on the nominal amount. As there is no active market for insurance and intermediaries payables, the nominal amount of such payables with a longer maturity (more than twelve months) is also recognized as the economic value.

There are therefore no valuation differences between the Solvency II and HGB carrying amounts. The year-on-year fall in the Solvency II carrying amount of €60 thousand was mainly caused by premiums received in advance.

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

* Insurance payables for the most part refer to receivables due from policyholders.

D.3.10 Reinsurance payables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	1,210	1,210	0	1,076	134

Reinsurance payables are recognized at their settlement value. There are no differences (for example, as a result of classification as current liabilities (due within twelve months)) in their recognition and valuation on the HGB and Solvency II balance sheets. The year-on-year increase in the Solvency II carrying amount of €134 thousand was largely caused by the pattern of claims close to the reporting date.

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

D.3.11 Payables (trade, not insurance)

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	10,354	10,354	0	19,811	-9,457

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. The year-on-year fall in the economic value of €9,457 thousand was primarily due to the decrease in the Company's net income in 2019 and the related decrease in the carrying amount of the liability to the parent company ARAG SE in connection with the profit transfer.

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

D.3.12 Subordinated liabilities

As of the reporting date, no subordinated liabilities were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.3.13 Any other liabilities, not elsewhere shown

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	5	5	0	0	5

Any other liabilities, not elsewhere shown are recognized at their settlement value on the HGB balance sheet.

All non-interest-bearing liabilities are valued at their nominal amount. The economic value of those maturing within twelve months is based on the nominal amount. On grounds of materiality, and because of the disproportionate time, effort, and expense that would be involved in a revaluation, no liabilities in this category with a maturity of more than twelve months were discounted. There are therefore no differences in their recognition and valuation on the HGB and Solvency II balance sheets.

As of the reporting date, the reported value of any other liabilities, not elsewhere shown was thus €5 thousand. The year-on-year change in the Solvency II value was not material.

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

D.4 Alternative Methods for Valuation

No alternative valuation methods other than those listed in chapters D.1 to D.3 inclusive have been used.

D.5 Any Other Information

The Company has not applied any transitional measures for calculating its technical provisions.

The reinsurance, insurance, and intermediaries receivables and payables include all past-due amounts related to the insurance business that are not part of the technical provisions. In addition to the carrying amounts shown in chapters D.1 and D.3 for receivables and payables related to the insurance business, it should be noted that the receivables and payables shown are mainly past due and not older than twelve months.

Chapters D.1 to D.4 inclusive contain all of the important information about the valuation for solvency purposes.

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E.1 Own Funds

Objectives, guidance, and procedures for managing own funds

In 2019, 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 the German Federal Financial Supervisory Authority (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 to a level below the internal reporting threshold, and certainly not below regulatory requirements. If, contrary to expectations, a sharp 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 2019, 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, 2019, the Company held basic own funds in the form of an excess of assets over liabilities of €249,419 thousand (December 31, 2018: €206,967 thousand) according to the Solvency II balance sheet. The Company's minimum capital requirement (MCR) as of the reporting date was €28,987 thousand (December 31, 2018: €28,579 thousand) and the solvency capital requirement (SCR) was €92,240 thousand (December 31, 2018: €74,444 thousand).

All of the eligible own funds of €249,419 thousand (December 31, 2018: €206,967 thousand) are classified at the highest quality level for own funds (Tier 1). ARAG Allgemeine has no own funds at the other quality levels (Tier 2 and Tier 3).

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, 2019	Dec. 31, 2018
Equity as of December 31 on the HGB balance sheet	55,323	55,323
Revaluation of investments with recognition of deferred taxes	81,335	52,641
Revaluation of technical provisions with recognition of deferred taxes	90,259	79,831
Revaluation of pension benefit obligations with recognition of deferred taxes	-2,487	-1,307
Revaluation of miscellaneous items with recognition of deferred taxes	-6,869	-653
Deferred taxes, particularly arising from the tax group	31,858	21,132
Excess of assets over liabilities according to the Solvency II balance sheet	249,419	206,967
Additional basic own funds	0	0
Total own funds as of December 31 that are eligible to cover the solvency capital requirement	249,419	206,967

Please refer to chapter D. 'Valuation for Solvency Purposes' of this report 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.

Information on deferred taxes

Deferred tax assets of €37,255 thousand and deferred tax liabilities of €69,113 thousand were recognized in the table 'Reconciliation of the equity on the HGB balance sheet to eligible own funds'. As a result, the parent company's net deferred tax liability in respect of ARAG Allgemeine amounted to €31,858 thousand. Consequently, there are no net tax assets. The calculation of deferred tax assets takes into account applicable tax legislation and tax rates.

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.

Own funds reconciliation reserve

(€'000)	Total	Tier 1 own funds	Tier 2 own funds	Tier 3 own funds
Share capital	54,491	54,491	0	0
Share premium account related to ordinary share capital	0	0	0	0
Reconciliation reserve	194,928	194,928	0	0
Basic own funds	249,419	249,419	0	0
Ancillary own funds (subordinated liabilities)	0	0	0	0
Own funds as of December 31 that are eligible to cover the solvency capital requirement	249,419	249,419	0	0

The reconciliation reserve amounted to €194,928 thousand and consisted of HGB revenue reserves of €832 thousand and valuation differences of €194,096 thousand. As of December 31, 2019, the Company's eligible own funds were €42,452 thousand higher than they had been a year earlier.

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 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 (where the risks are covered by the market risk module) are calculated using internal modeling. The other risk modules and the aggregation of the risk modules for the overall solvency requirement are based on the standardized approach.

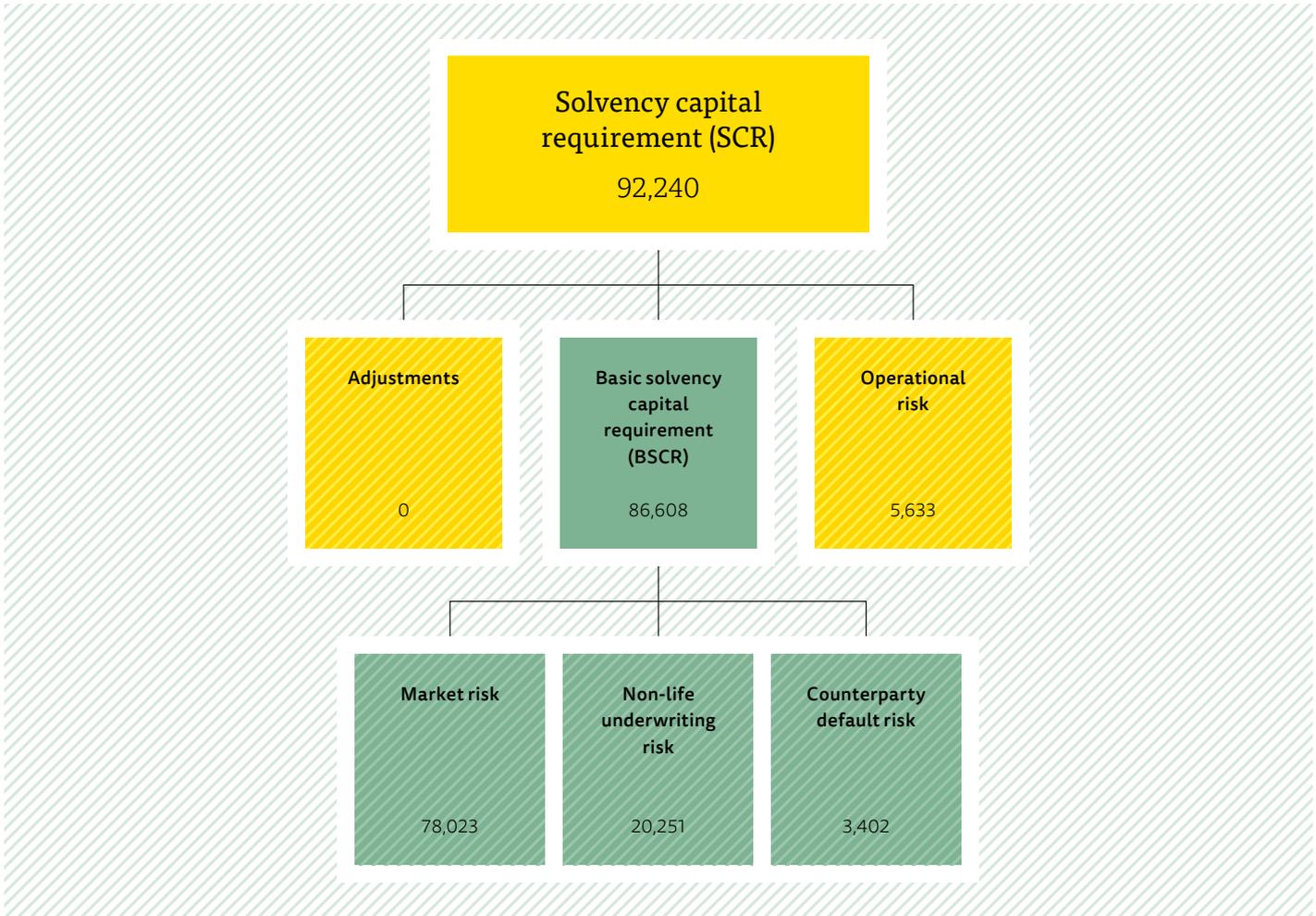
The solvency capital requirement increased by 23.9 percent year on year, from €74,444 thousand as of December 31, 2018 to €92,240 thousand as of the reporting date. Please refer to chapter C. 'Risk Profile' for further information on the changes in the individual risks. At 270.4 percent, the coverage ratio is significantly higher than the regulatory requirement and, in ARAG Allgemeine's view, constitutes a good risk buffer for customers. As of the reporting date, the coverage ratio was 7.6 percentage points lower than the equivalent figure as of December 31, 2018 (278.0 percent).

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 25.0 percent and not exceed 45.0 percent of the solvency capital requirement. As of December 31, 2019, the minimum capital requirement was €28,987 thousand (December 31, 2018: €28,579 thousand), which equated to 31.4 percent of the solvency capital requirement at that time and resulted in a coverage ratio for the minimum capital requirement of 860.4 percent (December 31, 2018: 724.2 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 aggregated individual risks (taking into account diversification effects) or the solvency capital requirement (SCR) before adjustments, operational risk (OpRisk), and any non-controlled participations (NCPs).

Operational risk is the risk arising from inadequate or failed internal processes, personnel, or systems, or from external events.

Market risk is the risk of loss or of adverse changes to market prices of assets, liabilities, and financial instruments.

Non-life underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities in the non-life insurance business arising from inadequate pricing and inadequate provisioning assumptions.

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.

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.

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

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.

ARAG Allgemeine's partial internal model, which is based on factors such as the Company's claims history, enables the Company to model the individual risks internally and appropriately, 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 represent an important basis for corporate management.

ARAG Allgemeine's partial internal model draws on the following internally modeled modules: market risk, non-life underwriting risk, and counterparty default risk (where the risks are covered by the market risk module). The non-life underwriting risk module and the market risk module (including the counterparty default risk arising in connection with securities as part of credit risk) are modeled up to the top module level as a distribution.

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 used are generally accepted in financial mathematics. A critical factor in the calculation of risk is the calibration of the underlying risk factors and their dependencies. 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 major/mass 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 in their entirety 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. A copula 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 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 calculated with the standard formula in the counterparty default risk module.

As with the standardized approach, 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 solvency capital requirement for operational risk calculated using the standard formula is then added, giving the overall solvency capital requirement. 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, although negative interest rates are not shifted downwards in the stress test.	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 by 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 corporate 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 the following sub-modules: equity type 1 (including listed equities and strategic equity investments from an OECD or EEA country), equity type 2 (including equities from other countries, commodities, strategic equity investments), qualifying equity investments in infrastructure, and qualifying equity investments in infrastructure companies. The solvency capital requirements determined for these sub-modules 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 and separately for Germany.
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 more 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.

Outward reinsurance plays a key role at ARAG Allgemeine. The ARAG Group operates a comprehensive reinsurance program with third-party reinsurers to protect itself from major risks and accumulation risk. Therefore, a key requirement for the calculation of capital adequacy in the partial internal model is that the risk structure from reinsurance treaties should be modeled as precisely as possible. Reinsurance affects both premium risk and reserve risk and is thus factored into the modeling on an individual contract basis for both types of risk.

Diversification

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 €15,069 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
- Sub-modules – natural disaster risks and risks caused by people

To value the diversification effects within ARAG Allgemeine's partial internal model, the dependencies between the sub-modules 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. The standard correlations from the standard formula are used to aggregate the individual risk modules for the purpose of producing the BSCR (integration of the partial model into the standard formula).

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 management 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

The solvency capital requirement and minimum capital requirement were complied with at all times in the reporting period.

E.6 Any Other Information

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

Appendix

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	6,495
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	427,935
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	85,232
Equities	R0100	0
Equities – listed	R0110	0
Equities – unlisted	R0120	0
Bonds	R0130	99,584
Government bonds	R0140	32,759
Corporate bonds	R0150	66,826
Structured notes	R0160	0
Collateralized securities	R0170	0
Collective investment undertakings	R0180	240,505
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	88
Other investments	R0210	2,526
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	26,614
Non-life and health similar to non-life	R0280	21,184
Non-life excluding health	R0290	19,441
Health similar to non-life	R0300	1,742
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	5,430
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	5,430
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	14,461
Reinsurance receivables	R0370	1,130
Receivables (trade, not insurance)	R0380	3,612
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	9,010
Any other assets, not elsewhere shown	R0420	8
Total assets	R0500	489,264

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	127,242
Technical provisions – non-life (excluding health)	R0520	88,971
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	85,683
Risk margin	R0550	3,288
Technical provisions – health (similar to non-life)	R0560	38,271
Technical provisions calculated as a whole	R0570	0
Best estimate	R0580	37,177
Risk margin	R0590	1,094
Technical provisions – life (excluding index-linked and unit-linked)	R0600	45,292
Technical provisions – health (similar to life)	R0610	39,715
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	39,577
Risk margin	R0640	138
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	5,577
Technical provisions calculated as a whole	R0660	0
Best estimate	R0670	5,571
Risk margin	R0680	6
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	3,036
Pension benefit obligations	R0760	41,359
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	6,495
Insurance and intermediaries payables	R0820	4,852
Reinsurance payables	R0830	1,210
Payables (trade, not insurance)	R0840	10,354
Subordinated liabilities	R0850	0
Subordinated liabilities not in basic own funds	R0860	0
Subordinated liabilities in basic own funds	R0870	0
Any other liabilities, not elsewhere shown	R0880	5
Total liabilities	R0900	239,845
Excess of assets over liabilities	R1000	249,419

S.05.01.02

Premiums, claims and expenses by line of business

		Medical expense insurance	Income protection insurance
		C0010	C0020
Premiums written			
Gross – direct business	R0110	0	47,932
Gross – proportional reinsurance accepted	R0120	0	4,756
Gross – non-proportional reinsurance accepted	R0130	-	-
Reinsurers' share	R0140	0	1,775
Net	R0200	0	50,913
Premiums earned			
Gross – direct business	R0210	0	47,996
Gross – proportional reinsurance accepted	R0220	0	4,778
Gross – non-proportional reinsurance accepted	R0230	-	-
Reinsurers' share	R0240	0	1,808
Net	R0300	0	50,966
Claims incurred			
Gross – direct business	R0310	0	17,590
Gross – proportional reinsurance accepted	R0320	0	2,056
Gross – non-proportional reinsurance accepted	R0330	-	-
Reinsurers' share	R0340	0	488
Net	R0400	0	19,158
Changes in other technical provisions			
Gross – direct business	R0410	0	- 47
Gross – proportional reinsurance accepted	R0420	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-
Reinsurers' share	R0440	0	0
Net	R0500	0	- 47
Expenses incurred	R0550	0	24,900
Other expenses	R1200	-	-
Total expenses	R1300	-	-

Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)							
Workers' compensation insurance	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	1,080	562	0	49,606	43,741	0	
0	0	0	0	21,164	2,451	0	
-	-	-	-	-	-	-	
0	1,080	562	0	1,902	1,979	0	
0	0	0	0	68,868	44,213	0	
0	1,080	562	0	49,565	43,643	0	
0	0	0	0	21,103	2,464	0	
-	-	-	-	-	-	-	
0	1,080	562	0	1,942	2,045	0	
0	0	0	0	68,725	44,062	0	
0	-269	188	0	23,213	12,205	0	
0	0	0	0	10,128	646	0	
-	-	-	-	-	-	-	
0	-723	218	0	504	626	0	
0	455	-30	0	32,837	12,226	0	
0	10	-1	0	-52	-29	0	
0	0	0	0	0	0	0	
-	-	-	-	-	-	-	
0	0	0	0	0	0	0	
0	10	-1	0	-52	-29	0	
0	-313	-10	0	39,940	28,472	0	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	

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
Premiums written				
Gross – direct business	R0110	0	6,177	9,389
Gross – proportional reinsurance accepted	R0120	0	70	1,206
Gross – non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	0	0	6
Net	R0200	0	6,247	10,589
Premiums earned				
Gross – direct business	R0210	0	6,270	9,046
Gross – proportional reinsurance accepted	R0220	0	70	1,279
Gross – non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	0	0	9
Net	R0300	0	6,340	10,316
Claims incurred				
Gross – direct business	R0310	0	2,400	3,791
Gross – proportional reinsurance accepted	R0320	0	34	385
Gross – non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	0	0	0
Net	R0400	0	2,434	4,176
Changes in other technical provisions				
Gross – direct business	R0410	0	-8	-4
Gross – proportional reinsurance accepted	R0420	0	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	0	-8	-4
Expenses incurred	R0550	0	5,566	5,969
Other expenses	R1200	-	-	-
Total expenses	R1300	-	-	-

Line of business for: accepted non-proportional reinsurance					Total
Health	Casualty	Marine, aviation, transport	Property		
C0130	C0140	C0150	C0160		C0200
0	0	0	0		158,488
0	0	0	0		29,646
-	-	-	-		-
0	0	0	0		7,304
0	0	0	0		180,830
0	0	0	0		158,163
0	0	0	0		29,693
-	-	-	-		-
0	0	0	0		7,447
0	0	0	0		180,410
0	0	0	0		59,119
0	0	0	0		13,249
-	-	-	-		-
0	0	0	0		1,112
0	0	0	0		71,256
0	0	0	0		-131
0	0	0	0		0
-	-	-	-		-
0	0	0	0		0
0	0	0	0		-131
0	0	0	0		104,525
-	-	-	-		1,211
-	-	-	-		105,736

S.05.01.02

Premiums, claims and expenses by line of business

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

S.12.01.02

Life and health SLT technical provisions

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

Index-linked and unit-linked insurance		Other life insurance		Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Accepted reinsurance	Total (life other than health insurance, incl. unit-linked)	
Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees				
C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	5,528	43	5,571
-	-	-	-	-	5,430	0	5,430
-	-	-	-	-	98	43	141
-	-	-	-	-	6	0	6
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	5,534	44	5,577

S.12.01.02

Life and health SLT technical provisions

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

Health insurance (direct business)		Annuities stemming from non-life insurance contracts and relating to health insurance obligations		Health reinsurance (reinsurance accepted)	Total (health similar to life insurance)
Contracts without options and guarantees		Contracts with options or guarantees			
C0160	C0170	C0180	C0190	C0200	C0210
-	0	0	-	-	-
-	0	0	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
0	-	-	37,871	1,706	39,577
0	-	-	0	0	0
0	-	-	37,871	1,706	39,577
-	0	0	132	6	138
-	-	-	-	-	-
-	0	0	-	-	-
0	-	-	-	-	-
-	0	0	-	-	-
-	0	0	38,003	1,711	39,715

S.17.01.02

Non-life technical provisions

		Medical expense insurance	Income protection insurance
		C0020	C0030
Technical provisions calculated as a whole	R0010	-	-
Total recoverables from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	-	-
Technical provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross	R0060	-	- 554
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0140	-	- 673
Net best estimate of premium provisions	R0150	-	118
Claims provisions			
Gross	R0160	-	37,732
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0240	-	2,415
Net best estimate of claims provisions	R0250	-	35,317
Total best estimate – gross	R0260	-	37,177
Total best estimate – net	R0270	-	35,435
Risk margin	R0280	-	1,094
Amount of the transitional on technical provisions			
Technical provisions calculated as a whole	R0290	-	-
Best estimate	R0300	-	-
Risk margin	R0310	-	-
Technical provisions – total			
Technical provisions – total	R0320	-	38,271
Recoverable from reinsurance contract/SPV and finite re after the adjustment for expected losses due to counterparty default – total	R0330	-	1,742
Technical provisions minus recoverables from reinsurance/SPV and finite re – total	R0340	-	36,529

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	7	-	7,348	4,629	-
-	-8	-7	-	256	3,013	-
-	9	14	-	7,092	1,616	-
-	8,021	47	-	24,991	41,570	-
-	3,554	42	-	2,072	10,518	-
-	4,467	5	-	22,919	31,052	-
-	8,022	54	-	32,340	46,199	-
-	4,476	19	-	30,011	32,668	-
-	84	12	-	2,498	593	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	8,107	66	-	34,838	46,792	-
-	3,547	35	-	2,329	13,531	-
-	4,560	30	-	32,510	33,261	-

S.17.01.02

Non-life technical provisions

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

Legal expenses insurance	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance			Total non-life obligation
	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,501	-3,178	-	-	-	-	9,754
-	0	0	-	-	-	-	2,582
-	1,501	-3,178	-	-	-	-	7,172
-	180	564	-	-	-	-	113,106
-	0	0	-	-	-	-	18,602
-	180	564	-	-	-	-	94,505
-	1,681	-2,614	-	-	-	-	122,860
-	1,681	-2,614	-	-	-	-	101,677
-	72	28	-	-	-	-	4,382
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,753	-2,585	-	-	-	-	127,242
-	0	0	-	-	-	-	21,184
-	1,753	-2,585	-	-	-	-	106,058

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	36,461	16,579	6,185	3,261	996	561
N-8	R0170	32,650	18,188	5,942	3,338	792	224
N-7	R0180	32,840	17,895	4,386	3,784	1,520	490
N-6	R0190	33,802	22,405	4,866	2,808	563	131
N-5	R0200	33,405	19,961	5,359	3,363	756	377
N-4	R0210	32,272	17,961	5,868	3,460	1,185	
N-3	R0220	31,088	19,638	6,216	3,233		
N-2	R0230	30,873	22,980	6,727			
N-1	R0240	35,647	19,760				
N	R0250	29,756					

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	2,515
N-4	R0210	0	0	0	0	3,164	
N-3	R0220	0	0	0	3,663		
N-2	R0230	0	0	10,327			
N-1	R0240	0	14,568				
N	R0250	38,427					

Development year					In current year	Sum of years (cumulative)
6	7	8	9	10 & +		
C0070	C0080	C0090	C0100	C0110	C0170	C0180
-	-	-	-	981	R0100	981
549	1,835	374	-3		R0160	-3
289	295	123			R0170	123
137	58				R0180	58
39					R0190	39
					R0200	377
					R0210	1,185
					R0220	3,233
					R0230	6,727
					R0240	19,760
					R0250	29,756
				Total	R0260	62,649
						963,579

Development year					Year end (discounted data)	
6	7	8	9	10 & +		
C0260	C0270	C0280	C0290	C0300	C0360	
-	-	-	-	5,540	R0100	5,490
0	0	0	2,083		R0160	2,083
0	0	1,797			R0170	1,791
0	1,498				R0180	1,481
1,883					R0190	1,873
					R0200	2,502
					R0210	3,144
					R0220	3,615
					R0230	10,212
					R0240	14,346
					R0250	38,086
				Total	R0260	89,838

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

Deductions

Deductions for participations in financial and credit institutions
--

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	Components description	Calculation of the solvency capital requirement	Amount modeled	USP	Simplifications	
C0010		C0020	C0030	C0070	C0080	C0090
1	Market risk		78,023	78,023		
2	Counterparty default risk		3,402			
3	Life underwriting risk		0			
4	Health underwriting risk		0			
5	Non-life underwriting risk		20,251	20,251		
6	Intangible asset risk		0			
7	Operational risk		5,633			
8	LAC technical provisions		0			
9	LAC deferred taxes		0			
Calculation of solvency capital requirement			C0100			
Total undiversified components	R0110		107,309			
Diversification	R0060		- 15,069			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160		0			
Solvency capital requirement excluding capital add-on	R0200		92,240			
Capital add-ons already set	R0210		0			
Solvency capital requirement	R0220		92,240			
Other information on SCR			-			
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300		0			
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310		0			
Capital requirement for duration-based equity risk sub-module	R0400		0			
Total amount of notional solvency capital requirements for remaining part	R0410		0			
Total amount of notional solvency capital requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420		0			
Total amount of notional solvency capital requirement for matching adjustment portfolios	R0430		0			
Diversification effects due to RFF nSCR aggregation for article 304	R0440		0			
Approach to tax rate			C0109			
Approach based on average tax rate (yes/no)	R0590		-			
Loss-absorbing capacity of deferred taxes			C0130			
Amount/estimate of LAC DT	R0640		-			
Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	R0650		-			
Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	R0660		-			
Amount/estimate of LAC DT justified by carry back, current year	R0670		-			
Amount/estimate of LAC DT justified by carry back, future years	R0680		-			
Amount/estimate of maximum LAC DT	R0690		-			

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	28,153

			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	35,435	50,881
Workers' compensation insurance and proportional reinsurance		R0040	-	-
Motor vehicle liability insurance and proportional reinsurance		R0050	4,476	0
Other motor insurance and proportional reinsurance		R0060	19	0
Marine, aviation and transport insurance and proportional reinsurance		R0070	-	-
Fire and other damage to property insurance and proportional reinsurance		R0080	30,011	76,789
General liability insurance and proportional reinsurance		R0090	32,668	34,147
Credit and suretyship insurance and proportional reinsurance		R0100	-	-
Legal expenses insurance and proportional reinsurance		R0110	-	-
Assistance and proportional reinsurance		R0120	1,681	5,956
Miscellaneous financial loss insurance and proportional reinsurance		R0130	0	12,845
Non-proportional health reinsurance		R0140	-	-
Non-proportional casualty reinsurance		R0150	-	-
Non-proportional marine, aviation and transport reinsurance		R0160	-	-
Non-proportional property reinsurance		R0170	-	-

S.28.01.01

Minimum capital requirement – only life or only non-life insurance or reinsurance activity

Linear formula component for life insurance and reinsurance obligations

C0040		
MCRL result	R0200	834

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	0	–
Obligations with profit participation – future discretionary benefits	R0220	0	–
Index-linked and unit-linked insurance obligations	R0230	0	–
Other life (re)insurance and health (re)insurance obligations	R0240	39,718	–
Total capital at risk for all life (re)insurance obligations	R0250	–	–

Overall MCR calculation

C0070		
Linear MCR	R0300	28,987
SCR	R0310	92,240
MCR cap	R0320	41,508
MCR floor	R0330	23,060
Combined MCR	R0340	28,987
Absolute floor of the MCR	R0350	3,700
C0070		
Minimum capital requirement	R0400	28,987

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