

ARAG HOLDING SE

2021 Solvency and Financial Condition Report for the Group



ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

Speaker of the Management Board and Central Group Functions

Group Sales, Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management and Group Controlling

Group Human Resources/Audit

Operating insurance companies

ARAG Allgemeine Versicherungs-AG

(Casualty and property insurance)

ARAG Krankenversicherungs-AG

(Health insurance)

Interlloyd Versicherungs-AG

(Specialized in broker sales)

International companies

(Legal insurance/legal services)

Service companies

ARAG IT GmbH

(IT services for the ARAG Group)

Cura Versicherungsvermittlung GmbH

(Brokerage firm)

ARAG Service Center GmbH

(Emergency telephone service)

Structure of ARAG Holding SE and ARAG SE

Company

ARAG Holding SE

Members of the Management Board and areas of responsibility

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

Dr. Dr. h. c. Paul-Otto Faßbender

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

Dr. Sven Wolf

**Risk Management/
Brand and Communications**

Klaus Heiermann

Company

ARAG SE

Members of the Management Board and areas of responsibility

Speaker of the Management Board and Central Group Functions

Dr. Renko Dirksen

Group Sales, Products and Innovation

Dr. Matthias Maslaton

Group Finance

Wolfgang Mathmann

Group IT and Operations

Hanno Petersen

Group Risk Management and Group Controlling

Dr. Joerg Schwarze

Group Human Resources/Audit

Dr. Werenfried Wendler

Key Figures for the ARAG Group

Premium income/sales revenue:

€ **2,043** million

↗ 2020: €1,872 million

Consolidated net income:

€ **38** million

→ 2020: €38 million

Net combined ratio:

89.2%

↗ 2020: 87.6%

Eligible own funds:

€ **1,864** million

↗ 2020: €1,607 million

Solvency capital requirement:

€ **629** million

↗ 2020: €537 million

Solvency ratio:

296.3%

↘ 2020: 299.3%

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Summary

Chapter A. Business and Performance

ARAG Holding SE (also referred to as the Company or the ARAG Group) is the ultimate parent company of the ARAG Group, whose operational management is the responsibility of its subsidiary ARAG SE. ARAG SE is the largest family enterprise in Germany and the leading legal insurer worldwide. It focuses on state-of-the-art product concepts aimed at both private and small business customers.

In 2021, gross premiums written went up by 9.1 percent to €2,017,435 thousand in the ARAG Group (2020: €1,848,679 thousand). The growth was driven by the improvement in the Group's share of the German legal insurance market and, as a result of stepping up collaboration with primary insurers, the international legal insurance market. There was also additional inward reinsurance business generated in Canada through an acquisition.

Under the German Commercial Code (HGB), the underwriting result after taking into account the costs of personal insurance and the gains and losses on investments associated with personal insurance rose from €112,020 thousand to €118,210 thousand in the reporting year.

Gains and losses on investments improved by €1,834 thousand to a net gain of €80,311 thousand (2020: €78,477 thousand). In spite of the prevailing general economic trend, the Group again generated very sound net income for the year of €37,852 thousand (2020: €38,175 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 key functions are kept strictly separate from the operational departments and they have a direct reporting line to the Management Board member with relevant responsibility, they can perform their duties objectively and independently. The remuneration granted to the members of the Management Board and Supervisory Board and to the holders of key functions is structured such that it is consistent with market rates and rewards performance without creating undesirable incentives.

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

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

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

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

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

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

Chapter C. Risk Profile

The main risks influencing the ARAG Group's risk profile are market risk and underwriting risk. The solvency capital requirement (SCR) for market risk is €807,734 thousand. The primary sub-risks in this regard are equity risk and credit risk. Underwriting risk comprises non-life underwriting risk and health underwriting risk. Non-life underwriting risk, for which the solvency capital requirement is €155,961 thousand, is mainly influenced by accumulation risk and reserve risk. The solvency capital requirement for health underwriting risk is €185,434 thousand. A material component of this is the risk from health insurance that is operated on an actuarial basis similar to that of life insurance.

Chapter D. Valuation for Solvency Purposes

Solvency II lays down requirements, which differ from the financial reporting standards under HGB, 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 financial reporting standards under HGB include, among other stipulations, application of the historical cost convention, the realization principle, and the imparity principle. Consequently, line items in valuations for solvency purposes cannot be directly compared with equivalent balance sheet carrying amounts.

There were no material changes in the valuation methods for solvency purposes compared with the prior year apart from the following exception:

Unlike in 2020, the technical provisions also took into account investment management expenses amounting to €9,374 thousand.

The Group did not apply any transitional measures pursuant to section 351 et seq. of the German Insurance Supervision Act (VAG) or volatility adjustment pursuant to section 82 VAG in the reporting period.

Chapter E. Capital Management

The ARAG Group's SCR is €629,246 thousand. To cover this requirement, the Group has eligible own funds of €1,864,243 thousand, giving a coverage ratio of 296.3 percent. The ARAG Group thus has a high level of capital adequacy, a clear sign of the Company's excellent financial strength.

Rough calculations that are performed weekly also consistently show a comfortable level of coverage.

The minimum capital requirement is €265,354 thousand, which means the coverage ratio for the minimum capital requirement is 702.5 percent.

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

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

Any significant impacts resulting from the COVID-19 pandemic are described in the relevant chapters.

The dramatic escalation of the conflict with Russia and the Russian Federation's invasion of Ukrainian territory have sent shock waves through the existing world order. ARAG does not operate its own insurance business in eastern Europe, Ukraine, or the Russian Federation. At the present time, it is difficult to assess the impact of the macroeconomic changes in Europe and worldwide that have been triggered by this war.

The events described above may also affect the Company's risk position. Although it is difficult to predict any specific impact at present, the aforementioned weekly assessments mean that the solvency situation is monitored on an ongoing basis. No significant adverse impact is currently discernible on the basis of these either.

A. Business and Performance

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A.1 Business

General disclosures

Legal basis

ARAG Holding SE, which has its headquarters in Düsseldorf, trades in the legal form of a European Company (Societas Europaea, SE). Its contact details are:

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

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

Bundesanstalt für Finanzdienstleistungsaufsicht
 Graurheindorfer Strasse 108
 53117 Bonn, Germany

Or:
 Postfach 1253
 53002 Bonn, Germany

Contact details for BaFin

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

Independent auditor

The contact details of the appointed auditor are:

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

Structure of the ARAG Group and holders of qualifying holdings

The ARAG Group¹⁾ comprises 48 Group companies, including seven insurance companies headquartered in Germany, Norway, Switzerland, and the US. ARAG Holding SE, headquartered at ARAG Platz 1, 40472 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.

The main affiliated companies of the ARAG Group, which are located in Germany, other European countries, and North America, are as follows. The ARAG Group also has further branches in Europe, which are listed in the Appendix.

¹⁾ A simplified representation of the group structure has already been provided and can be found on page 2.

List of the main affiliated companies in the ARAG Group

Name and location of registered office	Legal form	Type of business	Country	Direct share	Group's share
1 ARAG SE, Düsseldorf	SE (European company)	Insurer	Germany	50.00 %	100.00 %
2 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	GmbH (private limited company)	Holding company	Germany	100.00 %	100.00 %
3 ARAG 2000 Grundstücks-gesellschaft bR, Düsseldorf	GbR (partnership under the German Civil Code)	Real estate management	Germany	0.00 %	94.90 %
4 ARAG Allgemeine Versicherungs-AG, Düsseldorf	AG (stock corporation)	Insurer	Germany	0.00 %	100.00 %
5 ARAG Insurance Company Inc., Des Moines	Corporation	Insurer	USA	0.00 %	100.00 %
6 ARAG International Holding GmbH, Düsseldorf	GmbH	Holding company	Germany	0.00 %	100.00 %
7 ARAG IT GmbH, Düsseldorf	GmbH	IT	Germany	0.00 %	100.00 %
8 ARAG Krankenversicherungs-AG, Munich	AG	Insurer	Germany	0.00 %	94.00 %
9 ARAG Legal Solutions Inc., Toronto	Corporation	Service provider	Canada	100.00 %	100.00 %
10 ARAG North America Inc., Des Moines	Corporation	Holding company	USA	0.00 %	100.00 %
11 ARAG plc, Bristol	plc (public limited company)	Service provider	United Kingdom	0.00 %	100.00 %
12 ARAG Service Center GmbH, Düsseldorf	GmbH	Service provider	Germany	0.00 %	100.00 %
13 Cura Versicherungsvermittlung GmbH, Düsseldorf	GmbH	Service provider	Germany	0.00 %	100.00 %
14 HELP Forsikring AS, Oslo	AS (private limited liability company)	Insurer	Norway	0.00 %	100.00 %
15 Interloyd Versicherungs-AG, Düsseldorf	AG	Insurer	Germany	0.00 %	100.00 %
16 ALIN 1 GmbH & Co. KG, Düsseldorf	GmbH & Co. KG (limited partnership with a GmbH as general partner)	Asset manager	Germany	0.00 %	100.00 %
17 ALIN 2 GmbH & Co. KG, Düsseldorf	GmbH & Co. KG	Asset manager	Germany	0.00 %	100.00 %
18 ALIN 4 GmbH & Co. KG, Düsseldorf	GmbH & Co. KG	Asset manager	Germany	0.00 %	100.00 %

Description of the main affiliated companies

1. ARAG SE is the operating parent company of the ARAG Group and the leading legal insurer worldwide. 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, the legal insurance and casualty and property insurance business 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).
5. ARAG Insurance Company Inc., USA, operates legal insurance business, mainly through employers and trade associations. Insurance is provided to their employees and members, although coverage varies from state to state depending on the local regulatory rules. ARAG Insurance Company Inc. is part of the subgroup in the USA, which comprises four companies and is managed by ARAG North America Inc.
6. ARAG International Holding GmbH is an intermediate holding company connecting selected strategic subsidiaries outside Germany (in the US) 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.
7. ARAG IT GmbH, which is located at the Düsseldorf site, primarily carries out data center activities and IT services for the ARAG Group.
8. ARAG Krankenversicherungs-AG operates the private health insurance business. The need to separate the different segments (section 8 (4) VAG) means that a separate company has to operate the health insurance business. ARAG Krankenversicherungs-AG has established itself in its market as a provider of high-quality full-coverage and supplementary private health insurance.
9. ARAG Legal Solutions Inc., Canada, formerly known as DAS Legal Protection Inc., was established in 2010 and is one of the leading managing general agents in Canada specialized in legal insurance. Its product portfolio encompasses legal insurance products for families, landlords, home owners, and small businesses in Canada.

10. ARAG North America Inc., USA, is the country-specific holding company for the ARAG Group's US business lines. It holds all of the shares in the three US operating subsidiaries.
11. 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.
12. ARAG Service Center GmbH is the customer service center for all German insurance companies in the ARAG Group, providing comprehensive assistance and mediation services and a telephone hotline around the clock.
13. Cura Versicherungsvermittlung GmbH brokers insurance business to third parties that the ARAG Group does not underwrite itself. The company also takes care of the insurance requirements of the ARAG Group's own employees.
14. HELP Forsikring AS, Norway, primarily offers family legal insurance coverage for interest groups – predominantly members of labor unions and associations – in Norway, Sweden, and Denmark via local branches. In Norway, it also offers a special legal insurance product for homebuyers.
15. Interlloyd Versicherungs-AG is a wholly owned subsidiary of ARAG Allgemeine Versicherungs-AG and, like its parent company, operates the casualty and property insurance business. Unlike its parent company, however, it operates its business through insurance brokers rather than directly. Interlloyd Versicherungs-AG also has a branch in Spain.
16. 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.
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 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.

Qualitative and quantitative disclosures on relevant events and significant intragroup transactions

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

Significant events and transactions are listed below.

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

Intragroup profit and loss transfers The ARAG Group has a multi-layer structure. As a result, the parent companies at the different levels receive the profit or loss from their subsidiaries. This takes the form of a dividend distribution (transfer of profit or loss from a previous period), transfer of profit or loss on the basis of contracts pursuant to section 291 of the German Stock Corporation Act (AktG), or transfer of profit or loss from the same period. The inclusion of Group companies at all levels of the Group results in the profit and loss earned being recognized more than once. They are therefore consolidated in order to obtain an accurate picture of the Group's net assets, financial position, and results of operations. In 2021, this consolidation led to a total of €115,344 thousand (2020: €98,189 thousand) being eliminated from income from equity investments.

Dividends/profit-and-loss transfer agreements ARAG SE received an amount of €11,816 thousand from ARAG Allgemeine Versicherungs-AG for 2021 (2020: €10,726 thousand) on the basis of a profit-and-loss transfer agreement. A profit-and-loss transfer agreement is in place between ARAG Allgemeine Versicherungs-AG and Interlloyd, which in the year under review resulted in Interlloyd's entire profit of €2,961 thousand (2020: €1,764 thousand) being transferred to ARAG Allgemeine.

The Management Board of ARAG Holding SE is proposing to the Annual General Meeting that a dividend of €10,000 thousand be distributed to shareholders from the net retained profit for 2021.

In the period under review, there were no other material transactions involving dividend/profit-and-loss transfer agreements with shareholders, persons able to exercise significant influence over the Company, or members of the administrative, management, or supervisory bodies.

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

Intragroup reinsurance arrangements The Group companies have entered into reinsurance agreements with each other on arm's-length terms. This helps to share out the risks among the Group companies. In the reporting year, an amount of €28,393 thousand (2020: €28,957 thousand) was eliminated for intragroup insurance premiums, €12,494 thousand (2020: €12,123 thousand) for claims incurred, and €12,982 thousand (2020: €13,002 thousand) for reinsurance commission in connection with these reinsurance treaties. This measure is necessary so that only the insurance premiums, expenses for claims incurred, and insurance business operating expenses resulting from agreements with third parties are recognized in the consolidated financial statements.

Intragroup services During the reporting year, services amounting to €93,500 thousand were performed within the ARAG Group for the brokering of third-party business and for administrative services between the insurance companies (2020: €89,167 thousand). The sales revenue from such services was offset against the expenses of the companies performing the services. The ARAG Group has also set up separate companies that specialize in carrying out special tasks. These include IT companies that are responsible for operating the central data center, developing bespoke software, and advising on the necessary hardware and software. There are also companies that provide a 24-hour customer hotline, manage the Group's investments, or broker insurance between customers and the Group's insurance companies. In the reporting year, sales revenue from such services between Group companies was offset against the expenses of the companies performing the services in an amount of €50,537 thousand (2020: €47,176 thousand).

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

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

Line of business

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

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

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

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

In Germany, ARAG SE's activities are limited to just one class of insurance: legal insurance. In Italy, Spain, and Portugal, it also operates legal-insurance-related special service package business in addition to legal insurance business. As well as in the aforementioned international branches, legal insurance is also provided in the US, Norway, Sweden, and Denmark. In each case, the business is operated through legally independent affiliated companies, under the unified management of ARAG SE in its role as parent company.

ARAG Allgemeine offers modular insurance cover for general accident insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to its predominantly private and small business customers. ARAG Allgemeine is also a long-standing partner of the sports community, aiming to provide needs-based insurance cover for clubs and associations involved in sports and the arts, most of which are insured under group and supplementary insurance policies. The territory covered by ARAG Allgemeine encompasses the Federal Republic of Germany and, for some classes of insurance, the United Kingdom and the Republic of Ireland.

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. Germany and Spain are the countries that make up the territory covered by Interlloyd.

ARAG Kranken (ARAG Health) is a provider of private health insurance products. This line of business has come even more to the fore in recent years thanks to the introduction of new full-coverage products and it made a significant contribution to premium growth in 2021. The supplementary health insurance business also remains a key driver of growth.

Insurance portfolio

At the end of the reporting year, the Group had 12,161,814 in-force insurance policies (December 31, 2020: 10,030,937), of which 3,784,749 related to the business in Germany (December 31, 2020: 3,698,893). The breakdown by line of business was as follows: 1,747,331 legal insurance policies, 1,333,005 casualty and property insurance policies, and 704,413 health insurance policies.

International business accounted for 8,377,065 policies (December 31, 2020: 6,332,044). Of this total, 8,373,145 policies were attributable to legal insurance and 3,920 to casualty and property insurance. The health insurance business is only operated in Germany.

Significant business or other events in the reporting period

Products, digitalization, and other topics

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 its offerings is reflected in the many awards and seals of approval that it regularly receives from independent organizations. In its core legal insurance segment, ARAG has for 85 years played a major role in shaping the German market with innovative products and services and offers customers protection, support, and legal guidance.

The core legal insurance division was one of the areas in which ARAG added further innovations to its portfolio of products in the reporting year. In particular, the launch of a new legal insurance product with two levels of cover in spring 2022 provides customers with an even greater level of support. For example, the integrated 'one-time universal legal insurance' component helps to provide cover, up to a specified limit and on one occasion during the term of the policy, for out-of-court disputes that arose before the policy came into force concerning any legal issue, regardless of the type of legal insurance offered by the actual policy. If customers make use of ARAG's suggested conflict resolution options and – in the event of the dispute still being unresolved – use the services of one of the attorneys recommended by ARAG, they will not have to pay the excess for this benefit.

The pandemic was the dominant issue in 2021, just as it was in the year before. Nevertheless, both the industry and ARAG Health itself proved to be robust and exceptionally resilient. In fact, 2021 turned out to be a very good year for ARAG Health, whose business performed outstandingly with premium growth of 12.6 percent. This strong growth in premiums was once again driven by full-coverage health insurance, in particular the MedExtra and MedBest rate scales, which generate high volumes of sales revenue. The outcome of the Germany parliamentary election in 2021 meant that the proposed citizens' health insurance scheme, which would have fundamentally changed how health insurance is organized in the country, did not come to fruition. The coalition of the main socialist, liberal, and green parties instead decided to retain the established dual public-private system during the coronavirus crisis. Full-coverage health insurance remains an attractive business line for ARAG Health as a result.

Cost-share health insurance is, however, still an integral part of ARAG Health's offering. In early November 2021, four new rate scales were added to the already very successful inpatient cost-share health insurance products.

ARAG Allgemeine believes it is critical to take the lead in its market and help shape this market through 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 effectively.

ARAG Allgemeine demonstrated this yet again in 2021 with the launch of its new pet health insurance. There are two product variants for both dogs and cats: ARAG TierProtect OP covers the costs of operations, while ARAG TierProtect provides comprehensive pet insurance. Both product variants are available with three levels of cover. Depending on the product line, cover is provided for inpatient and outpatient healthcare by a vet or at a veterinary clinic, including any necessary (minimally invasive) operations and follow-up treatment.

In addition, ARAG Allgemeine updated the products ARAG Top Special Service Package, ARAG household insurance, and ARAG personal liability insurance in the reporting year. The new rate scales now feature even more benefits and services, particularly for environmentally conscious customers. In the case of the ARAG Top Special Service Package, for example, customers who own an electric car or have a season ticket for local public transport or long-distance rail travel receive a 5.0 percent discount on their premium.

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 keeping with this approach, the company launched the new Interlloyd Premium Special Service Package in 2021. The rate scales for individuals and families both combine Europe-wide motor insurance benefits with global personal insurance benefits.

The needs of customers and consumers are undergoing rapid change as a result of digital transformation and, most notably, the COVID-19 pandemic. The pandemic in particular led to a sharp rise in demand for legal assistance and support, for example. Within a very short space of time, ARAG therefore significantly broadened its range of information, advisory, and support services for both customers and non-customers, adding significant value in the process. Digital offerings played a key role here. The ARAG Smart Insurer Program, which was initiated in 2018 and completed on schedule at the end of 2021, provided an outstanding basis for this. It enabled the Group to break through an important innovation threshold. For example, numerous digital services were integrated into practically all business processes, both directly customer-facing processes and entirely back-office processes. The 85 individual initiatives that make up the ARAG Smart Insurer Program have gained so much traction that digitalization is now standard practice within the Group, even though the program itself has reached its conclusion.

Insurance-specific events

See chapter A.2 'Underwriting performance – overview' for disclosures regarding insurance-specific events.

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

Company changes

The ARAG Group continued to pursue its strategy of internationalization in the reporting year and, through ARAG SE, acquired all the shares in DAS Legal Protection Inc., Canada, with effect from March 15, 2021. The company was renamed ARAG Legal Solutions Inc., Canada, and included in the consolidated financial statements of ARAG Holding SE for the period ended December 31, 2021.

On August 4, 2021, ARAG Health founded the wholly owned subsidiary ARAG Gesundheits-Services GmbH, headquartered in Düsseldorf. The primary objective of this company is to be a service provider, supporting ARAG Health's benefit and policy service.

In addition to this structural change, there was a change in responsibilities at ARAG Health, with the Supervisory Board appointing Dr. Shiva Meyer to the company's Management Board with effect from July 1, 2021. She succeeds Dr. Werenfried Wendler as the member of the Management Board with responsibility for human resources, internal audit, and data protection. Dr. Werenfried Wendler's term of appointment ended, as planned, on June 30, 2021. The changes also saw responsibility within the Management Board for risk management switch to Dr. Matthias Effinger.

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

In 2021, there were no other material transactions with a significant impact on the Group.

Other events

In 2021, the COVID-19 pandemic continued to dominate everyday life and affect all public and economic activity around the world. The steep rise in infections triggered a shock on both the demand and the supply side. Volatility in the capital markets and the associated flight to safe havens exacerbated the impact on the real economy.

Case numbers fluctuated significantly over the course of 2021, rising sharply at the end of the year. The public health measures that were imposed had a significant effect on the economic situation. The economy was very much under the influence of the pandemic. The global economy was initially on a road to recovery in the first half of the year, which meant that the trading of goods bounced back from the slump triggered by the pandemic in 2020. This trend was driven by countries whose infection rates enabled them to ease public health restrictions and by central banks' comprehensive monetary and fiscal policy measures. However, the recovery varied significantly from sector to sector and from region to region. The situation remained highly challenging for many emerging markets, where case numbers increased and little progress was made with vaccinations.

In Germany – as in the eurozone as a whole – output initially bounced back markedly owing to the easing of infection control measures. The economy recovered to the extent that it almost returned to pre-crisis output levels. However, this upward trend slowed in the final quarter of 2021 when infection rates went back up. The reimposition of restrictions on economic and public life depressed consumer sentiment and weakened economic growth toward the end of the year.

The torrential rain brought by the low-pressure weather system Bernd in July 2021 also had a major impact on people and on the insurance industry, particularly in Germany. Well over 100 individuals lost their lives and the property damage ran into the billions of euros. There was tangible fallout from the pandemic and extreme weather events for the insurance industry as well. The main consequences were higher claim payments, restrictions in sales, and effects on investment portfolios.

These events present major challenges for the ARAG Group too, but also opportunities. For example, the Group was once again able to demonstrate the strength of its capabilities in terms of speed, flexibility, and innovation in the reporting year. From the start of the pandemic, customers began needing more legal guidance and reassurance, including in regard to healthcare. An increase in demand for legal insurance and private health insurance was a consequence of this. In response to the change in its customers' requirements, ARAG offered many different services (some of which were new) and provided general information that was continually updated. ARAG also implemented a range of measures to support its workforce and to equip its employees for remote working. Once again, there was no negative impact on new business nor an increase in lapse rates. The trends in the capital markets affected the ARAG Group companies differently depending on the composition and size of their investment portfolios. Claims incurred in the reporting year were influenced by the pandemic, but a nuanced view needs to be taken of the effects on the individual insurance segments. The effect of the torrential rain brought about by low-pressure weather system Bernd was significant in the casualty and property insurance business, at least in terms of gross expenses for claims. However, reinsurance covered a significant proportion of these expenses.

An uncontrolled spread of the virus, resulting in the return of restrictive health policy measures such as lockdowns, remains the biggest risk for the economic outlook. Although the number of people vaccinated worldwide is increasing, new variants of the virus could emerge that lead to further waves of infection and therefore necessitate extensive containment measures.

As described in chapter A.2, the ARAG Group maintained its strong business performance of recent years in 2021 despite the prevailing uncertainty of the economic situation. It is difficult to predict the future impact of the COVID-19 pandemic. It is also unclear what overall impact the conflict that has broken out on the fringes of eastern Europe will have on the economy and financial markets. However, the Group is expecting to achieve a similarly healthy profit after taxes in 2022.

A.2 Underwriting Performance

Underwriting performance – overview

In the year under review, the ARAG Group generated **income from gross premiums written** of €2,017,435 thousand (2020: €1,848,679 thousand). This increase was due to a rise in premiums of 9.6 percent in Germany and growth of 8.5 percent in the international markets. Significant new full-coverage health insurance business and a sharp rise in German and international legal insurance business contributed to an impressive rate of organic growth. The Group retained virtually all of this business, with business ceded to third parties amounting to €12,344 thousand (2020: €11,032 thousand).

Claims incurred (gross) rose from €940,483 thousand to €1,052,353 thousand. The claim settlement costs included in this figure amounted to €211,970 thousand (2020: €194,656 thousand). A share of the claims amounting to €25,344 thousand (2020: €4,855 thousand) was ceded to reinsurers in 2021.

Expenses for claims incurred increased overall due to the growth of the insurance portfolio and because of the new quota-share reinsurance treaties that were entered into in Canada for inward reinsurance business. Another factor was the increase in claim payments following changes to the law relating to attorney fees and court costs in the legal insurance business in 2021. The restrictions on contact imposed by the government resulted, particularly at the beginning of 2021, in a further decrease in the number of claims reported for the year in the general accident insurance and liability insurance segments. The natural disaster claims resulting from the storms in Germany in June and July 2021, most of which were attributable to the torrential rain brought by the low-pressure weather system Bernd, led to a substantial increase in expenses for major claims for the reporting year, mainly in the composite residential buildings insurance segment.

The **change in other technical provisions (net)** amounted to an expense of €123,124 thousand (2020: expense of €134,402 thousand).

Other expenses (net) came to €5,703 thousand (2020: €4,446 thousand) and primarily consisted of expenses for the fire protection tax in the casualty and property segment and expenses for the increase in the contribution required to balance the pooling of nursing care insurance.

Insurance business operating expenses (gross) increased year on year, from €675,174 thousand to €745,722 thousand. The acquisition costs included in this figure amounted to €249,454 thousand (2020: €210,002 thousand). This year-on-year increase was predominantly attributable to the higher level of new health insurance business and to the rise in commission rates and profit sharing in the inward legal reinsurance business. Administrative expenses (gross) went up by 6.7 percent to €496,268 thousand (2020: €465,172 thousand). The main factors in this increase were the higher level of trail commissions resulting from the continued growth of the portfolio, particularly in the legal insurance business, and the expansion of claims handling capacity in health insurance.

The **underwriting result** in accordance with HGB net of reinsurance in 2021 amounted to €118,210 thousand (2020: €112,020 thousand). Based on the quantitative reporting (see template S.05.01.02 in the Appendix), the underwriting result for the reporting period amounted to €73,815 thousand (2020: €75,179 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 2021 Annual Report:

Underwriting result (net)¹⁾		
(€'000)	2021	2020
Premiums earned	1,986,677	1,837,968
Claims incurred (excluding claim settlement costs)	815,039	740,973
Changes in other technical provisions	- 123,124	- 134,402
Expenses incurred	968,996	882,968
Other expenses	5,703	4,446
Underwriting result in accordance with template S.05.01.02	73,815	75,179
Technical interest income	128	349
Premiums from the gross provision for bonuses and rebates	5,459	37,077
Gains and losses on investments assigned to the underwriting account	63,659	62,424
Miscellaneous other underwriting income	21,313	9,688
Expenses for performance-based and non-performance-based bonuses and rebates	38,684	40,095
Underwriting result in accordance with HGB²⁾	125,690	144,622
Change in the equalization provision and similar provisions	- 7,480	- 32,601
Underwriting result in accordance with HGB	118,210	112,020

¹⁾ The net amount is adjusted for the reinsurer's share and refers, where applicable, to the individual line items.

²⁾ Underwriting result before change in the equalization provision and similar provisions.

In the year under review, technical interest income decreased from €349 thousand to €128 thousand. This was attributable to the change in the benefit reserve for annuities.

Gains and losses on investments assigned to the underwriting account rose by €1,235 thousand to a net gain of €63,659 thousand (2020: €62,424 thousand). One of the main reasons was the favorable environment in the capital markets created by rising share prices, which meant that further reversals of write-downs were recognized. Moreover, ordinary income from investments went back up despite the systematic reinvestment of current income in institutional funds.

The miscellaneous other underwriting income of €21,313 thousand (2020: €9,688 thousand) largely comprised late-payment fees in direct business and income from transfer amounts received in the health insurance business.

The addition to the provision for bonuses and rebates related only to personal insurance and was down by €1,411 thousand compared with the prior year. It therefore stood at €38,684 thousand as of December 31, 2021 (December 31, 2020: €40,095 thousand). Performance-based bonuses and rebates made up €38,670 thousand of this amount, which means that the addition for non-performance-based bonuses and rebates accounted for €14 thousand in the reporting year (2020: €0 thousand).

The change in the equalization provision in the reporting year was mainly driven by additions in the inward legal reinsurance business in Germany (€4,050 thousand), Italy (€3,324 thousand), and Spain (€577 thousand), whereas there were reversals in the casualty and property insurance division (particularly liability and fire insurance).

Underwriting result by main line of business

The following table shows a breakdown of the key figures reported in the template by main line of business:

Main lines of business¹⁾ (net²⁾)				
(€'000)	Premiums earned	Premiums earned	Claims incurred³⁾	Claims incurred³⁾
	2021	2020	2021	2020
Legal insurance	1,234,319	1,150,505	468,870	435,569
Health insurance	483,319	429,874	244,184	214,727
Casualty and property insurance	269,040	257,589	101,985	90,677
Total	1,986,677	1,837,968	815,039	740,973

¹⁾ Presentation of results and lines of business based on S.05.01.02 in the Appendix.

²⁾ The net amount is adjusted for the reinsurer's share and refers, where applicable, to the individual line items.

³⁾ Excluding claim settlement costs.

Underwriting result by main geographical area

The following table shows a breakdown of the key figures reported in the template by main geographical area:

Main geographical areas (net¹⁾)

(€'000)	Premiums earned	Premiums earned	Claims incurred ²⁾	Claims incurred ²⁾
	2021	2020	2021	2020
Germany	1,174,980	1,074,476	609,136	541,102
Netherlands	175,877	174,324	16,895	14,839
Spain	132,435	127,237	52,540	56,338
Italy	166,376	153,270	17,433	17,656
USA	137,697	131,685	53,440	54,590
Austria	78,210	72,703	21,695	15,806
Norway	60,352	54,351	25,148	22,686
Other areas	60,750	49,922	18,751	17,955
Total	1,986,677	1,837,968	815,039	740,973

¹⁾ The net amount is adjusted for the reinsurer's share and refers, where applicable, to the individual line items.

²⁾ Excluding claim settlement costs.

A.3 Investment Performance

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

Gains and losses on investments increased from a net gain of €78,477 thousand in 2020 to a net gain of €80,311 thousand in the reporting year, a rise of €1,834 thousand. One of the main reasons was the favorable environment in the capital markets created by rising share prices, which meant that further reversals of write-downs were recognized. Moreover, ordinary income from investments went back up despite the systematic reinvestment of current income in institutional funds. Ordinary income was reinvested in institutional funds so that capital market volatility can be better absorbed in the future. Current income amounted to €110,960 thousand (2020: €103,495 thousand). Current expenses in respect of investments, including technical interest, came to €18,653 thousand (2020: €19,750 thousand). Total **expenses** amounted to €51,079 thousand (2020: €52,370 thousand).

The **total income from investments** was €131,390 thousand (2020: €130,847 thousand). Of this total, €110,960 thousand was attributable to current income (2020: €103,495 thousand). The Group generated extraordinary income of €20,430 thousand in 2021 (2020: €27,352 thousand).

The net gains¹⁾ on investments of €80,311 thousand described above equated to a **net yield**²⁾ on investments of 1.6 percent (2020: 1.6 percent). The **current average yield**³⁾ on investments was 1.8 percent (2020: 1.7 percent).

The following table shows the breakdown of the ARAG Group's gains and losses on investments in accordance with HGB⁴⁾ by individual asset class as required by Solvency II:

¹⁾ The expense for the management of investments is included in the net gain or loss.

²⁾ Calculation of net yield: net gain or loss on investments/average value of investment portfolio.

³⁾ Calculation of current average yield: ordinary gains and losses on investments/average value of investment portfolio.

⁴⁾ 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 2021 Annual Report.

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 2021 ¹⁾	Gains and losses on investments in 2020
Property, plant & equipment held for own use	17,845	0	0	2,031	4,420	4,413	11,042	3,495
Property (other than for own use)	4,978	416	0	208	1,213	1,937	2,452	1,849
Holdings in related undertakings, including participations	6,680	122	0	1,867	3,688	60	4,921	2,612
Equities – listed	342	1,222	12	52	96	0	1,506	453
Equities – unlisted	25	0	0	0	0	0	25	24
Government bonds	25,251	663	319	167	6,141	0	19,621	25,117
Corporate bonds	31,571	808	289	432	8,007	0	24,515	24,332
Structured notes	1,307	837	18	0	21	0	2,105	78
Collateralized securities	519	0	0	0	0	0	519	18,636 ²⁾
Collective investment undertakings	22,162	1,103	0	10,504	8,201	1,078	24,490	11,244
Derivatives	0	0	0	0	0	0	0	0
Deposits other than cash equivalents	80	0	0	0	0	702	-622	-647
Other investments	12	0	0	0	0	0	12	2,391
Deposits to cedants	189	0	0	0	0	0	189	186
Cash and cash equivalents	0	0	0	0	0	0	0	0
Current expense (unallocated)/loss transfers	0	0	0	0	0	10,465	-10,465	-11,293
Group total	110,960	5,170	639	15,260	31,787	18,653	80,311	78,477

¹⁾ The collateralized securities included pfandbriefs in 2020, which in 2021 were allocated to either government bonds or corporate bonds.

Information on gains or losses recognized directly in equity

In the reporting year, the Company did not have to recognize any gains or losses directly in equity, for example as a result of the disposal of own shares.

Information on securitization instruments

Investments in securitization instruments also made 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 government or corporate bonds.

From a Solvency II perspective, the Company held asset-backed securities and mortgage-backed securities with a value of €23,182 thousand as of the reporting date (December 31, 2020: €20,073 thousand). But it held them only indirectly as shares/units in such securities that did not need to be reported separately. These are part of the collective investment undertakings. No shares/units in securitization instruments were held directly.

A.4 Performance of Other Activities

Other net income/expense includes staff costs and general and administrative expenses that are not allocated to an insurance or investment-related function in accordance with function-based accounting.

Other income rose from €29,389 thousand in 2020 to €29,795 thousand in the reporting year. This was mainly due to an increase in income from the reversal of provisions (€3,528 thousand) and in income from services (€752 thousand), offset by a decrease in interest income (€1,973 thousand) and sundry income (€1,898 thousand).

Other expenses went up from €88,537 thousand in 2020 to €91,115 thousand in the reporting year. This was mainly due to a rise in costs from central departments (€1,620 thousand).

Other net income/expense deteriorated from a net expense of €59,148 thousand in 2020 to a net expense of €61,320 thousand in the reporting year.

Tax income/expense

The tax expense amounted to €48,875 thousand in the reporting year (2020: €45,070 thousand).

Information on leases

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

A.5 Any Other Information

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

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B.1 General Information on the System of Governance

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

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, 2021, the Management Board of ARAG Holding SE had three members. The responsibilities are allocated as follows:

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

Currently, neither ARAG Holding SE nor ARAG SE, the operating parent 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, 2021, the members of the Supervisory Board were as follows:

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

Key functions

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

Risk Management

The tasks of the risk management function are outsourced to the Group Risk Management Central Department at ARAG SE and are carried out by this department. As part of the risk management system that is in place, this department is responsible for the risk management process, which includes submitting regular reports to the Management Board. Operational management of risk is carried out by the relevant process owners in compliance with internal rules. All risk-relevant decisions to be made by the Management Board must take into account the information from and opinions of the Group Risk Management Central Department.

Compliance

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

Internal Audit

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

Actuarial function

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

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 any necessary changes, taking account of the performance of the individual employees and members of the governing bodies.

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

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

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

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

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

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

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

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

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

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

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

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

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

With the exception of ARAG Health, whose compliance function is carried out internally, 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 parent company ARAG SE, where the functions are carried out by the persons with relevant internal responsibility at ARAG SE level.

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

The Company grants **members of the Management Board** who were appointed to this role for the first time prior to January 1, 2020 and 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. Members of the Management Board who were appointed to this role for the first time after January 1, 2020 are granted a pension commitment based on defined contributions. The pension contribution forms part of the contract of employment and is paid into a Group benevolent fund reinsured with matching policies. 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.

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.

Significant changes to the system of governance

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

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 that has to ensure 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, financial reporting, and auditing. 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 and ARAG Legal Solutions Inc. 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.

Implementation of the risk management system

Risk strategy

The Management Board specifies the risk strategy on the basis of the business strategy. As well as providing the framework for how the risk management system is configured from an operational and organizational perspective, it also creates the basis for a 'common risk language' (risk culture) within the Company. The objective of the risk strategy is to define the parameters for the operational and organizational structures of the risk management system. It is formulated in such a way that it provides a basis for the operational management of the risks. The risk strategy also contains rules on risk-bearing capacity in the form of coverage ratios that are determined by business policy requirements and are set by the Management Board based on its risk appetite. The risk-bearing capacity is used to define limits for operational risk management. The risk management processes are described in the guidance for the risk management system.

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

Risk-bearing capacity and limit system

The risk-bearing capacity describes the extent to which potential losses from the assumed risks can be offset by own funds. From a regulatory perspective, risk-bearing capacity is in place if the solvency capital requirement does not exceed the value of eligible own funds, i.e. the regulatory coverage ratio is at least 100.0 percent. The minimum coverage ratio in the business policy expresses the maximum extent to which the Company is prepared to take on risk to achieve the objectives specified in the business strategy. The ARAG Group

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

The Group's limit system provides an additional means of monitoring the risk-bearing capacity as it looks at the risk contribution from individual risk categories. Limits are set at the level of the risk categories (including sub-risks) based on the Management Board's risk appetite in each case. The limit system must be strictly adhered to when the individual companies set their strategic asset allocation and in strategic planning. The utilization of the limits is calculated during the year so that an assessment can then be made as to whether further risks can be assumed, risks need to be reduced, or an adjustment to the limits is required. These calculations also take account of changes to own funds. A traffic light system is used, for both risk-bearing capacity and the limits at risk category level. The system enables ARAG to identify changes in the utilization of limits in good time and initiate corrective measures if necessary.

Risk management function

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

Operational management of risk in the individual companies is carried out by the managers and process owners in those departments where the risks occur. The roles and responsibilities of all the people involved in the process, such as members of the Management Board, managers, and local and central risk managers, are clearly defined and documented in the ARAG Group's risk management guidelines.

Risk management process

Risk identification

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

Risk analysis

To ensure risks are managed appropriately, the influencing factors determining the relevant exposures on the Solvency II balance sheet are examined. These influencing factors are regularly validated to check that they are appropriate for the measurement of risk. Risks that are not explicitly quantified in the calculation of the solvency capital requirement (one-year horizon) are analyzed as part of the ORSA process.

Risk assessment

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

The key element in this process is the solvency capital requirement that is calculated for all downside risk. The purpose is to ensure that unexpected losses are covered. A partial internal model is used to quantify the solvency capital requirement. The model shows the potential loss from the risk exposures that, with a probability of 99.5 percent, will not be exceeded within a holding period of one year. This loss could arise, in particular, as a result of unfavorable movements affecting investments or as a result of unexpected developments in the insurance business. The methodology is regularly reviewed using suitable validation tests. Potential risks that are hard to quantify and so do not form part of the solvency capital requirement are measured as part of the ORSA process.

Risk management

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

Risk monitoring and reporting

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

Unexpected or extreme events can also affect the risk profile. Ad hoc reports are submitted if this is the case.

Own risk and solvency assessment (ORSA)

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

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

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

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

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

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

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

Governance of the partial internal model

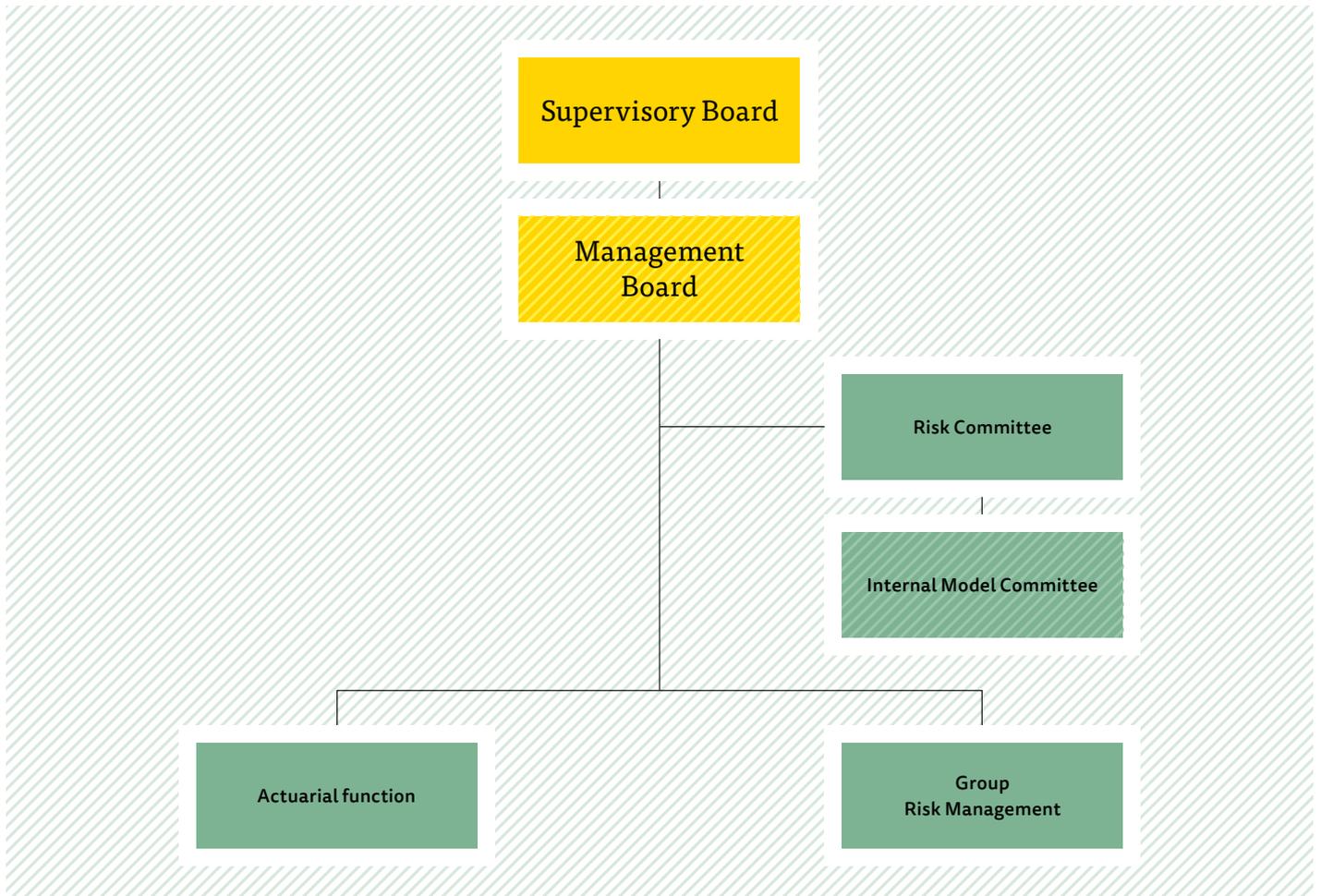
The Management Boards of the operating companies in the ARAG Group have formed a Risk Committee (RiCo) in order to incorporate the partial internal model into corporate management. The Risk Committee's main task is to assist the individual Management Boards with performing their risk management tasks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

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

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

Should it be necessary to modify the model as a result of the validation or for other reasons, these changes are carried out using a process that is defined in the model modification policy. Firstly, in accordance with regulatory requirements, the Internal Model Committee classifies the 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 analyze 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

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 in the ADONIS NP tool. This provides an overview of the process architecture within the ARAG Group in which all activities, responsibilities, participating functions, and verification procedures are documented. An annual reappraisal procedure ensures that all process documentation is up to date, accurate, and complete. Processes are classified as being relevant to the ICS on the basis of the following criteria:

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

Compliance

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

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

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

At Group level, there is also a Compliance Steering Group to which the managers in the following areas belong (or can be involved in if required):

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

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

B.5 Internal Audit Function

The Group Audit function is an instrument of the Management Board, to which it is directly accountable and to which it reports. It is assigned to the Management Board member responsible for Human Resources/Audit 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.

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. Third parties can only be involved with the Management Board in an advisory or support capacity.

Every outsourcing project must be assessed to establish whether it involves the outsourcing of a function or typical insurance activity subject to the regulatory outsourcing requirements. Section 32 VAG specifies that this includes functions (actuarial function, compliance, risk management, and internal audit) and insurance activities (e.g. policy management and claims handling) subject to enhanced requirements where the functions or insurance activities concerned are classified as important (e.g. due to the scope of the outsourced activity). 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. 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.

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. In general, the ARAG Group ensures that outsourcing never has an adverse impact on the proper performance of the outsourced functions or insurance activities, on the Management Board’s ability to manage and control them, or on the supervisory authority’s ability to verify and control them. Moreover, the monitoring of the service provider by the supervisory authority is ensured at all times.

Apart from the outsourcing of the internal audit and actuarial function in the Norwegian Group company HELP Forsikring AS, no key functions in the ARAG Group are outsourced to external service providers. Within the Group, the insurance companies have outsourced various operational activities and the key functions of risk management, compliance, internal audit, and the actuarial function to ARAG SE on standard commercial terms. ARAG Health, which runs its compliance function internally, is an exception here. Within the ARAG Group, use was made in the reporting year of the option of outsourcing important insurance activities in compliance with all legal requirements. However, these were exclusively instances of partial outsourcing that did not affect the internal decision-making powers in the individual units.

B.8 Any Other Information

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

C. Risk Profile

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

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

There are no material risks arising from off-balance-sheet exposures, nor any risks arising from the transfer of risk to special-purpose entities.

Any forecast of how the COVID-19 pandemic will continue to unfold is subject to considerable uncertainty. Based on current assessments, the effects of the COVID-19 pandemic have not resulted in any significant change to the Company's risk profile. Its capacity to assume risk has been maintained in full. In addition to the quarterly risk calculations, this has been demonstrated by weekly approximate calculations of own funds and solvency capital requirements.

A scenario analysis was carried out in order to assess the potential impact of the pandemic over the planning period. The outcome showed that the solvency capital requirement will be comfortably covered for the next few years.

The emergence of more and more new variants of coronavirus means that a pandemic fundamentally remains a realistic scenario.

Further developments in the Russian Federation's invasion of Ukrainian territory and the resulting impact on the economy and society may also affect the Company's risk position. Although it is difficult to predict any specific impact at present, initial analysis of negative scenarios shows that there is still sufficient coverage.

C.1 Underwriting Risk

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

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

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

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 the frequency and volume of claims arising from extreme or exceptional events
- Lapse risk: incidence of customers exiting their contracts early that is above the expected lapse rate
- Longevity and cost risk of recognized annuities in the liability, accident, and motor insurance businesses: changes in the level or trend of mortality rates or of the administrative expenses associated with annuity liabilities

The solvency capital requirement for underwriting risk in indemnity, liability, and accident insurance and in legal insurance fell by €8,380 thousand year on year, from €164,341 thousand as of December 31, 2020 to €155,961 thousand as of December 31, 2021, equating to a decrease of 5.1 percent. The biggest sub-risks were accumulation risk and reserve risk.

Risk measurement

Risks are measured with an internal model. Using simulations, 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. Each risk is measured separately. For premium and reserve risk, the policies and insured risks are aggregated into groups of risks sharing similar characteristics. These are then used for simulations of future claims and/or required additions to reserves. Losses are simulated in the same way for catastrophe and accumulation risk; such losses may arise from natural disasters, large claims caused by people, and/or accumulation losses in the legal insurance business. Lapse risk is calculated on the basis of historical data. The actual underwriting risk arises from the aggregation of the individual risks, taking diversification effects into account.

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

Risk mitigation

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

Risk sensitivity

As part of the ORSA process, various analyses were carried out in the reporting period at individual company level.

A baseline scenario for 2022, which reflected the best estimates for actuarial parameters, was produced in order to examine changes in the combined ratios. Then the impact of the claims and costs rising by up to 20.0 percent in 2022 was examined. The individual companies' coverage ratios would deviate from the baseline scenario as follows:

- ARAG SE: decrease of up to 42.4 percentage points to 273.0 percent
- ARAG Allgemeine: decrease of up to 9.0 percentage points to 232.3 percent
- Interlloyd: decrease of up to 15.5 percentage points to 249.6 percent
- Help Forsikring: decrease of up to 48.0 percentage points to 137.0 percent

To examine the effects of climate change, a change in the frequency and intensity of extreme weather events was looked at in combination with the effectiveness of risk mitigation techniques (prioritization of reinsurance up to €10,000 thousand). The coverage ratios of the affected individual companies would change as follows:

- ARAG SE: virtually unchanged
- ARAG Allgemeine: decrease to 222.4 percent
- Interlloyd: decrease to 203.5 percent

These results show that the coverage ratio of the Group for 2022 would still be well above the minimum coverage ratio of 150.0 percent specified in the business policy even if the analyzed changes in ratios were to occur.

Underwriting risk in health insurance

Risk exposure

Underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities. It can arise from pricing that is subsequently found to be inadequate or from provisioning assumptions that require adjustment. These losses result from the following three risk components and their associated sub-risks:

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

The solvency capital requirement for underwriting risk in health insurance went up from €183,522 thousand as of December 31, 2020 to €185,434 thousand as of December 31, 2021, an increase of €1,912 thousand or 1.0 percent. The biggest sub-risks were lapse risk and disability-morbidity risk.

Risk measurement

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

Risk concentration

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

Risk mitigation

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

Risk sensitivity

To examine how a slump in new business could affect the Company, given the currently very high volume of new business, a scenario analysis was carried out in the reporting year as part of the ORSA process. A baseline scenario, which reflected the best estimates for actuarial parameters, was produced first. This was then used to create a 'slump in new business' scenario with the parameters adjusted accordingly. Compared with the baseline scenario, the coverage ratio for 2022 in the 'slump in new business' scenario stays unchanged at 525.0 percent, which is still well above the minimum coverage ratio of 150.0 percent specified in the business policy.

C.2 Market Risk

Risk exposure

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

- Interest-rate risk: changes in the term structure or volatility of interest rates
- Equity risk (including equity investments): changes in the level or volatility of the market prices of equities
- Property risk: changes in the level or volatility of the market prices of real estate
- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure
- Currency risk: changes in the level or volatility of exchange rates
- Concentration risk: large exposure to the risk of default of a single issuer or group of related issuers

The solvency capital requirement for market risk went up from €627,521 as of December 31, 2020 to €807,734 thousand as of December 31, 2021, an increase of €180,213 thousand or 28.7 percent. This was due to an increase in the equity exposure and the adjustment of a regulatory parameter used for calculating equity risk. The biggest sub-risks were equity risk and credit risk.

Risk measurement

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

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

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

Risk concentration

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

Risk mitigation

The regulatory requirements for implementing the prudent person principle form the framework for the risk mitigation measures. At strategic level, risk is limited by virtue of the fact that market risk limits are taken into account for the individual companies when determining the strategic asset allocation each year. Adherence to the limits is reviewed every quarter. A focus on a target portfolio that is steady over a number of years and an annual review of the 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. These specify that derivatives can only be used to hedge market risk.

Risk sensitivity

As part of the ORSA process, an additional scenario analysis was carried out to examine the impact of a rise in inflation on the capital markets and, by extension, on the investment portfolio of the Company. A baseline scenario for 2022, which reflected the best estimates for capital market parameters, was produced first. This was followed by an analysis of the potential impact of weak economic growth as a result of the pandemic coupled with a continuation of expansionary monetary policy. The individual companies' coverage ratios would deviate from the baseline scenario in 2022 as follows:

- ARAG SE: decrease of 4.3 percentage points to 311.1 percent
- ARAG Allgemeine: no material effect on the coverage ratio of 241.0 percent
- ARAG Health: decrease of 0.6 percentage points to 524.6 percent
- Interlloyd: decrease of 0.5 percentage points to 264.6 percent
- Help Forsikring: decrease of 2.0 percentage points to 183.0 percent

These results show that the coverage ratio of the Group for 2022 would still be well above the minimum coverage ratio of 150.0 percent specified in the business policy even if the analyzed scenario were to occur.

C.3 Credit Risk**Risk exposure**

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

The solvency capital requirement for credit risk fell from €57,804 thousand as of December 31, 2020 to €55,021 thousand as of December 31, 2021, a decrease of €2,783 thousand.

Risk measurement

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

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

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

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

Risk concentration

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

Risk mitigation

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

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

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

Risk sensitivity

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

C.4 Liquidity Risk

Risk exposure

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

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

Risk measurement

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

Risk concentration

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

Risk mitigation

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

A medium- to long-term liquidity summary at individual company level was prepared as part of ALM.

Risk sensitivity

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

Profits contained in future premiums

The expected profits included in future premiums represent a very illiquid component of basic own funds. These profits are therefore associated with a potential liquidity risk. Even if the expected profits contained in future premiums are not factored into basic own funds, the resulting liquidity risk is still classified as very low because of the significant excess cover. The expected profits included in future premiums amount to €359,619 thousand.

C.5 Operational Risk**Risk exposure**

Operational risk is the downside 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 rose from €57,828 thousand as of December 31, 2020 to €63,271 thousand as of December 31, 2021, an increase of €5,443 thousand.

Risk measurement

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

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

Risk concentration

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

Risk mitigation

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

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

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

Risk sensitivity

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

C.6 Other Material Risks

Strategic risks, reputational risks, and emerging risks

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

Strategic risks

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

Reputational risks

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

Emerging risks

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

Group-specific risks

Risk exposure

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

Risk measurement

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

Risk concentration

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

Risk mitigation

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

Risk sensitivity

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

C.7 Any Other Information

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

D. Valuation for Solvency Purposes

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The following chapters explain how assets, technical provisions, and other liabilities are valued for solvency purposes (Solvency II or SII). The methods prescribed by the German Commercial Code (HGB) for the valuation of individual items are addressed in connection with the explanation of the valuation differences.

The table below provides an initial overview:

Total assets, technical provisions, and other liabilities

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Assets	6,524,122	5,822,795	701,327	6,241,184	282,937
Technical provisions	3,572,263	4,625,156	1,052,893	3,511,592	60,671
Other liabilities	925,407	583,669	341,738	999,998	-74,591
Excess of assets over liabilities¹⁾	2,026,452	613,969	1,412,482	1,729,595	296,857

¹⁾ This item also includes the subordinated liabilities classified as own funds (see also the Solvency and Financial Condition Report (SFCR) for ARAG SE).

Key valuation bases for the economic values

The valuation of the Solvency II balance sheet requires a holistic, economic, and market-consistent approach. Financial assets and liabilities are therefore reported at market value (economic value).

In accordance with article 10 of Delegated Regulation (EU) 2015/35 (the Delegated Regulation), the economic values are determined using the following valuation hierarchy:

- Mark-to-market approach **(level 1)**
- Marking-to-market approach **(level 2)**
- Mark-to-model approach **(level 3)**

If, as of the reporting date, a price is quoted in an active market for the assets or liabilities to be valued (standardized approach), this is used for the valuation (**level 1**). Where it is not possible to determine the price with the aid of an active market, an economic value is determined on the basis of similar assets, with any necessary adjustments (**level 2**). Alternative valuation methods are used if it is not possible to determine an economic value for assets and liabilities using either the mark-to-market approach or the marking-to-market approach (**level 3**). Taking the nominal amount, amortized cost, or value derived from the adjusted equity method as the economic value represents a potential simplification. A representation of the main items aggregated according to the valuation hierarchy is shown in chapter D.4 'Alternative Methods for Valuation'.

Materiality and proportionality approach

This chapter outlines the key items under assets, technical provisions, and other liabilities where the valuation using the hierarchy and simplification method is considered material. The following distinctions are made:

- The explanation of the **main items** includes a description of how they are valued in accordance with Solvency II. Supplementary information on the aforementioned hierarchy method is provided on a case-by-case basis in the descriptions of how individual items are valued. Significant year-on-year changes in the SII value are also reported.
- Brief explanations are provided for **other items that appear on the balance sheet** but that are not material for the Company based on their valuation under Solvency II. No details are provided on year-on-year changes in the SII value as these are categorized as immaterial.
- Unlike in the cases above, no further descriptions are provided for all **other items** that are not recognized under Solvency II or did not exist as of the reporting date. These are shown with a zero value in the overview tables provided at the beginning of each subchapter.

Material changes compared with the prior year

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, apart from the following exceptions.

Unlike in 2020, the technical provisions also took into account investment management expenses amounting to €9,374 thousand.

In addition, the following change was made to the method of recognition during the reporting period.

In accordance with the guidelines of the European Insurance and Occupational Pensions Authority (EIOPA) on recognition and valuation of assets and liabilities other than technical provisions (guideline 9, section 1.27), deferred tax assets and deferred tax liabilities can be netted if they are levied by the same tax authority and on the same taxable undertaking.

All quantitative disclosures can be found in the quantitative reporting form set out in the Appendix.

D.1 Assets

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

Assets as of December 31, 2021

(€'000)	Solvency II as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	Solvency II as of Dec. 31, 2020	SII change
Goodwill	0	7,328	-7,328	0	0
Deferred acquisition costs	0	0	0	0	0
Intangible assets	0	9,315	-9,315	0	0
Deferred tax assets	0	0	0	107,877	-107,877
Pension benefit surplus	295	295	0	326	-31
Property, plant & equipment held for own use	299,632	146,348	153,284	294,197	5,435
Investments					
Property (other than for own use)	105,869	58,135	47,734	92,874	12,995
Holdings in related undertakings, including participations	28,223	18,942	9,281	24,481	3,742
Equities	16,434	8,919	7,515	10,994	5,440
Bonds	3,412,325	3,179,452	232,873	3,274,566	137,759
Collective investment undertakings	2,074,176	1,820,080	254,096	1,690,271	383,905
Derivatives	0	0	0	0	0
Deposits other than cash equivalents	46,868	46,868	0	59,787	-12,919
Other investments	16	16	0	162,170	-162,154
	5,683,910	5,132,412	551,498	5,315,143	368,767
Assets held for index-linked and unit-linked contracts	0	0	0	0	0
Loans and mortgages	4,142	3,826	316	3,830	312
Reinsurance recoverables	37,759	40,186	-2,427	29,907	7,852
Deposits to cedants	68,588	68,561	27	64,521	4,067
Insurance and intermediaries receivables	153,989	153,989	0	94,099	59,890
Reinsurance receivables	13,623	13,623	0	53,638	-40,015
Receivables (trade, not insurance)	44,986	44,986	0	44,836	150
Own shares (held directly)	0	0	0	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0	0	0	0
Cash and cash equivalents	188,882	188,806	76	221,855	-32,973
Any other assets, not elsewhere shown	28,316	13,122	15,194	10,955	17,361
Total assets	6,524,122	5,822,795	701,327	6,241,184	282,938

Deferred tax assets

International Accounting Standard (IAS) 12 requires deferred tax assets to be set up for temporary differences between the Solvency II balance sheet and the tax base that result from the recognition and valuation of assets and liabilities.

In accordance with the EIOPA guidelines on recognition and valuation of assets and liabilities other than technical provisions (guideline 9, section 1.27), deferred tax assets and deferred tax liabilities can be netted if they are levied by the same tax authority and on the same taxable undertaking.

In 2021, the ARAG Group therefore netted deferred taxes in accordance with the above guideline for the first time; it only recognized deferred tax liabilities, which are not discounted. After netting, a deferred tax liability of €288,985 thousand was reported, an explanation of which is provided in chapter D.3. 'Other Liabilities'.

Under HGB, the excess deferred tax assets after netting are not recognized because the option available under section 274 (1) sentence 2 HGB has not been applied.

Pension benefit surplus

This item shows the net pension benefit surplus from a pension plan. A figure is disclosed where the value of the protection fund assets is higher overall than the present value of the obligation under the employee pension scheme.

The Solvency II carrying amount was the same as the fair value recognized in accordance with HGB.

Property, plant & equipment held for own use

The balance sheet line item 'Property, plant & equipment held for own use' comprises material property, plant, and equipment that is used by the Company for its own purposes and on a permanent basis.

Under Solvency II, fair values are used to determine the value of **property held for own use**. The value of the land is based on the prevailing standard land values. The value of the buildings is calculated using the income capitalization approach.

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.

It is recognized at amortized cost on the HGB balance sheet, which means it is reported at cost and subsequently depreciated on a straight-line basis over the standard operating useful life.

The year-on-year increase of €5,435 thousand in the Solvency II carrying amount was the net effect of reversals of write-downs on property held for own use (€8,182 thousand) and a decrease in office furniture and equipment (€2,747 thousand).

Property (other than for own use)

This item includes all property that is held as a financial investment and is thus not intended for own use as well as buildings under construction that are earmarked for use by third parties after completion.

Fair values are used for Solvency II purposes. The economic values are revised annually by means of an internal assessment that takes the form of an update to the most recent external appraisal. The internal valuations are augmented by external appraisals at intervals of between three and five years. In the event of a change in the portfolio, the valuation is carried out on the basis of an external appraisal. The value of the land is based on the prevailing standard land values. The value of the buildings is calculated using the income capitalization approach. This method discounts the expected future net yields less the likely management costs to the balance sheet date.

The fair value of €105,869 thousand was the sum of the values of the land and the values of the buildings. For Solvency II purposes, land and buildings are categorized as either held for own use or rented out to third parties. The year-on-year increase of €12,995 thousand in fair value was attributable to the general rise in property prices.

The valuation difference between the Solvency II balance sheet and the HGB financial statements arose because the historical cost convention, taking into account depreciation and write-downs, was applied in the valuation under HGB, whereas the higher unrealized fair values were recognized on the Solvency II balance sheet.

Holdings in related undertakings, including participations

Related undertakings are companies that are majority owned by, or controlled by, a Group company. For simplification purposes, a participation is understood to mean ownership or control of at least 20 percent of the voting rights or share capital of an undertaking.

The Company's main affiliated companies (related undertakings) and equity investments (participations) as of December 31, 2021 are listed in chapter A.1 'Business'.

At the first valuation level, quoted market prices are taken as the economic value. As no quoted market prices (level 1) are available, the adjusted equity method is used as the alternative valuation method (level 3). Applying this method, the subsidiary's own funds under Solvency II are recognized on a pro rata basis and taken as the economic value.

The year-on-year increase of €3,742 thousand in the Solvency II carrying amount was mainly due to the new valuation methods used for FOYER-ARAG S.A. in Luxembourg.

The difference between the carrying amount at cost on the HGB balance sheet and the fair value on the Solvency II balance sheet results from using different valuation methods. Under HGB, shares in affiliated companies (related undertakings), including equity investments (participations), are valued at cost and – where necessary – written down to their fair value. Write-downs are reversed to no more than the historical cost if the reason for recognizing them ceases to apply. The fair value is determined using an income capitalization approach based on a planning horizon of usually three years.

Equities

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Equities – listed	13,092	7,455	5,637	10,251	2,842
Equities – unlisted	3,341	1,464	1,877	743	2,598
Total	16,434	8,919	7,515	10,994	5,440

The balance sheet line item 'Equities' comprises both listed and unlisted equities. It is where shares in the equity of limited companies are recognized.

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

The valuation difference results from recognition at cost (taking into account the quoted market prices or market values on the reporting date) on the HGB balance sheet and recognition at fair value on the Solvency II balance sheet.

Bonds

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Government bonds	1,363,459	1,246,699	116,759	1,297,407	66,052
Corporate bonds	1,995,372	1,880,979	114,393	1,925,987	69,385
Structured notes	32,425	30,890	1,535	33,704	-1,279
Collateralized securities	21,069	20,883	185	17,467	3,601
Total	3,412,325	3,179,452	232,873	3,274,566	137,759

The balance sheet line item 'Bonds' comprises all securities that are issued publicly. It encompasses government bonds, corporate bonds, structured notes, and collateralized securities.

The economic values of interest-bearing financial instruments are calculated at the quoted market price or market value that contains the accrued interest income as of the valuation date. If no quoted market price or market value is available for valuation (level 1), the discounted cash flow method – applying risk-adjusted yield curves – is used as the alternative valuation method (level 3). Premiums and discounts are not recognized separately.

The year-on-year increase of €137,759 thousand in the Solvency II carrying amount was mainly attributable to the expansion of the portfolio of corporate and government bonds. Price gains, particularly in government bonds, also played their part in this substantial rise.

The valuation difference results from recognition at cost (taking into account the quoted market prices or market values on the reporting date) on the HGB balance sheet and recognition at fair value on the Solvency II balance sheet.

Collective investment undertakings

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Equities	608,547	461,828	146,719	465,853	142,694
Bonds	1,121,187	1,065,197	55,990	1,133,893	-12,705
Other	344,442	293,055	51,387	90,526	253,916
Total	2,074,176	1,820,080	254,096	1,690,271	383,905

The balance sheet line item 'Collective investment undertakings' comprises investment funds. These are investment companies or specific funds whose sole purpose is to invest pooled capital in securities and/or other financial assets.

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. If no redemption price is available for valuation (level 1), the adjusted equity method is used as the alternative valuation method (level 3). This value is not restricted to the cost.

Investment funds are generally, in accordance with EU Directives 2009/65/EC and 2011/61/EU, classified as collective investment undertakings or as alternative investment funds. In accordance with the Delegated Regulation, collective investment undertakings in which the stake held is more than 20.0 percent are reported under the line item 'Holdings in related undertakings, including participations'. If the stake in investment companies or other incorporated entities is no more than 20.0 percent, it is recognized under 'Unlisted equities'. If the stake cannot be assigned to either of these items, it is recognized under 'Other investments'.

As of December 31, 2021, the Solvency II carrying amount for collective investment undertakings was €2,074,176 thousand. The year-on-year increase of €383,905 thousand in the economic value was due to price gains in the equity segment and, in particular, to a reclassification from 'Other investments'.

The valuation difference results from recognition at cost (taking into account section 341b HGB) on the HGB balance sheet and recognition at fair value on the Solvency II balance sheet.

Deposits other than cash equivalents

This balance sheet line item comprises deposits other than cash equivalents that cannot be used on demand to settle payments and that cannot be converted into cash or transferred without restrictions.

Deposits other than cash equivalents primarily comprise bank deposits (call and term deposits) that have a corresponding contractual maturity. Due to the short-term nature of these assets, the nominal amount serves as a reliable proxy of the fair value in application of the principle of proportionality. As a result, the value under HGB and the value for solvency purposes are the same.

Other investments

The balance sheet line item 'Other investments' is for investments that are not covered by the aforementioned investment categories.

For solvency purposes, the economic value is taken to be the cost reported by the investment management company.

Loans and mortgages

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Loans on policies	0	0	0	0	0
Loans and mortgages to individuals	76	76	0	80	-4
Other loans and mortgages	4,066	3,750	316	3,750	316
Total	4,142	3,826	316	3,830	312

This item comprises loans on policies, loans and mortgages to individuals, and other loans and mortgages, i.e. financial assets that are created when a creditor lends secured or unsecured funds to borrowers. It also includes an unsecured loan to a real-estate management company in which the Group holds an equity investment.

For the Solvency II balance sheet, the loan to the real-estate management company is valued using the present value method for the cash flows that the loan is expected to generate in the future. For reasons of materiality and because of the low risk, no present value calculations were carried out for the other items in the year under review, as had also been the case in 2020. Instead, HGB carrying amounts were also used for Solvency II purposes. Under HGB, the amounts are recognized at cost, adjusted for any permanent changes in value.

Reinsurance recoverables

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Non-life and health similar to non-life	37,759	40,186	-2,427	24,786	12,973
of which: non-life excluding health	33,814	40,186	-6,372	22,049	11,765
of which: health similar to non-life	3,945	0	3,945	2,738	1,207
Life and health similar to life, excluding health and index-linked and unit-linked	0	0	0	5,121	-5,121
of which: health similar to life	0	0	0	0	0
of which: life excluding health and index-linked and unit-linked	0	0	0	5,121	-5,121
Life index-linked and unit-linked	0	0	0	0	0
Total	37,759	40,186	-2,427	29,907	7,852

This balance sheet line item records the reinsurers' share of technical provisions. It includes reinsurance recoverables, cash flows from reinsurance receivables and liabilities, and deposits and liabilities from ceded reinsurance business.

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, 2021 was lower than the HGB carrying amount.

Deposits to cedants

Deposits to cedants comprise receivables for the underwriting liabilities taken on in the inward reinsurance business. These deposits are largely repayable within twelve months.

The nominal amount of deposits to cedants is used as their economic value.

Insurance and intermediaries receivables

This item comprises contractual claims for payment or for other benefits vis-à-vis policyholders and insurance intermediaries.

Because there is no active market for insurance¹⁾ and intermediaries receivables, and because of the short-term nature of the receivables (less than twelve months), materiality reasons, risk, and the disproportionate time, effort, and expense that would otherwise be involved, the nominal amount of the receivables is used.

Reinsurance receivables

Included in this item are claims for payment or for other benefits arising from treaties with reinsurers.

There is also no active market for reinsurance receivables. On grounds of materiality, the carrying amount (nominal amount) can be used for receivables maturing within twelve months. If the maturity period of the receivables is longer (more than twelve months), the economic value is determined using the present value method. In the case of a reinsurance arrangement that is long term, renewed annually, and under which the deposits are regularly settled at the end of each year and reissued, the formal term of the treaty is taken to be the payment term. In the event of actual default risk relating to rating downgrades, specific allowances are recognized in the amount that is no longer likely to be recovered. None of ARAG's reinsurance treaties have terms longer than twelve months, so the economic value is the same as the nominal amount under HGB.

Receivables (trade, not insurance)

This item comprises contractual claims for payment or other benefits that are not related to insurance, for example tax assets and interest and rent receivables that are due.

There is no active market in which receivables (trade, not insurance) can be traded on arm's-length terms between knowledgeable, willing parties. As is the case under HGB, the economic value is reported as the nominal amount reduced by allowances. With the exception of tax assets, these receivables are mostly classified as current (due within twelve months).

¹⁾ Insurance receivables for the most part refer to receivables due from policyholders.

Cash and cash equivalents

This item comprises cash valued at its nominal amount. It includes outstanding bank notes and coins used as general forms of payment. Also reported here are deposits that can be converted directly into foreign currency at their nominal amount on demand and without penalty or restriction.

As is the case under HGB, the nominal amount of cash and cash equivalents (cash and demand deposits) is used as the economic value.

Any other assets, not elsewhere shown

Assets that are not otherwise included in other balance sheet line items are recognized here. As is the case under HGB, the nominal amount is used as the economic value.

Please refer to chapter A.4 'Performance of Other Activities' 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, 2021

(€'000)	Solvency II as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	Solvency II as of Dec. 31, 2020	SII change
Technical provisions – non-life					
Technical provisions – non-life (excluding health)					
Technical provisions calculated as a whole	0	1,924,110	-1,924,110	0	0
Best estimate	1,138,550	0	1,138,550	1,158,537	-19,987
Risk margin	46,954	0	46,954	42,111	4,843
	1,185,504	1,924,110	-738,606	1,200,648	-15,144
Technical provisions – health (similar to non-life)					
Technical provisions calculated as a whole	0	937	-937	0	0
Best estimate	55,231	0	55,231	50,145	5,086
Risk margin	2,627	0	2,627	2,367	260
	57,858	937	56,921	52,512	5,346
	1,243,361	1,925,047	-681,686	1,253,160	-9,799
Technical provisions – life (excluding index-linked and unit-linked)					
Technical provisions – health (similar to life)					
Technical provisions calculated as a whole	0	2,564,987	-2,564,987	0	0
Best estimate	2,295,740	0	2,295,740	2,223,585	72,155
Risk margin	27,369	0	27,369	29,533	-2,164
	2,323,109	2,564,987	-241,878	2,253,118	69,991
Technical provisions – life (excluding health and index-linked and unit-linked)					
Technical provisions calculated as a whole	0	0	0	0	0
Best estimate	5,723	0	5,723	5,294	429
Risk margin	69	0	69	20	49
	5,792	0	5,792	5,314	478
	2,328,902	2,564,987	-236,085	2,258,432	70,470
Technical provisions – index-linked and unit-linked					
Technical provisions calculated as a whole	0	0	0	0	0
Best estimate	0	0	0	0	0
Risk margin	0	0	0	0	0
	0	0	0	0	0
	3,572,263	4,490,034	-917,771	3,511,592	60,671
Other technical provisions	0	135,122	-135,122	0	0
Total provisions	3,572,263	4,625,156	-1,052,893	3,511,592	60,671

Technical provisions

The valuation in accordance with HGB requirements is described first. This is followed by an explanation of the regulatory valuation methods ('Technical provisions – non-life (excluding health)').

As of the reporting date, the technical provisions (gross) in accordance with HGB amounted to €4,625,156 thousand. In addition to the actuarial reserve of €2,205,067 thousand, the HGB technical provisions included the provision for outstanding claims (gross) of €1,741,450 thousand, the provision for bonuses and rebates of €264,720 thousand, unearned premiums (gross) of €278,797 thousand, the equalization provision of €129,203 thousand, and the miscellaneous technical provisions of €5,920 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.

Technical provisions – by Solvency II line of business

Please see the reports of the individual companies for a breakdown of the material technical provisions by line of business.

Technical provisions – non-life (excluding health)

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Technical provisions calculated as a whole	0	1,924,110	-1,924,110	0	0
Best estimate	1,138,550	0	1,138,550	1,158,537	-19,987
Risk margin	46,954	0	46,954	42,111	4,843
Total	1,185,504	1,924,110	-738,606	1,200,647	-15,144

The individual components of the technical provisions are the best estimate and the risk margin.

For non-life insurance, the best estimate comprises the claims provision and the premiums provision, both of which include a provision for investment management expenses.

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.

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 (less commission) 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).

The provision for investment management expenses is calculated as of the reporting date as the sum of the costs that will be incurred in the future for the management of investments in the amount of the remaining claims provision and premiums provision. This continues until such time as the insurance ends.

Pursuant to article 37 of the Delegated Regulation, the risk margin is calculated with the aid of an approximation method as described in article 58 of the Delegated Regulation and in the EIOPA guidelines on the valuation of technical provisions (guideline 62, method 2).

Technical provisions – health (similar to non-life)

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Technical provisions calculated as a whole	0	937	- 937	0	0
Best estimate	55,231	0	55,231	50,145	5,086
Risk margin	2,627	0	2,627	2,368	259
Total	57,858	937	56,921	52,513	5,345

Technical provisions – health (similar to non-life) include liabilities under the accident class of insurance at ARAG Allgemeine and Interloyd, 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 and their calculation methodology are similar to those for non-life insurance.

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

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

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

Technical provisions – health (similar to life)

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Technical provisions calculated as a whole	0	2,564,987	-2,564,987	0	0
Best estimate	2,295,740	0	2,295,740	2,223,585	72,155
Risk margin	27,369	0	27,369	29,533	-2,163
Total	2,323,109	2,564,987	-241,878	2,253,118	69,992

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 the best estimate (including a provision for investment management expenses) and the risk margin.

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

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

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

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

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

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

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

The valuation of the Solvency II carrying amount for the technical provisions covering health insurance (similar to life) was €241,878 thousand lower than the valuation of the HGB carrying amount. This resulted from the use of a risk margin of €27,369 thousand and, in particular, the difference between conventional actuarial reserves and the economic value of ARAG Health's technical provisions (best estimate), which is influenced by the following four 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 (€183,459 thousand).

The total carrying amount of the technical provisions in accordance with Solvency II rose by €69,992 thousand year on year. This increase was largely attributable to a change in the value of the technical provisions at ARAG Health. The increase in the best estimate for health insurance (similar to life) was due, in particular, to a sharp rise in the EIOPA yield curve and to ARAG Health's underwriting cash flow for 2021 (premium income less benefit expenses and costs), which was well into positive territory.

The decrease of €2,163 thousand in the risk margin for health insurance (similar to life) resulted mainly from a decline in the duration of technical provisions at ARAG Health.

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

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

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Technical provisions calculated as a whole	0	0	0	0	0
Best estimate	5,723	0	5,723	5,294	429
Risk margin	69	0	69	20	50
Total	5,792	0	5,792	5,314	478

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 the best estimate (including a provision for investment management expenses) and the 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.

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

Other technical provisions

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Total	0	135,122	-135,122	0	0

The other technical provisions¹⁾ (miscellaneous technical provisions on the HGB balance sheet) primarily consist of the equalization provision (€129,203 thousand) and other provisions such as the lapse provision (€3,643 thousand) and the provision for legal action resulting from premium adjustments (€2,277 thousand). The equalization provision for direct insurance business and inward reinsurance business is recognized under HGB 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

¹⁾ In accordance with the Solvency II structure.

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 fluctuations in the course of business are recognized under other technical provisions (the equivalent line item). For Solvency II purposes, lapse risk and the litigation risks are 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.

Reinsurance recoverables

(€'000)	SII as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	SII as of Dec. 31, 2020	SII change
Non-life and health similar to non-life	37,759	40,186	- 2,427	24,786	12,973
Life and health similar to life, excluding health and index-linked and unit-linked	0	0	0	5,121	- 5,121
Total	37,759	40,186	- 2,427	29,907	7,852

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 'Assets').

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.

Provisions assumptions

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

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

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

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

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

D.3 Other Liabilities

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

Other liabilities as of December 31, 2021

(€'000)	Solvency II as of Dec. 31, 2021	HGB as of Dec. 31, 2021	Valuation difference	Solvency II as of Dec. 31, 2020	SII change
Contingent liabilities	0	0	0	0	0
Provisions other than technical provisions	139,464	137,818	1,646	131,436	8,028
Pension benefit obligations	327,572	277,927	49,645	344,140	-16,568
Deposits from reinsurers	11	11	0	60	-49
Deferred tax liabilities	288,985	562	288,423	362,675	-73,690
Derivatives	0	0	0	0	0
Debts owed to credit institutions	0	0	0	0	0
Financial liabilities other than debts owed to credit institutions	0	0	0	0	0
Insurance and intermediaries payables	74,161	74,161	0	65,634	8,527
Reinsurance payables	552	552	0	3,442	-2,890
Payables (trade, not insurance)	59,957	59,957	0	57,382	2,575
Subordinated liabilities	32,023	30,000	2,023	32,779	-756
Any other liabilities, not elsewhere shown	2,682	2,682	0	2,449	233
Total liabilities	925,407	583,670	341,737	999,997	-74,590

Provisions other than technical provisions

These provisions are for payment obligations whose settlement period and amount is uncertain. If the liability's settlement period is likely to be more than twelve months, they are discounted.

On the Solvency II balance sheet, provisions for long-service awards, early retirement obligations, severance pay, healthcare costs, and pre-retirement part-time employment obligations are valued using the projected unit credit (PUC) method in accordance with the IAS 19 curve. Unlike under HGB, the term structure used for discounting on the Solvency II balance sheet 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 discount rate under HGB was 1.35 percent, whereas the IAS 19 curve was used for the economic value, which explains the valuation difference.

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

Pension benefit obligations

Pension benefit obligations are net liabilities for the employee pension scheme.

For the Solvency II balance sheet, pension benefit obligations are valued using the PUC method in accordance with the IAS 19 curve. Unlike under HGB, the term structure used for discounting on the Solvency II balance sheet 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. The discount rate under HGB was 1.87 percent, whereas the IAS 19 curve was used for the economic value, which explains the valuation difference.

The year-on-year decrease of €16,568 thousand in the valuation under Solvency II was attributable to the regular additions to the pension entitlements and the changes in the discounting of pension benefit obligations.

Deposits from reinsurers

Deposits from reinsurers are premiums that the reinsurer has provided to the primary insurer as collateral for the underwriting liabilities taken on in the inward reinsurance business.

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 nominal amount was therefore used as the economic value.

Deferred tax liabilities

IAS 12 requires deferred tax liabilities to be set up for temporary differences between the Solvency II balance sheet and the tax base that result from the recognition and valuation of assets and liabilities.

In 2021, the ARAG Group netted deferred taxes in accordance with the guideline mentioned under D.1 'Deferred tax assets' for the first time; it only recognized deferred tax liabilities. 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.

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

After netting, the deferred tax liabilities amounted to €288,985 thousand. This was mainly due to the deferred taxes resulting from the technical provisions (€199,667 thousand) and to investments (€144,940 thousand). Deferred tax liabilities are not discounted.

Insurance and intermediaries payables

All amounts due in connection with the insurance business to insurance companies, policyholders, and insurance intermediaries are reported under insurance and intermediaries payables¹⁾.

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

Due to use of the nominal amount as the economic value, there are no valuation differences.

Reinsurance payables

Reinsurance payables comprise all amounts due in connection with the reinsurance business, excluding deposits.

¹⁾ Insurance payables for the most part refer to liabilities to policyholders.

Reinsurance payables are recognized at their settlement value. As they have no active market and because of the short-term nature of these liabilities (due within twelve months), the nominal amount can be used as a proxy for the economic value.

Due to use of the nominal amount as the economic value, there are no valuation differences.

Payables (trade, not insurance)

All non-insurance-related liabilities are reported under payables (trade, not insurance). This includes obligations to employees, suppliers, and public bodies.

As is the case under HGB, the economic value of those of a short-term nature (maturing within twelve months) is based on the nominal amount. If the maturity period of the payables is longer (more than twelve months), the economic value is determined using the present value method.

Due to use of the nominal amount as the economic value, there are no valuation differences.

Subordinated liabilities

These are liabilities that, in the event of insolvency or liquidation of the Company, will be paid only after all the claims of other, non-subordinated creditors have been settled.

The subordinated liabilities in basic own funds were issued by way of private placement to improve the own funds used to determine the solvency ratio. The registered bond has a fixed maturity of ten years and will be redeemed in 2024. The subordinated bearer bonds are recognized at their settlement amount. These bonds are not tradable 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. This results in an interest rate that is lower than the bond's nominal interest rate and in a valuation difference.

Any other liabilities, not elsewhere shown

Included under this item are all liabilities that are not recorded in other balance sheet line items. They are generally current liabilities.

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

There are therefore no differences in their recognition and valuation on the HGB and Solvency II balance sheets.

Please refer to chapter A.4 'Performance of Other Activities' of this report for disclosures relating to **leases**.

D.4 Alternative Methods for Valuation

Alternative valuation methods are required if there are no active markets for assets, technical provisions, and other liabilities in which prices can be obtained. Active markets are essential for finding market prices. An active market is one in which homogeneous items are traded among willing buyers and sellers at publicly quoted prices.

If the criteria of an active market are not satisfied for the purposes of determining economic values using the mark-to-market approach (**level 1**) or the marking-to-market approach (**level 2**), alternative valuation methods are used (**level 3**).

Simplification techniques are applied under the alternative valuation methods. Article 9 (4) of Delegated Regulation 2015/35 permits the use of **proportionality, timing, and materiality** as the central assessment criteria for use of a simplification.

Please see the separate reports of the individual companies for an aggregation of the material items in accordance with the valuation hierarchy.

To validate recognition at nominal amount, the ARAG Group uses an internal valuation hierarchy that is agreed with the external auditor and reviewed regularly.

No assumptions or judgments were made, including about the future or other major sources of uncertainty.

D.5 Any Other Information

The economic impact of the COVID-19 pandemic on the ARAG Group's results of operations also has consequences for its net assets and financial position. Material impacts, especially in relation to investments, are influenced by the capital market environment. Any changes that arise are reflected in the individual market values and reduce the excess of assets over liabilities accordingly as of the reporting date. Depending on what changes, there could be a knock-on effect on the technical provisions. As of the reporting date, the trends in the capital markets in 2021 had had no significant impact on the excess of assets over liabilities.

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

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

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E.1 Own Funds

Objectives, guidance, and procedures for managing own funds

In 2021, Solvency II balance sheets were prepared for the planning horizon on the basis of the budgeted results of operations. The internal capital management guidance states that if it is identified that solvency coverage is about to fall below a threshold value that is higher than the value specified by BaFin, various measures should be considered to offset the fall in the level of coverage.

If such a situation were to be identified, the governing bodies would, in accordance with the escalation path specified in the capital management policy, inform the Company's Management Board and draw up various measures and examine them as to their suitability. These measures would then be proposed to the decision-making bodies for potential implementation. The examination of suitability involves assessing when the measures could be realized, what effect they would have, and whether multiple measures could be implemented in parallel.

In view of the existing solvency profile, a scenario in which the coverage ratio falls to a level below the minimum coverage ratio specified in the business policy (see chapter B.3 'Risk Management System Including the Own Risk and Solvency Assessment'), or below regulatory requirements, is not considered realistic in the short to medium term. If, contrary to expectations, too great a fall in solvency coverage were to materialize in the medium term, the following measures would be considered with a view to increasing own funds:

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

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

In 2021, the Company did not identify any need to strengthen components of basic own funds within its planning horizon. Accordingly, none of the measures listed above were drawn up or submitted to the decision-making bodies for implementation.

Components and quality of own funds and other information regarding own funds

As of December 31, 2021, the Group held an excess of assets over liabilities of €2,026,452 thousand (December 31, 2020: €1,729,595 thousand) according to the Solvency II balance sheet. The Company's minimum capital requirement (MCR) as of the reporting date was €265,354 thousand (December 31, 2020: €257,538 thousand) and the solvency capital requirement (SCR) was €629,246 thousand (December 31, 2020: €537,010 thousand).

It also had a subordinated liability (issued by ARAG SE) of €32,023 thousand classified as own funds. This registered bond has a fixed maturity of ten years and will be

redeemed in 2024. In the event of liquidation, it will be subordinate to all other liabilities. In addition, there was a deduction (ring-fenced fund) of €43,602 thousand in accordance with article 81 (1) of Delegated Regulation (EU) 2015/35.

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 €1,864,243 thousand to cover the solvency and minimum capital requirement (December 31, 2020: €1,607,407 thousand), split between the different capital classes as follows: Tier 1 own funds of €1,832,220 thousand (December 31, 2020: €1,574,625 thousand), Tier 2 own funds of €32,023 thousand (December 31, 2020: €32,779 thousand), and Tier 3 own funds of €0 thousand (December 31, 2020: €2 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, 2021	Dec. 31, 2020
Equity as of December 31 on the HGB balance sheet	613,969	574,215
Revaluation of investments with recognition of deferred taxes	559,842	530,419
Revaluation of technical provisions with recognition of deferred taxes	850,799	663,758
Revaluation of pension and other post-employment benefit obligations with recognition of deferred taxes	455	- 18,565
Revaluation of HGB deferred taxes	562	1,153
Revaluation of miscellaneous items with recognition of deferred taxes	824	- 21,386
Excess of assets over liabilities according to the Solvency II balance sheet	2,026,452	1,729,595
Additional basic own funds resulting from subordinated liabilities	32,023	32,779
Dividend distribution (foreseeable dividend)	- 10,000	- 10,000
Deduction (ring-fenced fund)	- 43,602	0
Reduction in restricted Group own funds	- 109,107	- 116,022
Adjustment for non-controlling interests	- 31,522	- 28,945
Total own funds as of December 31 that are eligible to cover the solvency capital requirement	1,864,243	1,607,407

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

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

Impact of the COVID-19 pandemic on own funds

The extent to which the COVID-19 pandemic affected the excess of assets over liabilities did not prove to be material. There was neither a pronounced sharp decline in the market values of the assets nor an observable increase in technical provisions. At the time this report was prepared, it was not possible to reliably estimate the long-term impact of the COVID-19 pandemic on own funds.

Information on deferred taxes

The ARAG Group netted deferred taxes in accordance with the guideline described in chapter D.1 'Assets' for the first time; in chapter D.3 'Other Liabilities', it only recognized deferred tax liabilities, which are not discounted.

This net deferred tax liability was taken into account in an initial analysis of the recoverability of deferred tax assets. The analysis was based on the timing of the reversal effects, with the time until reversal of the deferred tax expense shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit.

Deferred tax liabilities totaling €288,985 thousand were recognized in the table 'Reconciliation of the equity on the HGB balance sheet to eligible own funds'. The calculation of deferred taxes takes into account applicable tax legislation and tax rates. Recognition under Tier 3 is not necessary due to the excess of deferred tax liabilities.

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	1,772,849	1,772,849	0	0
Reduction in restricted Group own funds	-109,107	-109,107	0	0
Adjustment for non-controlling interests	-31,522	-31,522	0	0
Basic own funds	1,832,220	1,832,220	0	0
Ancillary own funds (subordinated liabilities)	32,023	0	32,023	0
Own funds as of December 31 that are eligible to cover the solvency capital requirement	1,864,243	1,832,220	32,023	0

The reconciliation reserve amounted to €1,772,849 thousand and predominantly consisted of HGB revenue reserves of €366,989 thousand and valuation differences of €1,412,482 thousand. As of December 31, 2021, the Company's eligible own funds were €258,837 thousand higher than they had been a year earlier. The main reason for this increase was that the assets, particularly investments (see chapter D.1 'Assets'), rose more sharply than the liabilities.

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

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

The solvency capital requirement increased by 17.2 percent year on year, from €537,010 thousand to €629,246 thousand. Please refer to chapter C. 'Risk Profile' for further information on the changes in the individual risks. Of the solvency capital requirement, €595,369 thousand related to the core group and €33,877 thousand to the non-controlled participations (NCPs). At 296.3 percent, the coverage ratio is significantly higher than the regulatory requirement and, in the ARAG Group's view, constitutes a substantial risk buffer, particularly for customers. As of the reporting date, the coverage ratio was 3.1 percentage points lower than the equivalent figure as of December 31, 2020 (299.3 percent).

To monitor the effect on the solvency situation of current developments, such as the COVID-19 pandemic and the war in Ukraine, rough calculations of the solvency situation are performed on a weekly basis in addition to the quarterly risk calculations. These calculations have consistently showed a comfortable level of coverage.

Not even the torrential rain brought about by low-pressure weather system Bernd had a significant impact on the solvency situation in 2021, in part due to the reinsurance program.

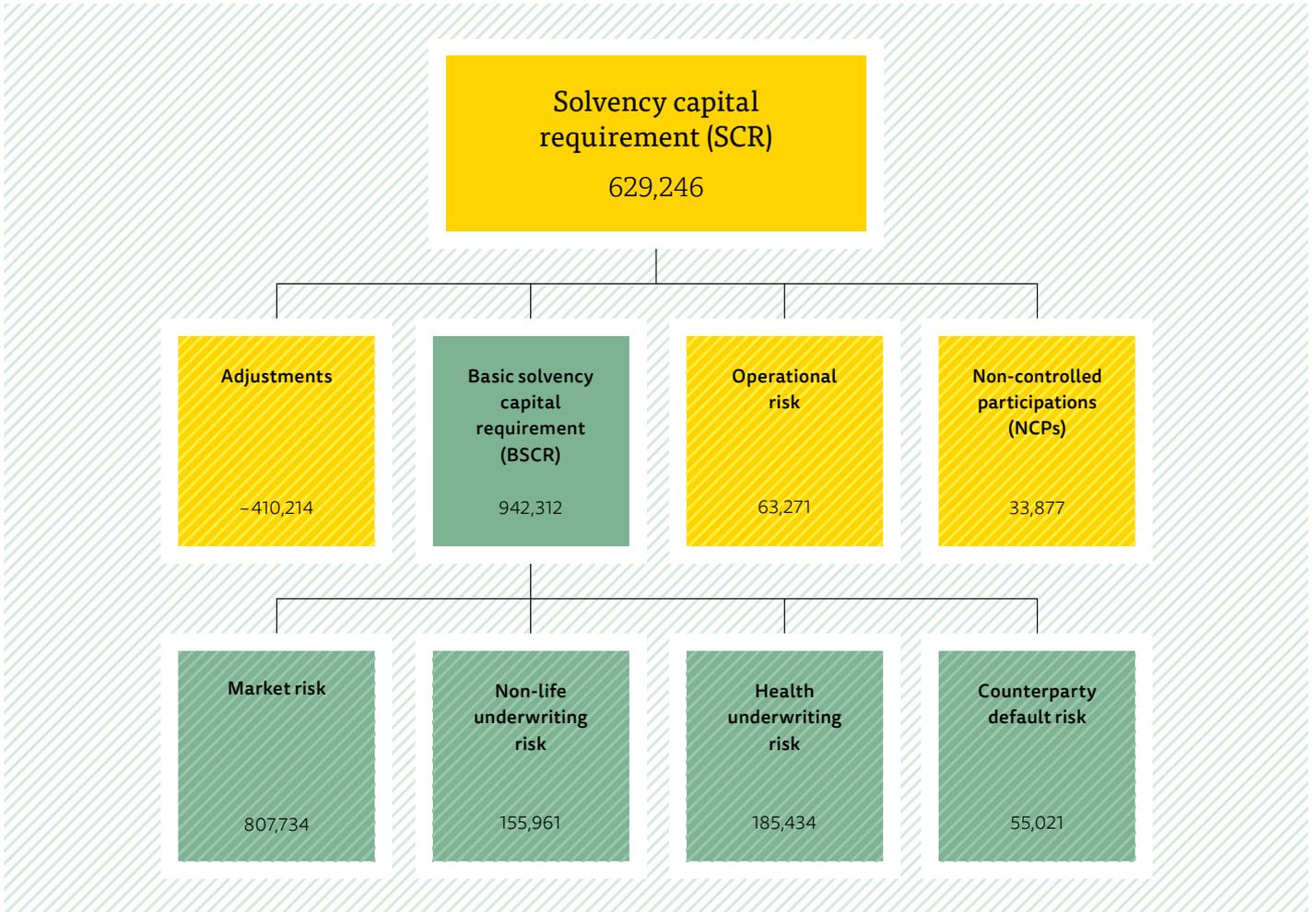
Neither a simplified calculation of the SCR standard formula nor undertaking-specific parameters (USPs) are used in any of the modules.

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, 2021, the minimum capital requirement came to €265,354 thousand (December 31, 2020: €257,538 thousand), of which €257,999 thousand related to participating insurance undertakings and €7,355 thousand to NCPs. The minimum capital requirement equates to 42.2 percent of the current solvency capital requirement, which means that the coverage ratio for the minimum capital requirement as of the reporting date was 702.5 percent (December 31, 2020: 624.1 percent).

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

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

EIOPA risk tree for the ARAG Group (ARAG Holding SE) (€'000)



Solvency capital requirement (SCR) is the amount of own funds required to be held in case of an unlikely but large loss.

Adjustments contain the loss-absorbing capacity of technical provisions and deferred taxes.

Basic solvency capital requirement (BSCR) is the sum of the aggregated individual risks (taking into account diversification effects) or the solvency capital requirement (SCR) before adjustments, operational risk (OpRisk), and any non-controlled participations (NCPs).

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

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

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

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

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

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

In the transition from the basic solvency capital requirement (BSCR) to the solvency capital requirement (SCR), a risk-mitigating effect from deferred taxes in an amount of €113,604 thousand was applied. This effect is calculated from the adjustments resulting from deferred taxes of the individual companies to be aggregated, taking diversification into account. Projected future profits are not factored in for any of the companies for the purposes of determining the loss-absorbing capacity of the deferred taxes. The risk-mitigating effect resulted solely from the netted deferred tax liability. Further information on deferred taxes can be found in chapters D.1, D.3, and E.1.

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 is one of the main reasons why a partial internal model is used for the ARAG Group. The ARAG Group's specific risk profile cannot be accurately reflected using the standard formula.

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

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

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

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

Probability distribution forecast

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

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

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

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

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

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

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

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

Sub-module	Standard formula	Internal model
Premium and reserve risk	A factor-based approach is used in the standard formula. The standard volatility factors (market average) for each line of business are applied to the relevant volume measure (reserve or premiums). Specified correlation parameters are used in a linear correlation approach. Regional diversification is taken into account.	In the partial internal model, casualty and property insurance and legal insurance are broken down into groups of risks sharing similar characteristics and these risk groups form the ARAG segments. The risk calculation is based on company-specific data and internal calibration. Reinsurance is more precisely reflected in the model, especially in relation to major losses. In addition, there is diversification across segments and countries. The aggregation method follows a copula approach. Well-established actuarial methods are used.
Lapse risk	Lapse risk is quantified using a factor approach.	A lapse distribution is modeled, with calibration based on company-specific data.
Large claims caused by people	Predefined scenarios in the standard formula.	This module is part of premium risk. A committee of experts specifies company-specific scenarios that are used to calibrate the risk model.
Legal insurance accumulation risk	Not taken into account in the standard formula.	Accumulation events represent a heightened risk in the legal insurance business. ARAG therefore models these losses with its own data using a distribution of the number and of the amount of claims.
Natural disaster risk	Predefined scenarios in the standard formula.	Natural disaster risk is part of premium risk and quantified with special geophysical models. The company-specific portfolio is used for this purpose.
Longevity and cost risk	Longevity and cost risk are quantified using predefined stress scenarios.	Longevity and cost risk are handled in the same way as in the calibration of 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 underwriting risk, market risk, and default risk amounted to €261,837 thousand. Diversification effects arise if the risks to be aggregated are independent or only partially dependent on each other. Key diversification factors include, for example:

- Classes of insurance or segments: legal insurance claims involving private or small business customers, as well as accident and liability risks
- Sub-modules: natural disaster risks and risks caused by people
- Regions: losses in different countries

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

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

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

Non-life underwriting risk/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	0
Pension benefit surplus	R0050	295
Property, plant & equipment held for own use	R0060	299,632
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	5,683,910
Property (other than for own use)	R0080	105,869
Holdings in related undertakings, including participations	R0090	28,223
Equities	R0100	16,434
Equities – listed	R0110	13,092
Equities – unlisted	R0120	3,341
Bonds	R0130	3,412,325
Government bonds	R0140	1,363,459
Corporate bonds	R0150	1,995,372
Structured notes	R0160	32,425
Collateralized securities	R0170	21,069
Collective investment undertakings	R0180	2,074,176
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	46,868
Other investments	R0210	16
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	4,142
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	76
Other loans and mortgages	R0260	4,066
Reinsurance recoverables from:	R0270	37,759
Non-life and health similar to non-life	R0280	37,759
Non-life excluding health	R0290	33,814
Health similar to non-life	R0300	3,945
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	0
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	68,588
Insurance and intermediaries receivables	R0360	153,989
Reinsurance receivables	R0370	13,623
Receivables (trade, not insurance)	R0380	44,986
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	188,882
Any other assets, not elsewhere shown	R0420	28,316
Total assets	R0500	6,524,122

S.02.01.02

Balance sheet

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	1,243,361
Technical provisions – non-life (excluding health)	R0520	1,185,504
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	1,138,550
Risk margin	R0550	46,954
Technical provisions – health (similar to non-life)	R0560	57,858
Technical provisions calculated as a whole	R0570	0
Best estimate	R0580	55,231
Risk margin	R0590	2,627
Technical provisions – life (excluding index-linked and unit-linked)	R0600	2,328,902
Technical provisions – health (similar to life)	R0610	2,323,109
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	2,295,740
Risk margin	R0640	27,369
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	5,792
Technical provisions calculated as a whole	R0660	0
Best estimate	R0670	5,723
Risk margin	R0680	69
Technical provisions – index-linked and unit-linked	R0690	0
Technical provisions calculated as a whole	R0700	0
Best estimate	R0710	0
Risk margin	R0720	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	139,464
Pension benefit obligations	R0760	327,572
Deposits from reinsurers	R0770	11
Deferred tax liabilities	R0780	288,985
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance and intermediaries payables	R0820	74,161
Reinsurance payables	R0830	552
Payables (trade, not insurance)	R0840	59,957
Subordinated liabilities	R0850	32,023
Subordinated liabilities not in basic own funds	R0860	0
Subordinated liabilities in basic own funds	R0870	32,023
Any other liabilities, not elsewhere shown	R0880	2,682
Total liabilities	R0900	4,497,670
Excess of assets over liabilities	R1000	2,026,452

S.05.01.02

Premiums, claims and expenses by line of business

		Medical expense insurance C0010	Income protection insurance C0020
Premiums written			
Gross – direct business	R0110	3,545	56,226
Gross – proportional reinsurance accepted	R0120	0	0
Gross – non-proportional reinsurance accepted	R0130	-	-
Reinsurers' share	R0140	15	2,225
Net	R0200	3,530	54,001
Premiums earned			
Gross – direct business	R0210	3,536	56,321
Gross – proportional reinsurance accepted	R0220	0	0
Gross – non-proportional reinsurance accepted	R0230	-	-
Reinsurers' share	R0240	15	2,229
Net	R0300	3,521	54,092
Claims incurred			
Gross – direct business	R0310	883	16,625
Gross – proportional reinsurance accepted	R0320	0	0
Gross – non-proportional reinsurance accepted	R0330	-	-
Reinsurers' share	R0340	0	1,469
Net	R0400	883	15,156
Changes in other technical provisions			
Gross – direct business	R0410	0	31
Gross – proportional reinsurance accepted	R0420	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-
Reinsurers' share	R0440	0	0
Net	R0500	0	31
Expenses incurred	R0550	1,989	29,392
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	618	73	0	117,870	49,463	0
0	0	0	0	45	0	0
-	-	-	-	-	-	-
0	618	73	0	5,379	2,521	0
0	0	0	0	112,536	46,942	0
0	618	73	0	115,984	49,396	0
0	0	0	0	45	0	0
-	-	-	-	-	-	-
0	618	73	0	5,374	2,521	0
0	0	0	0	110,655	46,876	0
0	108	196	0	75,794	8,430	0
0	0	0	0	4	0	0
-	-	-	-	-	-	-
0	395	208	0	21,870	1,280	0
0	-287	-12	0	53,928	7,150	0
0	-8	8	0	24	17	0
0	0	0	0	0	0	0
-	-	-	-	-	-	-
0	0	0	0	0	0	0
0	-8	8	0	24	17	0
0	17	114	0	65,908	28,327	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	967,638	34,209	9,997
Gross – proportional reinsurance accepted	R0120	283,318	13,207	343
Gross – non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	1,194	56	4
Net	R0200	1,249,763	47,359	10,335
Premiums earned				
Gross – direct business	R0210	956,545	33,599	10,363
Gross – proportional reinsurance accepted	R0220	278,916	13,145	371
Gross – non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	1,142	56	4
Net	R0300	1,234,319	46,688	10,730
Claims incurred				
Gross – direct business	R0310	384,416	12,753	1,869
Gross – proportional reinsurance accepted	R0320	84,386	11,506	24
Gross – non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	-67	103	0
Net	R0400	468,870	24,156	1,893
Changes in other technical provisions				
Gross – direct business	R0410	21	-4	1
Gross – proportional reinsurance accepted	R0420	0	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	21	-4	1
Expenses incurred	R0550	680,972	26,784	6,013
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
-	-	-	-		1,239,638
-	-	-	-		296,913
0	0	0	0		-
0	0	0	0		12,084
0	0	0	0		1,524,467
-	-	-	-		1,226,435
-	-	-	-		292,477
0	0	0	0		-
0	0	0	0		12,032
0	0	0	0		1,506,880
-	-	-	-		501,074
-	-	-	-		95,920
0	0	0	0		-
0	0	0	0		25,257
0	0	0	0		571,738
-	-	-	-		90
-	-	-	-		0
0	0	0	0		-
0	0	0	0		0
0	0	0	0		90
0	0	0	0		839,516
-	-	-	-		1,864
-	-	-	-		841,380

S.05.01.02

Premiums, claims and expenses by line of business

		Health insurance	Insurance with profit participation
		C0210	C0220
Premiums written			
Gross	R1410	480,884	0
Reinsurers' share	R1420	260	0
Net	R1500	480,624	0
Premiums earned			
Gross	R1510	480,058	0
Reinsurers' share	R1520	260	0
Net	R1600	479,798	0
Claims incurred			
Gross	R1610	243,388	0
Reinsurers' share	R1620	88	0
Net	R1700	243,301	0
Changes in other technical provisions			
Gross	R1710	- 123,214	0
Reinsurers' share	R1720	0	0
Net	R1800	- 123,214	0
Expenses incurred	R1900	129,480	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	667,775
Gross – proportional reinsurance accepted	R0120	45,148
Gross – non-proportional reinsurance accepted	R0130	0
Reinsurers' share	R0140	11,376
Net	R0200	701,547
Premiums earned		
Gross – direct business	R0210	661,400
Gross – proportional reinsurance accepted	R0220	45,158
Gross – non-proportional reinsurance accepted	R0230	0
Reinsurers' share	R0240	11,376
Net	R0300	695,182
Claims incurred		
Gross – direct business	R0310	348,442
Gross – proportional reinsurance accepted	R0320	42,250
Gross – non-proportional reinsurance accepted	R0330	0
Reinsurers' share	R0340	24,857
Net	R0400	365,835
Changes in other technical provisions		
Gross – direct business	R0410	47
Gross – proportional reinsurance accepted	R0420	0
Gross – non-proportional reinsurance accepted	R0430	0
Reinsurers' share	R0440	0
Net	R0500	47
Expenses incurred	R0550	350,231
Other expenses	R1200	-
Total expenses	R1300	-

Top 5 countries (by amount of gross premiums written) - non-life obligations						Total top 5 and home country
C0020	C0030	C0040	C0050	C0060	C0070	
AT	IT	NL	ES	US	-	
C0090	C0100	C0110	C0120	C0130	C0140	
79,048	38,119	103,493	94,045	137,573	1,120,052	
0	131,995	72,127	42,655	0	291,925	
0	0	0	0	0	0	
3	0	0	326	0	11,704	
79,045	170,114	175,620	136,374	137,573	1,400,273	
78,213	37,909	103,836	90,634	137,695	1,109,686	
0	128,467	72,042	42,127	2	287,797	
0	0	0	0	0	0	
3	0	0	326	0	11,704	
78,210	166,376	175,877	132,435	137,697	1,385,778	
21,695	1,561	7,280	25,490	53,467	457,935	
-3	15,872	9,615	27,223	-26	94,931	
0	0	0	0	0	0	
-3	0	0	173	0	25,028	
21,695	17,433	16,895	52,540	53,440	527,839	
43	0	0	0	0	90	
0	0	0	0	0	0	
0	0	0	0	0	0	
0	0	0	0	0	0	
43	0	0	0	0	90	
36,353	129,156	151,510	68,564	35,659	771,473	
-	-	-	-	-	1,864	
-	-	-	-	-	773,336	

S.05.02.01

Premiums, claims and expenses by country

		Home country
		C0150
	R1400	-
		C0220
Premiums written		
Gross	R1410	480,884
Reinsurers' share	R1420	260
Net	R1500	480,624
Premiums earned		
Gross	R1510	480,058
Reinsurers' share	R1520	260
Net	R1600	479,798
Claims incurred		
Gross	R1610	243,388
Reinsurers' share	R1620	88
Net	R1700	243,301
Changes in other technical provisions		
Gross	R1710	- 123,214
Reinsurers' share	R1720	0
Net	R1800	- 123,214
Expenses incurred	R1900	129,480
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	109,107	109,107	-	-	-
R0090		-			
R0100		-			
R0110		-			
R0120		-			
R0130	1,772,849	1,772,849	-	-	-
R0140	32,023	-	0	32,023	0
R0150	0	-	0	0	0
R0160	0	-	-	-	0
R0170	0	-	-	-	0
R0180					
R0190					
R0200	0	0	0	0	0
R0210	31,522	31,522	0	0	0
	-	-	-	-	-
R0220		-	-	-	-
	-	-	-	-	-
R0230	0	0	0	0	-
R0240	0	0	0	0	
R0250	0	0	0	0	0
R0260					
R0270	140,629	140,629	0	0	0
R0280	140,629	140,629	0	0	0
R0290	1,864,243	1,832,220	0	32,023	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	0	0	0	0	-
R0420	0	0	0	0	-
R0430	0	0	0	0	-
R0440	0	0	0	0	-
	-	-	-	-	-
R0450					
R0460					
	-	-	-	-	-
R0520	1,864,243	1,832,220	0	32,023	0
R0530	1,864,243	1,832,220	0	32,023	-
R0560	1,864,243	1,832,220	0	32,023	0
R0570	1,864,243	1,832,220	0	32,023	-
R0610	265,354	-	-	-	-
R0650	7.03	-	-	-	-
R0660	1,864,243	1,832,220	0	32,023	0
R0680	629,246	-	-	-	-
R0690	2.96	-	-	-	-
	C0060				
	-	-	-	-	-
R0700	2,026,452	-	-	-	-
R0710	0	-	-	-	-
R0720	10,000	-	-	-	-
R0730	200,000	-	-	-	-
R0740	43,602	-	-	-	-
R0750	0	-	-	-	-
R0760	1,772,849	-	-	-	-
	-	-	-	-	-
R0770	171,495	-	-	-	-
R0780	188,124	-	-	-	-
R0790	359,619	-	-	-	-

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	807,734				
Counterparty default risk	55,021				
Life underwriting risk					
Health underwriting risk	185,434				
Non-life underwriting risk	155,961		155,961		
Intangible asset risk	0				
Operational risk	63,271				
LAC technical provisions	- 296,610				
LAC deferred taxes	- 113,604				
	C0100				
R0110	857,206				
R0060	- 261,837				
R0160	0				
R0200	595,369				
R0210	0				
R0220	629,246				
	-				
R0300	- 296,610				
R0310	- 113,604				
R0400	0				
R0410	0				
R0420	0				
R0430	0				
R0440	0				
R0470	265,354				
	-				
R0500	0				
R0510	0				
R0520	0				
R0530	0				
R0540	33,877				
R0550	0				
	C0100				
	-				
R0560	0				
R0570	629,246				

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Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory authority
DE	LEI/3912000Y ELENA3B7JK17	LEI	AFI Verwaltungs-Gesellschaft mbH	Insurance holding company as defined in Art. 212 (1) [f] of Directive 2009/138/EC	Gesellschaft mit beschraenkter Haftung	Non-mutual	
DE	LEI/3912006MZ NEOF4M2XK19	LEI	ARAG Allgemeine Versicherungs-AG	Non-Life undertakings	Aktiengesellschaft	Non-mutual	BAFIN
DE	LEI/391200GWE MT1F0BUHB43	LEI	Interlloyd Versicherungs-AG	Non-Life undertakings	Aktiengesellschaft	Non-mutual	BAFIN
DE	LEI/391200MYF HRLCFWAH448	LEI	ARAG Holding SE	Insurance holding company as defined in Art. 212 (1) [f] of Directive 2009/138/EC	European Company (SE)	Non-mutual	
DE	LEI/391200QKN ZJ8J1XWFE16	LEI	ARAG SE	Non-Life undertakings	European Company (SE)	Non-mutual	BAFIN
DE	LEI/391200SFA XHRCQQ62T14	LEI	ARAG Krankenversicherungs-AG	Life undertakings (s2c_SE:x95)	Aktiengesellschaft	Non-mutual	BAFIN
DE	LEI/391200XP6 U3WBFO71B39	LEI	ARAG Gesundheits Services GmbH (AGS)	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual	
CA	LEI/894500AR8 IGMN9T9JH42	LEI	ARAG Legal Solutions Inc., Canada	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Incorporated	Non-mutual	
AU	SC/391200MYFHRLC FWAH448AU10065	SC	ARAG Services Australia Pty Ltd., Sydney, Australia	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Proprietary limited company	Non-mutual	
CA	SC/391200MYFHRLC FWAH448CA10060	SC	ARAG Services Corporation	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Corporation	Non-mutual	

Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
100.00 %	100.00 %					Included into scope of group supervision		Method 1: Full consolidation
100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
94.01 %	94.01 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
100.00 %	94.00 %				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

CH	SC/391200MYFHRLC FWAH448CH10058	SC	AXA-ARAG Rechtsschutz- versicherungs- Gesellschaft	Non-Life undertakings Insurance holding company as defined in Art. 212 (1) [f] of Direc- tive 2009/138/EC	Aktienge- sellschaft	Non-mutual	Swiss Financial Market Super- visory Authority
DE	SC/391200MYFHRLC FWAH448DE10001	SC	ARAG Inter- national Holding 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/391200MYFHRLC FWAH448DE10002	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 Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual	
DE	SC/391200MYFHRLC FWAH448DE10003	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	Non-mutual	
DE	SC/391200MYFHRLC FWAH448DE10004	SC	ALIN 1 Ver- waltungs-GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual	
DE	SC/391200MYFHRLC FWAH448DE10005	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	Non-mutual	
DE	SC/391200MYFHRLC FWAH448DE10006	SC	ALIN 2 Ver- waltungs-GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual	
DE	SC/391200MYFHRLC FWAH448DE10009	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	Non-mutual	
DE	SC/391200MYFHRLC FWAH448DE10010	SC	ALIN 4 Ver- waltungs-GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual	
DE	SC/391200MYFHRLC FWAH448DE10011	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	

									Method 1: Adjusted equity method
	29.17 %	29.17 %			Significant	29.17 %	Included into scope of group supervision		
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	94.90 %	94.90 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	94.01 %	94.01 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	94.01 %	94.01 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation

DE	SC/391200MYFHRLC FWAH448DE10012	SC	ARAG Liegen- schaftsver- waltungs- und Beratungs-Ge- sellschaft 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/391200MYFHRLC FWAH448DE10013	SC	ARAG Liegen- schaftsverwal- tungs- und Be- ratungs-GmbH & Co. Immobilien KG	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung und Compagnie Kommandit- gesellschaft	Non-mutual		
DE	SC/391200MYFHRLC FWAH448DE10014	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/391200MYFHRLC FWAH448DE10015	SC	CUR Versicherungs- makler 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/391200MYFHRLC FWAH448DE10017	SC	Cura Ver- sicherungsver- mittlung GmbH VIF Gesellschaft für Versicherungs- vermittlung 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		
DE	SC/391200MYFHRLC FWAH448DE10019	SC		Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Gesellschaft mit beschraenkter Haftung	Non-mutual		
DE	SC/391200MYFHRLC FWAH448DE10022	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		
DE	SC/391200MYFHRLC FWAH448DE10031	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/391200MYFHRLC FWAH448DE10042	SC	Prinzregent Vermögensver- waltungs-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	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method
	75.10 %	84.79 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	100.00 %			Dominant	100.00 %	Included into scope of group supervision		Method 1: Full consolidation
	100.00 %	0.00 %			Dominant	0.00 %	Included into scope of group supervision		Other Method

DE	SC/391200MYFHRLC FWAH448DE10055	SC	ARCAP Beteiligungsverwaltung GmbH & Co. Columbus Immobilien Fonds XVI "München" KG	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommanditgesellschaft	Non-mutual
DE	SC/391200MYFHRLC FWAH448DE10056	SC	ARCAP Beteiligungsverwaltung GmbH & Co. Columbus Immobilien Fonds X KG	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung und Compagnie Kommanditgesellschaft	Non-mutual
DE	SC/391200MYFHRLC FWAH448DE10057	SC	Justix GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual
DE	SC/391200MYFHRLC FWAH448DE12014	SC	HelloLaw GmbH	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Gesellschaft mit beschränkter Haftung	Non-mutual
ES	SC/391200MYFHRLC FWAH448ES10023	SC	Agencia de Seguros ARAG S.A.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Sociedad Anonima	Non-mutual
ES	SC/391200MYFHRLC FWAH448ES10024	SC	ARAG Services Spain & Portugal S. L.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Sociedad de Responsabilidad Limitada	Non-mutual
FR	SC/391200MYFHRLC FWAH448FR10043	SC	ARAG - France Assistance et Règlement de Sinistres Automobiles et Généraux S.A.R.L.	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Société à responsabilité limitée (SARL)	Non-mutual
GB	SC/391200MYFHRLC FWAH448GB10048	SC	ARAG plc	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Public Limited Company	Non-mutual
GB	SC/391200MYFHRLC FWAH448GB10058	SC	Easy2claim Limited, Bristol/UK	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited	Non-mutual
IE	SC/391200MYFHRLC FWAH448IE10063	SC	ARAG Legal Protection Ltd., Ireland	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Limited	Non-mutual

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

IT	SC/391200MYFHRLC FWAH448IT10063	SC	Multiline Insurance Agency (MIA) S. r. l.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Private limited company	Non-mutual	
NL	SC/391200MYFHRLC FWAH448NL10044	SC	ARAG Legal Services B.V.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Besloten Vennootschap	Non-mutual	
NL	SC/391200MYFHRLC FWAH448NL10046	SC	JuroFoon B.V.	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Besloten Vennootschap	Non-mutual	
NO	SC/391200MYFHRLC FWAH448NO10061	SC	ARAG Scandinavia AS	Insurance holding company as defined in Art. 212 (1) [f] of Direc- tive 2009/138/EC	Aksjeselskap (AS)	Non-mutual	
NO	SC/391200MYFHRLC FWAH448NO10062	SC	ARAG Digital Services AS	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Aksjeselskap (AS)	Non-mutual	
US	SC/391200MYFHRLC FWAH448US10025	SC	ARAG, LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegat- ed Regulation (EU) 2015/35	Limited Liability Company	Non-mutual	
US	SC/391200MYFHRLC FWAH448US10057	SC	ARAG Insurance Company	Non-Life undertakings	Incorporated	Non-mutual	National Associa- tion of Insurance Commis- sioners
US	SC/391200MYFHRLC FWAH448US10059	SC	ARAG North America Inc.	Insurance holding company as defined in Art. 212 (1) [f] of Direc- tive 2009/138/EC	Incorporated	Non-mutual	
US	SC/391200MYFHRLC FWAH448US10060	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	Financial Super- visory Authority of Norway
NO	SC/981877888	SC	HELP Forsikring AS	Non-Life undertakings	Aksjeselskap (AS)	Non-mutual	

Further Information

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

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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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