

ARAG HOLDING SE

2016 Solvency and Financial Condition Report for the Group



Dive into life.

Key Figures

Premium income/sales revenue:

€ **1.784** billion

Consolidated net income:

€ **43** million

Combined ratio:

91.5 %

Eligible own funds:

€ **1.342** billion

Solvency capital requirement:

€ **564** million

Solvency ratio:

237.9 %

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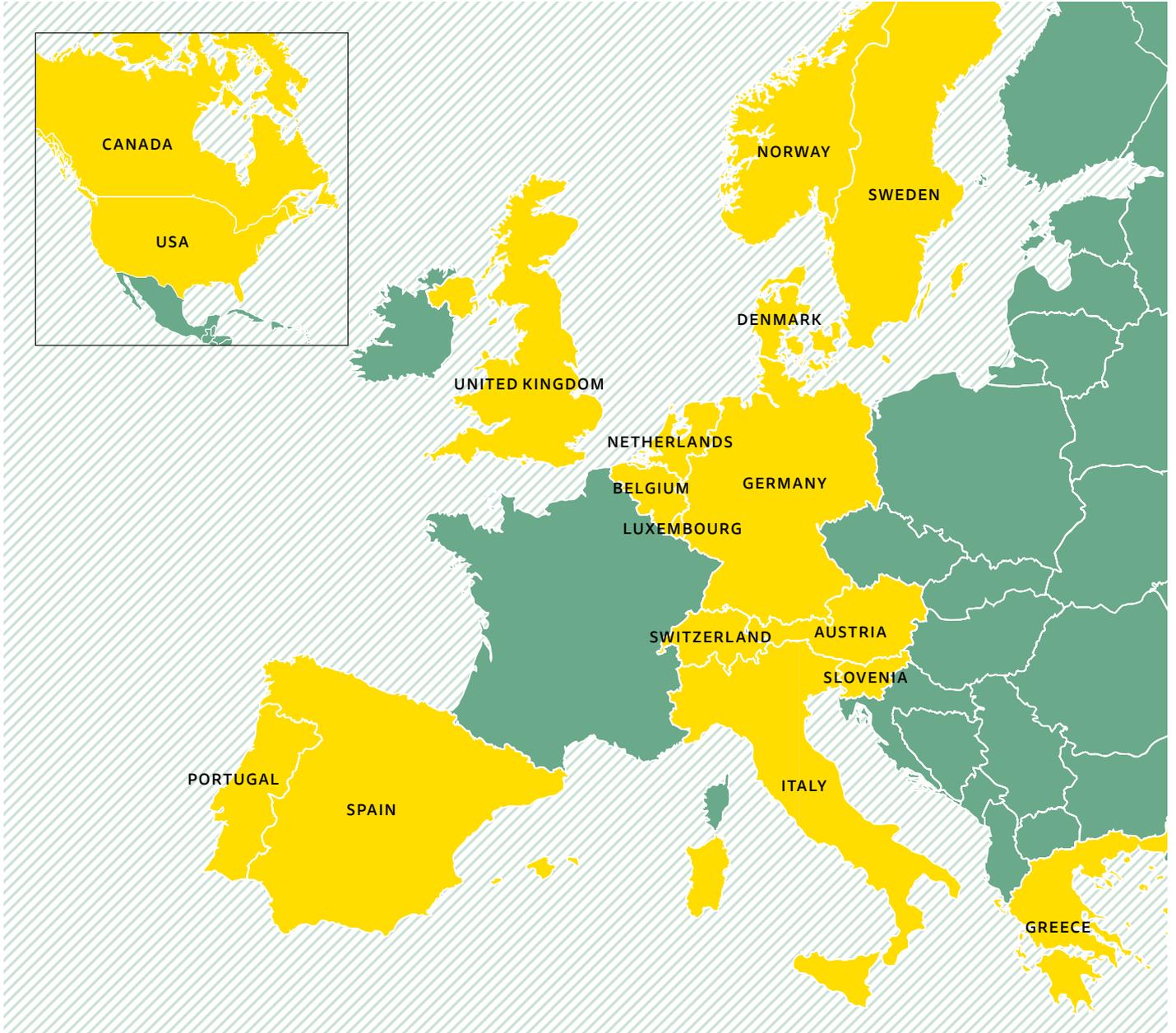
Summary

The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established more than 80 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products. At the end of 2016, the Group sold its shares in ARAG Lebensversicherungs-AG as part of a strategic realignment to focus squarely on property and health insurance. The ownership control process for the sale was successfully completed at the end of June 2017. The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 17 countries (Germany, 14 other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It generates sales revenue and premiums of approximately €1.8 billion and employs more than 4,000 people. ARAG SE is responsible for strategic Group management and the legal insurance operating business at both domestic and international levels. The other ARAG insurance and service companies are responsible for the operational management of their respective lines of business. ARAG Holding SE manages the assets and is the parent company of the Group from a company law perspective.

The ARAG Group focuses on state-of-the-art product concepts aimed at both private and small business customers. An important role is also played by customized legal insurance products designed for particular target groups. ARAG is a provider of high-quality insurance with a multidimensional approach, offering its customers in Germany not only its core legal insurance policies but also needs-based products and services through its highly efficient subsidiaries operating casualty and property, health, and life insurance business. The Group comprises the following operating segments:

- Legal insurance
- Casualty and property insurance
- Health insurance
- Life insurance
- Services and asset management.

Countries in which the ARAG Group operates



In addition to the Group headquarters in Düsseldorf and its personal insurance offices in Munich, the ARAG Group maintains, through ARAG SE, operational branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, and Spain. This centralized, star-shaped organizational structure emerged from the merger of previously independent subsidiaries in 2012. The international branches run their operating businesses in their national markets independently, taking into account the specific local circumstances in each case.

Legal insurance is also provided in 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, ARAG SE operates in Switzerland via an equity investment in a legal insurance associate. In the United Kingdom, a Group company acts as a broker for legal insurance business and legal-insurance-related special service package business, passing this business to four UK primary insurers. Some of this insurance is then ceded to ARAG SE under quota-share reinsurance treaties. This intermediary model has been adapted for use in the Canadian market.

The ARAG Group has taken a systematic approach to the further development of its business, focusing on modifying its corporate structure in line with future challenges while at the same time accommodating the ongoing internationalization of its activities.

The ARAG Group's volume of business again expanded steadily and significantly in the year under review, with gross premium income advancing by 4.4 percent to €1,729.699 million. One of the main drivers of this increase was the strong growth in the legal insurance segment. In the German legal insurance market alone, gross premiums written from direct business rose by 6.6 percent year on year. International legal insurance business also provided considerable growth impetus, particularly as a result of the expansion of indirect business. Premiums in international business were up by 7.6 percent overall. The units reporting the strongest growth were those in Spain, Italy, the Netherlands, and the US. The casualty and property insurance segment in Germany and the health insurance segment, where premiums rose by 3.8 percent and 2.7 percent respectively, also made a significant contribution to growth. Against a backdrop of challenging conditions created by the sustained period of low interest rates, the life insurance business was – as expected – the only segment to register a decrease, with premiums falling by 3.0 percent in 2016.

ARAG again demonstrated its significant earnings power in the year under review. The ARAG Group's underwriting result rose slightly, advancing from a profit of €66.110 million in 2015 to €66.735 million in 2016. The decrease registered with respect to the personal insurance policies was easily offset by the substantial improvement in the underwriting result reported for the property insurance business.

Despite the impact of the protracted phase of low interest rates, the net gains on investments increased further. Reversals of write-downs rose again whereas write-downs were lower than in 2015. On the other hand, ordinary income from investments declined, as expected. Overall however, the net gains on investments – where not assigned to the underwriting account – increased significantly year on year, rising from €53.970 million to €63.987 million.

Consolidated net income amounting to €43.118 million was impacted by write-downs on the net deferred tax assets in Germany of €24.671 million.

Against a backdrop of persistently low interest rates, ARAG SE began to reorganize the ARAG Group structure in 2016 and decided to sell its shares in ARAG Lebensversicherungs-AG to Frankfurter Leben-Gruppe. The ownership control process for the sale was successfully completed at the end of June 2017.

The new European regulatory regime, Solvency II, came into force for all insurance companies on January 1, 2016 and is aimed at harmonizing regulation and affording customers greater protection. It contains rules on capital adequacy, risk management, and reporting. Valuations for solvency purposes are based on market values, whereas under accounting rules pursuant to the German Commercial Code (HGB), assets are recognized at amortized cost in accordance with the prudence principle. Consequently, some parts of the report cannot be compared with each other. A reconciliation of the line items is provided in chapters D. 'Valuation for Solvency Purposes' and E. 'Capital Management'. This report does not contain any comparisons with the previous year because the Solvency II rules are new and the report for the year ended December 31, 2016 is thus the first of its kind.

In a process lasting five years, the ARAG Group made use of the options made available by the supervisory authorities and developed a partial internal model for which it obtained certification from the German Federal Financial Supervisory Authority (BaFin) in December 2015 in time for the start of Solvency II. The ARAG Group is one of only a small number of German insurance groups that have successfully completed the certification process, which is a particularly good achievement given its size. As a result of approval being granted, the Company is able to measure its risks in a way that is tailored to its business and manage them accordingly in order to provide customers with greater protection. The ARAG Group uses the partial internal model to model non-life underwriting risk. The modeling thus benefits from the expertise that has been accumulated over the course of more than 80 years of providing legal insurance with a clearly defined product and underwriting policy and from a claims history in the casualty and property segment going back many years.

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

The ARAG Group's overall solvency capital requirement is €564.151 million. To cover the solvency capital requirement, the Group has eligible own funds of €1,342.133 million, giving a coverage ratio of 238 percent. The ARAG Group thus has a very high level of capital adequacy, a clear sign of the Company's excellent financial strength.

A. Business and Performance

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A.1 Business

Legal basis

ARAG 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
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Website: www.ARAG.com

Supervisory authority

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

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Graurheindorfer Strasse 108, 53117 Bonn, Germany
Postfach 1253, 53002 Bonn, Germany

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

Auditor

The contact details of the appointed auditor are:

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft
Moskauer Strasse 19, 40227 Düsseldorf, Germany

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

Structure of the Group

ARAG Holding SE manages the assets and is the parent company of the ARAG Group from a company law perspective. The ARAG Group is the largest family-managed insurance company in Germany and is one of the world's three leading providers of legal insurance. It focuses on state-of-the-art insurance products and services aimed at both private and small business customers. ARAG is a provider of high-quality insurance with a multi-dimensional approach, offering its customers in Germany not only its core legal insurance policies but also needs-based products and services in casualty and property insurance and personal insurance business. Against a backdrop of persistently low interest rates, ARAG SE began to reorganize the ARAG Group structure in 2016 and decided to sell its shares in ARAG Lebensversicherungs-AG to Frankfurter Leben-Gruppe. The ownership control process for the sale was successfully completed at the end of June 2017.

ARAG began to make inroads into markets outside Germany more than 50 years ago. The main purpose was to set up separate international companies in the Group that could provide support for the German legal insurance customers in the event of a claim. It became clear that this model in itself was not sustainable. However, there was a demand for legal insurance within each of the countries themselves, as a result of which it was possible to develop new business models in line with the various circumstances and tap into new markets. Including Germany, ARAG now operates in a total of 17 countries through branches, subsidiaries, and equity investments. The Company launched its business activities in Canada just last year.

In addition to the Group headquarters in Düsseldorf and the personal insurance offices in Munich, the ARAG Group maintains, through ARAG SE, international branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, and Spain. The international branches run their operating businesses in their national markets independently, taking into account the specific local circumstances in each case.

Legal insurance is also provided in 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, ARAG SE operates in Switzerland via an equity investment in a legal insurance associate. In the United Kingdom, a Group company acts as a broker for legal insurance business and legal-insurance-related special service package business, passing this business to four UK primary insurers. Some of this insurance is then ceded to ARAG SE under quota-share reinsurance treaties. This intermediary model has been adapted for use in the Canadian market.

ARAG SE also holds an equity investment in a legal insurance company in Luxembourg.

Building on its dynamic growth and great willingness to embrace change, ARAG is continuing to extend its competitive edge in property and health insurance. In doing so, it is continuing to take a systematic approach to internationalizing the legal insurance business.

ARAG SE is the largest insurance company and, at the same time, the operational holding company for the ARAG Group. Its CEO, Dr. Dr. h. c. Paul-Otto Faßbender, is also the CEO and majority shareholder of ARAG Holding SE. All Group functions, including all executive and managerial functions required for the management and coordination of the Group, are the responsibility of ARAG SE and its governing bodies. As the asset management and parent company, ARAG Holding SE focuses predominantly on managing the equity investments and on exercising its rights and fulfilling its obligations as a shareholder.

The ARAG Group as a group under Solvency II consists of only 17 entities and thus differs from the group of companies consolidated for the purposes of the HGB. The consolidated financial statements prepared in accordance with the HGB thus have very limited comparability with the figures reported on the Group's Solvency II balance sheet.

List of the most important affiliated companies

Name	Legal form	Headquarters	Direct share	Group's share
1 ARAG SE	SE (European Company)	Düsseldorf	50.00%	100.00%
2 AFI Verwaltungs-Gesellschaft mbH	GmbH (private limited company)	Düsseldorf	100.00%	100.00%
3 ARAG 2000 Grundstücksgesellschaft bR	GbR (partnership under the German Civil Code)	Düsseldorf	0.00%	93.38%
4 ARAG Allgemeine Versicherungs-AG	AG (stock corporation)	Düsseldorf	0.00%	100.00%
5 ARAG Insurance Company Inc.	Corporation	Des Moines	0.00%	100.00%
6 ARAG International Holding GmbH	GmbH	Düsseldorf	0.00%	100.00%
7 ARAG IT GmbH	GmbH	Düsseldorf	0.00%	100.00%
8 ARAG Krankenversicherungs-AG	AG	Munich	0.00%	94.01%
9 ARAG Lebensversicherungs-AG	AG	Munich	0.00%	92.00%
10 ARAG North America Inc.	Corporation	Des Moines	0.00%	100.00%
11 ARAG Plc.	Plc.	Bristol	0.00%	100.00%
12 ARAG Service Center GmbH	GmbH	Düsseldorf	0.00%	100.00%
13 Cura Versicherungsvermittlung GmbH	GmbH	Düsseldorf	0.00%	100.00%
14 HELP Forsikring AS	AG	Oslo	0.00%	100.00%
15 Interlloyd Versicherungs-AG	AG	Düsseldorf	0.00%	100.00%

Description of the most important Group companies

1. ARAG SE is the largest family-managed insurance company in Germany and is one of the world's three leading providers of legal insurance. Its business is focused on private customers and on small and medium-sized business customers. It is not involved in diversified corporate business with individual risks. In addition to the Group headquarters in Düsseldorf, ARAG SE has operational branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, and Spain. As the Operating Group Holding Company, ARAG SE manages the ARAG Group from a strategic and operational perspective.
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 plot of land 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 a branch in the United Kingdom. It is necessary to operate this business in a separate company because, in Germany, legal insurance claims have to be settled separately (section 164 of the German Insurance Supervision Act (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 people – from those enjoying sport as a leisure activity right up to professional sportsmen and women.
5. ARAG Insurance Company Inc., USA, operates legal insurance business 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 is part of a subgroup in the USA that comprises five companies and is managed by ARAG North America Inc.
6. ARAG International Holding GmbH is an intermediate holding company connecting the North American subsidiaries in the US and Canada to the ARAG Group in Germany. It is purely a financial holding company without any managerial authority; it 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, carries out all data center activities and IT services required by the ARAG Group. It does not have any customers outside the ARAG Group.
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 Lebensversicherungs-AG is an insurance company and operates the life insurance business. The need to separate the different segments (section 8 (4) VAG) means that a separate company has to operate the life insurance business. Against a backdrop of persistently low interest rates, ARAG SE as the Operating Group Holding Company, began to reorganize the ARAG Group structure at the end of 2016 and decided to sell the shares in ARAG Lebensversicherungs-AG to Frankfurter Leben-Gruppe, a run-off specialist. Following the successful completion of the ownership control process for the sale at the end of June 2017, Frankfurter Leben-Gruppe was able to acquire ARAG Lebensversicherungs-AG. The insurance policies of ARAG's life insurance customers will continue under the new owner with the same guarantees, terms, and conditions, and the investment funds will be reviewed and adjusted on an ongoing basis for the benefit of the existing customers.

10. 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 previously five, now four, other US subsidiaries.
11. ARAG Plc., United Kingdom, works as an intermediary in the UK 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.
12. 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. It also acts as a mediator in the resolution of legal disputes.
13. 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.
14. HELP Forsikring AS, Norway, primarily offers family legal insurance coverage for interest groups – predominantly labor unions – in Norway, Sweden, and Denmark. In Norway, it also offers a special legal insurance product for homebuyers.
15. 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.

Qualitative and quantitative disclosures on relevant events and transactions of the Group

ARAG SE is the operational holding company of the ARAG Group. In this role, it holds material equity investments in Group companies, performs centralized services for the insurance companies in the Group, e.g. investment management, risk management, and personnel development, and manages major projects affecting various parts of the Group (e.g. modifying the accounting systems, designing the IT infrastructure). All services provided for other Group companies are charged on an arm's-length basis. 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. The largest intragroup transactions are listed below:

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 advance dividends (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 2016, this consolidation led to a total of €52.281 million being eliminated from income from equity investments due to the intragroup transfer of profit and loss.

Adjustments to the value 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 the financial reporting standards in the HGB, 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.

In 2016, a write-down of €1.513 million on the carrying amount of the equity investment in Cura Versicherungsvermittlung GmbH was eliminated; the write-down had been recognized by ARAG SE due to an extraordinary tax payment by Cura Versicherungsvermittlung GmbH. A write-down of €2.675 million recognized by ARAG SE on the carrying amount of the equity investment in ARAG Legal Services B. V. was also eliminated.

Sale of business units The Group withdrew from real estate development business in September 2016. In this context, it sold three Group companies, of which two had been fully consolidated. At Group level, the sale resulted in a gain on disposal that was €6.416 million less than in the single-entity financial statements. This was because the individual assets in the Group affected by the sale had been assigned a higher carrying amount than the carrying amounts of the equity investments sold because the carrying amounts of the latter had already been adjusted by the relevant parent company due to a permanent decrease in their fair value.

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. Accordingly, an amount of €29.554 million was eliminated in 2016 for intragroup insurance premiums, €14.881 million for claims incurred, and €11.873 million for reinsurance commission on these reinsurance premiums. 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 The ARAG Group has 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 all year round, manage the Group's special investments, or broker insurance between customers and the Group's insurance companies.

In 2016, sales revenue from such services between Group companies was offset against the expenses of the companies performing the services in an amount of €49.706 million.

ARAG SE is the operational Group parent company. In this capacity, it has central departments that are also responsible for other Group companies, e.g. in the areas of investment management, risk management, internal audit, accounting, HR management, and marketing. Each Group company's use of the central departments is documented and the costs incurred are charged in full. The amount invoiced for these services in 2016 was €39.583 million. At Group level, this sum was netted with the expenses recognized in other expenses that ARAG SE incurred by performing these services.

Line of business

The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established more than 80 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products. At the end of 2016, the Group sold ARAG Lebensversicherungs-AG as part of a strategic realignment to focus squarely on property and health insurance. The ownership control process for the sale was successfully completed at the end of June 2017. The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 17 countries (Germany, 14 other European countries, the US, and – since 2016 – Canada) through branches, subsidiaries, and equity investments. It generates sales revenue and premiums of approximately €1.8 billion and employs more than 4,000 people.

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

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 is demonstrating its strength as an attractive provider of property, liability and accident insurance policies, which have been highly ranked in numerous independent performance comparisons. This company is also Europe's largest sports insurer, providing cover for over 20 million people – from those enjoying sport as a leisure activity right up to professional sportsmen and women. ARAG Allgemeine's Interlloyd subsidiary 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 highly efficient products, emphasizing its appeal as a provider of full-coverage and supplementary health insurance. To complement its range of products for customers, ARAG Core Sales successfully offers pension products from its strategic partner Alte Leipziger.

Significant business or other events in the reporting period

In 2015, the ARAG Group received authorization from BaFin to use a partial internal model from January 1, 2016 onward to calculate its solvency capital requirement. Following the successful completion of the project phase covering the preparation for Solvency II and the development phase for the partial internal model, the testing phase also demonstrated that the partial internal model can be used extensively in the Company and can play a key role in corporate management. The ARAG Group is one of only a small number of German insurance groups that have successfully completed the certification process, which is a particularly good achievement given its size. The management of underwriting risk in line with the risk involved represents a significant success factor for ARAG. Only by using a partial internal model is it possible to model the special features of the ARAG Group's business structure in line with the risk and to calculate the capital requirement accordingly. The use of the partial internal risk model will be an important contributing factor in helping the ARAG Group to sustainably enhance its competitiveness over the long term.

In September 2016, ARAG SE initiated the sale of its 92.0 percent equity investment in ARAG Lebensversicherungs-AG to run-off specialist Frankfurter Leben-Gruppe. The ownership control process for the sale was successfully completed at the end of June 2017. Immediately before the transfer, certain assets of ARAG Lebensversicherungs-AG were sold to other Group companies. External valuation reports were used to determine the fair values.

As the ownership control process for the sale continued until the end of June 2017, ARAG Lebensversicherungs-AG remained fully consolidated in the ARAG Group's consolidated financial statements and Solvency II balance sheet as of December 31, 2016.

Also in September 2016, ARAG Lebensversicherungs-AG sold its shares in ALV Vermögens- und Beteiligungs-Verwaltungs-AG to third parties. As this company is the parent company of Wowobau Wohnungsbaugesellschaft mbH and GWV-AVUS Beteiligungsmanagement GmbH, these companies were also deconsolidated following the sale.

In accordance with the consistency principle, the Group continued to exercise the option to recognize deferred tax assets on the consolidated balance sheet for the tax relief expected in subsequent years. Tax relief occurs when differences arise between the carrying amounts on the HGB balance sheet and those in the tax base that are likely to be reversed in subsequent years and thereby reduce the tax payments. As a rule, the differences are valued using country-specific tax rates. In 2016, an impact analysis was carried out at ARAG SE on the basis of a simplified tax planning process. Based on the results of this analysis, the deferred tax assets attributable to Germany in an amount of €24.671 million were reversed and taken to the income statement.

As a result of the amendment to the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) dated March 1, 2011, life insurance companies are obliged to strengthen the actuarial reserves for insurance policies where the discount rate exceeds the calculated reference rate. ARAG Lebensversicherungs-AG therefore recognized an additional actuarial reserve for those rates and charges whose guaranteed discount rate was above the reference rate for 2016 of 2.54 percent for new policies and 2.43 percent for old policies. The total amount of the supplementary change-in-discount-rate reserve was €186.307 million as of December 31, 2016.

The accounting principles in the HGB with regard to the discounting of defined benefit obligations have been modified by the German Act to Implement the Mortgage Credit Directive. Accordingly, the average discount rate for a standardized residual maturity of 15 years is now calculated over a period of the past ten years rather than seven. The interest rate specified as the discount rate by Deutsche Bundesbank on the basis of the new rules was 4.01 percent. The interest rate based on the previous seven-year average had been 3.24 percent. Discounting using the new interest rate meant that the provision for pensions and other post-employment benefits was €23.137 million lower as of December 31, 2016 than it would have been if the previous seven-year average interest rate had been used. This resulted in a decrease in primary pension and other post-employment benefit expenses during the reporting year.

A.2 Underwriting Performance

The ARAG Group's volume of business again expanded steadily and significantly in the year under review, with gross premium income advancing by 4.4 percent to €1,729.699 million. One of the main drivers of this increase was the strong growth in the legal insurance segment. In the German legal insurance market alone, gross premiums written from direct business rose by 6.6 percent year on year. International legal insurance business also provided considerable growth impetus, particularly as a result of the expansion of indirect business. Premiums in international business were up by 7.6 percent overall. The units reporting the strongest growth were those in Spain, Italy, the Netherlands, and the US. The casualty and property insurance segment in Germany and the health insurance segment, where premiums rose by 3.8 percent and 2.7 percent respectively, also made a significant contribution to growth. Against a backdrop of challenging conditions created by the sustained period of low interest rates, the life insurance business was – as expected – the only segment to register a decrease, with premiums falling by 3.0 percent in 2016.

As a result of the larger business volume, claims incurred in the legal insurance business as a whole increased from €426.774 million in 2015 to €440.048 million in the reporting year. Claims incurred in the casualty and property insurance business were also up, rising by €13.850 million. In life insurance, claims incurred grew to €233.127 million owing to policies expiring at the end of their term and due to increased surrender value payments. As expected, expenses for claims incurred in health insurance increased by a total of €9.012 million due to the ongoing expansion of this business. Overall, claims incurred by the Group in the year under review were up by 4.1 percent compared with the prior-year figure.

Insurance business operating expenses rose by 3.0 percent. This rise was attributable to the overall growth in the volume of business and the greater number of employees, particularly in the international branches and subsidiaries. The cost increases were contained as a result of the statutory discount rate for provisions for pensions and other post-employment benefits being raised from a seven-year to a ten-year average. This resulted in a one-off decrease in pension and other post-employment benefit expenses during the reporting year. Insurance business operating expenses increased to €546.474 million (2015: €530.746 million). Nevertheless, the cost ratio fell slightly in 2016, from 32.6 percent to 32.0 percent, because of the greater volume of business.

The ARAG Group's underwriting result rose slightly, advancing from a profit of €66.110 million in 2015 to €66.735 million in 2016. The decrease registered with respect to the personal insurance policies was easily offset by the substantial improvement in the underwriting result reported for the property insurance business.

There was a very significant increase in the underwriting profit in the legal insurance segment, whereas the casualty and property insurance business's underwriting result declined considerably. The life insurance business reported an underwriting loss.

Source of insurance business by premiums written

Country/source (€'000)	Direct insurance business				Inward reinsurance business		Total business
	Legal insurance	Casualty and property insurance	Health insurance	Life insurance	Legal insurance	Casualty and property insurance	
Germany	329,272	204,492	356,873	213,694		165	1,104,496
Netherlands	91,294				48,847		140,141
Austria	58,091						58,091
USA	80,703				7,396		88,099
Spain	47,306	46,704			21,274	9,805	125,089
Italy	26,321	4,426			87,341	331	118,419
Belgium	23,180				471		23,651
Norway	36,112						36,112
Greece	5,003				42		5,045
Slovenia	2,183						2,183
Portugal	448	188			182		818
Sweden	4,004						4,004
Denmark	57						57
UK*	1,295				22,199		23,494
Total	705,269	255,810	356,873	213,694	187,752	10,301	1,729,699

* The reinsurance business involving risk in the UK is underwritten by ARAG SE in Düsseldorf.

Legal insurance

In 2016, the legal insurance segment underlined its important role as the fastest-growing and most profitable insurance segment in the ARAG Group. A further strong increase in Germany, along with the continuation of the growth trajectory in international markets, resulted in an overall rise of €51.324 million. ARAG registered the greatest growth impetus in Spain, Italy, the Netherlands, and the US.

From an already high prior-year level, the segment's gross premiums written again rose substantially, advancing by 6.1 percent to €893.021 million in the year under review (2015: €841.697 million). At 60.6 percent, the share of total legal insurance premiums attributable to international legal insurance business was on a par with the previous year (2015: 60.7 percent).

Expenses for claims incurred in the whole of the legal insurance segment rose from €426.774 million to €440.048 million. The main contributing factors are explained in the following disclosures on the German and international legal insurance business. Overall, the segment's claims ratio went down from 51.4 percent to 49.5 percent. Despite the increase in the number of employees as planned, the cost ratio dropped from 44.2 percent to 43.2 percent because of the one-off reduction in pension and other post-employment benefit expenses. The underwriting profit for the entire legal insurance segment rose significantly in 2016, by €27.245 million to €63.475 million.

Net gains on investments in the legal insurance segment were virtually unchanged on their prior-year level at €74.925 million (2015: €74.604 million). The segment generated profit from ordinary activities of €103.739 million (2015: €69.704 million). This included the other net income/expense, which came to a net expense of €34.661 million – a significant year-on-year improvement (2015: net expense of €41.131 million) that was due to lower pension and other post-employment benefit obligations.

The year under review saw further growth in the international legal insurance business. The ARAG Group provides products and services for customers in Germany and a total of 16 other countries. The largest international ARAG business units operate in the Netherlands, Spain, Italy, and the US.

Income from gross premiums written in the international legal insurance business rose by 6.0 percent year on year (2015: 7.7 percent), from €511.153 million to €541.550 million. ARAG's long-standing, major international activities stood out for their strong performance last year. Business increased by €16.569 million in Spain, by €11.991 million in Italy, by €7.626 million in the US, and by €6.581 million in the Netherlands.

Additional premium income of €60.869 million (2015: €48.858 million) was derived from the legal-insurance-related special service package business generated by the Spanish, Italian, and Portuguese branches of ARAG SE, which is seeing especially buoyant growth. These premiums are reported under the casualty and property insurance segment. In the reporting year, the expenses for claims incurred in the international legal insurance business climbed from €217.158 million to €227.447 million due to the considerably larger business volume. Overall, the claims ratio fell to 42.0 percent (2015: 43.1 percent). As a consequence of the effects described above, the combined ratio in the international legal insurance business improved from 88.1 percent to 86.7 percent.

The German legal insurance business maintained its path of growth. Once again, the rise in premium income of 6.3 percent outstripped the market average. But ARAG not only increased its premiums, it also achieved effective growth in its customer base. The robust expansion of new business is accompanied by a continued decline in policy cancellations. Taking account of the slower rise in inward reinsurance business as a result of movements in the euro/pound sterling exchange rate, the total income from gross premiums written in German legal insurance business amounted to €351.471 million (2015: €330.543 million). The claims ratio in the German legal insurance business went down from 64.2 percent in 2015 to 61.3 percent in 2016. By contrast, the absolute amount of claims incurred rose from €209.617 million in the previous year to €212.601 million because of the larger volume of business. This amount includes additional provisions recognized for cumulative claims that could arise in connection with the emissions issue affecting VW diesel vehicles.

The net cost ratio fell sharply to 40.7 percent in 2016 (2015: 43.0 percent). This reduction was due to the strong growth in premiums and the aforementioned favorable changes to provisions for pensions and other post-employment benefits. The absolute year-on-year rise in insurance business operating expenses therefore totaled only €408 thousand.

An amount of €350 thousand was added to the equalization provision for the inward reinsurance business (2015: €200 thousand).

Overall, the underwriting loss generated by the German legal insurance business improved significantly year on year, falling to €5.988 million (2015: €22.436 million).

Casualty and property insurance

ARAG's very good business performance in property insurance was reflected in the casualty and property insurance segment. Gross premiums written rose by 7.9 percent to €266.110 million in the year under review (2015: €246.648 million). The product portfolio, which has been significantly modernized, is attracting a great deal of interest from customers, leading to expansion of business in the general accident insurance, general liability insurance, composite residential buildings insurance, and home contents insurance divisions. Sales through brokers via the Group's own brokerage specialist, Interlloyd Versicherungs-AG, also contributed to the increase in premiums with growth of 4.6 percent. Premium income from the legal-insurance-related special service package business in the Spanish, Portuguese, and Italian branches of ARAG SE is allocated to the casualty and property insurance segment.

Heavy rain was one of the factors with a negative impact on the insurance industry's level of claims incurred last year. However, ARAG Allgemeine remained largely unaffected by these regional extreme weather phenomena in 2016. Overall, the claims reported for 2016 were down by more than 4 percent year on year. However, this was more than offset by the greater need for provisions for claims incurred but not reported (IBNR claims) and for benefit reserves for annuities. The increase in ARAG SE's in-force legal-insurance-related business through branches in Spain, Portugal, and Italy caused claims incurred to rise by an additional €4.515 million. Expenses for claims incurred in the property and casualty segment totaled €138.908 million and were thus higher than the prior-year level of €125.058 million. Despite the good premium growth, the claims ratio increased from 52.5 percent to 54.8 percent.

The cost ratio was unchanged year on year at 40.2 percent. Underwriting profit before the equalization provision fell from €16.849 million in 2015 to €12.418 million in the reporting year. After an addition to the equalization provision of €9.916 million, the underwriting profit amounted to €2.502 million (2015: €12.553 million). Profit from ordinary activities in the casualty and property insurance segment amounted to €11.368 million (2015: €16.476 million), which included a year-on-year improvement of €1.465 million in net gains on investments and a reduction of €3.478 million in other net expense.

Health insurance

As in previous years, premium income in the health insurance business grew at a faster rate than in the market as a whole. Gross premium income advanced by 2.8 percent to €356.873 million (2015: €347.450 million), whereas the market registered growth of 1.8 percent. The increase in premiums was predominantly attributable to the rise in new business. Premium adjustments were modest compared with the rest of the market. The solid growth generated by the health insurance business underlined its strategically important role as ARAG's largest area of business in the German market.

In addition to the traditionally rapidly expanding supplementary health insurance business, full-coverage insurance was one of the main drivers of growth in the reporting year.

On the benefit expenses side of the equation, higher expenses for claims incurred and the addition to the actuarial reserve, which was up by 16.4 percent year on year, totaled €343.687 million compared with €314.849 million in 2015.

The underwriting result declined accordingly in the year under review, falling from a profit of €14.549 million in 2015 to €8.518 million in 2016. The net gains on investments included in this figure rose by €17.122 million year on year to €67.534 million.

After taking into account the sundry income and expense items and the addition to the provision for bonuses and rebates, profit before tax decreased to €6.812 million (2015: €11.139 million) but was nevertheless once again higher than the budgeted figure.

Life insurance

ARAG made significant changes in preparation for the future in its life insurance business last year. In view of the protracted phase of low interest rates, ARAG SE – the Operating Group Holding Company – decided to reorganize the structure of the ARAG Group. ARAG SE then initiated the sale of its shares in ARAG Lebensversicherungs-AG to Frankfurter Leben-Gruppe. The ownership control process for the sale was successfully completed at the end of June 2017.

As anticipated, the announcement of this decision caused a further reduction in new business on top of the noticeable decline triggered by adjustments to the remuneration system to meet the requirements of the German Life Insurance Reform Act (LVRG). Total premiums in new business fell by 16 percent year on year to €338.800 million. Accordingly, gross premiums written decreased from €220.263 million in 2015 to €213.694 million in the year under review.

On the benefit expenses side, expenses for claims incurred and the change in the actuarial reserve amounted to €278.995 million, a year-on-year decline of €1.273 million. Front-end fees fell by 21.0 percent in 2016 to €17.362 million. At €7.234 million, administrative expenses were down slightly compared with the previous year (2015: €7.629 million). Gains and losses on investments assigned to the underwriting account amounted to net gains of €111.457 million (2015: €109.834 million). This year-on-year improvement of €1.623 million was due to a high level of reversals of write-downs and only small write-downs on institutional funds. After taking into account the sundry income and expense items as well as the tax position, the segment generated a profit before the provision for bonuses and rebates of €2.591 million (2015: €4.165 million). This amount was allocated in full to the provision for bonuses and rebates (2015: €4.165 million). For the purposes of determining the consolidated net profit for the year, the loss before tax amounted to €8.893 million compared with a profit of €2.927 million in 2015.

Services and asset management

This segment brings together those Group companies that provide core services outside straightforward insurance business or operate non-insurance business, such as IT services, the central emergency telephone service for ARAG customers, and the real estate development business for third parties. The segment also consists of the holding companies, including ARAG Holding SE. The insurance brokerage firm in the Group, Cura Versicherungsvermittlung GmbH, and the insurance agent for the UK reinsurance business are also assigned to this segment. The real estate development business was sold at the end of the third quarter. The sales revenue generated by the non-insurance companies with third parties and the other segments in the Group therefore fell from €108.492 million in 2015 to €98.002 million in 2016. After adjustment for the intragroup sales revenue in the service companies, the remaining sales revenue generated from third parties came to €54.830 million compared with €66.640 million in 2015. Profit before tax was €29.311 million (2015: €32.744 million).

A.3 Investment Performance

Despite the impact of the protracted phase of low interest rates, the net gains on investments increased further. Reversals of write-downs went up again whereas write-downs were lower than in 2015. On the other hand, ordinary income from investments declined, as expected. Overall however, the net gains on investments – where not assigned to the underwriting account – increased significantly year on year, rising from €53.043 million to €63.353 million.

Gains and losses on the investments of the ARAG Group

(€'000)	In the underwriting account	Sundry gains and losses on investments	In the underwriting account	Sundry gains and losses on investments
	2016	2016	2015	2015
Income from equity investments	158	564	1,497	875
Income from associates	0	3,908	0	3,506
Income from land	12,973	14,598	9,635	14,813
Income from other investments	138,788	46,367	150,655	56,609
Total ordinary income	151,920	65,437	161,787	75,803
Income from reversals of write-downs	21,842	9,275	4,552	4,688
Gains on disposals	35,449	10,152	39,437	6,144
Total income	209,211	84,864	205,777	86,635
Administrative expenses	-10,866	-11,035	-6,991	-11,954
Depreciation and amortization	-2,741	-3,345	-2,271	-3,467
Technical interest income in property insurance	0	-634	0	-927
Total ordinary expenses	-13,607	-15,014	-9,262	-16,348
Write-downs	-9,767	-5,520	-34,000	-15,330
Losses on disposals	-9,167	-977	-4,517	-1,914
Total expenses	-32,541	-21,511	-47,778	-33,592
Gains and losses on investments	176,670	63,353	157,999	53,043

In personal insurance, gains and losses on investments are assigned to the underwriting account; in property insurance, they are considered separately. Their presentation is based on the German accounting principles in the HGB. Gains and losses on investments based on changes to fair values therefore arise only where the reasons for a write-down recognized in previous periods cease to apply (income from reversals of write-downs) or if events occur that give rise to permanent impairment (write-downs). However, there is an exception in the case of investments for the account and at the risk of life insurance policyholders.

The values given here are not directly comparable with the changes in the fair values in the investment portfolio or with the differences between the values on the Solvency II balance sheet and those on the HGB balance sheet. This is because of the differences between the valuation rules under Solvency II and those under German commercial law (HGB).

A.4 Performance of Other Activities

Other net income/expense includes staff costs and general and administrative expenses that were not allocated to an insurance or investment-related function in accordance with function-based accounting (distribution of secondary costs). These are primarily 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, interest expense for hybrid capital and for provisions for pensions and other post-employment benefits) or expenses that arise from the performance of services for other Group companies and third parties. The following table provides an overview of the main items of income and expense recognized in other net income/expense:

Other income		
(€'000)	2016	2015
Insurance brokered for third parties	6,668	2,007
Income from the reversal of miscellaneous provisions	5,162	4,999
Interest income not arising on investments	3,314	3,452
Sundry	14,110	14,020
	29,254	24,479

Other expenses

(€'000)	2016	2015
Expenses incurred on behalf of the Company as a whole	- 13,433	- 5,896
Cost allocation for intercompany measures to modify processes	0	- 237
Reclassification of costs from central departments	- 17,559	- 28,364
Addition of interest to the provision for pensions and other post-employment benefits	- 9,054	- 9,893
Expenses from default on receivables	- 989	- 675
Costs for legal and tax advice	- 5,818	- 2,573
Expense for subordinated loans	- 1,448	- 3,358
Write-downs on goodwill arising on consolidation	- 3,133	- 3,133
Auditing and publication costs for the annual financial statements	- 2,961	- 2,190
Sundry expenses	- 23,191	- 25,181
	- 77,586	- 81,500

Other net income/expense amounted to a net expense of €48.332 million, which was lower than the equivalent figure of €57.021 million in 2015, as expected. The main reason for this was the one-off reduction in pension and other post-employment benefit expenses resulting from the changed discount rate for defined benefit obligations.

A.5 Any Other Information

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

B. System of Governance

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B.1 General Information on the System of Governance

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

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

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

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

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

The 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. 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 Group’s business activities
- Ensures compliance with laws, regulations, and regulatory requirements
- Ensures sound and prudent management of the Company
- Has an adequate, transparent organizational structure with clearly allocated and separated responsibilities
- Has an effective inhouse communications system
- Is regularly reviewed.

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

Risk management

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

Compliance

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

Internal audit

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

Actuarial function

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

Remuneration of the administrative, management, and supervisory bodies

The remuneration of the Group's national and international governing bodies and employees is governed by the pertinent legal requirements. 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 for the Company – 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.

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

B.2 Fit and Proper Requirements

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. The detailed standards and processes for the Group's insurance companies headquartered in Germany and any international branches are described in their individual solvency and financial condition reports.

The rule for insurance companies, insurance holding companies, and other companies in regulated fields outside Germany is that their supervisory and management bodies must include members of the Management Board or other senior managers of the Operating Group Holding Company so as to ensure 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 the 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&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 governing 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 insurance companies, insurance holding companies, and other companies in regulated fields outside Germany must obtain a personal statement from potential holders of key roles that includes details of their good repute, e.g. 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 taking 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 activities aimed at achieving strategic business objectives naturally involve taking on risks in order to achieve the desired success. To deal with these risks, ARAG has implemented a risk management system of which the operational risk management process forms the core element. Taking a multifaceted approach, including a risk strategy, a limit system, and an own risk and solvency assessment (ORSA), ARAG ensures that its risk management activities to control its business operations remain within the prescribed risk-bearing capacity requirements.

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

To implement the risk strategy, the Group has implemented a risk management system, which is the responsibility of the risk management function. This function is performed by the Group Risk Management Central Department. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level and therefore performs the role of an independent risk control function. The Chief Risk Officer of ARAG SE is responsible for the implementation of the risk management system in all Group companies. Group Risk Management bears process responsibility for the risk management system and, by means of quarterly risk reports to the Management Board, ensures that there is comprehensive transparency with regard to the risk position and any changes. Group Risk Management is also responsible for refining the risk management system and for drawing up proposals for uniform standards

to be applied throughout the Group. The remit of the central department also includes developing models for determining risk-bearing capacity, solvency capital requirements, and the allocation of solvency capital.

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

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

Risk identification

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

Risk analysis

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

Risk assessment

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

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

Risk management

The 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 identified and analyzed risks.

Risk monitoring and reporting

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

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

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

Own risk and solvency assessment (ORSA)

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

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

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

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

All results are aggregated in the ORSA report and signed off by the Management Board. Once approved, the report is sent to all the relevant responsible parties so that they can incorporate the results into their decision-making processes. In addition to workshops at which the Company's strategic positioning is discussed with the Management Board members, the Management Board also makes decisions on key elements of the ORSA process (e.g. stress tests). The Management Board is thus always aware of relevant developments affecting the risk profile. In the event of a significant change to the risk profile, the Management Board can trigger an ORSA process on an ad hoc basis.

Governance of the partial internal model

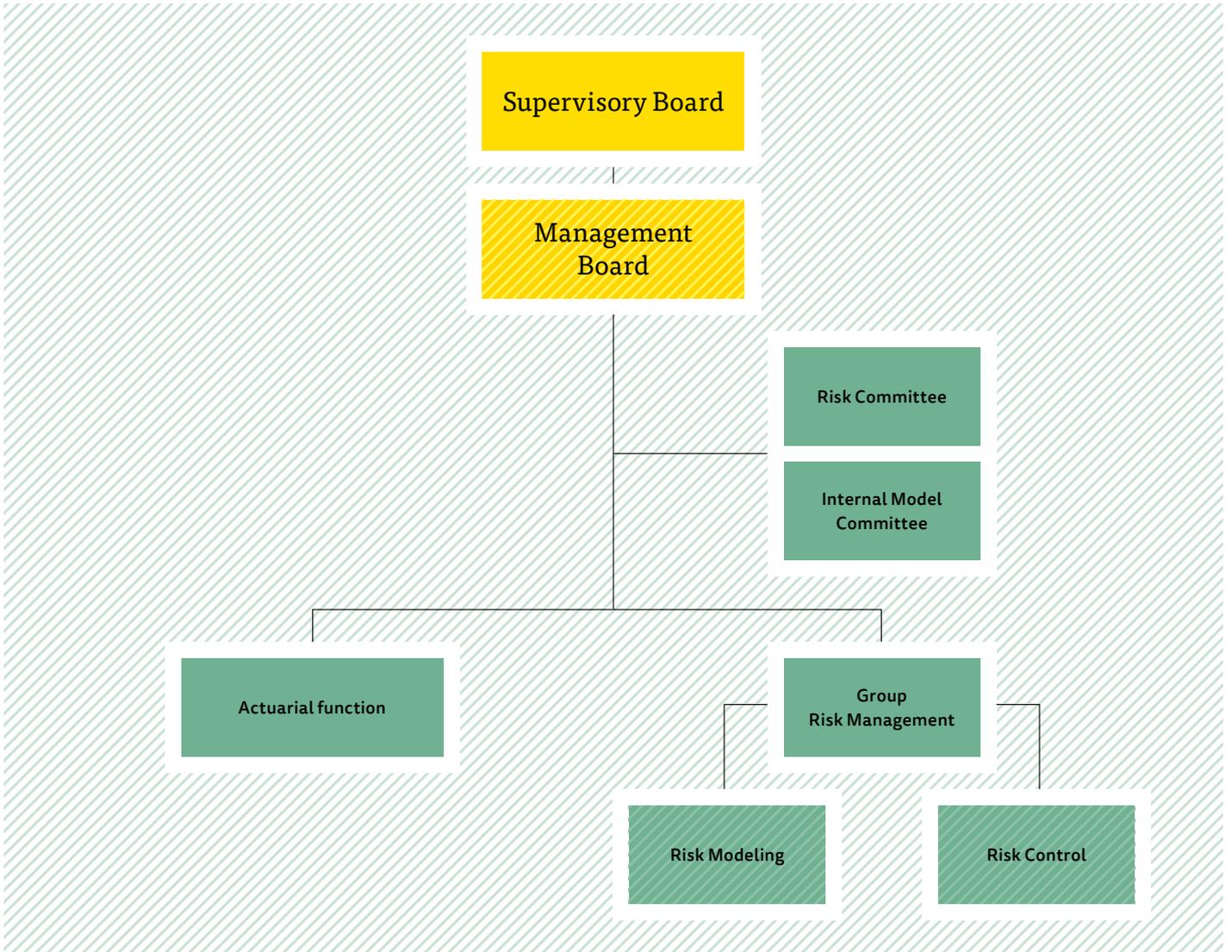
The Management Boards of the companies in the ARAG Group have formed a Risk Committee (RiCo) in order to incorporate the partial internal model into corporate management.

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

A regular validation process ensures that 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. Moreover, this organizational decision reflects the size and complexity of the Company.

Validation involves using qualitative and quantitative processes to check whether the results and forecasts of the partial internal model are sufficiently accurate. Both the mathematical and statistical methods used in the model and the governance processes relating to 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 makes sure that the partial internal model is suitable for measuring solvency in accordance with Solvency II and can be used as a basis for management decisions and corporate management.

The Risk Committee's position within the organization



B.4 Internal Control System

Internal control system

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.

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

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

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 internal control system, i.e. its design, establishment, integrity, and monitoring as well as ongoing adjustments and refinements.

The Management Board has delegated the day-to-day running of the entire ICS to the responsible managers 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 internal control system's operational structure, the processes relevant to the ICS are documented using a process and control system. This is made up of three elements: the process map (providing an overview of the overall operational structure), the process documentation, and the annual approval process. Processes are classified as being relevant to the ICS on the basis of the following criteria:

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

Compliance

Because of their intangible nature, insurance products require customers to place a great deal of trust in their insurance company. The leap of faith that customers have to make is based on the expectation that 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 CEO. Although the Compliance Officer submits reports to the Management Board as a whole, he or she is directly and exclusively accountable to the CEO of ARAG SE.

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

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

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

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

B.5 Internal Audit Function

The Group Audit function is an instrument of the Management Board, to which it is directly accountable and to which it reports. It is assigned to the Management Board member responsible for the Central Group Functions at ARAG SE, who is the board manager to whom responsibility for Group Audit is assigned under the schedule of responsibilities. Group Audit is bound only by the instructions of the Management Board.

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

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

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

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

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

B.6 Actuarial Function

The 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 them adequately, the head of the Actuarial function and his or her employees 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 the work carried out 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

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

Apart from the Management Board’s own tasks (in particular ensuring a proper system of governance and making strategic decisions), all activities can in principle be outsourced to service providers within or outside the Group. The outsourcing of a key function represents a special situation, however. The Management Board has to appoint an outsourcing officer for the outsourced function who is responsible for the proper performance of the key function by the service provider and has to meet the ‘fit and proper’ requirements because of his or her monitoring role. This applies regardless of whether the service provider is an external company or a Group company. Where outsourcing within the Group takes place, no less care is taken in respect of the outsourced projects and their monitoring and control, for example by the service provider’s dedicated points of contact. Outsourcing within the Group may justify a more flexible approach in individual cases if this involves fewer risks than with outsourcing to an external company. Nevertheless, it is still essential that service activities in the individual Group companies are adequately separated from an organizational perspective. In general, 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 some aspects of internal auditing in individual international branches and the outsourcing of the key functions of Internal Audit, Compliance, Risk Management, and the Actuarial function in the Norwegian subsidiary HELP Forsikring, the ARAG Group has not outsourced any critical or important operational functions or activities to external companies. All insurance activities and, in particular, the four key functions of Compliance, Internal Audit, the Actuarial function, and Risk Management are carried out independently of each other and, apart from the exceptions described, within the ARAG Group.

B.8 Any Other Information

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

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

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

C. Risk Profile

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

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

The ARAG Group uses its internal model to model non-life underwriting risk. The material risk concentrations are, on the assets side, investments in fixed-income securities and, on the equity and liabilities side, technical provisions.

Stress tests, backtesting, and scenario analysis for risk modules, sub-risks, and individual parameters are conducted as part of model validation, the ORSA process, and other regular analyses. The internally stipulated coverage ratio of 150 percent means that customers are protected by a considerably larger risk buffer than required by the supervisory authority. Various influencing factors were stress-tested and the impact on the coverage ratio in different scenarios was analyzed. The stress tests and scenario analysis carried out clearly show that the ARAG Group has adequate capital resources. In the Group's view, the only relevant risks would have related to the rejection of the sale of ARAG Lebensversicherungs-AG and the risks attaching to the life insurance business. However, the ownership control process for the sale was successfully completed at the end of June 2017.

The findings of the various analyses are discussed in detail with the relevant risk managers and the Management Board and possible solutions for reducing or mitigating risk are drawn up.

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

C.1 Underwriting Risk

The ARAG Group's underwriting risk arises from the actuarial risk attaching to:

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

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

Underwriting risk in indemnity, liability, and accident insurance and in legal insurance

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

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

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

One of the main ways in which the Group reduces the risks is by using non-proportional reinsurance agreements to minimize the risk from large claims and accumulation.

The solvency capital requirement for underwriting risk in indemnity, liability, and accident insurance and in legal insurance amounts to €173.877 million.

Underwriting risk in health insurance

Underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities arising from inadequate pricing and inadequate provisioning assumptions. These losses result from the following three risk components and their associated sub-risks:

1. Risk from health insurance policies that are operated on an actuarial basis comparable to that of indemnity insurance:

- Premium and reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the timing of claims settlement and the amount involved
- Lapse risk (indemnity insurance): changes in the level or volatility of the rates of insurance policy lapses, terminations, renewals, and surrenders

2. Risk from health insurance policies that are operated on an actuarial basis comparable to that of life insurance:

- Mortality risk: changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate 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 rate 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
- Revision risk: changes in the level, trend, or volatility of the revision rates applied to annuities due to changes in the legal environment or in the state of health of the person insured
- Lapse risk (life insurance): changes in the level or volatility of the rates of insurance policy lapses, terminations, renewals, and surrenders

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, causing mass accidental deaths, disabilities, and injuries with a high impact on the cost of medical treatment sought
- Accident concentration risk: the risk of having concentrated exposures due to densely populated locations, causing concentrations of accidental deaths, disabilities, and injuries in the event of the above-described mass accident scenario
- Pandemic risk: the risk of having a large number of non-lethal disability and income protection claims and where victims are unlikely to recover as a result of a pandemic.

These 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 changes in the fair value of the liabilities. One of the methods used by the Group for this purpose is the inflation-neutral measurement method. 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.

To minimize the risks, the Group not only makes use of the available opportunities to adjust premiums and/or discount rates to the extent permitted by law but also concludes reinsurance agreements.

The solvency capital requirement for underwriting risk is €21.612 million net and €89.759 million gross, the main risk driver being the risk from health insurance policies that are operated on an actuarial basis comparable to that of life insurance. The provision transitional is applied when calculating the solvency capital requirement. However, the measure does not influence the solvency capital requirement.

Underwriting risk in life insurance

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

- Mortality risk: changes in the level or trend of mortality rates, where an increase in the mortality rate 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 rate 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: changes in the level or volatility of the rates of insurance policy lapses, terminations, renewals, and surrenders
- Catastrophe risk: significant uncertainties regarding pricing and assumptions in respect of the recognition of provisions for extreme or exceptional events.

These risks are measured with the standard formula. The changes in the fair value of liabilities are determined in the stress scenarios on the basis of the actuarial assumptions that have changed. One of the methods used by the Company for this purpose is the industry simulation model. The actual underwriting risk arises from the aggregation of the sub-risks, taking diversification effects into account.

One of the main ways in which the Company reduces the risks is by using reinsurance to minimize peak risks and special risks.

The solvency capital requirement for underwriting risk is €54.601 million net and €99.357 million gross, the main risk drivers being expense risk, longevity risk, and disability-morbidity risk.

The volatility adjustment and provision transitional are applied when calculating the solvency capital requirement, the impact of which is to reduce the net risk by €3.530 million and the gross risk by €1.877 million. The measures influence the solvency capital requirement and were approved beforehand by the supervisory authority.

C.2 Market Risk

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

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

These risks are measured with 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 from concentration risk, taking diversification effects into account.

The strategic asset allocation is defined in order to manage the risks. This allocation is used to optimize the investment portfolio so that the desired risk/return ratio can be achieved. Portfolio management is based on the prudent person principle and follows the related regulatory requirements. Interest-rate risk is contained separately by means of

asset-liability management. In addition, derivatives are used to hedge changes in interest rates, share prices, and exchange rates. Investments in hedge funds, the funding of investments by borrowing, and the sale of shares not owned by the ARAG Group (short selling) are not permitted.

The solvency capital requirement for market risk is €838.483 million, the main risk drivers being spread risk, currency risk, and interest-rate risk. Volatility adjustments and the provisional transitional are applied when calculating the solvency capital requirement, resulting in a €2.118 million impact on the solvency capital requirement. The measures were approved beforehand by the supervisory authority.

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 by 22 percent for the stress scenario. This milder stress factor is progressively brought into line with the regular stress factor over a period of seven years.

C.3 Credit Risk

Counterparty default risk is the downside risk arising from the unexpected default or deterioration in the credit standing of counterparties and debtors during the next twelve months.

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

The risk of default on receivables from reinsurers 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.

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

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

The solvency capital requirement for counterparty default risk is €40.274 million.

Volatility adjustments and the provision transitional are applied when calculating the solvency capital requirement but do not have any impact on the solvency capital requirement. The measures influence the solvency capital requirement and were approved beforehand by the supervisory authority.

C.4 Liquidity Risk

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

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

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

The liquidity planning is updated constantly so that liquidity can be managed. The Group 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 subsidiaries respond by increasing the liquidity that they hold as a safety buffer. Further protection is provided by the current investment policy, which stipulates diversification across a broad range of security types and issuers.

C.5 Operational Risk

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

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

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

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

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

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

The solvency capital requirement for operational risk is €57.285 million.

Volatility adjustments and the provision transitional are applied when calculating the solvency capital requirement but do not have any impact on the solvency capital requirement. The measures were approved beforehand by the supervisory authority.

C.6 Other Material Risks

The affiliated companies in the Group have different constellations of contracts that they have entered into for various services, insurance brokerage, the use of trademark rights, and support for and shared use of real estate, office furniture, and equipment.

Most of these contracts were entered into before the establishment of the dependency on ARAG Holding SE and on the entities in which it holds a majority shareholding. All of the contracts have been concluded on arm's-length terms.

In all cases, the counterparties received adequate consideration for the performance of these legal transactions. No disadvantages arose because all legal transactions were also carried out in the interests of the counterparties and not simply on the instruction of, or in the interests of, the controlling entity or affiliated company. In 2016, no activities were carried out or omitted at the instigation of or in the interests of the controlling entity or its affiliated companies.

C.7 Any Other Information

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

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

The Group has both a basis of consolidation in accordance with Solvency II principles and a basis of consolidation in accordance with HGB principles. To ensure comparability in this Group report, additional HGB consolidated financial statements have been prepared using the Solvency II basis of consolidation and are not reported anywhere else.

D.1 Assets

To produce the Group's Solvency II balance sheet, the figures in the HGB balance sheets – structured according to the Solvency II balance sheet – of the entities in the Group consolidated for Solvency II purposes are added together. Simplified acquisition accounting is then carried out using these aggregated single-entity financial statements by offsetting the carrying amounts of the equity investments in the Group companies against the equity of the Group parent company, ARAG Holding SE. The receivables and liabilities are also offset against each other, as are the reinsurance arrangements between Group companies.

The consolidated financial statements prepared by the ARAG Group in accordance with the HGB accounting principles encompass 37 companies. By contrast, the Group for Solvency II purposes consists of only 17 companies from the ARAG Group. To simplify the preparation of the Solvency II balance sheet, the basis of consolidation is limited to the Group's insurance companies, insurance holding companies, and insurance operating companies on grounds of materiality and proportionality. Using alternative valuation methods, other Group companies are included on the Group's Solvency II balance sheet at the carrying amounts of the equity investments in them.

The following companies are included in the consolidated financial statements:

Name of company	Shareholding (%)
1 Advisory Communications System Inc., Des Moines, Iowa/USA (until November 2, 2016)	100.00
2 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	100.00
3 ALIN 1 Verwaltungs-GmbH, Düsseldorf	100.00
4 ALIN 2 Verwaltungs-GmbH, Düsseldorf	100.00
5 ALIN 3 Verwaltungs-GmbH, Düsseldorf	92.00
6 ALIN 4 Verwaltungs-GmbH, Düsseldorf	94.01
7 ALIN 1 GmbH & Co. KG, Düsseldorf	100.00
8 ALIN 2 GmbH & Co. KG, Düsseldorf	100.00
9 ALIN 3 GmbH & Co. KG, Düsseldorf	92.00
10 ALIN 4 GmbH & Co. KG, Düsseldorf	94.01
11 ALV Vermögens- und Beteiligungs-Verwaltungs AG, Munich (until September 30, 2016)	92.00
12 ARAG 2000 Beteiligungs-Gesellschaft mbH & Co. KG, Munich	92.00
13 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	93.38
14 ARAG Allgemeine Versicherungs-AG, Düsseldorf	100.00
15 ARAG Association LLC, Des Moines, Iowa/USA	100.00
16 ARAG Holding SE, Düsseldorf, Group parent company	100.00
17 ARAG Insurance Company Inc., Des Moines, Iowa/USA	100.00
18 ARAG International Holding GmbH, Düsseldorf (formerly TERRA Gesellschaft für Finanzdienstleistungen und Beratung mbH)	100.00
19 ARAG IT GmbH, Düsseldorf	100.00
20 ARAG Krankenversicherungs-AG, Munich	94.01
21 ARAG Lebensversicherungs-AG, Munich	92.00
22 ARAG Legal Services B.V., Leusden/Netherlands	100.00
23 ARAG Liegenschaftsverwaltungs- und Beratungs-Gesellschaft mbH, Düsseldorf	100.00
24 ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	100.00
25 ARAG LLC, Des Moines, Iowa/USA	100.00
26 ARAG North America Inc., Des Moines, Iowa/USA	100.00
27 ARAG Plc., Bristol/United Kingdom	100.00
28 ARAG SE, Düsseldorf	100.00
29 ARAG Service Center GmbH, Düsseldorf	100.00
30 ARAG Services Corporation, Toronto/Canada	100.00
31 ARAG Services LLC, Des Moines, Iowa/USA	100.00
32 CUR Versicherungsmakler GmbH, Düsseldorf	100.00
33 Cura Versicherungsvermittlung GmbH, Düsseldorf	100.00
34 HELP Forsikring AS, Oslo/Norway	100.00
35 Interlloyd Versicherungs-AG, Düsseldorf	100.00
36 SolFin GmbH, Düsseldorf	75.10
37 WOWOBAU Wohnungsbaugesellschaft mbH, Munich (until September 30, 2016)	92.00

The following companies are included in the Solvency II Group:

Name of company	Shareholding (%)
1 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	100.00
2 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	93.38
3 ARAG 2000 Beteiligungs-Gesellschaft mbH & Co. KG, Munich	92.00
4 ARAG Holding SE, Düsseldorf, Group parent company	100.00
5 ARAG International Holding GmbH, Düsseldorf	100.00
6 ARAG IT GmbH, Düsseldorf	100.00
7 ARAG SE, Düsseldorf	100.00
8 ARAG Allgemeine Versicherungs-AG, Düsseldorf	100.00
9 ARAG Krankenversicherungs-AG, Munich	94.01
10 ARAG Lebensversicherungs-AG, Munich	92.00
11 Interlloyd Versicherungs-AG, Düsseldorf	100.00
12 ARAG North America Inc., Des Moines, Iowa/USA	100.00
13 ARAG Association LLC, Des Moines, Iowa/USA	100.00
14 ARAG Insurance Company Inc., Des Moines, Iowa/USA	100.00
15 ARAG LLC, Des Moines, Iowa/USA	100.00
16 ARAG Services LLC, Des Moines, Iowa/USA	100.00
17 HELP Forsikring AS, Oslo/Norway	100.00

Due to the differences in the scope of the assets and liabilities that are accounted for overall, a direct comparison between the consolidated HGB figures and those on the Solvency II balance sheet is of only limited usefulness. Where a comparable HGB figure is unavailable, the comparable values for the assets, technical provisions, and sundry liabilities are calculated in accordance with HGB specifically for this report. To do so, the figures in the HGB single-entity financial statements of the entities in the Solvency II Group are structured according to the criteria of the Solvency II balance sheet and added together. The carrying amounts of the parent companies' equity investments are offset against the relevant share of the subsidiaries' equity. This is carried out using a simplified acquisition accounting method that, rather than following the principles of section 301 HGB, is based on the accounting consolidation methods in the German Stock Corporation Act (AktG) of 1965. Any positive or negative consolidation differences that arise are offset against the Group's own funds. Furthermore, the reinsurance arrangements between Group companies are eliminated and assets and liabilities are netted. Applying section 306 (3) HGB mutatis mutandis, no deferred taxes are recognized.

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

Assets as of December 31, 2016

(€'000)

A. Intangible assets

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

B. Deferred tax assets

C. Pension benefit surplus

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

E. Investments

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

IV. Fixed-income securities

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

V. Investment fund shares/units

VI. Derivatives

VII. Deposits other than cash and cash equivalents

VIII. Miscellaneous investments

Carried forward:

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Comparable HGB balance sheet as of Dec. 31, 2016	Difference relating to basis of consolidation as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	0	16,447	0	-16,447	0
	0	0	0	0	0
	0	11,675	13,142	1,467	-13,142
	0	28,122	13,142	-14,980	-13,142
	126,399	23,587	12,582	-11,005	113,817
	4	0	4	4	0
	218,168	139,647	59,108	-80,539	159,060
	175,723	122,647	150,979	28,332	24,744
	99,996	20,514	70,770	50,256	29,226
	7,665	6,250	6,250	0	1,415
	781	720	720	0	61
	8,446	6,970	6,970	0	1,476
	1,308,971	1,131,196	1,127,519	-3,677	181,452
	2,458,914	2,144,035	2,136,145	-7,890	322,769
	156,490	146,638	148,771	2,133	7,719
	8,938	8,654	8,780	126	158
	3,933,313	3,430,523	3,421,215	-9,308	512,098
	2,503,182	2,425,262	2,425,477	215	77,705
	0	0	0	0	0
	168,076	195,562	168,076	-27,486	0
	27,538	42,119	20,658	-21,461	6,880
	6,916,274	6,243,597	6,264,145	20,548	652,129
	7,260,845	6,434,953	6,348,981	-85,972	911,864

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

Assets as of December 31, 2016

(€'000)

Brought forward:

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

G. Loans and mortgages

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

H. Reinsurers' share of technical provisions

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

I. Receivables

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

J. Miscellaneous assets

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

Total assets

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Comparable HGB balance sheet as of Dec. 31, 2016	Difference relating to basis of consolidation as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	7,260,845	6,434,953	6,348,981	- 85,972	911,864
	287,407	287,407	287,407	0	0
	43,928	43,928	43,928	0	0
	150	0	150	150	0
	109,412	95,598	99,418	3,820	9,994
	153,490	139,526	143,496	3,970	9,994
	19,082	33,974	32,542	-1,432	-13,460
	0	0	0	0	0
	19,082	33,974	32,542	-1,432	-13,460
					0
	1,460	0	0	0	1,460
	38,674	34,082	35,514	1,432	3,160
	40,134	34,082	35,514	1,432	4,620
	0	0	0	0	0
	59,216	68,056	68,056	0	- 8,840
	44,389	44,389	44,389	0	0
	83,168	108,387	108,521	134	- 25,353
	45,605	45,605	45,605	0	0
	90,921	77,067	90,440	13,373	481
	264,083	275,448	288,955	13,507	- 24,872
	137,933	150,350	137,933	- 12,417	0
	11,924	10,497	11,924	1,427	0
	149,857	160,847	149,857	- 10,990	0
	8,174,898	7,366,237	7,286,752	- 79,485	888,146

Purchased **intangible assets** are carried at cost and reduced by straight-line amortization according to their estimated useful life. No internally generated intangible assets were capitalized. The carrying amount of €11.675 million can be broken down as follows: €8.410 million for software, €1.312 million for leasehold improvements in business premises in Italy, €51 thousand for industrial property rights, and €1.902 million for goodwill arising on an acquisition in Spain.

In departure from section 301 HGB, differences arising from acquisition accounting are offset directly against own funds (other revenue reserves).

The ARAG Group currently does not recognize intangible assets on the Solvency II balance sheet as no prices listed on an active market are available for them, regardless of whether they fulfill the recognition rules in International Accounting Standard (IAS) 38.

No differences arise from acquisition accounting because the carrying amounts of the equity investments are replaced by the own funds figures based on the valuation for solvency purposes.

Due to intangible assets not being recognized on the Solvency II balance sheet, the difference compared with the comparable HGB figure amounts to €13.142 million.

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

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

deferred tax expense is shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit, as a result of which the tax benefit will certainly impact on current taxes in the future due to the loss carryforward mechanism in income tax legislation. Because of the more extensive valuation differences (particularly in relation to defined benefit obligations) between the Solvency II balance sheet and the HGB balance sheet, the amount recognized for deferred tax assets is €113.817 million higher on the Solvency II balance sheet than on the comparable HGB balance sheet. Deferred tax assets of €23.587 million are recognized in the HGB consolidated financial statements. The difference of €11.005 million between that and the comparable amount is due to the difference in the basis of consolidation.

Property and equipment and land and buildings held for own use are recognized at cost on the balance sheet and subsequently depreciated on a straight-line basis over the standard operating useful life. This also applies to the land and buildings held for own use that are recognized here. If their value is permanently impaired, they are 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. 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 recognized on a pro rata basis.

On the Solvency II balance sheet, the value of the land itself 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 overall value is the sum of the value of the land and the value of the buildings. Land and buildings are categorized as being held for own use or rented out to third parties in the same way as for the HGB balance sheet. The comparable value in accordance with HGB is a suitable approximation for the economic value of property and equipment under Solvency II.

The valuation differences of €159.060 million arise from the difference between the capitalized income and the carrying amount based on amortized cost of the property held for own use; the valuation for solvency purposes is higher. A countervailing difference of €80.539 million compared with the value in the HGB consolidated financial statements is due to the larger basis of consolidation. The land and buildings in the real estate development business particularly have an impact in this context as they are not included in the Solvency II Group.

Land, land rights and buildings, including buildings on third-party land, are valued at cost less depreciation and amortization. If their value is permanently impaired, they are written down to the lower of fair value or depreciated/amortized cost. If the reason for the impairment ceases to apply, the write-down is reversed to the depreciated/amortized 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 recognized on a pro rata basis.

The value of the land itself 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 overall value is the sum of the value of the land and the value of the buildings. Land and buildings are categorized as being held for own use or rented out to third parties in the same way as for the HGB balance sheet. The land and buildings held for sale by real estate development companies do not have a different valuation to that for HGB purposes because the real estate development companies are not included in the Solvency II basis of consolidation.

Differences between the Solvency II balance sheet and the comparable value according to HGB arise due to the use of the historical cost convention under HGB and the recognition of higher fair values on the Solvency II balance sheet that have not yet been realized. As of December 31, 2016, unrealized valuation reserves amounted to €24.744 million. A further difference of €28.332 million arises due to the different basis of consolidation and due to the variances between the HGB consolidated financial statements and the single-entity financial statements in terms of the valuation of real estate that results from previous intragroup sales and mergers of parts of the business. The total value is €53.076 million higher on the Solvency II balance sheet than on the HGB consolidated balance sheet.

Investments in affiliated companies and equity investments are valued at cost, in some cases reduced by write-downs to fair value and by specific equity investment risk arising on the equity investments. Write-downs are reversed to no more than the historical cost if the reason for recognizing them ceases to apply. The fair value is determined using an income capitalization approach based on a planning horizon of three years.

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 own funds of the subsidiary as recognized on its Solvency II balance sheet. The valuation of the assets and liabilities on the subsidiary's Solvency II balance sheet is based on the rules for Solvency II. At the first valuation level, other subsidiaries are valued at market price. If no market prices are available, they are recognized at the second valuation level on the basis of their pro rata equity derived from modified financial statements in which special assets and liabilities are valued in accordance with the principles of Solvency II and the International Financial Reporting Standards (IFRS). If insufficient information is available from a subsidiary to be able to carry out a detailed revaluation of the financial statements that it has submitted, or if the financial statements are not available in time, the value used for valuation on the Solvency II balance sheet is the one that the parent company has used in its HGB financial statements. Where HGB financial statements are not available, the fair

value is instead determined using an income capitalization approach. The carrying amounts of entities in the financial services industry that are not supervised in a group with ARAG SE and of subsidiaries whose fair value is – based on objective criteria – close to zero are recognized with a value of zero on the Solvency II balance sheet.

The differences between the values recognized in the HGB financial statements and those recognized on the Solvency II balance sheet arise in qualitative terms from the entirely different valuation methods used for insurance subsidiaries. Under the HGB, the values are limited by the historical costs, which in some cases date back a long way. The valuation difference compared to the comparable HGB figures is €29.226 million. A further difference of €50.256 million arises due to the different basis of consolidation used for the Solvency II balance sheet and for the HGB consolidated financial statements.

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 an interest-rate premium on the security or on the issuer is not available, the premium 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 differences in the valuation rules currently result in a valuation difference of €61 thousand for unlisted equities and €1.415 million for listed equities.

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

Registered bonds are accounted for at their nominal or redemption amount. Discounts are deferred using the straight-line method. Premiums are treated as a prepaid expense and recognized in income using the straight-line method over the term to maturity.

The economic values of interest-bearing financial instruments are calculated for solvency purposes at the quoted market price or market value that contains the accrued interest income as of the valuation date. Premiums and discounts are not recognized separately.

Compared with the comparable figure recognized under the HGB, the valuation of fixed-income securities in accordance with the rules described above results in valuation reserves of €512.098 million that have not yet been realized. A further countervailing difference of €9.308 million compared with the HGB consolidated financial statements exists due to the different basis of consolidation used for solvency purposes.

Investment fund shares/units that are not intended for permanent use in insurance operations are valued under the HGB at the lower of their cost or quoted market price or market value as of the balance sheet date. This applies even if the quoted market price or market value falls below the cost only for a short time. Write-downs are reversed to no more than the cost if the reason for recognizing them ceases to apply.

The ARAG Group made use of the option to select the discretionary principle of lower of cost or market value for those institutional investment fund shares/units that the Management Board intends to use permanently as part of the working capital of the insurance business. These are valued at cost, even if their quoted market price or market value decreases temporarily. They are not written down to fair value until they are permanently impaired. If the reason for the write-down ceases to apply, it is reversed to no more than the cost.

For solvency purposes, the redemption price determined by the investment management company for the investment fund units/shares is used to determine the economic value. This value is not restricted to the cost.

In accordance with Delegated Regulation (EU) No. 2015/2450, Annex II, collective investment undertakings (CIUs) in which the ARAG Group's stake is at least 20 percent are recognized under investment fund shares/units and not under shares in affiliated companies including equity investments.

The restriction of the valuation under HGB rules as a result of the historical cost convention and the realization principle mean that the valuation for solvency purposes is €77.705 million higher. A further difference of €215 thousand arises due to the different basis of consolidation used for solvency purposes.

Bank **deposits other than cash and cash equivalents** are recognized at their nominal amount. The nominal amount is also used as the economic value.

Consequently, the comparable value under the HGB and the value for solvency purposes are the same. The difference compared with the HGB consolidated financial statements is €27.486 million because under HGB a larger number of companies are included in the consolidated financial statements and because instant-access and fixed-term deposits of non-insurance companies are reclassified from cash funds to investments in the consolidated financial statements.

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

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

As a result of unrealized valuation reserves, the value on the Solvency II balance sheet is €6.880 million higher than the HGB value. There are differences caused by the variation in the basis of consolidation of €21.461 million because the ALIN investment vehicles (structure for investing in private-equity funds in the form of a German limited partnership with a private limited company as general partner (GmbH & Co. KG)) are not included in the Solvency II Group.

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 solvency purposes, the economic value of loans and mortgages maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is determined using an internal credit rating process based on historical default rates and is reflected in the valuation accordingly. Use of the nominal amount on the Solvency II balance sheet results in valuation differences of €9.994 million because, under HGB, write-downs were recognized in the past. The further difference of €3.970 million is due solely to the difference in the basis of consolidation in the HGB consolidated financial statements. In this case, loans to entities in the HGB basis of consolidation that are not included in the Solvency II basis of consolidation are eliminated.

The **reinsurers' share of technical provisions** is recognized on the HGB balance sheet for 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 best estimate plus the risk margin. This involves projecting the volatility range of the payments observed in the past based on the year in which the claim was incurred in approximately 200,000 different case variants and allocating it to the individual claims. The reinsurers' share is determined on an individual claim basis in accordance with the contractual terms. The reinsurers' share is then set as the average of all case constellations. The reinsurers' default risk is also taken into account using credit ratings obtained from agencies.

Applying the aforementioned valuation methods, the carrying amount on the Solvency II balance sheet is €8.840 million lower than the HGB carrying amount.

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

The economic value of those maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is determined using an internal credit rating process based on historical default rates and is reflected in the valuation accordingly. There are no valuation differences due to use of the nominal amount as the economic value.

Receivables from direct insurance business are generally recognized at their nominal amount. A general allowance for latent credit risk is deducted from receivables from policyholders after specific allowances have been recognized for receivables that are past due by a predefined period of time. Receivables from policyholders past due are valued at the average historical recovery rate. Receivables from agents are reduced by specific allowances and a general allowance in the amount of the likely default. Zillmerized acquisition costs in the life insurance business are included in receivables to the extent that they have yet not been reversed.

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

The valuation difference of €25.353 million results from the claims that are not yet due arising from zillmerized acquisition costs, which are not recognized on the Solvency II balance sheet. A difference of €134 thousand is attributable to the difference in the basis of consolidation (insurance brokerage companies in the ARAG Group are not included in the Solvency II Group).

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

The economic value of those maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is recognized in accordance with the method used for specific allowances under the HGB. There are no valuation differences due to use of the nominal amount as the economic value.

Miscellaneous receivables are generally recognized at their nominal amount.

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

There are no valuation differences due to use of the present value method to determine the economic value. The difference of €13.373 million is due to the different basis of consolidation in the HGB consolidated financial statements and the related difference in the extent of the measures to consolidate intragroup balances. In the HGB consolidated financial statements, large amounts of receivables (€47.882 million) are consolidated due to the intragroup provision of services. There is less netting of receivables for solvency purposes due to the smaller basis of consolidation, which means that the remaining amount of receivables is higher. A further difference of €481 thousand arises from the consolidation of intragroup balances within the Solvency II Group.

Cash and cash equivalents are recognized at their nominal amount, which equates to their cost. They are also valued at their nominal amount. There are no valuation differences due to use of the nominal amount as the economic value. The difference of €12.417 million is attributable to the different basis of consolidation in the HGB consolidated financial statements. There are large liquidity reserves both in the real estate development business and in non-insurance companies.

Miscellaneous assets (sundry assets within miscellaneous assets) are recognized at their nominal amount, which equates to their cost. Long-term tax assets are discounted to present value using a discount rate appropriate to the maturity involved. There are no valuation differences due to use of the nominal amount as the economic value. The difference of €1.427 million is attributable to the different basis of consolidation in the HGB consolidated financial statements.

D.2 Technical Provisions

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

Technical provisions as of December 31, 2016

(€'000)

A. Technical provisions

I. Casualty and property insurance

1. Casualty and property insurance excluding health insurance

- a) Technical provisions if calculated as a whole
- b) Best estimate
- c) Risk margin

2. Health insurance similar to casualty and property insurance

- a) Technical provisions if calculated as a whole
- b) Best estimate
- c) Risk margin

II. Health and life insurance excluding unit-linked insurance business

1. Health insurance

- a) Technical provisions if calculated as a whole
- b) Best estimate
- c) Risk margin

2. Life insurance

- a) Technical provisions if calculated as a whole
- b) Best estimate
- c) Risk margin

III. Unit-linked life insurance business

1. Technical provisions if calculated as a whole

- 2. Best estimate
- 3. Risk margin

B. Other technical provisions

Total technical provisions

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Comparable HGB balance sheet as of Dec. 31, 2016	Difference relating to basis of consolidation as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	0	1,567,167	1,573,635	6,468	-1,573,635
	1,148,577	0	0	0	1,148,577
	39,653	0	0	0	39,653
	1,188,230	1,567,167	1,573,635	6,468	-385,405
	0	1,011	1,011	0	-1,011
	643	0	0	0	643
	368	0	0	0	368
	1,011	1,011	1,011	0	0
	1,189,241	1,568,178	1,574,646	6,468	-385,405
	0	1,828,262	1,834,625	6,363	-1,834,625
	1,802,444	0	0	0	1,802,444
	16,064	0	0	0	16,064
	1,818,508	1,828,262	1,834,625	6,363	-16,117
	0	2,539,895	2,548,734	8,839	-2,548,734
	2,368,689	0	0	0	2,368,689
	80,160	0	0	0	80,160
	2,448,849	2,539,895	2,548,734	8,839	-99,885
	4,267,357	4,368,157	4,383,359	15,202	-116,002
	0	287,407	287,407	0	-287,407
	243,594	0	0	0	243,594
	5,306	0	0	0	5,306
	248,900	287,407	287,407	0	-38,507
	5,705,498	6,223,742	6,245,412	21,670	-539,914
	0	96,670	81,869	-14,801	-81,869
	5,705,498	6,320,412	6,327,281	6,869	-621,783

HGB valuation

Property insurance business

On the HGB balance sheet, the technical provisions include unearned premiums, the actuarial reserve, the provision for outstanding claims, the equalization provision and similar provisions, and miscellaneous technical provisions.

Gross unearned premiums for direct insurance business are calculated pro rata temporis 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 percent (units in Germany) 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 information provided by the primary insurer. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

The components of premiums from anticipated premium-free children's accident insurance policies are added to the **children's accident actuarial reserves**. The calculation is carried out using mathematical principles in accordance with the underwriting business plan.

The **provision for outstanding claims** for direct casualty and property insurance business is calculated separately for each class of insurance:

Legal insurance

The provision for outstanding claims is recognized for obligations arising on claims that had occurred by the end of the reporting year and for the associated claim settlement expenses, unless they have already been settled. Recourse claims, excess proceeds, and claims under loss sharing agreements are deducted from the claims provision. These are receivables that arose due to compensation paid as a result of recourse rights or that are due from other insurers on the basis of loss sharing agreements.

The provisions for outstanding claims are divided into:

- a) Provisions for direct insurance business and
- b) Provisions for inward reinsurance business.

a) Provisions for direct insurance business Applying the prudence principle, this provision is measured in such a way that all expected claim payments for reported claims and claims incurred but not reported, including the claim settlement costs, are covered. Run-off losses are to be avoided because these have an adverse impact on customers in future financial years. The provision is calculated separately for each class of insurance. It is made up of the following partial provisions for each claim event year:

- Provision for claims occurring in the event year (claims reported for the reporting year)
- Provision for claims occurring in previous years (claims reported for previous years)
- Provision for claim settlement costs.

The claims in each year are valued separately.

aa) Partial provisions for external claim costs relating to claims reported for the reporting year: This provision is the difference between the claims incurred in the reporting year and the claim payments already made in the reporting year. The claims incurred in the reporting year are calculated on the basis of the observed average values of claims for the claim event year that was two years prior to the reporting year, taking account of payments already made and the payments expected to be made in the future.

The quantitative data for the claims reported for the reporting year is taken from the claims inventory. The size of the claims incurred but not reported by the end of the reporting year has to be estimated using the late claims statistics for the ten event years prior to the reporting year.

ab) Partial provisions for external claim costs relating to claims reported for previous years: The provision brought forward from the previous year less the claim payments made in the reporting year is utilized first. The amount of the late claims that had previously not been reported is reclassified from the partial provision for claims incurred but not reported to the partial provision for late claims that had previously not been reported. Each year, a claims inventory is drawn up for the year that was six years prior to the reporting year and for all earlier years. This involves examining each individual claim record and recognizing a reserve. The results of the individual valuations are recorded in the claims register.

ac) Partial provision for external claim costs relating to claims incurred in previous years but not reported: The number and value of the claims incurred in previous years but not yet reported have to be estimated. The quantity, the time of reporting, and the amount of the claim payments can only be estimated using past experience.

ad) Partial provision for claim settlement costs: A special partial provision is recognized for internal and external expenses incurred after the balance sheet date in connection with settling claims. Claim settlement involves investigating a claim and the work involved in dealing with the claim. Claim settlement costs comprise both direct and indirect costs. Indirect costs are the cost of inhouse claims departments and inhouse attorneys, e.g. in the Netherlands, and pro rata expenses for central departments.

b) Provisions for inward reinsurance business: The provision is recognized in accordance with the information provided by the ceding insurer. If there are indications that the information is incomplete or incorrect, the ARAG Group calculates the provision itself or estimates it professionally and conscientiously. It has its own statistical observation instruments that it can use to make such estimates.

The results from the group-based and individual valuations are reviewed on a portfolio basis using actuarial methods.

Casualty and property insurance

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

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

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

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

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

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

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

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

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

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

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

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

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

Personal insurance

The **life insurance actuarial reserves** – for sums insured and bonuses – for old policies are calculated in accordance with actuarial principles that have been communicated to BaFin in accordance with the business plan.

The actuarial reserves are calculated on an individual policy basis using the prospective method with implied consideration of future costs. To this end, the following basis of calculation was used for individual endowment insurance policies and wealth-building life insurance policies (with a share of 32.2 percent of the total actuarial reserves): discount rates of 3 percent and 3.5 percent, zillmerizing of a maximum of 3.5 percent of the sums insured (exception: rates and charges with a higher death benefit), and mortality probabilities based on the ADSt 01/10 combined, ADSt 24/26 M, ADSt 60/62 mod. M, and ADSt 1986 mortality tables, separated into men and women.

The actuarial reserves for new premium-based policies are calculated on an individual policy basis using the prospective method (or retrospective method in the case of unit-linked products) with implied consideration of future administrative expenses. In the calculation of the surrender values and the actuarial reserve recognized on the balance sheet for the 2008 scale of rates and charges onward, the acquisition costs are allocated over five years in accordance with the provisions of the German Insurance Contracts Act (VVG). An explicit administrative expenses provision has been recognized to cover the premium-free periods of premium-free insurance policies – including, but not limited to, bonus sums insured and policies with a shortened period of premium payments. In accordance with section 143 VAG, BaFin has been notified of the basis of calculation used.

The individual endowment insurance policies (share of 23.7 percent of the total actuarial reserves) are calculated with a discount rate of 4 percent (94/95 and 98 scales of rates and charges), 3.25 percent (2000 scale of rates and charges), 2.75 percent (2004 scale of rates and charges), 2.25 percent (2007 and 2008 scale of rates and charges), 1.75 percent (2012 and 2013 scale of rates and charges), and 1.25 percent (2015 scale of rates and charges) and with a Zillmer rate of 3.3 percent of the sums insured (94/95 scale of rates and charges, with the exception of rates and charges with a higher death benefit) or a Zillmer rate of 4.0 percent of total premiums (1998, 2000, 2004, 2007, 2008, 2012, 2013 scales of rates and charges) or a Zillmer rate of 2.5 percent of total premiums (2015 scale of rates and charges onward), and mortality probabilities based on the DAV 1994 T mortality table, separated into men and women. The Company's own unisex tables based on the aforementioned DAV 1994 T mortality tables are used for the unisex scales of rates and charges from 2013 onward.

In the case of individual pension policies (share of 23.5 percent of the total actuarial reserves), the following basis of calculation was used until 2004: discount rate of 4 percent, 3.25 percent, or 2.75 percent, Zillmer rate of 3.3 percent of the lump sum (94/95 scale of rates and charges) or 4.0 percent of total premiums (1998, 2000, and 2004 scale of rates and charges), and mortality probabilities based on the DAV 1994 R mortality table, separated into men and women.

Analysis of changes in longevity by the German Actuarial Association (DAV) has found that the DAV 1994 R mortality table is no longer adequate for the recognition of reserves for pension insurance. On June 21, 2004, the DAV published guidance containing new mortality tables both for new business (DAV 2004 R mortality table) and for existing pension insurance policies (DAV 2004 R in-force business and R-B20 mortality tables).

Taking account of the company-specific probability of cancellations and lump sums, the actuarial reserve for all deferred and current pension insurance policies was also calculated as of December 31, 2016 using the new tables and a positive difference between the new and old actuarial reserves of €11.410 million was used to strengthen reserves. The scale of rates and charges for pension insurance using the existing basis of calculation was closed for new business with effect from January 1, 2005. Since then, new pension insurance policies have been based solely on rates and charges using the latest basis of calculation: discount rate of 2.75 percent (2004 scale of rates and charges), 2.25 percent (2007 and 2008 scales of rates and charges), 1.75 percent (2012 and 2013 scale of rates and charges), and 1.25 percent (2015 scale of rates and charges). The Company's own unisex tables based on the aforementioned DAV 2004 R mortality tables are used for the unisex scales of rates and charges from 2013 onward.

For supplementary disability insurance, the DAV 1997 I invalidity tables with a discount rate of 2.25 percent (2008 scale of rates and charges) or 1.75 percent (2012 scale of rates and charges) are used. The Company's own unisex disability tables based on the reinsurer's invalidity tables are used for the 2013 and 2014 unisex scales of rates and charges with a discount rate of 1.75 percent and for the 2015 scale of rates and charges with a discount rate of 1.25 percent.

In accordance with the DeckRV, an additional actuarial reserve (supplementary change-in-discount-rate reserve) was recognized for the rates and charges whose guaranteed interest rate is above the reference rate for 2016 of 2.54 percent for new policies (2015: 2.88 percent) and 2.43 percent for old policies (2015: 2.75 percent). The total amount of this supplementary change-in-discount-rate reserve is €186.307 million (2015: €126.603 million); the increase in 2016 was €59.704 million (2015: €35.929 million).

For the supplementary disability insurance policies with an older basis of calculation, which have been closed for new business, a control calculation was carried out using the current basis of calculation from the German Actuarial Association. This revealed a need to add €535 thousand to reserves.

If claims against policyholders for acquisition cost loadings that have not yet been paid cannot be offset against the actuarial reserve, the claims are recognized after deduction of general allowances for expected defaults.

The **actuarial reserve for health insurance** is calculated in accordance with actuarial principles defined in the technical basis of calculation individually for each insurance policy, applying the underlying data from the insurance policy in question. The transfer amounts contained in the actuarial reserve have been determined in accordance with section 14 of the German Regulation on the Supervision of Business Activities in Private Health Insurance (KVAV). The average discount rate is 3.14 percent.

The **provision for claims that have occurred by the balance sheet date but are still outstanding and buybacks in life insurance** has been recognized on the basis of the premiums that are likely to be paid. A provision for outstanding claims has been recognized on the basis of empirical values for claims that occurred in 2016 but had not been reported by the time the balance sheet was prepared (IBNR claims).

A provision in the amount of the expenses that are likely to be incurred by settling these insurance benefits after the balance sheet date has also been recognized, taking the tax rules into consideration. In accordance with rulings by the German Federal Court of Justice (BGH) dated October 12, 2005 and July 29, 2012, the actuarial reserve was increased by an additional lump sum of €2.400 million for the affected premium-free policies.

The **provision for claims that had occurred by the balance sheet date but were still outstanding in health insurance** was recognized on the basis of the claims payments in the reporting year in respect of previous years, taking a volume increase into consideration. One-off items that had not occurred in previous years were taken into account separately. A provision in the amount of the expenses that are likely to be incurred by settling these insurance benefits after the balance sheet date has also been recognized, taking the tax rules into consideration.

The provision for performance-based and non-performance-based bonuses and rebates is calculated in accordance with section 28 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV) in conjunction with section 341e (2) no. 2 HGB.

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

The cancellation provision reported under miscellaneous technical provisions to cover the discontinuation or reduction of technical risk is recognized in the amount of the estimated requirement. The provision for expected losses is recognized in accordance with section 31 (1) no. 2 RechVersV. To this end, the policies already sold in the loss-making insurance segments had been examined in 2015 as part of multi-year planning.

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

- a) Non-life technical provisions: These cover the legal insurance and casualty and property insurance business of ARAG SE and the casualty and property insurance business of ARAG Allgemeine Versicherungs-AG and Interlloyd Versicherungs-AG.
- b) Health technical provisions: These cover the business of ARAG Krankenversicherungs-AG and recognized annuity payments under accident disability insurance of ARAG Allgemeine Versicherungs-AG and Interlloyd Versicherungs-AG.
- c) Life technical provisions: These cover the business of ARAG Lebensversicherungs-AG and recognized annuity payments under liability insurance and motor liability insurance of ARAG Allgemeine Versicherungs-AG and Interlloyd Versicherungs-AG.

The individual items are explained in more detail below.

The **non-life technical provisions on the Solvency II balance sheet** are determined by the Group Risk Management Central Department. The individual components of the technical provisions are:

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

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

The premiums provisions are made up of the provision for premiums written but not yet earned and the expected 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). Results from the internal model are used for the valuation of these two line items on the Solvency II balance sheet.

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

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

The **underwriting liabilities arising from life insurance** were calculated using version 3.0 of the industry simulation model provided by the German Insurance Association (GDV). Using the industry simulation model is appropriate because the Company offers products that are standard in its sector. Dynamic hybrid products are not explicitly modelled in the current iteration of the industry simulation model. The valuation method used for dynamic hybrid products is based on a split into a classic guarantee part and a unit-linked part. The industry simulation model draws on the following data:

- Actuarial cash flows for classic and unit-linked business, broken down by discount rate generations
- HGB balance sheet data
- Market data relating to investments, miscellaneous assets and liabilities
- Historical declaration data
- Management parameters.

The economic scenario generator (ESG) generates capital market paths that are used for stochastic simulation. The industry simulation model projects a variety of key figures for each stress scenario and each path. These include:

- HGB balance sheet items
- Market values of investments
- Investment income
- Declaration key figures.

The projections can be used to determine stochastic items such as:

- Technical provisions according to Solvency II, which include:
 - Expected guarantees (EWGar)
 - Expected future profit participation (ZÜB)
 - Options
- Expected future returns for shareholders (ZAG)
- Surplus funds.

The ZAG and surplus funds are part of the basic own funds as defined by section 89 VAG. The EWGar, ZÜB, and options are used to obtain the best estimate for the technical provisions. This, combined with the risk margin, gives the total technical provisions for the market-value balance sheet within the meaning of section 76 VAG. The calculation of the best estimate for the technical provisions excludes reinsurance in accordance with section 77 (4) VAG. The recoverable amounts from reinsurance are calculated separately and reported on the balance sheet.

ARAG Lebensversicherungs-AG applied for the provision transitional measure, which was approved by BaFin in a letter dated November 25, 2015. Following the decision to stop taking on new business, a new application for the provision transitional was made in view of the material change to the risk profile. BaFin granted approval in a letter dated March 20, 2017. The provision transitional amounts to €549.150 million and is taken into account in the best estimate. ARAG Lebensversicherungs-AG also applied to use the volatility adjustment, which was approved by BaFin in a letter dated January 7, 2016. The volatility adjustment amounts to €20.276 million and is also taken into account in the best estimate. Without these measures, the technical provisions would be €569.462 million higher. Compared with the end of 2016, the effect of these measures declined by €34.322 million as of January 1, 2017.

The market values for **technical provisions for health insurance** similar to life insurance are calculated using the inflation-neutral valuation method (INBV). The market value for technical provisions for health insurance similar to life insurance comprises the expected value provision (EWR) plus the risk margin and less the provision transitional. In collaboration with BaFin, 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 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. 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 immaterial. To calculate the risk margin, an approximation method is used as permitted by article 58 of the Delegated Regulation. Under this method, it is assumed that the time series of the future solvency capital requirements will develop in line with the modified duration of the net obligations of the insurance company.

For reasons of materiality, the market value of technical provisions similar to indemnity insurance is the same as the HGB value.

ARAG Krankenversicherungs-AG applied for the provision transitional measure pursuant to section 307 VAG, which was approved in a letter from BaFin dated January 15, 2016. The provision transitional amounts to €21.711 million and is taken into account in the best estimate.

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

Purpose The overriding principle that shapes the HGB balance sheet is the protection of creditors. This principle is particularly emphasized in section 341e (1) HGB in respect of the balance sheets of insurance companies. Technical provisions therefore have to be recognized in an amount that, according to prudent business practice, ensures the obligations under insurance policies can always be met.

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

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

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

Time aspect of valuations The valuation rules under the HGB do not take account of the time to maturity in relation to technical provisions. Under the principles of valuation for solvency purposes, all payments are discounted to the balance sheet date. As a result of this method, the obligations have a lower value on the Solvency II balance sheet than on the HGB balance sheet.

The overall valuation difference for the technical provisions is €621.783 million; the value on the Solvency II balance sheet is lower than the HGB value. This difference is attributable to the qualitative recognition and valuation differences, which are described in detail above for each regime, and to the aforementioned different perspectives. In addition, a provision for risks arising from the life insurance business is recognized on the HGB consolidated balance sheet. There are also differences caused by the consolidation of intragroup reinsurance arrangements that are included on the Solvency II balance sheet.

D.3 Other Liabilities

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

Miscellaneous liabilities as of December 31, 2016

(€'000)

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

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Comparable HGB balance sheet as of Dec. 31, 2016	Difference relating to basis of consolidation as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	1,180	0	0	0	1,180
	117,101	112,292	109,767	-2,525	7,334
	305,599	230,811	225,423	-5,388	80,176
	37,086	36,991	37,086	95	0
	369,577	0	4,643	4,643	364,934
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	72,847	94,494	72,847	-21,647	0
	3,440	3,535	3,440	-95	0
	49,651	59,205	50,063	-9,142	-412
	125,938	157,234	126,350	-30,884	-412
	0	0	0	0	0
	33,748	30,000	30,000	0	3,748
	33,748	30,000	30,000	0	3,748
	305	16,783	305	-16,478	0
	990,534	584,111	533,574	-50,537	456,960

The ARAG Group currently does not have any **contingent liabilities** that have become a liability that has to be recognized. None of the unpaid contributions have been called up. Contingent liabilities arise from taking on a liability, e.g. guarantees, indemnities, miscellaneous warranties, and rediscounted bills of exchange, if, as of the balance sheet date, there is uncertainty as to whether and when they will become actual liabilities. For solvency purposes, they are to be classified as material if the nature and extent of the possible obligation influences the decision-making of the users of the Solvency II information. A contingent liability is classified as material if its recognition would lead to a decrease in the own funds available.

For solvency purposes, contingent liabilities are recognized on the balance sheet. They are liabilities for potential claims arising from benevolent schemes that are only partly matched by reinsurance.

There are valuation differences of €1.180 million.

The **miscellaneous provisions** are recognized in the amount that is necessary according to prudent business practice. If the liability's settlement period is more than twelve months, they are discounted.

A long-service provision was recognized in the year under review for long-service awards to be paid to employees. A residual maturity of 15 years was assumed. The seven-year average discount rate used by Deutsche Bundesbank was 3.24 percent. Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles. In 2016, a provision was recognized in accordance with the pre-retirement part-time employment agreement for the private insurance industry dated June 11, 1997 and the pronouncement of the Institute of Public Auditors in Germany (IDW) dated November 18, 1998. A residual maturity of 15 years was assumed. The seven-year average discount rate used by Deutsche Bundesbank was 3.24 percent. In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements was taken into account. A bank guarantee was provided as collateral for the provisions pursuant to section 8a of the German Pre-retirement Part-time Employment Act (AltTZG).

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

Valuation differences of €7.334 million arise due to the different discounting methods used to obtain a best estimate of the carrying amounts. A discrepancy of €2.525 million compared with the HGB consolidated balance sheet arises because of the different basis of consolidation.

In accordance with standard international practice, the **provisions for pensions and other post-employment benefits** are calculated using the PUC method on the basis of the 2005G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. The following parameters were used to calculate the obligations:

- Pension age: earliest possible age under the German Pension Age Reform Act (RVAGAnpG)
- Annual increase in salaries: 2.5 percent
- Annual increase in pension benefits: 1.75 percent (Spain: 2.5 percent)
- Staff turnover: 1.5 percent, reflecting the generally observable age-dependent average for the industry.

The forecast future payments are discounted to the valuation date. The discount rate used is the average interest rate for the past ten years published by Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. A discount rate of 4.01 percent was applied for the valuation.

Existing assets from reinsurance and securities held as cover were offset against the defined benefit obligation (€6.668 million). On the HGB consolidated balance sheet, there is a net shortfall of €1.597 million that, in application of the transitional provision pursuant to section 67 (1) of the Introductory Act to the German Commercial Code (EGHGB), has not yet been added to the provision for pensions and other post-employment benefits. The method used to calculate the provision for pensions and other post-employment benefits for solvency purposes is fundamentally the same as the method under the HGB. The only difference is that the discount rate is determined on the basis of the coupon on senior fixed-income industrial bonds. In line with the requirements of IAS 19, this is represented as an interest-rate curve that shows the individual interest rates depending on the actual maturity of the individual obligation.

The different valuation methods, particularly the different discount rates, give rise to a difference of €80.176 million by which the economic value exceeds the HGB value. A countervailing difference of €5.388 million compared with the HGB consolidated balance sheet arises due to the difference in the companies included in the basis of consolidation and due to the fact that, on the HGB consolidated balance sheet, the obligation is netted with the plan assets.

Deposits received from reinsurers are recognized at their repayment amount on the HGB balance sheet. They are not discounted.

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 are no valuation differences because the maturity period does not exceed twelve months. A small difference of €95 thousand compared with the figure in the HGB consolidated financial statements exists due to the difference in the basis of consolidation.

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

The method for calculating deferred taxes for solvency purposes does not differ fundamentally from valuation under the HGB. Again, future income taxes are recognized on the Solvency II balance sheet on the basis of valuation differences compared with the tax base. Deferred taxes already recognized on the HGB balance sheet are not included. As with the HGB balance sheet, the calculation is based on the current income tax rate in the country whose tax laws govern the reversal effect.

Deferred tax assets and deferred tax liabilities that arise as a result are always recognized on the Solvency II balance sheet. This is because the deferred tax liabilities are dominant on the Solvency II balance sheet and an analysis of the timing of the reversal effects proves that the time until reversal of the deferred tax expense is shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit, as a result of which the tax benefit will certainly impact on current taxes in the future due to the loss carryforward mechanism in income tax legislation.

The total value of the deferred tax liabilities is €369.577 million higher on the Solvency II balance sheet. Of this difference, €4.643 million is attributable to the different basis of consolidation.

No **liabilities to banks** are included on the Solvency II balance sheet. There is no borrowing that is contrary to the provisions of section 15 (1) VAG.

Liabilities from direct insurance business are valued at their nominal amount. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value.

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. No adjustments are made if the ARAG Group's credit rating changes.

There are no valuation differences because the maturity period does not exceed twelve months. The different basis of consolidation in the HGB consolidated financial statements gives rise to a difference of €21.647 million.

Liabilities are recognized at their settlement value. There are no differences in their recognition and valuation on the HGB and Solvency II balance sheets.

Liabilities from reinsurance business are recognized at their settlement value. There are no differences in their recognition and valuation on the HGB and Solvency II balance sheets.

There are no valuation differences because the maturity period does not exceed twelve months. The different basis of consolidation in the HGB consolidated financial statements gives rise to a difference of €95 thousand.

Trade payables are recognized at their settlement value. The economic value of those maturing in more than twelve months is the value discounted to the balance sheet date. As a result, there is a difference of €412 thousand in their recognition and valuation on the HGB and Solvency II balance sheets. A difference of €9.142 million compared with the figure on the HGB consolidated balance sheet exists due to the different basis of consolidation.

Subordinated liabilities have been issued by way of private placement to improve the own funds used to determine the solvency ratio. The registered bond with a value of €30.000 million 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 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 (4.826 percent). Because of the discounting, the value on the Solvency II balance sheet is €3.748 million higher than the value on the HGB balance sheet.

Miscellaneous liabilities 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 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. No adjustments are made if the ARAG Group's credit rating changes. On grounds of materiality, no miscellaneous liabilities with a maturity of more than twelve months were discounted. The difference of €16.478 million compared with the HGB consolidated financial statements results from the different scope of the basis of consolidation.

D.4 Alternative Methods for Valuation

No alternative valuation methods other than those listed in the sections above have been used.

D.5 Any Other Information

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

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E.1 Own Funds

Components and quality of own funds

As of December 31, 2016, the ARAG Group held basic own funds in the form of an excess of assets over liabilities of €1,478.866 million according to the Solvency II balance sheet. It also has a subordinated liability of €33.748 million. The registered bond has a fixed maturity of ten years and will be redeemed on July 29, 2024. In the event of liquidation, this liability will be subordinate to all other liabilities. Based on the differences described in chapter D., the equity on the HGB balance sheet can be reconciled to eligible own funds as follows:

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

Line item	(€)
Equity as of December 31, 2016 on the HGB consolidated balance sheet	461,714
Impact of the larger basis of consolidation under HGB compared with the Group under Solvency II	- 35,817
No recognition of intangible assets on the Solvency II balance sheet	- 13,142
Additional deferred tax assets recognized	113,817
Higher valuation of land and buildings held for own use (fair value)	159,060
Revaluation of investments	662,123
Revaluation of reinsurers' share of technical provisions	- 8,840
No recognition of zillmerized acquisition costs on the Solvency II balance sheet and effects of the time value of money on the valuation of receivables	- 24,872
Revaluation of gross technical provisions	621,783
Recognition of contingent liabilities	- 1,180
Revaluation of miscellaneous provisions	- 7,334
Revaluation of pension and other post-employment benefit obligations	- 80,176
Additional deferred tax liabilities recognized	- 364,934
Effect of the time value of money on the valuation of liabilities	412
Revaluation of subordinated liabilities	- 3,748
Excess of assets over liabilities according to the Solvency II balance sheet	1,478,866

Calculation of own funds

To calculate the Group's own funds, the Solvency II balance sheets of all the ARAG Group companies included in the Solvency II basis of consolidation were added together line by line. The own funds that were counted more than once in the addition process were then eliminated by deducting the carrying amounts of the equity investment (ASM values) of the companies included in the Solvency II basis of consolidation. In addition, the balances stated on the balance sheet as of December 31, 2016 for all types of transaction carried out between the companies in the Solvency II basis of consolidation were netted. The balances relating to reinsurance arrangements between the companies in the Solvency II basis of con-

solidation were also netted. Non-controlling interests (minority interests) were not deducted at the level of the Solvency II balance sheet. The minority interests are deducted as part of the own funds calculation later on.

For comparison purposes, the steps described above were also carried out using the HGB single-entity financial statements of the companies included in the Solvency II basis of consolidation.

There are no intragroup transactions involving other financial sectors because every company in the ARAG Group either operates in the insurance sector or is not part of any financial sector.

As of December 31, 2016, some of the own funds of ARAG Krankenversicherungs-AG, which is part of the Solvency II basis of consolidation, counted as part of the surplus funds. These own funds have only limited fungibility in the Group. A large part of these own funds were therefore capped in the calculation of the Group's own funds.

This results in eligible own funds of €1,342.133 million, split between own funds in the first quality class (Tier 1) of €1,308.385 million and own funds in the second quality class (Tier 2) of €33.748 million. The Group is not using the transitional provisions for Tier 1 components of own funds. There are no ancillary own funds. The overall breakdown of own funds is as follows:

Presentation of the own funds of the ARAG Group as of December 31, 2016/January 1, 2017

(€'000)		Capital class 1	Capital class 2
Excess of assets over liabilities according to the Solvency II balance sheet	1,478,866		
of which:			
Paid-in share capital of the parent company	200,000	200,000	
Valuation differences according to Solvency II and reserves	1,278,866	1,278,866	
Less the planned dividend payment	-10,000	-10,000	
Subordinated registered bond	33,748		33,748
Subtotal	1,502,614	1,468,866	33,748
Cap on minority interests	-36,314	-36,314	
Cap due to fungibility (from health insurance business)	-124,167	-124,167	
Total basic own funds	1,342,133	1,308,385	33,748

Assuming that the transitional provisions for the volatility adjustment and the transitional provision for the technical provisions at ARAG Lebensversicherungs-AG and ARAG Krankenversicherungs-AG were not used, the eligible basic own funds would be €369.684 million lower.

Changes in own funds

In 2016, Solvency II balance sheets were prepared for the planning horizon on the basis of the budgeted results of operations. Despite the current economic situation and the environment of low interest rates, particularly in the life insurance business, the solvency profile is considered to be adequate. In view of the existing solvency profile and the sale of the life insurance division (ARAG Lebensversicherungs-AG), the coverage ratio is not expected to fall below the regulatory requirements. If, contrary to the expected own funds, a shortfall compared with the solvency requirements in the planning period is nevertheless identified, there are various measures that can be taken to make up for this shortfall.

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

- Restriction on distribution/profit transfer at the parent company ARAG Holding SE
- Additional payment into the capital reserve of the parent company ARAG Holding SE
- Borrowing to supplement own funds by companies in the Solvency II basis of consolidation of the ARAG Group
- Capital increase at the parent company ARAG Holding SE.

Replacement of components of basic own funds

Provided certain conditions are met, components of basic own funds may be borrowed for up to ten years after January 1, 2017. In 2016, the Company did not identify any need to replace components of basic own funds within its planning horizon. Accordingly, no plans for any of the aforementioned measures were drawn up in the year under review.

Transferability of own funds

As of December 31, 2016, own funds with limited fungibility in capital class 1 were available in the Group. Fungibility was restricted because some of the own funds from the individual companies cannot be transferred to other companies. At Group level, these funds can be used only to cover risks of the individual company to which the funds belong. They are not available to cover the risks of other companies at Group level.

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 overall solvency requirement are based on the standardized approach.

As a result of the Company-specific calculation using the certified partial internal model, the solvency capital requirement decreased to €564.151 million, compared with €816.580 million using the standardized approach. At 238 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.

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

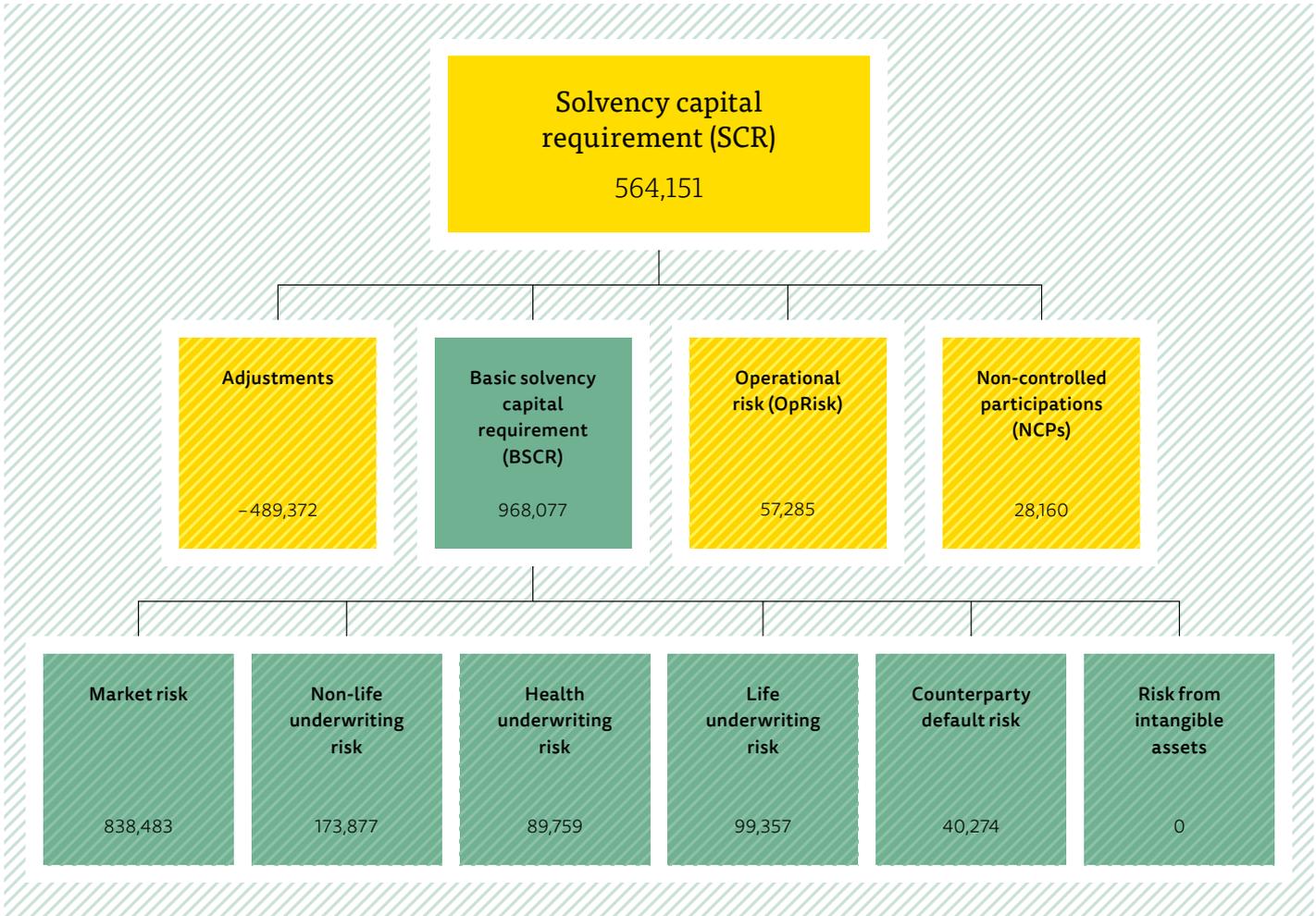
The Group's SCR floor (minimum capital requirement) is the sum of the minimum capital requirements of the individual companies. As of December 31, 2016, the minimum capital requirement was €292.871 million, which equated to 52 percent of the solvency capital requirement at that time and resulted in a coverage ratio for the minimum capital requirement of 458 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 fell significantly.

Furthermore, the risk calculation was based on application of the volatility adjustments and provision transitional at ARAG Lebensversicherungs-AG and on application of the provision transitional at ARAG Krankenversicherungs-AG, in both cases with the prior approval of the supervisory authority. Without these measures, the Group's solvency capital requirement would have been €7.768 million higher and its minimum capital requirement would have been €20.302 million higher.

Excluding transitional measures, the coverage ratio is 170 percent and is thus still well above the regulatory requirement.

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

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

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

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

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

Health underwriting risk is the risk arising from the risks covered and the processes used in the course of health insurance business

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

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

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

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

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

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

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

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

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

Internal modeling of non-life underwriting risk offers significant advantages for the ARAG Group. The standardized approach does not adequately take account of German corporate data in the calibration of reserve risk, which, in the ARAG Group's view, would result in an incorrect assessment of the risks. By contrast, the Group was able to draw on its extensive inhouse knowledge and expertise gathered over the course of more than 80 years of providing legal insurance and on a claims history in the casualty and property business going back many years in order to model the individual risks internally in accordance with its own requirements, thus ensuring the risks can be presented and managed adequately.

Moreover, non-life underwriting risk is depicted with only a very low level of granularity in the standardized approach, the various aspects are not taken into consideration, and the overall modeling is too general. For example, there is no explicit modeling of the accumulation risk that can arise in the legal insurance business in connection with a major event. Furthermore, the extensive reinsurance program and various major claims events in the casualty and property segment are not sufficiently taken into account. In the ARAG Group's partial internal model, however, both of these aspects are examined and modeled separately, as is appropriate to a far more reality-based approach to risk modeling. The partial internal model also incorporates the characteristics of the customer structure of the ARAG Group as a specialist provider of insurance with a heavy emphasis on retail business. This would not adequately be taken into account in the standardized approach due its broader applicability.

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

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

E.6 Any Other Information

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

Appendix

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	126,399
Pension benefit surplus	R0050	4
Property, plant & equipment held for own use	R0060	218,168
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	6,916,275
Property (other than for own use)	R0080	175,723
Holdings in related undertakings, including participations	R0090	99,996
Equities	R0100	8,446
Equities – listed	R0110	7,665
Equities – unlisted	R0120	781
Bonds	R0130	3,933,313
Government Bonds	R0140	1,308,972
Corporate Bonds	R0150	2,458,914
Structured notes	R0160	156,490
Collateralised securities	R0170	8,938
Collective Investment Undertakings	R0180	2,503,182
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	168,076
Other investments	R0210	27,538
Assets held for index-linked and unit-linked contracts	R0220	287,407
Loans and mortgages	R0230	153,490
Loans on policies	R0240	43,928
Loans and mortgages to individuals	R0250	150
Other loans and mortgages	R0260	109,412
Reinsurance recoverables from:	R0270	59,216
Non-life and health similar to non-life	R0280	19,082
Non-life excluding health	R0290	19,082
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	40,134
Health similar to life	R0320	1,460
Life excluding health and index-linked and unit-linked	R0330	38,674
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	44,389
Insurance and intermediaries receivables	R0360	83,168
Reinsurance receivables	R0370	45,605
Receivables (trade, not insurance)	R0380	90,921
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	137,933
Any other assets, not elsewhere shown	R0420	11,924
Total assets	R0500	8,174,899

S.02.01.02

Balance sheet

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	1,189,241
Technical provisions – non-life (excluding health)	R0520	1,188,230
TP calculated as a whole	R0530	0
Best Estimate	R0540	1,148,577
Risk margin	R0550	39,653
Technical provisions – health (similar to non-life)	R0560	1,011
TP calculated as a whole	R0570	0
Best Estimate	R0580	643
Risk margin	R0590	367
Technical provisions – life (excluding index-linked and unit-linked)	R0600	4,267,357
Technical provisions – health (similar to life)	R0610	1,818,508
TP calculated as a whole	R0620	0
Best Estimate	R0630	1,802,444
Risk margin	R0640	16,064
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	2,448,849
TP calculated as a whole	R0660	0
Best Estimate	R0670	2,368,689
Risk margin	R0680	80,161
Technical provisions – index-linked and unit-linked	R0690	248,900
TP calculated as a whole	R0700	0
Best Estimate	R0710	243,594
Risk margin	R0720	5,306
Contingent liabilities	R0740	1,180
Provisions other than technical provisions	R0750	117,101
Pension benefit obligations	R0760	305,599
Deposits from reinsurers	R0770	37,086
Deferred tax liabilities	R0780	369,577
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	72,847
Reinsurance payables	R0830	3,440
Payables (trade, not insurance)	R0840	49,651
Subordinated liabilities	R0850	33,748
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	33,748
Any other liabilities, not elsewhere shown	R0880	305
Total liabilities	R0900	6,696,033
Excess of assets over liabilities	R1000	1,478,866

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	0	58,796
Gross – Proportional reinsurance accepted	R0120	0	550
Gross – Non-proportional reinsurance accepted	R0130	-	-
Reinsurers' share	R0140	0	1,468
Net	R0200	0	57,879
Premiums earned			
Gross – Direct Business	R0210	0	58,832
Gross – Proportional reinsurance accepted	R0220	0	550
Gross – Non-proportional reinsurance accepted	R0230	-	-
Reinsurers' share	R0240	0	1,469
Net	R0300	0	57,913
Claims incurred			
Gross – Direct Business	R0310	0	22,854
Gross – Proportional reinsurance accepted	R0320	0	-67
Gross – Non-proportional reinsurance accepted	R0330	-	-
Reinsurers' share	R0340	0	-515
Net	R0400	0	23,302
Changes in other technical provisions			
Gross – Direct Business	R0410	0	50
Gross – Proportional reinsurance accepted	R0420	0	-2
Gross – Non-proportional reinsurance accepted	R0430	-	-
Reinsurers' share	R0440	0	-5
Net	R0500	0	53
Expenses incurred	R0550	0	30,034
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	2,369	942	0	83,902	46,794	0	
0	0	0	0	-822	272	0	
-	-	-	-	-	-	-	
0	229	0	0	3,434	2,480	0	
0	2,140	942	0	79,646	44,586	0	
0	2,369	942	0	83,249	46,204	0	
0	0	0	0	-822	272	0	
-	-	-	-	-	-	-	
0	229	0	0	3,562	2,473	0	
0	2,140	942	0	78,865	44,003	0	
0	1,398	629	0	40,865	10,936	0	
0	0	0	0	-467	-7	0	
-	-	-	-	-	-	-	
0	375	0	0	962	-2,286	0	
0	1,023	630	0	39,436	13,215	0	
0	559	131	0	-4,861	-615	0	
0	0	0	0	-2,382	34	0	
-	-	-	-	-	-	-	
0	0	0	0	-4	-1	0	
0	559	131	0	-7,238	-580	0	
0	1,151	345	0	40,611	27,120	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	703,974	47,441	16,860
Gross – Proportional reinsurance accepted	R0120	187,739	9,851	463
Gross – Non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	4,601	741	48
Net	R0200	887,112	56,551	17,275
Premiums earned				
Gross – Direct Business	R0210	699,662	46,752	16,651
Gross – Proportional reinsurance accepted	R0220	191,844	8,001	215
Gross – Non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	4,261	741	45
Net	R0300	887,246	54,011	16,821
Claims incurred				
Gross – Direct Business	R0310	350,501	20,214	3,985
Gross – Proportional reinsurance accepted	R0320	56,688	10,553	-123
Gross – Non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	1,268	208	-24
Net	R0400	405,921	30,558	3,887
Changes in other technical provisions				
Gross – Direct Business	R0410	-6	7	-7
Gross – Proportional reinsurance accepted	R0420	0	0	0
Gross – Non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	-6	7	-8
Expenses incurred	R0550	423,095	28,377	10,078
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
-	-	-	-		961,078
-	-	-	-		198,054
0	0	0	0		0
0	0	0	0		13,000
0	0	0	0		1,146,131
-	-	-	-		954,661
-	-	-	-		200,060
0	0	0	0		0
0	0	0	0		12,780
0	0	0	0		1,141,941
-	-	-	-		451,381
-	-	-	-		66,577
0	0	0	0		0
0	0	0	0		-12
0	0	0	0		517,971
-	-	-	-		-4,742
-	-	-	-		-2,350
0	0	0	0		0
0	0	0	0		-10
0	0	0	0		-7,082
0	0	0	0		560,812
-	-	-	-		0
-	-	-	-		560,812

S.05.01.02

Premiums, claims and expenses by line of business

		Health insurance	Insurance with profit participation
		C0210	C0220
Premiums written			
Gross	R1410	356,873	117,130
Reinsurers' share	R1420	315	5,566
Net	R1500	356,558	111,564
Premiums earned			
Gross	R1510	356,456	117,390
Reinsurers' share	R1520	315	5,590
Net	R1600	356,141	111,800
Claims incurred			
Gross	R1610	186,657	215,788
Reinsurers' share	R1620	0	7,171
Net	R1700	186,657	208,618
Changes in other technical provisions			
Gross	R1710	140,891	53,232
Reinsurers' share	R1720	0	-4,206
Net	R1800	140,891	57,438
Expenses incurred	R1900	54,602	20,902
Other expenses	R2500	-	-
Total expenses	R2600	-	-

S.05.02.01

Premiums, claims and expenses by country

		Home country
		C0010
	R0010	-
		C0080
Premiums written		
Gross – Direct Business	R0110	533,764
Gross – Proportional reinsurance accepted	R0120	22,912
Gross – Non-proportional reinsurance accepted	R0130	-
Reinsurers' share	R0140	7,899
Net	R0200	548,777
Premiums earned		
Gross – Direct Business	R0210	527,674
Gross – Proportional reinsurance accepted	R0220	22,657
Gross – Non-proportional reinsurance accepted	R0230	-
Reinsurers' share	R0240	7,642
Net	R0300	542,688
Claims incurred		
Gross – Direct Business	R0310	278,442
Gross – Proportional reinsurance accepted	R0320	15,066
Gross – Non-proportional reinsurance accepted	R0330	-
Reinsurers' share	R0340	67,609
Net	R0400	225,899
Changes in other technical provisions		
Gross – Direct Business	R0410	-4,768
Gross – Proportional reinsurance accepted	R0420	-2,340
Gross – Non-proportional reinsurance accepted	R0430	0
Reinsurers' share	R0440	0
Net	R0500	-7,108
Expenses incurred	R0550	235,989
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	
US	ES	IT	NL	AT		-
C0090	C0100	C0110	C0120	C0130		C0140
80,703	94,010	30,746	91,294	58,091		888,608
7,396	31,093	87,671	48,847	0		197,919
-	-	-	-	-		0
0	4,985	0	0	0		12,884
88,099	120,118	118,418	140,141	58,091		1,073,644
80,698	93,187	29,707	89,767	58,088		879,121
7,395	28,597	87,264	53,772	0		199,685
-	-	-	-	-		0
0	4,766	0	0	0		12,408
88,093	117,018	116,971	143,539	58,088		1,066,398
34,818	37,631	9,946	39,274	21,007		421,118
2,936	28,924	23,863	27,364	-74		98,079
-	-	-	-	-		0
0	1,309	0	0	-25		68,894
37,753	65,246	33,809	66,638	20,959		450,303
0	0	0	0	26		-4,742
0	10	0	0	0		-2,330
0	0	0	0	0		0
0	0	0	0	0		0
0	10	0	0	26		-7,072
30,700	48,204	79,495	62,867	21,091		478,347
-	-	-	-	-		2,244
-	-	-	-	-		480,591

S.05.02.01

Premiums, claims and expenses by country

		Home country
		C0150
	R1400	-
		C0220
Premiums written		
Gross	R1410	570,567
Reinsurers' share	R1420	5,881
Net	R1500	564,686
Premiums earned		
Gross	R1510	570,411
Reinsurers' share	R1520	5,905
Net	R1600	564,506
Claims incurred		
Gross	R1610	443,234
Reinsurers' share	R1620	7,311
Net	R1700	435,923
Changes in other technical provisions		
Gross	R1710	188,964
Reinsurers' share	R1720	-4,206
Net	R1800	193,169
Expenses incurred	R1900	78,999
Other expenses	R2500	-
Total expenses	R2600	-

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Impact of long term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	5,705,498	570,861	-	20,276	0
Basic own funds	R0020	1,478,866	-382,846	-	-14,219	0
Eligible own funds to meet						
Solvency Capital Requirement	R0050	1,342,133	-355,536	-	-14,148	0
Solvency Capital Requirement	R0090	564,151	-220	-	7,989	0

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 preferred 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

Deductions

Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities whereof deducted according to art 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	124,167	124,167	-	-	-
R0090	-	-	-	-	-
R0100	-	-	-	-	-
R0110	-	-	-	-	-
R0120	-	-	-	-	-
R0130	1,268,866	1,268,866	-	-	-
R0140	33,748	-	0	33,748	0
R0150	0	-	0	0	0
R0160	0	-	-	-	0
R0170	0	-	-	-	0
R0180	-	-	-	-	-
R0190	-	-	-	-	-
R0200	0	0	0	0	0
R0210	36,314	36,314	0	0	0
	-	-	-	-	-
R0220	-	-	-	-	-
	-	-	-	-	-
R0230	0	0	0	0	0
R0240	0	0	0	0	-
R0250	0	0	0	0	0
R0260	-	-	-	-	-
R0270	160,481	160,481	0	0	0
R0280	160,481	160,481	0	0	0
R0290	1,342,133	1,308,385	0	33,748	0
	-	-	-	-	-
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	-	-	-	-	-
R0420	-	-	-	-	-
R0430	-	-	-	-	-
R0440	-	-	-	-	-
	-	-	-	-	-
R0450	-	-	-	-	-
R0460	-	-	-	-	-
	-	-	-	-	-
R0520	1,342,133	1,308,385	0	33,748	0
R0530	1,342,133	1,308,385	0	33,748	-
	-	-	-	-	-
R0560	1,342,133	1,308,385	0	33,748	0
R0570	1,342,133	1,308,385	0	33,748	-
R0610	292,871	-	-	-	-
R0650	4.58	-	-	-	-
R0660	1,342,133	1,308,385	0	33,748	0
R0680	564,151	-	-	-	-
R0690	2.38	-	-	-	-
	-	-	-	-	-
	C0060				
	-	-	-	-	-
R0700	1,478,866	-	-	-	-
R0710	0	-	-	-	-
R0720	10,000	-	-	-	-
R0730	200,000	-	-	-	-
R0740	0	-	-	-	-
R0750	-	-	-	-	-
R0760	1,268,866	-	-	-	-
	-	-	-	-	-
R0770	9,564	-	-	-	-
R0780	0	-	-	-	-
R0790	9,564	-	-	-	-

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Solvency Capital Requirement – for groups on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
Market risk	R0010	838,483	-	-
Counterparty default risk	R0020	74,612	-	-
Life underwriting risk	R0030	99,451	-	-
Health underwriting risk	R0040	129,563	-	-
Non-life underwriting risk	R0050	561,467	-	-
Diversification	R0060	-491,097	-	-
Intangible asset risk	R0070	0	-	-
Basic Solvency Capital Requirement	R0100	1,212,478	-	-
Calculation of Solvency Capital Requirement		C0100		
Operational risk	R0130	57,285		
Loss-absorbing capacity of technical provisions	R0140	-296,037		
Loss-absorbing capacity of deferred taxes	R0150	-185,307		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	-		
Solvency capital requirement excluding capital add-on	R0200	788,420		
Capital add-on already set	R0210	-		
Solvency capital requirement	R0220	816,580		
Other information on SCR				
Capital requirement for duration-based equity risk sub-module	R0400	0		
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	-		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0		
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0		
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0		
Minimum consolidated group solvency capital requirement	R0470	301,765		
Information on other entities				
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	0		
Capital requirement for other financial sectors (Non-insurance capital requirements) – Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	-		
Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions	R0520	-		
Capital requirement for other financial sectors (Non-insurance capital requirements) – Capital requirement for non-regulated entities carrying out financial activities	R0530	-		
Capital requirement for non-controlled participation requirements	R0540	28,160		
Capital requirement for residual undertakings	R0550	-		
Overall SCR		-		
SCR for undertakings included via D and A	R0560	-		
Solvency capital requirement	R0570	816,580		

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 modelled		USP	Simplifications
		C0020	C0030	C0070	C0080
Market risk	838,483	-	-	-	-
Counterparty default risk	40,274	-	-	-	-
Life underwriting risk	99,357	-	-	-	-
Health underwriting risk	89,759	-	-	-	-
Non-life underwriting risk	173,877	173,877	-	-	-
Intangible asset risk	0	-	-	-	-
Operational risk	57,285	-	-	-	-
LAC Technical Provisions	- 347,605	-	-	-	-
LAC Deferred Taxes	- 141,767	-	-	-	-
	C0100				
R0110	809,664				
R0060	- 273,673				
R0160	0				
R0200	535,991				
R0210	0				
R0220	564,151				
	-				
R0300	0				
R0310	0				
R0400	0				
R0410	0				
R0420	0				
R0430	0				
R0440	0				
R0470	292,871				
	-				
R0500	0				
R0510	0				
R0520	0				
R0530	0				
R0540	28,160				
R0550	0				
	C0100				
	-				
R0560	0				
R0570	564,151				

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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	SC/391200MYFHR LCFWAH448DE10031	-	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 beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual	
DE	SC/391200MYFHR LCFWAH448DE10002	-	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 LCFWAH448DE10011	-	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	-	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	-	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	
DE	SC/391200MYFHR LCFWAH448DE10004	-	ALIN 1 Verwal- tungs-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 LCFWAH448DE10003	-	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 Kom- manditge- sellschaft	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
92.00 %	92.00 %	-	-	Dominant	91.00 %	Included into scope of group supervision	-	Method 1: Full consolidation
93.38 %	93.38 %	-	-	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: Proportional consolidation
100.00 %	100.00 %	-	-	Dominant	100.00 %	Included into scope of group supervision	-	Method 1: Proportional consolidation
100.00 %	100.00 %	-	-	Dominant	100.00 %	Included into scope of group supervision	-	Method 1: Proportional consolidation
100.00 %	100.00 %	-	-	Dominant	100.00 %	Included into scope of group supervision	-	Method 1: Proportional consolidation

DE	SC/391200MYFHR LCFWAH448DE10006	-	ALIN 2 GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10005	-	ALIN 2 GmbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommanditgesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10008	-	ALIN 3 GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10007	-	ALIN 3 GmbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommanditgesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10010	-	ALIN 4 GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10009	-	ALIN 4 GmbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommanditgesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10056	-	ARCAP Beteiligungsverwaltung GmbH & Co. Columbus Immobilien Fonds X KG	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommanditgesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10055	-	ARCAP Beteiligungsverwaltung GmbH & Co. Columbus Immobilien Fonds XVI "München" KG	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommanditgesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10053	-	ARCAP Beteiligungsverwaltung GmbH & Co. Columbus Immobilien Fonds III "Pallaswiesenspark" KG	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommanditgesellschaft	Non-mutual		

	100.00 %	100.00 %	-	-	Dominant	100.00 %	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00 %	100.00 %	-	-	Dominant	100.00 %	Included into scope of group supervision	-	Method 1: Proportional consolidation
	92.00 %	92.00 %	-	-	Dominant	91.00 %	Included into scope of group supervision	-	Method 1: Proportional consolidation
	92.00 %	92.00 %	-	-	Dominant	91.00 %	Included into scope of group supervision	-	Method 1: Proportional consolidation
	94.01 %	94.01 %	-	-	Dominant	93.26 %	Included into scope of group supervision	-	Method 1: Proportional consolidation
	94.01 %	94.01 %	-	-	Dominant	93.26 %	Included into scope of group supervision	-	Method 1: Proportional consolidation
	17.24 %	15.86 %	-	-	Significant	17.24 %	Included into scope of group supervision	-	Method 1: Proportional consolidation
	58.48 %	54.78 %	-	-	Dominant	54.31 %	Included into scope of group supervision	-	Method 1: Proportional consolidation
	28.37 %	26.10 %	-	-	Significant	24.51 %	Included into scope of group supervision	-	Method 1: Proportional consolidation

DE	SC/391200MYFHR LCFWAH448DE10014	-	ARAG Service Center 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 LCFWAH448DE10015	-	CUR Versiche- rungsmakler 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 LCFWAH448DE10017	-	Cura Versiche- rungsvermittlung GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
ES	SC/391200MYFHR LCFWAH448DE10023	-	Agencia de Seguros ARAG S.A.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Sociedad Anonima	Non-mutual		
ES	SC/391200MYFHR LCFWAH448DE10024	-	ARAG Services Spain & Portugal S.L. (formerly: ARAG Legal Service S.L.)	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Sociedad de Responsabilidad Limitada	Non-mutual		
FR	SC/391200MYFHR LCFWAH448DE10043	-	ARAG-France Assistance et Règlement de Sinistres Auto- mobiles et Généraux S.A.R.L.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Societe a responsabilite limitee (SARL)	Non-mutual		
GB	SC/391200MYFHR LCFWAH448DE10048	-	ARAG plc.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Public Limited Company	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10026	-	janolaw AG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Aktienge- sellschaft	Non-mutual		
NL	SC/391200MYFHR LCFWAH448DE10045	-	JuroDirect B.V.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Besloten Vennootschap	Non-mutual		

	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	25.10%	25.10%	-	-	Significant	25.10%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Proportional consolidation

NL	SC/391200MYFHR LCFWAH448DE10044	-	ARAG Legal Services B.V. (formerly: Rechts- wijzer B. V.)	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Besloten Vennootschap	Non-mutual	
DE	SC/391200MYFHR LCFWAH448DE10042	-	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 LCFWAH448DE10022	-	SolFin GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual	
US	SC/391200MYFHR LCFWAH448DE10025	-	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 LCFWAH448US10062	-	ARAG Association 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 LCFWAH448US10060	-	ARAG Services, LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual	
DE	SC/391200MYFHR LCFWAH448DE10019	-	VIF Gesellschaft für Versiche- rungsvermittlung 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	LEI/3912006 MZNEOF4M2XK19	-	ARAG Allgemeine Versicherungs- AG	Non-life insurer	Aktienge- sellschaft	Non-mutual	BAFIN
CH	SC/391200MYFHR LCFWAH448CH10058	-	AXA-ARAG Rechtsschutz- versicherungs- Gesellschaft	Non-life insurer	Aktienge- sellschaft	Non-mutual	FINMA
DE	LEI/391200 GWEMT1F0BUHB43	-	ARAG Interlloyd Versicherungs- AG	Non-life insurer	Aktienge- sellschaft	Non-mutual	BAFIN
DE	LEI/391200 SFAXHRCQQ62T14	-	ARAG Kranken- versicherungs-AG	Life insurer	Aktienge- sellschaft	Non-mutual	BAFIN

	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	92.00%	92.00%	-	-	Dominant	91.00%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	75.10%	75.10%	-	-	Dominant	75.10%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	100.00%	-	-	Dominant	94.93%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	100.00%	-	-	Dominant	94.93%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	94.93%	-	-	Dominant	94.93%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Proportional 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
	94.01%	94.01%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Full consolidation

DE	LEI/391200 NDMPXXGG4AAL42	-	ARAG Lebensver- sicherungs-AG	Life insurer	Aktiengesell- schaft	Non-mutual	BAFIN
NO	LEI/5967007 LIEEXZX9PCO98	-	HELP Forsikring AS	Non-life insurer	Aksjeselskap (AS)	Non-mutual	FSAN
DE	LEI/391200 QKNZJ8J1XWFE16	-	ARAG SE	Non-life insurer	European Company (SE)	Non-mutual	BAFIN
US	SC/391200MYFHR LCFWAH448US10057	-	ARAG Insurance Company	Non-life insurer Insurance holding company as defined in Art. 212 section [f] of Directive 2009/138/EC	Incorporated	Non-mutual	NAIC
DE	LEI/3912000 YELENA3B7JK17	-	AFI Verwaltungs- Gesellschaft mbH	Insurance holding company as defined in Art. 212 section [f] of Directive 2009/138/EC	Gesellschaft mit beschraenkter Haftung	Non-mutual	
DE	SC/391200MYFHR LCFWAH448DE10001	-	ARAG International Holding GmbH	Insurance holding company as defined in Art. 212 section [f] of Directive 2009/138/EC	Gesellschaft mit beschraenkter Haftung	Non-mutual	
US	SC/391200MYFHR LCFWAH448US10059	-	ARAG North America Inc.	Insurance holding company as defined in Art. 212 section [f] of Directive 2009/138/EC	Incorporated	Non-mutual	
DE	LEI/391200MYFHR LCFWAH448	-	ARAG Holding SE	Insurance holding company as defined in Art. 212 section [f] of Directive 2009/138/EC	European Company (SE)	Non-mutual	

							Included into scope of group supervision		Method 1: Full consolidation
	92.00%	92.00%	-	-	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
	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
			-	-				-	

Information

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

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www.ARAG.com

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