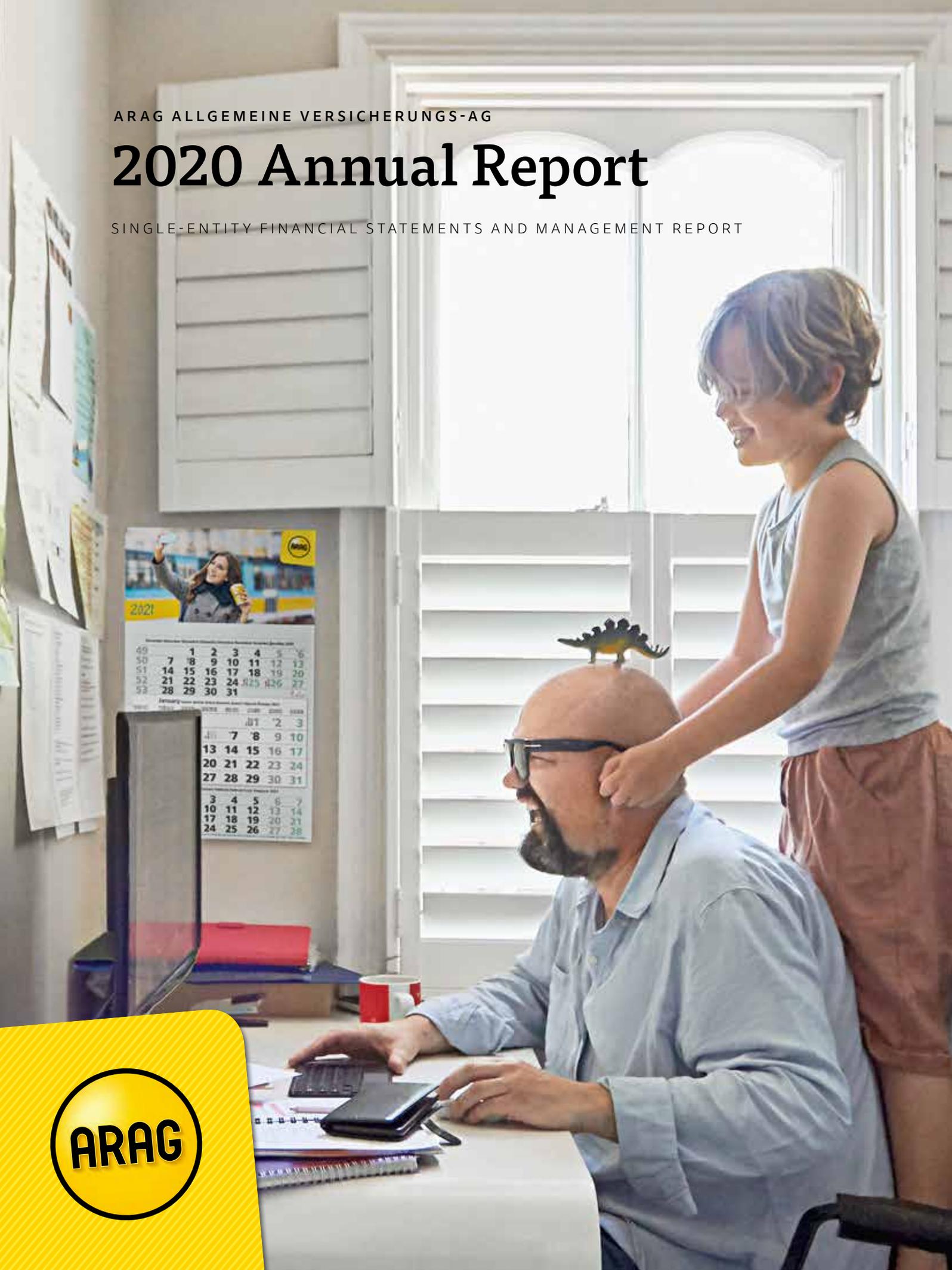


ARAG ALLGEMEINE VERSICHERUNGS-AG

2020 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS AND MANAGEMENT REPORT



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Overview

ARAG Allgemeine Versicherungs-AG Key Figures

(€'000)	2020	Change	2019	2018
Sales revenue				
Gross premiums written	198,850	5.70%	188,134	181,844
Premiums earned net of reinsurance	190,223	5.44%	180,410	173,985
Expenses				
Claims incurred net of reinsurance	92,187	-7.98%	100,178	95,583
Claims ratio (basis: premiums earned)	48.46%	-7.07% pts.	55.53%	54.94%
Insurance business operating expenses net of reinsurance	83,662	12.33%	74,481	73,254
Cost ratio (basis: premiums earned)	43.98%	2.70% pts.	41.28%	42.10%
Net income overview				
Underwriting result before equalization provision, gross	16,865	64.93%	10,225	1,074
Underwriting result before equalization provision, net of reinsurance	13,736	162.71%	5,228	4,779
Underwriting result after equalization provision, net of reinsurance	11,039	267.55%	3,003	11,770
Gains and losses on investments	2,788	-76.00%	11,613	10,515
Other net income/expense	-3,145	0.31%	-3,154	-3,753
Profit/loss from ordinary activities	10,682	-6.80%	11,462	18,532
Net income for the year (before profit transfer under profit-and-loss transfer agreement)	10,726	-4.92%	11,282	18,525
Key ratios				
Technical provisions/premiums earned net of reinsurance	141.37%	-5.09% pts.	146.46%	139.27%
Equity/premiums earned net of reinsurance	29.08%	-1.58% pts.	30.67%	31.80%

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 85 years ago exclusively as a legal insurance company, but has now positioned itself as an independent, international insurer 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 ARAG 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 €1.9 billion and employs over 4,400 people.

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

Legal insurance

In its core legal insurance segment, ARAG 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 brokered and operated by a branch established in 2016. The permanent establishment in the Republic of Ireland opened in 2019.

Insurance portfolio

At the end of the year under review, the portfolio of direct insurance contracts comprised 1,949,543 policies (December 31, 2019: 1,037,558 policies). Of this total, 942,605 policies (December 31, 2019: 928,337 policies) were accounted for by the business in Germany, 697,466 policies (December 31, 2019: 0 policies) by the branch in the Republic of Ireland, and 309,472 policies (December 31, 2019: 109,221 policies) by the UK branch.

Segments and classes of insurance operated by the Company

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

General accident insurance

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

Motor insurance

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

Liability insurance

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

Marine insurance

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

Credit and guarantee insurance

Legal insurance

Business interruption insurance

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

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, the world was confronted with huge, previously unknown challenges in the reporting year. In virtually no time at all, the COVID-19 pandemic cast a dark shadow over the entire globe.

The pandemic plunged broad swathes of the global economy, almost simultaneously, into a dramatic downturn in the spring of 2020. This led to turmoil in capital markets, which in some cases was extensive. As coronavirus case numbers increased and restrictive measures were imposed to protect the health of the population, economic output fell sharply in the second quarter, both in industrialized countries, such as the United States and the countries of the European Union, and in major emerging markets. A multitude of often far-reaching containment measures were introduced to help control the pandemic and halt, or at least slow down, the spread of the virus. Governments and central banks turned to comprehensive monetary and fiscal policy measures to counter the effects of the economic slump. Many countries, including Germany, opted to introduce short-time working as one of the key approaches for stabilizing incomes.

The summer of 2020 saw a rapid economic recovery in many places as constraints were eased and infection rates declined. However, many countries tightened up the restrictions again significantly in the autumn in response to a rapid rise in the number of cases.

This caused the economic recovery to stall in the fourth quarter, including in Europe. Some countries particularly badly affected by the second wave of coronavirus even registered a contraction in economic activity again. In view of the economic slump and the fall in consumer price inflation at the beginning of 2020, the European Central Bank (ECB) had agreed and implemented extensive measures to ensure financial markets and prices remained stable and to prop up the economic recovery in the eurozone. As a result of this intervention, financial markets had settled down again over the summer following the sharp rise in volatility in the spring. One of the outcomes was that share prices staged a significant recovery from April onward.

Alongside the consequences of the COVID-19 pandemic, the withdrawal of the United Kingdom from the EU continued to have an impact on the economic situation. The United Kingdom finally left the EU Customs Union and the European single market at the beginning of 2021 after the parties managed to reach an agreement in 2020 on the structure of their future trading relationship.

The annual report of the German Council of Economic Experts predicts that the gross domestic product (GDP) of the eurozone will have contracted by 7.0 percent, and that of Germany by 5.1 percent, in the reporting year.

The extent of the impact of the COVID-19 pandemic on German and international spheres of economic activity was varied. The German insurance industry proved to be robust in the face of the crisis, generating slight premium growth of approximately 0.4 percent (2019: 7.0 percent). Premium income in direct casualty and property insurance business will probably have gone up by 2.1 percent, which is still a notable increase against the general economic trend, albeit below the prior-year growth of 3.5 percent. The legal insurance segment saw steady premium growth of 3.0 percent (2019: 2.9 percent), driven to a large extent by the opportunity to adjust premiums.

Business performance

The reporting year was heavily influenced by the ongoing COVID-19 pandemic. The crisis had an impact on a multitude of business lines and a wide range of key underwriting figures. The effect of the pandemic was particularly evident in gains and losses on investments and expenses for claims incurred, but also premium income.

Despite these difficult conditions, ARAG Allgemeine recorded another year of growth in premiums. One of the reasons for this was that the Company succeeded in fully digitalizing its customer-facing activities within a very short space of time and so was able to serve its customers as normal in spite of the prescribed restrictions on contact. Premium income rose by 5.7 percent in 2020 (2019: 3.5 percent). Income from gross premiums written amounted to €198,850 thousand in the year under review (2019: €188,134 thousand). ARAG Allgemeine therefore comfortably exceeded the premium target in its forecast for 2020. This was mainly due to an increase in premiums in international business.

Having established a branch in the United Kingdom in 2016, the Company set up a branch in the Republic of Ireland in 2019. In both branches, ARAG Allgemeine brokers direct insurance business. The branch in the Republic of Ireland also operates inward reinsurance business. As a result, premium income in international inward reinsurance business jumped from €483 thousand to €2,863 thousand. In domestic inward reinsurance business, however, there was a small decline of 0.6 percent in gross premiums written.

In the domestic business for the organization as a whole, gross premiums written advanced by approximately 1.9 percent year on year (2019: 2.8 percent). Composite residential buildings insurance and home contents insurance made the biggest contributions to this premium growth. One of the most notable features in these classes of insurance was the expansion in the number of policies involving 'Recht&Heim', a bundled product providing all-round cover.

Claims incurred in the reporting year were also heavily influenced by the pandemic that broke out in spring 2020 and its consequences. The restrictions on contact imposed by the German government had a particular impact on claims incurred. They led to a significant decline, of approximately 10.6 percent, in the claims reported for 2020 in Germany that was mainly attributable to the general accident insurance and general liability insurance segments.

There was a further reduced incidence of storms and severe weather in 2020, which again had a positive impact on the composite residential buildings insurance and home contents insurance segments compared with the prior year. Overall, across both segments, around 100 fewer claims were reported than in 2019.

Moreover, the expenses for major claims for 2020 in the direct organization and sports business held relatively steady and increased by only around €180 thousand year on year.

Gross expenses for claims incurred fell by nearly €6,000 thousand. The gross claims ratio decreased by 5.7 percentage points to 48.2 percent in the year under review. Claims incurred after reinsurance were significantly below the level forecast in 2019, mainly because of the sharp decline in claims reported for the year.

Insurance business operating expenses went up in 2020, in part due to an increase in commission payments in the domestic direct business and also due to higher expenses for services. The main driver of the rise in gross costs, however, was the growth in the international business in the UK and Republic of Ireland. ARAG Allgemeine's gross operating expenses for the insurance business were up by €8,927 thousand. Overall, the gross cost ratio climbed to 42.9 percent (2019: 40.3 percent). Insurance business operating expenses after reinsurance were significantly higher than the level forecast in 2019. This is due to the aforementioned increase in commission payments and expenses for services.

Investments generated a net gain of €2,788 thousand (2019: €11,613 thousand). As it had in 2019, ARAG Allgemeine made use of the option to select the discretionary principle of lower of cost or market value for those institutional funds and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of the reporting date, there were no undisclosed liabilities that had not been netted as a result of the application of the discretionary principle of lower of cost or market value. This had also been the case as of the end of 2019. Depreciation, amortization and write-downs of investments totaled €1,207 thousand in 2020 (2019: €509 thousand), while reversals of write-downs amounted to €704 thousand (2019: €1,345 thousand). The profit transferred from the subsidiary Interlloyd Versicherungs-AG declined by €534 thousand to €1,764 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 2020, because the direct 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 2020 financial year amounted to €10,726 thousand (2019: €11,282 thousand). When compared against the forecast for 2020, the Company was thus able to achieve almost double its profit target, which it exceeded by roughly €5,162 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 €188,134 thousand to €198,850 thousand. Of this total, €184,815 thousand (2019: €183,269 thousand) was attributable to the business in Germany and €14,036 thousand (2019: €4,865 thousand) to the international business. Whereas the general accident and general liability insurance segments accounted for the highest proportion of gross premium income in Germany, at around 60 percent, the focus in the international insurance business last year was on the brokerage of legal insurance. Premium income in the direct business rose significantly from €158,488 thousand to €166,987 thousand, primarily due to growth in the branches in the UK and Republic of Ireland. Premiums were up by 1.1 percent in the domestic direct business (2019: 2.6 percent).

In domestic inward reinsurance business, gross premiums written decreased by 0.6 percent to €29,001 thousand. The fall in premium income in the inward reinsurance business was attributable to the decrease 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.

Overall, the premiums earned net of reinsurance amounted to €190,223 thousand in the year under review (2019: €180,410 thousand).

The expenses for claims incurred in the reporting year were 48.5 percent of net premiums earned (2019: 55.5 percent). Overall, claims incurred net of reinsurance went down to €92,187 thousand (2019: €100,178 thousand). Because of the COVID-19 pandemic, a nuanced view needs to be taken of the pattern of claims and the impact on the individual insurance segments. The main factor in this decline was, as described above, the sharp fall in claims reported for the year, which resulted from the restrictions on contact imposed by the authorities and was mainly attributable to the general accident insurance and liability insurance segments. There was a countervailing effect from the closure of businesses ordered by the authorities in March 2020, which led to a substantial increase in claims reported and thus claims expenses in the business interruption insurance segment.

The Company's gross cost ratio was up from 40.3 percent in the prior year to 42.9 percent in 2020. In absolute terms, the gross operating expenses for the insurance business went up by €8,927 thousand to €84,723 thousand. The main reason for the increase in costs was the growth in premium income and the resulting rise in commission expenses in the international insurance business. Higher service costs in the domestic business were also a factor. The ratio of insurance business operating expenses net of reinsurance to net premiums earned was also higher year on year, climbing by 2.7 percentage points to 44.0 percent.

The volume of outward reinsurance, measured on the basis of insurance premiums paid, was slightly up at €7,322 thousand (2019: €7,304 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. The reinsurance business was particularly affected by an increase in its proportion of the settlement for claims from previous years. In total, the reinsurers' underwriting result fell to €3,129 thousand in 2020 (2019: €4,997 thousand).

In the year under review, the underwriting result before the equalization provision amounted to €13,736 thousand (2019: €5,228 thousand) and was therefore above the prior-year figure. The net combined ratio of 92.4 percent (2019: 96.8 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 €2,697 thousand was added to the equalization provision (2019: €2,225 thousand) on the basis of the trends in claims and premiums. The underwriting result net of reinsurance in 2020 therefore amounted to €11,039 thousand (2019: €3,003 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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Gross premiums written	47,946	47,932	43,745	43,741	1,147	1,642	2,312	2,450	2,064	2,002	1,075	1,158
Premiums earned net of reinsurance	46,019	46,188	41,843	41,598	0	0	2,277	2,452	2,013	1,958	1,061	1,127
Expenses for claims incurred net of reinsurance	17,827	22,367	15,619	20,937	-14	548	1,617	2,141	1,176	858	676	874
Insurance business operating expenses net of reinsurance	16,605	17,035	18,136	17,625	-235	-520	940	886	818	789	495	443
Underwriting result net of reinsurance before equalization provision	11,991	7,144	8,164	3,129	280	-17	-518	-752	23	319	-116	-182
Change in the equalization provision	0	0	-104	493	0	0	-450	-942	-371	107	596	475
Underwriting result net of reinsurance after equalization provision	11,991	7,144	8,268	2,636	280	-17	-68	190	395	212	-712	-656

* Incl. legal insurance.

Performance of the individual insurance segments in inward insurance 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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Gross premiums written	4,632	4,756	2,390	2,451	0	0	1,132	1,161	729	736	469	461
Premiums earned net of reinsurance	4,631	4,778	2,370	2,464	0	0	1,137	1,163	732	739	468	462
Expenses for claims incurred net of reinsurance	2,091	2,185	67	707	0	0	295	1,141	1	477	389	270
Insurance business operating expenses net of reinsurance	1,888	1,927	1,175	1,094	0	0	518	509	341	348	210	208
Underwriting result net of reinsurance before equalization provision	639	652	1,125	656	0	0	230	-578	390	-87	-132	-17
Change in the equalization provision	-122	-84	0	223	0	0	-324	563	73	167	-73	-209
Underwriting result net of reinsurance after equalization provision	517	568	1,125	879	0	0	-93	-15	463	80	-205	-227

* Incl. legal insurance.

Glass insurance		Storm and tempest insurance		Composite home contents insurance		Composite residential buildings insurance		Technical insurance		Business interruption insurance		Emergency assistance insurance		Sundry insurance*	
2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
1,458	1,447	917	977	21,468	20,909	17,220	16,683	3,197	2,819	1,175	1,127	9,055	6,177	14,206	9,423
1,457	1,448	869	895	20,400	20,062	16,489	15,823	3,174	2,769	1,128	1,058	7,945	6,270	14,582	9,069
671	621	1,067	488	9,308	9,483	15,985	15,132	2,301	1,842	1,356	275	4,898	4,513	6,432	5,947
823	791	404	367	10,029	9,496	6,788	5,792	1,458	1,325	516	479	5,572	3,446	6,864	3,465
-33	42	-611	48	1,017	1,054	-6,513	-5,295	-579	-392	-797	255	-2,513	-1,669	1,290	-338
0	0	-338	317	234	693	334	490	-307	-315	-461	620	0	0	1,808	140
-33	42	-273	-270	783	361	-6,846	-5,784	-272	-77	-335	-365	-2,513	-1,669	-518	-478

Glass insurance		Storm and tempest insurance		Composite home contents insurance		Composite residential buildings insurance		Technical insurance		Business interruption insurance		Emergency assistance insurance		Sundry insurance*	
2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
699	705	216	207	7,410	7,595	9,554	9,230	686	765	295	280	527	70	3,124	1,230
695	706	216	207	7,378	7,561	9,478	9,204	679	763	295	274	330	70	2,559	1,303
226	215	-41	316	2,334	2,770	4,946	5,256	189	159	1,347	225	82	34	1,341	398
318	328	98	93	3,274	3,467	4,310	4,111	377	406	137	109	244	0	1,560	460
151	163	159	-202	1,557	1,104	-41	-415	113	198	-1,203	-73	4	35	-342	446
65	-29	-182	18	-468	260	-541	-861	-88	-114	0	0	-107	0	-78	-78
216	134	-23	-185	1,089	1,363	-582	-1,276	25	84	-1,203	-73	-103	35	-409	368

Non-underwriting result Gains and losses on investments at ARAG Allgemeine amounted to a net gain of €2,788 thousand in 2020 (2019: €11,613 thousand) and therefore decreased significantly compared with the previous year. The reasons for this decline included the €698 thousand increase in the level of write-downs required and much lower gains on disposal of €429 thousand (2019: €3,593 thousand). Earnings were further reduced by the decrease of €534 thousand in the profit of the subsidiary Interlloyd because of the additions that needed to be made to 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 0.8 percent in the year under review (2019: 3.5 percent); the current average yield was 1.0 percent (2019: 2.2 percent).

Other net income/expense was virtually unchanged at a net expense of €3,145 thousand (2019: net expense of €3,154 thousand).

Net extraordinary income/expense There was no extraordinary income or expense in either 2020 or 2019.

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 €10,726 thousand (2019: €11,282 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 €14,188 thousand (December 31, 2019: €9,098 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 0.1 percent in 2020 to €339,629 thousand. The breakdown of investments by asset class was as follows:

Investments breakdown

(€'000)	Dec. 31, 2020		Dec. 31, 2019	
Land and buildings	0	0.0%	19,807	5.8%
Affiliated companies and equity investments	41,959	12.3%	19,999	5.9%
Equities and investment fund shares/units	200,601	59.1%	201,332	59.4%
Bearer bonds	45,481	13.4%	46,147	13.6%
Registered bonds	39,500	11.6%	39,500	11.6%
Promissory notes, loans	11,063	3.3%	11,063	3.3%
Sundry lending	0	0.0%	0	0.0%
Bank deposits	83	0.0%	88	0.0%
Other investments	942	0.3%	1,201	0.4%
Deposits with ceding insurers	0	0.0%	0	0.0%
	339,629	100.0%	339,136	100.0%

Pursuant to section 341b (2) of the German Commercial Code (HGB), shares/units in one mixed institutional fund, one equity fund, and three fixed-income funds with a carrying amount of €200,601 thousand were classified as fixed assets as of December 31, 2020 (December 31, 2019: €201,332 thousand). The fair value of these investment fund shares/units classified as permanent investments amounted to €248,166 thousand as of the balance sheet date (December 31, 2019: €240,505 thousand). 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 2020, a total of four securities (December 31, 2019: eight securities) with a carrying amount of €798 thousand were classified as fixed assets (December 31, 2019: €1,910 thousand). The fair value of these bearer bonds amounted to €856 thousand as of the balance sheet date (December 31, 2019: €2,021 thousand). ARAG Allgemeine entered into investment obligations in private equity funds indirectly through an equity investment structure. The outstanding obligations amounted to €15,773 thousand as of December 31, 2020 (December 31, 2019: €14,167 thousand). 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-insurance disclosures in the Notes.

Considering the conditions affecting the net assets, financial position, and results of operations, the Company's overall business performance was positive again in 2020.

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 capital requirement 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 2020, ARAG Allgemeine had a total of 170 (December 31, 2019: 164) 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, 2021, 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. However, the intention remains to give preferential consideration to female candidates when new appointments are to be made to managerial positions.

The actual proportion of women as of December 31, 2020 was 0 percent at the first management level below the Management Board and 13 percent at the second management level. The targets for June 30, 2021 are therefore currently satisfied in the case of the former and exceeded in the case of the latter. The actual proportions for the Supervisory Board and the Management Board were the same as the targets, i.e. 0 percent in both cases.

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 2020, a profit of €10,726 thousand (2019: €11,282 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 €1,764 thousand to ARAG Allgemeine (2019: €2,298 thousand).

IV. Outlook, Opportunity and Risk Reports

Outlook and opportunity report

Economic conditions are being dictated to a large extent by the COVID-19 pandemic, which is giving rise to a variety of risks for both people and the global economy. It is uncertain how the pandemic will evolve and there are therefore a wide range of possibilities.

Notably, the scenario in which there is an uncontrolled spread of the pandemic, resulting in health policy measures such as lockdowns being imposed again, continues to represent a threat to many areas of economic activity. In such a scenario, the closure of hospitality venues and retailers has a particularly serious impact on consumer spending. The associated underutilization of capacity could last for a protracted period, with a significant recovery only possible when most of the infection control measures have been lifted. Governments attempt to counter the effects of the situation with financial and fiscal policy measures. In turn, this gives rise to other global risks because more government expenditure leads to a rise in national indebtedness. No country is able to predict how many businesses could be jeopardized as a going concern by such a scenario and might have to file for insolvency when the government support comes to an end. A huge wave of insolvencies would mean that short-time working would decline and unemployment would rise.

However, there is another side to the coin even in the COVID-19 pandemic, in that there are still opportunities, not to mention the benefit from a potential rebound in the global economy. The trade disputes between the US, the People's Republic of China, and Europe that have been simmering since last year could ease off following the election of the new US president, leading to a rapprochement between the trading partners and offering brighter prospects for global trade, which has been hampered in the meantime. Furthermore, it is also reasonable to assume that rising levels of COVID-19 vaccinations will enable governments to make progress on lifting at least the particularly onerous constraints, which ought to have a positive impact on the global economy.

Taking into account the prevailing risks and opportunities, the latest annual report of the German Council of Economic Experts predicts that 2021 will see an uptrend, with a rise in eurozone GDP of 4.9 percent and in German GDP of 3.7 percent.

Turning to forward-looking 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 yet been definitively resolved. Although Brexit took place in January 2021, it is still impossible to make any firm predictions about the basis for the United Kingdom's long-term international relations and the economic effects.

The COVID-19 pandemic also had a significant impact on the German insurance industry. For example, the industry faced huge challenges in connection with the referral of new business. The volatile capital market environment had a negative impact on financial performance. Nevertheless, the German insurance industry proved to be rather robust, suffering a significantly smaller contraction than the rest of the economy. In such

tough market conditions, enormous opportunities are presented by digitalization in insurance companies' own businesses. Digital technologies mean that it is possible to set up much more efficient administrative channels and, above all, facilitate and develop interaction with customers, regardless of the time of day or where the parties are located. The German insurance market remains subject to increasingly fierce competition. In many branches of insurance, opportunities for greater premium growth and further portfolio expansion are often only available if policyholders change provider.

In the next few years, demographic change will represent a particularly significant challenge for insurance companies in Germany and other major European countries. To add to this, there is the potential risk of old-age poverty, which could lead to falling purchasing power in the medium term.

Climate change presents additional risks for non-life insurers. The last few years have clearly demonstrated that storms and hurricanes are not the only natural disasters that can hit the whole of a country; frequently recurring loss events can also include torrential rainfall and hail.

Premium income in the insurance industry is expected to grow more significantly than in 2020. Based on a projection from November 2020, the German Insurance Association (GDV) is estimating that the increase in premiums in the German market will be 2.7 percent in 2021 (2020: 0.4 percent). The forecast growth for casualty and property insurance is 1.6 percent (2020: 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 2021. The Company has budgeted premium growth that will be slightly higher than the increase in premiums achieved in 2020. 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 2021, because the business brokered by the Company in the United Kingdom is still relatively insignificant.

In terms of the claims trend, the Company predicts a net rate that is significantly higher than in 2020. The net cost ratio is expected to be a little higher than in 2020. Overall, the combined ratio is anticipated to remain below 100 percent in 2021, but slightly above the ratio in 2020.

The forecasts for gains and losses on investments remain very uncertain, especially in view of the impact of the COVID-19 pandemic, which is still very difficult to predict. In its strategic planning, ARAG Allgemeine has therefore applied a conservative investment policy and assumed only a modest improvement in gains and losses on investments compared with 2020 (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. It is planning to transfer a similar amount of profit to the parent company ARAG SE as it did in 2020. Overall, taking into account the discernible opportunities and risks, ARAG Allgemeine forecasts that business performance will be steady in 2021.

Risk report

Risk management system

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

Limit system The maximum permitted solvency capital requirement for the Company is determined on the basis of a specified risk appetite and the eligible own funds. Using this maximum requirement, the Management Board sets an overall limit that is then apportioned to the most important risks and sub-risks. The limit system is reviewed annually. The utilization of the limits is calculated during the year so that an assessment can then be made as to whether further risks can be assumed, risks need to be reduced, or a change 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 monitor changes in the utilization of limits and initiate corrective measures if necessary.

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

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

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

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

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

A key element of risk monitoring is examining changes in the risk profile over time, focusing on risk-bearing capacity and utilization of the limits. Risk monitoring takes into account the regulatory and internal requirements regarding minimum cover. The results from the risk monitoring process and the associated recommendations for action are reported to the Management Board promptly and on a continual basis. Unexpected or extreme events can also affect a company's risk profile. 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 and market risk are of considerable significance for the Company, whereas liquidity risk and counterparty default risk are of lesser importance.

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.

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

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

Changes in claims ratio

Financial year	Claims ratio, gross, total		Profit/loss on settlements
	<i>FY ratio</i>	<i>Financial statements</i>	<i>% of initial reserve</i>
2020	55.0	49.2	4.6
2019	61.9	55.1	5.5
2018	63.3	59.9	2.8
2017	62.3	59.4	2.5
2016	57.9	51.9	4.9
2015	58.3	49.0	7.1
2014	59.9	60.2	-0.2
2013	61.2	41.0	14.3
2012	62.2	40.0	14.4
2011	61.5	40.4	12.9

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

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

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

As of the balance sheet date, receivables from policyholders more than 90 days past due amounted to €3,980 thousand (December 31, 2019: €2,092 thousand). The average default rate for these receivables over the last three years as of December 31, 2020 was 1.3 percent (December 31, 2019: 0.9 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 €21.0 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 €12.7 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 (direct investment and funds)

<i>(Proportion (%) by fair value)</i>	Dec. 31, 2020
AAA	22.9
AA	14.6
A	26.1
BBB	30.7
BB	3.6
B	2.1
CCC	0.0
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 29.9 percent are accounted for by financial services entities, 29.0 percent by public-sector bonds, and 41.1 percent by corporate bonds.

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

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

Liquidity risk Liquidity risk is the risk that insurance companies are unable to realize investments and other assets in order to settle their financial obligations when they fall due. Liquidity risk is therefore a derived risk: It is a type of investment risk (assets are not liquid) and a type of underwriting risk (insurance benefits due for payment may exceed available liquidity).

Liquidity risk is measured by calculating the monthly excess liquidity cover or liquidity shortfall on a rolling basis. Liquidity planning is updated constantly so that ARAG has early warning of whether it will require liquidity in the coming months. Asset/liability management is used to determine the liquidity requirement over the medium to long term.

Risk limitation measures include asset/liability management and rolling liquidity planning.

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

The Company uses the standard formula to determine the appropriate solvency capital requirement. Measurement for operational purposes is carried out on the basis of two dimensions: probability of occurrence and impact. The probability of occurrence describes the likelihood that an operational risk will materialize within a defined period. The second dimension describes the potential impact of the occurrence of an operational risk and is measured in quantitative or qualitative terms. The gross and net values are recorded for each dimension. The gross values are the values before implementation of possible measures to mitigate the risk; the net values are the values after implementation of the chosen measures. Risk limitation measures are specified by the managers concerned on a case-by-case basis. As risks are measured using subjective estimates carried out by experts, a loss event database is used as an additional instrument to help determine the values. This contains data on all loss events that have occurred and their actual impact. Material operational risks are also included in the strategic positioning risk analysis in the ORSA process.

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

Overall risk position

The regulatory minimum capital requirement in accordance with 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.

Based on current assessments, the effects of the COVID-19 pandemic have not resulted in any significant change to the Company's risk profile. The Company has maintained its capacity to assume risk in full. This has also been demonstrated by regular (in some cases approximate) calculations of own funds and solvency capital requirements that have taken into account the volatile capital markets since March 2020.

Figures for the planning period have been tested using a pandemic scenario with lower premium income and higher claims and costs. The outcome showed that the solvency capital requirement will be sufficiently covered for the next few years. From the current perspective, the general pandemic scenario is also sustainable. Validation reviews and data from the prior year show that there is no need to make any changes to the risk modeling at present.

During the pandemic, the Company has also kept operational risks, such as business interruption risk and cyber risk, well under control. For example, it managed to continue running its operations in their entirety by switching to remote working, which for a time involved almost the whole of the workforce. The more widespread use of home working could lead to an increase in cyberattacks. These are countered with enhanced IT security measures to prevent heightened risk. Further developments in the COVID-19 pandemic are being regularly analyzed so that further countermeasures can be taken if required.

In addition to the aforementioned risks, unfavorable developments in the capital markets could also present a challenge to the Company. Figures for the planning period have been tested using a stagflation scenario with stressed capital market parameters. The outcome showed that the solvency capital requirement will be sufficiently covered for the next few years.

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

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Balance Sheet as of December 31, 2020

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, 2019: € 0.00)
- II. Receivables from reinsurance business
of which from affiliated companies: € 0.00 (Dec. 31, 2019: € 0.00)
- III. Miscellaneous receivables
of which from affiliated companies: € 10,427,667.31 (Dec. 31, 2019: € 3,193,243.17)

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, 2020, the actuarial reserve amounted to €38,681,424.00 for annuities from general accident insurance, €677,742.00 for annuities from general liability insurance, and €5,725,100.00 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, 2020	Dec. 31, 2019
				3,439,395.00	3,553,856.30
				3,439,395.00	3,553,856.30
				0.00	19,807,078.27
				41,959,156.18	19,999,036.46
				0.00	0.00
				0.00	0.00
				0.00	0.00
				41,959,156.18	19,999,036.46
				200,601,420.06	201,331,590.39
				45,480,816.67	46,146,759.67
				0.00	0.00
				39,500,000.00	39,500,000.00
				11,062,650.00	11,062,650.00
				0.00	0.00
				0.00	0.00
				50,562,650.00	50,562,650.00
				82,855.47	87,762.41
				942,300.16	1,200,972.98
				297,670,042.36	299,329,735.45
				0.00	0.00
				339,629,198.54	339,135,850.18
				8,237,641.14	9,224,007.55
				4,459,636.92	5,237,143.66
				12,697,278.06	14,461,151.21
				1,176,486.97	1,130,208.35
				10,516,076.89	3,611,719.14
				24,389,841.92	19,203,078.70
				0.00	0.00
				14,104,678.44	9,010,416.64
				130,414.95	0.00
				14,235,093.39	9,010,416.64
				421,422.26	412,070.59
				9,808.20	7,524.32
				431,230.46	419,594.91
				0.00	0.00
				0.00	0.00
				382,124,759.31	371,322,796.73

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

Düsseldorf, February 10, 2021

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

Balance Sheet as of December 31, 2020

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: €0.00 (Dec. 31, 2019: €25.45)
- II. Liabilities from reinsurance business
 - of which to affiliated companies: €452,719.09 (Dec. 31, 2019: €275,767.73)
- III. Miscellaneous liabilities
 - of which to affiliated companies: €11,226,420.66 (Dec. 31, 2019: €8,329,318.04)
 - of which tax liabilities: €2,191,011.53 (Dec. 31, 2019: €1,834,603.93)
 - of which social security liabilities: €56,981.88 (Dec. 31, 2019: €0.00)

F. Deferred income and accrued expenses

G. Deferred tax liabilities

Total equity and liabilities

			Dec. 31, 2020	Dec. 31, 2019
		44,000,000.00		44,000,000.00
		10,490,518.89		10,490,518.89
	743,744.95			743,744.95
	88,641.88			88,641.88
		832,386.83		832,386.83
		0.00		0.00
			55,322,905.72	55,322,905.72
	29,450,722.15			28,183,072.98
	23,614.57			0.00
		29,427,107.58		28,183,072.98
	17,952.00			18,383.00
	0.00			0.00
		17,952.00		18,383.00
	225,792,511.66			225,820,711.84
	30,197,667.87			31,087,853.24
		195,594,843.79		194,732,858.60
	0.00			0.00
	0.00			0.00
		0.00		0.00
		42,606,248.00		39,942,002.00
	1,273,469.90			1,349,221.28
	0.00			0.00
		1,273,469.90		1,349,221.28
			268,919,621.27	264,225,537.86
		34,097,354.00		32,378,837.00
		99,994.05		137,420.00
		2,885,929.52		2,836,894.69
			37,083,277.57	35,353,151.69
			0.00	0.00
	5,253,622.68			3,784,531.34
	982,372.67			1,067,746.69
		6,235,995.35		4,852,278.03
		953,861.41		1,209,973.33
		13,609,097.99		10,353,906.72
			20,798,954.75	16,416,158.08
			0.00	5,043.38
			0.00	0.00
			382,124,759.31	371,322,796.73

Income Statement for the Period from January 1 to December 31, 2020

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

			2020	2019
	198,850,100.84			188,134,088.35
	-7,321,711.98			-7,303,908.99
		191,528,388.86		180,830,179.36
	-1,329,418.82			-277,448.66
	23,614.57			-142,635.15
		-1,305,804.25		-420,083.81
			190,222,584.61	180,410,095.55
			317,819.00	270,239.00
			219,269.49	549,379.37
	95,140,612.05			90,947,672.52
	-3,998,150.93			-3,684,487.66
		91,142,461.12		87,263,184.86
	154,443.42			10,342,782.20
	890,185.37			2,572,132.10
		1,044,628.79		12,914,914.30
			92,187,089.91	100,178,099.16
			76,182.38	-131,299.56
			0.00	0.00
		84,723,085.89		75,796,328.77
		-1,061,056.69		-1,315,438.79
			83,662,029.20	74,480,889.98
			1,251,128.26	1,211,005.55
			13,735,608.11	5,228,419.67
			-2,696,751.15	-2,225,080.62
			11,038,856.96	3,003,339.05
			11,038,856.96	3,003,339.05

Income Statement for the Period from January 1 to December 31, 2020

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: € 377,305.94 (2019: € 47,977.59)

b) Income from other investments

of which from affiliated companies: € 735,366.30 (2019: € 842,195.35)

aa) Income from land, land rights and buildings, including buildings
on third-party land

bb) Income from other investments

c) Income from reversals of write-downs

d) Gains on the disposal of investments

e) Income from profit-pooling, profit-transfer and partial profit-transfer agreements

2. Expenses for investments

a) Expenses for the management of investments, interest expense and similar charges and
miscellaneous expenses for investments

b) Depreciation, amortization and write-downs of investments

c) Losses on the disposal of investments

d) Expenses from the transfer of losses

3. Technical interest income

4. Other income

5. Other expenses

6. Profit/loss from ordinary activities

7. Extraordinary income

8. Extraordinary expenses

9. Net extraordinary income/expense

10. Income taxes

11. Miscellaneous taxes

12. Income from the transfer of losses

13. Profits transferred under a profit-pooling, profit-transfer or partial profit-transfer agreement

14. Net income for the year

				2020	2019
				11,038,856.96	3,003,339.05
		377,305.94			47,977.59
	735,366.30				842,195.35
	1,758,618.83				5,416,488.40
		2,493,985.13			6,258,683.75
		703,665.22			1,345,484.49
		428,830.23			3,593,143.72
		1,764,125.70			2,298,341.76
			5,767,912.22		13,543,631.31
		1,137,184.06			1,122,283.68
		1,207,322.66			509,132.00
		318,007.61			29,240.00
		0.00			0.00
			2,662,514.33		1,660,655.68
			317,819.00		270,239.00
				2,787,578.89	11,612,736.63
			4,291,021.13		2,602,774.24
			7,435,750.78		5,757,254.69
				- 3,144,729.65	- 3,154,480.45
				10,681,706.20	11,461,595.23
			0.00		0.00
			0.00		0.00
				0.00	0.00
				10,681,706.20	11,461,595.23
			- 55,713.55		105,892.09
			11,476.17		74,176.53
				- 44,237.38	180,068.62
				0.00	0.00
				10,725,943.58	11,281,526.61
				0.00	0.00

Notes to the Financial Statements

I. General Disclosures

ARAG Allgemeine Versicherungs-AG is entered in the commercial register of the Düsseldorf local court under the number HRB 10418. Its registered office is ARAG Platz 1, 40472 Düsseldorf, Germany. The Company has prepared these financial statements for 2020 in accordance with the requirements of the German Commercial Code (HGB), taking into account the supplementary provisions applicable to large corporations and the additional provisions applicable to insurance companies, the German Insurance Supervision Act (VAG), and the German Regulation on the Accounting of Insurance Undertakings (RechVersV). The financial statements are presented on the basis of financial statement forms 1 and 2 pursuant to section 2 RechVersV.

The Company is a large corporation within the meaning of section 267 (3) HGB. Therefore, and pursuant to the obligations under section 341a (1) HGB, the accounting rules for large corporations have been applied.

II. Disclosures on Accounting Policies

Accounting policies

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

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

Land, land rights and buildings, including buildings on third-party land, were valued at cost. As had also been the case in 2019, no write-downs due to permanent impairment had to be recognized in 2020. Neither in 2020 nor in 2019 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. Last year, the way in which ARAG 2000 GbR was reported was changed and it was recognized for the first time under shares in affiliated companies as of December 31, 2020.

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 2019, no such write-downs were recognized in the reporting year. Neither in 2020 nor in 2019 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, 2020

Name and registered office of company	Shareholding	Equity	Net income/loss for the year
	(%)	(€)	(€)
Shares in affiliated companies			
Interlloyd Versicherungs-AG, Düsseldorf ¹⁾	100	7,392,771.59	1,764,125.70
ALIN 2 Verwaltungs-GmbH, Düsseldorf	100	29,997.04	1,651.63
ALIN 2 GmbH & Co. KG, Düsseldorf	100	13,687,572.13	141,113.85
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50	4,934,313.15	45,913.71
ARAG 2000 GbR, Düsseldorf	25	76,265,870.87	3,886,233.54
ARAG Service Center GmbH, Düsseldorf	20	476,982.98	93,087.32

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

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

Following the strict principle of lower of cost or market value, no write-downs were recognized on equities and investment fund shares/units in 2020 or 2019. No write-downs were recognized on bonds either in the reporting year, again following the strict principle of lower of cost or market value (2019: €504,130.00). Reversals of write-downs on these securities amounted to €445,705.00 in 2020 (2019: €175,510.00).

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 investments at ARAG Allgemeine and were treated as fixed assets. As of December 31, 2020, the market value was assumed to be the quoted market price – as it had been a year earlier. 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. In application of the discretionary principle of lower of cost or market value, write-downs amounting to €1,102,169.26 (2019: €5,002.00) were recognized in respect of investment fund shares/units, all of which were institutional fund shares/units (2019: €0.00). Reversals of write-downs on these securities amounted to €257,960.22 in the reporting year (2019: €1,169,974.49). As had been the case in the prior year, these exclusively related to institutional fund shares/units treated as fixed assets.

As of the reporting date, there were no undisclosed liabilities that had not been netted as a result of the application of the discretionary principle of lower of cost or market value. This had also been the case as of the end of 2019.

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.

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. Write-downs amounting to €105,153.40 were recognized in the reporting year due to expected permanent impairment (2019: €0.00). Neither in 2020 nor in 2019 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. 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 €1,176,486.97 (December 31, 2019: €1,130,208.35) generally arises from outward reinsurance business. The amounts recognized are the outstanding balances.

Receivables from reinsurance business

(Balance by rating class, €)

	Dec. 31, 2020
AAA	0.00
AA	775,596.80
A	400,890.17
BBB	0.00
BB	0.00
B	0.00
CCC	0.00
CC	0.00
C	0.00
D	0.00
No rating	0.00
Total	1,176,486.97

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

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

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

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

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

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

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

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

The **provision for outstanding claims** is generally determined individually and measured according to specific requirements. In the ski breakage and theft insurance segment, the claims reserves are recognized according to the average value of claims (number of claims multiplied by the average value of claims plus a surcharge for inflation). The benefit reserve for annuities contained in the provision for outstanding claims is calculated individually using actuarial principles and in accordance with the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) and an entity-specific discount rate of 0.7 percent (2019: 0.7 percent) by the Company's appointed actuary, taking the expenses required for settlement into account.

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

Owing to the positive trend in claims settlements, particularly in the general accident insurance segment, the Company's gross profit on settlements in direct business amounts to nearly 4.6 percent (2019: 5.5 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 341h HGB in conjunction with section 29 RechVersV. The calculation is carried out separately for the direct insurance business and for the inward reinsurance business, in each case broken down by class of insurance. The calculated equalization provision is, if necessary, allocated between business in Germany and the branches according to gross premiums earned in each class of insurance.

Miscellaneous technical provisions were recognized for the following risks:

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

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

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

The change in sundry net technical provisions in the income statement resulted from the lapse provision in an amount of €60,000.00, from the actuarial reserve in an amount of €431.00, and from miscellaneous sundry technical provisions in an amount of €15,751.38.

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 2018 G 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, 2020 based on the average for the past ten years; this rate as of the reporting date was 2.30 percent (December 31, 2019: 2.71 percent). 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 fair value of the assets corresponded to the settlement amount of the offset liabilities of €198,754.00 (December 31, 2019: €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 €13,579.17 arose from the discounting of provisions with a maturity of more than one year (2019: €3,043.49). No interest income arose (2019: €0.00).

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 2018 G mortality tables published by Professor Klaus Heubeck, applying a discount rate of 1.60 percent (seven-year average; 2019: 1.97 percent) and future salary increases of 2.5 percent per year.

In 2020, 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 1.60 percent for matching maturities (2019: 1.97 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 2018 G mortality tables published by Professor Klaus Heubeck and applying a discount rate of 1.60 percent (seven-year average; 2019: 1.97 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 expenses of €27,030.57 in 2020 (2019: income of €18,905.29). These amounts are reported in other net income/expense.

Fair value disclosures pursuant to section 54 RechVersV

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

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

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

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

III. Insurance Disclosures

Direct insurance and inward reinsurance business

(€'000)	Total insurance business		Direct insurance business (total)		Accident insurance		Liability insurance		Motor liability insurance	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Gross premiums written	198,850	188,134	166,987	158,488	47,946	47,932	43,745	43,741	825	1,080
Gross premiums earned	197,521	187,857	166,357	158,163	47,909	47,996	43,853	43,643	825	1,080
Net premiums earned	190,223	180,410	159,256	150,717	46,019	46,188	41,843	41,598	0	0
Gross expenses for claims	95,295	101,290	81,888	87,139	18,322	22,855	16,453	21,563	151	-232
Gross insurance business operating expenses	84,723	75,796	70,274	62,735	17,217	17,595	18,136	17,625	146	181
of which front-end fees	27,560	21,301	24,603	19,650						
of which administrative expenses	57,163	54,495	45,672	43,085						
Reinsurance balance	3,129	4,997	3,074	4,997	783	760	1,177	1,419	257	1,199
Underwriting result net of reinsurance before equalization provision	13,736	5,228	11,086	3,346	11,991	7,144	8,164	3,129	304	-56
Underwriting result net of reinsurance after equalization provision	11,039	3,003	10,146	1,268	11,991	7,144	8,268	2,636	304	-56
Gross technical provision (total)	299,141	295,313	257,913	250,265	98,897	103,864	79,814	80,441	12,468	13,611
of which gross provision for outstanding claims	225,793	225,821	207,701	203,850	93,648	98,614	60,482	60,876	12,446	13,598
of which lapse provision	1,260	1,320	1,260	1,320	335	358	287	307	22	13
of which equalization provision and similar provisions	42,606	39,942	26,874	25,966	0	0	13,726	13,830	0	0
Number of insurance policies with a term of at least one year	1,949,543	1,037,558	1,949,543	1,037,558	152,304 ¹⁾	154,718 ¹⁾	292,811 ¹⁾	290,651 ¹⁾	4,131	4,858
Technical interest income net of reinsurance relating to benefit reserves for annuities (0.70 percent)	318	270	318	270	274	270	4	0	40	0

¹⁾ These insurance segments contain 17 group contracts (2019: 17) with 20,934,516 insured risks (2019: 20,861,473).

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

Direct insurance business	2020	2019
(No.)		
Germany	942,605	928,337
Republic of Ireland	697,466	0
United Kingdom	309,472	109,221
Total	1,949,543	1,037,558

Miscellaneous motor insurance		Fire and property insurance		of which composite home contents insurance		of which composite residential buildings insurance		of which miscellaneous property insurance		Miscellaneous insurance		Inward business (total)	
2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
322	562	50,888	49,572	21,468	20,909	17,220	16,683	12,199	11,979	23,261	15,601	31,863	29,646
322	562	50,918	49,534	21,444	21,011	17,311	16,658	12,163	11,864	22,530	15,348	31,163	29,693
-0	0	48,868	47,591	20,400	20,062	16,489	15,823	11,979	11,707	22,527	15,339	30,967	29,693
327	275	35,305	32,218	9,383	9,516	16,668	15,602	9,254	7,099	11,330	10,460	13,407	14,152
68	84	22,271	20,340	10,029	9,496	6,788	5,799	5,455	5,046	12,436	6,911	14,449	13,061
												2,957	1,652
												11,492	11,409
-50	164	903	1,445	969	916	140	357	-205	172	4	9	56	0
-24	39	-8,126	-4,902	1,017	1,054	-6,513	-5,295	-2,630	-662	-1,223	-2,007	2,649	1,882
-24	39	-7,361	-6,347	783	361	-6,846	-5,784	-1,298	-924	-3,031	-2,148	893	1,736
68	86	46,584	42,116	11,214	10,467	20,600	16,928	14,770	14,721	20,082	10,148	41,228	45,048
60	79	31,156	25,864	5,227	4,726	16,405	12,967	9,524	8,171	9,909	4,820	18,091	21,971
8	7	509	538	215	227	172	181	122	130	99	97	0	0
0	0	10,417	11,182	4,966	4,732	2,403	2,070	3,047	4,380	2,730	955	15,732	13,976
2,195	2,733	331,131	323,263	188,446	185,471	41,037	40,518	101,648	97,274	1,166,971 ¹⁾	261,335 ¹⁾	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source of insurance business by premiums written

Direct insurance and inward reinsurance business	2020	2019
(€'000)		
Germany	184,815	183,269
Republic of Ireland	6,847	483
United Kingdom	7,189	4,382
Total	198,850	188,134

IV. Non-Insurance Disclosures

Changes in asset items A., B., I. to III. in the financial year 2020

(€'000)	Carrying amount as of Dec. 31, 2019	Additions
A. Intangible assets		
1. Goodwill	3,554	271
2. Total for A.	3,554	271
B. I. Land, land rights and buildings, including buildings on third-party land	19,807	0
B. II. Investments in affiliated companies and equity investments		
1. Shares in affiliated companies	19,999	2,848
2. Lending to affiliated companies	0	0
3. Equity investments	0	0
4. Lending to long-term investees and investors	0	0
5. Total for B. II.	19,999	2,848
B. III. Miscellaneous investments		
1. Equities, investment fund shares/units, and other variable-yield securities	201,332	4,092
2. Bearer bonds and other fixed-income securities	46,147	0
3. Loans secured by mortgages or land charges and fixed-income receivables	0	0
4. Miscellaneous lending		
a) Registered bonds	39,500	0
b) Promissory notes and loans	11,063	0
c) Loans and prepayments for certificates of insurance	0	0
d) Sundry lending	0	0
5. Bank deposits	88	0
6. Other investments	1,201	4
7. Total for B. III.	299,330	4,096
Total	342,690	7,215

Reclassifications	Disposals	Reversals of write-downs	Write-downs	Carrying amount as of Dec. 31, 2020	Fair value pursuant to sec. 54 RechVersV
0	0	0	385	3,439	3,439
0	0	0	385	3,439	3,439
-19,287	520	0	0	0	0
19,287	174	0	0	41,959	78,240
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
19,287	174	0	0	41,959	78,240
0	3,978	258	1,102	200,601	248,166
0	1,112	446	0	45,481	48,574
0	0	0	0	0	0
0	0	0	0	39,500	42,215
0	0	0	0	11,063	11,647
0	0	0	0	0	0
0	0	0	0	0	0
0	5	0	0	83	83
0	158	0	105	942	1,778
0	5,252	704	1,207	297,670	352,464
0	5,947	704	1,593	343,069	434,143

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 shares in affiliated companies. As of December 31, 2020, the carrying amount of the equity investment was €19,112,142.13 (December 31, 2019: €19,807,078.27).

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, 2020	Market value as of Dec. 31, 2020	Difference	Dividend in 2020	Redemption
			(€)	(€)	(€)	(€)	
ALLTRI	Mixed fund	Increased income	122,462,054.55	160,421,382.44	37,959,327.89	362,840.62	At any time
ALLTRIARENT	Fixed-income fund	Increased income	52,007,807.22	61,613,263.95	9,605,456.73	126,855.31	At any time
ARI 2	Fixed-income fund	Increased income	12,442,496.16	12,442,496.16	0.00	84,623.66	At any time
			186,912,357.93	234,477,142.55	47,564,784.62	574,319.59	

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

Equity

(€)	Dec. 31, 2020	Dec. 31, 2019
Total equity	55,322,905.72	55,322,905.72
of which:		
I. Subscribed capital		
The share capital amounts to: It is divided into 2,200,000 fully paid-up shares.	44,000,000.00	44,000,000.00
II. Capital reserve		
pursuant to sec. 272 (2) no. 1 HGB	10,490,518.89	10,490,518.89
III. Revenue reserves		
1. Statutory reserves	743,744.95	743,744.95
2. Other revenue reserves	88,641.88	88,641.88
	832,386.83	832,386.83
IV. Net retained profit	0.00	0.00

In previous years, the **statutory reserves** had to be recognized in accordance with section 300 of the German Stock Corporation Act (AktG). No addition to the statutory reserves was necessary in 2020.

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, 2020 was therefore as follows:

Defined benefit obligations		
(€)	Dec. 31, 2020	Dec. 31, 2019
Amount required to settle the vested entitlements	34,296,108.00	32,580,370.00
of which offsettable against pension insurance assets	- 198,754.00	- 201,533.00
Remaining amount	34,097,354.00	32,378,837.00

Provisions for taxes

In 2020, provisions for taxes of €99,994.05 (December 31, 2019: €137,420.00) 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 €496,317.00 (December 31, 2019: €539,929.00), bonuses of €404,507.53 (December 31, 2019: €347,835.84), costs for the annual financial statements and auditing of €385,197.18 (December 31, 2019: €432,243.95), vacation entitlement obligations of €209,613.00 (December 31, 2019: €185,697.00), reimbursement of the Supervisory Board's expenses of €150,000.00 (December 31, 2019: €165,200.00), and pre-retirement part-time employment of €110,538.00 (December 31, 2019: €153,504.00). 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 2020 or 2019.

Taxes

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

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

The net tax income recognized of €44,237.38 (2019: tax expense of €180,068.62) relates not only to tax income from an international branch but also to expenses from 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 continuing to monitor 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 commitments and contingent liabilities pursuant to sections 251 and 285 no. 3a HGB

Investment agreements with a total volume of €28,571,697.92 (December 31, 2019: €23,981,308.28) 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 €15,566,349.63 (2019: €14,166,865.27) are expected on the basis of open-ended investment agreements. As of the reporting date, ARAG Allgemeine had call commitments of €206,857.19 (December 31, 2019: €211,209.75) 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 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 €3,431,876.00 (December 31, 2019: €3,419,493.00).

Auditor's fees

The Company's Supervisory Board agreed fees of €139,360.00 with the auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, for the audit of the 2020 financial statements. As ARAG Allgemeine is not entitled to offset input VAT, the additional VAT of €26,478.40 incurred was included in the recognized expense. No other additional consultancy/advisory or non-audit services were performed by the auditor in the reporting year.

Commissions and other remuneration for insurance agents, staff costs

(€)	2020	2019
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	46,218,315.89	40,164,116.20
2. Other remuneration for insurance agents within the meaning of section 92 HGB	90,682.18	0.00
3. Wages and salaries	10,440,029.62	9,718,913.56
4. Social security and other employee benefit expenses	1,762,397.86	1,631,061.59
5. Pension and other post-employment benefit expenses	2,606,442.79	2,789,085.16
Total expenses	61,117,868.34	54,303,176.51

Employees

The average number of employees in 2020 was 168 (2019: 161), of whom 78 worked in domestic claims, 61 in sports insurance, and 29 in other departments.

Supervisory Board and Management Board remuneration

In the year under review, the Company's Supervisory Board received remuneration of €150,000.00 (2019: €165,200.00). The remuneration for members of the Management Board came to €732,873.56 in 2020 (2019: €451,574.99). 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 €950,551.53 (2019: €996,876.36). A provision of €15,245,536.00 was recognized for current pensions and vested pension entitlements of former members of the Management Board and their surviving dependants (December 31, 2019: €14,967,458.00). 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, 2020. 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 5, 2021

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Management Board

Uwe Grünewald

Zouhair Haddou-Temsamani

Christian Vogée

VII. Governing Bodies of the Company

Supervisory Board	Dr. Dr. h. c. Paul-Otto Faßbender	CEO of ARAG Holding SE, Düsseldorf, Chairman
	Hanno Petersen	Member of the Management Board of ARAG SE, Ratingen, Deputy Chairman
	Dr. Matthias Maslaton	Member of the Management Board of ARAG SE, Moers
	Dr. Joerg Schwarze	Member of the Management Board of ARAG SE, Düsseldorf
	Elected by the employees:	
	Johannes Berg	Insurance professional, ARAG Allgemeine Versicherungs-AG, Dormagen
	Wolfgang Platen	Insurance professional, ARAG Allgemeine Versicherungs-AG, Mönchengladbach
Management Board	Uwe Grünewald	Risk Management/Controlling/ Finance and Accounting, Düsseldorf
	Zouhair Haddou-Temsamani	Product Management, Düsseldorf (from April 1, 2020)
	Christian Vogée	Sales/Operations/Claims/ Sports Insurance, Düsseldorf
	Dr. Werenfried Wendler	Human Resources, Neustadt/Weinstrasse (until March 31, 2020)

Independent Auditor's Report*

To ARAG Allgemeine Versicherungs-AG, Düsseldorf

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

Opinions

We have audited the annual financial statements of ARAG Allgemeine Versicherungs-AG, Düsseldorf, which comprise the balance sheet as at December 31, 2020, and the income statement for the financial year from January 1, 2020 to December 31, 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of ARAG Allgemeine Versicherungs-AG, Düsseldorf, for the financial year from January 1, 2020 to December 31, 2020.

In accordance with German legal requirements, we have not audited the content of those components of the management report specified in the "Other Information" section of our auditor's report.

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 applicable to insurance companies and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2020 and of its financial performance for the financial year from January 1, 2020 to December 31, 2020 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 opinion on the management report does not cover the content of the management report specified in the "Other Information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], 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.

* Note: This is a translation of the German original. Solely the original text in German language is authoritative.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with 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 evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2020 to December 31, 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

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

In respect of the accounting policies applied, please refer to the explanatory notes in the notes to the financial statements of the Company on pages 38 et seq. Statements on risk are included in the management report on pages 22 to 28.

The Financial Statement Risk

The gross provisions for outstanding claims in direct insurance business amounted to €207.7 million. This equates to 54.4 percent of total assets.

The gross provision for outstanding claims is divided into various partial provisions for claims. The provisions for reported claims and for claims incurred but not reported in direct insurance business make up a substantial proportion of the gross provision for outstanding claims.

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

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

The risk for claims already reported as of the reporting date is that insufficient provisions have been recognized for the outstanding claim payments. In the case of claims incurred but not reported (IBNR), there is an additional risk that these claims have been underestimated.

Our Audit Approach

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

- We assessed the process for determining the provisions, identified the key controls intended to ensure completeness and accuracy of the estimates to be made, and tested them for appropriateness and effectiveness.
- For selected specific items, we verified the amount of individual provisions for reported claims on the basis of the files for various segments and classes of insurance.
- For selected specific items, we verified the Company's calculation used to determine claims incurred but not reported. In particular, we assessed how the Company determined the estimated number of claims and their amount on the basis of historical experience and current developments.
- Using a time series comparison, in particular of the number of claims, frequency of claims, average claim amounts, speed of claims settlement, and reporting-year and overall claims ratios, we analyzed the change in the claims provisions for selected insurance divisions.
- We conducted our own actuarial reserve calculations for selected segments that we selected on the basis of risk considerations. This involved determining a point estimate of the total claim expense using statistical probabilities and comparing this with the Company's calculations.
- We analyzed the actual change in the provisions for outstanding claims recognized in the previous year in Germany and abroad on the basis of the run-off result.

Our Observations

The methods used for the valuation of the claims provisions for reported claims and for claims incurred but not reported are appropriate and consistent with the applicable accounting policies. The underlying assumptions were derived appropriately.

Other Information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following components of the management report that were not audited in terms of contents:

- the corporate governance statement pursuant to Section 289f (4) of the German Commercial Code (disclosure on the proportion of women in managerial positions), included in section II. Report on Economic Position of the management report.

The other Information also includes the remaining parts of the annual report.

The other Information does not include the annual financial statements, the management report information audited for content and our auditor's report.

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

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

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

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

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

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to insurance companies, 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, management is 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, management is 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, management is 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, management is 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 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 Section 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 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 opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of the management's 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 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 management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management 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 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 meeting on March 27, 2020. We were engaged by the Supervisory Board on June 29, 2020. We have been the auditor of ARAG Allgemeine Versicherungs-AG without interruption since the financial year 2020.

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

In addition to the financial statement audit, we have provided to the Company or its subsidiaries the following services that are not disclosed in the annual financial statements or in the management report:

We performed an audit of the solvency II balance sheet for the audited company. For the entities controlled by Allgemeine Versicherungs-AG, we performed the audit of the solvency II balance sheet and the statutory and voluntary audit of the annual financial statements.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christine Voss.

Cologne, March 10, 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

Voss
German public auditor

Bramkamp
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 and questioned by the Supervisory Board. Where management action required the approval of the Supervisory Board by law or other regulations, the Supervisory Board received the necessary information on the matter from the Management Board in the form of reports. The Supervisory Board discussed these reports extensively at its meetings, deliberated on them with the Management Board, and made the necessary decisions.

In the year under review, the Supervisory Board held four ordinary meetings, at which it was able to satisfy itself that the Management Board was running the Company properly and appropriately. The Supervisory Board also met once for the constitutive meeting of the Supervisory Board and its committees. Outside the meetings, the chairman of the Supervisory Board was in regular contact with the Management Board and was kept informed about the current business situation and major business transactions.

The Supervisory Board's work in 2020 was focused on the effects of the COVID-19 pandemic on the Company's business operations. Particular attention in its meetings was paid to the impact on the underwriting of new policies and on claims as well as measures to keep employees safe. In addition, the Supervisory Board arranged for a monthly report to be produced on the consequences of the pandemic. The situation in the capital markets as a result of the pandemic was also covered in the meetings in the reporting year. Regular reports provided during its meetings provided the Supervisory Board with information about the Company's general business performance. These reports focused in particular on the underwriting of new policies, claims, and the cost situation. With the help of the controlling and risk reports, the ORSA report, and the quarterly financial statements (including updated forecasts) that were presented, the Supervisory Board was able to gain a comprehensive picture of the Company's situation. It also examined whether the Company was being run properly and in accordance with the law and to this end received reports on the implementation of the mechanisms to combat terrorism and money laundering, the status of the German Insurance Supervisory Requirements for IT (VAIT), the German Corporate Sanctions Act, the implementation of the sustainability requirements, preparations for a disorderly Brexit, and other developments of relevance to the Company. Furthermore, the Supervisory Board approved the strategic planning for the years 2021 to 2023, the change of custodian bank, and the updated general investment policy. The

Supervisory Board discussed the strategy of ARAG Allgemeine incorporating its equity investments and received a presentation on the new product line for 2021 and the reinsurance structure in 2020. One member of the Management Board whose term of appointment was ending was reappointed by the Supervisory Board for the maximum permitted term. The Supervisory Board also adopted a resolution 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. It discussed the appropriateness of Management Board remuneration and the remuneration system used for employees. With regard to the Management Board's remuneration, the Supervisory Board also assessed the fulfillment of the Management Board's targets for 2019 and specified Management Board targets for 2020 linked to variable remuneration. In addition, the Supervisory Board drew up a proposal for the 2021 Annual General Meeting (AGM) recommending that two Supervisory Board members be reappointed for the maximum permitted term. Finally, it also signed off the development plan for the Supervisory Board of ARAG Allgemeine for 2021 and granted commercial power of attorney to one employee. At one of the Supervisory Board's meetings, the auditor presented its auditing procedures and audit standards.

The Supervisory Board has formed two committees: the Finance and Audit Committee and the Human Resources Committee. Detailed reports on the committees' meetings and work were delivered at the Supervisory Board meetings.

The Finance and Audit Committee held one meeting in the year under review, at which it drew up a proposal for the election of the auditor for 2020 following preparatory work.

The Human Resources Committee held three meetings in 2020, at which it discussed the Management Board's remuneration, the Company's remuneration structures, and the appointment and reappointment 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. 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 Supervisory Board did not adopt any resolutions using written procedures in the year under review. Strict hygiene protocols were adhered to at all meetings where the Supervisory Board or its committees met in person.

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 2020 were, together with the bookkeeping system, audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, which had been selected and engaged by the Supervisory Board on March 27, 2020 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 Annual General Meeting that it formally approve the acts of the current Supervisory Board members as well as the current Management Board members and Management Board members who departed in 2020.

Dr. Werenfried Wendler stepped down from the Company's Management Board on March 31, 2020. Zouhair Haddou-Temsamani was appointed to the Company's Management Board with effect from April 1, 2020. He is in charge of the third responsibility area: Product Management.

The Supervisory Board would like to express its thanks and appreciation for the work of the Management Board and all employees in 2020.

Düsseldorf, March 26, 2021

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Supervisory Board

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

Hanno Petersen
(Deputy Chairman)

Johannes Berg

Dr. Matthias Maslaton

Wolfgang Platen

Dr. Joerg Schwarze

Further Information

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