

ARAG SE

# 2018 Solvency and Financial Condition Report



Dive into life.

# ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

CEO and Central Group Functions

Group Development/ Business Organization

Group Sales/ Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management/ Group Controlling

Operating insurance companies

ARAG Allgemeine Versicherungs-AG

(Casualty and property insurance)

ARAG Krankenversicherungs-AG

(Health insurance)

Interlloyd Versicherungs-AG

(Specialized in broker sales)

International companies

(Legal insurance/ legal services)

Service companies

ARAG IT GmbH

(IT services for the ARAG Group)

Cura Versicherungsvermittlung GmbH

(Brokerage firm)

ARAG Service Center GmbH

(Emergency telephone service)

# Structure of ARAG SE

Company

ARAG SE

Members of the  
Management Board  
and areas of  
responsibility

**CEO and Central Group  
Functions**

Dr. Dr. h. c. Paul-Otto Faßbender

**Group Development/  
Business Organization**

Dr. Renko Dirksen

**Group Sales/  
Products and Innovation**

Dr. Matthias Maslaton

**Group Finance**

Werner Nicoll

**Group IT and Operations**

Hanno Petersen

**Group Risk Management/  
Group Controlling**

Dr. Joerg Schwarze

## Key Figures

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Gross premiums written:

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€ **916** million

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↗ 2017: €870 million

Net income for the year:

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€ **32** million

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→ 2017: €32 million

Combined ratio:

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**95.5**%

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↘ 2017: 98.1%

Eligible own funds:

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€ **1,196** million

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↗ 2017: €1,175 million

Solvency capital requirement:

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€ **358** million

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↗ 2017: €356 million

Solvency ratio:

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**334.1**%

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↗ 2017: 329.9%

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# Summary

## Chapter A. Business and Performance

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

In the period under review, ARAG SE increased its gross premiums written by 5.3 percent to €915,988 thousand. It generated 59.3 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 together earn a total of €419,163 thousand 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 maintained a stable level of premiums 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 uptrend in legal insurance business seen in previous years was further consolidated last year. In 2018, gross premiums written in direct business increased by 6.7 percent, from €349,202 thousand to €372,598 thousand.

The underwriting result in accordance with the German Commercial Code (HGB) before the change in the equalization provision and similar provisions rose sharply in the reporting year, from €17,919 thousand to €41,718 thousand. This was primarily due to the sustained growth of the portfolio almost right across the Company, both in Germany and internationally. Another driving factor was the increase in income from the brokerage of insurance contracts in the non-legal segment. Gains and losses on investments declined by €21,240 thousand or 29.1 percent to a net gain of €51,776 thousand. This was predominantly due to write-downs of €19,093 thousand on institutional funds. After taking into account the sundry income and expense items, ARAG SE once again generated sound net income for the year of €31,598 thousand (2017: €32,031 thousand).

## Chapter B. System of Governance

Chapter B.1 contains detailed information on the Management Board and Supervisory Board as well as on the tasks of the following four key functions: risk management, compliance, internal audit, and the actuarial function. As these functions are kept strictly

separate from the operational departments as far as Management Board level, they can perform their duties objectively and independently. Moreover, they have a direct reporting line to the ARAG SE Management Board member with relevant responsibility. The remuneration granted to the Management Board, Supervisory Board, and the key functions is structured such that it is consistent with market rates and rewards performance without creating undesirable incentives.

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

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

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

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

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

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

### **Chapter C. Risk Profile**

ARAG SE's risk profile is shaped by the two internally modeled major risks: market risk and underwriting risk. The solvency capital requirement (SCR) for market risk, which is the more dominant of the two, is €328,401 thousand. The primary sub-risks in this regard are equity risk, equity investment risk, and credit risk attaching to investments. Underwriting risk, for which the solvency capital requirement is €149,669 thousand, is mainly influenced by premium and reserve risk and by accumulation risk.

### **Chapter D. Valuation for Solvency Purposes**

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

The line items and valuation bases are presented and described in chapter D. 'Valuation for Solvency Purposes'. In the reporting period, there were no changes in the valuation bases described as being used for the Solvency II balance sheet in respect of assets (chapter D.1), technical provisions (chapter D.2), and other liabilities (chapter D.3) other than those in connection with the valuation of bonds (D.1.10). This amended valuation led to a decline in the fair value of bonds in an amount of €2,865 thousand.

### **Chapter E. Capital Management**

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

ARAG SE's overall solvency capital requirement is €357,999 thousand. To cover this requirement, the Company has eligible own funds of €1,196,060 thousand, giving a coverage ratio of 334.1 percent. ARAG SE thus has a high level of capital adequacy, a clear sign of the Company's excellent financial strength.

The Company's minimum capital requirement is €161,099 thousand, which means the coverage ratio for the minimum capital requirement is 742.0 percent. Market risk and underwriting risk account for the greatest proportion of the solvency capital requirement.

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

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

## A. Business and Performance

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## A.1 Business

### A.1.1 General disclosures

#### 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. ARAG SE has been entered in the commercial register as a European Company (Societas Europaea, SE) since 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. The Company's 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](mailto:service@ARAG.de)  
 Website: [www.ARAG.com](http://www.ARAG.com)

#### Supervisory authority

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

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

## A.1.2 Structure of ARAG SE and holders of qualifying holdings

Indirectly, ARAG SE, Düsseldorf, is wholly owned by ARAG Holding SE, Düsseldorf, which directly holds a 50.0 percent equity investment. The second shareholder is AFI Verwaltungs-Gesellschaft mbH, Düsseldorf, which holds a 50.0 percent equity investment in ARAG SE. ARAG SE is a dependent company within the meaning of section 17 (1) of the German Stock Corporation Act (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 shareholders of ARAG Holding SE are FABI GmbH, Düsseldorf, which holds 45.5 percent, and Dr. Dr. h.c. Paul-Otto Faßbender, who holds the remaining 54.5 percent.

The consolidated financial statements and ARAG SE's financial statements are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection.

ARAG Holding SE limits itself to exercising its rights and fulfilling its obligations as a shareholder in the investee companies. The ARAG Group comprises 47 Group companies, including six insurance companies headquartered in Germany, Norway, and the US.

### List of the main affiliated companies

Name and location of registered office	Legal form	Country	ARAG SE's direct share	Group's share
1 ARAG Holding SE, Düsseldorf	SE (European company)	Germany	0.00 %	Group parent company
2 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	GmbH (private limited company)	Germany	0.00 %	100.00 %
3 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	GbR (partnership under the German Civil Code)	Germany	50.90 %	94.90 %
4 ARAG Allgemeine Versicherungs-AG, Düsseldorf	AG (stock corporation)	Germany	100.00 %	100.00 %
5 ARAG Insurance Company Inc., Des Moines	Corporation	USA	0.00 %	100.00 %
6 ARAG International Holding GmbH, Düsseldorf	GmbH	Germany	100.00 %	100.00 %
7 ARAG IT GmbH, Düsseldorf	GmbH	Germany	100.00 %	100.00 %
8 ARAG Krankenversicherungs-AG, Munich	AG	Germany	94.00 %	94.00 %
9 ARAG North America Inc., Des Moines	Corporation	USA	0.00 %	100.00 %
10 ARAG Plc., Bristol	Plc.	United Kingdom	100.00 %	100.00 %
11 ARAG Service Center GmbH, Düsseldorf	GmbH	Germany	80.00 %	100.00 %
12 Cura Versicherungsvermittlung GmbH, Düsseldorf	GmbH	Germany	100.00 %	100.00 %
13 HELP Forsikring AS, Oslo	AS (private limited liability company)	Norway	100.00 %	100.00 %
14 Interlloyd Versicherungs-AG, Düsseldorf	AG	Germany	0.00 %	100.00 %
15 ALIN 1 GmbH & Co. KG, Düsseldorf	KG (limited partnership)	Germany	100.00 %	100.00 %
16 ALIN 1 Verwaltungs-GmbH, Düsseldorf	GmbH	Germany	100.00 %	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 site at ARAG Platz 1, 40472 Düsseldorf, where the ARAG Group's headquarters are located.
4. ARAG Allgemeine Versicherungs-AG operates the Group's casualty and property insurance business in Germany and through a branch in the United Kingdom. It is necessary to operate this business in a separate company because, in Germany, legal insurance claims have to be settled separately (section 164 of the German Insurance Supervision Act (VAG)). ARAG Allgemeine primarily offers modular insurance cover for general accident insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to private and small business customers. This company is also Europe's largest sports insurer, providing cover for over 20 million recreational sports participants and top-ranking athletes.
5. ARAG Insurance Company, USA, operates legal insurance business, mainly through employers and trade associations. Insurance is provided to their employees and members, although coverage varies from state to state depending on the local regulatory rules. ARAG Insurance Company is part of the subgroup in the USA, which comprises five companies and is managed by ARAG North America Inc.
6. ARAG International Holding GmbH is an intermediate holding company connecting the North American (US and Canadian) subsidiaries to the ARAG Group in Germany. It is purely a financial holding company 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 has only a few customers outside the ARAG Group.
8. ARAG Krankenversicherungs-AG operates the private health insurance business. The need to separate the different segments (section 8 (4) VAG) means that a separate company has to operate the health insurance business. ARAG Krankenversicherungs-AG has established itself in its market as a provider of high-quality full-coverage and supplementary private health insurance.

9. ARAG North America Inc., USA, is the country-specific holding company for the ARAG Group's US business lines. It holds all of the shares in the four other US subsidiaries.
10. ARAG Plc., United Kingdom, works as an intermediary by brokering business with end customers and passing it on to primary insurers within and outside the ARAG Group. The bulk of claims settlement for the primary insurers is handled by ARAG Plc. itself.
11. ARAG Service Center GmbH is the customer service center for all German insurance companies in the ARAG Group, providing comprehensive assistance services and a telephone hotline around the clock. It also acts as a mediator in the resolution of legal disputes.
12. Cura Versicherungsvermittlung GmbH brokers insurance business to third parties that the ARAG Group does not underwrite itself. The company also takes care of the insurance requirements of the ARAG Group's own employees.
13. HELP Forsikring AS, Norway, primarily offers family legal insurance coverage for interest groups – predominantly for members of labor unions – in Norway, Sweden, and Denmark. In Norway, it also offers a special legal insurance product for homebuyers.
14. Interlloyd Versicherungs-AG is a wholly owned subsidiary of ARAG Allgemeine Versicherungs-AG and, like its parent company, operates the casualty and property insurance business. Unlike its parent company, however, it operates its business through insurance brokers rather than directly. Interlloyd Versicherungs-AG also has a branch in Spain.
15. ALIN 1 GmbH Co. KG is a company whose purpose is to establish, hold, manage, and realize a portfolio of passive investments including, but not limited to, equity investments in companies with a similar object.
16. ALIN 1 Verwaltungs-GmbH is a company whose purpose is to acquire, hold, and manage shares in companies and various investments as well as to accept the general partner liability and handle management activities in connection with companies or partnerships structured in accordance with HGB. Its main object is to hold an equity investment in, and be the general and managing partner of, ALIN 1 GmbH und Co. KG, whose purpose is to establish, hold, manage, and realize a portfolio of passive investments.

### Dividend/profit-and-loss transfer agreements

On March 26, 2018, ARAG SE received an amount of €18,174 thousand from ARAG Allgemeine Versicherungs-AG in settlement of its right to the transfer of profit based on the profit-and-loss transfer agreement dated October 31, 2006. This amount includes interest of €209 thousand to cover the period December 31, 2017 to March 26, 2018.

The main dividend distributions received by ARAG SE in the reporting period were from the following companies:

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

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

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

### Qualitative and quantitative disclosures on relevant events and significant intragroup transactions

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

ALIN 1 GmbH & Co. KG was formed with liable capital of €10 thousand on September 18, 2014 for the purpose of carrying out and managing investments in infrastructure funds and private equity funds. ARAG SE is the sole limited partner. With subscribed capital of €25 thousand, the general partner is ALIN 1 Verwaltungs-GmbH, which was established by ARAG SE on October 20, 2014 specifically to perform this general partner role. Investments in the funds are covered by contributions by ARAG SE to the capital reserves of ALIN 1 GmbH & Co. KG. Such contributions are made in good time before the amounts being invested are due for payment. The capital contributions made in 2018 were €3,000 thousand on January 16, €3,000 thousand on May 23, €3,500 thousand on July 6, and €4,000 thousand on December 4.

A subgroup has been established in Norway to prepare for the expansion of the business. Based on a resolution passed by the annual general meeting of ARAG Scandinavia AS on March 21, 2018, the shares in HELP Forsikring AS were transferred to ARAG Scandinavia AS as a capital contribution in the context of a capital increase. As part of the

capital increase, 12,030,775 new shares in ARAG Scandinavia AS, each with a value of NOK 3, were issued and granted to ARAG SE as consideration. The difference of NOK 251,227 thousand between the value of the shares in HELP Forsikring AS transferred as a capital contribution and the value of the newly issued subscribed capital was reported by ARAG Scandinavia AS as a capital reserve. A resolution was also passed to increase capital by NOK 3,000 thousand for cash. The capital contribution was received on March 22, 2018. ARAG Scandinavia AS is a wholly owned subsidiary of ARAG SE.

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

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. All of the contracts have been concluded on arm's-length terms.

ARAG IT GmbH, Düsseldorf, carries out consultancy services and data center activities for ARAG SE. They are settled at a price agreed between the parties. In 2018, consideration of €13,009 thousand was paid for the services performed for the headquarters. This consideration also includes the cost of assets and services that were then passed on to other Group companies. ARAG IT GmbH maintains and operates a software system for the branch in Belgium, for which it received consideration of €96 thousand in the reporting year. It also performed data center operation services amounting to €2,146 thousand for the branch in the Netherlands. An SAP accounting system was implemented at ARAG SE's branch in Austria in 2017. The amount invoiced for operation of the system in 2018 was €7 thousand. Implementation of SAP systems at the branches in Spain and Portugal resulted in expenses of €75 thousand in the year under review. IT consultancy in respect of technical systems was provided to other branches in an amount of €7 thousand.

On August 28, 2001, ARAG SE and ARAG 2000 GbR entered into a rental agreement concerning the use of office and storage space in Düsseldorf with effect from March 1, 2001. The rental agreement currently covers office space of 32,318.76 square meters, storage space of 2,124.59 square meters, and 27 underground parking spaces. In 2018, an amount of €7,474 thousand was invoiced for use of these areas and an amount of €3,428 thousand for secondary costs.

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

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

### A.1.3 Line of business

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.

ARAG began to operate outside Germany for the first time more than 50 years ago. The main purpose was to set up separate international companies in the Group that could provide support for the German legal insurance customers in the event of a claim. It became clear that this model in itself was not sustainable. However, there was a demand for legal insurance within each of the countries themselves, as a result of which it was possible to develop new business models in line with the various circumstances and tap into new markets. ARAG now operates in a total of 17 countries (Germany, 14 other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It is also preparing to launch in two other markets in 2019: the Republic of Ireland and Australia.

In addition to the Group headquarters in Düsseldorf, ARAG SE maintains operational branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, and Spain. The international branches run their operating businesses in their local markets independently, taking into account the specific local circumstances in each case.

ARAG SE is one of the most internationalized insurers in Germany with 59.3 percent of its total gross premiums written accounted for by international business.

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 offers legal insurance through a Group company.

ARAG SE also holds an equity investment in a legal insurance company in Luxembourg.

### **Insurance portfolio**

At the end of the reporting year, ARAG SE had 4,297,928 in-force insurance policies (December 31, 2017: 4,160,506), of which 1,542,004 related to the business in Germany (December 31, 2017: 1,495,840) and 2,755,924 to international business (December 31, 2017: 2,664,666).

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

### **Products**

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

### Systems, IT, and digitalization

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

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

In 2018, ARAG initiated a holistic, domestic, and international strategy known as the Smart Insurer Program to bolster the growth momentum provided by these wide-ranging action plans and at the same time reinforce the independence of the Group in the digital world. In this program-based approach, the plethora of individual solutions that the Group has already initiated and will continue to develop in the future are brought together in a common roadmap. ARAG's declared intention is to turn itself and its Group companies into a 'smart insurer' by 2021. The strategy focuses on three themes:

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

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

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

**Insurance-specific events**

A significant legal change in the last few years – one that also had an impact on ARAG SE in the reporting year – has been the option for customers to withdraw from loan agreements if they have not been properly informed about their cancellation rights. This led to significant claims payments in each of the event years 2015 to 2018. In the reporting year, these payments amounted to €3,916 thousand.

To add to this, there are currently a large number of legal cases in connection with the diesel vehicle emissions issue. These cases resulted in payments of €7,277 thousand in the year under review.

**Company changes**

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

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

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

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

## A.2 Underwriting Performance

### A.2.1 Underwriting performance – overview

In the year under review, the Company generated **income from gross premiums written** of €915,988 thousand (2017: €870,004 thousand). This increase largely resulted from the rise in new business in Germany and abroad, while policy lapses remained at a low level. A modest level of premium adjustments also contributed to the higher premium income.

**Claims incurred (gross)** in accordance with HGB rose from €462,746 thousand to €471,873 thousand. The claim settlement costs included in this figure amounted to €124,651 thousand (2017: €116,390 thousand). A share of the claims amounting to minus €1,113 thousand (2017: €2,488 thousand) was ceded to reinsurers in 2018. As in the previous year, the expenses for claims incurred were largely attributable to accumulation losses. These losses were mainly related to disputes in connection with the diesel vehicle emissions issue, especially in Germany, Spain, Italy, Belgium, and Austria, and to lawsuits related to the cancellation of loan and life insurance contracts in Germany and Austria.

The **change in other technical provisions (net)** amounted to an expense of €1,450 thousand (2017: income of €192 thousand). This year-on-year change mainly consisted of an amount of €1,338 thousand granted as a share of profits to policyholders and agents in the indirect insurance business in the UK.

**Miscellaneous underwriting expenses (net) and other miscellaneous items** were not incurred in 2018 (2017: €79 thousand).

**Insurance business operating expenses** went up year on year, from €389,181 thousand to €401,876 thousand. The acquisition costs included in this figure amounted to €110,763 thousand (2017: €106,418 thousand). This year-on-year increase was predominantly attributable to the higher level of new business and the associated additional fee and commission expenses. Administrative expenses went up by 2.8 percent to €291,113 thousand (2017: €283,064 thousand). The increase was caused by a rise in retirement pension expenses (resulting from a switch in the mortality tables used in the calculations), which savings in operating costs were insufficient to offset.

The **underwriting result** in accordance with HGB net of reinsurance in 2018 amounted to €35,470 thousand (2017: €14,841 thousand). Based on the quantitative reporting required for regulatory purposes (see template S.05.01.02 in the Appendix), the underwriting result for the reporting period amounted to €31,845 thousand (2017: €9,546 thousand).

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

**Underwriting result (net)**

(€'000)	2018	2017
Net premiums earned	915,213	868,041
Claims incurred (net, excluding claim settlement costs)	347,222	345,661
Changes in other technical provisions (net)	-1,450	192
Expenses incurred (net)	534,696	513,026
Other expenses (net)	0	0
<b>Underwriting result in accordance with template S.05.01.02</b>	<b>31,845</b>	<b>9,546</b>
Technical interest income	0	0
Miscellaneous underwriting income	1,704	1,683
Expenses for non-performance-based bonuses and rebates	0	0
Miscellaneous underwriting expenses (net) and other miscellaneous items	0	79
Expenses for investment management	-8,169	-6,769
<b>Underwriting result in accordance with HGB*</b>	<b>41,718</b>	<b>17,919</b>
Change in the equalization provision and similar provisions	-6,248	-3,078
<b>Underwriting result in accordance with HGB</b>	<b>35,470</b>	<b>14,841</b>

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

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

The miscellaneous underwriting income of €1,704 thousand (2017: €1,683 thousand) largely comprised income from realized interest and costs in connection with court proceedings to recover debts.

Miscellaneous underwriting expenses (net) and other miscellaneous items were not incurred in 2018 (2017: €79 thousand).

**A.2.2 Underwriting result by main line of business**

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

**Underwriting result by main line of business\***

(€'000)	Net premiums earned	Claims incurred (net, excluding claim settlement costs)	Changes in other technical provisions (net)	Expenses incurred and other expenses (net)	Underwriting result	Underwriting result
					2018	2017
Legal insurance	848,026	313,845	-1,450	502,966	29,765	9,293
Travel insurance	57,117	32,299	0	25,434	-616	-4,049
Miscellaneous insurance	10,070	1,078	0	6,296	2,696	4,303
<b>Total</b>	<b>915,213</b>	<b>347,222</b>	<b>-1,450</b>	<b>534,696</b>	<b>31,845</b>	<b>9,546</b>

\* In accordance with template S.05.01.02

### A.2.3 Underwriting result by main geographical area

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

#### Underwriting result by main geographical area\*

(€'000)	Net premiums earned	Claims incurred (net, excluding claim settlement costs)	Changes in other technical provisions (net)	Expenses incurred and other expenses (net)	Underwriting result	Underwriting result
					2018	2017
Germany	393,447	213,196	-1,356	191,681	-12,786	-26,589
Netherlands	156,065	17,774	0	124,833	13,458	13,560
Spain	139,669	58,535	0	75,236	5,898	6,879
Italy	127,856	31,294	0	91,131	5,431	3,823
Austria	64,369	14,272	-94	31,962	18,041	16,969
Other areas	33,807	12,152	0	19,853	1,803	-5,096
<b>Total</b>	<b>915,213</b>	<b>347,222</b>	<b>-1,450</b>	<b>534,696</b>	<b>31,845</b>	<b>9,546</b>

\* In accordance with template S.05.01.02

The legal insurance business is operated in Germany and other European countries. Travel insurance business is only operated in Spain and Portugal. Miscellaneous insurance business mainly comprises supplementary financial assistance benefits and is only offered in Spain and Italy.

### A.3 Investment Performance

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

Gains and losses on investments decreased significantly, from a net gain of €73,016 thousand to a net gain of €51,776 thousand. The main factors behind this year-on-year change were higher write-downs on the institutional funds in an amount of €19,093 thousand (2017: €839 thousand) resulting from trends in capital markets and higher losses on the disposal of investments in an amount of €1,169 thousand (2017: €599 thousand). Current expenses in respect of investments came to €8,169 thousand (2017: €6,769 thousand). Total expenses amounted to €34,627 thousand (2017: €12,973 thousand).

The total income from investments was €86,402 thousand (2017: €85,989 thousand). The current income within this total was attributable, in particular, to income of €38,845 thousand from holdings in related undertakings, including participations, and income of €19,902 thousand from collective investment undertakings. As had also been the case in 2017, no extraordinary income was earned in the reporting year.

The net gains\* on investments of €51,776 thousand described above equated to a net yield\*\* on investments of 2.7 percent (2017: 3.9 percent). The current average yield\*\*\* on investments was 3.8 percent (2017: 3.9 percent).

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

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

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

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

### Gains and losses on the investments of ARAG SE

Type of investment (€'000)							Change in gains and losses	
	Current income	Realized gains	Realized losses	Reversals of write-downs	Depreciation, amortization and write-downs	Current expense/loss transfers	Gains and losses on investments in 2018	Gains and losses on investments in 2017
Property, plant & equipment held for own use	2,850	0	0	0	603	0	2,247	-816
Property (other than for own use)	3,719	0	0	0	307	0	3,412	4,456
Holdings in related undertakings, including participations	38,845	0	0	1,878	2,656	0	38,067	38,881
Equities – listed	28	0	0	0	48	0	-20	119
Equities – unlisted	0	0	0	0	0	0	0	0
Government bonds	4,417	273	195	78	253	0	4,320	3,533
Corporate bonds	9,444	906	190	0	2,021	0	8,139	9,507
Structured notes	0	0	0	0	0	0	0	0
Collateralized securities	1,819	17	11	0	25	0	1,800	719
Collective investment undertakings	19,902	1,375	774	0	19,375	0	1,128	23,225
Derivatives	0	0	0	0	0	0	0	0
Deposits other than cash equivalents	2	0	0	0	0	0	2	1
Other investments	673	0	0	0	0	0	673	-24
Deposits to cedants	177	0	0	0	0	0	177	184
Cash and cash equivalents	0	0	0	0	0	0	0	0
Current expense (unallocated)/loss transfers	0	0	0	0	0	8,169	-8,169	-6,769
<b>Total</b>	<b>81,876</b>	<b>2,571</b>	<b>1,170</b>	<b>1,956</b>	<b>25,288</b>	<b>8,169</b>	<b>51,776</b>	<b>73,016</b>

### Information on gains or losses recognized directly in equity

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

\* The total of the gains and losses on investments presented in the table equates to the gains and losses on investments published in ARAG SE's 2018 Annual Report.

### Information on securitization instruments

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

From a Solvency II perspective, the Company held asset-backed securities and mortgage-backed securities with a value of €9,682 thousand as of the reporting date (December 31, 2017: €9,675 thousand).

## A.4 Performance of Other Activities

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

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

<b>Other income</b>			
(€'000)	<b>2018</b>	<b>2017</b>	<b>Change</b>
Income from insurance brokerage	46,874	37,929	8,945
Income from services	39,159	39,258	-99
Income from the reversal of provisions	4,023	3,467	556
Income from sub-letting of premises	2,525	3,298	-773
Sundry income	7,330	14,182	-6,852
<b>Total</b>	<b>99,911</b>	<b>98,134</b>	<b>1,777</b>

**Other expenses**

(€'000)	2018	2017	Change
Expenses for services	90,036	83,914	6,122
Expenses incurred on behalf of the Company as a whole	30,078	26,177	3,901
Interest expense and similar charges (interest cost from unwinding of discounts, interest on taxes)	6,444	8,824	-2,380
Sundry expenses	8,426	10,285	-1,859
<b>Total</b>	<b>134,984</b>	<b>129,200</b>	<b>5,784</b>
<b>Total other net income/expense</b>	<b>-35,073</b>	<b>-31,066</b>	<b>-4,007</b>

**Tax income/expense**

ARAG SE's tax expense in the reporting year amounted to €20,066 thousand (2017: €22,182 thousand).

**Information on leases**

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

**A.5 Any Other Information**

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

## B. System of Governance

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## B.1 General Information on the System of Governance

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

### B.1.1 Management Board and Supervisory Board

#### Management Board

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

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

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

- Dr. Dr. h. c. Paul-Otto Faßbender: Central Group Functions/CEO
- Dr. Renko Dirksen: Group Development/Business Organization
- Dr. Matthias Maslaton: Group Sales, Products and Innovation
- Werner Nicoll: Group Finance
- Hanno Petersen: Group IT and Operations
- Dr. Joerg Schwarze: Group Risk Management/Group Controlling

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

Another groupwide body is the Group Executive Committee (GEC), which provides a platform for keeping the Group Management Board updated on business performance, discussing strategic matters, and preparing decisions to be made by the Management Board. Groupwide policies and standards that are relevant to subsidiaries in Germany and abroad are also discussed.

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

### **Supervisory Board**

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

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

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

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

The Accounting and Audit Committee is responsible for advising on financial reporting, tax law, corporate planning, risk management, solvency, and the timely implementation of the related regulatory requirements. It also monitors the awarding of contracts for non-audit services to the Company's current auditor and to firms that might potentially become the Company's auditor in the future.

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.

## B.1.2 Key functions

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

### **Risk management**

The tasks of the risk management function (also referred to as 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 duty of the function is to lay down the foundations, for example in the form of policies and guidelines, for compliance with the obligation to operate legally in order 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 the risk resulting from changes to the law and submits regular reports to the Management Board on his or her work.

### **Internal audit**

Internal audit tasks are 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 (ICS). Audit findings are presented to the members of the Management Board in the form of an audit report.

### Actuarial function

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

### B.1.3 Information on remuneration guidelines and policies

As a core element of the Company's system of governance, the remuneration of the members of the governing bodies – and that of all those working for the Company – is based on the principles of appropriateness and transparency and is focused on sustainability.

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

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

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

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

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

The variable element is equivalent to a percentage of the basic salary. No share plans or share option programs are offered anywhere in the ARAG Group. Against this background and with a view to ensuring that the Company offers attractive, market-level remuneration, the variable element of the remuneration for Management Board members is set at 60.0 percent of basic salary and is subdivided into short-term and long-term

components. For all Management Board members, the long-term component equates to 60.0 percent of the aforementioned variable remuneration and, in accordance with article 275 (2) (c) and (f) of the Delegated Regulation, is deferred and takes into account the outcome of a review to establish whether there is any requirement for a potential downward adjustment as a result of exposure to current or future risks.

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

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

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

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

**Members of the Supervisory Board** of ARAG SE only receive fixed remuneration for their activities; the amount is specified in accordance with the articles of incorporation.

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

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

The variable remuneration never exceeds the relevant basic salary. Target achievement is capped at predefined limits. The basic salary for the postholder concerned is set at an appropriate level to ensure that he or she is not substantially dependent on the variable remuneration components. Once again, the variable remuneration must encourage good performance but not create such a significant incentive that it could encourage actions counter to the interests of the Company.

Variable remuneration granted to individuals responsible internally for **key functions** follows the general principles for managers described above. Care is taken to ensure that the targets relevant to this variable remuneration are designed such that the variable remuneration is independent of the performance of the operating units and divisions that are supervised by the function holder concerned.

In the case of relevant individuals who do not exclusively receive their remuneration in return for a Management Board function carried out simultaneously in another Group company, the variable remuneration proportion is in the range of 10.0 to 35.0 percent, depending on the postholder concerned. As part of the Company's obligation to work toward compliance, the deferred payment of 40.0 percent of variable remuneration has already been agreed for postholders with total variable remuneration equating to 35.0 percent of basic salary. To date, no arrangement has been made with any of the remaining postholders for a partial deferral of payments.

If persons responsible for key functions at ARAG SE also carry out functions outsourced by subsidiaries to ARAG SE, these individuals do not personally receive any additional remuneration in return for this work.

The Company grants **members of the Management Board** and their surviving dependants rights to a retirement pension, a widow's/widower's pension, and an orphan's pension. The retirement pension is calculated as a percentage of pensionable salary, which equates to the basic salary (excluding bonuses, remuneration in kind, etc.). There is also a cap on the absolute maximum amount. The widow's/widower's pension is equivalent to two-thirds of the retirement pension; the orphan's pension for each child is equivalent to one-third of the widow's/widower's pension. The total of the surviving dependants' pensions is limited to the amount of the retirement pension.

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

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

**Supervisory Board members** do not receive any supplementary pensions.

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

### **B.1.4 Material transactions**

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

### **B.1.5 Significant changes to the system of governance**

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

### **B.1.6 Adequacy of the system of governance**

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

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

## B.2 Fit and Proper Requirements

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

### Management Board members and CEOs of EEA branches

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

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

A standard benchmark is used to assess whether Management Board members and CEOs of EEA branches are personally suitable for their role. Someone is assumed to be of good repute ('proper') if there is nothing to indicate the contrary. Someone is assumed not to be of good repute if, based on general life experience, his or her personal circumstances justify the assumption that these circumstances might negatively affect the careful and

proper performance of his or her role or of the tasks assigned to him or her. The factors considered are personal behavior and business conduct with regard to criminal-law, financial, property-law, and regulatory aspects. The laws of both Germany and other jurisdictions apply.

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

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

### **Supervisory Board members**

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

### **Key functions**

The people responsible for key functions must have extensive knowledge and many years of experience of working in their particular field. All individuals in such roles must also be familiar with the legal parameters relevant to their position, the Company's organization

and system of governance, and its business model. In addition, the people in key functions must have very good knowledge of the relevant operating processes, business systems, and the insurance industry.

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

- Risk management: Actuarial or business management skills and qualifications or comparable academic qualifications are required. In particular, persons appointed to such roles are expected to have in-depth knowledge of relevant risk parameters, risk types, and valuation methods applicable to insurance business. Knowledge of all regulatory requirements pertaining to risk management is absolutely essential.
- Actuarial function: An individual responsible for this key function must have very well-honed actuarial and financial mathematics expertise together with a good level of business management knowledge. This expertise is normally acquired through a university degree in mathematics or through comparable training. The person concerned must also be a member of the German Actuarial Association (DAV), be able to provide evidence of equivalent professional status, or be prepared to combine work with study to obtain DAV membership or equivalent professional status.
- Compliance: The postholder must have a university degree in law or business management as well as specialist compliance expertise evidenced by professional development documentation or previous employment in this area of activity. He or she must continually keep abreast of statutory requirements and be able to demonstrate expertise, in particular, in the following areas: regulation, company law, and capital markets law, as well as competition and antitrust legislation.
- Internal audit: To ensure he or she is fit for the role in terms of professional suitability, the person responsible for this key function must hold a university degree in economics or business administration, or have undergone equivalent training, and must be able to demonstrate professional experience built up over many years. He or she must also have knowledge of the insurance industry, financial reporting, and business organization. In-depth know-how relating to auditing standards, auditing methodology, and audit-related software is a further prerequisite.

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

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

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

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

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

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

### **Continuing professional development as an ongoing process**

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

### **Cause for reassessment**

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

The general rule regarding professional suitability is that the type and extent of any action to be taken by the Company depend on the supposed/actual shortcoming of the individual member of a governing body or holder of a key function. For example, 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, the main elements of which are the risk strategy, a system of limits, a process for own risk and solvency assessment (ORSA), and the operational risk management process, comprising the identification, analysis, measurement, management, monitoring, and reporting of risk.

### B.3.1 Implementation of the risk management system

#### **Risk strategy**

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

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

#### **Risk-bearing capacity and limit system**

The risk-bearing capacity describes the extent to which potential losses from the assumed risks can be offset by own funds. The latest Solvency II balance sheet and the resulting regulatory solvency capital requirements are taken into account when assessing the assumed risks. From a regulatory perspective, risk-bearing capacity is in place if the solvency capital requirement does not exceed the value of own funds, i.e. the regulatory coverage ratio is at least 100.0 percent. The minimum coverage ratio in the business policy expresses the extent to which the Company is prepared to take on risk to achieve the objectives specified in the business strategy. As a matter of business policy, the Management Board has set a minimum coverage ratio of 150.0 percent based on ARAG SE's conservative approach to risk and solvency. ARAG SE therefore maintains a risk buffer that is significantly higher than the regulatory requirement.

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

### **Risk management function**

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

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

## B.3.2 Risk management process

### **Risk identification**

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

### **Risk analysis**

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

### **Risk assessment**

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

The key element in this process is the solvency capital requirement calculated for all quantified downside risk (value-at-risk). The purpose is to ensure that unexpected losses are covered. A partial internal model is used to calculate the solvency capital requirement. The model calculates the maximum loss from risk exposures covered in the model within a specific holding period (one year in this model) and with a specified level of probability (99.5 percent in this model). The loss could arise as a result of unfavorable movements affecting investments or as a result of unexpected developments in the insurance business. The methodology is regularly reviewed using backtesting and validation tests. Stress tests are also continually carried out in respect of the risk exposures. Relevant risks that do not form part of the solvency capital requirement are measured as part of the ORSA process.

### **Risk management**

The 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.

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

### **B.3.3 Own risk and solvency assessment (ORSA)**

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

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

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

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

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

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

### **B.3.4 Governance of the partial internal model**

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

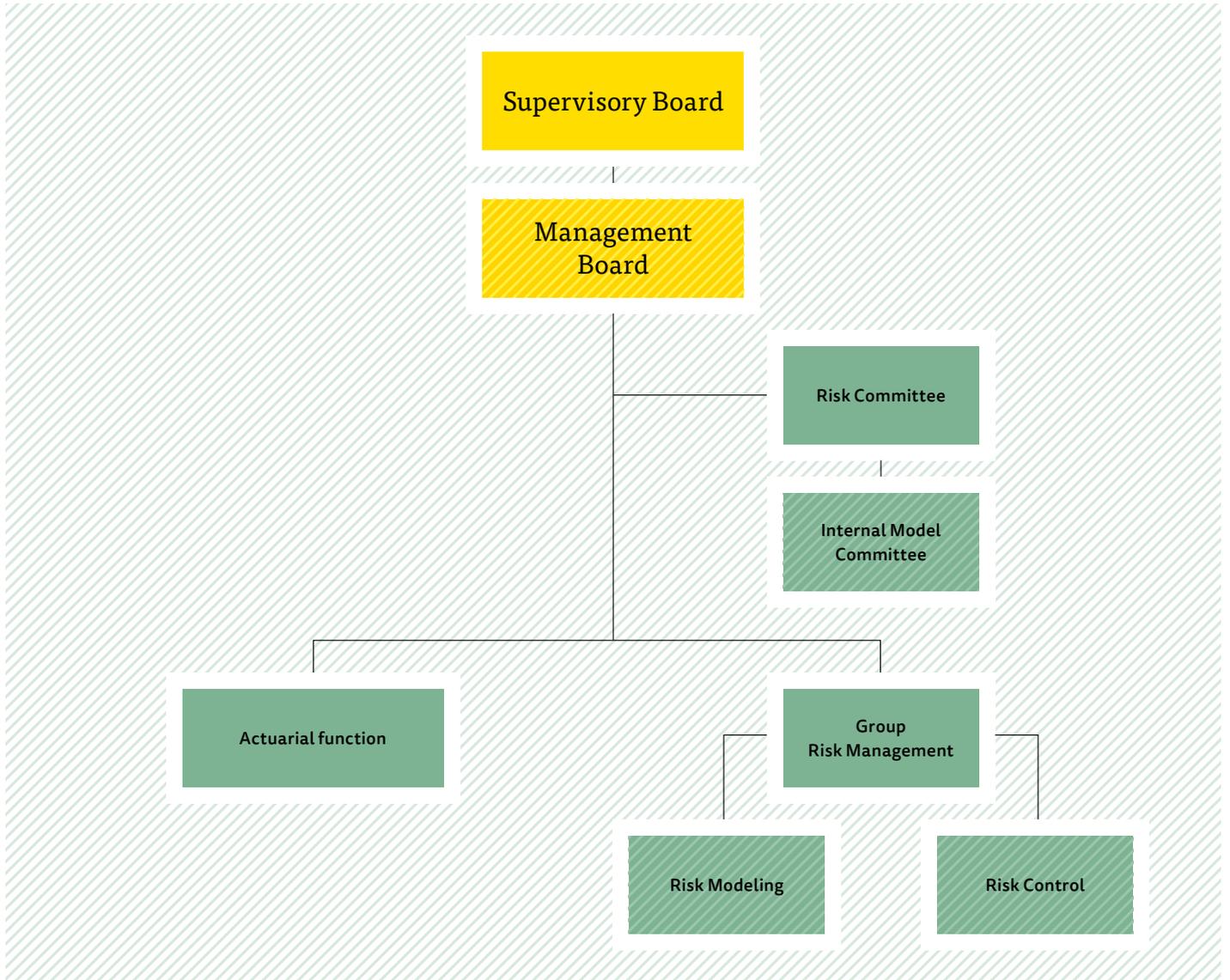
A regular validation process ensures that ARAG SE's partial internal model is always effective and its specifications are appropriate. Responsibility for validating the model lies with the actuarial function. By assigning the task of model validation to this department, ARAG SE ensures the necessary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

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

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## The Risk Committee's position within the organization



## B.4 Internal Control System

### B.4.1 Internal control system

#### Definition and tasks

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

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

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

- Ensuring legal conformity: The ICS is designed to create and maintain compliance with an organizational framework that ensures that statutory and regulatory requirements are implemented.
- Helping to maintain the independence of the ARAG Group: The ICS 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 ICS 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 ICS contributes to effective and profitable business activities.

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

#### Organizational structure of the ICS

The Management Board occupies a special position within the organizational structure because it is responsible for ensuring an orderly and effective system of governance and thus for ensuring that the Company’s risk management and its ICS are appropriate and effective. This means that the Management Board is directly responsible for the ARAG

Group's ICS. Vis-à-vis third parties, it is responsible for the appropriate specification of the ICS, i.e. its design, establishment, integrity, and monitoring as well as ongoing adjustments and refinements.

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

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

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

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

### Operational structure of the ICS

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

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

## B.4.2 Compliance

Because of their intangible nature, insurance products require customers to place a great deal of trust in their insurance company. The leap of faith that customers have to make is based on the expectation that 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 of ARAG SE. Although the Compliance Officer submits reports to the Management Board as a whole, he or she is directly and exclusively accountable to the CEO of ARAG SE.

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

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

- Internal audit
- Risk management

Other managers are included, if necessary.

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

## B.5 Internal Audit Function

The Group Audit Central Department is an instrument of the Management Board, to which it is directly accountable and to which it reports. It is assigned to the Management Board member responsible for the Central Group Functions at ARAG SE, who is the board member to whom responsibility for Group Audit is assigned under the schedule of responsibilities. Group Audit is bound only by the instructions of the Management Board.

Group Audit assists the Management Board of ARAG SE with corporate management and helps it to fulfill its managerial and monitoring duties. This department ensures that auditing activities are carried out professionally and in a manner appropriate to the risk situation, in relation to both the Company's targets and its operations.

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

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

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

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

## B.6 Actuarial Function

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

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

## B.7 Outsourcing

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

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

Apart from the Management Board’s primary tasks (in particular ensuring a proper system of governance and making strategic decisions), all activities can in principle be outsourced. Third parties can only be involved in these primary tasks in an advisory or support capacity.

Every outsourcing project must be assessed to establish whether it involves the outsourcing of a function or activity subject to the regulatory outsourcing requirements. Section 32 VAG specifies that this includes functions and insurance activities subject to enhanced requirements where the functions or insurance activities concerned are classified as important. If a project is to be classified as ‘outsourcing’, there must always be a relationship between the outsourced function or activity and the insurance business.

The outsourcing of a key function represents a special situation, however. In this case, the Management Board has to appoint an outsourcing officer for the outsourced function who is responsible for the proper performance of the key function by the service provider and has to meet the ‘fit and proper’ requirements because of 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 other key functions to external companies. The four key functions of compliance, internal audit, the actuarial function, and risk management are carried out independently of each other within ARAG SE. No new outsourcing relationships, either within the Group or with third parties, were established in 2018 in respect of important functions or insurance activities.

## **B.8 Any Other Information**

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

## C. Risk Profile

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

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

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

## C.1 Underwriting Risk

### Risk exposure

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

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

The solvency capital requirement for underwriting risk went down from €158,005 thousand as of December 31, 2017 to €149,669 thousand as of December 31, 2018, a decrease of €8,335 thousand or 5.3 percent. The biggest sub-risks were premium/reserve risk and accumulation risk.

### Risk measurement

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

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

**Risk concentration**

The Company focuses on small-scale insurance business for private customers and small businesses. It has a sufficiently large portfolio of products and does not underwrite serious or industry risks. As a consequence, concentrations of risk are minimized. In individual cases, unfavorable timing in the occurrence of claims could lead to a concentration of catastrophe risk or accumulation risk. ARAG SE has implemented appropriate risk mitigation measures to cover such exceptional losses. The limit system ensures that the underwriting risk as a whole and its sub-risks do not represent undesirable concentrations in the Company's risk profile.

**Risk mitigation**

To minimize risk, the Company uses reinsurance agreements in legal insurance segments with a particularly high exposure. Despite the use of risk mitigation measures, a concentration of risk could arise if individual losses could potentially materialize simultaneously. However, a limit system is used to make sure that this risk is kept to a level that the Company can bear.

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

**Risk sensitivity**

Various sensitivity analyses were carried out in the reporting period. In the ORSA process, a number of variables (new policies underwritten, lapses, claims ratio, and cost/income ratio) were stressed with factors of 10.0 percent, 20.0 percent, and 25.0 percent. The budgeted SCR for 2019 increased by a maximum of €19,000 thousand in these scenarios. ARAG SE's budgeted coverage ratio fell by a maximum of 42.0 percentage points to 277.0 percent, which would still represent a significant risk buffer for customers based on the Company's very good level of capital adequacy.

## C.2 Market Risk

### Risk exposure

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

- Interest-rate risk: changes in the term structure or volatility of interest rates
- Equity risk (including equity investments): changes in the level or volatility of the market prices of equities
- Property risk: changes in the level or volatility of the market prices of real estate
- Credit risk: changes resulting from investments in default (default risk), changes in the level or volatility of credit spreads over the risk-free interest-rate term structure (spread risk), and changes resulting from the migration of investments to different credit ratings (migration risk)
- Currency risk: changes in the level or volatility of exchange rates

The solvency capital requirement for market risk went up from €313,983 thousand as of December 31, 2017 to €328,401 thousand as of December 31, 2018, an increase of €14,418 thousand or 4.6 percent. The biggest sub-risks were credit risk attaching to investments, equity risk, and equity investment risk.

### Risk measurement

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, taking diversification effects into account.

There was a significant change to the risk measurement methodology in the period under review. A new calibration that caused more extensive widening of spreads was used to calculate spread risk.

### Risk concentration

The Company applies the prudent person principle to its investments. This requires an appropriate diversification of the portfolio, as a result of which risk concentrations are generally restricted. The Company's limit system takes into account the individual risk profile of the investment and prevents a concentration of the sub-risks, which the Company would not be able to bear. The actuarial function has classified concentration risk as not material and monitors it regularly. The limit system also ensures that market risk as a whole does not represent an undesirable concentration in the risk profile of the Company.

**Risk mitigation**

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

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

**Risk sensitivity**

In the year under review, analyses were carried out for two scenarios (rise in interest rates, fall in interest rates) as part of the ORSA process. The scenario with a rise in interest rates examined the impact of a sudden, sharp rise in interest rates with additional shocks affecting market parameters (equities, spread, real estate, and equity investments). The scenario with a fall in interest rates examined the impact of a persistently low level of interest rates with additional shocks on the market parameters of equities, spread, and equity investments. The scenario with a rise in interest rates resulted in a loss of €340,000 thousand. The loss in the interest-rate-fall scenario was much lower at €105,000 thousand.

## C.3 Credit Risk

### Risk exposure

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

The solvency capital requirement for credit risk went up from €13,638 thousand as of December 31, 2017 to €18,537 thousand as of December 31, 2018, an increase of €4,899 thousand or 35.9 percent. The main factor was an enhancement of the risk calculation to include the item 'Receivables (trade, not insurance)', as described in chapter D.1.18.

### Risk measurement

Counterparty default risk is measured with the partial internal model. The risk of default on receivables from reinsurers is measured on the basis of the information available and proportionality considerations. The reinsurers' individual credit ratings are explicitly used.

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

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

### Risk concentration

The counterparties with a significant exposure are reinsurers. Risk concentrations are avoided because the reinsurance treaties are distributed among multiple reinsurers.

### Risk mitigation

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

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

### Risk sensitivity

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

## C.4 Liquidity Risk

### **Risk exposure**

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

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

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

### **Risk measurement**

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

### **Risk concentration**

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

**Risk mitigation**

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

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

**Risk sensitivity**

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

**Profits contained in future premiums**

The expected profits included in future premiums represent a very illiquid component of basic own funds. These profits are therefore associated with a potential liquidity risk. Even if the expected profits contained in future premiums are not factored into basic own funds, the resulting liquidity risk is still classified as very low because of the significant excess cover. The expected profits included in future premiums amount to €95,999 thousand.

## C.5 Operational Risk

### Risk exposure

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

The solvency capital requirement for operational risk went down from €28,914 thousand as of December 31, 2017 to €28,798 thousand as of December 31, 2018, a small decrease of €115 thousand or 0.4 percent.

### Risk measurement

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

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

### Risk concentration

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

**Risk mitigation**

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

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

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

**Risk sensitivity**

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

## C.6 Other Material Risks

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

### **Strategic risk**

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

### **Reputational risk**

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

### **Emerging risks**

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

## C.7 Any Other Information

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

## D. Valuation for Solvency Purposes

<b>D.1 Assets</b>	<b>66</b>
<b>D.2 Technical Provisions</b>	<b>84</b>
<b>D.3 Other Liabilities</b>	<b>92</b>
<b>D.4 Alternative Methods for Valuation</b>	<b>100</b>
<b>D.5 Any Other Information</b>	<b>100</b>

In chapters D.1, D.2, and D.3, the explanation of each balance sheet line item's valuation methods and their differences starts with a description of their valuation (gross) under the German Commercial Code (HGB)\* followed by a description of their valuation for solvency purposes (Solvency II, SII) and then an explanation of any material differences. The SII figures are also compared with the equivalent prior-year figures.

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

### Total assets, technical provisions, and other liabilities

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Assets	2,796,951	2,192,917	604,034	2,767,127	29,824
Technical provisions	989,878	1,354,466	-364,588	996,219	-6,341
Other liabilities	623,872	387,448	236,424	608,643	15,229
<b>Excess of assets over liabilities**</b>	<b>1,183,201</b>	<b>451,003</b>	<b>732,198</b>	<b>1,162,266</b>	<b>20,935</b>

In the reporting period, there were no changes in the valuation bases described below as being used for the Solvency II balance sheet in respect of the individual assets, technical provisions, and other liabilities other than those in connection with the valuation of bonds (D.1.10). This amended valuation of bonds led to a decline in fair value of €2,865 thousand. All quantitative disclosures relate to the figures in the quantitative reporting formats set out in the Appendix. Figures are presented in thousands of euros.

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

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

## D.1 Assets

### Comparison of assets on the HGB balance sheet and Solvency II balance sheet

#### Assets as of December 31, 2018

(€'000)

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

	Solvency II as of Dec. 31, 2018	HGB as of Dec. 31, 2018	Difference as of Dec. 31, 2018	Solvency II as of Dec. 31, 2017	Solvency II year-on-year change
	0	0	0	0	0
	0	0	0	0	0
	0	6,514	-6,514	0	0
	94,288	0	94,288	72,806	21,482
	0	0	0	0	0
	52,384	43,424	8,960	54,049	-1,665
	31,555	22,383	9,172	32,856	-1,301
	828,212	346,960	481,252	817,923	10,289
	196	196	0	243	-47
	762	719	42	781	-19
	958	915	42	1,024	-66
	259,635	250,344	9,291	208,570	51,065
	601,669	587,437	14,232	622,966	-21,297
	4,589	4,234	355	7,310	-2,721
	1,042	1,027	14	1,084	-42
	866,934	843,042	23,892	839,929	27,004
	595,723	605,389	-9,666	638,901	-43,178
	0	0	0	0	0
	27,169	27,169	0	57,969	-30,800
	6,171	3,193	2,978	7,453	-1,282
	2,356,722	1,849,052	507,671	2,396,055	-39,334
	2,503,394	1,898,990	604,404	2,522,910	-19,517

## Comparison of assets on the HGB balance sheet and Solvency II balance sheet

### Assets as of December 31, 2018

(€'000)

Brought forward:

#### Assets held for index-linked and unit-linked contracts

##### Loans and mortgages

Loans on policies

Loans and mortgages to individuals

Other loans and mortgages

##### Reinsurance recoverables from:

Non-life and health similar to non-life

Non-life excluding health

Health similar to non-life

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

Health similar to life

Life excluding health and index-linked and unit-linked

Life index-linked and unit-linked

##### Receivables

Deposits to cedants

Insurance and intermediaries receivables

Reinsurance receivables

Receivables (trade, not insurance)

##### Other assets

Own shares (held directly)

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

Cash and cash equivalents

Any other assets, not elsewhere shown

##### Total assets

	Solvency II as of Dec. 31, 2018	HGB as of Dec. 31, 2018	Difference as of Dec. 31, 2018	Solvency II as of Dec. 31, 2017	Solvency II year-on-year change
	2,503,394	1,898,990	604,404	2,522,910	- 19,516
	0	0	0	0	0
	0	0	0	0	0
	108	108	0	79	29
	10,180	10,180	0	9,180	1,000
	<b>10,288</b>	<b>10,288</b>	<b>0</b>	<b>9,259</b>	<b>1,029</b>
	197	568	- 370	699	- 502
	0	0	0	0	0
	<b>197</b>	<b>568</b>	<b>- 370</b>	<b>699</b>	<b>- 502</b>
	0	0	0	0	0
	0	0	0	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	0	0	0	0	0
	<b>197</b>	<b>568</b>	<b>- 370</b>	<b>699</b>	<b>- 502</b>
	55,935	55,935	0	49,677	6,258
	48,557	48,557	0	45,442	3,115
	44,875	44,875	0	46,740	- 1,865
	38,626	38,626	0	31,357	7,269
	<b>187,994</b>	<b>187,994</b>	<b>0</b>	<b>173,217</b>	<b>14,778</b>
	0	0	0	0	0
	0	0	0	0	0
	91,639	91,639	0	58,303	33,336
	3,438	3,438	0	2,739	699
	<b>95,077</b>	<b>95,077</b>	<b>0</b>	<b>61,042</b>	<b>34,035</b>
	<b>2,796,951</b>	<b>2,192,917</b>	<b>604,034</b>	<b>2,767,127</b>	<b>29,825</b>

### D.1.1 Goodwill

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

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

### D.1.2 Deferred acquisition costs

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

### D.1.3 Intangible assets

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>0</b>	<b>6,514</b>	<b>-6,514</b>	<b>0</b>	<b>0</b>

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

In the HGB financial statements, intangible assets are recognized at cost and reduced by appropriate amortization on a straight-line basis. As of December 31, 2018, their carrying amount was €6,514 thousand.

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

Due to intangible assets not being included for solvency purposes, the Solvency II valuation was €6,514 thousand lower than the carrying amount on the HGB balance sheet.

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

### D.1.4 Deferred tax assets

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>94,288</b>	<b>0</b>	<b>94,288</b>	<b>72,806</b>	<b>21,482</b>

If differences arise between the carrying amounts on the Solvency II balance sheet and those in the tax base and these differences are expected to reverse in subsequent years, deferred taxes are recognized on the Solvency II balance sheet in respect of these

differences using separate entity-specific tax rates determined according to the country in which the registered office of the permanent establishment/branch concerned is situated. This also includes differences for which the timing of the reversal is not yet precisely known or depends on action by the entity concerned, and differences that will only reverse in the event of any liquidation.

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

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

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

Deferred tax assets of €42,983 thousand were transferred from subsidiaries.

The deferred tax assets on the Solvency II balance sheet are deemed not to be impaired. This is because the deferred tax liabilities are dominant on the Solvency II balance sheet and an analysis of the timing of the reversal effects proves that the time until reversal of the deferred tax expense is shorter than the time until reversal of the deferred tax benefit. The expense thus materializes earlier than the benefit.

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

• ARAG SE headquarters	31.3 percent
• Austria Branch	25.0 percent
• Belgium Branch	25.0 percent
• Greece Branch	29.0 percent
• Italy Branch	30.8 percent
• Netherlands Branch	25.0 percent
• Portugal Branch	22.5 percent
• Slovenia Branch	19.0 percent
• Spain Branch	25.0 percent

The main components of the total deferred tax assets of €94,288 thousand were as follows: €42,983 thousand arising from the tax group formed with ARAG Allgemeine and Interlloyd, €31,136 thousand from defined benefit obligations that had to be valued at a higher level under regulatory requirements, €3,221 thousand from technical provisions that had to be valued differently, and €9,117 thousand from investments that had to be valued differently under Solvency II.

Virtually all of the year-on-year increase in deferred tax assets of €21,482 thousand was attributable to the rise in tax assets arising from the tax group of €19,183 thousand. The provision transitional that had been used in 2016 was no longer used in 2017 or 2018.

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

### D.1.5 Pension benefit surplus

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

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

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>52,384</b>	<b>43,424</b>	<b>8,960</b>	<b>54,049</b>	<b>-1,665</b>

**Real estate (property) held for own use** is valued at cost less depreciation. If its value is permanently impaired, it is written down to the lower of fair value or depreciated cost. If the reason for the impairment ceases to apply, the write-down is reversed to the depreciated value of the asset. Land and buildings are categorized as being held for own use or rented out to third parties according to actual usage. For this purpose, a uniform carrying amount is classified according to primary usage. Fair values are used for Solvency II purposes.

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

The year-on-year decrease of €1,665 thousand can be explained by changes in the quantity of office furniture and equipment.

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

### D.1.7 Property (other than for own use)

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>31,555</b>	<b>22,383</b>	<b>9,172</b>	<b>32,856</b>	<b>-1,301</b>

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

As of the reporting date, the Company held land and buildings assets on its HGB balance sheet with a carrying amount of €22,383 thousand.

On the Solvency II balance sheet, the value of property (other than for own use) is based on prevailing standard land values. The value of the buildings is calculated using the income capitalization approach. This method discounts the expected future rental income less the likely management costs to the balance sheet date. The overall value of €31,555 thousand was the sum of the value of the land and the value of the buildings. Land and buildings are categorized as being held for own use or rented out to third parties in the same way as for the HGB balance sheet.

The valuation difference between the Solvency II balance sheet and the HGB financial statements amounted to €9,172 thousand and arose because the historical cost convention was applied in the valuation under HGB, whereas the higher unrealized fair values were recognized on the Solvency II balance sheet. The year-on-year decrease in fair value of €1,301 thousand as of the reporting date was largely attributable to the drop in the fair values of various real estate investments.

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

### D.1.8 Holdings in related undertakings, including participations

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>828,212</b>	<b>346,960</b>	<b>481,252</b>	<b>817,923</b>	<b>10,289</b>

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

The fair value is determined using an income capitalization approach based on a planning horizon of usually three years. The Company's material affiliated companies and equity investments as of December 31, 2018 are listed in chapter A.1.2. They primarily comprise the equity investments in ARAG Krankenversicherungs-AG (ARAG Health) with a carrying amount of €67,946 thousand, ARAG Allgemeine Versicherungs-AG (ARAG Allgemeine) with a carrying amount of €73,264 thousand, ARAG International Holding GmbH with a carrying amount of €56,059 thousand, ARAG Scandinavia AS with a carrying amount of €30,339 thousand, ALIN 1 GmbH & Co. KG with a carrying amount of €29,243 thousand, and Justix GmbH with a carrying amount of €10,550 thousand.

Write-downs of €2,656 thousand to cover expected permanent impairment and reversals of write-downs of €1,878 thousand were necessary in respect of material affiliated companies or equity investments in the year under review.

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

From a qualitative perspective, the difference of €481,252 thousand between the carrying amount at cost on the HGB balance sheet and that at fair value on the Solvency II balance sheet resulted from the different valuation methods described above.

The €10,289 thousand increase in the Solvency II carrying amount compared with December 31, 2017 was due, above all, to the year-on-year rises in the value of the equity investments in ALIN 1 GmbH & Co. KG, ARAG International Holding GmbH, and ARAG Health. These rises were partly offset by decreases in the fair values of the equity investments in ARAG Allgemeine and Interlloyd.

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

### D.1.9. Equities

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Equities – listed	196	196	0	243	-47
Equities – unlisted	762	719	42	781	-19
<b>Total</b>	<b>958</b>	<b>915</b>	<b>42</b>	<b>1,024</b>	<b>-66</b>

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

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

The differences in the valuation rules resulted in a valuation difference of €42 thousand for unlisted equities as of December 31, 2018. The decline of €66 thousand in the latest Solvency II value compared with the equivalent value as of December 31, 2017 was entirely attributable to changes in market value.

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

### D.1.10 Bonds

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Government bonds	259,635	250,344	9,291	208,570	51,065
Corporate bonds	601,669	587,437	14,232	622,966	-21,297
Structured notes	4,589	4,234	355	7,310	-2,721
Collateralized securities	1,042	1,027	14	1,084	-42
<b>Total</b>	<b>866,934</b>	<b>843,042</b>	<b>23,892</b>	<b>839,929</b>	<b>27,004</b>

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

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

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

Compared with recognition under HGB, the valuation of bonds in accordance with the rules described above has resulted in valuation reserves of €23,892 thousand that have not yet been realized. The year-on-year increase in the Solvency II carrying amount of €27,004 thousand was mainly attributable to the expansion of the portfolio of government bonds. This increase was offset by a fall in prices in the categories shown, particularly in respect of corporate bonds and structured notes.

There were some changes in the stated recognition and valuation methods compared with the previous year. The use of a valuation based on the rating of the ultimate risk carrier by means of individual spreads led to a fall of €2,865 thousand in the market value compared with the valuation method used in the prior year.

### D.1.11 Collective investment undertakings

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Equities	159,979	165,946	- 5,967	193,893	- 33,914
Bonds	399,386	402,890	- 3,504	406,072	- 6,686
Other	36,358	36,553	- 195	38,936	- 2,578
<b>Total</b>	<b>595,723</b>	<b>605,389</b>	<b>- 9,666</b>	<b>638,901</b>	<b>- 43,178</b>

Collective investment undertakings that have not been classified as permanent fixed assets are valued under HGB at the lower of their cost or quoted market price or market value as of the balance sheet date. This applies even if the quoted market price or market value falls below the cost only for a short time. Write-downs are reversed to no more than the cost if the reason for recognizing them ceases to apply. As of the reporting date, the carrying amount of collective investment undertakings under HGB was €605,389 thousand. Institutional funds that have been classified for permanent use in business operations are valued with the application of the discretionary principle of lower of cost or market value. No reversals of write-downs were recognized in 2018 (2017: €3,639 thousand).

For solvency purposes, the redemption price determined by the investment management company for the investment fund units/shares is used to determine the economic value. This value is not restricted to the cost. In accordance with the Delegated Regulation, collective investment undertakings in which the stake held is at least 20.0 percent are reported under collective investment undertakings and not under holdings in related undertakings, including participations. As of December 31, 2018, the Solvency II carrying amount for collective investment undertakings was €595,723 thousand.

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 was €9,666 thousand lower as of December 31, 2018. The year-on-year decrease of €43,178 thousand was mainly attributable to falls in the market prices of bonds and equities.

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

### D.1.12 Derivatives

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

### D.1.13 Deposits other than cash equivalents

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>27,169</b>	<b>27,169</b>	<b>0</b>	<b>57,969</b>	<b>-30,800</b>

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

Because of the identical valuation methods, the value under HGB and the value for solvency purposes are the same. The Solvency II carrying amount declined by €30,800 thousand year on year, which was entirely attributable to portfolio contraction.

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

### D.1.14 Other investments

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>6,171</b>	<b>3,193</b>	<b>2,978</b>	<b>7,453</b>	<b>-1,282</b>

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

For solvency purposes, the NAV reported by the investment management company is recognized as the economic value, even if it is higher than the cost. As a result of unrealized valuation reserves, the Solvency II carrying amount as of December 31, 2018 was €2,978 thousand higher than the HGB carrying amount. The year-on-year decrease in the Solvency II carrying amount of €1,282 thousand was attributable to the contraction of the portfolio of private equity and infrastructure investments.

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

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

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

### D.1.16 Loans and mortgages

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Loans on policies	0	0	0	0	0
Loans and mortgages to individuals	108	108	0	79	29
Other loans and mortgages	10,180	10,180	0	9,180	1,000
<b>Total</b>	<b>10,288</b>	<b>10,288</b>	<b>0</b>	<b>9,259</b>	<b>1,029</b>

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

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

The year-on-year increase in the Solvency II carrying amount of €1,029 thousand was mainly attributable to the rise in volume.

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

### D.1.17 Reinsurance recoverables

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Non-life and health similar to non-life	197	568	- 370	699	- 502
<b>Total</b>	<b>197</b>	<b>568</b>	<b>- 370</b>	<b>699</b>	<b>- 502</b>

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

Reinsurance in the form of an excess-of-loss treaty has been taken out in connection with special criminal-case legal insurance and financial-loss legal insurance in Germany. ARAG SE also has reinsurance to cover accumulation loss arising from the travel insurance it provides in the Spanish market; this is also in the form of an excess-of-loss treaty. The bulk of travel accident and travel liability risks in connection with insurance provided in Spain are re-insured through quota-share reinsurance treaties.

On the economic balance sheet, the reinsurers' shares are aggregated. To determine the economic value, the reinsurers' pro rata share of the technical provisions is calculated using the reinsurers' best estimate in accordance with the underlying treaty. The reinsurers' share is determined on an individual claim basis in accordance with the contractual terms. Applying the aforementioned valuation methods, the carrying amount on the Solvency II balance sheet as of December 31, 2018 was €370 thousand lower than the HGB carrying amount. The year-on-year decrease in the Solvency II carrying amount of €502 thousand was attributable to the continuation of business operations.

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

## D.1.18 Receivables

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Deposits to cedants	55,935	55,935	0	49,677	6,258
Insurance and intermediaries receivables	48,557	48,557	0	45,442	3,115
Reinsurance receivables	44,875	44,875	0	46,740	-1,865
Receivables (trade, not insurance)	38,626	38,626	0	31,357	7,269
<b>Total</b>	<b>187,994</b>	<b>187,994</b>	<b>0</b>	<b>173,217</b>	<b>14,778</b>

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

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

**Insurance\* and intermediaries receivables** are generally recognized at their nominal amount (€48,557 thousand). A general allowance for latent credit risk is deducted from insurance receivables after specific allowances have been recognized on a collective basis for receivables that are past due by a predefined period of time.

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

Because there is no active market for insurance and intermediaries receivables, and because of the short-term nature of the asset (due within twelve months), materiality reasons, risk, and the disproportionate time, effort, and expense that would otherwise be involved, the nominal amount of the receivables is also used as the Solvency II carrying amount. Due to this use of the nominal amount (€48,557 thousand) as the economic value, there are no valuation differences. In the year under review, none of the past due insurance amounts were treated as technical provisions.

The year-on-year rise in the Solvency II carrying amount of €3,115 thousand was mainly due to the change in volume.

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

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

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

As these reinsurance receivables are largely payable within twelve months, they are not discounted; the nominal amount is therefore recognized as the economic value. Due to use of the nominal amounts as the economic value, there are no valuation differences. The year-on-year decrease in the Solvency II carrying amount of €1,865 thousand was primarily due to a terminated reinsurance treaty at ARAG SE's Spain Branch, although some of the decrease was offset by a rise in the reinsurance receivables at the Netherlands Branch.

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

**Receivables (trade, not insurance)** are generally recognized at their nominal amount. In the event of actual default risk relating to rating downgrades, specific allowances are recognized in the amount that is no longer likely to be recovered. The receivables (trade, not insurance) of €38,626 thousand for the most part consisted of corporation tax assets (€18,380 thousand), receivables from affiliated companies (€13,273 thousand), and tax assets (€3,217 thousand).

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

Due to use of the nominal amounts as the economic value, there are no valuation differences. The year-on-year increase in the Solvency II carrying amount of €7,269 thousand arose largely because the taxes for the reporting period had not yet been assessed and there were likely to be refunds in the future.

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

### D.1.19 Own shares (held directly)

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

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

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

### D.1.21 Cash and cash equivalents

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>91,639</b>	<b>91,639</b>	<b>0</b>	<b>58,303</b>	<b>33,336</b>

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

The year-on-year increase in the Solvency II carrying amount of €33,336 thousand was entirely attributable to the increase in the volume for this item as of the balance sheet date.

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

### D.1.22 Any other assets, not elsewhere shown

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>3,438</b>	<b>3,438</b>	<b>0</b>	<b>2,739</b>	<b>669</b>

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

The year-on-year increase in the Solvency II carrying amount of €669 thousand was attributable to inventory differences compared with the end of 2017.

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

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

## D.2 Technical Provisions

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

#### Technical provisions as of December 31, 2018

(€'000)

Technical provisions – non-life
Technical provisions – non-life (excluding health)
Technical provisions calculated as a whole
Best estimate
Risk margin
Technical provisions – health (similar to non-life)
Technical provisions calculated as a whole
Best estimate
Risk margin
Technical provisions – life (excluding index-linked and unit-linked)
Technical provisions – health (similar to life)
Technical provisions calculated as a whole
Best estimate
Risk margin
Technical provisions – life (excluding health and index-linked and unit-linked)
Technical provisions calculated as a whole
Best estimate
Risk margin
Technical provisions – index-linked and unit-linked
Technical provisions calculated as a whole
Best estimate
Risk margin
<b>Other technical provisions</b>
<b>Total provisions</b>

	Solvency II as of Dec. 31, 2018	HGB as of Dec. 31, 2018	Difference as of Dec. 31, 2018	Solvency II as of Dec. 31, 2017	Solvency II year-on-year change
	0	1,329,205	-1,329,205	0	0
	959,940	0	959,940	967,801	-7,861
	29,938	0	29,938	28,418	1,520
	<b>989,878</b>	<b>1,329,205</b>	<b>-339,328</b>	<b>996,219</b>	<b>-6,341</b>
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>989,878</b>	<b>1,329,205</b>	<b>-339,328</b>	<b>996,219</b>	<b>-6,341</b>
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>989,878</b>	<b>1,329,205</b>	<b>-339,328</b>	<b>996,219</b>	<b>-6,341</b>
	<b>0</b>	<b>25,261</b>	<b>-25,261</b>	<b>0</b>	<b>0</b>
	<b>989,878</b>	<b>1,354,466</b>	<b>-364,589</b>	<b>996,219</b>	<b>-6,341</b>

## D.2.1 Technical provisions

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

As of the reporting date, the technical provisions in accordance with HGB amounted to €1,354,466 thousand. In addition to unearned premiums (gross) of €199,032 thousand, the HGB technical provisions included the provision for outstanding claims (gross) of €1,130,173 thousand, the equalization provision of €23,121 thousand, and the miscellaneous technical provisions of €2,140 thousand.

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

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

The provision for outstanding claims in the inward reinsurance business is recognized in accordance with the information provided by the primary insurer. The provision for outstanding claims in connection with the inward reinsurance business from the United Kingdom is determined on the basis of past experience and statistics produced by the Group's own local claims settlement company.

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

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Technical provisions calculated as a whole	0	1,329,205	-1,329,205	0	0
Best estimate	959,940	0	959,940	967,801	-7,861
Risk margin	29,938	0	29,938	28,418	1,520
<b>Total</b>	<b>989,878</b>	<b>1,329,205</b>	<b>-339,327</b>	<b>996,219</b>	<b>-6,341</b>

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

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

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

As of the reporting date, the Company did not have any technical provisions for health insurance (similar to non-life) recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

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

As of the reporting date, the Company did not have any technical provisions for health insurance (similar to life) recognized in its financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not required.

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

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

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

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

## D.2.7 Other technical provisions

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>0</b>	<b>25,261</b>	<b>-25,261</b>	<b>0</b>	<b>0</b>

The other technical provisions\* (miscellaneous technical provisions on the HGB balance sheet) primarily consist of the equalization provision (€23,120 thousand) and the lapse provision (€802 thousand). The equalization provision for direct insurance business and inward reinsurance business is recognized as additional actuarial reserves that can be used to offset fluctuations in the course of business.

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

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

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

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

\* In accordance with the Solvency II structure

## D.2.8 Reinsurance recoverables

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

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

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

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

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

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

Reinsurance recoverables are of no material significance to ARAG SE.

## D.2.9 Provisions assumptions

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

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

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

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

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

## D.3 Other Liabilities

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

#### Other liabilities as of December 31, 2018

(€'000)

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

	Solvency II as of Dec. 31, 2018	HGB as of Dec. 31, 2018	Difference as of Dec. 31, 2018	Solvency II as of Dec. 31, 2017	Solvency II year-on-year change
	0	0	0	0	0
	85,037	76,933	8,104	90,808	-5,771
	227,537	186,973	40,564	221,400	6,137
	370	370	0	1,458	-1,088
	188,879	3,982	184,897	177,399	11,480
	0	0	0	0	0
	0	0	0	0	0
	37,440	37,440	0	33,879	3,561
	2,580	2,580	0	2,136	444
	48,684	48,684	0	48,835	-151
	88,704	88,704	0	84,850	3,854
	0	0	0	0	0
	32,858	30,000	2,858	32,601	257
	32,858	30,000	2,858	32,601	257
	486	486	0	127	359
	623,872	387,448	236,424	608,643	15,229

### D.3.1 Contingent liabilities

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

### D.3.2 Provisions other than technical provisions

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>85,037</b>	<b>76,933</b>	<b>8,104</b>	<b>90,808</b>	<b>- 5,771</b>

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

The provisions other than technical provisions mainly related to outstanding employee remuneration (€15,635 thousand), provisions for taxes (€12,810 thousand), outstanding commission payments (€12,632 thousand), purchase invoices not yet received (€8,469 thousand), early retirement and pre-retirement part-time employment obligations (€5,818 thousand), provisions for long-service awards (€3,657 thousand), severance payments\* (Austria and Slovenia; €2,587 thousand), compensation claims for agents leaving the Company (€2,509 thousand), and costs for the financial statements audit and tax audit (€2,069 thousand).

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

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

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

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

\* A severance payment is a one-off payment made when an employment contract ends.

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

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

The economic value of the provisions for long-service awards, early retirement obligations, and pre-retirement part-time employment obligations came to €16,912 thousand. All other items were recognized on the Solvency II balance sheet with their HGB carrying amounts. A valuation difference of €8,104 thousand arose, mainly as a result of the differing valuation methods used for the provisions for long-service awards and early retirement obligations.

The year-on-year decrease in the Solvency II carrying amount was largely caused by reductions in the individual carrying amounts within this aggregate item.

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

### D.3.3 Pension benefit obligations

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>227,537</b>	<b>186,973</b>	<b>40,564</b>	<b>221,400</b>	<b>6,137</b>

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

For the Solvency II balance sheet, pension benefit obligations are valued using the PUC method as required by IAS 19. The discount rate is determined on the basis of the yields achieved for senior industrial bonds on the balance sheet date. Expected growth in income (2.5 percent), rising pension benefits (1.75 percent), and the Company's projections for staff turnover (1.5 percent) are taken into account. The amount calculated in this way equates to the economic value in accordance with VAG. As of the reporting date, the amount was calculated at €227,537 thousand.

A valuation difference of €40,564 thousand arose as a result of the differing valuation methods, in particular the different discount rates used. The year-on-year increase as of the reporting date was primarily attributable to the regular additions to the pension entitlements.

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

### D.3.4 Deposits from reinsurers

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>370</b>	<b>370</b>	<b>0</b>	<b>1,458</b>	<b>-1,088</b>

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

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

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

### D.3.5 Deferred tax liabilities

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>188,879</b>	<b>3,982</b>	<b>184,897</b>	<b>177,399</b>	<b>11,480</b>

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

The Company thus reported a deferred tax liability of €3,982 thousand on its HGB balance sheet.

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

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

Of this income, €69,973 thousand was transferred to the Company from subsidiaries.

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

### D.3.6 Derivatives

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

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

### D.3.7 Debts owed to credit institutions

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

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

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
Insurance and intermediaries payables	37,440	37,440	0	33,879	3,561
Reinsurance payables	2,580	2,580	0	2,136	444
Payables (trade, not insurance)	48,684	48,684	0	48,835	-151
<b>Total</b>	<b>88,704</b>	<b>88,704</b>	<b>0</b>	<b>84,850</b>	<b>3,854</b>

**Insurance and intermediaries payables** are valued at their nominal amount. As of the reporting date, the breakdown was as follows: insurance payables of €14,085 thousand and intermediaries payables of €23,355 thousand. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value.

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

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

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

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

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

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

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

### D.3.9 Subordinated liabilities

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

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

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

On the Solvency II balance sheet, the subordinated liabilities in basic own funds are discounted with the risk-free interest rate derived from investment-grade industrial bonds, modified by the value of ARAG's different credit rating at the time the subordinated bond was issued on July 29, 2014. This results in an interest rate that is lower than the bond's nominal interest rate (4.8 percent). Because of the discounting, the value on the Solvency II balance sheet as of December 31, 2018 was €2,858 thousand higher than the value on the HGB balance sheet. The Solvency II carrying amount changed year on year because of the shorter time to maturity.

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

### D.3.10 Any other liabilities, not elsewhere shown

(€'000)	SII as of Dec. 31, 2018	HGB as of Dec. 31, 2018	SII/HGB difference as of Dec. 31, 2018	SII as of Dec. 31, 2017	SII year- on-year change
<b>Total</b>	<b>486</b>	<b>486</b>	<b>0</b>	<b>127</b>	<b>359</b>

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

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

As of the reporting date, the reported value of any other liabilities, not elsewhere shown was thus €486 thousand. The year-on-year increase in the Solvency II carrying amount was mainly attributable to the normal continuation of business operations because the amount concerned consisted of deferred income in accordance with HGB.

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

## D.4 Alternative Methods for Valuation

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

## D.5 Any Other Information

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

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## E.1 Own Funds

### Objectives, guidance, and procedures for managing own funds

In 2018, Solvency II balance sheets were prepared for the planning horizon on the basis of the budgeted results of operations. The internal capital management guidance states that if it is identified that solvency coverage is about to fall below a threshold value that is higher than the intervention value specified by BaFin, various measures should be considered to offset the fall in the level of coverage.

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

In view of the existing solvency profile, the coverage ratio is not currently expected to fall below the internal reporting threshold, and certainly not below regulatory requirements. If, contrary to expectations, too great a fall in solvency coverage were to materialize in the medium term, the following measures would be considered with a view to increasing own funds:

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

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

In 2018, the Company did not identify any need to strengthen components of basic own funds within its planning horizon. Accordingly, none of the measures listed above were drawn up or submitted to the decision-making bodies for implementation.

### Components and quality of own funds

As of December 31, 2018, the Company held basic own funds in the form of an excess of assets over liabilities of €1,183,201 thousand (December 31, 2017: €1,162,266 thousand) according to the Solvency II balance sheet. The Company's minimum capital requirement (MCR) as of the reporting date was €160,558 thousand (December 31, 2017: €160,256 thousand) and the solvency capital requirement (SCR) was €357,999 thousand (December 31, 2017: €356,125 thousand).

It also had a subordinated liability of €32,858 thousand classified as own funds (December 31, 2017: €32,601 thousand). 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 €20,000 thousand will be distributed to shareholders as dividends.

This results in eligible own funds of €1,196,060 thousand, split between the different capital classes as follows: Tier 1 own funds of €1,163,201 thousand (December 31, 2017: €1,145,274 thousand) and Tier 2 own funds of €32,858 thousand (December 31, 2017: €32,601 thousand).

The equity on the HGB balance sheet can be reconciled to eligible own funds as follows:

### Reconciliation of the equity on the HGB balance sheet to eligible own funds

(€'000)	Dec. 31, 2018	Dec. 31, 2017
<b>Equity as of December 31 on the HGB balance sheet</b>	<b>451,002</b>	<b>439,405</b>
Elimination of intangible assets	- 6,514	- 7,658
Additional deferred tax assets	94,288	72,806
Revaluation of land and buildings held for own use (fair value)	8,960	8,732
Revaluation of investments	507,670	566,432
Revaluation of other loans and mortgages	0	0
Revaluation of reinsurers' share of technical provisions	- 370	- 3,287
No separate recognition of miscellaneous technical provisions, gross	339,327	306,867
No separate recognition of miscellaneous technical provisions	25,261	17,563
Revaluation of miscellaneous provisions	- 8,104	- 9,476
Revaluation of provisions for pensions and other post-employment benefits	- 40,564	- 49,130
Additional deferred tax liabilities recognized	- 184,897	- 177,388
Revaluation of the subordinated liabilities included in basic own funds	- 2,858	- 2,601
<b>Excess of assets over liabilities according to the Solvency II balance sheet</b>	<b>1,183,201</b>	<b>1,162,266</b>
Additional basic own funds resulting from subordinated liabilities	32,858	32,601
<b>Total basic own funds as of December 31</b>	<b>1,216,059</b>	<b>1,194,867</b>
Foreseeable dividend	- 20,000	- 20,000
<b>Total eligible own funds as of December 31</b>	<b>1,196,060</b>	<b>1,174,867</b>

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

**Own funds reconciliation reserve**

(€'000)	Total	Tier 1 own funds	Tier 2 own funds	Tier 3 own funds
Share capital	100,000	100,000	0	0
Share premium account related to ordinary share capital	0	0	0	0
Reconciliation reserve	1,063,201	1,063,201	0	0
<b>Basic own funds</b>	<b>1,163,201</b>	<b>1,163,201</b>	<b>0</b>	<b>0</b>
Ancillary own funds (subordinated liabilities)	32,858	0	32,858	0
<b>Eligible own funds</b>	<b>1,196,059</b>	<b>1,163,201</b>	<b>32,858</b>	<b>0</b>

As of December 31, 2018, the reconciliation reserve amounted to €1,063,201 thousand and consisted of revenue reserves of €237,600 thousand, valuation differences of €732,199 thousand, capital reserves pursuant to section 272 (2) no. 4 HGB of €81,773 thousand, the net income for the year of €31,598 thousand, and the net income for the year (reduced by the planned dividend) of €11,597 thousand. The year-on-year increase was predominantly due to the change in the excess of assets over liabilities. This effect, which boosted own funds, was the result of the healthy level of net income for the year under HGB and the flow of capital from the successful continuation of business operations.

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

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

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 and the aggregation of the risk modules for the overall solvency requirement are based on the standardized approach.

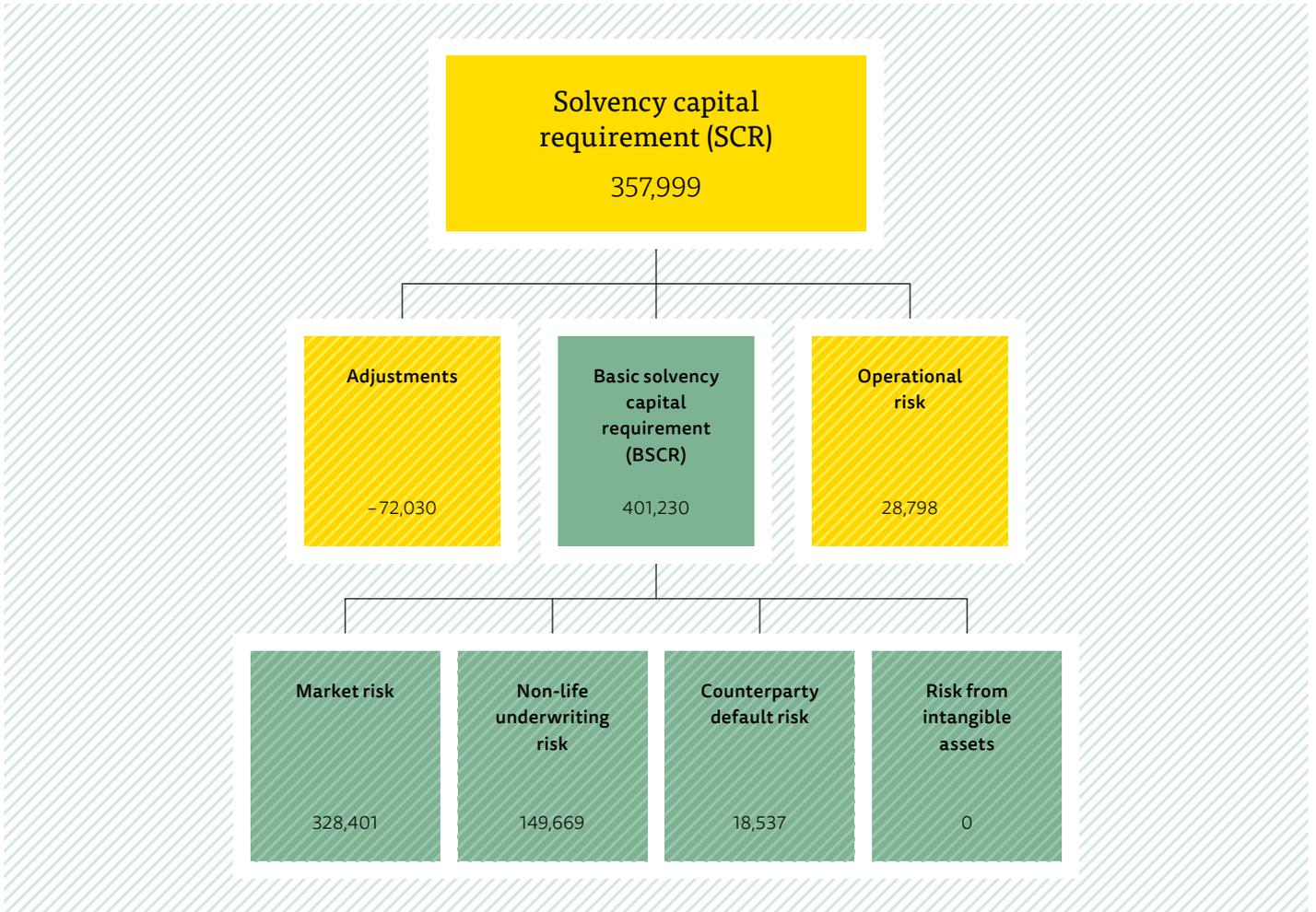
The solvency capital requirement increased only minimally year on year, by 0.5 percent, from €356,125 thousand as of December 31, 2017, to €357,999 thousand as of the reporting date. Please refer to chapter C. 'Risk Profile' for further information on the changes in the individual risks. At 334.1 percent as of December 31, 2018, the coverage ratio was significantly higher than the regulatory requirement and, in ARAG SE's view, constitutes a substantial risk buffer for customers. There was a small year-on-year rise in the coverage ratio from 329.9 percent as of December 31, 2017 to 334.1 percent as of the reporting date.

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 25.0 percent and not exceed 45.0 percent of the solvency capital requirement. As of December 31, 2018, the minimum capital requirement was €161,099 thousand (December 31, 2017: €160,256 thousand), which equated to 45.0 percent of the solvency capital requirement at that time and resulted in a coverage ratio for the minimum capital requirement of 742.0 percent (December 31, 2017: 732.8 percent).

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

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

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

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

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

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

**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

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

ARAG SE's partial internal model, which is based on factors such as the Company's claims history, enables the Company to model the individual risks internally in accordance with its own requirements, thus ensuring the risks can be presented and managed adequately.

The internal modeling of market risk enables the scope and structure of the investment 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 – i.e. in the case of both internally modeled market risk and internally modeled non-life underwriting risk – the results are used for corporate management.

ARAG SE's partial internal model draws on the following internally modeled modules: market risk, non-life underwriting risk, and counterparty default risk. The non-life underwriting risk module and the market risk module are modeled up to the top module level as a distribution. The counterparty default risk module is scenario-based at the top level and contains parts of the standard formula. The counterparty default risk arising in connection with securities is integrated into the market risk module.

### **Probability distribution forecast**

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

Non-life underwriting risk comprises the following components: premium risk, reserve risk, and accumulation risk. ARAG SE believes that accumulations of legal insurance represent the catastrophe risk for a legal insurance company. The catastrophe module has therefore been extended to include accumulation risk. The modules do not differ materially from the structure of the standard formula.

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

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

In ARAG SE's internal modeling, counterparty default risk is covered partially in the market risk module and partially in the counterparty default risk module. However, between the two modules, all default risk is covered. Those default risks that are not addressed in the market risk module are quantified in the counterparty default risk module. The remaining risks determined in this way are calculated using a factor approach based on the standard formula.

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

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

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

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

Sub-module	Standard formula	Internal model
Interest rate	For each currency area, the risk-free interest-rate term structure is shifted upwards and downwards with maturity-dependent shocks.	A distribution for the underlying interest rate calibrated using current market data is simulated for each currency area and each maturity. Turns and bulges in the risk-free interest-rate term structure are observed in addition to shifts.
Spread	The market values of investments sensitive to spread risk are reduced with a factor dependent on asset class, credit quality level, and maturity.	In the internal model, firstly, a distribution for the underlying spread calibrated using current market data is simulated for each investment class, credit quality level, and maturity. Secondly, a change in the risk classification and payment defaults are simulated for each issuer. In addition to bonds, other items taken into account in this case (in contrast to the standardized approach) include cash exposures and government bonds.
Equities	A factor is used to stress the market values of all equity investments. A distinction is made between equity type 1 (listed equities from an OECD or EEA country) and equity type 2 (equities from other countries, strategic equity investments, and qualifying infrastructure). The solvency capital requirements resulting from the 'equity type 1' and 'equity type 2' scenarios are aggregated as the equity solvency capital requirement using a correlation approach.	A distribution of equity performance calibrated using current market data is simulated for each currency area. A similar distribution for private equity investments is also simulated. Separate distributions of performance are calibrated and simulated for strategic equity investments.
Real estate	The market values of all real estate investments are reduced by a particular factor.	A distribution of real estate performance calibrated using current market data is simulated for each currency area.
Currency	The market values of all assets and liabilities denominated in foreign currency are increased/decreased by a particular factor. This gives rise to a currency increase and a currency decrease risk for each currency area, reported as the corresponding loss of own funds.	A distribution for the change in the foreign currency/euro exchange rate calibrated using current market data is simulated for each currency area.
Concentration	An additional risk capital requirement is calculated using a factor approach for exposures that exceed a specified percentage of the total portfolio.	Risk concentrations in bonds and cash exposures are taken into account in the spread module via the default distributions simulated for each issuer. There is no separate calculation of concentration risk in the internal model.

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

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

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

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

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

Sub-module	Standard formula	Internal model
Premium and reserve risk	A factor-based approach is used in the standard formula. The standard volatility factors (market average) for each line of business are applied to the relevant volume measure (reserve or premiums). Specified correlation parameters are used in a linear correlation approach. Regional diversification is taken into account.	In the partial internal model, casualty and property insurance is broken down into groups of risks sharing similar characteristics and these risk groups form the ARAG segments. The risk calculation is based on company-specific data and internal calibration. Reinsurance is precisely reflected in the model, especially in relation to major losses. The aggregation method follows a copula approach. Well-established actuarial methods are used.
Lapse risk	A stress scenario is applied to the forecast profits from the current portfolio.	A lapse distribution is modeled, with calibration based on company-specific data.
Legal insurance accumulation risk	This risk is not taken into account in the standard formula.	Accumulation events represent a heightened risk in the legal insurance business. ARAG therefore models these losses with its own data using a distribution of the number of claims and claims amounts.

Diversification effects are highlighted by aggregating the risk distributions for the individual sub-risks into the total risk capital requirement. The diversification effect between the modules for ARAG SE amounted to €95,377 thousand. Diversification effects arise if the risks to be aggregated are independent or only partially dependent on each other. Key diversification factors include, for example:

- Classes of insurance or segments – legal insurance disputes involving private or small business customers
- Risk categories – legal insurance disputes from different areas of activity, such as road traffic or employment
- Regions – accumulation of losses in different countries

To value the diversification effects within ARAG SE's partial internal model, the dependencies between the risk sub-modules and risk categories are quantified. ARAG uses its own historical data to measure the dependencies. The parameters are reviewed annually by a committee of experts to check that they remain plausible. In the partial internal model, the standard correlations from the standard formula are used to aggregate the individual risk modules for the purpose of producing the BSCR.

**Appropriateness of data**

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

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

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

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

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
<b>Assets</b>		
Intangible assets	R0030	0
Deferred tax assets	R0040	94,288
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	52,384
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	2,356,722
Property (other than for own use)	R0080	31,555
Holdings in related undertakings, including participations	R0090	828,212
Equities	R0100	958
Equities – listed	R0110	196
Equities – unlisted	R0120	762
Bonds	R0130	866,934
Government bonds	R0140	259,635
Corporate bonds	R0150	601,669
Structured notes	R0160	4,589
Collateralized securities	R0170	1,042
Collective investment undertakings	R0180	595,723
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	27,169
Other investments	R0210	6,171
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	10,288
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	108
Other loans and mortgages	R0260	10,180
Reinsurance recoverables from:	R0270	197
Non-life and health similar to non-life	R0280	197
Non-life excluding health	R0290	197
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	55,935
Insurance and intermediaries receivables	R0360	48,557
Reinsurance receivables	R0370	44,875
Receivables (trade, not insurance)	R0380	38,626
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	91,639
Any other assets, not elsewhere shown	R0420	3,438
<b>Total assets</b>	<b>R0500</b>	<b>2,796,951</b>

## S.02.01.02

## Balance sheet

		Solvency II value
<b>Liabilities</b>		<b>C0010</b>
Technical provisions – non-life	R0510	989,878
Technical provisions – non-life (excluding health)	R0520	989,878
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	959,940
Risk margin	R0550	29,938
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	85,037
Pension benefit obligations	R0760	227,537
Deposits from reinsurers	R0770	370
Deferred tax liabilities	R0780	188,879
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance and intermediaries payables	R0820	37,440
Reinsurance payables	R0830	2,580
Payables (trade, not insurance)	R0840	48,684
Subordinated liabilities	R0850	32,858
Subordinated liabilities not in basic own funds	R0860	0
Subordinated liabilities in basic own funds	R0870	32,858
Any other liabilities, not elsewhere shown	R0880	486
<b>Total liabilities</b>	R0900	<b>1,613,750</b>
<b>Excess of assets over liabilities</b>	R1000	<b>1,183,201</b>

## S.05.01.02

## Premiums, claims and expenses by line of business

		Medical expense insurance	Income protection insurance
		C0010	C0020
<b>Premiums written</b>			
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
<b>Premiums earned</b>			
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
<b>Claims incurred</b>			
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
<b>Changes in other technical provisions</b>			
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
<b>Expenses incurred</b>	R0550	<b>0</b>	<b>0</b>
<b>Other expenses</b>	R1200	-	-
<b>Total expenses</b>	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
<b>Premiums written</b>				
Gross – direct business	R0110	655,635	43,467	9,605
Gross – proportional reinsurance accepted	R0120	194,938	11,896	446
Gross – non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	507	127	0
Net	R0200	850,066	55,236	10,051
<b>Premiums earned</b>				
Gross – direct business	R0210	653,700	43,555	9,679
Gross – proportional reinsurance accepted	R0220	196,250	13,690	392
Gross – non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	1,925	127	0
Net	R0300	848,026	57,118	10,070
<b>Claims incurred</b>				
Gross – direct business	R0310	251,663	21,172	1,092
Gross – proportional reinsurance accepted	R0320	60,857	11,338	-14
Gross – non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	-1,324	212	0
Net	R0400	313,845	32,299	1,078
<b>Changes in other technical provisions</b>				
Gross – direct business	R0410	-112	0	0
Gross – proportional reinsurance accepted	R0420	-1,338	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	-1,450	0	0
<b>Expenses incurred</b>	R0550	<b>502,966</b>	<b>25,434</b>	<b>6,296</b>
<b>Other expenses</b>	R1200	-	-	-
<b>Total expenses</b>	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		708,707
0	0	0	0		207,281
-	-	-	-		0
0	0	0	0		635
0	0	0	0		915,353
0	0	0	0		706,934
0	0	0	0		210,332
-	-	-	-		0
0	0	0	0		2,052
0	0	0	0		915,213
0	0	0	0		273,928
0	0	0	0		72,181
-	-	-	-		0
0	0	0	0		-1,113
0	0	0	0		347,222
0	0	0	0		-112
0	0	0	0		-1,338
-	-	-	-		0
0	0	0	0		0
0	0	0	0		-1,450
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>534,696</b>
-	-	-	-		-
-	-	-	-		<b>534,696</b>

## S.05.01.02

## Premiums, claims and expenses by line of business

		Health insurance	Insurance with profit participation
		C0210	C0220
<b>Premiums written</b>			
Gross	R1410	0	0
Reinsurers' share	R1420	0	0
Net	R1500	0	0
<b>Premiums earned</b>			
Gross	R1510	0	0
Reinsurers' share	R1520	0	0
Net	R1600	0	0
<b>Claims incurred</b>			
Gross	R1610	0	0
Reinsurers' share	R1620	0	0
Net	R1700	0	0
<b>Changes in other technical provisions</b>			
Gross	R1710	0	0
Reinsurers' share	R1720	0	0
Net	R1800	0	0
<b>Expenses incurred</b>	R1900	0	0
<b>Other expenses</b>	R2500	-	-
<b>Total expenses</b>	R2600	-	-



## S.05.02.01

## Premiums, claims and expenses by country

		Home country
		<b>C0010</b>
	R0010	-
		<b>C0080</b>
<b>Premiums written</b>		
Gross – direct business	R0110	372,598
Gross – proportional reinsurance accepted	R0120	25,466
Gross – non-proportional reinsurance accepted	R0130	-
Reinsurers' share	R0140	379
Net	R0200	397,685
<b>Premiums earned</b>		
Gross – direct business	R0210	368,360
Gross – proportional reinsurance accepted	R0220	25,466
Gross – non-proportional reinsurance accepted	R0230	-
Reinsurers' share	R0240	379
Net	R0300	393,447
<b>Claims incurred</b>		
Gross – direct business	R0310	192,627
Gross – proportional reinsurance accepted	R0320	20,546
Gross – non-proportional reinsurance accepted	R0330	-
Reinsurers' share	R0340	-21
Net	R0400	213,195
<b>Changes in other technical provisions</b>		
Gross – direct business	R0410	-18
Gross – proportional reinsurance accepted	R0420	-1,338
Gross – non-proportional reinsurance accepted	R0430	0
Reinsurers' share	R0440	0
Net	R0500	-1,356
<b>Expenses incurred</b>	R0550	<b>191,681</b>
<b>Other expenses</b>	R1200	-
<b>Total expenses</b>	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
24,431	103,908	35,089	99,274	64,896		700,195
862	33,845	95,255	51,792	0		207,220
-	-	-	-	-		0
0	256	0	0	0		635
25,293	137,497	130,344	151,066	64,896		906,781
24,285	103,197	34,303	103,903	64,369		698,417
862	38,145	93,553	52,161	0		210,188
-	-	-	-	-		0
0	1,673	0	0	0		2,052
25,147	139,669	127,856	156,065	64,369		906,552
9,864	33,586	9,433	12,212	14,327		272,048
412	23,864	21,861	5,561	-56		72,188
-	-	-	-	-		0
-5	-1,085	0	0	-1		-1,113
10,281	58,535	31,294	17,773	14,272		345,349
0	0	0	0	-94		-112
0	0	0	0	0		-1,338
0	0	0	0	0		0
0	0	0	0	0		0
0	0	0	0	-94		-1,450
<b>14,397</b>	<b>75,236</b>	<b>91,131</b>	<b>124,833</b>	<b>31,962</b>		<b>529,240</b>
-	-	-	-	-		-
-	-	-	-	-		<b>529,240</b>

## S.05.02.01

## Premiums, claims and expenses by country

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



## S.17.01.02

## Non-life technical provisions

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

<b>Technical provisions calculated as a whole</b>	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
<b>Technical provisions calculated as a sum of BE and RM</b>	
Best estimate	
Premium provisions	
Gross	R0060
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0140
Net best estimate of premium provisions	R0150
<b>Claims provisions</b>	
Gross	R0160
Total recoverable from reinsurance/SPV and finite re after the adjustment for expected losses due to counterparty default	R0240
<b>Net best estimate of claims provisions</b>	R0250
<b>Total best estimate – gross</b>	R0260
<b>Total best estimate – net</b>	R0270
<b>Risk margin</b>	R0280
<b>Amount of the transitional on technical provisions</b>	
Technical provisions calculated as a whole	R0290
Best estimate	R0300
Risk margin	R0310
<b>Technical provisions – total</b>	
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
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
118,776	-3,081	7,239	-	-	-	-	122,934
0	0	0	-	-	-	-	0
118,776	-3,081	7,239	-	-	-	-	122,934
829,010	5,455	2,542	-	-	-	-	837,006
197	0	0	-	-	-	-	197
<b>828,812</b>	<b>5,455</b>	<b>2,542</b>	-	-	-	-	<b>836,809</b>
<b>947,786</b>	<b>2,373</b>	<b>9,780</b>	-	-	-	-	<b>959,940</b>
<b>947,589</b>	<b>2,373</b>	<b>9,780</b>	-	-	-	-	<b>959,742</b>
<b>28,128</b>	<b>536</b>	<b>1,274</b>	-	-	-	-	<b>29,938</b>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
975,914	2,909	11,054	-	-	-	-	989,878
197	0	0	-	-	-	-	197
975,717	2,909	11,054	-	-	-	-	989,680

## 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	94,176	94,170	42,227	25,490	16,561	10,997
N-8	R0170	95,558	94,291	40,313	24,646	17,648	11,216
N-7	R0180	99,598	86,562	39,065	24,555	15,589	10,791
N-6	R0190	97,895	86,141	41,294	23,597	15,488	9,650
N-5	R0200	99,034	92,939	39,643	22,364	14,892	10,315
N-4	R0210	108,513	93,799	40,216	22,863	15,658	
N-3	R0220	119,011	99,491	42,121	24,388		
N-2	R0230	131,777	103,676	45,365			
N-1	R0240	140,329	110,496				
N	R0250	144,940					

**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	36,069
N-4	R0210	0	0	0	0	49,375	
N-3	R0220	0	0	0	67,145		
N-2	R0230	0	0	93,093			
N-1	R0240	0	141,916				
N	R0250	255,403					

Development year					In current year	Sum of years (cumulative)
6	7	8	9	10 & +		
C0070	C0080	C0090	C0100	C0110	C0170	C0180
-	-	-	-	1,918	R0100	1,918
7,529	5,239	3,302	2,526		R0160	302,216
7,252	5,415	3,968			R0170	300,306
7,179	5,060				R0180	288,399
7,184					R0190	281,248
					R0200	279,188
					R0210	281,049
					R0220	285,011
					R0230	280,819
					R0240	250,825
					R0250	144,940
				<b>Total</b>	R0260	<b>345,938</b>
						<b>4,211,411</b>

Development year					Year end (discounted data)	
6	7	8	9	10 & +		
C0260	C0270	C0280	C0290	C0300	C0360	
-	-	-	-	15,297	R0100	15,122
0	0	0	10,009		R0160	9,910
0	0	14,862			R0170	14,734
0	17,507				R0180	17,356
23,801					R0190	23,613
					R0200	35,763
					R0210	48,961
					R0220	66,595
					R0230	92,359
					R0240	140,772
					R0250	259,578
				<b>Total</b>	R0260	<b>758,621</b>

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

Ordinary share capital (gross of own shares)	
Share premium account related to ordinary share capital	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	
Subordinated mutual member accounts	
Surplus funds	
Preference shares	
Share premium account related to preference shares	
Reconciliation reserve	
Subordinated liabilities	
An amount equal to the value of net deferred tax assets	
Other own fund items approved by the supervisory authority as basic own funds not specified above	

**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	
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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	1,063,201	1,163,201	-	0	0
R0140	32,858	0	-	32,858	0
R0160	0	0	-	0	0
R0180	-	-	-	-	-
	-	-	-	-	-
R0220	0	-	-	-	-
	-	-	-	-	-
R0230	0	0	0	0	0
R0290	<b>1,196,060</b>	<b>1,163,201</b>	<b>0</b>	<b>32,858</b>	<b>0</b>
	-	-	-	-	-
R0300	-	-	-	-	-
	-	-	-	-	-
R0310	-	-	-	-	-
R0320	-	-	-	-	-
R0330	-	-	-	-	-
R0340	-	-	-	-	-
R0350	-	-	-	-	-
R0360	-	-	-	-	-
R0370	-	-	-	-	-
R0390	-	-	-	-	-
R0400	-	<b>0</b>	<b>0</b>	-	-
	-	-	-	-	-
R0500	1,196,060	1,163,201	0	32,858	0
R0510	1,196,060	1,163,201	0	32,858	0
R0540	1,196,060	1,163,201	0	32,858	0
R0550	1,195,421	1,163,201	0	32,220	0
R0580	<b>357,999</b>	-	-	-	-
R0600	<b>161,099</b>	-	-	-	-
R0620	<b>3.34</b>	-	-	-	-
R0640	<b>7.42</b>	-	-	-	-
	-	-	-	-	-
	<b>C0060</b>				
R0700	1,183,201				
R0710	0				
R0720	20,000				
R0730	100,000				
R0740	0				
R0760	<b>1,063,201</b>				
	-				
R0770					
R0780	-95,999				
R0790	<b>-95,999</b>				

## S.25.02.21

## 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 modeled	USP	Simplifications
C0010	C0020	C0030	C0070	C0080	C0090
1	Market risk	328,401	328,401		
2	Counter-party default risk	18,537			
3	Life underwriting risk	0			
4	Health underwriting risk	0			
5	Non-life underwriting risk	149,669	149,669		
6	Intangible asset risk	0			
7	Operational risk	28,798			
8	LAC technical provisions	0			
9	LAC deferred taxes	-72,030			
<b>Calculation of solvency capital requirement</b>		<b>C0100</b>			
	Total undiversified components	R0110	453,376		
	Diversification	R0060	-95,377		
	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0		
	<b>Solvency capital requirement excluding capital add-on</b>	<b>R0200</b>	<b>357,999</b>		
	Capital add-ons already set	R0210	0		
	<b>Solvency capital requirement</b>	<b>R0220</b>	<b>357,999</b>		
	<b>Other information on SCR</b>				
	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		

## S.28.01.01

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

**Linear formula component for non-life insurance and reinsurance obligations**

<b>C0010</b>		
MCRNL result	R0010	171,677

			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	947,594	846,609
Assistance and proportional reinsurance		R0120	2,373	45,335
Miscellaneous financial loss insurance and proportional reinsurance		R0130	9,780	21,379
Non-proportional health reinsurance		R0140	-	-
Non-proportional casualty reinsurance		R0150	-	-
Non-proportional marine, aviation and transport reinsurance		R0160	-	-
Non-proportional property reinsurance		R0170	-	-

## S.28.01.01

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

Linear formula component for life insurance and reinsurance obligations					
					<b>C0040</b>
MCRL result	R0200				-
				<b>Net (of reinsurance/SPV) best estimate and TP calculated as a whole</b>	<b>Net (of reinsurance/SPV) total capital at risk</b>
				<b>C0050</b>	<b>C0060</b>
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	-	-
<b>Overall MCR calculation</b>					
					<b>C0070</b>
Linear MCR	R0300				171,677
SCR	R0310				357,999
MCR cap	R0320				161,099
MCR floor	R0330				89,500
Combined MCR	R0340				161,099
Absolute floor of the MCR	R0350				2,500
					<b>C0070</b>
Minimum capital requirement	R0400				161,099

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You can obtain up-to-date **information about the Group** using the following contact details:

**ARAG**  
**Corporate Communications/Marketing**  
**ARAG Platz 1**  
**40472 Düsseldorf**  
**Germany**  
**Tel: +49 (0)211 963 3488**  
**Fax: +49 (0)211 963 2025**  
**+49 (0)211 963 2220**  
**Email: [medien@ARAG.de](mailto:medien@ARAG.de)**

**If you would like an individual quote**, you can contact us at any time by telephone, fax, or email:

**Tel: +49 (0)211 98 700 700**  
**Fax: +49 (0)211 963 2850**  
**Email: [service@ARAG.de](mailto:service@ARAG.de)**

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