

ARAG ALLGEMEINE VERSICHERUNGS-AG

2021 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS AND MANAGEMENT REPORT



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Overview

ARAG Allgemeine Versicherungs-AG Key Figures

(€'000)	2021	Change	2020	2019
Sales revenue				
Gross premiums written	210,578	5.90%	198,850	188,134
Premiums earned net of reinsurance	200,103	5.19%	190,223	180,410
Expenses				
Claims incurred net of reinsurance	101,391	9.98%	92,187	100,178
Claims ratio (basis: premiums earned)	50.67%	2.21% pts.	48.46%	55.53%
Insurance business operating expenses net of reinsurance	91,715	9.63%	83,662	74,481
Cost ratio (basis: premiums earned)	45.83%	1.85% pts.	43.98%	41.28%
Net income overview				
Underwriting result before equalization provision, gross	-3,658	-121.69%	16,865	10,225
Underwriting result before equalization provision, net of reinsurance	6,282	-54.26%	13,736	5,228
Underwriting result after equalization provision, net of reinsurance	10,098	-8.52%	11,039	3,003
Gains and losses on investments	5,167	85.35%	2,788	11,613
Other net income/expense	-3,342	-6.27%	-3,145	-3,154
Profit/loss from ordinary activities	11,923	11.63%	10,682	11,462
Net income for the year (before profit transfer under profit-and-loss transfer agreement)	11,816	10.16%	10,726	11,282
Key ratios				
Technical provisions/premiums earned net of reinsurance	141.11%	-0.26% pts.	141.37%	146.46%
Equity/premiums earned net of reinsurance	27.65%	-1.44% pts.	29.08%	30.67%

Profile of the ARAG Group

Overview

The ARAG Group is the largest family enterprise in the German insurance industry and the leading legal insurer worldwide. When it was founded over 85 years ago, the Company focused purely on legal insurance. Today, ARAG positions itself as an innovative and high-quality insurer that is international and independent. In addition to legal insurance, its portfolio in Germany includes highly effective, needs-based products and services covering casualty and property insurance and health insurance. The Company also aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. It generates sales revenue and premiums of more than €2.0 billion and employs around 4,700 people.

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

Legal insurance

In its core legal insurance segment, ARAG is growing rapidly in both Germany and abroad and plays a major role in shaping its markets with innovative products and services. The international legal insurance business is the Group's most significant area of activity. Worldwide, the Group helps its legal insurance customers with over 900,000 cases per year, thereby playing its part in resolving sometimes existential legal problems.

Casualty and property insurance

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

Personal insurance

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

Management Report of ARAG Allgemeine Versicherungs-AG

I. Company Fundamentals

Business model

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

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

Territory

The territory covered by ARAG Allgemeine 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 3,890,782 policies (December 31, 2020: 1,949,543 policies). Of this total, 953,481 policies (December 31, 2020: 942,605 policies) were accounted for by the business in Germany, 1,807,478 policies (December 31, 2020: 697,466 policies) by the branch in the Republic of Ireland, and 1,129,823 policies (December 31, 2020: 309,472 policies) by the UK branch.

Segments and classes of insurance operated by the Company

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

General accident insurance

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

Motor insurance

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

Liability insurance

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

Marine insurance

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

Credit and guarantee insurance

Legal insurance

Business interruption insurance

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

Emergency assistance insurance

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

Aerospace liability insurance

- Aircraft liability insurance

Fire insurance

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

Burglary, theft, and robbery insurance**Water damage insurance****Glass insurance****Storm and tempest insurance****Composite home contents insurance****Composite residential buildings insurance****Technical insurance**

- Electronic equipment insurance
- Construction contractors' all risks insurance

Miscellaneous indemnity insurance

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

Miscellaneous consequential loss insurance

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

Fidelity insurance

Customers who have taken out an AUB 2007, AUB 2012, or AUS 2016 version of the ARAG Unfall-Schutz accident insurance policy (general terms and conditions of accident insurance 2007, general terms and conditions of accident insurance 2012, and general terms and conditions of accident insurance 2016 respectively) also continue to enjoy a bonus in the form of a special payment in the event of a successful claim, depending on the length of time the policy has been in force. The bonus entitlement is published in the Company's annual report and applies to all new claims submitted in the 2021 and 2022 financial years in respect of accidents occurring in 2021 and 2022.

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	2021/2022 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

The COVID-19 pandemic created huge challenges for the global economy when it first emerged in 2020 and remained the dominant economic factor in its second year. Case numbers fluctuated significantly over the course of 2021, rising sharply at the end of the year. The resulting public health measures that were imposed also had an extremely significant impact on the economic situation.

The global economy was initially on a road to recovery in the first half of the year, which meant that the trading of goods bounced back from the slump triggered by the pandemic in 2020. This trend was driven by countries whose infection rates enabled them to ease public health restrictions. Central banks' comprehensive monetary and fiscal policy measures also helped to counter the effects of the crisis. However, the recovery varied significantly from sector to sector and from region to region. The situation created by the pandemic remained highly challenging over the course of the year for many emerging markets, where case numbers increased and little progress was made with vaccinations. In other countries, such as the United States, economic output expanded almost unchecked and resulted in significant quarterly increases. The annual report of the German Council of Economic Experts predicts that global gross domestic product (GDP) will have risen by around 5.7 percent. However, the upswing began to falter toward the end of the reporting year. Growing supply bottlenecks disrupted the global trading of goods. Commodity and energy prices rose sharply. In addition, extensive fiscal policy measures in nearly all of the major economies resulted in a jump in government borrowing and thus government debt levels. All of this caused the consumer price index to go up.

In Germany – as in the eurozone as a whole – output increased markedly owing to the easing of infection control measures. The economy staged a strong recovery, almost returning to pre-crisis output levels. The upturn was particularly pronounced in the first two quarters of 2021. However, this upward trend slowed in the final quarter of 2021 when infection rates went back up. The resulting reimposition of restrictions on economic and public life depressed consumer sentiment and contributed to a softening of economic growth at the end of the year. The 2021 annual report of the German Council of Economic Experts predicts that the eurozone's GDP will have risen by roughly 5.2 percent and that of Germany by 2.7 percent in the reporting year.

In summer 2021, the low-pressure weather system Bernd brought torrential rain to Germany, and well over 100 people lost their lives. Property damage ran into the billions of euros in many regions. This once-in-a-century event highlighted the devastating consequences that climate change can have for society and the economy.

In these challenging economic conditions, the German insurance industry again proved to be robust in the face of a crisis and generated further premium growth, of approximately 1.1 percent (2020: 1.7 percent). Premium income in direct casualty and property insurance business will probably have gone up by 2.2 percent, which is still a notable increase given the sometimes difficult economic conditions, albeit below the prior-year growth of 2.6 percent. The legal insurance segment exceeded the premium growth notched up in the previous year and recorded an increase of 4.0 percent (2020: 3.0 percent), although this was driven to a large extent by the opportunity to adjust premiums. In the private health insurance segment, the rise in premiums of 5.0 percent was also higher than in the previous year (2020: 4.6 percent).

Business performance

The reporting year for ARAG Allgemeine was influenced by the storms and subsequent torrential rain that Germany experienced in June and July, and by the ongoing COVID-19 pandemic. The crisis continued to have an impact on a multitude of business lines in 2021 as well as a wide range of key underwriting figures. The effect of the pandemic was particularly evident in gains and losses on investments and in expenses for claims incurred.

Despite these difficult conditions, ARAG Allgemeine recorded another year of growth in premiums. One reason for this was that the Company was able to have all its customer-facing activities provided by staff working remotely and so it was able to serve customers as normal in spite of the restrictions on contact that were in place at times. Premium income rose by 5.9 percent in 2021 (2020: 5.7 percent). Income from gross premiums written amounted to €210,578 thousand in the year under review (2020: €198,850 thousand). ARAG Allgemeine therefore comfortably exceeded the premium target in its forecast for 2021. This was mainly due to a further 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. Gross premium income in international business saw a further substantial increase, rising from €14,036 thousand in 2020 to €23,886 thousand in the reporting year.

In domestic inward reinsurance business, however, there was a small decline of 2.0 percent in gross premiums written. This was attributable to a fall in premiums at Interlloyd Versicherungs-AG, with which ARAG Allgemeine has entered into a quota-share reinsurance treaty.

In the domestic business for the organization as a whole, gross premiums written advanced by approximately 3.3 percent year on year (2020: 1.9 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 ARAG Recht&Heim, a bundled product providing all-round cover. In addition, there was a significant increase in premium income in the emergency assistance insurance segment.

Claims incurred in the reporting year were heavily influenced by the natural disaster claims resulting from the storms in Germany in June and July 2021, most of which were attributable to the torrential rain brought by the low-pressure weather system Bernd. The resulting flooding had a catastrophic impact on people and nature in large parts of the country, with often devastating damage to property. ARAG Allgemeine's gross expenses for claims incurred in this context came to around €15 million. External reinsurance covered a significant proportion of these expenses. In the composite residential buildings insurance and home contents insurance segments, which were the worst affected, a total of around 600 more claims were reported in 2021 than in the prior year.

The reporting year also continued to be influenced by the COVID-19 pandemic that broke out in spring 2020 and by its consequences. The restrictions on contact imposed by the German government had a particular impact on claims incurred. In the general accident insurance and general liability insurance segments, there was a further fall in claims reported in Germany, which was down by around 1.3 percent on the already very low number reported in the prior year. Across all insurance segments, the volume of claims reported nationally in 2021 was only 6.0 percent higher than the figure for 2020.

In addition, the expenses for major claims for 2021 in the direct organization and sports business were much higher, rising by around €7,726 thousand year on year.

Gross expenses for claims incurred were up by more than €23,000 thousand overall. The gross claims ratio increased by 8.7 percentage points to 56.9 percent in the year under review. Claims incurred before reinsurance were at a much higher level than had been forecast for 2021 in the prior year, mainly because of the aforementioned natural disaster claims resulting from the storms in June and July 2021. There was also an increase in claims incurred after reinsurance, which saw a small rise compared with the original forecast for the year made in 2020.

Insurance business operating expenses went up in 2021. This was partly due to an increase in commission payments in the international direct business, which resulted from the substantial growth in the portfolio of the branches in the UK and Republic of Ireland, and to higher expenses for services. ARAG Allgemeine's gross operating expenses for the insurance business were up by €7,874 thousand. Overall, the gross cost ratio climbed to 44.5 percent (2020: 42.9 percent). Insurance business operating expenses after reinsurance were significantly higher than the level forecast in 2020. This is due to the aforementioned increase in commission payments and expenses for services.

Investments generated a net gain of €5,167 thousand (2020: €2,788 thousand). As it had in 2020, ARAG Allgemeine made use of the option to select the discretionary principle of lower of cost or market value for those institutional funds and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of the reporting date, application of the discretionary principle of lower of cost or market value resulted in undisclosed liabilities of €18 thousand that had not been netted (December 31, 2020: €0 thousand). Depreciation, amortization and write-downs of investments totaled €866 thousand in 2021 (2020: €1,207 thousand), while reversals of write-downs amounted to €722 thousand (2020: €704 thousand). The profit transferred from the subsidiary Interlloyd Versicherungs-AG increased by €1,197 thousand to €2,961 thousand.

The profit to be transferred to the parent company ARAG SE for the 2021 financial year amounted to €11,816 thousand (2020: €10,726 thousand). When compared against the forecast for 2021, the Company was thus able to achieve almost triple its profit target, which it exceeded by roughly €7,243 thousand.

Results of operations

Income from gross premiums written rose from €198,850 thousand in 2020 to €210,578 thousand in the reporting year. Of this total, €186,692 thousand (2020: €184,815 thousand) was attributable to the business in Germany and €23,886 thousand (2020: €14,036 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 nearly 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 €166,987 thousand to €179,937 thousand, primarily due to growth in the branches in the UK and Republic of Ireland. Premiums were up by 1.6 percent in the domestic direct business (2020: 1.1 percent).

In domestic inward reinsurance business, gross premiums written decreased by 2.0 percent to €28,429 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 €200,103 thousand in the year under review (2020: €190,223 thousand).

The expenses for claims incurred in 2021 were 50.7 percent of net premiums earned (2020: 48.5 percent). Overall, claims incurred net of reinsurance increased to €101,391 thousand (2020: €92,187 thousand). Because of the COVID-19 pandemic and the natural disaster claims resulting from the storms in Germany in June and July 2021, a nuanced view needs to be taken of the pattern of claims and the impact on the individual insurance segments. On the one hand, the restrictions on contact imposed by the government, particularly at the beginning of 2021, meant that the number of claims reported for the year remained at a low level, particularly in the general accident insurance and liability insurance segments. But on the other hand, there were a large number of storm-related natural disaster claims, most of which were attributable to the torrential rain brought by the low-pressure weather system Bernd. As a result, there was a substantial increase in expenses for major claims for the reporting year, mainly in the composite residential buildings insurance segment.

The Company's gross cost ratio was up from 42.9 percent in the prior year to 44.5 percent in 2021. In absolute terms, the gross operating expenses for the insurance business advanced by €7,874 thousand to €92,597 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 costs for services 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 1.8 percentage points to 45.8 percent.

The volume of outward reinsurance, measured on the basis of insurance premiums paid, was up slightly at €8,145 thousand (2020: €7,322 thousand). There were no material changes to the reinsurance program, which continued to be focused on using non-proportional reinsurance agreements to minimize the risk from large claims and accumulation. In the reporting year, the reinsurance business was dominated by the above-mentioned storm-related natural disaster claims and the resulting reduction in the Company's gross expenses for claims incurred. In total, the reinsurers' underwriting result deteriorated to a loss of €9,940 thousand in 2021 (2020: gain of €3,129 thousand).

In 2021, the underwriting result before the equalization provision amounted to €6,282 thousand (2020: €13,736 thousand) and was therefore below the prior-year figure. The net combined ratio of 96.5 percent (2020: 92.4 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), there was a reversal of the equalization provision in an amount of €3,816 thousand on the basis of the trends in claims and premiums (2020: addition of €2,697 thousand). The underwriting result net of reinsurance in 2021 therefore amounted to €10,098 thousand (2020: €11,039 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	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Gross premiums written	46,961	47,946	44,277	43,745	691	1,147	2,575	2,312	2,207	2,064	1,204	1,075
Premiums earned net of reinsurance	44,988	46,019	42,127	41,843	0	-0	2,501	2,277	2,145	2,013	1,171	1,061
Expenses for claims incurred net of reinsurance	19,727	17,827	13,127	15,619	-183	-14	1,335	1,617	649	1,176	2,539	676
Insurance business operating expenses net of reinsurance	16,721	16,605	18,872	18,136	-42	-235	994	940	918	818	522	495
Underwriting result net of reinsurance before equalization provision	8,797	11,991	10,225	8,164	237	280	-161	-518	585	23	-1,888	-116
Change in the equalization provision	0	0	-2,858	-104	0	0	0	-450	26	-371	-1,071	596
Underwriting result net of reinsurance after equalization provision	8,797	11,991	13,083	8,268	237	280	-161	-68	559	395	-818	-712

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	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Gross premiums written	4,529	4,632	2,391	2,390	0	0	1,075	1,132	685	729	447	469
Premiums earned net of reinsurance	4,551	4,631	2,374	2,370	0	0	1,084	1,137	695	732	453	468
Expenses for claims incurred net of reinsurance	2,040	2,091	490	67	0	0	342	295	17	1	656	389
Insurance business operating expenses net of reinsurance	1,859	1,888	1,111	1,175	0	0	471	518	316	341	202	210
Underwriting result net of reinsurance before equalization provision	639	639	772	1,125	0	0	181	230	362	390	-406	-132
Change in the equalization provision	31	-122	0	0	0	0	-233	-324	278	73	200	-73
Underwriting result net of reinsurance after equalization provision	670	517	772	1,125	0	0	-51	-93	639	463	-206	-205

Glass insurance		Storm and tempest insurance		Composite home contents insurance		Composite residential buildings insurance		Technical insurance		Business interruption insurance		Emergency assistance insurance		Sundry insurance	
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
1,483	1,458	1,079	917	22,022	21,468	18,070	17,220	3,644	3,197	1,181	1,175	15,484	9,055	19,057	14,206
1,479	1,457	914	869	20,736	20,400	16,762	16,489	3,606	3,174	1,146	1,128	13,820	7,945	18,148	14,582
484	671	1,551	1,067	10,977	9,308	17,134	15,985	2,290	2,301	2,461	1,356	8,010	4,898	8,542	6,432
818	823	468	404	10,269	10,029	6,900	6,788	1,734	1,458	539	516	9,842	5,572	9,392	6,864
182	-33	-1,104	-611	-594	1,017	-7,290	-6,513	-411	-579	-1,947	-797	-4,017	-2,513	221	1,290
0	0	-546	-338	-775	234	-322	334	0	-307	-579	-461	0	0	1,494	1,808
182	-33	-558	-273	181	783	-6,968	-6,846	-411	-272	-1,368	-335	-4,017	-2,513	-1,273	-518

Glass insurance		Storm and tempest insurance		Composite home contents insurance		Composite residential buildings insurance		Technical insurance		Business interruption insurance		Emergency assistance insurance		Sundry insurance	
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
677	699	303	216	7,058	7,410	9,561	9,554	654	686	288	295	354	527	2,619	3,124
685	695	284	216	7,129	7,378	9,644	9,478	647	679	291	295	261	330	2,460	2,559
229	226	83	-41	2,638	2,334	5,411	4,946	99	189	253	1,347	-30	82	520	1,341
314	318	128	98	3,391	3,274	4,387	4,310	343	377	118	137	99	244	1,031	1,560
142	151	72	159	896	1,557	-424	-41	204	113	-93	-1,203	192	4	910	-342
0	65	182	-182	-469	-468	-606	-541	571	-88	0	0	-104	-107	-663	-78
142	216	254	-23	427	1,089	-1,030	-582	774	25	-93	-1,203	88	-103	247	-409

Non-underwriting result Gains and losses on investments at ARAG Allgemeine amounted to a net gain of €5,167 thousand in 2021 (2020: €2,788 thousand) and therefore increased significantly compared with the previous year. The reasons for this increase included the €341 thousand reduction in the level of write-downs required and the absence of losses on the disposal of investments (2020: €318 thousand). Earnings were also boosted by the €1,197 thousand improvement in the profit of the subsidiary Interlloyd. The existing profit transfer agreement 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 1.5 percent in the year under review (2020: 0.8 percent); the current average yield was 1.6 percent (2020: 1.0 percent).

Other net income/expense was virtually unchanged at a net expense of €3,342 thousand (2020: net expense of €3,145 thousand).

Net extraordinary income/expense There was no extraordinary income or expense in either 2021 or 2020.

Net income for the year Considering the conditions affecting the net assets, financial position, and results of operations, the Company's overall business performance was positive again in 2021. Under the profit-and-loss transfer agreement entered into with ARAG SE in 2006, ARAG Allgemeine was required to transfer the full sum of its net income for the year amounting to €11,816 thousand (2020: €10,726 thousand) to the parent company. 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.

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 €13,090 thousand (December 31, 2020: €14,188 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 2.4 percent in 2021 to €347,703 thousand. The breakdown of investments by asset class was as follows:

Investments breakdown

(€'000)	Dec. 31, 2021		Dec. 31, 2020	
Land and buildings	0	0.0%	0	0.0%
Affiliated companies and equity investments	44,705	12.9%	41,959	12.3%
Equities and investment fund shares/units	201,834	58.0%	200,601	59.1%
Bearer bonds	50,529	14.5%	45,481	13.4%
Registered bonds	39,500	11.4%	39,500	11.6%
Promissory notes, loans	11,045	3.2%	11,063	3.3%
Sundry lending	0	0.0%	0	0.0%
Bank deposits	89	0.0%	83	0.0%
Other investments	0	0.0%	942	0.3%
Deposits with ceding insurers	0	0.0%	0	0.0%
	347,703	100.0%	339,629	100.0%

Pursuant to section 341b (2) of the German Commercial Code (HGB), equities and investment fund shares/units with a carrying amount of €200,943 thousand had been classified as fixed assets as of the balance sheet date (December 31, 2020: €200,601 thousand). Bearer bonds with a carrying amount of €407 thousand (December 31, 2020: €798 thousand) were treated as fixed assets. Further information on the structure and changes in investments can be found in the overview under the non-insurance disclosures in the Notes.

Considering the conditions affecting the net assets, financial position, and results of operations, the Company's overall business performance was positive again in 2021.

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 2021, ARAG Allgemeine had a total of 164 (December 31, 2020: 170) employees in Germany.

Corporate governance declaration

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

As of June 30, 2021, the Company's Supervisory Board had a target of 0 percent for the proportion of female members. This matched the actual proportion as of June 30, 2021, as all positions in the Supervisory Board are currently held by male employees. There will be no Supervisory Board elections before June 30, 2023, which is the next date for which a target has been specified, and no changes to the Supervisory Board's personnel are expected to be made before this date. The target for the proportion of female members of the Supervisory Board as of June 30, 2023 therefore remains unchanged at 0 percent.

As of June 30, 2021, the Company's Management Board had a target of 0 percent for the proportion of female members. This matched the actual proportion as of June 30, 2021, as all three positions on the Management Board are currently held by male employees. There are no plans or foreseeable reasons for any of the Management Board members to step down or change roles during the period up to June 30, 2023. The target for the proportion of female members of the Management Board as of June 30, 2023 therefore remains unchanged at 0 percent.

The Management Board had set a target quota of 0 percent female managers for the first management level below the Management Board as of June 30, 2021. Because the affected position is now occupied by a female manager following a personnel change, the actual proportion as of June 30, 2021 was 100.0 percent. The new target for June 30, 2023 also envisages a proportion of 100.0 percent of female employees for this management level.

The Management Board had set a target quota of 0 percent female managers for the second management level below the Management Board as of June 30, 2021. The actual proportion as of June 30, 2021 was 11.1 percent. The Management Board set a target quota of 12.5 percent female employees for this management level for June 30, 2023.

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 2021, a profit of €11,816 thousand (2020: €10,726 thousand) will be transferred to ARAG SE.

ARAG Allgemeine entered into a profit-and-loss transfer agreement with Interlloyd Versicherungs-AG, Düsseldorf, with effect from January 1, 1999. In the year under review, this led to the transfer of a profit of €2,961 thousand to ARAG Allgemeine (2020: €1,764 thousand).

IV. Outlook, Opportunity and Risk Reports

Outlook and opportunity report

In the immediate future, the economy will continue to be heavily influenced by the COVID-19 crisis and by the related global risks for society and business. It is still not clear how the pandemic will play out from here. Consequently, the range of possible impacts are varied.

The scenario in which there is an uncontrolled spread of the virus, resulting in further restrictive health policy measures such as lockdowns, remains a major risk for the economic outlook. Although the number of people vaccinated worldwide is continuing to increase, new variants of the virus could emerge that lead to further waves of infection and therefore necessitate a return to extensive containment measures. In addition, a new conflict has broken out on the fringes of eastern Europe, with the overall impact on global economic growth in the forecast period still unclear.

Governments worldwide are taking financial and fiscal policy measures in order to counteract the negative economic trends. In turn, this gives rise to other global risks because more government expenditure may lead to a rise in national indebtedness. Because of this expansionary fiscal policy in a number of countries, the savings accumulated by households represent an additional uncertainty factor. If these savings cushions are used for delayed consumer spending on a considerable scale, there is a risk that inflation will rise at a faster rate than forecast. Moreover, market supply might not be able to keep up with the high level of demand without further significant increases in prices.

Even in COVID-19 pandemic times, there are not only risks but also plenty of considerable opportunities and potential for an economic upturn. The global economy staged a recovery for much of 2021, primarily thanks to progress made with vaccinations. If the vaccines continue to be rolled out to large swathes of the population more quickly than expected, the restrictions currently in place could be lifted in the coming months, which would help to revive the stagnant service sector in particular. The easing of the pandemic may also enable support measures to be scaled back and thus government spending to be reduced.

Germany elected a new government in the 2021 parliamentary election. The new federal government will continue to focus mainly on topics such as current climate policy and digitalization. Taking into account the prevailing risks and opportunities, the latest annual report of the German Council of Economic Experts predicts that 2022 will see an uptrend, with a rise in eurozone GDP of 4.3 percent and in German economic output of 4.7 percent.

The COVID-19 pandemic will continue to have a significant impact on the German insurance industry in 2022. In the past two years, for example, the industry has faced huge challenges in connection with the referral of new business. Restrictions on contact imposed by the authorities and various lockdowns – including those at local level – made contact with customers more difficult. Depending on infection rates going forward, these restrictions will continue to affect insurance sales.

Furthermore, the German insurance market remains subject to fierce competition. In many branches of insurance, opportunities for greater premium growth and further portfolio expansion are often only available if policyholders change provider.

By contrast, digitalization still offers substantial opportunities and is a priority topic that continues to be driven by Germany's new government. Digital technologies will 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. Fundamentally, the sustainable transformation of the economy and society will be one of the defining challenges for the insurance industry, along with digitalization. But it also offers opportunities because new risks are emerging and existing ones are having to be reassessed.

Besides demographic change in the years ahead, there is the potential risk of old-age poverty, which could lead to falling purchasing power in the medium term. Both of these continue to represent a major challenge for the insurance industry.

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; natural disaster loss events can also be triggered by hail, heat waves, and rain. The latter was demonstrated by the low-pressure weather system Bernd in summer 2021, when torrential rain caused once-in-a-century flooding in parts of Germany. Overall, premium income in the insurance industry is expected to grow more significantly than in 2021. Based on a projection from January 2022, the German Insurance Association (GDV) is estimating that premiums in the German market will increase by up to 2.7 percent in 2022 (2021: 1.1 percent). The forecast growth for casualty and property insurance is 3.0 percent (2021: 2.2 percent). In the private health insurance business, a premium increase of 5.0 percent is anticipated (2021: 5.0 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 2022. Nevertheless, the Company has budgeted premium growth that will be significantly lower than the increase in premiums achieved in 2021. ARAG Allgemeine's objective remains to focus on strategic core segments in its private customers business. In the sports insurance business, the Company will continue its strategy of providing needs-based insurance cover for organizations offering recreational and high-performance sports activities.

In terms of the claims trend, the Company predicts a net rate that is slightly higher year on year. However, the net cost ratio is expected to be a little lower than in 2021. Overall, the aim is for the combined ratio to remain below 100 percent in 2022, and just below the 2021 ratio.

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. It is also unclear what overall impact the conflict that has broken out on the fringes of eastern Europe will have on the economy and financial markets. In its strategic planning, ARAG Allgemeine has therefore applied a conservative investment policy and assumed a modest improvement in gains and losses on investments compared with 2021 (excluding any possible profit or loss transfer from Interlloyd Versicherungs-AG).

Overall, taking into account the discernible opportunities and risks, ARAG Allgemeine forecasts that business performance will be steady in 2022. In 2022, however, the Company's planning envisages a much lower level of profit being transferred to the parent company ARAG SE than was the case in 2021. This is due to the changes to the equalization provision that are likely to be needed. Despite this, the Company is confident that it can maintain its profitability at a high level over the coming years.

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 control function The independent risk control function is responsible for implementing the risk management system. This function is carried out by the Group Risk Management Central Department. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level. The Chief Risk Officer is a member of the Management Board and bears responsibility for the implementation of the risk management system in all Group companies. The system is largely implemented in the form of a risk governance model, through which rules for implementing the risk-relevant processes in the Company are defined in group-wide policies and guidelines. By reporting regularly to the Management Board, the

independent risk control function also ensures comprehensive transparency with regard to the risk position and any changes to the risk position. Operating decisions about whether or not to pursue opportunities and/or take on risk are made in the units with relevant responsibility.

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

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

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

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

A key element of risk monitoring is examining changes in the risk profile over time, focusing on risk-bearing capacity and utilization of the limits. Risk monitoring takes into account the regulatory and internal requirements regarding minimum cover. The results from the risk monitoring process and the associated recommendations for action are reported to the Management Board promptly and on a continual basis. Unexpected or extreme events can also affect a company's risk profile. Ad hoc reports are submitted if this is the case.

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

The ARAG Group structures its ICS in accordance with the 'three lines of defense' model:

- First line of defense: The first line of defense is formed by all employees and managers in operational roles who are responsible for identifying and evaluating the risks in their area as part of the risk control process.
- Second line of defense: The monitoring of the business and central units is carried out by various interdisciplinary functions (Group Controlling, Legal/Compliance, Group Risk Management, and the Actuarial function) that specify standards for the design and monitoring of controls and the handling of risk.
- Third line of defense: Under its remit as the internal auditor for the Group companies, the Group Audit Central Department conducts internal audits of the functions in the first and second lines of defense within the ARAG Group. The Group Audit Central Department is also the internal auditor for the Group companies that have contractually appointed it to this role. Following the orders issued by the Management Board, Group Audit examines the operational and organizational structure as well as the ICS for all operating and business processes from a risk perspective.

Risk categories

Underwriting risk and market risk are of considerable significance for the Company, whereas 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>
2021	66.7	59.6	6.1
2020	55.0	49.2	4.6
2019	61.9	55.1	5.5
2018	63.3	59.9	2.8
2017	62.3	59.4	2.5
2016	57.9	51.9	4.9
2015	58.3	49.0	7.1
2014	59.9	60.2	-0.2
2013	61.2	41.0	14.3
2012	62.2	40.0	14.4

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 €4,043 thousand (December 31, 2020: €3,980 thousand). As of December 31, 2021, the average default rate for these receivables over the last three years, based on premium income, was 1.2 percent (December 31, 2020: 1.3 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 percentage point in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by approximately €19.9 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 €16.0 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)

(Proportion (%) by fair value)

Dec. 31, 2021

AAA	22.8
AA	13.9
A	26.9
BBB	30.4
BB	3.9
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 30.0 percent are accounted for by financial services entities, 29.9 percent by public-sector bonds, and 40.1 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 (ALM) is used to determine the liquidity requirement over the medium to long term.

Risk limitation measures include ALM and rolling liquidity planning.

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

The Company uses the standard formula to determine the appropriate solvency capital requirement. Measurement for operational purposes is carried out 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.

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

Any forecast of how the COVID-19 pandemic will continue to unfold is subject to considerable uncertainty. The emergence of more and more new variants of coronavirus shows that a pandemic fundamentally remains a realistic scenario. The effects of the COVID-19 pandemic did not result in any significant change to the Company's risk profile in 2021. The Company has maintained its capacity to assume risk in full.

A sharp increase in interest rates as a result of monetary policy that is less expansionary could lead to more falls in the market value of investments. Heightened volatility also has a negative impact on the portfolio. Risks are effectively managed by maintaining the strategic asset allocation and implementing the specified risk monitoring process.

Figures for the planning period have been tested using scenarios of rising costs and claims, inflation increases, and natural disasters. 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, 2021

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, 2020: € 0.00)
- II. Receivables from reinsurance business
of which from affiliated companies: € 0.00 (Dec. 31, 2020: € 0.00)
- III. Miscellaneous receivables
of which from affiliated companies: € 5,930,471.35 (Dec. 31, 2020: € 10,427,667.31)

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, 2021, the actuarial reserve amounted to €43,005,531.00 for annuities from general accident insurance, €648,882.00 for annuities from general liability insurance, and €6,127,846.00 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, 2021	Dec. 31, 2020
				3,053,921.00	3,439,395.00
				3,053,921.00	3,439,395.00
				0.00	0.00
				44,705,430.28	41,959,156.18
				0.00	0.00
				0.00	0.00
				0.00	0.00
				44,705,430.28	41,959,156.18
				201,834,465.53	200,601,420.06
				50,528,734.88	45,480,816.67
				0.00	0.00
				39,500,000.00	39,500,000.00
				11,045,407.31	11,062,650.00
				0.00	0.00
				0.00	0.00
				50,545,407.31	50,562,650.00
				89,388.94	82,855.47
				0.00	942,300.16
				302,997,996.66	297,670,042.36
				0.00	0.00
				347,703,426.94	339,629,198.54
				6,179,277.06	8,237,641.14
				9,567,345.86	4,459,636.92
				15,746,622.92	12,697,278.06
				13,604,054.33	1,176,486.97
				6,058,779.23	10,516,076.89
				35,409,456.48	24,389,841.92
				0.00	0.00
				13,000,508.88	14,104,678.44
				156,225.49	130,414.95
				13,156,734.37	14,235,093.39
				436,042.75	421,422.26
				27,608.17	9,808.20
				463,650.92	431,230.46
				0.00	0.00
				0.00	0.00
				399,787,189.71	382,124,759.31

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

Düsseldorf, January 12, 2022

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

Balance Sheet as of December 31, 2021

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: €13.19 (Dec. 31, 2020: €0.00)
- II. Liabilities from reinsurance business
of which to affiliated companies: €2,310,256.60 (Dec. 31, 2020: €452,719.09)
- III. Miscellaneous liabilities
of which to affiliated companies: €10,473,753.20 (Dec. 31, 2020: €11,226,420.66)
of which tax liabilities: €2,396,892.60 (Dec. 31, 2020: €2,191,011.53)
of which social security liabilities: €0.00 (Dec. 31, 2020: €56,981.88)

F. Deferred income and accrued expenses

G. Deferred tax liabilities

Total equity and liabilities

			Dec. 31, 2021	Dec. 31, 2020
		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
	31,831,736.60			29,450,722.15
	74,963.33			23,614.57
		31,756,773.27		29,427,107.58
	16,348.00			17,952.00
	0.00			0.00
		16,348.00		17,952.00
	242,544,083.25			225,792,511.66
	31,973,329.45			30,197,667.87
		210,570,753.80		195,594,843.79
	0.00			0.00
	0.00			0.00
		0.00		0.00
		38,790,401.78		42,606,248.00
	1,235,845.30			1,273,469.90
	0.00			0.00
		1,235,845.30		1,273,469.90
			282,370,122.15	268,919,621.27
		35,756,887.00		34,097,354.00
		4,580.50		99,994.05
		3,340,089.98		2,885,929.52
			39,101,557.48	37,083,277.57
			0.00	0.00
	5,644,542.84			5,253,622.68
	1,566,689.81			982,372.67
		7,211,232.65		6,235,995.35
		2,722,918.39		953,861.41
		13,058,453.32		13,609,097.99
			22,992,604.36	20,798,954.75
			0.00	0.00
			0.00	0.00
			399,787,189.71	382,124,759.31

Income Statement for the Period from January 1 to December 31, 2021

(€)

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:

			2021	2020
	210,577,670.51			198,850,100.84
	-8,145,419.75			-7,321,711.98
		202,432,250.76		191,528,388.86
	-2,381,014.45			-1,329,418.82
	51,348.76			23,614.57
		-2,329,665.69		-1,305,804.25
			200,102,585.07	190,222,584.61
			118,582.00	317,819.00
			395,221.35	219,269.49
	101,832,990.46			95,140,612.05
	-15,377,429.29			-3,998,150.93
		86,455,561.17		91,142,461.12
	16,710,973.82			154,443.42
	-1,775,661.58			890,185.37
		14,935,312.24		1,044,628.79
			101,390,873.41	92,187,089.91
			39,228.60	76,182.38
			0.00	0.00
		92,596,770.44		84,723,085.89
		-881,406.62		-1,061,056.69
			91,715,363.82	83,662,029.20
			1,266,925.60	1,251,128.26
			6,282,454.19	13,735,608.11
			3,815,846.22	-2,696,751.15
			10,098,300.41	11,038,856.96
			10,098,300.41	11,038,856.96

Income Statement for the Period from January 1 to December 31, 2021

(€)
Brought forward:
II. Non-underwriting account
1. Income from investments
a) Income from equity investments of which from affiliated companies: € 1,734,421.50 (2020: € 377,305.94)
b) Income from other investments of which from affiliated companies: € 0.00 (2020: € 735,366.30)
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

				2021	2020
				10,098,300.41	11,038,856.96
		1,734,421.50			377,305.94
	0.00				735,366.30
	1,905,672.98				1,758,618.83
		1,905,672.98			2,493,985.13
		721,522.60			703,665.22
		0.00			428,830.23
		2,961,299.35			1,764,125.70
			7,322,916.43		5,767,912.22
		1,171,423.23			1,137,184.06
		866,001.78			1,207,322.66
		0.00			318,007.61
		0.00			0.00
			2,037,425.01		2,662,514.33
			118,582.00		317,819.00
				5,166,909.42	2,787,578.89
			4,406,218.09		4,291,021.13
			7,747,965.28		7,435,750.78
				-3,341,747.19	-3,144,729.65
				11,923,462.64	10,681,706.20
			0.00		0.00
			0.00		0.00
				0.00	0.00
				11,923,462.64	10,681,706.20
			95,536.76		-55,713.55
			11,964.97		11,476.17
				107,501.73	-44,237.38
				0.00	0.00
				11,815,960.91	10,725,943.58
				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 2021 in accordance with the requirements of the German Commercial Code (HGB), taking into account the supplementary provisions applicable to large corporations and the additional provisions applicable to insurance companies, the German Insurance Supervision Act (VAG), and the German Regulation on the Accounting of Insurance Undertakings (RechVersV). The financial statements are presented on the basis of financial statement forms 1 and 2 pursuant to section 2 RechVersV.

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

II. Disclosures on Accounting Policies

Accounting policies

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

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

Investments in affiliated companies and equity investments are valued at cost, written down accordingly where permanent impairment has occurred. As had also been the case in 2020, no such write-downs were recognized in the reporting year. Neither in 2021 nor in 2020 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, 2021

Name and registered office of company	Shareholding	Equity	Net income/loss for the year
	(%)	(€)	(€)
Shares in affiliated companies			
Interlloyd Versicherungs-AG, Düsseldorf ¹⁾	100.0	7,392,771.59	2,961,299.35
ALIN 2 Verwaltungs-GmbH, Düsseldorf	100.0	31,773.53	1,776.49
ALIN 2 GmbH & Co. KG, Düsseldorf	100.0	17,128,685.98	901,201.50
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50.0	5,100,402.82	166,089.67
ARAG 2000 GbR, Düsseldorf	25.0	73,486,511.87	3,332,880.00
ARAG Service Center GmbH, Düsseldorf	20.0	281,008.61	-195,974.37

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

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

Following the strict principle of lower of cost or market value, no write-downs or reversals of write-downs were recognized on equities and investment fund shares/units in 2021 or 2020. Following the strict principle of lower of cost or market value, write-downs of €544,155.00 were recognized on bonds in the reporting year (2020: €0.00). Reversals of write-downs on these securities amounted to €58,425.00 in 2021 (2020: €445,705.00).

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. The long-term fund value is calculated by reviewing the individual components of the fund. Criteria for reviewing long-term changes in the value of fixed-income securities include their credit rating and nominal amount. Comparisons with historical valuation parameters are used for equities. If there is long-term impairment, the investment fund shares/units are written down to the sum of the long-term values of the securities in the investment fund. Write-downs are reversed up to the amount of the historical cost if there is a sustained price recovery. In addition, shares/units in private equity funds and infrastructure funds have been reported under investment fund shares/units since the reporting year. Shares/units in private equity funds and infrastructure funds are valued at the lower of cost or fair value on the reporting date. The fair value as of the reporting date is reviewed on the basis of the net asset values (NAVs) reported by the fund management companies. If the reason for the original write-down no longer applies, write-downs are reversed to the historical cost.

Unlike in 2020, the bearer bonds that are treated as fixed assets were recognized at amortized cost. Premiums and discounts were taken into account using the effective interest method. Because the premiums and discounts are recognized in the carrying amount of the securities themselves rather than under prepaid expenses and accrued income and under deferred income and accrued expenses, this treatment led to a net derecognition of assets amounting to €3,084.29.

In application of the discretionary principle of lower of cost or market value, write-downs amounting to €321,846.78 (2020: €1,102,169.26) were recognized in respect of investment fund shares/units, all of which, as in the prior year, were institutional fund shares/units. Reversals of write-downs on these securities amounted to €663,097.60 in the reporting year (2020: €257,960.22). 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, application of the discretionary principle of lower of cost or market value resulted in undisclosed liabilities of €17,634.96 that had not been netted (December 31, 2020: €0.00).

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. Premiums were accrued and discounts deferred, and they were reclassified to income using the straight-line method over the term to maturity. Where available, zero-coupon registered bonds are recognized at the lower of cost or fair value.

Promissory notes and loans are recognized at amortized cost unless permanently impaired. No write-downs to a lower fair value were necessary in the year under review or the previous year. For the first time, premiums and discounts were taken into account using the effective interest method. The structured products held in the portfolio of direct investments in registered bonds and promissory notes are simply structured products pursuant to the pronouncement issued by the Main Technical Committee of the Institute of Public Auditors in Germany (IDW AcP HFA 22).

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

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

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

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

Receivables from reinsurance business comprise amounts derived from outward reinsurance business. The balance of €13,604,054.33 (December 31, 2020: €1,176,486.97) generally arises from outward reinsurance business. The amounts recognized are the outstanding balances.

Receivables from reinsurance business

(Balance by rating class, €)

Dec. 31, 2021

AAA	0.00
AA	11,390,197.97
A	2,213,856.36
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	13,604,054.33

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 0.25 percent (2020: 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 6.1 percent (2020: 4.6 percent) in relation to the corresponding initial reserve.

A provision for claim settlement expenses is also recognized. These provisions are valued in accordance with prudent business practice, taking into account the ongoing need to satisfy the obligations under insurance contracts. Valuation is based on values as of the balance sheet date. The benefit reserves for annuities, which are recognized in accordance with actuarial principles, are not included in the calculation.

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

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

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

Miscellaneous technical provisions were recognized for the following risks:

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

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

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

The change in sundry net technical provisions in the income statement resulted from a €40,000.00 decrease in the lapse provision, a €1,604.00 decrease in the actuarial reserve, and a €2,375.40 increase in miscellaneous sundry technical provisions.

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

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

Provisions for pensions and other post-employment benefits are calculated using actuarial principles in accordance with the projected unit credit (PUC) method on the basis of the Heubeck 2018 G mortality tables. 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. In 2020 and 2021, a discount rate was applied for the valuation as of December 31 based on the average for the past ten years; this rate as of the reporting date was 1.87 percent (December 31, 2020: 2.30 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 €194,279.00 (December 31, 2020: €198,754.00).

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 €10,151.57 arose from the discounting of provisions with a maturity of more than one year (2020: €13,579.17). Interest income arose from this in an amount of €282.91 (2020: €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 Heubeck 2018 G mortality tables, applying a discount rate of 1.35 percent (seven-year average; 2020: 1.60 percent) and future salary increases of 2.5 percent per year.

In 2021, 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 1.35 percent for matching maturities (2020: 1.60 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 Heubeck 2018 G mortality tables and applying a discount rate of 1.35 percent (seven year average; 2020: 1.60 percent). The calculation also included staff turnover at an average rate of 1.5 percent and salary increases at a rate of 2.5 percent. The earliest possible pension age under the RVAGAnpG was selected as the final age.

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

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

Currency translation

Assets and liabilities denominated in foreign currencies are translated at the middle spot rate on the balance sheet date. Income and expenses are recognized using the transaction exchange rate on the date of the relevant inflow or outflow. Currency conversions generated income of €474,961.29 in 2021 (2020: expenses of €27,030.57). 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	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Gross premiums written	210,578	198,850	179,937	166,987	46,961	47,946	44,277	43,745	618	825
Gross premiums earned	208,197	197,521	177,638	166,357	47,007	47,909	44,244	43,853	618	825
Net premiums earned	200,103	190,223	169,544	159,256	44,988	46,019	42,127	41,843	0	0
Gross expenses for claims	118,544	95,295	105,797	81,888	21,201	18,322	14,404	16,453	145	151
Gross insurance business operating expenses	92,597	84,723	78,828	70,274	17,381	17,217	18,872	18,136	120	146
of which front-end fees	33,201	27,560	30,901	24,603						
of which administrative expenses	59,397	57,163	47,928	45,672						
Reinsurance balance	-9,940	3,129	-9,940	3,074	-115	783	839	1,177	26	257
Underwriting result net of reinsurance before equalization provision	6,282	13,736	2,836	11,086	8,797	11,991	10,225	8,164	334	304
Underwriting result net of reinsurance after equalization provision	10,098	11,039	7,466	10,146	8,797	11,991	13,083	8,268	334	304
Gross technical provision (total)	314,418	299,141	271,021	257,913	99,111	98,897	74,077	79,814	11,876	12,468
of which gross provision for outstanding claims	242,544	225,793	223,180	207,701	93,933	93,648	57,585	60,482	11,846	12,446
of which lapse provision	1,220	1,260	1,220	1,260	312	335	272	287	27	22
of which equalization provision and similar provisions	38,790	42,606	22,244	26,874	0	0	10,869	13,726	0	0
Number of insurance policies with a term of at least one year	3,890,782	1,949,543	3,890,782	1,949,543	149,456	152,304 ¹⁾	293,624	292,811 ¹⁾	3,757	4,131
Technical interest income net of reinsurance relating to benefit reserves for annuities (0.25 percent)	119	318	119	318	102	274	2	4	15	40

¹⁾ These insurance segments contain 17 group contracts (2020: 17) with 20,425,262 insured risks (2020: 20,934,516).

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

Direct insurance business	2021	2020
(No.)		
Germany	953,481	942,605
Other member states of the European Community or that have signed up to the Agreement on the European Economic Area (EEA)	1,807,478	697,466
Non-EEA country	1,129,823	309,472
Total	3,890,782	1,949,543

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)	
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
73	322	53,466	50,888	22,022	21,468	18,070	17,220	13,373	12,199	34,542	23,261	30,641	31,863
73	322	53,393	50,918	22,093	21,444	18,030	17,311	13,271	12,163	32,303	22,530	30,559	31,163
0	-0	50,460	48,868	20,736	20,400	16,762	16,489	12,963	11,979	31,969	22,527	30,559	30,967
274	327	53,049	35,305	13,282	9,383	25,831	16,668	13,936	9,254	16,724	11,330	12,747	13,407
59	68	23,162	22,271	10,269	10,029	6,900	6,788	5,993	5,455	19,234	12,436	13,769	14,449
												2,300	2,957
												11,469	11,492
-158	-50	-10,695	903	-948	969	-7,429	140	-2,319	-205	164	4	0	56
-97	-24	-12,627	-8,126	-594	1,017	-7,290	-6,513	-4,744	-2,630	-3,796	-1,223	3,446	2,649
-97	-24	-9,362	-7,361	181	783	-6,968	-6,846	-2,575	-1,298	-5,289	-3,031	2,632	893
49	68	59,467	46,584	11,734	11,214	28,839	20,600	18,894	14,770	26,441	20,082	43,397	41,228
46	60	47,238	31,156	6,600	5,227	24,928	16,405	15,710	9,524	12,533	9,909	19,364	18,091
3	8	503	509	207	215	170	172	127	122	103	99	0	0
0	0	7,151	10,417	4,192	4,966	2,081	2,403	878	3,047	4,224	2,730	16,546	15,732
2,028	2,195	336,950	331,131	190,489	188,446	41,454	41,037	105,007	101,648	3,104,967	1,166,971 ¹⁾	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source of insurance business by premiums written

Direct insurance business	2021	2020
(€'000)		
Germany	158,263	155,814
Other member states of the European Community or that have signed up to the Agreement on the European Economic Area (EEA)	5,980	3,984
Non-EEA country	15,694	7,189
Total	179,937	166,987

IV. Non-Insurance Disclosures

Changes in asset items A., B., I. to III. in the financial year 2021

(€'000)	Carrying amount as of Dec. 31, 2020	Additions
A. Intangible assets		
1. Goodwill	3,439	0
2. Total for A.	3,439	0
B. I. Land, land rights and buildings, including buildings on third-party land	0	0
B. II. Investments in affiliated companies and equity investments		
1. Shares in affiliated companies	41,959	3,441
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.	41,959	3,441
B. III. Miscellaneous investments		
1. Equities, investment fund shares/units, and other variable-yield securities	200,601	52,008
2. Bearer bonds and other fixed-income securities	45,481	5,925
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	83	7
6. Other investments	942	0
7. Total for B. III.	297,670	57,939
Total	343,069	61,380

Reclassifications	Disposals	Reversals of write-downs	Write-downs	Carrying amount as of Dec. 31, 2021	Fair value pursuant to sec. 54 RechVersV
0	0	0	385	3,054	3,054
0	0	0	385	3,054	3,054
0	0	0	0	0	0
0	695	0	0	44,705	81,399
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	695	0	0	44,705	81,399
942	52,058	663	322	201,834	260,495
0	391	58	544	50,529	51,921
0	0	0	0	0	0
0	0	0	0	39,500	40,498
0	17	0	0	11,045	11,426
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	89	89
-942	0	0	0	0	0
0	52,466	722	866	302,998	364,429
0	53,161	722	1,251	350,757	448,882

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, 2021 (€)	Market value as of Dec. 31, 2021 (€)	Difference (€)	Dividend in 2021 (€)	Redemption
ALLTRI	Mixed fund	Increased income	174,469,848.64	232,198,307.72	57,728,459.08	518,208.44	At any time
ARI 2	Fixed-income fund	Increased income	12,526,690.32	12,526,690.32	0.00	94,698.61	At any time
Total			186,996,538.96	244,724,998.04	57,728,459.08	612,907.05	

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, 2021	Dec. 31, 2020
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 2021.

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, 2021 was therefore as follows:

Defined benefit obligations

(€)	Dec. 31, 2021	Dec. 31, 2020
Amount required to settle the vested entitlements	35,951,166.00	34,296,108.00
of which offsettable against pension insurance assets	- 194,279.00	- 198,754.00
Remaining amount	35,756,887.00	34,097,354.00

Provisions for taxes

In 2021, provisions for taxes of €4,580.50 (December 31, 2020: €99,994.05) had to be recognized for tax demands from an international branch, the reason for or amount of which was not yet known.

Miscellaneous provisions

This line item essentially consists of provisions for long-service expenses of €533,193.00 (December 31, 2020: €496,317.00), bonuses of €454,585.33 (December 31, 2020: €404,507.53), costs for the annual financial statements and for auditing of €374,998.64 (December 31, 2020: €385,197.18), vacation entitlement obligations of €215,151.00 (December 31, 2020: €209,613.00), reimbursement of the Supervisory Board's expenses of €150,000.00 (December 31, 2020: €150,000.00), and pre-retirement part-time employment of €66,060.00 (December 31, 2020: €110,538.00). 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 2021 or 2020.

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 expense recognized of €107,501.73 (2020: tax income of €44,237.38) relates not only to tax expense 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. The dramatic escalation of the conflict with Russia and the Russian Federation's invasion of Ukrainian territory have sent shock waves through the existing world order. ARAG does not operate its own insurance business in eastern Europe, Ukraine, or the Russian Federation. At the present time, it is difficult to assess the impact of the macroeconomic changes in Europe and worldwide that have been triggered by this war. 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 €31,540,799.44 (December 31, 2020: €28,571,697.92) have been concluded through the affiliated company ALIN 2 GmbH & Co. KG with various private equity funds. Calls from the funds result in cash being paid into ALIN 2 GmbH & Co. KG immediately before payment is due in order to provide the required liquidity. Calls at short notice of €14,352,128.39 (2020: €15,566,349.63) are expected on the basis of open-ended investment agreements. As of the reporting date, ARAG Allgemeine had call commitments of €149,753.94 (December 31, 2020: €206,857.19) toward four other of its infrastructure funds and private equity funds recognized under investment fund shares/units. This was on the basis of outstanding contributions to be made by the Company as a limited partner that were not yet due.

Difference pursuant to section 253 no. 6 HGB

Differences pursuant to section 253 no. 6 HGB arise when calculating provisions for pensions and other post-employment benefits as a result of applying the percentage rate for the ten-year average rather than the percentage rate for the seven-year average. At the end of the reporting year, this difference stood at €2,651,194.00 (December 31, 2020: €3,431,876.00).

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 2021 single-entity 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

(€)	2021	2020
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	53,067,342.21	46,218,315.89
2. Other remuneration for insurance agents within the meaning of section 92 HGB	90,671.25	90,682.18
3. Wages and salaries	11,039,631.38	10,440,029.62
4. Social security and other employee benefit expenses	1,877,875.97	1,762,397.86
5. Pension and other post-employment benefit expenses	2,739,602.71	2,606,442.79
Total expenses	68,815,123.52	61,117,868.34

Employees

The average number of employees in 2021 was 167 (2020: 168), of whom 80 worked in domestic claims, 64 in sports insurance, and 23 in other departments.

Supervisory Board and Management Board remuneration

In the year under review, the Company's Supervisory Board received remuneration of €150,000.00 (2020: €150,000.00). The remuneration for members of the Management Board came to €852,369.43 in 2021 (2020: €732,873.56). 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 €968,238.94 (2020: €950,551.53). A provision of €15,488,492.00 was recognized for current pensions and vested pension entitlements of former members of the Management Board and their surviving dependants (December 31, 2020: €15,245,536.00). The members of the Supervisory Board and Management Board are listed at the end of this annual report.

Group affiliation

ARAG Allgemeine Versicherungs-AG is wholly owned by ARAG SE, Düsseldorf. ARAG SE and all of its affiliated companies are included in the consolidated financial statements of ARAG Holding SE, Düsseldorf, for the year ended December 31, 2021. The consolidated financial statements of ARAG Holding SE are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice. ARAG Allgemeine does not prepare its own consolidated financial statements and group management report, as the consolidated financial statements and group management report of ARAG Holding SE have an exempting effect pursuant to section 291 HGB.

Düsseldorf, March 14, 2022

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Management Board

Uwe Grünewald

Zouhair Haddou-Temsamani

Christian Vogée

VII. Governing Bodies of the Company

Supervisory Board **Dr. Dr. h. c. Paul-Otto Faßbender** CEO of ARAG Holding SE,
Düsseldorf,
Chairman

Hanno Petersen Member of the Management Board of ARAG SE,
Ratingen,
Deputy Chairman

Dr. Matthias Maslaton Member of the Management Board of
ARAG SE,
Moers

Dr. Joerg Schwarze Member of the Management Board of
ARAG SE,
Düsseldorf

Elected by the employees:

Johannes Berg Insurance professional,
ARAG Allgemeine Versicherungs-AG,
Dormagen

Wolfgang Platen Insurance professional,
ARAG Allgemeine Versicherungs-AG,
Mönchengladbach

Management Board **Uwe Grünewald** Risk Management/Controlling/
Finance and Accounting,
Düsseldorf

Zouhair Haddou-Temsamani Product Management,
Düsseldorf

Christian Vogée Sales/Operations/Claims/
Sports Insurance,
Düsseldorf

Independent Auditor's Report¹⁾

To ARAG Allgemeine Versicherungs-AG, Düsseldorf

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

Opinions

We have audited the annual financial statements of ARAG Allgemeine Versicherungs-AG, Düsseldorf, which comprise the balance sheet as of December 31, 2021, and the income statement for the financial year from January 1 to December 31, 2021, and the notes to the financial statements, including a summary of the accounting policies. In addition, we have audited the management report of Allgemeine Versicherungs-AG for the financial year from January 1, 2021 to December 31, 2021.

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

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

- The accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to insurance companies and, in compliance with German accepted accounting principles, give a true and fair view of the net assets and financial position of the Company as of December 31, 2021 and of its results of operations for the financial year from January 1, 2021 to December 31, 2021, 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 those parts of the management report specified in the 'Other information' section.

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

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

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our opinion of this audit; we do not provide a separate opinion on these matters.

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

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

The financial statement risk

The gross provision for outstanding claims in direct insurance business amounts to €223.2 million. This equates to 55.8 percent of total assets and has a material effect on the financial position of the Company.

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

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

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

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

Our audit approach

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

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

Our observations

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

Other information

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

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

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

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

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

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

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

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

The executive directors are responsible for preparing annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to insurance companies and that, in compliance with German accepted accounting principles, give a true and fair view of the net assets, financial position, and results of operations of the Company. In addition, the executive directors are responsible for the internal controls that they, in compliance with German accepted accounting principles, consider necessary for the preparation of annual financial statements that are free of material misstatements, whether due to fraud or error.

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free of material misstatements, 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 audit findings, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development, and to issue an auditor's report containing our opinions on the annual financial statements and management report.

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that may reasonably be thought to have a bearing on our independence, and any related safeguards.

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

Other legal and regulatory requirements

Further information pursuant to article 10 of the EU Audit Regulation

We were elected as auditor by the Supervisory Board meeting on March 26, 2021. We were engaged by the Supervisory Board on January 11, 2022. We have been the auditor of ARAG Allgemeine Versicherungs-AG since the 2020 financial year.

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

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

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

German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Christine Voß.

Cologne, March 17, 2022

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 convened once, immediately following the Annual General Meeting, 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 Chairman of the Supervisory Board was updated daily on key developments. At regular intervals, the members of the Supervisory Board were provided with a written report on the impact on COVID-19 on ARAG Allgemeine and a controlling report detailing premiums written, third-party claim payments, and commissions. Strict hygiene protocols were adhered to at all meetings where the Supervisory Board or its committees met in person.

In the reporting year, the Supervisory Board once again examined in detail the impact of the COVID-19 pandemic and held in-depth discussions in its ordinary meetings about the impact of the pandemic on the business operations and business performance. The Supervisory Board's work also focused on monitoring the appropriateness of IT security and compliance with the German Insurance Supervisory Requirements for IT (VAIT). In its ordinary meetings, the Supervisory Board was provided with comprehensive reports about the current business performance of the Company and its international entities. The Supervisory Board was able to gain a comprehensive picture of the Company's situation from the controlling reports and risk reports, the own risk and solvency assessment (ORSA) report, the reports on investments, and the quarterly financial statements (including updated forecasts) that were presented. At its meetings, the Supervisory Board also examined the reports on reinsurance renewal for 2021, the risk strategy for 2021 and the review of risk-bearing capacity, the quality assurance report of the actuarial function for the reinsurance tool, the issues surrounding sustainability and the relevant regulatory requirements, the non-audit services, KPMG's audit planning for 2021, and other processes of relevance to the Company. Furthermore, the Supervisory Board approved the strategic plan for 2022 to 2024 and discussed the management statistics required by law, the appropriateness of Management Board remuneration, and the remuneration system used for employees. The development plan for the Supervisory Board in 2022 was also signed off and the granting of commercial power of attorney (Prokura) was approved. The reappointment of a member of the Management Board was decided upon as well.

The Supervisory Board has formed a total of two committees: the Finance and Audit Committee and the Human Resources Committee. Detailed and timely reports on the committees' meetings and work were delivered at the Supervisory Board meetings by the respective chairperson of these committees.

The single-entity financial statements, which were prepared by the Management Board in accordance with the commercial-law accounting regulations for insurance companies (RechVersV), and the management report for 2021 were, together with the book-keeping system, audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, which had been selected and engaged by the Supervisory Board on March 26, 2021 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 single-entity financial statements and management report. There were no objections to be raised on the basis of the concluding findings of its review. Having carried out its own review, the Supervisory Board agreed with the findings of the audit of the single-entity financial statements and management report by the auditors. The Supervisory Board approved the single-entity financial statements and management report and thereby adopted them. The Supervisory Board proposes to the Annual General Meeting that it formally approve the acts of the Management Board members. The Supervisory Board would like to express its thanks and appreciation for the work of the Management Board and all employees in 2021.

Düsseldorf, March 31, 2022

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Supervisory Board

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

Hanno Petersen
(Deputy Chairman)

Johannes Berg

Dr. Matthias Maslaton

Wolfgang Platen

Dr. Joerg Schwarze

Further Information

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

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

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