

ARAG SE

# 2019 Solvency and Financial Condition Report



# ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

CEO and Central Group Functions

Investments/ Corporate Development/ Organization

Sales, Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management and Group Controlling

Operating insurance companies

ARAG Allgemeine Versicherungs-AG

(Casualty and property insurance)

ARAG Krankenversicherungs-AG

(Health insurance)

Interlloyd Versicherungs-AG

(Specialized in broker sales)

International companies

(Legal insurance/ legal services)

Service companies

ARAG IT GmbH

(IT services for the ARAG Group)

Cura Versicherungsvermittlung GmbH

(Brokerage firm)

ARAG Service Center GmbH

(Emergency telephone service)

# Structure of ARAG 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

**Investments/  
Corporate Development/  
Organization**

Dr. Renko Dirksen

**Sales, Products and Innovation**

Dr. Matthias Maslaton

**Group Finance**

Wolfgang Mathmann

**Group IT and Operations**

Hanno Petersen

**Group Risk Management and  
Group Controlling**

Dr. Joerg Schwarze

Gross premiums written:

€ **978** million

↗ 2018: €916 million

Net income for the year:

€ **52** million

↗ 2018: €32 million

Net combined ratio:

**95.6** %

↗ 2018: 95.5 %

Eligible own funds:

€ **1,414** million

↗ 2018: €1,196 million

Solvency capital requirement:

€ **435** million

↗ 2018: €358 million

Solvency ratio:

**325.2** %

↘ 2018: 334.1 %

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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) 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.

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 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 2019, gross premiums written went up by 6.7 percent to €977,678 thousand at ARAG SE (2018: €915,988 thousand). The Company generated 63.6 percent of its total gross premium income outside Germany, making it one of the most internationalized German providers of legal insurance. The branches in the Netherlands, Spain, and Italy together earned a total of €453,567 thousand in premiums and, partly because of their steady growth, were among the leading providers of legal insurance in their respective markets. In ARAG SE's important home market of Germany, the uptrend in legal insurance business seen in previous years was further consolidated in the year under review. In 2019, gross premiums written in direct business increased by 5.9 percent, from €372,598 thousand to €394,713 thousand.

The underwriting result in accordance with the German Commercial Code (HGB) before the change in the equalization provision and similar provisions rose from €41,718 thousand to €44,129 thousand in the reporting year. 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 increasing income from the brokerage of insurance contracts in the non-legal segment.

Gains and losses on investments improved by €27,176 thousand to a net gain of €78,951 thousand (2018: €51,776 thousand). As budgeted, there was a sharp one-off fall in current income from other investments owing to the restructuring of institutional funds. However, the resulting gains on disposal offset some of this fall. Moreover, higher market prices for securities led to substantial reversals of write-downs. After taking into account the sundry income and expense items, ARAG SE generated very sound net income for the year of €51,848 thousand (2018: €31,598 thousand).

## Chapter B. System of Governance

Chapter B.1 contains information on the Management Board and Supervisory Board as well as on the tasks of the following four key functions: risk management, compliance, internal audit, and the actuarial function. As these functions are kept strictly separate from the operational departments as far as Management Board level within the organizational structure, they can perform their duties objectively and independently. Moreover, they have a direct reporting line to the ARAG SE Management Board member with relevant responsibility.

There were changes to the Management Board's composition and the allocation of responsibilities during the reporting period.

The remuneration granted to the members of the Management Board and Supervisory Board and to the holders of key functions is structured such that it is consistent with market rates and rewards performance without creating undesirable incentives.

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

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

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

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

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

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

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

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 is €424,558 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 €135,767 thousand, is mainly influenced by premium and reserve risk and by accumulation risk.

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

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

The individual line items and valuation bases are presented and described in chapter D. 'Valuation for Solvency Purposes'. In the reporting period, there were no changes in the valuation bases 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).

In 2019, International Financial Reporting Standard (IFRS) 16 was adopted for the first time in connection with leasing arrangements. As a result, property, plant & equipment held for own use (D.1.6) increased by €88,911 thousand; other financial liabilities (D.3.8) increased by the same amount. In the reporting year, there was also a change in the method used to generate the IAS 19 curve for discounting pension benefit obligations, long-service obligations, and pre-retirement part-time employment obligations. This caused an increase of €4,487 thousand in the amount to be recognized for these (D.3.2 and D.3.3).

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

## Chapter E. Capital Management

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

ARAG SE's overall solvency capital requirement is €434,747 thousand. To cover this requirement, the Company has eligible own funds of €1,413,644 thousand, giving a coverage ratio of 325.2 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 €179,006 thousand, which means the coverage ratio for the minimum capital requirement is 789.7 percent. Market risk and underwriting risk account for the greatest proportion of the solvency capital requirement.

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

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

## COVID-19 Pandemic

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

### **Business and performance**

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

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

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

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

### **System of governance**

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

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

### **Risk profile**

If the macroeconomic forecasts prove to be correct, there may be an increase in claims incurred and lapse rates. New business may also be adversely affected. Negative trends were observable in the capital markets through into March 2020. Uncertainty is likely to remain at a high level. Investments have been hedged in order to reduce losses. There is a possibility of an increase in the solvency capital requirement due to insurance-related factors and due to the situation in the capital markets.

Liquidity continues to be assured, partly because the holding of cash has been increased.

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

### **Valuation for solvency purposes**

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

**Capital management**

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

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

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

## 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)

#### Independent auditor

The contact details of the appointed auditor are:

PricewaterhouseCoopers GmbH  
 Wirtschaftsprüfungsgesellschaft  
 Moskauer Strasse 19, 40227 Düsseldorf, Germany  
 Tel: +49 (0)211 981 0  
 Fax: +49 (0)211 981 1000  
 Email: [webkontakt\\_anfragen@de.pwc.com](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 therefore a dependent company of ARAG Holding SE within the meaning of section 17 (1) of the German Stock Corporation Act (AktG).

ARAG SE is responsible for the strategic management of the ARAG Group, whose parent company is ARAG Holding SE. The shareholders of ARAG Holding SE are FABI GmbH, Düsseldorf, which holds 45.5 percent, and Dr. Dr. h.c. Paul-Otto Faßbender, Düsseldorf, who holds the remaining 54.5 percent.

The consolidated financial statements 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 49 Group companies, including seven insurance companies headquartered in Germany, Norway, Switzerland, and the US.

### List of the main affiliated companies

Name and location of registered office	Legal form	Country	Direct share	Group's share
1 ARAG 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 (public limited company)	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 branches in the United Kingdom and the Republic of Ireland. It is necessary to operate this business in a separate company because, in Germany, legal insurance claims have to be settled separately (section 164 VAG). ARAG Allgemeine primarily offers modular insurance cover for general accident insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to private and small business customers. This company is also Europe's largest sports insurer, providing cover for over 20 million recreational sports participants and top-ranking athletes.
5. ARAG Insurance Company Inc., USA, operates legal insurance business, mainly through employers and trade associations. Insurance is provided to their employees and members, although coverage varies from state to state depending on the local regulatory rules. ARAG Insurance Company Inc. is part of the subgroup in the USA, which comprises five companies and is managed by ARAG North America Inc.
6. ARAG International Holding GmbH is an intermediate holding company connecting the North American (US and Canadian) subsidiaries to the ARAG Group in Germany. It is purely a financial holding company and limits itself to exercising its rights and fulfilling its obligations as a parent company. Besides its function as a holding company, it is also responsible for winding up the business activities of the ARAG Group's discontinued operations.
7. ARAG IT GmbH, which is located at the Düsseldorf site, primarily carries out data center activities and IT services for the ARAG Group. It also performs services for individual external customers.
8. ARAG Krankenversicherungs-AG operates the private health insurance business. The need to separate the different segments (section 8 (4) VAG) means that a separate company has to operate the health insurance business. ARAG Krankenversicherungs-AG has established itself in its market as a provider of high-quality full-coverage and supplementary private health insurance.

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

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

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

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

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

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

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

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 2019 were €3,000 thousand on June 12, €3,000 thousand on September 5, and €5,000 thousand on November 11.

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 2019, consideration of €14,369 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 €77 thousand in the reporting year. It also performed data center operation services amounting to €2,428 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 2019 was €34 thousand. Implementation of SAP systems at the branches in Spain and Portugal in 2018 resulted in expenses of €121 thousand in the year under review. IT consultancy in respect of technical systems was provided to other branches in an amount of €3 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 176.36 square meters, data center space of 15.94 square meters, and 210 underground parking spaces. In 2019, an amount of €1,236 thousand was invoiced for use of these areas and an amount of €517 thousand for secondary costs.

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

### 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 19 countries (Germany, other European countries (now including the Republic of Ireland), the US, Canada, and Australia) through branches, subsidiaries, and equity investments.

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 German insurers, with 63.6 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 4,506,150 in-force insurance policies (December 31, 2018: 4,297,928), of which 1,610,872 related to the business in Germany (December 31, 2018: 1,542,004) and 2,895,278 to international business (December 31, 2018: 2,755,924).

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

### **Products**

The success of the ARAG Group is based on the high quality of its products and the particular innovative strength of the Group. The high quality of the services is reflected in the numerous regular awards and seals of approval received from independent organizations.

In its core legal insurance segment, ARAG plays a major role in shaping the German market with innovative products and services. Since 2012, it has been a notable trailblazer in the provision of cyber protection for retail customers based on its ARAG web@ktiv product. In the year under review, the Group developed a new rate scale with outstanding benefits for private individuals and the self-employed that comes in three versions. The Premium version is primarily aimed at the gamer and influencer target groups and, in particular, offers cover for damage to electronic devices. In the new generation of ARAG web@ktiv products, self-employed customers benefit from a number of features, including a reputation check and tailored protection in connection with the EU General Data Protection Regulation (GDPR). The Premium version also comes with legal insurance in connection with anti-trust law and insurance policy legal protection covering the pursuit of claims under a cyber policy should a loss event arise. The products were successfully launched on the market in mid-2019.

### Systems, IT, and digitalization

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

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

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

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

### Insurance-specific events

A significant legal change in the last few years – one that no longer had a significant 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 claim payments in each of the event years 2015 to 2019. Legal cases in connection with the diesel vehicle emissions issue are having an increasing impact. Overall, claim payments are rising rapidly, particularly because the extent of the issue has broadened to include other vehicle manufacturers besides Volkswagen. In the year under review, the reserve for this accumulation loss in respect of direct business in Germany was increased by €11,600 thousand for the event year 2019 in the HGB accounts. So far, payments for emissions cases have totaled €20,397 thousand in Germany since this issue arose in 2015.

### Company changes

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

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

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

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

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

### Other events

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

## A.2 Underwriting Performance

### A.2.1 Underwriting performance – overview

In the year under review, ARAG SE generated **income from gross premiums written** of €977,678 thousand (2018: €915,988 thousand). This increase was attributable to a rise in premiums in direct business in Germany (5.9 percent) and to strong growth in the international markets, such as Spain (7.7 percent), Italy (8.8 percent), and the Netherlands (8.2 percent).

**Claims incurred (gross)** rose from €471,873 thousand to €507,077 thousand. The claim settlement costs included in this figure amounted to €146,960 thousand (2018: €124,651 thousand). A share of the claims amounting to €407 thousand (2018: minus €1,113 thousand) was ceded to reinsurers in 2019. As in the previous year, the expenses for claims incurred were largely attributable to accumulation losses involving a high volume of payments. The claims ratio (net) based on the recognized claims incurred went up slightly overall, from 51.6 percent to 51.9 percent. This increase arose in connection with provision for accumulation risk in Germany for 2020.

The **change in other technical provisions (net)** amounted to an expense of €497 thousand (2018: expense of €1,450 thousand). This year-on-year change mainly consisted of an amount of €987 thousand representing the reduction in the share of profits granted to policyholders and agents in the indirect insurance business in the UK.

No **miscellaneous underwriting expenses (net) or other miscellaneous items** were incurred in 2019 or 2018.

**Insurance business operating expenses (gross)** went up year on year, from €401,876 thousand to €426,770 thousand. The acquisition costs included in this figure amounted to €113,470 thousand (2018: €110,763 thousand). At 43.7 percent, the cost ratio was down slightly year on year (2018: 43.9 percent). One of the main reasons for this was that pension and other post-employment benefit expenses were much lower in the reporting year following the switch to new mortality tables in Germany in 2018. Administrative expenses went up by 7.6 percent to €313,300 thousand (2018: €291,113 thousand). This increase was primarily due to the growth of pension and other post-employment benefit expenses.

The **underwriting result** in accordance with HGB net of reinsurance in 2019 amounted to €33,071 thousand (2018: €35,470 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 €34,670 thousand (2018: €31,845 thousand).

The following table shows this underwriting result with a reconciliation to the underwriting result in accordance with HGB, as published in the Company's 2019 Annual Report.

### Underwriting result (net)

(€'000)	2019	2018
Net premiums earned	976,582	915,213
Claims incurred (net, excluding claim settlement costs)	360,117	347,222
Changes in other technical provisions (net)	-497	-1,450
Expenses incurred (net)	581,298	534,696
<b>Underwriting result in accordance with template S.05.01.02</b>	<b>34,670</b>	<b>31,845</b>
Miscellaneous underwriting income	1,891	1,704
Expenses for investment management	-7,568	-8,169
<b>Underwriting result in accordance with HGB*</b>	<b>44,129</b>	<b>41,718</b>
Change in the equalization provision and similar provisions	-11,058	-6,248
<b>Underwriting result in accordance with HGB</b>	<b>33,071</b>	<b>35,470</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 €1,891 thousand (2018: €1,704 thousand) largely comprised income from realized interest and costs in connection with court proceedings to recover debts.

No miscellaneous underwriting expenses (net) or other miscellaneous items were incurred in 2019 or 2018.

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

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

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

(€'000)	Net premiums earned	Claims incurred (net, excluding claim settlement costs)	Changes in other technical provisions (net)	Expenses incurred and other expenses (net)	Underwriting result	Underwriting result
					2019	2018
Legal insurance	907,409	328,322	-497	547,780	30,810	29,765
Travel insurance	59,591	31,273	0	28,183	135	-616
Miscellaneous insurance	9,582	521	0	5,335	3,725	2,696
<b>Total</b>	<b>976,582</b>	<b>360,117</b>	<b>-497</b>	<b>581,299</b>	<b>34,670</b>	<b>31,845</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
					2019	2018
Germany	413,766	250,912	-368	194,560	-32,074	-12,786
Netherlands	173,440	-3,211	0	157,704	18,948	13,458
Spain	145,454	59,657	0	76,196	9,601	5,898
Italy	140,265	24,891	0	99,245	16,129	5,431
Austria	68,696	16,154	-129	31,906	20,507	18,041
Other areas	34,960	11,713	0	21,687	1,559	1,803
<b>Total</b>	<b>976,582</b>	<b>360,117</b>	<b>-497</b>	<b>581,299</b>	<b>34,670</b>	<b>31,845</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 increased significantly from a net gain of €51,776 thousand to a net gain of €78,951 thousand. The total income from investments was €100,801 thousand (2018: €86,402 thousand). As budgeted, there was a sharp one-off fall in current income from other investments owing to the restructuring of institutional funds. The strong business performance of the US subsidiaries, however, resulted in a significant increase in income from equity investments. Moreover, rising market prices for securities led to substantial reversals of write-downs totaling €18,258 thousand, whereas prices in 2018 had meant write-downs were recognized on securities in an amount of €24,382 thousand. Restructuring of the securities portfolio resulted in gains on disposal of €14,340 thousand (2018: €2,571 thousand). Total expenses amounted to €21,850 thousand (2018: €34,627 thousand).

The net gains\* on investments of €78,951 thousand described above equated to a net yield\*\* on investments of 4.0 percent (2018: 2.7 percent). The current average yield\*\*\* on investments was 3.7 percent (2018: 3.8 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 2019	Gains and losses on investments in 2018
Property, plant & equipment held for own use	2,854	0	0	0	1,117	0	1,737	2,247
Property (other than for own use)	1,729	0	0	0	1,060	1,055	-14	3,412
Holdings in related undertakings, including participations	39,245	3,485	0	0	11,251	0	30,424	38,067
Equities – listed	95	0	0	5	0	0	99	-20
Equities – unlisted	0	0	0	0	0	0	0	0
Government bonds	4,179	50	177	406	130	0	4,328	4,320
Corporate bonds	8,781	341	107	2,212	409	0	10,819	8,139
Structured notes	0	0	0	0	0	0	0	0
Collateralized securities	1,769	2	14	26	17	0	1,766	1,800
Collective investment undertakings	8,737	10,462	0	15,610	0	0	34,809	1,128
Derivatives	0	0	0	0	0	0	0	0
Deposits other than cash equivalents	15	0	0	0	0	280	-265	2
Other investments	626	0	0	0	0	0	626	673
Deposits to cedants	172	0	0	0	0	0	172	177
Cash and cash equivalents	0	0	0	0	0	0	0	0
Current expense (unallocated)/loss transfers	0	0	0	0	0	5,549	-5,549	-8,169
<b>Total</b>	<b>68,203</b>	<b>14,340</b>	<b>298</b>	<b>18,258</b>	<b>13,984</b>	<b>7,568</b>	<b>78,951</b>	<b>51,776</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 2019 Annual Report.

### Information on securitization instruments

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

From a Solvency II perspective, the Company held asset-backed securities and mortgage-backed securities with a value of €1,980 thousand as of the reporting date (December 31, 2018: €9,682 thousand).

## A.4 Performance of Other Activities

Other net income/expense includes staff costs and general and administrative expenses that were not allocated to an insurance or investment-related function in accordance with function-based accounting. These are expenses that are incurred on behalf of the Company as a whole (e.g. remuneration for members of supervisory bodies, the auditor's fees, general costs for legal advice and tax advice, and the expense for provisions for pensions and other post-employment benefits) 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)	2019	2018	Change
Income from insurance brokerage	48,419	46,874	1,545
Income from services	41,884	39,159	2,725
Income from the reversal of provisions	4,704	4,023	681
Income from sub-letting of premises	2,630	2,525	105
Sundry income	5,927	7,330	-1,403
<b>Total</b>	<b>103,564</b>	<b>99,911</b>	<b>3,653</b>
<b>Other expenses</b>			
(€'000)	2019	2018	Change
Expenses for services	93,513	90,036	3,477
Expenses incurred on behalf of the Company as a whole	28,247	30,078	-1,831
Interest expense and similar charges (interest cost from unwinding of discounts, interest on taxes)	6,290	6,444	-154
Sundry expenses	13,286	8,426	4,860
<b>Total</b>	<b>141,336</b>	<b>134,984</b>	<b>6,352</b>
<b>Total other net income/expense</b>	<b>-37,771</b>	<b>-35,073</b>	<b>-2,698</b>

**Tax income/expense**

The tax expense amounted to €21,229 thousand in 2019 (2018: €20,066 thousand).

**Information on leases**

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

**A.5 Any Other Information**

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

## B. System of Governance

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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

There were changes to the Management Board during the reporting period. These are described in chapter A.1.4. As of December 31, 2019, 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: Investments/Corporate Development/Organization
- Dr. Matthias Maslaton: Sales, Products and Innovation
- Wolfgang Mathmann: Group Finance (since April 15, 2019)
- Hanno Petersen: Group IT and Operations
- Dr. Joerg Schwarze: Group Risk Management and Group Controlling

A groupwide body, the Group Executive Committee (GEC), has also been established. It 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.

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

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

### **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. Furthermore, it monitors the awarding of contracts for non-audit services to the Company's current auditor and to firms that might potentially become the Company's auditor in the future. It is also responsible for the invitation to tender and short-listing for the appointment by the full Supervisory Board of a new auditor.

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

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

### **Compliance**

The tasks of the compliance function are performed by the Group Legal/Compliance Central Department. The main duty of the function is to create the framework for compliance with the obligation to operate within the law, for example by issuing policies and guidelines, in order to ensure legal requirements are fulfilled and corporate objectives are achieved. Responsibility for implementing the guidelines and policies lies with the manager of each individual department. The Chief Compliance Officer advises the Management Board on the risk resulting from changes to the law and submits regular reports on their work to the Management Board.

### **Internal audit**

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

### Actuarial function

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

### 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 postholders concerned is set at an appropriate level to ensure that they are not substantially dependent on the variable remuneration components. Once again, the variable remuneration must encourage good performance but not create such a significant incentive that it could encourage actions counter to the interests of the Company.

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

Variable remuneration granted to individuals responsible internally for key functions ranges from 10.0 percent to 35.0 percent of their basic salary, depending on the postholder concerned. As part of the Company's obligation to work toward compliance, the deferred payment of 40.0 percent of variable remuneration has already been agreed for postholders with total variable remuneration equating to 35.0 percent of their basic salary. To date, no arrangement has been made with any of the remaining postholders for a partial deferral of payments.

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

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

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

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

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

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

### **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**

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

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

## B.2 Fit and Proper Requirements

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

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

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

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

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

The aforementioned qualifications apply analogously to the CEOs of the Company's various branches in the EEA. However, 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, their personal circumstances justify the assumption that these circumstances might negatively affect the careful and proper performance of their role or of the tasks assigned to them. The factors considered are personal behavior and business conduct with regard to criminal-law, financial, property-law, and regulatory aspects. The laws of both Germany and other jurisdictions apply.

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

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

### **Supervisory Board members**

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

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

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

### **Key functions**

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

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

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

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

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

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

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

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

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

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

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

### **Cause for reassessment**

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

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

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

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

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

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

#### **Risk strategy**

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

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

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

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

expresses the maximum extent to which the Company is prepared to take on risk to achieve the objectives specified in the business strategy. As a matter of business policy, the Management Board has set a minimum coverage ratio of 150.0 percent based on ARAG SE's conservative approach to risk and solvency. The Company therefore aims to maintain a risk buffer that is significantly higher than the regulatory requirement at all times.

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

### **Risk management function**

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

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, and local and central risk controllers and managers, are clearly defined and documented in the Company'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 that is calculated for all quantified downside risk. The purpose is to ensure that unexpected losses are covered. A partial internal model is used to calculate the solvency capital requirement. The model shows the loss occurring within a specific holding period (one year) and with a specified level of probability (99.5 percent). This loss could arise, in particular, as a result of unfavorable movements affecting investments or as a result of unexpected developments in the insurance business. The methodology is regularly reviewed using suitable validation tests. Potential material risks that do not form part of the solvency capital requirement are measured as part of the ORSA process.

### **Risk management**

The 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.

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

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

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

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

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

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

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

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

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

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

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

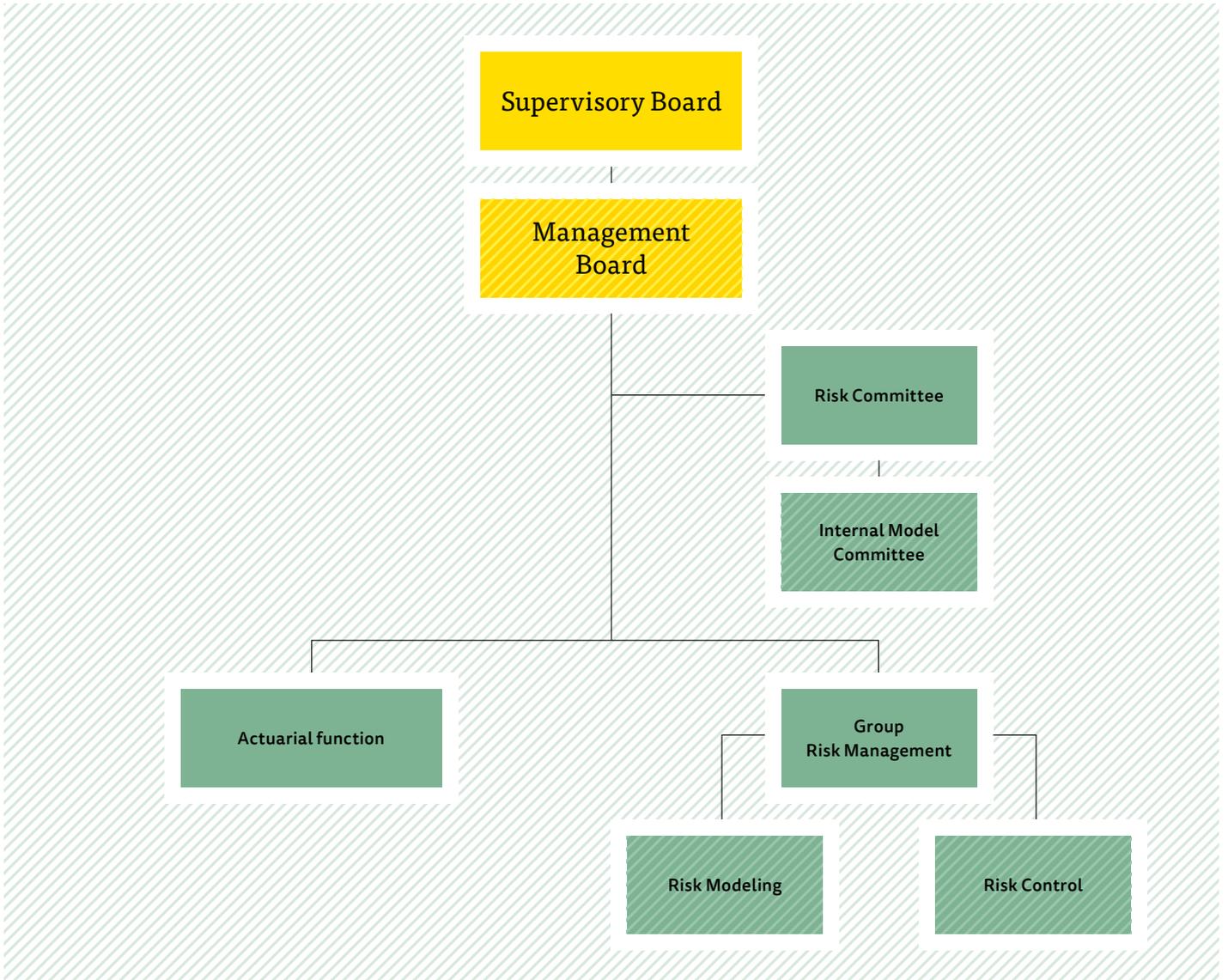
A regular validation process ensures that ARAG SE's partial internal model is always effective and its specifications are appropriate. Responsibility for validating the model lies with the actuarial function. By assigning the task of model validation to this department, ARAG SE ensures the necessary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

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

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

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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:

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

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

#### Organizational structure of the ICS

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

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

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

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

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

### Operational structure of the ICS

As part of the ICS's operational structure, the processes relevant to the ICS are documented using a process and control system. 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, this role is directly and exclusively accountable to the CEO of ARAG SE.

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

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

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

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

## B.5 Internal Audit Function

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

## B.7 Outsourcing

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

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 their monitoring role. This applies regardless of whether the service provider is an external company or a Group company. Where outsourcing within the Group takes place, no less care is taken in respect of the outsourced projects and their monitoring and control, for example by the service provider’s dedicated points of contact. Outsourcing within the Group may justify a

more flexible approach in individual cases if this involves fewer risks than with outsourcing to an external company. Nevertheless, it is still essential that service activities in the individual Group companies are adequately separated from an organizational perspective. In general, 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 2019 in respect of important functions or insurance activities.

## B.8 Any Other Information

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

## C. Risk Profile

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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 and are classified as material. The overall solvency capital requirement is determined from the solvency capital requirement calculated in the partial internal model and any additional capital requirement arising from the ORSA process.

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

## C.1 Underwriting Risk

### Risk exposure

Underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities. It can arise from pricing that is subsequently found to be inadequate or from provisioning assumptions that require adjustment. These losses result from the following risk categories:

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

The solvency capital requirement for underwriting risk went down from €149,669 thousand as of December 31, 2018 to €135,767 thousand as of December 31, 2019, a fall of €13,903 thousand or 9.3 percent. The biggest sub-risks were premium/reserve risk and accumulation risk.

### Risk measurement

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

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

### Risk concentration

The Company focuses on small-scale insurance business for private customers and small businesses. It has a sufficiently large portfolio of products and does not underwrite serious or industry risks. This should avoid concentrations of risk. In individual cases, unfavorable timing in the occurrence of claims could lead to a concentration of catastrophe risk or accumulation risk. 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 reduce risk, the Company uses reinsurance in legal insurance segments with a particularly high exposure. The outward reinsurance program consists of non-proportional mandatory and facultative reinsurance. Inward reinsurance is only used on a proportional basis in the form of quota-share reinsurance.

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 2020 increased by a maximum of €14,000 thousand in these scenarios. ARAG SE's budgeted coverage ratio for 2020 fell by a maximum of 36.0 percentage points to 279.0 percent, which would still represent a significant risk buffer for customers.

## **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 (attaching to investments): changes resulting from investments in default (default risk), changes in the level or volatility of credit spreads over the risk-free interest-rate term structure (spread risk), and changes resulting from the migration of investments to different credit ratings (migration risk)
- Currency risk: changes in the level or volatility of exchange rates

The solvency capital requirement for market risk went up from €328,401 thousand as of December 31, 2018 to €424,558 thousand as of December 31, 2019, an increase of €96,157 thousand or 29.3 percent. This change was primarily driven by the growth of equity risk, equity investment risk, and spread risk as a result of larger exposures. The rise in spread risk was also attributable to the use of updated parameters for risk modeling. The biggest sub-risks were equity risk, equity investment risk, and credit risk attaching to investments.

**Risk measurement**

Risks are measured with an internal model. An economic scenario generator is used to simulate capital market scenarios looking at 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.

**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 market risk limits are taken into account when determining the strategic asset allocation each year. Adherence to the limits is reviewed every quarter. A focus on a target portfolio that is steady over a number of years and an annual review of the asset/liability management (ALM) situation also ensure that these risk mitigation measures remain effective over the long term.

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

**Risk sensitivity**

In the year under review, analyses were carried out for further risk scenarios as part of the ORSA process. The financial crisis scenario examines the impact of a repetition of the unprecedented events that took place in the capital markets in 2008 on today's own funds. It results in a loss of own funds of €333,000 thousand. The loss in this scenario is slightly lower than the occurrence of the 1 in 200 year event and roughly equates to the 99.1 percent quantile. The recession scenario examines the impact of an economic downturn based on economic performance from 2002 onward. It results in a loss of own funds of €114,000 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 of counterparties and debtors during the next twelve months.

The solvency capital requirement for credit risk went up from €18,537 thousand as of December 31, 2018 to €20,216 thousand as of December 31, 2019, an increase of €1,678 thousand or 9.1 percent.

### Risk measurement

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

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

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

### Risk concentration

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

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 was prepared as part of asset/liability management.

### Risk sensitivity

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

### Profits contained in future premiums

The expected profits included in future premiums represent a very illiquid component of basic own funds. These profits are therefore associated with a potential liquidity risk. Even if the expected profits contained in future premiums are not factored into basic own funds, the resulting liquidity risk is still classified as very low because of the significant excess cover. The expected profits included in future premiums amount to €111,675 thousand.

## C.5 Operational Risk

### Risk exposure

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

The solvency capital requirement for operational risk went up from €28,798 thousand as of December 31, 2018 to €29,598 thousand as of December 31, 2019, an increase of €799 thousand or 2.8 percent.

### Risk measurement

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

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

**Risk concentration**

The 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 possible strategies for dealing with a risk include:

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

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

**Risk sensitivity**

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

## C.6 Other Material Risks

Strategic 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

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

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

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Assets	3,217,730	2,292,869	924,861	2,796,951	420,780
Technical provisions	1,013,720	1,414,833	-401,113	989,878	23,843
Other liabilities	793,287	395,186	398,101	623,872	169,415
<b>Excess of assets over liabilities**</b>	<b>1,410,723</b>	<b>482,850</b>	<b>927,873</b>	<b>1,183,201</b>	<b>227,522</b>

In the reporting period, there were no changes in the valuation bases (including any estimates) described below that are used for the Solvency II balance sheet in respect of assets, technical provisions, and other liabilities, apart from the following exceptions. In 2019, International Financial Reporting Standard (IFRS) 16 was adopted for the first time in connection with leasing arrangements. As a result, property, plant & equipment held for own use (D.1.6) increased by €88,911 thousand; financial liabilities other than debts owed to credit institutions (D.3.8) increased by the same amount. In the reporting year, there was also a change in the method used to generate the IAS 19 curve for discounting pension benefit obligations, long-service obligations, and pre-retirement part-time employment obligations. This caused an increase of €4,487 thousand in the amount to be recognized (D.3.2 and D.3.3). All quantitative disclosures relate to the figures in the quantitative reporting formats set out in the Appendix.

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

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

## D.1 Assets

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

#### Assets as of December 31, 2019

(€'000)

<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, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	0	0	0	0	0
	0	0	0	0	0
	0	5,073	-5,073	0	0
	121,134	0	121,134	94,288	26,846
	0	0	0	0	0
	141,137	42,919	98,218	52,384	88,753
	28,831	21,323	7,508	31,555	-2,724
	958,665	345,685	612,980	828,212	130,453
	200	200	0	196	5
	762	719	42	762	0
	962	920	42	958	5
	292,441	271,401	21,040	259,635	32,806
	638,657	606,837	31,820	601,669	36,987
	5,420	4,262	1,158	4,589	832
	0	0	0	1,042	-1,042
	936,517	882,500	54,018	866,934	69,583
	695,920	663,067	32,853	595,723	100,196
	0	0	0	0	0
	27,469	27,469	0	27,169	300
	6,116	2,771	3,345	6,171	-55
	2,654,481	1,943,735	710,746	2,356,722	297,758
	2,916,752	1,991,727	925,025	2,503,394	413,358

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

### Assets as of December 31, 2019

(€'000)

Brought forward:

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

##### Loans and mortgages

Loans on policies  
Loans and mortgages to individuals  
Other loans and mortgages

##### Reinsurance recoverables from:

Non-life and health similar to non-life  
Non-life excluding health  
Health similar to non-life

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

Life index-linked and unit-linked

##### Receivables

Deposits to cedants  
Insurance and intermediaries receivables  
Reinsurance receivables  
Receivables (trade, not insurance)

##### Other assets

Own shares (held directly)  
Amounts due in respect of own fund items or initial fund called up but not yet paid in  
Cash and cash equivalents  
Any other assets, not elsewhere shown

##### Total assets

	Solvency II as of Dec. 31, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	2,916,752	1,991,727	925,025	2,503,394	413,358
	0	0	0	0	0
	0	0	0	0	0
	97	97	0	108	-10
	4,115	4,115	0	10,180	-6,065
	<b>4,212</b>	<b>4,212</b>	<b>0</b>	<b>10,288</b>	<b>-6,075</b>
	575	739	-164	197	377
	0	0	0	0	0
	<b>575</b>	<b>739</b>	<b>-164</b>	<b>197</b>	<b>377</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>575</b>	<b>739</b>	<b>-164</b>	<b>197</b>	<b>377</b>
	60,678	60,678	0	55,935	4,743
	55,146	55,146	0	48,557	6,589
	50,332	50,332	0	44,875	5,457
	38,686	38,686	0	38,626	60
	<b>204,842</b>	<b>204,842</b>	<b>0</b>	<b>187,994</b>	<b>16,848</b>
	0	0	0	0	0
	0	0	0	0	0
	85,167	85,167	0	91,639	-6,472
	6,182	6,182	0	3,438	2,744
	<b>91,349</b>	<b>91,349</b>	<b>0</b>	<b>95,077</b>	<b>-3,728</b>
	<b>3,217,730</b>	<b>2,292,869</b>	<b>924,861</b>	<b>2,796,951</b>	<b>420,780</b>

### D.1.1 Goodwill

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

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

### D.1.2 Deferred acquisition costs

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

### D.1.3 Intangible assets

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>0</b>	<b>5,073</b>	<b>-5,073</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 at the applicable rate of amortization on a straight-line basis. As of December 31, 2019, their carrying amount was €5,073 thousand.

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

Due to intangible assets not being included for solvency purposes, the Solvency II valuation was €5,073 thousand lower than the carrying amount on the HGB balance sheet.

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

### D.1.4 Deferred tax assets

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>121,134</b>	<b>0</b>	<b>121,134</b>	<b>94,288</b>	<b>26,846</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. Deferred tax assets and liabilities are not shown on a net basis. A simplified tax planning process on the basis of the multi-year planning is used for the evaluation. Loss carryforwards are not included when determining deferred taxes. Future tax expense resulting from the reversal effects is always recognized.

If applicable, deferred taxes from tax group subsidiaries (companies controlled by the parent company and/or with which a profit-and-loss transfer agreement has been concluded) are recognized by the parent company because the income of the tax group is aggregated for tax purposes and taxed overall at the level of the parent company. Deferred tax assets are not discounted. Deferred tax assets of €45,360 thousand were transferred from subsidiaries (2018: €42,983 thousand).

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

The calculation of deferred taxes takes into account applicable tax legislation and tax rates in those countries in which 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	24.0 percent
• Italy Branch	30.8 percent
• Netherlands Branch	21.7 percent
• Portugal Branch	22.5 percent
• Slovenia Branch	19.0 percent
• Spain Branch	25.0 percent
• UK Branch	19.0 percent

The main components of the total deferred tax assets of €121,134 thousand were as follows: €45,360 thousand arising from the tax group formed with ARAG Allgemeine and Interlloyd, €39,417 thousand from defined benefit obligations that had to be valued at a higher level under regulatory requirements, €33,082 thousand from miscellaneous tax assets that are primarily attributable to the corresponding liabilities in connection with the recognition of significant leases under IFRS 16 as land on the Solvency II balance sheet.

Under IFRS 16, leased assets and property have to be recognized on the balance sheet as the lessee's own assets if they are material to business. Of the total year-on-year growth of deferred tax assets of €26,846 thousand, an increase of €27,793 thousand was attributable to the first-time adoption of IFRS 16. Furthermore, deferred tax assets relating to pension benefit obligations rose by €8,281 thousand, whereas deferred tax assets relating to investments fell by €8,517 thousand.

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, no pension benefit surpluses were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

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

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>141,137</b>	<b>42,919</b>	<b>98,218</b>	<b>52,384</b>	<b>88,753</b>

**Real estate (property) held for own use** is valued at cost less depreciation under HGB. If its value is permanently impaired, it is written down to the lower of fair value or depreciated cost. If the reason for the impairment later ceases to apply, the write-down is reversed to the depreciated value of the asset. Land and buildings are categorized as being held for own use or rented out to third parties according to actual usage. For this purpose, a uniform carrying amount is classified according to primary usage. Fair values are used for Solvency II purposes. The value of the land is based on the prevailing standard land values. The value of the buildings is calculated using the income capitalization approach. Under IFRS, which has to be applied for the Solvency II balance sheet, land must be assigned to working capital in accordance with the principle of substance over form. Formal ownership is irrelevant in this context. A right-of-use asset therefore has to be recognized on the Solvency II balance sheet for leased property that is material to business. This asset is recognized in full as property held for own use on the Solvency II balance sheet. As of December 31, 2019, the right-of-use assets totaled €88,911 thousand.

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

Of the year-on-year rise of €88,753 thousand, €88,911 thousand was therefore attributable to the first-time adoption of IFRS 16.

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

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

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>28,831</b>	<b>21,323</b>	<b>7,508</b>	<b>31,555</b>	<b>-2,724</b>

Under HGB, property, i.e. real estate, (other than for own use), is valued at cost less straight-line depreciation. Depreciation is recognized at the rates permitted for tax purposes. If the value of property (other than for own use) is permanently impaired, it is written down to the lower of fair value or depreciated cost. If the reason for the impairment ceases to apply, the write-down is reversed to the depreciated value of the asset. As of the reporting date, the Company held land and buildings assets on its HGB balance sheet with a carrying amount of €21,323 thousand.

Fair values are used for Solvency II purposes. The value of the land is based on the prevailing standard land values. The value of the buildings is calculated using the income capitalization approach. This method discounts the expected future rental income less the likely management costs to the balance sheet date. The overall value of €28,831 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 €7,508 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 €2,724 thousand as of the reporting date was attributable, in particular, to the drop in the fair values of various items of real estate, especially in Spain and Austria.

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

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

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>958,665</b>	<b>345,685</b>	<b>612,980</b>	<b>828,212</b>	<b>130,453</b>

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

The fair value is 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, 2019 are listed in chapter A.1.2. They primarily comprise the equity investments in ARAG Krankenversicherungs-AG (ARAG Health), Munich, with a carrying amount of €67,946 thousand (December 31, 2018: €67,946 thousand), ARAG Allgemeine Versicherungs-AG (ARAG Allgemeine), Düsseldorf, with a carrying amount of €73,264 thousand (December 31, 2018: €73,264 thousand), ARAG International Holding GmbH, Düsseldorf, with a carrying amount of €56,059 thousand (December 31, 2018: €56,059 thousand), ARAG Scandinavia AS, Oslo, Norway, with a carrying amount of €30,339 thousand (December 31, 2018: €30,339 thousand), and ALIN 1 GmbH & Co. KG, Düsseldorf, with a carrying amount of €40,621 thousand (December 31, 2018: €29,243 thousand).

Under HGB, write-downs of €11,189 thousand to cover expected permanent impairment were necessary in respect of 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 IFRS.

The carrying amount at cost on the HGB balance sheet was €612,980 thousand lower than the fair value on the Solvency II balance sheet because of the different valuation methods described above.

The €130,453 thousand increase in the Solvency II carrying amount compared with December 31, 2018 was due, above all, to the year-on-year rises in the value of the equity investments in ARAG Krankenversicherungs-AG (rise in value: 16.4 percent), ARAG Allgemeine Versicherungs-AG (rise in value: 20.5 percent), ARAG International Holding GmbH (rise in value: 15.3 percent), and ALIN 1 GmbH & Co. KG (rise in value: 5.4 percent).

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

### D.1.9. Equities

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Equities – listed	200	200	0	196	5
Equities – unlisted	762	719	42	762	0
<b>Total</b>	<b>962</b>	<b>920</b>	<b>42</b>	<b>958</b>	<b>5</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 fair value of private equity and infrastructure investments is determined by the net asset value (NAV) published by the investment management company. No write-downs were recognized in 2019. However, reversals of write-downs were recognized in an amount of €5 thousand in 2019.

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. The differences in the valuation rules resulted in a valuation difference of €42 thousand for unlisted equities as of December 31, 2019. The increase of €5 thousand in the latest Solvency II value compared with the equivalent value as of December 31, 2018 was entirely attributable to changes in the value of the equities. There were no changes to the holdings of equities in 2019.

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

## D.1.10 Bonds

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Government bonds	292,441	271,401	21,040	259,635	32,806
Corporate bonds	638,657	606,837	31,820	601,669	36,987
Structured notes	5,420	4,262	1,158	4,589	832
Collateralized securities	0	0	0	1,042	-1,042
<b>Total</b>	<b>936,517</b>	<b>882,500</b>	<b>54,018</b>	<b>866,934</b>	<b>69,583</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 €54,018 thousand (December 31, 2018: €23,892 thousand) that have not yet been realized. The year-on-year increase in the Solvency II carrying amount of €69,583 thousand was mainly attributable to the expansion of the portfolio of government and corporate bonds. This growth was underpinned by price rises in the categories shown, particularly corporate bonds.

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

### D.1.11 Collective investment undertakings

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Equities	210,476	194,541	15,935	159,979	50,497
Bonds	462,806	446,212	16,594	399,386	63,420
Other	22,638	22,313	325	36,358	-13,720
<b>Total</b>	<b>695,920</b>	<b>663,067</b>	<b>32,853</b>	<b>595,723</b>	<b>100,196</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 €663,067 thousand. Institutional funds that have been classified for permanent use in business operations are valued with the application of the discretionary principle of lower of cost or market value. Reversals of write-downs were recognized in an amount of €15,610 thousand in 2019 (2018: €0 thousand).

For solvency purposes, the redemption price determined by the investment management company for the investment fund units/shares is used to determine the economic value. This value is not restricted to the cost. In accordance with the Delegated Regulation, collective investment undertakings in which the stake held is at least 20.0 percent are reported under collective investment undertakings and not under holdings in related undertakings, including participations. As of December 31, 2019, the Solvency II carrying amount for collective investment undertakings was €695,920 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 €32,853 thousand higher as of December 31, 2019. The year-on-year increase of €100,196 thousand was mainly attributable to rises in the market prices of bonds and equities.

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

### D.1.12 Derivatives

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

### D.1.13 Deposits other than cash equivalents

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>27,469</b>	<b>27,469</b>	<b>0</b>	<b>27,169</b>	<b>300</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 went up by €300 thousand year on year, which was entirely attributable to portfolio expansion.

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

### D.1.14 Other investments

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>6,116</b>	<b>2,771</b>	<b>3,345</b>	<b>6,171</b>	<b>-55</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 NAV published by the investment management company. However, no write-downs were recognized in 2019. No reversals of write-downs were required in the year under review either.

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

As a result of unrealized valuation reserves, the value for solvency purposes as of December 31, 2019 was €3,345 thousand higher than the HGB value. The year-on-year decrease in the Solvency II carrying amount of €55 thousand was attributable to the €422 thousand contraction of the portfolio of private equity and infrastructure investments and the €367 thousand increase in the portfolio's value.

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

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

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

### D.1.16 Loans and mortgages

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Loans on policies	0	0	0	0	0
Loans and mortgages to individuals	97	97	0	108	-10
Other loans and mortgages	4,115	4,115	0	10,180	-6,065
<b>Total</b>	<b>4,212</b>	<b>4,212</b>	<b>0</b>	<b>10,288</b>	<b>-6,075</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 2018. Instead, HGB carrying amounts were also used for Solvency II purposes.

The year-on-year decrease in the Solvency II carrying amount of €6,075 thousand was mainly attributable to the repayment of a loan.

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

### D.1.17 Reinsurance recoverables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Non-life and health similar to non-life	575	739	-164	197	377
<b>Total</b>	<b>575</b>	<b>739</b>	<b>-164</b>	<b>197</b>	<b>377</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, 2019 was €164 thousand lower than the HGB carrying amount. The year-on-year increase in the Solvency II carrying amount of €377 thousand was attributable to ongoing business operations.

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

### D.1.18 Receivables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Deposits to cedants	60,678	60,678	0	55,935	4,743
Insurance and intermediaries receivables	55,146	55,146	0	48,557	6,589
Reinsurance receivables	50,332	50,332	0	44,875	5,457
Receivables (trade, not insurance)	38,686	38,686	0	38,626	60
<b>Total</b>	<b>204,842</b>	<b>204,842</b>	<b>0</b>	<b>187,994</b>	<b>16,848</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 rise in the Solvency II carrying amount of €4,743 thousand was mainly due to the greater volume of inward reinsurance business in the branches in Italy and Spain.

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

**Insurance\* and intermediaries receivables** are generally recognized at their nominal amount (€55,146 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.

There is no active market for insurance and intermediaries receivables, so the nominal amount of the receivables is also used as the Solvency II carrying amount because of the short-term nature of the asset (due within twelve months) and materiality reasons. Due to this use of the nominal amount (€55,146 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 €6,589 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.

**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 generally recognized as the economic value. Due to use of the nominal amounts as the economic value, there are no valuation differences. The year-on-year rise in the Solvency II carrying amount of €5,457 thousand was mainly due to the cash flows in inward reinsurance business during the fourth quarter of 2019 and the associated reinsurance settlement balances at the headquarters in Germany and at the branches in Spain, Italy, and the Netherlands.

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

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

**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. Receivables (trade, not insurance) amounted to €38,686 thousand and predominantly consisted of receivables from affiliated companies (€13,569 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 were mostly classified as current (due within twelve months).

Due to use of the nominal amounts as the economic value, there were no valuation differences. The year-on-year increase in the Solvency II carrying amount of €60 thousand was largely attributable to ongoing business operations.

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

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

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

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

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

### D.1.21 Cash and cash equivalents

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	85,167	85,167	0	91,639	-6,472

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 decrease in the Solvency II carrying amount of €6,472 thousand was entirely attributable to the fall in the volume for this item in the reporting year and as of the balance sheet date.

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

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

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	6,182	6,182	0	3,438	2,744

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 €2,744 thousand was attributable to inventory differences compared with the end of 2018.

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

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

## D.2 Technical Provisions

### Comparison between the Solvency II balance sheet and HGB balance sheet: Technical provisions

#### Technical provisions as of December 31, 2019

(€'000)

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

	Solvency II as of Dec. 31, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	0	1,378,097	-1,378,097	0	0
	986,585	0	986,585	959,940	26,645
	27,135	0	27,135	29,938	-2,803
	<b>1,013,720</b>	<b>1,378,097</b>	<b>-364,377</b>	<b>989,878</b>	<b>23,843</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>1,013,720</b>	<b>1,378,097</b>	<b>-364,377</b>	<b>989,878</b>	<b>23,843</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>
	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>1,013,720</b>	<b>1,378,097</b>	<b>-364,377</b>	<b>989,878</b>	<b>23,843</b>
	<b>0</b>	<b>36,735</b>	<b>-36,735</b>	<b>0</b>	<b>0</b>
	<b>1,013,720</b>	<b>1,414,833</b>	<b>-401,113</b>	<b>989,878</b>	<b>23,843</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 €1,414,094 thousand. In addition to unearned premiums (gross) of €199,775 thousand, the HGB technical provisions included the provision for outstanding claims (gross) of €1,178,322 thousand, the equalization provision of €34,179 thousand, and the miscellaneous technical provisions of €2,557 thousand.

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

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

The provision for outstanding claims in the inward reinsurance business is recognized in accordance with the 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, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
Technical provisions calculated as a whole	0	1,378,097	-1,378,097	0	0
Best estimate	986,585	0	986,585	959,940	26,645
Risk margin	27,135	0	27,135	29,938	-2,803
<b>Total</b>	<b>1,013,720</b>	<b>1,378,097</b>	<b>-364,377</b>	<b>989,878</b>	<b>23,843</b>

The individual components of the technical provisions are:

1. Best estimate
  - a) Claims provision
  - b) Premiums provision
2. Risk margin

1. For non-life insurance, the best estimate comprises two components:

- a) The claims provision is calculated for each homogeneous risk group 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).
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, no technical provisions for health insurance (similar to non-life) were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

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

As of the reporting date, no technical provisions for health insurance (similar to life) were recognized in the Company's financial statements, as was also the case a year earlier. An explanation of the year-on-year change is therefore not provided.

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

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

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

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

## D.2.7 Other technical provisions

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>0</b>	<b>36,735</b>	<b>-36,735</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 (€34,179 thousand). The equalization provision for direct insurance business and inward reinsurance business is recognized as additional actuarial reserves that can be used to offset fluctuations in the course of business.

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

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

As the Solvency II balance sheet is a static overview, no items to smooth out future 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, 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 level of uncertainty in relation to both the premiums provision and the claims provision is quantified individually for each homogeneous risk group. The assumptions made are regularly reviewed, particularly as part of the validation process, and the uncertainty inherent in the technical provisions can therefore be considered manageable from an overall perspective.

No transitional measures have been applied for calculating the technical provisions 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, 2019

(€'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>
<b>Insurance and intermediaries payables</b>
<b>Reinsurance payables</b>
<b>Payables (trade, not insurance)</b>
<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, 2019	HGB as of Dec. 31, 2019	Difference as of Dec. 31, 2019	Solvency II as of Dec. 31, 2018	Solvency II year-on-year change
	0	0	0	0	0
	78,885	76,800	2,085	85,037	-6,152
	253,948	196,968	56,979	227,537	26,410
	165	165	0	370	-205
	251,679	4,474	247,205	188,879	62,800
	0	0	0	0	0
	0	0	0	0	0
	88,911	0	88,911	0	88,911
	37,405	37,405	0	37,440	-35
	2,764	2,764	0	2,580	185
	46,200	46,200	0	48,684	-2,484
	0	0	0	0	0
	32,921	30,000	2,921	32,858	62
	32,921	30,000	2,921	32,858	62
	410	410	0	486	-76
	793,287	395,186	398,101	623,872	169,415

### D.3.1 Contingent liabilities

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

### D.3.2 Provisions other than technical provisions

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>78,885</b>	<b>76,800</b>	<b>2,085</b>	<b>85,037</b>	<b>-6,152</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 (€17,374 thousand), provisions for taxes (€11,786 thousand), outstanding commission payments (€12,742 thousand), purchase invoices not yet received (€6,487 thousand), early retirement and pre-retirement part-time employment obligations (€5,514 thousand), provisions for long-service awards (€3,916 thousand), severance payments\* (Austria and Slovenia; €2,624 thousand), compensation claims for agents leaving the Company (€2,061 thousand), and costs for the financial statements audit and tax audit (€1,918 thousand).

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

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

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

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

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

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

The provisions other than technical provisions are valued on the basis of the best estimate of the expected settlement amount. The residual maturity for all provisions is generally less than one year. On grounds of materiality, they were not discounted.

The economic value of the provisions for long-service awards, early retirement obligations, and pre-retirement part-time employment obligations came to €11,098 thousand. All other items were recognized on the Solvency II balance sheet with their HGB carrying amounts. A valuation difference of €2,085 thousand arose 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 of €6,152 thousand was largely caused by reductions in the individual carrying amounts within this aggregate item. In the reporting year, application of the method used to generate the IAS 19 curve for discounting long-service obligations and pre-retirement part-time employment obligations led to an increase in the amount to be recognized of €12 thousand.

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

### D.3.3 Pension benefit obligations

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>253,948</b>	<b>196,968</b>	<b>56,979</b>	<b>227,537</b>	<b>26,410</b>

The pension benefit obligations are calculated using the PUC method on the basis of the 2018G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. The discount rate used for the HGB valuation was the average interest rate for the past ten years published by the Bundesbank for an assumed residual maturity of 15 years. A discount rate of 2.71 percent was applied for the valuation as of December 31, 2019 (December 31, 2018: 3.21 percent). The following actuarial parameters were used to calculate the obligations: earliest possible age under the German Pension Age Reform Act (RVAGAnpG) of 63 years, annual increase in salaries of 2.5 percent, annual increase in pension benefits of 1.75 percent (for Spain, 2.5 percent). The level of staff turnover taken into account reflects the generally observable age-dependent average for the industry and has only a minor impact on the settlement value.

For the Solvency II balance sheet, pension benefit obligations are valued using the PUC method in accordance with the IAS 19 curve. The term structure used for discounting is determined on the basis of the yields achieved for senior industrial bonds on the balance sheet date. Expected growth in income (2.5 percent), rising pension benefits (1.75 percent), and the Company's projections for staff turnover (1.5 percent) are taken into account. The amount calculated in this way equates to the economic value in accordance with VAG. As of the reporting date, the amount was calculated at €253,948 thousand.

A valuation difference of €56,979 thousand arose as a result of the differing valuation methods, in particular the different discount rates used. The year-on-year increase as of the reporting date of €26,410 thousand was attributable to the regular additions to the pension entitlements and the changes in the discounting of pension benefit obligations. In the reporting year, there was a change in the method used to generate the IAS 19 curve for discounting pension benefit obligations. This caused an increase of €4,475 thousand in the amount to be recognized for pension benefit obligations.

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

### D.3.4 Deposits from reinsurers

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>165</b>	<b>165</b>	<b>0</b>	<b>370</b>	<b>-205</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 decrease in the Solvency II carrying amount of €205 thousand was mainly caused by a contractual adjustment of the deposits from reinsurers at the Spain Branch.

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

### D.3.5 Deferred tax liabilities

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>251,679</b>	<b>4,474</b>	<b>247,205</b>	<b>188,879</b>	<b>62,800</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 €4,474 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.

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

If applicable, deferred taxes from tax group subsidiaries (companies controlled by 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, €84,316 thousand was transferred to the Company from subsidiaries. Deferred tax liabilities are not discounted.

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

### D.3.6 Derivatives

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

### D.3.7 Debts owed to credit institutions

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

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

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>88,911</b>	<b>0</b>	<b>88,911</b>	<b>0</b>	<b>88,911</b>

No financial liabilities other than debts owed to credit institutions were recognized under HGB at ARAG SE. Differences in recognition and valuation between the HGB balance sheet and Solvency II balance sheet therefore arise in connection with the recognition of leasing arrangements on the Solvency II balance sheet in accordance with IFRS 16 (see also D.1.6 'Property, plant & equipment held for own use'). The year-on-year increase in the economic value of €88,911 thousand was entirely due to the first-time recognition of a lease obligation.

### D.3.9 Insurance and intermediaries payables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>37,405</b>	<b>37,405</b>	<b>0</b>	<b>37,440</b>	<b>-35</b>

Insurance and intermediaries payables\* are valued at their nominal amount. As of the reporting date, the breakdown was as follows: insurance payables of €15,162 thousand and intermediaries payables of €22,243 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 decrease in the Solvency II carrying amount was attributable to the settlement of agent accounts in normal business operations at certain intervals and to the payments from policyholders received before they are due, over which ARAG SE has no influence. There were no changes in the stated recognition and valuation methods compared with the previous year.

### D.3.10 Reinsurance payables

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>2,764</b>	<b>2,764</b>	<b>0</b>	<b>2,580</b>	<b>185</b>

Reinsurance payables are recognized at their settlement value. There are no differences (for example, as a result of classification as current liabilities (due within twelve months)) in their recognition and valuation on the HGB and Solvency II balance sheets. The year-on-year rise in the Solvency II carrying amount of €185 thousand was mainly due to the cash flows in inward reinsurance business during the fourth quarter of 2019 and the associated reinsurance settlement balances at the headquarters in Germany and at the branches in Spain, Italy, and the Netherlands. There were no changes in the stated recognition and valuation methods compared with the previous year.

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

### D.3.11 Payables (trade, not insurance)

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>46,200</b>	<b>46,200</b>	<b>0</b>	<b>48,684</b>	<b>-2,484</b>

Payables (trade, not insurance) are recognized at their settlement value. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value. There are no differences in their recognition and valuation on the HGB and Solvency II balance sheets. The year-on-year fall in the economic value of €2,484 thousand was primarily due to the decrease in liabilities to affiliated companies.

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

### D.3.12 Subordinated liabilities

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

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

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

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

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

### D.3.13 Any other liabilities, not elsewhere shown

(€'000)	SII as of Dec. 31, 2019	HGB as of Dec. 31, 2019	SII/HGB difference as of Dec. 31, 2019	SII as of Dec. 31, 2018	SII year- on-year change
<b>Total</b>	<b>410</b>	<b>410</b>	<b>0</b>	<b>486</b>	<b>-76</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 €410 thousand. The year-on-year decrease in the Solvency II carrying amount of €76 thousand was mainly attributable to the normal continuation of business operations because the amount concerned consisted of deferred income in accordance with HGB.

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

## D.4 Alternative Methods for Valuation

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

## D.5 Any Other Information

The Company has not applied any transitional measures for calculating its technical provisions.

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

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

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## E.1 Own Funds

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

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

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

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

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

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

In 2019, the Company did not identify any need to strengthen components of basic own funds within its planning horizon. Accordingly, none of the measures listed above were drawn up or submitted to the decision-making bodies for implementation.

### Components and quality of own funds

As of December 31, 2019, the Company held basic own funds in the form of an excess of assets over liabilities of €1,410,723 thousand (December 31, 2018: €1,183,201 thousand) according to the Solvency II balance sheet. The Company's minimum capital requirement (MCR) as of the reporting date was €179,006 thousand (December 31, 2018: €160,558 thousand) and the solvency capital requirement (SCR) was €434,747 thousand (December 31, 2018: €357,999 thousand).

It also had a subordinated liability of €32,921 thousand classified as own funds (December 31, 2018: €32,858 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 €30,000 thousand will be distributed to shareholders as dividends.

This results in eligible own funds of €1,413,644 thousand, split between the different capital classes as follows: Tier 1 own funds of €1,380,723 thousand (December 31, 2018: €1,163,201 thousand) and Tier 2 own funds of €32,921 thousand (December 31, 2018: €32,858 thousand).

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

<b>Reconciliation of the equity on the HGB balance sheet to eligible own funds</b>		
(€'000)	Dec. 31, 2019	Dec. 31, 2018
<b>Equity as of December 31 on the HGB balance sheet</b>	<b>482,851</b>	<b>451,002</b>
Revaluation of investments with recognition of deferred taxes	740,881	497,047
Revaluation of technical provisions with recognition of deferred taxes	304,943	277,234
Revaluation of pension benefit obligations with recognition of deferred taxes	- 17,562	- 9,428
Revaluation of miscellaneous items with recognition of deferred taxes	- 65,907	- 9,645
Transfer of deferred taxes, particularly arising from the tax group	- 34,482	- 23,009
<b>Excess of assets over liabilities according to the Solvency II balance sheet</b>	<b>1,410,724</b>	<b>1,183,201</b>
Additional basic own funds resulting from subordinated liabilities	32,920	32,858
Dividend distribution (foreseeable dividend)	- 30,000	- 20,000
<b>Total own funds as of December 31 that are eligible to cover the solvency capital requirement</b>	<b>1,413,644</b>	<b>1,196,060</b>

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

#### Information on deferred taxes

Deferred tax assets of €121,134 thousand and deferred tax liabilities of €251,679 thousand were recognized in the table 'Reconciliation of the equity on the HGB balance sheet to eligible own funds'. The calculation of deferred tax assets takes into account applicable tax legislation and tax rates. As on the HGB balance sheet, the current tax rates are used for the calculation, as described in chapter D.1.4 'Deferred taxes'.

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

**Own funds reconciliation reserve**

(€'000)	Total	Tier 1 own funds	Tier 2 own funds	Tier 3 own funds
Share capital	100,000	100,000	0	0
Share premium account related to ordinary share capital	0	0	0	0
Reconciliation reserve	1,280,723	1,280,723	0	0
<b>Basic own funds</b>	<b>1,380,723</b>	<b>1,380,723</b>	<b>0</b>	<b>0</b>
Ancillary own funds (subordinated liabilities)	32,921	0	32,921	0
<b>Own funds as of December 31 that are eligible to cover the solvency capital requirement</b>	<b>1,413,644</b>	<b>1,380,723</b>	<b>32,921</b>	<b>0</b>

The reconciliation reserve amounted to €1,280,723 thousand and predominantly consisted of HGB revenue reserves of €249,200 thousand and valuation differences of €1,031,523 thousand. As of December 31, 2019, the Company's eligible own funds were €217,584 thousand higher than they had been a year earlier. The main reason for this increase was that the assets rose more sharply than the liabilities.

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

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

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

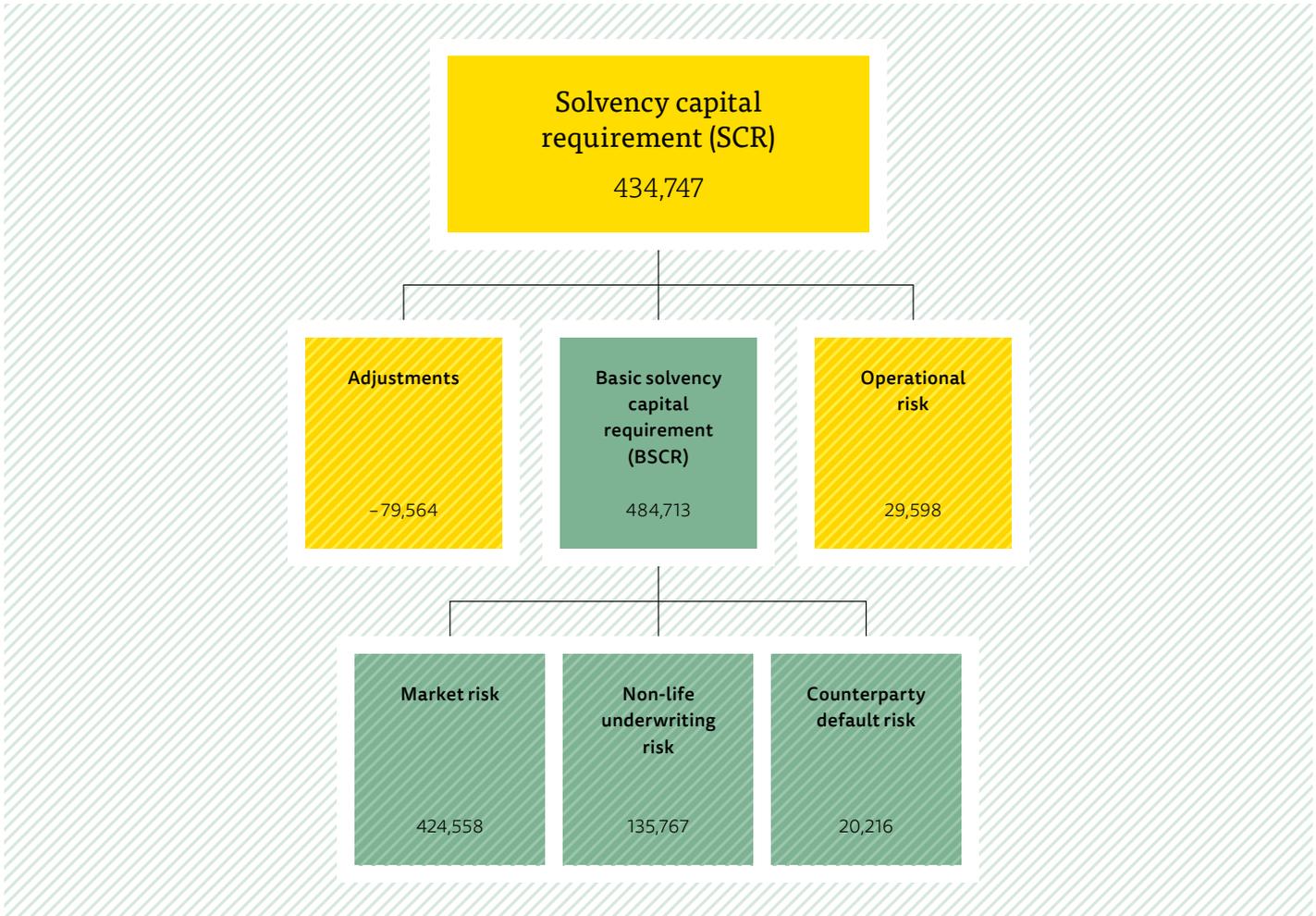
The solvency capital requirement increased by 21.4 percent year on year, from €357,999 thousand to €434,747 thousand. Please refer to chapter C. 'Risk Profile' for further information on the changes in the individual risks. At 325.2 percent, the coverage ratio is significantly higher than the regulatory requirement and, in ARAG SE's view, constitutes a substantial risk buffer for customers. There was a small year-on-year fall in the coverage ratio from 334.1 percent to 325.2 percent.

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, 2019, the minimum capital requirement was €179,006 thousand (December 31, 2018: €161,099 thousand), which equated to 41.2 percent of the solvency capital requirement at that time and resulted in a coverage ratio for the minimum capital requirement of 789.7 percent (December 31, 2018: 742.0 percent). The 11.1 percent increase in the minimum capital requirement was attributable to an increase in premiums earned.

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

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

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

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

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

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

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

The Group's business model 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 and appropriately, 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 represent an important basis 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 (where the risks are covered by the market risk module). The non-life underwriting risk module and the market risk module (including the counterparty default risk arising in connection with securities as part of credit risk) are modeled up to the top module level as a distribution.

### 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 used are generally accepted in financial mathematics. A critical factor in the calculation of risk is the calibration of the underlying risk factors and their dependencies. The calibration is carried out for each calculation reference date using the latest market data. Separate performance indices are calibrated on the basis of current risk calculations for relevant strategic equity investments in insurance companies within the ARAG Group.

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

A critical factor in the calculation of risk is the calibration of the underlying risk factors and their correlations. A copula method is the approach used to aggregate the distributions into an overall risk distribution for underwriting. The correlations applied for this purpose are determined internally, supplemented with input from experts.

In the market risk and non-life underwriting risk modules, stochastic simulations are used to project the Company's own funds one year ahead without taking any tax effects into account. For the market risk and non-life underwriting risk modules, the solvency capital requirement 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 homogeneous risk groups 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 calculated with the standard formula in the counterparty default risk module.

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

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

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

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

Sub-module	Standard formula	Internal model
Interest rate	For each currency area, the risk-free interest-rate term structure is shifted upwards and downwards with maturity-dependent shocks, although negative interest rates are not shifted downwards in the stress test.	A distribution for the underlying interest rate calibrated using current market data is simulated for each currency area and each maturity. Turns and bulges in the risk-free interest-rate term structure are observed in addition to shifts.
Spread	The market values of investments sensitive to spread risk are reduced by a factor dependent on asset class, credit quality level, and maturity.	In the internal model, firstly, a distribution for the underlying spread calibrated using current market data is simulated for each investment class, credit quality level, and maturity. Secondly, a change in the risk classification and payment defaults are simulated for each issuer. In addition to corporate bonds, other items taken into account in this case (in contrast to the standardized approach) include cash exposures and government bonds.
Equities	A factor is used to stress the market values of all equity investments. A distinction is made between the following sub-modules: equity type 1 (including listed equities and strategic equity investments from an OECD or EEA country), equity type 2 (including equities from other countries, commodities, strategic equity investments), qualifying equity investments in infrastructure, and qualifying equity investments in infrastructure companies. The solvency capital requirements determined for these sub-modules are aggregated as the equity solvency capital requirement using a correlation approach.	A distribution of equity performance calibrated using current market data is simulated for each currency area. A similar distribution for private equity investments 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 and separately for Germany.
Currency	The market values of all assets and liabilities denominated in foreign currency are increased/decreased by a particular factor. This gives rise to a currency increase and a currency decrease risk for each currency area, reported as the corresponding loss of own funds.	A distribution for the change in the foreign currency/euro exchange rate calibrated using current market data is simulated for each 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 and of the amount of claims.

### Diversification

Diversification effects are highlighted by aggregating the risk distributions for the individual sub-risks into the total risk capital requirement. The diversification effect between the modules for ARAG SE amounted to €95,827 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. The correlations from the standard formula are used to aggregate the individual risk modules for the purpose of producing the BSCR (integration of the partial model into the standard formula).

**Appropriateness of data**

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

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

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

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

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

## E.6 Any Other Information

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

# Appendix

## S.02.01.02

### Balance sheet

		Solvency II value
		C0010
<b>Assets</b>		
Intangible assets	R0030	0
Deferred tax assets	R0040	121,134
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	141,137
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	2,654,481
Property (other than for own use)	R0080	28,831
Holdings in related undertakings, including participations	R0090	958,665
Equities	R0100	962
Equities – listed	R0110	200
Equities – unlisted	R0120	762
Bonds	R0130	936,517
Government bonds	R0140	292,441
Corporate bonds	R0150	638,657
Structured notes	R0160	5,420
Collateralized securities	R0170	0
Collective investment undertakings	R0180	695,920
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	27,469
Other investments	R0210	6,116
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	4,212
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	97
Other loans and mortgages	R0260	4,115
Reinsurance recoverables from:	R0270	575
Non-life and health similar to non-life	R0280	575
Non-life excluding health	R0290	575
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	60,678
Insurance and intermediaries receivables	R0360	55,146
Reinsurance receivables	R0370	50,332
Receivables (trade, not insurance)	R0380	38,686
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	85,167
Any other assets, not elsewhere shown	R0420	6,182
<b>Total assets</b>	<b>R0500</b>	<b>3,217,730</b>

## S.02.01.02

## Balance sheet

		Solvency II value
Liabilities		C0010
Technical provisions – non-life	R0510	1,013,720
Technical provisions – non-life (excluding health)	R0520	1,013,720
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	986,585
Risk margin	R0550	27,135
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	78,885
Pension benefit obligations	R0760	253,948
Deposits from reinsurers	R0770	165
Deferred tax liabilities	R0780	251,679
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	88,911
Insurance and intermediaries payables	R0820	37,405
Reinsurance payables	R0830	2,764
Payables (trade, not insurance)	R0840	46,200
Subordinated liabilities	R0850	32,921
Subordinated liabilities not in basic own funds	R0860	0
Subordinated liabilities in basic own funds	R0870	32,921
Any other liabilities, not elsewhere shown	R0880	410
<b>Total liabilities</b>	R0900	<b>1,807,007</b>
<b>Excess of assets over liabilities</b>	R1000	<b>1,410,723</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	692,218	48,170	8,886
Gross – proportional reinsurance accepted	R0120	216,023	11,973	407
Gross – non-proportional reinsurance accepted	R0130	-	-	-
Reinsurers' share	R0140	602	103	0
Net	R0200	907,639	60,041	9,293
<b>Premiums earned</b>				
Gross – direct business	R0210	694,582	47,904	9,094
Gross – proportional reinsurance accepted	R0220	213,430	11,790	489
Gross – non-proportional reinsurance accepted	R0230	-	-	-
Reinsurers' share	R0240	602	103	0
Net	R0300	907,409	59,591	9,582
<b>Claims incurred</b>				
Gross – direct business	R0310	274,182	21,340	490
Gross – proportional reinsurance accepted	R0320	54,508	9,972	32
Gross – non-proportional reinsurance accepted	R0330	-	-	-
Reinsurers' share	R0340	367	40	0
Net	R0400	328,322	31,273	521
<b>Changes in other technical provisions</b>				
Gross – direct business	R0410	-145	0	0
Gross – proportional reinsurance accepted	R0420	-352	0	0
Gross – non-proportional reinsurance accepted	R0430	-	-	-
Reinsurers' share	R0440	0	0	0
Net	R0500	-497	0	0
<b>Expenses incurred</b>	R0550	<b>547,780</b>	<b>28,183</b>	<b>5,335</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		749,274
0	0	0	0		228,404
-	-	-	-		0
0	0	0	0		705
0	0	0	0		976,972
0	0	0	0		751,579
0	0	0	0		225,708
-	-	-	-		0
0	0	0	0		705
0	0	0	0		976,582
0	0	0	0		296,011
0	0	0	0		64,512
-	-	-	-		0
0	0	0	0		407
0	0	0	0		360,117
0	0	0	0		-145
0	0	0	0		-352
-	-	-	-		0
0	0	0	0		0
0	0	0	0		-497
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>581,299</b>
-	-	-	-		-
-	-	-	-		<b>581,299</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	394,713
Gross – proportional reinsurance accepted	R0120	24,176
Gross – non-proportional reinsurance accepted	R0130	-
Reinsurers' share	R0140	408
Net	R0200	418,481
<b>Premiums earned</b>		
Gross – direct business	R0210	389,998
Gross – proportional reinsurance accepted	R0220	24,176
Gross – non-proportional reinsurance accepted	R0230	-
Reinsurers' share	R0240	408
Net	R0300	413,766
<b>Claims incurred</b>		
Gross – direct business	R0310	232,682
Gross – proportional reinsurance accepted	R0320	18,764
Gross – non-proportional reinsurance accepted	R0330	-
Reinsurers' share	R0340	534
Net	R0400	250,912
<b>Changes in other technical provisions</b>		
Gross – direct business	R0410	-16
Gross – proportional reinsurance accepted	R0420	-352
Gross – non-proportional reinsurance accepted	R0430	0
Reinsurers' share	R0440	0
Net	R0500	-368
<b>Expenses incurred</b>	R0550	<b>192,574</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	
AT	ES	IT	NL	BE		-
C0090	C0100	C0110	C0120	C0130		C0140
69,552	110,548	36,150	103,975	25,974		740,911
0	37,754	105,656	59,484	1,192		228,263
-	-	-	-	-		-
0	298	0	0	0		705
69,552	148,004	141,806	163,459	27,166		968,468
68,696	109,623	35,809	113,794	25,338		743,259
0	36,129	104,456	59,646	1,192		225,599
-	-	-	-	-		-
0	298	0	0	0		705
68,696	145,454	140,265	173,440	26,530		968,152
16,152	35,946	4,683	-4,457	8,902		293,908
0	23,607	20,208	1,246	640		64,465
-	-	-	-	-		-
-2	-104	0	0	-21		407
16,154	59,657	24,891	-3,211	9,563		357,966
-129	0	0	0	0		-145
0	0	0	0	0		-352
0	0	0	0	0		0
0	0	0	0	0		0
-129	0	0	0	0		-497
<b>32,415</b>	<b>76,269</b>	<b>99,964</b>	<b>158,162</b>	<b>16,214</b>		<b>575,599</b>
-	-	-	-	-		-
-	-	-	-	-		<b>575,599</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	Income protection insurance
		C0020	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
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
101,113	-2,476	7,191	-	-	-	-	105,827
0	0	0	-	-	-	-	0
101,113	-2,476	7,191	-	-	-	-	105,827
872,923	5,423	2,411	-	-	-	-	880,758
575	0	0	-	-	-	-	575
<b>872,348</b>	<b>5,423</b>	<b>2,411</b>	-	-	-	-	<b>880,183</b>
<b>974,036</b>	<b>2,947</b>	<b>9,602</b>	-	-	-	-	<b>986,585</b>
<b>973,461</b>	<b>2,947</b>	<b>9,602</b>	-	-	-	-	<b>986,010</b>
<b>25,864</b>	<b>315</b>	<b>956</b>	-	-	-	-	<b>27,135</b>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
999,899	3,262	10,558	-	-	-	-	1,013,720
575	0	0	-	-	-	-	575
999,325	3,262	10,558	-	-	-	-	1,013,145

## 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	91,705	95,684	41,873	25,638	18,212	11,604
N-8	R0170	94,091	88,455	40,714	25,444	16,177	11,150
N-7	R0180	92,079	88,246	42,785	24,528	16,059	10,026
N-6	R0190	93,442	94,910	41,428	23,369	15,448	10,642
N-5	R0200	103,517	95,946	41,840	23,736	16,137	10,891
N-4	R0210	113,495	102,085	43,884	25,115	17,075	
N-3	R0220	125,862	106,508	47,092	27,862		
N-2	R0230	134,080	113,509	47,681			
N-1	R0240	138,470	121,095				
N	R0250	141,285					

**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	36,102
N-4	R0210	0	0	0	0	47,902	
N-3	R0220	0	0	0	66,640		
N-2	R0230	0	0	94,746			
N-1	R0240	0	150,338				
N	R0250	285,168					

Development year					In current year	Sum of years (cumulative)	
6	7	8	9	10 & +			
C0070	C0080	C0090	C0100	C0110	C0170	C0180	
-	-	-	-	3,069	R0100	3,069	3,069
7,510	5,575	4,076	3,517		R0160	3,517	305,393
7,437	5,225	3,370			R0170	3,370	292,063
7,401	5,016				R0180	5,016	286,140
7,990					R0190	7,990	287,229
					R0200	10,891	292,067
					R0210	17,075	301,654
					R0220	27,862	307,325
					R0230	47,681	295,270
					R0240	121,095	259,564
					R0250	141,285	141,285
				<b>Total</b>	R0260	<b>395,800</b>	<b>4,308,573</b>

Development year					Year end (discounted data)	
6	7	8	9	10 & +		
C0260	C0270	C0280	C0290	C0300	C0360	
-	-	-	-	17,075	R0100	17,106
0	0	0	10,498		R0160	10,526
0	0	12,838			R0170	12,877
0	18,517				R0180	18,582
25,772					R0190	25,861
					R0200	36,204
					R0210	48,054
					R0220	66,853
					R0230	95,048
					R0240	150,786
					R0250	285,938
				<b>Total</b>	R0260	<b>800,103</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

**Deductions**

Deductions for participations in financial and credit institutions

**Total basic own funds after deductions****Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand

Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand

Unpaid and uncalled preference shares callable on demand

A legally binding commitment to subscribe and pay for subordinated liabilities on demand

Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC

Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC

Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Other ancillary own funds

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

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

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

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

**Reconciliation reserve****Expected profits**

Expected profits included in future premiums (EPIFP) – life business

Expected profits included in future premiums (EPIFP) – non-life business

**Total expected profits included in future premiums (EPIFP)**

	Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
	-	-	-	-	-
R0010	100,000	100,000	-	0	0
R0030	0	-	-	0	0
R0040	-	-	-	-	0
R0050	-	-	-	-	-
R0070	-	-	-	0	0
R0090	-	-	-	-	-
R0110	-	-	-	-	-
R0130	1,280,723	1,280,723	-	0	0
R0140	32,921	0	-	32,921	0
R0160	0	0	-	0	0
R0180	-	-	-	-	-
	-	-	-	-	-
R0220	0	-	-	-	-
	-	-	-	-	-
R0230	0	0	0	0	0
R0290	<b>1,413,644</b>	<b>1,380,723</b>	<b>0</b>	<b>32,921</b>	<b>0</b>
	-	-	-	-	-
R0300	-	-	-	-	-
	-	-	-	-	-
R0310	-	-	-	-	-
R0320	-	-	-	-	-
R0330	-	-	-	-	-
R0340	-	-	-	-	-
R0350	-	-	-	-	-
R0360	-	-	-	-	-
R0370	-	-	-	-	-
R0390	-	-	-	-	-
R0400	-	<b>0</b>	<b>0</b>	-	-
	-	-	-	-	-
R0500	1,413,644	1,380,723	0	32,921	0
R0510	1,413,644	1,380,723	0	32,921	0
R0540	1,413,644	1,380,723	0	32,921	0
R0550	1,413,644	1,380,723	0	32,921	0
R0580	<b>434,747</b>	-	-	-	-
R0600	<b>179,006</b>	-	-	-	-
R0620	<b>3.25</b>	-	-	-	-
R0640	<b>7.90</b>	-	-	-	-
	-	-	-	-	-
	<b>C0060</b>				
R0700	1,410,723				
R0710	0				
R0720	30,000				
R0730	100,000				
R0740	0				
R0760	<b>1,280,723</b>				
	-				
R0770					
R0780	111,675				
R0790	<b>111,675</b>				

## S.25.02.21

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

Unique number of component	Components description	Calculation of the solvency capital requirement	Amount modeled	USP	Simplifications	
<b>C0010</b>		<b>C0020</b>	<b>C0030</b>	<b>C0070</b>	<b>C0080</b>	<b>C0090</b>
1	Market risk	424,558	424,558			
2	Counterparty default risk	20,216				
3	Life underwriting risk					
4	Health underwriting risk					
5	Non-life underwriting risk	135,767	135,767			
6	Intangible asset risk	0				
7	Operational risk	29,598				
8	LAC technical provisions	0				
9	LAC deferred taxes	-79,564				
<b>Calculation of solvency capital requirement</b>			<b>C0100</b>			
Total undiversified components	R0110	530,574				
Diversification	R0060	-95,827				
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>	R0200	<b>434,747</b>				
Capital add-ons already set	R0210	0				
<b>Solvency capital requirement</b>	R0220	<b>434,747</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				
<b>Approach to tax rate</b>			<b>C0109</b>			
Approach based on average tax rate (yes/no)	R0590	-				
<b>Loss-absorbing capacity of deferred taxes</b>			<b>C0130</b>			
Amount/estimate of LAC DT	R0640	-				
Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	R0650	-				
Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	R0660	-				
Amount/estimate of LAC DT justified by carry back, current year	R0670	-				
Amount/estimate of LAC DT justified by carry back, future years	R0680	-				
Amount/estimate of maximum LAC DT	R0690	-				

## S.28.01.01

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

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

			C0010		
MCRNL result	R0010		179,006		
				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		973,461	910,198
Assistance and proportional reinsurance		R0120		2,947	46,374
Miscellaneous financial loss insurance and proportional reinsurance		R0130		9,602	21,770
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 C0050</b>	<b>Net (of reinsurance/SPV) total capital at risk 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	-	-

## Overall MCR calculation

<b>C0070</b>		
Linear MCR	R0300	179,006
SCR	R0310	434,747
MCR cap	R0320	195,636
MCR floor	R0330	108,687
Combined MCR	R0340	179,006
Absolute floor of the MCR	R0350	2,500
<b>C0070</b>		
Minimum capital requirement	R0400	179,006

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