

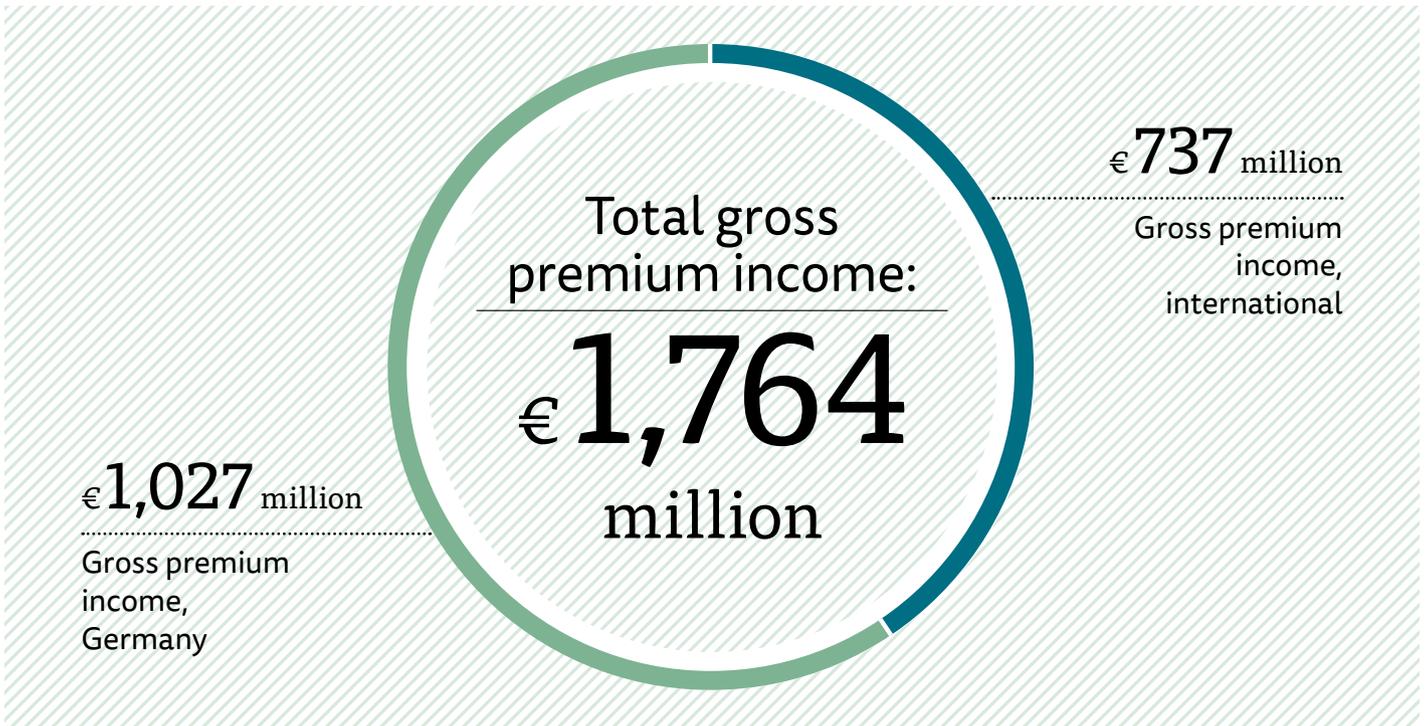
ARAG HOLDING SE

2019 Annual Report

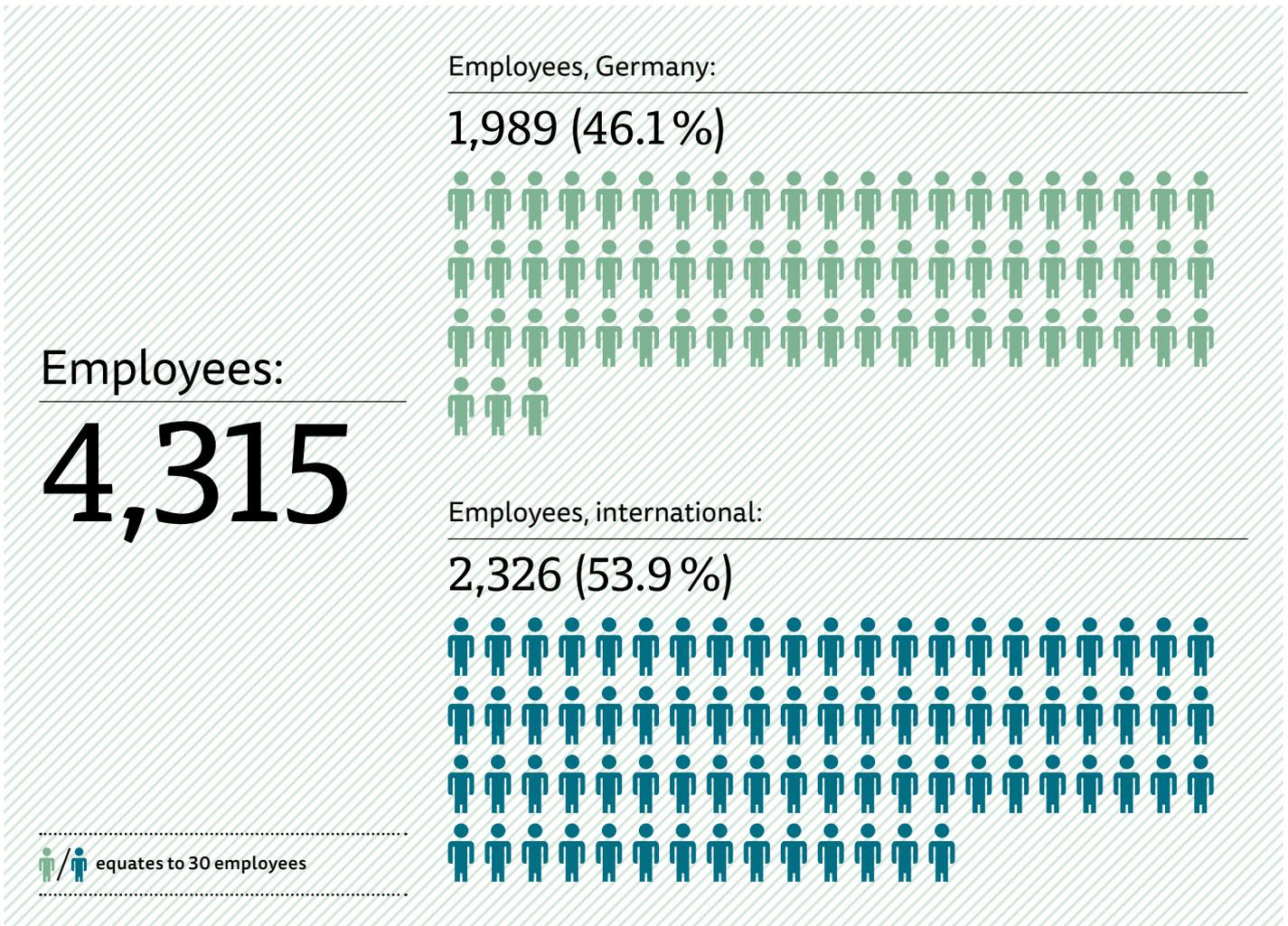
CONSOLIDATED FINANCIAL STATEMENTS



Gross premium income broken down by domestic and international business



Number of employees and breakdown



Key Figures for the ARAG Group

Premium income/sales revenue:

€ **1.79** billion

↗ 2018: €1.68 billion

Combined ratio:

88.7 %

↗ 2018: 88.6%

Underwriting result net of reinsurance:

€ **98.5** million

↗ 2018: €97.4 million

Consolidated equity:

€ **558** million

↗ 2018: €488 million

Profit from ordinary activities:

€ **119.9** million

↗ 2018: €70.2 million

Consolidated net income:

€ **77.5** million

↗ 2018: €34.7 million

Insurance segments in the ARAG Group and their parent operating companies

Legal insurance ARAG SE

€ 1,085 million*

↗ 2018:

€ 1,004 million*

Personal legal insurance and legal insurance for motorists, employment, homeowners and tenants, businesses, trades, self-employed professionals, and associations

Casualty and property insurance ARAG Allgemeine Versicherungs-AG

€ 285 million*

↗ 2018:

€ 276 million*

Liability insurance, home contents insurance, accident insurance, accident disability insurance, Top Special Service Package, building insurance, business insurance, sports insurance

Health insurance ARAG Krankenversicherungs-AG

€ 393 million*

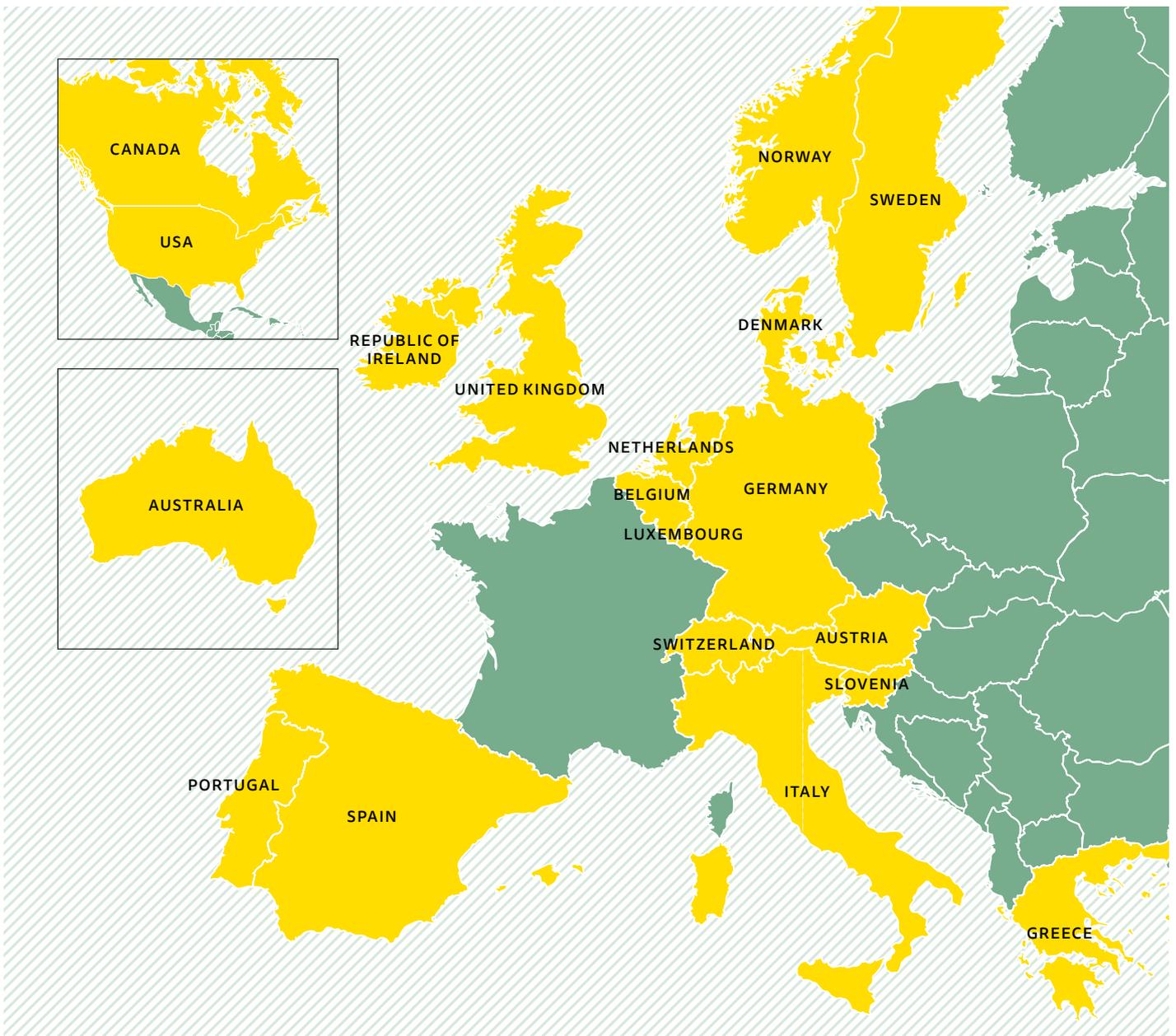
↗ 2018:

€ 374 million*

Private full-coverage health insurance, supplementary health insurance, long-term nursing care insurance, supplementary nursing care insurance, corporate health insurance, foreign travel health insurance

* Gross premium income

Countries in which the ARAG Group operates



Accolades received by the ARAG Group (selection)

The ARAG Group was designated 'Germany's best insurer' in a study by Deutschland Test, Focus-Money, and the Institute for Management and Economic Research. Focus-Money also crowned ARAG the 'Fairnest legal insurance provider' and, in four categories, the 'Fairnest company for claims settlement': personal legal insurance, legal insurance for employment, accident cover, and supplementary health insurance.

ARAG received the distinction of 'Most innovative brand' in the 2019 Plus X Award for innovation for the fourth time in succession. ARAG's website won the 'Top website' accolade from AMC Finanzmarkt GmbH for the tenth time at the end of 2019, the third time in a row that it has made the top five in the insurance industry. ARAG is also recognized as an excellent employer. Eltern magazine designated the Group as one of the most family-friendly companies in 2019.

In 2020, Focus magazine and rating portal kununu listed ARAG as one of the best employers: ninth place in the insurance company and health insurance company category. In Sweden, ARAG's HELP branch was recognized as one of the best employers, winning the 'Great Place to Work' award. Istituto Tedesco Qualità e Finanza awarded 'Best Job' and 'Top Carrier' in the insurance company category to ARAG Italy.

ARAG Spain was crowned the best legal insurance provider by broker organization ADECOSE and also won a 'Gold star' for its excellent customer service. BenchmarkPortal classified ARAG North America as a 'Center of excellence' for the tenth time at the start of 2020. The Legal Hero campaign also picked up an award from the American Marketing Association in Iowa. ARAG Austria was classed as the most likely to be recommended among all insurance companies in

an analysis conducted by market, a market research institute. In a comparison carried out by the Austrian Society for Consumer Studies (ÖGVS), ARAG Austria was rated as a top-three legal insurance provider. The Dutch Insurance Association designated ARAG Netherlands as a pioneer thanks to its accessible website. ARAG UK won the 'Best Customer Service Product for Customer' award at the 2019 UK Customer Service Excellence Awards.

ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

CEO and Central Group Functions

Investments/ Corporate Development/ Organization

Sales, Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management and Group Controlling

Operating insurance companies

ARAG Allgemeine Versicherungs-AG

(Casualty and property insurance)

ARAG Krankenversicherungs-AG

(Health insurance)

Interlloyd Versicherungs-AG

(Specialized in broker sales)

International companies

(Legal insurance/ legal services)

Service companies

ARAG IT GmbH

(IT services for the ARAG Group)

Cura Versicherungsvermittlung GmbH

(Brokerage firm)

ARAG Service Center GmbH

(Emergency telephone service)

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Overview

ARAG Holding SE Key Figures – Consolidated Financial Statements

(€ million)	2019	Change	2018	2017
Sales revenue				
Gross premiums written	1,763.5	6.6%	1,653.7	1,585.0
Premiums earned net of reinsurance	1,752.0	6.8%	1,640.0	1,570.6
Sales revenue of non-insurance companies	24.0	-0.3%	24.1	25.4
Expenses				
Claims incurred net of reinsurance	936.5	7.6%	870.0	854.0
Claims ratio (basis: premiums earned)	53.5%	0.4% pts.	53.1%	54.4%
Insurance business operating expenses net of reinsurance	618.4	6.1%	582.7	558.4
Cost ratio (basis: premiums earned)	35.3%	-0.2% pts.	35.5%	35.6%
Net income overview				
Underwriting result net of reinsurance	98.5	1.1%	97.4	73.5
Gains and losses on investments	156.9	93.3%	81.2	136.1
of which included in underwriting result	78.0	47.6%	52.8	74.5
Other net income/expense	-56.6	9.5%	-51.7	-52.2
Profit/loss from ordinary activities	119.9	70.7%	70.2	81.2
Consolidated net income	77.5	123.1%	34.7	27.8
Technical provisions/ net premiums earned	233.2%	-0.8% pts.	234.0%	233.2%

Profile of the ARAG Group

Overview

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

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

Legal insurance

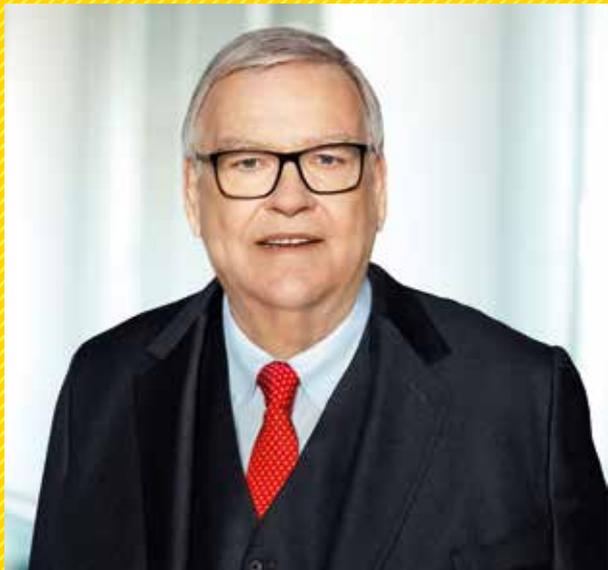
In its core legal insurance segment, ARAG plays a major role in shaping its markets both in Germany and abroad with innovative products and services. For some years now, the international legal insurance business has been the Group's most significant area of activity. The units outside Germany involved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

Casualty and property insurance

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

Personal insurance

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



Dr. Dr. h. c. Paul-Otto Faßbender

Introduction

The ARAG Group enjoyed a very strong year in 2019. It generated growth of more than 6 percent and its income was up by almost €100 million compared with 2018. ARAG's financial performance also saw a further significant improvement, with consolidated net income jumping by 123 percent to €77.5 million. The Group is adding new customers effectively and strengthening its customer base in both Germany and the international markets.

ARAG owes its very good performance to the great achievements of all Group segments. Each one makes a positive contribution to the success of the Group, enabling it to benefit from its robust strategic position focusing on property insurance and health insurance. As a result, the Group continues to go from strength to strength in Germany and abroad. We generated premium growth of 4.7 percent in the German market, where the volume of business (premiums) exceeded the €1 billion threshold for the first time. Among the international markets, the strongest growth was recorded in the US, Scandinavia, the Netherlands, and Spain.

This year, the ARAG Group will once again be in a position to significantly expand its business and, at the same time, deliver a very healthy financial performance. The combined ratio remains at the good level of 88.7 percent.

The ARAG Group's very strong performance in 2019 was the result of many years of improvements carried out by the highly motivated and well-versed ARAG team. We focused our investment on raising the efficiency and performance of the Group, creating a highly responsive development process.

The ARAG Group is thus geared up to meet the requirements of the new decade. We have our business firmly in hand and we know what we need to do to remain successful in the future. We will continue to forge ahead with ARAG's digital transformation. In this context, it is not only the technology deployed that counts but also the capabilities of our employees, in close interplay with our corporate culture. These are the real success factors that will determine whether the digital transformation succeeds. Being a family enterprise gives ARAG clear competitive advantages. Our focus on action and excellence in order to deliver for our customers sums up the shared values of the ARAG community and its commitment to value creation. This focus on delivering for our customers is the foundation for our shared goal of ensuring the ongoing commercial independence of ARAG. Companies whose only purpose is to serve the interests of external investors are unable to generate the same high level of motivation.

At the start of the new decade, ARAG stands at the dawn of a new era. We will not be resting on the laurels of yesterday's success but concentrating on seizing the opportunities of tomorrow.



Dr. Dr. h. c. Paul-Otto Faßbender

The ARAG Group at a Glance

What makes the Düsseldorf-based ARAG Group unique is that it is the largest family-owned insurance company in Germany. ARAG is independent, innovative, and internationally successful. The fundamental idea behind the foundation of ARAG back in 1935 was that all citizens should be able to assert their legal rights, irrespective of their financial situation. This idea is more relevant today than it has ever been. This corporate mission of establishing equality of opportunity for everyone and providing customers with the right support through every phase of their life is reflected in ARAG's extensive portfolio of products and services.

A strong position

ARAG maintains a clear focus on the needs of consumers and customers in its domestic and international markets. In the age of digital transformation, these needs are changing extremely rapidly. That is why the Group is continually expanding its innovative portfolio of products and services. Across all divisions, the Group regards itself as a multifaceted provider of high-quality insurance that does more than simply reimburse costs and instead offers suitable prevention and assistance along with smart services.

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

In Germany, the Group's legal insurance offering is complemented by a wide variety of products and services that focus on customer needs and added value in the areas of casualty and property insurance and private health insurance. These divisions are successfully run by the independent Group companies ARAG Krankenversicherungs-AG and ARAG Allgemeine Versicherungs-AG. ARAG Krankenversicherung (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. In its fiercely competitive market, ARAG Allgemeine is demonstrating its strength as a competitive provider of property, liability, and accident insurance policies.

Dedication to sport

As Europe's largest sports insurance provider, ARAG Allgemeine plays a unique role. It offers specialized insurance cover for around 20 million people in sports clubs and associations. Tailored group policies entered into with 15 state sports associations across Germany provide the affiliated clubs and associations with appropriate insurance cover for their staff and all members.

As a partner for sport, ARAG has been championing sports accident and injury research and prevention in Germany for decades. In 2015, the 'Sicherheit im Sport' foundation was established to promote safety in sports by ARAG Allgemeine Versicherungs-AG alongside distinguished partners from the fields of science, sport, business, and politics, including the North Rhine-Westphalia State Sports Association (LSB NRW), Sporthilfe NRW, and sports insurance broker Himmelseher. The aim is to coordinate and pool the work in this area in order to make sport even safer for recreational sports participants and top-ranking athletes alike. ARAG is the foundation's largest sponsor.

International success

The Group's international business is crucial to its continued success, and more than half of all employees are now based outside Germany. Moreover, the international markets account for around 42 percent of the Group's revenue. The internationalization strategy is enabling ARAG to break into new, fast-growing markets and strengthen its position in existing markets. Today, ARAG is one of the three largest providers of legal insurance in the world. Including Germany, it operates in 19 countries. It officially launched business operations in two further markets in 2019: Australia and the Republic of Ireland.

ARAG Services Australia Pty Ltd, based in Sydney, operates as a managing general agent (MGA) and has already sold its first products in the areas of commercial and family legal insurance. ARAG's Australian subsidiary is responsible for the areas of the business ranging from product development to the underwriting of new policies and claims handling. However, the insurance risk is accepted through an insurance company registered in Australia and is covered by a quota-share reinsurance treaty of ARAG SE. In the Republic of Ireland, the ARAG Group has acquired the in-force business of DAS – and its 17-strong workforce in Dublin – and has therefore become the market leader for legal insurance in Ireland. The business model is also based on an MGA structure.

ARAG Smart Insurer Program

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

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

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

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

Innovation

Exploring the unfamiliar, trying out the new, and advancing without fear: These are the drivers of the many different innovations in the ARAG Group. The family enterprise is demonstrating that it is flexible, adaptable, and proactive as it squares up to the challenges of the digital age. Everything centers around the dramatically changing needs and requirements of customers and consumers. In 2019, ARAG again translated these into numerous groundbreaking ideas for products and services. It is increasingly using key technologies, such as data mining and data analytics, in order to identify customers' individual wishes at an early stage and then develop tailored solutions.

The Group's innovative strength is multifaceted. Attractive product solutions and services that add value are not only appreciated by customers but have also earned many external accolades. For example, ARAG was designated most innovative brand in the service provider category of the prestigious Plus X Award for innovation for the fourth time in succession in 2019. The respected independent panel of judges also proclaimed ARAG's accident cover including the Fit Plus component to be the 2019 best product of the year. ARAG web@ktiv, a product aimed specifically at internet-savvy customers, received a Plus X Award for innovation and scope of services for both the private customer and commercial customer variants.

The Group is also a market leader when it comes to the digitalization of sales. A study carried out by research institute Sirius Campus and IT service provider adesso looked at digitalization in insurance agencies, examining the success factors in exclusivity sales in 2019. ARAG was ranked second, making it one of Germany's most progressive insurance companies. One of the key success factors was ARAG's advice app, introduced at the start of 2019.

ARAG is also ranked highly when it comes to digital communication, securing a top spot in the insurance company category in a 2019 study on email marketing benchmarks. The Group scored particularly well on customer dialog, dispatch technology, legal compliance, and design.

Alongside its high-quality products, the ARAG Group again delivered an excellent range of smart services, innovative tools, and digital processes in 2019.

ARAG Health, for example, introduced a new care concept that brings together different types of support for mental health, the first of its kind in the market. The support ranges from online self-help programs and psychotherapy via video chat to referral for therapy as an outpatient within ten days. At a time when places on therapy programs are in short supply and waiting times are long, ARAG Health and its specialist partners ensure that rapid and professional help is available for people with mental illness.

In February 2019, ARAG became the first German insurer to offer mediation via Skype. The mediators from ARAG use video chat to mediate in the event of disputes. Demand for the service is growing, and it is to be rolled out to the Group's international units.

The Track&Trace service from ARAG Service Center GmbH is also gaining momentum: ARAG's special service package customers who are stranded with their vehicle can track the breakdown truck's arrival online and access important information about their case on a mobile website.

The ARAG Group is also a pioneer when it comes to communicating with customers digitally. In 2017, it launched the ARAG travel assistant, which was the first chatbot in the German insurance market and was quickly adapted by the Group's international units. Following on from this innovative approach, the ARAG Group added further robo-advisor bots in 2019, including the administrative fine assistant, tenancy law assistant, and conflict navigator. Examples outside Germany include the chatbot 'Lisa' of ARAG Netherlands, which it launched in March 2019. The groupwide chatbot working group also has further projects in the pipeline.

Smart innovations and new ideas also flourish at the Legal Tech Studio of ARAG Netherlands. The studio was established in 2019 in cooperation with Europe's largest start-up ecosystem, B. Amsterdam. It provides flexible working space, the right tools, and an inspiring environment for talented young people to develop new legaltech solutions.

ARAG Austria developed a brand-new customer relationship management (CRM) system. Featuring cutting-edge technology, the system is easy to use and provides tailored information, enabling the rapid development of new smart services and processes. A new ideas platform, gARAGe, was introduced for employees so that they can work on creative solutions and improvements.

A great deal of creativity went into completely redesigning and modernizing the German careers website in the reporting year. Prospective candidates can now apply for jobs in Sales Administration and ARAG Core Sales by completing a short form and even submitting a video. Besides presenting the Group as an employer of choice, another focus in 2019 was on implementing an innovative, online applicant management tool. The tool optimizes recruitment by establishing a system-based selection process that saves both time and paper.

Given the challenges of digitalization, the ARAG Group updates its hardware on an ongoing basis. There was a significant amount of capital expenditure in connection with the 'Upgrade your work' project in 2019. As a result, nearly all employees in Germany now use the latest mobile computers. This allows them to work smartly and flexibly from anywhere. Employees were able to choose between three different models to suit their everyday work. Around 2,000 computers were rolled out in total.

Further new working methods were established in the Group. These methods foster agility and creativity in projects and in workshops, supported by appropriate continuing professional development (CPD) structures. One example is the new 500 m² Studio 17 in the ARAG Tower, which opened in July 2019 and brings together the worlds of work and sport. In particular, the two workshop rooms, which are themed around different types of sport, encourage an agile approach to work by applying modern methods such as design thinking and scrum.

ARAG significantly expanded the digital learning and CPD options in 2019 in order to equip the workforce for a digital future. The programs particularly encourage employees to acquire knowledge for themselves. As well as courses on industry-specific subjects such as Solvency II, additional smart tools were introduced, for example the Masterplan video-learning platform.

Online gaming provides much of the groundbreaking impetus for digitalization. It was therefore a logical step for the Group to get involved in a high-profile e-sports organization. Coinciding with the product launch of the ARAG web@ktiv 3.0 cyber policy, ARAG became the official insurance partner of the internationally successful e-sports organization SK Gaming in Cologne in August 2019. Above all, this partnership creates the opportunity for the Group to raise its profile among young target groups in an exciting setting, both in Germany and in international markets. The core elements of the collaboration with SK Gaming and its professional players, who are well-known figures in the gaming world, are jointly developed content formats. These focus on the premium variant of web@ktiv that is particularly interesting to gamers. Joint projects in the area of corporate social responsibility are also being planned.

The unique cyber protection product ARAG web@ktiv is, along with ARAG supplementary dental insurance, at the center of a multi-channel advertising campaign launched in 2019 that features memorable animals. Given the excellent results, the campaign was continued in March 2020 with a squirrel, a chameleon, a family of ducks, and other creatures and was extended to other media with a strong reach.

Products and portfolios

As an international insurer of considerable renown with innovative, high-quality insurance products, ARAG's stated aim is to offer smart solutions that provide rapid, straightforward, and pragmatic help. The Group's ideas are not limited to traditional insurance policies and it always flexibly tailors its user-friendly products and services to the specific requirements of customers in their day-to-day lives. In 2019, the Group added even more innovative new products and great services to its portfolio, both in Germany and abroad.

With ARAG web@ktiv 3.0, the Group expanded its successful online legal insurance to include additional modules: It consists of three product versions – with Basis, Komfort, and Premium rate scales – and was launched on the market in mid-2019. The Group is maintaining its pioneering role by offering this optimized online protection for the entire family and for the self-employed and freelancers. The scope of services for breach of copyright has been widened, for example. The Komfort and Premium versions include the provision of advice on customers' personal digital legacy. Furthermore, the Premium version offers special electronics cover that is particularly appealing to gamers, as it extends to damage to cellphones, laptops, and gaming consoles.

In addition to the aforementioned help for mental illness, ARAG Health made other logical additions to its product range in the year under review: In October 2019, it added two rate scales with outstanding benefits, ARAG MedExtra and ARAG MedBest, to complement the successful Komfort version of its full-coverage insurance. They enable customers to go straight to a specialist without being referred by their family physician. They also include numerous top-of-the-range services, primarily treatment from a senior consultant, a private room in hospital, and a high level of reimbursement for dental prosthesis. Further highlights include waiver of premiums during parental leave, cover for fertility treatment costs, laser eye surgery, and travel vaccinations. A new per diem sickness benefit was also introduced that can only be taken out by ARAG's full-coverage health insurance customers. As well as payment of per diem sickness benefit for children, it also includes extended subsequent cover if there is a risk of occupational disability.

ARAG developed a new type of travel insurance in late 2019 and launched it on the market with two variants in February 2020. ARAG ReiseProtect offers optimum cover under short-term policies for trips of between one and 90 days. They can be taken out online at any time, even shortly before the start of a trip. Four rate scales are available, with different key features: Basic, All Inclusive (excluding travel cancellation cover), All Inclusive Premium (including travel cancellation cover), and Backpacker. ARAG ReiseProtect 365 is an annual policy with outstanding benefits that covers all trips made within a year and is available for individuals, couples, and families. The short-term and annual policies enable travelers to choose between needs-based, modular insurance or a full package. The latter covers travel cancellation, luggage, foreign health insurance, vehicle breakdown, and emergency protection. What makes the product unique in the market is the inclusion of legal insurance for motorists and travel contract legal insurance. Both of these are included in the All Inclusive rate scales for the short-term and annual policies.

International product work

The ARAG Group also performed impressively in international markets via its branches, subsidiaries, and equity investments in 2019 thanks to numerous innovative, value-adding products and services, as demonstrated by these selected examples:

ARAG Austria launched new immediate cover for flight delays. Since mid-2019, a newly developed digital flight delay calculator has been available on ARAG Austria's website to quickly and easily work out how much compensation is owed under the European Flight Compensation Regulation. The calculator is free of charge, non-binding, and available to everyone. If there is entitlement to compensation, ARAG Austria's legal experts will enforce the legal claims for ARAG customers. Flights in the past three years are covered. Anyone affected by a flight delay who does not currently have the Premium version of an ARAG personal legal insurance policy that includes immediate cover for flight delays can take out such a policy instantly online and use it to make retrospective claims. ARAG's Austrian branch also revised the 2020 rate scale in the reporting year, launching it on the market in January 2020. The highlight of the family legal insurance is that it does not include any restriction on liability. Extended criminal proceedings cover can be included with the Premium version.

In 2019, ARAG Italy overhauled its legal insurance product for small and medium-sized enterprises. The market launch is scheduled for the first half of 2020. As well as a change in the product structure from three lines to two (Classic and Top), the limit on the maximum number of claims in the two product lines can now be selected independently of each other. Previously there were only higher limits in the Premium version. The legal insurance for employment module is also available as an option. A brand-new legal insurance product, also scheduled to start in Italy in the first half of 2020, is aimed specifically at the self-employed, including doctors who work on an employed basis.

In November 2019, ARAG Belgium introduced a new and innovative rate scale with its revised Business Gold product. This commercial product, which previously had four different risk categories depending on the type of business, now has two categories and its key feature is a bonus/penalty system. If customers do not make any claims over a certain period, their categorization improves.

The Group's Scandinavian units also launched new products and formed new partnerships. HELP Forsikring AS, which is ARAG SE's Norwegian subsidiary, developed a new commercial product with three different modules. It was introduced in the first quarter of 2020. The legal insurance modules, covering contract law, employment law, and tenancy law, can each be purchased separately. HELP Forsikring AS also updated its family legal insurance for labor union members. The product now offers additional cover, including insurance policy legal insurance. At the end of 2019, a group policy was signed with a large labor union that has more than 200,000 members. In October 2019, HELP Forsikring AS won back Norwegian labor union Industri Energi, which has over 40,000 members. And in July 2019, it expanded its existing group business with Norwegian telecommunications company Telenor, revising its WebHELP cyber protection especially for more than 250,000 young customers. It now includes an erasure service for content being shared in closed groups – such as on social networks or instant messaging services – that might harm the customer's reputation.

The Swedish branch of HELP Forsikring AS in Stockholm also offers this cover as part of a group policy with Telenor Sweden. The HELP Forsikring office in Copenhagen, the Danish branch of HELP Forsikring AS, launched a new cyber protection product in September 2019 that includes both cover for identity theft and an erasure service.

ARAG plc, the UK subsidiary of ARAG SE based in Bristol, introduced new legal insurance for motorists in October 2019. It was updated due to a change of legislation and now includes a new pricing structure. At the same time, ARAG plc rolled out a new target-group-specific product for persons acting as the legal guardian of a minor and who therefore have a special legal status.

In July 2019, ARAG's Dutch subsidiary began collaborating with Aegon, one of the world's largest providers of life insurance, pension insurance, and asset management. Since then, ARAG Netherlands has been looking after the portfolio of 65,000 legal insurance policies acquired from Aegon with a larger team working in a new, dedicated office in The Hague.

ARAG Spain won back an important customer, coach operator ALSA, in the reporting year. As well as coach tickets, ALSA sells travel insurance from ARAG Spain.

Accolades

In 2019, ARAG again won various awards and top ratings, some of which are mentioned here. ARAG was designated 'Germany's best insurer', the excellent finding of a study published by Deutschland Test, Focus-Money, and the Institute for Management and Economic Research in September 2019. In the study, entitled 'Deutschlands Beste' (Germany's best), ARAG achieved the maximum score of 100 points and secured the top spot among insurance companies. A total of 20,000 well-known brands and companies were examined to ascertain the tone of online communications about them. For the insurance sector, the study found that ARAG was discussed in the most positive tone.

In a product ranking compiled by analysts Franke und Bornberg on behalf of the newspaper Handelsblatt, the Komfort personal legal insurance product was given a rating of 'very good' in the individuals and families category. ARAG picked up multiple accolades in a comparison carried out on behalf of news channel n-tv. To this end, the German Institute for Service Quality (DISQ) examined legal insurance products comprising personal legal insurance, legal insurance for employment, and motorists' legal insurance. The combination of legal insurance offered by ARAG not only achieved an overall rating of 'very good' in the best legal insurance category, it also came first in the rate scales category. ARAG's legal insurance also achieved the highest score (1.8) against 15 other providers in a study conducted by the German Society for Consumer Studies (DtGV), securing first place for its excellent rate scales, transparency, and customer service.

ARAG Allgemeine, the Group's casualty and property insurance specialist, also did extremely well in product tests during the year under review. As described in the section on innovation, ARAG's accident cover, for example, was crowned the 2019 'Best product of the year' at the Plus X Award. German consumer organization Stiftung Warentest analyzed more than 300 family rate scales for private liability insurance in issue 10/2019 of Finanztest magazine. The Premium version from ARAG Allgemeine achieved a rating of 'very good'.

ARAG Health also won numerous accolades for its outstanding products. It was particularly encouraging that the two new full-coverage rate scales did extremely well immediately after their launch: Comparison portal Levelnine awarded the top rating of 'excellent' for ARAG MedExtra in the Komfort category and for ARAG MedBest in the Premium category. In addition, well-respected analysts Morgen & Morgen awarded the maximum five stars for ARAG's new per diem sickness benefit, which was launched in parallel with the two new full-coverage rate scales.

ARAG again notched up outstanding ratings from independent bodies for its claims settlement and services. For example, the claims service of ARAG Allgemeine and Interlloyd received the top score for the seventh time in succession in the follow-up certification process carried out by TÜV Saarland. The awarded rating of 'very good' reaffirmed the very high levels of customer satisfaction and the top-class level of service. This was also the case for ARAG Legal Service, whose high-quality customer service was also reconfirmed by TÜV Saarland in the follow-up certification process. Here too, a rating of 'very good' was awarded.

The Group also earned top scores from Focus-Money in 2019. Firstly, ARAG was crowned the 'Fairest company for claims settlement' in four categories, achieving a rating of 'very good' for personal legal insurance, legal insurance for employment, accident cover, and supplementary health insurance. Secondly, the Group was designated the 'Fairest legal insurance provider', again achieving a rating of 'very good'.

Sales organization in Germany

In the new Group area of responsibility established in 2017, Sales, Products and Innovation, all sales channels work together and enable ARAG to leverage valuable synergies.

The Group's sales organization makes a fundamental contribution to ARAG's business success in Germany. ARAG Core Sales is the traditionally strong sales channel selling ARAG products exclusively: Some 1,000 ARAG Sales Partners use the network of over 115 main branch offices and other branch offices across Germany to provide customers with professional, face-to-face support and advice at local level.

This is underpinned by ARAG's holistic 'Red Thread' approach to insurance advice and support. For customer visits, ARAG Sales Partners can use either a paper version or a digital version for tablets that can be accessed via a proprietary advice app. In recognition of the advance of digitalization and the ARAG Group's focus on sustainability, applications

for legal, property, liability, and accident insurance have not been printed out since 2018. Core Sales also uses digital touchpoints for greater connectivity, whether for contact with customers or to sign up new sales partners.

A new, entirely digital sales process for ARAG Core Sales was developed in 2018 and rolled out in February 2019. When meeting with customers, ARAG Sales Partners can now use a seamless process on an iPad to provide the full range of advice across the extent of the customer's risk situation up to the point at which the customer enters into an agreement. At the end, the customer receives the completed advisory documentation. In this regard, the ARAG Group invested extensively in a new digital infrastructure for its core organization. ARAG Sales Partners are therefore a key component of the Group's digitalization strategy.

Use of the holistic 'Red Thread' approach to insurance advice is an integral element of the basic training delivered by ARAG Sales Training. The broad-based and regularly updated range of courses from ARAG Sales Training ensures the sales managers and exclusive agents receive high-quality training and development covering ARAG and its products. The aim of the holistic advice is to clearly establish the customer's current situation and needs regarding insurance and then to develop precisely tailored solutions, taking into account all statutory requirements.

ARAG Partner Sales is ARAG's successful sales channel specializing in brokers and non-exclusive agents. It has a wealth of experience in working with a variety of target groups, from specialist brokers to pool structures and sales outfits. Streamlined structures and processes minimize the effort involved for agents, while knowledgeable contacts in the Field Sales and Sales Administration organizations ensure that brokers and non-exclusive agents receive professional support in every regard. In 2019, this included preparing brokers and non-exclusive agents for the new full-coverage rate scale introduced for health insurance.

In addition, ARAG increased its customer base in online business to 270,000 customers. This equates to almost 12 percent of the German customer base. ARAG's online business is therefore increasingly turning into a further strong sales channel. In Germany, the ARAG Group's sales channel mix also includes sales partnerships in which made-to-measure, high-performance ARAG insurance solutions are offered under partnership agreements with other insurance companies, banks, other companies, associations, and clubs.

The revised code of conduct of the German Insurance Association (GDV) represented a clear commitment in the sale of insurance products to more consumer protection, better quality of advice, development of skills and qualifications for agents, and transparent, mandatory rules for dealing with customers. It thereby established the foundations for strengthening trust and confidence throughout the entire area of insurance broking.

The requirements in the GDV's code of conduct, which were successfully implemented by all of ARAG's German Group companies, have been set out more specifically and enshrined in the Insurance Distribution Directive (IDD), which came into force in early 2018. The ARAG companies implemented this EU directive on schedule on February 23, 2018. Through the IDD, European lawmakers aim to strengthen consumer protection and create a level playing field for all those involved in insurance sales and distribution.

The areas covered by the new regulations include remuneration systems, skills, qualifications, and continuing professional development (CPD) requirements for employees in both field sales and sales administration, and additional requirements for advisory and documentation processes. The IDD enabled ARAG to achieve further improvements in quality and ensure that activities are consistently centered around the interests of the customer. This means that the focus is on sales and on the insurance product itself – starting from product development (plus the requirements for product information) through to customer contact and the settlement of claims.

It is mandatory for the ARAG companies to impose a requirement on the agents in the Core Sales and Partner Sales operations to comply with and uphold the IDD provisions. The ARAG companies must also provide the necessary training. A number of basic steps are already covered by the ARAG 'Red Thread' advisory approach in Core Sales; furthermore, the promise that customers will receive high-quality products and services is in any case an essential component of ARAG's positioning as a high-quality insurer.

The ARAG Group has done the groundwork over the last few years, although this has not been limited just to its holistic advisory approach in ARAG Core Sales. In 2019, for example, it introduced the digital sales process described above. Uniform standards have been rolled out for all the German companies, enabling ARAG to implement the IDD requirements on time.

Corporate responsibility

As a family-managed company, ARAG's highest priority is people. The Group's innovative strength and wealth of ideas enable it to maintain long-term satisfaction, both for its customers and for its more than 4,300 employees worldwide. ARAG puts this sustainability into practice every day: in how people interact with one another, through shared guidelines, and through the provision of an attractive and modern workplace with excellent CPD, employee benefits, and an extensive corporate health management program.

ARAG Essentials

The ARAG Essentials are the corporate guidelines and encapsulate the objectives of the commitment that ARAG's employees, managers, and owners share. They include ARAG's self-image, corporate mission, and values. They help to shape the Company's future for the benefit of its customers. The ARAG Essentials online tool on the Group website at www.ARAG.com conveys the six corporate values in a light-hearted way in all the languages used in the Group. It also offers information on the individual international companies. The tool is regularly updated and includes the details of any new local subsidiaries.

In 2019, as part of its strategy to become a smart insurer, ARAG conducted a groupwide employee survey on the current corporate culture, including aspects of digitalization. In addition to this quantitative approach, the Group also used focus groups to validate the findings from a qualitative perspective. Both in Germany and in the international units, local colleagues organized roundtable discussions for eight to ten participants. An international focus group also met in Düsseldorf and was attended by delegates from the individual countries.

This year, all of the findings obtained are being used to refine and update the ARAG Essentials, particularly in relation to digitalization, new ways of working, and leadership behavior.

The ARAG AWARD has been presented in recognition of exemplary implementation of the ARAG Essentials since 2012. Prizes are awarded in three categories (Germany, International, and (German) Sales) to team projects proactively initiated by employees that stand out as models of successful implementation of the ARAG Essentials in day-to-day activities. These projects reinforce both the ARAG Essentials values and the associated corporate mission, thereby ultimately promoting customer focus, expertise, and efficiency. The winning teams receive their awards at the next ARAG Group Management Conference, the most recent of which took place in Essen in January 2020.

ARAGcare

The corporate health management program ARAGcare is an important core component of the forward-looking HR policy in the ARAG Group. The objective of ARAGcare is to maintain and nurture employees' capacity to work. The program offers a comprehensive range of services relating to health & fitness and work/life balance.

Employees have plenty to choose from. Depending on their location, they are offered regular health checks, occupational medical care, flu vaccinations, health days, and company sports activities. In addition, a new partnership with a sports network gives employees greater flexibility in how they stay active.

Another focus in 2019 was the planning of measures to assess the risks of mental health problems. Workshops were held at which employees, Works Council members, and managers together drew up a variety of measures for creating appealing and healthy working conditions. The measures will now be progressively introduced.

ARAG continues to operate a return-to-work and disability management system to ensure that the statutory requirements are implemented professionally. External specialists are regularly brought in to make sure that the individuals concerned are provided with the best possible support.

Another area of focus is to increase flexibility in the workplace in order to help employees maintain a good work/life balance. ARAG aims to provide the best possible working environment for ensuring compatibility with family life.

A range of measures are being implemented, to be completed in 2020, as part of the recertification process for the audit by berufundfamilie Service GmbH, an initiative of the Hertie Foundation. The aim is to develop and embed an HR policy that takes into account family requirements and stage of life.

Depending on their department, employees can benefit from a flexible work schedule. ARAG also provides support in the form of vacation childcare programs for employees' children and parent-child offices.

In addition, ARAG offers an advice hotline for employees at any ARAG office for issues relating to the provision and arrangement of childcare or care for relatives.

Employees, employee skills and qualifications

ARAG relies on a skilled and highly motivated workforce to ensure that it delivers on its value proposition. At the end of 2019, the ARAG Group had a total of 4,315 employees, of whom 1,989 were based in Germany and 2,326 in other countries. The Company also provides successful training programs, enabling its trainees to gain vocational qualifications in insurance and finance or in IT (with a focus on systems integration or application development).

Alongside vocational training, ARAG attaches huge importance to the skills, qualifications, and professional development of its workforce. The aim is to remain one of the best insurers in the market. To this end, ARAG takes regular action relating to content and methods in Personnel Development so that all employees are able to optimize their knowledge and skills in line with current and future requirements.

As part of the Smart Insurer Program, the Personnel Development department is implementing new learning and development formats with which to inform and qualify employees and managers and help them to enhance their digital mindset and skill set. This encourages employees to acquire new competencies and meets the need for greater skills training. For some years, training courses have been offered on topics such as design thinking, visualization, agile project management, scrum, and Office 365. As managers are among the drivers of the digital transformation, the existing manager development program is being adapted to meet current requirements.

In 2019, the growing relevance of digitalization prompted ARAG to introduce the Masterplan video-learning platform in order to promote employees' understanding of digitalization and help them to acquire the necessary knowledge.

A further key component in ARAG's strategy for retaining suitably qualified employees in the Group is ARAG myCareer, an inhouse talent management program. It was completely overhauled in 2019 in order to adapt it to the new requirements. This program offers a set of modern tools to support recruitment and professional development. It helps employees to plan their individual development and careers and, at the same time, ensures that both specialist and interdisciplinary expertise is retained in the Company.

A fundamental factor in the successful performance of the entire ARAG Group is an ongoing focus on the internationalization of the business. The growing cross-border integration of corporate units also plays a key role here. ARAG Sales Training ensures that continuous, high-quality skills development is provided for ARAG Partners in the Field Sales force of ARAG Core Sales. This training offers a comprehensive range of needs-based seminars covering the entire spectrum of knowledge related to sales and the performance of ARAG products.

Corporate social responsibility

ARAG is a family enterprise. As a consequence, ARAG attaches great importance to the interconnection between corporate and social responsibility. The independence that ARAG enjoys as a family enterprise means that the assumption of responsibility becomes even more significant because it is incumbent on the ARAG Group to use this autonomy responsibly for the good of society.

Since March 2014, ARAG has therefore been successfully offering its innovative development project known as Conflict Management in Schools. Supported by the North Rhine-Westphalia Ministry for Education and Schools, this program is offered to all high schools and vocational colleges in North Rhine-Westphalia. The project focuses on the introduction of universal quality standards for conflict management structures, preventive measures, and intervention techniques. Teachers, parents, specialists in educational social work, and school pastors are trained as school mediators and go on to train school students as conflict controllers.

A total of 366 school mediators at 120 high schools and vocational colleges in different school districts across North Rhine-Westphalia have taken part in the six training cycles completed so far. In 2019, 17 schools signed up to the project.

Since September 2016, ARAG has also been a sponsor of MediationsZentrale München. The school mediation team at this not-for-profit organization regularly sends out professionally trained mediators to public sector and private schools in the Greater Munich area to act as impartial points of contact for all conflicts and problems arising in day-to-day school activities.

The proactive protection of children and young people against online threats is another key focus of corporate social responsibility at ARAG. The internet is changing and affecting the lives of people around the globe – including to a large degree the lives of children and young people – and is bringing not only opportunities but also risks. Suitable prevention is vital to avert these risks. Important areas of prevention lie in the long-term development of media skills and in the provision of information and education, as well as the raising of awareness about the consequences of bullying. ARAG has extensive experience in this area.

The Group has therefore been focusing even more intensely on protecting online privacy rights since 2017. ARAG teamed up with the Research Center for IT Law and Social Networks Policy at the University of Passau to develop an alternative to Germany's contentious Enforcement of Rights on Social Networks Act (NetzDG). Since the publication of the proposed changes at the beginning of 2018, ARAG has repeatedly drawn the attention of expert audiences and policymakers to its alternative version and the associated improvements in favor of victim protection. In February 2019, the hass-streichen.de ('crossing out hate') website was launched to provide information to the public on how to tackle cyberbullying. The comprehensive range of information available on the website was expanded and updated over the course of 2019.

Corporate social responsibility at ARAG also extends to the provision of support for the German Children and Youth Foundation (DKJS), specifically in the area of digital education. For more than 20 years, DKJS has been operating projects and programs throughout Germany, helping children and young people have the courage to take control of their own lives and play a role in society. Schools throughout Germany are faced with the challenge presented by the digital transformation. At the same time, digitalization opens up numerous opportunities for school-based education. ARAG and DKJS therefore launched a joint program in November 2017 referred to as 'bildung.digital' (digital education). This program helps schools to develop digital education strategies and ensure that the strategies become firmly established as part of their activities. Some 40 full-day schools from eight federal states committed to using four cross-state networks in the program via the portal 'bildung.digital – Netzwerk Ganztägig bilden'.

Equal opportunities is also the theme of the 'Kickwinkel' project in Düsseldorf, which ARAG initiated and supports on an ongoing basis together with other local partners. 'Kickwinkel' is an integration project based on football for unaccompanied male refugees from Iraq, Afghanistan, Somalia, Eritrea, Gambia, Guinea, and Iran. The project enables 20 young people to train at a Düsseldorf club twice a week.

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Group Management Report

Changes in premium income and sales revenue

(€ million)	2019	2018	2017
Legal insurance	1,085.3	1,004.3	938.9
of which domestic	418.9	397.7	370.9
of which international	666.4	606.6	568.0
Casualty and property insurance	285.0	275.7	281.0
of which domestic	214.9	209.6	206.8
of which international	70.1	66.1	74.2
Health insurance	393.2	373.7	365.1
Service companies	24.0	24.1	25.4
Total	1,787.5	1,677.8	1,610.3

- ARAG premium increase of 6.6 percent
- Above-average growth of 4.7 percent in Germany
- International business income up by 9.5 percent
- Further improvement in underwriting result

Group Management Report

I. Group Fundamentals

The ARAG Group is the largest family-managed insurance company in Germany and one of the world's leading providers of legal insurance. It focuses on insurance products and services aimed at both private and small business customers. ARAG is a provider of high-quality insurance with a multidimensional approach, offering its customers in Germany not only its core legal insurance policies but also its own needs-based products and services in casualty and property insurance and health insurance business.

ARAG began to make inroads into markets outside Germany more than 50 years ago. The main purpose was to set up separate international companies in the Group that could provide support for the German legal insurance customers in the event of a claim. It became clear that this model in itself was not sustainable. However, there was a demand for legal insurance within each of the countries themselves, as a result of which it was possible to develop new business models in line with the various circumstances and tap into new markets. Including Germany, ARAG now operates in a total of 19 countries through branches, subsidiaries, and equity investments.

In addition to the Group headquarters in Düsseldorf and the offices in Munich, the ARAG Group maintains, through ARAG SE, international branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, and Spain. The international branches run their operating businesses in their national markets independently, taking into account the specific local circumstances in each case.

Legal insurance is also provided in the US, Norway, Sweden, and Denmark. In each case, the business is operated through legally independent affiliated companies, under the unified management of ARAG SE in its role as parent company. In addition, ARAG SE operates in Switzerland via an equity investment in a legal insurance associate. In the United Kingdom, a Group company acts as a broker for legal insurance business and legal-insurance-related special service package business, passing this business to UK primary insurers. Some of this insurance is then ceded to ARAG SE under quota-share reinsurance treaties. Even after the United Kingdom's departure from the European Union (EU), it will still be possible to continue the UK operations on a permanent basis.

The intermediary model successfully operated in the UK has been adapted for use in the Canadian market, where ARAG has been offering legal insurance through a Group company since the end of 2016. The model has also been used for the Australian market since 2019.

ARAG SE also holds an equity investment in a legal insurance company in Luxembourg.

Building on its dynamic growth and great willingness to embrace change, ARAG is continuing to extend its competitive edge in property and health insurance. In doing so, it is sustaining its systematic approach to internationalizing the legal insurance business.

II. Report on Economic Position

Economic and sector conditions

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

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

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

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

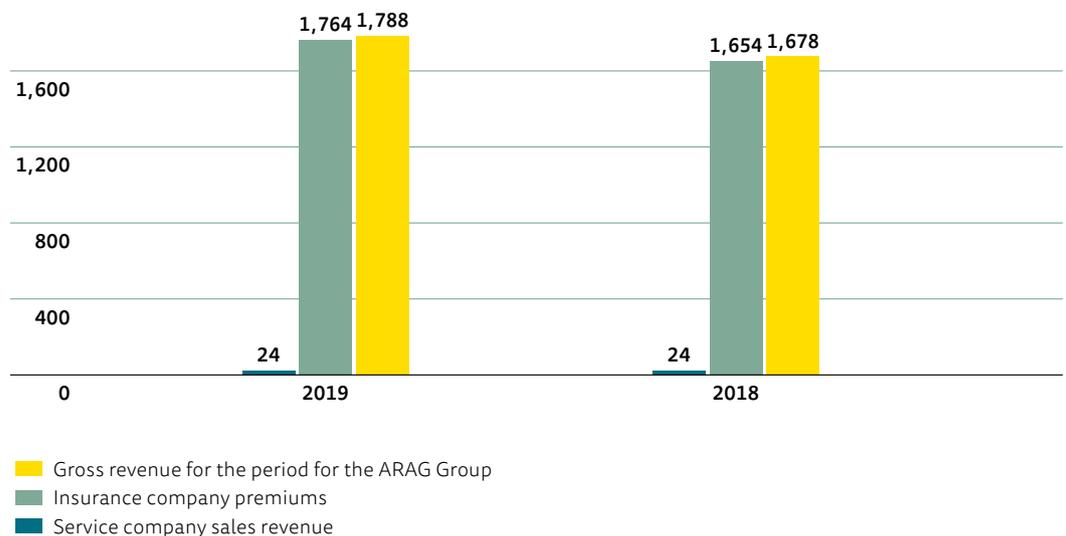
Contrary to initial forecasts, the German insurance market generated further growth overall on the back of temporary factors and therefore bucked the trend in the ailing wider economy. Premium income in direct casualty and property insurance business will probably have gone up by 3.1 percent, only slightly less than the growth of 3.4 percent registered in 2018. The legal insurance segment posted premium growth of around 2.5 percent, representing a further significant year-on-year increase (2018: 4.2 percent). This was achieved to a large extent by the opportunity to adjust premiums. Private health insurance in Germany is expected to have achieved further premium growth of approximately 2.1 percent, which is slightly higher than the prior-year growth rate of 1.8 percent. In the beneficial economic conditions, the rising number of employment contracts subject to social security contributions continued to have a positive impact on the portfolio of full-coverage insurance business.

Business performance

In the year under review, the ARAG Group continued to go from strength to strength. Gross premium income from insurance business rose by 6.6 percent in 2019, from €1,653,719.8 thousand to €1,763,503.2 thousand. This sharp increase meant that ARAG more than made up for the premiums lost as a result of selling the life insurance business in 2017. With the inclusion of the service providers, the total premiums and sales revenue in the Group therefore amounted to €1,787,484.2 thousand (2018: €1,677,778.3 thousand).

Gross revenue for the period

(€ million)



In the German insurance market, ARAG's premium income swelled by 4.7 percent, comfortably exceeding the average market growth of 3.1 percent. The Group generated total premium income of €1,026,938.1 thousand (2018: €981,047.8 thousand) and therefore crossed the €1 billion threshold in Germany for the first time. In 2019, the growth was once again driven primarily by the increase in the Group's share of the German legal insurance market. Gross premium income from direct business in the German legal insurance market rose by 5.3 percent year on year. Gross premiums written went up by €21,159.1 thousand to €418,888.4 thousand. Most of this increase was derived from the addition of 68,868 policies to the customer base.

Growth in the international legal insurance business accelerated, with gross premiums rising by 9.9 percent to €666,406.8 thousand in 2019 (2018: €606,573.5 thousand). The premium increases in the Netherlands and Italy were particularly substantial thanks to new policies in inward reinsurance business. In the US, sales revenue increased significantly as a result of attracting new customers and expanding the insurance cover of existing customers. The markets with the highest sales revenue are the Netherlands, Spain, Italy, the US, Austria, and Scandinavia.

The Group also generated very strong growth in its health insurance business, where premiums were up by 5.2 percent. This was primarily due to full-coverage health insurance and the launch in this business of the new rate scales ARAG MedExtra and ARAG MedBest at the end of 2019.

Significant factors for the business performance of the casualty and property insurance segment in 2019 were moderate growth in Germany and a substantial increase in international special service package business. Gross premiums written in this segment continued to rise, advancing by a total of 3.4 percent year on year to €285,010.1 thousand.

The Group's portfolios comprised 8.0 million policies as of the reporting date (December 31, 2018: 7.1 million). These can be broken down into 4.4 million policies (December 31, 2018: 3.6 million) related to the international business and 3.6 million policies (December 31, 2018: 3.5 million) arising from domestic business. Added to this were a further 20.9 million insured risks in the domestic sports insurance business (property and casualty insurance segment), which were covered via 18 group policies – primarily with state sports associations.

The sales revenue generated by non-insurance companies in the Group declined slightly, by 0.3 percent, from €24,058.4 thousand to €23,981.0 thousand.

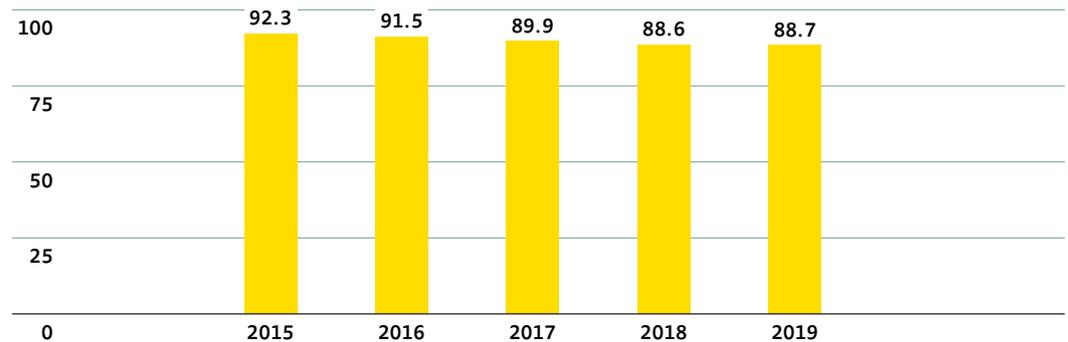
In the legal insurance business as a whole, claims incurred rose from €506,150.8 thousand in 2018 to €554,801.3 thousand in the year under review. This was primarily due to the growth in business volume and the rise in the occurrence of accumulation losses. Despite the reduced incidence of storms and other adverse weather events in the reporting year, claims incurred in the casualty and property insurance business also went up; the increase of €4,167.3 thousand was attributable to the lower level of reinsurance. In the health insurance business, expenses for claims incurred jumped by €13,664.6 thousand. Overall, claims incurred by the Group in the year under review were up by 7.6 percent compared with the prior-year figure. Because of the good level of premium growth, however, the Group claims ratio increased only slightly – as anticipated – from 53.1 percent to 53.5 percent.

Insurance business operating expenses in the Group rose by 6.1 percent to €618,386.4 thousand in 2019 (2018: €582,672.4 thousand). This increase was essentially attributable to rapid growth. Another significant factor in this regard was the growth-related headcount increase, especially in the international branches and subsidiaries.

Despite these factors, the cost ratio ran contrary to expectations and fell slightly, from 35.5 percent in 2018 to 35.3 percent in the reporting year. Having fallen for many years, the Group's combined ratio held steady at 88.7 percent in 2019 (2018: 88.6 percent) despite the strong growth.

Changes in combined ratio

(%)

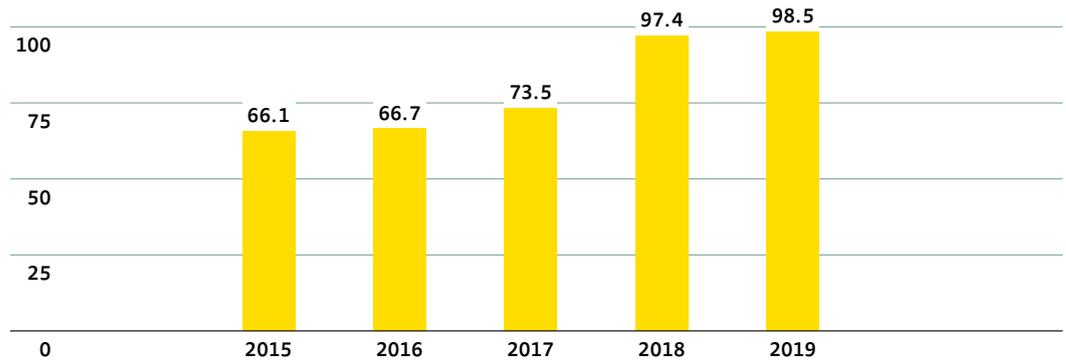


■ Combined ratio for the ARAG Group

The ARAG Group's underwriting result improved by 1.1 percent, advancing from a profit of €97,438.6 thousand in 2018 to €98,474.1 thousand in 2019. The main influence was the much better underwriting result in the fast-growing health insurance business, which climbed to a profit of €27,202.0 thousand (2018: profit of €17,586.3 thousand). By contrast, the underwriting result of the overall property insurance business (legal insurance and casualty and property insurance) declined year on year to a profit of €71,272.1 thousand (2018: profit of €79,852.3 thousand) owing to the addition to the equalization provision. The core legal insurance business remains the most profitable, generating an underwriting profit of €65,051.3 thousand (2018: €63,294.8 thousand). The underwriting result in the casualty and property insurance business decreased from a profit of €16,557.5 thousand in 2018 to €6,220.8 thousand in 2019 owing to the addition to the equalization provision.

Changes in underwriting result

(€ million)



Underwriting result for the ARAG Group

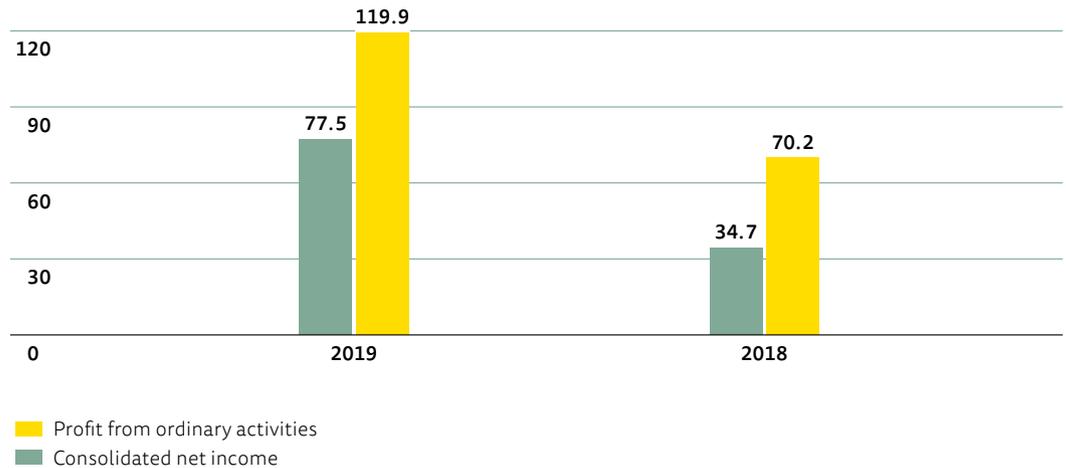
Contrary to the forecast made in 2018, the Group's net gains on investments almost doubled, with a year-on-year increase of 93.4 percent. One of the main reasons was the favorable environment in the capital markets created by rising share prices. As a result, large reversals of write-downs were recognized on investments that had been written down in 2018. The restructuring of some of the institutional funds also had a positive impact as it led to additional gains on disposals being realized. However, ordinary income from investments went down, partly because ordinary income was reinvested in institutional funds. Overall gains and losses on investments – including the share of gains and losses contained in the underwriting account – amounted to net gains of €156,913.9 thousand (2018: €81,151.4 thousand). Of this total, €78,013.2 thousand was assigned to the underwriting result (2018: €52,832.6 thousand).

The net expense of €56,575.4 thousand reported under other net income/expense was larger than the net expense of €51,707.9 thousand recognized in 2018. At €119,852.4 thousand, profit from ordinary activities was much higher than forecast and was up by 70.6 percent year on year (2018: €70,236.4 thousand).

The Group's tax expense amounted to €42,315.5 thousand (2018: €35,492.0 thousand). After deduction of taxes and non-controlling interests, consolidated net income more than doubled to €76,526.6 thousand (2018: €34,047.1 thousand).

Net income

(€ million)



Financial position

The objective of the management of financial resources is to ensure that the Company holds adequate capital 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 solvency capital adequacy of insurance entities. The subordinated liabilities reported on the balance sheet qualify as basic own funds in accordance with section 89 (3) no. 2 of the German Insurance Supervision Act (VAG). These subordinated liabilities comprise a registered bond with a value of €30,000.0 thousand that matures on July 29, 2024.

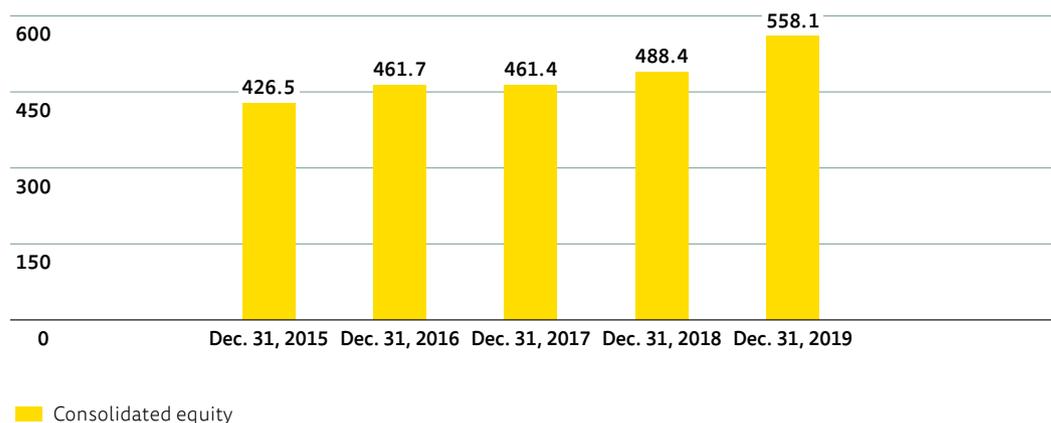
The underwriting liabilities are covered by investments of €4,689,856.4 thousand (December 31, 2018: €4,353,323.5 thousand). In addition to current bank balances and cash on hand, the ARAG Group has investments at its disposal that can be sold on the capital and financial markets at short notice, thus ensuring that the Group is able to satisfy its payment obligations under insurance contracts at all times. There are obligations to pay in capital into private equity funds and infrastructure funds in an amount of €139.3 million, which is funded using surplus liquidity from ongoing insurance business.

In the year under review, consolidated equity increased significantly from €488,403.2 thousand to €558,105.0 thousand.

Further information on the extent of investments, purchases of property and equipment and of intangible assets, and changes in the liquidity of the Group in the year under review can be found in the cash flow statement within the consolidated financial statements.

Changes in equity

(€ million)



Net assets

The Group's portfolio of investments grew by 7.7 percent in 2019, from €4,353,323.5 thousand to €4,689,856.4 thousand. The fair value of the Group's investments amounted to €5,301,581.2 thousand as of the balance sheet date (December 31, 2018: €4,715,463.6 thousand).

The breakdown and year-on-year changes in investments were as follows:

Type of investment

(€ million)

	Dec. 31, 2019		Dec. 31, 2018	
I. Land and buildings	188.1	4.0%	194.7	4.5%
II. Shares in affiliated companies and equity investments	17.8	0.4%	15.4	0.4%
III. Lending to affiliated companies and equity investments	3.2	0.1%	0.4	0.0%
IV. Equities and investment fund shares/units	1,621.5	34.6%	1,483.2	34.0%
V. Bearer bonds	1,548.3	33.0%	1,331.6	30.6%
VI. Loans secured by mortgages and land charges	0.0	0.0%	5.5	0.1%
VII. Registered bonds, promissory notes	1,085.1	23.1%	1,137.5	26.1%
VIII. Bank deposits	53.8	1.1%	48.9	1.1%
IX. Sundry lending	0.1	0.0%	0.1	0.0%
X. Miscellaneous investments	111.3	2.4%	80.2	1.8%
XI. Deposits with ceding insurers	60.7	1.3%	55.9	1.3%
Total	4,689.9	100.0%	4,353.3	100.0%

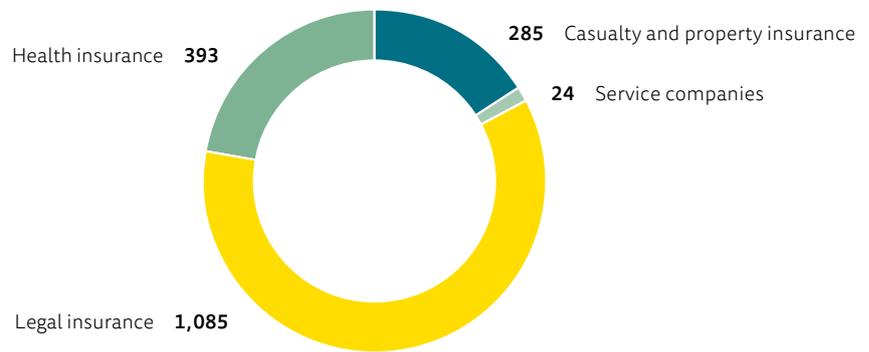
Segment reporting

The Group comprises the following operating segments:

- Legal insurance
- Casualty and property insurance
- Health insurance
- Services and asset management

Premiums and sales revenue by segment in 2019

(€ million)



Gross premium income

(€ million)	2019	2018
Legal insurance	1,085	1,004

Legal insurance

The legal insurance segment represents the ARAG Group's core business and is the fastest-growing and most profitable insurance segment. Sustained high increases in Germany, together with the continuation of the growth trajectory in international markets, resulted in an overall year-on-year rise in premium income of €80,992.3 thousand. Alongside Germany, the markets with the highest sales revenue are the Netherlands, Spain, Italy, the US, Austria, and Scandinavia. Premiums written in this segment rose by 8.1 percent overall from €1,004,302.9 thousand in the previous year to €1,085,295.2 thousand in 2019. Despite the further substantial rise in premiums in the German legal insurance business, the proportion of total legal insurance premiums accounted for by the international legal insurance business rose again year on year to 61.4 percent (2018: 60.4 percent). The US, the Netherlands, and Italy provided particularly strong impetus for this growth.

Claims incurred in the whole of the legal insurance segment rose from €506,150.8 thousand to €554,801.3 thousand. As in 2018, the main contributing factors were the greater level of business and accumulation losses, such as in relation to the diesel emissions issue. The segment claims ratio went up from 50.6 percent to 51.1 percent owing to higher reserves for accumulation losses. The cost ratio fell from 42.8 percent to 42.2 percent in the reporting year despite further increases in headcount, particularly in the international markets. Accordingly, the underwriting profit for the whole of the legal insurance segment rose again, advancing from €63,294.8 thousand to €65,051.3 thousand.

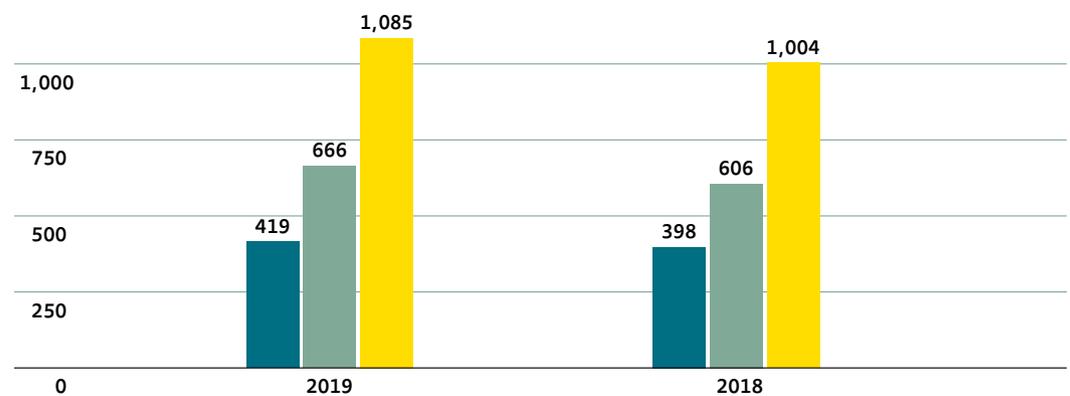
Net gains on investments in the legal insurance segment were far higher than their prior-year level at €88,614.0 thousand (2018: €56,272.7 thousand). Significant write-downs had been required in 2018. By contrast, the capital market situation was very positive in 2019, which more than made up for the write-downs recognized in the previous year. Moreover, gains on disposal were realized as a result of reallocations within the portfolio of investments. Other net income/expense amounted to a net expense of €38,156.7 thousand, which was higher than the net expense of €35,122.0 thousand recognized in 2018 due to additional capital expenditure on digitalization as part of the ARAG Smart Insurer Program.

The segment generated profit from ordinary activities of €115,508.6 thousand (2018: €84,445.5 thousand).

The **international legal insurance business** generated premium growth of 9.9 percent in the year under review. Gross premiums written amounted to €666,406.8 thousand compared with €606,573.5 thousand in 2018. The ARAG Group provides products and services for customers in Germany and a total of 18 other countries. Business grew by 8.8 percent in Italy, 8.2 percent in the Netherlands, and 7.7 percent in Spain. ARAG's business in the US expanded by 11.3 percent (measured in US dollars) and in Scandinavia by 10.0 percent (measured in Norwegian kroner).

International legal insurance business shows continuous growth

(€ million)



- Gross premiums written, total legal insurance
- Gross premiums written, legal insurance, international
- Gross premiums written, legal insurance, Germany

In the reporting year, the expenses for claims incurred in the international legal insurance business went up from €260,637.9 thousand to €275,113.5 thousand due to the considerably larger business volume and an updated costing methodology for claim settlement in the Netherlands. Overall, the claims ratio fell to 41.0 percent (2018: 42.9 percent).

The combined ratio in the international legal insurance business improved from 87.9 percent to 85.5 percent.

As expected, the **legal insurance business in Germany** continued to build on the premium growth of previous years. The rise in premium income of 5.3 percent outstripped the market average. This was primarily attributable to the expansion of the policy portfolio by 4.5 percent (68,868 contracts) and to the growth in the inward reinsurance business from the UK. Including the inward reinsurance business, the total income from gross premiums written in German legal insurance amounted to €418,888.4 thousand (2018: €397,729.3 thousand).

Contrary to expectations, the claims ratio in the German legal insurance business went up from 62.5 percent in 2018 to 67.6 percent in 2019. Greater provision for increased accumulation losses led to a rise in the claims incurred from €245,512.8 thousand in the previous year to €279,687.8 thousand in 2019.

The net cost ratio fell to 38.4 percent in 2019 (2018: 39.4 percent). Costs were pushed up by a rise in staff expenses caused by collectively agreed pay raises and recruitment.

An amount of €997.3 thousand was added to the equalization provision for the inward reinsurance business (2018: €377.1 thousand).

Overall, the German legal insurance business ended the year with an underwriting loss of €24,839.7 thousand, which was considerably higher than the loss of €7,860.2 thousand incurred in 2018 due to the increase in claims incurred.

Gross premium income

(€ million)	2019	2018
Casualty and property insurance	285	276

Casualty and property insurance

The casualty and property insurance segment returned to growth in the reporting year, with gross premiums written advancing by 3.4 percent to €285,010.1 thousand (2018: €275,676.7 thousand). The fall in premiums from motor insurance, as envisaged in the budget, was more than offset by additional premiums in the general liability insurance, composite residential buildings insurance, and home contents insurance segments. Premiums from the legal-insurance-related special service package business in the Spanish, Portuguese, and Italian branches of ARAG SE are allocated to the casualty and property insurance segment. Following ARAG Spain's review and restructuring of policies in 2018, its business recovered in 2019 and premiums increased to €70,158.3 thousand (2018: €65,414.6 thousand).

Claims incurred in 2019 were positively influenced by the reduced incidence of storms and other adverse weather events. As a result, the number of reported claims in the composite residential buildings insurance business decreased. However, the effect of this was partly negated by major claims reported for 2019 in the fire insurance segment. Taking account of the transfer of risk to reinsurers, the claims incurred in Germany increased by 4.0 percent year on year. The legal-insurance-related business in Spain, Portugal, and Italy did not result in any additional change in claims incurred. Claims incurred in the casualty and property segment as a whole amounted to €151,503.3 thousand and were thus slightly above the prior-year level of €147,336.0 thousand. Despite the rise in expenses, the claims ratio fell slightly from 55.3 percent to 55.1 percent.

There was a growth-induced decrease in the cost ratio from 41.1 percent in 2018 to 40.7 percent in spite of higher commission expenses on the back of the expansion of business and the absolute rise in costs of €2,303.8 thousand. Underwriting profit before the equalization provision therefore went up from €8,736.3 thousand in 2018 to €10,369.4 thousand in the reporting year. After an addition to the equalization provision amounting to €4,148.6 thousand (2018: reversal of the equalization provision of €7,821.2 thousand), the underwriting profit amounted to €6,220.8 thousand, which was lower than the equivalent prior-year figure (2018: €16,557.5 thousand). Including net gains on investments, which were up by €5,724.4 thousand, and other net income/expense, which improved by €508.3 thousand, the casualty and property insurance segment delivered a profit from ordinary activities of €14,598.0 thousand (2018: €18,702.0 thousand).

Health insurance

In 2019, the growth of the health insurance business was driven by full-coverage health insurance. Bucking the market trend but reflecting the forecast made in 2018, the rate of growth was 6.1 percent (measured in terms of monthly premiums written). The main reason for this was the launch of two new full-coverage rate scales in 2019. Premium adjustments were only moderate, at roughly 2.0 percent of monthly premiums written. Gross premiums written went up by €19,457.6 thousand to a total of €393,197.9 thousand. This equates to growth of 5.2 percent, which was a faster rate than for the private health insurance sector as a whole.

Gross premium income

(€ million)	2019	2018
Health insurance	393	374

Amounts paid out for claims rose by 6.3 percent to €230,179.3 thousand as a result of the higher level of claims. The addition to the actuarial reserve amounted to €159,137.5 thousand, an increase compared with the equivalent figure of €123,601.5 thousand in 2018. The overall underwriting result in 2019, a profit of €27,202.0 thousand, was a considerable improvement on the profit of €17,586.3 thousand in 2018. One of the main reasons for this was the substantial improvement in net gains on investments, which jumped by €25,180.6 thousand year on year to reach €78,013.2 thousand.

After taking into account the sundry income and expense items and the addition to the provision for bonuses and rebates, profit before tax increased to €22,243.8 thousand (2018: €13,277.1 thousand), thereby sustaining a large contribution to the consolidated profit before tax.

Services and asset management

This segment brings together Group companies that provide core services outside straightforward insurance business, such as IT services and the central emergency telephone service for ARAG customers. The segment also consists of the holding companies, including ARAG Holding SE. The insurance brokerage firm in the Group, Cura Versicherungsvermittlung GmbH, and the insurance agent for the UK, Australian, and Canadian reinsurance business are also assigned to this segment. The establishment of digital business lines for legal services from Justix GmbH are included in this segment as well. The sales revenue generated by the non-insurance companies with third parties and the other segments in the Group rose from €62,034.5 thousand in 2018 to €66,852.5 thousand in 2019. After adjustment for the intragroup sales revenue in the service companies, the remaining sales revenue generated from third parties came to €23,981.0 thousand compared with €24,058.4 thousand in 2018. Profit before tax was €43,712.1 thousand (2018: €26,087.5 thousand). This rise was predominantly attributable to the improvement in net gains on investments as a result of the increase in the dividend distributed by ARAG SE for 2019.

Sales revenue

(€ million)	2019	2018
Service companies	24	24

Consolidation

Transactions between the Group's segments are offset in order to present the Group as one overall entity. Business between Group companies that are allocated to the same segment is consolidated when the segment reporting is produced so as to present each segment as one unit.

Transfers between segments are largely the result of the receipt of dividends in the multilayer Group structure. Intercompany charges for services between group companies are also eliminated.

Non-financial reporting

(pursuant to CSR-RUG/section 315 c in conjunction with sections 289 c to 289 e HGB)

ARAG Holding SE produces a separate combined non-financial report (ARAG 2019 Sustainability Report*) outside the group management report in accordance with section 315b (3) HGB. This sustainability report is published at the same time as the group management report and is publicly accessible at www.arag.com/en/press/publications/

* Not part of the management report.

III. Outlook, Opportunity and Risk Reports

Outlook

The ARAG Group operates in a total of 19 countries: Germany, 15 other European countries, the US, Canada, and Australia. Given the strong international focus of the Group, economic trends in Europe, North America, and the rest of the world have an impact on business performance.

Global economic growth will continue to be impacted by numerous significant risks going forward. These include the risk that protectionist trends and political uncertainties increase and that international trade relationships deteriorate further. Turning to political developments in Germany and Europe as a whole, one of the major concerns is still that the political and economic relationship between the United Kingdom and EU has not been resolved. Although Brexit took place in January 2020, the basis for the United Kingdom's long-term international relations and the economic effects remain unclear.

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

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

Insurers continue to be faced by challenges caused by a clear trend toward fiercer competition. Opportunities for further premium growth and for additional expansion of in-force business are largely limited to customers who are switching between insurers. This trend will continue going forward.

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

Demand for legal insurance and legal services is rising, not least due to ever more complex rules and regulations in daily life. There is a growing need for insurance against legal risks. Access to justice is increasingly regarded as a civil right and yet, without legal insurance, it is often not truly available to all in equal measure because of attorney fees and court costs. Given this backdrop, demand for legal insurance and the associated premium income can be expected to rise, further boosted by the forecast strength of domestic demand in Germany and other European markets.

The objective in the casualty and property segment is to focus on strategic core segments in the private customer business. In the sports insurance business, the ARAG Group continues to provide needs-based insurance cover for organizations offering recreational and high-performance sports activities. Opportunities to increase the volume of business continue to be presented by the modular structure of cover in the private accident, liability, residential buildings, and home contents insurance segments and by individual corporate customer business. The ARAG Group does not anticipate that the post-Brexit negotiations between the United Kingdom and EU will have a material impact on the course of the underwriting business in 2020, because the business brokered in the United Kingdom is relatively insignificant.

Socio-political development remains the determining factor for health insurance in Germany. Political debate regularly returns to the issue of alternatives to the tried-and-tested dual system of public and private healthcare. The slowing economy is unlikely to have a negative impact on private health insurance business because household finances remain in good condition. In any case, growth in 2020 is expected to be stronger than in 2019 as a result of the new full-coverage health insurance rate scales that were introduced at the end of last year.

A further increase in premiums is anticipated in 2020, although it will be less pronounced than the increase in the reporting year.

The change in accumulation loss risk in the legal insurance segment was taken into account in 2019. Further increases are not expected. In the casualty and property insurance segment too, the claims ratio is predicted to hold steady without any material changes compared with 2019. Expenses for claims incurred in health insurance are likely to rise further owing to the annual increase in healthcare costs and any legal changes. On the benefit expenses side, however, the ARAG Group will continue to apply a conservative underwriting policy and, at the same time, take a sympathetic approach to insurance benefit payments. Overall, the Group's claims ratio is expected to remain unchanged.

Over the coming years, the task of implementing the Group's digital transformation will lie at the heart of securing its future success. The ARAG Smart Insurer Program, launched in 2018, provides a groupwide frame of reference for this. For this reason and due to a forecast of higher commissions in inward reinsurance in the legal insurance business, the Group's cost ratio will therefore rise only slightly in 2020.

The Group's overall combined ratio will increase a little, whereas the underwriting result for 2020 will be down slightly compared with 2019.

The forecasts for gains and losses on investments remain very uncertain, especially in view of the impact of health emergencies (COVID-19), which is currently very difficult to predict. Given that the economy is weakening slightly, it is likely that the ECB will maintain its expansionary monetary policy, which means that interest rates will remain very low or even negative. Moreover, ordinary income from investments will be depressed by the low level of interest rates and is likely to fall. Gains and losses on investments will therefore deteriorate sharply compared with 2019.

This year, further targeted capital expenditure on the Group's digital transformation may push the net expense recognized under other net expense above the figure reported for the year under review. Profit before tax will therefore probably be down significantly in 2020 compared with the level in 2019.

The explanations above with regard to macroeconomic developments and the ARAG Group's business forecast for 2020 are based largely on analysis and estimates prepared before the COVID-19 outbreak and therefore do not reflect any possible negative effects of the COVID-19 crisis on the Group's net assets, financial position, and results of operations.

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

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

However, the extent of COVID-19's economic impact remains very uncertain, which means that the ARAG Group's financial performance in 2020 cannot be reliably forecast at present.

Opportunity report

The ARAG Group is highly internationalized thanks to its network of branches and equity investments. The proportion of premiums generated in business outside Germany currently stands at 41.8 percent. Given the Group's smaller footprint in the international markets and its steady expansion into new countries, its diversification across markets will continue to increase in the short to medium term. This opens up opportunities that do not exist in a single isolated market.

ARAG's excellent international diversification makes it more independent of the trends in individual national markets. This even applies to the very mature German legal insurance market, despite the successful growth achieved by ARAG in the last five years. Germany is nevertheless ARAG's traditional core market and thus remains extremely important to the Group. Strong growth in this home market serves as a significant point of reference for the international business. The strategy of the ARAG Group for the whole of the legal insurance business is to continue the international diversification of this segment.

The international structure of the ARAG Group is the logical business consequence of the advanced saturation of the overall German market and the highly varied economic trends within Europe and around the globe. The legal insurance markets outside Germany still offer significant growth potential. ARAG is focusing considerable effort on exploiting this potential with a view to achieving further growth in the Group. In this regard, ARAG attaches great importance to taking into account the particular features of the market in each country.

Responsibilities are distributed throughout the ARAG Group so that the position enjoyed by the ARAG brand in the German market will be further consolidated and improved by the strengthening of all the insurance segments. This two-dimensional (i.e. national and international) diversification strategy in the Group is also enabling ARAG to move away from the original tightly focused positioning as a niche provider in Germany. A domestic specialist insurer concentrating solely on one line of business is considerably more susceptible to risk. The strategic approach at ARAG is therefore one of active risk reduction and is based on spreading risk more evenly across all markets and segments. The period of persistently low interest rates has particularly demonstrated that this is the right approach, which offers both advantages and disadvantages for ARAG. The low interest rates are adversely impacting investment income in Germany and thus making property and health insurance more expensive. At the same time, the trend in interest rates is supporting the economic recovery in southern Europe, thereby boosting business performance in this region. The Group is also benefiting from its clear focus on legal insurance, property insurance, and health insurance business.

Overall, the European management structure makes it possible to exploit the diverse opportunities available to the ARAG Group in both its German and international business over the long term. In addition, experience with this structure has demonstrated that market risks become transparent more quickly for managers across all levels, enabling the Group to respond with greater flexibility.

One of the main additional opportunities available to the ARAG Group is the significant growth potential offered by digital transformation processes.

The ARAG Group will work systematically and energetically to meet the challenges presented by the markets. It will open up opportunities to bring about successful advancement of the business in a demanding and varied market environment. The ARAG Group's clear corporate strategy is to continue the international diversification of the business and significantly expand the share of the international activities in the Group's operations.

Risk report

Risk management system

Risk strategy The Management Board specifies the risk strategy on the basis of the business strategy. The risk strategy sets out the risk policy framework for the structure of the individual risk exposures associated with the strategic business objectives. It also describes the tools for ensuring compliance with the prescribed risk-bearing capacity based on the specified risk appetite. Risks are therefore managed in the round, ensuring at all times that the overall risk profile is consistent with the risk strategy. Risks are quantified and risk-bearing capacity is measured in line with the financial reporting requirements of Solvency II.

Limit system The maximum permitted solvency capital requirement for the Company is determined on the basis of the specified risk appetite – in the form of the minimum coverage ratio determined by business policy requirements – and the eligible own funds. Using this maximum requirement, the Management Board sets an overall limit that is then apportioned to the most important risks and sub-risks. The limit system is reviewed annually. The utilization of the limits is calculated during the year so that an assessment can then be made as to whether further risks can be assumed, risks need to be reduced, or an increase in limits is possible. A traffic light system is used, for both risk-bearing capacity and the limits at risk category level. The system enables ARAG to identify changes in the utilization of limits in good time and initiate corrective measures if necessary.

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

The Management Board is responsible for the annual ORSA process and takes a lead role in ensuring it is carried out.

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

Operating decisions about whether or not to pursue opportunities and/or take on risk are made in the units with relevant responsibility.

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

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

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

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

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

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

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

- First line of defense: The first line of defense is formed by all employees and managers in operational roles who are responsible for identifying and evaluating the risks in their area as part of the risk control process.

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

Risk categories

Underwriting risk in indemnity, liability and accident insurance and in legal insurance 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 and accumulation 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. Losses are simulated in the same way for catastrophe and accumulation risk; such losses may arise from natural disasters, large claims caused by people, or accumulation losses in the legal insurance business. Lapse risk is calculated on the basis of cancellations in the past. The actual underwriting risk arises from the aggregation of the individual risks, taking diversification effects into account.

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

Changes in claims ratio

Financial year	Claims ratio, gross, total		Profit/loss on settlements
	<i>FY ratio</i>	<i>Financial statements</i>	<i>% of initial reserve</i>
2019	56.2	52.4	3.6
2018	55.1	52.1	2.7
2017	56.0	52.4	3.1
2016	55.9	50.3	4.7
2015	58.0	51.6	6.1
2014	60.2	55.4	3.6
2013	61.3	55.3	5.9
2012	62.6	50.9	7.0
2011	60.3	54.5	4.1
2010	66.7	61.3	4.2

Underwriting risk in health insurance Underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities arising from inadequate pricing and inadequate provisioning assumptions. These losses result from the following three risk components and their associated sub-risks:

1. Risk from health insurance policies that are operated on an actuarial basis comparable to that of indemnity insurance:
 - Premium and reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the timing of claims settlement and the amount involved.
 - Lapse risk (operation on a basis similar to non-life insurance): changes in the level or volatility of the rates of insurance policy lapses, terminations, renewals, and surrenders.
2. Risk from health insurance policies that are operated on an actuarial basis comparable to that of life insurance:
 - Mortality risk: changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.
 - Longevity risk: changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.
 - Disability-morbidity risk: changes in the level, trend, or volatility of disability, sickness, and morbidity rates.
 - Expense risk: changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.
 - Revision risk: changes in the level, trend, or volatility of the revision rates applied to annuities due to changes in the legal environment or in the state of health of the person insured.
 - Lapse risk (operation on a basis similar to life insurance): changes in the level or volatility of the rates of insurance policy lapses, terminations, renewals, and surrenders.

3. Risk from health insurance policies under which claims are made as a result of catastrophes:
- Mass accident risk: the risk of having many people in one location at the same time, causing mass accidental deaths, disabilities, and injuries with a high impact on the cost of medical treatment sought.
 - Accident concentration risk: the risk of having concentrated exposures due to densely populated locations, causing concentrations of accidental deaths, disabilities, and injuries in the event of the mass accident scenario described above.
 - Pandemic risk: the risk of having a large number of non-lethal disability and income protection claims and where victims are unlikely to recover as a result of a pandemic.

These risks are measured with the standard formula. Depending on the risk involved, prescribed factors or stress scenarios are used in order to determine their impact on changes in the fair value of the liabilities. One of the methods used by the Company for this purpose is the inflation-neutral measurement method. The sub-risks determined in this way are aggregated into the three risk components for health insurance. The actual underwriting risk arises from the further aggregation of these three components, taking diversification effects into account.

Counterparty default risk Counterparty default risk in the insurance business largely arises in connection with receivables from reinsurers, policyholders/insurance brokers, and credit institutions. 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 standard formula.

The risk of default on receivables from reinsurers and credit institutions is measured on the basis of the information available and proportionality considerations. The counterparties' individual credit ratings are explicitly used.

To measure the risk of default on receivables from policyholders and insurance brokers, a constant factor is applied to the fair value of the relevant exposures on the Solvency II balance sheet. As of the balance sheet date, receivables from policyholders more than 90 days past due amounted to €16,321.5 thousand (December 31, 2018: €14,030.6 thousand). The average default rate for these receivables over the last three years as of December 31, 2019 was 17.9 percent (December 31, 2018: 13.4 percent).

Market risk Market risk is the risk of loss due to adverse changes to market prices of assets, liabilities, and financial instruments. The risk arises directly or indirectly from the following sub-risks:

- Interest-rate risk: changes in the term structure or volatility of interest rates. For example, an assumed increase or decrease of 1 percent in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by approximately €268.8 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 €101.8 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.

Fixed-income securities by rating class

(Proportion (%) by fair value)

AAA	20.4
AA	22.3
A	25.2
BBB	26.5
BB	2.8
B	2.5
CCC	0.0
CC	0.0
C	0.0
D	0.0
Not rated	0.2

The breakdown of fixed-income securities is as follows (fair values): Of the fixed-income securities – including securities held indirectly through institutional funds – approximately 33.0 percent are accounted for by financial services entities, 29.2 percent by public-sector bonds, and 37.8 percent by corporate bonds.

These risks are measured with the standard formula. New fair values of investments and liabilities are determined in the stress scenarios for interest rates, share prices, real estate prices, credit spreads, credit ratings/defaults, and exchange rates. The actual market risk arises from the aggregation of the sub-risks and concentration risk, taking diversification effects into account.

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

Liquidity risk is measured by calculating the monthly excess liquidity cover or liquidity shortfall on a rolling basis. Liquidity planning is updated constantly so that ARAG has early warning of whether it will require liquidity in the coming months.

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

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

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

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

Overall risk position

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

The COVID-19 pandemic is affecting the ARAG Group along with the rest of the insurance industry. Despite the social distancing requirements, the Group has managed to remain fully operational thanks to the implementation of its digitalization strategy, as a result of which almost everyone is now working from home.

The currently foreseeable effects of the pandemic will impact on the individual companies in the ARAG Group to varying degrees, depending on their business model. If the macroeconomic forecasts prove to be correct, there may be an increase in claims incurred and lapse rates. New business may also be adversely affected. Negative trends were observable in the capital markets through into March 2020. Uncertainty is likely to remain at a high level. Investments have been hedged in order to reduce losses. Further developments in the COVID-19 outbreak are being analyzed constantly so that further countermeasures can be taken if required.

The overall risk position does not currently point to any trends in 2020 that could jeopardize the continued existence of the Company as a going concern.

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Consolidated Balance Sheet as of December 31, 2019

Assets

(€)

A. Intangible assets

1. Goodwill
2. Miscellaneous intangible assets

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. Investments in associates
 3. Miscellaneous 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) Sundry lending
 5. Bank deposits
 6. Other investments

IV. Deposits with ceding insurers

C. Receivables

- I. Receivables from direct insurance business from
 1. policyholders
 - a) Amounts due
 2. insurance brokers

of which from affiliated companies: € 424.03 (Dec. 31, 2018: € 327.25)
- II. Receivables from reinsurance business
- III. Miscellaneous receivables

of which from affiliated companies: € 705,623.44 (Dec. 31, 2018: € 294,848.20)

of which from other long-term investees and investors: € 102,569.00 (Dec. 31, 2018: € 2,049,037.96)

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

Note		Dec. 31, 2019	Dec. 31, 2018
	2 p. 71	16,487,959.36	23,152,347.51
	3 p. 71	12,097,391.58	10,448,173.02
		28,585,350.94	33,600,520.53
	33 p. 80		
	4 p. 71	188,059,567.60	194,672,144.77
	5 p. 71		
	31 p. 79	2,685,680.19	1,897,661.79
		12,003,037.66	10,394,963.87
		3,153,133.92	3,062,263.07
		3,212,093.00	400,000.00
		21,053,944.77	15,754,888.73
	6 p. 72	1,621,521,616.93	1,483,200,340.90
	7 p. 72	1,548,290,360.30	1,331,622,337.96
	8 p. 73	1.00	5,504,927.98
	9 p. 73	596,011,291.88	582,511,291.88
	10 p. 73	489,052,263.44	554,948,515.58
	10 p. 73	97,454.62	107,882.07
		1,085,161,009.94	1,137,567,689.53
	11 p. 73	53,797,090.18	48,898,427.86
		111,294,555.39	80,167,282.49
		4,420,064,633.74	4,086,961,006.72
		60,678,269.26	55,935,437.98
		4,689,856,415.37	4,353,323,478.20
	12 p. 73		
		69,305,803.76	62,248,276.00
		69,305,803.76	62,248,276.00
		32,630,799.72	24,759,325.49
		101,936,603.48	87,007,601.49
		51,462,017.85	47,164,030.01
		13,590,880.48	23,071,791.73
		166,989,501.81	157,243,423.23
	13 p. 73	24,308,236.54	22,421,752.87
	14 p. 73		
	15 p. 73	199,142,619.24	196,214,156.37
	15 p. 73	22,128,566.01	23,529,301.64
		245,579,421.79	242,165,210.88
	16 p. 73		
		32,588,142.45	33,538,578.33
		11,949,760.89	8,959,452.30
		44,537,903.34	42,498,030.63
	17 p. 73	626,557.32	1,062,120.07
	34 p. 83		
	18 p. 74	303,120.17	17,997.65
		5,176,478,270.74	4,829,910,781.19

Consolidated Balance Sheet as of December 31, 2019

Equity and liabilities

(€)

A. Equity

I.	Subscribed capital
II.	Revenue reserves
1.	Statutory reserves
2.	Other revenue reserves
3.	Currency translation differences
4.	Difference pursuant to section 309 (1) HGB
III.	Net income attributable to the Group
1.	Consolidated net income
IV.	Non-controlling interests
1.	in the capital
2.	in the net income

B. Subordinated liabilities

C. 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
V.	Equalization provision and similar provisions
VI.	Miscellaneous technical provisions
1.	Gross amount
2.	less: portion for outward reinsurance business

Carried forward:

		Note		Dec. 31, 2019	Dec. 31, 2018
		19 p. 74 38 p. 90	200,000,000.00		200,000,000.00
			13,641,263.00		12,230,250.00
			287,731,047.63		265,153,554.44
			6,700,499.96		3,802,336.95
		1 p. 69	-35,999,890.82		-35,999,890.82
			272,072,919.77		245,186,250.57
			76,526,588.21		34,047,113.78
			8,495,218.77		8,472,558.52
			1,010,318.93		697,249.54
			9,505,537.70		9,169,808.06
				558,105,045.68	488,403,172.41
		20 p. 74		30,000,000.00	30,000,000.00
		21 p. 74	261,425,278.99		258,134,113.75
			0.00		-142,635.15
			261,425,278.99		257,991,478.60
		22 p. 75	1,946,375,724.66		1,787,244,347.06
			0.00		0.00
			1,946,375,724.66		1,787,244,347.06
		23 p. 75	1,557,875,157.11		1,483,715,689.98
			-33,667,767.25		-35,933,134.79
			1,524,207,389.86		1,447,782,555.19
			260,055,022.89		264,196,379.36
		24 p. 76	89,154,014.00		75,962,462.00
		25 p. 76	4,808,340.70		4,194,503.68
			0.00		0.00
			4,808,340.70		4,194,503.68
				4,086,025,771.10	3,837,371,725.89
				4,674,130,816.78	4,355,774,898.30

Consolidated Balance Sheet as of December 31, 2019

Equity and liabilities

(€)

Brought forward:

D. Other provisions

- I. Provisions for pensions and other post-employment benefits
- II. Provisions for taxes
- III. Miscellaneous provisions

E. Deposits received from reinsurers

F. Other liabilities

- I. Liabilities from direct insurance business to
 - 1. policyholders
 - 2. insurance brokers
 - of which to affiliated companies: € 14.56 (Dec. 31, 2018: € 14.56)
- II. Liabilities from reinsurance business
- III. Miscellaneous liabilities
 - of which tax liabilities: € 22,241,137.21 (Dec. 31, 2018: € 19,703,847.78)
 - of which social security liabilities: € 2,140,779.26 (Dec. 31, 2018: € 2,039,700.37)
 - of which to affiliated companies: € 170,873.85 (Dec. 31, 2018: € 0.00)

G. Deferred income and accrued expenses

Total equity and liabilities

		Note		Dec. 31, 2019	Dec. 31, 2018
				4,674,130,816.78	4,355,774,898.30
		26 p. 77		255,900,253.62	243,032,829.70
				23,653,511.27	20,199,716.56
		27 p. 78		93,437,274.80	90,518,575.19
				372,991,039.69	353,751,121.45
		28 p. 78		165,341.73	370,390.17
		29 p. 79			
			25,700,880.03		24,871,298.35
			32,287,133.54		30,591,527.89
			57,988,013.57		55,462,826.24
		29 p. 79		3,698,441.68	3,148,631.66
			59,307,207.96		53,524,724.03
				120,993,663.21	112,136,181.93
		30 p. 79		8,197,409.33	7,878,189.34
				5,176,478,270.74	4,829,910,781.19

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

Line item

(€)

I. Underwriting account for casualty and property insurance

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 miscellaneous net technical provisions

a) Net actuarial reserve

b) Miscellaneous technical provisions

6. 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

7. Miscellaneous underwriting expenses net of reinsurance

8. Subtotal

9. Change in the equalization provision and similar provisions

10. Casualty and property insurance underwriting result net of reinsurance

		Note		2019	2018
		32 p. 79	1,370,305,326.52		1,279,979,533.15
			-10,478,376.52		-11,727,001.51
				1,359,826,950.00	1,268,252,531.64
			141,951.82		254,719.72
			-142,635.15		-1,507,301.81
				-683.33	-1,252,582.09
				1,359,826,266.67	1,266,999,949.55
				303,831.00	386,615.00
				2,498,907.16	2,211,524.50
			640,454,911.94		620,806,185.21
			-4,576,346.76		-8,302,373.16
				635,878,565.18	612,503,812.05
			68,160,623.48		43,646,785.38
			2,265,367.54		-2,663,858.75
				70,425,991.02	40,982,926.63
				706,304,556.20	653,486,738.68
				0.00	0.00
				-688,135.98	-1,364,350.96
				-688,135.98	-1,364,350.96
				570,751,313.74	539,454,140.17
				-1,347,628.57	-1,473,244.74
				569,403,685.17	537,980,895.43
				1,808,989.51	1,828,751.25
				84,423,637.97	74,937,352.73
				-13,151,552.62	4,914,969.50
				71,272,085.35	79,852,322.23

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

Line item

(€)

II. Underwriting account for life and health insurance

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. Premiums from the gross provision for bonuses and rebates
3. Income from investments
a) Income from equity investments
b) Income from other investments
of which from affiliated companies: € 13,256.88 (2018: € 0.00)
aa) Income from land, land rights and buildings, including buildings on third-party land
bb) Income from other investments
c) Income from reversals of write-downs
d) Gains on the disposal of investments
4. Miscellaneous underwriting income net of reinsurance
5. 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
6. Change in miscellaneous net technical provisions
a) Net actuarial reserve
aa) Gross amount
bb) Reinsurers' share
b) Miscellaneous technical provisions
7. Expenses for performance-based and non-performance-based bonuses and rebates net of reinsurance
8. Insurance business operating expenses net of reinsurance
a) Front-end fees
b) Administrative expenses
c) less: commissions received and profit sharing received from outward reinsurance business
9. Expenses for investments
a) Expenses for the management of investments, interest expense and similar charges and other expenses for investments
b) Depreciation, amortization and write-downs of investments
of which write-downs: € 2,503,534.00 (2018: € 24,289,792.58)
c) Losses on the disposal of investments
10. Miscellaneous underwriting expenses net of reinsurance
11. Life and health insurance underwriting result net of reinsurance

Note				2019	2018
	32 p. 79	393,197,885.45			373,740,305.53
		-378,724.88			-393,187.68
			392,819,160.57		373,347,117.85
		-605,992.14			-380,064.37
		0.00			0.00
			-605,992.14		-380,064.37
				392,213,168.43	372,967,053.48
				46,505,854.05	19,852,554.09
			0.00		0.00
		5,133,876.67			5,148,210.65
		62,406,479.13			69,621,540.49
			67,540,355.80		74,769,751.14
			19,345,864.77		22,000.00
			524,080.00		8,173,990.36
				87,410,300.57	82,965,741.50
				2,132,954.12	3,337,257.37
		230,689,802.03			218,488,992.02
		-119,430.97			-74,223.38
			230,570,371.06		218,414,768.64
		391,096.30			1,900,119.00
		0.00			0.00
			391,096.30		1,900,119.00
				230,179,274.76	216,514,649.64
		-159,132,001.60			-123,610,029.08
		0.00			0.00
			-159,132,001.60		-123,610,029.08
			-5,470.00		8,535.00
				-159,137,471.60	-123,601,494.08
	37 p. 85			51,928,955.62	45,087,878.67
		39,689,012.31			35,813,595.06
		9,386,475.73			8,981,361.22
			49,075,488.04		44,794,956.28
			-92,768.57		-103,458.22
				48,982,719.47	44,691,498.06
			5,284,413.98		2,700,795.29
			3,663,571.15		25,434,115.58
			449,100.00		1,998,200.89
				9,397,085.13	30,133,111.76
				1,434,780.59	1,507,720.94
				27,201,990.00	17,586,253.29

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

Line item

(€)

III. Non-underwriting account

1. Underwriting result net of reinsurance
a) in casualty and property insurance
b) in life and health insurance
2. Income from investments, unless listed under II. 3.
a) Income from equity investments of which from affiliated companies: € 696,000.00 (2018: € 422,000.00)
b) Income from associates
c) Income from other investments of which from affiliated companies: € 0.00 (2018: € 76,000.00)
aa) Income from land, land rights and buildings, including buildings on third-party land
bb) Income from other investments
d) Income from reversals of write-downs
e) Gains on the disposal of investments
3. Expenses for investments, unless listed under II. 10.
a) Expenses for the management of investments, interest expense and similar charges and other expenses for investments
b) Depreciation, amortization and write-downs of investments of which write-downs: € 3,127,157.57 (2018: € 27,728,312.79)
c) Losses on the disposal of investments
d) Transfer of losses from associates accounted for using the equity method
4. Technical interest income
5. Market fees for goods and services provided by non-insurance companies
6. Cost of goods and services provided by non-insurance companies to generate market fees
7. Other income
8. Other expenses of which write-downs on goodwill arising on consolidation: € 6,550,261.55 (2018: € 4,825,348.24)
9. Non-underwriting result
10. Profit/loss from ordinary activities
11. Extraordinary income
12. Extraordinary expenses
13. Profit before tax
14. Income taxes of which resulting from the change in recognized deferred taxes: tax expense of € 435,562.75 (2018: tax expense of € 2,555,013.80)
15. Miscellaneous taxes
16. Net income for the year
17. of which non-controlling interests

	Note		2019	2018
			71,272,085.35	79,852,322.23
			27,201,990.00	17,586,253.29
			98,474,075.35	97,438,575.52
		803,930.00		519,190.98
		4,325,722.50		3,014,803.35
		16,930,534.22		16,894,563.58
		36,473,132.90		50,905,777.97
		53,403,667.12		67,800,341.55
		21,529,278.95		770,307.65
		18,815,032.89		5,435,056.55
			98,877,631.46	77,539,700.08
		12,632,784.14		14,373,639.61
		6,631,861.45		31,910,537.14
		408,452.95		2,550,093.83
		0.00		0.00
			19,673,098.54	48,834,270.58
			79,204,532.92	28,705,429.50
			-303,831.00	-386,615.00
			23,980,985.61	24,058,436.90
			24,928,016.35	27,871,545.77
			29,984,998.06	29,197,055.39
			86,560,354.07	80,904,924.77
			-56,575,356.01	-51,707,869.38
			21,378,315.17	-27,202,163.75
			119,852,390.52	70,236,411.77
	35 p. 84		0.00	0.00
	35 p. 84		0.00	0.00
			0.00	0.00
			119,852,390.52	70,236,411.77
	36 p. 84		40,912,686.58	34,918,474.38
			1,402,796.80	573,574.07
			42,315,483.38	35,492,048.45
			77,536,907.14	34,744,363.32
			-1,010,318.93	-697,249.54

Notes to the Consolidated Financial Statements

I. Disclosures on the Basis of Consolidation, Accounting Policies, and Consolidation Methods

Legal basis of preparation

ARAG Holding SE is entered in the commercial register of the Düsseldorf local court under the number HRB 66673. Its registered office is ARAG Platz 1, 40472 Düsseldorf, Germany. The consolidated financial statements of ARAG Holding SE and the group management report are prepared in accordance with the requirements of the German Commercial Code (HGB) for large corporations and with the supplementary provisions for insurance companies dated November 8, 1994 (Regulation on the Accounting of Insurance Undertakings, RechVersV), in particular in compliance with the requirements on consolidated accounting pursuant to sections 341 i and 341 j HGB and sections 58–60 RechVersV and with the German accounting standards (GAS). The latter are applied to the extent that they do not limit accounting consistency and to the extent that they are material to the reporting of the Group's net assets, financial position, and results of operations.

In accordance with section 291 (1) HGB, these consolidated financial statements exempt those group companies that are obliged to prepare consolidated financial statements under section 290 HGB from that obligation.

The consolidated financial statements are presented on the basis of financial statement forms 1 and 4 pursuant to section 58 (1) RechVersV. The forms are supplemented to reflect Group-specific characteristics and items relating to non-insurance business.

The single-entity financial statements of the entities included in the consolidated financial statements are nearly all prepared in accordance with the same accounting policies used by the ARAG Group. With the exception of associates, the financial statements of Group companies that are not prepared in accordance with the requirements of the HGB and RechVersV are reconciled with regard to recognition, presentation, and valuation and brought into line with German accounting standards.

The associates' accounting policies generally differ from German accounting principles. One equity investment based in Switzerland prepares its financial statements in accordance with the Swiss Code of Obligations (OR). The financial statements are not reconciled because the foreign accounting policies are largely similar to those of the HGB.

Basis of consolidation

As of December 31, 2019, 35 subsidiaries were included in the consolidated financial statements pursuant to section 301 (1) HGB (December 31, 2018: 36). One company in the United States was liquidated in the year under review. A newly formed company in the Republic of Ireland was initially not included in the consolidated financial statements in accordance with section 296 (1) no. (2) HGB. One Group company was consolidated as an associate pursuant to section 311 HGB.

In 2019, the basis of consolidation excluding associates comprised six insurance companies (2018: six), three service companies in the field of information technology and business organization (2018: three), two real-estate management companies (2018: two), three investment vehicles (2018: three), 17 other service companies (2018: 17), and five holding and asset management companies (including the parent company; 2018: five).

The following companies are included in the consolidated financial statements:

Name of company	Shareholding (%)
1 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	100.00
2 ALIN 1 Verwaltungs-GmbH, Düsseldorf	100.00
3 ALIN 2 Verwaltungs-GmbH, Düsseldorf	100.00
4 ALIN 4 Verwaltungs-GmbH, Düsseldorf	94.00
5 ALIN 1 GmbH & Co. KG, Düsseldorf	100.00
6 ALIN 2 GmbH & Co. KG, Düsseldorf	100.00
7 ALIN 4 GmbH & Co. KG, Düsseldorf	94.00
8 ARAG 2000 Beteiligungs-Gesellschaft mbH & Co. KG, Düsseldorf	100.00
9 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	94.90
10 ARAG Allgemeine Versicherungs-AG, Düsseldorf	100.00
11 ARAG Digital Services AS, Oslo/Norway	100.00
12 ARAG Holding SE, Düsseldorf, Group parent company	100.00
13 ARAG Insurance Company Inc., Des Moines, Iowa/USA	100.00
14 ARAG International Holding GmbH, Düsseldorf	100.00
15 ARAG IT GmbH, Düsseldorf	100.00
16 ARAG Krankenversicherungs-AG, Munich	94.00
17 ARAG Legal Services B.V., Leusden/Netherlands	100.00
18 ARAG Liegenschaftsverwaltungs- und Beratungs-Gesellschaft mbH, Düsseldorf	100.00
19 ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	100.00
20 ARAG LLC, Des Moines, Iowa/USA	100.00
21 ARAG North America Inc., Des Moines, Iowa/USA	100.00
22 ARAG plc, Bristol/United Kingdom	100.00
23 ARAG Scandinavia AS, Oslo/Norway	100.00
24 ARAG SE, Düsseldorf	100.00
25 ARAG Service Center GmbH, Düsseldorf	100.00
26 ARAG Services Australia Pty. Ltd., Sydney/Australia	100.00
27 ARAG Services Corporation, Toronto/Canada	100.00
28 ARAG Services LLC, Des Moines, Iowa/USA	100.00
29 CUR Versicherungsmakler GmbH, Düsseldorf	100.00
30 Cura Versicherungsvermittlung GmbH, Düsseldorf	100.00
31 HelloLaw GmbH, Cologne	100.00
32 HELP Forsikring AS, Oslo/Norway	100.00
33 Interlloyd Versicherungs-AG, Düsseldorf	100.00
34 Jurofoon B. V., Leusden/Netherlands	100.00
35 Justix GmbH, Cologne	100.00
36 SolFin GmbH, Düsseldorf	84.79

The following company is included as an associate:

Name of company	Shareholding (%)
1 AXA-ARAG Rechtsschutzversicherungsgesellschaft, Zurich/Switzerland	29.17

There were nine Group companies that were not included in the consolidated financial statements (2018: eight) because these entities are not material, which means that their non-consolidation does not adversely affect the Group's net assets, financial position, or results of operations.

In accordance with section 311 (2) HGB, Janolaw AG, Sulzbach, in which the Group holds 25.1 percent of the shares, was not consolidated as an associate because this entity does not prepare its financial statements in time and is not at all material to the Group's net assets, financial position, and results of operations.

The following entities are not included in the consolidated financial statements in accordance with section 296 (2) and section 311 (2) HGB:

Name of company	Shareholding (%)	Equity (€)	Net income for the year (€)
1 Agencia de Seguros ARAG S. A., Barcelona/Spain*	100.00	569,454.57	405,851.53
2 ARAG Services Spain & Portugal S. L., Barcelona/Spain*	100.00	537,379.41	-289,460.51
3 ARAG – France S. A. R. L. Assistance et Règlement de Sinistres Automobiles et Généraux, Versailles/France	100.00	18,988.00	0.00
4 ARAG Legal Protection Ltd, Dublin, Republic of Ireland	100.00	185,963.76	-151,036.24
5 COLUMBUS Immobilien Fonds XVI GmbH & Co. KG, Munich*	55.57	1,833,131.79	-1,777,443.22
6 Easy2claim Limited, Bristol/United Kingdom*	100.00	1.13	0.00
7 Multiline Insurance Agency (MIA) S. r. l., Verona/Italy	100.00	400,359.46	-255,658.94
8 Prinzregent Vermögensverwaltungs-GmbH, Düsseldorf	100.00	33,362.31	193.89
9 VIF Gesellschaft für Versicherungsvermittlung mit beschränkter Haftung, Düsseldorf	100.00	340,766.25	308,929.72

* Figures from the financial statements for the year ended December 31, 2018.

1 Procedures of consolidation

The consolidated financial statements are prepared on the basis of the single-entity financial statements of the Group companies. The financial year covered the period January 1 to December 31, 2019 and was identical to the financial years of the consolidated companies.

Up to and including 2010, the accounting for subsidiaries in consolidated financial statements was based on the carrying amount method; the revaluation method used in subsequent years involved subtracting the equity attributable to the Group at the time of initial consolidation from the cost of the equity investments in the consolidated subsidiaries. Where subtracting the equity attributable to the Group at the time of initial consolidation from the cost resulted in a positive difference, the carrying amounts of assets of the relevant subsidiaries were written up accordingly if there was the flexibility to do so in their valuation. Where there was no further scope to do so, the remaining amount was recognized as goodwill and amortized over its estimated useful life (13 to 15 years). If a future benefit from goodwill is no longer expected, the remaining amount is written off.

In the case of subsidiaries that were already included in the consolidated financial statements in 1989 in accordance with section 27 EGHGB or in cases where negative goodwill had arisen on acquisition that had affected the financial statements of the parent company in previous years, there was an offsetting against revenue reserves in earlier years. Goodwill amounts on initial consolidation have not been offset against revenue reserves since 2010 because this is no longer permitted under section 301 (3) HGB and German accounting standard (GAS) 23 nos. 84 and 91.

On deconsolidation of a subsidiary, the proceeds from the disposal are offset against the consolidated (residual) carrying amounts of the assets and liabilities attributable to that subsidiary, including any goodwill that has not already been offset. The share of non-controlling interests in the deconsolidated entity is derecognized in consolidated equity. A subsidiary is deconsolidated when the majority shareholders of the Group cease to have control pursuant to section 290 (2) HGB over the subsidiary. In 2019, an inactive American service company was deconsolidated without any perceptible impact on net assets, financial position, or results of operations.

The investments in associates are recognized at the proportion of equity attributable to the Group or at historical cost to the Group pursuant to section 312 HGB. On initial application, the equity method is based on the values at the time of acquisition or at the time of preparation of the first annual financial statements after the acquisition where interim financial statements are not available. The different valuation of the assets and liabilities in the associates' financial statements compared with the valuation under commercial law is not adjusted for the purpose of applying the equity method because the impact is not material.

Intercompany profit that is required to be eliminated is deducted from the carrying amounts of the affected assets and recognized in the income statement, provided that, overall, the amounts concerned are material to presenting a true and fair view of the net assets, financial position, and results of operations. The option pursuant to section 341j (2) HGB is generally utilized where the intercompany profit forms the basis for entitlements of policyholders.

Group companies' receivables from, and liabilities to, other Group companies are offset against each other. Intragroup reinsurance arrangements are eliminated.

Consolidated entities' sales revenue from the provision of goods and services to other consolidated entities is offset against the associated expenses incurred by the providing entity to avoid the need to reallocate secondary costs among the consolidated insurance companies for the purposes of the consolidated financial statements.

Consolidated insurance companies' brokerage services provided to other consolidated insurance companies are performed on the basis of arm's-length terms and conditions that are typical in the market. Commission resulting from brokerage and income from goods and services provided by other Group companies to Group insurance companies are consolidated at the level of the providing entity by offsetting the income against the related expenses.

Currency translation

Balance sheets prepared in foreign currencies are translated into euros using the modified closing-rate method. In this method, assets and liabilities (but not equity items) are translated at the middle spot rate on the balance sheet date. Amounts on the income statement that are recognized for the period are translated at an average of the month-end exchange rates in the reporting year. An amount of €2,898,163.01, representing the proportion attributable to the Group of the difference between the equity items translated at the historical exchange rate and the equity items translated at the closing rate, was transferred to revenue reserves directly in equity (currency translation differences). Currency translation differences that arise as part of the consolidation of intragroup balances are derecognized through the income statement. Intercompany profits are not affected by exchange rates.

Transactions denominated in foreign currency in single-entity financial statements are translated at the spot rate on the date of the transaction. In this case, income and expenses are translated at the same exchange rate used for the balance sheet items concerned. The quoted market price or market value for shares in affiliated companies and equity investments denominated in foreign currency is determined by using the middle spot rate on the reporting date; all other assets are valued using the lower of the exchange rate on the date of payment or the exchange rate on the balance sheet date. The sundry assets and liabilities with a residual maturity of up to one year are translated using the middle spot rate on the balance sheet date, disregarding the historical cost convention and the realization principle.

Recognition, valuation, and presentation methods

The consolidated balance sheet and consolidated income statement are presented on the basis of the financial statement forms prescribed by the RechVersV.

Because the Group has multiple lines of business, the line items 'Market fees for goods and services provided by non-insurance companies' and 'Cost of goods and services provided by non-insurance companies to generate market fees' had to be added to the income statement.

2 Goodwill results partly from accounting for subsidiaries in consolidated financial statements and partly from acquisitions.

In accordance with GAS 23 no. 115, the amortization period is defined on the basis of the estimated useful life. Up to 2010, this was assumed to be 15 years (value of in-force business) for insurance companies or estimated at up to five years on a case-by-case basis. Since 2010, useful lives of more than ten years have no longer been applied based on the principle stated in section 253 (3) sentence 4 HGB. Goodwill with a remaining useful life of more than five years amounted to €7,498,559.30 as of December 31, 2019 (December 31, 2018: €8,435,879.18). The useful life was originally set at 15 years because the goodwill was defined as in-force business. Write-downs amounting to €1,293,684.99 were recognized on goodwill in the reporting year.

3 Miscellaneous intangible assets are recognized at cost less straight-line amortization.

The carrying amount of €12,097,391.58 can be broken down as follows: €7,596,705.60 for software, €530,248.86 for leasehold improvements in business premises in Italy, €70,955.00 for industrial property rights and licenses, €3,553,856.30 for goodwill arising on the acquisition of in-force business in the Republic of Ireland, and €345,625.82 for goodwill arising on an acquisition in Spain. Software is essentially amortized over five years on a straight-line basis. Leasehold improvements are amortized over the remaining term of the leases (ten years) using the straight-line method. Most of the industrial property rights and licenses are not amortized (recognition at a fixed value), although useful lives of ten and 25 years are applied for special licenses. The goodwill items are amortized over periods of eight and ten years. No write-downs were recognized in 2019.

4 Land and buildings are valued at cost less depreciation and are written down in accordance with the discretionary principle of lower of cost or market value. The useful life is generally recognized at 40 years for office buildings and 50 years for residential buildings. They are depreciated using the straight-line method. Write-downs of €2,221,409.17 (2018: €4,521.00) were recognized in the year under review in respect of land owing to anticipated permanent asset impairment. No land is encumbered by land charges used as collateral for liabilities to banks.

5 Shares in non-consolidated affiliated companies and miscellaneous equity investments are carried at cost in accordance with section 253 (1) HGB, less write-downs resulting from long-term impairment. In the reporting year, write-downs of €61,981.60 were recognized on non-consolidated affiliated companies (2018: €777,620.59) and of €0.00 on miscellaneous equity investments (2018: €301,906.42). Reversals of write-downs pursuant to section 253 (5) HGB were recognized in an amount of €148,022.75 (2018: €0.00) on shares in non-consolidated affiliated companies and on miscellaneous equity investments.

Investments in associates are valued at their carrying amount at the time the shares were acquired or at the time of initial consolidation, plus or minus the pro-rata amount of changes in equity in subsequent years. The goodwill arising from using the equity method at the time of initial consolidation is already fully amortized.

Lending to long-term investees and investors is recognized at cost, net of any repayments of principal. Reversals of write-downs were recognized in an amount of €214,176.33 because there was a recovery in value.

6 Equities, investment fund shares/units, and other variable-yield securities are generally valued at the lower of cost or market value as of the reporting date in accordance with section 341 b (2) HGB in conjunction with section 253 (1), (4), and (5) HGB. The ARAG Group made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341 b (2) second half-sentence HGB 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. Subsequent valuation of the investment fund shares/units classified as fixed assets is based on the long-term value determined in a fund review. As of December 31, 2019, the quoted market price was based on the long-term value. As of December 31, 2018, the institutional fund shares/units had been valued using the long-term trend in the price/earnings ratio in the Stoxx Europe Large 200 and MSCI Emerging Markets indices. Under this approach, the long-term value was capped at 20.0 percent above the market value of the shares/units as of December 31, 2018. Fixed-income securities within the funds with a rating of BBB- or better were valued at their nominal amounts, as a minimum. All other items within the funds were valued at their market value. In the reporting year, write-downs amounting to €28,948.39 were recognized due to expected permanent impairment (2018: €45,261,221.56). Reversals of write-downs pursuant to section 253 (5) HGB were recognized in an amount of €33,765,047.10 in 2019 (2018: €644,035.34).

The classification of institutional fund shares/units for permanent use in business operations did not result in any undisclosed liabilities (December 31, 2018: €36,393 thousand) due to write-downs not being recognized. As of December 31, 2019, the total fair value was €112,623 thousand more than the carrying amount (December 31, 2018: €2,547 thousand less than the carrying amount).

7 Bearer bonds and other fixed-income securities are generally valued in accordance with the requirements for current assets pursuant to section 253 (1) sentence 1, (4), and (5) and section 256 HGB. In accordance with section 341 b (2) second half-sentence HGB, some of the bonds and securities have been classified for permanent use in business operations. Because of this classification, which was carried out in previous years, and because no write-downs are recognized in this case as impairment is assumed to be only temporary, no undisclosed liabilities had arisen in respect of this subset of bonds and securities as of December 31, 2019 (December 31, 2018: €6,163 thousand). Reversals of write-downs were recognized in an amount of €6,747,897.55 (2018: €148,272.32) because there was a recovery in value. Write-downs of €2,601,481.38 had to be recognized (2018: €5,672,835.80).

- 8 Loans secured by mortgages or land charges and fixed-income receivables, and other investments** are accounted for at cost or at their redemption amount. No write-downs were recognized pursuant to section 253 (3) sentence 5 HGB in either the reporting year or the prior year.
- 9 Registered bonds** are accounted for at their nominal amount. Discounts are deferred using the straight-line method. Premiums are capitalized and recognized in income using the straight-line method over the term to maturity.
- 10 Promissory notes and loans** are recognized at cost less repayments made. **Sundry lending** comprises miscellaneous loans; this lending is recognized and measured in the same way as promissory notes and loans.
- 11 Bank deposits** are recognized at their nominal amount. **Other investments** comprise shares/units in infrastructure funds and private equity funds. They are valued at cost. The fair value as of the reporting date is reviewed on the basis of the net asset values (NAVs) reported by the fund management companies. No write-downs pursuant to section 253 (3) sentence 5 HGB have been necessary to date.
- Deposits with ceding insurers** are recognized at the nominal value of the collateral furnished to cedants.
- The residual maturity is less than one year because the contracts are renewed annually.
- 12 Receivables** are generally recognized at their nominal amount. A general allowance for latent credit risk is deducted from receivables from policyholders and from trade receivables. Receivables from agents are reduced by specific allowances and a general allowance in the amount of the likely level of default.
- 13** In accordance with section 253 (1) sentence 1 HGB, **property and equipment** is recognized at cost and depreciated on a straight-line basis over the standard operating useful life.
- 14 Inventories** are determined by carrying out physical inventory checks. They are measured at cost.
- 15 Current bank balances, checks, and cash on hand**, together with **other assets**, are recognized at their nominal amounts. Other assets include tax assets of €21,547.8 thousand (December 31, 2018: €22,883.8 thousand), interest receivables of €239.6 thousand in respect of tax assets (December 31, 2018: €382.9 thousand), insurance assets of €91.3 thousand (December 31, 2018: €94.5 thousand), and other items amounting to €249.9 thousand (December 31, 2018: €168.1 thousand).
- Asset values relating to reinsurance are recognized at the amount provided by the insurance company. **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 of cash payments expensed after the balance sheet date. This line item also includes an amount of €2,586,205.71 (December 31, 2018: €2,925,028.57) stemming from the difference pursuant to section 341 c (2) sentence 2 HGB.
- 17 Deferred tax assets** include the likely tax benefit in subsequent financial years in the amount of the current or future income tax rates. If differences arise between the carrying amounts in the HGB consolidated financial statements and those in the tax base as a result of consolidation adjustments and these differences are expected to reverse in subsequent years, deferred taxes are recognized in respect of these differences using separate entity-specific tax rates. This also includes differences for which the timing of the reversal

is not yet precisely known or depends on action by the entity concerned, and differences that would only reverse in the event of any liquidation. Deferred tax assets have not been recognized for tax loss carryforwards.

18 The **excess of plan assets over pension liabilities** is the balance of pension obligations at present value and the fair value of the securities held to cover these liabilities.

19 **Group equity:** Group equity is presented in detail in the statement of changes in group equity. These items are broken down in accordance with GAS 22. The subscribed capital of the Group's parent company amounts to €200,000,000.00. It is divided into 200,000 no-par-value shares. All of the shares are registered.

The subscribed capital is fully paid up.

The parent company plans to appropriate an amount of €10,000,000.00 from the profits generated in 2019, to be paid as a dividend to the shareholders. In principle, amounts equivalent to net deferred tax assets and assets intended to cover defined benefit obligations, where such assets are valued at a fair value that exceeds cost, are prohibited from being distributed as a dividend under section 268 (8) HGB. As the single-entity financial statements of the parent company ARAG Holding SE do not include any such items and, furthermore, these consolidated financial statements do not serve as the basis for the measurement of any dividend distribution, there are no amounts subject to a restriction on distribution to be disclosed, even though there are circumstances in other Group companies that give rise to a prohibition, in principle, on the distribution of certain amounts as a dividend. The articles of incorporation do not include any restrictions on the use of profits.

20 **Subordinated liabilities** have been issued by way of private placement to strengthen the own funds used to determine the solvency ratio. The subordinated liabilities are recognized at their repayment amount (= settlement amount). The registered bonds are not tradable in Germany on a regulated market within the meaning of section 2 (5) of the German Securities Trading Act (WpHG).

21 **Gross unearned premiums** for direct insurance business are calculated pro rata on the basis of the premiums and lapses/cancellations posted, less the installment surcharges. In accordance with a circular from the German Federal Ministry of Finance (BMF) dated April 30, 1974, the non-transferable income components are deducted from the unearned premiums for the domestic parts of the business of the Group's insurance companies. A total of 85 percent of the commissions and other remuneration for agents is recognized as non-transferable income components. The capitalized portion of the acquisition costs is deducted from the unearned premiums for the non-German parts of the business.

The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

22 The **actuarial reserve for health insurance** is calculated in accordance with actuarial principles defined in the technical basis of calculation individually for each insurance policy, applying the underlying data from the insurance policy in question. Moreover, the actuarial reserve also contains transfer amounts received as a result of additions and the transfer amounts still to be surrendered owing to lapses as of the balance sheet date. The average discount rate is 2.78 percent.

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.

23 The **provision for outstanding claims** in relation to direct casualty and property insurance business is recognized separately by event year for claims reported in the financial year concerned and for anticipated claims that are reported after the balance sheet date. A provision for claim settlement expenses is also recognized. These provisions are valued in accordance with prudent business practice, taking into account the ongoing need to satisfy the obligations under insurance contracts. Valuation is based on values as of the balance sheet date. The provisions are not discounted. The results from the group-based and individual valuations are reviewed on a portfolio basis using actuarial methods. Recourse claims that are expected to be recovered in the next year are deducted from the property insurance companies' claims provision. 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) – based on an entity-specific discount rate of 0.7 percent – by the Company's appointed actuary, taking the expenses required for settlement into account. The provision for outstanding claims in the inward reinsurance business is recognized in accordance with the information provided by the primary insurer. The provision for outstanding claims in connection with the inward reinsurance business from primary insurers in the United Kingdom is determined on the basis of past experience and statistics produced by the Group's own claims settlement company. The proportions relating to outward reinsurance business are calculated in accordance with the stipulations in the reinsurance treaties.

The valuation method used was the same one used in the previous year.

In the year under review, currency-related adjustments to the claims reserves were applied on the basis of exchange rates at the end of each quarter. The resulting exchange differences were recognized under other net income/expense.

Technical interest income is calculated at 0.7 percent of the arithmetic mean of the opening and closing balances of the actuarial reserve and the benefit reserves for annuities in the casualty and property insurance segment.

The provision for claims that had occurred by the balance sheet date but were **still outstanding in health insurance** was recognized on the basis of the claims payments in the reporting year in respect of previous years, taking a volume increase into consideration. One-off items that had not occurred in previous years were taken into account separately. The expenses that are likely to be incurred after the balance sheet date for settling claims from previous years were determined in accordance with prudent business practice, taking into account the ongoing need to satisfy the obligations under insurance contracts. For the business in Germany, the provisions in the coordinated regulations issued by the German federal states on February 2, 1973 were taken into account. Valuation is based on values as of the balance sheet date. The provisions are not discounted.

24 The **equalization provision** is recognized for the Europe territory (excluding Norway, Sweden, and Denmark) in accordance with section 341h HGB in conjunction with section 29 RechVersV. The equalization provision for the US, Canada, Australia, Norway, Sweden, and Denmark territories is calculated, where required, according to local regulatory rules.

25 The **lapse provision** (reported under miscellaneous technical provisions) 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 in the property and casualty insurance business 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. A **provision for non-performance-based bonuses and rebates** has been recognized to cover the risk arising where the ARAG Group has entered into quota share reinsurance treaties with UK primary insurers and these insurers grant a share of profits to policyholders and agents, affecting the reinsurance result via a net premium agreement. This provision contains amounts for third-party profit shares that have not yet been definitively determined as of the reporting date because of an analysis period covering a number of years. The provision is recognized at a settlement amount measured in accordance with prudent business practice.

26 In accordance with standard international practice, **the provisions for pensions and other post-employment benefits** are calculated using the projected unit credit (PUC) method and applying section 253 (1) sentence 2 HGB on the basis of the 2018G mortality tables published by Professor Klaus Heubeck or local mortality tables that accurately reflect life expectancy. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. In accordance with section 253 (2) sentence 2 HGB, the discount rate used is the average interest rate for the past ten years published by Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. As a result of using a ten-year instead of a seven-year discount rate, the provision for pensions and other post-employment benefits decreased by €28,422,502.00 as of December 31, 2019 (December 31, 2018: €32,158,022.00).

The following actuarial parameters were used to calculate the obligations: pension age: earliest possible age under the Pension Age Reform Act (RVAGAnpG) in Germany, in accordance with individual agreements in Austria, 65 years in Spain; annual increase in salaries: 2.5 percent (December 31, 2018: 2.5 percent); annual increase in pension benefits: 1.75 percent (December 31, 2018: 1.75 percent); discount rate: 2.71 percent (December 31, 2018: 3.21 percent; discount rate pursuant to section 253 (2) sentence 2 HGB, ten-year average) and 1.97 percent (December 31, 2018: 2.32 percent; seven-year average).

The level of staff turnover taken into account reflects the generally observable age-dependent average for the industry (1.5 percent or sliding scale linked to age) and has only a minor impact on the settlement value. The settlement value includes a shortfall in pension funds used to cover pension commitments to employees. The shortfall has been caused by the long period of low interest rates and amounted to €765,908.75 as of December 31, 2019 (December 31, 2018: €263,785.73). This shortfall has been determined in accordance with actuarial principles and reported as a pension obligation.

Since 2010, assets that are protected from the claims of all other creditors and are used solely to settle liabilities arising from pension obligations have been offset against the obligation. This line item is therefore calculated as follows:

Net provisions for pensions and other post-employment benefits

(€)	Dec. 31, 2019	Dec. 31, 2018
Amount required to settle the vested entitlements	260,466,400.42	247,627,294.40
Netted assets (fair value)	-4,566,146.80	-4,594,464.70
Amount reported on the balance sheet	255,900,253.62	243,032,829.70

The netted assets consist of reinsurance assets equating to the value of the pension obligations and two securities with a cost of €2,417,720 recognized at a fair value of €2,652,792 (December 31, 2018: €2,634,340).

The option pursuant to section 28 (1) EGHGB, which permits provisions for pensions and other post-employment benefits not to be recognized for legacy entitlements, has not been exercised.

27 Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles; as of the reporting date, the amounts were discounted to present value using a discount rate of 1.97 percent (December 31, 2018: 2.32 percent). In 2019, a **provision in accordance with the pre-retirement part-time employment agreement** for the private insurance industry dated June 11, 1997, based on the Accounting Principle issued by the Main Technical Committee of the Institute of Public Auditors in Germany (IDW AcP HFA 3) dated November 18, 1998, was recognized on the basis of a maturity-matched discount rate of 1.97 percent (2018: 2.32 percent). In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements and natural employee turnover were taken into account. Credit balances on employee working hours accounts models are protected against insolvency in accordance with section 8a of the German Pre-Retirement Part-Time Employment Act (AltTZG) by means of a fixed liability guarantee from a German commercial bank. A **long-service provision** was recognized in the year under review for long-service awards to be paid to employees. The provision was calculated using the projected unit credit method taking into account death rates in accordance with the 2018G mortality tables published by Professor Klaus Heubeck and applying a discount rate of 1.97 percent (2018: 2.32 percent). The calculation also included staff turnover at an average rate of 1.5 percent and salary increases at a rate of 2.5 percent. The earliest possible pension age under the RVAGAnpG was selected as the final age.

The **sundry provisions** and the **provisions for taxes** are recognized in the amount that is necessary to settle the obligation according to prudent business practice.

Interest income of €6,675.29 (2018: €5,681.89) and interest expenses of €29,031.60 (2018: €8,839.58) arose from the discounting of provisions with a maturity of more than one year.

28 Deposits received from reinsurers and other liabilities are recognized at their settlement value. The residual maturity is less than one year in each case.

29 The **liabilities from direct insurance business** and **liabilities from reinsurance business** are valued at their settlement value (nominal amount). Liabilities denominated in foreign currency are translated using the middle spot exchange rate as of the reporting date, disregarding both the historical cost convention and the realization principle. The residual maturity is less than one year in each case.

30 **Deferred income and accrued expenses** contain differences pursuant to section 341 c (2) sentence 1 HGB of €4,383,991.15 (December 31, 2018: €4,576,822.13).

31 Associates

The total goodwill arising on the consolidation of associates using the equity method amounted to €0.00 as of December 31, 2019 (December 31, 2018: €0.00) as this goodwill had already been fully amortized. Accordingly, no amortization or write-downs were recognized on the goodwill of associates in 2019.

32 II. Source of Insurance Business by Premiums Written

Country/source (€'000)	Direct insurance business			Inward reinsurance business		Total business
	Legal insurance	Casualty and property insurance	Health insurance	Legal insurance	Casualty and property insurance	
Germany	394,713	214,782	393,198		70	1,002,762
Netherlands	103,975			59,484		163,459
Spain	58,637	52,423		25,647	12,097	148,803
Italy	31,692	4,458		105,383	274	141,806
USA	120,120			2,295		122,416
Austria	69,552					69,552
Norway	47,538					47,538
UK*	4,162	220		24,001		28,383
Belgium	25,974			1,192		27,166
Greece	4,411			136		4,547
Slovenia	2,627					2,627
Sweden	2,361					2,361
Portugal	638	687		5		1,330
Republic of Ireland				483		483
Canada*				175		175
Denmark	95					95
Australia*				1		1
Total	866,494	272,570	393,198	218,801	12,441	1,763,503

* The reinsurance business involving risk in the UK, Canada, and Australia is underwritten by ARAG SE in Düsseldorf.

33 III. Changes in Asset Items A., B. I. to IV. in the Financial Year 2019

Changes in asset items

(€'000)	Carrying amount as of Jan. 1, 2019	Additions	Additions/ disposals in basis of consolidation	Reclassifications
A. Intangible assets				
1. Purchased goodwill	23,152	0	0	0
2. Miscellaneous intangible assets	10,448	7,163	0	0
Total for A.	33,601	7,163	0	0
B. I. Land, land rights and buildings, including buildings on third-party land	194,672	923	0	0
B. II. Investments in affiliated companies and equity investments				
1. Shares in affiliated companies	1,898	850	0	0
2. Lending to affiliated companies	0	0	0	0
3. Equity investments	13,457	5,423	0	0
4. Lending to long-term investees and investors	400	2,598	0	0
Total for B. II.	15,755	8,871	0	0
B. III. Miscellaneous investments				
1. Equities, investment fund shares/units, and other variable-yield securities	1,483,200	225,407	0	0
2. Bearer bonds and other fixed-income securities	1,331,622	308,313	0	0
3. Loans secured by mortgages or land charges and fixed-income receivables	5,505	0	0	0
4. Miscellaneous lending				
a) Registered bonds	582,511	23,500	0	0
b) Promissory notes and loans	554,949	1,063	0	0
c) Loans and prepayments for certificates of insurance	0	0	0	0
d) Sundry lending	108	74	0	0
5. Bank deposits	48,898	4,850	0	0
6. Other investments	80,167	38,273	0	0
Total for B. III.	4,086,961	601,480	0	0
Total for B. I. to B. III.	4,297,388	611,274	0	0
B. IV. Deposits with ceding insurers	55,935	8,516	0	0
Total for investments B. I. to B. IV.	4,353,323	619,790	0	0

Land, land rights and buildings on third-party land with a carrying amount of €139,285,209.33 (December 31, 2018: €145,007,485.55) are used for the business operations of the Group's insurance companies.

Disposals	Exchange-rate adjustments	Reversals of write-downs	Write-downs	Carrying amount as of Dec. 31, 2019	Fair value pursuant to sec. 54 RechVersV	Hidden reserves
0	28	0	6,692	16,488		
125	18	0	5,407	12,097		
125	46	0	12,099	28,585		
0	67	0	7,603	188,060	314,326	126,267
0	0	0	62	2,686	7,314	4,628
0	0	0	0	0	0	0
4,266	394	148	0	15,156	61,266	46,110
0	0	214	0	3,212	3,212	0
4,266	394	362	62	21,054	71,792	50,738
121,141	319	33,765	29	1,621,522	1,733,629	112,108
97,910	2,119	6,748	2,601	1,548,290	1,689,914	141,623
5,505	0	0	0	0	0	-0
10,000	0	0	0	596,011	696,526	100,515
66,959	0	0	0	489,052	552,304	63,252
0	0	0	0	0	0	0
85	0	0	0	97	97	0
0	49	0	0	53,797	53,797	0
7,146	0	0	0	111,295	128,516	17,222
308,746	2,487	40,513	2,630	4,420,065	4,854,784	434,720
313,012	2,949	40,875	10,295	4,629,178	5,240,903	611,725
3,774	0	0	0	60,678	60,678	0
316,786	2,949	40,875	10,295	4,689,856	5,301,581	611,725

IV. Other Disclosures

Investment fund disclosures

The portfolio of investments contains the following investment funds, of which more than 10 percent is held by the Group:

Institutional funds

Name	Type of fund	Investment objective	Carrying amount as of Dec. 31, 2019	Market value as of Dec. 31, 2019	Difference	Dividend in 2019	Redemption
			(€)	(€)	(€)	(€)	
ADRENT	Fixed-income fund	Increased income	52,003,507.82	55,433,956.14	3,430,448.32	133,490.45	At any time
ATRI	Fixed-income fund	Increased income	157,240,678.87	157,240,678.87	0.00	496,431.73	At any time
ARRE	Fixed-income fund	Increased income	160,214,948.51	173,572,282.76	13,357,334.25	680,856.17	At any time
ARI 1	Fixed-income fund	Increased income	174,023,047.75	174,023,047.75	0.00	7,910,314.94	At any time
ARI 2	Fixed-income fund	Increased income	119,593,272.27	119,819,741.48	226,469.21	4,890,788.77	At any time
ALLTIRENT	Fixed-income fund	Increased income	52,007,807.22	60,009,144.81	8,001,337.59	188,064.58	At any time
ALLTRI	Mixed fund	Increased income	128,229,215.98	160,469,480.84	32,240,264.86	2,711,508.78	At any time
ADZ	Fixed-income fund	Increased income	130,249,087.39	130,249,087.39	0.00	2,301,950.45	At any time
EMA	Equity fund	Increased income	58,549,596.02	61,379,641.66	2,830,045.64	1,956,903.66	At any time
AKR	Fixed-income fund	Increased income	210,334,982.17	216,550,403.43	6,215,421.26	0.00	At any time
AAF	Equity fund	Increased income	164,843,201.11	184,217,875.89	19,374,674.78	2,548,357.58	At any time
SIVE Fonds INKA	Equity fund	Increased income	165,746,858.38	185,851,742.09	20,104,883.71	5,131,857.63	At any time
			1,573,036,203.49	1,678,817,083.11	105,780,879.62	28,950,524.74	

The investment objectives of the funds – which can be traded ahead of a stock market trading day – are based on the relevant benchmarks derived from the strategic investment structure. The Group made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341 b (2) second half-sentence HGB for those institutional funds that are intended to be used permanently as part of the working capital of the Group. No undisclosed liabilities were created in connection with the classification of the listed funds as fixed assets (December 31, 2018: €25,725,140.91). Reversals of write-downs pursuant to section 253 (5) HGB were recognized on the entire portfolio in an amount of €33,765,047.10 in 2019 (2018: €0.00).

The German Federal Financial Supervisory Authority (BaFin) and the German Insurance Association (GDV) jointly specify the principles for determining the fair value pursuant to section 253 (3) sentence 5 HGB. These principles are followed when valuing fixed assets in accordance with the requirements.

34 Deferred taxes disclosures

The recognized deferred taxes arise from the differences between the HGB financial statements and the tax base. They relate to the following items:

Balance sheet items

(€'000)	Deferred taxes as of Dec. 31, 2019	Deferred taxes as of Dec. 31, 2018
Intangible assets	597	532
Investments	754	516
Receivables	2,252	- 331
Miscellaneous assets	78	94
Prepaid expenses and accrued income	386	0
Technical provisions	-6,011	-2,193
Other provisions	2,570	2,444
Other liabilities	0	0
Deferred income and accrued expenses	0	0
Loss carryforwards	0	0
	627	1,062

The net deferred tax asset pursuant to section 274 (1) sentence 2 HGB was not reported at single-entity financial statements level. Only deferred tax liabilities that were reported in single-entity financial statements have been included in the consolidated financial statements. Net deferred taxes that arose as a consolidation effect at Group level in accordance with section 306 HGB were valued on the basis of the Group's financial performance and not written down. In this regard, net deferred tax assets were also included in the carrying amounts of the consolidated financial statements. However, these have been offset in the consolidated financial statements against the net deferred tax liabilities from the single-entity financial statements. Deferred tax assets are not recognized on losses carried forward.

35 Net extraordinary income/expense

There were no transactions in 2019 or 2018 that would have had to be recognized in net extraordinary income/expense.

36 Income taxes

The breakdown of income taxes in the income statement is as follows:

Income taxes		2019		2018	
	(%)	(€)	(%)	(€)	
Profit before tax (HGB financial statements)		119,852,390.52			70,236,411.77
Expected income tax expense based on tax rate	31.23	37,429,901.55	31.20		21,913,760.47
Current taxes		40,477,123.83			32,363,460.58
Deferred taxes		435,562.75			2,555,013.80
Reported income tax expense		40,912,686.58			34,918,474.38
Effective tax rate	34.14		49.72		
Miscellaneous taxes		1,402,796.80			573,574.07
Tax expense reported in the income statement		42,315,483.38			35,492,048.45

The difference between the expected and effective tax expense was attributable both to off-balance-sheet additions and reductions to determine the tax assessment basis starting from the net retained profit for tax purposes and to the change in net deferred taxes. In the reporting year, only a small level of income amounting to €57.8 thousand (2018: €181.8 thousand) arose from consolidation effects, specifically from the increase in net deferred tax assets at Group level. Deferred tax assets arise as a result of variations in the valuations for tax purposes of receivables from policyholders, the provision for outstanding claims, the provision for pensions and other post-employment benefits, and miscellaneous provisions. The main deferred tax liabilities arise from variations in the recognition for tax purposes of the provision for unearned premiums and from equalization provisions in Austria and the Netherlands that are recognized only for tax purposes. Deferred taxes are recognized in the single-entity financial statements only if there is not a net asset balance. The income statement therefore does not include the full change in deferred taxes.

Miscellaneous financial commitments pursuant to section 285 no. 3 HGB

Rental and leasing agreements with varying terms for premises, vehicles, and office equipment as well as for the hardware and software used in a data center that have been entered into outside the insurance business give rise to total annual obligations that are of a standard magnitude for the industry. There are payment obligations of €1,649.0 thousand in connection with loans to third parties that have not yet been drawn down by the borrower. Drawdown is anticipated in the near future.

The following unpaid contributions in respect of equity investments and private-equity fund structures are attributable to the Group:

Unpaid contributions and obligations to pay in capital

Name of company/type of obligation to pay in capital	(€)
Private-equity and infrastructure funds	139,293,574.99
FOYER-ARAG S. A., Luxembourg	24,788.00

The unpaid contributions have not been called up. They are not expected to be called up in the short term. It would be reasonable to expect obligations to pay in capital to be called up by the investment funds (infrastructure and private-equity funds) in the near future.

Contingent liabilities

The Group is a member of the protection fund for providers of substitutive private health insurance. This protection fund can collect special contributions up to a maximum of 0.2 percent of the total net technical provisions for health insurance, which amounted to €4,569,295.16 as of the reporting date (December 31, 2018: €4,258,873.13).

Auditor's fees

The auditor of the consolidated financial statements is PricewaterhouseCoopers GmbH, Düsseldorf branch. The Group companies incurred expenses for auditor's fees of €1,008,579.99 for the audit of annual financial statements and Solvency II balance sheets, and €21,649.25 for other consulting or advisory services. Tax consultancy fees of €23,654.23 were paid. These amounts include the standard levels of out-of-pocket expenses. They also include the VAT on the auditor's fees and out-of-pocket expenses because the ARAG Group is not entitled to offset input VAT.

37 Expenses for bonuses and rebates net of reinsurance

(€)	2019	2018
Expenses for performance-based bonuses and rebates	50,860,084.53	45,085,083.01
Expenses for non-performance-based bonuses and rebates	1,068,871.09	2,795.66
Total expenses	51,928,955.62	45,087,878.67

Commissions and other remuneration for insurance agents, staff costs

(€)	2019	2018
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	267,547,328.29	248,693,913.94
2. Other remuneration for insurance agents within the meaning of section 92 HGB	17,669,520.14	21,948,995.49
3. Wages and salaries	265,494,295.54	249,025,398.36
4. Social security and other employee benefit expenses	44,985,684.73	40,032,646.93
5. Pension and other post-employment benefit expenses	32,553,064.23	37,132,774.75
6. Total expenses	628,249,892.93	596,833,729.47

Average number of employees in 2019

The Group's fully consolidated entities employed an average of 4,172 people in 2019 (2018: 4,015). As of December 31, 2019, the Group had a total of 4,315 employees (December 31, 2018: 4,152).

The insurance companies employed an average of 3,665 people (2018: 3,483). The average number of people employed by all of the administrative entities and service companies was 591 (2018: 612). In the German Group companies, an additional 24 people were employed for the purpose of vocational training (2018: 22). At the end of 2019, the ARAG Group had a total of 1,989 (December 31, 2018: 1,988) employees in Germany. A further 2,326 (December 31, 2018: 2,164) people were employed outside Germany, equating to 53.9 percent of the total workforce.

Remuneration of the Supervisory Board and Management Board of ARAG Holding SE

The expense for Supervisory Board remuneration in all Group companies came to €398,650.00.

The remuneration for the members of the Management Board of the parent company in return for the responsibilities undertaken in the parent company and in the subsidiaries, including remuneration not actually paid but recognized as a provision, amounted to €2,330,445.17. There are no current pensions or vested pension entitlements for former members of the Management Board and their surviving dependants.

V. Governing Bodies of the Company

Supervisory Board	Gerd Peskes	Wirtschaftsprüfer (German Public Auditor), Essen, Chairman
	Dr. Tobias Bürgers	Attorney, Munich, Deputy Chairman
	Professor Emeritus Dr. Brigitte Grass	University professor, Cologne
Management Board	Dr. Dr. h. c. Paul-Otto Faßbender	Chief Executive Officer, Düsseldorf
	Klaus Heiermann	Cologne
	Dr. Sven Wolf	Krefeld

VI. Report on Post-Balance Sheet Events

By the time of preparation of the consolidated financial statements, the COVID-19 epidemic had grown into a pandemic with a huge impact on public life and the economy. Society and economic activity are subject to significant restrictions worldwide. The insurance industry, and thus the ARAG Group, are likely to feel the effects. As well as operational restrictions, the main consequences that are expected are restrictions in sales (such as a reduction in new business or rising lapse rates), higher insurance benefit payments, and effects on investment portfolios. The impact on the Group's net assets, financial position, and results of operations depends on the duration of the crisis and cannot be reliably forecast at present.

Düsseldorf, April 8, 2020

ARAG Holding SE

The Management Board

Dr. Dr. h. c. Paul-Otto Faßbender

Klaus Heiermann

Dr. Sven Wolf

Consolidated Cash Flow Statement for 2019

Cash flow statement

(€)	2019	2018
Cash flows from operating activities		
Profit for the period	77,536,907	34,744,363
Increase(+)/decrease(-) in technical provisions, net	248,654,045	175,554,932
Increase(-)/decrease(+) in deposits with ceding insurers and in receivables from reinsurance business	-9,040,819	-5,791,994
Increase(+)/decrease(-) in deposits from reinsurers and liabilities from reinsurance business	344,762	-498,421
Increase(-)/decrease(+) in receivables from direct insurance business	-14,929,002	-10,472,012
Increase(+)/decrease(-) in liabilities from direct insurance business	2,525,187	3,070,425
Increase(-)/decrease(+) in miscellaneous receivables	9,480,911	-9,207,323
Increase(+)/decrease(-) in miscellaneous liabilities	5,052,528	2,555,087
Change in miscellaneous balance sheet items not related to investing or financing activities	-259,162,278	-145,917,483
Other non-cash income and expenses, and adjustment of the profit/loss for the period	-15,604,421	70,633,002
Gain(-)/loss (+) on the disposal of investments, property and equipment, and intangible fixed assets	-18,383,307	-9,035,013
Expenses for/income from extraordinary items	0	0
Current income tax expense/income	40,477,124	30,455,139
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Income taxes paid	-38,976,021	-34,497,241
Cash flows from operating activities	27,975,617	101,593,462
Cash flows from investing activities		
Proceeds from disposal of consolidated entities	0	0
Proceeds from disposal of property and equipment	752,247	88,899
Proceeds from disposal of intangible fixed assets	125,179	58
Payments to acquire property and equipment	-8,761,240	-3,050,821
Payments to acquire intangible fixed assets	-7,163,340	-6,229,084
Proceeds from disposal of investments related to fund-linked life insurance	0	0
Payments to acquire investments related to fund-linked life insurance	0	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Cash flows from investing activities	-15,047,154	-9,190,947
Cash flows from financing activities		
Proceeds from capital contributions by shareholders	0	0
Cash payments to shareholders from the redemption of shares	0	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Dividends paid	-10,000,000	-10,000,000
Proceeds(+)/cash payments(-) related to miscellaneous financing activities	0	0
Cash flows from financing activities	-10,000,000	-10,000,000
Net change in cash and cash equivalents	2,928,463	82,402,516
Effect on cash and cash equivalents of exchange rate movements and remeasurements	0	0
Effect on cash and cash equivalents of changes in the basis of consolidation	0	0
Cash and cash equivalents at beginning of period	196,214,156	113,811,641
Cash and cash equivalents at end of period	199,142,619	196,214,156

38 Statement of Changes in Group Equity in Accordance with GAS 22 for the Year Ended December 31, 2019

(€'000)											Equity attributable to parent entity		
	(Adjusted) subscribed capital				Capital reserves			Reserves					
	Sub- scribed capital	Treasury shares	Uncalled unpaid contri- butions	Total	Pursuant to sec. 272 (2) nos. 1-3 HGB	Pursuant to sec. 272 (2) no. 4 HGB	Total	Statutory reserves	Revenue reserves				
	Ordinary shares								Reserves provided for by the articles of incor- poration	Other revenue reserves			
Balance as of Jan. 1, 2019	200,000	0	0	200,000	0	0	0	12,230	0	229,154			
Transfers to/ withdrawals from reserves				0			0	1,411		22,636			
Distribution				0			0						
Currency translation				0			0						
Miscellaneous changes				0			0			-59			
Changes in the basis of consolidation				0			0						
Consolidated net income				0			0						
Balance as of December 31, 2019	200,000	0	0	200,000	0	0	0	13,641	0	251,731			

		Equity attributable to parent entity					Non-controlling interests			Consolidated equity
	Reserves	Currency translation difference	Retained profits brought forward	Consolidated net income attributable to the parent entity	Total	Non-controlling interests before currency translation differences	Currency translation differences attributable to non-controlling interests	Profit or loss attributable to non-controlling interests	Total	Total
Revenue reserves	Total									
Total										
241,384	241,384	3,802	0	34,047	479,233	8,445	28	697	9,170	488,403
24,047	24,047			-24,047	0	308		-308	0	0
0	0			-10,000	-10,000			-389	-389	-10,389
0	0	2,898			2,898		0		0	2,898
-59	-59				-59	-285			-285	-344
0	0				0				0	0
0	0			76,527	76,527			1,010	1,010	77,537
265,372	265,372	6,700	0	76,527	548,600	8,467	28	1,010	9,506	558,105

Segment Reporting – Balance Sheet

(€'000)	Legal insurance		Casualty and property insurance	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
A. Intangible assets	11,577	9,273	0	0
B. Investments	2,230,725	2,112,184	470,717	457,036
I. Land and buildings, including buildings on third-party land	56,363	59,200	33,266	34,060
II. Investments in affiliated companies and equity investments	376,686	376,442	40,811	39,144
III. Miscellaneous investments	1,740,292	1,623,862	393,346	380,576
IV. Deposits with ceding insurers	57,383	52,678	3,295	3,257
C. Sundry segment assets	305,411	277,266	19,436	19,939
Total segment assets	2,547,714	2,398,723	490,154	476,975
A. Technical provisions	1,463,887	1,389,404	337,491	318,531
I. Unearned premiums	202,079	199,533	43,410	43,271
II. Actuarial reserve	0	0	18	19
III. Provision for outstanding claims	1,241,075	1,179,110	254,673	242,087
IV. Provision for bonuses and rebates	0	0	0	0
V. Equalization provision	18,915	9,188	70,239	66,774
VI. Miscellaneous technical provisions	2,557	2,140	2,079	1,887
VII. Reinsurers' share of technical provisions	-739	-568	-32,929	-35,508
B. Miscellaneous segment liabilities	401,166	387,003	50,449	49,687
Total segment liabilities	1,865,053	1,776,408	387,940	368,218
Equity*				
Total equity and liabilities				

* Consolidated equity including non-controlling interests and goodwill arising on consolidation

The segment reporting has largely been adapted in line with German accounting standard GAS 3–20 published by the German Accounting Standards Board (GASB). The segment data is presented after consolidation of internal transactions within each business line. Reconciliation with the figure for the Group is based on the amounts stated in the 'Consolidation' column. Gains and losses on investments are retained in the segments and then eliminated later in the 'Consolidation' column.

The segmentation follows the internal organizational and management structure of the ARAG Group, which is based on strategic business lines. The segments chosen reflect the Group's risks and opportunities.

The strategic business lines are:

- Legal insurance
- Casualty and property insurance
- Health insurance
- Services and asset management

Health insurance		Services and asset management		Total		Consolidation		Group total	
Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
40	54	1,693	2,448	13,311	11,776	15,275	21,825	28,585	33,601
2,397,965	2,181,544	475,772	476,583	5,575,179	5,227,347	-885,323	-874,023	4,689,856	4,353,323
69,585	71,546	31,832	32,860	191,046	197,666	-2,986	-2,994	188,060	194,672
48,289	32,146	437,606	439,052	903,391	886,784	-882,337	-871,029	21,054	15,755
2,280,091	2,077,852	6,335	4,671	4,420,065	4,086,961	0	0	4,420,065	4,086,961
0	0	0	0	60,678	55,935	0	0	60,678	55,935
52,913	79,159	79,649	65,561	457,410	441,925	627	1,062	458,037	442,987
2,450,919	2,260,757	557,114	544,592	6,045,900	5,681,047	-869,422	-851,136	5,176,478	4,829,911
2,284,648	2,129,437	0	0	4,086,026	3,837,372	0	0	4,086,026	3,837,372
15,936	15,330	0	0	261,425	258,134	0	0	261,425	258,134
1,946,357	1,787,225	0	0	1,946,376	1,787,244	0	0	1,946,376	1,787,244
62,127	62,518	0	0	1,557,875	1,483,716	0	0	1,557,875	1,483,716
260,055	264,196	0	0	260,055	264,196	0	0	260,055	264,196
0	0	0	0	89,154	75,962	0	0	89,154	75,962
172	167	0	0	4,808	4,195	0	0	4,808	4,195
0	0	0	0	-33,668	-36,076	0	0	-33,668	-36,076
41,719	31,078	39,013	36,368	532,347	504,136	0	0	532,347	504,136
2,326,367	2,160,514	39,013	36,368	4,618,373	4,341,508	0	0	4,618,373	4,341,508
								558,105	488,403
								5,176,478	4,829,911

The service companies and asset management companies comprise the Group parent company and other intermediate holding companies that manage assets, including, but not limited to, real-estate management companies, IT companies, and service companies that support the insurance business.

Because deferred taxes are recognized in accordance with the temporary concept, the segment breakdown of the income statement only goes as far as the 'Profit/loss before tax' line.

Segment Reporting – Income Statement by Class of Insurance

(€'000)	Legal insurance		Casualty and property insurance	
	2019	2018	2019	2018
Underwriting income				
Gross premiums written	1,085,295	1,004,303	285,010	275,677
Direct insurance business	866,494	803,245	272,570	263,244
Inward reinsurance business	218,801	201,058	12,441	12,433
Reinsurance premiums ceded	-602	-507	-9,876	-11,220
Change in net unearned premiums	276	-3,308	-277	2,056
Premiums earned net of reinsurance	1,084,969	1,000,488	274,857	266,512
Premiums from the gross provision for bonuses and rebates	0	0	0	0
Investment income allocated to the underwriting account	0	0	304	387
Miscellaneous underwriting income net of reinsurance	1,891	1,704	608	508
Total underwriting income	1,086,860	1,002,191	275,769	267,407
Underwriting expenses				
Claims incurred net of reinsurance	-554,801	-506,151	-151,503	-147,336
Change in sundry net technical provisions	-497	-1,450	-191	86
Expenses for bonuses and rebates	0	0	0	0
of which performance-based	0	0	0	0
of which non-performance-based	0	0	0	0
Insurance business operating expenses	-457,508	-428,389	-111,896	-109,592
of which front-end fees	-109,136	-106,287	-41,474	-39,460
of which administrative expenses	-348,372	-322,101	-71,769	-71,605
of which reinsurers' share	0	0	1,348	1,473
Investment expenses allocated to the underwriting account	0	0	0	0
Miscellaneous underwriting expenses net of reinsurance	0	0	-1,809	-1,829
Total underwriting expenses	-1,012,806	-935,990	-265,399	-258,671
Subtotal	74,054	66,201	10,369	8,736
Change in the equalization provision and similar provisions	-9,003	-2,906	-4,149	7,821
Underwriting result net of reinsurance	65,051	63,295	6,221	16,558
Income from investments	113,076	97,068	16,677	14,276
Expenses for investments	-24,462	-40,795	-4,668	-7,992
Gains and losses on investments	88,614	56,273	12,009	6,284
Gains and losses on investments assigned to the underwriting account	0	0	0	0
Market fees for goods and services provided by non-insurance companies	0	0	0	0
Cost of goods and services provided by non-insurance companies to generate market fees	0	0	0	0
Gross profit	0	0	0	0
Other income	25,301	24,705	2,264	1,784
Other expenses	-63,458	-59,827	-5,896	-5,924
Other net income/expense	-38,157	-35,122	-3,632	-4,140
Profit/loss from ordinary activities	115,509	84,445	14,598	18,702
Net extraordinary income/expense	0	0	0	0
Profit/loss before tax	115,509	84,445	14,598	18,702
Tax expense				
Net income for the year				
of which non-controlling interests				

Health insurance		Services and asset management		Total		Consolidation		Group total	
2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
393,198	373,740	0	0	1,763,503	1,653,720	0	0	1,763,503	1,653,720
393,198	373,740	0	0	1,532,261	1,440,229	0	0	1,532,261	1,440,229
0	0	0	0	231,242	213,490	0	0	231,242	213,490
-379	-393	0	0	-10,857	-12,120	0	0	-10,857	-12,120
-606	-380	0	0	-607	-1,633	0	0	-607	-1,633
392,213	372,967	0	0	1,752,039	1,639,967	0	0	1,752,039	1,639,967
46,506	19,853	0	0	46,506	19,853	0	0	46,506	19,853
87,410	82,966	0	0	87,714	83,352	0	0	87,714	83,352
2,133	3,337	0	0	4,632	5,549	0	0	4,632	5,549
528,262	479,123	0	0	1,890,891	1,748,721	0	0	1,890,891	1,748,721
-230,179	-216,515	0	0	-936,484	-870,001	0	0	-936,484	-870,001
-159,137	-123,601	0	0	-159,826	-124,966	0	0	-159,826	-124,966
-51,929	-45,088	0	0	-51,929	-45,088	0	0	-51,929	-45,088
-50,860	-45,085	0	0	-50,860	-45,085	0	0	-50,860	-45,085
-1,069	-3	0	0	-1,069	-3	0	0	-1,069	-3
-48,983	-44,691	0	0	-618,386	-582,672	0	0	-618,386	-582,672
-39,689	-35,814	0	0	-190,300	-181,561	0	0	-190,300	-181,561
-9,386	-8,981	0	0	-429,527	-402,688	0	0	-429,527	-402,688
93	103	0	0	1,440	1,577	0	0	1,440	1,577
-9,397	-30,133	0	0	-9,397	-30,133	0	0	-9,397	-30,133
-1,435	-1,508	0	0	-3,244	-3,336	0	0	-3,244	-3,336
-501,060	-461,536	0	0	-1,779,266	-1,656,197	0	0	-1,779,266	-1,656,197
27,202	17,586	0	0	111,626	92,524	0	0	111,626	92,524
0	0	0	0	-13,152	4,915	0	0	-13,152	4,915
27,202	17,586	0	0	98,474	97,439	0	0	98,474	97,439
87,410	82,966	51,679	35,326	268,842	229,635	-82,554	-69,130	186,288	160,505
-9,397	-30,133	-3,706	-2,321	-42,233	-81,240	12,859	1,886	-29,374	-79,354
78,013	52,833	47,973	33,005	226,609	148,395	-69,695	-67,243	156,914	81,151
-78,013	-52,833	0	0	-78,013	-52,833	0	0	-78,013	-52,833
0	0	66,853	62,035	66,853	62,035	-42,872	-37,976	23,981	24,058
0	0	-67,800	-65,848	-67,800	-65,848	42,872	37,976	-24,928	-27,872
0	0	-947	-3,813	-947	-3,813	0	0	-947	-3,813
1,688	2,019	956	903	30,209	29,412	-224	-215	29,985	29,197
-6,646	-6,329	-4,270	-4,008	-80,270	-76,087	-6,290	-4,818	-86,560	-80,905
-4,958	-4,309	-3,314	-3,104	-50,061	-46,675	-6,515	-5,033	-56,575	-51,708
22,244	13,277	43,712	26,088	196,062	142,512	-76,210	-72,276	119,852	70,236
0	0	0	0	0	0	0	0	0	0
22,244	13,277	43,712	26,088	196,062	142,512	-76,210	-72,276	119,852	70,236
								-42,315	-35,492
								77,537	34,744
								-1,010	-697

Segment Reporting – Income Statement by German and International Business

(€'000)

Underwriting income

Gross premiums written

Direct insurance business

Inward reinsurance business

Reinsurance premiums ceded

Change in net unearned premiums

Premiums earned net of reinsurance

Premiums from the gross provision for bonuses and rebates

Investment income allocated to the underwriting account

Miscellaneous underwriting income net of reinsurance

Total underwriting income

Underwriting expenses

Claims incurred net of reinsurance

Change in sundry net technical provisions

Expenses for bonuses and rebates

of which performance-based

of which non-performance-based

Insurance business operating expenses

of which front-end fees

of which administrative expenses

of which reinsurers' share

Investment expenses allocated to the underwriting account

Miscellaneous underwriting expenses net of reinsurance

Total underwriting expenses

Subtotal

Change in the equalization provision and similar provisions

Underwriting result net of reinsurance

Income from investments

Expenses for investments

Gains and losses on investments

Gains and losses on investments assigned to the underwriting account

Market fees for goods and services provided by non-insurance companies

Cost of goods and services provided by non-insurance companies to generate market fees

Gross profit

Other income

Other expenses

Other net income/expense

Profit/loss from ordinary activities

Net extraordinary income/expense

Profit/loss before tax

Tax expense

Net income for the year

of which non-controlling interests

German		International		Total		Consolidation		Group total	
2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
1,026,938	981,048	736,565	672,672	1,763,503	1,653,720	0	0	1,763,503	1,653,720
1,002,693	955,817	529,569	484,412	1,532,261	1,440,229	0	0	1,532,261	1,440,229
24,246	25,231	206,996	188,260	231,242	213,490	0	0	231,242	213,490
-10,559	-11,864	-298	-256	-10,857	-12,120	0	0	-10,857	-12,120
-5,428	-4,462	4,821	2,830	-607	-1,633	0	0	-607	-1,633
1,010,951	964,721	741,089	675,246	1,752,039	1,639,967	0	0	1,752,039	1,639,967
46,506	19,853	0	0	46,506	19,853			46,506	19,853
87,714	83,352	0	0	87,714	83,352	0	0	87,714	83,352
4,078	5,007	554	541	4,632	5,549	0	0	4,632	5,549
1,149,249	1,072,933	741,643	675,787	1,890,891	1,748,721	0	0	1,890,891	1,748,721
-622,994	-570,824	-313,490	-299,177	-936,484	-870,001	0	0	-936,484	-870,001
-159,697	-124,872	-129	-94	-159,826	-124,966	0	0	-159,826	-124,966
-51,929	-45,088	0	0	-51,929	-45,088	0	0	-51,929	-45,088
-50,860	-45,085	0	0	-50,860	-45,085	0	0	-50,860	-45,085
-1,069	-3	0	0	-1,069	-3	0	0	-1,069	-3
-292,632	-282,599	-325,754	-300,073	-618,386	-582,672	0	0	-618,386	-582,672
-125,911	-120,315	-64,388	-61,247	-190,300	-181,561	0	0	-190,300	-181,561
-168,162	-163,861	-261,366	-238,826	-429,527	-402,688	0	0	-429,527	-402,688
1,440	1,577	0	0	1,440	1,577	0	0	1,440	1,577
-9,397	-30,133	0	0	-9,397	-30,133	0	0	-9,397	-30,133
-3,244	-3,336	0	0	-3,244	-3,336	0	0	-3,244	-3,336
-1,139,893	-1,056,853	-639,373	-599,344	-1,779,266	-1,656,197	0	0	-1,779,266	-1,656,197
9,356	16,081	102,270	76,443	111,626	92,524	0	0	111,626	92,524
-2,892	10,785	-10,260	-5,870	-13,152	4,915	0	0	-13,152	4,915
6,464	26,866	92,010	70,573	98,474	97,439	0	0	98,474	97,439
240,338	199,918	28,505	29,717	268,842	229,635	-82,554	-69,130	186,288	160,505
-38,729	-71,591	-3,504	-9,649	-42,233	-81,240	12,859	1,886	-29,374	-79,354
201,609	128,326	25,000	20,068	226,609	148,395	-69,695	-67,243	156,914	81,151
-78,013	-52,833	0	0	-78,013	-52,833	0	0	-78,013	-52,833
66,853	62,035	0	0	66,853	62,035	-42,872	-37,976	23,981	24,058
-67,800	-65,848	0	0	-67,800	-65,848	42,872	37,976	-24,928	-27,872
-947	-3,813	0	0	-947	-3,813	0	0	-947	-3,813
26,103	26,133	4,106	3,278	30,209	29,412	-224	-215	29,985	29,197
-76,052	-67,616	-4,218	-8,471	-80,270	-76,087	-6,290	-4,818	-86,560	-80,905
-49,949	-41,483	-111	-5,193	-50,061	-46,675	-6,515	-5,033	-56,575	-51,708
79,163	57,064	116,899	85,448	196,062	142,512	-76,210	-72,276	119,852	70,236
0	0	0	0	0	0	0	0	0	0
79,163	57,064	116,899	85,448	196,062	142,512	-76,210	-72,276	119,852	70,236
								-42,315	-35,492
								77,537	34,744
								-1,010	-697

Independent Auditor's Report*

To ARAG Holding SE, Düsseldorf

Audit Opinions

We have audited the consolidated financial statements of ARAG Holding SE, Düsseldorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2019, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement and the consolidated segment report for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the group management report of ARAG Holding SE for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of the separate non-financial group report pursuant to § [Article] 315b Abs. [paragraph] 3 HGB [Handelsgesetzbuch: German Commercial Code].

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

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the separate non-financial group report referred to above.

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

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with §317 HGB in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities

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

under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Other Information

The executive directors are responsible for the other information. The other information comprises the separate non-financial group report pursuant to § 315 b Abs. 3 HGB.

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

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

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

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

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

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

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

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group 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 group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Düsseldorf, April 8, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Ludger Koslowski
Wirtschaftsprüfer (German public auditor)

Michael Peters
Wirtschaftsprüfer (German public auditor)

Report of the Supervisory Board

The Supervisory Board continually monitored and advised the Management Board during the financial year, holding five ordinary Supervisory Board meetings for this purpose. Monitoring was based on the written and oral reports presented by the Management Board, which provided the Supervisory Board with timely and comprehensive information on relevant planning matters, the performance of the Company and its equity investments, the risk situation, and risk management. The Supervisory Board also received detailed information between meetings on projects and plans of particular importance or urgency to the Company. At the meetings, the Management Board agreed the Company's strategic direction with the Supervisory Board. The Supervisory Board was involved in decisions of fundamental importance to the Company. Progress on implementing the strategy was regularly discussed in the meetings.

The main topics deliberated on during the Supervisory Board meetings included the business performance of the investee company ARAG SE, the business performance of the international branches and Group companies, and the investment in the Group's own real estate, including related reporting. The Supervisory Board was also regularly informed of the content and scope of internal audits. Another focus was reporting on measures to fend off cyber risks.

The Supervisory Board also regularly received explanations regarding risk reporting from the Management Board and discussed the risk strategy and the corporate strategy.

Finally, the Supervisory Board held its regular discussion on the appropriateness of the Management Board's remuneration. The planning for the professional development of the Management Board and the Supervisory Board was also covered at the meetings.

No special monitoring measures were required last year. The Supervisory Board believes that the Management Board manages the business lawfully, properly, and appropriately. In particular, the Management Board fulfills its duty of care regarding the Company's continued existence and long-term profitability.

The Supervisory Board reviewed the Company's single-entity financial statements, the consolidated financial statements, and the group management report. To do so, it exercised its powers pursuant to section 111 (2) of the German Stock Corporation Act (AktG) including, but not limited to, inspecting the books and papers of the Company. The review was conducted on the basis of the regular written and oral reports from the Management Board about the business situation and all major transactions and on the basis of the commercial-law accounting regulations.

The scope of the review of all financial statements also covered the accounting options exercised by the Management Board. The findings of the review were as follows:

The Management Board's financial reporting complies with the legal requirements and the provisions in the articles of incorporation. The management report is consistent with the financial statements.

The accounting policy decisions that were made on a discretionary basis were exercised for the benefit of the Company and the Group and took shareholders' interests into account to an appropriate degree.

On behalf of the Supervisory Board, PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the Company's single-entity financial statements and the consolidated financial statements for the year ended December 31, 2019, including the bookkeeping system and the group management report, and issued an unqualified opinion. The audit report was presented to the Supervisory Board on time. Having studied the report and on the basis of its own final review, the Supervisory Board agrees with the auditor's opinion. It has no comments to make about the audit report.

There are no objections to be raised on the basis of the concluding findings of the review of the financial statements, group management report, and audit report.

The Supervisory Board also discussed the non-financial statement prepared by the Management Board for ARAG Holding SE and the Group for the period ended December 31, 2019. An auditing firm reviewed this statement to provide the Supervisory Board with limited assurance and issued an unqualified opinion. At the meetings, the Management Board explained the documents in detail; the representatives of the auditing firm reported on the main findings of their review and answered additional questions from the members of the Supervisory Board. The Supervisory Board did not express any reservations on completion of its own review.

Düsseldorf, April 22, 2020

ARAG Holding SE

The Supervisory Board

Gerd Peskes
(Chairman)

Dr. Tobias Bürgers
(Deputy Chairman)

Professor Emeritus Dr. Brigitte Grass

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.

You can obtain up-to-date **information about the Group** using the following contact details:

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