

ARAG SE

2021 Solvency and Financial Condition Report



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 SE

Company

ARAG SE

Members of the Management Board and areas of responsibility

Speaker of the Management Board and Central Group Functions

Dr. Renko Dirksen

Sales, Products and Innovation

Dr. Matthias Maslaton

Group Finance

Wolfgang Mathmann

Group IT and Operations

Hanno Petersen

Group Risk Management and Group Controlling

Dr. Joerg Schwarze

Group Human Resources/Audit

Dr. Werenfried Wendler

Key Figures for ARAG SE

Gross premiums written:

€ 1,092 million

↗ 2020: €1,010 million

Net income for the year:

€ 23 million

↘ 2020: €64 million

Net combined ratio:

96.6%

↗ 2020: 95.1%

Eligible own funds:

€ 1,811 million

↗ 2020: €1,583 million

Solvency capital requirement:

€ 533 million

↗ 2020: €488 million

Solvency ratio:

339.5%

↗ 2020: 324.3%

Contents

Summary	6
.....	
A. Business and Performance	9
.....	
B. System of Governance	23
.....	
C. Risk Profile	49
.....	
D. Valuation for Solvency Purposes	59
.....	
E. Capital Management	81
.....	
Appendix	92
.....	
Further Information	115
.....	

Summary

Chapter A. Business and Performance

ARAG SE (also referred to as the Company) is the largest family-managed insurance company 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, ARAG SE recorded a further significant rise in gross premiums written, which were up by 8.2 percent to €1,092,403 thousand (2020: €1,009,786 thousand). The Company generated 55.0 percent of its total gross premium income outside Germany, making it one of the country's most globally oriented providers of legal insurance. On the benefit expenses side, gross expenses for claims incurred rose by €45,375 thousand to €555,260 thousand (2020: €509,885 thousand), which was mainly due to the acquisition of additional inward reinsurance business from Canada.

Under the German Commercial Code (HGB), the underwriting result after taking into account costs and before the change in the equalization provision decreased from €52,066 thousand to €37,929 thousand in the reporting year.

Gains and losses on investments deteriorated by €36,143 thousand to a net gain of €64,823 thousand (2020: €100,966 thousand). However, the net gain in the prior year had only been so high because of a non-recurring reversal of a write-down (one-off effect) amounting to €52,014 thousand. In spite of the prevailing general economic trend, the Company again generated sound net income for the year of €23,492 thousand (2020: €64,216 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 Company assesses whether these requirements are met.

Chapter B.3 describes the Company's 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 ARAG SE 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 two main risks influencing ARAG SE's risk profile are market risk and underwriting risk. The solvency capital requirement (SCR) for market risk is €515,683 thousand. The primary sub-risks in this regard are equity investment risk and credit risk (attaching to investments). Underwriting risk, for which the solvency capital requirement is €179,071 thousand, is mainly influenced by accumulation risk, premium risk, and reserve risk.

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 accounting rules under HGB require the strict or discretionary principle of lower of cost or market value to be applied. Consequently, the individual line items on the Solvency II balance sheet and HGB balance sheet are not directly comparable.

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 €6,998 thousand.

The Company 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 SCR for ARAG SE is €533,471 thousand. To cover this requirement, the Company has eligible own funds of €1,811,235 thousand, giving a coverage ratio of 339.5 percent. ARAG SE thus has a high level of capital adequacy, a clear sign of its financial strength.

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

The Company's minimum capital requirement is €185,307 thousand, which means the coverage ratio for the minimum capital requirement is 977.4 percent.

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

The Company 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

A.1 Business	10
.....	
A.2 Underwriting Performance	17
.....	
A.3 Investment Performance	20
.....	
A.4 Performance of Other Activities	22
.....	
A.5 Any Other Information	22
.....	

A.1 Business

General disclosures

Legal basis

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

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

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 or
 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 ARAG SE and holders of qualifying holdings

The ARAG Group¹⁾ comprises 48 Group companies, including seven insurance companies headquartered in Germany, Norway, Switzerland, and the US.

Indirectly, ARAG SE, Düsseldorf, is wholly owned by ARAG Holding SE, headquartered at ARAG Platz 1, 40472 Düsseldorf, which directly holds a 50.0 percent equity investment. The second shareholder is AFI Verwaltungs-Gesellschaft mbH, Düsseldorf, which holds a 50.0 percent equity investment in ARAG SE.

ARAG Holding SE holds all of the shares in AFI Verwaltungs-Gesellschaft mbH. ARAG SE is therefore a dependent company of ARAG Holding SE within the meaning of section 17 (1) of the German Stock Corporation Act (AktG). ARAG SE is responsible for the operational management of the insurance business of the ARAG Group, whose parent company is ARAG Holding SE.

ARAG SE is integrated into the set of main affiliated companies and associates listed below. The Company itself has a European branch structure, details of which can be found in the Appendix:

List of the main companies of ARAG SE

Name and location of registered office	Legal form	Type of business	Country	Direct share	Group's share
1 ARAG Holding SE, Düsseldorf	SE (European company)	Holding company	Germany	0.00 %	Group parent company
2 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	GmbH (private limited company)	Holding company	Germany	0.00 %	100.00 %
3 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	GbR (partnership under the German Civil Code)	Real estate management	Germany	50.90 %	94.90 %
4 ARAG Allgemeine Versicherungs-AG, Düsseldorf	AG (stock corporation)	Insurer	Germany	100.00 %	100.00 %
5 ARAG International Holding GmbH, Düsseldorf	GmbH	Holding company	Germany	100.00 %	100.00 %
6 ARAG IT GmbH, Düsseldorf	GmbH	IT	Germany	100.00 %	100.00 %
7 ARAG Krankenversicherungs-AG, Munich	AG	Insurer	Germany	94.00 %	94.00 %
8 ARAG Legal Solutions Inc., Toronto	Corporation	Service provider	Canada	100.00 %	100.00 %
9 ARAG North America, Inc., Des Moines	Corporation	Holding company	USA	100.00 %	100.00 %
10 ARAG plc, Bristol	plc (public limited company)	Service provider	United Kingdom	100.00 %	100.00 %
11 ARAG Service Center GmbH, Düsseldorf	GmbH	Service provider	Germany	80.00 %	100.00 %
12 Cura Versicherungsvermittlung GmbH, Düsseldorf	GmbH	Service provider	Germany	100.00 %	100.00 %
13 HELP Forsikring AS, Oslo	AS (private limited liability company)	Insurer	Norway	100.00 %	100.00 %
14 ALIN 1 GmbH & Co. KG, Düsseldorf	GmbH & Co. KG (limited partnership with a GmbH as general partner)	Asset manager	Germany	100.00 %	100.00 %
15 ALIN 1 Verwaltungs-GmbH, Düsseldorf	GmbH	Service provider	Germany	100.00 %	100.00 %
16 AXA-ARAG Rechtsschutz AG, Zurich	AG	Insurer	Switzerland	29.17 %	29.17 %

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

Description of the main affiliated companies and associates

1. ARAG Holding SE is the parent company of the ARAG Group from a company law perspective. It does not exercise influence in the sense of acting as an overarching Group management entity.
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, mainly the legal 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 International Holding GmbH is an intermediate holding company connecting selected strategic subsidiaries outside Germany (in the US and Canada) 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.
6. ARAG IT GmbH, which is located at the Düsseldorf site, primarily carries out data center activities and IT services for the ARAG Group.
7. 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.
8. 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.
9. ARAG North America Inc., USA, is the country-specific holding company for the ARAG Group's US business lines. It holds all of the shares in the three US operating subsidiaries.
10. ARAG plc, United Kingdom, works as an intermediary by brokering business with end customers and passing it on to primary insurers within and outside the ARAG Group. The bulk of claims settlement for the primary insurers is handled by ARAG plc itself.
11. ARAG Service Center GmbH is the customer service center for all German insurance companies in the ARAG Group, providing comprehensive assistance and mediation services and a telephone hotline around the clock.
12. Cura Versicherungsvermittlung GmbH brokers insurance business to third parties that the ARAG Group does not underwrite itself.

13. 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.
14. 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.
15. ALIN 1 Verwaltungs-GmbH is a company whose purpose is to acquire, hold, and manage shares in companies and various investments as well as to accept the general partner liability and handle management activities in connection with companies or partnerships structured in accordance with HGB. Its main object is to hold an equity investment in, and be the general and managing partner of, ALIN 1 GmbH & Co. KG.
16. AXA-ARAG Rechtsschutz AG (AXA-ARAG), Switzerland, is a legally independent subsidiary of AXA. It is also one of the leading providers of legal insurance in Switzerland, offering legal cover for families and businesses.

Dividend/profit-and-loss transfer agreements

ARAG SE received an amount of €11,816 thousand from ARAG Allgemeine Versicherungs-AG (ARAG Allgemeine) for 2021 (2020: €10,726 thousand) on the basis of a profit-and-loss transfer agreement. It also received a total of €40,792 thousand in dividend distributions from other companies during the reporting period (2020: €22,511 thousand).

The Management Board of ARAG SE is proposing to the Annual General Meeting that a dividend of €20,000 thousand be distributed to shareholders from the net retained profit for 2021.

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

Qualitative and quantitative disclosures on relevant events and significant intragroup transactions

ARAG SE performs centralized services for the insurance companies in the Group, such as investment management, risk management, and personnel development; it also manages overarching projects.

ALIN 1 GmbH & Co. KG, whose sole limited partner is ARAG SE, was formed in 2014 for the purpose of carrying out and managing investments in infrastructure funds and private equity funds. The general partner is ALIN 1 Verwaltungs-GmbH, which was established by ARAG SE, also in 2014, specifically to perform this general partner role.

ARAG IT GmbH, Düsseldorf, carries out consultancy services and data center activities for ARAG SE. They are settled at a price agreed between the parties.

ARAG SE and ARAG 2000 GbR have entered into a rental agreement concerning the use of office and storage space in Düsseldorf. The rental agreement covers extensive office, storage, and data center space as well as underground parking.

ARAG SE has contracts with all affiliated companies concerning the performance of services, insurance brokerage, the use of trademark rights, and support for and shared use of real estate, office furniture, and equipment. All of the contracts have been concluded on arm's-length terms.

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

Line of business

ARAG SE is the largest family-managed insurance company 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. The modular structure of these concepts means that insurance can be precisely tailored to the requirements of each customer. An important role is also played by customized legal insurance products designed for particular target groups.

The Company is a legal insurance provider focusing on private and small business customers. It is not involved in diversified corporate business with individual risks. Outside Germany, it also operates travel insurance business in connection with its provision of legal insurance.

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

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.

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

Insurance portfolio

At the end of the reporting year, ARAG SE had 4,677,789 in-force insurance policies (December 31, 2020: 4,527,606), of which 1,747,331 related to the business in Germany (December 31, 2020: 1,688,439) and 2,930,458 to international business (December 31, 2020: 2,839,167).

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 helped shape the German market with innovative products and services for more than 85 years, offering protection, security, and legal guidance to customers and consumers.

Continuing in this tradition, ARAG SE added further innovations to its portfolio of products in Germany in the reporting year. Its most recent innovation is a legal insurance product that was developed in the reporting year and launched on the market in spring 2022. This offers targeted support based on two product lines to customers who have already experienced a loss event: The integrated ‘immediate assistance’ 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 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

In 2021, ARAG SE had no significant insurance-specific events (such as major claims payouts) to report that materially affected its business performance.

Company changes

ARAG continued to pursue its strategy of internationalization in the reporting year and acquired all the shares in DAS Legal Protection Inc., Canada, with effect from March 15, 2021. The subsidiary 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.

There were no other changes to the structure of ARAG SE. Nor were there any changes in the Company's shareholdings, any personnel changes at senior management level, or any material changes in business activities in the reporting year.

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, ARAG SE 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. However, the Company is expecting to achieve a similarly healthy profit after taxes in 2022.

A.2 Underwriting Performance

Underwriting performance – overview

In the year under review, ARAG SE generated **income from gross premiums written** of €1,092,403 thousand (2020: €1,009,786 thousand). This increase was attributable to a rise in premiums of 7.0 percent in direct business in Germany and to growth of 6.1 percent in the international markets.

Claims incurred (gross) were up by 8.9 percent to €555,260 thousand (2020: €509,885 thousand). The claim settlement costs included in this figure amounted to €144,912 thousand (2020: €129,554 thousand). These costs are high relative to the payouts because, in the branches outside Germany, inhouse staff also perform the attorney services rendered in connection with the settlement of claims. Expenses for claims

incurred rose overall due to the growth of the insurance portfolio, the new quota-share reinsurance treaties that were entered into in Canada for inward reinsurance business, and the increase in attorney and court costs in the prior year. The claims ratio (net) based on the recognized claims incurred edged up from 50.8 percent to 51.6 percent.

The **change in other technical provisions (net)** amounted to income of €21 thousand (2020: income of €1,587 thousand).

Insurance business operating expenses (gross) increased year on year, from €443,518 thousand to €484,434 thousand. The acquisition costs included in this figure amounted to €114,337 thousand (2020: €100,338 thousand). At 45.0 percent, the cost ratio was slightly higher than in the prior year (2020: 44.2 percent). Administrative expenses climbed by 7.8 percent to €370,080 thousand (2020: €343,180 thousand). An increase in the commission rates of European primary insurers with which ARAG SE does indirect business was a key factor in this trend.

No **miscellaneous underwriting expenses (net) or other miscellaneous items** were incurred in 2021 or 2020.

The **underwriting result** in accordance with HGB net of reinsurance in 2021 amounted to €26,535 thousand (2020: €23,211 thousand). Based on the quantitative reporting required for regulatory purposes (see template S.05.01.02 in the Appendix), the underwriting result for the reporting period came to €29,333 thousand (2020: €42,309 thousand).

The following table shows this underwriting result with a reconciliation to the underwriting result in accordance with HGB, as published in the Company's 2021 Annual Report:

Underwriting result (net¹⁾)		
(€'000)	2021	2020
Premiums earned	1,076,242	1,002,567
Claims incurred (excluding claim settlement costs)	410,482	380,176
Changes in other technical provisions	21	1,587
Expenses incurred	636,448	581,669
Underwriting result in accordance with template S.05.01.02	29,333	42,309
Miscellaneous underwriting income	1,495	1,159
Expenses for investment management	-7,101	-8,598
Underwriting result in accordance with HGB²⁾	37,929	52,066
Change in the equalization provision and similar provisions	-11,394	-28,855
Underwriting result in accordance with HGB	26,535	23,211

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.

Key figures – by main line of business and main geographical area

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 incurred ³⁾	Claims incurred ³⁾
	2021	2020	2021	2020
Legal insurance	1,028,739	957,664	389,064	357,638
Assistance	39,227	35,913	20,839	22,051
Miscellaneous insurance	8,276	8,990	579	487
Total	1,076,242	1,002,567	410,482	380,176

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.

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	484,122	438,826	289,139	262,522
Netherlands	175,877	174,324	16,895	14,839
Italy	166,376	153,270	17,433	17,656
Spain	132,032	126,782	52,449	56,292
Austria	78,210	72,703	21,695	15,806
Other areas	39,625	36,662	12,871	13,601
Total	1,076,242	1,002,567	410,482	380,176

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.

Other insurance disclosures

The miscellaneous underwriting income of €1,495 thousand (2020: €1,159 thousand) largely comprised income from the costs for pre-court and court proceedings to recover debts.

No miscellaneous underwriting expenses (net) or other miscellaneous items were incurred in 2021 or 2020.

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 fell sharply from a net gain of €100,966 thousand to a net gain of €64,823 thousand. **Total income from investments** came to €86,927 thousand (2020: €119,622 thousand), mainly because there were far fewer reversals of write-downs than in the prior year, at €12,564 thousand (2020: €61,846 thousand). **Current income** from other investments advanced from €56,105 thousand to €72,488 thousand. This was mainly due to the increase in dividend income from affiliated companies and equity investments. The Company generated **extraordinary income** of €14,438 thousand in 2021 (2020: €63,517 thousand).

Total expenses from investments rose to €22,103 thousand (2020: €18,656 thousand), which was largely the result of an increase in write-downs, particularly at subsidiaries. **Current expenses** fell to €7,101 thousand (2020: €8,598 thousand), a change that was attributable to the repairs and fire protection measures that had been carried out in the prior year. **Sundry expenses** increased to €15,002 thousand (2020: €10,058 thousand) on account of the higher level of write-downs that were required at a subsidiary.

The net gains¹⁾ on investments of €64,823 thousand described above equated to a **net yield**²⁾ on investments of 2.9 percent (2020: 4.8 percent). The **current average yield**³⁾ on investments was 2.9 percent (2020: 2.3 percent).

The following table shows the breakdown of ARAG SE'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 ARAG SE's 2021 Annual Report.

Gains and losses on the investments of ARAG SE

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	Gains and losses on investments in 2020
Property, plant & equipment held for own use	3,011	0	0	0	844	1	2,167	2,830
Property (other than for own use)	1,476	68	6	901	389	1,533	518	55
Holdings in related undertakings, including participations	52,608	119	0	4,518	3,688	60	53,497	85,427
Equities – listed	19	60	0	0	0	0	78	-55
Equities – unlisted	5	0	0	0	0	0	5	24
Government bonds	4,043	266	8	136	1,569	0	2,867	3,895
Corporate bonds	8,447	525	73	73	3,061	0	5,910	8,007
Structured notes	163	837	0	0	0	0	1,000	0
Collateralized securities	0	0	0	0	0	0	0	1,437 ¹⁾
Collective investment undertakings	2,490	0	0	6,936	5,364	0	4,062	4,825
Derivatives	0	0	0	0	0	0	0	0
Deposits other than cash equivalents	2	0	0	0	0	357	-354	-342
Other investments	55	0	0	0	0	0	55	264
Deposits to cedants	169	0	0	0	0	0	169	187
Cash and cash equivalents	0	0	0	0	0	0	0	0
Current expense (unallocated)/loss transfers	0	0	0	0	0	5,152	-5,152	-5,589
Total	72,488	1,875	88	12,564	14,915	7,101	64,823	100,966

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 €790 thousand as of the reporting date (December 31, 2020: €826 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 went up from €112,282 thousand in 2020 to €116,956 thousand in the reporting year. This was mainly due to a rise in income from the reversal of provisions (€4,563 thousand) and in income from services (€2,498 thousand), offset by a year-on-year decrease in currency gains (€1,527 thousand) and in interest income (€1,955 thousand).

Other expenses increased from €155,488 thousand in 2020 to €162,330 thousand in the reporting year. This was mainly due to a rise in currency losses (€3,787 thousand), in expenses for services rendered (€1,782 thousand), and in expenses for the Company as a whole (€1,400 thousand).

Other net income/expense deteriorated from a net expense of €43,207 thousand in 2020 to a net expense of €45,373 thousand in the reporting year.

Tax income/expense

The tax expense amounted to €23,937 thousand in 2021 (2020: €13,384 thousand). This increase was the result of the absence of the one-effect from the prior year that had led to a branch receiving a tax rebate of €8,602 thousand.

Information on leases

A distinction is made between finance leases and operating leases. ARAG SE 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 the company cars, rented offices, office equipment, and cellphones used by the Company's employees. As lessee, ARAG SE recognizes the lease payments as an expense.

A.5 Any Other Information

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

B. System of Governance

B.1 General Information on the System of Governance	24
B.2 Fit and Proper Requirements	31
B.3 Risk Management System Including the Own Risk and Solvency Assessment	35
B.4 Internal Control System	42
B.5 Internal Audit Function	45
B.6 Actuarial Function	46
B.7 Outsourcing	47
B.8 Any Other Information	48

B.1 General Information on the System of Governance

ARAG SE 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 Company's Management Board and Supervisory Board, 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 SE in accordance with legal requirements, the Company's articles of incorporation, and the Management Board's rules of procedure. 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 SE had six members. The responsibilities are allocated as follows:

- Dr. Renko Dirksen: Speaker of the Management Board/Central Group Functions
- Dr. Matthias Maslaton: Group Sales, Products and Innovation
- Wolfgang Mathmann: Group Finance
- Hanno Petersen: Group IT and Operations
- Dr. Joerg Schwarze: Group Risk Management and Group Controlling
- Dr. Werenfried Wendler: Group Human Resources/Audit

A groupwide body, the Group Executive Committee (GEC), has also been established. The GEC manages and monitors the international branch business of ARAG SE as the operating parent company. It is also used as a platform for sharing all information about the insurance business in Germany and abroad and about the performance of the business. Group strategy as well as guidelines, policies, and standards are also discussed in the GEC.

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

ARAG SE does not currently have an independent remuneration committee in accordance with article 275 (1) (f) of Delegated Regulation (EU) 2015/35 (the Delegated Regulation). The size of the Company (particularly the number of employees) in relation to the internal structure means that, at the moment, the organization itself is able to help the Management Board and the Supervisory Board supervise the remuneration guidelines and policies as well as the way they are put into practice and how they function. Therefore, it does not appear to be necessary to appoint an independent remuneration committee.

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:

- Dr. Dr. h. c. Paul-Otto Faßbender (Chairman)
- Gerd Peskes (Deputy Chairman)
- Margit Schuler (Deputy Chairwoman, employee representative)
- Dr. Tobias Bürgers
- Dr. Michael Pielorz
- Professor Dr. Fred Wagner
- Dr. Sven Wolf
- Marco Hoogendam (employee representative)
- Richard Wenhart (employee representative)

To facilitate the decision-making process, the Supervisory Board has delegated individual tasks to the Finance Committee, Accounting and Audit Committee, and Human Resources Committee.

By the nature of its remit, the Finance Committee deals mainly with transactions that require approval according to the Company's articles of incorporation and the Management Board's rules of procedure. Such transactions include investment decisions, fundamental strategic decisions on asset allocation, and business decisions involving the Company's portfolio. The committee also deals with the approval of loans to members of the Management Board and other employees in senior positions (Prokuristen).

The Accounting and Audit Committee is responsible for advising on financial reporting, tax law, corporate planning, risk management, solvency, and the timely implementation of the related regulatory requirements. Furthermore, it monitors the awarding of contracts for non-audit services to the Company's current auditor and to firms that might potentially become the Company's auditor in the future. It is also responsible for the invitation to tender and short-listing for the appointment by the full Supervisory Board of a new auditor.

By the nature of its remit, the Human Resources Committee deliberates primarily on personnel matters relating to the members of the Management Board. As well as appointing, dismissing, and reappointing Management Board members, this also involves discussing the remuneration system, target achievement, and evaluation of targets.

Key functions

The establishment of controls in the Company lies at the heart of the system of governance. These controls are mainly carried out by the four key functions: risk management, compliance, internal audit, and the actuarial function. As these functions are kept strictly separate from the operational departments as far as Management Board level, they can perform their duties objectively and independently. Moreover, they have a direct reporting line to the ARAG SE Management Board member with relevant responsibility 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 performed by the Group Risk Management Central Department. As part of the risk management system that is in place, this department is primarily 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 performed by the Group Legal/Compliance Central 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, in order to ensure legal requirements are fulfilled and corporate objectives are achieved. 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 performed by the Group Audit Central 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. It 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

As a core element of the Company's system of governance, the remuneration of the members of the governing bodies – and that of all those working for the Company – is based on 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. Those responsible for remuneration in the Company monitor remuneration levels in the relevant market and make adjustments accordingly, taking account of the performance of the individual employees and members of the governing bodies.

Transparency means that the general principles of the remuneration policy are disclosed to all employees. But it also means that the 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 Company's business strategy and risk profile.

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

The remuneration of the Company's **Management Board members** comprises a fixed basic salary and a variable element and is in line with regulatory requirements. In particular, the basic salary is set at a level that ensures the members of the Management Board 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.

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 60.0 percent of basic salary and is subdivided into short-term and long-term components. For all Management Board members, the long-term component equates to 60.0 percent of the aforementioned variable remuneration and, in accordance with article 275 (2) (c) and (f) of the Delegated Regulation, is deferred and 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.

If members of the Management Board of ARAG SE are also members of a Supervisory Board or administrative board of a subsidiary of ARAG SE, they receive fixed remuneration for these activities, but this remuneration is offset against the remuneration for the Management Board activities.

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.

Variable remuneration granted to individuals responsible internally for **key functions** follows the general principles for managers described above. Care is taken to ensure that the targets relevant to this variable remuneration 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.

Where subsidiaries of ARAG SE have outsourced key functions to ARAG SE, the persons responsible for these key functions at ARAG SE do not receive any additional remuneration for performing this work.

The Company grants **members of the Management Board** 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.

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.

The information provided about remuneration for Management Board members who simultaneously fulfill roles for the subsidiaries of ARAG SE applies analogously to pension and early retirement agreements.

Supervisory Board members do not receive any supplementary pensions.

Persons responsible for **key functions** receive an occupational retirement pension, the amount and extent of which is determined by the management level of the person concerned and standard market practice. No early retirement arrangements have been made.

Material transactions

Information on 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

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

The Company 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

Each company's Fit&Proper guidance specifies requirements, responsibilities, and processes to ensure that senior managers, Supervisory Board members, persons responsible for key functions, and their employees are always professionally and personally suitable ('fit and proper') for the roles concerned. The main points are set out below.

Management Board members and CEOs of branches in the European Economic Area (EEA)

To ensure they are fit for the role in terms of their professional suitability, members of the Management Board 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.

The aforementioned qualifications apply analogously to the CEOs of the Company's various branches in the EEA. 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 Company reserves 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.

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 its 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 Company's Management Board is responsible for assessing whether the persons responsible for 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 the person responsible for a 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.

Continuing professional development as an ongoing process

The responsible departments in the Company check whether all of the aforementioned members of governing bodies and postholders undertake the continuing professional development necessary to satisfy the requirements of their position. The professional development activities undertaken are documented.

Cause for reassessment

The Company'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.

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

The assumption of risk is the core business of ARAG as an insurer. 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 an appropriate 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. ARAG SE has 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 ARAG SE's conservative risk and solvency policy, this ratio stands at 150.0 percent. The Company therefore aims to maintain a risk buffer that is higher than the regulatory requirement at all times.

ARAG SE'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. The limit system must be strictly adhered to when the strategic asset allocation is set 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 Group Risk Management Central Department is responsible for implementing the risk management system. 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 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 Company'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 are identified, analyzed, measured, and submitted to the Management Board 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 Company'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 each ORSA process, provides the starting point for all regular ORSA processes. A risk analysis of strategic positioning is then carried out; this takes the form of a bottom-up assessment by the managers involved.

Another analysis relates to 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 is primarily based on the results from validating the internally modeled components and from assessing the assumptions used in the standard formula.

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

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

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

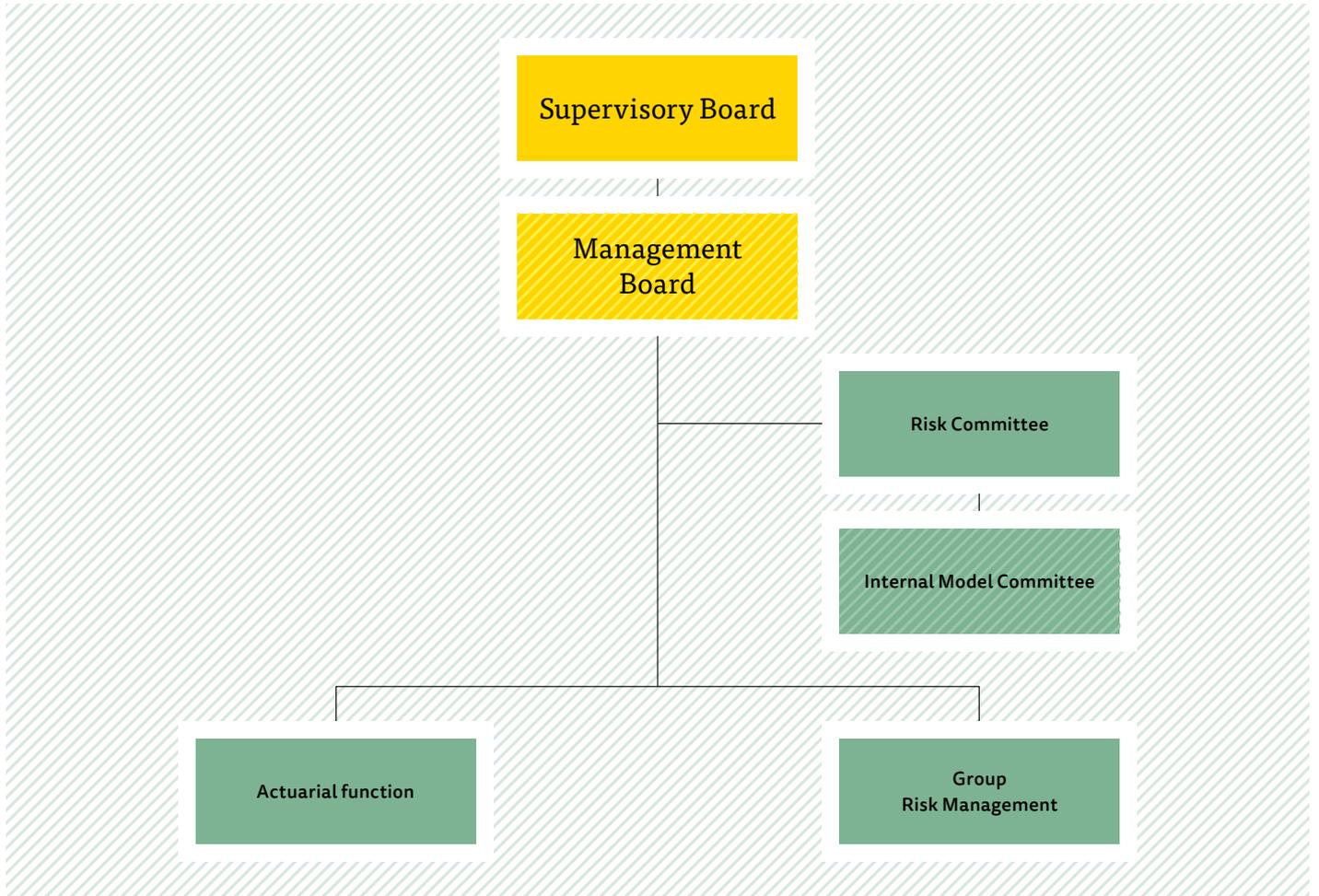
The Management Boards of the companies in the ARAG Group have formed a Risk Committee (RiCo) in order to incorporate the partial internal model into corporate management. The Risk Committee's main task is to assist the individual Management Boards with performing their risk management tasks in accordance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

A regular validation process ensures that ARAG SE'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, ARAG SE 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 ARAG SE'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 SE 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 required 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 the 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 ICS 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 ICS 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 ARAG SE 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 of ARAG SE. 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 Central Department 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.

Group Audit assists the Management Board of ARAG SE 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 actuarial function is directly accountable to the member of the Management Board of ARAG SE responsible for Group Risk Management and Group Controlling. It acts independently of the units at ARAG SE 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 ARAG SE's underwriting, contracting, and reinsurance policies. The actuarial function has also been assigned responsibility for validating ARAG SE'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 at ARAG SE 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 ARAG SE'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 of ARAG SE 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 insurance activities concerned are classified as important (e.g. due to the scope of the outsourced activity). The outsourcing of functions is always classified as important. 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 view of the legal requirements, an internal policy is in effect that sets out minimum criteria that must be met when considering outsourcing projects. It also contains rules regarding the assignment of responsibilities, authorization levels, and accountability. The principle of proportionality must be applied for each project. This means there are no fixed scopes of assessment. Instead, the requirements have to be proportionate to the risks. In general, ARAG SE 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. It also ensures that the service provider can be monitored at any time by the supervisory authority.

ARAG SE does not outsource the key functions of risk management, compliance, internal audit, and the actuarial function. All four key functions are carried out independently of each other within the Company.

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

C.1 Underwriting Risk	51
C.2 Market Risk	52
C.3 Credit Risk	54
C.4 Liquidity Risk	55
C.5 Operational Risk	56
C.6 Other Material Risks	58
C.7 Any Other Information	58

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

There are no material risks arising from off-balance-sheet exposures, nor are any risks transferred 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.

C.1 Underwriting Risk

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

The solvency capital requirement for underwriting risk went down from €179,546 thousand as of December 31, 2020 to €179,071 thousand as of December 31, 2021, a decrease of €475 thousand or 0.3 percent. The biggest sub-risks were accumulation risk, premium risk, and reserve risk.

Risk measurement

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

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

Risk concentration

The Company focuses on small-scale insurance business for private customers and small businesses. It has a sufficiently large portfolio of products and does not underwrite serious or industry risks. This should avoid concentrations of risk. In individual cases, unfavorable timing in the occurrence of claims could lead to a concentration of catastrophe risk or accumulation risk. The limit system ensures that the underwriting risk as a whole and its sub-risks remain limited in the Company's risk profile.

Risk mitigation

The Company uses outward reinsurance treaties in the form of excess of loss treaties as a measure to restrict the risks.

Risk sensitivity

Various sensitivity analyses were carried out in the reporting period as part of the ORSA process. A baseline scenario for 2022, which reflected the best estimates for actuarial parameters, was produced first. Then the impact of the claims and costs rising by up to 20.0 percent in 2022 was examined. This showed that these changes would cause the coverage ratio, compared with the best estimate, to decrease by no more than 42.4 percentage points to 273.0 percent. This ratio is still well above the minimum coverage ratio of 150.0 percent specified in the business policy.

Potential effects of climate change were analyzed as part of the ORSA process during the reporting period. In this scenario analysis, a change in the frequency and intensity of extreme weather events was examined for ARAG Allgemeine Versicherungs-AG and Interlloyd Versicherungs-AG in combination with the effectiveness of risk mitigation techniques. Because of its profit-and-loss transfer agreement with ARAG Allgemeine, ARAG SE may be indirectly confronted by the impact of these kinds of physical loss events. In this instance, ARAG SE's coverage ratio would stay virtually unchanged and therefore still be 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
- Credit risk (attaching to investments): changes resulting from investments in default (default risk), changes in the level or volatility of credit spreads over the risk-free interest-rate term structure (spread risk), and changes resulting from the migration of investments to different credit ratings (migration risk)
- Currency risk: changes in the level or volatility of exchange rates

The solvency capital requirement for market risk went up from €465,585 thousand as of December 31, 2020 to €515,683 thousand as of December 31, 2021, an increase of €50,098 thousand or 10.8 percent. The biggest sub-risks were equity investment risk and credit risk (attaching to investments).

Risk measurement

Risks are measured with an internal model. An economic scenario generator is used to simulate capital market scenarios looking at factors such as interest rates, share prices, real estate prices, credit spreads, credit ratings/defaults, and exchange rates. These risk factors are used to determine the possible fair values of investments in one year's time. The market risk itself – when all risk factors are considered simultaneously – equates to the difference between the performance expectation and the 99.5 percent quantile of the distribution, taking diversification effects into account.

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

Risk concentration

The Company applies the prudent person principle to its investments. This requires an appropriate diversification of the portfolio, as a result of which risk concentrations are generally restricted. The Company's limit system takes into account the individual risk profile of the investment and prevents a concentration of the sub-risks, which the Company would not be able to bear. The actuarial function has classified concentration risk as not material and monitors it regularly. The limit system also ensures that market risk as a whole does not exceed an undesirable level 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 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 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. 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. For 2022, this showed that the resulting rise in inflation would cause the coverage ratio, compared with the best estimate, to decrease by 4.3 percentage points to 311.1 percent. This ratio is still well above the minimum coverage ratio of 150.0 percent specified in the business policy.

C.3 Credit Risk

Risk exposure

While counterparty default risk attaching to investments is determined as part of market risk, counterparty default risk in the insurance business is treated separately. Counterparty default risk in the insurance business largely arises in connection with receivables from reinsurers and receivables from policyholders/insurance brokers. It is the downside risk arising from the unexpected default of counterparties and debtors during the next twelve months.

The solvency capital requirement for credit risk went up from €20,074 thousand as of December 31, 2020 to €23,419 thousand as of December 31, 2021, an increase of €3,345 thousand.

Risk measurement

Risk is measured using the partial internal model and components of the standardized approach. The risk of default on receivables from reinsurers is measured on the basis of the information available and proportionality considerations. The reinsurers' 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

Overall, the exposure to reinsurers is significant. Risk concentrations are avoided because the reinsurance treaties are distributed among multiple reinsurers in accordance with the reinsurance strategy.

Risk mitigation

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

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 are unable to realize investments and other assets in order to settle their financial obligations when they fall due.

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

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 so that ARAG has early warning of whether it will require 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 Company 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 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 was prepared as part of ALM.

Risk sensitivity

Sensitivity analyses were carried out as part of ALM 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 €134,206 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 went up from €30,635 thousand as of December 31, 2020 to €32,463 thousand as of December 31, 2021, an increase of €1,828 thousand or 6.0 percent.

Risk measurement

The Company uses the standard formula to determine the solvency capital requirement. Measurement for operational purposes is carried out on the basis of two dimensions: probability of occurrence and impact. The probability of occurrence describes the likelihood that an operational risk will materialize within a defined period. The second dimension describes the potential impact of the occurrence of an operational risk and is measured in quantitative or qualitative terms. The gross and net values are recorded for each dimension 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 Company does not believe it is 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 are further risks specified in the Company'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.

C.7 Any Other Information

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

D. Valuation for Solvency Purposes

D.1 Assets	61
D.2 Technical Provisions	70
D.3 Other Liabilities	75
D.4 Alternative Methods for Valuation	79
D.5 Any Other Information	80

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	3,484,202	2,548,535	935,667	3,336,388	147,814
Technical provisions	1,018,092	1,609,044	-590,952	1,055,208	-37,116
Other liabilities	623,295	428,932	194,364	700,767	-77,472
Excess of assets over liabilities¹⁾	1,842,815	510,559	1,332,256	1,580,413	262,402

¹⁾ This item also includes the subordinated liabilities classified as own funds.

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 Implementing Regulation (EU) 2015/35, 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 €6,998 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. ARAG SE therefore netted deferred taxes for the first time and only recognized deferred tax liabilities.

All quantitative disclosures can be found together with the quantitative reporting form 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	0	0	0	0
Deferred acquisition costs	0	0	0	0	0
Intangible assets	0	3,846	-3,846	0	0
Deferred tax assets	0	0	0	94,292	-94,292
Pension benefit surplus	0	0	0	0	0
Property, plant & equipment held for own use	47,974	39,871	8,104	51,771	-3,797
Investments					
Property (other than for own use)	35,808	20,445	15,363	29,091	6,717
Holdings in related undertakings, including participations	1,248,840	440,188	808,652	1,110,084	138,756
Equities	747	719	27	870	-123
Bonds	1,103,925	1,062,629	41,296	1,037,700	66,225
Collective investment undertakings	711,084	645,106	65,978	672,077	39,007
Derivatives	0	0	0	0	0
Deposits other than cash equivalents	28,230	28,230	0	26,769	1,461
Other investments	16	16	0	4,510	-4,494
	3,128,650	2,197,333	931,316	2,881,101	247,549
Assets held for index-linked and unit-linked contracts	0	0	0	0	0
Loans and mortgages	2,551	2,551	0	2,855	-304
Reinsurance recoverables	217	228	-10	600	-383
Deposits to cedants	68,588	68,561	27	64,521	4,067
Insurance and intermediaries receivables	109,376	109,376	0	49,622	59,754
Reinsurance receivables	19	19	0	52,462	-52,443
Receivables (trade, not insurance)	46,739	46,739	0	41,322	5,417
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	71,943	71,867	76	90,845	-18,902
Any other assets, not elsewhere shown	8,145	8,145	0	6,998	1,147
Total assets	3,484,202	2,548,535	935,667	3,336,388	147,814

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.

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

The subsidiary ARAG Allgemeine and the parent company ARAG SE form a single entity for tax purposes. Consequently, ARAG Allgemeine's deferred taxes are recognized at the level of ARAG SE.

In 2021, ARAG SE 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 €169,433 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. The way in which deferred taxes are recognized under Solvency II is therefore no different than under 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**. This differs from the approach taken under HGB, which is to value it at cost less depreciation. 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 and subsequently depreciated on a straight-line basis over the standard operating useful life.

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 rental income less the likely management costs to the balance sheet date.

The fair value of €35,808 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 €6,717 thousand in fair value was attributable to the 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, another Group company. For simplification purposes, a participation is understood to mean ownership or control of at least 20.0 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. If 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 €138,756 thousand in the Solvency II carrying amount was mainly attributable to gains in the shareholdings and, to a lesser extent, additions to the shareholdings. 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	0	0	0	126	- 126
Equities – unlisted	747	719	27	743	4
Total	747	719	27	870	- 123

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	402,171	383,480	18,692	347,354	54,817
Corporate bonds	697,760	675,564	22,196	684,874	12,886
Structured notes	3,994	3,586	408	5,472	- 1,478
Collateralized securities	0	0	0	0	0
Total	1,103,925	1,062,629	41,296	1,037,700	66,225

Bonds are debt securities through which a loan is raised on the capital market. Unlike personal loans, bonds are public instruments and can be issued only by legal entities. They encompass 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 €66,225 thousand in the Solvency II carrying amount was mainly attributable to the expansion of the portfolio of government bonds and – to a lesser extent – of corporate bonds. Price falls, particularly in the case of government bonds and structured notes, had a dampening effect on this increase.

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	206,415	156,707	49,708	159,209	47,206
Bonds	474,716	460,907	13,810	482,528	-7,812
Other	29,952	27,493	2,460	30,340	-388
Total	711,084	645,106	65,978	672,077	39,007

The balance sheet line item 'Collective investment undertakings' includes 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 €711,084 thousand. The year-on-year increase of €39,007 thousand in the economic value was due to modest price gains in the equity segment and, in particular, to additions to the shareholdings.

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 market value 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	2,475	2,475	0	2,775	-300
Total	2,551	2,551	0	2,855	-304

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.

For reasons of materiality and because of the low risk, no present value calculations were carried out in the year under review, as had also been the case in 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	217	228	- 10	600	- 383
of which: non-life excluding health	0	0	0	0	0
of which: health similar to non-life	217	228	- 10	600	- 383
Life and health similar to life, excluding health and index-linked and unit-linked	0	0	0	0	0
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	0	0
Life index-linked and unit-linked	0	0	0	0	0
Total	217	228	- 10	600	- 383

This balance sheet line item records the reinsurers' share of technical provisions. It includes reinsurance/special purpose vehicle (SPV) recoverables, cash flows from reinsurance receivables and liabilities, and deposits and liabilities from 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.

As is the case under HGB, 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), the materiality of the risk, and the disproportionate time, effort, and expense that would otherwise be involved, the nominal amount of the receivables is used as the economic value, which is also the case under HGB. Loss allowances are taken into account.

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.

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

Receivables (trade, not insurance)

This item comprises contractual claims against a debtor for payment or other benefits that are not related to insurance, for example receivables due from affiliated companies, 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).

Cash and cash equivalents

The balance sheet line item 'Cash and cash equivalents' comprises demand deposits valued at their nominal amounts. 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	1,533,668	-1,533,668	0	0
Best estimate	979,587	0	979,587	1,021,175	-41,588
Risk margin	38,505	0	38,505	34,033	4,472
	1,018,092	1,533,668	-515,575	1,055,208	-37,116
Technical provisions – health (similar to non-life)					
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
	1,018,092	1,533,668	-515,575	1,055,208	-37,116
Technical provisions – life (excluding index-linked and unit-linked)					
Technical provisions – health (similar to life)					
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
Technical provisions – life (excluding health and 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
	0	0	0	0	0
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
	1,018,092	1,533,668	-515,575	1,055,208	-37,116
Other technical provisions	0	75,377	-75,377	0	0
Total provisions	1,018,092	1,609,044	-590,952	1,055,208	-37,116

Technical provisions

The valuation in accordance with HGB requirements and its results are described first. This is followed by an explanation of the regulatory valuation methods and their results.

As of the reporting date, the technical provisions in accordance with HGB amounted to €1,608,817 thousand (December 31, 2020: €1,494,765 thousand). In addition to unearned premiums of €221,416 thousand, the HGB technical provisions included the provision for outstanding claims (net) of €1,312,024 thousand, the equalization provision of €74,428 thousand, and the miscellaneous technical provisions of €949 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 provision for outstanding claims in the inward reinsurance business is recognized in accordance with the requirements of the primary insurer. The provision for outstanding claims in connection with the inward reinsurance business from the United Kingdom is determined on the basis of past experience and statistics produced by the Company's own local claims settlement company.

Technical provisions – by Solvency II line of business

(€'000)	Best estimate 2021	Risk margin 2021	Best estimate 2020	Risk margin 2020
Legal insurance	967,860	37,451	1,007,610	32,756
Assistance	5,437	419	5,296	399
Miscellaneous insurance	6,290	634	8,268	878
Total	979,587	38,505	1,021,175	34,033

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	1,533,668	-1,533,668	0	0
Best estimate	979,587	0	979,587	1,021,175	-41,588
Risk margin	38,505	0	38,505	34,033	4,472
Total	1,018,092	1,533,668	-515,575	1,055,208	-37,116

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

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 present value 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.

Other technical provisions

The other technical provisions¹⁾ (miscellaneous technical provisions on the HGB balance sheet) primarily consist of the equalization provision (€74,428 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 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 is already included in the best estimate item under technical provisions – non-life. Accordingly, there is no requirement to explain the year-on-year change here.

Reinsurance recoverables

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.

On the Solvency II balance sheet, reinsurance recoverables are reported under assets (see chapter D.1 'Assets').

Reinsurance recoverables are of no material significance to ARAG SE.

¹⁾ In accordance with the Solvency II structure.

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 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.

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

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	84,706	83,161	1,545	80,485	4,221
Pension benefit obligations	236,461	210,625	25,837	261,966	-25,505
Deposits from reinsurers	11	11	0	60	-49
Deferred tax liabilities	169,433	4,474	164,959	235,603	-66,170
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	44,399	44,399	0	39,321	5,078
Reinsurance payables	139	139	0	2,941	-2,802
Payables (trade, not insurance)	56,012	56,012	0	47,365	8,647
Subordinated liabilities	32,023	30,000	2,023	32,779	-756
Any other liabilities, not elsewhere shown	111	111	0	246	-135
Total liabilities	623,295	428,932	194,364	700,767	-77,472

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 more than twelve months, they are discounted.

On the Solvency II balance sheet, provisions for long-service awards, early retirement obligations, 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.

Sundry provisions other than technical provisions are valued on the basis 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. The economic values are therefore the same as the HGB carrying amounts.

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 €25,505 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, ARAG SE 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. Of this income, €28,630 thousand was transferred to the Company from subsidiaries.

After netting, the deferred tax liabilities amounted to €169,433 thousand. This was due mainly to the deferred taxes resulting from the technical provisions (€135,725 thousand) and to investments (€51,880 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 insurance¹⁾ and intermediaries payables.

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 amount that is recognized serves as a suitable proxy for the economic value, as is the case under HGB. If the maturity period of the payable 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 and amounts in connection with the reinsurance business.

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.

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

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 payable 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 modified using the risk-free interest rate derived from investment-grade industrial bonds and discounted with 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.

The table below shows the main items aggregated according to the valuation hierarchy:

Main items according to the valuation hierarchy

(€'000)	Level 1	Level 2	Level 3
Holdings in related undertakings, including participations	0	0	1,248,840
Bonds	732,185	0	371,740
Collective investment undertakings	700,495	0	10,589
Technical provisions – non-life (excluding health)	0	0	1,018,092
Pension benefit obligations	0	0	236,461
Total	1,432,680	0	2,885,722

In accordance with article 9 (4) of Delegated Regulation 2015/35, all the Company's other items are recognized at their economic value using the HGB valuation rules. To validate recognition of the relevant items at their nominal amount, ARAG SE 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 ARAG SE'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 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.

E. Capital Management

E.1 Own Funds	82
.....	
E.2 Solvency Capital Requirement and Minimum Capital Requirement	85
.....	
E.3 Use of the Duration-Based Equity Risk Sub-Module in the Calculation of the Solvency Capital Requirement	87
.....	
E.4 Differences Between the Standard Formula and Any Internal Model Used	87
.....	
E.5 Non-Compliance with the Minimum Capital Requirement and Non-Compliance with the Solvency Capital Requirement	91
.....	
E.6 Any Other Information	91
.....	

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 the German Federal Financial Supervisory Authority (BaFin), various measures should be considered to offset the fall in the level of coverage.

If such a situation were to be identified, the governing bodies would, 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

As of December 31, 2021, the Company held an excess of assets over liabilities of €1,842,815 thousand (December 31, 2020: €1,580,413 thousand) according to the Solvency II balance sheet. The Company's minimum capital requirement (MCR) as of the reporting date was €185,307 thousand (December 31, 2020: €184,668 thousand) and the solvency capital requirement (SCR) was €533,471 thousand (December 31, 2020: €488,118 thousand).

It also had a subordinated liability of €32,023 thousand classified as own funds (December 31, 2020: €32,779 thousand). 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 Management Board's proposal for appropriation of the profit recognized on the HGB balance sheet, a sum of €20,000 thousand will be distributed to shareholders as dividends.

This results in eligible own funds of €1,811,235 thousand to cover the solvency and minimum capital requirement (December 31, 2020: €1,583,192 thousand), split between the different capital classes as follows: Tier 1 own funds of €1,779,212 thousand (December 31, 2020: €1,550,413 thousand) and Tier 2 own funds of €32,023 thousand (December 31, 2020: €32,779 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	510,559	517,067
Revaluation of investments with recognition of deferred taxes	893,137	775,604
Revaluation of technical provisions with recognition of deferred taxes	456,795	330,337
Revaluation of pension benefit obligations with recognition of deferred taxes	9,517	- 15,181
Revaluation of miscellaneous items with recognition of deferred taxes	- 3,037	- 4,485
Transfer of deferred taxes, particularly arising from the tax group	- 24,156	- 22,929
Excess of assets over liabilities according to the Solvency II balance sheet	1,842,815	1,580,413
Additional basic own funds resulting from subordinated liabilities	32,023	32,779
Dividend distribution (foreseeable dividend)	- 20,000	- 30,000
Deduction (ring-fenced fund)	- 43,602	0
Total own funds as of December 31 that are eligible to cover the solvency capital requirement	1,811,235	1,583,192

Explanations of how the economic values of the individual items are determined are provided in chapter D. 'Valuation for Solvency Purposes' of this report.

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. It caused neither a 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

ARAG SE 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 €169,433 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	100,000	100,000	0	0
Share premium account related to ordinary share capital	0	0	0	0
Reconciliation reserve	1,679,212	1,679,212	0	0
Basic own funds	1,779,212	1,779,212	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	1,811,235	1,811,235	32,023	0

The reconciliation reserve amounted to €1,679,212 thousand and predominantly consisted of HGB revenue reserves of €305,200 thousand and valuation differences of €1,374,012 thousand. As of December 31, 2021, the Company's eligible own funds were €228,044 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

ARAG SE uses a partial internal model to calculate the solvency capital requirement. In this certified model, the modules for market risk, non-life underwriting risk, and counterparty default risk (where the risks are covered by the market risk module) are calculated using internal modeling. The other risk modules and the aggregation of the risk modules are based on the standardized approach.

The solvency capital requirement increased by 9.3 percent year on year, from €488,118 thousand to €533,471 thousand. Please refer to chapter C. 'Risk Profile' for further information on the changes in the individual risks. At 339.5 percent, the coverage ratio is significantly higher than the regulatory requirement and, in ARAG SE's view, constitutes a substantial risk buffer, particularly for customers. As of the reporting date, the coverage ratio was slightly higher, by 15.2 percentage points, than the equivalent figure as of December 31, 2020 (324.3 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.

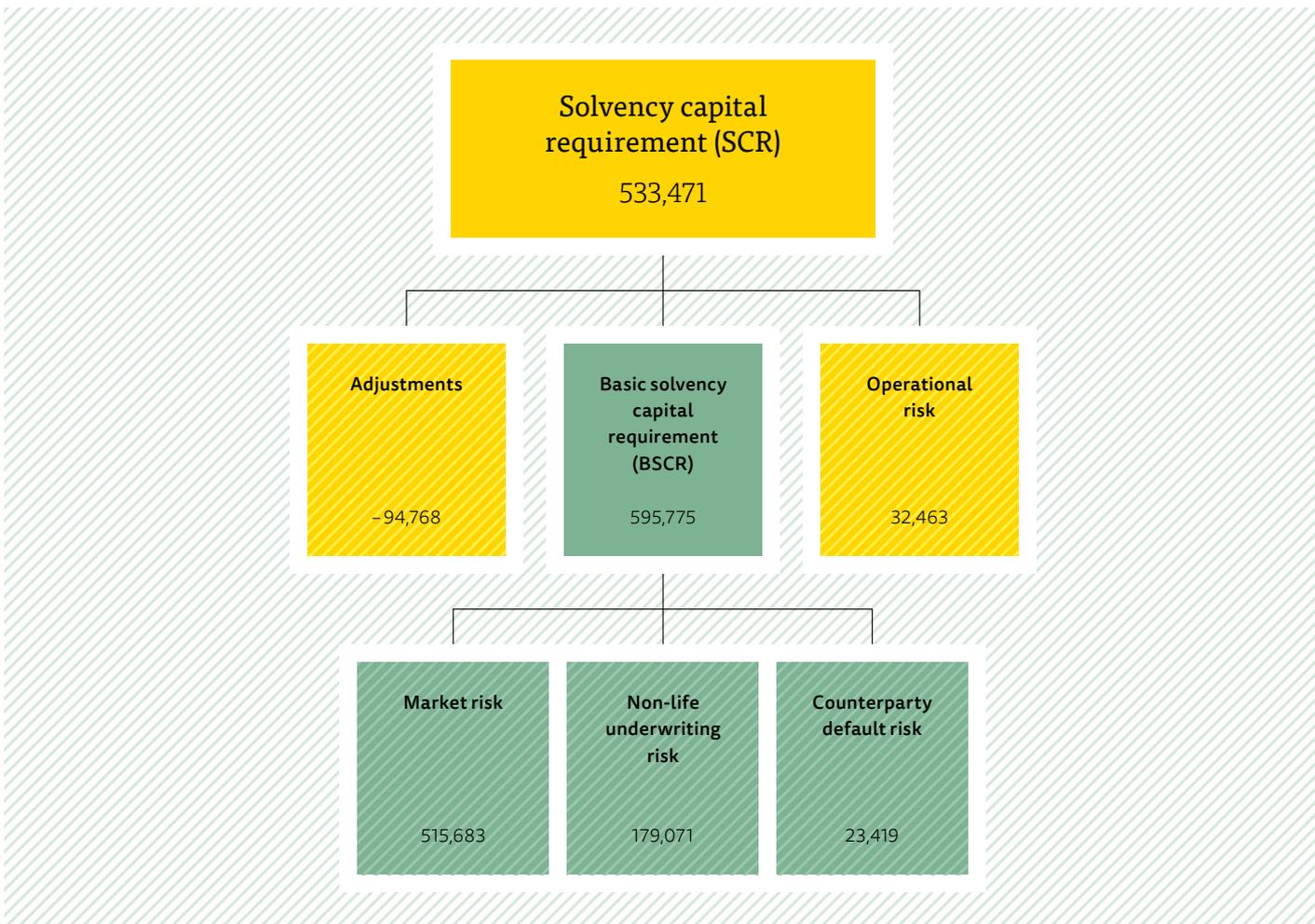
Neither a simplified calculation of the SCR standard formula nor undertaking-specific parameters (USPs) are used.

The minimum capital requirement is calculated on the basis of the technical provisions (excluding the risk margin) and net premiums written in the past twelve months in each line of business; it must not fall below 25.0 percent and not exceed 45.0 percent of the solvency capital requirement. As of December 31, 2021, the minimum capital requirement was €185,307 thousand (December 31, 2020: €184,668 thousand), which equated to 34.7 percent of the solvency capital requirement at that time and resulted in a coverage ratio for the minimum capital requirement of 977.4 percent (December 31, 2020: 857.3 percent).

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.

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 €94,768 thousand was applied. This resulted solely from the netted deferred tax liability. Projected future profits are not factored in for the purposes of determining the loss-absorbing capacity of the deferred taxes. Further information on deferred taxes can be found in chapters D.1, D.3, and E.1.

EIOPA risk tree for ARAG 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 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.

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.

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

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

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

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 ARAG SE. ARAG SE's specific risk profile cannot be accurately reflected using the standard formula.

ARAG SE's partial internal model is based on the following internally modeled modules: market risk, non-life underwriting risk, and counterparty default risk (where the risks are covered by the market risk module).

Among other things, the partial internal model enables the Company to model the underwriting risks appropriately and on an individual basis, thus ensuring the risks can be presented and managed adequately.

The internal modeling of market risk enables the scope and structure of the investment portfolio to be analyzed more accurately. Furthermore, the use of an economic scenario generator enables capital market risks to be depicted much more precisely than with the scenario-based key figures used in the standardized approach. This is particularly the case for the non-linear maturity profiles that can be found with callable bonds, for example, or for the valuation of government bonds.

The non-life underwriting risk module and the market risk module (including the counterparty default risk arising in connection with securities as part of credit risk) are in each case modeled up to the top module level as a distribution.

Both for market risk and underwriting risk, the results of the internal modeling represent an important basis for corporate management.

Probability distribution forecast

The internal modeling of market risk focuses on analysis of the interest-rate, spread, equity, real-estate, and currency sub-risks. The concentration sub-risk is implicitly analyzed in the spread module, but is not classified as material. However, changes in this sub-risk are regularly reviewed as part of the validation process. The analysis is carried out according to various criteria, such as asset class, currency area, maturity, and credit quality level. The underlying stochastic models used are generally accepted in financial mathematics. A critical factor in the calculation of risk is the calibration of the underlying risk factors and their dependencies. The calibration is carried out for each calculation reference date using the latest market data. Separate performance indices are calibrated on the basis of current risk calculations for relevant strategic equity investments in insurance companies within the ARAG Group.

Non-life underwriting risk comprises the following components: premium risk, reserve risk, accumulation risk, and lapse risk. ARAG SE believes that accumulations of legal insurance represent the catastrophe risk for a legal insurance company. The catastrophe module has therefore been extended to include accumulation risk.

A critical factor in the calculation of risk is the calibration of the underlying risk factors and their correlations. Copula methods are the approach used to aggregate the distributions into an overall risk distribution for underwriting. The dependencies applied for this purpose are determined internally, supplemented with assessments drawn up by experts.

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

ARAG SE's underwriting portfolio is broken down into various segments according to management and risk considerations. This segmentation enables management-relevant information to be determined from the partial internal model and used for the management of the Company on a value-driven basis. The principle whereby homogeneous risk groups are modeled is also applied in this segmentation.

The individual market risk, non-life underwriting risk, and counterparty default risk modules are aggregated into the basic solvency capital requirement using a correlation approach. The overall solvency capital requirement is determined by adding the solvency capital requirement for operational risk calculated in accordance with the standard formula and by applying the risk-mitigating effect from deferred taxes. No capital add-ons are recognized.

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 market risk sub-module.

Comparison between the market risk sub-modules in the internal model and the standard formula

Sub-module	Standard formula	Internal model
Interest rate	For each currency area, the risk-free interest-rate term structure is shifted upwards and downwards with maturity-dependent shocks, although negative interest rates are not shifted downwards in the stress test.	A distribution for the underlying interest rate calibrated using current market data and for the resulting interest-rate term structures is simulated for each currency area and each maturity. Turns and bulges in the risk-free interest-rate term structure are observed in addition to shifts.
Spread	The market values of investments sensitive to spread risk are reduced by a factor dependent on asset class, credit quality level, and maturity.	In the internal model, firstly, a distribution for the underlying spread calibrated using current market data is simulated for each investment class, credit quality level, and maturity. Secondly, a change in the risk classification and payment defaults are simulated for each issuer. In addition to corporate bonds, other items taken into account in this case (in contrast to the standardized approach) include cash exposures and government bonds.
Equities	A factor is used to stress the market values of all equity investments. A distinction is made between the following sub-modules: equity type 1 (including listed equities and strategic equity investments from an OECD or EEA country), equity type 2 (including equities from other countries, commodities, strategic equity investments), qualifying equity investments in infrastructure, and qualifying equity investments in infrastructure companies. The solvency capital requirements determined for these sub-modules are aggregated as the equity solvency capital requirement using a correlation approach.	A distribution of equity performance calibrated using current market data is simulated for each currency area. A similar distribution for private equity investments and comparable asset classes is also simulated. Separate distributions of performance are calibrated and simulated for strategic equity investments.
Real estate	The market values of all real estate investments are reduced by a particular factor.	A distribution of real estate performance calibrated using current market data is simulated for each relevant currency area and separately for Germany.
Currency	The market values of all assets and liabilities denominated in foreign currency are increased/decreased by a particular factor. This gives rise to a currency increase and a currency decrease risk for each currency area, reported as the corresponding loss of own funds.	A distribution for the change in the foreign currency/euro exchange rate calibrated using current market data is simulated for each materially relevant currency area.
Concentration	An additional risk capital requirement is calculated using a factor approach for exposures that exceed a specified percentage of the total portfolio.	Risk concentrations in bonds and cash exposures are taken into account in the spread module via the default distributions simulated for each issuer. There is no explicit calculation of concentration risk in the internal model.

The differences between the internal model and the standard formula in respect of the counterparty default risk module are explained below.

Comparison between the counterparty default risk module in the internal model and the standard formula

Risk module	Standard formula	Internal model
Default	Cash exposures and various receivables exposures are subjected to a shock using a factor approach.	Defaults relating to cash exposures are simulated in the market risk module on a stochastic basis. The default risk on receivables (reinsurance and other receivables) is valued in accordance with the standardized approach.

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

Comparison between the 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, legal insurance is broken down into groups of risks sharing similar characteristics. The risk calculation is based on company-specific data and internal calibration. The aggregation method follows a copula approach. Well-established, up-to-date actuarial methods are used.
Lapse risk	A stress scenario is applied to the forecast profits from the current portfolio.	A lapse distribution is modeled, with calibration based on company-specific data.
Legal insurance accumulation risk	This risk is 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.

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 €122,398 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 disputes involving private or small business customers
- Regions: losses in different countries

To value the diversification effects within ARAG SE'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 dependencies. The parameters that are calculated are reviewed annually by a committee of experts to check that they remain plausible. The correlations from the standard formula are used to aggregate the individual risk modules for the purpose of producing the BSCR (integration of the partial model into the standard formula).

Appropriateness of data

ARAG SE'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	0
Property, plant & equipment held for own use	R0060	47,974
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	3,128,650
Property (other than for own use)	R0080	35,808
Holdings in related undertakings, including participations	R0090	1,248,840
Equities	R0100	747
Equities – listed	R0110	0
Equities – unlisted	R0120	747
Bonds	R0130	1,103,925
Government bonds	R0140	402,171
Corporate bonds	R0150	697,760
Structured notes	R0160	3,994
Collateralized securities	R0170	0
Collective investment undertakings	R0180	711,084
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	28,230
Other investments	R0210	16
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	2,551
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	76
Other loans and mortgages	R0260	2,475
Reinsurance recoverables from:	R0270	217
Non-life and health similar to non-life	R0280	217
Non-life excluding health	R0290	217
Health similar to non-life	R0300	0
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	109,376
Reinsurance receivables	R0370	19
Receivables (trade, not insurance)	R0380	46,739
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	71,943
Any other assets, not elsewhere shown	R0420	8,145
Total assets	R0500	3,484,202

S.02.01.02

Balance sheet

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	1,018,092
Technical provisions – non-life (excluding health)	R0520	1,018,092
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	979,587
Risk margin	R0550	38,505
Technical provisions – health (similar to non-life)	R0560	0
Technical provisions calculated as a whole	R0570	0
Best estimate	R0580	0
Risk margin	R0590	0
Technical provisions – life (excluding index-linked and unit-linked)	R0600	0
Technical provisions – health (similar to life)	R0610	0
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	0
Risk margin	R0640	0
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	0
Technical provisions calculated as a whole	R0660	0
Best estimate	R0670	0
Risk margin	R0680	0
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	84,706
Pension benefit obligations	R0760	236,461
Deposits from reinsurers	R0770	11
Deferred tax liabilities	R0780	169,433
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	44,399
Reinsurance payables	R0830	139
Payables (trade, not insurance)	R0840	56,012
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	111
Total liabilities	R0900	1,641,388
Excess of assets over liabilities	R1000	1,842,815

S.05.01.02

Premiums, claims and expenses by line of business

		Medical expense insurance	Income protection insurance
		C0010	C0020
Premiums written			
Gross – direct business	R0110	0	0
Gross – proportional reinsurance accepted	R0120	0	0
Gross – non-proportional reinsurance accepted	R0130	-	-
Reinsurers' share	R0140	0	0
Net	R0200	0	0
Premiums earned			
Gross – direct business	R0210	0	0
Gross – proportional reinsurance accepted	R0220	0	0
Gross – non-proportional reinsurance accepted	R0230	-	-
Reinsurers' share	R0240	0	0
Net	R0300	0	0
Claims incurred			
Gross – direct business	R0310	0	0
Gross – proportional reinsurance accepted	R0320	0	0
Gross – non-proportional reinsurance accepted	R0330	-	-
Reinsurers' share	R0340	0	0
Net	R0400	0	0
Changes in other technical provisions			
Gross – direct business	R0410	0	0
Gross – proportional reinsurance accepted	R0420	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-
Reinsurers' share	R0440	0	0
Net	R0500	0	0
Expenses incurred	R0550	0	0
Other expenses	R1200	-	-
Total expenses	R1300	-	-

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	763,479	26,615	7,643
Gross – proportional reinsurance accepted	R0120	281,106	13,207	352
Gross – non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	814	56	0
Net	R0200	1,043,771	39,766	7,995
Premiums earned				
Gross – direct business	R0210	752,598	26,138	7,896
Gross – proportional reinsurance accepted	R0220	276,955	13,145	380
Gross – non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	814	56	0
Net	R0300	1,028,739	39,227	8,276
Claims incurred				
Gross – direct business	R0310	304,413	9,436	556
Gross – proportional reinsurance accepted	R0320	84,412	11,506	24
Gross – non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	-238	103	0
Net	R0400	389,064	20,839	579
Changes in other technical provisions				
Gross – direct business	R0410	21	0	0
Gross – proportional reinsurance accepted	R0420	-	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	-	0	0
Net	R0500	21	0	0
Expenses incurred	R0550	612,302	19,232	4,914
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
0	0	0	0		797,738
0	0	0	0		294,665
-	-	-	-		0
0	0	0	0		871
0	0	0	0		1,091,533
0	0	0	0		786,632
0	0	0	0		290,480
-	-	-	-		0
0	0	0	0		871
0	0	0	0		1,076,242
0	0	0	0		314,405
0	0	0	0		95,943
-	-	-	-		0
0	0	0	0		-135
0	0	0	0		410,482
0	0	0	0		21
0	0	0	0		0
-	-	-	-		0
0	0	0	0		0
0	0	0	0		21
0	0	0	0		636,448
-	-	-	-		0
-	-	-	-		636,448

S.05.01.02

Premiums, claims and expenses by line of business

		Health insurance	Insurance with profit participation
		C0210	C0220
Premiums written			
Gross	R1410	0	0
Reinsurers' share	R1420	0	0
Net	R1500	0	0
Premiums earned			
Gross	R1510	0	0
Reinsurers' share	R1520	0	0
Net	R1600	0	0
Claims incurred			
Gross	R1610	0	0
Reinsurers' share	R1620	0	0
Net	R1700	0	0
Changes in other technical provisions			
Gross	R1710	0	0
Reinsurers' share	R1720	0	0
Net	R1800	0	0
Expenses incurred	R1900	0	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	446,140
Gross – proportional reinsurance accepted	R0120	45,103
Gross – non-proportional reinsurance accepted	R0130	-
Reinsurers' share	R0140	542
Net	R0200	490,701
Premiums earned		
Gross – direct business	R0210	439,550
Gross – proportional reinsurance accepted	R0220	45,113
Gross – non-proportional reinsurance accepted	R0230	-
Reinsurers' share	R0240	542
Net	R0300	484,122
Claims incurred		
Gross – direct business	R0310	246,529
Gross – proportional reinsurance accepted	R0320	42,247
Gross – non-proportional reinsurance accepted	R0330	-
Reinsurers' share	R0340	-363
Net	R0400	289,139
Changes in other technical provisions		
Gross – direct business	R0410	-22
Gross – proportional reinsurance accepted	R0420	0
Gross – non-proportional reinsurance accepted	R0430	0
Reinsurers' share	R0440	0
Net	R0500	-22
Expenses incurred	R0550	225,758
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	BE	IT	NL	ES	-	
C0090	C0100	C0110	C0120	C0130	C0140	
79,048	28,445	38,119	103,493	93,633	788,877	
0	1,421	131,995	72,127	42,664	293,310	
-	-	-	-	-	-	
3	0	0	0	326	871	
79,045	29,865	170,114	175,620	135,971	1,081,316	
78,213	28,153	37,909	103,836	90,222	777,882	
0	1,421	128,467	72,042	42,136	289,179	
-	-	-	-	-	-	
3	0	0	0	326	871	
78,210	29,574	166,376	175,877	132,032	1,066,191	
21,695	10,246	1,561	7,280	25,399	312,711	
-3	920	15,872	9,615	27,223	95,874	
-	-	-	-	-	-	
-3	58	0	0	173	-135	
21,695	11,108	17,433	16,895	52,449	408,719	
43	0	0	0	0	21	
0	0	0	0	0	0	
0	0	0	0	0	0	
0	0	0	0	0	0	
43	0	0	0	0	21	
36,353	18,335	129,156	151,510	68,367	629,478	
-	-	-	-	-	-	
-	-	-	-	-	629,478	

S.05.02.01

Premiums, claims and expenses by country

		Home country	
			C0150
	R1400		-
			C0220
Premiums written			
Gross	R1410		
Reinsurers' share	R1420		
Net	R1500		
Premiums earned			
Gross	R1510		
Reinsurers' share	R1520		
Net	R1600		
Claims incurred			
Gross	R1610		
Reinsurers' share	R1620		
Net	R1700		
Changes in other technical provisions			
Gross	R1710		
Reinsurers' share	R1720		
Net	R1800		
Expenses incurred	R1900		
Other expenses	R2500		-
Total expenses	R2600		-

S.17.01.02

Non-life technical provisions

		Medical expense insurance	Income protection insurance
		C0020	C0030
Technical provisions calculated as a whole	R0010	-	-
Total recoverables from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	-	-
Technical provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross	R0060	-	-
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0140	-	-
Net best estimate of premium provisions	R0150	-	-
Claims provisions			
Gross	R0160	-	-
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0240	-	-
Net best estimate of claims provisions	R0250	-	-
Total best estimate - gross	R0260	-	-
Total best estimate - net	R0270	-	-
Risk margin	R0280	-	-
Amount of the transitional on technical provisions			
Technical provisions calculated as a whole	R0290	-	-
Best estimate	R0300	-	-
Risk margin	R0310	-	-
Technical provisions - total			
Technical provisions - total	R0320	-	-
Recoverable from reinsurance contract/SPV and finite re after the adjustment for expected losses due to counterparty default - total	R0330	-	-
Technical provisions minus recoverables from reinsurance/SPV and finite re - total	R0340	-	-

S.17.01.02

Non-life technical provisions

Technical provisions calculated as a whole	R0010
Total recoverables from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050
Technical provisions calculated as a sum of BE and RM	
Best estimate	
Premium provisions	
Gross	R0060
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0140
Net best estimate of premium provisions	R0150
Claims provisions	
Gross	R0160
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0240
Net best estimate of claims provisions	R0250
Total best estimate – gross	R0260
Total best estimate – net	R0270
Risk margin	R0280
Amount of the transitional on technical provisions	
Technical provisions calculated as a whole	R0290
Best estimate	R0300
Risk margin	R0310
Technical provisions – total	
Technical provisions – total	R0320
Recoverable from reinsurance contract/SPV and finite re after the adjustment for expected losses due to counterparty default – total	R0330
Technical provisions minus recoverables from reinsurance/SPV and finite re – total	R0340

Legal expenses insurance	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance			Total non-life obligation
	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
37,177	689	4,669	-	-	-	-	42,534
0	0	0	-	-	-	-	0
37,177	689	4,669	-	-	-	-	42,534
930,683	4,748	1,622	-	-	-	-	937,053
217	0	0	-	-	-	-	217
930,466	4,748	1,622	-	-	-	-	936,835
967,860	5,437	6,290	-	-	-	-	979,587
967,643	5,437	6,290	-	-	-	-	979,370
37,451	419	634	-	-	-	-	38,505
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,005,311	5,856	6,925	-	-	-	-	1,018,092
217	0	0	-	-	-	-	217
1,005,094	5,856	6,925	-	-	-	-	1,017,875

S.19.01.21

Non-life insurance claims

Total non-life business

Accident year/Underwriting year	Z0010	Accident year
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Gross claims paid (non-cumulative)*(absolute amount)*

		Development year					
Year		0	1	2	3	4	5
		C0010	C0020	C0030	C0040	C0050	C0060
Prior	R0100	-	-	-	-	-	-
N-9	R0160	92,198	88,410	42,794	24,503	15,977	9,961
N-8	R0170	93,609	95,208	41,572	23,414	15,697	10,647
N-7	R0180	103,971	96,810	42,339	23,944	16,252	10,994
N-6	R0190	114,270	103,939	45,121	25,878	17,602	11,546
N-5	R0200	126,794	108,097	47,983	28,585	18,797	13,092
N-4	R0210	134,754	114,428	48,418	27,527	21,273	
N-3	R0220	138,965	122,181	50,719	31,795		
N-2	R0230	141,935	124,745	59,258			
N-1	R0240	143,313	134,497				
N	R0250	142,126					

Gross undiscounted best estimate claims provisions*(absolute amount)*

		Development year					
Year		0	1	2	3	4	5
		C0200	C0210	C0220	C0230	C0240	C0250
Prior	R0100	-	-	-	-	-	-
N-9	R0160	0	0	0	0	0	0
N-8	R0170	0	0	0	0	0	0
N-7	R0180	0	0	0	0	0	0
N-6	R0190	0	0	0	0	0	35,197
N-5	R0200	0	0	0	0	49,371	37,105
N-4	R0210	0	0	0	69,175	51,580	
N-3	R0220	0	0	106,344	76,042		
N-2	R0230	0	171,469	115,563			
N-1	R0240	338,588	193,711				
N	R0250	358,350					

Development year					In current year	Sum of years (cumulative)
6	7	8	9	10 & +		
C0070	C0080	C0090	C0100	C0110	C0170	C0180
-	-	-	-	2,853	R0100 2,853	2,314,534
7,358	4,990	3,066	2,747		R0160 2,747	292,003
7,956	4,301	3,084			R0170 3,084	295,488
6,542	4,385				R0180 4,385	305,237
6,646					R0190 6,646	325,003
					R0200 13,092	343,350
					R0210 21,273	346,400
					R0220 31,795	343,660
					R0230 59,258	325,937
					R0240 134,497	277,810
					R0250 142,126	142,126
				Total	R0260 427,382	6,849,374

Development year					Year end (discounted data)
6	7	8	9	10 & +	
C0260	C0270	C0280	C0290	C0300	C0360
-	-	-	-	15,648	R0100 15,681
0	0	13,042	9,624		R0160 9,628
0	17,803	12,989			R0170 13,000
25,657	18,145				R0180 18,151
25,438					R0190 25,433
					R0200 37,091
					R0210 51,567
					R0220 76,040
					R0230 115,568
					R0240 193,740
					R0250 358,614
				Total	R0260 937,053

S.23.01.01**Own funds****Basic own funds before deduction for participations in other financial sectors as foreseen in article 68 of Delegated Regulation (EU) 2015/35**

Ordinary share capital (gross of own shares)
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
Surplus funds
Preference shares
Share premium account related to preference shares
Reconciliation reserve
Subordinated liabilities
An amount equal to the value of net deferred tax assets
Other own fund items approved by the supervisory authority as basic own funds not specified above

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 financial and credit institutions
--

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
A legally binding commitment to subscribe and pay for subordinated liabilities on demand
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
Letters of credit and guarantees other than 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
Other ancillary own funds

Total ancillary own funds**Available and eligible own funds**

Total available own funds to meet the SCR
Total available own funds to meet the MCR
Total eligible own funds to meet the SCR
Total eligible own funds to meet the MCR

SCR**MCR****Ratio of eligible own funds to SCR****Ratio of eligible own funds to MCR****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

Reconciliation reserve**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
	-	-	-	-	-
R0010	100,000	100,000	-	0	0
R0030	0	-	-	0	0
R0040	-	-	-	-	0
R0050	-	-	-	-	-
R0070	-	-	-	0	0
R0090	-	-	-	-	-
R0110	-	-	-	-	-
R0130	1,679,212	1,679,212	-	0	0
R0140	32,023	0	-	32,023	0
R0160	0	0	-	0	0
R0180	-	-	-	-	-
	-	-	-	-	-
R0220	0	-	-	-	-
	-	-	-	-	-
R0230	0	0	0	0	0
R0290	1,811,235	1,779,212	0	32,023	0
	-	-	-	-	-
R0300	-	-	-	-	-
	-	-	-	-	-
R0310	-	-	-	-	-
R0320	-	-	-	-	-
R0330	-	-	-	-	-
R0340	-	-	-	-	-
R0350	-	-	-	-	-
R0360	-	-	-	-	-
R0370	-	-	-	-	-
R0390	-	-	-	-	-
R0400	-	0	0	-	-
	-	-	-	-	-
R0500	1,811,235	1,779,212	0	32,023	0
R0510	1,811,235	1,779,212	0	32,023	0
R0540	1,811,235	1,779,212	0	32,023	0
R0550	1,811,235	1,779,212	0	32,023	0
R0580	533,471	-	-	-	-
R0600	185,307	-	-	-	-
R0620	3.40	-	-	-	-
R0640	9.77	-	-	-	-
	-	-	-	-	-
	C0060				
R0700	1,842,815				
R0710	0				
R0720	20,000				
R0730	100,000				
R0740	43,602				
R0760	1,679,212				
	-				
R0770					
R0780	134,206				
R0790	134,206				

S.25.02.21

Solvency capital requirement – for undertakings using the standard formula and partial internal model

Unique number of component	Components description	Calculation of the solvency capital requirement	Amount modeled	USP	Simplifications	
C0010		C0020	C0030	C0070	C0080	C0090
1	Market risk		515,683	515,683		
2	Counterparty default risk		23,419			
3	Life underwriting risk					
4	Health underwriting risk					
5	Non-life underwriting risk		179,071	179,071		
6	Intangible asset risk		0			
7	Operational risk		32,463			
8	LAC technical provisions		0			
9	LAC deferred taxes		-94,768			
Calculation of solvency capital requirement			C0100			
	Total undiversified components	R0110	655,869			
	Diversification	R0060	-122,398			
	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0			
	Solvency capital requirement excluding capital add-on	R0200	533,471			
	Capital add-ons already set	R0210	0			
	Solvency capital requirement	R0220	533,471			
	Other information on SCR		-			
	Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	0			
	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	-94,768			
	Capital requirement for duration-based equity risk sub-module	R0400	0			
	Total amount of notional solvency capital requirements for remaining part	R0410	0			
	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))	R0420	0			
	Total amount of notional solvency capital requirement for matching adjustment portfolios	R0430	0			
	Diversification effects due to RFF nSCR aggregation for article 304	R0440	0			
	Approach to tax rate		C0109			
	Approach based on average tax rate (yes/no)	R0590	-			
	Loss-absorbing capacity of deferred taxes		C0130			
	Amount/estimate of LAC DT	R0640	-94,768			
	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	R0650	-94,768			
	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	R0660	0			
	Amount/estimate of LAC DT justified by carry back, current year	R0670	0			
	Amount/estimate of LAC DT justified by carry back, future years	R0680	0			
	Amount/estimate of maximum LAC DT	R0690	-169,433			

S.28.01.01

Minimum capital requirement – only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

			C0010		
MCRNL result			R0010	185,307	
				Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0020	Net (of reinsurance) written premiums in the last 12 months C0030
Medical expense insurance and proportional reinsurance			R0020	-	-
Income protection insurance and proportional reinsurance			R0030	-	-
Workers' compensation insurance and proportional reinsurance			R0040	-	-
Motor vehicle liability insurance and proportional reinsurance			R0050	-	-
Other motor insurance and proportional reinsurance			R0060	-	-
Marine, aviation and transport insurance and proportional reinsurance			R0070	-	-
Fire and other damage to property insurance and proportional reinsurance			R0080	-	-
General liability insurance and proportional reinsurance			R0090	-	-
Credit and suretyship insurance and proportional reinsurance			R0100	-	-
Legal expenses insurance and proportional reinsurance			R0110	967,643	1,049,209
Assistance and proportional reinsurance			R0120	5,437	24,347
Miscellaneous financial loss insurance and proportional reinsurance			R0130	6,290	20,202
Non-proportional health reinsurance			R0140	-	-
Non-proportional casualty reinsurance			R0150	-	-
Non-proportional marine, aviation and transport reinsurance			R0160	-	-
Non-proportional property reinsurance			R0170	-	-

S.28.01.01

Minimum capital requirement – only life or only non-life insurance or reinsurance activity

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL result	R0200	-

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0050	Net (of reinsurance/SPV) total capital at risk C0060
Obligations with profit participation – guaranteed benefits	R0210	-	-
Obligations with profit participation – future discretionary benefits	R0220	-	-
Index-linked and unit-linked insurance obligations	R0230	-	-
Other life (re)insurance and health (re)insurance obligations	R0240	-	-
Total capital at risk for all life (re)insurance obligations	R0250	-	-

Overall MCR calculation

		C0070
Linear MCR	R0300	185,307
SCR	R0310	533,471
MCR cap	R0320	240,062
MCR floor	R0330	133,368
Combined MCR	R0340	185,307
Absolute floor of the MCR	R0350	2,500
		C0070
Minimum capital requirement	R0400	185,307

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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