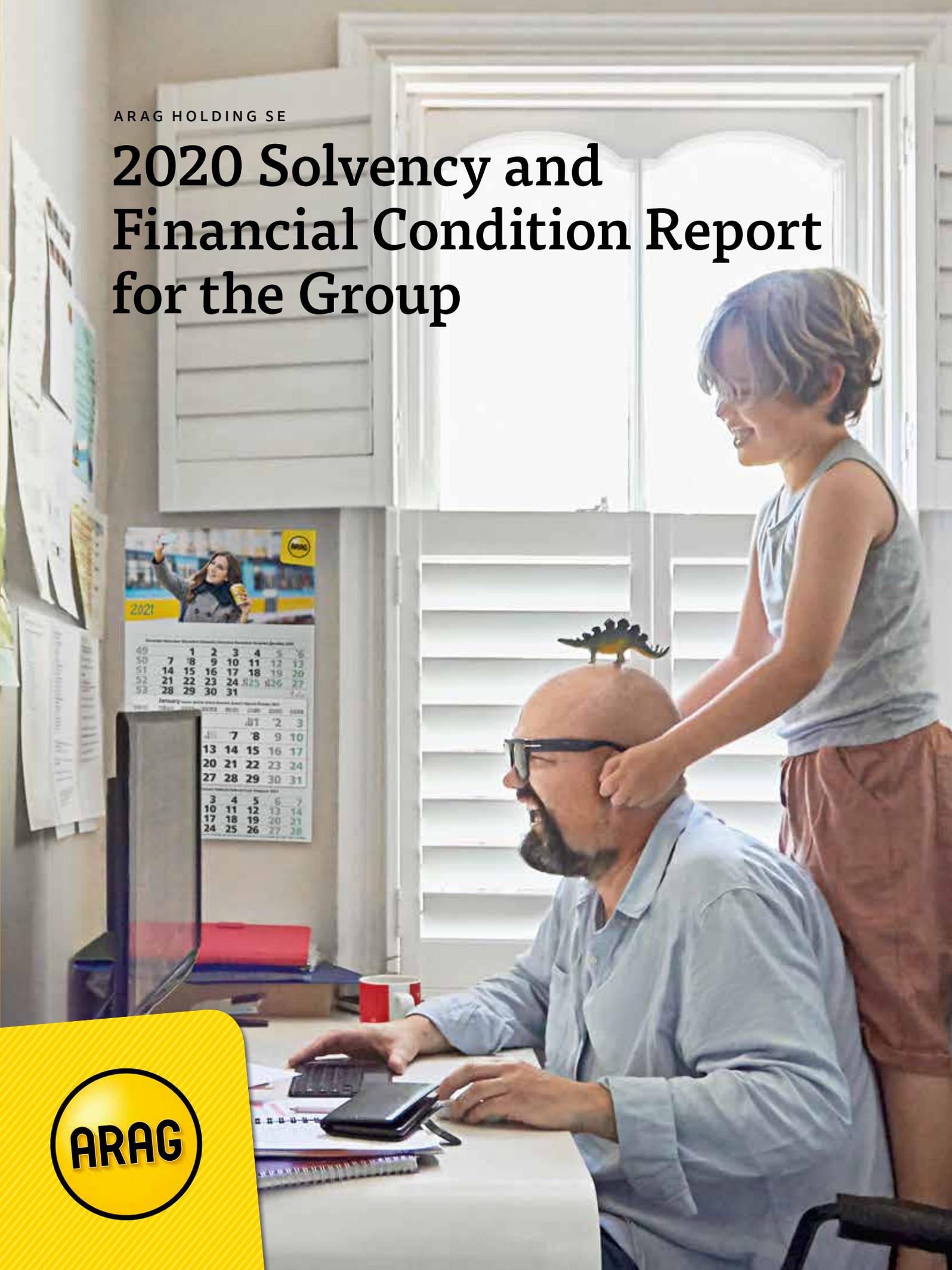


ARAG HOLDING SE

2020 Solvency and Financial Condition Report for the Group



ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

Speaker of the Management Board and Central Group Functions

Sales, Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management and Group Controlling

Group Human Resources/Audit

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 Holding SE and ARAG SE

Company

ARAG Holding SE

Members of the Management Board and areas of responsibility

**CEO/Equity Investments/
Group Audit/Legal/Compliance**

Dr. Dr. h. c. Paul-Otto Faßbender

**Data Security/Finance/
Accounting and Tax**

Dr. Sven Wolf

**Risk Management/
Brand and Communications**

Klaus Heiermann

Company

ARAG SE

Members of the Management Board and areas of responsibility

Speaker of the Management Board and Central Group Functions

Dr. Renko Dirksen

Sales, Products and Innovation

Dr. Matthias Maslaton

Group Finance

Wolfgang Mathmann

Group IT and Operations

Hanno Petersen

Group Risk Management and Group Controlling

Dr. Joerg Schwarze

Group Human Resources/Audit

Dr. Werenfried Wendler

Key Figures for the ARAG Group

Premium income/sales revenue:

€ **1,872** million

↗ 2019: €1,787 million

Consolidated net income:

€ **38** million

↘ 2019: €78 million

Net combined ratio:

87.6 %

↘ 2019: 88.7%

Eligible own funds:

€ **1,607** million

↗ 2019: €1,409 million

Solvency capital requirement:

€ **537** million

↗ 2019: €480 million

Solvency ratio:

299.3 %

↗ 2019: 293.7%

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Summary

Chapter A. Business and Performance

Chapter A.1 provides detailed information on the legal structure of ARAG Holding SE (also referred to as the Company or the ARAG Group). ARAG Holding SE is the ultimate parent company of the ARAG Group, whose operational management is the responsibility of its subsidiary ARAG SE. This chapter describes the principal divisions, presents qualitative and quantitative disclosures on relevant events and significant intragroup operations, and sets out material transactions during the year.

The ARAG Group is the largest family enterprise in the German insurance industry and one of the world's leading providers of legal insurance. It focuses on state-of-the-art product concepts aimed at both private and small business customers.

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

In 2020, gross premiums written went up by 4.8 percent to €1,848,679 thousand in the ARAG Group (2019: €1,763,503 thousand). The growth was driven by the improvement in the Group's share of the German legal insurance market and, as a result of stepping up collaboration with primary insurers, the international legal insurance market. Gross premium income from direct business in the German legal insurance market rose by 5.8 percent year on year. Most of this increase was derived from the addition of 77,567 policies to the policy portfolio; only a small proportion was due to premium adjustments. The international legal insurance business remained on its long-term growth trajectory, with gross premiums rising by 6.8 percent. New policies in inward reinsurance business resulted in premium increases, especially in the Netherlands and Italy. Sales revenue in the US increased significantly as a result of attracting new customers and expanding the insurance cover of existing customers. In Norway and Sweden, additional major contracts were signed with trade associations. Premium income in casualty and property insurance (excluding legal insurance) fell to €263,432 thousand (2019: €285,010 thousand). During the reporting year, there was further strong growth in private health insurance premiums, which advanced by 9.4 percent to €430,179 thousand (2019: €393,198 thousand). This was primarily driven by the substantial increase in premiums from new customers in the full-coverage health insurance business.

Under the German Commercial Code (HGB), the Group's underwriting result rose significantly in 2020, from €98,474 thousand to €112,020 thousand. This was due mainly to the aforementioned premium growth and the disproportionately low increase in claims expenses as a result of the pandemic-related restrictions, particularly those affecting travel.

Gains and losses on investments decreased significantly from a net gain of €156,914 thousand in 2019 to a net gain of €78,477 thousand in the year under review. One of the main reasons was the favorable environment in the capital markets in 2019 created by rising share prices. As a result, large reversals of write-downs were recognized in that year. Gains on disposals were also generated as a consequence of the restructuring of some of the institutional funds. These two effects were only present to a much lesser degree in the reporting year despite favorable capital market trends overall. This decline was exacerbated by the reinvestment of ordinary income in institutional funds so that capital market volatility can be better absorbed in the future. After taking into account the sundry income and expense items, the ARAG Group generated net income for the year of €38,175 thousand in spite of the general economic trend (2019: €77,537 thousand).

The impact of the COVID-19 pandemic on business performance is explained in chapters A.1 and A.2.

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 key functions are kept strictly separate from the operational departments and they have a direct reporting line to the Management Board member with relevant responsibility, they can perform their duties objectively and independently. 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 Group assesses whether these requirements are met.

Chapter B.3 describes the 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 the ARAG Group 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

The main risks influencing the ARAG Group's risk profile are market risk and underwriting risk. The solvency capital requirement (SCR) for market risk is €627,521 thousand. The primary sub-risks in this regard are spread risk and equity risk. Underwriting risk comprises non-life underwriting risk and health underwriting risk. Non-life underwriting risk, for which the solvency capital requirement is €164,341 thousand, is mainly influenced by accumulation risk, reserve risk, and premium risk. The solvency capital requirement for health underwriting risk is €183,522 thousand. A material component of this is the risk from health insurance that is operated on an actuarial basis similar to that of life insurance.

The COVID-19 pandemic has not resulted in any significant change to the risk profile of the ARAG Group.

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 include, among other stipulations, application of the strict or discretionary principle of lower of cost or market value. Consequently, line items in valuations for solvency purposes cannot be directly compared with equivalent balance sheet carrying amounts.

The individual 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 described 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.

Following a review of the application of International Financial Reporting Standard (IFRS) 16, ARAG elected not to recognize leasing arrangements in 2020. This led to a change to property, plant & equipment held for own use (D.1.6) and to other financial liabilities (D.3.8) compared with the prior year.

The amount to be recognized for these obligations of the insurance companies fell by €14,784 thousand as a result (D.3.2 and D.3.3).

The Group did not apply any transitional measures pursuant to section 351 et seq. of the German Insurance Supervision Act (VAG) or volatility adjustment in the reporting period.

The COVID-19 pandemic did not have any significant impact on the Solvency II balance sheet.

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.

The ARAG Group's overall solvency capital requirement is €537,010 thousand. To cover this requirement, the Group has eligible own funds of €1,607,407 thousand, giving a coverage ratio of 299.3 percent. The ARAG Group thus has a high level of capital adequacy, a clear sign of the Company's excellent financial strength. Rough calculations that have been performed regularly since March 2020 due to the COVID-19 pandemic have also consistently shown a comfortable level of coverage.

The minimum capital requirement is €257,538 thousand, which means the coverage ratio for the minimum capital requirement is 624.1 percent.

The ARAG Group uses a partial internal model to determine the solvency capital requirement at Group level. Chapter E.4 provides an overview of the differences between the partial internal model and the standard formula.

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

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A.1 Business

A.1.1 General disclosures

Legal basis

ARAG Holding SE, Düsseldorf, is the asset management and parent company of the ARAG Group. It manages assets, carries out asset management on behalf of third parties, and performs other managerial duties and services. The Company is entered in the commercial register of the Düsseldorf local court under the number HRB 66673. Its contact details are:

ARAG Holding SE
 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

Address of the German Federal Financial Supervisory Authority (BaFin):

Bundesanstalt für Finanzdienstleistungsaufsicht
 Graurheindorfer Strasse 108
 53117 Bonn, Germany

Or:
 Postfach 1253
 53002 Bonn, Germany

Contact details for BaFin

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

Independent auditor

The contact details of the appointed auditor are:

KPMG AG Wirtschaftsprüfungsgesellschaft, headquartered in Berlin
 KPMG Cologne branch
 Barbarossaplatz 1a
 50674 Cologne, Germany
 Tel: +49 (0)221 2073 00
 Fax: +49 (0)221 2073 6000
 Email: information@kpmg.de
 Website: www.kpmg.de

A.1.2 Structure of the ARAG Group and holders of qualifying holdings

ARAG Holding SE, Düsseldorf, manages the assets and is the parent company of the ARAG Group from a company law perspective.

The ARAG Group operates in a total of 19 countries (Germany, other European countries, the US, Canada, and Australia) through branches, subsidiaries, and equity investments.

In addition to the Group headquarters in Düsseldorf and the offices of ARAG Krank-
enversicherungs-AG (ARAG Health) in Munich, the ARAG Group maintains permanent establishments in Austria, Belgium, Greece, the Republic of Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain, and the United Kingdom.

Legal insurance is also provided in Australia, the US, Norway, Sweden, and Denmark. In each case, the business is operated through legally independent affiliated companies, under the unified management of ARAG SE in its role as parent company. In addition, the Group operates in Switzerland via an equity investment in a legal insurance associate. In the United Kingdom, Canada, and Australia, a Group company in each case acts as a broker for legal insurance business and legal-insurance-related special service package business, passing this business to external primary insurers. Some of this insurance is then ceded to ARAG SE under quota-share reinsurance treaties. An equity investment is also held in a legal insurance company in Luxembourg.

The CEO, Dr. Dr. h. c. Paul-Otto Faßbender, is also the majority shareholder of ARAG Holding SE.

ARAG SE is the largest insurance company in the Group. It is also responsible for the operational management of the insurance business 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 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 46 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 SE, Düsseldorf	SE (European company)	Germany	50.00 %	100.00 %
2 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	GmbH (private limited company)	Germany	100.00 %	100.00 %
3 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	GbR (partnership under the German Civil Code)	Germany	0.00 %	94.90 %
4 ARAG Allgemeine Versicherungs-AG, Düsseldorf	AG (stock corporation)	Germany	0.00 %	100.00 %
5 ARAG Insurance Company Inc., Des Moines	Corporation	USA	0.00 %	100.00 %
6 ARAG International Holding GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
7 ARAG IT GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
8 ARAG Krankenversicherungs-AG, Munich	AG	Germany	0.00 %	94.00 %
9 ARAG North America Inc., Des Moines	Corporation	USA	0.00 %	100.00 %
10 ARAG plc, Bristol	plc (public limited company)	United Kingdom	0.00 %	100.00 %
11 ARAG Service Center GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
12 Cura Versicherungsvermittlung GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
13 HELP Forsikring AS, Oslo	AS (private limited liability company)	Norway	0.00 %	100.00 %
14 Interlloyd Versicherungs-AG, Düsseldorf	AG	Germany	0.00 %	100.00 %
15 ALIN 1 GmbH & Co. KG, Düsseldorf	GmbH & Co. KG (limited partnership with a GmbH as general partner)	Germany	0.00 %	100.00 %
16 ALIN 1 Verwaltungs-GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
17 ALIN 2 GmbH & Co. KG, Düsseldorf	GmbH & Co. KG	Germany	0.00 %	100.00 %
18 ALIN 2 Verwaltungs-GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
19 ALIN 4 GmbH & Co. KG, Düsseldorf	GmbH & Co. KG	Germany	0.00 %	100.00 %
20 ALIN 4 Verwaltungs-GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %

Description of the main Group companies

1. ARAG SE is the Operating Group Holding Company of the ARAG Group and one of the world's 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, Spain, and the United Kingdom.
2. 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.
3. ARAG 2000 Grundstücksgesellschaft bR manages the site at ARAG Platz 1, 40472 Düsseldorf, where the ARAG Group's headquarters are located.
4. ARAG Allgemeine Versicherungs-AG operates the Group's casualty and property insurance business in Germany and through branches in the United Kingdom and the Republic of Ireland. It is necessary to operate this business in a separate company because, in Ger-

many, legal insurance claims have to be settled separately (section 164 VAG). ARAG Allgemeine primarily offers modular insurance cover for general accident insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to private and small business customers. This company is also Europe's largest sports insurer, providing cover for over 20 million recreational sports participants and top-ranking athletes.

5. 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 four companies and is managed by ARAG North America Inc.
6. 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.
7. 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.
8. 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.
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 three 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 1 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 1 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 1 GmbH & Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.
17. 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.
18. 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 & Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.
19. ALIN 4 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.
20. ALIN 4 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 4 GmbH & Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.

Qualitative and quantitative disclosures on relevant events and significant intragroup transactions

ARAG SE is responsible for the operational management of the insurance business of the ARAG Group. 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.

Significant events and transactions are listed below.

Business expansion On March 15, 2021, ARAG SE acquired all the shares in DAS Legal Protection Inc., Canada. At the same time, it entered into a 100-percent quota-share reinsurance treaty with Temple Insurance Company, a primary insurer based in Canada, thereby substantially expanding its business activities in that country. These deals do not have any significant impact on the Company's net assets, financial position, and results of operations measured against the overall volume of business operated by ARAG SE.

Intragroup profit and loss transfers The ARAG Group has a multi-layer structure. As a result, the parent companies at the different levels receive the profit or loss from their subsidiaries. This takes the form of a dividend distribution (transfer of profit or loss from a previous period), transfer of profit or loss on the basis of contracts pursuant to section 291 of the German Stock Corporation Act (AktG), or transfer of profit or loss from the same period. The inclusion of Group companies at all levels of the Group results in the profit and loss earned being recognized more than once. They are therefore consolidated in order to obtain an accurate picture of the Group's net assets, financial position, and results of operations. In 2020, this consolidation led to a total of €85,367 thousand (2019: €90,305 thousand) being eliminated from income from equity investments.

Dividends/profit-and-loss transfer agreements

The dividends distributed within the ARAG Group in the reporting year, which totaled €40,367 thousand, were from the following entities:

• ARAG North America Inc.	€18,451 thousand
• ARAG International Holding GmbH	€11,900 thousand
• ARAG 2000 Grundstücksgesellschafts GbR	€3,688 thousand
• ARAG Krankenversicherungs-AG	€3,572 thousand
• Other	€2,756 thousand

ARAG SE received an amount of €10,726 thousand from ARAG Allgemeine Versicherungs-AG for 2020 (2019: €11,282 thousand) in settlement of its right to the transfer of profit based on the profit-and-loss transfer agreement dated October 31, 2006.

The Management Board of ARAG Holding SE is proposing to the Annual General Meeting that a dividend of €10,000 thousand be distributed to shareholders from the net retained profit for 2020 (2019: €10,000 thousand).

In the period under review, there were no other material transactions with shareholders, persons able to exercise significant influence over the Company, or members of the administrative, management, or supervisory bodies.

Adjustments to the carrying amounts of equity investments in Group companies

Changes to the economic environment, inaccurate estimates of business opportunities, and unusual circumstances may lead to a lasting change in the value of the parent company's equity investments. Under HGB financial reporting standards, the carrying amounts of equity investments have to be adjusted to reflect their fair value in such cases. If the values have increased, the carrying amounts must not be increased to more than the historical cost. If the affected entities are included in the consolidated financial statements, these adjustments have to be eliminated because the factors influencing the carrying amounts of the equity investments will have already influenced the Group's business performance.

Intragroup reinsurance arrangements The Group companies have entered into reinsurance agreements with each other on arm's-length terms. This helps to share out the risks among the Group companies. In the reporting year, an amount of €28,957 thousand (2019: €29,104 thousand) was eliminated for intragroup insurance premiums, €12,123 thousand (2019: €14,106 thousand) for claims incurred, and €13,002 thousand (2019: €12,995 thousand) for reinsurance commission in connection with these reinsurance treaties. This measure is necessary so that only the insurance premiums, expenses for claims incurred, and insurance business operating expenses resulting from agreements with third parties are recognized in the consolidated financial statements.

Intragroup services During the reporting year, services amounting to €89,167 thousand were performed within the ARAG Group for the brokering of third-party business and for administrative services between the insurance companies (2019: €79,471 thousand). The sales revenue from such services was offset against the expenses of the companies performing the services. The ARAG Group has also set up separate companies that specialize in carrying out special tasks. These include IT companies that are responsible for operating the central data center, developing bespoke software, and advising on the necessary hardware and software. There are also companies that provide a 24-hour customer hotline, manage the Group's investments, or broker insurance between customers and the Group's insurance companies. In the reporting year, sales revenue from such services between Group companies was offset against the expenses of the companies performing the services in an amount of €47,176 thousand (2019: €45,218 thousand).

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.

There were no other relevant transactions in the period under review.

A.1.3 Line of business

The ARAG Group is the largest family enterprise in the German insurance industry and one of the world's leading providers of legal insurance. ARAG was established more than 85 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products with a clear focus on property and health insurance.

The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business.

The ARAG Group now operates in a total of 19 countries – Germany, 15 other European countries (now including the Republic of Ireland and Switzerland), the US, Canada, and Australia – through branches, subsidiaries, and equity investments.

ARAG SE is responsible for strategic Group management and the legal insurance operating business at both domestic and international levels. The other ARAG insurance and service companies are responsible for the operational management of their respective lines of business. ARAG Holding SE manages the assets and is the parent company of the Group from a company law perspective.

In its core legal insurance segment, ARAG plays a major role in shaping its markets both in Germany and abroad with innovative products and services. For some years now, the international legal insurance business has been the Group's most significant area of activity. The international units involved in this business are a valuable source of impetus for the Group's growth. At the same time, ARAG SE is following a clear path to success in its German domestic market, where it is generating rising legal insurance premiums.

In a fiercely competitive market, ARAG Allgemeine Versicherungs-AG (ARAG Allgemeine) is demonstrating its strength as an attractive provider of property, liability, and accident insurance policies and has been highly ranked in numerous independent performance comparisons. This company is also Europe's largest sports insurer, providing cover for over 20 million recreational sports participants and top-ranking athletes. Interlloyd Versicherungs-AG (Interlloyd), a subsidiary of ARAG Allgemeine, specializes in brokering services in the commercial and private customer segments, adding a further dimension to the Group's portfolio.

In the private health insurance market, ARAG Kranken (ARAG Health) offers a broad range of products with outstanding customer benefits, emphasizing its appeal as a provider of full-coverage and supplementary health insurance. To complement its range of products for customers, ARAG Core Sales offers pension products from its strategic partner Alte Leipziger.

Insurance portfolio

At the end of the reporting year, the Group had 10,533,308 in-force insurance policies (December 31, 2019: 7,972,803), of which 3,698,893 related to the business in Germany (December 31, 2019: 3,591,484). The breakdown by line of business was as follows: 1,688,439 legal insurance policies, 1,325,731 casualty and property insurance policies, and 684,723 health insurance policies.

International business accounted for 6,834,415 policies (December 31, 2019: 4,381,319). Of this total, 6,611,469 policies were attributable to legal insurance and 222,946 to casualty and property insurance. The health insurance business is only operated in Germany.

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

Products

Across all divisions, the ARAG Group regards itself as an innovative and multifaceted provider of high-quality insurance that does more than simply reimburse costs and instead offers its customers suitable prevention and assistance along with smart services. For years now, the international legal insurance business has been the Group's most significant area of activity. The units outside Germany involved in this business are a valuable source of impetus for the Group's growth. At the same time, ARAG SE is on a clear path to success in its German domestic market, where it is steadily acquiring new customers. In Germany, the Group's legal insurance offering is complemented by a wide variety of products and services that focus on customer needs and added value in the areas of private health insurance and casualty and property insurance. These divisions are successfully run by the independent Group companies ARAG Krankenversicherungs-AG, ARAG Allgemeine Versicherungs-AG, and Interlloyd Versicherungs-AG. ARAG Krankenversicherung (ARAG Health) offers a broad range of products with outstanding customer benefits, emphasizing its appeal as one of the best providers of full-coverage and supplementary health insurance. In their fiercely competitive market, ARAG Allgemeine and Interlloyd are demonstrating their strength as competitive providers of property, liability, and accident insurance policies.

The ARAG Group maintains a clear focus on the needs and expectations of customers in its domestic and international markets. These needs and expectations are undergoing rapid change as a result of digital transformation and the COVID-19 pandemic. At the start of the pandemic, the primary objective for all Group companies was to reconfigure the businesses processes as quickly as possible to keep employees, customers, and business partners safe. The Group rose to the challenge, switching its business operations to a decentralized model with barely any disruption. Within a few days, the vast majority of employees were working from home while maintaining the usual high levels of effectiveness and customer service. The significant investment that has been made in digitalization and remote working in recent years really paid off here. It was a similar situation in sales, where face-to-face contact with customers was severely impacted by the pandemic-related restrictions. Here, the high degree of digitalization in the processes for new policies played a part in not only keeping new business stable in this difficult environment, but

actually growing it too, supported by the broker organization, ARAG Partner Sales, and by the captive sales organization, ARAG Core Sales.

The high quality of the ARAG Group's products and services, its innovative strength, and its consistent performance are reflected in the many awards, top ratings, and seals of approval that it regularly receives from independent organizations. In the reporting year, the products of the Group's international units were also recognized by highly regarded organizations and bestowed with awards, in addition to receiving numerous national commendations.

Alongside its first-rate services, ARAG fundamentally revised the product spectrum in its core legal insurance division in the reporting year, expanding it with numerous product innovations. The market launch of the new legal insurance product in spring 2021 is the most notable new addition. Its three product versions provide modern and comprehensive cover and offer the customer even more features, even more services, and even more support. The Basis version of the legal insurance offering for price-sensitive customers has been completely redesigned. It now also provides protection in relation to key out-of-court areas of cover. It goes without saying that the new generation of legal insurance cover offers additional innovative benefits as well as an enhancement of the existing unique selling proposition. One example is the anti-stalking legal insurance included in the Komfort and Premium versions. The Premium version now also includes (retrospective) cover for pursuing individual claims following a model case procedure. Only ARAG offers this specific type of cover. A new feature of the Premium version is a one-time option to obtain precautionary advice on any legal issue. Under this feature, a customer can obtain precautionary legal advice from an attorney at the expense of ARAG on a once-only basis without a specific insured event needing to have arisen. Alimony disputes are now included for Premium customers as another new feature. Both private and small business customers can switch their insurance to the new Premium product line without suffering any disadvantage: If a legal insurance claim occurs in the first three years of cover that is not insured by ARAG but was insured in the policy that it directly replaced, then the conditions of the previous policy will apply. The legal insurance protecting the self-employed in the event of contract disputes was completely revised to make it possible to provide immediate cover for commercial legal insurance by paying a premium at the point of sale.

In the casualty and property insurance business, ARAG Allgemeine expanded its product portfolio by introducing the new ARAG ReiseProtect travel insurance, available as a short-term or annual policy, and by updating its residential buildings cover. The reporting year also saw the development of a new rate scale for the 'Recht&Heim' all-round cover product for private customers. It is available in the Komfort and Premium product variants and was launched on the market at the beginning of 2021. 'Recht&Heim' combines components of legal, home contents, and liability insurance, with residential buildings cover as an optional add-on. If a customer cancels a policy of this kind taken out with another insurer and then switches to 'Recht&Heim', ARAG will cover any differences in protection that arise from varying policy lengths. Like in motor insurance, the insurance rates are partly determined by categories based on the number of claim-free years. The no-claims-discount saver, available as an optional add-on, ensures that every year one claim that would otherwise downgrade the customer to a different category is not taken

into account and therefore does not increase the premium. There is also no deductible to pay in the event of a natural disaster and the sums insured for simple theft, damage to property, and financial loss are higher. Interlloyd Versicherungs-AG also further expanded its range of products and services in the reporting year, introducing a new personal liability insurance product. The variant of this product offering the most extensive cover, Infinitus, has a five-year premium guarantee and an unusually high sum insured as its unique selling propositions. A new home contents insurance product was also developed in the reporting year. The unique selling proposition of Interlloyd's Infinitus home contents insurance – which offers the most extensive features of the three product variants – is its cover of up to €10 thousand in the event of the customer's smart home security system being hacked. Infinitus even protects customers if they fall victim to simple theft, a confidence trick, or pickpocketing. There is no deductible for individual benefits. Bicycles and electric bikes are automatically included in the cover up to the sum insured. Thanks to a best-performance and continued-cover guarantee, customers enjoy the best possible insurance cover in Germany without any disadvantages compared to their previous cover. With the optional add-on web@ktiv, they can also cover risks such as identity fraud and reputational damage in the cybersphere.

Despite the more difficult conditions, ARAG Health continued to further develop the highly profitable full-coverage health insurance segment in 2020, striking a balance between continuity and stability on the one hand and careful modernization of the rate scales on offer on the other. An example of this is the introduction of the two new full-coverage rate scales MedExtra and MedKomfort, which complement the KomfortKlasse rate scale and offer a step up from the range of compact rate scales for full-coverage health insurance. The two new rate scales enable customers to go straight to a specialist without being referred by their family physician. The many other innovative features include the waiver of premiums for customers receiving parental leave pay and generous flat-rate reimbursements at the lower deductible levels. The PremiumKlasse rate scale and all compact rate scales also benefit from the new rules on bonuses and rebates, with the maximum amount of bonuses and rebates available from when the policy is taken out. It plugged a gap in its provision with the launch in April of a new digital product covering pregnancy and childbirth care. A key component is the midwifery service offered by Kinderheldin, a start-up business based in Berlin. Their registered midwives provide advice for expectant or young mothers (and fathers too) via online chat or by telephone from 7 a.m. to 10 p.m. regardless of location. The provision also includes fully featured online antenatal classes from partner organization Keleya, including a class specifically for fathers. If ARAG customers have full-coverage insurance, ARAG health insurance covers the costs of ten advisory discussions plus the costs of the antenatal classes.

Systems, IT, and digitalization

In 2018, the ARAG Group launched a holistic development strategy for its German and international operations entitled 'Smart Insurer Program'. The objective of the program is to seize the opportunities presented by digitalization and continue to reinforce the independence of the Group with a clear focus on customers and the changes in their requirements.

This program-based approach consists of a broad range of different measures that the Group has already initiated. ARAG's declared intention is to turn itself and its Group companies into a 'smart insurer'. 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 ARAG Group companies in Germany and abroad were involved in determining the areas for action using a bottom-up process. 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. The Group Management Board evaluated and prioritized the proposals – a total of 85 core measures – before specifying seven fundamental action areas. The implementation of the associated projects was initiated back in 2019 and progress accelerated in the reporting year.

Some of the first specific outcomes in the Smart Services category are newly developed chatbots – such as those related to COVID-19 – or the introduction of a new document center providing access to templates for legal documents. ARAG Health created the *Smarte Zahnwelt* (Smart Dental) project, which offers customers additional benefits related to dental health.

In 2020, in the Smart Data category, the technical and functional foundations were laid for a digital reporting system in the ARAG Group as part of the *TranspARAGcy* project, which is due to go live in 2021. Once it is introduced, it will provide an even more holistic and integrated overview of financial, controlling, and risk data. The Smart Analytics project is gathering the data available throughout the Group into a data lake so that the data can be made accessible at all times and used quickly and easily, taking into account data protection requirements. Going forward, this will help the Group to swiftly and pragmatically develop and offer tailored digital services and products.

A key milestone in the Smart Culture category was a groupwide employee survey aimed at recording and analyzing the corporate culture in the Group. The findings formed the basis for a complete revision of the ARAG Group's corporate principles. The revision was completed at the beginning of the reporting year. The Group's corporate culture is also evolving, for example through the increasing use of agile working methods and new virtual approaches to learning and information-sharing, such as the new learning platform *Learn2Develop*.

Overall, the ARAG Smart Insurer Program is expected to be completed on schedule by the end of 2021.

Insurance-specific events

See chapter A.2.1 'Underwriting performance – overview' for disclosures regarding insurance-specific events.

There were no other significant insurance-specific events in the reporting year that impacted on the ARAG Group.

Company changes

The ARAG Group continued to pursue its strategy of internationalization in the reporting year, further expanding the business of the company that it had established in Australia in 2018. The primary objective of this company is to sell legal insurance products and services. The ARAG Group also further expanded the legal insurance portfolio of an Irish insurer that it had taken over in 2019. And on March 15, 2021, so after the reporting date, ARAG SE acquired all the shares in DAS Legal Protection Inc., Canada.

On July 7, 2020, the Supervisory Board elected Dr. Dr. h.c. Paul-Otto Faßbender as its Chairman with immediate effect after the planned expiry of his term of appointment as CEO of ARAG SE on July 4, 2020. The majority shareholder thus replaced Gerd Peskes, who had chaired the Supervisory Board since 2004. Gerd Peskes was elected Deputy Chairman. Professor Dr. Walter Ackermann stepped down from the Supervisory Board of ARAG SE on June 30, 2020.

Dr. Renko Dirksen became Speaker of the Management Board of ARAG SE on July 4, 2020 and has coordinated the work of the Management Board since that time. On April 2, 2020, Dr. Werenfried Wendler took charge of Group Human Resources/Audit.

Dr. Werenfried Wendler stepped down from the Management Board of ARAG Allgemeine and Interlloyd on March 31, 2020. Zouhair Haddou-Temsamani was appointed to these companies' Management Boards with effect from April 1, 2020. He is in charge of the third responsibility area: Product Management.

There were no other changes in the ARAG Group's shareholdings or material changes in business activities in the reporting year. Furthermore, there were no changes to the ARAG Group's structure or to the core business with an impact on the ARAG Group.

In 2020, there were no other material transactions with a significant impact on the Group.

Other events

The COVID-19 epidemic that broke out at the end of 2019 turned into a global pandemic in 2020. This had – and is still having – extreme consequences for all areas of public life and the economy.

The rapid increase in cases in 2020 triggered both a supply and a demand shock in the affected countries. Further down the line, these are still presenting significant difficulties in terms of the economic handling of the pandemic. Massive slumps in the capital markets and the associated flight to safe havens are continuing to exacerbate the impact on the real economy.

The extent to which economic activity was restricted varied from industry to industry. The travel sector, for example, came to an almost complete standstill, whereas healthcare and some retail segments were generally not as badly affected. Industries in which remote working is possible, which thus have a lower risk of infection, have reported a lesser impact. Restricted economic activity was mitigated by an array of measures in 2020, including short-time working and temporary support payments. Besides the obvious constraints, however, businesses are also being presented with opportunities as a result of the COVID-19 pandemic – particularly in relation to the use of digital technologies.

From the beginning, the insurance industry was among those that felt the impact of the pandemic. As well as operational restrictions, the main consequences were restrictions in sales, higher claim payments in some cases, and effects on investment portfolios.

This presented a major challenge for the ARAG Group too, but also big opportunities. For example, in this crisis situation, the Group was once again able to demonstrate the strength of its capabilities in terms of speed, flexibility, and innovation. Right from the start of the pandemic, customers began needing more legal guidance and reassurance, including in regard to healthcare. An increase in demand for legal insurance and private health insurance was one of the consequences of this.

In response to the change in its customers' requirements, ARAG quickly set up a wide range of services (some of which were newly created) and offered general information that was continually updated. Some of the services, such as the attorney online chat service and the COVID-19 attorney hotline, were (and are still) also available to non-customers free of charge. ARAG also implemented a range of measures to support its workforce. By late 2019/early 2020, every employee had already received a personal laptop featuring the latest software, which enabled the user to make video calls among other things. At the outbreak of the pandemic, it was therefore possible within a few days to switch almost entirely and without disruption to remote working. The Group also provided additional support to its employees through various measures and offerings to help them work from home.

There was no negative impact on new business nor was there an increase in lapse rates. Claims incurred in the reporting year were influenced by the pandemic, but a nuanced view needs to be taken of the effects on the individual insurance segments. The trends in the capital markets affected the ARAG Group companies differently depending on the composition and size of their investment portfolios.

As described in chapter A.2, the ARAG Group maintained its strong business performance of recent years in 2020 despite the prevailing uncertainty of the economic situation. It is difficult to predict the future impact of the COVID-19 pandemic. However, the Company is expecting to achieve a similarly healthy profit after taxes in 2021.

The extent of the pandemic's economic impact remains very uncertain for all industries. Further measures are needed to contain the pandemic, in particular faster testing methods that people are able to perform themselves and vaccination of the population.

A.2 Underwriting Performance

A.2.1 Underwriting performance – overview

In the year under review, the ARAG Group generated **income from gross premiums written** of €1,848,679 thousand (2019: €1,763,503 thousand). This increase was due to a rise in premiums of 6.1 percent in Germany and growth of 3.1 percent in the international markets. A modest level of company-specific premium adjustments made an immaterial contribution to the increase in premium income. The reinsurers' share amounted to €11,032 thousand (2019: €10,857 thousand).

Claims incurred (gross) in accordance with HGB rose by 0.2 percent to €940,483 thousand (2019: €938,914 thousand). The claim settlement costs included in this figure amounted to €194,656 thousand (2019: €201,750 thousand). A share of the claims amounting to €4,855 thousand (2019: €2,430 thousand) was ceded to reinsurers in 2020. Expenses for claims incurred increased overall due to the growth of the insurance portfolio. Claims incurred in the reporting year were heavily influenced by the pandemic that broke out in spring 2020, but a nuanced view needs to be taken of the effects on the individual insurance segments. For example, the closure of businesses ordered by the authorities in March 2020 led to a substantial increase in claims reported and thus claims expenses in the business interruption insurance segment. However, the restrictions on contact (also imposed by the government) had a countervailing effect, resulting in a sharp fall in claims reported for the year mainly in the general accident insurance and liability insurance segments.

The **change in other technical provisions (net)** amounted to an expense of €134,402 thousand (2019: expense of €159,826 thousand).

Other expenses (net) came to €4,446 thousand (2019: €3,244 thousand) and primarily consisted of expenses for the fire protection tax in the casualty and property segment and expenses for the increase in the contribution required to balance the pooling of nursing care insurance.

Insurance business operating expenses (gross) went up year on year, from €619,827 thousand to €675,174 thousand. The acquisition costs included in this figure amounted to €210,002 thousand (2019: €190,300 thousand). This year-on-year increase was predominantly attributable to the higher level of new business and the associated additional fee and commission expenses. Administrative expenses (gross) went up by 8.3 percent to €465,172 thousand (2019: €429,527 thousand). A key factor in this change was the rise in commission rates of European primary insurers with which ARAG SE does indirect business. The costs were mitigated to some extent by savings on travel and training costs.

The **underwriting result** in accordance with HGB net of reinsurance in 2020 amounted to €112,020 thousand (2019: €98,474 thousand). Based on the quantitative reporting (see template S.05.01.02 in the Appendix), the underwriting result for the reporting period amounted to €75,179 thousand (2019: €20,130 thousand).

The following table shows this underwriting result with a reconciliation to the underwriting result in accordance with HGB, as published in the ARAG Group's 2020 Annual Report.

Underwriting result (net)

(€'000)	2020	2019
Net premiums earned	1,837,968	1,752,039
Claims incurred (net, excluding claim settlement costs)	740,973	734,734
Changes in other technical provisions (net)	- 134,402	- 159,826
Expenses incurred (net)	882,968	834,106
Other expenses (net)	4,446	3,244
Underwriting result in accordance with template S.05.01.02	75,179	20,130
Technical interest income	349	304
Premiums from the gross provision for bonuses and rebates	37,077	46,506
Gains and losses on investments assigned to the underwriting account	62,424	91,983
Miscellaneous other underwriting income	9,688	4,632
Expenses for performance-based and non-performance-based bonuses and rebates	40,095	51,929
Underwriting result in accordance with HGB*	144,622	111,626
Change in the equalization provision and similar provisions	- 32,601	- 13,152
Underwriting result in accordance with HGB	112,020	98,474

* Underwriting result before change in the equalization provision and similar provisions, including health insurance and adjustments

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

In the year under review, technical interest income increased from €304 thousand to €349 thousand. This was attributable to the change in the benefit reserve for annuities.

Gains and losses on investments assigned to the underwriting account fell by €29,559 thousand to a net gain of €62,424 thousand (2019: €91,983 thousand). This was mainly due to the increase in depreciation, amortization, and write-downs of investments, which was attributable to a real estate write-down of €7,478 thousand.

The miscellaneous other underwriting income of €9,688 thousand (2019: €4,632 thousand) largely comprised late-payment fees in direct business and income from transfer amounts received in the health insurance business.

The addition to the provision for bonuses and rebates related only to personal insurance and was down by €11,834 thousand compared with the prior year. It therefore stood at €40,095 thousand as of December 31, 2020 (December 31, 2019: €51,929 thousand). All of this amount related to performance-based bonuses and rebates, which means that non-performance-based bonuses and rebates accounted for €0 thousand in the reporting year (2019: €1,069 thousand).

The change in the equalization provision in the reporting year was mainly driven by additions in the inward legal reinsurance business in Italy (€14,523 thousand) and in the Netherlands (€8,688 thousand) and by additions in the liability insurance business. There were also additions in ARAG Allgemeine's inward reinsurance business in the composite home contents and composite residential buildings insurance segments.

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
					2020	2019
Legal insurance	1,150,505	435,569	1,587	626,449	90,075	63,996
Health insurance	429,874	214,727	-136,095	107,860	-28,807	-52,715
Casualty and property insurance	257,589	90,677	106	153,106	13,912	8,849
Total	1,837,968	740,973	-134,402	887,415	75,179	20,130

* 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 main 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
					2020	2019
Germany	1,074,476	541,102	-134,397	443,446	-44,468	-80,814
Netherlands	174,324	14,839	0	144,247	15,239	18,948
Spain	127,237	56,338	0	62,168	8,730	9,824
Italy	153,270	17,656	0	112,381	23,232	16,129
USA	131,685	54,590	0	36,720	40,375	28,959
Austria	72,703	15,806	-5	32,625	24,266	20,507
Norway	54,351	22,686	0	24,922	6,743	4,097
Other areas	49,922	17,955	0	30,904	1,063	2,480
Total	1,837,968	740,973	-134,402	887,415	75,179	20,130

* In accordance with template S.05.01.02

The legal insurance business is operated in Germany and in other countries. The casualty and property insurance business is concentrated in the units in Germany and Spain. The health insurance business is only operated in Germany.

A.3 Investment Performance

Investment performance is reported as gains and losses on investments, which, as described below, 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 fell from a net gain of €156,914 thousand in 2019 to a net gain of €78,477 thousand in the reporting year, a decrease of €78,437 thousand. This change was mainly driven by the decline in current income and in reversals of write-downs on institutional funds compared with the prior year as well as an increase in depreciation, amortization, and write-downs that resulted from write-downs on several Group properties and the institutional funds. Current income amounted to €103,495 thousand (2019: €126,074 thousand). Current expenses in respect of investments, including technical interest, came to €19,750 thousand (2019: €18,221 thousand). Total **expenses** amounted to €52,370 thousand (2019: €29,374 thousand).

The **total income from investments** was €130,847 thousand (2019: €186,288 thousand). Of this total, €103,495 thousand was attributable to current income (2019: €126,074 thousand). The Group generated extraordinary income of €27,352 thousand in 2020 (2019: €60,215 thousand).

The net gains* on investments of €78,477 thousand described above equated to a **net yield**** on investments of 1.6 percent (2019: 3.5 percent). The **current average yield***** on investments was 1.7 percent (2019: 2.4 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 the ARAG Group's gains and losses on investments in accordance with HGB* by individual asset class as required by Solvency II:

Gains and losses on investments in the ARAG Group

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 2020*	Gains and losses on investments in 2019
Property, plant & equipment held for own use	17,605	0	0	1,406	11,721	3,795	3,495	6,770
Property (other than for own use)	4,776	443	0	773	1,197	2,946	1,849	2,464
Holdings in related undertakings, including participations	3,619	0	259	288	977	59	2,612	8,860
Equities – listed	299	509	344	105	117	0	453	870
Equities – unlisted	24	0	0	0	0	0	24	84
Government bonds	25,171	201	464	524	314	0	25,117	23,230
Corporate bonds	23,945	789	919	1,788	1,271	0	24,332	32,457
Structured notes	25	0	0	53	0	0	78	-31
Collateralized securities	12,919	5,395	22	353	10	0	18,636	13,925
Collective investment undertakings	10,949	2,001	5,152	12,592	9,146	0	11,244	78,033
Derivatives	0	0	0	0	0	0	0	0
Deposits other than cash equivalents	116	0	0	0	0	764	-647	-154
Other investments	3,861	132	57	0	652	894	2,391	2,780
Deposits to cedants	186	0	0	0	0	0	186	172
Cash and cash equivalents	0	0	0	0	0	0	0	0
Current expense (unallocated)/loss transfers	0	0	0	0	0	11,293	-11,293	-12,545
Group total	103,495	9,470	7,215	17,883	25,405	19,750	78,477	156,914

* The total of the gains and losses on investments presented in the table equates to the gains and losses on investments published in the ARAG Group's 2020 Annual Report.

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.

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 Group held asset-backed securities and mortgage-backed securities with a value of €20,073 thousand as of the reporting date (December 31, 2019: €4,088 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 certain pension commitments) and amortization and write-downs of goodwill arising from acquisition accounting.

The following table provides an overview of the main components of other net income/expense:

Other income			
(€'000)	2020	2019	Change
Administrative services for third parties and insurance brokered for third parties	10,368	12,641	-2,272
Income from the reversal of miscellaneous provisions	6,031	6,490	-460
Interest income not arising on investments	2,104	770	1,334
Sundry income	10,886	10,084	803
Total	29,389	29,985	-596

Other expenses

(€'000)	2020	2019	Change
Reclassification of costs from central departments	30,934	27,581	3,353
Expenses incurred on behalf of the Company as a whole	19,224	19,245	-21
Addition of interest to the provision for pensions and other post-employment benefits	6,692	7,549	-856
Amortization and write-downs on goodwill arising from acquisition accounting	4,825	6,550	-1,725
Cost allocation for intercompany measures to modify processes	2,193	2,126	67
Interest expense	1,766	644	1,122
Costs for legal and tax advice	1,657	1,601	56
Expense for subordinated loans	1,448	1,448	0
Expenses from default on receivables	566	401	165
Sundry expenses	19,232	19,414	-182
Total	88,537	86,560	1,977
Total other net income/expense	-59,148	-56,575	-2,573

Tax income/expense

The tax expense amounted to €45,070 thousand in 2020 (2019: €42,315 thousand).

Information on leases

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

A.5 Any Other Information

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

B. System of Governance

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B.1 General Information on the System of Governance

The ARAG Group 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 Management Board and Supervisory Board of ARAG Holding SE, which is the Group's ultimate parent company, 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 Holding SE in accordance with legal requirements and the Company's articles of incorporation. 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

As of December 31, 2020, the Management Board of ARAG Holding SE had three members. The responsibilities are allocated as follows:

- Dr. Dr. h.c. Paul-Otto Faßbender: CEO/Equity Investments/Group Audit/Legal/Compliance
- Klaus Heiermann: Risk Management/Brand and Communications
- Dr. Sven Wolf: Data Security/Finance/Accounting and Tax

Together with the Management Boards of the other 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 subcommittee, the Internal Model Committee.

Currently, neither ARAG Holding SE nor ARAG SE, the Operating Group Holding Company, has an independent remuneration committee in accordance with article 275 (1) (f) of Delegated Regulation (EU) 2015/35 (the Delegated Regulation). The size of the ARAG Group, its business organization, and its legal structure mean that, at the moment, the organization itself is 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.

Supervisory Board

The Supervisory Board is responsible for appointing and monitoring the Company's Management Board. As of December 31, 2020, the members of the Supervisory Board were as follows:

- Gerd Peskes (Chairman)
- Dr. Tobias Bürgers (Deputy Chairman)
- Professor Emeritus Dr. Brigitte Grass

B.1.2 Key functions

The establishment of controls in the Company lies at the heart of the system of governance. In the Group, these controls are mainly the responsibility of the four key functions: risk management, compliance, internal audit, and the actuarial function. These key functions are carried out by the central departments or departments of the same name at ARAG SE. Where key functions have been outsourced, an outsourcing officer has been appointed for each one at Management Board level. 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 Holding SE 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 are outsourced to the Group Risk Management Central Department at ARAG SE and are carried out by this department. 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 outsourced to the Group Legal/Compliance Central Department at ARAG SE and are carried out by this department. 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 outsourced to the Group Audit Central Department at ARAG SE and are carried out by this department. 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. The department 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

The remuneration of the Group's governing bodies and employees is based initially on the governing law applicable to the relevant entity in the Group.

Furthermore, a core aspect of the Group's system of governance is that the remuneration of the members of the governing bodies – and that of everyone else working in any of the entities in the Group – adheres to 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. Moreover, those responsible for remuneration in the Company have to monitor remuneration levels in the relevant market and make changes accordingly, taking account of the performance of the individual employees and members of the governing bodies.

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

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

No share plans or share option programs for members of governing bodies or for employees are offered anywhere in the ARAG Group. This applies to all entities in the Group and is therefore not repeated below.

Group insurance companies headquartered in Germany (including any branches in the European Economic Area, EEA) and ARAG Holding SE

The remuneration of **Management Board members** comprises a fixed basic salary and a variable element. The remuneration satisfies the regulatory requirements. In particular, the basic salary is set at a level that ensures the Management Board members 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.

If variable remuneration has been agreed, 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 a maximum of 60.0 percent of basic salary and is subdivided into short-term and long-term components. In the case of insurance companies and ARAG Holding SE, the long-term component currently equates to 60.0 percent of the relevant variable remuneration and is deferred; it also 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 of ARAG SE simultaneously hold Management Board or senior management positions in subsidiaries of ARAG SE, they do not receive any additional remuneration for these activities. 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.

Supervisory Board members receive fixed remuneration for their work. Where members do other work within the Group, individual arrangements are in place to determine whether remuneration for this work is offset against their Supervisory Board remuneration.

Unless **employees** of insurance companies in the Group are granted variable remuneration components under a pay agreement or other collective agreement on a non-discretionary basis, employees only receive such variable remuneration 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, function, and country.

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 aim is to avoid, as far as possible, any conflicts of interest that could arise between the individual tasks assigned to an employee and their remuneration structure. Suitable measures are also put in place to prevent such risks materializing.

All Group insurance companies headquartered in Germany, together with ARAG Holding SE, have outsourced the key functions applicable to them under statutory requirements to the Operating Group Holding Company ARAG SE, where the functions are carried out by the persons with relevant internal responsibility at ARAG SE level.

Care is taken to ensure that the targets relevant to the variable remuneration granted to these individuals with internal responsibility are designed such that the variable remuneration is independent of the performance of the operating units and divisions that are supervised by the function holder concerned. Variable remuneration granted to individuals responsible internally for key functions ranges from 15.0 percent to 35.0 percent of their basic salary, depending on the postholder concerned. As part of the Company's obligation to work toward compliance, deferred payment of 40.0 percent of their variable remuneration was agreed for all postholders with one exception. To date, no arrangement has been made with this remaining postholder for a partial deferral of payments.

The Company grants **members of the Management Board** (or 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. If a person fulfills multiple roles, i.e. carries out activities for ARAG SE and for its subsidiaries in Germany and other countries, a retirement pension entitlement is provided solely under the primary employment contract.

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.

Supervisory Board members do not receive any supplementary pensions.

Persons responsible internally for **key functions** receive an occupational retirement pension, the amount and extent of which is determined by the management level of the person concerned as well as by the statutory requirements and standard market practice where the job is located. If a supplementary pension has been agreed, this is calculated as a percentage of pensionable salary, which equates to the basic salary (excluding bonuses, remuneration in kind, etc.). No early retirement arrangements have been made.

Group service companies headquartered in Germany

The **members of the senior management** of Group service companies (such as ARAG IT GmbH, ARAG Service Center GmbH) are predominantly individuals who receive remuneration from an ARAG insurance company for their activities as a Management Board member or manager. In such cases, the persons concerned receive no additional remuneration other than the remuneration under their principal employment contract. Senior management members who do not carry out multiple roles receive remuneration equating to that for the first management level at insurance companies located in Germany.

Employees are granted variable remuneration only when they reach certain management levels. This remuneration is structured in the same way as that granted to eligible employees in insurance companies.

Group companies outside Germany

The primary principle applied for the **members of the senior management** of Group companies outside Germany is that their remuneration must comply with local applicable law and be consistent with standard market practice where the job is located. To ensure that the requirements for appropriateness, transparency, and focus on sustainability are also satisfied at Group level, the structure of variable remuneration is modeled on that used for Management Board members at insurance companies based in Germany in that the fixed remuneration must be appropriate and set at a level such that the recipient is not substantially dependent on the variable remuneration components. As in the case of

other companies described above, the parameters for variable remuneration also include objective company targets specified in advance and aligned with the risk profile for the company concerned, individual targets, and targets for the Group as a whole. The potential level of target achievement is capped at predefined limits.

Administrative board members who are also Management Board members or managers at a Group insurance company in Germany either do not receive any additional remuneration for the administrative board activities or their remuneration for the administrative board activities is offset against the salary for their primary activity. The same also applies to administrative board members who are simultaneously a member of the senior management of the company concerned or are employed at another Group company. Administrative board members who do not fall within one of the categories described above just receive basic remuneration, which is specified in advance.

The remuneration paid to **employees** of Group companies outside Germany is based both on the requirements for appropriate, transparent, and sustainable remuneration systems and on the local statutory requirements applicable to the Group entity concerned (for example, existing collective pay agreements, requirements of local supervisory authorities, etc.).

Supplementary retirement pensions for **senior managers** and (where applicable) **persons responsible for key functions** at Group entities are based on the relevant national law and standard practice in the market concerned. No early retirement arrangements have been made.

B.1.4 Material transactions

Information on intragroup transactions and 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

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

The Group 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

General principles applicable to all Group entities

In all entities of the ARAG Group, employees must have the skills, knowledge, and expertise that they need to be able to carry out the tasks assigned to them properly. It is the job of each individual Management Board to ensure this in an appropriate manner, taking account of the pertinent governing law. In addition, the members of management and supervisory bodies must always have the necessary professional suitability (fit) and be of good repute (proper).

Professional suitability is measured on the basis of criteria such as the field of business of the individual entity, the individual market, and the applicable laws. It must always be assessed by the bodies that are responsible under company law.

Group insurance companies headquartered in Germany (including any branches in the EEA) and ARAG Holding SE

This section first describes the requirements and procedures for Management Board members, Supervisory Board members, and individuals responsible for key functions at insurance companies headquartered in Germany (including their branches in the EEA) and at ARAG Holding SE.

Management Board members and CEOs of branches in the EEA

To ensure Management Board members 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.

Because ARAG Holding SE is the entity responsible for ensuring that the Group-related governance requirements are satisfied, the members of the Management Board of ARAG Holding SE must possess adequate knowledge of the Group's internal organization in addition to the expertise referred to above. They also need to have further knowledge that enables them to understand the business models of the different Group companies as well as the associated relationships and connections, and to assess the risks resulting from the Group's structure.

The information above applies analogously to the CEOs of any EEA branches of the companies. However, their knowledge must relate primarily to the particular branch for which they are responsible. They also need to know about the domestic market in which their branch operates.

A standard benchmark is used to assess whether Management Board members and CEOs of EEA branches 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 verified 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 a personal declaration and details about their good repute. The companies reserve the right to request additional documents, if necessary.

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

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.

The members of the Supervisory Board of ARAG Holding SE must possess the expertise referred to above, adequate knowledge of the ARAG Group's internal organization, and further knowledge that enables them to assess the activities carried out by the Management Board of ARAG Holding SE related to satisfying Group-related obligations and requirements.

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

Key functions

The people responsible for key functions must have extensive knowledge and many years of experience of working in their particular field. All individuals in such roles must also be familiar with the legal parameters relevant to their position, the Company's organization and system of governance, and ARAG's business model. In addition, the people in key functions must have very good knowledge of the relevant operating processes, business systems, and the insurance industry.

The minimum initial requirements in terms of specialist expertise for any appointment to a role with internal responsibility for a key function are described below:

- Risk management: Actuarial or business management skills and qualifications or comparable academic qualifications are required. In particular, persons appointed to such roles are expected to have in-depth knowledge of relevant risk parameters, risk types, and valuation methods applicable to insurance business. Knowledge of all regulatory requirements pertaining to risk management is absolutely essential.
- Actuarial function: An individual responsible for this key function must have very well-honed actuarial and financial mathematics expertise together with a good level of business management knowledge. This expertise is normally acquired through a university degree in mathematics or through comparable training. The person concerned must also be a member of the German Actuarial Association (DAV), be able to provide evidence of equivalent professional status, or be prepared to combine work with study to obtain DAV membership or equivalent professional status.

- Compliance: The postholder must have a university degree in law or business management as well as specialist compliance expertise evidenced by professional development documentation or previous employment in this area of activity. They must continually keep abreast of statutory requirements and be able to demonstrate expertise, in particular, in the following areas: regulation, company law, and capital markets law, as well as competition and antitrust legislation.
- Internal audit: To ensure they are fit for the role in terms of professional suitability, the person responsible for this key function must hold a university degree in economics or business administration, or have undergone equivalent training, and must be able to demonstrate professional experience built up over a number of years. They must also have knowledge of the insurance industry, financial reporting, and business organization. In-depth know-how relating to auditing standards, auditing methodology, and audit-related software is a further prerequisite.

In all cases, people responsible for key functions must have a sufficient level of management experience for these positions. Because of the overlapping nature of many areas of the business, it is important that they have not only extensive knowledge of the work carried out in their own central department but also adequate knowledge of other departments with which they come into contact. It is essential that they are willing to undertake continuing professional development.

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

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

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

It is the responsibility of those holding the remit for the relevant key function to assess the professional suitability of the employees working in the function or of candidates for relevant positions on the basis of suitable documentation or the day-to-day work carried out by the employee and to ensure that employees undertake regular professional development so that they always have the expertise they need to carry out their tasks. It is also the responsibility of employees themselves to keep up to date with the latest information. Professional development activities are documented.

With regard to the assessment of whether the people responsible for key functions and the employees working in these functions are of good repute, the same standard applies.

If key functions are outsourced, outsourcing officers must be 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 holders of key functions undertake the necessary continuing professional development and document the activities undertaken.

Cause for reassessment

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

The general rule regarding professional suitability is that the type and extent of any action to be taken by the Company depend on the supposed/actual shortcoming of the individual member of a governing body or holder of a key function. For example, 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.

Companies headquartered outside Germany and operating in regulated fields of business

The rule for insurance companies headquartered outside Germany (HELP Forsikring AS and ARAG Insurance Company Inc.), insurance holding companies headquartered outside Germany (ARAG North America Inc. and ARAG Scandinavia AS), and other companies that operate in regulated fields and are headquartered outside Germany (ARAG plc in the United Kingdom, ARAG Services Corporation in Canada, ARAG Services Pty. Ltd. in Australia, and ARAG Legal Protection Ltd in the Republic of Ireland) is that their supervisory and management bodies must include members of the Management Board or other senior managers of ARAG SE, the Operating Group Holding Company, in order to secure the system of governance at Group level.

The group of people to whom the 'fit and proper' requirements apply is based on the pertinent country-specific rules and, besides members of supervisory and governing bodies, may also include other people/roles. For European insurance companies outside Germany, this means, for example, that the requirements always apply to people in key functions. Affected companies have to issue their own 'fit and proper' guidance if required by the pertinent governing law. The content of this guidance has to be aligned with the rules specified at Group level. The requirements regarding professional suitability are governed in full by the pertinent applicable law and, in particular, by the stipulations of the responsible supervisory authorities.

With regard to the assessment of whether members of management and supervisory bodies are of good repute, the groupwide standard applies in that there must not be any legitimate doubts about their good repute. This means, for example, that they must not have any relevant criminal convictions, and appropriate evidence that this is the case must be provided. The bodies that are responsible under company law are responsible for checking people's personal suitability and for taking any action if they are not suitable or if there are any doubts about their suitability.

If not already required by the applicable national law, the companies covered by this section must obtain a personal statement from potential holders of key roles that includes details of their good repute, encompassing, for example, details of any previous regulatory proceedings or of potential conflicts of interest. A German criminal records check, an EU criminal records check, or equivalent document from the country of domicile must also be obtained.

Furthermore, procedures to reassess people's professional and personal suitability must be put in place. Again, these procedures must take account of the applicable national rules.

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

The assumption of risk is the core business of an insurance group. 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 risk exposures associated with the strategic business objectives. It defines each risk category and the specifications for the relevant risk management process. The risk strategy also contains rules on risk-bearing capacity in the form of coverage ratios that are determined by business policy requirements and are set by the Management Board based on its risk appetite. Risks are therefore managed in the round, ensuring at all times that the overall risk profile is consistent with the risk strategy. The risk strategy also provides the basis for the further specification of the risk management system in the risk management guidelines, in particular for the definition of a limit system and targets for asset/liability management (ALM).

The risk strategy is reviewed at least once a year to ensure it is aligned with the business strategy and risk profile. It is adjusted if required. Adjustments to the strategy must be approved by the Management Board.

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. From a regulatory perspective, risk-bearing capacity is in place if the solvency capital requirement does not exceed the value of eligible 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. The ARAG Group

companies in Germany have set a minimum coverage ratio in the business policy both for the current time and for the period covered by the strategic planning. Due to the Group companies' conservative risk and solvency policy, this ratio stands at 150.0 percent. The Group therefore aims to maintain a risk buffer that is significantly higher than the regulatory requirement at all times.

The Group's limit system provides an additional means of monitoring the risk-bearing capacity as it looks at the risk contribution from individual risk categories. Limits are set at the level of the risk categories (including sub-risks) based on the Management Board's risk appetite in each case. 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 adjustment to the limits is required. These calculations also take account of changes to own funds. 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 system is implemented by the risk management function, which is the responsibility of 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 within the individual companies. 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 managers, are clearly defined and documented in the ARAG Group'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 at the level of the individual companies are identified, analyzed, measured, and submitted to the Management Board of the respective company for decision using appropriate cross-functional review processes, such as the 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. Risks that are not explicitly quantified in the calculation of the solvency capital requirement (one-year horizon) are analyzed as part of the ORSA process.

Risk assessment

All identified risks are regularly assessed using suitable methods and on the basis of systematically captured and continually updated data.

The key element in this process is the solvency capital requirement that is calculated for all downside risk. The purpose is to ensure that unexpected losses are covered. A partial internal model is used to quantify the solvency capital requirement. The model shows the potential loss from the risk exposures that, with a probability of 99.5 percent, will not be exceeded within a holding period of one year. 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. Potential risks that are hard to quantify and so do not form part of the solvency capital requirement are measured as part of the ORSA process.

Risk management

The Group'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 risks.

Risk monitoring and reporting

Changes in the risks and adherence to the prescribed limits are examined as part of risk monitoring. The results are presented in the quarterly risk report. A risk/measures inventory in the form of a risk matrix is created for operational risks, also on a quarterly basis. The results of the ORSA process are documented in the annual ORSA report.

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

B.3.3 Own risk and solvency assessment (ORSA)

Insurance companies are required to carry out an own risk and solvency assessment (ORSA) at regular intervals. The ORSA primarily involves measuring all risks associated with a company's business activity and determining/assessing the resulting capital requirements.

The annual review of the ORSA guidance, which sets out the framework for the 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, among other things, the Solvency II balance sheet, which is material to calculating the solvency capital requirements and serves as the basis for projecting the balance sheet line items and related solvency capital requirements.

The risk model used is also evaluated, whereby the evaluation for internal model components is based on the results of the validation and for standard components on a corresponding analysis.

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 and sensitivity analyses). The Management Board is thus always aware of, and able to influence, 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

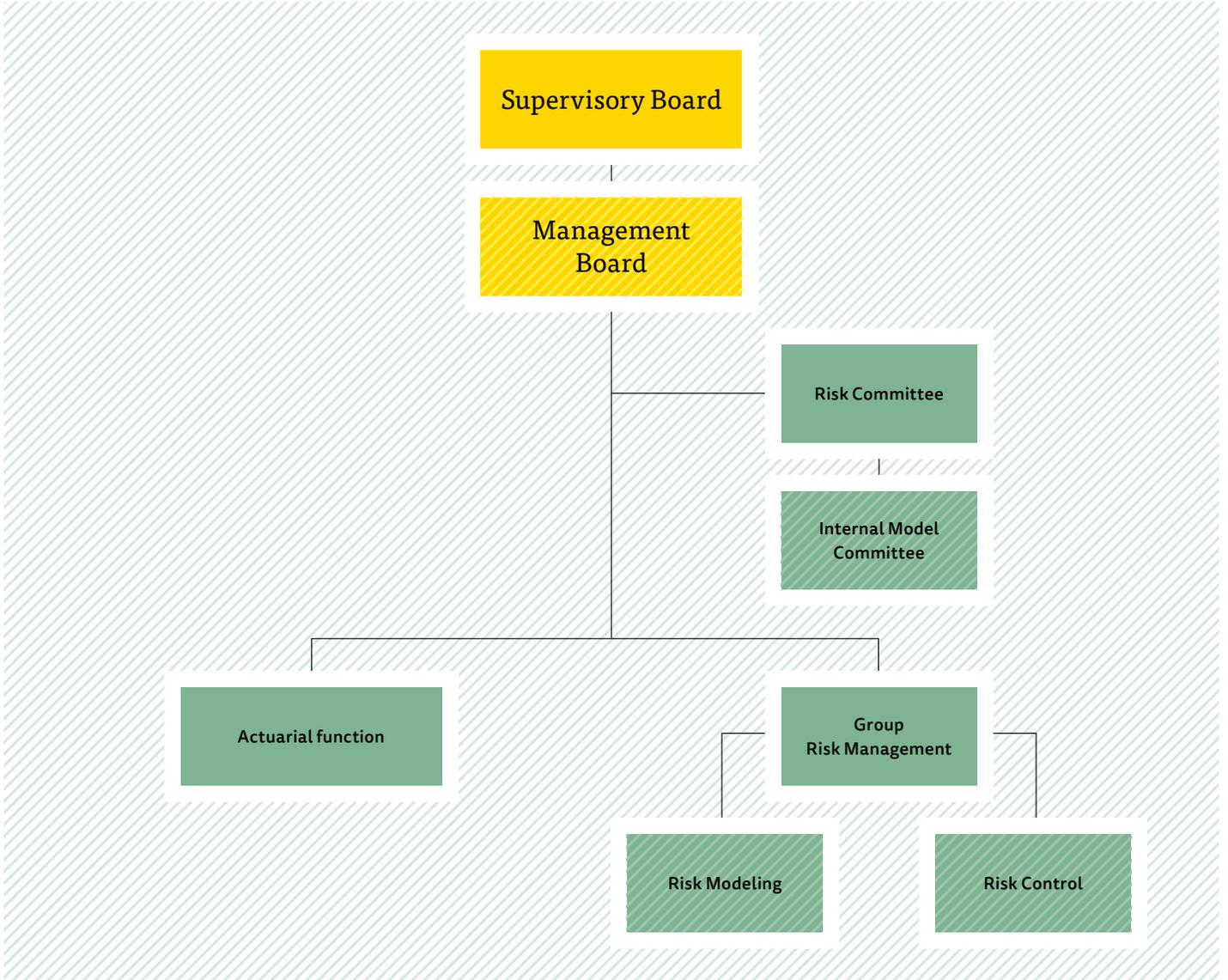
The Management Boards of the companies in the ARAG Group have formed a Risk Committee (RiCo) in order to incorporate the partial internal model into corporate management. The Risk Committee's main task is to assist the individual Management Boards with performing their risk management tasks in accordance 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 the Group'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, the ARAG Group 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 the Group'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 Group Management Board, which evaluates whether 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 necessary 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 its 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 internal control system are appropriate and effective. This means that the Management Board is directly responsible for the ARAG Group’s ICS. *Vis-à-vis* third parties, it is responsible for the appropriate specification of the 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 internal control system in accordance with the ‘three lines of defense’ model:

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

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

Third line of defense The Group Audit Central Department conducts internal audits of the functions in the first and second lines of defense within the ARAG Group. The Group Audit Central Department is also the internal auditor for the Group companies that have 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 the ARAG Group 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 Speaker of the Management Board. Although the Compliance Officer submits reports to the Management Board as a whole, this role is directly and exclusively accountable to the Speaker of the Management Board 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 (or can be involved in if required):

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

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

The Group Audit function is an instrument of the Management Board, to which it is directly accountable and to which it reports. Until June 2020, it was assigned to the Management Board member responsible for the Central Group Functions at ARAG SE, who was the board member to whom responsibility for Group Audit was assigned under the schedule of responsibilities. Since July 2020, it has been assigned to the Management Board member responsible for Human Resources/Audit at ARAG SE. Group Audit is bound only by the instructions of the Management Board.

The Group Audit Central Department assists the Management Board 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 ARAG Group's actuarial function is directly accountable to the member of the Management Board responsible for Group Risk Management and Group Controlling. It acts independently of the units in the Group 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 the ARAG Group's underwriting, contracting, and reinsurance policies. The actuarial function has also been assigned responsibility for validating the ARAG Group'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 in the ARAG Group 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 the ARAG Group'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 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. 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, the ARAG Group ensures that outsourcing never has an adverse impact on the proper performance of the outsourced functions or insurance activities, on the Management Board’s ability to manage and control them, or on the supervisory authority’s ability to verify and control them. Moreover, the monitoring of the service provider by the supervisory authority is ensured at all times.

Apart from the outsourcing of the internal audit and actuarial function in the Norwegian Group company HELP Forsikring AS, no key functions in the ARAG Group are outsourced to external service providers. Within the Group, the insurance companies have outsourced various operational activities and the key functions of risk management, compliance, internal audit, and the actuarial function to ARAG SE on standard commercial terms. ARAG Health, which runs its compliance function internally, is an exception here. No new outsourcing relationships, either within the Group or with third parties, were established in 2020 in respect of important functions or insurance activities. Through corresponding service agreements, ARAG SE has been handed responsibility for anti-money laundering activities and for appointing a (Group) anti-money laundering officer for various insurance holding companies in the ARAG Group.

B.8 Any Other Information

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

C. Risk Profile

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The following chapter describes the risk profile of the ARAG Group, which results from the risks inherent in the business strategy and in the business itself.

In this report, the solvency capital requirements for the individual risk categories are presented on a gross basis, i.e. before taking account of the loss-absorbing capacity of the technical provisions.

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

Based on current assessments, the effects of the COVID-19 pandemic have not resulted in any significant change to the Company's risk profile. Its capacity to assume risk has been maintained in full. In addition to the quarterly risk calculations, this has been demonstrated by regular approximate calculations of own funds and solvency capital requirements that have taken into account the volatile capital markets since March 2020.

Figures for the planning period have been tested using a pandemic scenario with lower premium income and higher claims and costs. The outcome showed that the solvency capital requirement will be sufficiently covered for the next few years.

During the pandemic, the Group has also kept operational risks, such as business interruption risk and cyber risk, well under control. For example, it managed to continue running its operations in their entirety by switching to remote working, which for a time involved almost the whole of the workforce.

The more widespread use of home working could lead to an increase in cyberattacks. These are countered with enhanced IT security measures to prevent heightened risk. Further developments in the COVID-19 pandemic are being regularly analyzed so that further countermeasures can be taken in good time if required.

C.1 Underwriting Risk

The ARAG Group's underwriting risk arises from the following divisions:

- Indemnity, liability, and accident insurance and legal insurance
- Health insurance

The solvency capital requirements for the two aforementioned risks are not aggregated at Group level to give the solvency capital requirement for overall underwriting risk.

C.1.1 Underwriting risk in indemnity, liability, and accident insurance and in legal insurance

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 and accumulation risk: significant uncertainties regarding pricing 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 in indemnity, liability, and accident insurance and in legal insurance rose by €42,377 thousand year on year, from €121,964 thousand as of December 31, 2019 to €164,341 thousand as of December 31, 2020, equating to an increase of 34.7 percent. This change was due to a recalibration of premium risk in the legal insurance segment. The biggest sub-risks were accumulation risk and reserve 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, the policies and insured risks are aggregated into groups of risks sharing similar characteristics. These are then used for simulations of future claims and/or required additions to reserves. Losses are simulated in the same way for catastrophe and accumulation risk; such losses may arise from natural disasters, large claims caused by people, and/or accumulation losses in the legal insurance business. 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 was a significant change to the risk measurement methodology for catastrophe risk in the period under review. A new geophysical model was used to calculate natural disaster risk. However, this did not have any material impact on the key risk indicators. The change in how catastrophes caused by people are modeled relates to the calibration and aggregation methodology.

Risk concentration

The Group 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, however, unfavorable timing in the occurrence of claims could still lead to a concentration of catastrophe risk or accumulation risk. The limit system ensures that the underwriting risk from indemnity, liability, and accident insurance and from legal insurance as a whole and its sub-risks do not represent undesirable concentrations in the risk profile.

Risk mitigation

Measures implemented to restrict the risks include risk limits and various reinsurance programs in the individual Group companies.

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

Risk sensitivity

As part of the ORSA process, various sensitivity analyses were carried out in the reporting period at individual company level. A baseline scenario for 2021, which reflected the best estimates for actuarial parameters, was produced first. Then the impact of the claims ratio and costs rising by up to 20.0 percentage points was examined. In this scenario, the coverage ratios of the individual companies decrease as follows in 2021:

- ARAG SE: by up to 72.0 percentage points to 218.0 percent
- ARAG Allgemeine: by up to 33.0 percentage points to 216.0 percent
- Interlloyd: by up to 18.0 percentage points to 210.8 percent
- Help Forsikring: by up to 37.0 percentage points to 127.0 percent

In the reporting year, as part of the ORSA process, an additional analysis of the impact of a pandemic scenario was carried out for each company. In the pandemic scenario, the coverage ratios of the individual companies deviate from the baseline scenario in 2021 as follows:

- ARAG SE: down by 14.0 percentage points to 276.0 percent
- ARAG Allgemeine: down by 4.0 percentage points to 245.0 percent
- Interlloyd: down by 7.6 percentage points to 236.4 percent
- Help Forsikring: up by 1.0 percentage points to 165.0 percent

These results show that the coverage ratio of the Group for 2021 would still be well above the minimum coverage ratio of 150.0 percent specified in the business policy even if the analyzed scenarios were to occur.

C.1.2 Underwriting risk in health insurance

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 three risk components and their associated sub-risks:

1. Risk from health insurance operated on an actuarial basis similar to that of non-life insurance:
 - Premium/reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the settlement amount involved
 - Lapse risk (non-life insurance): incidence of customers exiting their contracts early that is above the expected lapse rate
2. Risk from health insurance operated on an actuarial basis similar to that of life insurance:
 - Mortality risk: changes in the level, trend, or volatility of mortality rates, where an increase in mortality rates leads to an increase in the value of insurance liabilities
 - Longevity risk: changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rates leads to an increase in the value of insurance liabilities
 - Disability-morbidity risk: changes in the level, trend, or volatility of disability, sickness, and morbidity rates
 - Expense risk: changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts
 - Lapse risk (life insurance): changes in the level or volatility of the rates of insurance policy lapses, terminations, and renewals
3. Risk from health insurance policies under which claims are made as a result of catastrophes:
 - Mass accident risk: the risk of having many people in one location at the same time, which, if a loss event occurred, would cause mass accidental deaths, disabilities, and injuries with a high impact on the cost of medical treatment sought
 - Accident concentration risk: the risk that very many of the people involved in an accident are insured with the insurance company
 - Pandemic risk: the risk of a large number of customers making disability, income protection, and healthcare claims and where victims are unlikely to recover as a result of a pandemic

The solvency capital requirement for underwriting risk in health insurance went up from €148,474 thousand as of December 31, 2019 to €183,522 thousand as of December 31, 2020, an increase of €35,048 thousand or 23.6 percent. This change was attributable to the expansion of the portfolio and the decline in the EIOPA interest-rate term structure. The biggest sub-risks were disability-morbidity risk and lapse risk.

Risk measurement

Risks are measured with the standard formula. Depending on the risk involved, prescribed factors or stress scenarios are used in order to determine their impact on the liabilities. The sub-risks determined in this way are aggregated into the three risk components for health insurance. The actual underwriting risk arises from the further aggregation of these three components, taking diversification effects into account.

Risk concentration

Concentrations of risk could arise in respect of risk from health insurance policies as a result of catastrophes. As the private health insurance business predominantly focuses on insurance for individuals, such risks are insignificant and factored into the premium calculation. The limit system ensures that the underwriting risk as a whole remains limited in the Company's risk profile.

Risk mitigation

To reduce the risks, the Company makes use of the available opportunities to structure policyholder profit participation and adjust premiums to the extent permitted by law. A small level of non-proportional reinsurance is also used in connection with foreign travel health insurance, full-coverage health insurance, and cost-share health insurance. This reinsurance is not included in the risk measurement for reasons of proportionality, i.e. because the amounts involved are so low.

Risk sensitivity

In the reporting year, as part of the ORSA process, an analysis was carried out to examine the impact of a pandemic scenario on ARAG Health. A baseline scenario, which reflected the best estimates for actuarial parameters, was produced first. This was then used to create a pandemic scenario with the parameters adjusted accordingly. Compared with the baseline scenario, the coverage ratio for 2021 in the pandemic scenario falls by 18.0 percentage points to 629.0 percent. This result shows that the coverage ratio of the Group for 2021 would still be well above the minimum coverage ratio of 150.0 percent specified in the business policy even if the analyzed scenario were to occur.

C.2 Market Risk

Risk exposure

Market risk is the risk 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
- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure
- Currency risk: changes in the level or volatility of exchange rates
- Concentration risk: large exposure to the risk of default of a single issuer or group of related issuers

The solvency capital requirement for market risk went up from €585,843 thousand as of December 31, 2019 to €627,521 thousand as of December 31, 2020, an increase of €41,678 thousand or 7.1 percent. The biggest sub-risks were credit risk and equity risk.

Risk measurement

These risks are measured with the standard formula. New fair values of investments and liabilities are determined in the stress scenarios for interest rates, share prices, real estate prices, credit spreads, credit ratings/defaults, and exchange rates. The actual market risk arises from the aggregation of the sub-risks and concentration risk, taking diversification effects into account.

The transitional provision pursuant to section 347 (2) VAG was used in the calculation of equity risk. In this context, the market value of all equities purchased before January 1, 2016 is reduced for the stress scenario. This milder stress factor is progressively brought into line with the regular stress factor over a period of seven years.

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

Risk concentration

Investments are made at individual company level and the prudent person principle is applied. This requires an appropriate diversification of the portfolio, as a result of which risk concentrations are generally restricted. The limit system for the individual companies and the Group 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 limit system also ensures that market risk as a whole does not exceed 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 for the individual companies 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 ALM situation at the level of the individual companies 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 of the individual companies. These specify that derivatives can only be used to hedge market risk.

Risk sensitivity

In the reporting year, as part of the ORSA process, an additional analysis was carried out to examine the impact of a pandemic scenario (stagflation scenario) on the capital markets and, by extension, on the investment portfolios of the individual companies. The capital market parameters used in the baseline scenario were adjusted accordingly. The stagflation scenario describes the potential negative impact of the COVID-19 pandemic on macroeconomic growth over time. Stagnation was the initial assumption for 2020, followed by two years of stagflation, before expansion sets in for the final year of the projection. In the stagflation scenario, the coverage ratios would deviate from the baseline scenario in 2021 as follows:

- ARAG SE: down by 14.0 percentage points to 275.0 percent
- ARAG Allgemeine: no change to the coverage ratio of 249.0 percent
- ARAG Kranken (ARAG Health): down by 14.0 percentage points to 633.0 percent
- Interlloyd: no change to the coverage ratio of 229.0 percent
- Help Forsikring: down by 6.0 percentage points to 158.0 percent

These results show that the coverage ratio of the Group for 2021 would still be well above the minimum coverage ratio of 150.0 percent specified in the business policy even if the analyzed scenario were to occur.

C.3 Credit Risk

Risk exposure

Counterparty default risk largely arises in connection with receivables from reinsurers, bank deposits, receivables from policyholders, and receivables from 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 up from €52,688 thousand as of December 31, 2019 to €57,804 thousand as of December 31, 2020, an increase of €5,116 thousand or 9.7 percent.

Risk measurement

Risks are measured with the standard formula. It specifies the method used to bring together the different types of exposure, aggregate them, and determine the associated correlations.

The risk of default on receivables from reinsurers and bank deposits is measured on the basis of the information available and proportionality considerations. The reinsurers' and banks' 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 banks. However, based on internal investment guidelines, bank deposits are diversified to such an extent that any concentration at a single bank is limited.

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. To contain the default risk attaching to bank deposits, only selected banks may be used for such transactions. There is also a limit on the amount of deposits permitted at a bank at any one time.

As regards counterparty default risk arising from the insurance business, receivables from policyholders are managed by means of an automated reminder and dunning process. Outstanding receivables from insurance brokers are offset.

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).

Risk measurement

Liquidity risk is measured by calculating the monthly excess liquidity cover or liquidity shortfall on a rolling basis. Liquidity planning is updated regularly at individual company level so that ARAG has early warning of whether it will require additional liquidity in the coming months. ALM is used to determine the liquidity requirement over the medium to long term. There were no significant changes in the risk measurement methodology in the period under review.

Risk concentration

A risk concentration could arise if the individual companies 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 in the individual companies is updated regularly 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- to long-term liquidity summary was prepared as part of ALM.

Risk sensitivity

Sensitivity analyses were carried out as part of ALM at individual company level 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 €294,168 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 €55,246 thousand as of December 31, 2019 to €57,828 thousand as of December 31, 2020, an increase of €2,583 thousand or 4.7 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 in this context. 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, a loss event database is used as an additional instrument to help determine the values. This contains data on all loss events that have occurred and their actual impact. Material operational risks are also included in the strategic positioning risk analysis in the ORSA process.

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

Risk concentration

The Group 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

C.6.1 Strategic risks, reputational risks, and emerging risks

Strategic risks, reputational risks, 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 continued existence as a going concern.

Strategic risks

Strategic risks are the risks that arise from strategic business decisions. They also include the risk of failure to adapt business decisions in line with changes in the economic environment. Strategic risks are normally risks that occur in connection with other risks.

Reputational risks

Reputational risks are 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, authorities). Like strategic risks, reputational risks are normally risks that occur 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.6.2 Group-specific risks**Risk exposure**

The main Group-specific risk is the potential for contagion. Individual companies could have a negative impact on the Group or vice versa – for example, through market risk, reputational risk, or operational risk – if possible weaknesses arise.

Risk measurement

Group-specific risk ultimately materializes through other categories of risk covered in this chapter, such as market risk, reputational risk, or operational risk. The risk is measured at Group level on the basis of the risks measured in the individual risk categories or as part of the ORSA process.

Risk concentration

Concentrations of risk are already countered operationally at individual company level. A limit system is also used for the purposes of monitoring the risk at Group level. There are no significant risk concentrations.

Risk mitigation

The individual risk categories, and therefore also the resulting contagion risks, are reduced as described in the relevant sections within this chapter. In addition, collaboration between the entities in the Group is being fostered by a steadily growing process of information-sharing at international level between and with the individual branches, and by an appropriate governance structure.

Risk sensitivity

Sensitivity calculations are carried out at the level of the other risk categories. Risks arising from the Group structure are not considered to be material and are not subject to any sensitivity analysis.

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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Assets	6,241,184	5,461,304	779,880	5,866,335	374,849
Technical provisions	3,511,592	4,330,406	-818,814	3,393,974	117,618
Other liabilities	999,998	556,683	443,315	951,750	48,248
Excess of assets over liabilities**	1,729,595	574,215	1,155,379	1,520,611	208,983

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.

After reviewing the application of IFRS 16, ARAG elected not to recognize leasing arrangements in 2020. This led to a change to property, plant & equipment held for own use (D.1.6) and to other financial liabilities (D.3.8) compared with the prior year.

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

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

** This item also includes the subordinated liabilities classified as own funds.

D.1 Assets

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

Assets as of December 31, 2020

(€'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, 2020	HGB as of Dec. 31, 2020	Valuation difference	Solvency II as of Dec. 31, 2019	SII change
	0	11,427	- 11,427	0	0
	0	0	0	0	0
	0	11,470	- 11,470	0	0
	107,877	0	107,877	115,319	- 7,442
	326	326	0	303	23
	294,197	150,426	143,771	276,214	17,983
	92,874	51,850	41,025	76,566	16,308
	24,481	14,923	9,558	20,082	4,399
	10,251	6,505	3,745	8,561	1,689
	743	719	24	762	- 19
	10,994	7,225	3,769	9,323	1,670
	1,297,407	1,128,620	168,787	1,076,813	220,594
	1,925,987	1,742,736	183,252	1,833,869	92,118
	33,704	30,322	3,382	39,798	- 6,094
	17,467	16,988	479	20,851	- 3,384
	3,274,566	2,918,667	355,899	2,971,331	303,235
	1,690,271	1,562,264	128,008	1,724,306	- 34,035
	0	0	0	0	0
	59,787	59,787	0	53,799	5,988
	162,170	145,379	16,791	128,516	33,653
	5,315,143	4,760,094	555,049	4,983,924	331,219
	5,717,543	4,933,744	783,800	5,375,760	341,783

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

Assets as of December 31, 2020

(€'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, 2020	HGB as of Dec. 31, 2020	Valuation difference	Solvency II as of Dec. 31, 2019	SII change
	5,717,543	4,933,744	783,800	5,375,760	341,783
	0	0	0	0	0
	0	0	0	0	0
	80	80	0	97	-18
	3,750	3,750	0	3,212	538
	3,830	3,830	0	3,310	520
	22,049	33,839	-11,791	20,933	1,116
	2,738	0	2,738	1,947	791
	24,786	33,839	-9,053	22,880	1,906
	0	0	0	0	0
	5,121	0	5,121	5,445	-324
	5,121	0	5,121	5,445	-324
	0	0	0	0	0
	29,907	33,839	-3,932	28,325	1,582
	64,521	64,508	13	60,678	3,843
	94,099	94,099	0	101,937	-7,837
	53,638	53,638	0	51,462	2,176
	44,836	44,836	0	35,719	9,116
	257,094	257,082	13	249,796	7,298
	0	0	0	0	0
	0	0	0	0	0
	221,855	221,855	0	199,143	22,713
	10,955	10,955	0	10,002	953
	232,810	232,810	0	209,144	23,666
	6,241,184	5,461,304	779,880	5,866,335	374,849

D.1.1 Goodwill

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	0	11,427	- 11,427	0	0

Acquired goodwill is recognized under HGB, but not for Solvency II purposes.

The acquired goodwill relates to differences arising from acquisition accounting upon initial inclusion in the basis of consolidation and, in the event of a step acquisition, to differences between the proportion of capital held by the parent in the subsidiary and the value of the assets on addition. The total value at the end of the reporting year amounted to €11,427 thousand.

Goodwill is not recognized on the Solvency II balance sheet, as a result of which the Solvency II valuation was €11,427 thousand lower than the HGB valuation as of December 31, 2020.

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

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	0	11,470	- 11,470	0	0

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

In the HGB financial statements, intangible assets are recognized at cost and reduced at the applicable rate of amortization on a straight-line basis. As of December 31, 2020, their carrying amount was €11,470 thousand.

Intangible assets were not recognized on the Solvency II balance sheet as of December 31, 2020, nor as of the prior-year reporting date, in accordance with article 12 (2) of the Delegated Regulation.

Due to intangible assets not being included for solvency purposes, the Solvency II valuation was €11,470 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.1.4 Deferred tax assets

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	107,877	0	107,877	115,319	-7,442

In application of the option available under section 274 (1) sentence 2 HGB, the excess deferred tax assets after netting are not recognized under HGB and differ from the amount reported on the Solvency II balance sheet. 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 or Group company concerned is situated. This also includes differences for which the timing of the reversal is not yet precisely known or depends on action by the entity concerned, and differences that will only reverse in the event of any liquidation. For the HGB provisions that do not affect the tax base, no adjustment of the tax figure is made in the year-end closing procedures for Solvency II. Neither the proportionality nor materiality of any differences are examined further. 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. 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.

The deferred tax assets on the Solvency II balance sheet are deemed to be recoverable. This is because the deferred tax liabilities predominate on the Solvency II balance sheet

and an analysis of the timing of the reversal effects demonstrates that the time until reversal of the deferred tax expense is shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit.

The calculation of deferred taxes takes into account applicable tax legislation and tax rates in those countries in which the ARAG Group maintains permanent establishments/branches or Group companies. The tax rates are as follows:

• Group companies, Germany, Düsseldorf	31.3 percent
• Group company, Germany, Munich	33.0 percent
• Group company, Australia	30.0 percent
• Group company, Canada	26.5 percent
• Group company, Norway	25.0 percent
• Group company, United Kingdom	19.0 percent
• Group companies, USA	21.0 percent
• Austria Branch	25.0 percent
• Belgium Branch	25.0 percent
• Greece Branch	24.0 percent
• Italy Branch	30.8 percent
• Netherlands Branch	21.7 percent
• Portugal Branch	22.5 percent
• Republic of Ireland Branch	12.5 percent
• Slovenia Branch	19.0 percent
• Spain Branch	25.0 percent

The main components of the total deferred tax assets of €107,877 thousand were as follows: €58,307 thousand arising from defined benefit obligations that had to be valued at a higher level under regulatory requirements (International Accounting Standard [IAS] 19), €41,852 thousand from underwriting liabilities, and €7,266 thousand from miscellaneous deferred tax assets.

The year-on-year reduction of €7,442 thousand in deferred tax assets was in particular attributable to the €4,680 thousand fall in tax assets arising from underwriting liabilities.

There was a €943 thousand decrease in deferred tax assets arising from investments but an increase in deferred tax assets relating to pension benefit obligations (€4,403 thousand). Miscellaneous deferred tax assets were down by €6,222 thousand. The disapplication of IFRS 16 and the resulting reduction in deferred tax assets under the item 'property, plant & equipment held for own use' (D.1.6) were the main factors in the decline in deferred tax assets.

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

D.1.5 Pension benefit surplus

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	326	326	0	303	23

The excess of plan assets over pension liabilities is the balance of pension obligations at present value and the fair value of the securities held to cover these liabilities. As of December 31, 2020, the Solvency II carrying amount was the same as the fair value already recognized in accordance with HGB. The excess of plan assets was not recalculated for reasons of materiality.

The Solvency II carrying amount went up by €23 thousand year on year. This was caused by an increase in the prices of securities held to cover retirement pension liabilities to employees in the Group company ARAG North America Inc.

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

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	294,197	150,426	143,771	276,214	17,983

Real estate (property) held for own use is valued at cost less depreciation under HGB. If its value is permanently impaired, it is written down to the lower of fair value or depreciated cost. If the reason for the impairment later ceases to apply, the write-down is reversed to the depreciated value of the asset. Land and buildings are categorized as being held for own use or rented out to third parties according to actual usage. For this purpose, a uniform carrying amount is classified according to primary usage. Fair values are used for Solvency II purposes. The value of the land is based on the prevailing standard land values. The value of the buildings is calculated using the income capitalization approach. For HGB purposes, the value of property, plant & equipment held for own use was determined to be €150,426 thousand.

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. 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 €17,983 thousand resulted from the outcome of the review into the applicability of IFRS 16 in connection with leasing arrangements and from an increase in the fair values of items of real estate. In application of the option available under IFRS 16, the ARAG Group elected not to recognize right-of-use assets arising from leasing arrangements in 2020 (see also D.3.8 'Financial liabilities other than debts owed to credit institutions'). 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)

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	92,874	51,850	41,025	76,566	16,308

Under HGB, property, i.e. real estate, (other than for own use), is valued at cost less straight-line depreciation. Depreciation is recognized at the rates permitted for tax purposes. If the value of property (other than for own use) is permanently impaired, it is written down to the lower of fair value or depreciated cost. If the reason for the impairment ceases to apply, the write-down is reversed to the depreciated value of the asset.

As of the reporting date, the Company held land and buildings assets on its HGB balance sheet with a carrying amount of €51,850 thousand.

Fair values are used for Solvency II purposes. The economic values are revised annually by means of an internal assessment that takes the form of an update to the most recent external appraisal. The internal valuations are augmented by external appraisals at intervals of between three and five years. In the event of a change in the portfolio, the valuation is carried out on the basis of an external appraisal. The value of the land is based on the prevailing standard land values. The value of the buildings is calculated using the income capitalization approach. This method discounts the expected future rental income less the likely management costs to the balance sheet date. The fair value of €92,874 thousand was the sum of the value of the land and the value of the buildings. In the HGB financial statements, land and buildings are not separately categorized as held for own use or rented out to third parties. For Solvency II purposes, land and buildings are categorized as either held for own use or rented out to third parties based on the information provided in the notes to the HGB financial statements.

The valuation difference between the Solvency II balance sheet and the HGB financial statements amounted to €41,025 thousand and arose because the historical cost convention was applied in the valuation under HGB, whereas the higher unrealized fair values were recognized on the Solvency II balance sheet. The year-on-year increase of €16,308 thousand in fair value as of the reporting date was mainly attributable to valuation reports prepared as of this date.

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

D.1.8 Holdings in related undertakings, including participations

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	24,481	14,923	9,558	20,082	4,399

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 generally determined using an income capitalization approach based on a planning horizon of usually three years. Where budgeted figures were not available, the shares were valued at the share of equity/carrying amount of the equity investment. This item primarily consisted of the equity investments in AXA-ARAG Rechtsschutz AG in an amount of €20,288 thousand and in ARCAP Fonds XVI GmbH & Co. KG in an amount of €1,772 thousand.

Write-downs of €977 thousand to cover expected permanent impairment were necessary in the year under review, €722 thousand of which related to ARCAP Fonds XVI GmbH & Co. KG and €256 thousand to MIA Multiline Insurance Agency s. r. l. No reversals of write-downs were necessary in respect of material affiliated companies or equity investments not included in the basis of consolidation.

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 (net asset value [NAV]) 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 quoted market prices. If no quoted market prices are available, the insurance subsidiary's own funds under Solvency II are recognized on a pro rata basis in the second valuation level.

The carrying amount at cost on the HGB balance sheet was €9,558 thousand lower than the fair value on the Solvency II balance sheet because of the different valuation methods described above.

The year-on-year increase of €4,399 thousand in the Solvency II carrying amount was mainly attributable to the rise in the fair value of AXA-ARAG Rechtsschutz AG.

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

D.1.9 Equities

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Equities – listed	10,251	6,505	3,745	8,561	1,689
Equities – unlisted	743	719	24	762	-19
Total	10,994	7,225	3,769	9,323	1,670

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

For solvency purposes, equities are valued at their quoted market price or market value. If this price/value is not available, the value is estimated using a valuation model. If the necessary information for a premium on the security or on the issuer is not available, it is determined – where available – on the basis of the investment's credit rating; otherwise, the credit rating of the issuer or the sector is used. The fair value of private equity and infrastructure investments is determined by the NAV published by the investment management company.

The differences in the valuation rules resulted in a valuation difference of €3,769 thousand for equities as of December 31, 2020. The rise of €1,670 thousand in the latest Solvency II value compared with the equivalent value as of December 31, 2019 was primarily attributable to changes in market value.

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

D.1.10 Bonds

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Government bonds	1,297,407	1,128,620	168,787	1,076,813	220,594
Corporate bonds	1,925,987	1,742,736	183,252	1,833,869	92,118
Structured notes	33,704	30,322	3,382	39,798	-6,094
Collateralized securities	17,467	16,988	479	20,851	-3,384
Total	3,274,566	2,918,667	355,899	2,971,331	303,235

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 €355,899 thousand (December 31, 2019: €307,188 thousand) that have not yet been realized. The year-on-year increase of €303,235 thousand in the Solvency II carrying amount was mainly attributable to the expansion of the portfolio of government and 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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Equities	465,853	412,952	52,901	532,826	-66,973
Bonds	1,133,893	1,062,966	70,927	1,140,052	-6,160
Other	90,526	86,345	4,180	51,428	39,097
Total	1,690,271	1,562,264	128,008	1,724,306	-34,035

Collective investment undertakings that have not been classified as permanent fixed assets are, under HGB, valued in application of the strict principle of lower of cost or market value. A collective investment undertaking must be written down to its quoted market price if this price falls below the previous carrying amount. The write-down is required even if the market value recovers after the reporting date (including up to the time when the financial statements are prepared). If market prices rise again, write-downs are reversed on the subsequent balance sheet date to no more than the historical cost.

If investment fund shares/units are classified for permanent use in business operations, short-term fluctuations in the market price do not result in changes to the carrying amount. Where permanent impairment has occurred, the long-term values of the share/unit prices are calculated. The criteria for triggering a write-down requirement cannot be applied to the fund as a whole in order to determine whether the share/unit prices are permanently impaired. The permanence of the changes in value of each constituent asset of the investment fund must therefore be assessed individually. To this end, the market values of the individual securities can be compared with plausible benchmarks and used for valuation purposes.

As of the reporting date, the carrying amount of collective investment undertakings under HGB was €1,562,264 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 €12,592 thousand in 2020 (2019: €33,612 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. Investment funds are generally classified as collective investment undertakings in accordance with article 1 (2) of Directive 2009/65/EC or as alternative investment funds in accordance with article 4 (1) of Directive 2011/61/EU. In accordance with the Delegated Regulation, collective investment undertakings in which the stake held is more than 20.0 percent are reported under the line item 'Holdings in related undertakings, including participations'. If the stake in investment companies or other incorporated entities is less than 20.0 percent, it is recognized under 'Unlisted equities'. If the stake cannot be assigned to either of these items, it is recognized under 'Other investments'.

As of December 31, 2020, the Solvency II carrying amount for collective investment undertakings was €1,690,271 thousand.

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 €128,008 thousand higher as of December 31, 2020 and that this difference has not yet been realized. The year-on-year decrease of €34,035 thousand in the Solvency II carrying amount was mainly attributable to disposals of equity holdings.

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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	59,787	59,787	0	53,799	5,988

Deposits other than cash equivalents primarily comprise bank deposits (call and term deposits) that have a corresponding contractual maturity. As short-term investments, these are valued at the nominal amount under HGB because this can be considered a reliable proxy of the fair value in application of the principle of proportionality.

As a result, the value under HGB and the value for solvency purposes are the same. The Solvency II carrying amount went up by €5,988 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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	162,170	145,379	16,791	128,516	33,653

Other investments are valued at cost, in some cases reduced by write-downs to the lower fair value. This fair value is determined by the market value published by the investment management company. Write-downs of €652 thousand were recognized in the reporting year (2019: €0 thousand). No reversals of write-downs were required in 2020.

For solvency purposes, the market value 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 value for solvency purposes as of December 31, 2020 was €16,791 thousand higher than the HGB value. The year-on-year increase of €33,653 thousand in the Solvency II carrying amount was attributable to the expansion 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

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Loans on policies	0	0	0	0	0
Loans and mortgages to individuals	80	80	0	97	-18
Other loans and mortgages	3,750	3,750	0	3,212	538
Total	3,830	3,830	0	3,310	520

Loans and mortgages in the form of promissory notes, loans and receivables secured by mortgages or land charges, loans, and sundry lending items are recognized at cost unless permanently impaired. In this case, they are written down to their fair value. If the reasons for the write-down cease to apply, it is reversed to no more than the cost.

For reasons of materiality and because of the low risk, no present value calculations were carried out in the year under review, as had also been the case in 2019. Instead, HGB carrying amounts were also used for Solvency II purposes.

The year-on-year increase of €520 thousand in the Solvency II carrying amount was mainly attributable to reversals of write-downs of loans.

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

D.1.17 Reinsurance recoverables

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Non-life and health similar to non-life	24,786	33,839	-9,053	22,880	1,906
Life and health similar to life, excluding health and index-linked and unit-linked	5,121	0	5,121	5,445	-324
Total	29,907	33,839	-3,932	28,325	1,582

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, 2020 was €3,932 thousand lower than the HGB carrying amount. The year-on-year increase of €1,582 thousand in the Solvency II carrying amount 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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Deposits to cedants	64,521	64,508	13	60,678	3,843
Insurance and intermediaries receivables	94,099	94,099	0	101,937	-7,837
Reinsurance receivables	53,638	53,638	0	51,462	2,176
Receivables (trade, not insurance)	44,836	44,836	0	35,719	9,116
Total	257,094	257,082	13	249,796	7,298

Deposits to cedants are recognized at their nominal amount, which equates to their cost. As these deposits are largely repayable within twelve months, they are not discounted. The nominal amount is therefore used as the economic value. Taking into account minor currency differences, there are no valuation differences because the nominal amount is used as the economic value. The year-on-year rise of €3,843 thousand in the Solvency II carrying amount was mainly due to the greater volume of inward reinsurance business in the branches in Italy and Spain.

There were no changes in the stated recognition and valuation methods used for deposits to cedants compared with the previous year.

Insurance* and intermediaries receivables are generally recognized at their nominal amount (€94,099 thousand). A general allowance for latent credit risk is recognized on the insurance receivables after specific allowances have been recognized on a collective basis.

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.

Because there is no active market for insurance and intermediaries receivables, and because of the short-term nature of the asset (due within twelve months), materiality reasons, risk, and the disproportionate time, effort, and expense that would otherwise be involved, the nominal amount of the receivables is also used as the Solvency II carrying amount. Due to this use of the nominal amount (€94,099 thousand) as the economic value, there are no valuation differences.

The year-on-year decrease of €7,837 thousand in the Solvency II carrying amount was mainly due to the change in volume.

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

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

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.

On grounds of materiality, the carrying amount (nominal amount) can be used for receivables maturing within twelve months. If the maturity period of the receivables is longer (more than twelve months), the economic value is determined using the present value method. In the case of a reinsurance arrangement that is long term but renewed annually, meaning that the deposits are regularly settled at the end of each year and reissued, the formal term of the treaty is taken to be the payment term. 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. None of ARAG's reinsurance treaties have terms longer than twelve months, so the economic value is the same as the nominal amount.

The year-on-year rise of €2,176 thousand in the Solvency II carrying amount was mainly due to the cash flows in inward reinsurance business during the fourth quarter of 2020 and the associated reinsurance settlement balances at the headquarters in Germany and at the branches in Spain, Italy, and the Netherlands.

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. The receivables (trade, not insurance) of €44,836 thousand for the most part consisted of tax assets (€28,556 thousand) and trade receivables at non-insurance companies (€6,038 thousand).

The Company's receivables (trade, not insurance), for which the nominal amounts reduced by allowances are reported as the economic value, are valued at the amount at which they could be exchanged in an arm's-length transaction between knowledgeable, willing parties. With the exception of some tax assets, these receivables were 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 increase of €9,116 thousand in the Solvency II carrying amount was mainly attributable to a rise in tax assets.

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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	221,855	221,855	0	199,143	22,713

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 of €22,713 thousand in the Solvency II carrying amount was 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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	10,955	10,955	0	10,002	953

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

The nominal amount is used as the economic value for this item too, which means there are no valuation differences. The year-on-year increase of €953 thousand in the Solvency II carrying amount was attributable to inventory differences compared with the end of 2019.

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

Please refer to chapter A.4 of this report for disclosures relating to **leases**.

D.2 Technical Provisions

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

Technical provisions as of December 31, 2020

(€'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, 2020	HGB as of Dec. 31, 2020	Valuation difference	Solvency II as of Dec. 31, 2019	SII change
	0	1,789,590	- 1,789,590	0	0
	1,158,537	0	1,158,537	1,126,303	32,234
	42,111	0	42,111	35,063	7,048
	1,200,647	1,789,590	- 588,943	1,161,366	39,282
	0	942	- 942	0	0
	50,145	0	50,145	43,333	6,811
	2,368	0	2,368	1,493	875
	52,513	942	51,570	44,826	7,686
	1,253,160	1,790,532	- 537,372	1,206,192	46,968
	0	2,414,095	- 2,414,095	0	0
	2,223,585	0	2,223,585	2,157,013	66,572
	29,533	0	29,533	25,133	4,400
	2,253,118	2,414,095	- 160,977	2,182,146	70,972
	0	0	0	0	0
	5,294	0	5,294	5,630	- 335
	20	0	20	6	14
	5,314	0	5,314	5,636	- 322
	2,258,432	2,414,095	- 155,663	2,187,782	70,650
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	3,511,592	4,204,627	- 693,035	3,393,974	117,618
	0	125,779	- 125,779	0	0
	3,511,592	4,330,406	- 818,814	3,393,974	117,618

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 €4,330,406 thousand. In addition to the actuarial reserve of €2,082,249 thousand, the HGB technical provisions included the provision for outstanding claims (gross) of €1,612,943 thousand, the provision for bonuses and rebates of €248,770 thousand, unearned premiums (gross) of €260,665 thousand, the equalization provision of €121,723 thousand, and the miscellaneous technical provisions of €4,056 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 in relation to direct insurance business is recognized separately by event year for claims reported in the financial year concerned and for claims that have occurred up to the balance sheet date but have not yet been reported. A provision for claim settlement expenses is also recognized. These provisions are valued in accordance with prudent business practice, taking into account the ongoing need to satisfy the obligations under insurance contracts. Valuation is based on values as of the balance sheet date. The provisions are not discounted. The results from the group-based and individual valuations are reviewed on a portfolio basis using actuarial methods.

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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Technical provisions calculated as a whole	0	1,789,590	-1,789,590	0	0
Best estimate	1,158,537	0	1,158,537	1,126,303	32,234
Risk margin	42,111	0	42,111	35,063	7,048
Total	1,200,647	1,789,590	-588,943	1,161,366	39,282

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 homogeneous risk group in the ARAG Group. 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. Pursuant to article 37 of the Delegated Regulation, the risk margin is calculated with the aid of an approximation method as 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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Technical provisions calculated as a whole	0	942	-942	0	0
Best estimate	50,145	0	50,145	43,333	6,811
Risk margin	2,368	0	2,368	1,493	875
Total	52,513	942	51,570	44,826	7,686

Technical provisions – health (similar to non-life) include liabilities under the accident class of insurance at ARAG Allgemeine and Interlloyd, and liabilities arising from contracts under the foreign travel health insurance rate scales and corporate health insurance rate scales at ARAG Health. The individual components of the provisions 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.

The long-term rate scales at ARAG Health calculated on a basis similar to that for non-life insurance are managed as a component of the provision similar to life because of their risk profile. For reasons of materiality, the market value of technical provisions for health similar to non-life is recognized in the same amount as the HGB value.

The ARAG Group did not apply any transitional measures or volatility adjustments in the reporting period.

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

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

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Technical provisions calculated as a whole	0	2,414,095	-2,414,095	0	0
Best estimate	2,223,585	0	2,223,585	2,157,013	66,572
Risk margin	29,533	0	29,533	25,133	4,400
Total	2,253,118	2,414,095	-160,977	2,182,146	70,972

This item includes both the provisions at ARAG Krankenversicherungs-AG and the annuity liabilities under the accident class of insurance at ARAG Allgemeine and Interlloyd.

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 methodology used to calculate the risk margin for the annuity liabilities of ARAG Allgemeine and Interlloyd is similar to that for non-life insurance.

Applying different underwriting scenarios, the market values for technical provisions for health insurance (similar to life) are calculated with the inflation-neutral valuation method.

The market value of the technical provisions for health insurance (similar to life) comprises the expected value provision plus the risk margin. The Solvency II working group of the Association of German private healthcare insurers (PKV) developed the inflation-neutral valuation method as a way of calculating the expected value provision. It is based on the assumption that the additional outgoing cash flows resulting from rising healthcare costs will be offset by the additional incoming cash flows resulting from premium adjustments. The method is considered to be reasonable because the modeling approach is conservative. The inflation-neutral valuation method represents a simplification pursuant to article 60 of the Delegated Regulation. The method reflects the legal requirement that policyholders receive a share of profits. The resulting expected value provision therefore contains, in particular, the present value of the future profit participation.

Reinsurance recoverables are not of material significance to ARAG Health. In the calculation of the risk margin, it is assumed that market risk is completely avoidable for a reference company taking on insurance obligations. This can be achieved directly by elimination of the related risks in the asset portfolio for all types of market risk other than interest-rate risk. For interest-rate risk, a matching strategy can be implemented on the basis of asset duration aligned with the policyholder base that will make market risk as a whole negligible to the extent that it is no longer material.

To calculate the risk margin, an approximation method as permitted by the EIOPA guidelines on the valuation of technical provisions (guideline 62, method 3) is used. The underlying management rules are subject to a moderate level of valuation uncertainty because management decisions over the whole of the insurance period cannot currently be predicted with certainty. It is only possible to make assumptions regarding expectations, taking into account ARAG Health's current or currently planned strategies. Based on a regular validation of the fundamental assumptions and methods, the approach used to value the expected value provision and the risk margin is considered to be appropriate.

The ARAG Group did not apply any transitional measures or a volatility adjustment in the reporting period.

The valuation of the Solvency II carrying amount for the technical provisions covering health insurance (similar to life) was €160,977 thousand lower than the valuation of the HGB carrying amount.

There were two main reasons for this:

- a) A risk margin of €29,533 thousand was used.
- b) The difference between conventional actuarial reserves and the economic value of technical provisions (best estimate) is influenced by four main factors:
 - Re-discounting of HGB cash flows
 - Inclusion of sundry technical surpluses
 - Inclusion of the option for premium adjustments
 - Calculation of future profit participation

One of the valuation differences for the technical provisions was that the tax calculation (deferred taxes) under Solvency II included the surplus fund (€176,776 thousand).

The total carrying amount of the technical provisions in accordance with Solvency II rose by €70,972 thousand year on year. The increase in the best estimate for health insurance (similar to life) was due, in particular, to the sharp fall of the EIOPA yield curve and to the underwriting cash flow for 2020 (premium income less benefit expenses and costs), which was well into positive territory.

The amount of the risk margin for health insurance (similar to life) changed more or less in line with the change in the solvency capital requirement, as a result of which there was a rise of €4,400 thousand in this figure.

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

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

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Technical provisions calculated as a whole	0	0	0	0	0
Best estimate	5,294	0	5,294	5,630	- 335
Risk margin	20	0	20	6	14
Total	5,314	0	- 5,314	5,636	- 322

The annuities under the 'liability' and 'vehicle liability' classes of insurance recognized as of the reporting date in the business of the ARAG Group 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.

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

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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	0	125,779	-125,779	0	0

The other technical provisions* (miscellaneous technical provisions on the HGB balance sheet) primarily consist of the equalization provision (€121,723 thousand) and the lapse provision (€4,056 thousand). The equalization provision for direct insurance business and inward reinsurance business is recognized as additional actuarial reserves that can be used to offset fluctuations in the course of business.

The calculation is carried out separately for the direct insurance business and for the inward reinsurance business, in each case broken down by class of insurance. 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.

* In accordance with the Solvency II structure

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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Non-life and health similar to non-life	24,786	33,839	-9,053	22,880	1,906
Life and health similar to life, excluding health and index-linked and unit-linked	5,121	0	5,121	5,445	-324
Total	29,907	33,839	-3,932	28,325	1,582

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.

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

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

Reinsurance recoverables are significant to the ARAG Group. 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. 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 or volatility adjustment have been applied for calculating the technical provisions in the ARAG Group.

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, 2020

(€'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, 2020	HGB as of Dec. 31, 2020	Valuation difference	Solvency II as of Dec. 31, 2019	SII change
	0	0	0	533	- 533
	131,436	129,295	2,141	117,682	13,755
	344,140	267,267	76,873	331,355	12,784
	60	60	0	165	- 105
	362,675	1,153	361,522	327,710	34,966
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	14,784	- 14,784
	65,634	65,634	0	57,988	7,646
	3,442	3,442	0	3,698	- 256
	57,382	57,382	0	59,307	- 1,925
	0	0	0	0	0
	32,779	30,000	2,779	32,921	- 141
	32,779	30,000	2,779	32,921	- 141
	2,449	2,449	0	5,606	- 3,157
	999,998	556,683	443,315	951,750	48,248

D.3.1 Contingent liabilities

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	0	0	0	533	- 533

Contingent liabilities are classified as material if their recognition would lead to a decrease in the own funds available (from both an individual company and a group perspective) and they thus exceed the materiality threshold. None were recognized in 2020, which explains the year-on-year change.

D.3.2 Provisions other than technical provisions

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	131,436	129,295	2,141	117,682	13,755

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 retrospective tax payments (€25,485 thousand), outstanding commission payments (€19,833 thousand), outstanding employee remuneration (€10,513 thousand), vacation entitlement not yet granted (€10,080 thousand), bonuses (€7,620 thousand), purchase invoices not yet received (€7,305 thousand), provisions for long-service awards (€6,054 thousand), and early retirement and pre-retirement part-time employment obligations (€5,118 thousand).

The main valuation assumptions that require an explanation concern long-service awards and early retirement obligations:

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 1.6 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 2018 G mortality tables published by Professor Klaus Heubeck.

The provision for early retirement benefits is calculated in accordance with actuarial principles, likewise on the basis of the above-mentioned 2018 G mortality tables published by Professor Klaus Heubeck, applying a discount rate of 1.6 percent and future salary increases of 2.5 percent per year. The calculation is based on the Company's possible use of the provision for early retirement benefits in connection with individual contractual agreements.

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, early retirement obligations, and pre-retirement part-time employment obligations are valued using the PUC method as required by IAS 19. The discount rate is determined on the basis of the yields achieved for senior industrial bonds on the balance sheet date. Expected growth in income (2.5 percent) 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 sundry other provisions is generally less than one year. On grounds of materiality, they were not discounted separately. Instead, the discounting applied for HGB accounting purposes was used.

The economic value of the provisions for long-service awards, early retirement obligations, severance pay, and pre-retirement part-time employment obligations came to €13,794 thousand. All other items were recognized on the Solvency II balance sheet with their HGB carrying amounts. A valuation difference of €2,141 thousand arose solely as a result of the differing valuation methods used for the obligations referred to separately above. The year-on-year rise in the Solvency II carrying amount was largely caused by increases in the individual carrying amounts within this aggregate item.

In addition, there were no 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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	344,140	267,267	76,873	331,355	12,784

The pension benefit obligations are calculated using the PUC method on the basis of the 2018 G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. 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 2.3 percent was applied for the valuation as of December 31, 2020 (December 31, 2019: 2.71 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 (for Spain, 2.5 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 in accordance with an IAS 19 curve. 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 €344,140 thousand.

The year-on-year increase of €12,784 thousand in the Solvency II carrying amount was attributable to the regular additions to the pension entitlements and the changes in the discounting of pension benefit obligations.

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

D.3.4 Deposits from reinsurers

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	60	60	0	165	- 105

Deposits received from reinsurers are recognized at their repayment amount on the HGB balance sheet. The economic value of those maturing within twelve months is based on the nominal amount. If the maturity period is longer (more than twelve months), the economic value is determined using the present value method.

There were no valuation differences between the Solvency II balance sheet and the HGB balance sheet because the maturity period did not exceed twelve months. The year-on-year decrease of €105 thousand in the Solvency II carrying amount was mainly caused by a contractual adjustment of the deposits from reinsurers at the Spain Branch.

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

D.3.5 Deferred tax liabilities

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	362,675	1,153	361,522	327,710	34,966

Deferred tax liabilities arise in connection with differences between the reported carrying amounts in the financial statements in accordance with HGB and those in the tax base, where these differences are expected to reverse in subsequent years resulting in a future tax expense overall. These liabilities are recognized on the balance sheet in the amount of any excess deferred tax liability after netting with deferred tax assets.

A deferred tax liability of €1,153 thousand was reported on the HGB balance sheet.

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 or Group company concerned is situated). This also includes differences for which the timing of the reversal is not yet precisely known or depends on action by the entity concerned, and differences that will only reverse in the event of any liquidation. For the purpose of recognition on the Solvency II balance sheet, the effects of the reversal of the differences between the Solvency II balance sheet and the tax base are reviewed in terms of their impact on the basis of tax assessment.

* Details of tax rates can be found in chapter D.1.4 of this report.

If applicable, deferred taxes from tax group subsidiaries (companies controlled by a 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. All tax group subsidiaries are included in the basis of consolidation as Group companies.

The main components of the total deferred tax liabilities of €362,675 thousand were as follows: €192,977 thousand arising from technical provisions, €168,852 thousand from investments, and €847 thousand from miscellaneous provisions. Deferred tax liabilities are not discounted.

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, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	0	0	0	14,784	-14,784

No financial liabilities other than debts owed to credit institutions are recognized under HGB in the ARAG Group. Following a review of IFRS 16, ARAG thus elected not to recognize leasing arrangements in 2020.

The change in the recognition and valuation method resulted in a year-on-year decrease of €14,784 thousand that was attributable to the fact that right-of-use assets were no longer recognized (see also D.1.6 'Property, plant & equipment held for own use').

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

D.3.9 Insurance and intermediaries payables

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	65,634	65,634	0	57,988	7,646

Insurance and intermediaries payables* are valued at their nominal amount. As of the reporting date, the breakdown was as follows: insurance payables of €27,699 thousand and intermediaries payables of €37,936 thousand. The Company's payables reported at their nominal amounts are thus valued at the amount at which they could be exchanged in an arm's-length transaction between knowledgeable, willing parties. In particular because of the short-term nature of the payables (less than twelve months) and the fact that counterparty default risk is taken into account (in the form of write-downs), the nominal amounts that are recognized are suitable proxies for the economic values. If the maturity period of the payables is longer (more than twelve months), the economic value is determined using the present value method.

There are therefore no valuation differences between the Solvency II and HGB carrying amounts. The year-on-year increase in the Solvency II carrying amount was attributable to the settlement of agent accounts in normal business operations at certain intervals and to the payments from policyholders received before they are due, over which the ARAG Group has no influence.

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

D.3.10 Reinsurance payables

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	3,442	3,442	0	3,698	- 256

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 decrease of €256 thousand in the Solvency II carrying amount 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.

* Insurance payables for the most part refer to liabilities to policyholders.

D.3.11 Payables (trade, not insurance)

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	57,382	57,382	0	59,307	-1,925

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. The economic value of those of a short-term nature (maturing within twelve months) is based on the nominal amount. If the maturity period of the payables is longer (more than twelve months), the economic value is determined using the present value method. Due to use of the nominal amounts as the economic value, there are no valuation differences.

The change in the economic value was due to the continuation of business operations.

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

D.3.12 Subordinated liabilities

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Subordinated liabilities not in basic own funds	0	0	0	0	0
Subordinated liabilities in basic own funds	32,779	30,000	2,779	32,921	-141
Total	32,779	30,000	2,779	32,921	-141

As of the reporting date, no **subordinated liabilities not in basic own funds** 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.

The **subordinated liabilities in basic own funds** were issued by ARAG SE by way of private placement to improve the own funds used to determine the solvency ratio. The registered bond with a nominal value of €30,000 thousand has a fixed maturity of ten years and will be redeemed on July 29, 2024. The subordinated bearer bonds are recognized at their settlement amount. These bonds are not negotiable in Germany on a regulated market within the meaning of section 2 (5) of the German Securities Trading Act (WpHG).

On the Solvency II balance sheet, the subordinated liabilities in basic own funds are discounted with the risk-free interest rate derived from investment-grade industrial bonds, modified by the value of ARAG's different credit rating at the time the subordinated bond was issued on July 29, 2014. This results in an interest rate that is lower than the bond's nominal interest rate (4.8 percent). Because of the discounting, the value on the Solvency II balance sheet as of December 31, 2020 was €2,779 thousand higher than the value on the HGB balance sheet. The Solvency II carrying amount went down year on year because of the shorter remaining time to maturity and the increase in the discount rate.

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

D.3.13 Any other liabilities, not elsewhere shown

(€'000)	SII as of Dec. 31, 2020	HGB as of Dec. 31, 2020	Valuation difference	SII as of Dec. 31, 2019	SII change
Total	2,449	2,449	0	5,606	-3,157

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. An economic value is taken as a proxy for those maturing within twelve months. For reasons of simplicity and materiality, liabilities to authorities are valued at their nominal amounts.

The settlement value of any other liabilities, not elsewhere shown, corresponds in each case to the economic value because the materiality threshold is not reached.

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 €2,449 thousand. The year-on-year decrease in the Solvency II carrying amount was mainly attributable to the normal continuation of business operations because the amount concerned consisted of deferred income in accordance with HGB.

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 economic impact of the COVID-19 pandemic on the ARAG Group's results of operations also has consequences for its net assets and financial position. Material impacts, especially in relation to investments, are influenced by the capital market environment. Any changes that arise are reflected in the individual market values and reduce the excess of assets over liabilities accordingly as of the respective reporting date. Depending on what changes, there could be a knock-on effect on the technical provisions. The capital markets rallied significantly from April 2020 onward, which meant that no negative impact, particularly with regard to the excess of assets over liabilities, was evident as of the reporting date.

It is difficult to predict the future impact of the COVID-19 pandemic on the valuation for solvency purposes.

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 2020, 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 value specified by BaFin, various measures should be considered to offset the fall in the level of coverage.

If such a situation were to be identified, the governing bodies would be informed in accordance with the escalation path specified in the Company's capital management policy. Various measures would then be drawn up and examined as to their suitability before being submitted in turn to the decision-making bodies for implementation. The examination of whether one or more of the measures would be suitable would involve assessing when the measures could be implemented, what effect they would have, and whether multiple measures could be implemented in parallel.

In view of the existing solvency profile, a scenario in which the coverage ratio falls to a level below the internal reporting threshold, or even below regulatory requirements, is not considered realistic in the short to medium term. If, contrary to expectations, too great a fall in solvency coverage were to materialize in the medium term, the following measures would be considered with a view to increasing own funds:

- Restriction on distribution
- 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 bolstering own funds, although operating performance may be adversely impacted by the interest that needs to be paid.

In 2020, 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 and other information regarding own funds

As of December 31, 2020, the Group held basic own funds in the form of an excess of assets over liabilities of €1,729,595 thousand (December 31, 2019: €1,520,611 thousand) according to the Solvency II balance sheet. The Company's minimum capital requirement (MCR) as of the reporting date was €257,538 thousand (December 31, 2019: €245,473 thousand) and the solvency capital requirement (SCR) was €537,009 thousand (December 31, 2019: €479,609 thousand).

It also had a subordinated liability (issued by ARAG SE) of €32,779 thousand classified as own funds. This registered bond has a fixed maturity of ten years and will be redeemed on July 29, 2024. In the event of liquidation, it will be subordinate to all other liabilities. According to the proposal for appropriation of the profit recognized on the HGB balance sheet, a sum of €10,000 thousand will be distributed to shareholders as dividends.

This results in eligible own funds of €1,607,407 thousand (December 31, 2019: €1,408,783 thousand), split between the different capital classes as follows: Tier 1 own funds of €1,574,625 thousand (December 31, 2019: €1,375,862 thousand), Tier 2 own funds of €32,779 thousand (December 31, 2019: €32,921 thousand), and Tier 3 own funds of €2 thousand (December 31, 2019: €0 thousand).

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, 2020	Dec. 31, 2019
Equity as of December 31 on the HGB balance sheet	574,215	558,105
Revaluation of investments with recognition of deferred taxes	530,419	432,987
Revaluation of technical provisions with recognition of deferred taxes	663,758	588,566
Revaluation of pension and other post-employment benefit obligations with recognition of deferred taxes	-18,565	-21,551
Revaluation of HGB deferred taxes	1,153	-627
Revaluation of miscellaneous items with recognition of deferred taxes	-21,386	-36,869
Excess of assets over liabilities according to the Solvency II balance sheet	1,729,595	1,520,611
Additional basic own funds resulting from subordinated liabilities	32,779	32,921
Dividend distribution (foreseeable dividend)	-10,000	-10,000
Reduction in restricted Group own funds	-116,022	-111,760
Adjustment for non-controlling interests	-28,945	-22,989
Total own funds as of December 31 that are eligible to cover the solvency capital requirement	1,607,407	1,408,783

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.

There is no other information to report on the Group's own funds, particularly in relation to the individual components, how the tiering is determined, and intragroup transactions.

Impact of the COVID-19 pandemic on own funds

The expectations from 2020 of how the COVID-19 pandemic would affect the excess of assets over liabilities were not borne out. There was neither a pronounced sharp decline in the market values of the assets nor an observable increase in technical provisions. At the time this report was prepared, it was not possible to reliably estimate the long-term impact of the COVID-19 pandemic on own funds.

Information on deferred taxes

Deferred tax assets of €107,877 thousand and deferred tax liabilities of €362,675 thousand were recognized in the table 'Reconciliation of the equity on the HGB balance sheet to eligible own funds'. The calculation of deferred tax assets takes into account applicable tax legislation and tax rates. As on the HGB balance sheet, the current tax rates are used for the calculation, as described in chapter D.1.4 'Deferred tax assets'.

The amount of the tax assets can be determined on the Solvency II balance sheet, taking into consideration the recoverability of the deferred tax assets, and is thus given. On the Solvency II balance sheet, the deferred tax liabilities predominate and an analysis of the timing of the reversal effects demonstrates that the time until reversal of the deferred tax expense is shorter than the time until reversal of the deferred tax benefit. There are thus no net tax assets because the expense materializes earlier than the benefit.

Own funds reconciliation reserve

(€'000)	Total	Tier 1 own funds	Tier 2 own funds	Tier 3 own funds
Share capital	200,000	200,000	0	0
Share premium account related to ordinary share capital	0	0	0	0
Reconciliation reserve	1,519,595	1,519,593	0	2
Reduction in restricted Group own funds	-116,022	-116,022	0	0
Adjustment for non-controlling interests	-28,945	-28,945	0	0
Basic own funds	1,574,627	1,574,625	0	2
Ancillary own funds (subordinated liabilities)	32,779	0	32,779	0
Own funds as of December 31 that are eligible to cover the solvency capital requirement	1,607,407	1,574,625	32,779	2

The reconciliation reserve amounted to €1,519,595 thousand and predominantly consisted of HGB revenue reserves of €327,136 thousand and valuation differences of €1,155,379 thousand. As of December 31, 2020, the Company's eligible own funds were €198,624 thousand higher than they had been a year earlier. The main reason for this increase was that the assets, particularly investments, rose more sharply than the liabilities.

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The ARAG Group uses a partial internal model to calculate the solvency capital requirement. In this certified model, the non-life underwriting risk is calculated using internal modeling. The other risk modules and the aggregation of the risk modules for the solvency capital requirement are based on the standardized approach. The basis of consolidation is presented in chapter E.4.

The solvency capital requirement increased by 12.0 percent year on year, from €479,609 thousand to €537,010 thousand. Please refer to chapter C. 'Risk Profile' for further information on the changes in the individual risks. Of the solvency capital requirement, €503,143 thousand related to the core group and €33,867 thousand to the non-controlled participations (NCPs). At 299.3 percent, the coverage ratio is significantly higher than the regulatory requirement and, in the ARAG Group's view, constitutes a substantial risk buffer for customers. As of the reporting date, the coverage ratio was 5.6 percentage points higher than the equivalent figure as of December 31, 2019 (293.7 percent). Due to the COVID-19 pandemic, rough calculations of the solvency situation have been performed regularly since March 2020 in addition to the quarterly risk calculations. These calculations have also consistently shown a comfortable level of coverage.

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

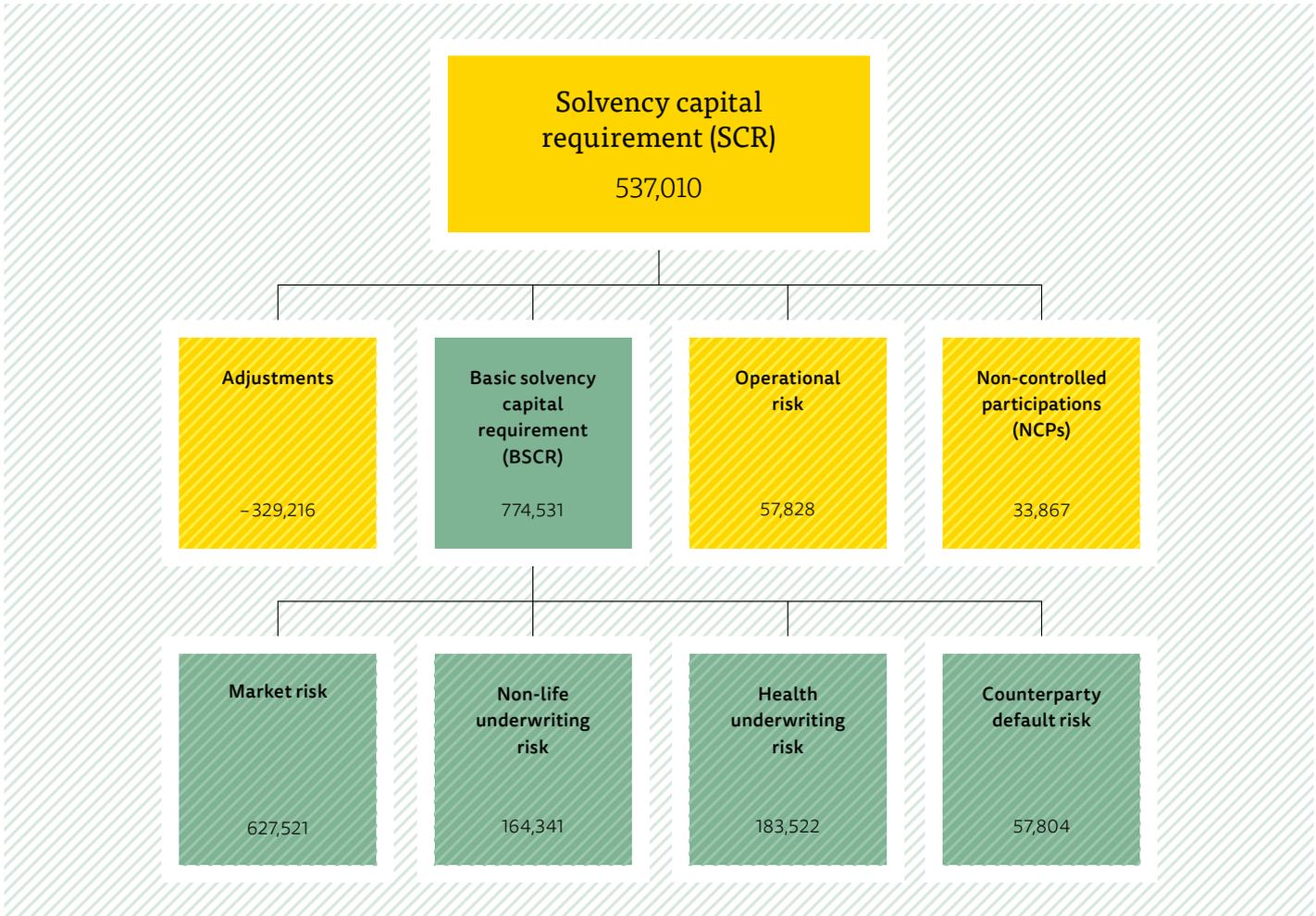
The Group's SCR floor (minimum capital requirement) is the sum of the minimum capital requirements for the insurance companies and those for the NCPs. As of December 31, 2020, the minimum capital requirement came to €257,538 thousand (December 31, 2019: €245,473 thousand), of which €250,187 thousand related to participating insurance undertakings and €7,351 thousand to NCPs. The minimum capital requirement equates to 48.0 percent of the current solvency capital requirement, which means that the coverage ratio for the minimum capital requirement as of the reporting date was 624.1 percent (December 31, 2019: 573.9 percent).

To calculate the risk, the transitional measure for calculating equity risk was used, as a result of which the risk attaching to equities that were in the portfolio before January 1, 2016 was reduced. No other transitional measures were applied.

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 forms set out in the Appendix.

In the transition from the basic solvency capital requirement (BSCR) to the solvency capital requirement (SCR), a risk-mitigating effect from deferred taxes in an amount of €97,290 thousand was applied. This effect is calculated from the adjustments resulting from deferred taxes of the individual companies to be aggregated, taking diversification into account. Projected future profits are not factored in for any of the companies for the purposes of determining the loss-absorbing capacity of the deferred taxes. The risk-mitigating effect is solely the result of the excess of deferred tax liabilities over deferred tax assets. Further information on deferred taxes can be found in chapters D.1.4, D.3.5, and E.1.

EIOPA risk tree for the ARAG Group (ARAG Holding SE) (€'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.

Non-controlled participations (NCPs) comprise the risk arising from equity investments over which there is no control.

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.

Health underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities arising from inadequate pricing and inadequate provisioning assumptions.

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 the Group.

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 the ARAG Group. The ARAG Group's specific risk profile cannot be accurately reflected using the standard formula.

By contrast, the partial internal model, which is based on factors such as the Company's claims history, enables the Company to model the underwriting risks internally, appropriately and on an individual basis, thus ensuring the risks can be presented and managed adequately.

The internal modeling of risk is structured along the lines of the major business units. At the major business units ARAG SE, ARAG Allgemeine Versicherungs-AG, Interlloyd Versicherungs-AG, and ARAG North America Inc., the non-life underwriting risk is modeled internally. In the case of ARAG Allgemeine Versicherungs-AG and Interlloyd Versicherungs-AG, the risks arising from the accident and liability segments are also fully integrated into the internal modeling of the non-life underwriting risk.

The standard formula is used to model the health insurance underwriting risk at ARAG Krankenversicherungs-AG. Within the solvency capital calculation, risk capital for NCPs is used for the risks arising in connection with the equity investments HELP Forsikring AS and AXA-ARAG Rechtsschutz AG. The standard formula is used to model the market risk for all Group companies.

The design of the partial internal model used by the ARAG Group differs from that used by ARAG SE, ARAG Allgemeine Versicherungs-AG, Interlloyd Versicherungs-AG, and ARAG North America Inc. in terms of the way in which market risk and counterparty default risk are modeled. These Group companies model these risks internally.

Probability distribution forecast

Underwriting risk comprises the following components: reserve risk, premium risk (which includes the modules for natural disasters and major/mass claims caused by people), accumulation risk, and lapse risk. Liability, accident, and motor insurance pensions, in which risk arises in connection with premiums, reserves, longevity, and costs, are also classified under non-life underwriting risk and included in the partial internal model.

The modeling for catastrophe risk covers natural disaster risk and major claims caused by people as well as accumulation risk. The Group believes that accumulations of legal insurance represent the catastrophe risk for a legal insurance company. In contrast to the modeling at individual company level, the standard model is used to calculate the market risk in the Group's risk model.

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

The ARAG Group's underwriting portfolio is broken down into various segments due to management and risk considerations. This segmentation is based on the principle of dividing the portfolio into homogeneous risk groups and enables management-relevant information to be determined from the partial internal model and used for the management of the Group on a value-driven basis.

Copula methods are the main approach used to aggregate the distributions into an overall risk distribution for underwriting risk. The dependencies applied for this purpose are determined on the basis of historical data, supplemented with assessments drawn up by experts. Procedures vary only in that the aggregation logic for the sub-risks differs from that for the overall risk because of the more complex structure of the ARAG Group compared with that in the individual companies. However, the methods used to aggregate the risks are the same.

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 non-life underwriting risk sub-module.

Comparison between the non-life 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 and legal insurance are 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. In addition, there is diversification across segments and countries. The aggregation method follows a copula approach. Well-established actuarial methods are used.
Lapse risk	Lapse risk is quantified using a factor approach.	A lapse distribution is modeled, with calibration based on company-specific data.
Large claims caused by people	Predefined scenarios in the standard formula.	This module is part of premium risk. A committee of experts specifies company-specific scenarios that are used to calibrate the risk model.
Legal insurance accumulation risk	Not taken into account in the standard formula.	Accumulation events represent a heightened risk in the legal insurance business. ARAG therefore models these losses with its own data using a distribution of the number and of the amount of claims.
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 in the ARAG Group. 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 the ARAG Group amounted to €258,657 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: legal insurance claims involving private or small business customers, as well as accident and liability risks
- Sub-modules: natural disaster risks and risks caused by people
- Regions: losses in different countries

To value the diversification effects within the ARAG Group's partial internal model, the dependencies between the risk sub-modules and risk categories are quantified. ARAG uses its own historical data to measure the numerous dependencies at the level of class of insurance, risk category, and region. The parameters are reviewed annually by a committee of experts to check that they remain plausible.

For the integration of the internally modelled non-life underwriting risk, the Company follows the standard integration technique, which incorporates diversification effects. Market risk, non-life underwriting risk, health underwriting risk, life underwriting risk, and counterparty default risk are aggregated taking into account correlation matrices. In this process, the solvency capital requirements for the sub-risks are calibrated such that a confidence level of 99.5 percent is achieved over a period of one year.

Non-life underwriting risk/market risk correlation: In the casualty and property business, the risk profile of the ARAG Group is concentrated in segments or classes of insurance that are not directly dependent on the capital market in any way whatsoever. Likewise, to date, there has been no evidence of a dependency on economic trends.

Non-life underwriting risk/life underwriting risk correlation: The ARAG Group's life insurance business is covered by the non-life underwriting risk module. Consequently, there are no dependencies in this regard.

Non-life underwriting risk/health underwriting risk correlation: The non-life underwriting risks taken on by the ARAG Group are independent of the risks associated with health insurance. There are also no restrictions whatsoever in this regard with the result that a correlation parameter of zero can be applied in the aggregation process.

Non-life underwriting risk/counterparty default risk correlation: The counterparty default risk is mainly influenced by possible defaults in connection with reinsurance. The dependency arises for the most part from loss events that impact both the ARAG Group and reinsurers in a relevant manner. It is conceivable that this could materialize, above all, in the event of natural disasters, which ARAG covers by using various reinsurance treaties. However, the treaties are distributed among different reinsurers such that the diversification effect reduces the risk still further.

There are no diversification effects other than those described above.

Basis of consolidation

The calculation of the solvency capital requirement for the Group encompasses various companies that are treated in different ways within the Group. Shares in affiliated companies and equity investments relate to companies in which the ARAG Group has a holding of at least 20.0 percent. The consolidated data for calculating the Group's solvency capital requirement includes the following:

- Full consolidation of the data for all insurance or reinsurance entities: insurance holding companies, mixed financial holding companies, and ancillary services companies that are subsidiaries of the parent company
- Proportionate consolidation of data for insurance or reinsurance entities: insurance holding companies, mixed financial holding companies, and ancillary services companies that are managed together with one or more entities not listed under item 1 by an entity listed under item 1 and in which the responsibility is limited to the proportion of capital held
- Use of the adjusted equity method as specified in article 13 (3) of the Delegated Regulation in respect of the data for all shares in affiliated insurance or reinsurance entities: insurance holding companies and mixed financial holding companies that are not subsidiaries of the parent company
- Proportional share of the own funds of the entities (calculated in accordance with the relevant sector requirements) for equity investments in affiliated companies that are credit institutions, investment firms and financial institutions, alternative investment funds managers, undertakings for collective investment in transferable securities (UCITS) management companies, institutions for occupational retirement provision, or non-regulated entities carrying out financial transactions

For the purposes of calculating the consolidated own funds for the Group, the data referred to above is adjusted for any intragroup transactions.

Appropriateness of data

The ARAG Group'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 and 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	107,877
Pension benefit surplus	R0050	326
Property, plant & equipment held for own use	R0060	294,197
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	5,315,143
Property (other than for own use)	R0080	92,874
Holdings in related undertakings, including participations	R0090	24,481
Equities	R0100	10,994
Equities – listed	R0110	10,251
Equities – unlisted	R0120	743
Bonds	R0130	3,274,566
Government bonds	R0140	1,297,407
Corporate bonds	R0150	1,925,987
Structured notes	R0160	33,704
Collateralized securities	R0170	17,467
Collective investment undertakings	R0180	1,690,271
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	59,787
Other investments	R0210	162,170
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	3,830
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	80
Other loans and mortgages	R0260	3,750
Reinsurance recoverables from:	R0270	29,907
Non-life and health similar to non-life	R0280	24,786
Non-life excluding health	R0290	22,049
Health similar to non-life	R0300	2,738
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	5,121
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	5,121
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	64,521
Insurance and intermediaries receivables	R0360	94,099
Reinsurance receivables	R0370	53,638
Receivables (trade, not insurance)	R0380	44,836
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	221,855
Any other assets, not elsewhere shown	R0420	10,955
Total assets	R0500	6,241,184

S.02.01.02

Balance sheet

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	1,253,160
Technical provisions – non-life (excluding health)	R0520	1,200,647
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	1,158,537
Risk margin	R0550	42,111
Technical provisions – health (similar to non-life)	R0560	52,513
Technical provisions calculated as a whole	R0570	0
Best estimate	R0580	50,145
Risk margin	R0590	2,368
Technical provisions – life (excluding index-linked and unit-linked)	R0600	2,258,432
Technical provisions – health (similar to life)	R0610	2,253,118
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	2,223,585
Risk margin	R0640	29,533
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	5,314
Technical provisions calculated as a whole	R0660	0
Best estimate	R0670	5,294
Risk margin	R0680	20
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	131,436
Pension benefit obligations	R0760	344,140
Deposits from reinsurers	R0770	60
Deferred tax liabilities	R0780	362,675
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance and intermediaries payables	R0820	65,634
Reinsurance payables	R0830	3,442
Payables (trade, not insurance)	R0840	57,382
Subordinated liabilities	R0850	32,779
Subordinated liabilities not in basic own funds	R0860	0
Subordinated liabilities in basic own funds	R0870	32,779
Any other liabilities, not elsewhere shown	R0880	2,449
Total liabilities	R0900	4,511,590
Excess of assets over liabilities	R1000	1,729,595

S.05.01.02

Premiums, claims and expenses by line of business

		Medical expense insurance C0010	Income protection insurance C0020
Premiums written			
Gross – direct business	R0110	3,195	57,405
Gross – proportional reinsurance accepted	R0120	0	0
Gross – non-proportional reinsurance accepted	R0130	-	-
Reinsurers' share	R0140	15	2,086
Net	R0200	3,180	55,319
Premiums earned			
Gross – direct business	R0210	3,203	57,436
Gross – proportional reinsurance accepted	R0220	0	0
Gross – non-proportional reinsurance accepted	R0230	-	-
Reinsurers' share	R0240	15	2,156
Net	R0300	3,188	55,280
Claims incurred			
Gross – direct business	R0310	907	9,546
Gross – proportional reinsurance accepted	R0320	0	0
Gross – non-proportional reinsurance accepted	R0330	-	-
Reinsurers' share	R0340	0	1,114
Net	R0400	907	8,431
Changes in other technical provisions			
Gross – direct business	R0410	0	46
Gross – proportional reinsurance accepted	R0420	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-
Reinsurers' share	R0440	0	0
Net	R0500	0	46
Expenses incurred	R0550	1,588	34,863
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	825	322	0	106,859	48,917	0
0	0	0	0	760	0	0
-	-	-	-	-	-	-
0	825	322	0	4,619	2,403	0
0	0	0	0	102,999	46,514	0
0	825	322	0	105,783	48,985	0
0	0	0	0	765	0	0
-	-	-	-	-	-	-
0	825	322	0	4,554	2,403	0
0	0	0	0	101,994	46,582	0
0	82	251	0	49,599	10,081	0
0	0	0	0	3,880	0	0
-	-	-	-	-	-	-
0	222	269	0	5,988	840	0
0	-141	-18	0	47,491	9,241	0
0	-8	-2	0	48	24	0
0	0	0	0	0	0	0
-	-	-	-	-	-	-
0	0	0	0	0	0	0
0	-8	-2	0	48	24	0
0	-68	40	0	58,871	27,310	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	905,471	29,196	10,991
Gross – proportional reinsurance accepted	R0120	245,225	12,801	-273
Gross – non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	932	138	-692
Net	R0200	1,149,765	41,860	11,410
Premiums earned				
Gross – direct business	R0210	909,060	29,579	11,328
Gross – proportional reinsurance accepted	R0220	242,354	12,550	-283
Gross – non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	908	138	-697
Net	R0300	1,150,505	41,991	11,743
Claims incurred				
Gross – direct business	R0310	378,351	14,950	1,320
Gross – proportional reinsurance accepted	R0320	53,749	9,537	-246
Gross – non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	-3,469	154	-265
Net	R0400	435,569	24,333	1,339
Changes in other technical provisions				
Gross – direct business	R0410	-23	-2	0
Gross – proportional reinsurance accepted	R0420	1,610	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	1,587	-2	0
Expenses incurred	R0550	626,449	23,718	6,519
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
-	-	-	-		1,163,181
-	-	-	-		258,514
0	0	0	0		0
0	0	0	0		10,647
0	0	0	0		1,411,048
-	-	-	-		1,166,520
-	-	-	-		255,385
0	0	0	0		0
0	0	0	0		10,623
0	0	0	0		1,411,282
-	-	-	-		465,086
-	-	-	-		66,920
0	0	0	0		0
0	0	0	0		4,854
0	0	0	0		527,153
-	-	-	-		83
-	-	-	-		1,610
0	0	0	0		0
0	0	0	0		0
0	0	0	0		1,693
0	0	0	0		779,289
-	-	-	-		1,853
-	-	-	-		781,142

S.05.01.02

Premiums, claims and expenses by line of business

		Health insurance	Insurance with profit participation
		C0210	C0220
Premiums written			
Gross	R1410	426,984	0
Reinsurers' share	R1420	386	0
Net	R1500	426,599	0
Premiums earned			
Gross	R1510	427,072	0
Reinsurers' share	R1520	386	0
Net	R1600	426,686	0
Claims incurred			
Gross	R1610	213,821	0
Reinsurers' share	R1620	1	0
Net	R1700	213,820	0
Changes in other technical provisions			
Gross	R1710	- 136,095	0
Reinsurers' share	R1720	0	0
Net	R1800	- 136,095	0
Expenses incurred	R1900	103,679	0
Other expenses	R2500	-	-
Total expenses	R2600	-	-

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Premiums, claims and expenses by country

		Home country
		C0010
	R0010	-
		C0080
Premiums written		
Gross – direct business	R0110	636,185
Gross – proportional reinsurance accepted	R0120	26,343
Gross – non-proportional reinsurance accepted	R0130	0
Reinsurers' share	R0140	10,071
Net	R0200	652,458
Premiums earned		
Gross – direct business	R0210	631,517
Gross – proportional reinsurance accepted	R0220	26,343
Gross – non-proportional reinsurance accepted	R0230	0
Reinsurers' share	R0240	10,071
Net	R0300	647,790
Claims incurred		
Gross – direct business	R0310	311,312
Gross – proportional reinsurance accepted	R0320	25,623
Gross – non-proportional reinsurance accepted	R0330	0
Reinsurers' share	R0340	4,625
Net	R0400	332,310
Changes in other technical provisions		
Gross – direct business	R0410	88
Gross – proportional reinsurance accepted	R0420	1,610
Gross – non-proportional reinsurance accepted	R0430	0
Reinsurers' share	R0440	0
Net	R0500	1,698
Expenses incurred	R0550	328,213
Other expenses	R1200	-
Total expenses	R1300	-

Top 5 countries (by amount of gross premiums written) - non-life obligations						Total top 5 and home country
C0020	C0030	C0040	C0050	C0060	C0070	
AT	IT	NL	ES	US		-
C0090	C0100	C0110	C0120	C0130		C0140
73,539	36,642	106,029	87,953	130,850		1,071,198
0	117,428	68,397	40,052	695		252,915
0	0	0	0	0		0
0	0	0	356	0		10,427
73,539	154,070	174,426	127,649	131,545		1,313,687
72,703	37,442	105,988	88,066	130,983		1,066,700
0	115,828	68,336	39,527	702		250,736
0	0	0	0	0		0
0	0	0	356	0		10,427
72,703	153,270	174,324	127,237	131,685		1,307,009
15,811	1,553	8,885	35,461	54,308		427,329
-7	16,104	5,954	20,945	282		68,901
0	0	0	0	0		0
-2	0	0	109	0		4,732
15,806	17,656	14,839	56,297	54,590		491,499
-5	0	0	0	0		83
0	0	0	0	0		1,610
0	0	0	0	0		0
0	0	0	0	0		0
-5	0	0	0	0		1,693
33,182	113,218	144,739	62,166	36,720		718,238
-	-	-	-	-		1,853
-	-	-	-	-		720,091

S.05.02.01

Premiums, claims and expenses by country

		Home country
		C0150
	R1400	-
		C0220
Premiums written		
Gross	R1410	426,984
Reinsurers' share	R1420	386
Net	R1500	426,599
Premiums earned		
Gross	R1510	427,072
Reinsurers' share	R1520	386
Net	R1600	426,686
Claims incurred		
Gross	R1610	213,821
Reinsurers' share	R1620	1
Net	R1700	213,820
Changes in other technical provisions		
Gross	R1710	- 136,095
Reinsurers' share	R1720	0
Net	R1800	- 136,095
Expenses incurred	R1900	103,679
Other expenses	R2500	-
Total expenses	R2600	-

S.23.01.22**Own funds****Basic own funds before deduction for participations in other financial sectors**

Ordinary share capital (gross of own shares)	
Non-available called but not paid in ordinary share capital at group level	
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	
Non-available subordinated mutual member accounts at group level	
Surplus funds	
Non-available surplus funds at group level	
Preference shares	
Non-available preference shares at group level	
Share premium account related to preference shares	
Non-available share premium account related to preference shares at group level	
Reconciliation reserve	
Subordinated liabilities	
Non-available subordinated liabilities at group level	
An amount equal to the value of net deferred tax assets	
The amount equal to the value of net deferred tax assets not available at the group level	
Other items approved by supervisory authority as basic own funds not specified above	
Non available own funds related to other own funds items approved by supervisory authority	
Minority interests (if not reported as part of a specific own fund item)	
Non-available minority interests at group level	

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

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

Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities whereof deducted according to article 228 of the Directive 2009/138/EC	
Deductions for participations where there is non-availability of information (Article 229)	
Deduction for participations included by using D&A when a combination of methods is used	
Total of non-available own fund items	

Total deductions**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	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	
Letters of credit and guarantees 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	
Non available ancillary own funds at group level	
Other ancillary own funds	

Total ancillary own funds

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
	-	-	-	-	-
R0010	200,000	200,000	-	0	-
R0020	0	0	-	-	-
R0030	0	0	-	0	-
R0040			-		-
R0050		-			
R0060		-			
R0070			-	-	-
R0080	116,022	116,022	-	-	-
R0090		-			
R0100		-			
R0110		-			
R0120		-			
R0130	1,519,593	1,519,593	-	-	-
R0140	32,779	-	0	32,779	0
R0150	0	-	0	0	0
R0160	2	-	-	-	2
R0170	0	-	-	-	0
R0180					
R0190					
R0200	0	0	0	0	0
R0210	28,945	28,945	0	0	0
	-	-	-	-	-
R0220		-	-	-	-
	-	-	-	-	-
R0230	0	0	0	0	-
R0240	0	0	0	0	
R0250	0	0	0	0	0
R0260					
R0270	144,967	144,967	0	0	0
R0280	144,967	144,967	0	0	0
R0290	1,607,407	1,574,625	0	32,779	2
	-	-	-	-	-
R0300		-	-		-
R0310		-	-		-
R0320		-	-		
R0350		-	-		
R0340		-	-		-
R0360		-	-		-
R0370		-	-		
R0380		-	-		
R0390		-	-		
R0400		-	-		

S.23.01.22**Own funds****Own funds of other financial sectors****Reconciliation reserve**

Institutions for occupational retirement provision	
Non regulated entities carrying out financial activities	
Total own funds of other financial sectors	

Own funds when using the D&A, exclusively or in combination of method 1

Own funds aggregated when using the D&A and combination of method	
Own funds aggregated when using the D&A and combination of method net of IGT	

Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sectors and from the undertakings included via D&A)	
--	--

Total available own funds to meet the minimum consolidated group SCR	
--	--

Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sectors and from the undertakings included via D&A)	
---	--

Total eligible own funds to meet the minimum consolidated group SCR	
---	--

Minimum consolidated group SCR**Ratio of eligible own funds to minimum consolidated group SCR****Total eligible own funds to meet the group SCR (including own funds from other financial sectors and from the undertakings included via D&A)****Group SCR****Ratio of eligible own funds to group SCR including other financial sectors and the undertakings included via D&A****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	
Other non available own funds	

Reconciliation reserve before deduction for participations in other financial sectors**Expected profits**

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

Total expected profits included in future premiums (EPIFP)

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
	-	-	-	-	-
R0410	0	0	0	0	-
R0420	0	0	0	0	-
R0430	0	0	0	0	-
R0440	0	0	0	0	-
	-	-	-	-	-
R0450					
R0460					
	-	-	-	-	-
R0520	1,607,407	1,574,625	0	32,779	2
R0530	1,607,405	1,574,625	0	32,779	-
R0560	1,607,407	1,574,625	0	32,779	2
R0570	1,607,405	1,574,625	0	32,779	-
R0610	257,538	-	-	-	-
R0650	6.24	-	-	-	-
R0660	1,607,407	1,574,625	0	32,779	2
R0680	537,010	-	-	-	-
R0690	2.99	-	-	-	-
	C0060				
	-	-	-	-	-
R0700	1,729,595	-	-	-	-
R0710	0	-	-	-	-
R0720	10,000	-	-	-	-
R0730	200,002	-	-	-	-
R0740	0	-	-	-	-
R0750	0	-	-	-	-
R0760	1,519,593	-	-	-	-
	-	-	-	-	-
R0770	153,361	-	-	-	-
R0780	146,711	-	-	-	-
R0790	300,072	-	-	-	-

S.25.02.22**Solvency capital requirement – for groups using the standard formula and partial internal model**

Unique number of component

C0010

1

2

3

4

5

6

7

8

9

Calculation of solvency capital requirement

Total undiversified components

Diversification

Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

Solvency capital requirement excluding capital add-on

Capital add-ons already set

Solvency capital requirement for undertakings under consolidated method**Other information on SCR**

Amount/estimate of the overall loss-absorbing capacity of technical provisions

Amount/estimate of the overall loss-absorbing capacity of deferred taxes

Capital requirement for duration-based equity risk sub-module

Total amount of notional solvency capital requirements for remaining part

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))

Total amount of notional solvency capital requirement for matching adjustment portfolios

Diversification effects due to RFF nSCR aggregation for article 304

Minimum consolidated group solvency capital requirement

Information on other entities

Capital requirement for other financial sectors (non-insurance capital requirements)

Capital requirement for other financial sectors (non-insurance capital requirements) – credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies

Capital requirement for other financial sectors (non-insurance capital requirements) – institutions for occupational retirement provisions

Capital requirement for other financial sectors (non-insurance capital requirements) – capital requirement for non-regulated entities carrying out financial activities

Capital requirement for non-controlled participation requirements

Capital requirement for residual undertakings

Overall SCR

SCR for undertakings included via D and A

Solvency capital requirement

Components description	Calculation of the solvency capital requirement	Amount modeled		USP	Simplifications
		C0020	C0030		
Market risk	627,521				
Counterparty default risk	57,804				
Life underwriting risk					
Health underwriting risk	183,522				
Non-life underwriting risk	164,341		164,341		
Intangible asset risk	0				
Operational risk	57,828				
LAC technical provisions	- 231,926				
LAC deferred taxes	- 97,290				
	C0100				
R0110	761,799				
R0060	- 258,657				
R0160	0				
R0200	503,143				
R0210	0				
R0220	537,010				
	-				
R0300	- 231,926				
R0310	- 97,290				
R0400	0				
R0410	0				
R0420	0				
R0430	0				
R0440	0				
R0470	257,538				
	-				
R0500	0				
R0510	0				
R0520	0				
R0530	0				
R0540	33,867				
R0550	0				
	C0100				
	-				
R0560	0				
R0570	537,010				

S.32.01.22

Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory authority
DE	LEI/391200Q KNZJ8J1XWFE16	LEI	ARAG SE	Non-Life undertakings	European Company (SE)	Non-mutual	BAFIN
DE	LEI/3912006MZ NEOF4M2XK19	LEI	ARAG Allgemeine Versicherungs-AG	Non-Life undertakings	Aktiengesellschaft	Non-mutual	BAFIN
DE	LEI/391200SFA XHRCQQ62T14	LEI	ARAG Krankenversicherungs-AG	Life undertakings	Aktiengesellschaft	Non-mutual	BAFIN
DE	LEI/391200GW EMT1F0BUHB43	LEI	Interlloyd Versicherungs-AG	Non-Life undertakings	Aktiengesellschaft	Non-mutual	BAFIN
CH	SC/391200MYFHRLC FWAH448CH10058	SC	AXA-ARAG Rechtsschutzversicherungs-Gesellschaft	Non-Life undertakings	Aktiengesellschaft	Non-mutual	FINMA
US	SC/391200MYFHRLC FWAH448US10057	SC	ARAG Insurance Company	Non-Life undertakings	Incorporated	Non-mutual	NAIC
NO	SC/981877888	SC	HELP Forsikring AS	Non-Life undertakings	Aksjeselskap (AS)	Non-mutual	FSAN
DE	LEI/391200MY FHRLCFWAH448	LEI	ARAG Holding SE	Insurance holding company as defined in Art. 212 (1) [f] of Directive 2009/138/EC	European Company (SE)	Non-mutual	
DE	LEI/3912000Y ELENA3B7JK17	LEI	AFI Verwaltungs-Gesellschaft mbH	Insurance holding company as defined in Art. 212 (1) [f] of Directive 2009/138/EC	Gesellschaft mit beschränkter Haftung	Non-mutual	
DE	SC/391200MYFHR LCFWAH448DE10001	SC	ARAG International Holding GmbH	Insurance holding company as defined in Art. 212 (1) [f] of Directive 2009/138/EC	Gesellschaft mit beschränkter Haftung	Non-mutual	

Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
94.01 %	94.01 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
29.17 %	29.17 %			Significant	29.17 %	Included into scope of group supervision		Method 1: Adjusted equity method
100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
				Dominant		Included into scope of group supervision		Method 1: Full consolidation
100.00 %	100.00 %			Significant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation

DE	SC/391200MYFHR LCFWAH448DE10002	SC	ARAG 2000 Grundstücks- gesellschaft bR	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft buergerlichen Rechts	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10003	SC	ALIN 1 GmbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10004	SC	ALIN 1 Ver- waltungs-GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10005	SC	ALIN 2 GmbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10006	SC	ALIN 2 Ver- waltungs-GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10009	SC	ALIN 4 GmbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10010	SC	ALIN 4 Ver- waltungs-GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10011	SC	ARAG IT GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10012	SC	ARAG Liegen- schaftsverwal- tungs- und Bera- tungs-Gesell- schaft mbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10013	SC	ARAG Liegen- schaftsverwal- tungs- und Bera- tungs-GmbH & Co. Immobilien KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		

	94.90 %	94.90 %				100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	94.01 %	94.01 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	94.01 %	94.01 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation

DE	SC/391200MYFHR LCFWAH448DE10014	SC	ARAG Service Center GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10015	SC	CUR Versiche- rungsmakler GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10017	SC	Cura Versiche- rungsvermit- tlung GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10019	SC	VIF Gesellschaft für Versich- erungsvermittlung mit beschränkter Haftung	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10022	SC	SolFin GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10031	SC	ARAG 2000 Beteiligungs- Gesellschaft mbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10042	SC	Prinzregent Vermögensver- waltungs-GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10055	SC	ARCAP Beteili- gungsverwaltung GmbH & Co. Columbus Immo- bilien Fonds XVI "München" KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10056	SC	ARCAP Beteili- gungsverwaltung GmbH & Co. Columbus Immo- bilien Fonds X KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10057	SC	Justix GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		

	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method
	75.10 %	84.79 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method
	58.48 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method
	17.24 %	0.00 %			Significant	0.00 %	Included into scope of group supervision		Other Method
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation

DE	SC/391200MYFHR LCFWAH448DE12014	SC	HelloLaw GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual
AU	SC/391200MYFHR LCFWAH448AU10065	SC	ARAG Services Australia Pty Ltd., Sydney, Australia	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Proprietary limited company	Non-mutual
CA	SC/391200MYFHR LCFWAH448CA10060	SC	ARAG Services Corporation	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited Liability Company	Non-mutual
ES	SC/391200MYFHR LCFWAH448ES10023	SC	Agencia de Seguros ARAG S.A.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Sociedad Anonima	Non-mutual
ES	SC/391200MYFHR LCFWAH448ES10024	SC	ARAG Services Spain & Portugal S.L. (formerly: ARAG Legal Service S.L.)	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Sociedad de Responsabilidad Limitada	Non-mutual
FR	SC/391200MYFHR LCFWAH448FR10043	SC	ARAG - France Assistance et Règlement de Sinistres Automobiles S.A.R.L.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Société à responsabilité limitée (SARL)	Non-mutual
GB	SC/391200MYFHR LCFWAH448GB10048	SC	ARAG plc	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Public Limited Company	Non-mutual
GB	SC/391200MYFHR LCFWAH448GB10058	SC	Easy2claim Limited, Bristol/UK	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited	Non-mutual
IE	SC/391200MYFHR LCFWAH448IE10063	SC	ARAG Legal Protection Ltd., Ireland	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited	Non-mutual
IT	SC/391200MYFHR LCFWAH448IT10063	SC	Multiline Insurance Agency (MIA) S. r. l.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Private limited company	Non-mutual

	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method
	100.00 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method
	100.00 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method
	100.00 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method
	100.00 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method

NL	SC/391200MYFHR LCFWAH448NL10044	SC	ARAG Legal Services B.V. (formerly: Rechtswijzer B. V.)	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Besloten Vennootschap	Non-mutual
NL	SC/391200MYFHR LCFWAH448NL10046	SC	JuroFoon B.V.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Besloten Vennootschap	Non-mutual
NO	SC/391200MYFHR LCFWAH- 448NO10061	SC	ARAG Scandinavia AS	Insurance holding company as defined in Art. 212 (1) [f] of Di- rective 2009/138/ EC	Stock corporation	Non-mutual
NO	SC/391200MYFHR LCFWAH- 448NO10062	SC	ARAG Digital Services AS	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Stock corporation	Non-mutual
US	SC/391200MYFHR LCFWAH448US10025	SC	ARAG, LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual
US	SC/391200MYFHR LCFWAH448US10059	SC	ARAG North America Inc.	Insurance holding company as defined in Art. 212 (1) [f] of Di- rective 2009/138/ EC	Incorporated	Non-mutual
US	SC/391200MYFHR LCFWAH448US10060	SC	ARAG Services, LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual
US	SC/391200MYFHR LCFWAH448US10062	SC	ARAG Association LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual

Further Information

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

You can obtain up-to-date **information about the Group** using the following contact details:

ARAG
Corporate Communications/Marketing
ARAG Platz 1
40472 Düsseldorf
Germany
Tel: +49 (0)211 963 3488
Fax: +49 (0)211 963 2025
+49 (0)211 963 2220
Email: medien@ARAG.de

If you would like an individual quote, you can contact us at any time by telephone, fax, or email:

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

You can find the latest **information about the Group and our products** on our website: **www.ARAG.com**

Figures in this report are rounded, which may give rise to differences of +/- one unit (currency, percent) in some computations.

Credits

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