ARAG ALLGEMEINE VERSICHERUNGS-AG

2022 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS
AND MANAGEMENT REPORT

5->30

ARAG

ARAG 5->30

Group strategy: ARAG 5→30

You need to know what you are aiming for to be able to get there. Having a focus is key, particularly in times of major upheaval and far-reaching global turmoil. With this in mind, ARAG has revised its Group strategy, gearing it toward five areas of action. ARAG 5→30 shows what the Group is aiming for in the period up to 2030 and what it needs to get there.

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Overview

ARAG Allgemeine Versicherungs-AG Key Figures

(€'000)	2022	Change	2021	2020
Sales revenue				
Gross premiums written	**220,093**	**4.52 %**	210,578	198,850
Premiums earned net of reinsurance	**210,285**	**5.09 %**	200,103	190,223
Expenses				
Claims incurred net of reinsurance	**101,936**	**0.54 %**	101,391	92,187
Claims ratio (basis: premiums earned)	**48.48 %**	**– 2.19 % pts.**	50.67 %	48.46 %
Insurance business operating expenses net of reinsurance	**93,925**	**2.41 %**	91,715	83,662
Cost ratio (basis: premiums earned)	**44.67 %**	**– 1.16 % pts.**	45.83 %	43.98 %
Net income overview				
Underwriting result before equalization provision, gross	**16,106**	**540.30 %**	– 3,658	16,865
Underwriting result before equalization provision, net of reinsurance	**13,576**	**116.09 %**	6,282	13,736
Underwriting result after equalization provision, net of reinsurance	**8,618**	**– 14.66 %**	10,098	11,039
Gains and losses on investments	**1,230**	**– 76.20 %**	5,167	2,788
Other net income/expense	**– 4,761**	**– 42.48 %**	– 3,342	– 3,145
Profit/loss from ordinary activities	**5,086**	**– 57.34 %**	11,923	10,682
Net income for the year (before profit transfer under profit-and-loss transfer agreement)	**4,941**	**– 58.18 %**	11,816	10,726
Key ratios				
Technical provisions/ premiums earned net of reinsurance	**136.81 %**	**– 4.30 % pts.**	141.11 %	141.37 %
Equity/premiums earned net of reinsurance	**26.31 %**	**– 1.34 % pts.**	27.65 %	29.08 %

Profile of the ARAG Group

Overview

The ARAG Group is the largest family enterprise in the German insurance industry and the leading legal insurer worldwide. When it was founded over 85 years ago, the Company focused purely on legal insurance. Today, ARAG positions itself as an innovative and high-quality insurer that is international and independent. In addition to legal insurance, its portfolio in Germany includes highly effective, needs-based products and services covering casualty and property insurance and health insurance. The Company also aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. It generates sales revenue and premiums of more than €2.2 billion and employs over 4,700 people.

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

Legal insurance

In its core legal insurance segment, ARAG is growing rapidly in both Germany and abroad and plays a major role in shaping its markets with innovative products and services. The international legal insurance business is the Group's most significant area of activity. Worldwide, the Group helps its legal insurance customers with over a million cases per year, thereby playing its part in resolving sometimes existential legal problems.

Casualty and property insurance

In a fiercely competitive market, ARAG Allgemeine is demonstrating its strength as a competitive provider of property, liability, and accident insurance policies. This company is also Europe's largest sports insurer, providing cover for around 20 million recreational sports participants and top-ranking athletes. ARAG Allgemeine's Interlloyd subsidiary specializes in attractive brokering products in the commercial and private customer segments, adding a further dimension to the Group's portfolio.

Personal insurance

In the private health insurance market, ARAG Kranken (ARAG Health) offers a broad range of products with outstanding customer benefits, emphasizing its appeal as one of the best providers of full-coverage and supplementary health insurance. ARAG Core Sales also offers products from a strategic partner, complementing ARAG's services with a retirement pension offering.

Management Report of ARAG Allgemeine Versicherungs-AG

I. Company Fundamentals

Business model

ARAG Allgemeine offers modular insurance cover for general accident insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to its predominantly private and commercial customers.

ARAG Allgemeine also considers itself to be a partner of the sports community, based on long-established ties in this area of business. The Company's objective is to provide needs-based insurance cover for clubs and associations involved in sports and the arts, most of which are insured under group and supplementary insurance policies. In addition to its head office in Düsseldorf, ARAG Allgemeine maintains 15 offices at insured state sports associations and one office at the German Ski Association.

Territory

The territory covered by ARAG Allgemeine encompasses the Federal Republic of Germany and, for some classes of insurance, the United Kingdom and the Republic of Ireland. The UK business is brokered and operated by a branch established in 2016. The permanent establishment in the Republic of Ireland opened in 2019.

Insurance portfolio

At the end of the year under review, the portfolio of direct insurance contracts comprised 5,062,589 policies (December 31, 2021: 3,890,782 policies). Of this total, 975,316 policies (December 31, 2021: 953,481 policies) were accounted for by the business in Germany, 2,764,860 policies (December 31, 2021: 1,807,478 policies) by the branch in the Republic of Ireland, and 1,322,413 policies (December 31, 2021: 1,129,823 policies) by the UK branch.

Segments and classes of insurance operated by the Company
ARAG Allgemeine operations cover direct and indirect business in the following segments and classes of insurance:

General accident insurance
- Accident insurance
- Functional disability insurance
- Insurance against non-occupational accidents
- Travel accident insurance
- Sports injuries insurance
- Air travel accident insurance
- Motor accident insurance

Motor insurance
- Motor liability insurance
- Full-coverage vehicle insurance
- Cost-share vehicle insurance

Liability insurance
- Personal liability insurance
- Commercial general liability and professional indemnity insurance
- Water pollution liability insurance
- Sundry and non-itemized liability insurance

Marine insurance
- Comprehensive river insurance (including comprehensive pleasure craft insurance)
- Comprehensive lake and river craft insurance
- Sundry marine insurance

Credit and guarantee insurance

Legal insurance

Business interruption insurance
- Insurance for business interruption caused by fire
- Insurance for business interruption caused by technical failure
- Miscellaneous business interruption insurance

Emergency assistance insurance
- Special service package insurance
- Sundry and non-itemized assistance insurance

Aerospace liability insurance
- Aircraft liability insurance

Fire insurance
- Industrial fire insurance
- Agricultural fire insurance
- Miscellaneous fire insurance

Burglary, theft, and robbery insurance

Water damage insurance

Glass insurance

Storm and tempest insurance

Composite home contents insurance

Composite residential buildings insurance

Technical insurance
- Electronic equipment insurance
- Construction contractors' all risks insurance

Miscellaneous indemnity insurance
- Miscellaneous property insurance
- Cycle insurance
- Cloakroom insurance
- Hunting and sporting firearms insurance
- Musical instruments insurance
- Insurance for goods in frozen storage facilities
- Baggage insurance
- Recreational sports equipment insurance (including insurance for ski breakage and theft)

Miscellaneous consequential loss insurance
- Boycott and strike insurance
- Travel cancellation insurance
- Insolvency insurance
- Loss of rent insurance (insured events)
- Loss of rent insurance (tenant default)
- Pet health insurance

Fidelity insurance

Customers who have taken out an AUB 2007, AUB 2012, or AUS 2016 version of the ARAG Unfall-Schutz accident insurance policy (general terms and conditions of accident insurance 2007, general terms and conditions of accident insurance 2012, and general terms and conditions of accident insurance 2016 respectively) also continue to enjoy a bonus in the form of a special payment in the event of a successful claim, depending on the length of time the policy has been in force. The bonus entitlement is published in the Company's annual report and applies to all new claims submitted in the 2022 and 2023 financial years in respect of accidents occurring in 2022 and 2023.

In addition to the contractually agreed benefits, holders of an AUB 2007, AUB 2012, or AUS 2016 version of the ARAG Unfall-Schutz accident insurance policy receive, in the event that benefits are paid out under the policy, the following bonus (as a percentage of the contracted benefits) in accordance with the special terms and conditions of the insurance:

Bonus

Number of complete years policy in force	Benefit bonus level	2022/2023 bonus declaration Benefit type		
		Disability	Accident disability	Death
1	1	0.0 %	0.0 %	0.0 %
2	2	3.0 %	3.0 %	3.0 %
3	3	6.0 %	6.0 %	6.0 %
4	4	8.0 %	8.0 %	8.0 %
5	5	10.0 %	10.0 %	10.0 %
6	6	10.0 %	10.0 %	10.0 %
7	7	11.0 %	11.0 %	11.0 %
8	8	11.0 %	11.0 %	11.0 %
9	9	12.0 %	12.0 %	12.0 %
10	10	12.0 %	12.0 %	12.0 %
11	11	13.0 %	13.0 %	13.0 %
12	12	13.0 %	13.0 %	13.0 %
13	13	14.0 %	14.0 %	14.0 %
14	14	14.0 %	14.0 %	14.0 %
15	15	15.0 %	15.0 %	15.0 %
16	16	15.0 %	15.0 %	15.0 %
17	17	15.0 %	15.0 %	15.0 %
18	18	15.0 %	15.0 %	15.0 %
19	19	15.0 %	15.0 %	15.0 %
20	20	15.0 %	15.0 %	15.0 %
21	21	15.0 %	15.0 %	15.0 %
22	22	15.0 %	15.0 %	15.0 %
23	23	15.0 %	15.0 %	15.0 %
24	24	15.0 %	15.0 %	15.0 %
25 or more	25	15.0 %	15.0 %	15.0 %

II. Report on Economic Position

Economic and sector conditions

Three years after the outbreak of the COVID-19 pandemic, the global economy is still facing significant challenges. The zero-COVID policy in the People's Republic of China, which encompassed strict measures such as the closure of businesses and production facilities and was pursued until the end of 2022, adversely affected downstream supply chains around the world.

The challenging situation worsened dramatically at the start of 2022 when the Russian Federation invaded Ukraine. In response, various sanctions were imposed on Russia, primarily by western nations, including restrictions on the supply of Russian gas. This further exacerbated the existing disruptions to production. What is more, energy costs soared, pushing up the production cost of industrial products and food. Inflation rates across Europe, the United States, and other economies surged and wages plummeted in real terms, hitting households and businesses very hard. The German Council of Economic Experts estimates that the global rate of consumer price inflation stood at around 7.6 percent in 2022 (2021: 3.4 percent).

The fast pace of inflation put central banks around the world under intense pressure to react and saw the US Federal Reserve (Fed) raise interest rates for the first time in March 2022, followed by several more hikes throughout the year. After some initial hesitation, the European Central Bank (ECB) followed suit in autumn 2022. Fanned by the expansionary monetary policy pursued in virtually all major economies in recent years, government borrowing and thus government debt jumped. Given the higher interest rates, public budgets have been left with considerably less leeway.

In the first half of 2022, the lifting of measures to contain the spread of COVID-19 revived the global economy. However, this revival was overshadowed by the aforementioned effects from the war in Ukraine and the related political and financial uncertainty. According to estimates by the German Council of Economic Experts, the resulting dent in global trade and the contraction in worldwide industrial output led to growth of 2.8 percent in global gross domestic product (GDP) in 2022, compared with growth of 6.2 percent in 2021.

In Germany, the energy crisis coupled with inflation heaped financial pressure on households, leading to a fall in consumer demand. The 2022 annual report of the German Council of Economic Experts predicts that the eurozone's GDP will have risen by roughly 3.3 percent (2021: 5.3 percent) and that of Germany by 1.7 percent (2021: 2.6 percent) in the reporting year. For the Republic of Ireland, where the Company also has a branch, the German Council of Economic Experts puts GDP growth at 9.5 percent for 2022 (2021: 13.4 percent), citing the performance of multinational companies.

According to the ifo Institute of Economic Research (ifo), the German insurance industry was generally negative about the course of business in 2022. Despite the challenging economic conditions, however, it again proved to be robust in the face of a crisis and its premiums declined by only around 0.3 percent (2021: growth of 1.7 percent) according to the German Insurance Association (GDV). Notably, the decline was driven by a sharp decrease in premiums in the life insurance business, which ARAG has discontinued. Premium income in direct casualty and property insurance business will probably have gone up by 4.0 percent, which is well up on the prior-year growth of 3.0 percent and is mainly the result of inflation adjustments. The growth was mainly driven by the composite residential buildings insurance segment (up by 8.0 percent; 2021: 5.7 percent) and the general liability insurance segment (up by 4.0 percent; 2021: 3.3 percent). The legal insurance segment did not manage to beat the premium growth notched up in the previous year but nonetheless recorded another notable increase of 3.0 percent (2021: 4.5 percent), driven by the opportunity to moderately adjust premiums. In the private health insurance segment, the rise in premium income of 3.9 percent in 2022 was still healthy (2021: 5.7 percent). It was driven by adjustments to rate scales in full-coverage health insurance and ongoing demand for supplementary health insurance.

Business performance and results of operations

For ARAG Allgemeine, the reporting year was again influenced by the COVID-19 pandemic. The crisis had an impact on various business lines and a wide range of key performance indicators (KPIs). The effect of the pandemic was particularly evident in expenses for claims incurred, whereas the Russia-Ukraine war impacted global financial markets and therefore also the Company’s gains and losses on investments.

Despite these difficult conditions, ARAG Allgemeine recorded another year of growth in premiums. This was attributable to the renewed year-on-year increase in the number of new policies underwritten in 2022. Premium income rose by 4.5 percent in 2022 (2021: 5.9 percent). Income from gross premiums written amounted to €220,093 thousand in the year under review (2021: €210,578 thousand). Of this total, €194,287 thousand (2021: €186,692 thousand) was attributable to the business in Germany and €25,807 thousand (2021: €23,886 thousand) to the international business. Having established a branch in the United Kingdom in 2016, the Company set up a branch in the Republic of Ireland in 2019. In both branches, ARAG Allgemeine brokers direct insurance business. The branch in the Republic of Ireland also operates inward reinsurance business. Whereas the general accident and general liability insurance segments accounted for the highest proportion of gross premium income in Germany, at more than 50 percent, the focus in the international insurance business last year was on the brokerage of legal insurance.

Premium income in the direct business rose from €179,937 thousand to €189,000 thousand, primarily due to growth in Germany. Premiums were up by 4.8 percent in the domestic direct business (2021: 1.6 percent). In the domestic business for the organization as a whole, gross premiums written advanced by approximately 5.1 percent year on year (2021: 3.3 percent). Composite residential buildings insurance, home contents insurance, and general liability insurance made the biggest contributions to this premium growth. One of the most notable features in these classes of insurance was the expansion in the number of policies involving ARAG Recht&Heim, a bundled product providing all-round cover. In addition, there was a significant increase in premium income from the pet health insurance product that was launched in 2021. The sports insurance business, which was hit hard by the effects of the COVID-19 pandemic, picked up noticeably again in 2022, growing its premium income by 3.9 percent (2021: decline of 3.4 percent). The ARAG Allgemeine branches outside Germany also contributed to the rise in premiums, albeit to a much lesser extent, with relative premium growth of 8.0 percent (2021: 70.2 percent).

Income from gross premiums written in inward domestic reinsurance business was virtually unchanged at €28,441 thousand in 2022 (2021: €28,429 thousand). This income was almost exclusively attributable to premiums from the wholly owned subsidiary Interlloyd Versicherungs-AG, Düsseldorf, with which ARAG Allgemeine has entered into a quota-share reinsurance treaty. Interlloyd's quota share of 50.0 percent remained unchanged in 2022.

Overall, the premiums earned net of reinsurance amounted to €210,285 thousand in the year under review (2021: €200,103 thousand).

Because of the COVID-19 pandemic and the natural disaster claims resulting from the storms in June and July 2022, a nuanced view still needs to be taken of the pattern of claims and the impact on the individual insurance segments. Whereas claims incurred in 2021 had been heavily influenced by the low-pressure weather system Bernd, storms Zeynep and Antonia in February 2022 led to an increase in the number of claims incurred for the reporting year. In the composite residential buildings insurance segment, which was the worst affected, a total of around 600 more claims were reported in 2022 than in the prior year. The reporting year also continued to be influenced by the COVID-19 pandemic that broke out in spring 2020 and by its consequences. In 2021, restrictions on contact imposed by the German government meant that the number of claims reported for the year had been very low. That number picked up noticeably in 2022, however, with an approximately 19 percent increase across all segments in Germany compared with the prior year. The general accident insurance and general liability insurance segments, in particular, again saw a sharp rise in the number of claims, with growth of almost 30 percent in 2022. The expenses for major claims for 2022 in the direct organization and sports business were much lower, declining by around €9,318 thousand year on year. All in all, gross expenses for claims incurred were down by around €11,782 thousand, partly due to an improved profit/loss on settlements in the general accident insurance segment. The gross claims ratio decreased by 8.2 percentage points to 48.7 percent in 2022. Net of reinsurance, the expenses for claims incurred in 2022 were 48.5 percent of premiums earned (2021: 50.7 percent). Overall, claims incurred net of reinsurance increased slightly to €101,936 thousand (2021: €101,391 thousand).

Insurance business operating expenses went up in 2022, almost exclusively due to an increase in commission payments in domestic and international direct business on the back of substantial growth in the Company's portfolio in the individual segments. ARAG Allgemeine's gross operating expenses for the insurance business were up by €2,753 thousand to €95,350 thousand. The main reason for the increase in costs was the growth in premium income and the resulting rise in commission expenses in the domestic insurance business. The gross cost ratio fell to 43.5 percent (2021: 44.5 percent), however, as the other expenses besides commission did not materially change but premium income rose. The ratio of insurance business operating expenses net of reinsurance to premiums earned went down by 1.1 percentage points to 44.7 percent, mirroring the decrease in the gross cost ratio.

The volume of outward reinsurance, measured on the basis of insurance premiums paid, was up slightly at €8,804 thousand (2021: €8,145 thousand). There were no material changes to the reinsurance program, which continued to be focused on using non-proportional reinsurance agreements to minimize the risk from large claims and accumulation. In the reporting year, the reinsurance business was dominated by the settlement of storm-related natural disaster claims and the resulting beneficial effect on the Company's gross claims figure. In total, the reinsurers' underwriting result improved to a profit of €2,530 thousand in 2022 (2021: loss of €9,940 thousand).

In 2022, the underwriting result before the equalization provision amounted to €13,576 thousand (2021: €6,282 thousand) and was therefore well above the prior-year figure. The net combined ratio of 93.1 percent (2021: 96.5 percent) reaffirmed the profitability of the operating business. In accordance with the calculation requirements specified in the German Regulation on the Accounting of Insurance Undertakings (RechVersV), a sum of €4,958 thousand was added to the equalization provision on the basis of the trends in claims and premiums (2021: reversal of €3,816 thousand). The underwriting result net of reinsurance in 2022 therefore amounted to €8,618 thousand (2021: €10,098 thousand).

The Company's non-underwriting result dropped sharply from a profit of €1,825 thousand to a loss of €3,532 thousand, mainly due to the increase in depreciation, amortization and write-downs of investments and a decrease in other income. Profit from ordinary activities amounted to €5,086 thousand in 2022 (2021: €11,923 thousand). After deduction of the tax expense of €145 thousand (2021: €108 thousand), net income for the year came to €4,941 thousand (2021: €11,816 thousand), which ARAG Allgemeine was required to transfer in full to ARAG SE, Düsseldorf, under a profit-and-loss transfer agreement.

Performance of the individual insurance segments in direct insurance business

The business performance of the individual insurance segments in direct insurance business was as follows:

Direct insurance business

(€'000)	Accident insurance		Liability insurance		Motor insurance		Fire insurance		Burglary insurance		Water damage insurance	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Gross premiums written	47,261	46,961	45,834	44,277	1,272	691	3,113	2,575	2,471	2,207	1,437	1,204
Premiums earned net of reinsurance	45,073	44,988	43,796	42,127	– 27	0	3,000	2,501	2,402	2,145	1,390	1,171
Expenses for claims incurred net of reinsurance	19,159	19,727	19,043	13,127	– 988	– 183	203	1,335	674	649	451	2,539
Insurance business operating expenses net of reinsurance	16,558	16,721	19,199	18,872	– 470	– 42	1,210	994	1,027	918	639	522
Underwriting result net of reinsurance before equalization provision	9,587	8,797	5,640	10,225	1,446	237	1,314	– 161	706	585	301	– 1,888
Change in the equalization provision	0	0	– 450	– 2,858	0	0	1,270	0	378	26	1,356	– 1,071
Underwriting result net of reinsurance after equalization provision	9,587	8,797	6,090	13,083	1,446	237	44	– 161	328	559	– 1,055	– 818

Performance of the individual insurance segments in inward insurance business

The business performance of the individual insurance segments in inward insurance business was as follows:

Inward reinsurance business

(€'000)	Accident insurance		Liability insurance		Motor insurance		Fire insurance		Burglary insurance		Water damage insurance	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Gross premiums written	4,400	4,529	2,523	2,391	0	0	1,081	1,075	666	685	453	447
Premiums earned net of reinsurance	4,417	4,551	2,497	2,374	0	0	1,081	1,084	667	695	453	453
Expenses for claims incurred net of reinsurance	1,686	2,040	730	490	0	0	86	342	200	17	349	656
Insurance business operating expenses net of reinsurance	1,879	1,859	1,154	1,111	0	0	472	471	299	316	213	202
Underwriting result net of reinsurance before equalization provision	839	639	583	772	0	0	432	181	168	362	– 108	– 406
Change in the equalization provision	285	31	0	0	0	0	315	– 233	3	278	– 135	200
Underwriting result net of reinsurance after equalization provision	1,124	670	583	772	0	0	747	– 51	171	639	– 243	– 206

Glass insurance		Storm and tempest insurance		Composite home contents insurance		Composite residential buildings insurance		Technical insurance		Business interruption insurance		Emergency assistance insurance		Sundry insurance	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
1,570	1,483	1,372	1,079	23,016	22,022	19,264	18,070	4,000	3,644	1,403	1,181	14,656	15,484	22,333	19,057
1,566	1,479	1,192	914	21,613	20,736	17,820	16,762	3,942	3,606	1,326	1,146	14,668	13,820	21,675	18,148
560	484	1,430	1,551	11,085	10,977	16,544	17,134	2,241	2,290	–1,050	2,461	9,320	8,010	9,412	8,542
834	818	580	468	10,425	10,269	7,013	6,900	1,758	1,734	587	539	9,777	9,842	10,482	9,392
177	182	–818	–1,104	68	–594	–5,970	–7,290	–48	–411	1,724	–1,947	–4,402	–4,017	1,780	221
0	0	0	–546	–289	–775	1,538	–322	0	0	0	–579	0	0	1,213	1,494
177	182	–818	–558	357	181	–7,508	–6,968	–48	–411	1,724	–1,368	–4,402	–4,017	567	–1,273

Glass insurance		Storm and tempest insurance		Composite home contents insurance		Composite residential buildings insurance		Technical insurance		Business interruption insurance		Emergency assistance insurance		Sundry insurance	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
677	677	367	303	6,938	7,058	9,558	9,561	627	654	290	288	428	354	3,087	2,619
677	685	375	284	6,971	7,129	9,558	9,644	623	647	289	291	369	261	2,873	2,460
257	229	148	83	2,808	2,638	5,846	5,411	294	99	–147	253	387	–30	1,209	520
320	314	176	128	3,298	3,391	4,756	4,387	305	343	135	118	138	99	1,160	1,031
99	142	51	72	666	896	–1,317	–424	21	204	288	–93	–156	192	504	910
0	0	–68	182	–159	–469	–205	–606	0	571	0	0	211	–104	–190	–663
99	142	–17	254	506	427	–1,521	–1,030	21	774	288	–93	55	88	314	247

Non-underwriting result Gains and losses on investments at ARAG Allgemeine amounted to a net gain of €1,230 thousand in 2022 (2021: €5,167 thousand) and therefore decreased significantly compared with the previous year. As it had in 2021, ARAG Allgemeine made use of the option to select the discretionary principle of lower of cost or market value for those institutional funds and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of the reporting date, application of the discretionary principle of lower of cost or market value resulted in undisclosed liabilities of €11,347 thousand that had not been netted (December 31, 2021: €18 thousand). The reasons for this decrease included the €2,460 thousand increase in the level of write-downs required combined with the absence of income from reversals of write-downs on investments (2021: €722 thousand). Earnings were also dampened by the €2,440 thousand reduction in the profit of the subsidiary Interlloyd. The existing profit transfer agreement includes an obligation to absorb losses, so the earnings contribution from Interlloyd is reported under income from profit-pooling, profit-transfer and partial profit-transfer agreements. The net yield on investments was 0.4 percent in the year under review (2021: 1.5 percent); the current average yield was 1.2 percent (2021: 1.6 percent).

Other net income/expense came to a net expense of €4,761 thousand (2021: net expense of €3,342 thousand), mainly due to a rise in currency losses and lower receipts under loss equalization agreements with the parent company.

Net extraordinary income/expense There was no extraordinary income or expense in either 2022 or 2021.

Net income for the year Considering the conditions affecting the net assets, financial position, and results of operations, the Company's overall business performance was positive again in 2022. Under the profit-and-loss transfer agreement entered into with ARAG SE in 2006, ARAG Allgemeine was required to transfer the full sum of its net income for the year amounting to €4,941 thousand (2021: €11,816 thousand) to the parent company.

Comparison of business performance with the forecast The comparison of business performance in 2022 compared with the original forecast shows that growth in gross premiums written comfortably exceeded the forecast. This was mainly due to higher-than-forecast premium income in international business.

Claims incurred before reinsurance were substantially lower than forecast in the prior year, mainly because of the improved profit/loss on settlements in the general accident insurance segment. Claims incurred net of reinsurance were also lower than forecast.

Insurance business operating expenses, net of reinsurance, were significantly higher than the level forecast in 2021. This is due to the aforementioned increase in commission payments.

When compared against the forecast for 2022, the Company was thus able to achieve almost one and a half times its profit target, exceeding it by roughly €1,407 thousand.

Financial position

The objective of the financial management system is to ensure that the Company holds adequate financial resources and manages its liquidity such that it is able to satisfy its obligations arising from the insurance business at all times and to exceed, rather than simply satisfy, the regulatory requirements concerning the capital adequacy of insurance entities. The Company met the obligations arising from the insurance business and met the regulatory requirements concerning solvency in 2022.

In addition to current bank balances, cash on hand, and bank deposits totaling €23,306 thousand (December 31, 2021: €13,090 thousand), the Company has investments at its disposal that can be sold on the capital and financial markets at short notice, thus ensuring that the Company is able to satisfy its payment obligations under insurance contracts at all times.

Net assets

Investments edged down by just €127 thousand in 2022 to €347,577 thousand. The breakdown of investments by asset class was as follows:

Investments breakdown

(€'000)	Dec. 31, 2022		Dec. 31, 2021	
Land and buildings	0	0.0%	0	0.0%
Affiliated companies and equity investments	45,911	13.2%	44,705	12.9%
Equities and investment fund shares/units	194,741	56.0%	201,834	58.0%
Bearer bonds	53,332	15.3%	50,529	14.5%
Registered bonds	39,500	11.4%	39,500	11.4%
Promissory notes, loans	14,008	4.0%	11,045	3.2%
Sundry lending	0	0.0%	0	0.0%
Bank deposits	85	0.0%	89	0.0%
Other investments	0	0.0%	0	0.0%
Deposits with ceding insurers	0	0.0%	0	0.0%
	347,577	**100.0%**	**347,703**	**100.0%**

Pursuant to section 341b (2) of the German Commercial Code (HGB), equities and investment fund shares/units (including infrastructure funds and private equity funds recognized under investment fund shares/units) with a carrying amount of €194,741 thousand had been classified as fixed assets as of the balance sheet date (December 31, 2021: €201,834 thousand). Bearer bonds with a carrying amount of €53,332 thousand (December 31, 2021: €407 thousand) were treated as fixed assets.

Further information on the structure and changes in investments can be found in the overview under the non-insurance disclosures in the Notes.

Equity ARAG Allgemeine has subscribed capital of €44,000 thousand. The Company also has capital reserves of €10,491 thousand, statutory reserves of €744 thousand, and other revenue reserves of €89 thousand. There were no changes in these items in 2022.

Employees

ARAG Allgemeine relies on a skilled, focused, and highly motivated workforce in Germany and in its international markets to ensure that it delivers on its value proposition. At the end of 2022, ARAG Allgemeine had a total of 161 (December 31, 2021: 164) employees in Germany.

Corporate governance declaration

Targets for the proportion of women in management functions The ARAG Group firmly believes in the importance of equality and diversity. The development of female managerial staff at all levels is therefore a key priority. ARAG Allgemeine Versicherungs-AG endeavors to continually and permanently increase the proportion of women at the first two management levels below the Management Board as well as on the Management Board itself and on the Supervisory Board.

The targets for the proportion of women in management functions, which were set in 2021 with a deadline of June 30, 2023, remained in place in 2022.

The Company's Supervisory Board has a target of 0 percent for the proportion of female members because there will be no Supervisory Board elections before June 30, 2023, which is the next date for which a target has been specified, and no changes to the Supervisory Board's personnel are expected to be made before this date. The actual proportion as of June 30, 2022 was 0 percent.

The Company's Management Board has a target of 0 percent for the proportion of female members in the period to June 30, 2023. This matches the actual proportion as of June 30, 2022, as all three positions on the Management Board are currently held by men. No changes to the Management Board members are planned and there are no foreseeable reasons for any of the Management Board members to step down.

The target for the proportion of women at the first management level below the Management Board is 100 percent, which matches the actual proportion as of June 30, 2022.

At the second management level, the proportion of women stood at 12.5 percent as of June 30, 2022, which was also in line with the target for 2023.

Thanks to ARAG employees and the Works Council

ARAG Allgemeine thanks all its employees and sales partners for their hard work and dedication, and its customers for the trust they have placed in the Company. It also extends its thanks to the Works Council for the close and constructive cooperation.

III. Dependent Company Report and Affiliated Companies

In 2006, ARAG SE, Düsseldorf, acquired the remaining shares in the Company from ARAG Holding SE, Düsseldorf. Since then, ARAG SE has held all the shares in ARAG Allgemeine Versicherungs-AG and thus has a controlling interest within the meaning of section 16 (1) of the German Stock Corporation Act (AktG). ARAG SE has notified ARAG Allgemeine of this controlling interest in accordance with section 20 (1) and (4) AktG. ARAG Holding SE indirectly holds a majority interest in ARAG SE. ARAG Allgemeine is therefore indirectly controlled by ARAG Holding SE and – in accordance with article 9 (1) of the Regulation on the statute for a European company (SE) of November 10, 2001 in conjunction with section 17 (2) AktG – a dependent entity within the meaning of section 17 (1) AktG.

ARAG Allgemeine Versicherungs-AG and the parent company holding all of its shares entered into a profit-and-loss transfer agreement on October 31, 2006. Given this profit-and-loss transfer agreement with the controlling entity, there was no requirement, as permitted by section 316 AktG, to prepare a report on relationships with affiliated companies in accordance with section 312 AktG. From the net income for 2022, a profit of €4,941 thousand (2021: €11,816 thousand) will be transferred to ARAG SE.

ARAG Allgemeine entered into a profit-and-loss transfer agreement with Interlloyd Versicherungs-AG, Düsseldorf, with effect from January 1, 1999. In the year under review, this led to the transfer of a profit of €521 thousand to ARAG Allgemeine (2021: €2,961 thousand).

IV. Outlook, Opportunity and Risk Reports

Outlook and opportunity report

Since 2022, the global economy has been suffering under the combination of the fallout from the ongoing COVID-19 pandemic and the Russian Federation’s war of aggression in Ukraine. This uncertain market environment is creating downside risk, fueling fears of a recession.

The economy will continue to be heavily influenced by the pandemic and by the related risks for society and business around the world. The danger of a renewed flare-up entailing a repeat of the restrictive public health measures, especially strict lockdowns, has not been fully eliminated. This can be seen from the dramatic developments – including the abrupt break with the zero-COVID strategy – in the People’s Republic of China, on whose production facilities other countries around the world depend. The lengthy trade dispute between the People’s Republic of China and the United States also adversely impacted the economy. Attempts to eliminate the bilateral trade deficit between these two countries by imposing tariffs have failed in the past.

The Russian Federation's war of aggression against Ukraine that was launched in February 2022 may also continue beyond the end of the forecast period, with the sanctions against Russia remaining in place. The supply of gas from Russia has been largely cut off, making European countries' gas supplies less secure. In addition, there is an increased danger that the volume stored for 2023 will be insufficient to meet demand. The sanctions imposed are seeing the price of gas, crude oil, and electricity soar, which – particularly in Europe – is driving the inflationary pressure around the world that set in during the pandemic. In its annual report, the German Council of Economic Experts predicts inflation of 7.4 percent for the eurozone in 2023 (2022: 8.5 percent) and inflation of 7.4 percent for Germany too (2022: 8.0 percent).

Governments worldwide are taking financial and fiscal policy measures in order to counteract the negative economic trends. The fast pace of inflation is putting central banks around the world under intense pressure to react, and experts are predicting that the US Fed will likely raise interest rates to more than 4 percent and the ECB to up to 3.3 percent in 2023. This would make borrowing and spending/investment less attractive for businesses and consumers in the forecast period, and could lead to a further fall in German GDP.

The Russia-Ukraine war is also taking its toll on the euro. The fall in the value of the euro is making imports more expensive, notably energy and commodities, as these are generally settled in US dollars. The increased energy costs will likely hinder German and European companies' ability to compete on price in the global market in the short and medium term. This can increase the likelihood of rising unemployment and insolvencies.

Moreover, according to research by the German Economic Institute (IW), the number of people in employment in Germany may continue to fall in the short term. This would heighten the lack of skilled labor and make it even harder to fill vacant positions. Conversely, the employment market is having a stabilizing effect as companies in many areas will be endeavoring to retain existing personnel in view of the skills shortage.

In terms of the outlook for the forecast period, the uncertainties described are clearly predominant at present. Taking the prevailing risks into account, the latest annual report of the German Council of Economic Experts predicts that 2023 will see a downtrend, with a much lower rise in eurozone GDP of 0.3 percent (2022: 3.3 percent) and a fall in German GDP of 0.2 percent (2022: rise of 1.7 percent). For the Republic of Ireland, where the Company also has a branch, the German Council of Economic Experts puts GDP growth at 4.0 percent for 2023 (2022: 9.5 percent).

The COVID-19 pandemic will continue to have an impact on the German insurance industry in 2023. Depending on infection rates going forward, the insurance business could be affected by renewed restrictions imposed by the authorities on contact with others or lockdowns.

Furthermore, the German insurance market remains subject to fierce competition. In many branches of insurance, opportunities for greater premium growth and portfolio expansion are often only available if policyholders change provider. Inflation remaining at a high level may lead to an increase in lapse rates in some property insurance segments.

By contrast, digitalization still offers substantial opportunities. Digital technologies will mean that it is possible to set up much more efficient administrative channels and, above all, facilitate and develop customer contact, regardless of the time of day or where the parties are located. Fundamentally, the sustainable transformation of the economy and society will be one of the defining challenges for the insurance industry, along with digitalization. In terms of regulation, the insurance industry and the banking industry will play a pivotal role.

On top of demographic change in the years ahead, the danger of old-age poverty poses a challenge for the insurance industry. Old-age poverty could lead to a reduction in consumer purchasing power.

Climate change continues to present risks for non-life insurers. The last few years have clearly demonstrated that storms and hurricanes are not the only natural disasters that can hit the whole of a country; natural disaster loss events can also be triggered by hail, heat waves, and rain. Claims incurred in the property insurance segments may rise in the short term as a result of inflation.

All in all, premium income in the insurance industry is expected to continue to grow in these difficult economic times. In its latest projection for 2023, the GDV is forecasting premium growth in the German market of up to 3.0 percent in 2023 (2022: decrease of 0.3 percent). The forecast growth for casualty and property insurance is 6.1 percent (2022: 4.0 percent). In the private health insurance business, a premium increase of 3.5 percent is anticipated (2022: 3.9 percent).

In view of the current opportunities and risks, ARAG Allgemeine believes it has a stable basis on which to be successful and profitable in 2023. Nevertheless, the Company has budgeted significantly lower premium income, primarily due to the performance of the non-German branches' insurance business. Whereas premium income is set to increase slightly in the Republic of Ireland in the forecast period, a substantial reduction in premium income is anticipated in the United Kingdom. This erosion of premium income is attributable to the discontinuation of insurance brokerage in the United Kingdom in 2023. The only business now will be the settlement of reported and insured claims. ARAG Allgemeine's objective remains to focus on strategic core segments in its private customers business. In the sports insurance business, the Company will continue its strategy of providing needs-based insurance cover for organizations offering recreational and high-performance sports activities.

In terms of the claims trend, the Company predicts a net rate that is considerably higher year on year due to an anticipated renewed increase in the number of claims reported. However, the net cost ratio is expected to be a little lower than in 2022. Overall, the aim is for the combined ratio to remain below 100 percent in 2023, but slightly above the 2022 ratio.

The forecasts for gains and losses on investments remain very uncertain, especially in view of the impact of the Russia-Ukraine war on the economy and financial markets, which is still very difficult to predict. In its strategic planning, ARAG Allgemeine has therefore applied a conservative investment policy and assumed an only modest improvement in gains and losses on investments compared with the average in recent years (excluding any possible profit or loss transfer from Interlloyd Versicherungs-AG).

The Company is confident that it can maintain its profitability at a high level over the coming years. Overall, taking into account the discernible opportunities and risks, ARAG Allgemeine forecasts that business performance will again be positive in 2023. In 2023, the Company's planning envisages a much higher level of profit being transferred to the parent company ARAG SE than was the case in 2022. This is due to the changes to the equalization provision that are likely to be needed.

Risk report

Risk management system

Risk strategy The objective of pursuing a conservative risk and solvency policy, as specified in the business strategy, provides the framework for the structure of the risk strategy. The risk strategy sets out the Company's risk profile and the structure of the individual risk exposures associated with the strategic business objectives. It also describes the tools for ensuring compliance with the prescribed risk-bearing capacity based on the risk appetite specified by the Management Board. Risks are therefore managed in the round, ensuring at all times that the overall risk profile is consistent with the risk strategy. Risks are quantified and risk-bearing capacity is measured in line with the statutory requirements of Solvency II.

Limit system The maximum permitted solvency capital requirement for the Company is determined on the basis of the risk appetite and the eligible own funds. Using this maximum requirement, the Management Board sets an overall limit that is then apportioned to the most important risks and sub-risks. The limit system is reviewed annually. 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 or if risks need to be reduced. A traffic light system is used, for both risk-bearing capacity and the limits at risk category level. The system enables ARAG to monitor changes in the utilization of limits and initiate corrective measures if necessary.

ORSA The own risk and solvency assessment (ORSA) process verifies that the changes in the most significant individual risks over the next three financial years will remain manageable, thereby ensuring that the ARAG Group continues to meet the objective of the conservative risk and solvency policy over the long term. To this end, the ORSA process determines ARAG's overall solvency requirement and own funds for each planning year, providing an indication of the future coverage requirement. The Management Board is responsible for the annual ORSA process and takes a lead role in ensuring it is carried out.

Independent risk control function The independent risk control function is responsible for implementing the risk management system. This function is carried out by the Group Risk Management Central Department. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level. The Chief Risk Officer is a member of the Management Board and bears responsibility for the implementation of the risk management system in all Group companies. The system is largely implemented in the form of a risk governance model, through which rules for implementing the risk-relevant processes in the Company are defined in group-wide policies and guidelines. By reporting regularly to the Management Board, the independent risk control function also ensures comprehensive transparency with regard to the risk position and any changes to the risk position. Operating decisions about whether or not to pursue opportunities and/or take on risk are made in the units with relevant responsibility.

Risk management process The risk management process comprises risk identification, risk analysis, risk assessment, risk management, risk monitoring, and risk reporting. The aim of risk identification is to identify the emergence of new risks or changes in existing risks at an early stage and to assess them using a standard procedure. For example, risks arising in connection with the development of new markets or the launch of new products are identified, analyzed, measured, and submitted to the Management Board for decision using appropriate cross-functional review processes, such as the new-product process.

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

All identified risks are regularly measured. The key element in this process is the solvency capital requirement that is calculated for all downside risk. The purpose is to ensure that unexpected losses are covered. A partial internal model is used to quantify the solvency capital requirement. The model shows the loss occurring within a specific holding period (one year) and with a specified level of probability (99.5 percent). The methodology is regularly reviewed using backtesting and validation tests. Stress tests are also continuously carried out in respect of the risk exposures. An assessment is additionally carried out in the ORSA process.

Operational management of risk is carried out by the managers and process owners in those departments where the risks occur. Risk management consists of implementing measures to reduce, mitigate, transfer, and diversify risks.

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. Risk monitoring takes into account the regulatory and internal requirements regarding minimum cover. The results from the risk monitoring process and the associated recommendations for action are reported to the Management Board promptly and on a continual basis. Unexpected or extreme events can also affect a company's risk profile. Ad hoc reports are submitted if this is the case.

Internal control system The internal control system (ICS) 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 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 who are responsible for identifying and evaluating the risks in their area as part of the risk control process.
- Second line of defense: The monitoring of the business and central units is carried out by various interdisciplinary functions (Group Controlling, Legal/Compliance, Group Risk Management, and the Actuarial function) that specify standards for the design and monitoring of controls and the handling of risk.
- Third line of defense: Under its remit as the internal auditor for the Group companies, 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. 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.

Risk categories

Underwriting risk and market risk are of considerable significance for the Company, whereas counterparty default risk, liquidity risk, and operational risk are of lesser importance.

Underwriting risk Underwriting risk is the risk of a loss arising from inadequate pricing or inadequate assumptions used in determining underwriting liabilities. These losses result from various risk types, including:

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

These risks are measured using an internal model. A simulation is used to forecast a level of loss that would only be expected every 200 years (a 1 in 200 year event indicates the one-year loss anticipated with a probability of 99.5 percent). Future claims and/or required additions to reserves are calculated for premium and reserve risk on the basis of historical claims. Likewise, catastrophe and accumulation risk is assessed by simulating losses. Lapse risk is calculated on the basis of past lapse rates. The actual underwriting risk arises from the aggregation of the individual risks, taking diversification effects into account.

Measures implemented to restrict the risks include risk limits and a reinsurance program that focuses mainly on insuring the risk from large claims and accumulation through non-proportional reinsurance treaties. There are also facultative reinsurance arrangements for large risks and special risks.

The consistency of the insurance business and the adequacy of the claims provisions at all times can be seen in the following disclosures on the changes in the claims ratio for the entire direct insurance business over the last ten financial years.

Changes in claims ratio

Financial year		Claims ratio, gross, total	Profit/loss on settlements
	FY ratio	*Financial statements*	*% of initial reserve*
2022	58.3	49.4	7.6
2021	66.7	59.6	6.1
2020	55.0	49.2	4.6
2019	61.9	55.1	5.5
2018	63.3	59.9	2.8
2017	62.3	59.4	2.5
2016	57.9	51.9	4.9
2015	58.3	49.0	7.1
2014	59.9	60.2	–0.2
2013	61.2	41.0	14.3

Market risk Market risk is the risk of loss due to 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. For example, an assumed increase or decrease of 1 percentage point in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by approximately €13.5 million.
- Equity risk: changes in the level or volatility of the market prices of equities. For example, an assumed fall in equities markets of 20 percent would cause a loss in fair value of €12.3 million.
- Property risk: changes in the level or volatility of the market prices of real estate.
- Currency risk: changes in the level or volatility of exchange rates.

- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure.
- Migration/default risk: rating changes or changes in the extent of projected defaults. The breakdown of interest-bearing investments by rating is as follows:

Fixed-income securities by rating class (direct investment and funds)

(Proportion [%] by fair value)	**Dec. 31, 2022**
AAA	24.9
AA	13.0
A	26.1
BBB	29.9
BB	3.8
B	2.1
CCC	0.1
CC	0.0
C	0.0
D	0.0
Not rated	0.0

The breakdown of fixed-income securities is as follows (fair values): Of the fixed-income securities – including securities held indirectly through institutional funds – approximately 34.3 percent are accounted for by financial services entities, 29.2 percent by public-sector bonds, and 36.6 percent by corporate bonds.

These risks are measured with an internal model. An economic scenario generator is used to simulate capital market scenarios looking at factors such as interest rates, share prices, real estate prices, credit spreads, credit ratings/defaults, and exchange rates. These risk factors are used to determine the possible fair values of investments in one year's time. The market risk itself results from the 1 in 200 year event considering all risk factors simultaneously, and from concentration risk, taking diversification effects into account.

Measures implemented to restrict the risk include risk limits and limits in the investment guidelines for operating investments.

Counterparty default risk Counterparty default risk in the insurance business largely arises in connection with receivables from reinsurers and receivables from policyholders and insurance brokers. It is the downside risk arising from the unexpected default or deterioration in the credit standing of counterparties and debtors during the next twelve months.

Counterparty default risk is measured with the partial internal model. The risk of default on receivables from reinsurers is measured on the basis of the information available and proportionality considerations. The reinsurers' individual credit ratings are explicitly used. The risk of default on receivables from policyholders and insurance brokers is measured. The amount of the receivables due from reinsurers, broken down by external ratings, can be found in the notes to the consolidated financial statements.

The measures implemented to limit risk include requirements in respect of the selected reinsurers (such as a minimum rating) and an automated procedure for issuing reminders to recover receivables due from policyholders.

As of the balance sheet date, receivables from policyholders more than 90 days past due amounted to €3,670 thousand (December 31, 2021: €4,043 thousand). As of December 31, 2022, the average default rate for these receivables over the last three years, based on premium income, was 0.8 percent (December 31, 2021: 1.2 percent).

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

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. Asset/liability management (ALM) is used to determine the liquidity requirement over the medium to long term.

Risk limitation measures include ALM and rolling liquidity planning.

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

The Company uses the standard formula to determine the appropriate solvency capital requirement. Measurement for operational purposes is carried out using an expert assessment 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. Risk limitation measures are specified by the managers concerned on a case-by-case basis. When identifying and evaluating operational risks, the risk managers consider known loss events that are recorded in a loss database. This contains data on all loss events that have occurred and their actual impact. Consequently, the plausibility of subjective estimates can be tested. Material operational risks are also included in the strategic positioning risk analysis in the ORSA process.

There are contingency plans in place for risks that could have an impact on the entire Company. For example, a business continuity management system has been set up so that special countermeasures can be taken in the event of a cyberattack. This minimizes the impact of an attack. The implementation of each measure used is continuously monitored to ensure the measures taken to reduce the risk remain effective on an ongoing basis.

Overall risk position

The regulatory minimum capital requirement in accordance with the provisions of the German Insurance Supervision Act (VAG) is met in full. Moreover, the eligible own funds are higher than the solvency capital requirement calculated in accordance with VAG.

Over a planning period of three years, the risks were assessed using the scenarios of rising costs and claims, persistently high inflation with a rise in interest rates, and the impact of climate change on investments. The outcome showed that the solvency capital requirement will be sufficiently covered for the next few years.

In addition to the risks described above, disruptions to the energy supply and/or developments in the capital markets could have a negative impact on the business model.

Besides the repercussions for the Company's business operations, the impact of a sustained bottleneck in the supply of energy through to an energy shortage would primarily affect the underwriting business and investments. In underwriting business, an increase in energy costs reduces the purchasing power of private customers, which inhibits new business and can potentially give rise to an increase in lapse rates. Inadequate heating or electricity supply could also lead to property damage, which increases the risk of business interruptions. Depending on the nature of the interruption, regional accumulation events can occur. Targeted measures to avoid lapses, boost new business and the sales organizations, and provide selected services mitigate these effects. In investment business, the market value of the equities and corporate bonds of companies that do not offer essential consumer goods or which are energy intensive could fall. However, the impact of the energy crisis on the investment portfolio is examined on an ongoing basis. Susceptible companies and sectors are regularly discussed and any further measures that may be required are determined.

The current capital market environment (geopolitical crises, inflation, interest-rate rises, and a looming recession) pose a challenge for ARAG Allgemeine. In terms of investments in equities, it is likely that volatility will increase and prices will go down. The deteriorating global economy and manifold economic and operational headwinds for companies will push down profitability, triggering a widening of spreads. This can lead to a reduction in the market value of corporate bonds, especially high-yield bonds. Risks are effectively monitored and managed on an ongoing basis by maintaining the strategic asset allocation and implementing the specified risk monitoring process.

The overall risk position does not currently point to any trends that could jeopardize the continued existence of the Company as a going concern or cause a significant negative impact on net assets, financial position, or results of operations.

Financial Statements

Balance Sheet as of December 31, 2022

Assets

(€)
A. Intangible assets
I. Goodwill
B. Investments
I. Land, land rights and buildings, including buildings on third-party land
II. Investments in affiliated companies and equity investments
1. Shares in affiliated companies
2. Lending to affiliated companies
3. Equity investments
4. Lending to long-term investees and investors
III. Miscellaneous investments
1. Equities, investment fund shares/units, and other variable-yield securities
2. Bearer bonds and other fixed-income securities
3. Loans secured by mortgages or land charges and fixed-income receivables
4. Miscellaneous lending
a) Registered bonds
b) Promissory notes and loans
c) Loans and prepayments for certificates of insurance
d) Sundry lending
5. Bank deposits
6. Other investments
IV. Deposits with ceding insurers
C. Receivables
I. Receivables from direct insurance business
1. from policyholders
2. from insurance brokers of which from affiliated companies: €0.00 (Dec. 31, 2021: €0.00)
II. Receivables from reinsurance business of which from affiliated companies: €0.00 (Dec. 31, 2021: €0.00)
III. Miscellaneous receivables of which from affiliated companies: €6,831,890.22 (Dec. 31, 2021: €5,930,471.35)
D. Miscellaneous assets
I. Property and equipment and inventories
II. Current bank balances, checks and cash on hand
III. Other assets
E. Prepaid expenses and accrued income
I. Accrued interest and rent
II. Miscellaneous prepaid expenses and accrued income
F. Deferred tax assets
G. Excess of plan assets over pension liabilities
Total assets

As of December 31, 2022, the actuarial reserve amounted to €43,123,306.00 for annuities from general accident insurance, €596,981.00 for annuities from general liability insurance, and €4,536,063.00 for annuities from motor liability insurance.

It is confirmed that the actuarial reserves recognized in line items B. II. 1. and B. III. 1. on the equity and liabilities side of the balance sheet have been calculated in accordance with section 341f and 341g of the German Commercial Code (HGB) and in accordance with

				Dec. 31, 2022	Dec. 31, 2021
			2,668,447.00		3,053,921.00
				2,668,447.00	**3,053,921.00**
			0.00		0.00
		45,911,401.58			44,705,430.28
		0.00			0.00
		0.00			0.00
		0.00			0.00
			45,911,401.58		44,705,430.28
		194,740,550.76			201,834,465.53
		53,331,965.76			50,528,734.88
		0.00			0.00
	39,500,000.00				39,500,000.00
	14,007,957.62				11,045,407.31
	0.00				0.00
	0.00				0.00
		53,507,957.62			50,545,407.31
		84,696.00			89,388.94
		0.00			0.00
			301,665,170.14		302,997,996.66
			0.00		0.00
				347,576,571.72	**347,703,426.94**
		7,263,285.44			6,179,277.06
		8,303,702.73			9,567,345.86
			15,566,988.17		15,746,622.92
			3,085,258.26		13,604,054.33
			7,080,684.56		6,058,779.23
				25,732,930.99	**35,409,456.48**
			0.00		0.00
			23,221,186.96		13,000,508.88
			111,722.84		156,225.49
				23,332,909.80	**13,156,734.37**
			484,683.10		436,042.75
			240,959.43		27,608.17
				725,642.53	**463,650.92**
				0.00	**0.00**
				0.00	**0.00**
				400,036,502.04	**399,787,189.71**

the statutory regulation enacted on the basis of section 88 (3) of the German Insurance Supervision Act (VAG).

Düsseldorf, January 12, 2023 and March 14, 2023

The appointed actuary
Kathrin Khelaifia,
Dipl.-Mathematikerin (Bachelor of Mathematics)

Balance Sheet as of December 31, 2022

Equity and liabilities

(€)
A. Equity
I. Subscribed capital
II. Capital reserves
III. Revenue reserves
1. Statutory reserves
2. Other revenue reserves
IV. Net retained profit
B. Technical provisions
I. Unearned premiums
1. Gross amount
2. less: portion for outward reinsurance business
II. Actuarial reserve
1. Gross amount
2. less: portion for outward reinsurance business
III. Provision for outstanding claims
1. Gross amount
2. less: portion for outward reinsurance business
IV. Provision for performance-based and non-performance-based bonuses and rebates
1. Gross amount
2. less: portion for outward reinsurance business
V. Equalization provision and similar provisions
VI. Miscellaneous technical provisions
1. Gross amount
2. less: portion for outward reinsurance business
C. Other provisions
I. Provisions for pensions and other post-employment benefits
II. Provisions for taxes
III. Miscellaneous provisions
D. Deposits received from reinsurers
E. Other liabilities
I. Liabilities from direct insurance business
1. to policyholders
2. to insurance brokers of which to affiliated companies: € 0.00 (Dec. 31, 2021: € 13.19)
II. Liabilities from reinsurance business of which to affiliated companies: € 1,611,120.78 (Dec. 31, 2021: € 2,310,256.60)
III. Miscellaneous liabilities of which to affiliated companies: € 6,631,933.85 (Dec. 31, 2021: € 10,473,753.20) of which tax liabilities: € 2,485,527.40 (Dec. 31, 2021: € 2,396,892.60) of which social security liabilities: € 2,138.29 (Dec. 31, 2021: € 0.00)
F. Deferred income and accrued expenses
G. Deferred tax liabilities
Total equity and liabilities

		Dec. 31, 2022	Dec. 31, 2021
	44,000,000.00		44,000,000.00
	10,490,518.89		10,490,518.89
743,744.95			743,744.95
88,641.88			88,641.88
	832,386.83		832,386.83
	0.00		0.00
		55,322,905.72	**55,322,905.72**
32,860,328.46			31,831,736.60
99,444.92			74,963.33
	32,760,883.54		31,756,773.27
14,526.00			16,348.00
0.00			0.00
	14,526.00		16,348.00
237,198,714.51			242,544,083.25
27,296,820.78			31,973,329.45
	209,901,893.73		210,570,753.80
0.00			0.00
0.00			0.00
	0.00		0.00
	43,748,368.00		38,790,401.78
1,271,336.06			1,235,845.30
0.00			0.00
	1,271,336.06		1,235,845.30
		287,697,007.33	**282,370,122.15**
	36,620,956.00		35,756,887.00
	43,823.57		4,580.50
	3,464,540.48		3,340,089.98
		40,129,320.05	**39,101,557.48**
		0.00	**0.00**
3,966,863.10			5,644,542.84
1,433,289.54			1,566,689.81
	5,400,152.64		7,211,232.65
	2,176,741.81		2,722,918.39
	9,310,374.49		13,058,453.32
		16,887,268.94	**22,992,604.36**
		0.00	**0.00**
		0.00	**0.00**
		400,036,502.04	**399,787,189.71**

Income Statement
for the Period from January 1 to December 31, 2022

(€)
I. Underwriting account
1. Premiums earned net of reinsurance
a) Gross premiums written
b) Reinsurance premiums ceded
c) Change in gross unearned premiums
d) Change in reinsurers' share of gross unearned premiums
2. Technical interest income net of reinsurance
3. Miscellaneous underwriting income net of reinsurance
4. Claims incurred net of reinsurance
a) Payments for claims
aa) Gross amount
bb) Reinsurers' share
b) Change in provision for outstanding claims
aa) Gross amount
bb) Reinsurers' share
5. Change in sundry net technical provisions
6. Expenses for performance-based and non-performance-based bonuses and rebates net of reinsurance
7. Insurance business operating expenses net of reinsurance
a) Gross insurance business operating expenses
b) less: commissions received and profit sharing received from outward reinsurance business
8. Miscellaneous underwriting expenses net of reinsurance
9. Subtotal
10. Change in the equalization provision and similar provisions
11. Underwriting result net of reinsurance
Carried forward:

			2022	2021
	220,093,343.43			210,577,670.51
	–8,804,302.88			–8,145,419.75
		211,289,040.55		202,432,250.76
	–1,028,591.86			–2,381,014.45
	24,481.59			51,348.76
		–1,004,110.27		–2,329,665.69
			210,284,930.28	**200,102,585.07**
			123,954.00	**118,582.00**
			422,986.57	**395,221.35**
	112,093,276.37			101,832,990.46
	–9,501,787.86			–15,377,429.29
		102,591,488.51		86,455,561.17
	–5,331,680.03			16,710,973.82
	4,676,508.67			–1,775,661.58
		–655,171.36		14,935,312.24
			101,936,317.15	**101,390,873.41**
			–33,668.76	**39,228.60**
			0.00	**0.00**
		95,349,635.36		92,596,770.44
		–1,424,243.18		–881,406.62
			93,925,392.18	**91,715,363.82**
			1,360,566.21	**1,266,925.60**
			13,575,926.55	**6,282,454.19**
			–4,957,966.22	**3,815,846.22**
			8,617,960.33	**10,098,300.41**
			8,617,960.33	**10,098,300.41**

Income Statement
for the Period from January 1 to December 31, 2022

(€)
Brought forward:
II. Non-underwriting account
1. Income from investments
a) Income from equity investments of which from affiliated companies: € 2,561,864.24 (2021: € 1,734,421.50)
b) Income from other investments of which from affiliated companies: € 0.00 (2021: € 0.00)
aa) Income from land, land rights and buildings, including buildings on third-party land
bb) Income from other investments
c) Income from reversals of write-downs
d) Gains on the disposal of investments
e) Income from profit-pooling, profit-transfer and partial profit-transfer agreements
2. Expenses for investments
a) Expenses for the management of investments, interest expense and similar charges and miscellaneous expenses for investments
b) Depreciation, amortization and write-downs of investments
c) Losses on the disposal of investments
d) Expenses from the transfer of losses
3. Technical interest income
4. Other income
5. Other expenses
6. Profit/loss from ordinary activities
7. Extraordinary income
8. Extraordinary expenses
9. Net extraordinary income/expense
10. Income taxes
11. Miscellaneous taxes
12. Income from the transfer of losses
13. Profits transferred under a profit-pooling, profit-transfer or partial profit-transfer agreement
14. Net income for the year

				2022	2021
				8,617,960.33	**10,098,300.41**
		2,561,864.24			1,734,421.50
	0.00				0.00
	2,281,531.42				1,905,672.98
		2,281,531.42			1,905,672.98
		0.00			721,522.60
		518,421.44			0.00
		521,372.96			2,961,299.35
			5,883,190.06		7,322,916.43
		1,203,970.58			1,171,423.23
		3,325,616.53			866,001.78
		0.00			0.00
		0.00			0.00
			4,529,587.11		2,037,425.01
			123,954.00		118,582.00
				1,229,648.95	**5,166,909.42**
			2,851,305.77		4,406,218.09
			7,612,529.77		7,747,965.28
				–4,761,224.00	**–3,341,747.19**
				5,086,385.28	**11,923,462.64**
			0.00		0.00
			0.00		0.00
				0.00	**0.00**
				5,086,385.28	**11,923,462.64**
			141,701.83		95,536.76
			3,557.01		11,964.97
				145,258.84	**107,501.73**
				0.00	**0.00**
				4,941,126.44	**11,815,960.91**
				0.00	**0.00**

Notes to the Financial Statements

I. General Disclosures

ARAG Allgemeine Versicherungs-AG is entered in the commercial register of the Düsseldorf local court under the number HRB 10418. Its registered office is ARAG Platz 1, 40472 Düsseldorf, Germany. The Company has prepared these financial statements for 2022 in accordance with the requirements of the German Commercial Code (HGB), taking into account the supplementary provisions applicable to large corporations and the additional provisions applicable to insurance companies, the German Insurance Supervision Act (VAG), and the German Regulation on the Accounting of Insurance Undertakings (RechVersV). The financial statements are presented on the basis of financial statement forms 1 and 2 pursuant to section 2 RechVersV.
The Company is a large corporation within the meaning of section 267 (3) HGB. Therefore, and pursuant to the obligations under section 341a (1) HGB, the accounting rules for large corporations have been applied.

II. Disclosures on Accounting Policies

Accounting policies
The accounting principles and measurement requirements arising from the pertinent legislation were applied.

Purchased **intangible assets** are recognized at cost on the balance sheet and reduced by straight-line amortization according to their estimated useful life. These assets are the goodwill – resulting from the new branch established in the Republic of Ireland in 2019 and an associated portfolio transfer – which will be amortized on a straight-line basis over its expected useful life, calculated by the Company to be ten years. No internally generated intangible assets were recognized.

Investments in affiliated companies and equity investments are valued at cost, written down accordingly where permanent impairment has occurred. As had also been the case in 2021, no such write-downs were recognized in the reporting year. Neither in 2022 nor in 2021 were there grounds for the reversal of write-downs as a result of the reason for the original write-down no longer applying.

Shares in affiliated companies and equity investments with a shareholding of at least 20.0 percent that are intended to serve the Company's own operations by establishing a lasting relationship were as follows:

Shareholdings of at least 20.0 percent as of December 31, 2022

Name and registered office of company	Shareholding	Equity	Net income/loss for the year
	(%)	(€)	(€)
Shares in affiliated companies			
Interlloyd Versicherungs-AG, Düsseldorf[1)]	100.0	7,392,771.59	**521,372.96**
ALIN 2 Verwaltungs-GmbH, Düsseldorf	100.0	33,344.38	**1,570.85**
ALIN 2 GmbH & Co. KG, Düsseldorf	100.0	19,029,887.48	**1,572,910.49**
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50.0	5,346,697.48	**246,294.66**
ARAG 2000 GbR, Düsseldorf	25.0	70,705,591.06	**3,955,815.01**
ARAG Service Center GmbH, Düsseldorf	20.0	326,198.70	**45,190.09**

1) A profit-and-loss transfer agreement exists.

Equities, investment fund shares/units, other variable-yield securities, bearer bonds, and other fixed-income securities that have not been classified for treatment as permanent fixed assets were valued at the lower of cost or quoted market price/market value as of the reporting date.

Following the strict principle of lower of cost or market value, no write-downs or reversals of write-downs were recognized on equities and investment fund shares/units in 2022 or 2021. No write-downs following the strict principle of lower of cost or market value were recognized on bonds in the reporting year either (2021: €544,155.00). No write-downs on these securities were reversed in 2022 (2021: €58,425.00).

ARAG Allgemeine made use of the option to select the discretionary principle of lower of cost or market value for all institutional investment fund shares/units and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. The institutional funds and the bearer bonds are all classified as permanent investments at ARAG Allgemeine and were therefore treated as fixed assets. In 2022, bearer bonds of €53,112,303.67 were reclassified from current assets to fixed assets as they are intended for permanent use in business operations. This reclassification avoided write-downs of €10,059,988.97. The long-term fund value is calculated by reviewing the individual components of the fund. Criteria for reviewing long-term changes in the value of fixed-income securities include their credit rating and nominal amount. Comparisons with historical valuation parameters are used for equities. If there is long-term impairment, the investment fund shares/units are written down to the sum of the long-term values of the securities in the investment fund. In light of the high volatility in the capital markets, the German Federal Financial Supervisory Authority (BaFin) and the German Insurance Association (GDV) jointly specified the principles for determining the fair value. The technical guidance issued by the Insurance Committee (VFA) of the Institute of Public Auditors in Germany (IDW) on insurance companies' valuation of investments under commercial law in accordance with section 341b HGB dated October 27, 2022 was taken into account. Write-downs are reversed up to the amount of the historical cost if there is a sustained price recovery. Shares/units in private equity funds and infrastructure funds are reported under investment fund shares/units and valued at the lower of cost or fair value on the reporting date. The fair value as of the reporting date is reviewed on the basis of the net asset values (NAVs) reported by the fund management companies. If the reason for the original write-down no longer applies, write-downs are reversed to the historical cost.

The bearer bonds that are treated as fixed assets are recognized at amortized cost. The discretionary principle of lower of cost or market value was applied for the bearer bonds recognized under fixed assets. For securities with a credit rating of less than BBB- (second-best rating) or which have been downgraded by two or more notches, the probability of default and the loss given default are calculated. On this basis, the relevant securities are written down according to their credit risk, to a maximum of their fair value. The same applies if the issuer's rating falls below the stated threshold during the holding period. The strict principle of lower of cost or market value is applied for securities without a rating. Premiums and discounts were taken into account using the effective interest method. Because the premiums and discounts are recognized in the carrying amount of the securities themselves rather than under prepaid expenses and accrued income and under deferred income and accrued expenses, this treatment led to a net recognition of assets amounting to €15,716.09 (December 31, 2021: net derecognition of €3,084.29).

Write-downs amounting to €3,305,541.53 (2021: €321,846.78) were recognized in respect of these investment fund shares/units in application of the discretionary principle of lower of cost or market value. They related to institutional funds (€3,302,310.87; 2021: €321,846.78) and bearer bonds (€3,230.66; 2021: €0.00). There were no reversals of write-downs on these securities in the reporting year (2021: €663,097.60).

As of the reporting date, application of the discretionary principle of lower of cost or market value resulted in undisclosed liabilities of €11,346,806.17 that had not been netted (December 31, 2021: €17,634.96).

Registered bonds are accounted for at their nominal or redemption amount. No write-downs to a lower fair value were necessary in the year under review or the previous year. As of December 31, 2022, undisclosed liabilities amounted to €5,344,991.93 (December 31, 2021: €73,838.19). Premiums were accrued and discounts deferred, and they were reclassified to income using the straight-line method over the term to maturity. Any zero-coupon registered bonds are recognized at the lower of cost or fair value.

Promissory notes and loans are recognized at amortized cost unless permanently impaired. Write-downs of €20,075.00 to a lower fair value were necessary in the reporting year (2021: €0.00). As of December 31, 2022, undisclosed liabilities amounted to €1,297,404.59 (December 31, 2021: €0.00). Premiums and discounts were taken into account using the effective interest method. The structured products held in the portfolio of direct investments in registered bonds and promissory notes are simply structured products pursuant to the pronouncement issued by IDW's Main Technical Committee (IDW AcP HFA 22).

Bank deposits are recognized at their nominal amount. Increases and decreases in bank deposits are only netted where the credit balances are held by the same business unit.

Deposits with ceding insurers are recognized at the nominal value of the collateral furnished to cedants.

Investments are individually assigned to the business units (headquarters and branches). The assignment is documented by recording the investments in the relevant books of the business unit concerned. Income from investments is allocated to each business unit according to the assignment of the investment in question. Assignments are reviewed annually using the modified capital allocation approach determined by the German tax authorities – which has been approved by the Organisation for Economic Co-operation and Development (OECD) – and adjusted by means of compensatory payments.

Receivables from direct insurance business are generally recognized at their nominal amount. Where necessary, **receivables from policyholders** are written down, are reduced by specific allowances on the basis of exceeding a predefined due date, or are reduced by a general allowance on the basis of rates of default in previous years. Receivables from policyholders past due are valued at the average historical recovery rate. If needed, **receivables from insurance brokers** are reduced by specific allowances and a general allowance in the amount of the likely default. The maturity of the receivables is generally less than one year.

Receivables from reinsurance business comprise amounts derived from outward reinsurance business. The balance of €3,085,258.26 (December 31, 2021: €13,604,054.33) generally arises from outward reinsurance business. The amounts recognized are the outstanding balances.

Receivables from reinsurance business

(Balance by rating class, €)	**Dec. 31, 2022**
AAA	0.00
AA	1,186,378.96
A	1,898,879.30
BBB	0.00
BB	0.00
B	0.00
CCC	0.00
CC	0.00
C	0.00
D	0.00
No rating	0.00
Total	**3,085,258.26**

Miscellaneous receivables mainly comprise amounts in connection with the profit-and-loss transfer agreement entered into with Interlloyd and balances from intragroup services. All items are due within one year. They are recognized at their nominal amounts.

Current bank balances, checks, and cash on hand are recognized at cost. This equates to the nominal amount. Bank balances denominated in foreign currency were translated using the middle spot exchange rate as of the reporting date, disregarding both historical cost convention and the realization principle. Balances are documented in the form of bank statements and cash records. Payment orders that had been issued but not executed as of the reporting date were deducted from the balances for the purposes of the carrying amounts reported on the balance sheet.

Other assets are recognized at their nominal amount, which equates to their cost. This item consists of tax assets.

Prepaid expenses and accrued income mainly consist of accrued rights to interest that are not yet due in respect of the income period before the balance sheet date and premiums in connection with registered bonds.

If differences arise between the carrying amounts in the HGB financial statements and those in the tax base and these differences are expected to reverse in subsequent years, **deferred taxes** are recognized in respect of these differences using the entity-specific tax rate. As ARAG Allgemeine and ARAG SE form a single entity for corporation tax, trade tax, and VAT purposes, the deferred taxes are recognized at the level of the tax group parent.

The **subscribed capital** has been fully paid up by the shareholders. The **capital reserves** consist of amounts that shareholders have contributed to the equity of the Company in accordance with section 272 (2) no. 1 HGB. The full amount of the statutory reserves has been recognized.

Gross unearned premiums for direct insurance business were calculated pro rata on the basis of the premiums and lapses/cancellations posted, less the installment surcharges. The non-transferable income components were deducted from the unearned premiums. Accordingly, 85 percent of the commissions and other remuneration for agents is recognized as non-transferable income components. The gross unearned premiums for inward reinsurance business are recognized in accordance with the information provided by the primary insurer. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

The components of premiums from anticipated premium-free children's accident insurance policies are added to the children's accident **actuarial reserves**. The calculation is carried out using mathematical principles in accordance with the underwriting business plan.

The **provision for outstanding claims** is generally determined individually and measured according to specific requirements. In the ski breakage and theft insurance segment, the claims reserves are recognized according to the average value of claims (number of claims multiplied by the average value of claims plus a surcharge for inflation). The benefit reserve for annuities contained in the provision for outstanding claims is calculated individually using actuarial principles and in accordance with the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) and an entity-specific discount rate of 0.25 percent (2021: 0.25 percent) by the Company's appointed actuary, taking the expenses required for settlement into account.

General provisions are recognized for claims incurred but not reported and reopened claims on the basis of empirical values.

Owing to the positive trend in claims settlements, particularly in the general accident insurance segment, the Company's gross profit on settlements in direct business amounts to nearly 7.6 percent (2021: 6.1 percent) in relation to the corresponding initial reserve.

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 benefit reserves for annuities, which are recognized in accordance with actuarial principles, are not included in the calculation.

The claims provisions for inward reinsurance business were recognized in accordance with the information provided by the primary insurer.

Technical interest income was calculated at 0.25 percent of the arithmetic mean of the opening and closing balances of the actuarial reserves and the benefit reserves for annuities.

The **equalization provision** for the direct insurance and inward reinsurance business is recognized and valued in accordance with section 341h HGB in conjunction with section 29 RechVersV. The calculation is carried out separately for the direct insurance business and for the inward reinsurance business, in each case broken down by class of insurance. The calculated equalization provision is, if necessary, allocated between business in Germany and the branches according to gross premiums earned in each class of insurance.

Miscellaneous technical provisions were recognized for the following risks:

The **lapse provision** for discontinuation and reduction of risk in direct insurance business was calculated using a lapse rate based on empirical values in the year under review. The breakdown by individual insurance segment is based on the allocation formula for premiums.

The **provision recognized for premium waivers** relates to the scales of rates offered by the Company under which the obligation to pay the premiums is waived for up to five years, e.g. in the event of unemployment. The provision offsets the expenses that are likely to be incurred (claims, costs, commissions) during the period of unemployment. The expected duration of the waiver of premiums is estimated on the basis of internal statistical analysis.

The **provision for assistance for victims of traffic accidents** is, where available, recognized on the basis of the share specified by the German Road Casualty Support Organization, otherwise on the basis of empirical values.

The change in sundry net technical provisions in the income statement resulted from a €40,000.00 increase in the lapse provision, a €1,822.00 decrease in the actuarial reserve, and a €4,509.24 decrease in miscellaneous sundry technical provisions.

The **technical provisions in inward reinsurance business** are recognized in the amount of the premiums ceded by the primary insurer.

The **reinsurers' share** of technical provisions is determined in accordance with the prevailing quota-share, facultative, and excess-of-loss treaties.

Provisions for pensions and other post-employment benefits are calculated using actuarial principles in accordance with the projected unit credit (PUC) method on the basis of the Heubeck 2018 G mortality tables and a discount rate of 1.79 percent (2021: 1.87 percent). In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. The defined benefit obligations were discounted in accordance with section 253 (2) sentence 1 HGB using the average market interest rate, which in the case of provisions for pensions, is based on the market interest rate for the past ten years. The interest rate used was forecast at the reporting date using market data as of October 31, 2022 and was determined in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV). Exercising the option granted by section 253 (2) sentence 2 HGB, a remaining term of 15 years was assumed. The following actuarial parameters were used to calculate the obligations: earliest possible age under the German Pension Age Reform Act (RVAGAnpG), annual increase in salaries of 2.50 percent, annual increase in pension benefits of 2.30 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.
Assets from reinsurance were offset against the defined benefit obligation. The fair value of the assets corresponded to the settlement amount of the offset liabilities of €188,186.00 (December 31, 2021: €194,279.00).
The option pursuant to section 28 (1) of the Introductory Act to the German Commercial Code (EGHGB), which permits provisions for pensions and other post-employment benefits not to be recognized for legacy entitlements, has not been exercised.

Provisions for taxes are recognized in the anticipated settlement amount determined in accordance with prudent business practice.
The **miscellaneous provisions** are generally recognized in the amount that is necessary to settle the obligation according to prudent business practice. Their residual maturity is generally less than one year.
Interest expenses of €7,246.08 arose from the discounting of provisions with a maturity of more than one year (2021: €10,151.57). Interest income of €1,140.14 arose in this connection (2021: €282.91).
Specific accounting policies are applied to the following key miscellaneous provisions:
Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated in accordance with actuarial principles on the basis of the Heubeck 2018 G mortality tables, applying a discount rate of 1.45 percent (seven-year average; 2021: 1.35 percent) and future salary increases of 2.5 percent per year.

In 2022, a provision in accordance with the **pre-retirement part-time employment agreement** for the private insurance industry was recognized – in line with the IDW accounting principle – using a discount rate of 1.45 percent (2021: 1.35 percent). Credit balances on employee working hours accounts models are protected against insolvency in accordance with the German Pre-Retirement Part-Time Employment Act (AltTZG) by means of a fixed liability guarantee from a German commercial bank.

A **long-service provision** was recognized in the year under review for long-service awards to be paid to employees. The provision was calculated using the projected unit credit method taking into account death rates in accordance with the Heubeck 2018 G mortality tables and applying a discount rate of 1.45 percent (seven year average; 2021: 1.35 percent). The calculation also included staff turnover at an average rate of 1.5 percent and salary increases at a rate of 2.5 percent. The earliest possible pension age under RVAGAnpG was selected as the final age.

Other liabilities are recognized at their settlement value. The residual maturity is generally less than one year. The **liabilities from direct insurance business** and the **liabilities from reinsurance business** are valued at their nominal amount. All other non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value. **Miscellaneous liabilities** are recognized at their settlement value.

Deferred income and accrued expenses are recognized at their settlement value.

Currency translation

Assets and liabilities denominated in foreign currencies are translated at the middle spot rate on the balance sheet date. Income and expenses are recognized using the transaction exchange rate on the date of the relevant inflow or outflow. Currency translation generated expenses of €784,000.03 in 2022 (2021: income of €474,961.29). These amounts are reported in other net income/expense.

Fair value disclosures pursuant to section 54 RechVersV

Fair values for investments in affiliated companies and equity investments The shares and equity investments have generally been valued using the income capitalization approach. In the case of companies that predominantly perform services for the ARAG Group and in the case of intermediate holding companies, the pro rata net asset value has been used as the fair value. Where equity investments and shares were acquired close to the reporting date, the carrying amount was used as the fair value.

Fair values of equities, investment fund shares/units, bearer bonds, and other fixed-income securities The fair values of equities, investment fund shares/units, bearer bonds, and other fixed-income securities were calculated in accordance with the valuation method already described for these balance sheet line items.

Fair values of miscellaneous investments The fair values of securities that are not exchange-traded (registered bonds, promissory notes) are calculated on the basis of the swap curve. This involves determining the discount rate on the swap curve corresponding to the maturity of the security being valued. Any spreads resulting from the structure of the individual security (maturity, collateral, credit rating, etc.) are taken into account as appropriate. The remaining investments were recognized at market value.

The fair values broken down by asset class are shown in the list of investments in section IV. 'Non-Insurance Disclosures' in the notes to the financial statements.

III. Insurance Disclosures

Direct insurance and inward reinsurance business

(€'000)	Total insurance business		Direct insurance business (total)		Accident insurance		Liability insurance		Motor liability insurance	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Gross premiums written	220,093	210,578	189,000	179,937	47,261	46,961	45,834	44,277	712	618
Gross premiums earned	219,065	208,197	188,215	177,638	47,229	47,007	45,868	44,244	712	618
Net premiums earned	210,285	200,103	179,435	169,544	45,073	44,988	43,796	42,127	–27	0
Gross expenses for claims	106,762	118,544	92,909	105,797	19,436	21,201	19,319	14,404	–887	145
Gross insurance business operating expenses	95,350	92,597	81,044	78,828	17,265	17,381	19,199	18,872	183	120
of which front-end fees	33,794	33,201	31,618	30,901						
of which administrative expenses	61,556	59,397	49,426	47,928						
Reinsurance balance	2,530	–9,940	2,530	–9,940	1,172	–115	1,797	839	47	26
Underwriting result net of reinsurance before equalization provision	13,576	6,282	11,506	2,836	9,587	8,797	5,640	10,225	1,395	334
Underwriting result net of reinsurance after equalization provision	8,618	10,098	6,490	7,466	9,587	8,797	6,090	13,083	1,395	334
Gross technical provision (total)	315,093	314,418	270,574	271,021	98,162	99,111	73,935	74,077	10,173	11,876
of which gross provision for outstanding claims	237,199	242,544	216,899	223,180	92,962	93,933	57,920	57,585	10,152	11,846
of which lapse provision	1,260	1,220	1,260	1,220	307	312	278	272	17	27
of which equalization provision and similar provisions	43,748	38,790	27,260	22,244	0	0	10,419	10,869	0	0
Number of insurance policies with a term of at least one year	5,062,589	3,890,782	5,062,589	3,890,782	148,234 [1)]	149,456 [1)]	298,996 [1)]	293,624 [1)]	3,406	3,757
Technical interest income net of reinsurance relating to benefit reserves for annuities (0.25 percent)	124	119	124	119	108	102	2	2	15	15

[1)] These insurance segments contain 17 group contracts (2021: 17) with 20,222,892 insured risks (2021: 20,425,262).

Number of insurance policies with a term of at least one year

Direct insurance business	2022	2021
(No.)		
Germany	975,316	953,481
Other member states of the European Community/ signatories to the Agreement on the European Economic Area (EEA)	2,764,860	1,807,478
Non-EEA country	1,322,413	1,129,823
Total	**5,062,589**	**3,890,782**

Miscellaneous motor insurance		Fire and property insurance		of which composite home contents insurance		of which composite residential buildings insurance		of which miscellaneous property insurance		Miscellaneous insurance		Inward business (total)	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
560	73	57,644	53,466	23,016	22,022	19,264	18,070	15,365	13,373	36,989	34,542	31,093	30,641
560	73	57,314	53,393	22,958	22,093	19,201	18,030	15,155	13,271	36,533	32,303	30,850	30,559
–0	0	54,251	50,460	21,613	20,736	17,820	16,762	14,817	12,963	36,342	31,969	30,850	30,559
283	274	35,899	53,049	12,043	13,282	18,775	25,831	5,080	13,936	18,860	16,724	13,853	12,747
65	59	24,073	23,162	10,425	10,269	7,013	6,900	6,635	5,993	20,258	19,234	14,306	13,769
												2,176	2,300
												12,130	11,469
150	–158	–699	–10,695	386	–948	–851	–7,429	–234	–2,319	63	164	0	0
51	–97	–2,546	–12,627	68	–594	–5,970	–7,290	3,356	–4,744	–2,622	–3,796	2,070	3,446
51	–97	–6,799	–9,362	357	181	–7,508	–6,968	352	–2,575	–3,835	–5,289	2,127	2,632
68	49	58,925	59,467	12,331	11,734	28,072	28,839	18,522	18,894	29,312	26,441	44,519	43,397
55	46	42,080	47,238	7,421	6,600	22,551	24,928	12,108	15,710	13,730	12,533	20,300	19,364
13	3	536	503	214	207	179	170	143	127	108	103	0	0
0	0	11,404	7,151	3,903	4,192	3,619	2,081	3,882	878	5,436	4,224	16,489	16,546
1,785	2,028	344,537	336,950	193,008	190,489	42,339	41,454	109,190	105,007	4,265,631 [1)]	3,104,967 [1)]	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source of insurance business by premiums written

Direct insurance business	2022	2021
(€'000)		
Germany	165,846	158,263
Other member states of the European Community/signatories to the Agreement on the European Economic Area (EEA)	6,057	5,980
Non-EEA country	17,097	15,694
Total	**189,000**	**179,937**

IV. Non-Insurance Disclosures

Changes in asset items A., B. I. to III. in the financial year 2022

(€'000)		Carrying amount as of Dec. 31, 2021	Additions
A.	**Intangible assets**		
	1. Goodwill	3,054	0
	2. Total for A.	**3,054**	**0**
B. I.	**Land, land rights and buildings, including buildings on third-party land**	**0**	**0**
B. II.	**Investments in affiliated companies and equity investments**		
	1. Shares in affiliated companies	44,705	1,901
	2. Lending to affiliated companies	0	0
	3. Equity investments	0	0
	4. Lending to long-term investees and investors	0	0
	5. Total for B. II.	**44,705**	**1,901**
B. III.	**Miscellaneous investments**		
	1. Equities, investment fund shares/units, and other variable-yield securities	201,834	2,003
	2. Bearer bonds and other fixed-income securities [1)]	50,529	3,019
	3. Loans secured by mortgages or land charges and fixed-income receivables	0	0
	4. Miscellaneous lending		
	a) Registered bonds	39,500	0
	b) Promissory notes and loans	11,045	2,983
	c) Loans and prepayments for certificates of insurance	0	0
	d) Sundry lending	0	0
	5. Bank deposits	89	0
	6. Other investments	0	0
	7. Total for B. III.	**302,998**	**8,004**
Total		**350,757**	**9,906**

[1)] In 2022, bearer bonds of € 53,112 thousand in this item were reclassified from current assets to fixed assets.

Disposals	Currency adjustments	Reversals of write-downs	Write-downs	Carrying amount as of Dec. 31, 2022	Fair value pursuant to sec. 54 RechVersV
0	0	0	385	2,668	2,668
0	**0**	**0**	**385**	**2,668**	**2,668**
0	**0**	**0**	**0**	**0**	**0**
695	0	0	0	45,911	85,468
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
695	**0**	**0**	**0**	**45,911**	**85,468**
5,795	0	0	3,302	194,741	211,489
212	0	0	3	53,332	43,275
0	0	0	0	0	0
0	0	0	0	39,500	34,155
0	0	0	20	14,008	12,711
0	0	0	0	0	0
0	0	0	0	0	0
0	–5	0	0	85	85
0	0	0	0	0	0
6,007	**–5**	**0**	**3,326**	**301,665**	**301,714**
6,702	**–5**	**0**	**3,711**	**350,254**	**389,850**

Investment disclosures

The portfolio of investments contains the following **investment funds** of which more than 10.0 percent is held by the Company:

Institutional funds

Institutional fund	Type of fund	Investment objective	Carrying amount as of Dec. 31, 2022	Market value as of Dec. 31, 2022	Difference	Dividend in 2022	Redemption
			(€)	(€)	(€)	(€)	
ALLTRI	Mixed fund	Increased income	169,000,181.38	186,756,051.48	17,755,870.10	391,962.93	At any time
ARI 2	Fixed-income fund	Increased income	11,389,780.49	10,923,975.65	–465,804.84	97,106.87	At any time
Total			**180,389,961.87**	**197,680,027.13**	**17,290,065.26**	**489,069.80**	

The investment objectives of the funds – which can be traded on any stock market trading day – are based on the relevant benchmarks derived from the strategic investment structure.

Equity

(€)	Dec. 31, 2022	Dec. 31, 2021
Total equity	**55,322,905.72**	**55,322,905.72**
of which:		
I. Subscribed capital		
The share capital amounts to: It is divided into 2,200,000 fully paid-up shares.	**44,000,000.00**	**44,000,000.00**
II. Capital reserves		
pursuant to sec. 272 (2) no. 1 HGB	**10,490,518.89**	**10,490,518.89**
III. Revenue reserves		
1. Statutory reserves	743,744.95	743,744.95
2. Other revenue reserves	88,641.88	88,641.88
	832,386.83	**832,386.83**
IV. Net retained profit	**0.00**	**0.00**

In previous years, the **statutory reserves** had to be recognized in accordance with section 300 of the German Stock Corporation Act (AktG). No addition to the statutory reserves was necessary in 2022.

Provisions for pensions and other post-employment benefits

Since 2010, this item has also included the offsetting of pension benefit entitlements under reinsurance in accordance with section 246 (2) sentence 2 HGB. The breakdown of this item as of December 31, 2022 was therefore as follows:

Defined benefit obligations

(€)	Dec. 31, 2022	Dec. 31, 2021
Amount required to settle the vested entitlements	36,809,142.00	35,951,166.00
of which offsetable against pension insurance assets	– 188,186.00	– 194,279.00
Remaining amount	**36,620,956.00**	**35,756,887.00**

Provisions for taxes

In 2022, provisions for taxes of €43,823.57 (December 31, 2021: €4,580.50) had to be recognized for tax demands from an international branch, the reason for or amount of which was not yet known.

Miscellaneous provisions

This line item essentially consists of provisions for long-service expenses of €548,239.00 (December 31, 2021: €533,193.00), bonuses of €483,025.21 (December 31, 2021: €454,585.33), costs for the annual financial statements and for auditing of €376,920.72 (December 31, 2021: €374,998.64), pre-retirement part-time employment of €198,128.00 (December 31, 2021: €66,060.00), vacation entitlement obligations of €192,876.00 (December 31, 2021: €215,151.00), and reimbursement of the Supervisory Board's expenses of €150,000.00 (December 31, 2021: €150,000.00). There are also provisions for purchase invoices not yet received and sundry contingent liabilities, the reason for and/or the amount of which is not yet known.

Net extraordinary income/expense

There was no extraordinary income or expense in either 2022 or 2021.

Taxes

Following the conclusion of the profit-and-loss transfer agreement, ARAG Allgemeine and ARAG SE form a single entity for tax purposes. Consequently, income has been taxed at the level of the parent company since 2006. The results of the more realistic assessment (BMF circular dated May 5, 2000) and the discounting of the claims provisions (BMF circular dated October 20, 2016) are taken into account when determining the basis of assessment for income tax.

As ARAG Allgemeine and ARAG SE form a single entity for corporation tax, trade tax, and VAT purposes, the deferred taxes resulting from differences between the carrying amounts in the Company's financial statements and those in the tax base are recognized at the level of the tax group parent.

The net tax expense recognized of €145,258.84 (2021: €107,501.73) chiefly relates to tax expenses from the international branches as well as to expenses from German motor vehicle tax.

V. Report on Post-Balance Sheet Events

There were no events of particular significance after December 31, 2022. So far in 2023, business performance has been in line with expectations.

VI. Other Disclosures

Miscellaneous financial commitments and contingent liabilities pursuant to sections 251 and 285 no. 3a HGB

Investment agreements with a total volume of €38,042,500.00 (December 31, 2021: €31,540,799.44) have been concluded with various private equity funds through the affiliated company ALIN 2 GmbH & Co. KG. Calls from the funds result in cash being paid into ALIN 2 GmbH & Co. KG immediately before payment is due in order to provide the required liquidity. Calls at short notice of €14,416,689.01 (2021: €14,352,128.39) are expected on the basis of open-ended investment agreements. As of the reporting date, ARAG Allgemeine had call commitments of €146,566.68 (December 31, 2021: €149,753.94) toward four other of its infrastructure funds and private equity funds recognized under investment fund shares/units. This was on the basis of outstanding contributions to be made by the Company as a limited partner that were not yet due.

Difference pursuant to section 253 no. 6 HGB

Differences pursuant to section 253 no. 6 HGB arise when calculating provisions for pensions and other post-employment benefits as a result of applying the percentage rate for the ten-year average rather than the percentage rate for the seven-year average. At the end of the reporting year, this difference stood at €1,783,517.00 (December 31, 2021: €2,651,194.00).

Auditor's fees

The Company's Supervisory Board agreed fees of €141,370.00 (2021: €139,360.00) with the auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, for the audit of the 2022 single-entity financial statements and Solvency II balance sheet. As ARAG Allgemeine is not entitled to offset input VAT, the additional VAT of €26,860.30 (2021: €26,478.40) incurred was included in the recognized expense. No other additional consultancy/advisory or non-audit services were performed by the auditor in the reporting year.

Commissions and other remuneration for insurance agents, staff costs

(€)	2022	2021
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	55,124,942.19	53,067,342.21
2. Other remuneration for insurance agents within the meaning of section 92 HGB	29,314.16	90,671.25
3. Wages and salaries	10,727,296.47	11,039,631.38
4. Social security and other employee benefit expenses	1,848,121.31	1,877,875.97
5. Pension and other post-employment benefit expenses	2,475,037.68	2,739,602.71
Total expenses	**70,204,711.81**	**68,815,123.52**

Employees

The average number of employees in 2022 was 162 (2021: 167), of whom 79 worked in domestic claims, 64 in sports insurance, and 19 in other departments.

Supervisory Board and Management Board remuneration

In the year under review, the Company's Supervisory Board received remuneration of €150,000.00 (2021: €150,000.00). The remuneration for members of the Management Board came to €812,547.25 in 2022 (2021: €852,369.43). The Management Board's remuneration is partly derived from intragroup charging among Group companies. Remuneration for former members of the Management Board and their surviving dependants amounted to €984,165.26 (2021: €968,238.94). A provision of €15,151,155.00 was recognized for current pensions and vested pension entitlements of former members of the Management Board and their surviving dependants (December 31, 2021: €15,488,492.00). The members of the Supervisory Board and Management Board are listed at the end of this annual report.

Group affiliation

ARAG Allgemeine Versicherungs-AG is wholly owned by ARAG SE, Düsseldorf. ARAG SE and all of its affiliated companies are included in the consolidated financial statements of ARAG Holding SE, Düsseldorf, for the year ended December 31, 2022. The consolidated financial statements of ARAG Holding SE are published in the electronic Federal Gazette and in the Company Register of the German Federal Ministry of Justice. ARAG Allgemeine does not prepare its own consolidated financial statements and group management report, as the consolidated financial statements and group management report of ARAG Holding SE have an exempting effect pursuant to section 291 HGB.

Düsseldorf, March 14, 2023

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Management Board

Uwe Grünewald

Zouhair Haddou-Temsamani

Christian Vogée

VII. Governing Bodies of the Company

Supervisory Board	**Dr. Dr. h. c. Paul-Otto Faßbender**	CEO of ARAG Holding SE, Düsseldorf, Chairman
	Hanno Petersen	Member of the Management Board of ARAG SE, Ratingen, Deputy Chairman
	Dr. Matthias Maslaton	Member of the Management Board of ARAG SE, Moers
	Dr. Joerg Schwarze	Member of the Management Board of ARAG SE, Düsseldorf
	Elected by the employees:	
	Johannes Berg	Insurance professional, ARAG Allgemeine Versicherungs-AG, Dormagen
	Wolfgang Platen	Insurance professional, ARAG Allgemeine Versicherungs-AG, Mönchengladbach
Management Board	**Uwe Grünewald**	Risk Management/Controlling/ Finance and Accounting, Düsseldorf
	Zouhair Haddou-Temsamani	Product Management, Düsseldorf
	Christian Vogée	Sales/Operations/Claims/ Sports Insurance, Düsseldorf

Independent Auditor's Report [1)]

To ARAG Allgemeine Versicherungs-AG, Düsseldorf

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of ARAG Allgemeine Versicherungs-AG, Düsseldorf, which comprise the balance sheet as of December 31, 2022, and the income statement for the financial year from January 1 to December 31, 2022, and the notes to the financial statements, including a summary of the accounting policies. In addition, we have audited the management report of Allgemeine Versicherungs-AG for the financial year from January 1 to December 31, 2022.

In accordance with German legal requirements, we have not audited the content of the corporate governance declaration pursuant to section 289f (4) HGB (disclosure on the proportion of women in managerial positions), included in section II of the management report.

In our opinion, based on the findings of our audit:

- The accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to insurance companies and, in compliance with German accepted accounting principles, give a true and fair view of the net assets and financial position of the Company as of December 31, 2022 and of its results of operations for the financial year from January 1 to December 31, 2022, and
- The accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the aforementioned corporate governance declaration.

Pursuant to section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the propriety of the annual financial statements and management report.

[1)] Note: This is a translation of the German original. Solely the original text in German is authoritative.

Basis for the opinions

We conducted our audit of the annual financial statements and management report in accordance with section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with the German generally accepted standards for the auditing of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibility under these requirements and principles is described in more detail in the 'Responsibility of the auditor for the audit of the annual financial statements and management report' section of our auditor's report. We are independent of the Company pursuant to the requirements of European law and German commercial law and the rules governing our profession and we have fulfilled our other German professional obligations in accordance with these requirements. In addition, in accordance with article 10 (2)f of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under article 5 (1) of the EU Audit Regulation. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2022. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our opinion of this audit; we do not provide a separate opinion on these matters.

Valuation of the partial provisions for reported claims and for claims incurred but not reported included in the gross provision for outstanding claims in direct insurance business

In respect of accounting and valuation policies applied, please refer to the disclosures in section II of the notes to the financial statements. Statements on risk are included in section IV of the management report.

The financial statement risk

The gross provision for outstanding claims in direct insurance business amounts to €216.90 million. This equates to 54.2 percent of total assets and has a material effect on the financial position of the Company.

The gross provision for outstanding claims comprises various partial provisions for claims. The largest part of this provision is attributable to the provisions for reported claims and for claims incurred but not reported.

The valuation of the partial provisions for reported claims and for claims incurred but not reported is subject to uncertainties in respect of the anticipated amount of the claims and is thus subject to a considerable degree of judgment, particularly with regard to the claims incurred but not reported. In accordance with commercial-law principles, the estimate should not be carried out on a risk-neutral basis in terms of equal weighting of opportunities and risks. Instead, it must follow the prudence principle pursuant to the German Commercial Code (section 341e (1) sentence 1 HGB).

The provisions for reported claims are recognized in an amount that corresponds to the expected expense for each individual claim. Provisions are recognized for claims incurred but not reported. These provisions are predominantly calculated on the basis of empirical data using generally accepted actuarial methods.

The risk for the financial statements with regard to claims already reported as of the reporting date is that insufficient provisions are recognized for the anticipated claim payments. In the case of claims incurred but not reported, there is an additional risk that these claims have been underestimated.

Our audit approach

In auditing the provisions for reported claims and for claims incurred but not reported, we used our own actuaries (as part of the audit team) and carried out the following key audit procedures from a risk perspective:

- We obtained an understanding of the process for calculating the provisions, identified key process risks and the controls that pertain to them, and tested these controls for appropriateness and effectiveness. In particular, we satisfied ourselves that the controls designed to ensure an accurate valuation have been established properly and are carried out effectively.
- For selected specific items, we verified the correctness of the record keeping and the amount of individual provisions for reported claims on the basis of the files for various segments and classes of insurance.
- For a risk-based selection of segments, we verified the Company's calculation used to determine claims incurred but not reported. In particular, we assessed the process for determining the estimated number of claims and their amount on the basis of historical experience and current trends.
- We analyzed the actual change in the provisions for outstanding claims recognized in the previous year on the basis of the profit/loss on settlements.
- Using a time series comparison, in particular of the number of claims, frequency of claims, average claim amounts, and reporting-year and overall claims ratios, we analyzed the change in the claims provision.
- We conducted our own actuarial reserve calculations for selected segments that we selected on the basis of risk considerations. This involved producing a point estimate for each segment and comparing this with the Company's calculations.

Our observations

The methods used for the valuation of the partial provisions for reported claims and for claims incurred but not reported included in the gross provision for outstanding claims in direct casualty and property insurance business are appropriate and consistent with the applicable accounting policies. The underlying assumptions were derived appropriately.

Other information

The Management Board and Supervisory Board are responsible for the other information. The other information comprises the following management report components whose content has not been audited:

- The corporate governance declaration pursuant to section 289f (4) HGB (disclosure on the proportion of women in managerial positions), included in section II 'Report on Economic Position' of the management report

The other information also includes the remaining parts of the annual report. The other information does not include the annual financial statements, the disclosures in the management report whose content has been audited, or our related auditor's report.

Our opinions on the annual financial statements and management report do not cover the other information. We do not therefore express an opinion or any other form of assurance conclusion on this information.

In connection with our audit, our responsibility is to read the aforementioned other information and to consider whether the other information:

- Is materially inconsistent with the annual financial statements, the disclosures in the management report whose content has been audited, or the knowledge that we obtained during the audit, or
- Otherwise appears to be materially misstated.

If, based on the work we have performed, we reach the conclusion that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibility of the Management Board and Supervisory Board for the annual financial statements and management report

The Management Board is responsible for preparing annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to insurance companies and that, in compliance with German accepted accounting principles, give a true and fair view of the net assets, financial position, and results of operations of the Company. In addition, the Management Board is responsible for the internal controls that it, in compliance with German accepted accounting principles, considers necessary for the preparation of annual financial statements that are free from material misstatements, whether due to fraud (i.e. fraudulent financial reporting and misappropriation of assets) or error.

When preparing the annual financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern. It is also responsible for disclosing matters relating to the Company's continuation as a going concern, where pertinent. In addition, it is responsible for financial reporting based on the going concern basis of accounting, unless there are actual or legal circumstances that preclude this.

Furthermore, the Management Board is responsible for preparing a management report that, as a whole, provides an appropriate view of the Company's position, is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) that it considers necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the financial reporting process used by the Company to prepare the annual financial statements and management report.

Responsibility of the auditor for the audit of the annual financial statements and management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatements, whether due to fraud (i.e. fraudulent financial reporting and misappropriation of assets) or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the audit findings, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development, and to issue an auditor's report containing our opinions on the annual financial statements and management report.

Reasonable assurance is a high level of assurance, but not a guarantee, that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with the German generally accepted standards for the auditing of financial statements promulgated by the IDW will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements, whether due to fraud or error, in the annual financial statements and management report, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls.
- Obtain an understanding of the internal control system that is relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these Company systems.

- Evaluate the appropriateness of the accounting policies used by the Management Board and the reasonableness of the estimates made by the Management Board and related disclosures.
- Draw conclusions about the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether there is material uncertainty surrounding events or circumstances that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that there is material uncertainty, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and management report or, if such disclosures are not appropriate, to modify our opinion. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may lead to a situation in which the Company is no longer able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that, in compliance with German accepted accounting principles, gives a true and fair view of the net assets, financial position and results of operations of the Company.
- Assess the consistency of the management report with the annual financial statements, its conformity with the law, and the view that it provides of the Company's position.
- Conduct audit procedures in respect of forward-looking statements made by the Management Board in the management report. On the basis of sufficient appropriate audit evidence, we examine, in particular, the significant assumptions underlying the Management Board's forward-looking statements and assess whether these statements have been correctly derived from these assumptions. We do not express a specific opinion on the forward-looking statements or on the underlying assumptions. There is a substantial unavoidable risk of material discrepancies between future events and the forward-looking statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit as well as significant audit findings, including any significant deficiencies in the internal control system that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats.

From the matters discussed with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in our auditor's report unless public disclosure of the matter is precluded by law or regulation.

Other legal and regulatory requirements

Further information pursuant to article 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on March 31, 2022. We were engaged by the Supervisory Board on November 17, 2022. We have been the auditor of ARAG Allgemeine Versicherungs-AG without interruption since the 2020 financial year.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statements audit, we have provided to the audited Company or the entities controlled by it the following services that are not disclosed in the annual financial statements or in the management report:

For the audited Company and one entity controlled by it, we performed the audit of the Solvency II balance sheet.

German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Thorsten Klitsch.

Cologne, March 16, 2023

KPMG AG
Wirtschaftsprüfungsgesellschaft

Klitsch	Bramkamp
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

In the year under review, the Supervisory Board carried out the tasks required of it by law, the articles of incorporation, and rules of procedure. It continually monitored and advised the Management Board with regard to its running of the Company and was directly involved in all decisions of fundamental importance to the Company. The Management Board provided the Supervisory Board with regular, timely, and comprehensive written and oral reports on the economic situation and the performance of the Company and its subsidiaries, business policy going forward, corporate planning, the risk situation, risk management, and significant individual transactions. The Management Board explained variances between the actual course of business and plans and targets individually, and these were noted and scrutinized by the Supervisory Board. Where management action required the approval of the Supervisory Board by law or other regulations, the Supervisory Board received the necessary information on the matter from the Management Board in the form of reports. The Supervisory Board discussed these reports extensively at its meetings, deliberated on them with the Management Board, and made the necessary decisions.

In the year under review, the Supervisory Board held four ordinary meetings, at which it was able to satisfy itself that the Management Board was running the Company properly and appropriately. The Supervisory Board also convened once, immediately following the Annual General Meeting, for the constitutive meeting of the Supervisory Board and its committees. The meetings were either held in person or online using Microsoft Teams. Outside the meetings, the Chairman of the Supervisory Board was in regular contact with the Management Board and was kept informed about current business performance and major business transactions. The Chairman of the Supervisory Board was updated daily on key developments. At regular intervals, the members of the Supervisory Board were provided with a written report on the impact of COVID-19 on ARAG Allgemeine and a controlling report detailing premiums written, third-party claim payments, and commissions.

In 2022, the Supervisory Board's work was dominated by geopolitical changes as a result of the war in Ukraine and its impact on ARAG Allgemeine's business performance. The Supervisory Board was provided with comprehensive reports about the potential impact of inflation and options to combat it, the appropriateness of claims provisions, and adherence to sanctions. Furthermore, the Supervisory Board discussed in detail the international branches' compliance with regulatory requirements. The Supervisory Board decided to reappoint Mr. Zouhair Haddou-Temsamani as a member of the Management Board and approved a change to the Management Board's schedule of responsibilities.

In its ordinary meetings, the Supervisory Board was provided with reports about the current business performance of the Company and its international entities. The Supervisory Board was able to gain a comprehensive picture of the Company's situation from the controlling reports and risk reports, the own risk and solvency assessment (ORSA) report, the reports on investments, and the quarterly financial statements (including updated forecasts) that were presented. At its meetings, the Supervisory Board also examined reports on the reinsurance renewal for 2022, the risk strategy for 2022, preventive measures to protect against cyberattacks or potential blackout scenarios, and other processes of relevance to the Company. The Supervisory Board approved the strategic plan for 2023 to 2025 and the new fund structure. The development plan for the Supervisory Board in 2023 was also signed off, the granting of commercial power of attorney (Prokura) was approved, and the appropriateness of Management Board remuneration and the structure of the remuneration systems were discussed. The Supervisory Board was also provided with detailed information on new products and their sales potential.

The Chairman of the Supervisory Board provided timely and detailed reports on the work of the Human Resources Committee and Finance and Audit Committee at the ordinary meetings of the Supervisory Board.

The single-entity financial statements, which were prepared by the Management Board in accordance with the commercial-law accounting regulations for insurance companies (RechVersV), and the management report for 2022 were, together with the bookkeeping system, audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, which issued an unqualified opinion. The auditor had been elected by the Annual General Meeting on March 31, 2022 and engaged to carry out the audit.

The members of the Supervisory Board received the aforementioned documents, annual report, and auditor's report in good time before the Supervisory Board meeting that was held to adopt the financial statements. At the meeting, the Management Board also provided additional oral explanations of the documents. The auditors who had signed the auditor's report participated in the Supervisory Board's discussion of the documents, reported on the key findings of the audit, and were available to provide additional information. KPMG presented its audit planning at a Supervisory Board meeting.

The Supervisory Board reviewed the single-entity financial statements and management report. There were no objections to be raised on the basis of the concluding findings of its review. Having carried out its own review, the Supervisory Board agreed with the findings of the audit of the single-entity financial statements and management report by the auditors. The Supervisory Board approved the single-entity financial statements and management report and thereby adopted them. The Supervisory Board proposes to the Annual General Meeting that it formally approve the acts of the Management Board members.

The Supervisory Board would like to express its thanks and appreciation for the work of the Management Board and all employees in 2022.

Düsseldorf, March 31, 2023

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Supervisory Board

Dr. Dr. h. c. Paul-Otto Faßbender
(Chairman)

Hanno Petersen
(Deputy Chairman)

Johannes Berg

Dr. Matthias Maslaton

Wolfgang Platen

Dr. Joerg Schwarze

Further Information

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

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You can find the latest **information about the Group and our products** on our website: **www.ARAG.com**

Figures in this annual report are rounded, which may give rise to differences of +/- one unit (currency, percent) in some computations.

Credits

Editors ARAG Corporate Communications/Marketing
Design and layout Kammann Rossi GmbH, Cologne

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