

ARAG SE

2016 Solvency and Financial Condition Report



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Key Figures

Gross premiums written:

€ **825** million

Net income for the year:

€ **32** million

Combined ratio:

95.8 %

Eligible own funds:

€ **1.314** billion

Solvency capital requirement:

€ **416** million

Solvency ratio:

315.9 %

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Summary

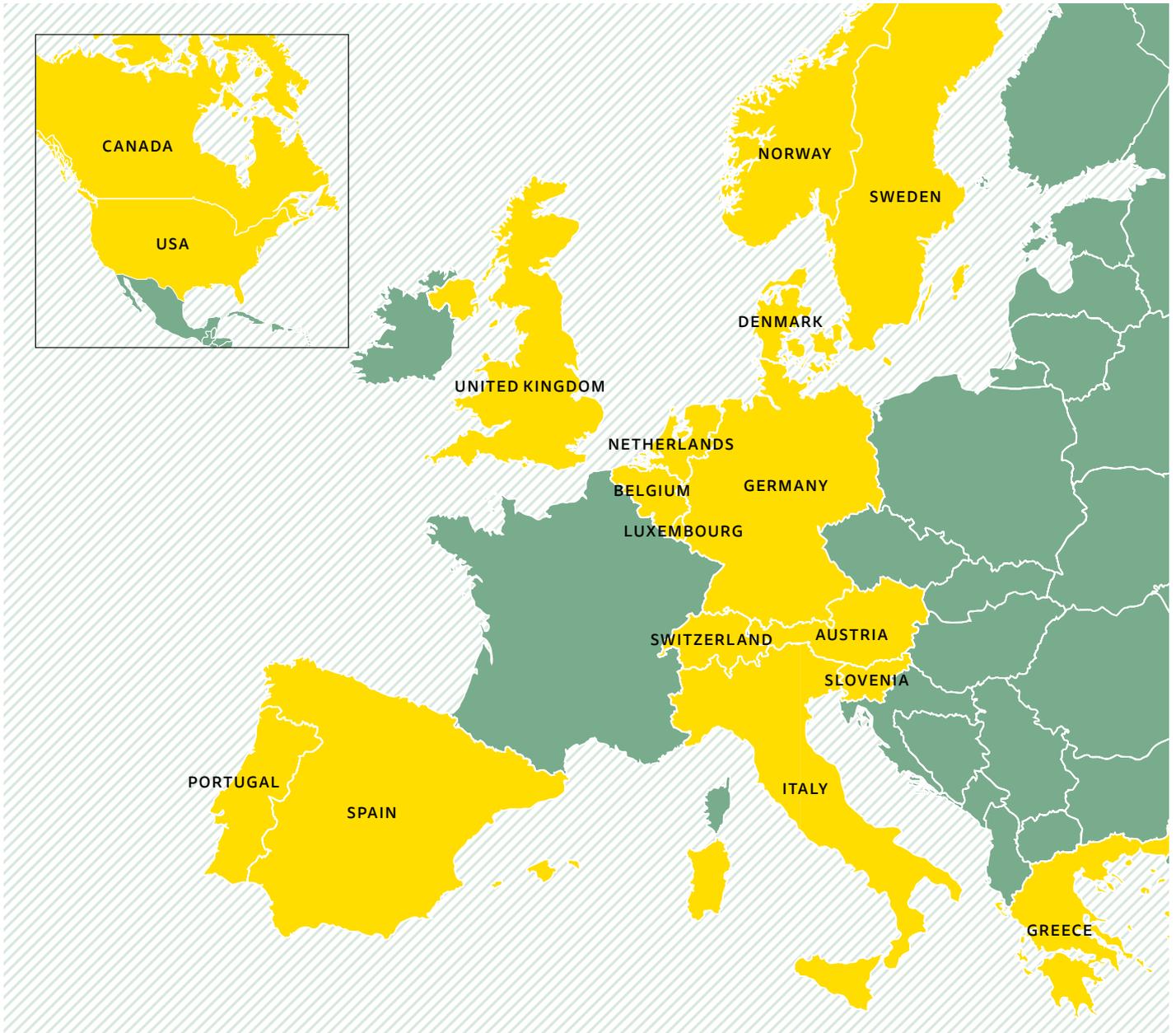
The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established more than 80 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products. At the end of 2016, the Group sold its shares in ARAG Lebensversicherungs-AG as part of a strategic realignment to focus squarely on property and health insurance. The sale is subject to approval by the German Federal Financial Supervisory Authority (BaFin). The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 17 countries (Germany, 14 other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It generates sales revenue and premiums of approximately €1.8 billion and employs more than 4,000 people. ARAG SE is responsible for strategic Group management and the legal insurance operating business at both domestic and international levels. The other ARAG insurance and service companies are responsible for the operational management of their respective lines of business. ARAG Holding SE manages the assets and is the parent company of the Group from a company law perspective.

ARAG SE 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. ARAG SE is the provider of legal insurance for private customers and small businesses. 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.

In the period under review, ARAG SE increased its premiums by 7.6 percent to €824.616 million. It generated 57 percent of its total gross premium income outside Germany, making ARAG SE one of the most internationalized German insurers. The branches in the Netherlands, Spain, and Italy each earn more than €100.000 million in premiums and, partly because of their steady growth, count among the leading providers of legal insurance in their respective markets. However, the smaller branches in the Group are also successful. ARAG SE's branch in Greece, for example, has grown continuously despite the country's difficult economic situation and acts as a reliable partner to its customers when times are challenging.

In ARAG SE's important home market of Germany, the upswing in legal insurance business seen in previous years was further consolidated last year. Gross premiums written in direct business increased by 6.6 percent to €329.272 million, compared with €308.945 million in 2015. The growth figures also had a positive impact on the underwriting result, which almost tripled year on year – from €11.267 million to €30.377 million. Despite the persistent environment of low interest rates, net gains under gains and losses on

Countries in which the ARAG Group operates



investments also remained high at €72.679 million, which was slightly above the prior-year figure (by 1.4 percent). The Company's net income for the year amounted to €31.663 million, a rise of 37.9 percent compared with 2015.

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

accounting rules pursuant to the German Commercial Code (HGB), assets are recognized at amortized cost in accordance with the prudence principle. Consequently, some parts of the report cannot be compared with each other. A reconciliation of the line items is provided in chapters D. 'Valuation for Solvency Purposes' and E. 'Capital Management'. This report does not contain any comparisons with the previous year because the Solvency II rules are new and the report for the year ended December 31, 2016 is thus the first of its kind.

In a process lasting five years, ARAG SE made use of the options made available by the supervisory authorities and developed a partial internal model for which it obtained certification from BaFin in December 2015 in time for the start of Solvency II. ARAG SE is one of only a small number of German insurers that have successfully completed the certification process, which is a particularly good achievement given its size. As a result of approval being granted, the Company is able to measure its risks in a way that is tailored to its business and manage them accordingly in order to provide customers with greater protection. ARAG SE uses an internal model for market risk, non-life underwriting risk, and counterparty default risk. This enables the conservative investment policy and the interdependencies of the individual risk exposures to be reflected appropriately in the risk calculation. In addition, the modeling benefits from the expertise that has been accumulated over the course of more than 80 years of providing legal insurance with a clearly defined product and underwriting policy.

Against a backdrop of persistently low interest rates, ARAG SE began to reorganize the ARAG Group structure in 2016 and decided to sell its shares in ARAG Lebensversicherungs-AG to Frankfurter Leben-Gruppe. The sale of the shares is subject to approval by BaFin.

In connection with the introduction of Solvency II, ARAG SE has not only completely redesigned how it values risk but also updated its operational and organizational structure. It thus has a governance system with an appropriate structure and complexity that is based on the organization's relationship with the risks assumed. ARAG SE has implemented the following key functions in its organization as autonomous, independent functions: Compliance, Internal Audit, the Actuarial function, and Risk Management. In this regard, the Company has been guided by German legislation and also complies with European directives and recommendations from various bodies and organizations, as well as with internal policies governing processes, roles, and responsibilities.

ARAG SE's risk profile is shaped by the two internally modeled major risks: market risk and underwriting risk. The solvency capital requirement for market risk, which is the more dominant, is €380.872 million. The drivers are equity investment risk, equity risk, and credit risk. Underwriting risk, for which the solvency capital requirement is €178.066 million, is mainly influenced by premium and reserve risk. ARAG SE's overall solvency capital requirement is €416.034 million. To cover the solvency capital requirement, ARAG SE has eligible own funds of €1,314.428 million, giving a coverage ratio of 316 percent. ARAG SE thus has a very high level of capital adequacy, a clear sign of the Company's excellent financial strength.

A. Business and Performance

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A.1 Business

Legal basis

ARAG SE was founded on July 15, 1935 in Düsseldorf, Germany. It is entered in the commercial register of the Düsseldorf local court under the number HRB 66846. 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

ARAG SE was entered in the commercial register as a European Company (Societas Europaea, SE) on December 1, 2011. This change in the legal form of the Company, which had previously been a stock corporation (Aktiengesellschaft, AG) called ARAG Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Düsseldorf, was based on a resolution of the Annual General Meeting on October 19, 2011 in accordance with the transformation plan dated February 8, 2011.

Supervisory authority

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

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

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

Auditor

The contact details of the appointed auditor are:

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft
Moskauer Strasse 19, 40227 Düsseldorf, Germany

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

Structure of ARAG SE

Indirectly, ARAG SE is wholly owned by ARAG Holding SE, Düsseldorf, which directly holds a 50 percent equity investment. ARAG Holding SE has equity (in accordance with HGB) of €269.276 million. In 2016, the members of the Management Board were Dr. Dr. h. c. Paul-Otto Faßbender, Dr. Karl-Heinz Strohe (until July 31, 2016), and Dr. Sven Wolf (from January 1, 2016). The second shareholder is AFI Verwaltungs-Gesellschaft mbH, Düsseldorf, which holds a 50 percent equity investment in ARAG SE. AFI Verwaltungs-Gesellschaft mbH has equity of €92.370 million and is represented by its Managing Directors Dr. Dr. h. c. Paul-Otto Faßbender and Dr. Sven Wolf. The existence of the majority interest was notified to ARAG Allgemeine Rechtsschutz-Versicherungs-AG (now ARAG SE) on April 28, 2000 by the governing bodies of the parent companies in accordance with section 20 (1) and (4) of the German Stock Corporation Act (AktG). ARAG SE is a dependent company within the meaning of section 17 (1) AktG in relation to ARAG Holding SE.

ARAG SE is responsible for the strategic Group management of the ARAG Group, whose parent company is ARAG Holding SE. The latter limits itself to exercising its rights and fulfilling its obligations as a shareholder in the investee companies. After the two holding companies (ARAG Holding SE and AFI Verwaltungs-Gesellschaft mbH), ARAG SE is the highest-level Group company in the ARAG Group, which comprises 46 Group companies (as of December 31, 2016), including seven insurance companies headquartered in Germany, Norway, and the US.

List of the main affiliated companies

Name	Legal form	Headquarters	Direct share	Group's share
1 ARAG Holding SE	SE	Düsseldorf	0.00 %	Group parent company
2 AFI Verwaltungs-Gesellschaft mbH	GmbH (private limited company)	Düsseldorf	0.00 %	100.00 %
3 ARAG 2000 Grundstücksgesellschaft bR	GbR (partnership under the German Civil Code)	Düsseldorf	50.90 %	93.38 %
4 ARAG Allgemeine Versicherungs-AG	AG	Düsseldorf	100.00 %	100.00 %
5 ARAG Insurance Company Inc.	Corporation	Des Moines	0.00 %	100.00 %
6 ARAG International Holding GmbH	GmbH	Düsseldorf	100.00 %	100.00 %
7 ARAG IT GmbH	GmbH	Düsseldorf	100.00 %	100.00 %
8 ARAG Krankenversicherungs-AG	AG	Munich	25.10 %	94.01 %
9 ARAG Lebensversicherungs-AG	AG	Munich	92.00 %	92.00 %
10 ARAG North America Inc.	Corporation	Des Moines	0.00 %	100.00 %
11 ARAG Plc.	Plc.	Bristol	100.00 %	100.00 %
12 ARAG Service Center GmbH	GmbH	Düsseldorf	80.00 %	100.00 %
13 Cura Versicherungsvermittlung GmbH	GmbH	Düsseldorf	100.00 %	100.00 %
14 HELP Forsikring AS	AG	Oslo	100.00 %	100.00 %
15 Interlloyd Versicherungs-AG	AG	Düsseldorf	0.00 %	100.00 %

Description of the main affiliated companies

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. The operational management of the ARAG Group is the responsibility of ARAG SE. As well as managing the equity investments, ARAG Holding SE rents out real estate.
2. AFI Verwaltungs-Gesellschaft mbH manages 50.0 percent of the shares in ARAG SE. This management remit is limited to exercising its rights and fulfilling its obligations as a shareholder in the equity investment.
3. ARAG 2000 Grundstücksgesellschaft bR manages the plot of land at ARAG Platz 1, 40472 Düsseldorf, where the ARAG Group's headquarters are located.
4. ARAG Allgemeine Versicherungs-AG operates the Group's casualty and property insurance business in Germany and through a branch in the United Kingdom. It is necessary to operate this business in a separate company because, in Germany, legal insurance claims have to be settled separately (section 164 of the German Insurance Supervision Act (VAG)). ARAG Allgemeine primarily offers modular insurance cover for general accident insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to private and small business customers. This company is also Europe's largest sports insurer, providing cover for over 20 million people – from those enjoying sport as a leisure activity right up to professional sportsmen and women.
5. ARAG Insurance Company, USA, operates legal insurance business through employers and trade associations. Insurance is provided to their employees and members, although coverage varies from state to state depending on the local regulatory rules. ARAG Insurance Company is part of a subgroup in the USA that comprises five companies and is managed by ARAG North America Inc.
6. ARAG International Holding GmbH is an intermediate holding company connecting the North American (US and Canadian) subsidiaries to the ARAG Group in Germany. It is purely a financial holding company without any managerial authority; it limits itself to exercising its rights and fulfilling its obligations as a parent company. Besides its function as a holding company, it is also responsible for winding up the business activities of the ARAG Group's discontinued operations.
7. ARAG IT GmbH, which is located at the Düsseldorf site, carries out all data center activities and IT services required by the ARAG Group. It does not have any customers outside the ARAG Group.
8. ARAG Krankenversicherungs-AG operates the private health insurance business. The need to separate the different segments (section 8 (4) VAG) means that a separate company has to operate the health insurance business. ARAG Krankenversicherungs-AG has established itself in its market as a provider of high-quality full-coverage and supplementary private health insurance.
9. ARAG Lebensversicherungs-AG operates the life insurance business. The need to separate the different segments (section 8 (4) VAG) means that a separate company has to operate the life insurance business.
10. ARAG North America Inc., USA, is the country-specific holding company for the ARAG Group's US business lines. It holds all of the shares in the four other US subsidiaries.

11. ARAG Plc., United Kingdom, works as an intermediary by brokering business with end customers and passing it on to primary insurers within and outside the ARAG Group. The bulk of claims settlement for the primary insurers is handled by ARAG Plc. itself.
12. ARAG Service Center GmbH is the customer service center for all German insurance companies in the ARAG Group, providing comprehensive assistance services and a telephone hotline around the clock. It also acts as a mediator in the resolution of legal disputes.
13. Cura Versicherungsvermittlung GmbH brokers insurance business to third parties that the ARAG Group does not underwrite itself. The company also takes care of the insurance requirements of the ARAG Group's own employees.
14. HELP Forsikring AS, Norway, primarily offers family legal insurance coverage for interest groups – predominantly labor unions – in Norway, Sweden, and Denmark. In Norway, it also offers a special legal insurance product for homebuyers.
15. Interlloyd Versicherungs-AG is a wholly owned subsidiary of ARAG Allgemeine Versicherungs-AG and, like its parent company, operates the casualty and property insurance business. Unlike its parent company, however, it operates its business through insurance brokers rather than directly. Interlloyd Versicherungs-AG also has a branch in Spain.

Qualitative and quantitative disclosures on relevant events and transactions

ARAG SE is responsible for the legal insurance operating business at both domestic and international levels and for strategic Group management. In this role, it holds material equity investments in Group companies, performs centralized services for the insurance companies in the Group, e.g. investment management, risk management, and personnel development, and manages major projects affecting various parts of the Group (e.g. modifying the accounting systems, designing the IT infrastructure). Significant events and transactions are listed below.

ARAG SE has a rental agreement with ARAG 2000 GbR concerning the rental of office space and ancillary areas at ARAG's headquarters in Düsseldorf. The rent and secondary costs were agreed upon on an arm's-length basis and, in 2016, amounted to €10.595 million. Offices, storerooms, and underground parking spaces in Munich were rented from ARAG Lebensversicherungs-AG, also at arm's-length rates. The rent and secondary costs paid for these came to €1.707 million.

Service fees of €18.144 million were paid to ARAG IT GmbH in 2016 for data center operation, software solution development, and software maintenance.

ARAG SE has contracts with the 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. Most of these contracts were entered into before the establishment of the dependency on ARAG Holding SE and on the entities in which it holds a majority shareholding. All of the contracts have been concluded on arm's-length terms.

Line of business

ARAG SE is the largest family-managed insurance company in Germany and is one of the world's three leading providers of legal insurance. It focuses on state-of-the-art 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.

In addition to the Group headquarters in Düsseldorf, ARAG SE maintains operational branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, and Spain. This centralized, star-shaped organizational structure emerged from the merger of previously independent subsidiaries in 2012. The international branches run their operating businesses in their national markets independently, taking into account the specific local circumstances in each case. 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 market, where ARAG has been offering legal insurance through a Group company since the end of 2016. ARAG SE also holds an equity investment in a legal insurance company in Luxembourg.

ARAG SE is one of the most internationalized insurers in Germany with more than 57 percent of its total gross premiums written accounted for by international business.

The breakdown of ARAG SE's insurance portfolio (number of policies) as of the end of the reporting year was as follows:

Insurance portfolio		
(No.)	Dec. 31, 2016	Dec. 31, 2015
German	1,446,227	1,423,702
International	2,692,257	2,339,667
Total	4,138,484	3,763,369

Significant business or other events in the reporting period

In 2015, ARAG SE received authorization from BaFin to use a partial internal model from January 1, 2016 onward to calculate its solvency capital requirement. Following the successful completion of the project phase covering the preparation for Solvency II and the development phase for the partial internal model, the testing phase also demonstrated that the partial internal model can be used extensively in the Company and can play a key role in corporate management.

ARAG SE is one of only a small number of German insurers that have successfully completed the certification process, which is a particularly good achievement given its size.

The management of underwriting risk in line with the risk involved and the level of market risk assumed represent significant success factors for ARAG. Only by using a partial internal model is it possible to model the special features of ARAG SE's business structure in line with the risk and to calculate the capital requirement accordingly. The use of the partial internal risk model will be an important contributing factor in helping ARAG SE to sustainably enhance its competitiveness over the long term.

Innovativeness is a key driving force for ARAG and one of its major strengths. Besides refining the portfolio, the Company has implemented new and groundbreaking ideas for products and services that are always geared to meeting customer requirements and creating benefits for them. ARAG's Sofort legal insurance for motorists, which is unlike any other product available in the market, represents a new approach for the Group. For the first time, cover is provided for legal insurance claims incurred before the policy was taken out. This applies to administrative offenses and to claims for damages following a road accident. Since launching the product, ARAG has already provided immediate assistance in several hundred cases even though the insurance policy was not in place at the time the claim was incurred.

In the reporting year, the ARAG Group again impressed customers with a variety of digital innovations. As well as continually expanding the existing live chat function, which is heavily used by customers as an alternative means of communication, the Group introduced a number of new features. These include alternative methods of payment, with which ARAG entered uncharted territory for the insurance industry last year: Since May 2016, customers have also been able to pay recurring insurance premiums by credit card or PayPal for the first time. This new feature was first introduced for private legal insurance products that can be taken out online. ARAG's website has also been optimized at international level and standardized in order to strengthen the brand. This included establishing a central online platform for European countries that is progressively being rolled out to them.

Against a backdrop of persistently low interest rates, ARAG SE began to reorganize the ARAG Group structure in 2016 and decided to sell its shares in ARAG Lebensversicherungs-AG to Frankfurter Leben-Gruppe. The sale of the shares is subject to approval by BaFin.

Based on a simplified tax planning process for the next three years, it was found that at the predicted times of reversal of circumstances that are subject to different treatment for tax purposes than their accounting treatment under the German Commercial Code, there would be no impact on the current tax expense. For this reason, an amount of €24.671 million was deducted from deferred tax assets and recognized as an expense in the income statement.

A.2 Underwriting Performance

ARAG SE expanded its insurance business significantly in the year under review. Its gross premium income rose by 7.6 percent, from €766.127 million to €824.616 million. Both the German and the international legal insurance business contributed to this premium growth. In the international markets, this increase was mainly generated from indirect business. The insurance portfolio in the Netherlands was further expanded through broker sales, while in Spain a new reinsurance contract was signed with a large primary insurer. ARAG SE was able to maintain its business volume in Austria and Belgium, despite the saturation of the legal insurance markets in these two countries. In Germany, the insurance portfolio grew thanks to a solid increase in new business, a decline in policy cancellations, and premium adjustments.

Of the total premium income, €633.818 million (2015: €594.451 million) was derived from direct business. The international branches' volume of legal-insurance-related travel business came to €50.720 million (2015: €41.702 million). Direct legal insurance business accounted for €583.098 million (2015: €552.749 million). Gross premiums written in the direct legal insurance business in Germany increased by 6.6 percent, from €308.945 million to €329.272 million. This performance highlights the innovative product concepts and the underlying strong customer focus of the Company, which has achieved continuous premium growth in its domestic market of Germany since 2013. After deduction of the reinsurers' shares and changes in unearned premiums, the remaining net premiums earned for all legal insurance business amounted to €814.252 million compared with €756.133 million in 2015.

Despite the increase in business volume, claim payments dropped to 50.2 percent of premiums earned (2015: 52.2 percent). As there were no extraordinary loss events in Germany or elsewhere, the overall claims ratio of 51.0 percent was even lower than the strong prior-year figure of 52.9 percent. Claims incurred amounted to €415.393 million compared with €400.070 million in 2015.

Conversely, insurance business operating expenses declined. The cost ratio dropped from 45.6 percent in 2015 to 44.8 percent in the year under review. However, this decline is attributable to the change in the discount rate for provisions for pensions and other post-employment benefits, which had to be calculated as a ten-year average for the first time. This one-off positive factor was offset almost entirely by additional commissions incurred as a result of the increase in business volume and by rising staff costs for personnel to implement the additional regulatory requirements.

After taking into account the sundry underwriting income and expenses (net income of €1.459 million), the underwriting result for own account before the equalization provision showed a very significant year-on-year improvement to a profit of €35.933 million compared with a profit of €12.825 million in 2015. A total of €5.556 million was added to the equalization provision in respect of the travel insurance business in Spain and Italy and the inward legal reinsurance business in a number of countries.

After the addition to the equalization provision, the underwriting result amounted to a profit of €30.377 million, meaning that the profit of €11.267 million achieved in 2015 was nearly tripled in the year under review. Detailed information about direct insurance and inward reinsurance business is provided in the following tables, along with a breakdown of premiums by country.

Insurance disclosures

(€'000)

Direct insurance business

	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2016	Total 2015
Gross premiums written	583,098	41,666	9,054	633,818	594,451
Gross premiums earned	575,986	41,293	9,196	626,475	591,204
Net premiums earned	-	-	-	-	-
Claims incurred	298,958	21,462	309	320,729	310,114
of which payments for claims	303,996	20,143	1,381	325,520	318,816
Insurance business operating expenses	255,902	20,075	5,367	281,344	269,822
of which front-end fees	79,130	18,074	635	97,839	88,711
of which administrative expenses	176,771	2,001	4,732	183,504	181,111
Change in equalization provision	0	-2,217	-319	-2,536	-72
Miscellaneous underwriting income and expenses	1,459	0	0	1,459	1,544
Underwriting result	22,585	-2,461	3,201	23,325	12,740
Technical provisions:					
Unearned premiums	146,313	2,645	4,673	153,631	146,289
Provision for outstanding claims	876,604	6,246	3,092	885,942	890,733
Equalization provision and similar provisions	0	6,358	2,930	9,288	6,752
Miscellaneous technical provisions	882	0	0	882	876

	Inward reinsurance business				Outward insurance business		Total insurance business		
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2016	Total 2015	2016	2015	2016	2015
	180,649	9,686	463	190,798	171,676	-	-	824,616	766,127
	184,755	7,836	215	192,806	169,219	-	-	819,281	760,423
	-	-	-	-	-	5,029	4,290	814,252	756,133
	84,610	11,637	-94	96,153	90,541	1,489	585	415,393	400,070
	72,891	10,826	101	83,818	76,661	856	749	408,482	394,728
	84,957	429	245	85,631	76,659	2,590	1,699	364,385	344,782
	714	331	7	1,052	3,883	-	-	-	-
	84,243	98	238	84,579	72,776	-	-	-	-
	-2,875	0	-145	-3,020	-1,486	0	0	-5,556	-1,558
	0	0	0	0	0	0	0	1,459	1,544
	12,313	-4,230	-81	8,002	533	950	2,006	30,377	11,267
	41,445	5,013	160	46,618	48,317	1,417	1,199	198,832	193,407
	174,754	1,831	327	176,912	164,780	1,784	1,151	1,061,070	1,054,362
	4,361	0	145	4,506	1,486	0	0	13,794	8,238
	0	0	0	0	0	0	0	882	876

Source of insurance business by premiums written

Country/source	Direct insurance business			Inward reinsurance business			Total business
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	
(€'000)							
Germany	329,272	0	0	0	0	0	329,272
Spain	47,306	41,478	4,628	21,274	9,686	132	124,506
Netherlands	91,294	0	0	48,847	0	0	140,141
Italy	26,321	0	4,426	87,341	0	331	118,418
Belgium	23,180	0	0	471	0	0	23,650
Austria	58,091	0	0	0	0	0	58,091
Slovenia	2,183	0	0	0	0	0	2,183
Greece	5,003	0	0	42	0	0	5,045
USA	0	0	0	292	0	0	292
UK	0	0	0	22,199	0	0	22,199
Portugal	448	188	0	182	0	0	819
Total	583,098	41,666	9,054	180,649	9,686	463	824,616

A.3 Investment Performance

The unchanged monetary policy of the European Central Bank, which is causing interest rates to stagnate at an extremely low level without any prospect of change in the near future, is affecting current income from securities. Interest rates on low-risk investments even dropped into negative territory at times.

As a consequence, ordinary income from investment fund shares/units sank from €23.926 million in 2015 to €17.508 million in the year under review. In response to low interest rates and as a consequence of market movements of non-fungible investments, it was possible to reverse write-downs – mainly on investment fund shares/units and shares in affiliated companies – in an amount of €8.939 million (2015: €4.165 million). At the same time, write-downs on securities amounted to only €2.032 million (2015: €12.095 million). Current income of €6.382 million was generated from land. This constitutes a slight increase on the 2015 figure of €6.333 million. This rise was achieved even though interests in indirectly held real estate were sold, resulting in the realization of gains on disposal.

Dividend income in the year under review fell by €6.158 million year on year. This is due to a change in the structure of the subsidiaries, which led to a one-time reduction of dividend payments. Equity investments in the US, UK, and Switzerland maintained their very sound financial performance. The profit transferred from ARAG Allgemeine Versicherungs-AG amounted to €14.019 million, which was below the equivalent prior-year figure of €15.015 million.

Write-downs of €4.188 million were recognized on shares in affiliated companies, whereas in 2015 write-downs of €320 thousand had been recognized in respect of equity investments. In 2015, losses totaling €1.291 million had arisen on the disposal of land and on the sale of fixed-income securities. These declined to €288 thousand in the reporting year. The pro rata sale of indirectly held real estate and the sale of institutional fund units and fixed-income securities from the investment portfolio generated a total gain of €8.849 million in 2016. Net gains on investments came to €72.679 million, which was higher than the prior-year net gains of €71.620 million despite the unfavorable conditions in capital markets.

Detailed information about investment performance is provided in the following table:

Gains and losses on the investments of ARAG SE

(€'000)	2016	2015	Change
Income from equity investments	28,566	35,720	-7,154
Income from land	6,382	6,333	49
Income from other investments	33,792	42,925	-9,133
Investment management expenses	-6,310	-6,688	378
Ordinary gains and losses on investments	62,429	78,289	-15,860
Income from reversals of write-downs	8,939	4,165	4,775
Depreciation, amortization and write-downs of investments	-3,063	-13,227	-9,218
Write-downs on equity investments/branches	-4,188	-320	-3,868
Gains on the disposal of investments	8,849	4,004	4,845
Losses on the disposal of investments	-288	-1,291	1,003
Miscellaneous gains and losses on investments	10,249	-6,669	16,918
Gains and losses on investments	72,679	71,620	1,059

A.4 Performance of Other Activities

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

Other income

(€'000)	2016	2015	Change
Income from insurance brokerage	36,981	33,733	3,249
Income from services	39,840	41,554	-1,714
Income from sub-letting of premises	3,305	3,231	74
Income from the reversal of provisions	2,619	5,308	-2,689
Miscellaneous income	7,175	9,495	-2,320
Total income	89,920	93,321	-3,401

Other expenses

(€'000)	2016	2015	Change
Expenses for services	84,320	84,248	72
Interest expense and similar charges (interest cost from unwinding of discounts, interest on taxes)	6,720	12,450	-5,730
Expenses incurred on behalf of the Company as a whole	23,080	29,369	-6,289
Sundry expenses	10,828	6,545	4,283
Total expenses	124,948	132,612	-7,665
Other net income/expense	-35,028	-39,291	4,263

A.5 Any Other Information

The preceding chapters contain all of the important information about business and performance.

B. System of Governance

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B.1 General Information on the System of Governance

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

This idea – 'Every individual should be able to assert his or her legal rights – irrespective of his or her financial situation' – was defined more than 80 years ago. It remains enshrined in every area of ARAG SE's business to this day and has therefore always been what motivates the Company.

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

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

The Group encourages a well-developed risk-taking culture and a strong understanding of risk at all levels. The deliberate assumption of risk is of course part of an insurance company's business activities. Continual refinements in all areas are necessary in order to manage this process successfully, not only for the Company but also for customers. This affects firstly the risks assumed, which evolve in a constantly changing environment and require the Company to develop new solutions over time. But the Company and the organization itself are also exposed to processes of continual change and development, particularly as a result of regulation, the market environment, and the competitive situation. ARAG provides continuing professional development (CPD) activities – both internal and external – for all employees and all senior managers to ensure that the organization is always equipped to rise to the latest challenges and can proactively tackle emerging risks.

The Company also ensures that employees always have the necessary knowledge and information about processes to be able to carry out their tasks properly. They are assisted in this by an information system that provides comprehensive, robust, clearly defined, consistent, timely, and relevant data on the various business activities and on the related risks that are deliberately assumed. Moreover, the clear reporting lines ensure that information is communicated promptly in such a way that those receiving it are able to immediately recognize the significance of the information and formulate the necessary steps to be taken in their area of responsibility. The security, completeness, and confidentiality of the information are of course maintained at all times.

The Company has structured its system of governance in such a way that its business activities can be managed soundly and conservatively in line with the business and risk strategies. As part of its overall responsibilities, the Management Board ensures that there is an orderly system of governance in place, so that it:

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

The responsibilities of the Management Board of ARAG SE are organized as follows: Central Group Functions, Group Sales, Group IT and Operations, Group Development and Business Organization, Group Finance, Group Products and Innovation, and Group Risk Management/Group Controlling. Each area of responsibility is assigned to a specific member of the Management Board.

The Supervisory Board is responsible for appointing and monitoring the Company's Management Board. To facilitate the decision-making process, the Supervisory Board has delegated individual tasks to the Finance Committee, Audit Committee, and Human Resources Committee.

By the nature of its remit, the Finance Committee deals mainly with investment decisions and fundamental strategic decisions on asset allocation. The Finance Committee also deliberates on business decisions involving the portfolio of the Group companies.

The Audit Committee primarily discusses the projections and forecasts presented to them over the course of the fiscal year that relate to the financial statements. It also examines the overall strategic planning at the preparation stage.

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.

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 relevant Management Board member and can also communicate directly with the Supervisory Board. The employees in these functions have the knowledge they need to be able to carry out their tasks adequately.

Risk management

The tasks of the independent risk control function are performed by the Group Risk Management Central Department. As part of the risk management system that is in place, this department is responsible for the risk management process, which includes submitting regular reports to the Management Board. Its work does not include the operational management of risks, which is carried out directly by the relevant managers and process owners in compliance with internal rules. All risk-relevant decisions to be made by the Management Board take into account the information and opinions of the Group Risk Management Central Department.

Compliance

The tasks of the compliance function are performed by the Group Legal/Compliance Central Department. The main compliance task is to draw up guidelines and policies designed to ensure legal requirements are fulfilled and corporate objectives are achieved. Responsibility for implementing the guidelines and policies lies with the individual managers. The Chief Compliance Officer advises the Management Board on compliance with laws and administrative regulations and submits regular reports to the Management Board on his or her work.

Internal audit

Internal audit tasks are performed by the Group Audit Central Department, which is a process-independent function that examines and assesses structures and activities within the Group. This auditing is carried out on behalf of the Management Board and covers all processes relating to business operations. The Group Audit Central Department has to assess and evaluate the integrity, propriety, effectiveness, efficiency, and adequacy of the internal control system. Audit findings are presented to the members of the Management Board in the form of an audit report.

Actuarial function

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

Remuneration of the administrative, management, and supervisory bodies

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

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

Sustainability is ensured by adequately aligning the remuneration structure with the 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 to prevent such risks materializing.

The remuneration of the Company's Management Board members comprises a fixed basic salary and a variable element. The remuneration fulfills the regulatory requirements, primarily that the fixed remuneration is calculated in such a way that the member of a governing body is not heavily dependent on the variable element. The variable element, which is divided into short-term and long-term components, is equivalent to a percentage of the basic salary. The relevant targets 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.

ARAG does not have any share plans or share option programs for members of governing bodies or for employees. Supervisory Board members receive only fixed remuneration for their work.

The Company grants members of the Management Board (or their surviving dependents) 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 dependents' pensions is limited to the amount of the retirement pension.

Early retirement arrangements are not 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.

B.2 Fit and Proper Requirements

The requirements for members of governing bodies, the CEOs of the Company's international branches, and other people in key functions are set out below.

Management Board members/CEOs of international branches

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

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

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

The aforementioned qualifications also apply to the CEOs of the Company's various international branches *mutatis mutandis*, i.e. they must also have in-depth knowledge of the insurance and financial markets, business strategy and business models, the system of governance, financial analysis and actuarial analysis, the regulatory framework, and the regulatory requirements. However, this knowledge must relate primarily to the particular branch for which they are responsible. They also need to know about the domestic market in which their branch operates.

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

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

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

Supervisory Board members

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

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

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

Key functions

The people working in key functions must have extensive knowledge and many years of experience of working in their particular field. They must also have sufficient managerial experience. 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. In addition, the people in key functions must have very good knowledge of the relevant operating processes, business systems, and the insurance industry. It is also essential that they are willing to undertake continuing professional development.

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

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

Continuing professional development as an ongoing process

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

Cause for reassessment

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

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

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

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 of which the operational risk management process forms the core element. Taking a multifaceted approach, including a risk strategy, a limit system, and an own risk and solvency assessment (ORSA), ARAG ensures that its risk management activities to control its business operations remain within the prescribed risk-bearing capacity requirements.

Based on the business strategy, the Management Board specifies the risk strategy and defines the capital adequacy requirements and the required limits for the Company. Risks are therefore managed in the round, ensuring at all times that the overall risk profile is consistent with the risk strategy. The Supervisory Board deliberates on these matters and receives regular reports on the risk situation.

To implement the risk strategy, the Company has implemented a risk management system, which is the responsibility of the risk management function. This function is performed by the Group Risk Management Central Department. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level and therefore performs the role of an independent risk control function. The Chief Risk Officer of ARAG SE is responsible for the implementation of the risk management system in all Group companies. Group Risk Management bears process responsibility for the risk management system and, by means of quarterly risk reports to the Management Board, ensures that there is comprehensive transparency with regard to the risk position and any changes. Group Risk Management is also responsible for refining the risk management system and for drawing up proposals for uniform standards to be applied throughout the Group. The remit of the central department also includes developing models for determining risk-bearing capacity, solvency capital requirements, and the allocation of solvency capital.

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

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

Risk identification

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

Risk analysis

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

Risk assessment

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

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

Risk management

The 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 identified and analyzed risks.

Risk monitoring and reporting

A key element of risk monitoring is examining changes in the risk profile over time, focusing on risk-bearing capacity and utilization of the limits. The risk-bearing capacity of the Company is determined on the basis of the aggregated solvency capital requirement and the eligible own funds that are available. This takes into account the regulatory and internal requirements regarding minimum cover. The actual utilization of limits is determined by reconciling the individual risks assumed and the aggregated risk with the specified limits.

To calculate the limits, the minimum coverage ratio determined by business policy requirements and the eligible own funds are used to determine the maximum permitted solvency capital requirement for the Company. The Management Board sets an overall limit in accordance with its risk tolerance. This overall limit is then apportioned to the risks.

The results from the risk monitoring process and the associated recommendations for action are reported to the Management Board promptly, without restriction, and on a continual basis.

Own risk and solvency assessment (ORSA)

The annual review of the ORSA policy provides the starting point for all regular ORSA processes. After the ORSA framework has been defined, risks pertaining to the strategic positioning are analyzed. This analysis consists of a top-down assessment based on the outcome of the strategic dialog followed by a bottom-up assessment conducted by the managers involved.

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

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

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

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.

In addition to workshops at which the Company's strategic positioning is discussed with the Management Board members, the Management Board also makes decisions on key elements of the ORSA process (e.g. stress tests). The Management Board is thus always aware of relevant developments affecting the risk profile. In the event of a significant change to the risk profile, the Management Board can trigger an ORSA process on an ad hoc basis.

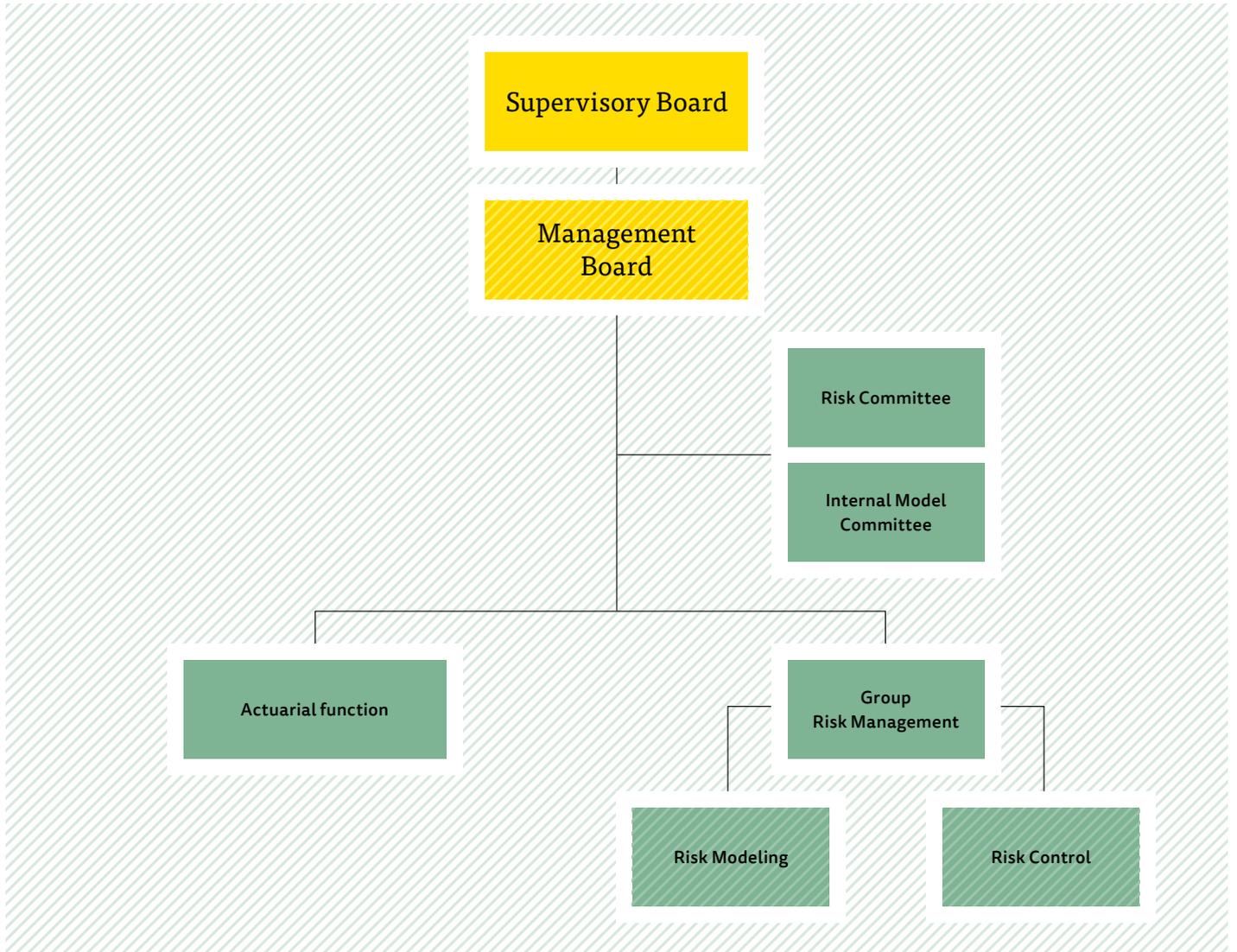
Governance of the partial internal model

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

Validation involves using qualitative and quantitative processes to check whether the results and forecasts of the partial internal model are sufficiently accurate. Both the mathematical and statistical methods used in the model and the governance processes relating to 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 makes sure that the partial internal model is suitable for measuring solvency in accordance with Solvency II and can be used as a basis for management decisions and corporate management.

The Risk Committee's position within the organization



B.4 Internal Control System

Internal control system

ARAG SE 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 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. ARAG SE pursues four main objectives with its internal control system:

- Ensuring legal conformity: The internal control system is designed to create and maintain compliance with the organizational framework that ensures that statutory and regulatory requirements are implemented.
- Helping to maintain the independence of the ARAG Group: The internal control system is designed to help with identifying and reducing risks that may jeopardize the continued independence of the ARAG Group.
- Creating the framework for using the partial internal model in accordance with Solvency II: The internal control system is designed to create the regulatory environment required for use of the partial internal model under Solvency II.
- Ensuring the effectiveness and profitability of business activities: Thanks to a functioning operational and organizational structure, the internal control system contributes to effective and profitable business activities.

Organizational structure of the ICS

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.

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

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

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

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

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

Operational structure of the ICS

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

- Processes that, if not implemented, will jeopardize the achievement of ARAG SE'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 CEO. Although the Compliance Officer submits reports to the Management Board as a whole, he or she is directly and exclusively accountable to the CEO of ARAG SE.

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

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

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

This committee holds interdisciplinary discussions on compliance-relevant matters and coordinates management measures. The steering group meets regularly – and on an ad hoc basis if required – and can be expanded to include additional managers if necessary or reduced for reasons of efficiency.

B.5 Internal Audit Function

The Group Audit function is an instrument of the Management Board, to which it is directly accountable and to which it reports. It is assigned to the Management Board member responsible for the Central Group Functions at ARAG SE, who is the board manager 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. Group Audit 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 internal control system for all operating and business processes from a risk perspective.

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

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

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

B.6 Actuarial Function

The 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 them adequately, the head of the Actuarial function and his or her employees 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 the work carried out 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

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 own tasks (in particular ensuring a proper system of governance and making strategic decisions), all activities can in principle be outsourced to service providers within or outside the Group. The outsourcing of a key function represents a special situation, however. The Management Board has to appoint an outsourcing officer for the outsourced function who is responsible for the proper performance of the key function by the service provider and has to meet the ‘fit and proper’ requirements because of his or her monitoring role. This applies regardless of whether the service provider is an external company or a Group company. Where outsourcing within the Group takes place, no less care is taken in respect of the outsourced projects and their monitoring and control, for example by the service provider’s dedicated points of contact. Outsourcing within the Group may justify a more flexible approach in individual cases if this involves fewer risks than with outsourcing to an external company. Nevertheless, it is still essential that service activities in the individual Group companies are adequately separated from an organizational perspective. In general, 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. Moreover, the monitoring of the service provider by the supervisory authority is ensured at all times.

Apart from the outsourcing of some aspects of internal auditing in individual international branches, ARAG SE has not outsourced any critical or important operational functions or activities to external companies. All insurance activities and, in particular, the four key functions of Compliance, Internal Audit, the Actuarial function, and Risk Management are carried out independently of each other within ARAG SE.

B.8 Any Other Information

ARAG SE has established an adequate system of governance based on clear business and risk strategies, an operational and organizational structure that is appropriate to its business activities and risk profile, and an actively encouraged risk-taking culture.

The policies and related processes of the internal control system at ARAG SE are continually reviewed and updated by the various departments involved – particularly the independent Internal Audit function – and are validated. This ensures that there is always optimum communication between the Supervisory Board, Management Board, key functions, and other senior managers based on short, direct reporting channels and defined escalation procedures. The different hierarchy levels are supported in this by the use of cutting-edge technologies that deliver consistent and reliable data and make information available promptly in a manner that is suitable for the recipients.

ARAG SE believes that the effective interplay between governance, risk management, and compliance creates the necessary transparency for the supervisory authority, the auditors and, above all, its customers.

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In 2015, following a five-year preparatory phase, ARAG SE received authorization from BaFin for its partial internal model, on the basis of which it has been calculating its solvency capital requirement (SCR) since the introduction of Solvency II on January 1, 2016. ARAG SE is one of only a small number of German insurers that have successfully completed the certification process, which is a particularly good achievement given its size.

Using a partial internal model rather than the standard formula results in an appropriate assessment of the conservative risk position and enables ARAG SE to manage itself effectively in the context of the prescribed strategy. Overall, the partial internal model provides greater protection for customers because risks are recognized adequately.

ARAG SE uses an internal model for the two biggest risk components: underwriting risk and market risk. The latter includes credit risk attaching to investments. The material risk concentrations are, on the assets side, investments in fixed-income securities and, on the equity and liabilities side, technical provisions.

Stress tests, backtesting, and scenario analysis for risk modules, sub-risks, and individual parameters are conducted as part of model validation, the ORSA process, and other regular analyses. The internally stipulated coverage ratio of 150 percent means that customers are protected by a considerably larger risk buffer than required by the supervisory authority. Various influencing factors were stress-tested and the impact on the coverage ratio in different scenarios was analyzed. Because of the Company's very good capital adequacy, no relevant scenarios were identified that would be a threat to the protection of customers or in terms of the Company's exposure to risk. The findings of the various analyses are discussed in detail with the relevant risk managers and the Management Board and possible solutions for reducing or mitigating risk are drawn up.

The solvency requirements used in the following chapters should be considered in the context of article 297 (2) (a) of Delegated Regulation (EU) No. 2015/35.

C.1 Underwriting Risk

Underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities arising from inadequate pricing and inadequate provisioning assumptions. These losses result from the following risk categories:

- Premium/reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the duration of claims settlement and the amount involved
- Catastrophe and accumulation risk: significant uncertainties regarding pricing and assumptions in respect of the recognition of technical provisions for extreme or exceptional events
- Lapse risk: changes in the level or volatility of the rates of insurance policy lapses and terminations.

These risks are measured with an internal model. Using a simulation, the losses and adverse changes in liabilities that could occur within one year are forecast. The value of the risk equates to the negative simulation result expected only every 200 years (1 in 200 year event). Each risk is measured separately. For premium and reserve risk, specified criteria are used to aggregate historical losses into groups of risks sharing similar characteristics. These are then used for 200,000 simulations of future unexpected claims and/or required additions to reserves. Likewise, catastrophe and accumulation risk is assessed by simulating losses that may arise from cumulative claims in the legal insurance business. Lapse risk is calculated on the basis of exceptional cancellations in the past. The actual underwriting risk arises from the aggregation of the individual risks, taking diversification effects into account.

To minimize risk, the Company uses reinsurance agreements in legal insurance segments with a particularly high exposure.

The solvency capital requirement for underwriting risk is €178.066 million, the main risk drivers being premium and reserve risk.

C.2 Market Risk

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

- Interest-rate risk: changes in the term structure or volatility of interest rates
- Equity risk: changes in the level or volatility of the market prices of equities
- Property risk: changes in the level or volatility of the market prices of real estate
- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure
- Migration/default risk: rating level changes or changes in the extent of projected defaults
- Currency risk: changes in the level or volatility of exchange rates
- Concentration risk: all risk exposures with a loss potential that is large enough to threaten solvency or financial position.

These risks are measured with an internal model. An economic scenario generator is used to simulate capital market scenarios looking at 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 results from the 1 in 200 year event considering all risk factors simultaneously, and from concentration risk, taking diversification effects into account.

The strategic asset allocation is defined in order to manage the risks. This allocation is used to optimize the investment portfolio so that the desired risk/return ratio can be achieved. Portfolio management is based on the prudent person principle and follows the related regulatory requirements. Interest-rate risk is contained separately by means of asset-liability management. In addition, derivatives are used within institutional funds to hedge changes in interest rates, share prices, and exchange rates. Investments in hedge funds, the funding of investments by borrowing, and the sale of shares not owned by ARAG SE (short selling) are not permitted.

The solvency capital requirement for market risk is €380.872 million, the main risk drivers being equity investment risk, equity risk, and spread risk.

C.3 Credit Risk

While default risk attaching to investments is calculated as part of overall market risk, counterparty default risk in the insurance business is treated as a separate item under credit risk. Counterparty default risk is the downside risk arising from the unexpected default or deterioration in the credit standing of counterparties and debtors of insurance and reinsurance companies during the next twelve months.

Counterparty default risk is measured with the partial internal model. The risk is an aggregation of the solvency capital requirement for receivables from reinsurers and the solvency capital requirement for receivables from policyholders/insurance brokers. This aggregation takes account of specified correlations.

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.

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

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

The solvency capital requirement for counterparty default risk is €13.145 million.

C.4 Liquidity Risk

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

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

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

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

C.5 Operational Risk

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

The Company uses the standard formula to determine the solvency capital requirement.

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

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

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

The strategy put in place is documented and its implementation is monitored on an ongoing basis.

The solvency capital requirement for operational risk is €29.551 million.

C.6 Other Material Risks

The Company is not exposed to any other material risks.

C.7 Any Other Information

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

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The explanation below of each balance sheet line item's valuation methods and their differences start with a description of their valuation under the German Commercial Code (HGB) followed by a description of their valuation for solvency purposes and then an explanation of any material differences.

D.1 Assets

Comparison of the asset categories on the HGB balance sheet and Solvency II balance sheet

Assets as of December 31, 2016

(€'000)

A. Intangible assets

- I. Goodwill
- II. Deferred acquisition costs
- III. Intangible assets

B. Deferred tax assets

C. Pension benefit surplus

D. Property and equipment and land and buildings held for own use

E. Investments

- I. Land, land rights and buildings, including buildings on third-party land
- II. Investments in affiliated companies and equity investments
- III. Equities
 - 1. Listed equities
 - 2. Unlisted equities
- IV. Fixed-income securities
 - 1. Government bonds
 - 2. Corporate bonds
 - 3. Structured finance products
 - 4. Asset-backed securities

V. Investment fund shares/units

VI. Derivatives

VII. Deposits other than cash and cash equivalents

VIII. Miscellaneous investments

Carried forward:

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	0	0	0
	0	0	0
	0	8,329	-8,329
	0	8,329	-8,329
	75,812	6,080	69,732
	0	0	0
	59,885	47,903	11,983
	28,201	24,981	3,220
	986,173	282,906	703,267
	154	154	0
	781	719	61
	934	873	61
	205,717	192,040	13,677
	529,024	494,760	34,264
	6,647	5,508	1,139
	1,117	1,027	90
	742,506	693,336	49,170
	644,496	624,620	19,875
	0	0	0
	98,581	98,581	0
	7,486	5,331	2,155
	2,508,377	1,730,628	777,749
	2,644,075	1,792,940	851,134

Comparison of the asset categories on the HGB balance sheet and Solvency II balance sheet

Assets as of December 31, 2016

(€'000)

Brought forward:

F. Investments for the account and at the risk of the policyholder

G. Loans and mortgages

- I. Loans on policies
- II. Loans and mortgages to individuals
- III. Other loans and mortgages

H. Reinsurers' share of technical provisions

- I. Casualty and property insurance
 - 1. Casualty and property insurance excluding health insurance
 - 2. Health insurance similar to casualty and property insurance
- II. Health and life insurance excluding unit-linked insurance business
 - 1. Health insurance
 - 2. Life insurance
- III. Unit-linked life insurance business

I. Receivables

- I. Deposits with ceding insurers
- II. Receivables from direct insurance business
- III. Receivables from reinsurance business
- IV. Miscellaneous receivables

J. Miscellaneous assets

- I. Cash and cash equivalents
- II. Miscellaneous assets

Total assets

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	2,644,075	1,792,940	851,134
	0	0	0
	0	0	0
	150	150	0
	5,915	5,631	284
	6,065	5,781	284
	270	3,202	-2,932
	0	0	0
	270	3,202	-2,932
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	270	3,202	-2,932
	44,389	44,389	0
	45,830	45,830	0
	44,836	44,836	0
	48,590	48,590	0
	183,644	183,644	0
	67,913	67,913	0
	2,197	2,197	0
	70,110	70,110	0
	2,904,163	2,055,676	848,487

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

Intangible assets are not recognized on the Solvency II balance sheet because market valuation is too uncertain.

Due to intangible assets not being included for solvency purposes, the difference compared with the figure on the HGB balance sheet amounts to €8.329 million.

If differences arise between the carrying amounts on the HGB balance sheet and those in the tax base and these differences are expected to reverse in subsequent years, **deferred taxes** are recognized on the HGB 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 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 HGB balance sheet, the effects of the reversal of the differences between the HGB balance sheet and the tax base are reviewed in terms of their impact on the basis of tax assessment. Differences that would not be accompanied by sufficient taxable income at the time of reversal or would not be offset by countervailing effects in deferred taxes are not recognized. A simplified tax planning process on the basis of the multi-year planning is used for the evaluation. Loss carryforwards are not included when determining deferred taxes. Deferred tax asset balances from international branches are subject to an individual markdown to factor in the uncertainty regarding the impact on current taxes when the differences reverse. Future tax expense resulting from the reversal effects is always recognized. Deferred taxes from 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.

The method for calculating deferred taxes for solvency purposes does not differ fundamentally from valuation under the HGB. Again, future income taxes are recognized on the Solvency II balance sheet on the basis of valuation differences compared with the tax base. Deferred taxes already recognized on the HGB balance sheet are not included. As with the HGB balance sheet, the calculation is based on the current income tax rate in the country whose tax laws govern the reversal effect. Deferred tax assets and deferred tax liabilities that arise as a result are always recognized on the Solvency II balance sheet. This is because the deferred tax liabilities are dominant on the Solvency II balance sheet and an analysis of the timing of the reversal effects proves that the time until reversal of the deferred tax expense is shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit, as a result of which the tax benefit will certainly impact on current taxes in the future due to the loss carryforward mechanism in income tax legislation. Reversal effects at subsidiaries are recognized by the parent company on the Solvency II balance sheet just as they are on the HGB balance sheet because the income of the subsidiaries is aggregated for tax purposes and the parent company is taxed on this income. Because of the more extensive valuation differences

(particularly in relation to defined benefit obligations) between the Solvency II balance sheet and the HGB balance sheet, the amount recognized for deferred tax assets on the Solvency II balance sheet is €69.732 million higher than the amount on the HGB balance sheet.

Property and equipment is recognized at cost on the balance sheet and subsequently depreciated on a straight-line basis over the standard operating useful life.

The treatment of property and equipment for solvency purposes is no different to their treatment under the HGB.

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

Land and buildings held for own use are valued at cost less depreciation. If their value is permanently impaired, they are written down to the lower of fair value or depreciated cost. If the reason for the impairment ceases to apply, the write-down is reversed to the depreciated value of the asset. Land and buildings are categorized as being held for own use or rented out to third parties according to actual usage. For this purpose, a uniform carrying amount is recognized on a pro rata basis.

On the Solvency II balance sheet, the value of the land itself 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 overall value is the sum of the value of the land and the value of the buildings. Land and buildings are categorized as being held for own use or rented out to third parties in the same way as for the HGB balance sheet.

Differences arise between the Solvency II balance sheet and the HGB financial statements because the historical cost convention is applied in the valuation under the HGB, whereas the higher unrealized fair values are recognized on the Solvency II balance sheet. As of December 31, 2016, unrealized valuation reserves amounted to €11.983 million.

Investments in affiliated companies and equity investments are valued at cost, in some cases reduced by write-downs to fair value and by specific equity investment risk arising on the equity investments. Write-downs are reversed to no more than the historical cost if the reason for recognizing them ceases to apply. The fair value is determined using an income capitalization approach based on a planning horizon of three years.

The method used to value subsidiaries and equity investments for solvency purposes depends on their type. Insurance subsidiaries, intermediate holding companies, and insurance operating companies are valued on the basis of the pro rata own funds of the subsidiary as recognized on its Solvency II balance sheet. The valuation of the assets and liabilities on the subsidiary's Solvency II balance sheet is based on the valuation rules for solvency purposes. At the first valuation level, other subsidiaries are valued at market price. If no market prices are available, they are recognized at the second valuation level on the basis of their pro rata equity derived from modified financial statements in which special assets and liabilities are valued in accordance with the principles of valuation for solvency purposes and the International Financial Reporting Standards (IFRS). If insufficient information is available from a subsidiary to be able to carry out a detailed revaluation

of the financial statements that it has submitted, or if the financial statements are not available in time, the value used for valuation on the Solvency II balance sheet is the one that the parent company has used in its HGB financial statements. Where HGB financial statements are not available, the fair value is instead determined using an income capitalization approach. The carrying amounts of entities in the financial services industry that are not supervised in a group with ARAG SE and of subsidiaries whose fair value is – based on objective criteria – close to zero are recognized with a value of zero on the Solvency II balance sheet.

The differences between the values recognized in the HGB financial statements and those recognized on the Solvency II balance sheet arise in qualitative terms from the entirely different valuation methods used for insurance subsidiaries. Under the HGB, the values are limited by the historical costs, which in some cases date back a long way. The total value on the Solvency II balance sheet is €703.267 million higher than the total value on the HGB balance sheet.

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

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

The differences in the valuation rules resulted in a valuation difference of €61 thousand for unlisted equities as of December 31, 2016.

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

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

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

Compared with recognition under the HGB, the valuation of fixed-income securities in accordance with the rules described above results in valuation reserves of €49.170 million that have not yet been realized.

Investment fund shares/units that are not intended for permanent use in insurance operations are valued under the HGB at the lower of their cost or quoted market price or market value as of the balance sheet date. This applies even if the quoted market price or market value falls below the cost only for a short time. Write-downs are reversed to no more than the cost if the reason for recognizing them ceases to apply.

ARAG SE made use of the option to select the discretionary principle of lower of cost or market value for those institutional investment fund shares/units that the Management Board intends to use permanently as part of the working capital of the insurance business. These are valued at cost, even if their quoted market price or market value decreases temporarily. They are not written down to fair value until they are permanently impaired. If the reason for the write-down ceases to apply, it is reversed to no more than the cost.

For solvency purposes, the redemption price determined by the investment management company for the investment fund units/shares is used to determine the economic value. This value is not restricted to the cost.

In accordance with Delegated Regulation (EU) No. 2015/2450, Annex II, collective investment undertakings (CIUs) in which ARAG SE's stake is at least 20 percent are recognized under investment fund shares/units and not under shares in affiliated companies including equity investments.

The restriction of the valuation under HGB rules as a result of the historical cost convention and the realization principle mean that the valuation for solvency purposes is €19.875 million higher.

ARAG SE did not have any direct investments in **derivatives** during the reporting period or as of the balance sheet date.

Bank deposits are recognized at their nominal amount. Taking account of the materiality principle, the nominal amount is also used as the economic value.

Because of the identical valuation methods, the value under the HGB and the value for solvency purposes are the same.

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

For solvency purposes, the net asset value reported by the private equity company is recognized as the economic value, even if it is higher than the cost.

As a result of unrealized valuation reserves, the value for solvency purposes is €2.155 million higher than the HGB value.

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

For solvency purposes, the economic value of loans and mortgages maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is determined using an internal credit rating process based on historical default rates and is reflected in the valuation accordingly.

Because of the valuation using a present value method on the Solvency II balance sheet, the value is €284 thousand higher than the value recognized on the HGB balance sheet.

The reinsurers' share of technical provisions is recognized on the HGB balance sheet for 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 best estimate plus the risk margin. This involves projecting the volatility range of the payments observed in the past based on the year in which the claim was incurred in approximately 200,000 different case variants and allocating it to the individual claims. The reinsurers' share is determined on an individual claim basis in accordance with the contractual terms. The reinsurers' share is then set as the average of all case constellations. The reinsurers' default risk is also taken into account using credit ratings obtained from agencies.

Applying the aforementioned valuation methods, the carrying amount on the Solvency II balance sheet is €2.932 million lower than the HGB carrying amount.

Deposits with ceding insurers are recognized at their nominal amount, which equates to their cost.

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

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

Receivables from direct insurance business are generally recognized at their nominal amount. A general allowance for latent credit risk is deducted from receivables from policyholders after specific allowances have been recognized for receivables that are past due by a predefined period of time. Receivables from policyholders past due are valued at the average historical recovery rate. Receivables from agents are reduced by specific allowances and a general allowance in the amount of the likely default.

The economic value of those maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is recognized in accordance with the method used for specific and general allowances under the HGB.

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

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

The economic value of those maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is recognized in accordance with the method used for specific allowances under the HGB.

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

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

The economic value of those maturing within twelve months is based on the nominal amount. The economic value of those maturing in more than twelve months is determined by applying a present value method. Regardless of the term of the receivable, the counterparty's default risk is recognized in accordance with the method used for specific allowances under the HGB.

Because the nominal amounts are used as the economic value, there are no valuation differences.

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

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

Miscellaneous assets (sundry assets within miscellaneous assets) are recognized at their nominal amount, which equates to their cost. Long-term tax assets are discounted to present value using a discount rate appropriate to the maturity involved.

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

D.2 Technical Provisions

Comparison of the technical provisions on the HGB balance sheet and Solvency II balance sheet

Technical provisions as of December 31, 2016

(€'000)

A. Technical provisions

I.	Casualty and property insurance
1.	Casualty and property insurance excluding health insurance
a)	Technical provisions if calculated as a whole
b)	Best estimate
c)	Risk margin
2.	Health insurance similar to casualty and property insurance
a)	Technical provisions if calculated as a whole
b)	Best estimate
c)	Risk margin
II.	Health and life insurance excluding unit-linked insurance business
1.	Health insurance
a)	Technical provisions if calculated as a whole
b)	Best estimate
c)	Risk margin
2.	Life insurance
a)	Technical provisions if calculated as a whole
b)	Best estimate
c)	Risk margin
III.	Unit-linked life insurance business
1.	Technical provisions if calculated as a whole
2.	Best estimate
3.	Risk margin

B. Other technical provisions

Total technical provisions

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	0	1,263,104	- 1,263,104
	985,046	0	985,046
	32,781	0	32,781
	1,017,827	1,263,104	- 245,277
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	1,017,827	1,263,104	- 245,277
	0	14,676	- 14,676
	1,017,827	1,277,780	- 259,953

On the **HGB balance sheet**, the **technical provisions** include unearned premiums, the provision for outstanding claims, the equalization provision and similar provisions, and miscellaneous technical provisions.

Gross unearned premiums for direct insurance business are calculated pro rata temporis 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 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 information provided by the primary insurer. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

The **provision for outstanding claims** is recognized for obligations arising on claims that had occurred by the end of the reporting year and for the associated claim settlement expenses, unless they have already been settled. Recourse claims, excess proceeds, and claims under loss sharing agreements are deducted from the claims provision. These are receivables that arose due to compensation paid as a result of recourse rights or that are due from other insurers on the basis of loss sharing agreements.

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

Provisions for direct insurance business

Applying the prudence principle, this provision is measured in such a way that all expected claim payments for reported claims and claims incurred but not reported, including the claim settlement costs, are covered. Run-off losses are to be avoided because these have an adverse impact on customers in future financial years.

The provision for outstanding claims is calculated separately for each insurance segment. The provision for outstanding claims is made up of the following partial provisions for each claim event year:

- Provision for claims occurring in the reporting year (claims reported for the reporting year)
- Provision for claims occurring in previous years (claims reported for previous years)
- Provision for claim settlement costs.

The claims in each year are valued separately.

a) Partial provisions for external claim costs relating to claims reported for the reporting year: This provision is the difference between the claims incurred in the reporting year and the claim payments already made in the reporting year. The claims incurred in the reporting year are calculated on the basis of the observed average values of claims for the claim event year that was two years prior to the reporting year, taking account of payments already made and the payments expected to be made in the future.

The quantitative data for the claims reported for the reporting year is taken from the claims inventory. The size of the claims incurred but not reported by the end of the reporting year has to be estimated using the late claims statistics for the ten event years prior to the reporting year.

b) Partial provisions for external claim costs relating to claims reported for previous years: The provision brought forward from the previous year less the claim payments made in the reporting year is utilized first. The amount of the late claims that had previously not been reported is reclassified from the partial provision for claims incurred but not reported to the partial provision for late claims that had previously not been reported.

Each year, a claims inventory is drawn up for the year that was six years prior to the reporting year and for all earlier years. This involves examining each individual claim record and recognizing a reserve. The results of the individual valuations are recorded in the claims register.

c) Partial provision for external claim costs relating to claims incurred in previous years but not reported: The number and value of the claims incurred in previous years but not yet reported have to be estimated. The quantity, the time of reporting, and the amount of the claim payments can only be estimated using past experience.

d) Partial provision for claim settlement costs: A special partial provision is recognized for internal and external expenses incurred after the balance sheet date in connection with settling claims. Claim settlement involves investigating a claim and the work involved in dealing with the claim.

Claim settlement costs comprise both direct and indirect costs. Indirect costs are the cost of inhouse claims departments and inhouse attorneys, e.g. in the Netherlands, and pro rata expenses for central departments.

Provisions for inward reinsurance business

The provision is recognized in accordance with the information provided by the ceding insurer. If there are indications that the information is incomplete or incorrect, ARAG SE calculates the provision itself or estimates it professionally and conscientiously. It has its own statistical observation instruments that it can use to make such estimates.

The results from the group-based and individual valuations are reviewed on a portfolio basis using actuarial methods.

The **equalization provision** for direct insurance business and inward reinsurance business is recognized as additional actuarial reserves that can be used to offset fluctuations in the course of business. The calculation is carried out separately for the direct insurance business and for the inward reinsurance business, in each case broken down by class of insurance. The legal requirements for valuation are set out in detail in the annex to section 29 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

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

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

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

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

The **premiums provisions** are made up of the provision for premiums written but not yet earned and the expected profit or loss from in-force policies. The provision for premiums written but not yet earned is recognized in the amount of the present values of the expected claim payments and costs relating to the relevant policies. The expected profit or loss is determined for the outstanding premium income from in-force policies (installment payments and premiums from multi-year policies). Results from the internal model are used for the valuation of these two line items on the Solvency II balance sheet.

The **risk margin** is calculated using the cost-of-capital method described in article 37 of Delegated Regulation (EU).

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

Differences in the carrying amounts of the technical provisions under the HGB and those calculated for regulatory purposes arise for the following reasons:

Purpose The overriding principle that shapes the HGB balance sheet is the protection of creditors. This is particularly applicable to insurance companies: Technical provisions therefore have to be recognized in an amount that, according to prudent business practice, ensures the obligations under insurance policies can always be met.

The purpose of the Solvency II balance sheet is to present the economic capital as of the balance sheet date. Obligations are therefore recognized at their likely present value rather than at a prudently calculated nominal amount.

Calculation method The principle of itemized valuation applies to the HGB balance sheet. Therefore, the obligations are inventoried and valued individually using a prudently estimated settlement value. Time and quantity are not explicitly taken into account, but are indirectly factored into the valuation assumptions used to determine the average value of an obligation.

According to the principles of valuation for solvency purposes, the entire portfolio is valued rather than the individual claims. The quantitative data plays only a minor role. The expected payments from the portfolio are estimated as the total of all probable payments until final settlement. This provides an implicit consideration of risk in the valuation of the portfolio. The expected payments are discounted to the valuation date.

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

The overall valuation difference for the technical provisions is €259.953 million (the carrying amount calculated for solvency purposes is lower than the HGB amount). This difference is attributable to the qualitative recognition and valuation differences, which are described in detail above for each regime, and to the aforementioned different perspectives.

D.3 Other Liabilities

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

Miscellaneous liabilities as of December 31, 2016

(€'000)

A. Contingent liabilities
B. Miscellaneous provisions
C. Provisions for pensions and other post-employment benefits
D. Deposits received from reinsurers
E. Deferred taxes
F. Liabilities from financial transactions
I. Liabilities from derivatives
II. Liabilities to banks
III. Other financial liabilities
G. Other liabilities
I. Liabilities from direct insurance business
II. Liabilities from reinsurance business
III. Trade payables
H. Subordinated liabilities
I. Subordinated liabilities not included in basic own funds
II. Subordinated liabilities included in basic own funds
I. Miscellaneous liabilities
Total liabilities

	Solvency II balance sheet as of Dec. 31, 2016	HGB balance sheet as of Dec. 31, 2016	Difference as of Dec. 31, 2016
	0	0	0
	84,239	78,146	6,093
	220,372	164,315	56,057
	1,510	1,510	0
	169,235	0	169,235
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	35,449	35,449	0
	1,879	1,879	0
	44,023	44,023	0
	81,351	81,351	0
	0	0	0
	33,748	30,000	3,748
	33,748	30,000	3,748
	202	202	0
	590,656	355,523	235,133

ARAG SE currently does not have any **contingent liabilities** that have become a liability that has to be recognized.

Contingent liabilities arise from taking on a liability, e.g. guarantees, indemnities, miscellaneous warranties, and rediscounted bills of exchange, if, as of the balance sheet date, there is uncertainty as to whether and when they will become actual liabilities. For solvency purposes, they are to be classified as material if the nature and extent of the possible obligation influences the decision-making of the users of the Solvency II information. A contingent liability is classified as material if its recognition would lead to a decrease in the own funds available.

The **miscellaneous provisions** are recognized in the amount that is necessary according to prudent business practice. If the liability's settlement period is more than twelve months, they are discounted.

A long-service provision was recognized in the year under review for long-service awards to be paid to employees. A residual maturity of 15 years was assumed. The seven-year average discount rate used by Deutsche Bundesbank was 3.24 percent. Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles. In 2016, a provision was recognized in accordance with the pre-retirement part-time employment agreement for the private insurance industry dated June 11, 1997 and the pronouncement of the Institute of Public Auditors in Germany (IDW) dated November 18, 1998. A residual maturity of 15 years was assumed. The seven-year average discount rate used by Deutsche Bundesbank was 3.24 percent. In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements was taken into account. A bank guarantee was provided as collateral for the provisions pursuant to section 8a of the German Pre-retirement Part-time Employment Act (AltTZG).

For solvency purposes, provisions for long-service awards, early retirement obligations, and pre-retirement part-time employment obligations are valued using the projected unit credit method (PUC method) as required by International Accounting Standard (IAS) 19. The discount rate is determined on the basis of the yields achieved for senior industrial bonds on the balance sheet date. Expected growth in income (2.5 percent) and the Company's projections for staff turnover (1.5 percent) are taken into account. The amount calculated in this way equates to the economic value. Other provisions are valued on the basis of the best estimate of the expected settlement amount. The residual maturity for all provisions is less than one year. On grounds of materiality, they were not discounted.

Due to the use of different valuation methods, the obligations recognized under miscellaneous provisions on the Solvency II balance sheet are €6.093 million higher than the value on the HGB balance sheet.

In accordance with standard international practice, the **provisions for pensions and other post-employment benefits** are calculated using the PUC method on the basis of the 2005G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. The following parameters were used to calculate the obligations:

- Pension age: earliest possible age under the German Pension Age Reform Act (RVAGAnpG)
- Annual increase in salaries: 2.5 percent
- Annual increase in pension benefits: 1.75 percent (Spain: 2.5 percent)
- Staff turnover: 1.5 percent, reflecting the generally observable age-dependent average for the industry.

The forecast future payments are discounted to the valuation date. The discount rate used is the average interest rate for the past ten years published by Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. A discount rate of 4.01 percent was applied for the valuation.

Existing assets from reinsurance were offset against the defined benefit obligation (€1.216 million). In addition, securities with a fair value of €3.823 million were offset against the present value of the obligation.

The method used to calculate the provision for pensions and other post-employment benefits for solvency purposes is fundamentally the same as the method under the HGB. The only difference is that the discount rate is determined on the basis of the coupon on senior fixed-income industrial bonds. In line with the requirements of IAS 19, this is represented as an interest-rate curve that shows the individual interest rates depending on the actual maturity of the individual obligation.

The different discount rates give rise to a difference of €56.057 million by which the economic value exceeds the HGB value. Under the HGB, the provisions for pensions and other post-employment benefits are recognized using a higher interest rate, so they are discounted to a greater degree.

Deposits received from reinsurers are recognized at their repayment amount on the HGB balance sheet. They are not discounted.

The economic value of those maturing within twelve months is based on the nominal amount. If the maturity period is longer (more than twelve months), the economic value is determined using the present value method.

There are no valuation differences because the maturity period does not exceed twelve months.

If differences arise between the carrying amounts on the HGB balance sheet and those in the tax base and these differences are expected to reverse in subsequent years, **deferred taxes** are recognized on the HGB 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 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 HGB balance sheet, the effects of the reversal of the differences between the HGB balance sheet and the tax base are reviewed in terms of their impact on the basis of tax assessment. Differences that would not be accompanied by sufficient taxable income at the time of reversal or would not be offset by countervailing effects in deferred taxes are not recognized. A simplified tax planning process on the basis of the multi-year planning is used for the evaluation. Loss carryforwards are not included when determining deferred taxes. Deferred tax asset balances from international branches are subject to an individual markdown to factor in the uncertainty regarding the impact on current taxes when the differences reverse. Future tax expense resulting from the reversal effects is always recognized.

Deferred taxes from 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.

The method for calculating deferred taxes for solvency purposes does not differ fundamentally from valuation under the HGB. Again, future income taxes are recognized on the Solvency II balance sheet on the basis of valuation differences compared with the tax base. Deferred taxes already recognized on the HGB balance sheet are not included. As with the HGB balance sheet, the calculation is based on the current income tax rate in the country whose tax laws govern the reversal effect.

Deferred tax assets and deferred tax liabilities that arise as a result are always recognized on the Solvency II balance sheet. This is because the deferred tax liabilities are dominant on the Solvency II balance sheet and an analysis of the timing of the reversal effects proves that the time until reversal of the deferred tax expense is shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit, as a result of which the tax benefit will certainly impact on current taxes in the future due to the loss carryforward mechanism in income tax legislation. Deferred taxes from subsidiaries are also recognized on the parent company's Solvency II balance sheet.

Unlike on the HGB balance sheet, deferred tax assets and liabilities are not netted on the Solvency II balance sheet and are shown separately. On the Solvency II balance sheet, deferred tax liabilities arise as a result of obligations being recognized at a higher value and assets at a lower value than the values used in the tax base. As there is an excess of deferred tax assets (€6.080 million) on the HGB balance sheet, there is a difference of €169.235 million between the deferred tax liabilities recognized on the Solvency II balance sheet and those recognized on the HGB balance.

Liabilities from direct insurance business are valued at their nominal amount. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value.

The economic value of those maturing within twelve months is based on the nominal amount. If the maturity period is longer (more than twelve months), the economic value is determined using the present value method. No adjustments are made if ARAG SE's credit rating changes. The effect of the time value of money on liabilities to policyholders and brokers that have a maturity of more than one year is immaterial and is therefore not taken into account.

Consequently, there are no valuation differences.

Liabilities from reinsurance business are recognized at their settlement value. There are no differences in their recognition and valuation on the HGB and Solvency II balance sheets.

Trade payables are recognized at their settlement value. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value. There are no differences in their recognition and valuation on the HGB and Solvency II balance sheets.

Subordinated liabilities have been issued by way of private placement to improve the own funds used to determine the solvency ratio. The registered bond with a value of €30.000 million has a fixed maturity of ten years and will be redeemed on July 29, 2024. The subordinated bearer bonds are recognized at their settlement amount. These bonds are not negotiable in Germany on a regulated market within the meaning of section 2 (5) of the German Securities Trading Act (WpHG).

On the Solvency II balance sheet, the subordinated liabilities are discounted with the risk-free interest rate derived from investment-grade industrial bonds, modified by the value of ARAG's different credit rating at the time the subordinated bond was issued on July 29, 2014. This results in an interest rate that is lower than the bond's nominal interest rate (4.826 percent). Because of the discounting, the value on the Solvency II balance sheet is €3.748 million higher than the value on the HGB balance sheet.

Miscellaneous liabilities are recognized at their settlement value. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value.

The economic value of those maturing within twelve months is based on the nominal amount. If the maturity period is longer (more than twelve months), the economic value is determined using the present value method. No adjustments are made if ARAG SE's credit rating changes. On grounds of materiality, no miscellaneous liabilities with a maturity of more than twelve months were discounted.

There are no valuation differences.

D.4 Alternative Methods for Valuation

No valuation methods other than those listed in section D.1 have been used.

D.5 Any Other Information

The preceding chapters contain all of the important information about the valuation for solvency purposes.

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E.1 Own Funds

Components and quality of own funds

As of December 31, 2016, ARAG SE held basic own funds in the form of an excess of assets over liabilities of €1,295.680 million according to the Solvency II balance sheet. It also has a subordinated liability of €33.748 million that is classified as own funds. This registered bond has a fixed maturity of ten years and will be redeemed on July 29, 2024. In the event of liquidation, it will be subordinate to all other liabilities. According to the proposal for appropriation of the profit recognized on the HGB balance sheet, a sum of €15.000 million will be distributed to shareholders as dividends.

This results in eligible own funds of €1,314.428 million, split between the different capital classes as follows: Tier 1 own funds of €1,280.680 million and Tier 2 own funds of €33.748 million.

Based on the differences described in chapter D., 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

Line item	(€'000)
Equity as of December 31, 2016 on the HGB balance sheet	422,374
Elimination of intangible assets	- 8,329
Additional deferred tax assets	69,732
Revaluation of land and buildings held for own use (fair value)	11,983
Revaluation of investments	777,749
Revaluation of other loans and mortgages	284
Revaluation of reinsurers' share of technical provisions	- 2,932
Revaluation of gross technical provisions	245,277
No separate recognition of miscellaneous technical provisions	14,676
Revaluation of miscellaneous provisions	- 6,093
Revaluation of provisions for pensions and other post-employment benefits	- 56,057
Additional deferred tax liabilities recognized	- 169,235
Revaluation of the subordinated liabilities included in basic own funds	- 3,748
Excess of assets over liabilities according to the Solvency II balance sheet	1,295,680
Additional basic own funds resulting from subordinated liabilities	33,748
Total basic own funds as of December 31, 2016	1,329,428
Foreseeable dividend	- 15,000
Total eligible own funds as of December 31, 2016	1,314,428

Changes in own funds

In 2016, Solvency II balance sheets were prepared for the planning horizon on the basis of the budgeted results of operations.

In view of the existing solvency profile, the coverage ratio is not expected to fall below the regulatory requirements. If, contrary to expectations, a shortfall compared with the solvency requirements in the planning period is identified, there are various measures that can be taken to make up for this shortfall.

The examination of whether one or more of the measures is suitable will involve assessing when the measures can be implemented, what effect they will have, and whether multiple measures can be implemented in parallel. Possible measures for strengthening own funds are:

- Restriction on distribution/profit transfer
- Additional payment into the capital reserve
- Borrowing to supplement own funds
- Capital increase.

Provided certain conditions are met, components of basic own funds may be borrowed for up to ten years after January 1, 2017. In 2016, the Company did not identify any need to replace components of basic own funds within its planning horizon. Accordingly, no plans for the aforementioned measures were drawn up in the year under review.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

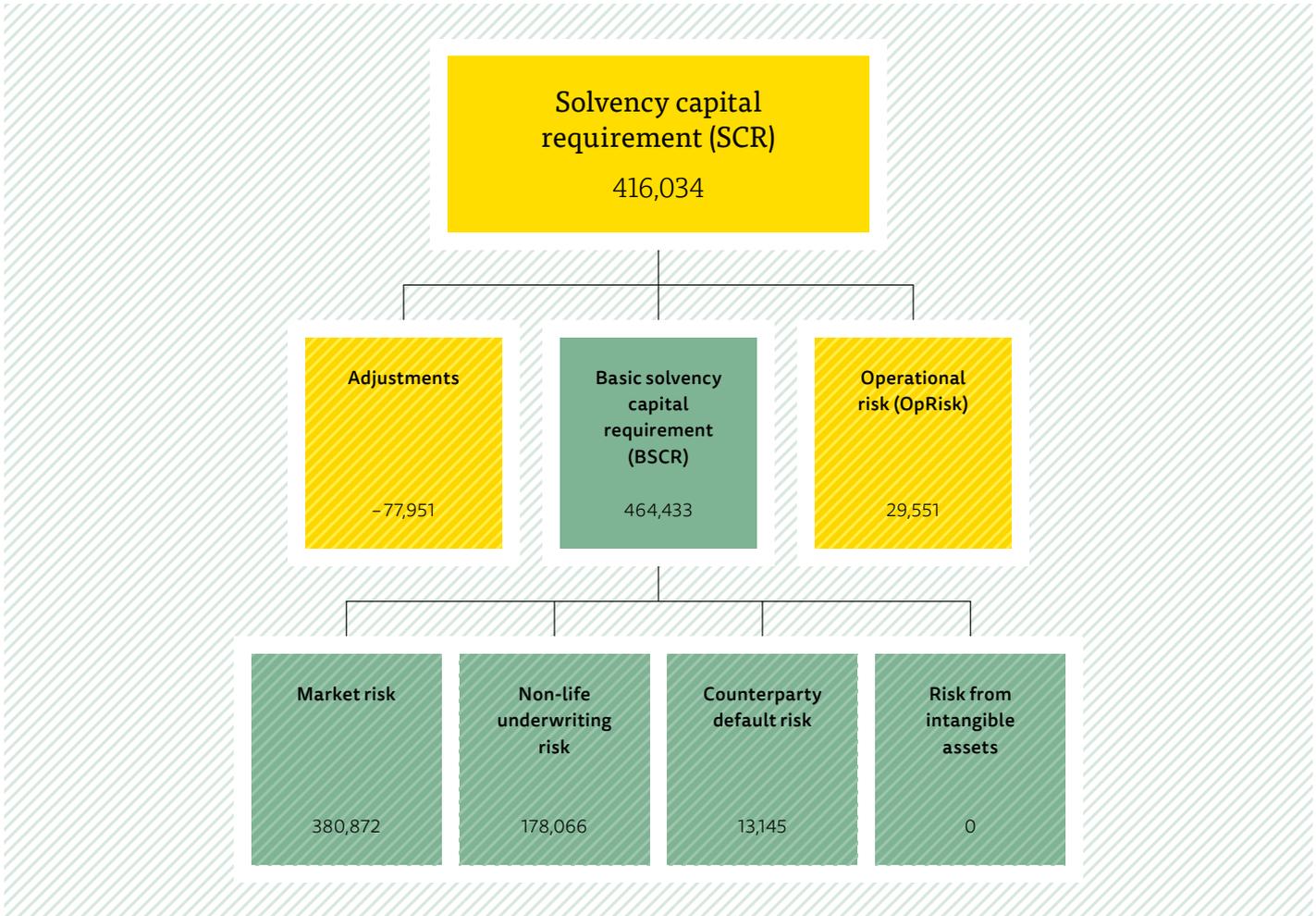
ARAG SE uses a partial internal model to calculate the solvency capital requirement. In this certified model, the modules for market risk, non-life underwriting risk, and counterparty default risk are calculated using internal modeling. The other risk modules (e.g. operational risk) and the aggregation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

As a result of the Company-specific calculation using the certified partial internal model, the solvency capital requirement decreased to €416.034 million, compared with €649.782 million using the standardized approach. At 316 percent, the coverage ratio is significantly higher than the regulatory requirement and, in ARAG SE's view, constitutes a substantial risk buffer for customers.

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

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 percent and not exceed 45 percent of the solvency capital requirement. As of December 31, 2016, the minimum capital requirement was €170.060 million, which equated to 41 percent of the solvency capital requirement at that time and resulted in a coverage ratio for the minimum capital requirement of 773 percent.

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 technical provisions and deferred taxes

Basic solvency capital requirement (BSCR) is the sum of the correlated individual risks or the solvency capital requirement (SCR) before adjustments, operational risk (OpRisk), and any non-controlled participations (NCPs)

Operational risk (OpRisk) quantifies the risk arising from inadequate or failed internal processes, personnel, or systems, or from external events

Market risk is the risk arising from the level or volatility of market prices of financial instruments that have an impact on the value of the assets and liabilities of a company

Non-life underwriting risk is the risk arising from the risks covered and the processes used in the course of property insurance business

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

Risks from intangible assets result from the underlying risks in the form of price fluctuations or illiquidity and from those that are derived directly from the specificity of the assets.

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

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

E.4 Differences Between the Standard Formula and Any Internal Model Used

ARAG SE obtained approval for its partial internal model on December 10, 2015 when BaFin certified the model. At the start of the initial consultation phase, ARAG SE had examined the possibilities offered by the standardized approach and quickly realized that the only way to adequately represent the risks was by using a partial internal model. The six months required for the approval process alone were preceded by a five-year pre-application phase, during which in-depth discussions were held with BaFin, an appropriate governance structure was established, and a wide range of elements were introduced – with a view to using the partial internal model – such as the ORSA process, a limit system, internal risk modeling, risk-oriented management, stakeholder-oriented reporting, uniform quality standards for data, and general process modifications. Once all of the individual components were in place, the Group had to provide evidence that it had implemented the partial internal model – made up of all the individual elements – and was using it for operational management.

From the perspective of ARAG SE, it was important to ensure that the development reflected, as far as possible, the conservative investment and underwriting policy dictated by the ownership structure. ARAG SE's focus was therefore to fulfill a number of prerequisites that highlighted the greater benefit of a partial internal model compared with the standardized approach:

- Appropriate valuation of ARAG SE's risk
- Risk-oriented management of ARAG SE
- Analysis of the financial year as part of a risk-based review
- Customer protection.

Internal modeling of non-life underwriting risk offers significant advantages for ARAG SE.

The standardized approach does not adequately take account of German corporate data in the calibration of reserve risk, which, in the ARAG Group's view, would result in an incorrect assessment of the risks. By contrast, the Group was able to draw on its extensive inhouse knowledge and expertise gathered over the course of more than 80 years of providing legal insurance in order to model the individual risks internally in accordance with its own requirements, thus ensuring the risks can be presented and managed adequately. Moreover, legal insurance business is depicted with only a very low level of granularity in the standardized approach, i.e. the various aspects are not taken into consideration and the modeling is too general. For example, there is no explicit modeling of the accumulation risk that can arise in the legal insurance business in connection with a major event. In ARAG SE's partial internal model, however, this risk is examined and calculated separately, as is appropriate to a far more conservative approach to risk modeling. The partial internal model also incorporates the characteristics of the customer structure of ARAG SE as a specialist provider of legal insurance with a heavy emphasis on retail business. This would not adequately be taken into account in the standardized approach due its broader applicability.

The internal modeling of market risk enables the scope and structure of the non-trading portfolio to be examined and 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 risk-based valuation of government bonds.

In both cases, the results in respect of the internally modelled market risk and the internally modeled non-life underwriting risks are used for management on the basis of key risk indicators adjusted to the Company's specific requirements.

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

Taking a prudent view, ARAG SE does not believe it is exposed to any foreseeable risk of non-compliance with the minimum capital requirement or the solvency capital requirement.

E.6 Any Other Information

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

Appendix

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	75,812
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	59,885
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	2,508,377
Property (other than for own use)	R0080	28,201
Holdings in related undertakings, including participations	R0090	986,173
Equities	R0100	934
Equities – listed	R0110	154
Equities – unlisted	R0120	781
Bonds	R0130	742,506
Government Bonds	R0140	205,717
Corporate Bonds	R0150	529,024
Structured notes	R0160	6,647
Collateralised securities	R0170	1,117
Collective Investment Undertakings	R0180	644,496
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	98,581
Other investments	R0210	7,486
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	6,065
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	150
Other loans and mortgages	R0260	5,915
Reinsurance recoverables from:	R0270	270
Non-life and health similar to non-life	R0280	270
Non-life excluding health	R0290	270
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	44,389
Insurance and intermediaries receivables	R0360	45,830
Reinsurance receivables	R0370	44,836
Receivables (trade, not insurance)	R0380	48,590
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	67,913
Any other assets, not elsewhere shown	R0420	2,197
Total assets	R0500	2,904,163

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	1,017,827
Technical provisions – non-life (excluding health)	R0520	1,017,827
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	985,046
Risk margin	R0550	32,781
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	84,239
Pension benefit obligations	R0760	220,372
Deposits from reinsurers	R0770	1,510
Deferred tax liabilities	R0780	169,235
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	35,449
Reinsurance payables	R0830	1,879
Payables (trade, not insurance)	R0840	44,023
Subordinated liabilities	R0850	33,748
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	33,748
Any other liabilities, not elsewhere shown	R0880	202
Total liabilities	R0900	1,608,483
Excess of assets over liabilities	R1000	1,295,680

S.05.01.02

Premiums, claims and expenses by line of business

		Medical expense insurance C0010	Income protection insurance C0020
Premiums written			
Gross – Direct Business	R0110	0	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	583,098	41,666	9,054
Gross – Proportional reinsurance accepted	R0120	180,649	9,686	463
Gross – Non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	4,506	741	0
Net	R0200	759,241	50,611	9,517
Premiums earned				
Gross – Direct Business	R0210	575,987	41,293	9,196
Gross – Proportional reinsurance accepted	R0220	184,755	7,836	215
Gross – Non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	4,288	741	0
Net	R0300	756,454	48,387	9,411
Claims incurred				
Gross – Direct Business	R0310	296,031	18,802	303
Gross – Proportional reinsurance accepted	R0320	53,752	10,498	-111
Gross – Non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	1,268	208	0
Net	R0400	348,515	29,092	192
Changes in other technical provisions				
Gross – Direct Business	R0410	-6	0	0
Gross – Proportional reinsurance accepted	R0420	0	0	0
Gross – Non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	-6	0	0
Expenses incurred	R0550	378,375	24,223	5,691
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		633,818
0	0	0	0		190,798
-	-	-	-		0
0	0	0	0		5,248
0	0	0	0		819,368
0	0	0	0		626,475
0	0	0	0		192,806
-	-	-	-		0
0	0	0	0		5,029
0	0	0	0		814,252
0	0	0	0		315,136
0	0	0	0		64,139
-	-	-	-		0
0	0	0	0		1,476
0	0	0	0		377,799
0	0	0	0		-6
0	0	0	0		0
-	-	-	-		0
0	0	0	0		0
0	0	0	0		-6
0	0	0	0		408,289
-	-	-	-		-
-	-	-	-		-

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	329,272
Gross – Proportional reinsurance accepted	R0120	22,491
Gross – Non-proportional reinsurance accepted	R0130	-
Reinsurers' share	R0140	0
Net	R0200	351,764
Premiums earned		
Gross – Direct Business	R0210	324,832
Gross – Proportional reinsurance accepted	R0220	22,491
Gross – Non-proportional reinsurance accepted	R0230	-
Reinsurers' share	R0240	0
Net	R0300	347,323
Claims incurred		
Gross – Direct Business	R0310	197,132
Gross – Proportional reinsurance accepted	R0320	15,638
Gross – Non-proportional reinsurance accepted	R0330	-
Reinsurers' share	R0340	170
Net	R0400	212,601
Changes in other technical provisions		
Gross – Direct Business	R0410	- 32
Gross – Proportional reinsurance accepted	R0420	0
Gross – Non-proportional reinsurance accepted	R0430	0
Reinsurers' share	R0440	0
Net	R0500	- 32
Expenses incurred	R0550	141,270
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	
BE	ES	IT	NL	AT		-
C0090	C0100	C0110	C0120	C0130		C0140
23,180	93,413	30,746	91,294	58,091		625,996
471	31,093	87,671	48,847	0		190,574
-	-	-	-	-		0
-0	4,971	0	0	0		4,971
23,650	119,535	118,418	140,141	58,091		811,598
23,786	92,560	29,707	89,767	58,088		618,740
471	28,597	87,264	53,772	0		192,595
-	-	-	-	-		0
-0	4,753	0	0	0		4,753
24,256	116,405	116,971	143,539	58,088		806,583
13,691	37,521	9,946	39,274	21,007		318,571
286	28,924	23,863	27,364	-74		96,001
-	-	-	-	-		0
-40	1,384	0	0	-25		1,489
14,017	65,061	33,809	66,638	20,959		413,084
0	0	0	0	26		-6
0	0	0	0	0		0
0	0	0	0	0		0
0	0	0	0	0		0
0	0	0	0	26		-6
10,080	47,807	79,495	62,867	21,091		362,610
-	-	-	-	-		-
-	-	-	-	-		-

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 C0020	Income protection insurance 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 – Total	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 – Total	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			
TP 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 – Total	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 – Total	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	
TP 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
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
173,829	-9,053	12,831	-	-	-	-	177,607
0	0	0	-	-	-	-	0
173,829	-9,053	12,831	-	-	-	-	177,607
800,564	3,938	2,937	-	-	-	-	807,439
270	0	0	-	-	-	-	270
800,294	3,938	2,937	-	-	-	-	807,169
974,393	-5,116	15,768	-	-	-	-	985,046
974,124	-5,116	15,768	-	-	-	-	984,776
32,502	160	119	-	-	-	-	32,781
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,006,896	-4,956	15,887	-	-	-	-	1,017,827
270	0	0	-	-	-	-	270
1,006,626	-4,956	15,887	-	-	-	-	1,017,557

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	66,707	81,324	37,397	23,425	16,543	12,213
N-8	R0170	68,695	80,740	36,710	23,111	18,574	12,974
N-7	R0180	76,473	82,655	36,718	25,855	16,825	11,179
N-6	R0190	77,605	81,839	40,973	25,199	17,996	11,508
N-5	R0200	77,876	88,111	40,194	25,636	16,101	11,170
N-4	R0210	99,589	87,652	42,753	24,513	16,055	
N-3	R0220	101,258	94,692	40,897	23,162		
N-2	R0230	111,020	95,455	41,332			
N-1	R0240	122,579	101,532				
N	R0250	134,475					

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	0
N-5	R0200	0	0	0	0	0	36,186
N-4	R0210	0	0	0	0	47,487	
N-3	R0220	0	0	0	64,731		
N-2	R0230	0	0	92,637			
N-1	R0240	0	143,102				
N	R0250	255,198					

Development year					In Current year	Sum of years (cumulative)
6	7	8	9	10 & +		
C0070	C0080	C0090	C0100	C0110	C0170	C0180
-	-	-	-	2,646	R0100	2,646
8,360	6,838	4,527	3,508		R0160	260,844
9,078	6,547	4,289			R0170	260,717
7,656	5,284				R0180	262,647
7,443					R0190	262,564
					R0200	259,089
					R0210	270,562
					R0220	260,008
					R0230	247,807
					R0240	224,111
					R0250	134,475
				Total	R0260	357,614
						3,740,625

Development year					Year end (discounted data)	
6	7	8	9	10 & +		
C0260	C0270	C0280	C0290	C0300	C0360	
-	-	-	-	920	R0100	914
			10,716		R0160	10,536
0	0	14,797			R0170	14,583
0					R0180	19,455
27,226					R0190	26,923
					R0200	35,834
					R0210	47,075
					R0220	64,234
					R0230	92,003
					R0240	142,305
					R0250	254,270
				Total	R0260	735,011

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 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	
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Deductions

Deductions for participations in financial and credit institutions	
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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	1,180,680	1,180,680	-	0	0
R0140	33,748	0	-	33,748	0
R0160	0	0	-	0	0
R0180	-	-	-	-	-
	-	-	-	-	-
R0220		0	0	0	0
	-	-	-	-	-
R0230	0	0	0	0	0
R0290	1,314,428	1,280,680	0	33,748	0
	-	-	-	-	-
R0300	-	-	-	-	-
	-	-	-	-	-
R0310	-	-	-	-	-
R0320	-	-	-	-	-
R0330	-	-	-	-	-
R0340	-	-	-	-	-
R0350	-	-	-	-	-
R0360	-	-	-	-	-
R0370	-	-	-	-	-
R0390	-	-	-	-	-
R0400	-	0	0	-	-
	-	-	-	-	-
R0500	1,314,428	1,280,680	0	33,748	0
R0510	1,314,428	1,280,680	0	33,748	0
R0540	1,314,428	1,280,680	0	33,748	0
R0550	1,314,428	1,280,680	0	33,748	0
R0580	416,034	-	-	-	-
R0600	170,060	-	-	-	-
R0620	3.16	-	-	-	-
R0640	7.73	-	-	-	-
	-	-	-	-	-
	C0060				
R0700	1,295,680				
R0710	0				
R0720	15,000				
R0730	100,000				
R0740	0				
R0760	1,180,680				
	-				
R0770					
R0780					
R0790					

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Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	414,737	-	-
Counterparty default risk	R0020	36,149	-	-
Life underwriting risk	R0030	-	-	-
Health underwriting risk	R0040	-	-	-
Non-life underwriting risk	R0050	498,360	-	-
Diversification	R0060	-207,268	-	-
Intangible asset risk	R0070	0	-	-
Basic Solvency Capital Requirement	R0100	741,978	-	-
Calculation of Solvency Capital Requirement		C0100		
Operational risk	R0130	29,551		
Loss-absorbing capacity of technical provisions	R0140	0		
Loss-absorbing capacity of deferred taxes	R0150	-121,747		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	-		
Solvency capital requirement excluding capital add-on	R0200	649,782		
Capital add-on already set	R0210	-		
Solvency capital requirement	R0220	649,782		
Other information on SCR				
Capital requirement for duration-based equity risk sub-module	R0400	-		
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	-		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0		
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0		
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0		

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Solvency Capital Requirement – for undertakings using the standard formula and partial internal model

Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0080	C0090
1	Market risk	380,872	380,872		
2	Counter-party default risk	13,145			
3	Life underwriting risk	0			
4	Health underwriting risk	0			
5	Non-life underwriting risk	178,066	178,066		
6	Intangible asset risk	0			
7	Operational risk	29,551			
8	LAC Technical Provisions	0			
9	LAC Deferred Taxes	-77,951			
Calculation of Solvency Capital Requirement		C0100			
	Total undiversified components	R0110	523,684		
	Diversification	R0060	-107,650		
	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	416,034		
	Capital add-ons already set	R0210	0		
	Solvency capital requirement	R0220	416,034		
	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	0		
	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		

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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	169,168

		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	974,393	759,303
Assistance and proportional reinsurance	R0120	0	40,431
Miscellaneous financial loss insurance and proportional reinsurance	R0130	15,768	21,135
Non-proportional health reinsurance	R0140	-	-
Non-proportional casualty reinsurance	R0150	-	-
Non-proportional marine, aviation and transport reinsurance	R0160	-	-
Non-proportional property reinsurance	R0170	-	-

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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	Net (of reinsurance/SPV) total capital at risk
				C0050	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		169,168
SCR	R0310		416,034
MCR cap	R0320		187,215
MCR floor	R0330		104,008
Combined MCR	R0340		170,060
Absolute floor of the MCR	R0350		2,500
			C0070
Minimum Capital Requirement	R0400		170,060

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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