

ARAG HOLDING SE

2018 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/ Group Controlling

Operating insurance companies

ARAG Allgemeine Versicherungs-AG

(Casualty and property insurance)

ARAG Krankenversicherungs-AG

(Health insurance)

Interlloyd Versicherungs-AG

(Specialized in broker sales)

International companies

(Legal insurance/ legal services)

Service companies

ARAG IT GmbH

(IT services for the ARAG Group)

Cura Versicherungsvermittlung GmbH

(Brokerage firm)

ARAG Service Center GmbH

(Emergency telephone service)

Structure of ARAG 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

Risk Management/ Brand and Communications

Klaus Heiermann

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/ Group Controlling

Dr. Joerg Schwarze

Key Figures

Premium income/sales revenue:

€ **1,678** million

↗ 2017: €1,610 million

Consolidated net income:

€ **35** million

↗ 2017: €28 million*

Combined ratio:

88.6%

↘ 2017: 89.9%

Eligible own funds:

€ **1,155** million

↗ 2017: €1,123 million

Solvency capital requirement:

€ **444** million

↘ 2017: €446 million

Solvency ratio:

260.0%

↗ 2017: 251.6%

* Prior-year figures include pro rata income and expenses for 2017 after disposal of the life insurance business

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Summary

Chapter A. Business and Performance

Chapter A.1 provides detailed information on the legal structure of ARAG Holding SE (referred to as the Company or the ARAG Group). It describes the principal divisions, presents qualitative and quantitative disclosures on relevant events and significant intragroup operations, and sets out material transactions during the year. The underwriting performance (chapter A.2), investment performance (chapter A.3), and performance of other activities (chapter A.4) in the ARAG Group in the year under review are summarized below.

In the period under review, the ARAG Group increased its total gross premiums by 4.3 percent to €1,653,720 thousand. The growth was driven primarily by the improvement in the Group's share of the German legal insurance market and also by greater penetration of international legal insurance markets. Gross premium income from direct business in the German legal insurance market rose by 7.3 percent year on year. Most of this increase was derived from the addition of 46,164 policies to the policy portfolio; only a small proportion was due to premium adjustments. In casualty and property insurance, premium income amounted to €1,279,980 thousand, while the equivalent income in health insurance was €373,740 thousand. 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.

The Group's underwriting result rose from €73,535 thousand to €97,438 thousand in the reporting year, mainly because of the increase in premiums described above, which more than offset the greater level of claims incurred and higher insurance business operating expenses. Gains and losses on investments declined sharply from a net gain of €136,073 thousand to a net gain of €81,151 thousand as a consequence of movements in capital markets, particularly the fall in prices in institutional funds, which led to significant write-downs. In 2017, the balance of write-downs and reversals of write-downs had still been well into positive territory. This trend was counterbalanced by ordinary income from investments, including that from institutional funds, which remained steady, and by higher gains from the disposal of investments. After taking into account the sundry income and expense items, the Group once again generated sound net income for the year of €34,744 thousand (2017: €27,807 thousand).

Chapter B. System of Governance

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

line to the ARAG Holding SE Management Board member with relevant responsibility and to the ARAG SE Management Board member with relevant responsibility at a higher level. The remuneration granted to the Management Board, Supervisory Board, and the key functions is structured such that it is consistent with market rates and rewards performance without creating undesirable incentives.

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

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

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

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

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

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

Chapter C. Risk Profile

The ARAG Group's risk profile is determined by market risk and underwriting risk. The solvency capital requirement (SCR) for market risk, which is the more dominant of the two, is €358,948 thousand net. The primary sub-risks in this regard are spread risk and equity risk. Underwriting risk comprises non-life underwriting risk and health underwriting risk. Non-life underwriting risk, for which the solvency capital requirement is €139,352 thousand net, is mainly influenced by premium and reserve risk as well as natural disaster and accumulation risk. The solvency capital requirement for health underwriting risk is €40,499 thousand net. The main component of this risk is the risk from health insurance policies that are pursued on a similar technical basis to that of life insurance.

Chapter D. Valuation for Solvency Purposes

Solvency II lays down new requirements for recognizing and valuing assets, technical provisions, and other liabilities. In this context, valuations for solvency purposes include the use of market values, whereas under accounting rules pursuant to the German Commercial Code (HGB), assets are recognized at their carrying amounts in accordance with the prudence principle. Consequently, line items in valuations for solvency purposes cannot be compared with equivalent balance sheet carrying amounts.

The line items and valuation bases are presented and described in chapter D. 'Valuation for Solvency Purposes'. In the reporting period, there were no changes in the valuation bases described as being used for the Solvency II balance sheet in respect of assets (chapter D.1), technical provisions (chapter D.2), and other liabilities (chapter D.3) other than those in connection with the valuation of bonds (D.1.10), deferred tax assets (D.1.4), and deferred tax liabilities (D.3.3). An amended valuation led to a decline in the fair value of bonds in an amount of €4,215 thousand. The change in the valuation bases used for deferred tax assets and liabilities led to an overall decrease of €3,039 thousand.

The Group did not apply any transitional measures in the reporting period.

Chapter E. Capital Management

The final chapter (chapter E.) presents a reconciliation from equity in accordance with HGB to regulatory own funds, together with own funds eligible to cover the regulatory solvency capital requirement.

The ARAG Group's overall solvency capital requirement is €444,398 thousand. To cover this requirement, the Group has eligible own funds of €1,155,268 thousand, giving a coverage ratio of 260.0 percent. The ARAG Group thus has a high level of capital adequacy, a clear sign of the Company's excellent financial strength.

The minimum capital requirement is €222,440 thousand, which means the coverage ratio for the minimum capital requirement is 524.1 percent. Market risk and underwriting risk account for the greatest proportion of the solvency capital requirement.

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

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

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.

A. Business and Performance

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A.1 Business

A.1.1 General disclosures

Legal basis

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

ARAG Holding SE
 ARAG Platz 1, 40472 Düsseldorf, Germany
 Tel: +49 (0)211 98 700 700
 Fax: +49 (0)211 963 2850
 Email: service@ARAG.de
 Website: www.ARAG.com

Supervisory authority

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

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
 Graurheindorfer Strasse 108, 53117 Bonn, Germany
 Postfach 1253, 53002 Bonn, Germany
 Tel: +49 (0)228 4108 0
 Fax: +49 (0)228 4108 1550
 Email: poststelle@bafin.de
 De-Mail: poststelle@bafin.de-mail.de
 Website: www.bafin.de

Independent auditor

The contact details of the appointed independent auditor are:

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

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

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

The ARAG Group operates in a total of 17 countries (Germany, other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It is also preparing to launch in two other markets in 2019: the Republic of Ireland and Australia.

In addition to the Group headquarters in Düsseldorf and the offices of ARAG Krankenversicherungs-AG (ARAG Health) 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.

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

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

The consolidated financial statements are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection. ARAG Holding SE limits itself to exercising its rights and fulfilling its obligations as a shareholder in the investee companies. The ARAG Group comprises 47 Group companies, including six insurance companies headquartered in Germany, Norway, and the US.

List of the main affiliated companies

Name and location of registered office	Legal form	Country	Direct share	Group's share
1 ARAG SE, Düsseldorf	SE (European company)	Germany	50.00 %	100.00 %
2 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	GmbH (private limited company)	Germany	100.00 %	100.00 %
3 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	GbR (partnership under the German Civil Code)	Germany	0.00 %	94.90 %
4 ARAG Allgemeine Versicherungs-AG, Düsseldorf	AG (stock corporation)	Germany	0.00 %	100.00 %
5 ARAG Insurance Company Inc., Des Moines	Corporation	USA	0.00 %	100.00 %
6 ARAG International Holding GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
7 ARAG IT GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
8 ARAG Krankenversicherungs-AG, Munich	AG	Germany	0.00 %	94.00 %
9 ARAG North America Inc., Des Moines	Corporation	USA	0.00 %	100.00 %
10 ARAG Plc., Bristol	Plc.	United Kingdom	0.00 %	100.00 %
11 ARAG Service Center GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
12 Cura Versicherungsvermittlung GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
13 HELP Forsikring AS, Oslo	AS (private limited liability company)	Norway	0.00 %	100.00 %
14 Interlloyd Versicherungs-AG, Düsseldorf	AG	Germany	0.00 %	100.00 %
15 ALIN 1 GmbH & Co. KG, Düsseldorf	KG (limited partnership)	Germany	0.00 %	100.00 %
16 ALIN 1 Verwaltungs-GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
17 ALIN 2 GmbH & Co. KG, Düsseldorf	KG	Germany	0.00 %	100.00 %
18 ALIN 2 Verwaltungs-GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
19 ALIN 4 GmbH & Co. KG, Düsseldorf	KG	Germany	0.00 %	100.00 %
20 ALIN 4 Verwaltungs-GmbH, Düsseldorf	GmbH	Germany	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 site at ARAG Platz 1, 40472 Düsseldorf, where the ARAG Group's headquarters are located.
4. ARAG Allgemeine Versicherungs-AG operates the Group's casualty and property insurance business in Germany and through 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 recreational sports participants and top-ranking athletes.

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 the subgroup in the USA, which comprises five companies and is managed by ARAG North America Inc.
6. ARAG International Holding GmbH is an intermediate holding company connecting the North American (US and Canadian) subsidiaries to the ARAG Group in Germany. It is purely a financial holding company and limits itself to exercising its rights and fulfilling its obligations as a parent company. Besides its function as a holding company, it is also responsible for winding up the business activities of the ARAG Group's discontinued operations.
7. ARAG IT GmbH, which is located at the Düsseldorf site, carries out all data center activities and IT services required by the ARAG Group. It does not have any customers outside the ARAG Group.
8. ARAG Krankenversicherungs-AG operates the private health insurance business. The need to separate the different segments (section 8 (4) VAG) means that a separate company has to operate the health insurance business. ARAG Krankenversicherungs-AG has established itself in its market as a provider of high-quality full-coverage and supplementary private health insurance.
9. ARAG 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 for members of labor unions) in Norway, and via local branches in 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.
15. ALIN 1 GmbH Co. KG is a company whose purpose is to establish, hold, manage, and realize a portfolio of passive investments including, but not limited to, equity investments in companies with a similar object.
16. ALIN 1 Verwaltungs-GmbH is a company whose purpose is to acquire, hold, and manage shares in companies and various investments as well as to accept the general partner liability and handle management activities in connection with companies or partnerships structured in accordance with HGB. Its main object is to hold an equity investment in, and be the general and managing partner of, ALIN 1 GmbH und Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.
17. ALIN 2 GmbH & Co. KG is a company whose purpose is to establish, hold, manage, and realize a portfolio of passive investments including, but not limited to, equity investments in companies with a similar object.
18. ALIN 2 Verwaltungs-GmbH is a company whose purpose is to acquire, hold, and manage shares in companies and various investments as well as to accept the general partner liability and handle management activities in connection with companies or partnerships structured in accordance with HGB. Its main object is to hold an equity investment in, and be the general and managing partner of, ALIN 2 GmbH und Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.
19. ALIN 4 GmbH & Co. KG is a company whose purpose is to establish, hold, manage, and realize a portfolio of passive investments including, but not limited to, equity investments in companies with a similar object.
20. ALIN 4 Verwaltungs-GmbH is a company whose purpose is to acquire, hold, and manage shares in companies and various investments as well as to accept the general partner liability and handle management activities in connection with companies or partnerships structured in accordance with HGB. Its main object is to hold an equity investment in, and be the general and managing partner of, ALIN 4 GmbH und Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.

Qualitative and quantitative disclosures on relevant events and significant intra-group transactions

ARAG SE is the lead company in the ARAG Group in terms of the operational and strategic management of the Group. In this role, it holds material equity investments in Group companies and performs centralized services for the insurance companies in the Group, e.g. investment management, risk management, and personnel development; it also manages overarching projects.

Significant events and transactions are listed below.

Business expansion A subgroup has been established in Norway to prepare for the expansion of the business. Based on a resolution passed by the annual general meeting of ARAG Scandinavia AS on March 21, 2018, the shares in HELP Forsikring AS were transferred to ARAG Scandinavia AS as a capital contribution in the context of a capital increase. As part of the capital increase, 12,030,775 new shares in ARAG Scandinavia AS, each with a value of NOK 3, were issued and granted to ARAG SE as consideration. The difference of NOK 251,227 thousand between the value of the shares in HELP Forsikring AS transferred as a capital contribution and the value of the newly issued subscribed capital was reported by ARAG Scandinavia AS as a capital reserve. A resolution was also passed to increase capital by NOK 3,000 thousand for cash. The capital contribution was received on March 22, 2018. ARAG Scandinavia AS is a wholly owned subsidiary of ARAG SE.

The company ARAG Services Australia Pty. Ltd. was established on July 30, 2018 with a registered office in Sydney with a view to commencing business operations in Australia. The subscribed capital of AUD 1,000 thousand (equating to €620 thousand) was paid in on October 9, 2018.

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 2018, this consolidation led to a total of €63,168 thousand being eliminated from income from equity investments.

Dividends/profit-and-loss transfer agreements

The main dividend distributions in the ARAG Group in the reporting year were from the following entities to ARAG SE:

• ARAG International Holding GmbH	€11,500 thousand
• ARAG Krankenversicherungs-AG	€2,914 thousand
• ARAG Plc., UK	€629 thousand
• ARAG Liegenschaftsverwaltungs- und Beratungsgesellschaft mbH	€500 thousand
• ARAG IT GmbH	€330 thousand
• SolFin GmbH	€245 thousand

On March 26, 2018, ARAG SE received an amount of €18,525 thousand from ARAG Allgemeine Versicherungs-AG in settlement of its right to the transfer of profit based on the profit-and-loss transfer agreement dated October 31, 2006.

The Management Board of ARAG SE is proposing to the Annual General Meeting that a dividend of €20,000 thousand be distributed to shareholders from the net retained profit for 2018.

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.

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

Intragroup reinsurance arrangements The Group companies have entered into reinsurance agreements with each other on arm's-length terms. This helps to share out the risks among the Group companies. In the reporting year, an amount of €28,493 thousand was eliminated for intragroup insurance premiums, €13,884 thousand for claims incurred, and €12,541 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 on

working days, manage the Group's investments, or broker insurance between customers and the Group's insurance companies. In 2018, sales revenue from such services between Group companies was offset against the expenses of the companies performing the services in an amount of €40,119 thousand.

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

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.

A.1.3 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 with a clear focus on property and health insurance.

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

The ARAG Group now operates in a total of 17 countries (Germany, 14 other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It is also preparing to launch in two other markets in 2019: the Republic of Ireland and Australia.

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

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

In a fiercely competitive market, ARAG Allgemeine Versicherungs-AG (ARAG Allgemeine) is demonstrating its strength as an attractive provider of property, liability and accident insurance policies, 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 recreational sports participants and top-ranking athletes. Interlloyd Versicherungs-AG (Interlloyd), a subsidiary of ARAG Allgemeine, specializes in brokering services in the commercial and private customer segments, adding a further dimension to the Group's portfolio.

In the private health insurance market, ARAG Kranken (ARAG Health) offers a broad range of 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.

Insurance portfolio

At the end of the reporting year, the Group had 7,148,886 in-force insurance policies (December 31, 2017: 6,970,619), of which 3,491,819 related to the business in Germany (December 31, 2017: 3,365,819). The breakdown by line of business was as follows: 1,542,004 legal insurance policies, 1,307,201 casualty and property insurance policies, and 642,614 health insurance policies.

International business accounted for 3,657,067 policies (December 31, 2017: 3,604,800). Of this total, 3,651,843 policies were attributable to legal insurance and 5,224 to casualty and property insurance. The health insurance business is only operated in Germany.

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

Products

The success of the ARAG Group is based on the high quality of its products and the particular innovative strength of the Group. The high quality of the services is reflected in the numerous regular awards and seals of approval received from independent organizations.

ARAG once again set the pace in 2018, both in its home territory in Germany and in international markets, with rapid improvements to its product and service portfolio as requirements changed.

In its core legal insurance segment, ARAG plays a major role in shaping the German market with innovative products and services. Since 2012, it has been a notable trailblazer in the provision of cyber protection for retail customers based on its ARAG web@ktiv product. In the year under review, the Group developed a new, highly featured scale of rates for private individuals and the self-employed. The market launch is scheduled for mid-2019. ARAG also continued to expand its retroactive insurance offering in the reporting year. Customers with the new ARAG Sofort legal insurance for tenants receive retroactive insurance cover for a period of up to twelve months.

The new ARAG accident cover from ARAG Allgemeine Versicherungs-AG, which has been available since May 2018 in three versions (Basis, Komfort, and Premium), protects customers for more than just an accident and assists them with numerous new benefits and services. The new 'Fit Plus' cross-segment product module offers specific extras for sports customers and consumers, including physiotherapy and personal trainer sessions following an accident as well as reimbursements for defective sports equipment. The new policy also encompasses the use of services from ARAG partner TeleClinic, which facilitates access to consultation with a doctor via video. Immediate assistance in the event of a cancer diagnosis has also been added as a new component. Under this benefit, the insured party receives a previously specified monetary amount upon initial diagnosis. Back in 2017, ARAG Krankenversicherungs-AG was the digital pioneer, establishing the use of TeleClinic for video consultations with a doctor on general medical issues, almost regardless of

location or time of day. The company has now taken this one step further, with the introduction of remote treatment in the year under review. Since the end of 2018, customers of ARAG Health throughout Germany have also been able to use TeleClinic and its network of doctors to arrange for the issue of prescriptions. The powerful ARAG GesundheitsApp feature, which can be used as a personal, digital health record, was further expanded in the year under review to become more of a communications platform. Customers can now use the app to chat with ARAG, compose messages using their own text, submit invoices using a QR code, or directly report address changes. As of the end of 2018, a total of more than 100,000 customers had already registered. ARAG Health's successful supplementary dental care scales of rates were also enhanced in 2018 and in the current year to include attractive, smart services. In addition to a broad range of benefits, these policies now also include services offering customers genuine added value. Thanks to a partnership with the Dent-Net network – which includes more than 1,000 dentists throughout Germany plus a dental laboratory – holders of dental insurance policies receive attractive terms on dental prosthesis and faster appointments. Since the beginning of 2019, policyholders have benefited from a further partnership with the DocMorris mail-order pharmacy.

Systems/IT/digitalization

Digital transformation is one of the major challenges going forward. It is bringing about profound, far-reaching changes in society, the economy, and businesses. The ARAG Group identified this challenge and its significance for insurance companies at a very early stage and has been actively addressing the issue for a considerable period of time. For more than six years, ARAG has been expanding the services for its customers to include digital solutions. Online claims tracking, customer chats, chatbots, customers' own digital research related to simple legal questions, alternative payment systems, GesundheitsApp, and remote healthcare services are just some of the examples of the clear value added offered by ARAG.

The ARAG Group's domestic and international websites are state-of-the-art with a uniform responsive web design, allowing the comprehensive range of information on the Company and its products to be viewed on a wide variety of devices. The complete renovation of the data center, including a switch from mainframe computers to flexible Linux-based systems, means that the Group's IT infrastructure has also been tailored from a technical perspective in line with the future challenges. In addition, the cloud-based Office 365 software offers new use and access options as well as flexible forms of collaboration and communication throughout the Group. Even on the basis of this very brief description, it is clear that digitalization has already become an integral component of ARAG's business.

In 2018, ARAG initiated a holistic, domestic, and international strategy known as the Smart Insurer Program to bolster the growth momentum provided by these wide-ranging action plans and at the same time reinforce the independence of the Group in the digital world. In this program-based approach, the plethora of individual solutions that the Group has already initiated and will continue to develop in the future are brought together in a common roadmap.

ARAG's declared intention is to turn itself and its Group companies into a 'smart insurer' by 2021. The strategy focuses on three themes:

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

All teams in Germany and abroad have been actively involved in determining the most important areas for action. In the second half of 2018, the units both in Germany and abroad were asked to specify a maximum of five core measures that they thought were necessary from their perspective to help them better implement the requirements under the ARAG Smart Insurer Program. The measures were proposed to the next level of management, which then had to use the information to determine, for its part, up to five measures.

All ARAG entities dedicated a great deal of effort to this process, as a result of which a total of 85 core measures had been received by the Group Management Board from all the Group units in Germany and abroad by the end of 2018. The Group Management Board evaluated the proposals and finally settled on seven core areas for action to be implemented as a priority from 2019. In addition, the teams have been called upon to independently pursue any individual measures that they submitted but that have not been included in the priority list.

Insurance-specific events

A significant legal change that has affected the ARAG Group in the last few years – one that also had an impact on ARAG SE in the reporting year – has been the option for customers to withdraw from loan agreements if they have not been properly informed about their cancellation rights. This led to significant claims payments in each of the event years 2015 to 2018. In the reporting year, these payments amounted to €3,916 thousand. To add to this, there are currently also a large number of legal cases in connection with the diesel vehicle emissions issue. These cases resulted in payments of €7,277 thousand in the year under review.

Company changes

The ARAG Group continued to pursue its strategy of internationalization in the reporting year, establishing a company in Australia in July. The primary objective of this company is to sell legal insurance products and services. Aside from the establishment of a subgroup in Norway and the company in Australia, as already described in this report, there were no other material changes to the ARAG Group's structure or to the core business with an impact on the Company.

There was one change to the membership of ARAG Holding SE's Management Board in the reporting year. Effective March 1, 2018, Klaus Heiermann was appointed to the Management Board, which now has three members. Other personnel changes to the management boards of the ARAG Group companies are set out below.

The Supervisory Board of ARAG SE decided to change the allocation of responsibilities among the Management Board members and appointed Wolfgang Mathmann to the Management Board of ARAG SE with effect from April 15, 2019. At the same time, Werner Nicoll retired and stepped down from the Management Board of ARAG SE.

Dr. Matthias Effinger became Chief Representative of ARAG Health on January 1, 2019. He was also appointed to the Management Board of ARAG Health with effect from April 1, 2019 to replace Werner Nicoll, who left the Management Board in 2019 on reaching the age limit. Werner Nicoll's responsibilities as Chief Financial Officer of ARAG Health were taken over on April 1, 2019 by Dr. Roland Schäfer alongside his existing responsibilities for product development, actuarial services, and sales. Dr. Werenfried Wendler retained responsibility within the Management Board for HR and risk management.

Dr. Werenfried Wendler was appointed to the Management Board of ARAG Allgemeine and Interlloyd with effect from January 1, 2019. He is in charge of human resources, which is a newly created area of responsibility. Wolfgang Mathmann stepped down from the Management Board of ARAG Allgemeine and Interlloyd on April 14, 2019. His successor, Uwe Grünewald, took up the post on April 15, 2019.

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

In 2018, there were no other material transactions or other events with a significant impact on the Company.

A.2 Underwriting Performance

A.2.1 Underwriting performance – overview

In the year under review, the ARAG Group generated **income from gross premiums written** of €1,653,720 thousand (2017: €1,584,977 thousand). This increase largely resulted from the rise in new business in Germany and abroad, while policy lapses remained at a low level. A modest level of premium adjustments also contributed to the higher premium income. The reinsurers' share amounted to €12,120 thousand (2017: €9,239 thousand).

Claims incurred (gross) in accordance with HGB rose by 2.3 percent to €881,042 thousand. The claim settlement costs included in this figure amounted to €141,896 thousand (2017: €131,021 thousand). A share of the claims amounting to €11,040 thousand (2017: €7,665 thousand) was ceded to reinsurers in 2018. As in the previous year, the year-on-year change in the expenses for claims incurred was largely attributable to a rise in accumulation losses. These losses were mainly related to disputes in connection with the diesel vehicle emissions issue, especially in Germany, Spain, Italy, Belgium, and Austria, and to lawsuits related to the cancellation of loan and life insurance contracts in Germany and Austria. Storms and severe weather in the year under review also had a particular adverse impact on the gross claims expense arising from composite residential buildings insurance policies.

The **change in other technical provisions (net)** amounted to an expense of €124,966 thousand (2017: €119,448 thousand). This year-on-year change was mainly caused by the rise in the addition to the health insurance actuarial reserve.

Miscellaneous underwriting expenses (net) came to €3,336 thousand (2017: €2,915 thousand) and primarily consisted of expenses arising from transfer amounts in the health insurance business.

Insurance business operating expenses (gross) went up year on year, from €559,865 thousand to €584,249 thousand. The acquisition costs included in this figure amounted to €181,589 thousand (2017: €169,384 thousand). This year-on-year increase was predominantly attributable to the higher level of new business and the associated additional fee and commission expenses. Administrative expenses (gross) went up by 3.1 percent to €402,660 thousand (2017: €390,481 thousand). The increase was mainly caused by a rise in retirement pension expenses (resulting from a switch in the mortality tables used in the calculations), which savings in operating costs were insufficient to offset.

The **underwriting result** in accordance with HGB net of reinsurance in 2018 amounted to €97,438 thousand (2017: €73,535 thousand). Based on the quantitative reporting required for regulatory purposes (see template S.05.01.02 in the Appendix), the underwriting result for the reporting period amounted to €47,456 thousand (2017: €38,838 thousand).

The following table shows this underwriting result with a reconciliation to the underwriting result in accordance with HGB, as published in the ARAG Group's 2018 Annual Report.

Underwriting result (net)

(€'000)	2018	2017
Net premiums earned	1,639,980	1,570,577
Claims incurred (net, excluding claim settlement costs)	693,400	685,359
Changes in other technical provisions (net)	-124,966	-119,448
Expenses incurred (net)	770,822	724,017
Other expenses (net)	3,336	2,915
Underwriting result in accordance with template S.05.01.02	47,456	38,838
Technical interest income	386	371
Premiums from the gross provision for bonuses and rebates	19,853	8,279
Gains and losses on investments assigned to the underwriting account	64,277	74,489
Miscellaneous other underwriting income	5,639	3,756
Expenses for non-performance-based bonuses and rebates	45,088	49,931
Underwriting result in accordance with HGB*	92,524	75,802
Change in the equalization provision and similar provisions	4,915	-2,267
Underwriting result in accordance with HGB	97,438	73,535

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

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

In the year under review, technical interest income increased from €371 thousand to €386 thousand. This was attributable to the change in the benefit reserve for annuities.

The miscellaneous underwriting income of €3,336 thousand (2017: €2,915 thousand) largely comprised income from reminder fees related to direct business and income from transfer amounts received in the health insurance business. The change in the equalization provision was primarily caused by reversals related to the inward reinsurance business under the general accident and composite home contents classes of insurance.

The addition to the provision for bonuses and rebates amounted to €45,088 thousand in 2018, down by €4,843 thousand compared with the prior year. Of this amount, €45,085 thousand related to performance-based and €3 thousand to non-performance-based bonuses and rebates.

Gains and losses on investments declined sharply from a net gain of €136,073 thousand to a net gain of €81,151 thousand as a consequence of movements in capital markets, particularly the fall in prices in institutional funds, which led to significant write-downs. In 2017, the balance of write-downs and reversals of write-downs had still been well into positive territory. This trend was counterbalanced by ordinary income from investments, including that from institutional funds, which remained steady, and by higher gains from the disposal of investments.

A.2.2 Underwriting result by main line of business

The following table shows a breakdown of the underwriting result by main line of business:

Underwriting result by main line of business*

(€'000)	Net premiums earned	Claims incurred (net, excluding claim settlement costs)	Changes in other technical provisions (net)	Expenses incurred and other expenses (net)	Underwriting result	Underwriting result
					2018	2017
Legal insurance	997,157	384,930	-1,450	556,237	54,540	31,865
Health insurance	372,981	195,989	-123,601	68,852	-15,462	-13,732
Casualty and property insurance	269,842	112,481	86	149,069	8,378	20,705
Total	1,639,980	693,400	-124,966	774,158	47,456	38,838

* In accordance with template S.05.01.02

A.2.3 Underwriting result by main geographical area

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

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

Underwriting result by main geographical area*

(€'000)	Net premiums earned	Claims incurred (net, excluding claim settlement costs)	Changes in other technical provisions (net)	Expenses incurred and other expenses (net)	Underwriting result	Underwriting result
					2018	2017
Germany	965,070	486,601	-124,872	378,063	-24,466	-30,331
Netherlands	156,065	17,774	0	124,833	13,458	13,560
Spain	140,194	58,450	0	75,643	6,101	7,243
Italy	127,856	31,294	0	91,131	5,431	3,823
USA	104,027	49,045	0	32,370	22,612	22,713
Austria	64,369	14,272	-94	31,962	18,041	16,969
Norway	45,114	22,040	0	18,577	4,497	5,098
Other areas	37,285	13,924	0	21,579	1,782	-237
Total	1,639,980	693,400	-124,966	774,158	47,456	38,838

* In accordance with template S.05.01.02

A.3 Investment Performance

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

Gains and losses on investments decreased significantly, from a net gain of €136,073 thousand to a net gain of €81,151 thousand. The main factors behind this year-on-year change were higher write-downs in an amount of €52,018 thousand (2017: €7,321 thousand) resulting from trends in capital markets and higher realized losses on the disposal of investments in an amount of €4,548 thousand (2017: €1,230 thousand). Current expenses in respect of investments, including technical interest, came to €17,461 thousand (2017: €15,894 thousand). Total expenses amounted to €79,354 thousand (2017: €26,884 thousand).

The total income from investments was €160,505 thousand (2017: €162,958 thousand), of which €146,104 thousand was attributable to gross current income (2017: €142,435 thousand). The Group generated extraordinary income of €14,401 thousand in 2018 (2017: €20,522 thousand).

The net gains* on investments of €81,151 thousand described above equated to a net yield** on investments of 1.9 percent (2017: 2.5 percent). The current average yield*** on investments was 3.0 percent (2017: 2.4 percent).

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

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

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

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

Gains and losses on investments in the ARAG Group

Type of investment (€'000)							Change in gains and losses	
	Current income	Realized gains	Realized losses	Reversals of write-downs	Depreciation, amortization, and write-downs	Current expense/loss transfers	Gains and losses on investments in 2018	Gains and losses on investments in 2017**
Property, plant & equipment held for own use	17,363	0	0	0	3,610	0	13,753	-816
Property (other than for own use)	4,680	848	7	0	1,723	0	3,798	7,154
Holdings in related undertakings, including participations	3,534	0	0	0	778	0	2,756	43,261
Equities – listed	28	0	177	643	244	0	250	119
Equities – unlisted	0	0	0	0	0	0	0	517
Government bonds	22,888	4,307	696	139	300	0	26,338	23,145
Corporate bonds	29,319	1,766	625	0	5,346	0	25,114	36,447
Structured notes	0	0	0	0	0	0	0	0
Collateralized securities	13,503	1,650	11	10	26	0	15,126	2,575
Collective investment undertakings	51,290	5,038	3,032	0	45,016	0	8,280	58,364
Derivatives	0	0	0	0	0	0	0	0
Deposits other than cash equivalents	2	0	0	0	0	0	2	1
Other investments	3,320	0	0	0	302	0	3,018	367
Deposits to cedants	177	0	0	0	0	0	177	184
Cash and cash equivalents	0	0	0	0	0	0	0	135
Current expense (unallocated)/loss transfers	0	0	0	0	0	17,461	-17,461	-11,240
Group total	146,104	13,609	4,548	792	57,345	17,461	81,151	160,213

** The presentation has been modified compared with the previous year. To compare the total values for the reporting year with the total for the prior year, the reported amount must be increased by €53,330 thousand to take into account the other Group companies and reduced by €77,469 thousand to allow for the consolidation adjustments applied in the prior year (see chapter A.3, 2017 SFCR for ARAG Holding SE). In the reporting year, the two factors were already incorporated into the table figures.

* 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 2018 Annual Report

Information on gains or losses recognized directly in equity

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

Information on securitization instruments

Investments in securitization instruments also make a contribution to investment performance. As defined in HGB accounting rules, 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 €11,229 thousand as of the reporting date (December 31, 2017: €9,989 thousand).

A.4 Performance of Other Activities

Other net income/expense includes staff costs and general and administrative expenses that were not allocated to an insurance or investment-related function in accordance with function-based accounting (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, and the expense for provisions for pensions and other post-employment benefits), interest expenses on the provision for pensions and other post-employment benefits, and amortization and write-downs of goodwill arising from acquisition accounting.

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

Other income			
(€'000)	2018	2017	Change
Administrative services for third parties and insurance brokered for third parties	11,976	14,125	-2,150
Income from the reversal of miscellaneous provisions	5,236	4,490	746
Interest income not arising on investments	3,314	3,453	-139
Sundry income	8,671	16,409	-7,737
Total	29,197	38,476	-9,279

Other expenses

(€'000)	2018	2017	Change
Expenses incurred on behalf of the Company as a whole	16,241	17,163	-923
Reclassification of costs from central departments	28,362	23,268	5,094
Addition of interest to the provision for pensions and other post-employment benefits	7,981	8,274	-292
Expenses from default on receivables	499	1,178	-679
Costs for legal and tax advice	1,347	2,383	-1,036
Expense for subordinated loans	1,448	1,448	0
Amortization and write-downs on goodwill arising from acquisition accounting	4,825	9,216	-4,391
Interest expense	1,196	6,052	-4,856
Sundry expenses	19,006	21,742	-2,736
Total	80,905	90,724	-9,819
Total other net income/expense	-51,708	-52,248	540

Tax income/expense

The Group's tax expense in the reporting year amounted to €35,492 thousand (2017: €53,417 thousand).

Information on leases

A distinction is made between finance leases and operating leases. The ARAG Group is a lessee under leases that are accounted for as operating leases. 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 Health, and ARAG Allgemeine. As lessee, the Group recognizes the lease payments as an expense.

A.5 Any Other Information

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

B. System of Governance

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B.1 General Information on the System of Governance

The ARAG Group has structured its system of governance in such a way that its business activities can be managed soundly and conservatively in line with the business and risk strategies. The sections below describe the structure of the Management Board and Supervisory Board of ARAG Holding SE, which is the Group's ultimate parent company, provide an overview of the system of governance, and assess whether this system is adequate.

B.1.1 Management Board and Supervisory Board

Management Board

The Management Board manages the business of ARAG Holding SE in accordance with legal requirements and the Company's articles of incorporation. As part of its overall responsibilities, the Management Board ensures that there is an orderly system of governance in place, so that it:

- Is effective, is fit for purpose, and – in terms of its nature, scope, and complexity – is commensurate with the 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

As of December 31, 2018, the Management Board of ARAG Holding SE had three members. The responsibilities are allocated as follows:

- Dr. Dr. h. c. Paul-Otto Faßbender: CEO
Representative of the Company vis-à-vis the general public and authorities/
equity investments
- Klaus Heiermann (since March 1, 2018):
Risk Management/Brand and Communications
- Dr. Sven Wolf:
Internal Audit, Data Security, Legal, Compliance/HR/Finance,
Financial Reporting, and Taxes

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.

Supervisory Board

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

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

B.1.2 Key functions

The establishment of controls in the Company lies at the heart of the system of governance. In the Group, these controls are mainly the responsibility of the four key functions: risk management, compliance, internal audit, and the actuarial function. These key functions are carried out by the central departments or departments of the same name at ARAG SE. As these functions are kept strictly separate from the operational departments, they can perform their duties objectively and independently. Moreover, they have a direct reporting line to the ARAG Holding SE Management Board member with relevant responsibility and to the ARAG SE Management Board member with relevant responsibility at a higher level, and can also communicate directly with the Supervisory Board. The employees in these functions have the knowledge they need to be able to carry out their tasks adequately. The duties of the four key functions are briefly described below. Detailed information can be found in chapters B.3 to B.6.

Risk management

The tasks of the risk management function (also referred to as 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 duty of the function is to lay down the foundations, for example in the form of policies and guidelines, for compliance with the obligation to operate legally. Responsibility for implementing the guidelines and policies lies with the individual managers. The Chief Compliance Officer advises the Management Board on the risk resulting from changes to the law 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. The department is essentially responsible for verifying the methodology used to calculate the technical provisions and for ensuring the adequacy of both the underwriting and contracting policy and the reinsurance policy. This includes verifying the methods applied, the assumptions made, and the data used. Responsibilities also include validating the partial internal model. The department submits reports on its findings to the Management Board and the supervisory authority.

B.1.3 Information on remuneration guidelines and policies

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

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

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

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

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

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 Company offers attractive, market-level remuneration, the variable element of the remuneration for Management Board members is set at a maximum of 60.0 percent of basic salary and is subdivided into short-term and long-term components. In the case of insurance companies and ARAG Holding SE, the long-term component currently equates to 60.0 percent of the relevant variable remuneration and is deferred; it also takes into account the outcome of a review to establish whether there is any requirement for a potential downward adjustment as a result of exposure to current or future risks.

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

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

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

Supervisory Board members receive fixed remuneration for their work. 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.

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

Care is taken to ensure that the targets relevant to the variable remuneration granted to these individuals with internal responsibility are designed such that the variable remuneration is independent of the performance of the operating units and divisions that are supervised by the function holder concerned. In the case of relevant individuals who do not exclusively receive their remuneration in return for a Management Board function carried out simultaneously in another Group company, the variable remuneration proportion is in the range of 10.0 to 35.0 percent, depending on the postholder concerned. As part of the Company's obligation to work toward compliance, the deferred payment of 40.0 percent of variable remuneration has already been agreed for postholders with total variable remuneration equating to 35.0 percent of basic salary. To date, no arrangement has been made with any of the remaining postholders for a partial deferral of payments.

The Company grants **members of the Management Board** (or their surviving dependants) rights to a retirement pension, a widow's/widower's pension, and an orphan's pension. The retirement pension is calculated as a percentage of pensionable salary, which equates to the basic salary (excluding bonuses, remuneration in kind, etc.). There is also a cap on the absolute maximum amount. The widow's/widower's pension is equivalent to two-thirds of the retirement pension; the orphan's pension for each child is equivalent to one-third of the widow's/widower's pension. The total of the surviving dependants' pensions is limited to the amount of the retirement pension. If a person fulfills multiple roles, i.e. carries out activities for ARAG SE and for its subsidiaries in Germany and other countries, a retirement pension entitlement is provided solely under the primary employment contract.

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

Supervisory Board members do not receive any supplementary pensions.

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

Group service companies headquartered in Germany

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

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

Group companies outside Germany

The primary principle applied for the **members of the senior management** of Group companies outside Germany is that their remuneration must comply with local applicable law and be consistent with standard market practice where the job is located. To ensure that the requirements for appropriateness, transparency, and focus on sustainability are also satisfied at Group level, the structure of variable remuneration is modeled on that used for Management Board members at insurance companies based in Germany in that the fixed remuneration must be 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.

B.1.4 Material transactions

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

B.1.5 Significant changes to the system of governance

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

B.1.6 Adequacy of the system of governance

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

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

B.2 Fit and Proper Requirements

General principles applicable to all Group entities

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

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

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

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

Management Board members and CEOs of EEA branches

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

Besides having the essential expertise in the individual areas for which each Management Board member is responsible, the Management Board as a whole must, as a minimum, have knowledge, skills, and experience pertaining to insurance and financial markets, business strategy and business models, the system of governance, financial analysis and actuarial analysis, the regulatory framework, and the regulatory requirements. 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.

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

as well as the associated relationships and connections, and to assess the risks resulting from the Group's structure.

Where applicable, the aforementioned qualifications apply analogously to the CEOs of the companies' branches in the EEA, i.e. these CEOs 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.

A standard benchmark is used to assess whether Management Board members and CEOs of EEA branches are personally suitable for their role. Someone is assumed to be of good repute ('proper') if there is nothing to indicate the contrary. Someone is assumed not to be of good repute if, based on general life experience, 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 verified 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 a personal declaration and details about his or her good repute. The companies reserve the right to request additional documents, if necessary.

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

Supervisory Board members

The members of the Supervisory Board must have the necessary knowledge, skills, and experience to be able to perform their monitoring role. They must always have the expertise needed to adequately monitor and oversee the Management Board and to actively support the Company's growth. Each member must therefore understand the Company's business and be able to assess the relevant risks. 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.

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

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

Key functions

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

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

- Compliance: The postholder must have a university degree in law or business management as well as specialist compliance expertise evidenced by professional development documentation or previous employment in this area of activity. 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 analogously.

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

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

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

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

Continuing professional development as an ongoing process

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

Cause for reassessment

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

The general rule regarding professional suitability is that the type and extent of any action to be taken by the Company depend on the supposed/actual shortcoming of the individual member of a governing body or holder of a key function. For example, 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 (i.e. HELP Forsikring AS and ARAG Insurance Company), insurance holding companies headquartered outside Germany (ARAG North America Inc. and ARAG Scandinavia AS), and other companies that operate in regulated fields and are headquartered outside Germany (i.e. ARAG Plc. in the United Kingdom, ARAG Services Corporation in Canada, and ARAG Services Pty. Ltd. in Australia) 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 its activities aimed at achieving its strategic business objectives naturally involve taking on risks in order to achieve the desired success. To deal with these risks, ARAG has implemented a risk management system, the main elements of which are the risk strategy, a system of limits, a process for own risk and solvency assessment (ORSA), and the operational risk management process, comprising the identification, analysis, measurement, management, monitoring, and reporting of risk.

B.3.1 Implementation of the risk management system

Risk strategy

The Management Board specifies the risk strategy on the basis of the Group strategy. The risk strategy sets out the risk policy framework for the changes in the individual risk exposures associated with the strategic business objectives. It defines each risk category and the specifications for the relevant risk management process. It also describes the tools for ensuring compliance with the prescribed risk-bearing capacity based on the specified risk appetite. These tools are the regulatory and business policy minimum coverage ratio and the system of limits. Risks are therefore managed in the round, ensuring at all times that the overall risk profile is consistent with the risk strategy. The Supervisory Board deliberates on these matters and receives regular reports on the risk situation.

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

Risk-bearing capacity and limit system

The risk-bearing capacity describes the extent to which potential losses from the assumed risks can be offset by own funds. The latest Solvency II balance sheet and the resulting regulatory solvency capital requirements are taken into account when assessing the assumed risks. From a regulatory perspective, risk-bearing capacity is in place if the solvency capital requirement does not exceed the value of own funds, i.e. the regulatory coverage ratio is at least 100.0 percent. The minimum coverage ratio in the business policy expresses the extent to which the Company is prepared to take on risk to achieve the objectives specified in the business strategy. As a matter of business policy, each Manage-

ment Board has set a minimum coverage ratio of 150.0 percent based on the Group companies' conservative approach to risk and solvency. The companies in the ARAG Group therefore generally maintain a risk buffer that is significantly higher than the regulatory requirement.

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

Risk management function

The risk management system is implemented by the risk management function, which is the responsibility of the Group Risk Management Central Department at ARAG SE. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level. The Chief Risk Officer is responsible for the implementation of the risk management system in all Group companies. The Chief Risk Officer is a member of the Management Board of ARAG SE and responsible for Group Risk Management and Group Controlling. Group Risk Management bears process responsibility for the risk management system and, by means of 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 and operating models for determining risk-bearing capacity, solvency capital requirements, and the allocation of solvency capital.

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

B.3.2 Risk management process

Risk identification

The aim of risk identification is to identify the emergence of new risks or changes in existing risks at an early stage and to assess them using a standard procedure. For example, risks arising in connection with the development of new markets or the launch of new products are identified, analyzed, measured, and submitted to the Management Board for decision at individual company level 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 assessed 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. Relevant risks that do not form part of the solvency capital requirement are measured as part of the ORSA process.

Risk management

The Group's approach is to manage risk where it arises. Operational management of risk is thus carried out by the managers and process owners in those departments where the risks occur. Risk management consists of implementing measures to reduce, mitigate, transfer, and diversify 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.

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

B.3.3 Own risk and solvency assessment (ORSA)

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

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.

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 responsible for the annual ORSA process and takes a lead role in ensuring it is carried out. Using the budgeted figures signed off by the Management Board, the Solvency II balance sheet and the solvency capital requirements are projected beyond the strategic planning period. The results of the risk analysis and the projections are used to determine the overall solvency requirement.

All results are aggregated in the ORSA report and signed off by the Management Board. Once approved, the report is sent to all the relevant responsible parties so that they can incorporate the results into their decision-making processes.

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

B.3.4 Governance of the partial internal model

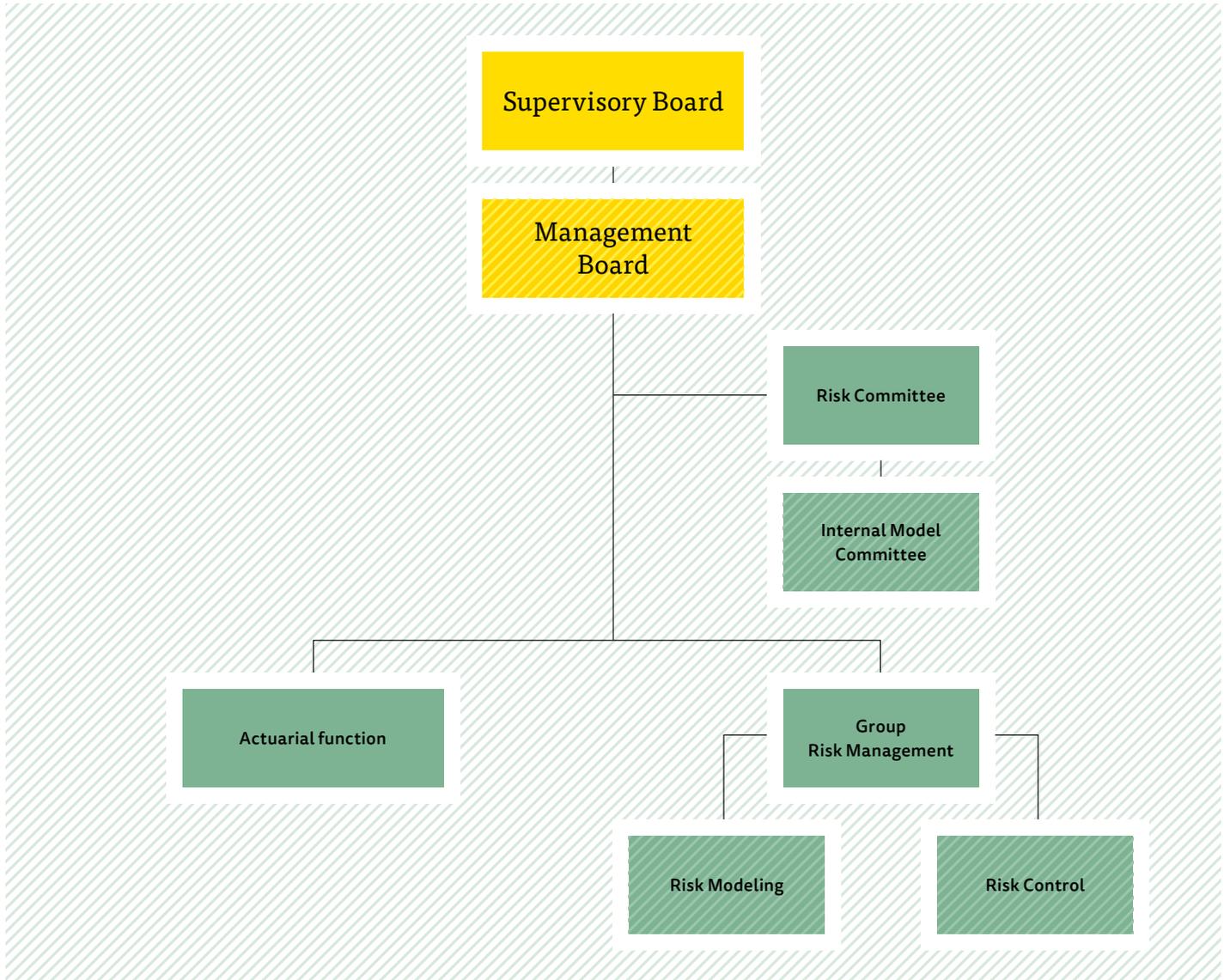
The Management Boards of the companies in the ARAG Group have formed a Risk Committee (RiCo) in order to incorporate the partial internal model into corporate management. The Risk Committee's main task is to assist the individual Management Boards with performing their risk management tasks in accordance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

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

B.4.1 Internal control system

Definition and tasks

The ARAG Group defines the internal control system (ICS) as follows:

“The internal control system refers to all control and monitoring mechanisms as well as other measures that help to support the effectiveness and profitability of business activities and to identify and minimize risk at an early stage. It also ensures compliance with the applicable laws and regulations, all regulatory requirements, and internal rules.”

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

It is based on the principles, functions, processes, measures, and policies implemented by the Management Board and on statutory and regulatory requirements that ensure the decisions of the Management Board are implemented operationally. The ARAG Group pursues four main objectives with its 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 ICS, i.e. its design, establishment, integrity, and monitoring as well as ongoing adjustments and refinements.

The Management Board has delegated the day-to-day running of the entire ICS to the responsible managers in the ARAG Group, i.e. the Senior Vice Presidents (in Germany) and Branch CEOs (internationally). The ARAG Group structures its internal control system in accordance with the 'three lines of defense' model:

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

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

Third line of defense The Group Audit Central Department conducts internal audits of the functions in the first and second lines of defense within the ARAG Group. The Group Audit Central Department is also the internal auditor for the Group companies that have contractually appointed it to this role.

Operational structure of the ICS

As part of the 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

B.4.2 Compliance

Because of their intangible nature, insurance products require customers to place a great deal of trust in their insurance company. The leap of faith that customers have to make is based on the expectation that the ARAG Group as an insurance company will comply with the contractual arrangements and legal requirements and, moreover, will measure itself by its own high standards. Customers also need to be able to rely on the Company having adequate and systematic management, control, and sanctioning mechanisms in place to ensure that it lives up to its value proposition. The ARAG Group's compliance management system therefore focuses on fulfilling these objectives.

At Group level, the compliance function is part of the Group Legal/Compliance Central Department and is the responsibility of the 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 the internal audit function.

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

- Internal audit
- Risk management

Other managers are included, if necessary.

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.

The Group Audit Central Department assists the Management Board with corporate management and helps it to fulfill its managerial and monitoring duties. This department ensures that auditing activities are carried out professionally and in a manner appropriate to the risk situation, in relation to both the 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 ICS for all operating and business processes from a risk perspective.

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

To ensure that it is able to fulfill its role and responsibilities properly, Group Audit does not get involved in operational processes. It is not permitted to assign tasks to employees of Group Audit that would conflict with Group Audit's independence within the ARAG Group, nor are 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 a report to the Management Board containing information about the results of its work over the year. Above all, this report provides evidence that the appropriateness of the ARAG Group's technical provisions, underwriting and contracting policies, and reinsurance agreements is assured. Besides this general reporting channel, the head of the actuarial function is also able to report directly to the Management Board and Supervisory Board if necessary.

B.7 Outsourcing

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

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

Apart from the Management Board’s primary tasks (in particular ensuring a proper system of governance and making strategic decisions), all activities can in principle be outsourced. If a project is to be classified as ‘outsourcing’, there must always be a relationship between the outsourced function or activity and the insurance business.

The outsourcing of a key function represents a special situation, however. 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 2018 in respect of important functions or insurance activities.

B.8 Any Other Information

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

C. Risk Profile

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

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

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

C.1 Underwriting Risk

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.

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

Risk exposure

Underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities 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

The solvency capital requirement for underwriting risk in indemnity, liability, and accident insurance and in legal insurance fell by €14,025 thousand year on year, from €153,377 thousand as of December 31, 2017 to €139,352 thousand as of December 31, 2018, equating to a decrease of 9.1 percent.

Risk measurement

These risks are measured with an internal model. Using a simulation, the losses and adverse changes in liabilities that could occur within one year are forecast. The value of the risk equates to the negative simulation result expected only every 200 years (1 in 200 year event). Each risk is measured separately. For premium and reserve risk, specified criteria are used to aggregate historical losses into groups of risks sharing similar characteristics. These are then used for 200,000 simulations of future unexpected claims and/or required additions to reserves. Likewise, catastrophe risk is measured by simulating losses that may arise from disasters or large claims caused by people. Accumulation risk consists of simulated accumulation losses from legal insurance. 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.

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

Risk concentration

The Group focuses on small-scale insurance business for private customers and small businesses. It has a sufficiently large portfolio of products and does not underwrite serious or industry risks. As a consequence, concentrations of risk are minimized. In individual cases, unfavorable timing in the occurrence of claims could lead to a concentration of catastrophe risk or accumulation risk. Appropriate risk mitigation measures have been implemented to cover such exceptional losses. The limit system ensures that the underwriting risk from indemnity, liability, and accident insurance and from legal insurance as a whole does not represent an undesirable concentration in the risk profile.

Risk mitigation

The individual companies use reinsurance to minimize their risk. Despite the use of risk mitigation measures, a concentration of risk could arise if individual losses could potentially materialize simultaneously. However, a limit system is used to make sure that this risk is kept to a level that the Company can bear.

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

Risk sensitivity

Various sensitivity analyses were carried out in the reporting period at individual company level. In the ORSA process, a number of variables (new policies underwritten, lapses, claims ratio, and cost/income ratio) were stressed with factors of 10.0 percent, 20.0 percent, and 25.0 percent. The maximum effects on the budgeted SCR for 2019 and on the coverage ratios were as follows:

- ARAG SE: +€19,000 thousand/- 42.0 percentage points
- ARAG Allgemeine Versicherungs-AG: +€7,000 thousand/- 32.0 percentage points
- Interlloyd Versicherungs-AG: +€1,800 thousand/- 26.0 percentage points

Even in these stress scenarios, coverage ratios did not fall below the minimum levels because of the companies' very good level of capital adequacy.

C.1.2 Underwriting risk in health insurance

Risk exposure

Underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities 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 pursued on a similar technical basis to that of non-life insurance:
 - Premium/reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the occurrence 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 pursued on a similar technical basis 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

The solvency capital requirement for underwriting risk in health insurance rose by €12,559 thousand year on year, from €27,940 thousand net as of December 31, 2017 to €40,499 thousand net as of December 31, 2018, equating to an increase of 44.9 percent. This increase resulted from a difference in the analysis of the portfolios in the risk calculation. In terms of gross figures, the risk declined from €118,169 thousand to €117,851 thousand, a decrease of €318 thousand or 0.3 percent. The greatest sub-risk is the risk from health insurance policies that are pursued on a similar technical basis to that of life insurance.

Risk measurement

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.

Risk concentration

Concentrations of risk could arise in respect of risk from health insurance policies under which claims are made as a result of catastrophes. The quantification of these risks demonstrates that they are covered by the existing own funds. The limit system ensures that the underwriting risk from health insurance as a whole does not represent an undesirable concentration in the risk profile.

Risk mitigation

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

Risk sensitivity

The potential impact from the ineffectiveness of premium adjustments was analyzed in respect of ARAG health insurance. This scenario did not have any material impact on the budgeted underwriting risk SCR for 2019 or on the coverage ratio.

C.2 Market Risk**Risk exposure**

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

- Interest-rate risk: changes in the term structure or volatility of interest rates
- Equity risk (including equity investments): changes in the level or volatility of the market prices of equities
- Property risk: changes in the level or volatility of the market prices of real estate
- 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

The solvency capital requirement for market risk declined from €362,798 thousand net as of December 31, 2017 to €358,949 thousand net as of December 31, 2018, a decrease of €3,849 thousand or 1.1 percent. In terms of gross figures, the risk declined from €502,668 thousand to €499,587 thousand, a decrease of €3,081 thousand or 0.6 percent.

Risk measurement

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

The transitional provision pursuant to section 347 (2) VAG was used in the calculation of equity risk. In this context, the market value of all equities purchased before January 1, 2016 is reduced by 22.0 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 measurement methodology in the period under review.

Risk concentration

Investments are made at individual company level and the prudent person principle is applied. This requires an appropriate diversification of the portfolio, as a result of which risk concentrations are generally restricted. The limit system for individual companies and the Group takes into account the individual risk profile of the investment and prevents a concentration of the sub-risks, which the Company would not be able to bear. The limit system also ensures that market risk as a whole does not represent an undesirable concentration in the risk profile of the Company.

Risk mitigation

The regulatory requirements for implementing the prudent person principle form the framework for the risk mitigation measures. At strategic level, risk is limited by virtue of the fact that strategic asset allocation is determined for the individual companies, on the basis of which market risk is held within limits set in advance. A focus on a target portfolio that is steady over a number of years and an annual review of the asset/liability management (ALM) situation at individual company level ensure that these risk mitigation measures remain effective over the long term.

Operational measures to mitigate risk are set out in the investment guidelines. These measures allow derivatives to be used within institutional funds to hedge changes in interest rates, share prices, and exchange rates. Investments in hedge funds, the funding of investments by borrowing, and the sale of shares not owned by the ARAG Group (short selling) are not permitted.

Risk sensitivity

In the year under review, analyses were carried out at individual company level for two scenarios (rise in interest rates, fall in interest rates) as part of the ORSA process. The scenario with a rise in interest rates examined the impact of a sudden, sharp rise in interest rates with additional shocks affecting market parameters (equities, spread, real estate, and equity investments). The scenario with a fall in interest rates examined the impact of a negative change in interest rates with additional shocks on the market parameters of equities, spread, and equity investments. The loss in the interest-rate-fall scenario was much lower than in the scenario involving a rise in interest rates. The individual effects on the own funds of the companies in the interest-rate-rise scenario were as follows:

- ARAG SE: –€340,000 thousand
- ARAG Allgemeine Versicherungs-AG: –€55,000 thousand
- Interlloyd Versicherungs-AG: –€7,100 thousand
- ARAG Krankenversicherungs-AG: –€85,000 thousand
- HELP Forsikring AS: –€7,000 thousand

On an indicative basis, the total loss of own funds would be €493,000 thousand, an amount that the Group would therefore be able to bear.

C.3 Credit Risk

Risk exposure

Counterparty default risk arises in connection with the following items: loans and mortgages, reinsurance recoverables, receivables, and cash. 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.

The solvency capital requirement for credit risk went up from €44,637 thousand as of December 31, 2017 to €52,552 thousand as of December 31, 2018, an increase of €7,915 thousand or 17.7 percent. The main factor was an enhancement of the risk calculation to include the item 'Receivables (trade, not insurance)', as described in chapter D.1.18.

Risk measurement

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.

To measure the risk of default on receivables from policyholders and insurance brokers, a constant factor is applied to the fair value of the relevant exposures on the Solvency II balance sheet.

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

Risk concentration

The counterparties with a significant exposure are those in connection with bank deposits under cash. However, based on internal investment guidelines, deposits are diversified to minimize a concentration in any one bank.

Risk mitigation

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

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

Risk sensitivity

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

C.4 Liquidity Risk**Risk exposure**

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

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

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

Risk measurement

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

Risk concentration

A risk concentration could arise if the individual companies had to simultaneously settle an increased number of liabilities because of disasters or accumulation events. To ensure the Company can always meet its liabilities when due, most investments are made in the 'available-for-sale at short notice' liquidity class. Tight counterparty and issuer limits also restrict the liquidity risk for individual issuers, such that a concentration of liquidity risk is unlikely.

Risk mitigation

The liquidity planning in the individual companies is updated constantly so that liquidity can be managed. The Company thus has early warning of whether it will require liquidity in the coming months. If it becomes apparent that selling securities is also becoming more difficult, the Company responds by increasing the liquidity that it holds as a safety buffer. Further protection is provided by the current investment policy, which stipulates diversification across a broad range of security types and issuers.

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

Risk sensitivity

Various stress tests and sensitivity analyses were carried out in the reporting period at individual company level. Fair value losses and claims incurred were stressed in this process. The Group passed the liquidity stress test in all the analyzed scenarios.

Profits contained in future premiums

The expected profits included in future premiums represent a very illiquid component of basic own funds. These profits are therefore associated with a potential liquidity risk. Even if the expected profits contained in future premiums are not factored into basic own funds, the resulting liquidity risk is still classified as very low because of the significant excess cover. The expected profits included in future premiums amount to €220,307 thousand.

C.5 Operational Risk

Risk exposure

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

The solvency capital requirement for operational risk went up from €49,503 thousand as of December 31, 2017 to €51,952 thousand as of December 31, 2018, an increase of €2,449 thousand or 4.9 percent.

Risk measurement

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

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

Risk concentration

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

Risk minimization

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 implementation of each strategy used is continuously monitored to ensure the measures taken to reduce the risk remain effective on an ongoing basis.

Risk sensitivity

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

C.6 Other Material Risks**C.6.1 Strategic risk, reputational risk, and emerging risks**

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

Strategic risk

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

Reputational risk

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

Emerging risks

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

C.6.2 Group-specific risks**Risk exposure**

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

Risk measurement

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

Risk concentration

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

Risk minimization

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

Risk sensitivity

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

C.7 Any Other Information

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

D. Valuation for Solvency Purposes

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In chapters D.1, D.2, and D.3, the explanation 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.

The table below provides an overview of the total assets, technical provisions, and other liabilities in accordance with Solvency II and HGB, together with the valuation differences, as of December 31, 2018. It also includes a comparison with the SII values as of the prior-year reporting date.

Total assets, technical provisions, and other liabilities

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Assets	5,254,863	4,861,410	393,453	5,149,953	104,909
Technical provisions	3,152,434	3,873,447	-721,014	3,089,171	63,262
Other liabilities	828,335	499,559	328,775	818,717	9,618
Excess of assets over liabilities	1,274,094	488,403	785,691	1,242,065	32,029

In the reporting period, there were no changes in the valuation bases described below as being used for the Solvency II balance sheet in respect of the individual assets, technical provisions, and other liabilities other than those in connection with the valuation of bonds (D.1.10), deferred tax assets (D.1.4), and deferred tax liabilities (D.3.3). The amended valuation of bonds led to a decline in fair value of €4,215 thousand. The change in the valuation bases used for deferred tax assets and liabilities led to an overall decrease of €3,039 thousand. 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, 2018

(€'000)

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

	Solvency II as of Dec. 31, 2018	HGB as of Dec. 31, 2018	Difference as of Dec. 31, 2018	Solvency II as of Dec. 31, 2017	Solvency II year-on-year change
	0	23,152	- 23,152	0	0
	0	0	0	0	0
	0	10,448	- 10,448	0	0
	108,773	1,062	107,711	96,300	12,473
	18	18	0	87	- 69
	258,002	167,880	90,123	215,743	42,259
	78,380	48,422	29,958	128,201	- 49,821
	21,314	15,355	5,959	26,518	- 5,204
	6,362	5,096	1,267	7,986	- 1,624
	762	719	42	781	- 19
	7,124	5,815	1,309	8,767	- 1,643
	989,865	912,645	77,220	868,825	121,040
	1,653,836	1,539,671	114,165	1,690,982	- 37,146
	34,336	32,182	2,154	46,415	- 12,079
	16,586	16,470	117	9,256	7,330
	2,694,623	2,500,967	193,656	2,615,479	79,145
	1,473,530	1,477,385	- 3,856	1,553,458	- 79,928
	0	0	0	0	0
	48,900	48,900	0	87,099	- 38,199
	90,857	80,167	10,689	49,564	41,293
	4,414,728	4,177,012	237,715	4,469,085	- 54,357
	4,781,521	4,379,573	401,949	4,781,215	306

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

Assets as of December 31, 2018

(€'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, 2018	HGB as of Dec. 31, 2018	Difference as of Dec. 31, 2018	Solvency II as of Dec. 31, 2017	Solvency II year-on-year change
	4,781,521	4,379,573	401,949	4,781,215	306
	0	0	0	0	0
	0	0	0	0	0
	108	108	0	79	29
	5,905	5,905	0	9,569	-3,664
	6,013	6,013	0	9,648	-3,635
	21,051	36,076	-15,025	20,550	501
	1,546	0	1,546	0	1,546
	22,597	36,076	-13,479	20,550	2,047
	0	0	0	0	0
	4,983	0	4,983	4,946	37
	4,983	0	4,983	4,946	37
	0	0	0	0	0
	27,580	36,076	-8,496	25,496	2,084
	55,935	55,935	0	49,677	6,258
	87,008	87,008	0	76,536	10,472
	47,164	47,164	0	47,631	-467
	46,601	46,601	0	40,478	6,123
	236,708	236,708	0	214,321	22,386
	0	0	0	0	0
	0	0	0	0	0
	196,214	196,214	0	113,813	82,401
	6,826	6,826	0	5,460	1,366
	203,040	203,040	0	119,273	83,767
	5,254,863	4,861,410	393,453	5,149,953	104,909

D.1.1 Goodwill

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	0	23,152	- 23,152	0	0

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

The acquired goodwill in the Company includes an acquired insurance portfolio. The total value at the end of the reporting year amounted to €23,152 thousand (December 31, 2017: €26,322 thousand).

Goodwill is not recognized on the Solvency II balance sheet, as a result of which the Solvency II valuation was €23,152 thousand lower than the HGB valuation as of December 31, 2018 (December 31, 2017: €26,322 thousand lower).

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

D.1.2 Deferred acquisition costs

As of the reporting date, the Company did not have any deferred acquisition costs recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

D.1.3 Intangible assets

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	0	10,448	- 10,448	0	0

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

In the HGB financial statements, intangible assets are recognized at cost and reduced by appropriate amortization on a straight-line basis. As of December 31, 2018, their carrying amount was €10,448 thousand.

Intangible assets were not recognized on the Solvency II balance sheet as of December 31, 2018, nor as of the prior-year reporting date, in accordance with article 12 (2) of the Solvency II Delegated Regulation.

Due to intangible assets not being included for solvency purposes, the Solvency II valuation was €10,448 thousand lower than the carrying amount on the HGB balance sheet.

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

D.1.4 Deferred tax assets

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	108,773	1,062	107,711	96,300	12,473

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.

If applicable, deferred taxes from tax group subsidiaries (companies controlled by the parent company and/or with which a profit-and-loss transfer agreement has been concluded) are recognized by the parent company because the income of the tax group is aggregated for tax purposes and taxed overall at the level of the parent company.

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

• Group companies, Germany, Düsseldorf	31.2 percent
• Group company, Germany, Munich	33.0 percent
• Group companies, Norway	25.0 percent
• Group company, United Kingdom	19.0 percent
• Group companies, USA	21.0 percent
• Austria Branch	25.0 percent

• Belgium Branch	25.0 percent
• Canada Branch	26.5 percent
• Greece Branch	29.0 percent
• Italy Branch	30.8 percent
• Netherlands Branch	25.0 percent
• Portugal Branch	22.5 percent
• Slovenia Branch	19.0 percent
• Spain Branch	25.0 percent

The main components of the total deferred tax assets of €108,773 thousand were as follows: €42,094 thousand arising from defined benefit obligations that had to be valued at a higher level under regulatory requirements, €39,834 thousand from underwriting liabilities, and €16,086 thousand from investments.

Virtually all of the year-on-year increase in deferred tax assets of €12,473 thousand was attributable to the change in investments.

At ARAG Health, there were changes in the recognition and valuation methods compared with the previous year in terms of the valuation basis used. To calculate the deferred tax assets on the Solvency II balance sheet as of December 31, 2017, the differences between the HGB and Solvency II carrying amounts had been used as reference values and the result from the calculation added to the deferred taxes already recognized on the HGB balance sheet.

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

D.1.5 Pension benefit surplus

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	18	18	0	87	-69

The excess of plan assets over pension liabilities is the balance of pension obligations at present value and the fair value of the securities held to cover these liabilities. As of December 31, 2018, the Solvency II carrying amount was the same as the fair value already recognized in accordance with HGB. The excess of plan assets was not recalculated for reasons of materiality.

The Solvency II carrying amount declined by €69 thousand year on year. This was caused by a fall in the prices of securities held to cover retirement pension liabilities to employees in the Group company ARAG North America Inc.

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

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	258,002	167,880	90,123	215,743	42,259

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 classified according to primary usage. Fair values are used for Solvency II purposes.

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

The year-on-year increase of €42,259 thousand was largely attributable to an adjustment arising from a change in the use of an item of Group real estate.

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

D.1.7 Property (other than for own use)

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	78,380	48,422	29,958	128,201	- 49,821

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

As of the reporting date, the Company held land and buildings assets on its HGB balance sheet with a carrying amount of €48,422 thousand.

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 of €78,380 thousand was the sum of the value of the land and the value of the buildings. Land and buildings are categorized as being held for own use or rented out to third parties in the same way as for the HGB balance sheet.

The valuation difference between the Solvency II balance sheet and the HGB financial statements amounted to €29,958 thousand and arose because the historical cost convention was applied in the valuation under HGB, whereas the higher unrealized fair values were recognized on the Solvency II balance sheet. The year-on-year decrease in fair value of €49,821 thousand as of the reporting date was largely attributable to a change in the use of an item of Group real estate.

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

D.1.8 Holdings in related undertakings, including participations

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	21,314	15,355	5,959	26,518	- 5,204

Shares in affiliated companies (related undertakings), including equity investments (participations), were valued at cost in the reporting year. Where necessary, they were written down to their fair value. Write-downs are reversed to no more than the historical cost if the reason for recognizing them ceases to apply.

The fair value is determined using an income capitalization approach based on a planning horizon of usually three years. This item primarily consisted of the equity investments in AXA-ARAG Rechtsschutz AG in an amount of €10,395 thousand and in ARCAP Fonds XVI GmbH & Co. KG in an amount of €2,359 thousand.

No write-downs to cover expected permanent impairment or reversals of write-downs were necessary in respect of material affiliated companies or equity investments in the year under review.

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).

From a qualitative perspective, the difference of €5,959 thousand between the carrying amount at cost on the HGB balance sheet and that at fair value on the Solvency II balance sheet resulted from the different valuation methods described above.

The year-on-year fall in the Solvency II carrying amount of €5,204 thousand was mainly caused by a reclassification of equity investments to other investments and falls in carrying amounts, mainly those for Jurofoon B. V. and AXA-ARAG Rechtsschutz AG.

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

D.1.9. Equities

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Equities – listed	6,362	5,096	1,267	7,986	-1,624
Equities – unlisted	762	719	42	781	-19
Total	7,124	5,815	1,309	8,767	-1,643

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

For solvency purposes, equities are valued at their quoted market price or market value. If this price/value is not available, the value is estimated using a valuation model. If the necessary information for an interest-rate premium on the security or on the issuer is not available, the premium is determined – where available – on the basis of the investment's credit rating; otherwise, the credit rating of the issuer or the sector is used.

The differences in the valuation rules resulted in a valuation difference of €1,309 thousand for equities as of December 31, 2018. The decline of €1,643 thousand in the latest Solvency II value compared with the equivalent value as of December 31, 2017 was entirely attributable to changes in market value.

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

D.1.10 Bonds

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Government bonds	989,865	912,645	77,220	868,825	121,040
Corporate bonds	1,653,836	1,539,671	114,165	1,690,982	- 37,146
Structured notes	34,336	32,182	2,154	46,415	- 12,079
Collateralized securities	16,586	16,470	116	9,256	7,330
Total	2,694,623	2,500,967	193,656	2,615,479	79,145

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

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

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

Compared with recognition under HGB, the valuation of bonds in accordance with the rules described above has resulted in valuation reserves of €193,656 thousand that have not yet been realized. The year-on-year increase in the Solvency II carrying amount of €79,145 thousand was mainly attributable to the expansion of the portfolio of government bonds. Some of the increase was offset by a fall in prices in the categories shown, particularly in respect of corporate bonds and structured notes.

There were some changes in the stated recognition and valuation methods compared with the previous year. The use of a valuation based on the rating of the ultimate risk carrier by means of individual spreads led to a fall of €4,215 thousand in the market value compared with the valuation method used in the prior year.

D.1.11 Collective investment undertakings

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Equities	390,061	399,605	-9,544	455,794	-65,733
Bonds	1,005,516	1,000,007	5,509	1,020,747	-15,231
Other	77,952	77,773	179	76,917	1,035
Total	1,473,530	1,477,385	-3,856	1,553,458	-79,928

Collective investment undertakings that have not been classified as permanent fixed assets are valued under HGB at the lower of their cost or quoted market price or market value as of the balance sheet date. This applies even if the quoted market price or market value falls below the cost only for a short time. Write-downs are reversed to no more than the cost if the reason for recognizing them ceases to apply. As of the reporting date, the carrying amount of collective investment undertakings under HGB was €1,477,385 thousand. Institutional funds that have been classified for permanent use in business operations are valued with the application of the discretionary principle of lower of cost or market value. Reversals of write-downs were recognized in an amount of €644 thousand in 2018 (2017: €8,724 thousand).

For solvency purposes, the redemption price determined by the investment management company for the investment fund units/shares is used to determine the economic value. This value is not restricted to the cost. In accordance with the Delegated Regulation, collective investment undertakings in which the stake held is at least 20.0 percent are reported under collective investment undertakings and not under holdings in related undertakings, including participations. As of December 31, 2018, the Solvency II carrying amount for collective investment undertakings was €1,473,530 thousand.

The year-on-year decrease of €79,928 thousand was mainly attributable to falls in the market prices of bonds and equities.

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

D.1.12 Derivatives

As of the reporting date, the Company did not have any direct investments in derivatives recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

D.1.13 Deposits other than cash equivalents

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	48,900	48,900	0	87,099	- 38,199

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

Because of the identical valuation methods, the value under HGB and the value for solvency purposes are the same. The Solvency II carrying amount declined by €38,199 thousand year on year, which was entirely attributable to portfolio contraction.

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

D.1.14 Other investments

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	90,857	80,167	10,689	49,564	41,293

Other investments are valued at cost, in some cases reduced by write-downs to the lower fair value. The fair value is determined by the net asset value (NAV) published by the investment management company. However, no write-downs were recognized in 2018. No reversals of write-downs were required in the year under review either.

For solvency purposes, the NAV reported by the investment management company is recognized as the economic value, even if it is higher than the cost. As a result of unrealized valuation reserves, the Solvency II carrying amount as of December 31, 2018 was €10,689 thousand higher than the HGB carrying amount. The year-on-year increase in the Solvency II carrying amount of €41,293 thousand was attributable to the expansion of the portfolio of private equity and infrastructure investments.

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

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

As of the reporting date, the Company did not have any assets held for index-linked and unit-linked contracts recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

D.1.16 Loans and mortgages

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Loans on policies	0	0	0	0	0
Loans and mortgages to individuals	108	108	0	79	29
Other loans and mortgages	5,905	5,905	0	9,569	-3,664
Total	6,013	6,013	0	9,648	-3,635

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

For reasons of materiality and because of the low risk, no present value calculations were carried out in the year under review, as had also been the case in 2017. Instead, HGB carrying amounts were also used for Solvency II purposes.

The year-on-year decline in the Solvency II carrying amount of €3,635 thousand was mainly attributable to the contraction in volume.

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

D.1.17 Reinsurance recoverables

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Non-life and health similar to non-life	22,597	36,076	- 13,479	20,550	2,047
Life and health similar to life, excluding health and index-linked and unit-linked	4,983	0	4,983	4,946	37
Total	27,580	36,076	- 8,496	25,496	2,084

On the HGB balance sheet, the reinsurers' share of technical provisions is deducted from the provision for unearned premiums and the provision for outstanding claims. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements. The proportions of the provision for outstanding claims relating to outward reinsurance business are calculated in accordance with the stipulations in the reinsurance treaties.

On the economic balance sheet, the reinsurers' shares are aggregated. To determine the economic value, the reinsurers' pro rata share of the technical provisions is calculated using the reinsurers' best estimate in accordance with the underlying treaty. The reinsurers' share is determined on an individual claim basis in accordance with the contractual terms. Applying the aforementioned valuation methods, the carrying amount on the Solvency II balance sheet as of December 31, 2018 was €8,496 thousand lower than the HGB carrying amount. The year-on-year increase in the Solvency II carrying amount of €2,084 thousand was attributable to the continuation of business operations.

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

D.1.18 Receivables

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Deposits to cedants	55,935	55,935	0	49,677	6,258
Insurance and intermediaries receivables	87,008	87,008	0	76,536	10,472
Reinsurance receivables	47,164	47,164	0	47,631	-467
Receivables (trade, not insurance)	46,601	46,601	0	40,478	6,123
Total	236,708	236,708	0	214,321	22,386

Deposits to cedants are recognized at their nominal amount, which equates to their cost. As these deposits are largely repayable within twelve months, they are not discounted. The nominal amount is therefore used as the economic value. Due to use of the nominal amount as the economic value, there are no valuation differences. The year-on-year increase in the Solvency II carrying amount of €6,258 thousand was mainly attributable to additional inward reinsurance treaties entered into by the Italy Branch.

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

Insurance* and intermediaries receivables are generally recognized at their nominal amount (€87,008 thousand). A general allowance for latent credit risk is deducted from insurance receivables after specific allowances have been recognized on a collective basis for receivables that are past due by a predefined period of time.

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

Because there is no active market for insurance and intermediaries receivables, and because of the short-term nature of the asset (due within twelve months), materiality reasons, risk, and the disproportionate time, effort, and expense that would be involved in any revaluation, the nominal amount is also used as the Solvency II carrying amount. Due to this use of the nominal amount (€87,008 thousand) as the economic value, there are no valuation differences.

The year-on-year rise in the Solvency II carrying amount of €10,472 thousand was mainly due to the change in volume.

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

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

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

As these reinsurance receivables are largely payable within twelve months, they are not discounted; the nominal amount is therefore recognized as the economic value. Due to use of the nominal amounts as the economic value, there are no valuation differences. The year-on-year decrease in the Solvency II carrying amount of €467 thousand was primarily due to a terminated reinsurance treaty at ARAG SE's Spain Branch. Some of this effect was offset by a rise in the reinsurance receivables at ARAG SE's Netherlands Branch and from the pattern of claims in the last quarter of 2018 and the associated reinsurance settlement balances at Group company ARAG Allgemeine.

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

Receivables (trade, not insurance) are generally recognized at their nominal amount. In the event of actual default risk relating to rating downgrades, specific allowances are recognized in the amount that is no longer likely to be recovered. The receivables (trade, not insurance) of €46,601 thousand for the most part consisted of tax assets (€19,755 thousand), outstanding cash amounts (€10,000 thousand), and trade receivables at non-insurance companies (€5,301 thousand).

The Company's receivables (trade, not insurance), for which the nominal amounts reduced by allowances are reported as the economic value, are valued at the amount at which they could be exchanged in an arm's-length transaction between knowledgeable, willing parties. With the exception of some tax assets, these receivables are mostly classified as current (due within twelve months).

Due to use of the nominal amounts as the economic value, there are no valuation differences. The year-on-year increase in the Solvency II carrying amount of €6,123 thousand arose largely because the taxes for the reporting period had not yet been assessed and there were likely to be refunds in the future.

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

D.1.19 Own shares (held directly)

As of the reporting date, the Company did not have any own shares (held directly) recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

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

As of the reporting date, the Company did not have any amounts due in respect of own fund items or initial fund called up but not yet paid in recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

D.1.21 Cash and cash equivalents

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	196,214	196,214	0	113,813	82,401

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

The year-on-year increase in the Solvency II carrying amount of €82,401 thousand was entirely attributable to the increase in the volume for this item in the reporting year and as of the balance sheet date.

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

D.1.22 Any other assets, not elsewhere shown

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	6,826	6,826	0	5,460	1,366

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

The year-on-year increase in the Solvency II carrying amount of €1,366 thousand was attributable to inventory differences compared with the end of 2017.

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

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

D.2 Technical Provisions

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

Technical provisions as of December 31, 2018

(€'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, 2018	HGB as of Dec. 31, 2018	Difference as of Dec. 31, 2018	Solvency II as of Dec. 31, 2017	Solvency II year-on-year change
	0	1,664,021	-1,664,021	0	0
	1,089,486	0	1,089,486	1,137,904	-48,418
	37,646	0	37,646	35,946	1,700
	1,127,133	1,664,021	-536,888	1,173,850	-46,717
	0	921	-921	0	0
	53,100	0	53,100	642	52,458
	1,502	0	1,502	330	1,172
	54,603	921	53,681	972	53,631
	1,181,735	1,664,942	-483,207	1,174,822	6,913
	0	2,128,348	-2,128,348	0	0
	1,943,063	0	1,943,063	1,889,808	53,255
	22,480	0	22,480	18,732	3,748
	1,965,543	2,128,348	-162,805	1,908,539	57,003
	0	0	0	0	0
	5,150	0	5,150	5,161	-11
	6	0	6	649	-643
	5,155	0	5,155	5,810	-655
	1,970,698	2,128,348	-157,650	1,914,349	56,348
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	3,152,434	3,793,291	-640,857	3,089,171	63,262
	0	80,157	-80,157	0	0
	3,152,434	3,873,447	-721,014	3,089,171	63,262

D.2.1 Technical provisions

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

As of the reporting date, the technical provisions in accordance with HGB amounted to €3,873,447 thousand. In addition to the actuarial reserve of €1,787,244 thousand, the HGB technical provisions included the provision for outstanding claims (gross) of €1,483,716 thousand, the provision for bonuses and rebates of €264,196 thousand, unearned premiums (gross) of €258,134 thousand, the equalization provision of €75,962 thousand, and the miscellaneous technical provisions of €4,195 thousand.

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

The provision for outstanding claims in relation to direct insurance business is recognized separately by event year for claims reported in the financial year concerned and for claims that have occurred up to the balance sheet date but have not yet been reported. A provision for claim settlement expenses is also recognized. These provisions are valued in accordance with prudent business practice, taking into account the ongoing need to satisfy the obligations under insurance contracts. Valuation is based on values as of the balance sheet date. The provisions were not discounted. The results from the group-based and individual valuations are reviewed on a portfolio basis using actuarial methods.

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

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

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Technical provisions calculated as a whole	0	1,664,021	-1,664,021	0	0
Best estimate	1,089,486	0	1,089,486	1,137,904	-48,418
Risk margin	37,646	0	37,646	35,946	1,700
Total	1,127,133	1,664,021	-536,888	1,173,850	-46,717

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

1. Best estimate
 - a) Claims provision
 - b) Premiums provision
 2. Risk margin
 1. For non-life insurance, best estimate comprises two components:
 - a) The claims provision is calculated for each previously defined homogeneous risk group in the ARAG Group. It contains expected claim payments and claim settlement costs that are necessary for the settlement of claims already incurred. The claims reserve is valued using the standard actuarial reserving methods used in the market: the chain-ladder method, the additive method based on accident-year-independent growth of the claims ratio (AUSQZ), and the Bornhuetter-Ferguson method. Alternative reserving methods may be used in exceptional cases, for example if all three of these methods produce implausible results. The New York method is used to value the claim settlement provision.
 - b) The premiums provision is made up of the provision for premiums written but not yet earned and the expected future profit or loss from in-force policies. The provision for premiums written but not yet earned is recognized in the amount of the present values of the expected claim payments and costs relating to the relevant policies. The expected profit or loss is determined for the outstanding premium income from in-force policies (installment payments and premiums from multi-year policies). Results from the internal model are used for the valuation of these two line items on the Solvency II balance sheet.
 2. The risk margin is calculated using the cost-of-capital method described in article 37 of the Delegated Regulation.
- In addition, there were no changes in the stated recognition and valuation methods compared with the previous year.

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

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Technical provisions calculated as a whole	0	921	-921	0	0
Best estimate	53,100	0	53,100	642	52,458
Risk margin	1,502	0	1,502	330	1,172
Total	54,603	921	53,681	972	53,631

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

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

2. Risk margin

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

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

The ARAG Group no longer applied any transitional measures in the reporting period.

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

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

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Technical provisions calculated as a whole	0	2,128,348	-2,128,348	0	0
Best estimate	1,943,063	0	1,943,063	1,889,808	53,255
Risk margin	22,480	0	22,480	18,732	3,748
Total	1,965,543	2,128,348	-162,805	1,908,539	57,003

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

The accident annuities recognized as of the reporting date in the business of ARAG Allgemeine are reported under health insurance provisions (similar to life). The individual components are:

1. Best estimate
2. Risk margin

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

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

The market values for technical provisions for health insurance (similar to life) are calculated with the inflation-neutral valuation method (INBV) using different capital markets and underwriting scenarios.

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

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 the ARAG Group's current or currently planned strategies. Based on a regular validation of the fundamental assumptions and methods, the approach used to value the expected value provision and the risk margin is considered to be appropriate.

The ARAG Group no longer applied any transitional measures in the reporting period.

There was one change in the INBV compared with the previous year. This related to the projection of investment income for determining future profit participation.

The valuation of the Solvency II carrying amount for the technical provisions covering health insurance (similar to life) was €162,805 thousand lower than the valuation of the HGB carrying amount.

There were two main reasons for this:

- a) A risk margin of €22,480 thousand was used. In other words, technical provisions are not generally traded in capital markets and are therefore illiquid.
- b) Because of the system used for determining the economic value of technical provisions (best estimate), the valuation of conventional actual reserves is influenced by four main factors:
 - Re-discounting of HGB cash flows
 - Inclusion of sundry technical surpluses
 - Inclusion of the option for premium adjustments
 - Calculation of future profit participation

One of the valuation differences for the technical provisions was that the tax calculation (deferred taxes) under Solvency II included the surplus fund at ARAG Health (€163,744 thousand).

The total carrying amount of the technical provisions in accordance with Solvency II rose by €57,003 thousand year on year. The increase in the best estimate under health insurance (similar to life) arose 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. The amount of the risk margin for health insurance (similar to life) changed virtually in line with the change in the solvency capital requirement, as a result of which there was a rise of €3,748 thousand in this figure.

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

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

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Technical provisions calculated as a whole	0	0	0	0	0
Best estimate	5,150	0	5,150	5,161	-11
Risk margin	6	0	6	649	-643
Total	5,155	0	5,155	5,810	-655

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

1. Best estimate
2. Risk margin

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

The calculation methodology for the risk margin is similar to that for non-life insurance. In addition, there were no changes in the stated recognition and valuation methods compared with the previous year.

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

As of the reporting date, the Company did not have any technical provisions for index-linked and unit-linked insurance recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

D.2.7 Other technical provisions

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	0	80,157	- 80,157	0	0

The other technical provisions* (miscellaneous technical provisions on the HGB balance sheet) primarily consist of the equalization provisions (€75,962 thousand) and the lapse provision (€2,856 thousand). The equalization provisions for direct insurance business and inward reinsurance business are recognized as additional actuarial reserves that can be used to offset fluctuations in the course of business.

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

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

* In accordance with the Solvency II structure

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

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

D.2.8 Reinsurance recoverables

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Non-life and health similar to non-life	22,597	36,076	- 13,479	20,550	2,047
Life and health similar to life, excluding health and index-linked and unit-linked	4,983	0	4,983	4,946	37
Total	27,580	36,076	- 8,496	25,496	2,084

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

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

Retrospective and prospective markdowns are recognized to take into account the default risk on the part of reinsurers. In accordance with 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.

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

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

Reinsurance recoverables are significant to the ARAG Group. The reinsurers' share is determined in the partial internal model by applying the historical and current reinsurance treaties to the gross reserves.

D.2.9 Provisions assumptions

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

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

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

No transitional measures have been applied for calculating the technical provisions in the ARAG Group.

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

D.3 Other Liabilities

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

Other liabilities as of December 31, 2018

(€'000)

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

	Solvency II as of Dec. 31, 2018	HGB as of Dec. 31, 2018	Difference as of Dec. 31, 2018	Solvency II as of Dec. 31, 2017	Solvency II year-on-year change
	603	0	603	596	7
	118,356	108,947	9,409	121,473	-3,117
	296,348	243,033	53,315	288,696	7,652
	370	370	0	1,346	-976
	262,590	0	262,590	260,675	1,915
	0	0	0	0	0
	0	0	0	0	0
	55,463	55,463	0	52,392	3,071
	3,149	3,149	0	2,671	478
	53,525	53,525	0	54,061	-536
	112,136	112,136	0	109,125	3,011
	0	0	0	0	0
	32,858	30,000	2,858	32,601	257
	32,858	30,000	2,858	32,601	257
	5,072	5,072	0	4,205	867
	828,335	499,559	328,775	818,717	9,618

D.3.1 Contingent liabilities

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	603	0	603	596	7

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 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 arose in connection with an indirect obligation in respect of ARAG Krankenversicherung-Unterstützungskasse e. V.

The recognition of €603 thousand on the Solvency II balance sheet gave rise to a valuation difference of the same amount compared with the HGB carrying amount. The increase of €7 thousand in the Solvency II carrying amount as of the reporting date was in line with the difference between the obligation and the fund assets at ARAG Krankenversicherung-Unterstützungskasse e. V.

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

D.3.2 Provisions other than technical provisions

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	118,356	108,947	9,409	121,473	-3,117

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

The provisions other than technical provisions mainly related to retrospective tax payments (€20,200 thousand), outstanding commission payments (€13,316 thousand), outstanding employee remuneration (€10,737 thousand), purchase invoices not yet received (€9,480 thousand), vacation entitlement not yet granted (€8,110 thousand), early retirement and pre-retirement part-time employment obligations (€6,881 thousand), provisions for long-service awards (€5,610 thousand), and bonuses (€4,677 thousand).

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

The provisions for long-service awards are calculated in accordance with the projected unit credit (PUC) method. The discount rate used in this method is 2.32 percent in accordance with the German Regulation on the Discounting of Provisions (RückAbzinsV). The calculations are also based on future salary increases of 2.5 percent per year, staff turnover of 1.5 percent per year, and the 2018G mortality tables published by Professor Klaus Heubeck.

The provision for early retirement benefits is calculated in accordance with actuarial principles, likewise on the basis of the above-mentioned Heubeck mortality tables, applying a discount rate of 2.32 percent and future salary increases of 2.5 percent per year. The calculation is based on the Company's possible use of the provision for early retirement benefits in connection with individual contractual agreements.

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

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

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

The economic value of the provisions for long-service awards, early retirement obligations, severance pay, and pre-retirement part-time employment obligations came to €19,286 thousand. All other items were recognized on the Solvency II balance sheet with their HGB carrying amounts. A valuation difference of €9,409 thousand arose solely as a result of the differing valuation methods used for the obligations referred to separately above. The year-on-year decrease in the Solvency II carrying amount was largely caused by reductions in the individual carrying amounts within this aggregate item.

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

D.3.3 Pension benefit obligations

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	296,348	243,033	53,315	288,696	7,652

In accordance with standard international practice, the pension benefit obligations are calculated using the PUC method on the basis of the 2018G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. The discount rate used was the average interest rate for the past ten years published by Deutsche Bundesbank for an assumed residual maturity of 15 years. A discount rate of 3.21 percent was applied for the valuation as of December 31, 2018 (December 31, 2017: 3.68 percent). The following actuarial parameters were used to calculate the obligations: earliest possible age under the German Pension Age Reform Act (RVAGAnpG), which is 63, annual increase in salaries of 2.5 percent, annual increase in pension benefits of 1.75 percent (for Spain, 2.5 percent). The level of staff turnover taken into account reflects the generally observable age-dependent average for the industry and has only a minor impact on the settlement value.

For the Solvency II balance sheet, pension benefit obligations are valued using the PUC method as required by IAS 19. The discount rate is determined on the basis of the yields achieved for senior industrial bonds on the balance sheet date. Expected growth in income (2.5 percent), rising pension benefits (1.75 percent), and the Company's projections for staff turnover (1.5 percent) are taken into account. The amount calculated in this way equates to the economic value in accordance with VAG. As of the reporting date, the amount was calculated at €296,348 thousand.

A valuation difference of €53,315 thousand arose as a result of the differing valuation methods, in particular the different discount rates used. The year-on-year increase as of the reporting date was primarily attributable to the regular additions to the pension entitlements.

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

D.3.4 Deposits from reinsurers

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	370	370	0	1,346	-976

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

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

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

D.3.5 Deferred tax liabilities

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	262,590	0	262,590	260.675	1,915

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

A deferred tax liability of €0 thousand was reported on the HGB balance sheet.

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

If applicable, deferred taxes from tax group subsidiaries (companies controlled by the parent company and/or with which a profit-and-loss transfer agreement has been concluded) are recognized by the parent company because the income of the tax group is aggregated for tax purposes and taxed overall at the level of the parent company. All tax group subsidiaries are included in the basis of consolidation as Group companies.

The total deferred tax liabilities of €262,590 thousand arose mainly as result of the increase totaling €41,039 thousand relating to technical provisions. Most of this increase was offset by a fall in the deferred tax liabilities of €33,006 thousand relating to investments and a fall of €6,117 thousand relating to miscellaneous provisions.

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

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

D.3.6 Derivatives

As of the reporting date, the Company did not have any derivatives recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

D.3.7 Debts owed to credit institutions

As of the reporting date, the Company did not have any debts owed to credit institutions recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

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

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Insurance and intermediaries payables	55,463	55,463	0	52,392	3,071
Reinsurance payables	3,149	3,149	0	2,671	478
Payables (trade, not insurance)	53,525	53,525	0	54,061	- 536
Total	112,136	112,136	0	109,125	3,011

Insurance and intermediaries payables are valued at their nominal amount. As of the reporting date, the breakdown was as follows: insurance payables of €24,871 thousand and intermediaries payables of €30,592 thousand. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value.

The economic value of the payables maturing within twelve months is based on the nominal amount. As there is no active market for insurance and intermediaries payables, the nominal amount of such payables with a longer maturity (more than twelve months) is also recognized as the economic value.

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

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

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

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

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 the recognition and valuation of such payables on the HGB and Solvency II balance sheets. There was no material year-on-year change in the economic value.

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

D.3.9 Subordinated liabilities

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Subordinated liabilities not in basic own funds	0	0	0	0	0
Subordinated liabilities in basic own funds	32,858	30,000	2,858	32,601	257
Total	32,858	30,000	2,858	32,601	257

As of the reporting date, the Company did not have any **subordinated liabilities not in basic own funds** recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

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

On the Solvency II balance sheet, the subordinated liabilities in basic own funds are discounted with the risk-free interest rate derived from investment-grade industrial bonds, modified by the value of ARAG's different credit rating at the time the subordinated bond was issued on July 29, 2014. This results in an interest rate that is lower than the

bond's nominal interest rate (4.8 percent). Because of the discounting, the value on the Solvency II balance sheet as of December 31, 2018 was €2,858 thousand higher than the value on the HGB balance sheet. The Solvency II carrying amount changed year on year because of the shorter time to maturity.

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

D.3.10 Any other liabilities, not elsewhere shown

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Total	5,072	5,072	0	4,205	867

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

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

As of the reporting date, the reported value of any other liabilities, not elsewhere shown was thus €5,072 thousand. 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 HGB.

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

D.4 Alternative Methods for Valuation

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

D.5 Any Other Information

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 2018, 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 2018, 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, 2018, the ARAG Group held basic own funds in the form of an excess of assets over liabilities of €1,274,094 thousand according to the Solvency II balance sheet. The Company's minimum capital requirement (MCR) as of the reporting date was €220,440 thousand (December 31, 2017: €214,673 thousand) and the solvency capital requirement (SCR) was €444,398 thousand (December 31, 2017: €446,487 thousand).

It also had a subordinated liability (issued by ARAG SE) of €32,858 thousand classified as own funds. This registered bond has a fixed maturity of ten years and will be redeemed on July 29, 2024. In the event of liquidation, it will be subordinate to all other liabilities. According to the proposal for appropriation of the profit recognized on the HGB balance sheet, a sum of €10,000 thousand will be distributed to shareholders as dividends.

This results in eligible own funds of €1,155,268 thousand, split between the different capital classes as follows: Tier 1 own funds of €1,122,410 thousand (December 31, 2017: €1,090,858 thousand) and Tier 2 own funds of €32,858 thousand (December 31, 2017: €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, 2018	Dec. 31, 2017
Equity as of December 31 on the HGB balance sheet	488,403	461,369
Impact of the larger basis of consolidation under HGB compared with the Group under Solvency II	0	0
Elimination of intangible assets/goodwill	- 33,601	- 36,734
Additional deferred tax assets	107,711	90,774
Revaluation of land and buildings held for own use (fair value)	90,123	87,594
Revaluation of investments	237,715	380,886
Revaluation of other loans and mortgages	0	0
Revaluation of reinsurers' share of technical provisions	- 8,496	- 9,423
Revaluation of any other assets, not elsewhere shown	0	9
Revaluation of gross technical provisions	640,857	523,835
No separate recognition of miscellaneous technical provisions	80,157	83,730
Recognition of contingent liabilities	- 603	- 596
Revaluation of provisions other than technical provisions	- 9,409	- 9,621
Revaluation of pension benefit obligations	- 53,315	- 64,686
Additional deferred tax liabilities recognized	- 262,590	- 260,675
Revaluation of the subordinated liabilities included in basic own funds	- 2,858	- 2,601
Revaluation of any other liabilities, not elsewhere shown	0	- 1,796
Excess of assets over liabilities according to the Solvency II balance sheet	1,274,094	1,242,065
Additional basic own funds resulting from subordinated liabilities	32,858	32,601
Foreseeable dividend	- 10,000	- 10,000
Reduction in restricted Group own funds	- 122,291	- 130,159
Adjustment for non-controlling interests	- 19,394	- 11,048
Total eligible own funds as of December 31	1,155,268	1,123,459

Please refer to chapter D. of the report for information on the qualitative differences between the equity reported in the Company's financial statements and the excess of assets over liabilities calculated for solvency purposes 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	1,064,094	1,064,094	0	0
Reduction of health insurance surplus fund	- 122,291	- 122,291	0	0
Adjustment for non-controlling interests	- 19,394	- 19,394	0	0
Basic own funds	1,122,410	1,122,410	0	0
Ancillary own funds (subordinated liabilities)	32,858	0	32,858	0
Eligible own funds	1,155,268	1,122,410	32,858	0

As of December 31, 2018, the reconciliation reserve amounted to €1,064,094 thousand and consisted of equity in accordance with HGB amounting to €488,403 thousand and valuation differences of €785,691 thousand after deduction of the planned dividend of €10,000 thousand, and a deduction for the share capital of €200,000 thousand.

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

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 basis of consolidation is presented in chapter E.4.

The solvency capital requirement declined by 0.5 percent year on year, from €446,487 thousand as of December 31, 2017 to €444,398 thousand as of the reporting date. Please refer to chapter C. 'Risk Profile' for further information on the changes in the individual risks. Of the solvency capital requirement, €419,294 thousand related to the core group and €25,104 thousand to the non-controlled participations (NCPs). At 260.0 percent, the coverage ratio is significantly higher than the regulatory requirement and, in the ARAG Group's view, constitutes a substantial risk buffer for customers. As of the reporting date, the coverage ratio was 8.3 percentage points higher than the equivalent figure as of December 31, 2017 (251.6 percent).

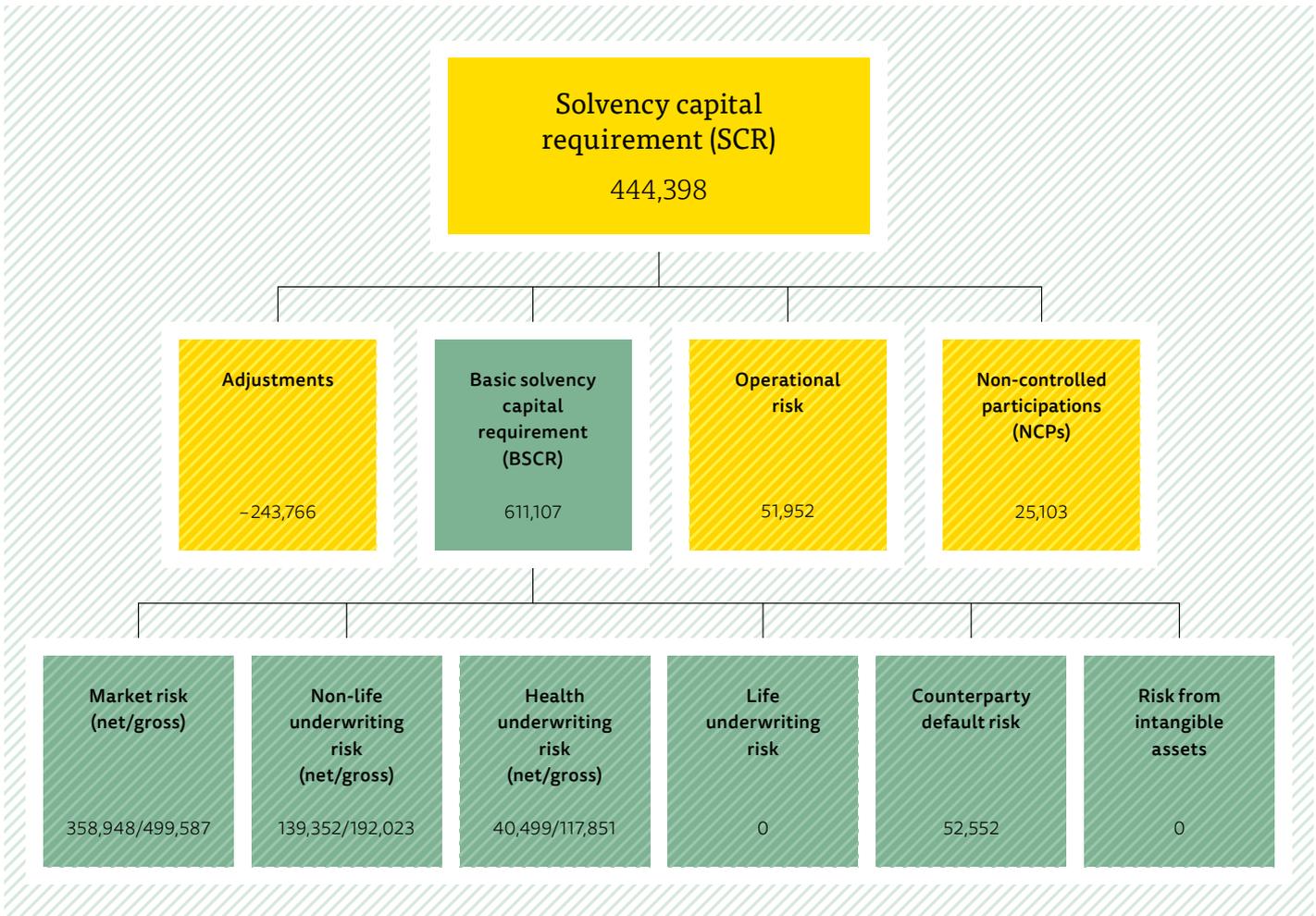
Neither a simplified calculation of the SCR standard formula nor undertaking-specific parameters (USPs) are used in any of the modules.

The Group's SCR floor (minimum capital requirement) is the sum of the minimum capital requirements for the insurance companies and those for the NCPs. As of December 31, 2018, the minimum capital requirement came to €220,440 thousand (December 31, 2017: €214,673 thousand), of which €213,155 thousand related to participating insurance undertakings and €7,285 thousand to NCPs. The minimum capital requirement equates to 50.0 percent of the current solvency capital requirement, which means that the coverage ratio for the minimum capital requirement as of the reporting date was 524.1 percent (December 31, 2017: 523.3 percent).

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

The final amount of the solvency capital requirement is still subject to verification by the supervisory authority. All quantitative disclosures relate to the figures in the quantitative reporting 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 aggregated individual risks (taking into account diversification effects) or the solvency capital requirement (SCR) before adjustments, operational risk (OpRisk), and any non-controlled participations (NCPs).

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

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

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

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 Group's business model was one of the major factors behind the development of a partial internal model for the ARAG Group. The ARAG Group's specific risk profile cannot be accurately reflected using the standard formula.

By contrast, the partial internal model, which is based on factors such as the Company's claims history, enables the Company to model the 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 fully integrated into the internal modeling of the non-life underwriting risk.

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

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

Probability distribution forecast

Underwriting risk comprises the following components: premium risk, reserve risk, catastrophe risk, and lapse risk. Liability, accident, and motor insurance pensions, in which risk arises in connection with premiums, reserves, longevity, and costs, are also classified under non-life underwriting risk and included in the partial internal model. 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 €198,236 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 uses its own historical data to measure the numerous dependencies at the level of class of insurance, risk category, and region. The parameters are reviewed annually by a committee of experts to check that they remain plausible.

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.

There are no diversification effects other than those described above.

Basis of consolidation

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

- Full consolidation of the data for all insurance or reinsurance entities: insurance holding companies, mixed financial holding companies, and ancillary services companies that are subsidiaries of the parent company.
- Proportionate consolidation of data for insurance or reinsurance entities: insurance holding companies, mixed financial holding companies, and ancillary services companies that are managed together with one or more entities not listed under item 1 by an entity listed under item 1 and in which the responsibility is limited to the proportion of capital held.
- Use of the adjusted equity method as specified in article 13 (3) of the Delegated Regulation in respect of the data for all shares in affiliated insurance or reinsurance entities: insurance holding companies and mixed financial holding companies that are not subsidiaries of the parent company.
- Proportional share of the own funds of the 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 management policy. The objective of the standards is to safeguard the quality and appropriateness of the necessary data over the long term. ARAG examines data quality from the following perspectives:

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

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

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	108,773
Pension benefit surplus	R0050	18
Property, plant & equipment held for own use	R0060	258,002
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	4,414,728
Property (other than for own use)	R0080	78,380
Holdings in related undertakings, including participations	R0090	21,314
Equities	R0100	7,124
Equities – listed	R0110	6,362
Equities – unlisted	R0120	762
Bonds	R0130	2,694,623
Government bonds	R0140	989,865
Corporate bonds	R0150	1,653,836
Structured notes	R0160	34,336
Collateralized securities	R0170	16,586
Collective investment undertakings	R0180	1,473,530
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	48,900
Other investments	R0210	90,857
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	6,013
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	108
Other loans and mortgages	R0260	5,905
Reinsurance recoverables from:	R0270	27,580
Non-life and health similar to non-life	R0280	22,597
Non-life excluding health	R0290	21,051
Health similar to non-life	R0300	1,546
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	4,983
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	4,983
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	55,935
Insurance and intermediaries receivables	R0360	87,008
Reinsurance receivables	R0370	47,164
Receivables (trade, not insurance)	R0380	46,601
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	196,214
Any other assets, not elsewhere shown	R0420	6,826
Total assets	R0500	5,254,863

S.02.01.02

Balance sheet

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	1,181,735
Technical provisions – non-life (excluding health)	R0520	1,127,133
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	1,089,486
Risk margin	R0550	37,646
Technical provisions – health (similar to non-life)	R0560	54,603
Technical provisions calculated as a whole	R0570	0
Best estimate	R0580	53,100
Risk margin	R0590	1,502
Technical provisions – life (excluding index-linked and unit-linked)	R0600	1,970,698
Technical provisions – health (similar to life)	R0610	1,965,543
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	1,943,063
Risk margin	R0640	22,480
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	5,155
Technical provisions calculated as a whole	R0660	0
Best estimate	R0670	5,150
Risk margin	R0680	6
Technical provisions – index-linked and unit-linked	R0690	0
Technical provisions calculated as a whole	R0700	0
Best estimate	R0710	0
Risk margin	R0720	0
Contingent liabilities	R0740	603
Provisions other than technical provisions	R0750	118,356
Pension benefit obligations	R0760	296,348
Deposits from reinsurers	R0770	370
Deferred tax liabilities	R0780	262,590
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance and intermediaries payables	R0820	55,463
Reinsurance payables	R0830	3,149
Payables (trade, not insurance)	R0840	53,525
Subordinated liabilities	R0850	32,858
Subordinated liabilities not in basic own funds	R0860	0
Subordinated liabilities in basic own funds	R0870	32,858
Any other liabilities, not elsewhere shown	R0880	5,072
Total liabilities	R0900	3,980,768
Excess of assets over liabilities	R1000	1,274,094

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Premiums, claims and expenses by line of business

		Medical expense insurance C0010	Income protection insurance C0020
Premiums written			
Gross – direct business	R0110	0	57,320
Gross – proportional reinsurance accepted	R0120	0	0
Gross – non-proportional reinsurance accepted	R0130	-	-
Reinsurers' share	R0140	0	1,859
Net	R0200	0	55,461
Premiums earned			
Gross – direct business	R0210	0	57,539
Gross – proportional reinsurance accepted	R0220	0	0
Gross – non-proportional reinsurance accepted	R0230	-	-
Reinsurers' share	R0240	0	1,858
Net	R0300	0	55,681
Claims incurred			
Gross – direct business	R0310	0	19,570
Gross – proportional reinsurance accepted	R0320	0	-128
Gross – non-proportional reinsurance accepted	R0330	-	-
Reinsurers' share	R0340	0	1,509
Net	R0400	0	17,932
Changes in other technical provisions			
Gross – direct business	R0410	0	23
Gross – proportional reinsurance accepted	R0420	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-
Reinsurers' share	R0440	0	0
Net	R0500	0	23
Expenses incurred	R0550	0	32,551
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	1,294	575	0	92,610	47,665	0	
0	0	0	0	0	0	0	
-	-	-	-	-	-	-	
0	1,294	575	0	6,007	2,213	0	
0	0	0	0	86,604	45,451	0	
0	1,294	575	0	92,755	47,753	0	
0	0	0	0	0	0	0	
-	-	-	-	-	-	-	
0	1,294	575	0	6,066	2,218	0	
0	0	0	0	86,689	45,535	0	
0	1,105	333	0	47,739	16,636	0	
0	0	0	0	-455	-24	0	
-	-	-	-	-	-	-	
0	498	371	0	6,093	3,348	0	
0	607	-38	0	41,191	13,265	0	
0	13	33	0	-3	23	0	
0	0	0	0	0	0	0	
-	-	-	-	-	-	-	
0	0	0	0	0	0	0	
0	13	33	0	-3	23	0	
0	-469	14	0	47,911	27,841	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	800,051	49,175	17,800
Gross – proportional reinsurance accepted	R0120	201,060	11,996	435
Gross – non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	507	127	-855
Net	R0200	1,000,603	61,043	19,090
Premiums earned				
Gross – direct business	R0210	796,741	49,078	17,988
Gross – proportional reinsurance accepted	R0220	202,341	13,789	381
Gross – non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	1,925	127	-830
Net	R0300	997,157	62,740	19,199
Claims incurred				
Gross – direct business	R0310	319,878	22,764	5,270
Gross – proportional reinsurance accepted	R0320	63,728	11,368	-16
Gross – non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	-1,324	212	-350
Net	R0400	384,930	33,921	5,604
Changes in other technical provisions				
Gross – direct business	R0410	-112	-3	0
Gross – proportional reinsurance accepted	R0420	-1,338	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	-1,450	-3	-0
Expenses incurred	R0550	554,408	29,871	11,351
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
-	-	-	-		1,066,489
-	-	-	-		213,490
0	0	0	0		0
0	0	0	0		11,727
0	0	0	0		1,268,253
-	-	-	-		1,063,724
-	-	-	-		216,510
0	0	0	0		0
0	0	0	0		13,234
0	0	0	0		1,267,000
-	-	-	-		433,295
-	-	-	-		74,472
0	0	0	0		0
0	0	0	0		10,356
0	0	0	0		497,411
-	-	-	-		-26
-	-	-	-		-1,338
0	0	0	0		0
0	0	0	0		0
0	0	0	0		-1,364
0	0	0	0		703,478
-	-	-	-		1,829
-	-	-	-		705,307

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Premiums, claims and expenses by line of business

		Health insurance	Insurance with profit participation
		C0210	C0220
Premiums written			
Gross	R1410	373,754	0
Reinsurers' share	R1420	393	0
Net	R1500	373,361	0
Premiums earned			
Gross	R1510	373,374	0
Reinsurers' share	R1520	393	0
Net	R1600	372,981	0
Claims incurred			
Gross	R1610	196,063	0
Reinsurers' share	R1620	74	0
Net	R1700	195,989	0
Changes in other technical provisions			
Gross	R1710	123,601	0
Reinsurers' share	R1720	0	0
Net	R1800	123,601	0
Expenses incurred	R1900	67,344	0
Other expenses	R2500	-	-
Total expenses	R2600	-	-

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Premiums, claims and expenses by country

		Home country
		C0010
	R0010	-
		C0080
Premiums written		
Gross – direct business	R0110	582,077
Gross – proportional reinsurance accepted	R0120	25,726
Gross – non-proportional reinsurance accepted	R0130	-
Reinsurers' share	R0140	11,632
Net	R0200	596,171
Premiums earned		
Gross – direct business	R0210	578,084
Gross – proportional reinsurance accepted	R0220	25,565
Gross – non-proportional reinsurance accepted	R0230	-
Reinsurers' share	R0240	-11,561
Net	R0300	615,210
Claims incurred		
Gross – direct business	R0310	282,092
Gross – proportional reinsurance accepted	R0320	19,966
Gross – non-proportional reinsurance accepted	R0330	-
Reinsurers' share	R0340	11,447
Net	R0400	290,611
Changes in other technical provisions		
Gross – direct business	R0410	68
Gross – proportional reinsurance accepted	R0420	-1,338
Gross – non-proportional reinsurance accepted	R0430	0
Reinsurers' share	R0440	0
Net	R0500	-1,270
Expenses incurred	R0550	294,840
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
97,963	104,419	35,089	99,274	64,896		983,718
6,455	33,845	95,255	51,792	0		213,074
-	-	-	-	-		-
0	266	0	51,792	0		63,691
104,419	137,998	130,344	99,274	64,896		1,133,101
97,928	103,733	34,303	103,903	64,369		982,320
6,424	38,145	93,553	52,161	0		215,849
-	-	-	-	-		-
0	1,684	0	0	0		-9,877
104,352	140,194	127,856	156,065	64,369		1,208,046
46,175	33,501	9,433	12,212	14,327		397,739
2,871	23,864	21,861	5,561	-56		74,066
-	-	-	-	-		-
0	-1,085	0	5,561	-1		15,922
49,045	58,449	31,294	12,212	14,272		455,883
0	0	0	0	-94		-26
0	0	0	0	0		-1,338
0	0	0	0	0		0
0	0	0	0	0		0
0	0	0	0	-94		-1,364
32,370	75,439	91,131	124,833	31,962		650,575
-	-	-	-	-		79,926
-	-	-	-	-		730,416

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Premiums, claims and expenses by country

		Home country
		C0150
	R1400	-
		C0220
Premiums written		
Gross	R1410	373,754
Reinsurers' share	R1420	393
Net	R1500	373,361
Premiums earned		
Gross	R1510	373,374
Reinsurers' share	R1520	393
Net	R1600	372,981
Claims incurred		
Gross	R1610	196,063
Reinsurers' share	R1620	74
Net	R1700	195,989
Changes in other technical provisions		
Gross	R1710	123,601
Reinsurers' share	R1720	0
Net	R1800	123,601
Expenses incurred	R1900	67,344
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	122,291	122,291	-	-	-
R0090	-	-	-	-	-
R0100	-	-	-	-	-
R0110	-	-	-	-	-
R0120	-	-	-	-	-
R0130	1,064,094	1,064,094	-	-	-
R0140	32,858	-	0	32,858	0
R0150	0	-	0	0	0
R0160	0	-	-	-	0
R0170	0	-	-	-	0
R0180	-	-	-	-	-
R0190	-	-	-	-	-
R0200	0	0	0	0	0
R0210	19,394	19,394	0	0	0
	-	-	-	-	-
R0220	-	-	-	-	-
	-	-	-	-	-
R0230	0	0	0	0	-
R0240	0	0	0	0	-
R0250	0	0	0	0	0
R0260	-	-	-	-	-
R0270	141,685	141,685	0	0	0
R0280	141,685	141,685	0	0	0
R0290	1,155,268	1,122,410	0	32,858	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	1,155,268	1,122,410	0	32,858	0
R0530	1,155,268	1,122,410	0	32,858	-
R0560	1,155,268	1,122,410	0	32,858	0
R0570	1,155,268	1,122,410	0	32,858	-
R0610	220,440	-	-	-	-
R0650	5.24	-	-	-	-
R0660	1,155,268	1,122,410	0	32,858	0
R0680	444,398	-	-	-	-
R0690	2.60	-	-	-	-
	C0060				
	-	-	-	-	-
R0700	1,274,094	-	-	-	-
R0710	0	-	-	-	-
R0720	10,000	-	-	-	-
R0730	200,000	-	-	-	-
R0740	0	-	-	-	-
R0750	-	-	-	-	-
R0760	1,064,094	-	-	-	-
	-	-	-	-	-
R0770	92,216	-	-	-	-
R0780	128,091	-	-	-	-
R0790	220,307	-	-	-	-

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

Unique number of component

C0010

1

2

3

4

5

6

7

8

9

Calculation of solvency capital requirement

Total undiversified components

Diversification

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

Solvency capital requirement excluding capital add-on

Capital add-ons already set

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

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

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

Capital requirement for duration-based equity risk sub-module

Total amount of notional solvency capital requirements for remaining part

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

Total amount of notional solvency capital requirement for matching adjustment portfolios

Diversification effects due to RFF nSCR aggregation for article 304

Minimum consolidated group solvency capital requirement

Information on other entities

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

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

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

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

Capital requirement for non-controlled participation requirements

Capital requirement for residual undertakings

Overall SCR

SCR for undertakings included via D and A

Solvency capital requirement

Components description	Calculation of the solvency capital requirement	Amount modeled		USP	Simplifications
		C0020	C0030		
Market risk	499,587				
Counterparty default risk	52,552				
Life underwriting risk	0				
Health underwriting risk	117,851				
Non-life underwriting risk	139,352		139,352		
Intangible asset risk	0				
Operational risk	51,952				
LAC technical provisions	- 160,816				
LAC deferred taxes	- 82,950				
	C0100				
R0110	617,529				
R0060	- 173,132				
R0160	0				
R0200	444,398				
R0210	0				
R0220	444,398				
	-				
R0300	0				
R0310	0				
R0400	0				
R0410	0				
R0420	0				
R0430	0				
R0440	0				
R0470	222,083				
	-				
R0500	0				
R0510	0				
R0520	0				
R0530	0				
R0540	25,104				
R0550	0				
	C0100				
	-				
R0560	0				
R0570	444,398				

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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 undertakings	European Company (SE)	Non-mutual	BAFIN
DE	LEI/391200S FAXHRCQQ62T14	LEI	ARAG Kranken- versicherungs-AG	Life undertakings	Aktiengesell- schaft	Non-mutual	BAFIN
DE	LEI/3912006 MZNEOF4M2XK19	LEI	ARAG Allgemeine Versicherungs- AG	Non-Life undertakings	Aktiengesell- schaft	Non-mutual	BAFIN
DE	LEI/391200G WEMT1F0BUHB43	LEI	ARAG Interlloyd Versicherungs- AG	Non-Life undertakings	Aktiengesell- schaft	Non-mutual	BAFIN
US	SC/391200MYFHR LCFWAH448US10057	SC	ARAG Insurance Company	Non-Life undertakings	Incorporated	Non-mutual	NAIC
CH	SC/391200MYFHR LCFWAH448CH10058	SC	AXA-ARAG Rechtsschutz- versicherungs- Gesellschaft	Non-Life undertakings	Aktiengesell- schaft	Non-mutual	FINMA
NO	LEI/5967007 LIEEXZX9PCO98	LEI	HELP Forsikring AS	Non-Life undertakings	Aksjeselskap (AS)	Non-mutual	FSAN
DE	LEI/391200MYFHR LCFWAH448	LEI	ARAG Holding SE	Insurance holding company as defined in Art. 212 [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 [f] of Directive 2009/138/EC	Incorporated	Non-mutual	
DE	LEI/3912000 YELENA3B7JK17	LEI	AFI Verwaltungs- Gesellschaft mbH	Insurance holding company as defined in Art. 212 [f] of Directive 2009/138/EC	Gesellschaft mit beschraenkter Haftung	Non-mutual	
DE	SC/391200MYFHR LCFWAH448DE10001	SC	ARAG Inter- national Holding GmbH	Insurance holding company as defined in Art. 212 [f] of Directive 2009/138/EC	Gesellschaft mit beschraenkter Haftung	Non-mutual	

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

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

	94.90%	94.90%			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
	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

DE	SC/391200MYFHR LCFWAH448DE10014	SC	ARAG Service Center GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10015	SC	CUR Versiche- rungsmakler GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10017	SC	Cura Versiche- rungsvermittlung GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10019	SC	VIF Gesellschaft für Versiche- rungsvermittlung mit beschränkter Haftung	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
US	SC/391200MYFHR LCFWAH448US10060	SC	ARAG Services, LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10022	SC	SolFin GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
ES	SC/391200MYFHR LCFWAH448ES10023	SC	Agencia de Seguros ARAG S.A.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Sociedad Anonima	Non-mutual		
ES	SC/391200MYFHR LCFWAH448ES10024	SC	ARAG Services Spain & Portugal S.L. (formerly: ARAG Legal Service S.L.)	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Sociedad de Responsabilidad Limitada	Non-mutual		
US	SC/391200MYFHR LCFWAH448US10025	SC	ARAG, LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10026	SC	janolaw AG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Aktiengesell- schaft	Non-mutual		

	100.00%	100.00%			Dominant	100.00%	Included into scope of group supervision		Method 1: Proportional consolidation
	100.00%	100.00%			Dominant	100.00%	Included into scope of group supervision		Method 1: Proportional consolidation
	100.00%	100.00%			Dominant	100.00%	Included into scope of group supervision		Method 1: Proportional consolidation
	100.00%	100.00%			Dominant	100.00%	Included into scope of group supervision		Method 1: Proportional consolidation
	100.00%	94.93%			Dominant	94.93%	Included into scope of group supervision		Method 1: Proportional consolidation
	75.10%	81.92%			Dominant	75.10%	Included into scope of group supervision		Method 1: Proportional consolidation
	100.00%	100.00%			Dominant	100.00%	Included into scope of group supervision		Method 1: Proportional consolidation
	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

DE	SC/391200MYFHR LCFWAH448DE10031	SC	ARAG 2000 Beteiligungs- Gesellschaft mbH & Co. KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10042	SC	Prinzregent Vermögensver- waltungs-GmbH ARAG-France As- sistance et Règle- ment de Sinistres Automobiles et Généraux S.A.R.L.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
FR	SC/391200MYFHR LCFWAH448FR10043	SC	ARAG Legal Services B.V. (formerly: Rechts- wijzer B. V.)	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Société à responsabilité limitée (SARL)	Non-mutual		
NL	SC/391200MYFHR LCFWAH448NL10044	SC	JuroDirect B.V.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Besloten Vennootschap	Non-mutual		
NL	SC/391200MYFHR LCFWAH448NL10045	SC	ARAG plc.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Besloten Vennootschap	Non-mutual		
GB	SC/391200MYFHR LCFWAH448GB10048	SC	ARAG Association LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed 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 Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual		
US	SC/391200MYFHR LCFWAH448US10062	SC	ARAG Association LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual		
DE	SC/391200MYFHR LCFWAH448DE10053	SC	ARCAP Beteili- gungsverwaltung GmbH & Co. Columbus Immo- bilien Fonds III "Pallaswiesen- park" KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kom- manditgesell- schaft	Non-mutual		

	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
	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
	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

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
DE	SC/391200MYFHR LCFWAH448DE10057	SC	Justix GmbH		Gesellschaft mit beschränkter Haftung	Non-mutual
GB	SC/391200MYFHR LCFWAH448DE10058	SC	Easy2claim Limited, Bristol/UK		Limited	Non-mutual
US	SC/391200MYFHR LCFWAH448DE10059	SC	ARAG Association LLC		Limited Liability Company	Non-mutual
US	SC/391200MYFHR LCFWAH448DE10059	SC	ARAG Association LLC		Limited Liability Company	Non-mutual
CA	SC/391200MYFHR LCFWAH448DE10060	SC	ARAG Services Corporation		Limited Liability Company	Non-mutual
NO	SC/391200MYFHR LCFWAH448DE10061	SC	ARAG Scandinavia AS	Insurance holding company as defined in Art. 212 [f] of Directive 2009/138/EC	Aksjeselskap (AS)	Non-mutual
NO	SC/391200MYFHR LCFWAH448DE10062	SC	ARAG Digital Services AS		Aksjeselskap (AS)	Non-mutual
IT	SC/391200MYFHR LCFWAH448DE10063	SC	Multiline Insurance Agency (MIA) S. r. l.		Società a responsabilità limitata	Non-mutual
DE	SC/391200MYFHR LCFWAH448DE10064	SC	ARCAP Beteiligungsverwaltung GmbH & Co. Columbus Immobilien Fonds IV "Haus der Wirtschaftsförderung Duisburg" KG		Gesellschaft mit beschränkter Haftung und Compagnie Kommanditgesellschaft	Non-mutual
AU	SC/391200MYFHR LCFWAH448DE10065	SC	ARAG Services Australia Pty Ltd., Sydney, Australia		Proprietary limited company	Non-mutual

	58.48%	54.78%			Significant	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
	100.00%	100.00%			Dominant		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: 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
	26.04%	26.04%			Significant	26.04%	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

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

Credits

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

