

ARAG HOLDING SE

2019 Solvency and Financial Condition Report for the Group



ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

CEO and Central Group Functions

Investments/ Corporate Development/ Organization

Sales, Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management and Group Controlling

Operating insurance companies

ARAG Allgemeine Versicherungs-AG

(Casualty and property insurance)

ARAG Krankenversicherungs-AG

(Health insurance)

Interlloyd Versicherungs-AG

(Specialized in broker sales)

International companies

(Legal insurance/ legal services)

Service companies

ARAG IT GmbH

(IT services for the ARAG Group)

Cura Versicherungsvermittlung GmbH

(Brokerage firm)

ARAG Service Center GmbH

(Emergency telephone service)

Structure of ARAG 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

Investments/ Corporate Development/ Organization

Dr. Renko Dirksen

Sales, Products and Innovation

Dr. Matthias Maslaton

Group Finance

Wolfgang Mathmann

Group IT and Operations

Hanno Petersen

Group Risk Management and Group Controlling

Dr. Joerg Schwarze

Key Figures for the ARAG Group

Premium income/sales revenue:

€ **1,787** million

↗ 2018: €1,678 million

Consolidated net income:

€ **78** million

↗ 2018: €35 million

Net combined ratio:

88.7 %

↗ 2018: 88.6 %

Eligible own funds:

€ **1,409** million

↗ 2018: €1,155 million

Solvency capital requirement:

€ **480** million

↗ 2018: €444 million

Solvency ratio:

293.7 %

↗ 2018: 260.0 %

Contents

Summary	6
.....	
COVID-19 Pandemic	10
.....	
A. Business and Performance	13
.....	
B. System of Governance	35
.....	
C. Risk Profile	63
.....	
D. Valuation for Solvency Purposes	77
.....	
E. Capital Management	117
.....	
Appendix	130
.....	
Further Information	159
.....	

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 intra-group operations, and sets out material transactions during the year.

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

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

In 2019, gross premiums written went up by 6.6 percent to €1,763,503 thousand in the ARAG Group (2018: €1,653,720 thousand). The growth was driven by the improvement in the Group's share of both the German and the international legal insurance markets. Gross premium income from direct business in the German legal insurance market rose by 5.3 percent year on year. Most of this increase was derived from the addition of 68,868 policies to the policy portfolio; only a small proportion was due to premium adjustments. Growth in the international legal insurance business accelerated, with gross premiums rising by 9.9 percent. New policies in inward reinsurance business resulted in premium increases, especially in the Netherlands and Italy. In the US, sales revenue increased significantly as a result of attracting new customers and expanding the insurance cover of existing customers. In casualty and property insurance (excluding legal insurance), premium income rose to €285,010 thousand (2018: €275,677 thousand), while the equivalent income in health insurance advanced to €393,198 thousand (2018: €373,740 thousand). During the reporting year, there was a further sharp increase in private health insurance premiums of 5.2 percent that was due, in particular, to new rate scales in full-coverage health insurance.

Under the German Commercial Code (HGB), the Group's underwriting result rose slightly in 2019, from €97,439 thousand to €98,474 thousand. This was mainly because of the increase in premiums described above, which more than offset the greater level of claims incurred and the higher insurance business operating expenses.

Gains and losses on investments increased significantly from a net gain of €81,151 thousand in 2018 to a net gain of €156,914 thousand in the year under review. Current income from other investments fell because ordinary income was reinvested in institutional funds. However, restructuring of institutional funds and the resulting gains on disposal offset this fall. Moreover, higher market prices for securities led to substantial reversals of write-downs.

After taking into account the sundry income and expense items, the ARAG Group generated very high net income for the year of €77,537 thousand (2018: €34,744 thousand).

Chapter B. System of Governance

Chapter B.1 contains information on the Management Board and Supervisory Board as well as on the tasks of the following four key functions: risk management, compliance, internal audit, and the actuarial function. As these functions are kept strictly separate from the operational departments as far as Management Board level within the organizational structure, 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 members of the Management Board and Supervisory Board and to the holders of key functions is structured such that it is consistent with market rates and rewards performance without creating undesirable incentives.

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

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

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

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

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

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

Chapter C. Risk Profile

The ARAG Group's risk profile is determined by market risk and underwriting risk. The solvency capital requirement (SCR) for market risk is €585,843 thousand. The primary sub-risks in this regard are spread risk and equity risk. Underwriting risk comprises non-life underwriting risk and health underwriting risk. Non-life underwriting risk, for which the solvency capital requirement is €121,964 thousand, is mainly influenced by premium and reserve risk and by natural disaster and accumulation risk. The solvency capital requirement for health underwriting risk is €148,474 thousand. A material component of this is the risk from health insurance policies that are operated on an actuarial basis similar to that of life insurance.

Chapter D. Valuation for Solvency Purposes

Solvency II lays down requirements for recognizing, valuing, and disclosing assets, technical provisions, and other liabilities. The Solvency II balance sheet presents the line items from an economic perspective, whereas the accounting rules under HGB include, among other stipulations, application of the strict or discretionary principle of lower of cost or market value. Consequently, line items in valuations for solvency purposes cannot be directly compared with equivalent balance sheet carrying amounts.

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

In 2019, International Financial Reporting Standard (IFRS) 16 was adopted for the first time in connection with leasing arrangements. As a result, property, plant & equipment held for own use (D.1.6) increased by €14,784 thousand; liabilities (financial liabilities other than debts owed to credit institutions, D.3.8) increased by the same amount. In the reporting year, there was also a change in the method used to generate the IAS 19 curve for discounting pension benefit obligations, long-service obligations, and pre-retirement part-time employment obligations. This caused an increase of €5,899 thousand in the amount to be recognized for these obligations of the insurance companies (D.3.2 and D.3.3).

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

Chapter E. Capital Management

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

The ARAG Group's overall solvency capital requirement is €479,609 thousand. To cover this requirement, the Group has eligible own funds of €1,408,783 thousand, giving a coverage ratio of 293.7 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 €245,473 thousand, which means the coverage ratio for the minimum capital requirement is 573.9 percent. Market risk and underwriting risk account for the greatest proportion of the solvency capital requirement.

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

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

COVID-19 Pandemic

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

Business and performance

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

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

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

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

System of governance

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

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

Risk profile

The currently foreseeable effects of the pandemic will impact on the individual companies in the ARAG Group to varying degrees, depending on their business model. If the macroeconomic forecasts prove to be correct, there may be an increase in claims incurred and lapse rates. New business may also be adversely affected. Negative trends were observable in the capital markets through into March 2020. Uncertainty is likely to remain at a high level. Investments have been hedged in order to reduce losses. There is a possibility of an increase in the solvency capital requirement due to insurance-related factors and due to the situation in the capital markets.

The liquidity of the Group and the individual companies continues to be assured, partly because the holding of cash has been increased.

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

Valuation for solvency purposes

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

Capital management

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

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

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

A. Business and Performance

A.1 Business	14
A.2 Underwriting Performance	26
A.3 Investment Performance	30
A.4 Performance of Other Activities	32
A.5 Any Other Information	34

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 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 19 countries (Germany, other European countries, the US, Canada, and Australia) through branches, subsidiaries, and equity investments.

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

Legal insurance is also provided in Australia, the US, Norway, Sweden, and Denmark. In each case, the business is operated through legally independent affiliated companies, under the unified management of ARAG SE in its role as parent company. In addition, the Group operates in Switzerland via an equity investment in a legal insurance associate. In the United Kingdom, Canada, and Australia, a Group company in each case acts as a broker for legal insurance business and legal-insurance-related special service package business, passing this business to 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 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, Düsseldorf, who holds the remaining 54.5 percent.

The consolidated financial statements are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection. ARAG Holding SE limits itself to exercising its rights and fulfilling its obligations as a shareholder in the investee companies. The ARAG Group comprises 49 Group companies, including seven insurance companies headquartered in Germany, Norway, Switzerland, and the US.

List of the main affiliated companies

Name and location of registered office	Legal form	Country	Direct share	Group's share
1 ARAG SE, Düsseldorf	SE (European company)	Germany	50.00 %	100.00 %
2 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	GmbH (private limited company)	Germany	100.00 %	100.00 %
3 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	GbR (partnership under the German Civil Code)	Germany	0.00 %	94.90 %
4 ARAG Allgemeine Versicherungs-AG, Düsseldorf	AG (stock corporation)	Germany	0.00 %	100.00 %
5 ARAG Insurance Company Inc., Des Moines	Corporation	USA	0.00 %	100.00 %
6 ARAG International Holding GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
7 ARAG IT GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
8 ARAG Krankenversicherungs-AG, Munich	AG	Germany	0.00 %	94.00 %
9 ARAG North America Inc., Des Moines	Corporation	USA	0.00 %	100.00 %
10 ARAG plc, Bristol	plc (public limited company)	United Kingdom	0.00 %	100.00 %
11 ARAG Service Center GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
12 Cura Versicherungsvermittlung GmbH, Düsseldorf	GmbH	Germany	0.00 %	100.00 %
13 HELP Forsikring AS, Oslo	AS (private limited liability company)	Norway	0.00 %	100.00 %
14 Interloyd 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 main Group companies

1. ARAG SE is the Operating Group Holding Company of the ARAG Group and one of the world's leading providers of legal insurance. Its business is focused on private customers and on small and medium-sized business customers. It is not involved in diversified corporate business with individual risks. In addition to the Group headquarters in Düsseldorf, ARAG SE has operational branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, 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 branches in the United Kingdom and the Republic of Ireland. It is necessary to operate this business in a separate company because, in Germany, legal insurance claims have to be settled separately (section 164 VAG). ARAG Allgemeine primarily offers modular insurance cover for general accident

insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to private and small business customers. This company is also Europe's largest sports insurer, providing cover for over 20 million recreational sports participants and top-ranking athletes.

5. ARAG Insurance Company Inc., USA, operates legal insurance business, mainly through employers and trade associations. Insurance is provided to their employees and members, although coverage varies from state to state depending on the local regulatory rules. ARAG Insurance Company Inc. is part of the subgroup in the USA, which comprises 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, primarily carries out data center activities and IT services for the ARAG Group. It also performs services for individual external customers.
8. ARAG Krankenversicherungs-AG operates the private health insurance business. The need to separate the different segments (section 8 (4) VAG) means that a separate company has to operate the health insurance business. ARAG Krankenversicherungs-AG has established itself in its market as a provider of high-quality full-coverage and supplementary private health insurance.
9. ARAG North America Inc., USA, is the country-specific holding company for the ARAG Group's US business lines. It holds all of the shares in the four other US subsidiaries.
10. ARAG plc, United Kingdom, works as an intermediary by brokering business with end customers and passing it on to primary insurers within and outside the ARAG Group. The bulk of claims settlement for the primary insurers is handled by ARAG plc itself.
11. ARAG Service Center GmbH is the customer service center for all German insurance companies in the ARAG Group, providing comprehensive assistance services and a telephone hotline around the clock.
12. Cura Versicherungsvermittlung GmbH brokers insurance business to third parties that the ARAG Group does not underwrite itself. The company also takes care of the insurance requirements of the ARAG Group's own employees.
13. HELP Forsikring AS, Norway, primarily offers family legal insurance coverage for interest groups – predominantly members of labor unions – in Norway, Sweden, and Denmark via local branches. In Norway, it also offers a special legal insurance product for homebuyers.

14. Interlloyd Versicherungs-AG is a wholly owned subsidiary of ARAG Allgemeine Versicherungs-AG and, like its parent company, operates the casualty and property insurance business. Unlike its parent company, however, it operates its business through insurance brokers rather than directly. Interlloyd Versicherungs-AG also has a branch in Spain.
15. ALIN 1 GmbH & Co. KG is a company whose purpose is to establish, hold, manage, and realize a portfolio of passive investments including, but not limited to, equity investments in companies with a similar object.
16. ALIN 1 Verwaltungs-GmbH is a company whose purpose is to acquire, hold, and manage shares in companies and various investments as well as to accept the general partner liability and handle management activities in connection with companies or partnerships structured in accordance with HGB. Its main object is to hold an equity investment in, and be the general and managing partner of, ALIN 1 GmbH & Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.
17. ALIN 2 GmbH & Co. KG is a company whose purpose is to establish, hold, manage, and realize a portfolio of passive investments including, but not limited to, equity investments in companies with a similar object.
18. ALIN 2 Verwaltungs-GmbH is a company whose purpose is to acquire, hold, and manage shares in companies and various investments as well as to accept the general partner liability and handle management activities in connection with companies or partnerships structured in accordance with HGB. Its main object is to hold an equity investment in, and be the general and managing partner of, ALIN 2 GmbH & Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.
19. ALIN 4 GmbH & Co. KG is a company whose purpose is to establish, hold, manage, and realize a portfolio of passive investments including, but not limited to, equity investments in companies with a similar object.
20. ALIN 4 Verwaltungs-GmbH is a company whose purpose is to acquire, hold, and manage shares in companies and various investments as well as to accept the general partner liability and handle management activities in connection with companies or partnerships structured in accordance with HGB. Its main object is to hold an equity investment in, and be the general and managing partner of, ALIN 4 GmbH & Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.

Qualitative and quantitative disclosures on relevant events and significant intragroup transactions

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

Significant events and transactions are listed below.

Business expansion The ARAG Group continued to pursue its strategy of internationalization in the reporting year. The company that it had established in Australia in 2018 went into operation in 2019. The primary objective of this company is to sell legal insurance products and services. After obtaining approval from the competent supervisory authority, the ARAG Group took over the Irish legal insurance portfolio of an insurance firm in 2019.

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 2019, this consolidation led to a total of €90,305 thousand (2018: €63,168 thousand) being eliminated from income from equity investments.

Dividends/profit-and-loss transfer agreements

The dividends distributed within the ARAG Group in the reporting year were from the following entities:

• ARAG International Holding GmbH	€18,500 thousand
• ARAG Krankenversicherungs-AG	€2,914 thousand
• ARAG 2000 Grundstücksgesellschafts GbR	€1,715 thousand
• Agencia de Seguros ARAG S.A., Spain	€453 thousand
• ARAG plc, UK	€417 thousand
• ALIN 1 GmbH & Co. KG	€310 thousand
• ARAG IT GmbH	€300 thousand
• SolFin GmbH	€143 thousand

ARAG SE received an amount of €11,282 thousand from ARAG Allgemeine Versicherungs-AG for 2019 (2018: €18,525 thousand) in settlement of its right to the transfer of profit based on the profit-and-loss transfer agreement dated October 31, 2006.

The Management Board of ARAG SE is proposing to the Annual General Meeting that a dividend of €30,000 thousand be distributed to shareholders from the net retained profit for 2019 (2018: €20,000 thousand).

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

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

Intragroup reinsurance arrangements The Group companies have entered into reinsurance agreements with each other on arm's-length terms. This helps to share out the risks among the Group companies. In the reporting year, an amount of €29,104 thousand (2018: €28,493 thousand) was eliminated for intragroup insurance premiums, €14,106 thousand (2018: €13,884 thousand) for claims incurred, and €12,995 thousand (2018: €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 the reporting year, sales revenue from such services between Group companies was offset against the expenses of the companies performing the services in an amount of €45,218 thousand (2018: €40,119 thousand).

All services provided for other Group companies are charged on the basis of arm's-length terms and conditions that are typical in the market. There is also extensive internal documentation kept for tax purposes that contains information about the services provided and the basis on which they were charged.

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

A.1.3 Line of business

The ARAG Group is the largest family enterprise in the German insurance industry and one of the world's leading providers of legal insurance. ARAG was established more than 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 19 countries (Germany, 15 other European countries (now including the Republic of Ireland), the US, Canada, and Australia) through branches, subsidiaries, and equity investments.

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

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

In a fiercely competitive market, ARAG Allgemeine Versicherungs-AG (ARAG Allgemeine) is demonstrating its strength as an attractive provider of property, liability, and accident insurance policies, 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 products with outstanding customer benefits, emphasizing its appeal as a provider of full-coverage and supplementary health insurance. To complement its range of products for customers, ARAG Core Sales offers pension products from its strategic partner Alte Leipziger.

Insurance portfolio

At the end of the reporting year, the Group had 7,972,803 in-force insurance policies (December 31, 2018: 7,148,886), of which 3,591,484 related to the business in Germany (December 31, 2018: 3,491,819). The breakdown by line of business was as follows: 1,610,872 legal insurance policies, 1,316,045 casualty and property insurance policies, and 664,567 health insurance policies.

International business accounted for 4,381,319 policies (December 31, 2018: 3,657,067). Of this total, 4,045,979 policies were attributable to legal insurance and 335,340 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.

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 rate scale with outstanding benefits for private individuals and the self-employed that comes in three versions. It is primarily aimed at the gamer and influencer target groups and, in particular, offers cover for damage to electronic devices. In the new generation of ARAG web@ktiv products, self-employed customers benefit from a number of features, including a reputation check and tailored protection in connection with the EU General Data Protection Regulation (GDPR). The Premium version also comes with legal insurance in connection with anti-trust law and insurance policy legal protection covering the pursuit of claims under a cyber policy should a loss event arise. The products were successfully launched on the market in mid-2019.

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

and online. It includes worldwide cover for luggage, travel cancellation, foreign travel health insurance, emergency and vehicle assistance protection, legal insurance for motorists, travel contract legal insurance, initial advice over the telephone, and access to the ARAG Online Legal Service. The innovativeness and quality of ARAG Allgemeine's products were again confirmed in 2019 by numerous awards and top ratings.

Interlloyd Versicherungs-AG is an innovative provider of high-quality insurance and continually expands its range of products and services, always focused on the constantly changing requirements and needs of customers and consumers. In December 2019, Interlloyd launched a new type of personal liability insurance with three product variants. The unique selling proposition of Interlloyd Privathaftpflicht Infinitus – the variant offering the most extensive cover – is a five-year premium guarantee. Unlike typical policies, the premium is not adjusted on the basis of a trustee's recommendation. The product also boasts an unusually high sum insured of €50 million for personal injury (maximum of €20 million per injured person), damage to property, and financial loss. There is no deductible for individual benefits. Infinitus meets the needs of customers in the broker market and offers excellent value for money for discerning customers. Interlloyd has received a variety of awards and top ratings that bear witness to the comprehensive, tailored protection that the casualty and property insurer offers its customers.

ARAG Health continued to further develop the highly profitable full-coverage health insurance segment, striking a balance between continuity and stability on the one hand and careful modernization of the rate scales on offer on the other. An example of this is the introduction of the two new full-coverage rate scales MedExtra and MedKomfort, which complement the KomfortKlasse rate scale and offer a step up from the range of compact rate scales for full-coverage health insurance. The two new rate scales enable customers to go straight to a specialist without being referred by their family physician. The many other innovative features include the waiver of premiums for customers receiving parental leave pay and generous flat-rate reimbursements at the lower deductible levels. The PremiumKlasse rate scale and all compact rate scales also benefit from the new rules on bonuses and rebates, with the maximum amount of bonuses and rebates available from when the policy is taken out.

Systems, IT, and digitalization

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

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

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

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

Insurance-specific events

A significant legal event in the ARAG Group that continued to affect both the Group and ARAG SE in 2019 was the diesel vehicle emissions issue, which has led to a large number of legal cases since 2017 and, in the reporting year, resulted in payments of €11,370 thousand (2018: €7,277 thousand).

Company changes

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

Wolfgang Mathmann was appointed to the Company's Management Board with effect from April 15, 2019. He is responsible for Group Finance, Accounting and Tax, Reinsurance, and Central Services. At the same time, Werner Nicoll retired and stepped down from the Company's Management Board. Dr. Renko Dirksen, who was already in charge of Corporate Development and Organization, took over responsibility for Asset Management and Real Estate on April 15, 2019. Wolfgang Mathmann stepped down from the Management Board of ARAG Allgemeine and Interlloyd on April 14, 2019. Uwe Grünewald was appointed as his successor with effect from April 15, 2019.

The CEO of ARAG SE, Dr. Dr. h. c. Paul-Otto Faßbender, has informed the Company's Supervisory Board that he will not extend his contract, which expires on July 3, 2020. The Supervisory Board has decided that a successor will not be appointed to the position of CEO at ARAG SE. In the future, the work of the Management Board will be coordinated by the Speaker of the Management Board. The Supervisory Board has assigned this role to Dr. Renko Dirksen with effect from July 4, 2020.

Dr. Matthias Effinger was 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 by Dr. Roland Schäfer alongside his existing responsibilities for Product Development, Actuarial Services, and Sales. Dr. Matthias Effinger has now been assigned responsibility for Customer Services and Claims, Organization, Legal/Compliance, Actuarial Function, and Central Services. Dr. Werenfried Wendler retained responsibility within the Management Board for HR Management and Risk Management.

Dr. Werenfried Wendler was appointed to the Management Board of ARAG Allgemeine Versicherungs-AG and Interlloyd Versicherungs-AG with effect from January 1, 2019. He is in charge of Human Resources, which is a newly created area of board responsibility.

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

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

Other events

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

A.2 Underwriting Performance

A.2.1 Underwriting performance – overview

In the year under review, the ARAG Group generated **income from gross premiums written** of €1,763,503 thousand (2018: €1,653,720 thousand). This increase was due to a rise in premiums of 4.7 percent in Germany and strong growth of 9.5 percent in the international markets. A modest level of company-specific premium adjustments made an immaterial contribution to the increase in premium income. The reinsurers' share amounted to €10,857 thousand (2018: €12,120 thousand).

Claims incurred (gross) in accordance with HGB rose by 6.6 percent to €938,914 thousand (2018: €881,042 thousand). The claim settlement costs included in this figure amounted to €201,750 thousand (2018: €176,602 thousand). A share of the claims amounting to €2,430 thousand (2018: €11,040 thousand) was ceded to reinsurers in 2019. The year-on-year increase in claims incurred was due to the growth in business volume and the rise in the occurrence of accumulation losses. These included, in particular, legal disputes in connection with the diesel vehicle emissions issue and lawsuits related to the cancellation of loan and life insurance contracts. The level of gross expenses for claims benefited from the reduced incidence of storms and severe weather and the positive trend in the major claims reported for 2019 in the casualty and property segment. Rising medical inflation in the health insurance segment and a larger number of claims caused ARAG Health's expenses for claims incurred to increase to €230,299 thousand in 2019 (2018: €216,589 thousand).

The **change in other technical provisions (net)** amounted to an expense of €159,826 thousand (2018: expense of €124,966 thousand). This year-on-year change was mainly caused by the rise in the addition to the health insurance actuarial reserve.

Other expenses (net) came to €3,244 thousand (2018: €3,336 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 €584,249 thousand to €619,827 thousand. The acquisition costs included in this figure amounted to €190,300 thousand (2018: €181,561 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 6.7 percent to €429,527 thousand (2018: €402,688 thousand). This rise was due, in particular, to the headcount increase in the international branches and subsidiaries.

The **underwriting result** in accordance with HGB net of reinsurance in 2019 amounted to €98,474 thousand (2018: €97,439 thousand). Based on the quantitative reporting (see template S.05.01.02 in the Appendix), the underwriting result for the reporting period amounted to €20,130 thousand (2018: €47,456 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 2019 Annual Report.

Underwriting result (net)

(€'000)	2019	2018
Net premiums earned	1,752,039	1,639,980
Claims incurred (net, excluding claim settlement costs)	734,734	693,400
Changes in other technical provisions (net)	-159,826	-124,966
Expenses incurred (net)	834,106	770,822
Other expenses (net)	3,244	3,336
Underwriting result in accordance with template S.05.01.02	20,130	47,456
Technical interest income	304	386
Premiums from the gross provision for bonuses and rebates	46,506	19,853
Gains and losses on investments assigned to the underwriting account	91,983	64,277
Miscellaneous other underwriting income	4,632	5,639
Expenses for performance-based and non-performance-based bonuses and rebates	51,929	45,088
Underwriting result in accordance with HGB*	111,626	92,524
Change in the equalization provision and similar provisions	-13,152	4,915
Underwriting result in accordance with HGB	98,474	97,438

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

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

In the year under review, technical interest income decreased from €386 thousand to €302 thousand. This was due to the reduction in the discount rate, from 0.9 percent to 0.7 percent, that is used to calculate the benefit reserve for annuities.

Gains and losses on investments assigned to the underwriting account increased by €27,706 thousand to a net gain of €91,983 thousand (2018: €64,277 thousand). This was primarily due to the rise in the total income from investments on the back of higher reversals of write-downs and gains on disposals in the institutional funds.

The miscellaneous other underwriting income of €4,632 thousand (2018: €5,639 thousand) largely comprised late-payment fees in direct business and income from transfer amounts received in the health insurance business.

The addition to the provision for bonuses and rebates related only to personal insurance and was up by €6,841 thousand compared with the prior year. It therefore stood at €51,929 thousand as of December 31, 2019 (December 31, 2018: €45,088 thousand). Of this amount, €50,860 thousand related to performance-based and €1,069 thousand to non-performance-based bonuses and rebates.

The change in the equalization provision in 2019 was mainly attributable to additions at ARAG SE under the travel class of insurance in Spain and Portugal, in the legal-insurance-related financial loss insurance business in Spain and Italy, and in inward legal reinsurance business in a number of countries. There were also additions in ARAG Allgemeine's direct business in the composite home contents and business interruption insurance divisions.

A.2.2 Underwriting result by main line of business

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

Underwriting result by main line of business*

(€'000)	Net premiums earned	Claims incurred (net, excluding claim settlement costs)	Changes in other technical provisions (net)	Expenses incurred and other expenses (net)	Underwriting result	Underwriting result
					2019	2018
Legal insurance	1,080,599	412,126	-497	603,979	63,996	54,540
Health insurance	392,213	206,288	-159,137	79,503	-52,715	-15,462
Casualty and property insurance	279,228	116,320	-191	153,868	8,849	8,378
Total	1,752,039	734,734	-159,826	837,350	20,130	47,456

* In accordance with template S.05.01.02

A.2.3 Underwriting result by main geographical area

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

Underwriting result by main geographical area*

(€'000)	Net premiums earned	Claims incurred (net, excluding claim settlement costs)	Changes in other technical provisions (net)	Expenses incurred and other expenses (net)	Underwriting result	Underwriting result
					2019	2018
Germany	1,010,951	539,428	-159,697	392,640	-80,814	-24,466
Netherlands	173,440	-3,211	0	157,704	18,948	13,458
Spain	145,961	59,756	0	76,380	9,824	6,101
Italy	140,265	24,891	0	99,245	16,129	5,431
USA	122,448	58,640	0	34,849	28,959	22,612
Austria	68,696	16,154	-129	31,907	20,507	18,041
Norway	50,742	25,164	0	21,480	4,097	4,497
Other areas	39,537	13,911	0	23,145	2,480	1,782
Total	1,752,039	734,734	-159,826	837,350	20,130	47,456

* In accordance with template S.05.01.02

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

A.3 Investment Performance

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

Gains and losses on investments increased significantly, by €75,763 thousand, to a net gain of €156,914 thousand (2018: net gain of €81,151 thousand). This improvement was primarily driven by the year-on-year growth in reversals of write-downs to €40,875 thousand (2018: €792 thousand) resulting from rising market prices for securities. Write-downs of €57,345 thousand had been necessary in 2018, but amounted to just €10,295 thousand in 2019 and were mainly attributable to updated real estate valuations. As budgeted, there was a sharp one-off fall in current income owing to the restructuring of institutional funds, with current income declining by €20,030 thousand to €126,074 thousand (2018: €146,104 thousand). Current expenses in respect of investments, including technical interest, came to €18,221 thousand (2018: €17,461 thousand). Total expenses amounted to €29,374 thousand (2018: €79,354 thousand).

The total income from investments was €186,288 thousand (2018: €160,505 thousand). Of this total, €126,074 thousand was attributable to current income (2018: €146,104 thousand). The Group generated extraordinary income of €60,215 thousand in 2019 (2018: €14,401 thousand).

The net gains* on investments of €156,914 thousand described above equated to a net yield** on investments of 3.5 percent (2018: 1.9 percent). The current average yield*** on investments was 2.4 percent (2018: 3.0 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 2019*	Gains and losses on investments in 2018
Property, plant & equipment held for own use	14,400	0	0	0	3,405	4,225	6,770	13,753
Property (other than for own use)	7,577	0	0	0	4,198	915	2,464	3,798
Holdings in related undertakings, including participations	5,130	3,485	0	362	62	55	8,860	2,756
Equities – listed	321	452	28	153	29	0	870	250
Equities – unlisted	84	0	0	0	0	0	84	0
Government bonds	23,559	342	399	842	1,113	0	23,230	26,338
Corporate bonds	27,546	676	417	5,706	1,055	0	32,457	25,114
Structured notes	30	0	0	0	61	0	-31	0
Collateralized securities	14,091	20	14	200	373	0	13,925	15,126
Collective investment undertakings	30,057	14,364	0	33,612	0	0	78,033	8,280
Derivatives	0	0	0	0	0	0	0	0
Deposits other than cash equivalents	126	0	0	0	0	280	-154	2
Other investments	2,981	0	0	0	0	201	2,780	3,018
Deposits to cedants	172	0	0	0	0	0	172	177
Cash and cash equivalents	0	0	0	0	0	0	0	0
Current expense (unallocated)/loss transfers	0	0	0	0	0	12,545	-12,545	-17,461
Group total	126,074	19,339	858	40,875	10,295	18,221	156,914	81,151

* 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 2019 Annual Report.

Information on gains or losses recognized directly in equity

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

Information on securitization instruments

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

From a Solvency II perspective, the Group held asset-backed securities and mortgage-backed securities with a value of €4,088 thousand as of the reporting date (December 31, 2018: €11,229 thousand).

A.4 Performance of Other Activities

Other net income/expense includes staff costs and general and administrative expenses that were not allocated to an insurance or investment-related function in accordance with function-based accounting. These are expenses that are incurred on behalf of the Company as a whole (e.g. remuneration for members of supervisory bodies, the auditor's fees, general costs for legal advice and tax advice, and the expense for provisions for pensions and other post-employment benefits) 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)	2019	2018	Change
Administrative services for third parties and insurance brokered for third parties	12,641	11,976	665
Income from the reversal of miscellaneous provisions	6,490	5,236	1,254
Interest income not arising on investments	770	1,621	- 851
Sundry income	10,084	10,364	- 280
Total	29,985	29,197	788

Other expenses

(€'000)	2019	2018	Change
Expenses incurred on behalf of the Company as a whole	19,245	16,241	3,005
Cost allocation for intercompany measures to modify processes	2,126	0	2,126
Reclassification of costs from central departments	27,581	28,362	-781
Addition of interest to the provision for pensions and other post-employment benefits	7,549	7,981	-432
Expenses from default on receivables	401	499	-98
Costs for legal and tax advice	1,601	1,347	254
Expense for subordinated loans	1,448	1,448	0
Amortization and write-downs on goodwill arising from acquisition accounting	6,550	4,825	1,725
Interest expense	1,621	592	2,213
Sundry expenses	21,680	19,610	2,070
Total	86,560	80,905	5,655
Total other net income/expense	-56,575	-51,708	-4,867

Tax income/expense

The tax expense amounted to €42,315 thousand in 2019 (2018: €35,492 thousand).

Information on leases

A distinction is made between finance leases and operating leases. The ARAG Group is a lessee under leases that are accounted for as operating leases. It is not involved in any material finance leases. The operating leases mainly relate to company cars and cell-phones used by employees of ARAG SE, ARAG Health, and ARAG Allgemeine. As lessee, the Group recognizes the lease payments as an expense. Information about the application of IFRS 16 Leases is provided in chapter D. 'Valuation for Solvency Purposes'.

A.5 Any Other Information

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

B. System of Governance

B.1 General Information on the System of Governance	36
B.2 Fit and Proper Requirements	43
B.3 Risk Management System Including the Own Risk and Solvency Assessment	49
B.4 Internal Control System	56
B.5 Internal Audit Function	59
B.6 Actuarial Function	60
B.7 Outsourcing	61
B.8 Any Other Information	62

B.1 General Information on the System of Governance

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

B.1.1 Management Board and Supervisory Board

Management Board

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

- Is effective, is fit for purpose, and – in terms of its nature, scope, and complexity – is commensurate with the Company's business activities
- Ensures compliance with laws, regulations, and regulatory requirements
- Ensures sound and prudent management of the Company
- Has an adequate, transparent organizational structure with clearly allocated and separated responsibilities
- Has an effective inhouse communications system
- Is regularly reviewed

As of December 31, 2019, 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: Risk Management/Brand and Communications
- Dr. Sven Wolf: Internal Audit/Data Security/Legal/ Compliance/Finance

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

Currently, neither ARAG Holding SE nor ARAG SE, the Operating Group Holding Company, has an independent remuneration committee in accordance with article 275 (1) (f) of Delegated Regulation (EU) 2015/35 (the Delegated Regulation). The size of the ARAG Group, its business organization, and its legal structure mean that, at the moment, the organization itself is able to help the Management Board and the Supervisory Board supervise the remuneration guidelines and policies as well as the way they are put into practice and how they function.

Supervisory Board

The Supervisory Board is responsible for appointing and monitoring the Company's Management Board. As of December 31, 2019, the members of the Supervisory Board were as follows:

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

B.1.2 Key functions

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

Risk management

The tasks of the risk management function (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. Operational management of risk is carried out by the relevant process owners in compliance with internal rules. All risk-relevant decisions to be made by the Management Board must take into account the information from and opinions of the Group Risk Management Central Department.

Compliance

The tasks of the compliance function are outsourced to the Group Legal/Compliance Central Department at ARAG SE and are carried out by this department. The main duty of the function is to create the framework for compliance with the obligation to operate within the law, for example by issuing policies and guidelines. Responsibility for implementing the guidelines and policies lies with the manager of each individual department. The Chief Compliance Officer advises the Management Board on the risk resulting from changes to the law and submits regular reports on their work to the Management Board.

Internal audit

Internal audit tasks are outsourced to the Group Audit Central Department at ARAG SE and are carried out by this department. The Group Audit Central Department is a process-independent function that examines and assesses structures and activities within the Group. Auditing is carried out on behalf of the Management Board and covers all processes relating to business operations. The Group Audit Central Department has to assess and evaluate the integrity, propriety, effectiveness, efficiency, and adequacy of the internal control system (ICS). Audit findings are made available to the members of the Management Board in the form of an audit report.

Actuarial function

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

B.1.3 Information on remuneration guidelines and policies

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

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

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

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

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

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

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

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

If variable remuneration has been agreed, the variable element is equivalent to a percentage of the basic salary. No share plans or share option programs are offered anywhere in the ARAG Group. Against this background and with a view to ensuring that the Company offers attractive, market-level remuneration, the variable element of the remuneration for Management Board members is set at a maximum of 60.0 percent of basic salary and is subdivided into short-term and long-term components. In the case of insurance companies and ARAG Holding SE, the long-term component currently equates to 60.0 percent of the relevant variable remuneration and is deferred; it also takes into account the outcome of a review to establish whether there is any requirement for a potential downward adjustment as a result of exposure to current or future risks.

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

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

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

Supervisory Board members receive fixed remuneration for their work. 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 postholders concerned is set at an appropriate level to ensure that they are not substantially dependent on the variable remuneration components. Once again, the variable remuneration must encourage good performance but not create such a significant incentive that it could encourage actions counter to the interests of the Company. The aim is to avoid, as far as possible, any conflicts of interest that could arise between the individual tasks assigned to an employee and their remuneration structure. Suitable measures are also put in place to prevent such risks materializing.

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

Care is taken to ensure that the targets relevant to the variable remuneration granted to these individuals with internal responsibility are designed such that the variable remuneration is independent of the performance of the operating units and divisions that are supervised by the function holder concerned. Variable remuneration granted to individuals responsible internally for key functions ranges from 10.0 percent to 35.0 percent of their basic salary, depending on the postholder concerned. As part of the Company's obligation to work toward compliance, 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 their 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 remuneration is structured in the same way as that granted to eligible employees in insurance companies.

Group companies outside Germany

The primary principle applied for the **members of the senior management** of Group companies outside Germany is that their remuneration must comply with local applicable law and be consistent with standard market practice where the job is located. To ensure that the requirements for appropriateness, transparency, and focus on sustainability are also satisfied at Group level, the structure of variable remuneration is modeled on that used for Management Board members at insurance companies based in Germany in that the fixed remuneration must be appropriate and set at a level such that the recipient is not substantially dependent on the variable remuneration components. As in the case of other companies described above, the parameters for variable remuneration also include objective company targets specified in advance and aligned with the risk profile for the company concerned, individual targets, and targets for the Group as a whole. The potential level of target achievement is capped at predefined limits.

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

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

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

B.1.4 Material transactions

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

B.1.5 Significant changes to the system of governance

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

B.1.6 Adequacy of the system of governance

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

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

B.2 Fit and Proper Requirements

General principles applicable to all Group entities

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

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

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

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

Management Board members and CEOs of branches in the EEA

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

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

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

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

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

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

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

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

Supervisory Board members

The members of the Supervisory Board must have the necessary knowledge, skills, and experience to be able to perform their monitoring role. They must always have the expertise needed to adequately monitor and oversee the Management Board and to actively support the Company's growth. Each member must therefore understand the Company's business and be able to assess the relevant risks. They must also be familiar with the main statutory requirements applicable to the Company. The individual members are not required to have specialist knowledge. However, they must be capable of identifying when

they need to take advice and of obtaining this advice. In any case, the expertise of the Supervisory Board as a whole must cover investments, underwriting, and financial reporting. Having the necessary professional suitability entails undertaking continuing professional development.

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

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

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

Key functions

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

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

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

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

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

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

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

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

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

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

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

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

Continuing professional development as an ongoing process

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

Cause for reassessment

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

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

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

Companies headquartered outside Germany and operating in regulated fields of business

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

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

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

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

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

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

The assumption of risk is the core business of an insurance group. This means that its activities aimed at achieving its strategic business objectives naturally involve taking on risks in order to achieve the desired success. To deal with these risks, ARAG has implemented a risk management system, the main elements of which are the risk strategy, a system of limits, a process for own risk and solvency assessment (ORSA), and the operational risk management process, comprising the identification, analysis, measurement, management, monitoring, and reporting of risk.

B.3.1 Implementation of the risk management system

Risk strategy

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

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

Risk-bearing capacity and limit system

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

each Management Board has set a minimum coverage ratio of 150.0 percent based on the Group companies' conservative approach to risk and solvency. The Group therefore aims to maintain a risk buffer that is significantly higher than the regulatory requirement at all times.

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

Risk management function

The risk management system is implemented by the risk management function, which is the responsibility of the Group Risk Management Central Department at ARAG SE. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level. The Chief Risk Officer is responsible for the implementation of the risk management system in all Group companies. The Chief Risk Officer is a member of the Management Board of ARAG SE and responsible for Group Risk Management and Group Controlling. By reporting regularly to the Management Board, Group Risk Management ensures comprehensive transparency with regard to the risk position and any changes to the risk position. Group Risk Management is also responsible for refining the risk management system and for drawing up proposals for uniform standards to be applied throughout the Group. The remit of the central department also includes developing and operating models for determining risk-bearing capacity, the solvency capital requirement, and the allocation of solvency capital.

Operating decisions about whether or not to pursue opportunities and/or take on risk are made in the units with relevant responsibility within the individual companies. The roles and responsibilities of all the people involved in the process, such as members of the Management Board, managers, and local and central risk 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 that is calculated for all quantified downside risk. The purpose is to ensure that unexpected losses are covered. A partial internal model is used to calculate the solvency capital requirement. The model shows the loss occurring within a specific holding period (one year) and with a specified level of probability (99.5 percent). This loss could arise, in particular, as a result of unfavorable movements affecting investments or as a result of unexpected developments in the insurance business. The methodology is regularly reviewed using suitable validation tests. Potential material 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.

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

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

B.3.3 Own risk and solvency assessment (ORSA)

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

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

The risk model used is also assessed on the basis of the results from validating the internal models and from assessing the assumptions used in the standard formula.

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

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

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

B.3.4 Governance of the partial internal model

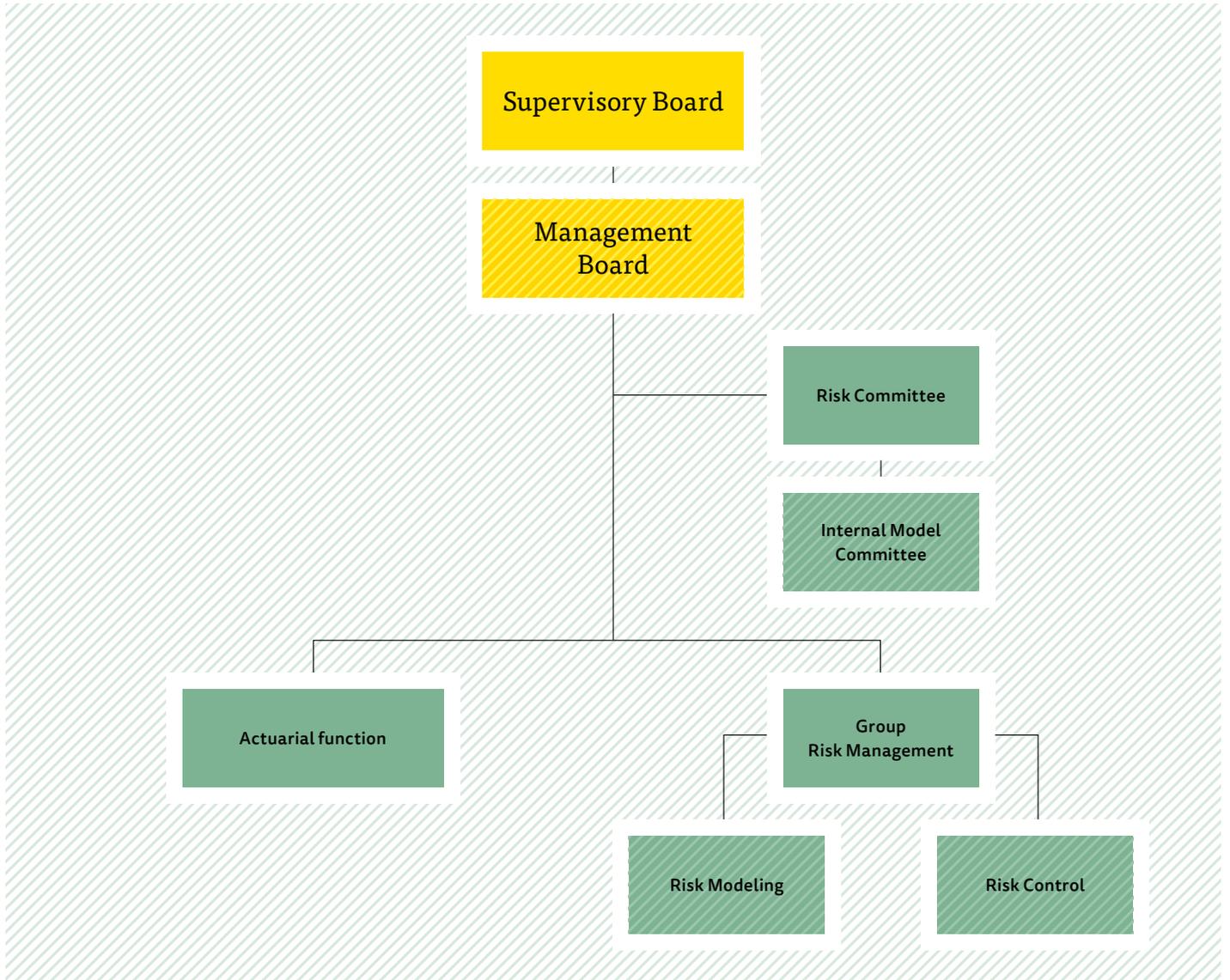
The Management Boards of the companies in the ARAG Group have formed a Risk Committee (RiCo) in order to incorporate the partial internal model into corporate management. The Risk Committee's main task is to assist the individual Management Boards with performing their risk management tasks in accordance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

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

Validation involves using qualitative and quantitative processes to check whether the results and forecasts of the partial internal model are sufficiently accurate. Both the mathematical and statistical methods used in the model and the governance processes relating to the Group's partial internal model are verified. At the end of the annual validation cycle, the actuarial function submits a comprehensive validation report to the ARAG Group Management Board, which makes sure that the partial internal model is suitable for measuring solvency in accordance with Solvency II and can be used as a basis for management decisions and corporate management.

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

The Risk Committee's position within the organization



B.4 Internal Control System

B.4.1 Internal control system

Definition and tasks

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

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

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

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

An organizational structure that is transparent and appropriate to the Company’s risk profile requires tasks and responsibilities to be clearly defined and delineated. Clear rules have to be imposed about who in the Company is responsible for tasks and who is responsible for signing off decisions. Above all, conflicts of interest between the establishment of risk exposures and the monitoring and control of these exposures must be avoided.

Organizational structure of the ICS

The Management Board occupies a special position within the organizational structure because it is responsible for ensuring an orderly and effective system of governance and thus for ensuring that the Company’s risk management and its internal control system are appropriate and effective. This means that the Management Board is directly responsible for the ARAG Group’s ICS. *Vis-à-vis* third parties, it is responsible for the appropriate specification of the ICS, i.e. its design, establishment, integrity, and monitoring as well as ongoing adjustments and refinements.

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

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

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

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

Operational structure of the ICS

As part of the ICS's operational structure, the processes relevant to the ICS are documented using a process and control system. This is made up of three elements: the process map (providing an overview of the overall operational structure), the process documentation, and the annual approval process. Processes are classified as being relevant to the ICS on the basis of the following criteria:

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

B.4.2 Compliance

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

At Group level, the compliance function is part of the Group Legal/Compliance Central Department and is the responsibility of the CEO. Although the Compliance Officer submits reports to the Management Board as a whole, this role is directly and exclusively accountable to the CEO of ARAG SE.

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

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

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

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

B.5 Internal Audit Function

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 Company's targets and its operations.

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

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

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

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

B.6 Actuarial Function

The ARAG Group's actuarial function is directly accountable to the member of the Management Board responsible for Group Risk Management and Group Controlling. It acts independently of the units in the Group with profit-and-loss responsibility. Its core tasks include ensuring that the methods, models, and assumptions used to calculate the technical provisions are appropriate. In addition, it ensures the appropriateness of the ARAG Group's underwriting, contracting, and reinsurance policies. The actuarial function has also been assigned responsibility for validating the ARAG Group's partial internal model, so it plays an important part in implementing the risk management system.

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

B.7 Outsourcing

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

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

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

The outsourcing of a key function represents a special situation, however. In this case, the Management Board has to appoint an outsourcing officer for the outsourced function who is responsible for the proper performance of the key function by the service provider and has to meet the ‘fit and proper’ requirements because of their monitoring role. This applies regardless of whether the service provider is an external company or a Group company. Where outsourcing within the Group takes place, no less care is taken in respect of the outsourced projects and their monitoring and control, for example by the service provider’s dedicated points of contact. Outsourcing within the Group may justify a more flexible approach in individual cases if this involves fewer risks than with outsourcing to an external company. Nevertheless, it is still essential that service activities in the individual Group companies are adequately separated from an organizational perspective. In general, the ARAG Group ensures that outsourcing never has an adverse impact on the proper performance of the outsourced functions or insurance activities, on the Management Board’s ability to manage and control them, or on the supervisory authority’s ability to verify and control them. Moreover, the monitoring of the service provider by the supervisory authority is ensured at all times.

Apart from the outsourcing of 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 service providers. Within the Group, the insurance companies have outsourced various operational activities and the key functions of compliance, internal audit, the actuarial function, and risk management to ARAG SE on standard commercial terms. No new outsourcing relationships, either within the Group or with third parties, were established in 2019 in respect of important functions or insurance activities.

B.8 Any Other Information

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

C. Risk Profile

C.1 Underwriting Risk	65
C.2 Market Risk	68
C.3 Credit Risk	70
C.4 Liquidity Risk	71
C.5 Operational Risk	73
C.6 Other Material Risks	74
C.7 Any Other Information	76

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.

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

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

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

C.1 Underwriting Risk

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. It can arise from pricing that is subsequently found to be inadequate or from provisioning assumptions that require adjustment. These losses result from the following risk categories:

- Premium/reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the duration of claims settlement and the amount involved
- Catastrophe and accumulation risk: significant uncertainties regarding pricing for extreme or exceptional events
- Lapse risk: incidence of customers exiting their contracts early that is above the expected lapse rate

The solvency capital requirement for underwriting risk in indemnity, liability, and accident insurance and in legal insurance went down from €139,352 thousand as of December 31, 2018 to €121,964 thousand as of December 31, 2019, a decrease of €17,388 thousand or 12.5 percent. The biggest sub-risks were premium/reserve risk and accumulation risk.

Risk measurement

Risks are measured with an internal model. Using a simulation, possible losses and adverse changes in liabilities that could occur within a one-year observation period are forecast. The value of the risk equates to the 99.5 percent quantile, i.e. a negative result that would only be expected every 200 years (1 in 200 year event). Each risk is measured separately. For premium and reserve risk, specified criteria are used to aggregate historical losses into groups of risks sharing similar characteristics. These are then used for simulations of future claims and/or required additions to reserves. Likewise, catastrophe risk and accumulation risk are measured by simulating losses that may arise from disasters or large claims caused by people and by simulating potential accumulation losses in the legal insurance business. Lapse risk is calculated on the basis of historical data. The actual underwriting risk arises from the aggregation of the individual risks, taking diversification effects into account.

There 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. This should avoid concentrations of risk. 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 and its sub-risks do not represent undesirable concentrations in the risk profile.

Risk mitigation

To reduce the risks, the Company uses a reinsurance program that focuses mainly on insuring the risk from large claims and accumulation through non-proportional reinsurance treaties. There are also facultative reinsurance arrangements for large risks and special risks.

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

Risk sensitivity

Various sensitivity analyses were carried out in the reporting period 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 2020 and on the coverage ratios were as follows:

- ARAG SE: +€14,000 thousand/- 36.0 percentage points
- ARAG Allgemeine Versicherungs-AG: +€6,000 thousand/- 18.1 percentage points
- Interlloyd Versicherungs-AG: +€1,700 thousand/- 25.8 percentage points

Overall, the coverage ratio was not observed to fall below the minimum coverage ratio in the business policy in any of the sensitivity analyses.

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 pricing that is subsequently found to be inadequate or from provisioning assumptions that require adjustment. These losses result from the following three risk components and their associated sub-risks:

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

The solvency capital requirement for underwriting risk in health insurance went up from €117,851 thousand as of December 31, 2018 to €148,474 thousand as of December 31, 2019, an increase of €30,623 thousand or 26.0 percent. This increase can be explained by the growth of in-force business – including as a result of new business – and by a fall in interest rates in 2019 that led to a rise in lapse, mortality, and healthcare cost risk. The biggest sub-risks were lapse risk and healthcare cost risk.

Risk measurement

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

Risk concentration

Concentrations of risk could arise in respect of risk from health insurance policies under which claims are made as a result of catastrophes. As the private health insurance business predominantly focuses on insurance for individuals, such risks are insignificant and factored into the premium calculation. The limit system ensures that the underwriting risk as a whole does not represent an undesirable concentration in the Company's risk profile.

Risk mitigation

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

Risk sensitivity

The potential impact of a recession scenario was analyzed in respect of ARAG health insurance. This scenario did not show any material change to the coverage situation going forward.

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: large exposure to the risk of default of a single issuer or group of related issuers

The solvency capital requirement for market risk went up from €499,587 thousand as of December 31, 2018 to €585,843 thousand as of December 31, 2019, an increase of €86,256 thousand or 17.3 percent. This rise was driven mainly by the lower level of interest rates, which led to higher interest-rate risk. The biggest sub-risks were equity risk and spread risk.

Risk measurement

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

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

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

Risk concentration

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

Risk mitigation

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

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

Risk sensitivity

In the year under review, two scenario analyses were carried out as part of the ORSA process. The financial crisis scenario examines the impact of a repetition of the unprecedented events that took place in the capital markets in 2008 on today's own funds. The recession scenario examines the impact of an economic downturn based on economic performance from 2002 onward. It emerged that the own funds losses are higher in the financial crisis scenario than in the recession scenario. These losses are as follows:

- ARAG SE: €333,000 thousand
- ARAG Allgemeine Versicherungs-AG: €73,000 thousand
- Interlloyd Versicherungs-AG: €6,000 thousand
- ARAG Krankenversicherungs-AG: €69,000 thousand
- HELP Forsikring AS: €8,000 thousand

On an indicative basis, the total loss of own funds would be €489,000 thousand, an amount that the Group would therefore be able to bear.

C.3 Credit Risk

Risk exposure

Counterparty default risk largely arises in connection with receivables from reinsurers, bank deposits, receivables from policyholders, and receivables from insurance brokers. It is the downside risk arising from the unexpected default of counterparties and debtors during the next twelve months.

The solvency capital requirement for credit risk went up from €52,552 thousand as of December 31, 2018 to €52,688 thousand as of December 31, 2019, an increase of €136 thousand or 0.3 percent.

Risk measurement

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

The risk of default on receivables from reinsurers and bank deposits is measured on the basis of the information available and proportionality considerations. The reinsurers' and banks' individual credit ratings are explicitly used.

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

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

Risk concentration

The counterparties with a significant exposure are banks. However, based on internal investment guidelines, bank deposits are diversified to such an extent that any concentration at a single bank is minimized.

Risk mitigation

Default risk in connection with reinsurance treaties is reduced in accordance with the reinsurance strategy, which is reviewed at regular intervals. An annual renewal process for reinsurance treaties ensures that this risk mitigation technique remains effective on an ongoing basis. To contain the default risk attaching to bank deposits, only selected banks may be used for such transactions. There is also a limit on the amount of deposits permitted at a bank at any one time.

As regards counterparty default risk arising from the insurance business, receivables from policyholders are managed by means of an automated reminder and dunning process. 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 was prepared as part of asset/liability management.

Risk sensitivity

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

Profits contained in future premiums

The expected profits included in future premiums represent a very illiquid component of basic own funds. These profits are therefore associated with a potential liquidity risk. Even if the expected profits contained in future premiums are not factored into basic own funds, the resulting liquidity risk is still classified as very low because of the significant excess cover. The expected profits included in future premiums amount to €268,637 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 €51,952 thousand as of December 31, 2018 to €55,246 thousand as of December 31, 2019, an increase of €3,293 thousand or 6.3 percent.

Risk measurement

The Company uses the standard formula to determine the solvency capital requirement. Measurement for operational purposes is carried out on the basis of two dimensions: probability of occurrence and impact. The probability of occurrence describes the likelihood that an operational risk will materialize within a defined period. The second dimension describes the potential impact of the occurrence of an operational risk and is measured in quantitative or qualitative terms. The gross and net values are recorded for each dimension. The gross values are the values before implementation of possible measures to mitigate the risk; the net values are the values after implementation of the chosen measures. As risks are measured using subjective estimates carried out by experts, the employees responsible have an additional instrument, the loss event database, that helps them to determine the values. This contains data on all loss events that have occurred and their actual impact.

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

Risk concentration

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

Risk mitigation

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

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

With regard to cyber risk, these strategies include information technology security measures and insurance solutions. Additional measures have been taken to counter the potential impact from a cyberattack. These include, for example, the definition of appropriate countermeasures as part of a business continuity management system. The implementation of each strategy used is continuously monitored to ensure the measures taken to reduce the risk remain effective on an ongoing basis.

Risk sensitivity

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

C.6 Other Material Risks

C.6.1 Strategic 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 – for example, through market risk, reputational risk, or operational risk – if possible weaknesses arise.

Risk measurement

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

Risk concentration

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

Risk mitigation

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

Risk sensitivity

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

C.7 Any Other Information

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

D. Valuation for Solvency Purposes

D.1 Assets	78
D.2 Technical Provisions	96
D.3 Other Liabilities	106
D.4 Alternative Methods for Valuation	116
D.5 Any Other Information	116

The explanation of the valuation methods and their differences starts with a description of valuation under the German Commercial Code (HGB)* followed by a description of valuation for solvency purposes (Solvency II, SII) and then an explanation of any material differences. The SII figures are also compared with the equivalent prior-year figures. The table below provides an overview of the total assets, technical provisions, and other liabilities.

Total assets, technical provisions, and other liabilities

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Assets	5,866,335	5,205,762	660,573	5,254,863	611,473
Technical provisions	3,393,974	4,119,694	-725,720	3,152,434	241,540
Other liabilities	951,750	527,963	423,787	828,335	123,415
Excess of assets over liabilities**	1,520,611	558,105	962,506	1,274,094	246,517

In the reporting period, there were no changes in the valuation bases (including any estimates) described below that are used for the Solvency II balance sheet in respect of assets, technical provisions, and other liabilities, apart from the following exceptions. In 2019, International Financial Reporting Standard (IFRS) 16 was adopted for the first time in connection with leasing arrangements. As a result, property, plant & equipment held for own use (D.1.6) increased by €14,784 thousand; financial liabilities other than debts owed to credit institutions (D.3.8) increased by the same amount. In the reporting year, there was also a change in the method used to generate the IAS 19 curve for discounting pension benefit obligations, long-service obligations, and early retirement obligations. This caused an increase of €5,899 thousand in the amount to be recognized for these by the insurance companies in the Group (D.3.2 and D.3.3). All quantitative disclosures relate to the figures in the quantitative reporting formats set out in the Appendix.

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

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

D.1 Assets

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

Assets as of December 31, 2019

(€'000)

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

	Solvency II as of Dec. 31, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	0	16,488	- 16,488	0	0
	0	0	0	0	0
	0	12,097	- 12,097	0	0
	115,319	627	114,692	108,773	6,546
	303	303	0	18	285
	276,214	164,332	111,882	258,002	18,212
	76,566	47,397	29,169	78,380	-1,814
	20,082	17,842	2,240	21,314	-1,232
	8,561	5,770	2,791	6,362	2,199
	762	719	42	762	0
	9,323	6,490	2,834	7,124	2,199
	1,076,813	951,124	125,689	989,865	86,948
	1,833,869	1,656,532	177,337	1,653,836	180,033
	39,798	35,809	3,989	34,336	5,462
	20,851	20,678	173	16,586	4,265
	2,971,331	2,664,143	307,188	2,694,623	276,708
	1,724,306	1,615,032	109,274	1,473,530	250,777
	0	0	0	0	0
	53,799	53,799	0	48,900	4,899
	128,516	111,295	17,222	90,857	37,660
	4,983,924	4,515,997	467,927	4,414,728	569,196
	5,375,760	4,709,844	665,916	4,781,521	594,239

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

Assets as of December 31, 2019

(€'000)

Brought forward:

Assets held for index-linked and unit-linked contracts

Loans and mortgages

Loans on policies

Loans and mortgages to individuals

Other loans and mortgages

Reinsurance recoverables from:

Non-life and health similar to non-life

Non-life excluding health

Health similar to non-life

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

Health similar to life

Life excluding health and index-linked and unit-linked

Life index-linked and unit-linked

Receivables

Deposits to cedants

Insurance and intermediaries receivables

Reinsurance receivables

Receivables (trade, not insurance)

Other assets

Own shares (held directly)

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

Cash and cash equivalents

Any other assets, not elsewhere shown

Total assets

	Solvency II as of Dec. 31, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	5,375,760	4,709,844	665,916	4,781,521	594,239
	0	0	0	0	0
	0	0	0	0	0
	97	97	0	108	-10
	3,212	3,212	0	5,905	-2,693
	3,310	3,310	0	6,013	-2,703
	20,933	33,668	-12,735	21,051	-118
	1,947	0	1,947	1,546	400
	22,880	33,668	-10,788	22,597	283
	0	0	0	0	0
	5,445	0	5,445	4,983	462
	5,445	0	5,445	4,983	462
	0	0	0	0	0
	28,325	33,668	-5,343	27,580	745
	60,678	60,678	0	55,935	4,743
	101,937	101,937	0	87,008	14,929
	51,462	51,462	0	47,164	4,298
	35,719	35,719	0	46,601	-10,882
	249,796	249,796	0	236,708	13,088
	0	0	0	0	0
	0	0	0	0	0
	199,143	199,143	0	196,214	2,928
	10,002	10,002	0	6,826	3,176
	209,144	209,144	0	203,040	6,104
	5,866,335	5,205,762	660,573	5,254,863	611,473

D.1.1 Goodwill

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	0	16,488	- 16,488	0	0

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

The acquired goodwill in the Company relates to items such as business combinations and acquisition accounting upon initial inclusion in the basis of consolidation. The total value at the end of the reporting year amounted to €16,488 thousand.

Goodwill is not recognized on the Solvency II balance sheet, as a result of which the Solvency II valuation was €16,488 thousand lower than the HGB valuation as of December 31, 2019 (December 31, 2018: €23,152 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, no deferred acquisition costs were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.3 Intangible assets

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	0	12,097	- 12,097	0	0

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

In the HGB financial statements, intangible assets are recognized at cost and reduced at the applicable rate of amortization on a straight-line basis. As of December 31, 2019, their carrying amount was €12,097 thousand.

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

Due to intangible assets not being included for solvency purposes, the Solvency II valuation was €12,097 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, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	115,319	627	114,692	108,773	6,546

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. Deferred tax assets and liabilities are not shown on a net basis.

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

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

If applicable, deferred taxes from tax group subsidiaries (companies controlled by the parent company and/or with which a profit-and-loss transfer agreement has been concluded) are recognized by the parent company because the income of the tax group is aggregated for tax purposes and taxed overall at the level of the parent company. Deferred tax assets are not discounted.

The deferred tax assets on the Solvency II balance sheet are deemed to be recoverable. This is because the deferred tax liabilities predominate on the Solvency II balance sheet and an analysis of the timing of the reversal effects demonstrates that the time until reversal of the deferred tax expense is shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit.

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

• Group companies, Germany, Düsseldorf	31.2 percent
• Group company, Germany, Munich	33.0 percent
• Group company, Australia	30.0 percent
• Group company, Canada	26.5 percent
• Group company, Norway	25.0 percent
• Group company, United Kingdom	19.0 percent
• Group companies, USA	21.0 percent
• Austria Branch	25.0 percent
• Belgium Branch	25.0 percent
• Greece Branch	24.0 percent
• Republic of Ireland Branch	12.5 percent
• Italy Branch	30.8 percent
• Netherlands Branch	21.7 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 €115,319 thousand were as follows: €53,904 thousand arising from defined benefit obligations that had to be valued at a higher level under regulatory requirements, €46,532 thousand from underwriting liabilities, and €13,489 thousand from miscellaneous deferred tax assets.

The year-on-year increase in deferred tax assets of €6,546 thousand was primarily attributable to the €6,698 thousand rise in tax assets arising from underwriting liabilities. The €14,692 thousand fall in tax assets arising from investments (of which a fall of €4,875 thousand was attributable to the first-time adoption of IFRS 16) was partly offset by an €11,810 thousand increase in tax assets arising from defined benefit obligations. The miscellaneous tax assets went up by €2,729 thousand, which included a €4,875 thousand rise in connection with the first-time adoption of IFRS 16.

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, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	303	303	0	18	285

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, 2019, the Solvency II carrying amount was the same as the fair value already recognized in accordance with HGB. The excess of plan assets was not recalculated for reasons of materiality.

The Solvency II carrying amount went up by €285 thousand year on year. This was caused by an increase in the prices of securities held to cover retirement pension liabilities to employees in the Group company ARAG North America Inc.

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

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	276,214	164,332	111,882	258,002	18,212

Real estate (property) held for own use is valued at cost less depreciation under HGB. If its value is permanently impaired, it is written down to the lower of fair value or depreciated cost. If the reason for the impairment ceases to apply, the write-down is reversed to the depreciated value of the asset. Land and buildings are categorized as being held for own use or rented out to third parties according to actual usage. For this purpose, a uniform carrying amount is classified according to primary usage. Fair values are used for Solvency II purposes. The value of the land is based on the prevailing standard land value. The value of the buildings is calculated using the income capitalization approach. Under IFRS, which has to be applied for the Solvency II balance sheet, land must be assigned to working capital in accordance with the principle of substance over form. Formal ownership is irrelevant in this context. A right-of-use asset therefore has to be recognized on the Solvency II balance sheet for leased property that is material to business. This asset is recognized in full as property held for own use on the Solvency II balance sheet. As of December 31, 2019, the right-of-use assets totaled €14,784 thousand.

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

The year-on-year rise of €18,212 thousand was therefore essentially attributable to the first-time adoption of IFRS 16 in connection with property held for own use.

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

D.1.7 Property (other than for own use)

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	76,566	47,397	29,169	78,380	-1,814

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

As of the reporting date, the Company held land and buildings assets on its HGB balance sheet with a carrying amount of €47,397 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 €76,566 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 €29,169 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 €1,814 thousand as of the reporting date was attributable, in particular, to the drop in the fair values of various items of real estate in Spain.

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, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	20,082	17,842	2,240	21,314	-1,232

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

The fair value is generally determined using an income capitalization approach based on a planning horizon of usually three years. Where budgeted figures were not available, the shares were valued at the share of equity/carrying amount of the equity investment. This item primarily consisted of the equity investments in AXA-ARAG Rechtsschutz AG in an amount of €12,003 thousand and in ARCAP Fonds XVI GmbH & Co. KG in an amount of €2,641 thousand.

No write-downs to cover expected permanent impairment were necessary in the year under review in respect of material affiliated companies or equity investments not included in the basis of consolidation, nor were any reversals of such write-downs necessary.

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 IFRS.

The carrying amount at cost on the HGB balance sheet was €2,240 thousand lower than the fair value on the Solvency II balance sheet because of the different valuation methods described above.

The year-on-year decrease in the Solvency II carrying amount of €1,232 thousand was attributable to the fall in the fair value of AXA-ARAG Rechtsschutz AG.

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

D.1.9. Equities

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Equities – listed	8,561	5,770	2,791	6,362	2,199
Equities – unlisted	762	719	42	762	0
Total	9,323	6,490	2,834	7,124	2,199

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 €2,834 thousand for equities as of December 31, 2019. The rise of €2,199 thousand in the latest Solvency II value compared with the equivalent value as of December 31, 2018 was primarily attributable to changes in market value.

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

D.1.10 Bonds

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Government bonds	1,076,813	951,124	125,689	989,865	86,948
Corporate bonds	1,833,869	1,656,532	177,337	1,653,836	180,033
Structured notes	39,798	35,809	3,989	34,336	5,462
Collateralized securities	20,851	20,678	173	16,586	4,265
Total	2,971,331	2,664,143	307,188	2,694,623	276,708

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 €307,188 thousand (December 31, 2018: €193,656 thousand) that have not yet been realized. The year-on-year increase in the Solvency II carrying amount of €276,708 thousand was mainly attributable to the expansion of the portfolio of corporate bonds and, to a lesser extent, expansion of the portfolio of government bonds. This growth was underpinned by price rises in the categories shown, particularly corporate bonds.

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

D.1.11 Collective investment undertakings

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Equities	532,826	474,936	57,889	390,061	142,765
Bonds	1,140,052	1,090,071	49,981	1,005,516	134,536
Other	51,428	50,024	1,404	77,952	-26,524
Total	1,724,306	1,615,032	109,274	1,473,530	250,777

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 €1,615,032 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 €33,612 thousand in 2019 (2018: €644 thousand).

For solvency purposes, the redemption price determined by the investment management company for the investment fund units/shares is used to determine the economic value. This value is not restricted to the cost. In accordance with the Delegated Regulation, collective investment undertakings in which the stake held is at least 20.0 percent are reported under collective investment undertakings and not under holdings in related undertakings, including participations. As of December 31, 2019, the Solvency II carrying amount for collective investment undertakings was €1,724,306 thousand.

The restriction of the valuation under HGB rules as a result of the historical cost convention and the realization principle applied under SII rules resulted in a difference of €109,274 thousand. The year-on-year increase in the Solvency II carrying amount of €250,777 thousand was mainly attributable to rises in the market prices of bonds and equities.

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

D.1.12 Derivatives

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

D.1.13 Deposits other than cash equivalents

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	53,799	53,799	0	48,900	4,899

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

Because of the identical valuation methods, the value under HGB and the value for solvency purposes are the same. The Solvency II carrying amount went up by €4,899 thousand year on year, which was entirely attributable to portfolio expansion.

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

D.1.14 Other investments

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	128,516	111,295	17,222	90,857	37,660

Other investments are valued at cost, in some cases reduced by write-downs to the lower fair value. The fair value is determined by the net asset value (NAV) published by the investment management company. However, no write-downs were recognized in 2019. No reversals of write-downs were required in the year under review either.

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

As a result of unrealized valuation reserves, the value for solvency purposes as of December 31, 2019 was €17,222 thousand higher than the HGB value. The year-on-year increase in the Solvency II carrying amount of €37,660 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, no assets held for index-linked and unit-linked contracts were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

D.1.16 Loans and mortgages

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Loans on policies	0	0	0	0	0
Loans and mortgages to individuals	97	97	0	108	-10
Other loans and mortgages	3,212	3,212	0	5,905	-2,693
Total	3,310	3,310	0	6,013	-2,703

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 2018. Instead, HGB carrying amounts were also used for Solvency II purposes.

The year-on-year decrease in the Solvency II carrying amount of €2,703 thousand was mainly attributable to the repayment of a loan.

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, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Non-life and health similar to non-life	22,880	33,668	- 10,788	22,597	283
Life and health similar to life, excluding health and index-linked and unit-linked	5,445	0	5,445	4,983	462
Total	28,325	33,668	- 5,343	27,580	745

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

On the economic balance sheet, the reinsurers' shares are aggregated. To determine the economic value, the reinsurers' pro rata share of the technical provisions is calculated using the reinsurers' best estimate in accordance with the underlying treaty. The reinsurers' share is determined on an individual claim basis in accordance with the contractual terms. Applying the aforementioned valuation methods, the carrying amount on the Solvency II balance sheet as of December 31, 2019 was €5,343 thousand lower than the HGB carrying amount. The year-on-year increase in the Solvency II carrying amount of €745 thousand was attributable to ongoing business operations.

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

D.1.18 Receivables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Deposits to cedants	60,678	60,678	0	55,935	4,743
Insurance and intermediaries receivables	101,937	101,937	0	87,008	14,929
Reinsurance receivables	51,462	51,462	0	47,164	4,298
Receivables (trade, not insurance)	35,719	35,719	0	46,601	-10,882
Total	249,796	249,796	0	236,708	13,088

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 rise in the Solvency II carrying amount of €4,743 thousand was mainly due to the greater volume of inward reinsurance business in the branches in Italy and Spain.

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

Insurance* and intermediaries receivables are generally recognized at their nominal amount (€101,937 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 otherwise be involved, the nominal amount of the receivables is also used as the Solvency II carrying amount. Due to this use of the nominal amount (€101,937 thousand) as the economic value, there are no valuation differences.

The year-on-year rise in the Solvency II carrying amount of €14,929 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 rise in the Solvency II carrying amount of €4,298 thousand was mainly due to the cash flows in inward reinsurance business during the fourth quarter of 2019 and the associated reinsurance settlement balances at the headquarters in Germany and at the branches in Spain, Italy, and the Netherlands. These were offset to a small extent by the pattern of claims in the last quarter of 2019 and the associated reinsurance settlement balances.

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

Receivables (trade, not insurance) are generally recognized at their nominal amount. In the event of actual default risk relating to rating downgrades, specific allowances are recognized in the amount that is no longer likely to be recovered. The receivables (trade, not insurance) of €35,719 thousand for the most part consisted of tax assets (€22,207 thousand) and trade receivables at non-insurance companies (€6,265 thousand).

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

Due to use of the nominal amounts as the economic value, there are no valuation differences. The year-on-year decrease in the Solvency II carrying amount of €10,882 thousand was largely attributable to the settlement of liabilities in health insurance.

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

D.1.19 Own shares (held directly)

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

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

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

D.1.21 Cash and cash equivalents

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	199,143	199,143	0	196,214	2,928

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 €2,928 thousand was attributable to the rise in the volume for this item in the reporting year and as of the balance sheet date.

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

D.1.22 Any other assets, not elsewhere shown

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	10,002	10,002	0	6,826	3,176

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 €3,176 thousand was attributable to inventory differences compared with the end of 2018.

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

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, 2019

(€'000)

Technical provisions – non-life

Technical provisions – non-life (excluding health)

Technical provisions calculated as a whole

Best estimate

Risk margin

Technical provisions – health (similar to non-life)

Technical provisions calculated as a whole

Best estimate

Risk margin

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

Technical provisions – health (similar to life)

Technical provisions calculated as a whole

Best estimate

Risk margin

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

Technical provisions calculated as a whole

Best estimate

Risk margin

Technical provisions – index-linked and unit-linked

Technical provisions calculated as a whole

Best estimate

Risk margin

Other technical provisions

Total provisions

	Solvency II as of Dec. 31, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	0	1,741,256	-1,741,256	0	0
	1,126,303	0	1,126,303	1,089,486	36,817
	35,063	0	35,063	37,646	-2,584
	1,161,366	1,741,256	-579,890	1,127,133	34,233
	0	1,012	-1,012	0	0
	43,333	0	43,333	53,100	-9,767
	1,493	0	1,493	1,502	-9
	44,826	1,012	43,814	54,603	-9,776
	1,206,192	1,742,268	-536,076	1,181,735	24,457
	0	2,283,463	-2,283,463	0	0
	2,157,013	0	2,157,013	1,943,063	213,950
	25,133	0	25,133	22,480	2,653
	2,182,146	2,283,463	-101,317	1,965,543	216,603
	0	0	0	0	0
	5,630	0	5,630	5,150	480
	6	0	6	6	0
	5,636	0	5,636	5,155	480
	2,187,782	2,283,463	-95,681	1,970,698	217,083
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	3,393,974	4,025,731	-631,757	3,152,434	241,540
	0	93,962	-93,962	0	0
	3,393,974	4,119,694	-725,720	3,152,434	241,540

D.2.1 Technical provisions

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

As of the reporting date, the technical provisions in accordance with HGB amounted to €4,119,694 thousand. In addition to the actuarial reserve of €1,946,376 thousand, the HGB technical provisions included the provision for outstanding claims (gross) of €1,557,875 thousand, the provision for bonuses and rebates of €260,055 thousand, unearned premiums (gross) of €261,425 thousand, the equalization provision of €89,154 thousand, and the miscellaneous technical provisions of €4,808 thousand.

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

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

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

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

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Technical provisions calculated as a whole	0	1,741,256	-1,741,256	0	0
Best estimate	1,126,303	0	1,126,303	1,089,486	36,817
Risk margin	35,063	0	35,063	37,646	-2,584
Total	1,161,366	1,741,256	-579,890	1,127,133	34,233

The technical provisions on the Solvency II balance sheet are calculated 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, the best estimate comprises two components:
 - a) The claims provision is calculated for each homogeneous risk group in the ARAG Group. It contains expected claim payments and claim settlement costs that are necessary for the settlement of claims already incurred. The claims reserve is valued using the standard actuarial reserving methods used in the market: the chain-ladder method, the additive method based on accident-year-independent growth of the claims ratio (AUSQZ), and the Bornhuetter-Ferguson method. Alternative reserving methods may be used in exceptional cases. The New York method is used to value the claim settlement provision.
 - b) The premiums provision is made up of the provision for premiums written but not yet earned and the expected future profit or loss from in-force policies. The provision for premiums written but not yet earned is recognized in the amount of the present values of the expected claim payments and costs relating to the relevant policies. The expected profit or loss is determined for the outstanding premium income from in-force policies (installment payments and premiums from multi-year policies).
2. 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, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Technical provisions calculated as a whole	0	1,012	-1,012	0	0
Best estimate	43,333	0	43,333	53,100	-9,767
Risk margin	1,493	0	1,493	1,502	-9
Total	44,826	1,012	43,814	54,603	-9,776

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

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

2. Risk margin

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

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

The ARAG Group did not apply 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, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Technical provisions calculated as a whole	0	2,283,463	-2,283,463	0	0
Best estimate	2,157,013	0	2,157,013	1,943,063	213,950
Risk margin	25,133	0	25,133	22,480	2,653
Total	2,182,146	2,283,463	-101,317	1,965,543	216,603

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

The individual components are:

1. Best estimate
2. Risk margin

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

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

Applying different capital market and underwriting scenarios, the market values for technical provisions for health insurance (similar to life) are calculated with the inflation-neutral valuation method that is widely used in the industry.

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.

In the calculation of the risk margin, it is assumed that market risk is completely avoidable for a reference company taking on insurance obligations. This can be achieved directly by elimination of the related risks in the asset portfolio for all types of market risk other than interest-rate risk. For interest-rate risk, a matching strategy can be implemented on the basis of asset duration aligned with the policyholder base that will make market risk as a whole negligible to the extent that it is no longer material.

To calculate the risk margin, an approximation method 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 did not apply any transitional measures in the reporting period.

There was one change in the inflation-neutral valuation method compared with the previous year. It affects the design of the management rule for adjustment of the discount rate.

The valuation of the Solvency II carrying amount for the technical provisions covering health insurance (similar to life) was €101,317 thousand lower than the valuation of the HGB carrying amount.

There were two main reasons for this:

- a) A risk margin of €25,133 thousand was used.
- b) The difference between conventional actuarial reserves and the economic value of technical provisions (best estimate) is influenced by four main factors:
 - Re-discounting of HGB cash flows
 - Inclusion of sundry technical surpluses
 - Inclusion of the option for premium adjustments
 - Calculation of future profit participation

One of the valuation differences for the technical provisions was that the tax calculation (deferred taxes) under Solvency II included the surplus fund (€161,226 thousand).

The total carrying amount of the technical provisions in accordance with Solvency II rose by €216,603 thousand year on year. The increase in the best estimate for health insurance (similar to life) was due, in particular, to the sharp fall of the EIOPA yield curve and to the underwriting cash flow for 2019 (premium income less benefit expenses and costs), which was well into positive territory. The amount of the risk margin for health insurance (similar to life) changed more or less in line with the change in the solvency capital requirement, as a result of which there was a rise of €2,643 thousand in this figure.

There were no other 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, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Technical provisions calculated as a whole	0	0	0	0	0
Best estimate	5,630	0	5,630	5,150	480
Risk margin	6	0	6	6	0
Total	5,636	0	5,636	5,155	480

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

1. Best estimate
2. Risk margin

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

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

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

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

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

D.2.7 Other technical provisions

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	0	93,962	-93,962	0	0

The other technical provisions* (miscellaneous technical provisions on the HGB balance sheet) primarily consist of the equalization provision (€89,154 thousand) and the lapse provision (€3,199 thousand). The equalization provision for direct insurance business and inward reinsurance business is recognized as additional actuarial reserves that can be used to offset fluctuations in the course of business.

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

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

As the Solvency II balance sheet is a static overview, no items to smooth out future

* In accordance with the Solvency II structure

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

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

D.2.8 Reinsurance recoverables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Non-life and health similar to non-life	22,880	33,668	- 10,788	22,597	283
Life and health similar to life, excluding health and index-linked and unit-linked	5,445	0	5,445	4,983	462
Total	28,325	33,668	- 5,343	27,580	745

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

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

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

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

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

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

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

D.2.9 Provisions assumptions

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

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

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

No transitional measures 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, 2019

(€'000)

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

	Solvency II as of Dec. 31, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	533	0	533	603	- 70
	117,682	115,298	2,383	118,356	- 674
	331,355	255,900	75,455	296,348	35,007
	165	165	0	370	- 205
	327,710	0	327,710	262,590	65,120
	0	0	0	0	0
	0	0	0	0	0
	14,784	0	14,784	0	14,784
	57,988	57,988	0	55,463	2,525
	3,698	3,698	0	3,149	550
	59,307	59,307	0	53,525	5,782
	0	0	0	0	0
	32,921	30,000	2,921	32,858	62
	32,921	30,000	2,921	32,858	62
	5,606	5,606	0	5,072	534
	951,750	527,963	423,787	828,335	123,416

D.3.1 Contingent liabilities

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	533	0	533	603	-70

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 €533 thousand on the Solvency II balance sheet gave rise to a valuation difference of the same amount compared with the HGB carrying amount. The decrease of €70 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, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	117,682	115,298	2,383	118,356	-674

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 (€23,654 thousand), outstanding commission payments (€14,433 thousand), outstanding employee remuneration (€11,155 thousand), vacation entitlement not yet granted (€8,419 thousand), purchase invoices not yet received (€7,958 thousand), bonuses (€6,272 thousand), early retirement and pre-retirement part-time employment obligations (€6,245 thousand), and provisions for long-service awards (€6,081 thousand).

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

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

The provision for early retirement benefits is calculated in accordance with actuarial principles, likewise on the basis of the above-mentioned 2018G mortality tables published by Professor Klaus Heubeck, applying a discount rate of 1.97 percent and future salary increases of 2.5 percent per year. The calculation is based on the Company's possible use of the provision for early retirement benefits in connection with individual contractual agreements.

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

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

The provisions other than technical provisions are valued on the basis of the best estimate of the expected settlement amount. The residual maturity for all provisions is generally less than one year. On grounds of materiality, they were not discounted separately. Instead, the discounting applied for HGB accounting purposes was used.

The economic value of the provisions for long-service awards, early retirement obligations, severance pay, and pre-retirement part-time employment obligations came to €14,293 thousand. All other items were recognized on the Solvency II balance sheet with their HGB carrying amounts. A valuation difference of €2,383 thousand arose solely as a result of the differing valuation methods used for the obligations referred to separately above. In the reporting year, there was also a change in the method used to generate the IAS 19 curve for discounting long-service obligations and early retirement obligations. This caused an increase of €19 thousand in the amount to be recognized for long-service obligations and early retirement obligations. 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.

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

D.3.3 Pension benefit obligations

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	331,355	255,900	75,455	296,348	35,007

The pension benefit obligations are calculated using the PUC method on the basis of the 2018G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. The discount rate used for the HGB valuation was the average interest rate for the past ten years published by the Bundesbank for an assumed residual maturity of 15 years. A discount rate of 2.71 percent was applied for the valuation as of December 31, 2019 (December 31, 2018: 3.21 percent). The following actuarial parameters were used to calculate the obligations: earliest possible age under the German Pension Age Reform Act (RVAGAnpG) of 63 years, annual increase in salaries of 2.5 percent, annual increase in pension benefits of 1.75 percent (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 term structure used for discounting is determined on the basis of the yields achieved for senior industrial bonds on the balance sheet date. Expected growth in income (2.5 percent), rising pension benefits (1.75 percent), and the Company's projections for staff turnover (1.5 percent) are taken into account. The amount calculated in this way equates to the economic value in accordance with VAG. As of the reporting date, the amount was calculated at €331,355 thousand.

A valuation difference of €75,455 thousand arose as a result of the differing valuation methods, in particular the different discount rates used. The year-on-year increase as of the reporting date of €35,007 thousand was attributable to the regular additions to the pension entitlements and the changes in the discounting of pension benefit obligations. In the reporting year, there was a change in the method used to generate the IAS 19 curve for discounting pension benefit obligations. This caused an increase of €5,880 thousand in the amount to be recognized for pension benefit obligations.

There were no other 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, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	165	165	0	370	-205

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

There were no valuation differences between the Solvency II balance sheet and the HGB balance sheet because the maturity period did not exceed twelve months. The year-on-year decrease in the Solvency II carrying amount of €205 thousand was mainly caused by a contractual adjustment of the deposits from reinsurers at the Spain Branch.

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

D.3.5 Deferred tax liabilities

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	327,710	0	327,710	262,590	65,120

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.

No deferred tax liabilities had to be reported on the HGB balance sheet.

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

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

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

The main components of the total deferred tax liabilities of €327,710 thousand were as follows: €178,343 thousand arising from technical provisions, €148,216 thousand from investments, and €1,151 thousand from miscellaneous provisions.

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

D.3.6 Derivatives

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

D.3.7 Debts owed to credit institutions

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

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

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	14,784	0	14,784	0	14,784

No financial liabilities other than debts owed to credit institutions were recognized under HGB in the ARAG Group. Differences in recognition and valuation between the HGB balance sheet and Solvency II balance sheet therefore arise in connection with the recognition of leasing arrangements on the Solvency II balance sheet in accordance with IFRS 16 (see also D.1.6 'Property, plant & equipment held for own use'). The year-on-year increase in the economic value of €14,784 thousand was entirely due to the first-time recognition of a lease obligation.

D.3.9 Insurance and intermediaries payables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	57,988	57,988	0	55,463	2,525

Insurance and intermediaries payables* are valued at their nominal amount. As of the reporting date, the breakdown was as follows: insurance payables of €25,701 thousand and intermediaries payables of €32,287 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.

D.3.10 Reinsurance payables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	3,698	3,698	0	3,149	550

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 rise in the Solvency II carrying amount of €550 thousand was mainly due to the pattern of claims close to the reporting date and to cash flows in inward reinsurance business during the fourth quarter of 2019 and the associated reinsurance settlement balances at the headquarters in Germany and at the branches in Spain, Italy, and the Netherlands.

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

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

D.3.11 Payables (trade, not insurance)

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	59,307	59,307	0	53,525	5,782

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

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

D.3.12 Subordinated liabilities

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Subordinated liabilities not in basic own funds	0	0	0	0	0
Subordinated liabilities in basic own funds	32,921	30,000	2,921	32,858	62
Total	32,921	30,000	2,921	32,858	62

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

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

On the Solvency II balance sheet, the subordinated liabilities in basic own funds are discounted with the risk-free interest rate derived from investment-grade industrial bonds, modified by the value of ARAG's different credit rating at the time the subordinated bond was issued on July 29, 2014. This results in an interest rate that is lower than the bond's nominal interest rate (4.8 percent). Because of the discounting, the value on the Solvency II balance sheet as of December 31, 2019 was €2,921 thousand higher than the value on the HGB balance sheet. The Solvency II carrying amount went up year on year because of the shorter remaining time to maturity and the increase in the discount rate.

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

D.3.13 Any other liabilities, not elsewhere shown

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Total	5,606	5,606	0	5,072	534

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 €5,606 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

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

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

E. Capital Management

E.1 Own Funds	118
.....	
E.2 Solvency Capital Requirement and Minimum Capital Requirement	121
.....	
E.3 Use of the Duration-Based Equity Risk Sub-Module in the Calculation of the Solvency Capital Requirement	123
.....	
E.4 Differences Between the Standard Formula and Any Internal Model Used	123
.....	
E.5 Non-Compliance with the Minimum Capital Requirement and Non-Compliance with the Solvency Capital Requirement	129
.....	
E.6 Any Other Information	129
.....	

E.1 Own Funds

Objectives, guidance, and procedures for managing own funds

In 2019, Solvency II balance sheets were prepared for the planning horizon on the basis of the budgeted results of operations. The internal capital management guidance states that if it is identified that solvency coverage is about to fall below a threshold value that is higher than the intervention value specified by the German Federal Financial Supervisory Authority (BaFin), various measures should be considered to offset the fall in the level of coverage.

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

In view of the existing solvency profile, the coverage ratio is not currently expected to fall to a level below the internal reporting threshold, and certainly not below regulatory requirements. If, contrary to expectations, 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 2019, the Company did not identify any need to strengthen components of basic own funds within its planning horizon. Accordingly, none of the measures listed above were drawn up or submitted to the decision-making bodies for implementation.

Components and quality of own funds

As of December 31, 2019, the Group held basic own funds in the form of an excess of assets over liabilities of €1,520,611 thousand (December 31, 2018: €1,274,094 thousand) according to the Solvency II balance sheet. The Company's minimum capital requirement (MCR) as of the reporting date was €245,473 thousand (December 31, 2018: €220,440 thousand) and the solvency capital requirement (SCR) was €479,609 thousand (December 31, 2018: €444,398 thousand).

It also had a subordinated liability (issued by ARAG SE) of €32,921 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 €1,408,783 thousand (December 31, 2018: €1,155,268 thousand), split between the different capital classes as follows: Tier 1 own funds of €1,375,862 thousand (December 31, 2018: €1,122,410 thousand) and Tier 2 own funds of €32,921 thousand (December 31, 2018: €32,858 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, 2019	Dec. 31, 2018
Equity as of December 31 on the HGB balance sheet	558,105	488,403
Revaluation of investments/intangible assets with recognition of deferred taxes	432,987	252,520
Revaluation of technical provisions with recognition of deferred taxes	588,567	581,972
Revaluation of pension and other post-employment benefit obligations with recognition of deferred taxes	-21,551	-11,221
Revaluation of HGB deferred taxes	-627	-1,062
Revaluation of miscellaneous items with recognition of deferred taxes	-36,869	-36,517
Excess of assets over liabilities according to the Solvency II balance sheet	1,520,611	1,274,094
Additional basic own funds resulting from subordinated liabilities	32,921	32,858
Dividend distribution (foreseeable dividend)	-10,000	-10,000
Reduction in restricted Group own funds	-111,760	-122,291
Adjustment for non-controlling interests	-22,989	-19,394
Total own funds as of December 31 that are eligible to cover the solvency capital requirement	1,408,783	1,155,268

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

Information on deferred taxes

Deferred tax assets of €115,319 thousand and deferred tax liabilities of €327,710 thousand were recognized in the table 'Reconciliation of the equity on the HGB balance sheet to eligible own funds'. The calculation of deferred tax assets takes into account applicable tax legislation and tax rates. As on the HGB balance sheet, the current tax rates are used for the calculation, as described in chapter D.1.4 'Deferred taxes'.

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

Own funds reconciliation reserve

(€'000)	Total	Tier 1 own funds	Tier 2 own funds	Tier 3 own funds
Share capital	200,000	200,000	0	0
Share premium account related to ordinary share capital	0	0	0	0
Reconciliation reserve	1,310,611	1,310,611	0	0
Reduction in restricted Group own funds	-111,760	-111,760	0	0
Adjustment for non-controlling interests	-22,989	-22,989	0	0
Basic own funds	1,375,862	1,375,862	0	0
Ancillary own funds (subordinated liabilities)	32,921	0	32,921	0
Own funds as of December 31 that are eligible to cover the solvency capital requirement	1,408,783	1,375,862	32,921	0

The reconciliation reserve amounted to €1,310,611 thousand and predominantly consisted of HGB revenue reserves of €272,073 thousand and valuation differences of €1,038,538 thousand. As of December 31, 2019, the Company's eligible own funds were €253,515 thousand higher than they had been a year earlier. The main reason for this increase was that the assets rose more sharply than the liabilities.

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 solvency capital requirement are based on the standardized approach. The basis of consolidation is presented in chapter E.4.

The solvency capital requirement increased by 7.9 percent year on year, from €444,398 thousand to €479,609 thousand. Please refer to chapter C. 'Risk Profile' for further information on the changes in the individual risks. Of the solvency capital requirement, €453,720 thousand related to the core group and €25,889 thousand to the non-controlled participations (NCPs). At 293.7 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 33.8 percentage points higher than the equivalent figure as of December 31, 2018 (260.0 percent).

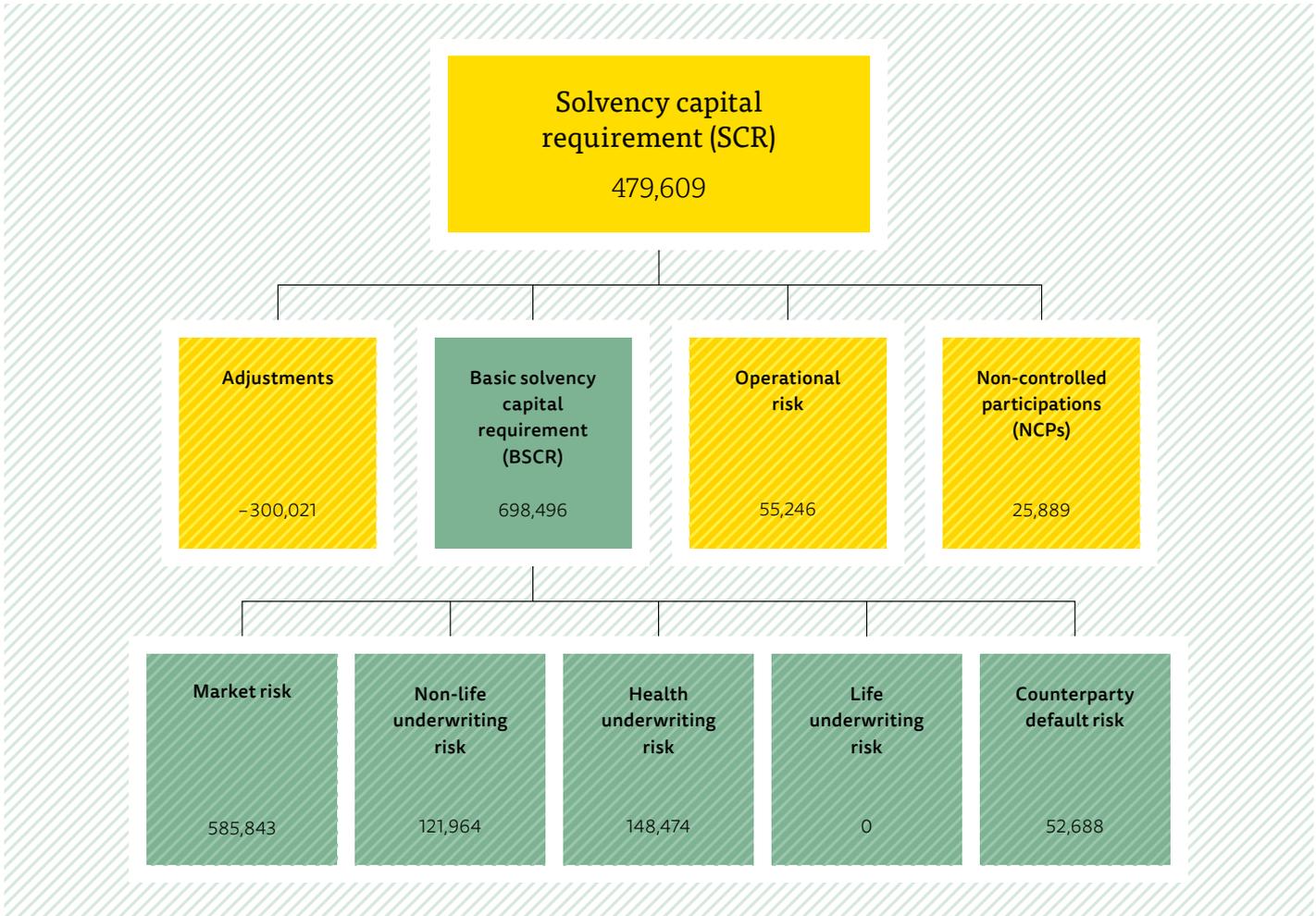
Neither a simplified calculation of the SCR standard formula nor undertaking-specific parameters (USPs) are used in any of the modules.

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, 2019, the minimum capital requirement came to €245,473 thousand (December 31, 2018: €220,440 thousand), of which €237,322 thousand related to participating insurance undertakings and €8,151 thousand to NCPs. The minimum capital requirement equates to 51.2 percent of the current solvency capital requirement, which means that the coverage ratio for the minimum capital requirement as of the reporting date was 573.9 percent (December 31, 2018: 524.1 percent). The 11.4 percent increase in the minimum capital requirement was primarily due to the rise in the minimum capital requirement for ARAG SE.

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

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

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

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

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

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.

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 and appropriately, thus ensuring the risks can be presented and managed adequately.

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

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

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

Probability distribution forecast

Underwriting risk comprises the following components: premium risk, reserve risk, catastrophe and accumulation risk, and lapse risk. Liability, accident, and motor insurance pensions, in which risk arises in connection with premiums, reserves, longevity, and costs, are also classified under non-life underwriting risk and included in the partial internal model. 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. 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 for non-life insurance. This means, in particular, that the forecast new business for the coming twelve months is included.

The ARAG Group's underwriting portfolio is broken down into various segments due to management and risk considerations. This segmentation is based on two principles: firstly, to divide the portfolio into homogeneous risk groups 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.

A 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, supplemented with assessments drawn up by experts. Procedures vary only in that the aggregation logic for the sub-risks differs from that for the overall risk because of the more complex structure of the ARAG Group compared with that in the individual companies. However, the methods used to aggregate the risks are the same.

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

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

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

Sub-module	Standard formula	Internal model
Premium and reserve risk	A factor-based approach is used in the standard formula. The standard volatility factors (market average) for each line of business are applied to the relevant volume measure (reserve or premiums). Specified correlation parameters are used in a linear correlation approach. Regional diversification is taken into account.	In the partial internal model, casualty and property insurance is broken down into groups of risks sharing similar characteristics and these risk groups form the ARAG segments. The risk calculation is based on company-specific data and internal calibration. Reinsurance is more precisely reflected in the model, especially in relation to major losses. 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 and of the amount of claims.
Natural disaster risk	Predefined scenarios in the standard formula.	Natural disaster risk is quantified with special geophysical models. The company-specific portfolio is used for this purpose.
Underwriting risk – life/health	Longevity and cost risk are quantified using predefined stress scenarios.	Longevity and cost risk are handled in the same way as in the standard formula.

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

Diversification

Diversification effects are highlighted by aggregating the risk distributions for the individual sub-risks into the total risk capital requirement. The diversification effect between the modules for the ARAG Group amounted to €210,474 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. Market risk, non-life underwriting risk, health underwriting risk, life underwriting risk, and counterparty default risk are aggregated taking into account correlation matrices. In this process, the solvency capital requirements for the sub-risks are calibrated such that a confidence level of 99.5 percent is achieved over a period of one year.

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

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

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

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

There are no diversification effects other than those described above.

Basis of consolidation

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

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

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

Appropriateness of data

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

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

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

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

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

E.6 Any Other Information

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

Appendix

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	115,319
Pension benefit surplus	R0050	303
Property, plant & equipment held for own use	R0060	276,214
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	4,983,924
Property (other than for own use)	R0080	76,566
Holdings in related undertakings, including participations	R0090	20,082
Equities	R0100	9,323
Equities – listed	R0110	8,561
Equities – unlisted	R0120	762
Bonds	R0130	2,971,331
Government bonds	R0140	1,076,813
Corporate bonds	R0150	1,833,869
Structured notes	R0160	39,798
Collateralized securities	R0170	20,851
Collective investment undertakings	R0180	1,724,306
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	53,799
Other investments	R0210	128,516
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	3,310
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	97
Other loans and mortgages	R0260	3,212
Reinsurance recoverables from:	R0270	28,325
Non-life and health similar to non-life	R0280	22,880
Non-life excluding health	R0290	20,933
Health similar to non-life	R0300	1,947
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	5,445
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	5,445
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	60,678
Insurance and intermediaries receivables	R0360	101,937
Reinsurance receivables	R0370	51,462
Receivables (trade, not insurance)	R0380	35,719
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	199,143
Any other assets, not elsewhere shown	R0420	10,002
Total assets	R0500	5,866,335

S.02.01.02

Balance sheet

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	1,206,392
Technical provisions – non-life (excluding health)	R0520	1,161,366
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	1,126,303
Risk margin	R0550	35,063
Technical provisions – health (similar to non-life)	R0560	44,826
Technical provisions calculated as a whole	R0570	0
Best estimate	R0580	43,333
Risk margin	R0590	1,493
Technical provisions – life (excluding index-linked and unit-linked)	R0600	2,187,782
Technical provisions – health (similar to life)	R0610	2,182,146
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	2,157,013
Risk margin	R0640	25,133
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	5,636
Technical provisions calculated as a whole	R0660	0
Best estimate	R0670	5,630
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	533
Provisions other than technical provisions	R0750	117,682
Pension benefit obligations	R0760	331,355
Deposits from reinsurers	R0770	165
Deferred tax liabilities	R0780	327,710
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	14,784
Insurance and intermediaries payables	R0820	57,988
Reinsurance payables	R0830	3,698
Payables (trade, not insurance)	R0840	59,307
Subordinated liabilities	R0850	32,921
Subordinated liabilities not in basic own funds	R0860	0
Subordinated liabilities in basic own funds	R0870	32,921
Any other liabilities, not elsewhere shown	R0880	5,606
Total liabilities	R0900	4,345,724
Excess of assets over liabilities	R1000	1,520,611

S.05.01.02

Premiums, claims and expenses by line of business

		Medical expense insurance C0010	Income protection insurance C0020
Premiums written			
Gross – direct business	R0110	0	57,639
Gross – proportional reinsurance accepted	R0120	0	0
Gross – non-proportional reinsurance accepted	R0130	-	-
Reinsurers' share	R0140	0	1,968
Net	R0200	0	55,672
Premiums earned			
Gross – direct business	R0210	0	57,747
Gross – proportional reinsurance accepted	R0220	0	0
Gross – non-proportional reinsurance accepted	R0230	-	-
Reinsurers' share	R0240	0	2,001
Net	R0300	0	55,746
Claims incurred			
Gross – direct business	R0310	0	21,691
Gross – proportional reinsurance accepted	R0320	0	0
Gross – non-proportional reinsurance accepted	R0330	-	-
Reinsurers' share	R0340	0	477
Net	R0400	0	21,214
Changes in other technical provisions			
Gross – direct business	R0410	0	- 55
Gross – proportional reinsurance accepted	R0420	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-
Reinsurers' share	R0440	0	0
Net	R0500	0	- 55
Expenses incurred	R0550	0	26,769
Other expenses	R1200	-	-
Total expenses	R1300	-	-

Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						
Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
C0030	C0040	C0050	C0060	C0070	C0080	C0090
0	1,080	562	0	95,790	49,037	0
0	0	0	0	0	0	0
-	-	-	-	-	-	-
0	1,080	562	0	4,517	2,373	0
0	0	0	0	91,273	46,664	0
0	1,080	562	0	95,732	48,967	0
0	0	0	0	0	0	0
-	-	-	-	-	-	-
0	1,080	562	0	4,608	2,439	0
0	0	0	0	91,125	46,528	0
0	-269	188	0	45,089	13,493	0
0	0	0	0	0	0	0
-	-	-	-	-	-	-
0	-723	218	0	1,684	621	0
0	455	-30	0	43,404	12,872	0
0	10	-1	0	-101	-33	0
0	0	0	0	0	0	0
-	-	-	-	-	-	-
0	0	0	0	0	0	0
0	10	-1	0	-101	-33	0
0	-313	-10	0	50,883	29,675	0
-	-	-	-	-	-	-
-	-	-	-	-	-	-

S.05.01.02

Premiums, claims and expenses by line of business

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		
		Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0100	C0110	C0120
Premiums written				
Gross – direct business	R0110	862,332	54,347	18,275
Gross – proportional reinsurance accepted	R0120	218,319	12,043	880
Gross – non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	602	103	- 728
Net	R0200	1,080,048	66,288	19,883
Premiums earned				
Gross – direct business	R0210	865,423	54,174	18,140
Gross – proportional reinsurance accepted	R0220	215,778	11,860	984
Gross – non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	602	103	- 775
Net	R0300	1,080,599	65,931	19,898
Claims incurred				
Gross – direct business	R0310	356,925	23,740	4,281
Gross – proportional reinsurance accepted	R0320	55,568	10,007	44
Gross – non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	367	40	- 373
Net	R0400	412,126	33,707	4,697
Changes in other technical provisions				
Gross – direct business	R0410	- 145	- 8	- 4
Gross – proportional reinsurance accepted	R0420	- 352	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	- 497	- 8	- 4
Expenses incurred	R0550	603,979	33,749	11,305
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
-	-	-	-		1,139,064
-	-	-	-		231,242
0	0	0	0		0
0	0	0	0		10,478
0	0	0	0		1,359,827
-	-	-	-		1,141,826
-	-	-	-		228,622
0	0	0	0		0
0	0	0	0		10,621
0	0	0	0		1,359,826
-	-	-	-		465,139
-	-	-	-		65,619
0	0	0	0		0
0	0	0	0		2,311
0	0	0	0		528,446
-	-	-	-		- 336
-	-	-	-		- 352
0	0	0	0		0
0	0	0	0		0
0	0	0	0		- 688
0	0	0	0		756,038
-	-	-	-		1,809
-	-	-	-		757,847

S.05.01.02

Premiums, claims and expenses by line of business

		Health insurance	Insurance with profit participation
		C0210	C0220
Premiums written			
Gross	R1410	393,198	0
Reinsurers' share	R1420	379	0
Net	R1500	392,819	0
Premiums earned			
Gross	R1510	392,592	0
Reinsurers' share	R1520	379	0
Net	R1600	392,213	0
Claims incurred			
Gross	R1610	206,407	0
Reinsurers' share	R1620	119	0
Net	R1700	206,288	0
Changes in other technical provisions			
Gross	R1710	- 159,137	0
Reinsurers' share	R1720	0	0
Net	R1800	- 159,137	0
Expenses incurred	R1900	78,068	0
Other expenses	R2500	-	-
Total expenses	R2600	-	-

S.05.02.01

Premiums, claims and expenses by country

		Home country
		C0010
	R0010	-
		C0080
Premiums written		
Gross – direct business	R0110	609,012
Gross – proportional reinsurance accepted	R0120	24,475
Gross – non-proportional reinsurance accepted	R0130	-
Reinsurers' share	R0140	10,761
Net	R0200	622,727
Premiums earned		
Gross – direct business	R0210	604,310
Gross – proportional reinsurance accepted	R0220	24,176
Gross – non-proportional reinsurance accepted	R0230	-
Reinsurers' share	R0240	-9,748
Net	R0300	638,233
Claims incurred		
Gross – direct business	R0310	317,095
Gross – proportional reinsurance accepted	R0320	17,861
Gross – non-proportional reinsurance accepted	R0330	-
Reinsurers' share	R0340	1,490
Net	R0400	333,466
Changes in other technical provisions		
Gross – direct business	R0410	-207
Gross – proportional reinsurance accepted	R0420	-352
Gross – non-proportional reinsurance accepted	R0430	0
Reinsurers' share	R0440	0
Net	R0500	-559
Expenses incurred	R0550	296,017
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
120,120	111,059	36,150	103,975	69,552		1,049,868
2,295	37,754	105,656	59,484	0		229,665
-	-	-	-	-		-
0	308	0	59,484	0		70,553
122,416	148,506	141,806	103,975	69,552		1,208,981
120,100	110,139	35,809	113,794	68,696		1,052,848
2,348	36,129	104,456	59,646	0		226,755
-	-	-	-	-		-
0	308	0	0	0		-9,440
122,448	145,961	140,265	173,440	68,696		1,289,044
57,579	36,045	4,683	-4,457	16,152		427,098
1,060	23,607	20,208	1,246	0		63,983
-	-	-	-	-		-
0	-104	0	1,246	-2		2,629
58,640	59,756	24,891	-4,457	16,154		488,451
0	0	0	0	-129		-336
0	0	0	0	0		-352
0	0	0	0	0		0
0	0	0	0	0		0
0	0	0	0	-129		-688
34,849	76,491	99,964	158,162	32,415		697,898
-	-	-	-	-		82,363
-	-	-	-	-		780,261

S.05.02.01

Premiums, claims and expenses by country

		Home country
		C0150
	R1400	-
		C0220
Premiums written		
Gross	R1410	393,198
Reinsurers' share	R1420	379
Net	R1500	392,819
Premiums earned		
Gross	R1510	392,592
Reinsurers' share	R1520	379
Net	R1600	392,213
Claims incurred		
Gross	R1610	206,407
Reinsurers' share	R1620	119
Net	R1700	206,288
Changes in other technical provisions		
Gross	R1710	159,137
Reinsurers' share	R1720	0
Net	R1800	159,137
Expenses incurred	R1900	78,068
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	111,760	111,760	-	-	-
R0090	-	-	-	-	-
R0100	-	-	-	-	-
R0110	-	-	-	-	-
R0120	-	-	-	-	-
R0130	1,310,611	1,310,611	-	-	-
R0140	32,921	-	0	32,921	0
R0150	0	-	0	0	0
R0160	0	-	-	-	0
R0170	0	-	-	-	0
R0180	-	-	-	-	-
R0190	-	-	-	-	-
R0200	0	0	0	0	0
R0210	22,989	22,989	0	0	0
	-	-	-	-	-
R0220	-	-	-	-	-
	-	-	-	-	-
R0230	0	0	0	0	-
R0240	0	0	0	0	-
R0250	0	0	0	0	0
R0260	-	-	-	-	-
R0270	134,749	134,749	0	0	0
R0280	134,749	134,749	0	0	0
R0290	1,408,783	1,375,862	0	32,921	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	1,408,783	1,375,862	0	32,921	0
R0530	1,408,783	1,375,862	0	32,921	-
R0560	1,408,783	1,375,862	0	32,921	0
R0570	1,408,783	1,375,862	0	32,921	-
R0610	245,473	-	-	-	-
R0650	5.74	-	-	-	-
R0660	1,408,783	1,375,862	0	32,921	0
R0680	479,609	-	-	-	-
R0690	2.94	-	-	-	-
	C0060				
	-	-	-	-	-
R0700	1,520,611	-	-	-	-
R0710	0	-	-	-	-
R0720	10,000	-	-	-	-
R0730	200,000	-	-	-	-
R0740	0	-	-	-	-
R0750	-	-	-	-	-
R0760	1,310,611	-	-	-	-
	-	-	-	-	-
R0770	115,331	-	-	-	-
R0780	153,307	-	-	-	-
R0790	268,637	-	-	-	-

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	585,843				
Counterparty default risk	52,688				
Life underwriting risk	0				
Health underwriting risk	148,474				
Non-life underwriting risk	121,964		121,964		
Intangible asset risk	0				
Operational risk	55,246				
LAC technical provisions	- 214,631				
LAC deferred taxes	- 85,390				
	C0100				
R0110	664,194				
R0060	- 184,585				
R0160	0				
R0200	479,609				
R0210	0				
R0220	479,609				
	-				
R0300	0				
R0310	0				
R0400	0				
R0410	0				
R0420	0				
R0430	0				
R0440	0				
R0470	245,473				
	-				
R0500	0				
R0510	0				
R0520	0				
R0530	0				
R0540	25,889				
R0550	0				
	C0100				
	-				
R0560	0				
R0570	479,609				

S.32.01.22

Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory authority
DE	LEI/391200Q KNZJ8J1XWFE16	LEI	ARAG SE	Non-Life undertakings	European Company (SE)	Non-mutual	BAFIN
DE	LEI/391200 SFAXHRCQQ62T14	LEI	ARAG Kranken- versicherungs-AG ARAG Allgemeine Versicherungs- AG	Life undertakings	Aktiengesell- schaft	Non-mutual	BAFIN
DE	LEI/3912006 MZNEOF4M2XK19	LEI	ARAG Interloyd Versicherungs- AG	Non-Life undertakings	Aktiengesell- schaft	Non-mutual	BAFIN
DE	LEI/391200 GWEMT1F0BUHB43	LEI	ARAG Interloyd Versicherungs- AG	Non-Life undertakings	Aktiengesell- schaft	Non-mutual	BAFIN
US	SC/391200 MYFHRLCFWA- H448US10057	SC	ARAG Insurance Company AXA-ARAG Rechtsschutz- versicherungs- Gesellschaft	Non-Life undertakings	Incorporated	Non-mutual	NAIC
CH	SC/391200 MYFHRLCF- WAH448CH10058	SC	ARAG Insurance Company AXA-ARAG Rechtsschutz- versicherungs- Gesellschaft	Non-Life undertakings	Aktiengesell- schaft	Non-mutual	FINMA
NO	SC/981877888	SC	HELP Forsikring AS	Non-Life undertakings	Aksjeselskap (AS)	Non-mutual	FSAN
DE	LEI/391200 MYFHRLCFWAH448	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/391200 MYFHRLCFWA- H448US10059	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/391200 MYFHRLCFWAH- 448DE10001	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/391200 MYFHRLCFWAH- 448DE10002	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/391200 MYFHRLCFWAH- 448DE10003	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/391200 MYFHRLCFWAH- 448DE10004	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/391200 MYFHRLCFWAH- 448DE10005	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/391200 MYFHRLCFWAH- 448DE10006	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/391200 MYFHRLCFWAH- 448DE10009	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/391200 MYFHRLCFWAH- 448DE10010	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/391200 MYFHRLCFWAH- 448DE10011	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/391200 MYFHRLCFWAH- 448DE10012	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/391200 MYFHRLCFWAH- 448DE10013	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/391200 MYFHRLCFWAH- 448DE10014	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/391200 MYFHRLCFWAH- 448DE10015	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/391200 MYFHRLCFWAH- 448DE10017	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/391200 MYFHRLCFWAH- 448DE10019	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/391200 MYFHRLCFWA- H448US10060	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/391200 MYFHRLCFWAH- 448DE10022	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/391200 MYFHRLCFWA- H448ES10023	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/391200 MYFHRLCFWA- H448ES10024	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/391200 MYFHRLCFWA- H448US10025	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/391200 MYFHRLCFWAH- 448DE10026	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 %	0.00 %			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 %	84.79 %			Dominant	75.10 %	Included into scope of group supervision		Method 1: Proportional consolidation
	100.00 %	0.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Proportional consolidation
	100.00 %	0.00 %			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 %	0.00 %			Significant	25.10 %	Included into scope of group supervision		Method 1: Proportional consolidation

DE	SC/391200 MYFHRLCFWAH- 448DE10031	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/391200 MYFHRLCFWAH- 448DE10042	SC	Prinzregent Vermögensver- waltungs-GmbH ARAG – France Assistance et Règlement de Sinistres Autom- obiles 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/391200 MYFHRLCFWAH- 448FR10043	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/391200 MYFHRLCF- WAH448NL10044	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/391200 MYFHRLCFWAH- 448NL10045	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/391200 MYFHRLCFWAH- 448GB10048	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/391200 MYFHRLCFWA- H448US10062	SC	ARCAP Beteili- gungsverwaltung GmbH & Co.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual
DE	SC/391200 MYFHRLCFWAH- 448DE10055	SC	Columbus Immo- bilien Fonds XVI "München" KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual
DE	SC/391200 MYFHRLCFWAH- 448DE10056	SC	ARCAP Beteili- gungsverwaltung GmbH & Co. Columbus Immo- bilien Fonds X KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual
DE	SC/391200 MYFHRLCFWAH- 448DE10057	SC	Justix GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual

	100.00 %	100.00 %			Dominant	91.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	0.00 %			Dominant	91.00 %	Included into scope of group supervision		Method 1: Proportional consolidation
	100.00 %	0.00 %			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
	58.48 %	0.00 %			Dominant	54.31 %	Included into scope of group supervision		Method 1: Proportional consolidation
	17.24 %	0.00 %			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

US	SC/391200 MYFHRLCFWAH- 448DE10059	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
CA	SC/391200 MYFHRLCFWAH- 448DE10060	SC	ARAG Services Corporation	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual
NO	SC/391200 MYFHRLCFWAH- 448DE10061	SC	ARAG Scandinavia AS	Insurance hold- ing company as defined in Art. 212 [f] of Direc- tive 2009/138/ EC	Stock corporation	Non-mutual
NO	SC/391200 MYFHRLCFWAH- 448DE10062	SC	ARAG Digital Services AS	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Stock corporation	Non-mutual
IT	SC/391200 MYFHRLCFWAH- 448DE10063	SC	Multiline Insurance Agency (MIA) S. r. l. ARCAP Beteili- gungsverwaltung GmbH & Co.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Private limited company	Non-mutual
DE	SC/391200 MYFHRLCFWAH- 448DE10064	SC	Columbus Immo- bilien Fonds IV "Haus der Wirtschaftsförde- rung Duisburg" KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschaenakter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual
AU	SC/391200 MYFHRLCFWAH- 448DE10066	SC	ARAG Services Australia Pty Ltd. ARCAP Beteili- gungsverwaltung GmbH & Co.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Proprietary Limited Gesellschaft mit beschaenakter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual
DE	SC/391200 MYFHRLCFWAH- 448DE10067	SC	Columbus Immo- bilien Fonds XVI "München" KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschaenakter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual
DE	SC/391200 MYFHRLCFWAH- 448DE10068	SC	ARCAP Beteili- gungsverwaltung GmbH & Co. Columbus Immo- bilien Fonds X KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschaenakter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual

	100.00 %	100.00 %			Dominant	100.00 %	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: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Proportional consolidation
	100.00 %	0.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Proportional consolidation
	26.04 %	0.00 %			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
	58.48 %	0.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Proportional consolidation
	17.24 %	0.00 %			Significant	100.00 %	Included into scope of group supervision		Method 1: Proportional consolidation

Further Information

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

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

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

Credits

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