

ARAG HOLDING SE

2017 Solvency and Financial Condition Report for the Group



Dive into life.

ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

CEO and Central Group Functions

Group Development/ Business Organization

Group Sales/ Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management/ Controlling

Operating insurance companies

ARAG Allgemeine Versicherungs-AG

(Casualty and property insurance)

ARAG Krankenversicherungs-AG

(Health insurance)

Interlloyd Versicherungs-AG

(Specialized in broker sales)

International companies

(Legal insurance/ legal services)

Service companies

ARAG IT GmbH

(IT services for the ARAG Group)

Cura Versicherungsvermittlung GmbH

(Brokerage firm)

ARAG Service Center GmbH

(Emergency telephone service)

Structure of ARAG Holding SE and ARAG SE

Company

ARAG Holding SE

Members of the Management Board and areas of responsibility

CEO and Equity Investments

Dr. Dr. h. c. Paul-Otto Faßbender

Internal Audit/Data Security/Legal/ Compliance/Finance

Dr. Sven Wolf

Company

ARAG SE

Members of the Management Board and areas of responsibility

CEO and Central Group Functions

Dr. Dr. h. c. Paul-Otto Faßbender

Group Development/ Business Organization

Dr. Renko Dirksen

Group Sales/ Products and Innovation

Dr. Matthias Maslaton

Group Finance

Werner Nicoll

Group IT and Operations

Hanno Petersen

Group Risk Management/ Controlling

Dr. Joerg Schwarze

Key Figures

Premium income/sales revenue:

€ **1,610** million

↘ 2016: €1,784 million*

Consolidated net income:

€ **28** million

↘ 2016: €43 million*

Combined ratio:

89.9%

↗ 2016: 91.5%*

Eligible own funds:

€ **1,123** million

↘ 2016: €1,342 million*

Solvency capital requirement:

€ **446** million

↗ 2016: €564 million*

Solvency ratio:

251.6%

↗ 2016: 237.9%*

* The prior-year figures include the life insurance business (with premium income of €213.7 million), which was sold in 2017

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Summary

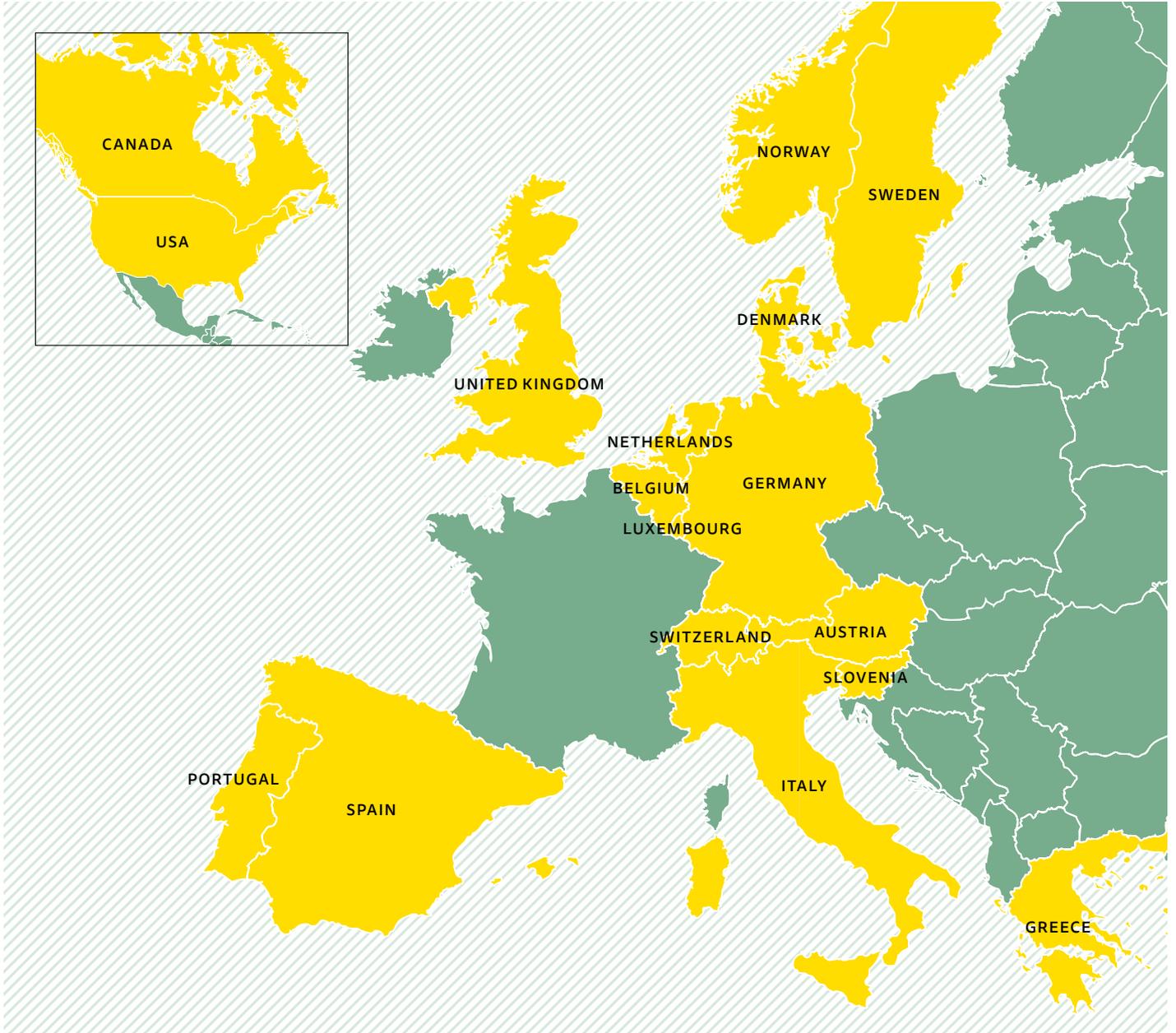
The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established more than 80 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products. At the end of 2016, the Group sold its shares in ARAG Lebensversicherungs-AG as part of a strategic realignment to focus squarely on property and health insurance. This sale was completed in 2017. The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 17 countries (Germany, 14 other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It generates sales revenue and premiums of approximately €1.6 billion and employs around 4,000 people. ARAG SE is responsible for strategic Group management and the legal insurance operating business at both domestic and international levels. The ARAG insurance and service companies are responsible for the other lines of business and the related operational management. ARAG Holding SE manages the assets and is the parent company of the Group from a company law perspective.

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 insurance and health insurance business. The Group comprises the following operating segments:

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

In addition to the Group headquarters in Düsseldorf and its health insurance offices in Munich, the ARAG Group maintains, through ARAG SE, operational 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.

Countries in which the ARAG Group operates



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.

In the year under review, the ARAG Group implemented a comprehensive strategic realignment so that it is now focused entirely on its strengths in property and health insurance. The life insurance business was deconsolidated with retroactive effect from January 1, 2017. As a consequence, the ARAG Group's premium volume fell from €1,729,698.5 thousand in 2016 to €1,584,976.9 thousand in the reporting year. After adjusting for the fact that the discontinued life insurance business had contributed €213,694.2 thousand to premium income in the last available figures, the net premium growth generated by the Group in its property and health insurance business amounted to €68,972.7 thousand or 4.6 percent. Growth in the business lines now constituting the core business of the Group was clearly consolidated in the year under review. The legal insurance segment accounted for the strongest premium growth in absolute terms. Gross premiums written from direct business in the German legal insurance market rose by 6.1 percent year on year. The reasons were premium adjustments and a significant expansion in the policy portfolio, to which 49,613 contracts were added. The international legal insurance business generated growth of 4.9 percent. Other than Germany, the markets with the highest sales revenue are the Netherlands, Spain, Italy, the US, Austria, and Scandinavia. The casualty and property insurance business was the segment with the second-fastest growth in the Group in the year under review. The premiums generated by this business in 2017 went up by 5.6 percent year on year. Despite tough market conditions, the private health insurance segment nevertheless achieved premium growth of 2.3 percent. Only a small proportion of this increase stemmed from premium adjustments; most of it was derived from further targeted expansion in the supplementary health insurance business, where ARAG has been traditionally strong and well positioned for many years.

Sales revenue in the Group's non-insurance entities went down by 53.7 percent, a sharp contraction caused by the disposal of the real estate development business, which accounted for the greatest proportion of this sales revenue.

In the legal insurance business as a whole, claims incurred rose from €440,047.9 thousand in 2016 to €479,345.9 thousand in the year under review. Claims incurred also went up in the casualty and property insurance business, rising by €12,987.6 thousand. In the health insurance business, claims incurred increased by a total of €19,988.7 thousand. Overall, claims incurred by the Group in the year under review were up by 9.3 percent compared with the prior-year figure (excluding life insurance business).

Insurance business operating expenses rose by 6.7 percent to €558,367.7 thousand (2016: €546,474.1 thousand). The cost ratio went up from 32.0 percent to 35.6 percent in the reporting year.

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 €66,735.0 thousand in 2016 to €73,534.6 thousand in 2017. 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.

Net gains on investments declined slightly, reflecting the effects of the persistently low interest rates. The balance of write-downs and reversals of write-downs had been more favorable in 2016 than in 2017. The Group had also generated higher gains on disposals in 2016. On the other hand, ordinary income from investments, especially from institutional funds, was better in the year under review. Overall however, the non-underwriting net gains on investments decreased year on year from €63,353.0 thousand to €61,530.9 thousand. The net gains on investments reported under the underwriting account for health insurance improved from €67,533.9 thousand to €74,542.4 thousand.

Other net income/expense amounted to a net expense of €52,257.5 thousand, which was higher than the equivalent figure of €48,331.9 thousand in 2016, as expected. At €81,245.3 thousand, profit from ordinary activities was again at a very good level (2016: €87,039.2 thousand).

Consolidated net income amounted to €27,806.6 thousand (2016: €43,118.0 thousand).

The new European regulatory regime, Solvency II (SII), came into force for all insurance companies on January 1, 2016 and is aimed at harmonizing regulation and affording customers greater protection. It contains rules on capital adequacy, risk management, and reporting. Valuations for solvency purposes are based on market values, whereas 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'.

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 underwriting risk, primarily non-life underwriting risk. The modeling process 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 risk profile is determined by non-life underwriting risk and market risk. The solvency capital requirement for market risk, which is the more dominant of the two, is €502,668 thousand. The drivers are spread risk and equity risk. Non-life underwriting risk, for which the solvency capital requirement is €153,377 thousand, is mainly influenced by premium/reserve risk and accumulation risk. The ARAG Group's overall solvency capital requirement is €446,487 thousand. To cover the solvency capital requirement, the Group has eligible own funds of €1,123,459 thousand, giving a coverage ratio of 252 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
ARAG Platz 1, 40472 Düsseldorf, Germany

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

Supervisory authority

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

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

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

Auditor

The contact details of the appointed auditor are:

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft
Moskauer Strasse 19, 40227 Düsseldorf, Germany

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

Structure of 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 multidimensional 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 health insurance business. In previous years, not least against the backdrop of persistently low interest rates, the ARAG Group had already begun to reorganize the Group structure and decided to sell its shares in ARAG Lebensversicherungs-AG to Frankfurter Leben-Gruppe.

ARAG began to make inroads into markets outside Germany more than 50 years ago. Today, ARAG operates in a total of 17 countries (Germany, 14 other European countries, the US, and – since 2016 – Canada) through branches, subsidiaries, and equity investments.

In addition to the Group headquarters in Düsseldorf and ARAG Krankenversicherungs-AG's offices in Munich, the ARAG Group maintains permanent establishments in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, Spain, and the United Kingdom.

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, the Group operates in Switzerland via an equity investment in a legal insurance associate. In the United Kingdom and Canada, a Group company in each case acts as a broker for legal insurance business and legal-insurance-related special service package business, passing this business to UK primary insurers. Some of this insurance is then ceded to ARAG SE under quota-share reinsurance treaties.

An equity investment is also held in a legal insurance company in Luxembourg.

ARAG is one of the most internationalized insurers in Germany with 40.5 percent of its total gross premiums written accounted for by international business.

Building on its dynamic growth and great willingness to embrace change, the ARAG Group is continuing to extend its competitive edge in property and health insurance. In doing so, it is sustaining its 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. The shareholders of ARAG Holding SE are Dr. Dr. h. c. Paul-Otto Faßbender personally, who holds 54.5 percent, and FABI GmbH, Düsseldorf, which holds 45.5 percent. 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.

In contrast to the position in 2016, the ARAG Group's HGB basis of consolidation was identical to its Solvency II basis of consolidation in the year under review.

List of the main 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%	94.90%
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%	94.00%
9 ARAG North America Inc.	Corporation	Des Moines	0.00%	100.00%
10 ARAG Plc.	Plc.	Bristol	0.00%	100.00%
11 ARAG Service Center GmbH	GmbH	Düsseldorf	0.00%	100.00%
12 Cura Versicherungsvermittlung GmbH	GmbH	Düsseldorf	0.00%	100.00%
13 HELP Forsikring AS	AG	Oslo	0.00%	100.00%
14 Interlloyd Versicherungs-AG	AG	Düsseldorf	0.00%	100.00%

Description of the most important Group companies

1. ARAG SE is the Operating Group Holding Company of the ARAG Group and is one of the world's three leading providers of legal insurance. Its business is focused on private customers and on small and medium-sized business customers. It is not involved in diversified corporate business with individual risks. In addition to the Group headquarters in Düsseldorf, ARAG SE has operational branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, and Spain.
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, USA, operates legal insurance business, mainly through employers and trade associations. Insurance is provided to their employees and members, although coverage varies from state to state depending on the local regulatory rules. ARAG Insurance Company is part of a subgroup in the USA that comprises four companies and is managed by ARAG North America Inc.
6. ARAG International Holding GmbH is an intermediate holding company connecting the North American (US and Canadian) subsidiaries to the ARAG Group in Germany. It is purely a financial holding company 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 only has a few 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 North America Inc., USA, is the country-specific holding company for the ARAG Group's US business lines. It holds all of the shares in the four other US subsidiaries.
10. ARAG Plc., United Kingdom, works as an intermediary by brokering business with end customers and passing it on to primary insurers within and outside the ARAG Group. The bulk of claims settlement for the primary insurers is handled by ARAG Plc. itself.
11. ARAG Service Center GmbH is the customer service center for all German insurance companies in the ARAG Group, providing comprehensive assistance services and a telephone hotline around the clock. It also acts as a mediator in the resolution of legal disputes.
12. Cura Versicherungsvermittlung GmbH brokers insurance business to third parties that the ARAG Group does not underwrite itself. The company also takes care of the insurance requirements of the ARAG Group's own employees.

13. HELP Forsikring AS, Norway, primarily offers family legal insurance coverage for interest groups – predominantly labor unions – in Norway, Sweden, and Denmark. In Norway, it also offers a special legal insurance product for homebuyers.
14. Interlloyd Versicherungs-AG is a wholly owned subsidiary of ARAG Allgemeine Versicherungs-AG and, like its parent company, operates the casualty and property insurance business. Unlike its parent company, however, it operates its business through insurance brokers rather than directly. Interlloyd Versicherungs-AG also has a branch in Spain.

Qualitative and quantitative disclosures on relevant events and significant intragroup transactions

ARAG SE is responsible for the legal insurance operating business at both domestic and international levels and for strategic Group management. 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 or designing the IT infrastructure. All services provided for other Group companies are charged on the basis of arm's-length terms and conditions that are typical in the market. There is also extensive internal documentation kept for tax purposes that contains information about the services provided and the basis on which they were charged. Significant events and transactions are listed below.

Deconsolidation of the life insurance business ARAG SE sold its equity investment in ARAG Lebensversicherung on September 21, 2016 with an effective date of June 30, 2017. The company was deconsolidated on January 1, 2017. Various assets of ARAG Lebensversicherungs-AG were transferred to other Group entities as part of the sale. These changes enabled ARAG Krankenversicherungs-AG to remain part of the Group.

Establishment and initial consolidation of Justix GmbH This subsidiary was established on January 1, 2017 as part of the digitalization strategy. In its role as a company builder, it develops digital legal services.

Intragroup profit and loss transfers The ARAG Group has a multi-layer structure. As a result, the parent companies at the different levels receive the profit or loss from their subsidiaries. This takes the form of a dividend distribution (transfer of profit or loss from a previous period), transfer of profit or loss on the basis of contracts pursuant to section 291 of the German Stock Corporation Act (AktG), or transfer of profit or loss from the same period. The inclusion of Group companies at all levels of the Group results in the profit and loss earned being recognized more than once. They are therefore consolidated in order to obtain an accurate picture of the Group's net assets, financial position, and results of operations. In 2017, this consolidation led to a total of €61,650 thousand being eliminated from income from equity investments.

Adjustments to the carrying amounts of equity investments in Group companies Changes to the economic environment, inaccurate estimates of business opportunities, and unusual circumstances may lead to a lasting change in the value of the parent company's equity investments. Under 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.

An HGB write-down of €391 thousand recognized on the carrying amount of the equity investment in ARAG Legal Services B. V. was eliminated in 2017.

Intragroup reinsurance arrangements The Group companies have entered into reinsurance agreements with each other on arm's-length terms. This helps to share out the risks among the Group companies. In the reporting year, an amount of €29,823 thousand was eliminated for intragroup insurance premiums, €12,398 thousand for claims incurred, and €12,650 thousand for reinsurance commission in connection with these reinsurance treaties. This measure is necessary so that only the insurance premiums, expenses for claims incurred, and insurance business operating expenses resulting from agreements with third parties are recognized in the consolidated financial statements.

Intragroup services 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 2017, sales revenue from such services between Group companies was offset against the expenses of the companies performing the services in an amount of €65,208 thousand.

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 on June 30, 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 €1.6 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

Innovativeness is a key driving force for ARAG and one of its major strengths. Besides refining the portfolio, the Company has implemented new and groundbreaking ideas for products and services that are always geared to meeting customer requirements and creating benefits for them. ARAG has shown itself to be a trailblazer in the industry, based on exceptional product ideas. An excellent example is ARAG's Sofort legal insurance for motorists, introduced in 2016. This insurance offers retroactive cover and is unique in the German legal insurance market. Following this successful pilot project, a further policy with retroactive cover was designed in 2017 and launched at the beginning of February 2018: ARAG Sofort legal insurance for tenants provides retroactive cover for customers going back up to twelve months without any qualifying period. The legal insurance policy is available to individuals to cover losses in a total of five tenancy-related scenarios.

Complementing these product innovations, virtually all of ARAG's international branches and companies have incorporated digital services such as live chat for policyholders and the ARAG WalletCard – which are already well established in the German market – as fixed components of their range of services. In 2017, accompanied by a great deal of publicity, the ARAG Group launched the ARAG travel assistant, the first advisory chatbot for insurance products on the German market. In no time at all, the chatbot was successfully adapted by ARAG SE's branch in Spain. The ARAG Group is also constantly adding new pages to its websites. For example, the relaunch of all German ARAG websites was successfully completed in the year under review. The model from both design and technical perspectives was, and continues to be, the continuously upgraded website at www.ARAG.de. The groupwide transfer of knowledge and technology has proven itself to be invaluable as a successful model when designing international ARAG websites – further international websites have been optimized in this way and standardized in terms of branding.

Digitalization, a key theme in the Group, extends beyond digital services and IT system upgrades, however. ARAG is also actively exploiting the changes and opportunities associated with digitalization at a strategic level. It has created a separate new legaltech unit to position itself in the fiercely competitive legal advice market in Europe. To this end, in February 2017, it established Justix GmbH in Cologne as a wholly owned subsidiary of ARAG. Back in June 2017, the start-up launched its first business model, an online legal services platform under the brand name HelloLaw, in the Netherlands. The business is not restricted to existing customers.

In September 2016, ARAG SE initiated the sale of its 92.0 percent equity investment in ARAG Lebensversicherungs-AG to Frankfurter Leben-Gruppe. The ownership control process for the sale was successfully completed on June 30, 2017. Immediately before the transfer, certain assets of ARAG Lebensversicherungs-AG were sold to other Group companies. As of December 31, 2017, ARAG Lebensversicherungs-AG was no longer included in the consolidated financial statements or the Solvency II balance sheet of the ARAG Group.

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

A.2 Underwriting Performance

The sustained favorable economic trends in Germany and Europe were also reflected in the business performance of the ARAG Group. Although gross premiums written declined by 8.5 percent year on year, from €1,729,698.9 thousand to €1,584,997.0 thousand, the fall in premiums was mainly attributable to the disposal of the shares in ARAG Lebensversicherungs-AG, which had generated gross premiums written of €213,694.2 thousand in 2016. A year-on-year comparison of the gross premiums written after adjusting for the shares in ARAG Lebensversicherungs-AG shows that there was actually an increase of €68,972.7 thousand or 4.6 percent. The main source of this increase was the legal insurance business, but there were also contributions from a consolidation of growth in the other two core lines of business, property and health insurance.

In Germany, income from gross premiums written in the direct legal insurance business rose by 6.1 percent compared with 2016. Other than premium adjustments, the substantial expansion in the policy portfolio was the main contributing factor. Some 49,613 new policies were added to the portfolio in the year under review.

In the international markets, overall growth of 4.9 percent was achieved. The highest sales revenue is generated by the permanent establishments/branches or Group companies in the Netherlands, Spain, Italy, the US, Austria, and Scandinavia.

After the legal insurance business, the casualty and property insurance line of business was the most significant contributor to the business growth, generating a rise in premiums of 5.6 percent compared with 2016. The travel insurance business in Spain made a particularly notable contribution to this growth.

Despite challenging market conditions, the private health insurance segment also achieved premium growth of 2.3 percent. This growth was derived principally from further targeted expansion in the supplementary health insurance business, where ARAG has been traditionally strong and well positioned for many years. Sales revenue in the Group's non-insurance entities went down by 53.7 percent, caused by the disposal of the real estate development business, which accounted for the greatest proportion of this sales revenue.

With the increase in business volume, claims incurred dropped to 54.4 percent of premiums earned (2016: 59.5 percent). Claims incurred amounted to €854,026.6 thousand compared with €1,014,879.3 thousand in 2016. After deducting from the prior-year figure the claims incurred of €233,127 thousand relating to the life insurance business, claims incurred rose by 9.3 percent year on year. The reasons for this increase included a higher level of accumulation loss events in legal insurance and a number of smaller storm events affecting the residential buildings insurance business.

Insurance business operating expenses also increased. The cost ratio advanced from 32.0 percent in 2016 to 35.6 percent in 2017, one of the reasons being the pension and other post-employment benefit expenses, which had been virtually non-existent in 2016 as a result of the changes to the discounting method. Other reasons included higher commission expenses and a headcount increase, especially in the international entities. The ARAG Group's underwriting result in accordance with HGB improved by a substantial 10.2 percent, advancing from a profit of €66,735.0 thousand in 2016 to €73,534.6 thousand in 2017. Before the equalization provision, the underwriting result amounted to

a profit of €75,801.5 thousand (2016: €79,526.7 thousand). A key contributing factor was the sharp improvement in the underwriting result from the personal insurance business following the disposal of the life insurance business. Net gains on investments declined slightly, reflecting the effects of the persistently low interest rates. The balance of write-downs and reversals of write-downs had been more favorable in 2016 than in 2017. The Group had also generated higher gains on disposals in 2016. On the other hand, ordinary income from investments, especially from institutional funds, was better in the year under review. Overall however, the non-underwriting net gains on investments decreased year on year from €63,353.0 thousand to €61,530.9 thousand.

Other net income/expense amounted to a net expense of €52,257.5 thousand, which was higher than the equivalent figure of €48,331.9 thousand in 2016, as expected. The main reason for this was the one-off reduction in pension and other post-employment benefit expenses in 2016 resulting from the change in the discount rate used for defined benefit obligations.

At €81,245.3 thousand, profit from ordinary activities was again at a very good level (2016: €87,039.2 thousand). The net extraordinary expense of €21.8 thousand (2016: net expense of €266.8 thousand) arose in connection with expenses from the application of the transitional provisions in the Introductory Act to the German Commercial Code (EGHGB) relating to the accounting treatment of pension and other post-employment benefit obligations.

Consolidated net income amounting to €27,806.6 thousand was impacted by the change in deferred tax assets at €20,000.6 thousand (2016: €23,041.6 thousand).

Based on the quantitative reporting required for regulatory purposes, the underwriting result for the reporting period amounted to €42,209 thousand. The following table shows this underwriting result with a reconciliation to the underwriting result in accordance with HGB amounting to €75,802 thousand, as published in the 2017 Annual Report and explained above.

Underwriting result

(€'000)	2017	2016
Net premiums earned	1,570,577	1,706,447
Claims incurred (net, excluding claim settlement costs)	-685,359	-933,268
Changes in other technical provisions (net)	-117,147	-186,586
Insurance business operating expenses incurred and miscellaneous underwriting expenses (net)	-725,862	-635,440
Underwriting result in accordance with template S.05.01.02	42,209	-48,846
Premiums from the gross provision for bonuses and rebates	8,279	37,395
Gains and losses on investments assigned to the underwriting account	74,914	177,303
Unrealized gains and losses on investments	0	-5,673
Miscellaneous underwriting income and expenses	331	-9,170
Expenses for non-performance-based bonuses and rebates	-49,931	-71,482
Underwriting result in accordance with HGB*	75,802	79,527

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

The ARAG Group's underwriting result is generated in Germany and other countries from both legal insurance and casualty and property insurance; it is also derived from health insurance business in Germany. The structure of the presentation follows that of template S.05.01 in the Appendix. The items are valued according to HGB principles, whereas the structure is in accordance with Solvency II requirements. The breakdown of the components of the underwriting result can be found in template S.05.01. The expenses incurred are stated after the allocation to the functional areas 'Services' and 'Company as a whole'. Claim settlement costs are included in the stated 'Expenses incurred' and are aggregated under 'Insurance business operating expenses incurred and miscellaneous underwriting expenses (net)'.

The factors that have contributed to the change in the underwriting result are described in the preceding two pages of this chapter. The following table shows a breakdown of the underwriting result by main line of business:

Underwriting result by main line of business*

(€'000)	Net premiums earned	Claims incurred (net, including claim settlement costs)	Change in sundry technical provisions (net)	Insurance business operating expenses incurred and miscellaneous under- writing ex- penses (net)	Gains and losses on investments assigned to the under- writing account	Under- writing result	Under- writing result
						2017	2016
Legal insurance	934,872	479,346	192	410,180	0	45,538	66,350
Health insurance	364,182	222,785	- 117,352	81,200	74,542	17,388	8,518
Casualty and property insurance	271,524	151,896	13	107,136	371	12,876	10,096
Life insurance	0	0	0	0	0	0	- 5,437
Total	1,570,577	854,027	- 117,147	598,516	74,914	75,802	79,527

* In accordance with HGB

The legal insurance business is operated in Germany, other European countries, and North America. Travel insurance business is also operated in Spain and Portugal. Operations in Spain and Italy include miscellaneous insurance. All other classes of insurance and the health insurance business are operated solely in Germany.

The following table shows a breakdown of the underwriting result by geographical area:

Underwriting result by main geographical area*

(€'000)	Net premiums earned	Claims incurred (net, including claim settlement costs)	Change in sundry technical provisions (net)	Insurance business operating expenses incurred and miscellane- ous under- writing ex- penses (net)	Gains and losses on investments assigned to the under- writing account	Under- writing result	Under- writing result
						2017	2016
Germany	929,388	573,217	- 117,118	309,660	74,914	4,306	10,811
Netherlands	148,343	72,705	0	62,068	0	13,570	14,051
Spain	139,149	78,211	335	52,970	0	8,303	3,578
Italy	121,505	34,007	0	83,669	0	3,829	3,671
Other areas	232,193	95,886	- 364	90,149	0	45,794	47,416
Total	1,570,577	854,027	- 117,147	598,516	74,914	75,802	79,527

* In accordance with HGB

A.3 Investment Performance

The ECB again maintained its expansionary monetary policy with only hesitant adjustments. Accordingly, interest rates persisted at a low level without any prospect of change in the immediate future. In turn, this led to ever-decreasing investment income.

However, the ARAG Group was able to compensate for this trend with the help of its traditional safety-oriented investment policy. Investments generated a net gain of €136,073.4 thousand (2016: €240,022.0 thousand). The 2016 figure included the net gains on investments at ARAG Lebensversicherungs-AG amounting to €111,457.0 thousand. After adjusting for the investments of the life insurance business in the prior year, the net gains on investments rose by €7,508.4 thousand year on year. This increase was largely derived from collective investment undertakings.

The following table shows the breakdown of the gains and losses on investments in accordance with HGB* by individual asset class as required by Solvency II:

Gains and losses on investments

Type of investment (€'000)							Change in gains and losses	
	Current income	Realized gains	Realized losses	Reversals of write-downs	Depreciation, amortization and write-downs	Current expense/loss transfers	Gains and losses on investments in 2017	Gains and losses on investments in 2016
Property, plant & equipment held for own use	0	0	0	0	816	0	-816	0
Property (other than for own use)	9,703	16	26	0	1,623	916	7,154	8,902
Holdings in related undertakings, including participations	43,196	7	0	449	391	0	43,261	27,719
Equities – listed	28	0	0	91	0	0	119	-21
Equities – unlisted	0	0	0	539	22	0	517	0
Government bonds	22,815	47	185	1,024	556	0	23,145	22,664
Corporate bonds	37,756	149	637	157	978	0	36,447	42,029
Structured notes	0	0	0	0	0	0	0	0
Collateralized securities	2,448	123	3	14	7	0	2,575	2,307
Collective investment undertakings	47,660	3,274	0	8,310	880	0	58,364	56,175
Derivatives	0	0	0	0	0	0	0	0
Deposits other than cash equivalents	1	0	0	0	0	0	1	42
Other investments	839	0	116	0	356	0	367	735
Deposits to cedants	184	0	0	0	0	0	184	155
Cash and cash equivalents	135	0	0	0	0	0	135	142
Current expense (unallocated)/loss transfers	0	0	0	0	0	11,240	-11,240	-9,831
Aggregated gains and losses of the German insurance companies	164,765	3,616	967	10,584	5,629	12,156	160,213	151,018
Other Group companies	61,935	821	273	543	5,952	3,744	53,330	160,082
Consolidation adjustments	-84,264	4,959	-9	0	-1,821	-6	-77,469	-71,078
Group total	142,435	9,395	1,230	11,127	9,760	15,894	136,073	240,022

* The total of the gains and losses on investments presented in the table equates to the gains and losses on investments published in the ARAG Group's 2017 Annual Report.

Information on securitization instruments

Investments in securitization instruments also make a contribution to investment performance. As defined in HGB accounting rules, this category of investments mainly comprises instruments such as asset-backed securities and mortgage-backed securities. Pfandbriefs, on the other hand, are not classified as investments in securitization instruments because they are treated as corporate bonds. From a Solvency II perspective, the ARAG Group held asset-backed securities and mortgage-backed securities with a value of €9,989 thousand as of the reporting date.

A.4 Performance of Other Activities

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

Other income			
(€'000)	2017	2016	Change
Insurance brokered for third parties	9,010	6,668	2,342
Income from the reversal of miscellaneous provisions	4,490	5,162	-672
Interest income not arising on investments	5,851	3,314	2,537
Sundry income	19,125	14,110	5,015
Total	38,476	29,254	9,222

Other expenses

(€'000)	2017	2016	Change
Expenses incurred on behalf of the Company as a whole	-10,351	-13,433	3,082
Cost allocation for intercompany measures to modify processes	0	0	0
Reclassification of costs from central departments	-23,268	-17,559	-5,709
Addition of interest to the provision for pensions and other post-employment benefits	-8,274	-9,054	780
Expenses from default on receivables	-1,178	-989	-189
Costs for legal and tax advice	-2,383	-5,818	3,435
Expense for subordinated loans	-1,448	-1,448	0
Write-downs on goodwill arising on consolidation	-9,216	-3,133	-6,083
Auditing and publication costs for the annual financial statements	-2,969	-2,961	-8
Sundry expenses	-31,637	-23,191	-8,446
Total	-90,724	-77,586	13,138

Information on leases

A distinction is made between finance leases and operating leases. Companies in the ARAG Group are lessees under leases that are accounted for as operating leases. The ARAG Group is not involved in any material finance leases. The operating leases mainly relate to company cars and cellphones used by employees of ARAG SE, ARAG Krankenversicherungs-AG, and ARAG Allgemeine Versicherungs-AG. As lessees, the companies recognize the lease payments as an expense.

A.5 Any Other Information

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

B. System of Governance

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B.1 General Information on the System of Governance

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

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

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

The Group encourages a culture in which risk is actively embraced as well as a strong understanding of risk at all levels. The deliberate assumption of risk is of course part of an insurance 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.

Together with the Management Boards of the other companies, the Management Board has set up the Risk Committee to help it fulfill its risk management duties. To ensure the regulatory requirements concerning the use of a partial internal model are met in day-to-day operations, the Risk Committee has set up a subcommittee, the Internal Model Committee.

Currently, neither ARAG Holding SE nor ARAG SE, the Operating Group Holding Company, has an independent remuneration committee in accordance with article 275 (1) (f) of Delegated Regulation (EU) 2015/35 (the Delegated Regulation). The size of the ARAG Group, its business organization, and its legal structure mean that, at the moment, the organization itself is able to help the Management Board and the Supervisory Board supervise the remuneration guidelines and policies as well as the way they are put into practice and how they function. Therefore, it does not appear to be necessary at present to appoint an independent remuneration committee at Group level.

The Supervisory Board is responsible for appointing and monitoring the Company's Management Board. 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. These key functions have been outsourced to ARAG SE and are carried out by the central departments or departments of the same name. As these functions are kept strictly separate from the operational departments, they can perform their duties objectively and independently. Moreover, they have a direct reporting line to the ARAG Holding SE Management Board member with relevant responsibility and to the ARAG SE Management Board member with relevant responsibility at a higher level, and can also communicate directly with the Supervisory Board. The employees in these functions have the knowledge they need to be able to carry out their tasks adequately.

Risk management

The tasks of the independent risk control function are outsourced to the Group Risk Management Central Department at ARAG SE and are carried out by this department. As part of the risk management system that is in place, this department is responsible for the risk management process, which includes submitting regular reports to the Management Board. 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 outsourced to the Group Legal/Compliance Central Department at ARAG SE and are carried out by this 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 outsourced to the Group Audit Central Department at ARAG SE and are carried out by this department. The Group Audit Central Department is a process-independent function that examines and assesses structures and activities within the Group. This auditing is carried out on behalf of the Management Board and covers all processes relating to business operations. The Group Audit Central Department has to assess and evaluate the integrity, propriety, effectiveness, efficiency, and adequacy of the internal control system (ICS). Audit findings are presented to the members of the Management Board in the form of an audit report.

Actuarial function

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

Information on remuneration guidelines and policies

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

Furthermore, a core aspect of the Group's system of governance is that the remuneration of the members of the governing bodies – and that of everyone else working in any of the entities in the Group – adheres to the principles of appropriateness and transparency and is focused on sustainability.

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

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

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

The section below sets out the relevant information for all entities in the Group. To avoid repetition, it should be noted that no share plans or share option programs are offered for members of governing bodies and/or employees anywhere in the ARAG Group.

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

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

If variable remuneration has been agreed, the variable element is equivalent to a percentage of the basic salary. No share plans or share option programs are offered anywhere in the ARAG Group. Against this background and with a view to ensuring that the Group offers attractive, market-level remuneration, the variable element of the remuneration for Management Board members is set at a maximum of 60 percent of basic salary and is subdivided into short-term and long-term components. In the case of insurance companies, the long-term component currently equates to 60 percent of the relevant variable remuneration (50 percent in the case of ARAG Holding SE) and is deferred; it also takes into account the outcome of a review to establish whether there is any requirement for a potential downward adjustment as a result of exposure to current or future risks.

The targets relevant to variable remuneration are based on a mixture of objective Group and company key performance indicators drawn from the strategic planning and of individual targets for each member of the governing body. The weighting of the targets is defined beforehand. Target achievement in respect of each target is capped at predefined limits. The variable remuneration never exceeds the basic salary.

If members of the Management Board of ARAG SE simultaneously hold Management Board or senior management positions in subsidiaries of ARAG SE, they do not receive any additional remuneration for these activities. However, such multiple roles can be acknowledged in the various categories within target agreements related to the variable remuneration granted under the principal employment contract. In this case, particular attention is paid to ensuring that this does not give rise to conflicts of interest.

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

Supervisory Board members receive fixed remuneration for their work. If members of the Management Board of ARAG SE are also members of a Supervisory Board or administrative board of a subsidiary of ARAG SE, this remuneration is offset against the remuneration for the primary activity as a Management Board member.

Unless **employees** of insurance companies in the Group are granted variable remuneration components under a pay agreement or other collective agreement on a non-discretionary basis, employees only receive such variable remuneration when they reach a certain management level.

The variable remuneration for these managers is based on annual target agreements, which include a mix of objective Group and division key performance indicators and individual targets. The variable element is equivalent to a percentage of the basic salary and varies depending on management level, function, and country.

The variable remuneration never exceeds the relevant basic salary. Target achievement is capped at predefined limits. The basic salary for the postholder concerned is set at an appropriate level to ensure that he or she is not substantially dependent on the variable remuneration components. Once again, the variable remuneration must encourage good performance but not create such a significant incentive that it could encourage actions counter to the interests of the Company. The aim is to avoid, as far as possible, any conflicts of interest that could arise between the individual tasks assigned to an employee and their remuneration structure. Suitable measures are also put in place to prevent such risks materializing.

Persons responsible for other key functions are the CEOs of insurance company branches in the EEA and the postholders responsible for the key functions of Risk Management, Compliance, Internal Audit, and the Actuarial function.

The structure of the variable remuneration granted to the CEOs of the branches in the EEA is based on the same principles used for Management Board members, whereby the proportion of basic salary and/or the proportion for the long-term component may differ according to the postholder and, in particular, the size of the branch, the business activities, and standard practice in the country concerned.

Variable remuneration granted to individuals responsible internally for key functions follows the general principles for managers, although the further stipulations set out in article 275 (2) (h) and (c) of Delegated Regulation 2015/35 have also been or are being implemented in accordance with BaFin requirements.

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

If a person fulfills multiple roles, i.e. carries out activities for ARAG SE and for its subsidiaries in Germany and other countries, a retirement pension entitlement is provided solely under the primary employment contract.

No early retirement arrangements have been made with Management Board members. However, the Company is entitled to make them retire five years before the standard retirement age with the contractually agreed deductions. The Management Board members do not have a corresponding right themselves.

Supervisory Board members do not receive any supplementary pensions.

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

Group service companies headquartered in Germany

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

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

Group companies outside Germany

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

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

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

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

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

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

B.2 Fit and Proper Requirements

General principles applicable to all Group entities

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

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

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

This section first describes the requirements and procedures for members of governing bodies and key functions at insurance companies headquartered in Germany (including their branches in the EEA) and at ARAG Holding SE.

Management Board members and CEOs of EEA branches

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

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

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

Where applicable, the aforementioned qualifications also apply to the CEOs of the companies' branches in the EEA *mutatis mutandis*, i.e. they must also have in-depth knowledge of the insurance and financial markets, business strategy and business models, the system of governance, financial analysis and actuarial analysis, the regulatory framework, and the regulatory requirements. However, this knowledge must relate primarily to

the particular branch for which they are responsible. They also need to know about the domestic market in which their branch operates.

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

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

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

Supervisory Board members

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

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

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

Key functions

The people responsible for key functions must have extensive knowledge and many years of experience of working in their particular field. All individuals in such roles must also be familiar with the legal parameters relevant to their position, the Company's organization and system of governance, and ARAG's business model. In addition, the people in key functions must have very good knowledge of the relevant operating processes, business systems, and the insurance industry. The minimum initial requirements in terms of specialist expertise for any appointment to a role with internal responsibility for a key function are described below:

- Risk management: Actuarial or business management skills and qualifications or comparable academic qualifications are required. In particular, persons appointed to such roles are expected to have in-depth knowledge of relevant risk parameters, risk types, and valuation methods applicable to insurance business. Knowledge of all regulatory requirements pertaining to risk management is absolutely essential.
- Actuarial function: An individual responsible for this key function must have very well-honed actuarial and financial mathematics expertise together with a good level of business management knowledge. This expertise is normally acquired through a university degree in mathematics or through comparable training. The person concerned must also be a member of the German Actuarial Association (DAV), be able to provide evidence of equivalent professional status, or be prepared to combine work with study to obtain DAV membership or equivalent professional status.
- Compliance: The postholder must have a university degree in law or business management as well as specialist compliance expertise evidenced by professional development documentation or previous employment in this area of activity. He or she must continually keep abreast of statutory requirements and be able to demonstrate expertise, in particular, in the following areas: regulation, company law, and capital markets law, as well as competition and antitrust legislation.
- Internal audit: To ensure he or she is fit for the role in terms of professional suitability, the person responsible for this key function must hold a university degree in economics or business administration, or have undergone equivalent training, and must be able to demonstrate professional experience built up over many years. He or she must also have knowledge of the insurance industry, financial reporting, and business organization. In-depth know-how relating to auditing standards, auditing methodology, and audit-related software is a further prerequisite.

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

Job applicants must submit a detailed CV so that their career history and relevant previous experience can be examined. For both internal and external candidates, recruitment is based on a structured assessment process in which internal and external auditors assess their specialist and interdisciplinary qualifications in an assessment center. Each

candidate's professional suitability is assessed individually, taking all the circumstances into consideration. The Management Board of the individual company is responsible for assessing whether people in key functions meet the 'fit and proper' requirements. If outsourcing officers are appointed, the same fundamental requirements apply. However, the critical factors here are the requirements profile and, particularly in the case of internal candidates, relevant prior experience.

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

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

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

If key functions are outsourced, outsourcing officers must be appointed. To enable tasks to be executed properly, outsourcing officers themselves must be of good repute and have the professional skills and qualifications to ensure that the mandate to monitor the outsourced key function concerned is carried out in accordance with the relevant requirements. The Management Board of the company that appoints the outsourcing officer assesses whether the 'fit and proper' requirements are satisfied.

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

Continuing professional development as an ongoing process

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

Cause for reassessment

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

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

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

Companies headquartered outside Germany and operating in regulated fields of business

The rule for insurance companies headquartered outside Germany, ARAG North America as an insurance holding company headquartered outside Germany, and other companies that operate in regulated fields and are headquartered outside Germany (i.e. ARAG plc in the United Kingdom and ARAG Services Corporation in Canada) is that their supervisory and management bodies must include members of the Management Board or other senior managers of ARAG SE, the Operating Group Holding Company, 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 European insurance companies outside Germany, this means, for example, that the requirements always apply to people in key functions. Affected companies have to issue their own 'fit and proper' guidance if required by the pertinent governing law. The content of this guidance has to be aligned with the rules specified at Group level. The requirements regarding professional suitability are governed in full by the pertinent applicable law and, in particular, by the stipulations of the responsible supervisory authorities.

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

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

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

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

The assumption of risk is the core business of an insurance group. This means that 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, as a member of the Management Board of ARAG SE, is responsible for the implementation of the risk management system in all Group companies. Group Risk Management bears process responsibility for the risk management system and, by means of quarterly risk reports to the Management Board, ensures that there is comprehensive transparency with regard to the risk position and any changes to the risk position. Group Risk Management is also responsible for refining the risk management system and for drawing up proposals for uniform standards to be applied throughout the Group. The remit of the central department also includes developing models for determining risk-bearing capacity, solvency capital requirements, and the allocation of solvency capital.

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

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

Risk identification

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

Risk analysis

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

Risk assessment

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

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

Risk management

The 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. The policy sets out the guidelines for each ORSA process. A risk analysis of strategic positioning is then carried out; this takes the form of a bottom-up assessment by the managers involved.

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

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

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

The ORSA process is the link between the risk management system and the Company's capital management. The ORSA report describes the extent to which the Company can maintain its risk profile over the planning horizon. The comparison between the overall solvency capital requirement and eligible own funds provides an indication of future coverage. The Management Board can then use this information to assess whether there may be a need for action regarding the level and structure of own funds and the structure of the risk profile. This may involve the implementation of measures related to capital management and/or adjustments to the risk management system. In addition to workshops at which the Company's strategic positioning is discussed with the Management Board members, the Management Board also makes decisions on key elements of the ORSA process (e.g. stress tests). The Management Board is thus always aware of relevant developments affecting the risk profile. In the event of a significant change to the risk profile, the Management Board can trigger an ORSA process on an ad hoc basis.

Governance of the partial internal model

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

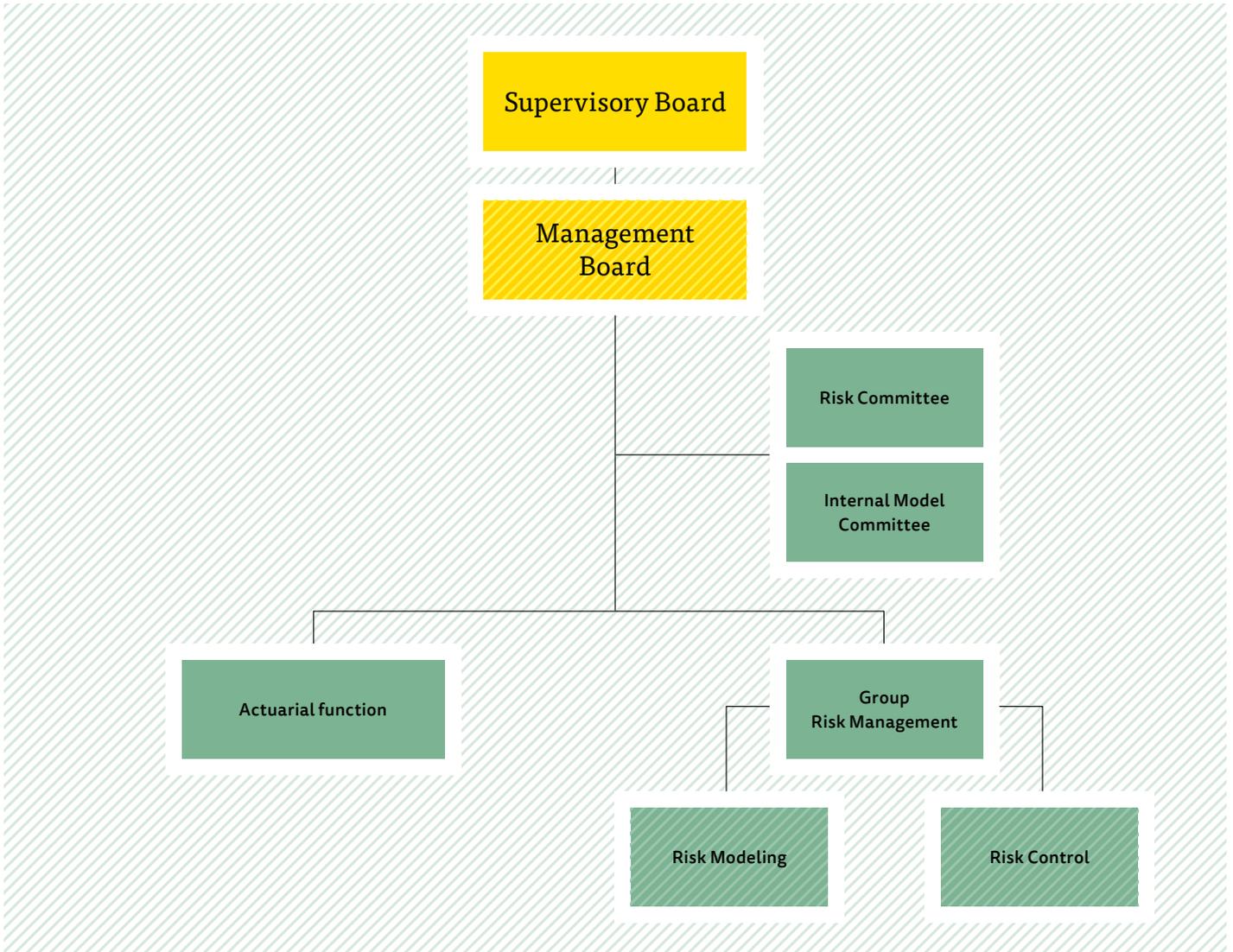
The Risk Committee's main task is to assist the individual Management Boards with performing their risk management tasks in accordance with all statutory and internal requirements. In particular, this includes the establishment and monitoring of the group-wide risk management system. To ensure the regulatory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

A regular validation process ensures that 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.

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

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, it is also possible to establish a Compliance Steering Group to which the managers in the following areas belong:

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

This committee holds interdisciplinary discussions on compliance-relevant matters and coordinates management measures. If required, the steering group can be expanded to include other managers or reduced in size to make it more efficient.

B.5 Internal Audit Function

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

B.7 Outsourcing

In accordance with section 7 no. 2 VAG, ARAG defines any kind of outsourcing as “an agreement in any form between an insurance company and a service provider, on the basis of which the service provider carries out a process, service, or task directly or by outsourcing it to another company that the insurance company would otherwise carry out itself; the service provider may or may not be subject to regulatory supervision”. This includes services previously carried out by the insurance company itself and services that the insurance company could carry out itself.

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

Apart from the Management Board’s primary tasks (in particular ensuring a proper system of governance and making strategic decisions), all activities can in principle be outsourced. If a project is to be classified as ‘outsourcing’, there must always be a relationship between the outsourced function or activity and the insurance business. The outsourcing of a key function represents a special situation, however. 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 and the Actuarial function in the Norwegian subsidiary HELP Forsikring, the ARAG Group has not outsourced any other key functions to external companies. No new outsourcing relationships, either within the Group or with third parties, were established in 2017 in respect of important functions or insurance activities.

B.8 Any Other Information

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 a culture in which risk is actively embraced.

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 appropriate communication between the Supervisory Board, Management Board, key functions, and other senior managers based on short, direct reporting channels and defined escalation procedures. The different hierarchy levels are supported in this by the use of cutting-edge technologies that deliver consistent and reliable data and make information available promptly in a manner that is suitable for the recipients.

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

C.1 Underwriting Risk	53
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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 the ARAG Group to manage itself effectively in the context of the prescribed strategy. This strategy does not generally allow any risk to be transferred to special-purpose vehicles. Overall, the partial internal model provides greater protection for customers because risks are recognized adequately.

The ARAG Group uses its internal model to model non-life underwriting risk. In addition to market risk, this risk was one of the main risks over the whole of the period under review. These two risks also include the main risk concentrations to which the Company is exposed.

Stress tests, backtesting, and scenario analysis for risk modules, sub-risks, and individual parameters are conducted as part of model validation, the ORSA process, and other regular analyses. The internally stipulated coverage ratio of a minimum of 150 percent means that customers are protected by a considerably larger risk buffer than required by the supervisory authority. Various influencing factors were stress-tested and the impact on the coverage ratio in different scenarios was analyzed. Because of the Company's very good capital adequacy, no relevant scenarios were identified that would be a threat to the protection of customers or in terms of the Company's exposure to risk. 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 the Delegated Regulation. All quantitative disclosures relate to the figures in the quantitative reporting formats set out in the Appendix.

C.1 Underwriting Risk

The ARAG Group's underwriting risk arises from:

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

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

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 accumulation losses 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.

The Company makes use of reinsurance to minimize the risks; this reinsurance mainly comprises both proportional and non-proportional reinsurance.

The solvency capital requirement for underwriting risk in indemnity, liability, and accident insurance and in legal insurance as of December 31, 2017 amounted to €153,377 thousand net (December 31, 2016: €173,877 thousand). The main risk drivers were premium/reserve risk and accumulation risk.

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

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 mass accident scenario described above
- 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.

Sensitivity analyses were carried out on a solo basis for ARAG SE, ARAG Allgemeine, and Interlloyd using significant planning parameters. For the non-life business, these parameters included premiums earned, the claims ratio, and the cost ratio. The parameters were stressed with factors of 5 percent, 10 percent, and 20 percent. Overall, the coverage ratio was not observed to fall below 150 percent in any of the sensitivity analyses.

The solvency capital requirement for underwriting risk in health insurance as of December 31, 2017 came to €27,940 thousand net (December 31, 2016: €21,612 thousand) and €118,169 thousand gross (December 31, 2016: €89,759 thousand), the main risk driver being the risk from health insurance policies that are operated on an actuarial basis comparable to that of life insurance. Most of the year-on-year increase was attributable to the adjustment of a parameter in the valuation model. Various parameters are regularly reviewed and, where necessary, adjusted in line with the risk profiles of the individual companies so that the risk valuation always reflects the reality of the situation, thereby providing customers with best level of protection. The provision transitional was not applied in the reporting period.

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 within groupwide institutional funds to hedge changes in interest rates, share prices, and exchange rates. Investments in hedge funds, the funding of investments by borrowing, and the sale of shares not owned by the ARAG Group (short selling) are not permitted.

Potential risk concentrations in the investment portfolios are countered by applying a policy of diversification, which is integral to the prudent person principle. The system of limits also restricts an excessive concentration of market risk.

Various stress tests and sensitivity analyses were carried out in the reporting period for the solo companies. Different market parameters were stressed in this process. The impact on the Group was derived from the results. Even in the extreme scenarios, the coverage ratio would still be higher than 160 percent.

The solvency capital requirement for market risk as of December 31, 2017 was €502,668 thousand (December 31, 2016: €838,483 thousand), the main risk drivers being spread risk and equity risk. The year-on-year fall in market risk was primarily attributable to the disposal of ARAG Lebensversicherungs-AG, as a result of which the investment portfolio contracted substantially.

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

C.3 Credit Risk

Counterparty default risk largely arises in connection with receivables from reinsurers, bank deposits, receivables from policyholders, and receivables from insurance brokers. It is the downside risk arising from the unexpected default 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 method used to bring together the different types of exposure, aggregate them, and determine the associated correlations is specified in the formula.

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 treaties is managed in accordance with the reinsurance strategy, which is reviewed at regular intervals.

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

The solvency capital requirement for counterparty default risk as of December 31, 2017 was €44,637 thousand (December 31, 2016: €40,274 thousand).

C.4 Liquidity Risk

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

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

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

The liquidity planning is updated constantly so that liquidity can be managed. The 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.

The expected profits included in future premiums represent a very illiquid component of basic own funds. These profits are therefore associated with a potential liquidity risk. If the expected profits contained in future premiums are not factored into basic own funds, the resulting liquidity risk is classified as very low because of the significant excess cover. The expected profits included in future premiums amount to €185,864 thousand.

C.5 Operational Risk

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

The 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.

With regard to cyber risk, these strategies include information technology security measures and insurance solutions. Additional measures have been taken to counter the potential impact from a cyberattack. These include, for example, appropriate countermeasures in a business continuity management system. The strategy put in place is documented and its implementation is monitored on an ongoing basis.

The solvency capital requirement for operational risk as of December 31, 2017 was €49,503 thousand (December 31, 2016: €57,285 thousand). There were no significant changes in the risk assessment methodology in the period under review.

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 2017, 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.

D. Valuation for Solvency Purposes

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The explanation below of each balance sheet line item's valuation methods and their differences starts with a description of their valuation (gross) under the German Commercial Code (HGB)* followed by a description of their valuation for solvency purposes (Solvency II, SII) and then an explanation of any material differences. The SII figures are also compared with the equivalent prior-year figures.

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

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

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

D.1 Assets

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

Assets as of December 31, 2017

(€'000)

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

	Solvency II as of Dec. 31, 2017	HGB as of Dec. 31, 2017	Difference as of Dec. 31, 2017	Solvency II as of Dec. 31, 2016	Solvency II year-on-year change
	0	26,322	- 26,322	0	0
	0	10,412	- 10,412	0	0
	96,300	5,525	90,774	126,399	- 30,099
	87	87	0	4	83
	215,743	128,149	87,594	218,168	- 2,425
	128,201	100,054	28,147	175,723	- 47,523
	26,518	17,936	8,581	99,996	- 73,478
	7,986	5,617	2,369	7,665	321
	781	719	61	781	0
	163,485	124,327	39,158	284,165	- 120,680
	868,825	771,230	97,596	1,308,972	- 440,146
	1,690,982	1,534,460	156,522	2,458,914	- 767,932
	46,415	40,224	6,192	156,490	- 110,074
	9,256	9,156	101	8,938	318
	2,615,479	2,355,069	260,410	3,933,313	- 1,317,834
	1,553,458	1,477,955	75,503	2,503,182	- 949,725
	0	0	0	0	0
	87,099	87,099	0	168,076	- 80,977
	49,564	43,750	5,814	27,538	22,026
	4,469,085	4,088,200	380,885	6,916,275	- 2,447,190
	4,781,215	4,232,373	548,842	7,260,846	- 2,479,631

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

Assets as of December 31, 2017

(€'000)

Brought forward:

Assets held for index-linked and unit-linked contracts

Loans and mortgages

Loans on policies

Loans and mortgages to individuals

Other loans and mortgages

Reinsurance recoverables from

Non-life and health similar to non-life

Non-life excluding health

Health similar to non-life

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

Health similar to life

Life excluding health and index-linked and unit-linked

Life index-linked and unit-linked

Receivables

Deposits to cedants

Insurance and intermediaries receivables

Reinsurance receivables

Receivables (trade, not insurance)

Other assets

Own shares (held directly)

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

Cash and cash equivalents

Any other assets, not elsewhere shown

Total assets

	Solvency II as of Dec. 31, 2017	HGB as of Dec. 31, 2017	Difference as of Dec. 31, 2017	Solvency II as of Dec. 31, 2016	Solvency II year-on-year change
	4,781,215	4,258,695	522,520	7,260,846	-2,479,631
	0	0	0	287,407	-287,407
	0	0	0	43,928	-43,928
	79	79	0	150	-71
	9,569	9,569	0	109,412	-99,843
	9,648	9,648	0	153,490	-143,842
	20,550	34,919	-14,369	19,082	1,468
	0	0	0	0	0
	20,550	34,919	-14,369	19,082	1,468
	0	0	0	1,460	-1,460
	4,946	0	4,946	38,674	-33,728
	0	0	0	0	0
	25,496	34,919	-9,423	59,216	-33,720
	49,677	49,677	0	44,389	5,288
	76,536	76,536	0	83,168	-6,632
	47,631	47,631	0	45,605	2,025
	40,478	40,478	-0	90,921	-50,442
	214,321	214,321	0	264,082	-49,761
	0	0	0	0	0
	0	0	0	0	0
	113,813	113,813	0	137,933	-24,121
	5,460	5,451	9	11,924	-6,463
	119,273	119,264	9	149,857	-30,584
	5,149,953	4,636,847	513,106	8,174,899	-3,024,946

Goodwill

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total goodwill	0	26,322	- 26,322	0	0

Goodwill is recognized under the HGB, but not for Solvency II purposes.

Intangible assets

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total intangible assets	0	10,412	- 10,412	0	0

Intangible assets are only included on the balance sheet if they were purchased. Their cost is amortized in accordance with their estimated useful life using the straight-line method. If the fair value is permanently below this residual value, the lower of the two values is recognized.

Intangible assets were not recognized on the Solvency II balance sheet as of December 31, 2017, nor as of the prior-year reporting date, because recognition was not permitted for regulatory reasons.

Deferred tax assets

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total deferred tax assets	96,300	5,525	90,774	126,399	- 30,099

If differences arise between the carrying amounts on the Solvency II balance sheet and those in the tax base and these differences are expected to reverse in subsequent years, deferred taxes are recognized on the Solvency II balance sheet in respect of these differences using separate entity-specific tax rates determined according to the country in which the registered office of the permanent establishment/branch or Group company concerned is situated. This also includes differences for which the timing of the reversal is not yet precisely known or depends on action by the entity concerned, and differences that will only reverse in the event of any liquidation.

For the purpose of recognition on the Solvency II balance sheet, the effects of the reversal of the differences between the Solvency II balance sheet and the tax base are reviewed in terms of their impact on the basis of tax assessment. Differences that would not be accompanied by sufficient taxable income at the time of reversal or would not be offset by countervailing effects in deferred taxes are not recognized.

A simplified tax planning process on the basis of the multi-year planning is used for the evaluation. Loss carryforwards are not included when determining deferred taxes. Future tax expense resulting from the reversal effects is always recognized.

The deferred tax assets on the Solvency II balance sheet are deemed not to be impaired. This is because the deferred tax liabilities are dominant on the Solvency II balance sheet and an analysis of the timing of the reversal effects proves that the time until reversal of the deferred tax expense is shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit.

The deferred tax assets largely arise because defined benefit obligations and other obligations to employees in connection with pre-retirement part-time employment, early retirement, and long-service awards are valued at a higher level under regulatory requirements than under tax regulations.

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

• Group companies, Germany	31.23 percent
• Group company, Germany, health insurance	32.98 percent
• Group companies, USA	21.00 percent
• Austria Branch	25.00 percent
• Belgium Branch	33.99 percent
• Canada Branch	26.50 percent
• Greece Branch	29.00 percent
• Italy Branch	30.82 percent
• Group companies, Norway	25.00 percent
• Netherlands Branch	25.00 percent
• Portugal Branch	21.00 percent
• Slovenia Branch	19.00 percent
• Spain Branch	25.00 percent
• Group company, United Kingdom	19.00 percent

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

Pension benefit surplus

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total pension benefit surplus	87	87	0	4	83

As of December 31, 2017, the Solvency II carrying amount was the same as the HGB carrying amount. The Solvency II carrying amount rose by €83 thousand year on year.

Property, plant & equipment held for own use

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total property, plant & equipment held for own use	215,743	128,149	87,594	218,168	-2,425

Equipment is recognized at cost on the balance sheet and subsequently using the straight-line method over the standard operating useful life.

The treatment of equipment for solvency purposes is no different to its treatment under the HGB.

Because the valuation methods are identical, there are no valuation differences.

Real estate (property) held for own use is valued at cost less depreciation. If its value is permanently impaired, it is written down to the lower of fair value or depreciated cost. If the reason for the impairment 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. Fair values are used for Solvency II purposes. The year-on-year decrease in the Solvency II carrying amount of €2,425 thousand was attributable to the decline in the fair values of the real estate. There were no changes in the recognition and valuation methods compared with the previous year.

Property (other than for own use)

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total property (other than for own use)	128,201	100,054	28,147	175,723	-47,523

On the Solvency II balance sheet, the value of property (other than for own use) is based on 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.

Differences arise between the Solvency II balance sheet and the HGB financial statements because the historical cost convention is applied in the valuation under the HGB, whereas the higher unrealized fair values are recognized on the Solvency II balance sheet. As of December 31, 2017, unrealized valuation reserves amounted to €28,147 thousand. The year-on-year decrease in the Solvency II carrying amount of €47,523 thousand was mainly attributable to the disposal of land associated with the sale of the life insur-

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

Holdings in related undertakings, including participations

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total holdings in related undertakings, including participations	26,518	17,936	8,581	99,996	- 73,478

Holdings in related undertakings, including participations are valued at cost, in some cases reduced by write-downs to fair value and by specific equity investment risk arising on the equity investments. Write-downs are reversed to no more than the historical cost if the reason for recognizing them ceases to apply. The fair value is determined using an income capitalization approach based on a planning horizon of 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 excess of the assets over the liabilities of the subsidiary as recognized on its Solvency II balance sheet. The valuation of the assets and liabilities on a subsidiary's Solvency II balance sheet is based on the valuation rules for solvency purposes.

At the first valuation level, other subsidiaries are valued at market price. If no market prices are available, they are recognized at the second valuation level on the basis of their pro rata equity derived from modified financial statements in which special assets and liabilities are valued in accordance with the principles of valuation for solvency purposes and the International Financial Reporting Standards (IFRS).

The 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 to the historical costs, which in some cases date back a long way. The total value on the Solvency II balance sheet as of December 31, 2017 was €8,581 thousand higher than the total value on the HGB balance sheet. The year-on-year decrease in the Solvency II carrying amount of €73,478 thousand was mainly attributable to the alignment of the Solvency II basis of consolidation with the basis of consolidation used for the HGB consolidated financial statements. As a consequence, shares reported in the prior year as holdings in related undertakings are now eliminated as part of the consolidation.

Equities

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Equities – listed	7,986	5,617	2,369	7,665	321
Equities – unlisted	781	719	61	781	0
Total equities	8,767	6,337	2,430	8,446	321

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 II purposes, equities are valued using the 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 resulted in a valuation difference of €61 thousand for unlisted equities as of December 31, 2017. In the case of listed equities, the year-on-year change was mainly caused by changes in fair value. There were no changes in the recognition and valuation methods compared with the previous year.

Bonds

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Government bonds	868,825	771,230	97,596	1,308,972	-440,146
Corporate bonds	1,690,982	1,534,460	156,522	2,458,914	-767,932
Structured notes	46,415	40,224	6,192	156,490	-110,074
Collateralized securities	9,256	9,156	100	8,938	318
Total bonds	2,615,479	2,355,069	260,410	3,933,313	-1,317,834

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

Bonds that, overall, are intended for permanent use in insurance operations are valued under the HGB at the lower quoted market price or market value as of the balance sheet date only if this price or value is expected to be permanently lower than the cost.

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

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

Compared with recognition under the HGB, the valuation of fixed-income securities in accordance with the rules described above has resulted in valuation reserves of €260,410 thousand that have not yet been realized. The year-on-year decrease in the Solvency II carrying amount of €1,317,834 thousand was mainly attributable to the contraction in the portfolio in connection with the sale of the life insurance business. There were no changes in the recognition and valuation methods compared with the previous year.

Collective investment undertakings

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Equities	455,794	413,558	42,236	604,219	-148,425
Bonds	1,020,747	989,010	31,737	1,738,946	-718,199
Other	76,917	75,387	1,530	160,017	-83,100
Total collective investment undertakings	1,553,458	1,477,955	75,503	2,503,182	-949,725

Collective investment undertakings 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 in which the stake held is at least 20 percent are reported under collective investment undertakings and not under holdings in related undertakings, including participations.

The restriction of the valuation under HGB rules as a result of the historical cost convention and the realization principle mean that the valuation for solvency purposes was €75,503 thousand higher as of December 31, 2017. The year-on-year decrease in the Solvency II carrying amount of €949,725 thousand was mainly attributable to the contraction in the portfolio in connection with the sale of the life insurance business. There were no changes in the recognition and valuation methods compared with the previous year.

Derivatives

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

Deposits other than cash equivalents

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total deposits other than cash equivalents	87,099	87,099	0	168,076	-80,977

Deposits other than cash equivalents are recognized at their nominal amount. Taking account of the materiality principle, the nominal amount is also used as the economic value.

Because of the identical valuation methods, the value under the HGB and the value for solvency purposes are the same. The Solvency II carrying amount fell by €80,977 thousand year on year because balances were reduced. There were no changes in the recognition and valuation methods compared with the previous year.

Other investments

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total other investments	49,564	43,750	5,814	27,538	22,026

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

For solvency purposes, the NAV 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 for solvency purposes as of December 31, 2017 was €5,814 thousand higher than the HGB value. The year-on-year increase in the Solvency II carrying amount of €22,026 thousand was mainly attributable to the expansion in the portfolio of private equity and infrastructure investments. There were no changes in the recognition and valuation methods compared with the previous year.

Assets held for index-linked and unit-linked contracts

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

Loans and mortgages

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Loans on policies	0	0	0	43,928	-43,928
Loans and mortgages to individuals	79	79	0	150	-71
Other loans and mortgages	9,569	9,569	0	109,412	-99,843
Total loans and mortgages	9,648	9,648	0	153,490	-143,842

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. The year-on-year decrease in the Solvency II carrying amount of €143,842 thousand was mainly attributable to the contraction in the portfolio in connection with the sale of the life insurance business. There were no changes in the recognition and valuation methods compared with the previous year.

Recoverables from reinsurance and special-purpose vehicles

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Non-life and health similar to non-life	20,550	34,919	- 14,369	19,082	1,468
Life and health similar to life, excluding health and index-linked and unit-linked	4,946	0	4,946	40,134	- 35,188
Total recoverables from reinsurance and special-purpose vehicles	25,496	34,919	- 9,423	59,216	- 33,720

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

For solvency purposes, the amounts recoverable from reinsurance contracts and from special-purpose vehicles are calculated separately for the premiums provision and the claims provision. In order to discount them, the ARAG Group breaks down the amounts recoverable from reinsurance contracts and from special-purpose vehicles according to the payment patterns of the technical provisions (gross). The expected loss arising from the counterparty's default is deducted from the amounts recoverable from reinsurance contracts. Default probabilities are applied on the basis of the credit rating of the individual reinsurer. This adjustment reflects the assessment of the counterparty's default probability and the resulting average expected loss.

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

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

The ARAG Group validates the calculation of the amounts recoverable from reinsurance contracts and from special-purpose vehicles annually, or more frequently in some areas. A comparison with past experience is one of the methods used. There were no changes in the recognition and valuation methods compared with the previous year.

The value for the reinsurers' share of technical provisions amounted to €34,919 thousand on the HGB balance sheet; the figure on the Solvency II balance sheet was €9,423 thousand lower owing to the aforementioned valuation differences. The year-on-year decline of €33,720 thousand on the Solvency II balance sheet was primarily caused by the disposal of the life insurance business.

Receivables

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Deposits to cedants	49,677	49,677	0	44,389	5,288
Insurance and intermediaries receivables	75,536	75,536	0	83,168	-6,632
Reinsurance receivables	47,631	47,631	0	45,605	2,025
Receivables (trade, not insurance)	40,478	40,478	0	90,921	-50,443
Total receivables	214,321	214,321	0	264,082	-49,761

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

There are no valuation differences due to use of the nominal amount as the economic value. There were no changes in the recognition and valuation methods compared with the previous year.

Insurance and intermediaries receivables 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.

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

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

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

Receivables (trade, not insurance) are generally recognized at their nominal amount. In the event of actual default risk relating to rating downgrades, specific allowances are recognized in the amount that is no longer likely to be recovered.

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

The year-on-year decrease in the Solvency II carrying amount of €49,761 thousand was attributable to ongoing business operations and the sale of the life insurance business.

Own shares (held directly)

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

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

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

Cash and cash equivalents

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total cash and cash equivalents	113,813	113,813	0	137,933	- 24,121

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

There are no valuation differences due to use of the nominal amount as the economic value. The year-on-year decrease in the Solvency II carrying amount of €24,121 thousand was attributable to the reduction in balances. There were no changes in the recognition and valuation methods compared with the previous year.

Any other assets, not elsewhere shown

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total of any other assets, not elsewhere shown	5,460	5,451	9	11,924	- 6,463

Any other assets, not elsewhere shown 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.

The year-on-year decrease in the Solvency II carrying amount of €6,463 thousand was largely attributable to the disposal of the life insurance business. There were no changes in the recognition and valuation methods compared with the previous year.

Please refer to section A.4 for disclosures relating to leases.

D.2 Technical Provisions

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

Technical provisions as of December 31, 2017

(€'000)

Technical provisions – non-life

Technical provisions – non-life (excluding health)
--

Technical provisions calculated as a whole
--

Best estimate

Risk margin

Technical provisions – health (similar to non-life)

Technical provisions calculated as a whole
--

Best estimate

Risk margin

Technical provisions – life (excluding index-linked and unit-linked)
--

Technical provisions – health (similar to life)

Technical provisions calculated as a whole
--

Best estimate

Risk margin

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

Technical provisions calculated as a whole
--

Best estimate

Risk margin

Technical provisions – index-linked and unit-linked

Technical provisions calculated as a whole
--

Best estimate

Risk margin

Other technical provisions

Total provisions

	Solvency II as of Dec. 31, 2017	HGB as of Dec. 31, 2017	Difference as of Dec. 31, 2017	Solvency II as of Dec. 31, 2016	Solvency II year-on-year change
	0	0	0	0	0
	0	0	0	0	0
	0	1,621,476	-1,621,476	0	0
	1,137,904	0	1,137,904	1,148,577	-10,673
	35,946	0	35,946	39,653	-3,707
	1,173,850	1,621,476	-447,626	1,188,230	-14,381
	0	972	-972	0	0
	0	0	0	0	0
	642	0	642	643	-2
	330	0	330	367	-37
	972	972	0	1,011	-39
	0	0	0	0	0
	0	0	0	0	0
	0	1,990,558	-1,990,558	0	0
	1,889,808	0	1,889,808	1,802,444	87,364
	18,732	0	18,732	16,064	2,668
	1,908,539	1,990,558	-82,019	1,818,508	90,032
	0	0	0	0	0
	0	0	0	0	0
	5,161	0	5,161	2,368,689	-2,363,528
	649	0	649	80,161	-79,512
	5,810	0	5,810	2,448,849	-2,443,040
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	243,594	-243,594
	0	0	0	5,306	-5,306
	0	0	0	248,900	-248,900
	0	83,730	-83,730	0	0
	3,089,171	3,696,736	-607,566	5,705,498	-2,616,328

Technical provisions

On the HGB balance sheet, the technical provisions include unearned premiums, the actuarial reserve, the provision for outstanding claims, the provision for performance-based and non-performance-based bonuses and rebates, the equalization provision and similar provisions, and miscellaneous technical provisions.

Gross unearned premiums for direct insurance business are calculated pro rata temporis on the basis of the premiums and lapses/cancellations posted, less the installment surcharges. In accordance with a circular from the German Federal Ministry of Finance (BMF) dated April 30, 1974, the non-transferable income components are deducted from the unearned premiums for the domestic parts of the business of the Group's insurance companies. A total of 85 percent of the commissions and other remuneration for agents is recognized as non-transferable income components. The capitalized portion of the acquisition costs is deducted from the unearned premiums for the non-German parts of the business. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

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 3.05 percent.

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 in relation to direct casualty and property insurance business** is recognized separately by event year for claims reported in the financial year concerned and for anticipated claims that are reported after the balance sheet date. A provision for claim settlement expenses is also recognized. These provisions are valued in accordance with prudent business practice, taking into account the ongoing need to satisfy the obligations under insurance contracts. Valuation is based on values as of the balance sheet date. The provisions are not discounted. The results from the group-based and individual valuations are reviewed on a portfolio basis using actuarial methods. Recourse claims that are expected to be recovered in the next year are deducted from the property insurance companies' claims provision. The **benefit reserve for annuities** contained in the provision for outstanding claims is calculated individually using actuarial principles and in accordance with the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) – based on the prevailing maximum interest rate of 0.9 percent – by the appointed actuary for the casualty and property insurance segment, taking the expenses required for settlement into account.

The **provision for outstanding claims in the inward reinsurance business** is recognized in accordance with the information provided by the primary insurer. The provision for outstanding claims in connection with the inward reinsurance business from primary insurers in the United Kingdom is determined on the basis of past experience and statistics produced by the Group's own claims settlement company. The proportions relating to outward reinsurance business are calculated in accordance with the stipulations in the reinsurance treaties. The valuation method used was the same one used in the previous year.

In the year under review, currency-related adjustments to the claims reserves were applied on the basis of exchange rates at the end of each quarter. The resulting exchange differences were recognized under other net income/expense.

Technical interest income is calculated at 0.9 percent of the arithmetic mean of the opening and closing balances of the actuarial reserve and the benefit reserves for annuities in the casualty and property insurance segment. 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. The expenses that are likely to be incurred after the balance sheet date for settling claims from previous years were determined in accordance with the tax rules pursuant to section 341 g (1) HGB on the basis of coordinated regulations issued by the German federal states on February 2, 1973.

The **equalization provision** is recognized for the Europe territory (excluding Norway, Sweden, and Denmark) in accordance with section 341 h HGB in conjunction with section 29 RechVersV. The equalization provision for the US, Canada, Norway, Sweden, and Denmark territories is calculated, where required, according to local regulatory rules.

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

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

1. Non-life insurance (excluding health): This covers the legal insurance and casualty and property insurance business of ARAG SE and the casualty and property insurance business of ARAG Allgemeine Versicherungs-AG, Interlloyd Versicherungs-AG, and ARAG North America Inc.
2. Health insurance (similar to non-life): This covers the business of ARAG Krankenversicherungs-AG (operated on a basis similar to indemnity insurance) and recognized annuity payments under accident disability insurance of ARAG Allgemeine Versicherungs-AG and Interlloyd Versicherungs-AG.
3. Health insurance (similar to life): This covers the business of ARAG Krankenversicherungs-AG (operated on a basis similar to life insurance).

4. Life insurance (excluding health and index-linked and unit-linked): This covers the 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.

Re 1: The **technical provisions for non-life insurance (excluding health)** on the Solvency II balance sheet comprise the following:

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

Re a): The claims provisions are calculated for each previously defined homogeneous risk group. 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.

Re b): 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.

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

Re d): Amounts recoverable from reinsurance contracts are very significant to ARAG. The reinsurers' share is determined by applying the historical and current reinsurance treaties to the gross reserves.

Re 2: In the case of the **technical provisions for health insurance (similar to non-life)**, the fair value of the provisions for accident disability insurance is determined using the same method as that used under the HGB. The Solvency II methodology differs from the HGB methodology only in the use of a market interest-rate term structure to discount the future annuities and in the use of best estimate mortality probabilities (second-order mortality basis) instead of probabilities with a safety buffer (first-order mortality basis).

For reasons of materiality, the provisions for health insurance (similar to indemnity insurance) are the same as the HGB value. This approach is deemed reasonable in view of the low volume.

Re 3: The market values for **technical provisions for health insurance (similar to life)** are calculated using the inflation-neutral valuation method (INBV). The individual components are:

- a) Expected value provision
- b) Risk margin.

Re a): 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.

Re b): 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.

The underlying management rules are subject to a moderate level of valuation uncertainty because management decisions over the whole of the insurance period cannot currently be predicted with certainty. It is only possible to make assumptions regarding expectations, taking into account ARAG Health's current or currently planned strategies. Based on a regular validation of the fundamental assumptions and methods, the approach used to value the expected value provision and the risk margin is considered to be appropriate.

Re 4: The market values for the **technical provisions for life insurance (excluding health and index-linked and unit-linked)** are calculated using the same valuation methodology applied for HGB purposes. The Solvency II methodology differs from the HGB methodology only in the use of a market interest-rate term structure to discount the future annuities and in the use of best estimate mortality probabilities (second-order mortality basis) instead of probabilities with a safety buffer (first-order mortality basis).

Uncertainties in the calculation of provisions for Solvency II purposes

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

The level of uncertainty in the calculation of non-life technical provisions is quantified individually for each homogeneous risk group as part of internal modeling in relation to both the premiums provision and the claims provision. The assumptions made are regularly reviewed, particularly as part of the validation process, and the uncertainty inherent in the technical provisions can therefore be considered manageable from an overall perspective.

The method used to determine the technical provisions for health insurance is considered to be reasonable because the modeling approach is generally conservative and overestimates the obligations. The inflation-neutral valuation method represents a simplification pursuant to article 60 of the Delegated Regulation.

Transitional measures

No transitional measures have been applied for calculating the technical provisions, either in the Group or at individual company level.

Differences between the HGB and Solvency II valuations

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 applies especially in the case 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 principle of itemized valuation applies to the HGB balance sheet. Therefore, the obligations are inventoried and valued individually using a prudently estimated settlement value. Time and quantity are not explicitly taken into account, but are indirectly factored into the valuation assumptions used to determine the average value of an obligation. According to the principles of valuation for solvency purposes, the entire portfolio is valued rather than the individual claims. The quantitative data plays only a minor role. The expected payments from the portfolio are estimated as the total of all probable payments until final settlement. This provides an implicit consideration of risk in the valuation of the portfolio. The expected payments are discounted to the valuation date.

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

Technical provisions – non-life (excluding health)

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Technical provisions calculated as a whole	0	1,621,476	-1,621,476	0	0
Best estimate	1,137,904	0	1,137,904	1,148,577	-10,673
Risk margin	35,946	0	35,946	39,653	-3,707
Total technical provisions – non-life (excluding health)	1,173,850	1,621,476	-447,626	1,188,230	-14,381

The overall valuation difference for technical provisions – non-life (excluding health) was minus €447,626 thousand (the carrying amount calculated for solvency purposes was lower than the HGB amount). 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.

The total carrying amount of the technical provisions in accordance with Solvency II declined by €14,381 thousand year on year. At overall level, the provision for outstanding payments relating to claims incurred rose by €13,173 thousand as a consequence of the growth in business. The premiums provision fell by €23,846 thousand as a result of the decline in expenses for future claims, which was mainly attributable in turn to a contraction in the cost ratio. The risk margin changed more or less in line with the change in the solvency capital requirement for future periods, as a result of which there was a decline of €3,707 thousand in this figure.

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

Technical provisions – health (similar to non-life)

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Technical provisions calculated as a whole	0	972	-972	0	0
Best estimate	642	0	642	644	-2
Risk margin	330	0	330	367	-37
Total technical provisions – health (similar to non-life)	972	972	0	1,011	-39

There is no valuation difference between the HGB and Solvency II carrying amounts for the technical provisions covering health insurance (similar to life).

The total carrying amount of the technical provisions in accordance with Solvency II declined by €39 thousand year on year. As the proportion of the total underwriting risk arising from health insurance accounted for by non-life underwriting risk declined, the proportion of the total technical provision accounted for by the risk margin also declined. The lower risk margin was the main reason for the year-on-year change in the provision.

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

Technical provisions – health (similar to life)

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Technical provisions calculated as a whole	0	1,990,558	-1,990,558	0	0
Best estimate	1,889,808	0	1,889,808	1,802,444	87,364
Risk margin	18,732	0	18,732	16,064	2,668
Total technical provisions – health (similar to life)	1,908,539	1,990,558	-82,019	1,818,508	90,032

The overall valuation difference for technical provisions – health (similar to life) was minus €82,019 thousand (the carrying amount calculated for solvency purposes was lower than the HGB amount). 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.

The total carrying amount of the technical provisions in accordance with Solvency II rose by €90,032 thousand year on year. An increase of approximately €21,711 thousand was explained by the fact that ARAG Krankenversicherungs-AG did not make use of the transitional measure for technical provisions in the form of the provision transitional. A further increase arose in the best estimate under health insurance (similar to life), in particular as a consequence of an increase in the committed provision for bonuses and rebates and in the provision for premium reductions in old age as well as increased parameters for future policyholder profit participation at ARAG Krankenversicherungs-AG. The total amount of the risk margin changed virtually in line with the change in the solvency capital requirement of ARAG Krankenversicherungs-AG, as a result of which there was an aggregate rise of €2,668 thousand in this figure.

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

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

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Technical provisions calculated as a whole	0	0	0	0	0
Best estimate	5,161	0	5,161	2,368,689	-2,363,528
Risk margin	649	0	649	80,161	-79,512
Total technical provisions – life (excluding health and index-linked and unit- linked)	5,810	0	5,810	2,448,849	-2,443,040

Under the HGB, there is no distinction in technical provisions for health insurance between 'similar to life' and 'similar to non-life'. The total amount is therefore reported under 'Technical provisions – health (similar to life)'.

The year-on-year decline of €2,443,040 thousand on the Solvency II balance sheet was primarily caused by the disposal of the life insurance business.

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

Technical provisions – index-linked and unit-linked

As of December 31, 2017, the ARAG Group had not recognized any technical provisions for index-linked and unit-linked insurance.

Reinsurance recoverables

Reinsurance recoverables are the reinsurers' share of the technical provisions. In the case of outward reinsurance business, this means that the figure for reinsurance recoverables equates to the reinsurers' share of the provisions for direct insurance business.

For regulatory purposes, the gross provisions are reported on the liabilities side of the balance sheet without deducting reinsurance recoverables. However, the reinsurers' share is reported as an asset on the other side of the balance sheet. Retrospective and prospective markdowns are recognized to take into account the default risk on the part of reinsurers.

In accordance with the HGB, nominal amounts are recognized, these amounts being determined on the basis of the reinsurance treaties.

On the HGB balance sheet, technical provisions are recognized using a net approach in which the gross amount of the obligation is reduced by the portion covered by outward reinsurance.

The difference between the Solvency II and HGB figures is attributable to this difference in the valuation methods. On the Solvency II balance sheet, the reinsurance recoverables are reported under assets (see chapter D.1).

Other technical provisions

The equalization provision (€80,877 thousand) and the lapse provision (€2,853 thousand) are reported under miscellaneous technical provisions on the HGB balance sheet. No equalization provision is recognized on the Solvency II balance sheet. For Solvency II purposes, lapse risk is already included in the best estimate item under technical provisions – non-life.

D.3 Other Liabilities

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

Other liabilities as of December 31, 2017

(€'000)

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

	Solvency II as of Dec. 31, 2017	HGB as of Dec. 31, 2017	Difference as of Dec. 31, 2017	Solvency II as of Dec. 31, 2016	Solvency II year-on-year change
	596	0	- 596	1,180	- 583
	121,473	111,852	- 9,621	117,101	4,372
	288,696	224,010	- 64,686	305,599	- 16,903
	1,346	1,346	0	37,086	- 35,740
	260,675	0	- 260,675	369,577	- 108,903
	0	0	0	0	0
	0	0	0	0	0
	52,392	52,392	0	72,847	- 20,455
	2,671	2,671	0	3,440	- 769
	54,061	54,061	0	49,651	4,410
	109,125	109,125	0	125,938	- 16,813
	0	0	0	0	0
	32,601	30,000	- 2,601	33,748	- 1,147
	32,601	30,000	- 2,601	33,748	- 1,147
	4,205	2,409	- 1,797	305	3,900
	818,717	478,741	- 339,976	990,534	- 171,818

Contingent liabilities

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total contingent liabilities	596	0	- 596	1,180	- 584

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. The ARAG Group currently does not have any contingent liabilities that have become a liability that has to be recognized in accordance with the HGB.

For solvency purposes, contingent liabilities 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 eligible own funds available. This has arisen in connection with an indirect obligation in respect of ARAG Krankenversicherung-Unterstützungskasse e. V. The recognition of €596 thousand on the Solvency II balance sheet has given rise to a valuation difference of the same amount compared with the HGB carrying amount. There were no changes in the recognition and valuation methods compared with the previous year. The decline of €584 thousand in the Solvency II carrying amount as of the reporting date was caused by the reduction in the shortfall of the cover for obligations provided by the fund assets at ARAG Krankenversicherung-Unterstützungskasse e. V.

Provisions other than technical provisions

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total provisions other than technical provisions	121,473	111,852	9,621	117,101	4,372

The provisions other than technical 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 2.80 percent. Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles. In 2017, a provision was recognized in accordance with the pre-retirement part-time employment agreement for the private insurance industry dated June 11, 1997 and the pronouncement of the Institute of Public Auditors in Germany (IDW) dated November

18, 1998. A residual maturity of 15 years was assumed. The seven-year average discount rate used by Deutsche Bundesbank was 2.80 percent. In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements was taken into account. A bank guarantee was provided as collateral for the provisions pursuant to section 8a of the German Pre-retirement Part-time Employment Act (AltTZG).

For solvency purposes, provisions for long-service awards, early retirement obligations, and pre-retirement part-time employment obligations are valued using the projected unit credit method (PUC method) as required by International Accounting Standard (IAS) 19. The discount rate is determined on the basis of the yields achieved for senior industrial bonds on the balance sheet date. Expected growth in income (2.5 percent) and the Company's projections for staff turnover (1.5 percent) are taken into account. The amount calculated in this way equates to the economic value.

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

Due to the use of different valuation methods, the obligations recognized under provisions other than technical provisions were €9,621 thousand higher on the Solvency II balance sheet than the value on the HGB balance sheet. The year-on-year rise in the Solvency II carrying amount was largely explained by a drop in the level of interest rates on the IAS 19 term structure used to discount the cash flows back to the reporting date. There were no changes in the recognition and valuation methods compared with the previous year.

Pension benefit obligations

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total pension benefit obligations	288,696	224,010	- 64,686	305,599	- 16,903

In accordance with standard international practice, the pension benefit obligations 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 3.68 percent was applied for the valuation.

Existing assets from reinsurance and fixed-income securities were offset against the defined benefit obligation (€4,720 thousand). 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 discount rates gave rise to a difference of €64,686 thousand by which the economic value exceeded the HGB value. Under the HGB, the provisions for pensions and other post-employment benefits are recognized using a higher discount rate, so they are discounted to a greater degree. After adjusting for the life insurance business, the SII carrying amount increased year on year. This was largely explained by a drop in the level of interest rates on the IAS 19 term structure used to discount the cash flows back to the reporting date. There were no changes in the recognition and valuation methods compared with the previous year.

Deposits from reinsurers

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total deposits from reinsurers	1,346	1,346	0	37,086	- 35,740

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 were no valuation differences between the Solvency II balance sheet as of December 31, 2017 and the HGB balance sheet as of December 31, 2017 because the nominal amount was recognized as the economic value for reasons of materiality. The year-on-year decline in the Solvency II carrying amount was mainly attributable to the sale of the life insurance business and the termination of a reinsurance treaty. There were no changes in the recognition and valuation methods compared with the previous year.

Deferred tax liabilities

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total deferred tax liabilities	260,675	0	-260,675	369,577	-108,903

If differences arise between the carrying amounts on the Solvency II balance sheet and those in the tax base and these differences are expected to reverse in subsequent years, deferred taxes are recognized on the Solvency II balance sheet in respect of these differences using separate entity-specific tax rates determined according to the country in which the registered office of the permanent establishment/branch or Group company concerned is situated. This also includes differences for which the timing of the reversal is not yet precisely known or depends on action by the entity concerned, and differences that will only reverse in the event of any liquidation.

The deferred tax liabilities largely arise because investments are valued at a higher level, and technical provisions at a lower level, under regulatory requirements than under tax regulations.

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

Derivatives

No derivatives were recognized by the ARAG Group as of December 31, 2017.

Debts owed to credit institutions

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

Financial liabilities other than debts owed to credit institutions

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Insurance & intermediaries payables	52,392	52,392	0	78,878	-20,455
Reinsurance payables	2,671	2,671	0	3,440	-769
Payables (trade, not insurance)	54,061	54,061	0	49,651	4,410
Total financial liabilities other than debts owed to credit institutions	109,125	109,125	0	125,938	-16,813

Insurance and intermediaries payables 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 between the Solvency II and HGB carrying amounts.

Reinsurance payables are recognized at their settlement value. There are no differences in their recognition and valuation on the HGB and Solvency II balance sheets. The year-on-year decrease in the Solvency II carrying amount was largely caused by billing close to the reporting date.

Payables (trade, not insurance) are recognized at their settlement value. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value. There are no differences in their recognition and valuation on the HGB and Solvency II balance sheets.

The year-on-year decline in the Solvency II carrying amount was mainly attributable to the sale of the life insurance business and the associated elimination of the liabilities to policyholders in this business segment.

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

Subordinated liabilities

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Subordinated liabilities not in basic own funds	0	0	0	0	0
Subordinated liabilities in basic own funds	32,601	30,000	2,601	33,748	-1,147
Total subordinated liabilities	32,601	30,000	2,601	33,748	-1,147

Subordinated liabilities have been issued by means of private placement. The bond with a nominal value of €30,000 thousand has a fixed maturity of ten years and will be redeemed on July 29, 2024. Subordinated liabilities 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. Because of the discounting, the value on the Solvency II balance sheet as of December 31, 2017 was €2,601 thousand higher than the value on the HGB balance sheet. The Solvency II carrying amount declined year on year because of the shorter time to maturity.

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

Any other liabilities, not elsewhere shown

(€'000)	SII as of Dec. 31, 2017	HGB as of Dec. 31, 2017	SII/HGB difference as of Dec. 31, 2017	SII as of Dec. 31, 2016	SII year-on- year change
Total of any other liabilities, not elsewhere shown	4,205	2,409	1,796	305	3,900

Any other liabilities, not elsewhere shown 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. No such liabilities with a maturity of more than twelve months were discounted.

Valuation differences of €1,796 thousand arose between the carrying amounts on the Solvency II and HGB balance sheets. This was caused by the special supervisory requirements for the business in Norway. The year-on-year increase in the Solvency II carrying amount was mainly attributable to the normal continuation of business operations because the amount concerned consisted of deferred income in accordance with the HGB.

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

D.4 Alternative Methods for Valuation

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

D.5 Any Other Information

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

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E.1 Own Funds

Objectives, guidance, and procedures for managing own funds

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

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

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

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

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

Components and quality of own funds

As of December 31, 2017, the ARAG Group held basic own funds in the form of an excess of assets over liabilities of €1,242,065 thousand according to the Solvency II balance sheet. It also had a subordinated liability of €32,601 thousand classified as own funds. This bond has a fixed maturity of ten years and will be redeemed on July 29, 2024. In the event of liquidation, it will be subordinate to all other liabilities. According to the proposal for appropriation of the profit recognized on the HGB balance sheet, a sum of €10,000 thousand will be distributed to shareholders as dividends. The surplus fund held by the health insurance business is to be reduced by €130,159 thousand. In addition, an amount of €11,048 thousand in the excess of assets over liabilities is attributable to non-controlling interests.

This results in eligible own funds of €1,123,459 thousand, split between the different capital classes as follows: Tier 1 own funds of €1,090,858 thousand and Tier 2 own funds of €32,601 thousand.

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

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

(€'000)	Dec. 31, 2017	Dec. 31, 2016
Equity as of December 31 on the HGB balance sheet	461,369	461,714
Impact of the larger basis of consolidation under HGB compared with the Group under Solvency II	0	- 35,817
Elimination of intangible assets/goodwill	- 36,734	- 13,142
Additional deferred tax assets	90,774	113,817
Revaluation of land and buildings held for own use (fair value)	87,594	159,060
Revaluation of investments	380,886	662,123
Revaluation of other loans and mortgages	0	0
Revaluation of reinsurers' share of technical provisions	- 9,423	- 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	0	- 24,872
Revaluation of any other assets, not elsewhere shown	9	0
Revaluation of gross technical provisions	523,835	621,783
No separate recognition of miscellaneous technical provisions	83,730	0
Recognition of contingent liabilities	- 596	- 1,180
Revaluation of provisions other than technical provisions	- 9,621	- 7,334
Revaluation of pension benefit obligations	- 64,686	- 80,176
Additional deferred tax liabilities recognized	- 260,675	- 364,934
Revaluation of the subordinated liabilities included in basic own funds	- 2,601	- 3,748
Revaluation of any other liabilities, not elsewhere shown	- 1,796	412
Excess of assets over liabilities according to the Solvency II balance sheet	1,242,065	1,478,866
Additional basic own funds resulting from subordinated liabilities	32,601	33,748
Foreseeable dividend	- 10,000	- 10,000
Reduction of health insurance surplus fund	- 130,159	- 124,167
Adjustment for non-controlling interests	- 11,048	- 36,314
Eligible own funds as of December 31	1,123,459	1,342,133

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

Own funds reconciliation reserve

(€'000)	Total	Tier 1 own funds	Tier 2 own funds	Tier 3 own funds
Share capital	200,000	200,000	0	0
Share premium account related to ordinary share capital	0	0	0	0
Reconciliation reserve	1,032,065	1,032,065	0	0
Reduction of health insurance surplus fund	-130,159	-130,159	0	0
Adjustment for non-controlling interests	-11,048	-11,048	0	0
Basic own funds	1,090,858	1,090,858	0	0
Ancillary own funds (subordinated liabilities)	32,601		32,601	0
Eligible own funds	1,123,459	1,090,858	32,601	0

As of December 31, 2017, the reconciliation reserve amounted to €1,032,065 thousand and consisted of equity in accordance with HGB amounting to €461,369 thousand, valuation differences of €780,696 thousand, a deduction for the planned dividend of €10,000 thousand, and a deduction for the share capital of €200,000 thousand.

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.

The solvency capital requirement declined significantly by 21 percent year on year, from €564,151 thousand as of December 31, 2016 to €446,487 thousand as of the reporting date. Please refer to chapter C. 'Risk Profile' for further information on the changes in the individual risks. At 252 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. This represented a rise of 14 percentage points compared with the figure of 238 percent as of December 31, 2016, with the fall in the solvency capital requirement being substantially greater than that in own funds.

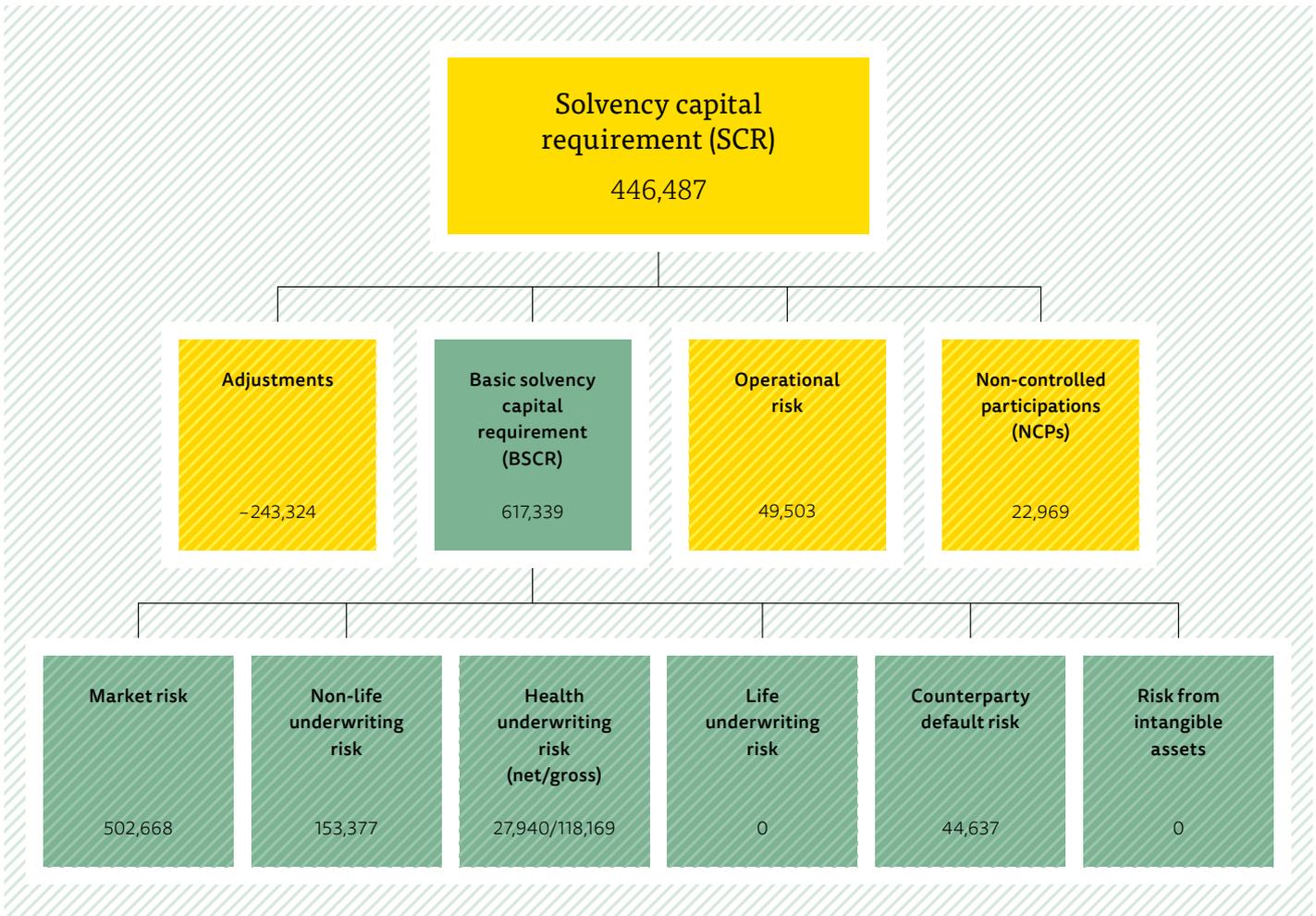
Neither a simplified calculation of the SCR standard formula nor undertaking-specific parameters (USPs) are used in any of the modules.

The Group's SCR floor (minimum capital requirement) is the sum of the minimum capital requirements of the individual companies. As of December 31, 2017, the minimum capital requirement was €214,673 thousand (December 31, 2016: €292,871 thousand), which equated to 48 percent of the solvency capital requirement at that time and resulted in a coverage ratio for the minimum capital requirement of 523 percent (December 31, 2016: 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. No other transitional measures were applied.

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

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

From the perspective of the ARAG Group, it was important to ensure that the development of the model reflected, as far as possible, the conservative investment and underwriting policy dictated by the ownership structure. 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:

- **Experience:** ARAG has operated successfully in German and international insurance markets for 80 years. In its relationships with customers, the Group sees itself as rather more than just an organization for reimbursing costs. It is always looking for new ways to provide comprehensive assistance for the customer if the worst-case scenario should arise. In the ARAG Group, customer benefit and customer protection go hand in hand at all times.

- **Business model:** The ARAG Group is the largest family enterprise in the German insurance industry. The Group positions itself as a quality insurance provider focusing on private customers and small and medium-sized enterprises (SMEs). It is not involved in diversified corporate business with the special risks typical of this business.
- **Independence:** As the ARAG Group is a family enterprise, independence plays a key role. It provides a great deal of business latitude, enabling the Group to make decisions without having to worry about short-term shareholder returns. The ARAG Group also pursues a conservative business strategy with a long-term focus, offering stability, reliability, and continuity to both the Group and its customers.
- **International presence:** In addition to the Group headquarters in Düsseldorf, the ARAG Group currently maintains permanent establishments/branches or Group companies in Austria, Belgium, Canada, Denmark, Greece, Italy, the Netherlands, Norway, Portugal, Slovenia, Spain, Sweden, the UK, and the USA. Including two equity investments in Luxembourg and Switzerland, ARAG is therefore now a successful player in a total of 17 markets. The Group is a leader in many international legal insurance markets. Legal insurance products precisely tailored to the needs of customers in each market provide the recipe for success. The highly effective processes for transferring knowledge within the Group also mean that successful product ideas can be quickly adapted for use in other countries.
- **Quality:** The success of the ARAG Group is based on quality and the particular innovative strength of the Group. The Group is always open to new ideas – reflected, not least, in its state-of-the-art insurance products and services. These are consistently focused on customer needs to ensure that customers enjoy both optimum insurance cover in line with their requirements and also genuine added value and benefits. The high quality of the services is reflected, among other things, in the numerous regular awards and seals of approval received from independent organizations.

This self-image, which is mirrored in the Group's business model, was one of the major factors behind the development of a partial internal model for the ARAG Group. It is not possible to use the standard formula to model the ARAG Group's specific risk profile as a family enterprise with a clear focus on casualty, property, and legal insurance business for private and small business customers both in Germany and abroad.

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.

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

Probability distribution forecast

Underwriting risk comprises the following components: premium risk, reserve risk, catastrophe risk, and lapse risk. Liability, accident, and motor insurance pensions (abbreviated to 'HUK' in German), in which risk arises in connection with premiums, reserves, longevity, and costs, are also classified under non-life underwriting risk and included in the partial internal model. However, the modules do not differ materially from the structure of the standard formula.

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

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

The ARAG Group's underwriting portfolio is broken down into various segments according to management and risk considerations. This segmentation is based on two principles: firstly, to divide the portfolio into groups sharing similar risk characteristics and, secondly, to enable management-relevant information to be determined from the partial internal model and used for the management of the Group on a value-driven basis.

The Gaussian copula method is the main approach used to aggregate the distributions into an overall risk distribution for underwriting risk. The correlations applied for this purpose are determined internally using ARAG's own history, which is supplemented with input from experts. Procedures vary only in that the aggregation logic for the sub-risks differs from that for the overall risk because of the more complex structure of the ARAG Group compared with that in the individual companies. However, the methods used to aggregate the risks are the same.

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

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

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

Sub-module	Standard formula	Internal model
Premium and reserve risk	A factor-based approach is used in the standard formula. The standard volatility factors (market average) for each line of business are applied to the relevant volume measure (reserve or premiums). Specified correlation parameters are used in a linear correlation approach. Regional diversification is taken into account.	In the partial internal model, casualty and property insurance is broken down into groups of risks sharing similar characteristics and these risk groups form the ARAG segments. The risk calculation is based on company-specific data and internal calibration. Reinsurance is precisely reflected in the model, especially in relation to major losses. In addition, there is diversification across segments and countries. The aggregation method follows a copula approach. Well-established actuarial methods are used.
Lapse risk	Lapse risk is quantified using a factor approach.	A lapse distribution is modeled, with calibration based on company-specific data.
Large claims caused by people	Predefined scenarios in the standard formula.	A committee of experts specifies company-specific scenarios for the risk model.
Legal insurance accumulation risk	Not taken into account in the standard formula.	Accumulation events represent a heightened risk in the legal insurance business. ARAG therefore models these losses with its own data using a distribution of the number of claims and claims amounts.
Natural disaster risk	Predefined scenarios in the standard formula.	Natural disaster risk is quantified with special geophysical models. The company-specific portfolio is used for this purpose.
Underwriting risk – life/health	Longevity and cost risk are quantified using predefined stress scenarios.	Longevity and cost risk are handled in the same way as in the standard formula.

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

Diversification

Diversification effects are highlighted by aggregating the risk distributions for the individual sub-risks into the total risk capital requirement. The diversification effect between the modules for the ARAG Group amounted to €201,512 thousand. Diversification effects arise if the risks to be aggregated are independent or only partially dependent on each other. Key diversification factors include, for example:

- Classes of insurance or segments: legal insurance claims involving private or small business customers, as well as accident and liability risks

- Risk categories: legal insurance claims from different areas of activity, such as road traffic or employment, risks from different natural disasters
- Regions: accumulation of losses in different countries.

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

The internal model is integrated into the standard formula using standard correlations. The Company therefore follows the standard integration technique for incorporating diversification effects. The market risk, non-life underwriting risk, health underwriting risk, life underwriting risk, counterparty default risk, and (in a certain sense) the risk from intangible assets (of no significance for ARAG) are aggregated, taking into account correlation matrices. In this process, the solvency capital requirements for the sub-risks are calibrated such that a confidence level of 99.5 percent is achieved over a period of one year.

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

Non-life underwriting risk/risk from intangible assets correlation: ARAG does not have any intangible assets. Consequently, there are no dependencies in this regard.

Non-life underwriting risk/life underwriting risk correlation: The ARAG Group does not underwrite any life insurance business. Consequently, there are no dependencies in this regard.

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

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

Scope of Group model

The calculation of the solvency capital requirement for the Group encompasses various companies that are treated in different ways within the Group. Shares in affiliated companies and equity investments relate to companies in which the ARAG Group has a holding

of at least 20 percent. The consolidated data for calculating the Group's solvency capital requirement includes the following:

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

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

Appropriateness of data

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

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

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

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

Taking a prudent view, 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	96,300
Pension benefit surplus	R0050	87
Property, plant & equipment held for own use	R0060	215,743
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	4,469,085
Property (other than for own use)	R0080	128,201
Holdings in related undertakings, including participations	R0090	26,518
Equities	R0100	8,767
Equities – listed	R0110	7,986
Equities – unlisted	R0120	781
Bonds	R0130	2,615,479
Government bonds	R0140	868,825
Corporate bonds	R0150	1,690,982
Structured notes	R0160	46,415
Collateralized securities	R0170	9,256
Collective investment undertakings	R0180	1,553,458
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	87,099
Other investments	R0210	49,564
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	9,648
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	79
Other loans and mortgages	R0260	9,569
Reinsurance recoverables from:	R0270	25,496
Non-life and health similar to non-life	R0280	20,550
Non-life excluding health	R0290	20,550
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	4,946
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	4,946
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	49,677
Insurance and intermediaries receivables	R0360	76,536
Reinsurance receivables	R0370	47,631
Receivables (trade, not insurance)	R0380	40,478
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	113,812
Any other assets, not elsewhere shown	R0420	5,460
Total assets	R0500	5,149,952

S.02.01.02

Balance sheet

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	1,174,822
Technical provisions – non-life (excluding health)	R0520	1,173,850
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	1,137,904
Risk margin	R0550	35,946
Technical provisions – health (similar to non-life)	R0560	972
Technical provisions calculated as a whole	R0570	0
Best estimate	R0580	642
Risk margin	R0590	330
Technical provisions – life (excluding index-linked and unit-linked)	R0600	1,914,349
Technical provisions – health (similar to life)	R0610	1,908,539
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	1,889,808
Risk margin	R0640	18,732
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	5,810
Technical provisions calculated as a whole	R0660	0
Best estimate	R0670	5,161
Risk margin	R0680	649
Technical provisions – index-linked and unit-linked	R0690	0
Technical provisions calculated as a whole	R0700	0
Best estimate	R0710	0
Risk margin	R0720	0
Contingent liabilities	R0740	596
Provisions other than technical provisions	R0750	121,473
Pension benefit obligations	R0760	288,696
Deposits from reinsurers	R0770	1,346
Deferred tax liabilities	R0780	260,675
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	52,392
Reinsurance payables	R0830	2,671
Payables (trade, not insurance)	R0840	54,061
Subordinated liabilities	R0850	32,601
Subordinated liabilities not in basic own funds	R0860	0
Subordinated liabilities in basic own funds	R0870	32,601
Any other liabilities, not elsewhere shown	R0880	4,205
Total liabilities	R0900	3,907,888
Excess of assets over liabilities	R1000	1,242,065

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Premiums, claims and expenses by line of business

		Medical expense insurance	Income protection insurance
		C0010	C0020
Premiums written			
Gross – direct business	R0110	0	57,865
Gross – proportional reinsurance accepted	R0120	0	-237
Gross – non-proportional reinsurance accepted	R0130	-	-
Reinsurers' share	R0140	0	874
Net	R0200	0	56,753
Premiums earned			
Gross – direct business	R0210	0	57,869
Gross – proportional reinsurance accepted	R0220	0	-237
Gross – non-proportional reinsurance accepted	R0230	-	-
Reinsurers' share	R0240	0	875
Net	R0300	0	56,757
Claims incurred			
Gross – direct business	R0310	0	23,870
Gross – proportional reinsurance accepted	R0320	0	51
Gross – non-proportional reinsurance accepted	R0330	-	-
Reinsurers' share	R0340	0	1,520
Net	R0400	0	22,401
Changes in other technical provisions			
Gross – direct business	R0410	0	497
Gross – proportional reinsurance accepted	R0420	0	369
Gross – non-proportional reinsurance accepted	R0430	-	-
Reinsurers' share	R0440	0	0
Net	R0500	0	866
Expenses incurred	R0550	0	31,772
Other expenses	R1200	-	-
Total expenses	R1300	-	-

Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)							
Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	
C0030	C0040	C0050	C0060	C0070	C0080	C0090	
0	1,564	762	0	88,014	47,350	0	
0	0	0	0	-275	237	0	
-	-	-	-	-	-	-	
0	167	0	0	4,351	2,257	0	
0	1,397	762	0	83,388	45,329	0	
0	1,564	762	0	87,713	47,300	0	
0	0	0	0	-275	237	0	
-	-	-	-	-	-	-	
0	167	0	0	4,273	2,300	0	
0	1,397	762	0	83,165	45,237	0	
0	1,577	304	0	42,032	13,758	0	
0	0	0	0	-388	20	0	
-	-	-	-	-	-	-	
0	220	-1	0	1,341	1,734	0	
0	1,357	305	0	40,303	12,044	0	
0	1,348	58	0	-512	873	0	
0	0	0	0	-1,702	356	0	
-	-	-	-	-	-	-	
0	0	0	0	0	0	0	
0	1,348	58	0	-2,213	1,229	0	
0	321	259	0	42,435	23,400	0	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	

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Premiums, claims and expenses by line of business

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		
		Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0100	C0110	C0120
Premiums written				
Gross – direct business	R0110	746,120	53,460	20,347
Gross – proportional reinsurance accepted	R0120	189,368	14,790	514
Gross – non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	292	899	35
Net	R0200	935,195	67,351	20,827
Premiums earned				
Gross – direct business	R0210	743,004	53,158	19,929
Gross – proportional reinsurance accepted	R0220	189,172	14,498	543
Gross – non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	292	899	35
Net	R0300	931,883	66,757	20,437
Claims incurred				
Gross – direct business	R0310	305,455	24,143	4,460
Gross – proportional reinsurance accepted	R0320	63,426	13,804	-191
Gross – non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	2,224	264	-0
Net	R0400	366,657	37,683	4,269
Changes in other technical provisions				
Gross – direct business	R0410	-580	16	-494
Gross – proportional reinsurance accepted	R0420	-2,307	0	15
Gross – non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	-2,887	16	-478
Expenses incurred	R0550	528,716	33,457	12,180
Other expenses	R1200	-	-	-
Total expenses	R1300	-	-	-

Line of business for: accepted non-proportional reinsurance					Total
Health	Casualty	Marine, aviation, transport	Property		
C0130	C0140	C0150	C0160		C0200
-	-	-	-		1,015,481
-	-	-	-		204,397
0	0	0	0		0
0	0	0	0		8,876
0	0	0	0		1,211,002
-	-	-	-		1,011,297
-	-	-	-		203,938
0	0	0	0		0
0	0	0	0		8,840
0	0	0	0		1,206,395
-	-	-	-		415,599
-	-	-	-		76,722
0	0	0	0		0
0	0	0	0		7,303
0	0	0	0		485,017
-	-	-	-		1,206
-	-	-	-		-3,267
0	0	0	0		0
0	0	0	0		0
0	0	0	0		-2,062
0	0	0	0		672,539
-	-	-	-		1,759
-	-	-	-		674,298

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Premiums, claims and expenses by line of business

		Health insurance	Insurance with profit participation
		C0210	C0220
Premiums written			
Gross	R1410	365,099	0
Reinsurers' share	R1420	363	0
Net	R1500	364,735	0
Premiums earned			
Gross	R1510	364,182	0
Reinsurers' share	R1520	0	0
Net	R1600	364,182	0
Claims incurred			
Gross	R1610	200,386	0
Reinsurers' share	R1620	45	0
Net	R1700	200,342	0
Changes in other technical provisions			
Gross	R1710	117,352	0
Reinsurers' share	R1720	0	0
Net	R1800	117,352	0
Expenses incurred	R1900	63,912	0
Other expenses	R2500	-	-
Total expenses	R2600	-	-

Index-linked and unit-linked insurance	Line of business for: life insurance obligations				Life reinsurance obligations		Total
	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance		
C0230	C0240	C0250	C0260	C0270	C0280	C0300	
0	0	0	0	0	0	365,099	
0	0	0	0	0	0	363	
0	0	0	0	0	0	364,735	
0	0	0	0	0	0	364,182	
0	0	0	0	0	0	0	
0	0	0	0	0	0	364,182	
0	0	0	0	0	0	200,386	
0	0	0	0	0	0	45	
0	0	0	0	0	0	200,342	
0	0	0	0	0	0	117,352	
0	0	0	0	0	0	0	
0	0	0	0	0	0	117,352	
0	0	0	0	0	0	63,912	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	

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Premiums, claims and expenses by country

		Home country
		C0010
	R0010	-
		C0080
Premiums written		
Gross – direct business	R0110	555,836
Gross – proportional reinsurance accepted	R0120	22,301
Gross – non-proportional reinsurance accepted	R0130	-
Reinsurers' share	R0140	9,027
Net	R0200	569,109
Premiums earned		
Gross – direct business	R0210	551,608
Gross – proportional reinsurance accepted	R0220	22,159
Gross – non-proportional reinsurance accepted	R0230	-
Reinsurers' share	R0240	22,572
Net	R0300	551,195
Claims incurred		
Gross – direct business	R0310	332,625
Gross – proportional reinsurance accepted	R0320	20,052
Gross – non-proportional reinsurance accepted	R0330	-
Reinsurers' share	R0340	6,244
Net	R0400	346,433
Changes in other technical provisions		
Gross – direct business	R0410	-101
Gross – proportional reinsurance accepted	R0420	0
Gross – non-proportional reinsurance accepted	R0430	0
Reinsurers' share	R0440	0
Net	R0500	-101
Expenses incurred	R0550	230,635
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	
105,670	105,670	33,505	92,531	61,072	954,285	
34,736	33,936	90,014	49,929	0	230,915	
-	-	-	-	-	0	
0	116	0	49,929	0	59,072	
140,406	139,490	123,519	92,531	61,072	1,126,128	
105,666	104,689	32,522	98,458	60,666	953,610	
34,734	34,561	88,983	49,885	0	230,323	
-	-	-	-	-	0	
0	102	0	0	0	22,674	
140,400	139,149	121,505	148,343	60,666	1,161,259	
34,818	45,214	10,361	45,560	2,038	470,617	
2,936	34,368	23,646	27,144	30	108,176	
-	-	-	-	-	0	
0	1,371	0	27,144	0	34,759	
37,753	78,211	34,007	45,560	2,068	544,033	
0	0	0	0	-29	-130	
0	335	0	0	0	335	
0	0	0	0	0	0	
0	0	0	0	0	0	
0	335	0	0	-29	205	
30,700	52,970	83,675	62,079	23,438	483,496	
-	-	-	-	-	105,091	
-	-	-	-	-	588,587	

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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	-

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

Ordinary share capital (gross of own shares)
Non-available called but not paid in ordinary share capital at group level
Share premium account related to ordinary share capital
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
Subordinated mutual member accounts
Non-available subordinated mutual member accounts at group level
Surplus funds
Non-available surplus funds at group level
Preference shares
Non-available preference shares at group level
Share premium account related to preference shares
Non-available share premium account related to preference shares at group level

Reconciliation reserve

Subordinated liabilities
Non-available subordinated liabilities at group level
An amount equal to the value of net deferred tax assets
The amount equal to the value of net deferred tax assets not available at the group level
Other items approved by supervisory authority as basic own funds not specified above
Non available own funds related to other own funds items approved by supervisory authority
Minority interests (if not reported as part of a specific own fund item)
Non-available minority interests at group level

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

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

Deductions

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

Total deductions**Total basic own funds after deductions****Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand
Unpaid and uncalled preference shares callable on demand
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
Non available ancillary own funds at group level
Other ancillary own funds

Total ancillary own funds

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
	-	-	-	-	-
R0010	200,000	200,000	-	0	-
R0020	0	0	-	-	-
R0030	0	0	-	0	-
R0040	-	-	-	-	-
R0050	-	-	-	-	-
R0060	-	-	-	-	-
R0070	-	-	-	-	-
R0080	130,158	130,158	-	-	-
R0090	-	-	-	-	-
R0100	-	-	-	-	-
R0110	-	-	-	-	-
R0120	-	-	-	-	-
R0130	1,032,065	1,032,065	-	-	-
R0140	32,601	-	0	32,601	0
R0150	0	-	0	0	0
R0160	0	-	-	-	0
R0170	0	-	-	-	0
R0180	-	-	-	-	-
R0190	-	-	-	-	-
R0200	0	0	0	0	0
R0210	11,048	11,048	0	0	0
	-	-	-	-	-
R0220	-	-	-	-	-
	-	-	-	-	-
R0230	0	0	0	0	-
R0240	0	0	0	0	-
R0250	0	0	0	0	0
R0260	-	-	-	-	-
R0270	141,206	141,206	0	0	0
R0280	141,206	141,206	0	0	0
R0290	1,123,459	1,090,858	0	32,601	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	1,123,459	1,090,858	0	32,601	0
R0530	1,123,459	1,090,858	0	32,601	-
R0560	1,123,459	1,090,858	0	32,601	0
R0570	1,123,459	1,090,858	0	32,601	-
R0610	214,673	-	-	-	-
R0650	5.23	-	-	-	-
R0660	1,123,459	1,090,858	0	32,601	0
R0680	446,487	-	-	-	-
R0690	2.52	-	-	-	-
	C0060				
	-	-	-	-	-
R0700	1,242,065	-	-	-	-
R0710	0	-	-	-	-
R0720	10,000	-	-	-	-
R0730	200,000	-	-	-	-
R0740	0	-	-	-	-
R0750	-	-	-	-	-
R0760	1,032,065	-	-	-	-
	-	-	-	-	-
R0770	0	-	-	-	-
R0780	0	-	-	-	-
R0790	0	-	-	-	-

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

Unique number of component

C0010

1

2

3

4

5

6

7

8

9

Calculation of solvency capital requirement

Total undiversified components

Diversification

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

Solvency capital requirement excluding capital add-on

Capital add-ons already set

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

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

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

Capital requirement for duration-based equity risk sub-module

Total amount of notional solvency capital requirements for remaining part

Total amount of notional solvency capital requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))

Total amount of notional solvency capital requirement for matching adjustment portfolios

Diversification effects due to RFF nSCR aggregation for article 304

Minimum consolidated group solvency capital requirement

Information on other entities

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

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

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

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

Capital requirement for non-controlled participation requirements

Capital requirement for residual undertakings

Overall SCR

SCR for undertakings included via D and A

Solvency capital requirement

Components description	Calculation of the solvency capital requirement	Amount modeled		USP	Simplifications
		C0020	C0030	C0070	C0080
Market risk	502,668	-	-	-	-
Counterparty default risk	44,637	-	-	-	-
Life underwriting risk	0	-	-	-	-
Health underwriting risk	118,169	-	-	-	-
Non-life underwriting risk	153,377	153,377	-	-	-
Intangible asset risk	0	-	-	-	-
Operational risk	49,503	-	-	-	-
LAC technical provisions	- 163,050	-	-	-	-
LAC deferred taxes	- 80,273	-	-	-	-
	C0100				
R0110	868,354				
R0060	- 201,512				
R0160	0				
R0200	446,487				
R0210	0				
R0220	446,487				
	-				
R0300	0				
R0310	0				
R0400	0				
R0410	0				
R0420	0				
R0430	0				
R0440	0				
R0470	214,673				
	-				
R0500	0				
R0510	0				
R0520	0				
R0530	0				
R0540	22,969				
R0550	0				
	C0100				
	-				
R0560	0				
R0570	446,487				

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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	LEI/391200Q KNZJ8J1XWFE16	LEI	ARAG SE	Non-life insurer	European Company (SE)	Non-mutual	BAFIN
DE	LEI/391200S FAXHRCQQ62T14	LEI	ARAG Kranken- versicherungs-AG	Life insurer	Aktiengesellschaft	Non-mutual	BAFIN
DE	LEI/3912006 MZNEOF4M2XK19	LEI	ARAG Allgemeine Versicherungs-AG	Non-life insurer	Aktiengesellschaft	Non-mutual	BAFIN
DE	LEI/391200G WEMT1F0BUHB43	LEI	ARAG Interlloyd Versicherungs-AG	Non-life insurer	Aktiengesellschaft	Non-mutual	BAFIN
US	SC/391200MYFHR LCFWAH448US10057	SC	ARAG Insurance Company	Non-life insurer	Incorporated	Non-mutual	NAIC
CH	SC/391200MYFHR LCWAH448CH10058	SC	AXA-ARAG Rechtsschutz- versicherungs- Gesellschaft	Non-life insurer	Aktiengesellschaft	Non-mutual	FINMA
NO	LEI/5967007 LIEEXZX9PCO98	LEI	HELP Forsikring AS	Non-life insurer	Aksjeselskap (AS)	Non-mutual	FSAN
DE	LEI/391200MYFHR LCFWAH448	LEI	ARAG Holding SE	Insurance holding company as defined in Art. 212 section [f] of Directive 2009/138/EC	European Company (SE)	Non-mutual	
US	SC/391200MYFHR LCFWAH448US10059	SC	ARAG North America Inc.	Insurance holding company as defined in Art. 212 section [f] of Directive 2009/138/EC	Incorporated	Non-mutual	

Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Full consolidation
94.00%	94.00%	-	-	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
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
-	-	-	-	-	-	Included into scope of group supervision	-	Method 1: Full consolidation
100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Full consolidation

DE	LEI/3912000 YELENA3B7JK17	LEI	AFI Verwaltungs- Gesellschaft mbH	Insurance holding company as defined in Art. 212 section [f] of Directive 2009/138/EC	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10001	SC	ARAG Interna- tional Holding GmbH	Insurance holding company as defined in Art. 212 section [f] of Directive 2009/138/EC	Gesellschaft mit beschränkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10002	SC	ARAG 2000 Grundstücks- gesellschaft bR	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft buergerlichen Rechts	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10003	SC	ALIN 1 GmbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10004	SC	ALIN 1 Verwaltungs- 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 LCFWAH448DE10005	SC	ALIN 2 GmbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10006	SC	ALIN 2 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 LCFWAH448DE10009	SC	ALIN 4 GmbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10010	SC	ALIN 4 GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual		

	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Full consolidation
	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Full consolidation
	94.90%	94.90%	-	-	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
	94.00%	94.00%	-	-	Dominant	93.26%	Included into scope of group supervision	-	Method 1: Proportional consolidation
	94.00%	94.00%	-	-	Dominant	93.26%	Included into scope of group supervision	-	Method 1: Proportional consolidation

DE	SC/391200MYFHR LCFWAH448DE10011	SC	ARAG IT 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 LCFWAH448DE10012	SC	ARAG Liegenschaftsverwaltungs- und Beratungs-Gesellschaft mbH	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual
DE	SC/391200MYFHR LCFWAH448DE10013	SC	ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien 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 LCFWAH448DE10014	SC	ARAG Service Center 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 LCFWAH448DE10015	SC	CUR Versicherungsmakler 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 LCFWAH448DE10017	SC	Cura Versicherungsvermittlung 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 LCFWAH448DE10019	SC	VIF Gesellschaft für Versicherungsvermittlung mit beschränkter Haftung	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual
US	SC/391200MYFHR LCFWAH448US10060	SC	ARAG Services, LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited Liability Company	Non-mutual
DE	SC/391200MYFHR LCFWAH448DE10022	SC	SolFin GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual

	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: Full consolidation
	100.00%	100.00%	-	-	Dominant	100.00%	Included into scope of group supervision	-	Method 1: 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
	100.00%	94.93%	-	-	Dominant	94.93%	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

ES	SC/391200MYFHR LCFWAH448ES10023	SC	Agencia de Seguros ARAG S.A.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Sociedad Anonima	Non-mutual
ES	SC/391200MYFHR LCFWAH448ES10024	SC	ARAG Services Spain & Portugal S.L. (formerly: ARAG Legal Service S.L.)	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Sociedad de Responsabilidad Limitada	Non-mutual
US	SC/391200MYFHR LCFWAH448US10025	SC	ARAG, LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited Liability Company	Non-mutual
DE	SC/391200MYFHR LCFWAH448DE10026	SC	janolaw AG	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Aktiengesellschaft	Non-mutual
DE	SC/391200MYFHR LCFWAH448DE10031	SC	ARAG 2000 Beteiligungsgesellschaft mbH & 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 LCFWAH448DE10042	SC	Prinzregent Vermögensverwaltungs-GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual
FR	SC/391200MYFHR LCFWAH448FR10043	SC	ARAG-France Assistance et Règlement de Sinistres Automobiles et Généraux S.A.R.L.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Societe a responsabilite limitee (SARL)	Non-mutual
NL	SC/391200MYFHR LCFWAH448NL10044	SC	ARAG Legal Services B.V. (formerly: Rechtswijzer B. V.)	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Besloten Vennootschap	Non-mutual
NL	SC/391200MYFHR LCFWAH448NL10045	SC	JuroDirect B.V.	Ancillary services undertaking as defined in Article 1 (53) of Delegated 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	94.93%	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	91.00%	Included into scope of group supervision	-	Method 1: Full consolidation
	100.00%	100.00%	-	-	Dominant	91.00%	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

GB	SC/391200MYFHR LCFWAH448GB10048	SC	ARAG plc.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Public Limited Company	Non-mutual
US	SC/391200MYFHR LCFWAH448US10062	SC	ARAG Association LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited Liability Company	Non-mutual
DE	SC/391200MYFH RLCFWAH- 448DE10053	SC	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
DE	SC/391200MYFHR LCFWAH448DE10055	SC	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 LCFWAH448DE10056	SC	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

	100.00%	100.00%	-	-	Dominant	100.00%	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
	28.37%	28.37%	-	-	Significant	24.51%	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
	17.24%	17.24%	-	-	Significant	17.24%	Included into scope of group supervision	-	Method 1: Proportional 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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You can find the latest **information about the Group and our products** on our website: **www.ARAG.com**

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

Credits

Editors	ARAG Corporate Communications/Marketing
Design and layout	Kammann Rossi GmbH, Cologne
Photography	Cover page: Getty Images

