

ARAG ALLGEMEINE VERSICHERUNGS-AG

# 2019 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS





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# Overview

## ARAG Allgemeine Versicherungs-AG Key Figures

(€'000)	2019	Change	2018	2017
<b>Sales revenue</b>				
Gross premiums written	188,134	3.46%	181,844	180,036
Premiums earned net of reinsurance	180,410	3.69%	173,985	173,822
<b>Expenses</b>				
Claims incurred net of reinsurance	100,178	4.81%	95,583	96,921
Claims ratio (basis: premiums earned)	55.53%	0.59% pts.	54.94%	55.76%
Insurance business operating expenses net of reinsurance	74,481	1.68%	73,254	67,077
Cost ratio (basis: premiums earned)	41.28%	-0.82% pts.	42.10%	38.59%
<b>Net income overview</b>				
Underwriting result before equalization provision, gross	10,225	852.20%	1,074	10,440
Underwriting result before equalization provision, net of reinsurance	5,228	9.40%	4,779	9,813
Underwriting result after equalization provision, net of reinsurance	3,003	-74.48%	11,770	11,404
Gains and losses on investments	11,613	10.44%	10,515	11,229
Other net income/expense	-3,154	15.94%	-3,753	-4,672
Profit/loss from ordinary activities	11,462	-38.15%	18,532	17,962
Net income for the year (before profit transfer under profit-and-loss transfer agreement)	11,282	-39.10%	18,525	17,964
<b>Key ratios</b>				
Technical provisions/ premiums earned net of reinsurance	146.46%	7.19% pts.	139.27%	141.81%
Equity/premiums earned net of reinsurance	30.67%	-1.13% pts.	31.80%	31.83%

# Profile of the ARAG Group

## Overview

The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established more than 80 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products. Besides legal insurance, it offers its customers in Germany its own unique needs-based products and services covering casualty and property insurance and health insurance. The Smart Insurer Program is a key initiative in the ARAG Group's efforts to comprehensively harness the opportunities presented by digitalization, one of the major challenges going forward, and to create added value for customers in the process. The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 19 countries (Germany, other European countries, the US, Canada, and Australia) through branches, subsidiaries, and equity investments. The Group generates sales revenue and premiums of around €1.8 billion and employs over 4,300 people.

ARAG SE is responsible for strategic 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 plays a major role in shaping its markets both in Germany and abroad with innovative products and services. For some years now, the international legal insurance business has been the Group's most significant area of activity. The units outside Germany involved in this business are a valuable source of impetus for the Group's growth. At the same time, ARAG SE is following a clear path to success in its German domestic market, where it is generating rising premiums.

## 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 over 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 its strategic partner Alte Leipziger, 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 includes the Federal Republic of Germany and, for some classes of insurance, the United Kingdom and the Republic of Ireland. The UK business is 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 1,037,558 policies (December 31, 2018: 1,007,501 policies). Of this total, 928,337 policies (December 31, 2018: 913,997 policies) were attributable to the business in Germany, while the UK and Irish branches accounted for 109,221 policies (December 31, 2018: 93,504 policies).

## 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

### 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)

**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 2020 and 2021 financial years in respect of accidents occurring in 2020 and 2021.

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	2020/2021 bonus declaration		
		Disability	Accident disability	Benefit type 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

After years of economic expansion, conditions weakened in the global economy during the year under review. This worldwide economic downturn was primarily reflected in a decline in industrial activity. Manufacturing output fell in the advanced economies. The lengthy trade dispute between the US and China also led to a reduction in global trade. Central banks responded to the deteriorating economic conditions by reintroducing or widening their expansionary monetary policy measures.

Despite political uncertainties, however, the economy of the eurozone is likely to have grown for the seventh year in succession thanks to the strength of domestic economies. In 2019, Europe again enjoyed high levels of employment coupled with rising wages, low inflation, favorable funding conditions and, in some member states, fiscal stimulus. This resulted in a pick-up in domestic demand. Consequently, gross domestic product (GDP) in the European Union (EU) is likely to have risen by 1.4 percent in 2019.

European financial markets continued to be influenced by various geopolitical uncertainties. The US Federal Reserve took an expansionary approach to monetary policy by cutting key interest rates, as a result of which short-term interest rates fell. This meant that long-term yields continued to decline. The discussions about the political and economic relationship between the United Kingdom and the EU and the risk of a disorderly hard Brexit were also major factors during the reporting year.

In Germany, the economy continued to slow down in 2019. The economic risks that had existed in 2018 did not go away. Disposable income increased at a slower rate than before owing to the more sluggish labor market. Taking account of the political uncertainties and the challenging conditions, the institutions represented in the Joint Economic Forecast project team are forecasting low GDP growth of 0.5 percent for 2019.

Contrary to initial forecasts, the German insurance market generated further growth overall on the back of temporary factors and therefore bucked the trend in the ailing wider economy. Premium income in direct casualty and property insurance business will probably have gone up by 3.1 percent, only slightly less than the growth of 3.4 percent registered in 2018. The legal insurance segment posted premium growth of around 2.5 percent, representing a further significant year-on-year increase (2018: 4.2 percent). This was achieved to a large extent by the opportunity to adjust premiums. Private health insurance in Germany is expected to have achieved further premium growth of approximately 2.1 percent, which is slightly higher than the prior-year growth rate of 1.8 percent. The small decrease in the number of policyholders with full-coverage insurance was outweighed by the increase in supplementary insurance policies, which meant that the sector generated growth overall.

## Business performance

ARAG Allgemeine recorded another year of growth in premiums. Despite fierce competition in the insurance market, premiums rose by 3.5 percent (2018: 1.0 percent).

Income from gross premiums written amounted to €188,134 thousand in the year under review (2018: €181,844 thousand). Once again, this increase was more than sufficient to offset the budgeted fall in premium income in the motor insurance segment. Given the sometimes ruinous price wars involved in attracting new motor insurance business, ARAG Allgemeine ceased writing new insurance in this segment several years ago and entered into a strategic sales partnership with Helvetia Schweizerische Versicherungsgesellschaft AG. Since then, ARAG has been marketing Helvetia motor insurance policies. In return, Helvetia acts as a broker for the sale of new legal insurance and special service packages on behalf of companies in the ARAG Group. ARAG Allgemeine just exceeded the premium target in its forecast for 2019. This was due to a rise in premiums in domestic and international business.

In the domestic business for the organization as a whole, income from gross premiums written grew by approximately 2.8 percent year on year (2018: 3.3 percent). The most significant proportions were accounted for by general liability, composite residential buildings, and home contents insurance. One of the most notable features in these classes of insurance was the expansion in the number of policies involving 'Recht&Heim' all-round cover.

Having established a branch in the United Kingdom in 2016, the Company set up a branch in the Republic of Ireland in the reporting year. As a result, premium income in international inward reinsurance business grew by 1.8 percent. In domestic inward reinsurance business, gross premiums written advanced by 3.2 percent.

Claims incurred in 2019 were positively influenced by factors such as the reduced incidence of storms and other adverse weather events. For example, the number of reported claims in the composite residential buildings insurance segment decreased by more than 1,050. Moreover, the expense for major claims for 2019 in the direct organization and sports business, particularly in the composite residential buildings class of insurance, fell by €2,541 thousand compared with 2018. Gross expenses for claims incurred went down by approximately €4,800 thousand. The gross claims ratio decreased by 4.3 percentage points to 53.9 percent in the year under review.

Insurance business operating expenses rose in 2019, primarily due to higher commission expenses in direct business. ARAG Allgemeine's gross operating expenses for the insurance business went up by €1,141 thousand. Overall, however, the gross cost ratio decreased slightly to stand at 40.3 percent in 2019 (2018: 41.0 percent) owing to the higher growth in premiums relative to the increase in costs.

Investments generated a net gain of €11,613 thousand (2018: €10,515 thousand). As it had in 2018, 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. Depreciation, amortization and write-downs of investments totaled €509 thousand in 2019 (2018: €2,055 thousand), while reversals of write-downs amounted to €1,345 thousand (2018: €10 thousand). The net profit transferred from the subsidiary Interlloyd Versicherungs-AG declined by €3,629 thousand to €2,298 thousand. The discussions in recent months about the political and economic relationship between the United Kingdom and EU (Brexit) had no major impact on the course of business at ARAG Allgemeine in 2019, because the business brokered by the Company in the United Kingdom is relatively insignificant.

The profit to be transferred to the parent company ARAG SE for the 2019 financial year amounted to €11,282 thousand (2018: €18,525 thousand). When compared against the forecast for 2019, ARAG Allgemeine was thus able to exceed its profit target by approximately €485 thousand.

ARAG Allgemeine thanks all its employees and sales partners for their hard work and its customers for the trust they have placed in the Company.

### Results of operations

In the reporting year, income from gross premiums written rose from €181,844 thousand to €188,134 thousand.

Premium income in the domestic direct business grew by 2.6 percent (2018: 2.5 percent). If motor insurance is excluded, the increase in direct business in Germany was 2.8 percent (2018: 2.8 percent). The income from gross premiums written in motor insurance decreased by €227 thousand, a decline of 12.1 percent that was almost exactly in line with the planned reduction. The reason was ARAG Allgemeine's withdrawal from the motor insurance business, as explained above.

In domestic inward reinsurance business, gross premiums written grew by 3.2 percent to €29,164 thousand. The rise in premium income in the inward reinsurance business was partly accounted for by the increase in premiums at the wholly owned subsidiary Interlloyd Versicherungs-AG, with which ARAG Allgemeine has entered into a quota-share reinsurance treaty. Interlloyd Versicherungs-AG's quota share of 50.0 percent remained unchanged in the year under review. Another effect was the entry into a reinsurance treaty in some classes of legal insurance through the new Irish branch founded in 2019.

The premiums earned net of reinsurance amounted to €180,410 thousand in the year under review (2018: €173,985 thousand).

The expenses for claims incurred in the reporting year were 55.5 percent of net premiums earned (2018: 54.9 percent). Overall, claims incurred net of reinsurance increased to €100,178 thousand (2018: €95,583 thousand). Whereas gross expenses for claims incurred in 2019 were positively influenced by factors such as the reduced incidence of storms and other adverse weather events and a reduction in the expense for major claims for 2019 in the direct organization and sports insurance businesses, claims incurred net of reinsurance went up by 4.8 percent due to a lower level of reinsurance.

The Company's gross cost ratio fell year on year, from 41.0 percent to 40.3 percent. In absolute terms, the gross operating expenses for the insurance business went up by €1,141 thousand to €75,796 thousand. The ratio of own account insurance business operating expenses to net premiums earned was also lower year on year, falling by 0.8 percentage points to 41.3 percent.

The volume of outward reinsurance, measured on the basis of insurance premiums paid, declined to €7,304 thousand in 2019 (2018: €8,137 thousand). There were no material changes to the reinsurance program. It continued to be focused on using non-proportional reinsurance agreements to minimize the risk from large claims and accumulation. In 2019, the reinsurance business saw a reduction in its proportion of the total claims incurred. In total, the reinsurers' underwriting result – including the share of miscellaneous underwriting expenses of €22 thousand (2018: €0 thousand) – improved to a profit of €4,997 thousand in 2019 (2018: loss of €3,705 thousand).

In the year under review, the underwriting result before the equalization provision amounted to €5,228 thousand (2018: €4,779 thousand) and was therefore above the prior-year figure. The net combined ratio of 96.8 percent (2018: 97.0 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 €2,225 thousand was added to the equalization provision (2018: reversal of €6,990 thousand) on the basis of the trends in claims and premiums. The underwriting result net of reinsurance in 2019 therefore amounted to €3,003 thousand (2018: €11,770 thousand).

### 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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Gross premiums written	47,932	47,698	43,741	42,361	1,642	1,869	2,450	2,338	2,002	1,876	1,158	1,119
Premiums earned net of reinsurance	46,188	46,191	41,598	40,619	0	0	2,452	1,964	1,958	1,844	1,127	1,101
Expenses for claims incurred net of reinsurance	22,367	24,128	20,937	18,588	548	525	2,141	1,167	858	1,097	874	1,885
Insurance business operating expenses net of reinsurance	17,035	17,265	17,625	17,677	-520	-503	886	704	789	742	443	409
Underwriting result net of reinsurance before equalization provision	7,144	5,288	3,129	4,470	-17	-1	-752	-111	319	10	-182	-1,192
Change in the equalization provision	0	0	493	1,065	0	-2,791	-942	-324	107	106	475	-94
Underwriting result net of reinsurance after equalization provision	7,144	5,288	2,636	3,405	-17	2,791	190	213	212	-96	-656	-1,098

### Performance of the individual insurance segments in inward reinsurance business

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

#### Inward reinsurance business

(€'000)	Accident insurance		Liability insurance		Motor insurance		Fire insurance		Burglary insurance		Water damage insurance	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Gross premiums written	4,756	4,727	2,451	2,463	0	0	1,161	1,051	736	731	461	456
Premiums earned net of reinsurance	4,778	4,744	2,464	2,458	0	0	1,163	1,039	739	726	462	454
Expenses for claims incurred net of reinsurance	2,185	2,400	707	1,164	0	0	1,141	140	477	279	270	465
Insurance business operating expenses net of reinsurance	1,927	1,879	1,094	1,092	0	0	509	462	348	344	208	208
Underwriting result net of reinsurance before equalization provision	652	451	656	194	0	0	-578	343	-87	102	-17	-220
Change in the equalization provision	-84	3,944	223	2	0	0	563	5	167	12	-209	2
Underwriting result net of reinsurance after equalization provision	568	4,395	879	197	0	0	-15	347	80	114	-227	-217

Glass insurance		Storm and tempest insurance		Composite home contents insurance		Composite residential buildings insurance		Technical insurance		Business interruption insurance		Emergency assistance insurance		Sundry insurance	
2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
1,447	1,419	977	1,077	20,909	20,412	16,683	15,974	2,819	2,453	1,127	1,077	6,177	5,708	9,423	8,217
1,448	1,437	895	986	20,062	19,344	15,823	14,981	2,769	2,455	1,058	985	6,270	5,523	9,069	8,319
621	551	488	606	9,483	8,764	15,132	13,113	1,842	1,754	275	956	4,513	2,967	5,947	5,566
791	661	367	336	9,496	9,589	5,792	6,059	1,325	1,032	479	464	3,446	3,055	3,465	3,214
42	232	48	46	1,054	973	-5,295	-4,378	-392	-323	255	-480	-1,669	-480	-338	-453
0	0	317	295	693	-1,096	490	1,468	-315	-390	620	-153	0	0	140	129
42	232	-270	-248	361	2,069	-5,784	-5,846	-77	68	-365	-327	-1,669	-480	-478	-582

Glass insurance		Storm and tempest insurance		Composite home contents insurance		Composite residential buildings insurance		Technical insurance		Business interruption insurance		Emergency assistance insurance		Sundry insurance	
2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
705	707	207	202	7,595	7,453	9,230	8,649	765	581	280	251	70	99	1,230	877
706	707	207	199	7,561	7,466	9,204	8,673	763	579	274	241	70	99	1,303	851
215	241	316	92	2,770	3,610	5,256	4,770	159	178	225	191	34	30	398	354
328	319	93	94	3,467	3,308	4,111	4,026	406	322	109	95	0	10	460	391
163	147	-202	13	1,104	324	-415	-366	198	79	-73	-57	35	60	446	106
-29	55	18	-7	260	1,957	-861	-661	-114	-104	0	0	0	0	-78	0
134	203	-185	6	1,363	2,281	-1,276	-1,027	84	-25	-73	-57	35	60	368	106

**Non-underwriting result** Gains and losses on investments at ARAG Allgemeine amounted to a net gain of €11,613 thousand in 2019 (2018: €10,515 thousand) and therefore improved compared with the previous year. The reasons for this increase included the €1,546 thousand reduction in the level of write-downs required and gains on disposal of €3,593 thousand (2018: €6 thousand). However, these factors were partly offset by the sharp decline in the net income reported by the Interlloyd subsidiary as a result of the absence of reversals of the equalization provision. The existing profit transfer agreement also includes an obligation to absorb losses, so the earnings contribution from Interlloyd Versicherungs-AG is reported under income from profit-pooling, profit-transfer and partial profit-transfer agreements. The net yield on investments was 3.5 percent in the year under review (2018: 3.2 percent); the current average yield was 2.2 percent (2018: 4.2 percent).

Other net income/expense improved to a net expense of €3,154 thousand (2018: net expense of €3,753 thousand). This was primarily due to income from the reversal of provisions for pensions and other post-employment benefits.

**Net extraordinary income/expense** There was no extraordinary income or expense in either 2019 or 2018.

**Net income for the year** 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 €11,282 thousand (2018: €18,525 thousand) to the parent company.

### **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.

In addition to current bank balances, cash on hand, and bank deposits totaling €9,098 thousand (December 31, 2018: €3,038 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 rose by 3.1 percent in 2019 to €339,136 thousand. The breakdown of investments by asset class was as follows:

### Investments breakdown

(€'000)	Dec. 31, 2019		Dec. 31, 2018	
Land and buildings	19,807	5.8 %	21,312	6.5 %
Affiliated companies and equity investments	19,999	5.9 %	16,828	5.1 %
Equities and investment fund shares/units	201,332	59.4 %	219,447	66.7 %
Bearer bonds	46,147	13.6 %	22,869	7.0 %
Registered bonds	39,500	11.6 %	25,000	7.6 %
Promissory notes, loans	11,063	3.3 %	21,982	6.7 %
Sundry lending	0	0.0 %	0	0.0 %
Bank deposits	88	0.0 %	83	0.0 %
Other investments	1,201	0.4 %	1,369	0.4 %
Deposits with ceding insurers	0	0.0 %	0	0.0 %
	<b>339,136</b>	<b>100.0 %</b>	<b>328,890</b>	<b>100.0 %</b>

Pursuant to section 341 b (2) of the German Commercial Code (HGB), equities and investment funds with a carrying amount of €201,332 thousand had been classified as fixed assets as of the balance sheet date (December 31, 2018: €219,447 thousand). Bearer bonds with a carrying amount of €1,910 thousand (December 31, 2018: €8,219 thousand) were treated as fixed assets. ARAG Allgemeine entered into investment obligations in private equity funds indirectly through an equity investment structure. The outstanding obligations amounted to €14,167 thousand as of December 31, 2019. They will be funded by the excess cash generated from future insurance business. Further information on the structure and changes in investments can be found in the overview under the non-underwriting disclosures in the Notes.

**Solvency** Under section 89 (1) of the German Insurance Supervision Act (VAG), all insurance companies are obliged to have eligible own funds available at all times that, as a minimum, are sufficient to satisfy the solvency capital requirement. The Solvency II rules came into force on January 1, 2016. In accordance with section 40 VAG, a solvency and financial condition report must be published no later than 14 weeks after the end of the financial year. This report must explain the solvency position in a manner that is understandable to the general reader. Insurance groups must also ensure at group level that the solvency margin is covered by eligible own funds and that these funds are appropriately allocated in the group. Evidence of compliance with the solvency requirements is submitted to the German Federal Financial Supervisory Authority (BaFin) on a quarterly basis.

Solvency ratios must be calculated quarterly at the level of the insurance company and at group level.

In the year under review, ARAG Allgemeine ensured that it covered the statutory requirement for the solvency margin in accordance with current solvency regulations at all times.

## 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 2019, ARAG Allgemeine had a total of 164 (December 31, 2018: 159) employees in Germany.

## Corporate governance declaration

**Targets for the proportion of women in management functions** As required by the German Act on the Equal Participation of Women and Men in Managerial Positions (FührposGleichberG), the Company defines targets for the proportion of women at the two management levels below the Management Board, on the Management Board itself, and on the Supervisory Board and sets deadlines for achieving these targets.

When the target ratios were defined for the deadline of June 30, 2019, no changes were anticipated in the management functions, so the relevant governing bodies retained a target proportion of 0 percent in respect of the Supervisory Board, the Management Board, and the first and second management levels.

The same applies to the new target proportion to be achieved by June 30, 2021: As changes in the management functions are still not anticipated, the relevant governing bodies have retained a target proportion for June 30, 2021 of 0 percent in respect of the Supervisory Board, the Management Board, and the first and second management levels. However, the intention is to give preferential consideration to female candidates when new appointments are to be made to managerial positions.

### 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 2019, a profit of €11,282 thousand (2018: €18,525 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 €2,298 thousand to ARAG Allgemeine (2018: €5,927 thousand).

## IV. Outlook, Opportunity and Risk Reports

### Outlook and opportunity report

Global economic growth will continue to be impacted by numerous significant risks going forward. These include the risk that protectionist trends and political uncertainties increase and that international trade relationships deteriorate further.

Turning to political developments in Germany and Europe as a whole, one of the major concerns is still that the political and economic relationship between the United Kingdom and EU has not been resolved. Although Brexit took place in January 2020, the basis for the United Kingdom's long-term international relations and the economic effects remain unclear.

On the other side of the equation, however, there are opportunities and potential for stronger growth in the global economy. The European Commission's forecast for the eurozone indicates that European GDP will continue to increase going forward. This growth will be driven solely by the strength of individual domestic economies. Consequently, the monetary policy of the European Central Bank (ECB) remains expansionary with the aim of counteracting the current downturn. European GDP is expected to grow by 1.6 percent (2019: 1.4 percent) in 2020 as a result of the easing of funding conditions worldwide and the political impetus being provided in some emerging markets.

The German economy is experiencing a downturn. This slowdown has hit manufacturing particularly hard, and it is unlikely to rebound quickly given the decline in output and poor level of orders on hand. The German Council of Economic Experts (GCEE) predicts that German GDP will rise by just 0.5 percent in 2020. Despite the current frailty of the economy, however, the GCEE does not anticipate a more far-reaching recession.

Insurers continue to be faced by challenges caused by a clear trend toward fiercer competition. Opportunities for further premium growth and for additional expansion of in-force business are largely limited to customers who are switching between insurers. This trend will continue going forward. The many years of low interest rates, the extensive regulatory reforms, demographic change and, not least, digitalization are disrupting the German insurance markets. These fundamental changes open up both opportunities and risks. In particular, new digital technologies offer much more efficient ways of settling claims and create simpler and better forms of interaction between customers and providers.

For property insurers, the main source of risk is the much-discussed issue of climate change. 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; regularly recurring loss events can also include torrential rainfall and hail that may lead to flooding. Furthermore, prolonged droughts cause serious crop losses.

Premium income in the insurance industry is expected to continue to grow. The German Insurance Association (GDV) is forecasting that the increase in the German market will be approximately 1.8 percent in 2020 (2019: 5.4 percent). Premiums in the casualty and property insurance segment are expected to be up by roughly 2.5 percent in 2020 (2019: 3.1 percent). The rise in this segment will primarily be driven by further increases in sums insured and extensions of cover. In the case of private health insurance, premiums are predicted to climb by 2.0 percent (2019: 2.1 percent).

In view of the current opportunities and risks, ARAG Allgemeine believes it has a stable basis on which to generate further profitable growth in 2020. The Company has budgeted premium growth that will be slightly higher than the increase in premiums achieved in 2019. ARAG Allgemeine's objective is 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.

ARAG Allgemeine does not anticipate that the post-Brexit negotiations between the United Kingdom and EU will have a material impact on the course of ARAG Allgemeine's underwriting business in 2020, because the business brokered by the Company in the United Kingdom is relatively insignificant.

In terms of the claims trend, the Company predicts a net rate that is comparable with 2019. The net cost ratio is expected to be a little higher than in 2019. Overall, the combined ratio is anticipated to remain below 100 percent in 2020.

The forecasts for gains and losses on investments remain very uncertain, especially in view of the impact of health emergencies (COVID-19), which is currently very difficult to predict. In its strategic planning, ARAG Allgemeine has therefore applied a conservative investment policy and assumed a significant deterioration in gains and losses on investments compared with 2019 (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. Due to the likelihood of substantial additions to the equalization provision, however, the Company expects a significant year-on-year decrease in the amount of profit that will be transferred in 2020. Taking into account the discernible opportunities and risks, ARAG Allgemeine forecasts that business performance will be steady in 2020.

## Risk report

### Risk management system

**Risk strategy** The Management Board specifies the risk strategy on the basis of the business strategy. The risk strategy sets out the risk policy framework for the 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 specified risk appetite. 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 financial reporting requirements of Solvency II.

**Limit system** The maximum permitted solvency capital requirement for the Company is determined on the basis of the specified risk appetite – in the form of the minimum coverage ratio determined by business policy requirements – 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, risks need to be reduced, or an increase in limits is possible. A traffic light system is used, for both risk-bearing capacity and the limits at risk category level. The system enables ARAG to identify changes in the utilization of limits in good time and initiate corrective measures if necessary.

**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 management function** The independent risk management 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 groupwide policies and guidelines. By reporting regularly to the Management Board, the independent risk management 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 aim of risk identification is to identify the emergence of new risks or changes in existing risks at an early stage and to assess them using a standard procedure. For example, risks arising in connection with the development of new markets or the launch of new products are identified, analyzed, measured, and submitted to the Management Board for decision using an appropriate cross-functional new-product process.

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 constantly measured. Risks for which there is a solvency capital requirement are measured using a partial internal model. The model calculates the loss from each risk exposure that, with a probability of 99.5 percent, will not be exceeded within one year. The methodology is regularly reviewed using backtesting and validation tests. Stress tests are also continuously carried out in respect of the risk exposures. Relevant risks that do not form part of the solvency capital requirement are measured as part of the ORSA process.

Operational management of risk is thus carried out by the managers and process owners in those departments where the risks occur (see below). 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. For this reason, ad hoc reports may be submitted if necessary.

**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** Underwriting risk is the risk of a loss arising from inadequate pricing or inadequate provisioning assumptions. 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.
- 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 (1 in 200 year event). 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 cancellations in the past. The actual underwriting risk arises from the aggregation of the individual risks, taking diversification effects into account.

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
	<i>FY ratio</i>	<i>Financial statements</i>	<i>% of initial reserve</i>
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
2012	62.2	40.0	14.4
2011	61.5	40.4	12.9
2010	66.1	46.9	11.7

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

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. As of the balance sheet date, receivables from policyholders more than 90 days past due amounted to €2,092 thousand (December 31, 2018: €1,896 thousand). The average default rate for these receivables over the last three years as of December 31, 2019 was 0.9 percent (December 31, 2018: 0.6 percent).

**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 percent in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by approximately €20.4 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 level 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

*(Proportion (%) by fair value)*

**Dec. 31, 2019**

AAA	20.6
AA	16.5
A	25.4
BBB	31.4
BB	3.0
B	3.0
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 31.3 percent are accounted for by financial services entities, 29.5 percent by public-sector bonds, and 39.2 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.

**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.

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

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

Measurement for operational purposes is carried out by the responsible employees and is derived from the estimated gross and net values of each individual operational risk based on the risk's probability of occurrence and its impact on the income statement. Both a qualitative and a quantitative estimate of the impact can be prepared. A risk matrix enables the risks to be prioritized. The subjective estimates can be checked for plausibility using a loss event database.

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 VAG provisions is met in full. Moreover, the eligible own funds are significantly higher than the solvency capital requirements calculated in accordance with the VAG. Further details of the risk situation can be found in the separate solvency and financial condition report (not part of the management report).

The overall risk position does not currently point to any trends in 2020 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

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## Balance Sheet as of December 31, 2019

### 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, 2018: € 180,408.94)
- II. Receivables from reinsurance business  
of which from affiliated companies: € 0.00 (Dec. 31, 2018: € 35,683.32)
- III. Miscellaneous receivables  
of which from affiliated companies: € 3,193,243.17 (Dec. 31, 2018: € 12,182,010.15)

#### 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, 2019, the actuarial reserve amounted to €39,673,272.00 for annuities from general accident insurance, €355,258.00 for annuities from general liability insurance, and €5,692,689.00 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

				Dec. 31, 2019	Dec. 31, 2018
				3,553,856.30	0.00
				<b>3,553,856.30</b>	<b>0.00</b>
				19,807,078.27	21,311,589.42
				19,999,036.46	16,827,801.57
				0.00	0.00
				0.00	0.00
				0.00	0.00
				19,999,036.46	16,827,801.57
				201,331,590.39	219,447,035.76
				46,146,759.67	22,869,021.67
				0.00	0.00
				39,500,000.00	25,000,000.00
				11,062,650.00	21,981,734.23
				0.00	0.00
				0.00	0.00
				50,562,650.00	46,981,734.23
				87,762.41	83,251.93
				1,200,972.98	1,369,411.54
				299,329,735.45	290,750,455.13
				0.00	0.00
				<b>339,135,850.18</b>	<b>328,889,846.12</b>
				9,224,007.55	8,029,328.85
				5,237,143.66	2,511,844.58
				14,461,151.21	10,541,173.43
				1,130,208.35	2,658,649.05
				3,611,719.14	12,268,437.24
				<b>19,203,078.70</b>	<b>25,468,259.72</b>
				0.00	0.00
				9,010,416.64	2,954,929.36
				0.00	0.00
				<b>9,010,416.64</b>	<b>2,954,929.36</b>
				412,070.59	523,594.37
				7,524.32	3,769.92
				<b>419,594.91</b>	<b>527,364.29</b>
				<b>0.00</b>	<b>0.00</b>
				<b>0.00</b>	<b>0.00</b>
				<b>371,322,796.73</b>	<b>357,840,399.49</b>

section 341f and 341g HGB and in accordance with the statutory regulation enacted on the basis of section 88 (3) VAG.

Düsseldorf, January 23, 2020

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

## Balance Sheet as of December 31, 2019

### Equity and liabilities

(€)

#### A. Equity

- I. Subscribed capital
- II. Capital reserve
- 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: €25.45 (Dec. 31, 2018: €0.00)
- II. Liabilities from reinsurance business
  - of which to affiliated companies: €275,767.73 (Dec. 31, 2018: €471,347.36)
- III. Miscellaneous liabilities
  - of which to affiliated companies: €8,329,318.04 (Dec. 31, 2018: €17,834,140.82)
  - of which tax liabilities: €1,834,603.93 (Dec. 31, 2018: €1,816,219.80)
  - of which social security liabilities: €0.00 (Dec. 31, 2018: €0.00)

#### F. Deferred income and accrued expenses

#### G. Deferred tax liabilities

#### Total equity and liabilities

			Dec. 31, 2019	Dec. 31, 2018
		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
			<b>55,322,905.72</b>	<b>55,322,905.72</b>
	28,183,072.98			25,447,445.77
	0.00			142,635.15
		28,183,072.98		25,304,810.62
	18,383.00			19,007.00
	0.00			0.00
		18,383.00		19,007.00
	225,820,711.84			211,746,143.67
	31,087,853.24			33,659,985.34
		194,732,858.60		178,086,158.33
	0.00			0.00
	0.00			0.00
		0.00		0.00
		39,942,002.00		37,676,922.00
	1,349,221.28			1,217,297.72
	0.00			0.00
		1,349,221.28		1,217,297.72
			<b>264,225,537.86</b>	<b>242,304,195.67</b>
		32,378,837.00		31,821,233.00
		137,420.00		65,095.22
		2,836,894.69		2,527,534.15
			<b>35,353,151.69</b>	<b>34,413,862.37</b>
			<b>0.00</b>	<b>0.00</b>
	3,784,531.34			4,343,262.48
	1,067,746.69			569,228.12
		4,852,278.03		4,912,490.60
		1,209,973.33		1,076,053.89
		10,353,906.72		19,810,891.24
			<b>16,416,158.08</b>	<b>25,799,435.73</b>
			<b>5,043.38</b>	<b>0.00</b>
			<b>0.00</b>	<b>0.00</b>
			<b>371,322,796.73</b>	<b>357,840,399.49</b>

## Income Statement for the Period from January 1 to December 31, 2019

### Direct insurance and inward reinsurance business

(€)

#### 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
<b>9. Subtotal</b>
10. Change in the equalization provision and similar provisions
<b>11. Underwriting result net of reinsurance</b>
<b>Carried forward:</b>

			2019	2018
	188,134,088.35			181,844,030.96
	-7,303,908.99			-8,136,641.91
		180,830,179.36		173,707,389.05
	-277,448.66			345,141.29
	-142,635.15			-67,135.07
		-420,083.81		278,006.22
			<b>180,410,095.55</b>	<b>173,985,395.27</b>
			<b>270,239.00</b>	<b>341,103.00</b>
			<b>549,379.37</b>	<b>446,815.63</b>
	90,947,672.52			98,068,082.97
	-3,684,487.66			-5,662,163.32
		87,263,184.86		92,405,919.65
	10,342,782.20			8,022,173.09
	2,572,132.10			-4,845,395.01
		12,914,914.30		3,176,778.08
			<b>100,178,099.16</b>	<b>95,582,697.73</b>
			<b>-131,299.56</b>	<b>76,035.00</b>
			<b>0.00</b>	<b>0.00</b>
		75,796,328.77		74,655,093.64
		-1,315,438.79		-1,401,422.17
			<b>74,480,889.98</b>	<b>73,253,671.47</b>
			<b>1,211,005.55</b>	<b>1,233,726.94</b>
			<b>5,228,419.67</b>	<b>4,779,252.76</b>
			<b>-2,225,080.62</b>	<b>6,990,274.00</b>
			<b>3,003,339.05</b>	<b>11,769,526.76</b>
			<b>3,003,339.05</b>	<b>11,769,526.76</b>

## Income Statement for the Period from January 1 to December 31, 2019

### Direct insurance and inward reinsurance business

(€)

Brought forward:

#### II. Non-underwriting account

1. Income from investments
a) Income from equity investments of which from affiliated companies: € 47,977.59 (2018: € 71,234.89)
b) Income from other investments of which from affiliated companies: € 842,195.35 (2018: € 1,003,666.76)
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
<b>6. Profit/loss from ordinary activities</b>
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
<b>14. Net income for the year</b>



## 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 2019 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. The additional 'generally accepted accounting principles' in the applicable accounting standards of the German Accounting Standards Committee (DRSC) for consolidated financial statements have been applied where their application is recommended for separate financial statements.

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. The goodwill will be amortized on a straight-line basis over its expected useful life, which was calculated by the Company to be ten years. No internally generated intangible assets were recognized.

**Land, land rights and buildings, including buildings on third-party land**, were valued at cost. As had also been the case in 2018, no write-downs due to permanent impairment had to be recognized in 2019. Neither in 2019 nor in 2018 were there grounds for the reversal of write-downs as a result of the reason for the original write-down no longer applying. The office tower completed in 2001, in which the Company holds a 25.0 percent stake through ARAG 2000 GbR, is used by companies in the ARAG Group.

**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 2018, no such write-downs were recognized in the reporting year. Neither in 2019 nor in 2018 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, 2019

Name and registered office of company	Shareholding	Equity	Net income/ loss for the year
	(%)	(€)	(€)
<b>Shares in affiliated companies</b>			
Interlloyd Versicherungs-AG, Düsseldorf <sup>1)</sup>	100	7,392,771.59	<b>2,298,341.76</b>
ALIN 2 Verwaltungs-GmbH, Düsseldorf	100	28,345.41	<b>1,570.91</b>
ALIN 2 GmbH & Co. KG, Düsseldorf	100	10,839,594.54	<b>47,977.59</b>
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50	4,888,399.44	<b>160,904.66</b>
ARAG Service Center GmbH, Düsseldorf	20	383,895.66	<b>40,811.10</b>

<sup>1)</sup> 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 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 were recognized on equities and investment fund shares/units in 2019 or 2018, while write-downs of €504,130.00 were recognized on bonds (2018: €2,010.00). Reversals of write-downs on these securities amounted to €175,510.00 in 2019 (2018: €10,150.00).

ARAG Allgemeine made use of the option to select the discretionary principle of lower of cost or market value for those 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. All institutional funds and some of the bearer bonds are classified as permanent fixed assets at ARAG Allgemeine and were treated as fixed assets. Subsequent valuation of the investment fund shares/units classified as fixed assets is based on the long-term value determined in a fund review. As of December 31, 2019, the quoted market price was assumed to be the long-term value. As of December 31, 2018, the long-term value of the institutional fund shares/units had been assessed using the long-term trend in the price/earnings ratio in the Stoxx Europe Large 200 and MSCI Emerging Markets indices. Fixed-income securities within the funds were valued at their market value. All items within the funds with a rating of BBB– or better were valued at their nominal amounts, as a minimum. The bearer bonds treated as fixed assets were valued in the same way. Write-downs amounting to €5,002.00 (2018: €2,052,702.01) were recognized in respect of these investment fund shares/units in application of the discretionary principle of lower of cost or market value. Reversals of write-downs on these securities amounted to €1,169,974.49 in the reporting year (2018: €0.00).

As of the reporting date, there were no undisclosed liabilities (December 31, 2018: €878,386.93) that had not been netted as a result of the application of the discretionary principle of lower of cost or market value.

As in prior years, additions to investment fund shares/units, but not additions to bearer bonds, were recognized under investments treated as fixed assets.

**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. Where available, zero-coupon registered bonds are recognized at their nominal amount. Premiums are accrued and discounts deferred, and they are reclassified to income, over the term to maturity.

**Promissory notes, loans, and sundry lending items** are recognized at cost unless permanently impaired. No write-downs to a lower fair value were necessary in the year under review or the previous year. The structured products held in the portfolio of direct investments in registered bonds and promissory notes are simply structured products pursuant to the Accounting Principle issued by the Main Technical Committee of the Institute of Public Auditors in Germany (IDW AcP HFA 22) and are therefore accounted for in accordance with standard practice.

**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.

**Other investments** comprise shares/units in infrastructure funds and private equity funds. They are valued at cost. 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. As had also been the case in 2018, no write-downs due to expected permanent impairment had to be recognized in 2019. Neither in 2019 nor in 2018 were there grounds for the reversal of write-downs as a result of the reason for the original write-down no longer applying.

**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. All receivables become due for payment within no more than 14 days after the invoice has been raised. 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 €1,130,208.35 (December 31, 2018: €2,658,649.05) generally arises from outward reinsurance business. The amounts recognized are the outstanding balances.

**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.

**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 parent company.

The **subscribed capital** has been fully paid up by the shareholders. The **capital reserves** include amounts that shareholders have contributed to the equity of the Company without being granted preferences 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 0.7 percent (2018: 0.9 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 profit on settlements in direct business amounts to nearly 5.5 percent (2018: 2.8 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 0.7 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 341 h 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 (VOH), otherwise on the basis of empirical values.

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 2018G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. The discount rate used was the average interest rate for the past ten years published by the Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. As had been the case a year earlier, a discount rate was applied for the valuation as of December 31, 2019 based on the average for the past ten years; this rate as of the reporting date was 2.71 percent (December 31, 2018: 3.21 percent). The difference in the amount that arises from the application of the percentage rate for the ten-year average rather than the percentage rate for the seven-year average amounted to €3,419,493.00 at the end of 2019 (December 31, 2018: €4,021,259.00). 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 1.75 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 settlement value of the offset liabilities corresponds to the asset value of the reinsurance taken out as matched cover and amounts to €201,533.00.

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 €3,043.49 arose from the discounting of provisions with a maturity of more than one year (2018: €432.34). No interest income arose (2018: €3,856.54).

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 2018G mortality tables published by Professor Klaus Heubeck, applying a discount rate of 1.97 percent (seven-year average; 2018: 2.32 percent) and future salary increases of 2.5 percent per year.

In 2019, a provision in accordance with the **pre-retirement part-time employment agreement** for the private insurance industry, based on the IDW accounting principle, was recognized on the basis of a discount rate of 1.97 percent for matching maturities (2018: 2.32 percent). In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements and natural employee turnover were taken into account. 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 calculation was based on the Company's possible use of the provision for early retirement benefits in connection with individual contractual agreements. The provision was calculated using the projected unit credit method taking into account death rates in accordance with the 2018G mortality tables published by Professor Klaus Heubeck and applying a discount rate of 1.97 percent (seven-year average; 2018: 2.32 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 the 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 conversions generated income of €18,905.29 in 2019 (2018: expenses of €17,984.53). These amounts are reported in other net income/expense.

### Fair value disclosures pursuant to section 54 RechVersV

**Fair values of land, land rights and buildings, including buildings on third-party land** An externally produced valuation report dated November 30, 2019 is available for calculating fair value. This satisfies the requirements of section 55 (3) and (7) RechVersV. Land and land rights with a carrying amount of €19,807 thousand (December 31, 2018: €21,312 thousand) are used for the Company's own business operations and for the business operations of other Group companies.

**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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Gross premiums written	188,134	181,844	158,488	153,597	47,932	47,698	43,741	42,361	1,080	1,294
Gross premiums earned	187,857	182,189	158,163	153,952	47,996	47,882	43,643	42,461	1,080	1,294
Net premiums earned	180,410	173,985	150,717	145,749	46,188	46,191	41,598	40,619	0	0
Gross expenses for claims	101,290	106,090	87,139	92,176	22,855	25,815	21,563	21,963	-232	954
Gross insurance business operating expenses	75,796	74,655	62,735	62,105	17,595	17,760	17,625	17,677	181	198
of which front-end fees	21,301	20,547	19,650	18,855						
of which administrative expenses	54,495	54,108	43,085	43,250						
Reinsurance balance	4,997	-3,705	4,997	-3,705	760	-490	1,419	-1,534	1,199	189
Underwriting result net of reinsurance before equalization provision	5,228	4,779	3,346	3,602	7,144	5,288	3,129	4,470	-56	-33
Underwriting result net of reinsurance after equalization provision	3,003	11,770	1,268	5,387	7,144	5,288	2,636	3,405	-56	2,241
Gross technical provision (total)	295,313	276,107	250,265	238,847	103,864	101,527	80,441	76,734	13,611	15,152
of which gross provision for outstanding claims	225,821	211,746	203,850	195,044	98,614	96,260	60,876	57,789	13,598	15,138
of which lapse provision	1,320	1,200	1,320	1,200	358	333	307	277	13	14
of which equalization provision and similar provisions	39,942	37,677	25,966	23,848	0	0	13,830	13,337	0	0
Number of insurance policies with a term of at least one year	1,037,558	914,063	1,037,558	914,063	154,718 <sup>1)</sup>	158,190 <sup>1)</sup>	290,651 <sup>1)</sup>	287,648 <sup>1)</sup>	4,858	5,604
Technical interest income net of reinsurance relating to benefit reserves for annuities (0.70 percent)	270	341	270	341	270	341	0	0	0	0

<sup>1)</sup> These insurance segments contain 17 group contracts (2018: 84) with 20,861,473 insured risks (2018: 20,842,765).

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

Direct insurance business	2019	2018
(No.)		
Germany	928,337	913,997
International	109,221	93,504
<b>Total</b>	<b>1,037,558</b>	<b>1,007,501</b>

Miscellaneous motor insurance		Fire and property insurance		of which composite home contents insurance		of which miscellaneous property insurance		Emergency assistance insurance		Miscellaneous insurance		Inward business (total)	
2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
562	575	49,572	47,744	20,909	20,412	28,662	27,332	6,177	5,708	9,423	8,217	29,646	28,247
562	575	49,534	47,887	21,011	20,432	28,522	27,454	6,270	5,523	9,077	8,330	29,693	28,237
0	0	47,591	45,096	20,062	19,344	27,529	25,751	6,270	5,523	9,068	8,319	29,693	28,237
275	441	32,218	34,471	9,516	8,947	22,702	25,524	4,513	2,967	5,947	5,566	14,152	13,914
84	89	20,340	20,110	9,496	9,589	10,845	10,521	3,446	3,055	3,465	3,216	13,061	12,550
												1,652	1,691
												11,409	10,859
164	21	1,445	-1,900	916	906	529	-2,806	0	0	9	9	0	0
39	32	-4,902	-5,223	1,054	973	-5,956	-6,196	-1,670	-479	-338	-454	1,882	1,177
39	550	-6,347	-5,034	361	2,069	-6,708	-7,103	-1,670	-479	-478	-583	1,736	6,382
86	134	42,116	36,330	10,467	9,118	31,649	27,212	2,924	2,669	7,224	6,301	45,048	37,260
79	127	25,864	21,613	4,726	3,988	21,138	17,625	1,189	855	3,630	3,262	21,971	16,703
7	6	538	486	227	208	311	278	65	56	32	28	0	0
0	0	11,182	9,736	4,732	4,039	6,449	5,697	0	0	955	774	13,976	13,829
2,733	3,285	323,263	316,416	185,471	182,892	137,792	133,524	131,064 <sup>1)</sup>	99,515 <sup>1)</sup>	130,271 <sup>1)</sup>	43,405 <sup>1)</sup>	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 and inward reinsurance business	2019	2018
(€'000)		
Germany	183,269	178,468
International	4,865	3,376
<b>Total</b>	<b>188,134</b>	<b>181,844</b>

## IV. Non-Insurance Disclosures

### Changes in asset items A., B. I. to III. in the financial year 2019

(€'000)	Carrying amount as of Dec. 31, 2018
<b>A. Intangible assets</b>	
1. Goodwill	0
<b>2. Total for A.</b>	<b>0</b>
<b>B. I. Land, land rights and buildings, including buildings on third-party land</b>	<b>21,312</b>
<b>B. II. Investments in affiliated companies and equity investments</b>	
1. Shares in affiliated companies	16,828
2. Lending to affiliated companies	0
3. Equity investments	0
4. Lending to long-term investees and investors	0
<b>5. Total for B. II.</b>	<b>16,828</b>
<b>B. III. Miscellaneous investments</b>	
1. Equities, investment fund shares/units, and other variable-yield securities	219,447
2. Bearer bonds and other fixed-income securities	22,869
3. Loans secured by mortgages or land charges and fixed-income receivables	0
4. Miscellaneous lending	
a) Registered bonds	25,000
b) Promissory notes and loans	21,982
c) Loans and prepayments for certificates of insurance	0
d) Sundry lending	0
5. Bank deposits	83
6. Other investments	1,369
<b>7. Total for B. III.</b>	<b>290,750</b>
<b>Total</b>	<b>328,890</b>

Land, land rights and buildings, including buildings on third-party land, with a carrying amount of €19,807,078.27 (December 31, 2018: €21,311,589.42) are used for the Company's own business operations.

Additions	Disposals	Reversals of write-downs	Write-downs	Carrying amount as of Dec. 31, 2019	Fair value pursuant to sec. 54 RechVersV
3,584	0	0	30	3,554	3,554
<b>3,584</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>3,554</b>	<b>3,554</b>
<b>0</b>	<b>1,505</b>	<b>0</b>	<b>0</b>	<b>19,807</b>	<b>38,877</b>
3,171	0	0	0	19,999	38,502
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
<b>3,171</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>19,999</b>	<b>38,502</b>
1,164	20,450	1,170	0	201,332	240,505
29,916	6,305	176	509	46,147	47,495
0	0	0	0	0	0
14,500	0	0	0	39,500	40,302
1,063	11,982	0	0	11,063	11,375
0	0	0	0	0	0
0	0	0	0	0	0
5	0	0	0	88	88
1	169	0	0	1,201	2,526
<b>46,648</b>	<b>38,905</b>	<b>1,345</b>	<b>509</b>	<b>299,330</b>	<b>342,291</b>
<b>53,403</b>	<b>40,410</b>	<b>1,345</b>	<b>539</b>	<b>342,690</b>	<b>423,224</b>

There is an equity investment in a property-managing entity in the form of a partnership under the German Civil Code (GbR). The sole purpose of this entity is to operate an administrative building. The equity investment is reported under land and buildings. As of December 31, 2019, the carrying amount of the equity investment was €19,807,078.27 (December 31, 2018: €21,311,589.42).

### 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, 2019	Market value as of Dec. 31, 2019	Difference	Dividend in 2019	Redemption
			(€)	(€)	(€)	(€)	
ALLTRI	Mixed fund	Increased income	120,328,272.49	151,500,350.92	31,172,078.43	2,563,506.00	At any time
ALLTRIARENT	Fixed-income fund	Increased income	52,007,807.22	60,009,144.81	8,001,337.59	188,064.58	At any time
ARI 2	Fixed-income fund	Increased income	12,850,266.07	12,850,266.07	0.00	673,029.02	At any time
			<b>185,186,345.78</b>	<b>224,359,761.80</b>	<b>39,173,416.02</b>	<b>3,424,599.60</b>	

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.

ARAG Allgemeine made use of the option to select the discretionary principle of lower of cost or market value for those institutional funds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of December 31, 2019, shares/units in one mixed institutional fund, one equity fund, and three fixed-income funds with a carrying amount of €201,331,590.39 (December 31, 2018: €219,447,035.76) had been classified as fixed assets. The fair value of these investment fund shares/units classified as permanent fixed assets amounted to €240,505,006.41 as of the balance sheet date (December 31, 2018: €238,440,109.37).

**Bearer bonds** ARAG Allgemeine also made use of the option to select the discretionary principle of lower of cost or market value for the bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of the end of 2019, a total of eight securities (December 31, 2018: 14 securities) with a carrying amount of €1,909,848.00 (December 31, 2019: €8,219,490.00) were classified as fixed assets. The fair value of these bearer bonds amounted to €2,020,832.00 as of the balance sheet date (December 31, 2018: €8,585,886.00).

## Equity

(€)	Dec. 31, 2019	Dec. 31, 2018
<b>Total equity</b>	<b>55,322,905.72</b>	<b>55,322,905.72</b>
of which:		
<b>I. Subscribed capital</b>		
The share capital amounts to: It is divided into 2,200,000 fully paid-up no-par-value shares.	<b>44,000,000.00</b>	<b>44,000,000.00</b>
<b>II. Capital reserve</b>		
pursuant to sec. 272 (2) no. 1 HGB	<b>10,490,518.89</b>	<b>10,490,518.89</b>
<b>III. Revenue reserves</b>		
1. Statutory reserves	743,744.95	743,744.95
2. Other revenue reserves	88,641.88	88,641.88
	<b>832,386.83</b>	<b>832,386.83</b>
<b>IV. Net retained profit</b>	<b>0.00</b>	<b>0.00</b>

In previous years, the **statutory reserves** had to be recognized in accordance with section 300 of the German Stock Corporation Act (AktG). No addition was made to the statutory reserves in 2019.

### 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 the item as of December 31, 2019 was therefore as follows:

### Defined benefit obligations

(€)	Dec. 31, 2019	Dec. 31, 2018
Amount required to settle the vested entitlements	32,580,370.00	32,026,475.00
of which offsetable against pension insurance assets	-201,533.00	-205,242.00
<b>Remaining amount</b>	<b>32,378,837.00</b>	<b>31,821,233.00</b>

### Provisions for taxes

In 2019, provisions for taxes of €137,420.00 (December 31, 2018: €65,095.22) had to be recognized for tax demands, including in relation to periods before the single entity for tax purposes was created, 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 €539,929.00 (December 31, 2018: €523,469.00), costs for the annual financial statements and auditing of €432,243.95 (December 31, 2018: €448,729.09), bonuses of €347,835.84 (December 31, 2018: €286,335.60), vacation entitlement obligations of €185,697.00 (December 31, 2018: €208,365.00), reimbursement of the Supervisory Board's expenses of €165,200.00 (December 31, 2018: €165,200.00), and pre-retirement part-time employment of €153,504.00 (December 31, 2018: €271,328.00). There are also provisions for association fees 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 2019 or 2018.

**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.

Deferred taxes resulting from differences between the carrying amounts in the Company's financial statements and those in the tax base are recognized in the parent company's financial statements prepared in accordance with commercial law.

The tax expense recognized of €180,068.62 (2018: €6,787.52) relates not only to the tax expense of the branches outside Germany but also to German motor vehicle tax and miscellaneous taxes.

**V. Report on Post-Balance Sheet Events**

There were no events of particular importance after the end of the financial year. The Company is monitoring the changes in the capital markets and the latest developments in relation to health emergencies (such as COVID-19). These may create both opportunities and risks in respect of business performance. So far this year, business performance has been in line with expectations.

## VI. Other Disclosures

### Miscellaneous financial obligations, contingencies and commitments pursuant to sections 251 and 285 no. 3 a HGB

Investment agreements with a total volume of €23,981,308.28 (December 31, 2018: €19,013,842.47) have been concluded through the affiliated company ALIN 2 GmbH & Co. KG with various private equity funds. 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 €14,166,865.27 (2018: €12,564,670.64) are expected on the basis of open-ended investment agreements. As of the reporting date, ARAG Allgemeine had call commitments of €211,209.75 (December 31, 2018: €334,344.75) toward four other of its investments 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 may 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 €3,419,493.00 (December 31, 2018: €4,021,259.00).

### Auditor's fees

The Company's Supervisory Board agreed fees of €173,109.24 (2018: €164,705.88) with the auditors, PricewaterhouseCoopers GmbH Germany, for the audit of the 2019 financial statements. As ARAG Allgemeine is not entitled to offset input VAT, the additional VAT incurred was included in the recognized expense. The auditors also provided services as an independent trustee in the motor insurance business in 2019, the fees for which amounted to €6,377.61 (2018: €6,269.98). No other additional consultancy/advisory or non-audit services were performed.

### Commissions and other remuneration for insurance agents, staff costs

(€)	2019	2018
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	40,164,116.20	38,911,806.65
2. Other remuneration for insurance agents within the meaning of section 92 HGB	0.00	0.00
3. Wages and salaries	9,718,913.56	9,688,333.49
4. Social security and other employee benefit expenses	1,631,061.59	1,568,267.33
5. Pension and other post-employment benefit expenses	2,789,085.16	2,968,582.25
<b>Total expenses</b>	<b>54,303,176.51</b>	<b>53,136,989.72</b>

**Employees**

The average number of employees in 2019 was 161 (2018: 158), of whom 77 worked in domestic claims, 61 in sports insurance, and 23 in other departments.

**Supervisory Board and Management Board remuneration**

In the year under review, the Company's Supervisory Board received remuneration of €165,200.00 (2018: €144,550.00). The remuneration for members of the Management Board came to €451,574.99 in 2019 (2018: €430,544.51). 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 €996,876.36 (2018: €1,076,821.67). A provision of €14,967,458.00 was recognized for current pensions and vested pension entitlements of former members of the Management Board and their surviving dependants (December 31, 2018: €15,495,614.00). 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 Group companies are included in the consolidated financial statements of ARAG Holding SE, Düsseldorf, for the year ended December 31, 2019. 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 and Consumer Protection. 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 3, 2020

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Management Board

Uwe Grünewald

Christian Vogée

Dr. Werenfried Wendler

## VII. Governing Bodies of the Company

<b>Supervisory Board</b>	<b>Dr. Dr. h. c. Paul-Otto Faßbender</b>	Chief Executive Officer of ARAG SE, Düsseldorf, Chairman
	<b>Hanno Petersen</b>	Member of the Management Board of ARAG SE, Ratingen, Deputy Chairman
	<b>Dr. Matthias Maslaton</b>	Member of the Management Board of ARAG SE, Moers
	<b>Dr. Joerg Schwarze</b>	Member of the Management Board of ARAG SE, Düsseldorf
	<b>Elected by the employees:</b>	
	<b>Johannes Berg</b>	Insurance professional, ARAG Allgemeine Versicherungs-AG, Dormagen
	<b>Wolfgang Platen</b>	Insurance professional, ARAG Allgemeine Versicherungs-AG, Mönchengladbach
<b>Management Board</b>	<b>Uwe Grünewald</b>	Risk Management/Controlling/ Finance and Accounting, Düsseldorf (from April 15, 2019)
	<b>Wolfgang Mathmann</b>	Risk Management/Controlling/ Finance and Accounting, Krefeld (until April 14, 2019)
	<b>Christian Vogée</b>	Sales/Operations/Claims, Düsseldorf
	<b>Dr. Werenfried Wendler</b>	Human Resources, Neustadt/Weinstrasse (from January 1, 2019)

# Independent Auditor's Report\*

To ARAG Allgemeine Versicherungs-Aktiengesellschaft, Düsseldorf

## Report on the Audit of the Annual Financial Statements and of the Management Report

### Audit Opinions

We have audited the annual financial statements of ARAG Allgemeine Versicherungs-Aktiengesellschaft, Düsseldorf, which comprise the balance sheet as at December 31, 2019, and the statement of profit and loss for the financial year from January 1 to December 31, 2019, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of ARAG Allgemeine Versicherungs-Aktiengesellschaft for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, 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 audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

\* Voluntary translation. It should be noted that only the German Auditor's Report, which is based on the audit of the German version of the Company's consolidated financial statements, is authoritative.

### **Basis for the Audit Opinions**

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (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 we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the 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, 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Measurement of investments
2. Measurement of claims provisions

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

**Hereinafter we present the key audit matters:****1. Measurement of investments**

1. In the Company's annual financial statements investments amounting to EUR 339,136 thousand (91.3% of total assets) are reported in the balance sheet. Investments that are not measured on the basis of stock exchange prices or other market prices are associated with increased risk regarding measurement due to the necessity of using model-based calculations. The executive directors are required to exercise judgment and make estimates and assumptions in this context. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of investments. Due to the material significance of the amounts of investments for the assets, liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of investments was of particular significance in the context of our audit.
2. Given the significance of investments for the Company's overall business, as part of our audit we assessed the assumptions made by the executive directors and the models used by the Company together with our internal specialists for investments. Thereby, we based our assessment on our valuation expertise with regard to investments, and our industry expertise and experience, among other things. In addition, we evaluated the design and effectiveness of the controls established by the Company for the purpose of measuring investments and recording the earnings from investments. On that basis, we carried out additional analytical audit procedures and tests of details relating to the measurement of investments. Among other things, we also examined the underlying amounts recorded and their recoverability on the basis of the documentation made available, and we evaluated the consistent application of the measurement methods and the allocation of amounts to the correct periods. Furthermore, we assessed the valuation reports prepared or obtained by the Company (including the measurement parameters used and the assumptions made) for its material equity investments and real estate. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the investments are substantiated and sufficiently documented.
3. The Company's disclosures on investments are contained in section II "Disclosures on Accounting Policies" of the notes to the financial statements.

## 2. Measurement of claims provisions

1. In the annual financial statements of the Company technical provisions (“claims provisions”) amounting to EUR 194,733 thousand net (52.4% of total assets) are reported under the “Provisions for unsettled claims” balance sheet item. Insurance undertakings are required to recognize technical provisions to the extent necessary in accordance with prudent business judgment to ensure that they can meet their obligations from insurance contracts on a long-term basis. Defining assumptions for the purpose of measuring the technical provisions requires the Company’s executive directors, in addition to complying with the requirements of commercial and regulatory law, to make estimations of future events and to apply appropriate measurement methods. The methods used to determine the amount of the claims provisions and the calculation parameters are based on judgments and assumptions made by the executive directors. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of the claims provisions. Due to the material significance of the amounts of these provisions for the assets, liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of the claims provisions was of particular significance in the context of our audit.
2. Given the significance of the claims provisions for the Company’s overall business, as part of our audit we assessed the assumptions made by the executive directors and the methods used by the Company together with our internal measurement specialists. Thereby, we based our assessment on our industry expertise and experience, among other things, and considered recognized methods. We also evaluated the design and effectiveness of the controls established by the Company for the purpose of calculating and recording claims provisions. On that basis, we carried out additional analytical audit procedures and tests of details relating to the measurement of the claims provisions. Among other things, we also reconciled the data on which the calculation of the settlement amount was based with the underlying documentation. Therewith, we assessed the results of the Company’s calculations of the amount of the provisions with reference to the applicable legal requirements and evaluated the consistent application of the measurement methods and the allocation of amounts to the correct periods. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the claims provisions are substantiated and sufficiently documented.
3. The Company’s disclosures on claims provisions are contained in section II “Disclosures on Accounting Policies” of the notes to the financial statements.

### Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289 f Abs. 4 HGB (disclosures on the quota for women on executive boards).

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

### Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and 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 executive directors are responsible for such arrangements and measures (systems) as they have considered 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 Company's financial reporting process for the preparation of the annual financial statements and of the management report.

### **Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud 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 knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken 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 misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit 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 override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) 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 audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be 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 the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

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

### **Other Legal and Regulatory Requirements**

#### **Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as auditor by the supervisory board on March 22, 2019. We were engaged by the supervisory board on October 21, 2019. We have been the auditor of ARAG Allgemeine Versicherungs-Aktiengesellschaft, Düsseldorf, without interruption since the financial year 1992.

We declare that the audit 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).

#### **German Public Auditor Responsible for the Engagement**

The German Public Auditor responsible for the engagement is Ludger Koslowski.

Düsseldorf, March 12, 2020

PricewaterhouseCoopers  
Gesellschaft mit beschränkter Haftung  
Wirtschaftsprüfungsgesellschaft

Ludger Koslowski  
Wirtschaftsprüfer (German public auditor)

Michael Peters  
Wirtschaftsprüfer (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, planned business policy, 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 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. 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 met once for the constitutive meeting of the Supervisory Board and its committees. Outside the meetings, the chairman of the Supervisory Board was also in regular contact with the Management Board and was kept informed about the current business situation and major business transactions.

During the reporting period, the Supervisory Board kept up to date on the situation in the capital markets and its impact on the Company. The other major items on the agenda at the different meetings included discussions about the Company's current financial results and the latest forecasts, deliberation on the business and risk strategies, the ORSA report as of June 30, 2018, regular risk reports, and discussions about the strategic planning for ARAG Allgemeine for the three-year period from 2020 to 2022 and its approval. The Supervisory Board examined the Company's reinsurance renewal for 2019, its strategic activities, forward-looking initiatives relating to the casualty and property insurance business, and the performance and the future of the sports insurance portfolio. It also discussed the appropriateness of the Management Board's remuneration together with the remuneration system used by the Company for its employees. With regard to the Management Board's remuneration, the Supervisory Board also assessed the fulfillment of the Management Board's targets for 2018 and specified Management Board targets for 2019 linked to variable remuneration. Furthermore, the Supervisory Board addressed the issue of the gender composition of management in accordance with statutory requirements and specified the gender ratios for both the Management Board and the Supervisory Board up to 2021. The full Supervisory Board drew up a proposal for the 2020 Annual General Meeting (AGM) recommending that a Supervisory Board member be reappointed for the maximum permitted term.

Following preparation by the Human Resources Committee, the full Supervisory Board adopted the necessary resolutions regarding the appointment of a Management Board member due to the need for succession planning and approved the necessary

changes to the allocation of responsibilities. The ordinary meetings in 2019 also featured a report on implementation of the auditor's findings from the audit of the 2018 annual financial statements, a discussion of the annual self-assessment process for the Supervisory Board, and approval of the development plan building on the self-assessment. Finally, the Supervisory Board received regular reports on an acquisition project in the Republic of Ireland, on relevant transactions in the companies relating to data protection, legal/compliance, accounting, tax, and asset management, and on the ongoing process to select a new auditor with effect from the 2020 financial year.

Following preparations by the Finance and Audit Committee, the full Supervisory Board adopted the necessary resolutions – using written procedures – at the start of May in respect of the invitation to tender for a new auditor with effect from the 2020 financial year.

The Supervisory Board has formed two committees: the Finance and Audit Committee and the Human Resources Committee.

The Finance and Audit Committee held three meetings in the year under review. During these meetings, it adopted the necessary resolutions for the appointment of a new auditor with effect from the 2020 financial year or prepared such resolutions for the full Supervisory Board. These mainly related to defining the selection process, making necessary adjustments to the rules of procedure for the Supervisory Board, starting the invitation to tender process, specifying the selection criteria, evaluating the tenders received, and issuing a recommendation for the resolution on selecting the auditor for the 2020 financial year onward.

The Finance and Audit Committee also adopted five resolutions in writing in which it approved appointments to governing bodies at subsidiaries of ARAG Allgemeine as per the committee's remit, adopted further resolutions – or prepared such resolutions for the full Supervisory Board – relating to the appointment of a new auditor with effect from the 2020 financial year, and acknowledged the 2018 report on non-audit services.

The Human Resources Committee held three meetings in 2019, at which it discussed the implementation of the Fit&Proper guidance, the remuneration policy, the Management Board's remuneration, the Company's remuneration structures, and the appointment of Management Board members (including the necessary changes to the allocation of responsibilities) in preparation for resolutions to be adopted by the full Supervisory Board. In addition, the Human Resources Committee deliberated on the assessment and agreement of the Management Board's targets for its variable remuneration. Furthermore, the committee prepared the necessary resolutions on the gender composition of management in accordance with statutory requirements and proposed gender ratios to the full Supervisory Board for both the Management Board and the Supervisory Board up to 2021. The Human Resources Committee also carried out preparatory work on the annual self-assessment process for the Supervisory Board and on the subsequent creation of a development plan. Another focus of discussions was ensuring compliance with the 'fit and proper' requirements for the Management Board. The Human Resources Committee did not make any decisions using written procedures in 2019.

Detailed reports on the committees' meetings and work were delivered at the Supervisory Board meetings.

The 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 2019 were, together with the bookkeeping system, audited by PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, which had been selected and engaged by the Supervisory Board on March 22, 2019 to carry out the audit and which issued an unqualified opinion.

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.

The Supervisory Board reviewed the 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 financial statements and management report by the auditors. The Supervisory Board approved the financial statements and management report and thereby adopted them. The Supervisory Board proposes to the AGM that it formally approve the acts of the Management Board members.

Dr. Werenfried Wendler was appointed to the Company's Management Board with effect from January 1, 2019. He is in charge of a new, third responsibility area: Human Resources. Wolfgang Mathmann stepped down from the Company's Management Board on April 14, 2019. His successor, Uwe Grünewald, took up the post on April 15, 2019.

The Supervisory Board would like to express its thanks and appreciation for the work of the Management Board and all employees in 2019.

Düsseldorf, March 27, 2020

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

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

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