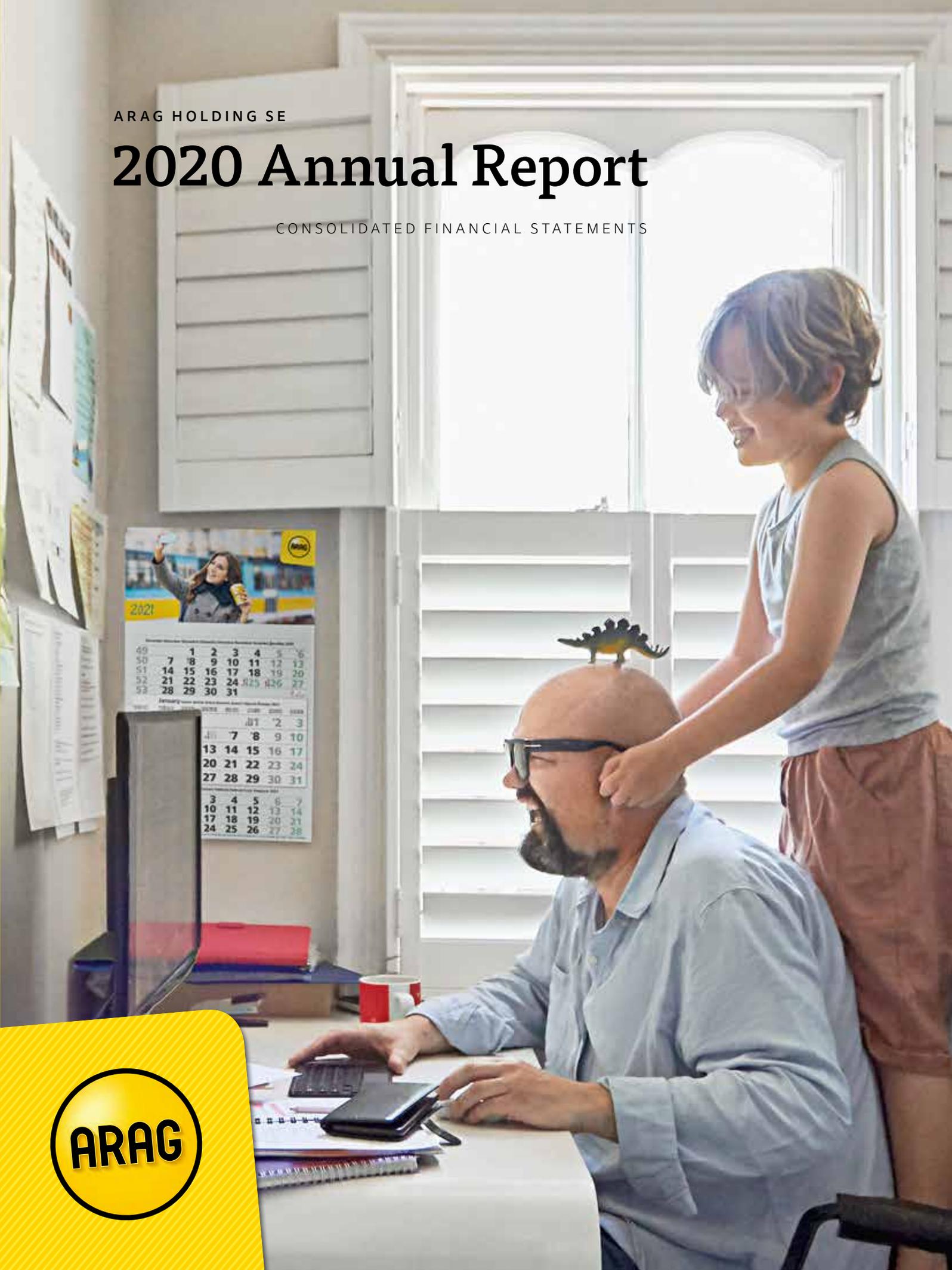


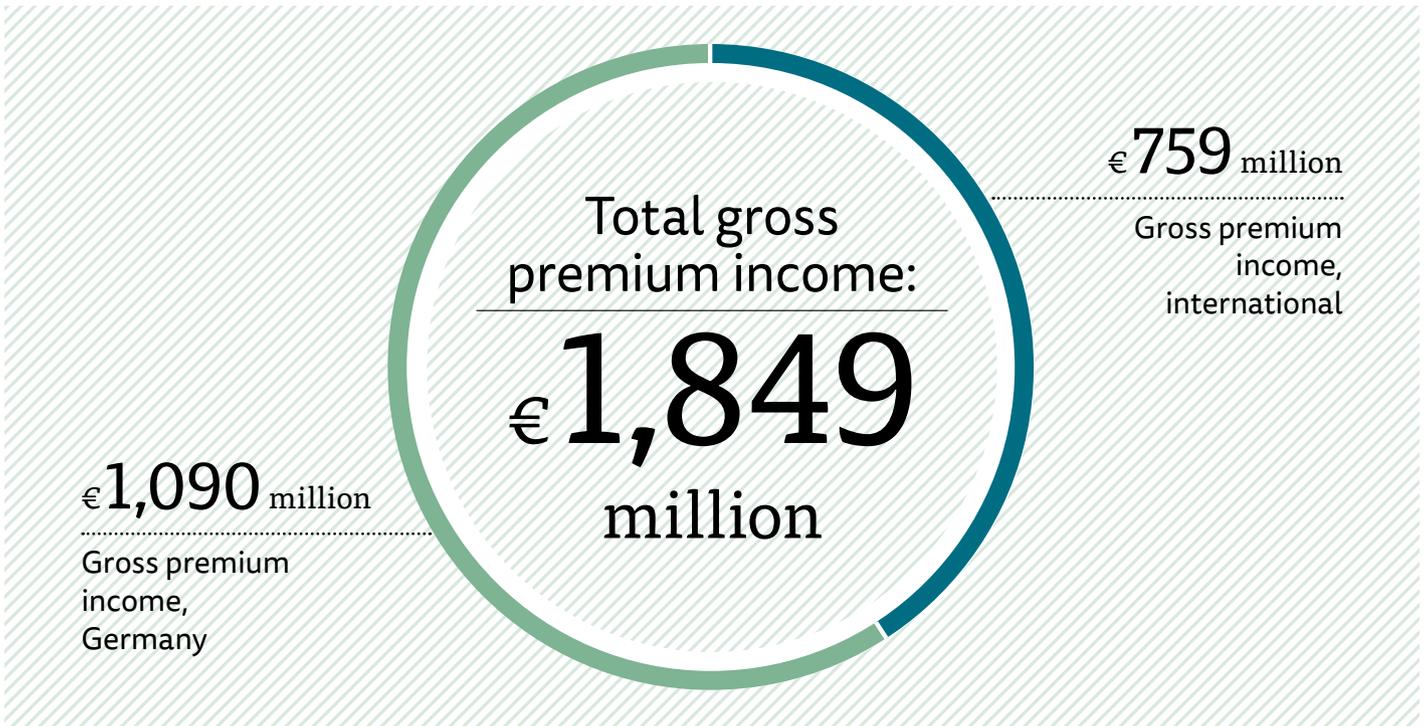
ARAG HOLDING SE

2020 Annual Report

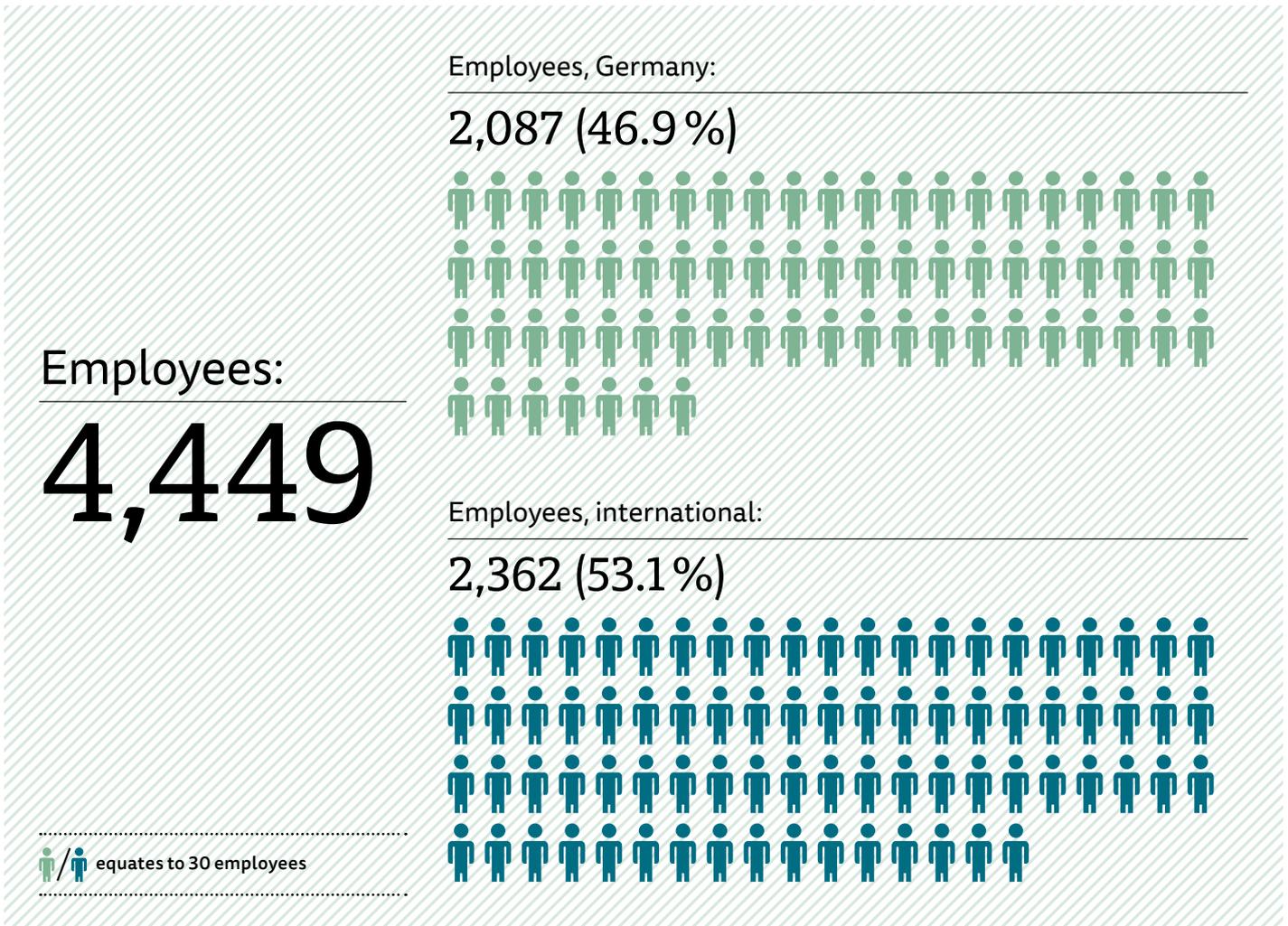
CONSOLIDATED FINANCIAL STATEMENTS



Gross premium income broken down by domestic and international business



Number of employees and breakdown



Premium income/sales revenue:

€ **1.87** billion

↗ 2019: €1.79 billion

Combined ratio:

87.6%

↘ 2019: 88.7%

Underwriting result net of reinsurance:

€ **112** million

↗ 2019: €98.5 million

Consolidated equity:

€ **574** million

↗ 2019: €558 million

Profit from ordinary activities:

€ **83.2** million

↘ 2019: €119.9 million

Consolidated net income:

€ **38.2** million

↘ 2019: €77.5 million

Insurance segments in the ARAG Group and their parent operating companies

Legal insurance ARAG SE

€ 1,155 million*

↗ 2019:

€ 1,085 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

€ 263 million*

↘ 2019:

€ 285 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

€ 430 million*

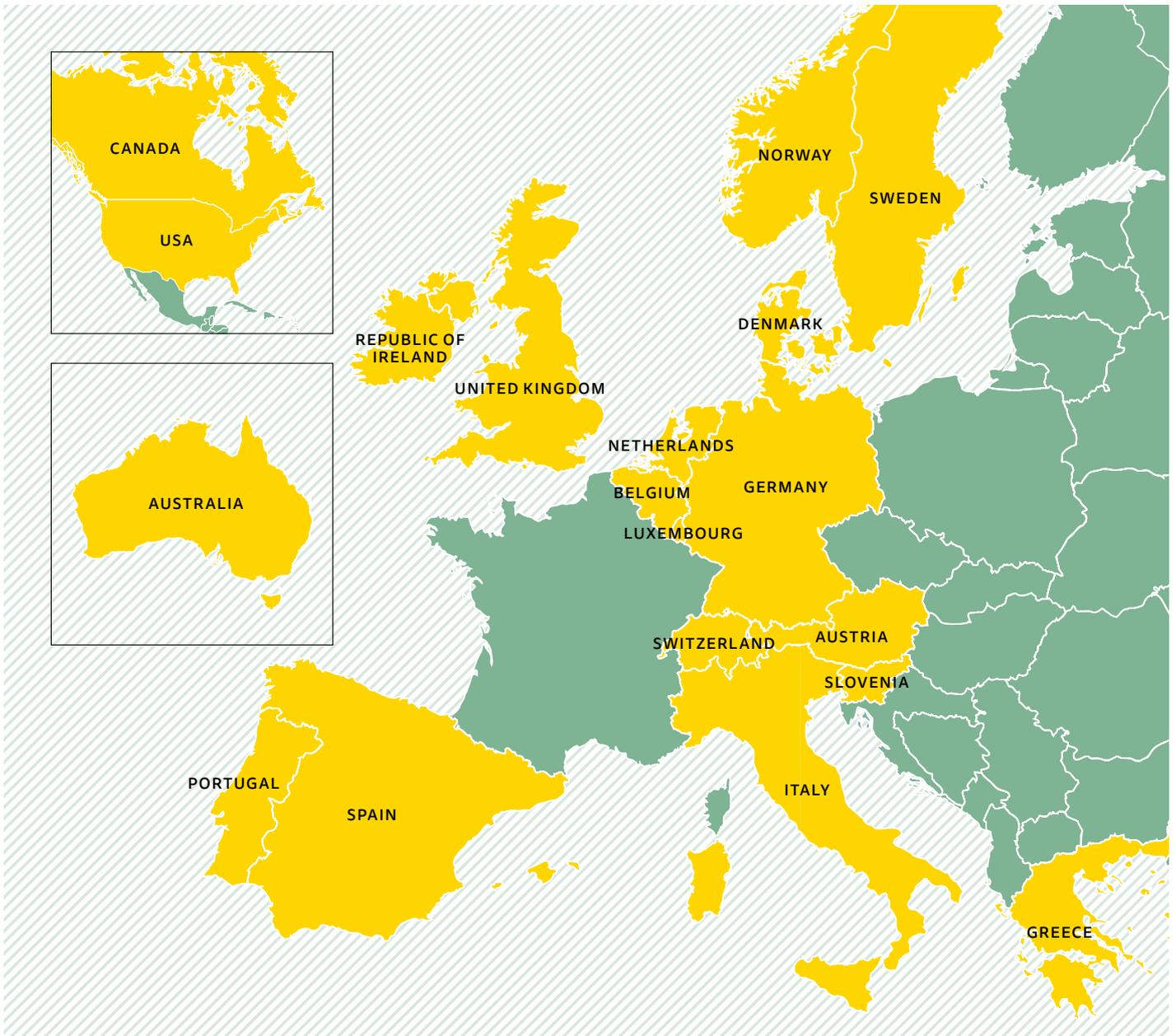
↗ 2019:

€ 393 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)

Following research conducted throughout Germany by mediaworx to identify the country's outstanding insurers, ARAG won plaudits for its digital communications and rapid customer support in the COVID-19 pandemic. For the fifth time in succession, ARAG also received the distinction of 'Most innovative brand' in the 2020 Plus X Award for innovation. The brand was once again acclaimed by Focus-Money business magazine and Deutschland Test in the 'Insurance companies'

category; in the view of consumers, ARAG remains one of 'Germany's best insurers'. It picked up further honors as the 'Fairness company for claims settlement' in three categories: personal legal insurance, legal insurance for employment, and legal insurance for homeowners and tenants. Rating agencies score and Levelnine awarded maximum scores to the full-coverage health insurance products ARAG Med Extra and ARAG Med Best. ARAG has continued to garner honors as a place to work. It

is one of the employers of choice in the insurance industry according to the F.A.Z. Institute, and even one of the top ten employers in Germany in a selection made by the editorial team at Focus-Business. ARAG Spain received top rankings from Innovación Aseguradora for its online sales process and social media management. It was also judged to be one of the three best companies on the internet in the Presencia Online de Entidades Aseguradoras ranking. In the Assekuranz

Award Austria 2020, ARAG Austria won in the personal legal insurance category. It was also the winner in all 19 categories of the AssCompact Award 2020 for its personal legal insurance and corporate legal insurance, as a result of which it secured top ranking by some distance. ARAG Belgium's product, ARAG Particulier Fisc Gold, received a 'Master Purchase' accolade from Belgian consumer organization Test Achats, acknowledging the product's value for money for couples

and families. In the Personal Injury Awards 2020, ARAG plc defended its title as 'Insurance Provider of the Year'. ARAG Italy was awarded a 2020 Future Bancassurance Award for its value creation and growth in relation to its products, services, and digitalization. In 2020, The Des Moines Register recognized ARAG North America as one of its 'Top Workplaces' in the mid-sized company category.

ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

Speaker of the Management Board and Central Group Functions

Sales, Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management and Group Controlling

Group Human Resources/Audit

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)	2020	Change	2019	2018
Sales revenue				
Gross premiums written	1,848.7	4.8%	1,763.5	1,653.7
Premiums earned net of reinsurance	1,838.0	4.9%	1,752.0	1,640.0
Sales revenue of non-insurance companies	23.0	-4.0%	24.0	24.1
Expenses				
Claims incurred net of reinsurance	935.6	-0.1%	936.5	870.0
Claims ratio (basis: premiums earned)	50.9%	-2.6% pts.	53.5%	53.1%
Insurance business operating expenses net of reinsurance	673.9	9.0%	618.4	582.7
Cost ratio (basis: premiums earned)	36.7%	1.4% pts.	35.3%	35.5%
Net income overview				
Underwriting result net of reinsurance	112.0	13.8%	98.5	97.4
Gains and losses on investments	78.5	-50.0%	156.9	81.2
of which included in underwriting result	48.1	-38.4%	78.0	52.8
Other net income/expense	-59.1	4.5%	-56.6	-51.7
Profit/loss from ordinary activities	83.2	-30.5%	119.9	70.2
Consolidated net income	38.2	-50.8%	77.5	34.7
Technical provisions/ net premiums earned	233.8%	0.6% pts.	233.2%	234.0%

Profile of the ARAG Group

Overview

The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established 85 years ago exclusively as a legal insurance company, but has now positioned itself as an independent, international insurer offering innovative, high-quality insurance products. Besides legal insurance, it offers its customers in Germany its own unique needs-based products and services covering casualty and property insurance and health insurance. The ARAG Smart Insurer Program is a key initiative in the ARAG Group's efforts to comprehensively harness the opportunities presented by digitalization, one of the major challenges going forward, and to create added value for customers in the process. The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 19 countries (Germany, other European countries, the US, Canada, and Australia) through branches, subsidiaries, and equity investments. The Group generates sales revenue and premiums of around €1.9 billion and employs over 4,400 people.

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

Legal insurance

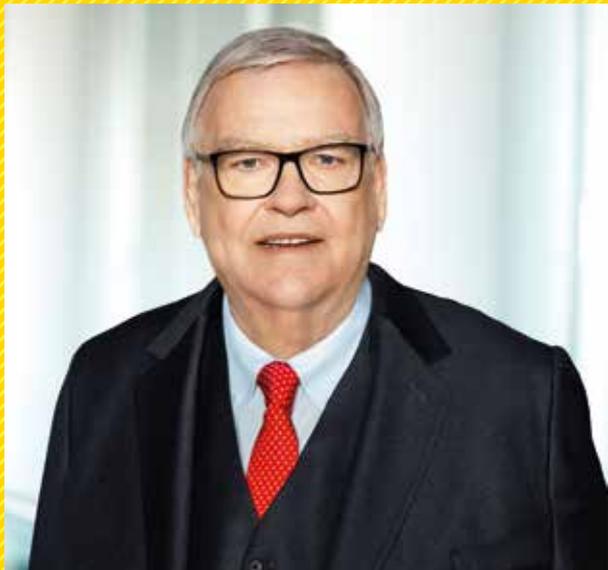
In its core legal insurance segment, ARAG plays a major role in shaping its markets both in Germany and abroad with innovative products and services. For some years now, the international legal insurance business has been the Group's most significant area of activity. The units outside Germany involved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

Casualty and property insurance

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

Personal insurance

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



Dr. Dr. h. c. Paul-Otto Faßbender

Introduction

We all wish 2020 had been different. It is now more than a year since the outbreak of the pandemic and we still cannot be certain where this crisis is taking us and what the long-term ramifications will be. One thing is clear though: All the ideas, strategies, and plans that had been developed up to February 2020 now seem like the faded relics of a distant, bygone age.

The ARAG Group only experienced a short period of relative uncertainty in March 2020. It quickly became obvious that our customers needed us and were looking for rapid, straightforward help, especially in terms of legal insurance. Based on additional, mostly digital services, ARAG not only leapt to the aid of its existing domestic and international customers, but also stepped in to support non-customers. As the majority shareholder, my view is that this was worth it, even though it cost us money of course.

Because of the crisis, ARAG's focus on legal and health insurance business hit exactly the right spot with customers in 2020. Demand soared. In Germany alone, the Group saw a net increase of more than 90,000 in the number of customers. Premium income in Germany swelled disproportionately, by 6.1 percent. In the international business, particularly substantial growth was recorded in the US, Italy, and the Netherlands. Overall, the ARAG Group's income rose by 4.8 percent.

Following the pattern of previous years, ARAG's strong growth was accompanied by a sound level of profitability. Even in the pandemic, the operating business was well under control, evidenced once again by a good combined ratio of 87.6 percent. The Group's underwriting result continued to improve, reaching its best-ever level.

The pandemic has proved to be the ultimate test for an insurer's digital capabilities. Businesses have had to demonstrate that they can actually deliver, rather than just talk about it. At ARAG, we are benefiting globally from the extensive investment we have made in our digital capability as part of the ARAG Smart Insurer Program.

Not least, the robust business performance during the pandemic has been predominantly due to our highly motivated, committed workforce. When we needed to respond decisively to the crisis, there was a clear collective surge of effort throughout the entire organization. The whole of the ARAG team went into overdrive, calmly and efficiently applying themselves for the benefit of our customers in completely new conditions.

The radical shift in the operating environment in 2020 cast a spotlight on the key factors that underpin the success of the ARAG Group. A clear focus on legal and health insurance business, an international structure, state-of-the-art infrastructures, and highly motivated employees combine to power the business, even if (and especially when) times are very challenging. These factors provide our competitive edge, allowing us to look to the future with confidence and optimism, even in the midst of a pandemic.



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 lies at the heart of the ARAG Essentials, the corporate principles of the ARAG Group. It is also reflected with the same degree of emphasis 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. These needs are undergoing rapid change as a result of digital transformation and the COVID-19 pandemic. From the very beginning, the Group has continually expanded its innovative portfolio of products and services, always aiming to address shifting customer expectations. For example, demand for legal assistance and support rose markedly in 2020 as a consequence of the pandemic. Within a very short space of time, ARAG therefore created a broad range of information, advisory, and support services for both customers and non-customers.

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 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 on a clear path to success in its German domestic market, where it is steadily acquiring new customers. In 2020, the number of new customers in Germany rose by over 80,000 – despite the challenging conditions.

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 private health insurance and casualty and property 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.

When it comes to legal matters and minimizing the associated risk, the ARAG Group has been providing consumers with guidance and security for more than 85 years. This message was also at the core of the new ARAG advertising campaign launched in the reporting year, involving commercials on major TV channels and on video platforms. The Group's campaign slogan 'Founded 85 years ago. Made for today.' sums up its particular expertise in a nutshell and has given a further boost to awareness of the ARAG brand. This campaign has revealed that the fundamental principle at the heart of the ARAG brand – equality of opportunity before the law – is today more relevant than ever.

Dedication to sport

As Europe's largest sports insurance provider, ARAG Allgemeine plays a unique role. It offers specialized insurance cover for more than 20 million recreational sports participants and top-ranking athletes in around 77,000 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 the total workforce of over 4,400 employees is 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 a total of 19 countries through branches, subsidiaries, and equity investments. It officially launched business operations in two further markets in 2019: Australia and the Republic of Ireland.

ARAG Smart Insurer Program

In 2018, the ARAG Group launched a holistic development strategy for its German and international operations entitled 'Smart Insurer Program'. The objective of the program is to seize the opportunities presented by digitalization and continue to reinforce the independence of the Group with a clear focus on customers and the changes in their requirements.

This program-based approach consists of a broad range of different measures that the Group has already initiated. ARAG's declared intention is to turn itself and its Group companies into a 'smart insurer'. 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 ARAG Group companies in Germany and abroad were involved in determining the areas for action using a bottom-up process. 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. The Group Management Board evaluated and prioritized the proposals – a total of 85 core measures – before specifying seven fundamental action areas. The implementation of the associated projects was initiated back in 2019 and progress accelerated in the reporting year.

Some of the first specific outcomes in the Smart Services category are newly developed chatbots, such as those related to COVID-19 (see the section 'Innovation'). In the Smart Data category, a standardized digital reporting system has been implemented for the ARAG Group as part of the TranspARAGcy project. The Smart Analytics project is gathering the data available throughout the Group into a data lake so that the data can be made accessible at all times and used quickly and easily, taking into account data protection requirements. A key milestone in the Smart Culture category was a groupwide employee survey aimed at recording and analyzing the corporate culture in the Group. The findings formed the basis for a complete revision of the ARAG Group's corporate principles (see the section 'Corporate responsibility – ARAG Essentials'). The revision was completed at the beginning of the reporting year. This was then followed by a process of communicating and implementing the new ARAG Essentials throughout the Group. The Group's corporate culture is also being changed, for example, by the increasing use of agile working methods (see the section 'Innovation') and by new, virtual approaches to learning and information-sharing (see the section 'Corporate responsibility – Employees').

Overall, the ARAG Smart Insurer Program is expected to be completed on schedule by the end of 2021.

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 2020, ARAG again translated these into numerous innovative and 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 reporting year was dominated by COVID-19. The pandemic created conditions in which ARAG was once again able to demonstrate the strength of its capabilities in terms of speed, flexibility, and innovation. Right from the start of the pandemic, the number of calls from customers rose substantially, especially in connection with the ARAG Legal Service. This highlighted that consumers were extremely worried and needed a great deal of guidance and reassurance, particularly concerning legal issues related to COVID-19. In response, ARAG quickly set up a dedicated topic area on its website at www.ARAG.de where it provided a wide range of services (some of which were newly created) and offered general, continually updated information. The main features were, and remain, the attorney hotline and the attorney online chat service, accompanied by specific, newly established advisory bots and digital services. Many of the services, such as the attorney online chat service and the COVID-19 attorney hotline, were (and are still) open additionally to non-customers free of charge. On Thursdays in April and May 2020, anyone in Germany, regardless of whether they were an ARAG customer or not, could call the hotline and speak directly with an attorney about legal issues relating to COVID-19. ARAG covered the costs of providing this service.

The steady, innovative expansion of the use of digital solutions and chatbots also advanced in areas other than COVID-19. Examples are the tenancy law assistant and conflict navigator. The latter now enables the customer to join a live chat with an attorney or mediator. The number of people accessing all other live chat options at www.ARAG.de went up in 2020, with outstanding levels of satisfaction being recorded. Another prime example of digital innovation is the application providing assistance if motoring penalties are incurred. Launched at the end of 2020 at www.ARAG.de, the tool provides immediate help for both customers and non-customers if they commit traffic offenses. The completely newly designed penalty calculator on the site shows the expected fine, traffic violation penalty points or driving ban. However, the assistance goes further than this, in that it immediately offers a wide variety of possible solutions, depending on the circumstances of the case. For example, following an automated check on insurance cover, legal insurance customers can choose to be forwarded directly to an ARAG partner attorney.

ARAG health insurance also launched new smart services in the reporting year. It plugged a gap in its provision with the launch in April of a new digital product covering pregnancy and childbirth care. A key component is the midwifery service offered by Kinderheldin, a start-up business based in Berlin. Their registered midwives provide advice for expectant or young mothers (and fathers too) via online chat or by telephone from 7 a.m.

to 10 p.m. regardless of location. The provision also includes fully featured online antenatal classes from partner organization Keleya, including a class specifically for fathers. If ARAG customers have full-coverage insurance, ARAG health insurance covers the costs of ten advisory discussions plus the costs of the antenatal classes.

There have also been numerous innovative developments in the international business. Among many examples, ARAG Netherlands is offering consumers who incur traffic penalties assistance through the Appjection legaltech start-up. Customers in the Netherlands can upload a traffic violation ticket to www.appjection.nl and immediately check whether there are grounds for appeal. If so, an appropriate letter of appeal is automatically generated and sent to the court.

In Germany, ARAG is also using independent legaltech solutions. For example, the Lawyer Matching platform launched in 2020 introduces ARAG customers and non-customers in Germany directly to an attorney. Users can access a free service on either the ARAG website or the website of ARAG's own HelloLaw legaltech to select a suitable attorney from among 2,500 in the ARAG attorney network. The platform has been developed by ARAG subsidiary Justix GmbH. In the reporting year, this company also initiated the creation of a completely new document center offering templates for legal documents. For the first time, a bot has been included to help users search quickly for the most appropriate document. The initial pilot version of the document center with a wide variety of forms, contracts, and templates was introduced during the summer of 2020 by ARAG Australia.

Alongside its significant range of legal services, ARAG fundamentally revised the product spectrum in its core legal insurance division in Germany in 2020, expanding it with numerous product innovations. The new range was launched in the market in February 2021 at the same time as the enhanced ARAG 'Recht&Heim', a bundled product providing all-round cover. These two product lines now include even more benefits, even more services, and even more support. These product lines were enhanced with expert input from a large number of the units within the ARAG Group, including product development, legal and claims service, all sales channels, and data analytics. As a result, the customer will be able to benefit, for example, from further reductions in the future thanks to new, smart pricing features.

The Basis version of the legal insurance offering for price-sensitive customers has been completely redesigned. It now also provides protection in relation to key out-of-court areas of cover. A completely new variant is the Basis deductible option. If the customer decides in advance to opt for mediation or use the service from one of ARAG's strategic partners, the deductible is reduced to €0. If the customer decides to see an attorney immediately, this costs €300. It goes without saying that the new generation of legal insurance cover offers additional innovative benefits as well as an enhancement of the existing unique selling proposition. One example is the anti-stalking legal insurance included in the Komfort and Premium versions. The Premium version now also includes (retrospective) cover for pursuing individual claims following a model case procedure. Only ARAG offers this specific type of cover. A new feature of the Premium version is a one-time option to obtain precautionary advice on any legal issue. Under this feature, a customer can obtain precautionary legal advice from an attorney at the expense of ARAG on a once-only basis without a specific insured event having arisen. The option can be exercised regardless of the legal issue involved or whether this issue is insured or not. Alimony disputes are now

included for Premium customers as another new feature. Commercial legal insurance has also been enhanced to include further innovative benefits, such as completely revised business contract legal insurance. In addition, the feature-rich ARAG 'Recht&Heim' all-round cover product, which combines the best benefit components from legal, liability, and home contents insurance in one policy with an option for residential buildings cover, has been updated. The updates include a new no-claims-discount saver.

Many innovative approaches have also been introduced internally in the ARAG Group. For example, the first internal ARAG chatbot was developed in the Human Resources division in Germany in 2020. It was launched at the beginning of 2021 and answers questions relating to the recording of time and attendance. The significant expansion of virtual learning and continuing professional development (CPD) options was continued in the reporting year to make sure that the workforce is equipped to deal with the digital future. Learn2Develop (L2D), a new state-of-the-art, highly efficient learning platform for employees in Germany was made available online in October 2020. This platform will make it even easier for employees to undertake independent study and individual professional development based on around 100 inhouse ARAG seminars and training sessions, complemented by a large number of external digital offerings. Further New Work methods are being established in the Group, fostering agility and creativity. One example is the new 'future ways of work' workshop format that is starting to be used on a day-to-day basis in individual departments. ARAG IT GmbH, which is one of the Group's service companies, is also pursuing a strategy of continual change and improvement based on agile working methods and techniques. The self-organized teams in the AgileCulture@ARAG IT project use product and process themes to focus specifically on different ARAG units.

ARAG Core Sales, the ARAG Group's captive sales organization, is benefiting significantly during the COVID-19 pandemic from the new advisory app launched in 2019. This exclusively digital sales tool, which was upgraded a number of times in the reporting year, can be used to provide assistance in a variety of ways, especially where it is not possible to meet the customer in person, and may include advisory discussions via video chat.

Accolades

The ARAG Group was once again honored in the reporting year with the prestigious Plus X Award for innovation in recognition of the Group's special innovative strength. It is the fifth time in succession that ARAG has been designated 'Most innovative brand' in the service provider category. In addition, the new generation of the ARAG web@ktiv cyber protection product for private individuals and the self-employed was chosen as 'Best product of 2020'.

The Group again won numerous other awards and top ratings. Here are just a few examples. Following research conducted throughout Germany by mediaworx to identify the country's outstanding insurers, ARAG won plaudits for its digital communications in the COVID-19 pandemic using its own dedicated webpages (see the section 'Innovation'). ARAG's efforts to inform, help, and support its customers quickly and proactively in this exceptional situation earned the Group second place in the rankings.

In various analyses, Focus-Money business magazine has also singled out ARAG as one of Germany's best insurers: In the results of a survey carried out by Deutschland Test and Focus-Money published in the autumn of 2020, the brand was once again acclaimed in the 'Insurance companies' category; in the view of consumers, ARAG remains one of 'Germany's best insurers' and is therefore among the industry's leaders. In another test carried out by Focus-Money during the reporting year, ARAG receive the top score in the 'Digital service' category for the legal insurers sector. In 2020, the same business magazine also investigated which insurers process applications for benefits without hassle, transparently, and fairly. ARAG was designated 'Fairest company for claims settlement' with a rating of 'very good' in as many as three legal insurance categories: personal legal insurance, legal insurance for employment, and legal insurance for homeowners and tenants. A consumer survey carried out by Germany's Bild newspaper provided further proof of the Group's outstanding capabilities as a legal insurer, with ARAG awarded the 'Deutschlands Kundenkönig' (Germany's king of the customers) seal of approval accompanied by the distinction 'Best customer benefits'.

ARAG products continued to stand out in 2020, garnering numerous accolades. In March 2020, Handelsblatt newspaper conferred awards on the best legal insurance products. The Komfort version of ARAG's legal insurance achieved a rating of 'very good'. As soon as it had been launched, the new ARAG ReiseProtect travel insurance (see the section 'Products') scored highly with trade journal Focus-Money Versicherungsprofi and was chosen as product of the month. The Premium version of the Infinitus liability insurance product from Interlloyd Versicherungs-AG, a wholly owned subsidiary of ARAG Allgemeine, also collected awards. Launched at the end of 2019, the Infinitus Premium version notched up two gold awards in the autumn of 2020 in the underwriting and customer benefits categories of the 'Innovationspreis der Assekuranz', an insurance industry innovation award run by analyst firm Morgen & Morgen and trade journal Versicherungsmagazin.

ARAG health insurance also continued to shine with a range of products offering outstanding benefits. For example, full-coverage insurance products MedExtra and MedBest, both of which were launched in 2019, received the maximum score from rating agencies ascore and Levelnine. German consumer organization Stiftung Warentest selected supplementary inpatient care insurance rate scale 262 as the winner in the 'two-bed room rates' category in its Test 6/2020. The company itself also received multiple awards: Focus-Money and prestigious analyst firm Assekurata singled out ARAG Krankenversicherungs-AG as an 'outperformer', while rating agency ascore issued the company with its maximum rating of six 'compasses'.

The ARAG Group continued to pick up accolades as an employer. In October 2020, the well-known F.A.Z. Institute chose ARAG as one of its employers of choice in the insurance industry. In the list of top employers produced by Focus-Business magazine in collaboration with rating portal kununu, ARAG edged toward the summit, reaching second place among insurance companies of a similar size. Also in this analysis, it moved into the top ten in the category 'Insurance companies and health insurance funds'.

At the end of 2020, Studio 17 in the Düsseldorf ARAG Tower received special recognition when it was awarded the German insurance industry's InnoWard prize for education and training. The studio, which comprises two creative and communication floors in the building, offers employees around 500 square meters in which they can network and immerse themselves in new ways of working. It was chosen by the judging panel as a beacon project in the category 'Skills training and professional development'.

The products, services, and innovative strength of the Group's international units were also recognized by highly regarded organizations and bestowed with awards, in addition to receiving numerous national commendations. An overview, including a number of examples, can be found on page 5 of this report beneath the map showing the countries in which the ARAG Group operates.

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 2020, the Group added even more innovative benefits and great services to its portfolio, both in Germany and abroad.

For example, a team project involving multiple divisions and insurance segments fundamentally revised the ARAG Aktiv legal insurance products and the ARAG 'Recht&Heim' all-round cover in 2020, as a result of which the scope of the products was again broadened significantly. Commercial legal insurance was also enhanced to include further innovative benefits, such as completely revised business contract legal insurance (see the section 'Innovation'). Since their launch in February 2021, these product lines have been setting new standards in the market.

ARAG MedExtra and ARAG MedBest, the full-coverage health insurance rate scales from ARAG health insurance providing outstanding benefits, enjoyed a perfect start in the market in 2020. These two next-generation compact rate scales had been launched at the end of 2019. They were a logical addition to the full-coverage insurance offering based on the successful Komfort rate scale and have been very well received by the market. This is reflected in product ratings, in the generally positive response from both customers and sales force, and not least in the extremely sharp rise in policies underwritten. These extensive packages of benefits enable customers to go straight to a specialist without being referred by their family physician. They also offer a very high level of benefits – particularly in the case of dental prosthesis or treatment by an alternative health practitioner – and include new additional benefits, such as waiver of premium for policyholders receiving parental leave pay.

In February of the reporting year, ARAG launched a new travel insurance product, available as a year-round policy or cover for a short period. Both options enable travelers to choose between needs-based, modular insurance or a full package. The ARAG ReiseProtect short-term policy offers optimum insurance cover for trips of between one and 90 days. It can be taken out online at any time, even shortly before the start of a trip, and consists of three rate scales, each with a different benefit emphasis. 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. 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 2020 thanks to numerous innovative, value-adding products and services, as demonstrated by these selected examples:

In October 2020, ARAG Italy introduced a new, revised version of its legal insurance product for managers. In addition to an increase in the standard claims limit, the product includes various additional benefits, such as the document center (which offers templates for legal documents) and the ARAGTel attorney hotline. In November 2020, the ARAG branch in Verona also launched its new Multa Check retrospective policy. The service is offered by the TiAssisto24 business start-up and involves a check carried out by an AI system to establish whether fines are justified or not. The service is linked to an option to immediately take out an ARAG family legal insurance policy. In collaboration with online platform Conte.it, ARAG Italy has also been offering pet-related legal insurance since November 2020 as an optional module for a pet insurance policy.

The new management legal insurance product from ARAG Austria launched in September 2020 is aimed specifically at executive directors of businesses with up to 30 employees and at sole traders. The product includes criminal proceedings cover for management (which also encompasses legal insurance relating to media law) and optional cover for areas such as financial loss or employment contracts. Sole traders and the self-employed can also include a module offering legal insurance related to intangible assets and competition.

ARAG plc, the UK subsidiary of ARAG SE based in Bristol, relaunched its family legal insurance product at the end of 2020. Family Legal Solutions includes a comprehensive range of legal insurance benefits, such as dark web monitoring and an identity theft restoration service. The insurance can be tailored in a number of ways, for example by extending cover to include disputes with domestic employees or objections to building planning applications. Since July 2020, ARAG plc has also been working in partnership with the law firm Hugh James, which has a nationwide reputation. The firm has particular expertise in cases of clinical negligence and assists ARAG plc in connection with an after-the-event product. Since the beginning of the reporting year, there has also been a brokering partnership with Vantage. This large UK brokering firm specializes in tax and accounting and offers its clients various ARAG legal insurance products as well as assistance services.

In 2020, ARAG Services Corporation in Canada teamed up with Intergroupe Solutions, a large network of insurance brokers in Quebec, to develop the first legal insurance portal in the province of Quebec. The Kangoo portal developed by Intergroupe is used by more than 90 brokers and now also includes ARAG's personal and commercial legal insurance products as well as a jointly created legal-services-only offering. The latter encompasses a range of benefits including telephone advice and access to ARAG's document center, which provides customers with templates for legal documents.

ARAG's Australian subsidiary, which is based in Sydney and commenced operations in the summer of 2019, now offers four different legal insurance products. Two of them, the WebLEI internet legal insurance product and the LandlordLEI legal insurance product for landlords, were launched on the market in the first quarter of 2020. ARAG Australia also

ran the pilot project for the newly developed ARAG document center, which offers customers access to templates for legal documents. Subsequently, this service has been (and continues to be) rolled out in other international units.

The Group's Scandinavian units also established various new partnerships in 2020. For example, HELP Forsikring AS, ARAG SE's Norwegian subsidiary, expanded its existing business with telecommunications provider Telenor. Since September 2020, the TV/telephone tariffs of more than 1.6 million Telenor customers have included the webHELP erasure service, enabling customers to arrange for the removal of web content that is abusive or potentially damaging to their reputation. In May of the reporting year, ARAG's Norwegian subsidiary launched a partnership with Fellesforbundet, the second largest labor union in Norway, complementing its existing business with labor unions. HELP Forsikring AS also signed a group agreement with Hår1. Kjeden AS, a major chain of hairdressers and salons, providing cover for employment and tenancy disputes, among other things.

In the reporting year, HELP Försäkring Filial, the Swedish branch of the Norwegian subsidiary HELP Forsikring AS, entered into a partnership with SkimSafe, a company specializing in consumer security. Under the agreement, SkimSafe now offers its customers the HELP cyber protection product, including cover for identity theft and an erasure service, enabling customers to arrange for the removal of web content that is abusive or potentially damaging to their reputation. Following a new collaboration agreement with Moderna, the fifth-largest insurer in Sweden, HELP legal insurance benefits are now included in the Moderna portfolio for small and medium-sized enterprises. These benefits include identity theft cover for business owners as well as employment legal insurance and personal legal insurance.

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 at 140 locations across Germany use the network of over 105 main branch offices and other branch offices 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 use a digital version for tablets that is 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. This was also reflected by developments in 2020. The COVID-19 pandemic had an impact on our customers and accordingly on advisory processes. Our sales partners were very well prepared thanks to the newly introduced digital processes, including the option of providing advice by video call. A large number of other support measures were also implemented for ARAG Core Sales and our customers.

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 2020, this included mentoring brokers and non-exclusive agents for the new full-coverage rate scale introduced for health insurance in 2019.

In addition, ARAG increased its customer base in online business to around 310,000 customers. This equates to approximately 13 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.

It is mandatory for the ARAG companies to impose a requirement on the agents in Core Sales to comply with and uphold the provisions of the Insurance Distribution Directive (IDD). 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 2020, for example, it continually refined 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 4,400 employees worldwide. ARAG puts sustainability into practice every day: in how people interact with one another, through shared corporate principles, 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 Group's corporate principles and encapsulate the objectives of the commitment that ARAG's employees, managers, and owners share. They describe the values of the organization and serve as guidance for the conduct of business in the Group. The ARAG Essentials include ARAG's founding principles, identity, corporate ambition, and values. They help to shape the Company's future for the benefit of its customers, supporting these customers with innovative solutions.

In 2020, the ARAG Essentials were completely revised with particular regard to the issues of digitalization, new ways of working, and leadership behavior. The changes were based on the groupwide employee survey carried out in the previous year as part of the move toward becoming a 'smart insurer' and on qualitative validation in focus groups involving German and international participants. Their suggestions had a significant impact on the revision of the ARAG Essentials. In various workshops, and with the involvement of the Group Management Board, the corporate principles were amended in line with the new reality. The revised and reformulated ARAG Essentials 'reloaded' were initially presented at the Group Management Conference in January 2020. The new corporate principles, which are broken down into four sections, amount to more than restating the six ARAG values and giving them an even greater level of emphasis. In addition to underlining the corporate ambition and identity, the ARAG Essentials now also bring to the fore ARAG's visionary and, at the same time, sustainable founding principle – equality of opportunity before the law – as a guiding theme that underpins all the Group's activities.

To implement the ARAG Essentials reloaded throughout the Group, ARAG turned for the first time to a comprehensive worldwide digital approach so that all employees would be involved. In the autumn of 2020, all the employees in the Group were provided with innovative materials that were then taken by each individual ARAG team into virtual workshops. The topics in these digital sessions were the ARAG values, founding principles, corporate ambition, and identity. Discussions focused on the shape of things to come, international connectedness of the Group's employees, and the changes in digital ways of working. The workshops explained how the revised corporate principles applied to day-to-day activities and helped employees to come up with their own implementation ideas.

Since as long ago as 2012, the ARAG AWARD has been presented in recognition of exemplary implementation of the ARAG Essentials. 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 ambition, thereby ultimately promoting customer focus, expertise, and efficiency. In 2020, the winning teams received their awards at the ARAG Group Management Conference in Essen.

ARAGcare

Alongside measures to protect employees, ARAG has for some time invested over the long term in employee health and has established ARAGcare, a corporate health management program that forms a core component of the ARAG Group's HR policy. The objective of ARAGcare is to maintain and nurture employees' health and capacity to work. The program offers a comprehensive range of services relating to health & fitness and work/life balance. To achieve this objective, the program offers options focusing on both the workplace environment and self-care. Health is a personal matter. ARAG Group employees have plenty to choose from. Depending on their location, they are offered regular services such as checkups, advice, flu vaccinations, childcare, and sports activities. Because of the special requirements arising from the COVID-19 pandemic, these services have been, and continue to be, adapted according to what it is possible to do.

There was a particular focus on digital options for employees in 2020 as a consequence of the pandemic. For example, videoconference fitness sessions with a personal trainer have been offered since the spring of the reporting year. Physical activity has not been the only concern, however. The employee advice hotline, which is available regardless of the employee's location, has become increasingly important during the periods of lockdown as a source of support for psychosocial issues and challenges. Medical advisory services have continued to be available to employees in the form of digital consultations with the company physician. To enable return-to-work and disability management to continue in optimum fashion in the new circumstances, the related advice from external experts has also been provided through digital channels (video calls). The pandemic has presented huge challenges in relation to the provision of childcare. The flexible structure of working arrangements was broadened to assist employees in this regard. In an additional service provided free of charge, employees have been able to make use of virtual childcare arrangements offered through ARAG's partner pme Familienservice.

Another key area of activity under the ARAGcare program in the reporting year was the organization of status meetings aimed at assessing the risk of mental health problems and at restructuring the next phases of projects. The purpose of assessing the risk of mental health problems is to ensure that working arrangements are organized in an attractive manner such that they promote the health of employees. Online meetings and workshops were held jointly by employees, managers, and Works Council members. This approach is subject to a continual improvement process, in connection with which further data will be collected and another study carried out during the course of 2021.

Employees

ARAG relies on a skilled and highly motivated workforce to ensure that it delivers on its value proposition. At the end of 2020, the ARAG Group had a total of 4,449 employees, of whom 2,087 were based in Germany and 2,362 in other countries. The Company also provides successful training programs in Germany, enabling its trainees to gain vocational qualifications in insurance and finance or in IT (with a focus on systems integration or application development).

All employees were faced with particular challenges in the reporting year as a consequence of the COVID-19 pandemic. ARAG recognized these problems at an early stage and immediately implemented a range of measures to support its workforce. In late 2019/early 2020, every employee had already received a personal laptop as part of the project referred to as 'Upgrade Your Work'. The laptop included the latest software, enabling the user to make video calls among other things. At the outbreak of the pandemic, it was therefore possible within a few days to switch almost entirely and without disruption to remote working. Additional monitors, high-quality swivel office chairs, headsets, and web cameras were made available to provide employees with the best possible equipment when working from home.

An internal health and safety team was immediately set up at ARAG. Together with the company physician, the team developed hygiene protocols, which have been rigorously implemented in ARAG's office buildings since then. These included precautions such as a requirement to wear face masks in communal areas, one-way systems, additional provision of sanitizer dispensers in exposed areas, and a limit on the number of people in the building based on changes in the level of coronavirus cases. The internal health and safety team meets regularly to discuss the situation and determine appropriate action, for example to comply with decisions by the federal government. One of the internal health and safety team's key objectives is to ensure that employees are kept informed via the intranet of the latest situation, the decisions and steps taken by policymakers, and the associated safety requirements implemented by the Group.

A significant range of options have been added to the intranet to promote and maintain social contact between employees and to offer psychological support during the pandemic. These include help pages with tips on working from home, informal digital chat rooms (such as shared virtual coffee breaks), after-work events, and workshops for virtual team collaboration. The Management Board has also digitalized its communications in the pandemic. A large number of virtual live discussions and video podcasts have been used to provide employees with first-hand information on current issues in the Group. In recognition of employees' significant commitment in the tough lockdown conditions, the Group Management Board approved additional new benefits in February 2021: the payment of a special tax-free bonus, the option to be paid rather than receive time off in lieu for overtime, an option for parents of school-age children to receive private online tuition for their children from an external service provider, and an extra day's holiday when employees' parents are vaccinated against COVID-19.

Surveys of employees in Germany were carried out in April 2020 and again in February 2021 to find out how the employees felt and what they thought about working from home. Since the first lockdown, almost every employee has been working remotely for most of the time. In the survey conducted in April 2020, around 80 percent of employees stated that they were well or very well in the prevailing situation and that they were coping well or very well with the new way of working. The results of the survey in the spring of 2021 underlined that the measures introduced by ARAG were providing long-term support for employees. However, it was clear that employees were suffering a certain degree of 'pandemic fatigue'. In response, the ARAG health and safety team is working with the company physician, the Management Board team, and Works Council members to investigate further ways of providing assistance.

Employee skills and qualifications

Alongside vocational training, ARAG attaches huge importance to the skills, qualifications, and professional development of its workforce. Its goal is to be the best provider of legal insurance worldwide and to be one of the best in the other segments in Germany. 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. The digital learning offering includes a basic digitalization course, covering topics such as New Work, digital corporate culture, innovative working methods, and new technologies. Since the launch, more than 750 employees have already upgraded their knowledge using Masterplan's video sequences.

A further key component in ARAG's strategy for retaining suitably qualified employees in the Group is to provide employees with simple, fast access to a wide range of attractive CPD opportunities. To this end, a new, state-of-the-art learning platform known as L2D was introduced throughout the Group in the reporting year. The platform offers all employees access to learning options with relevant content in a range of different formats, such as traditional seminars, webinars, and a variety of e-learning approaches (see also the section 'Innovation').

In response to the COVID-19 crisis and the resulting switch to remote working, employees were quickly offered in-depth training on the use of Office 365, and also particularly of Microsoft Teams. Overall, some 80 percent of CPD activities were quickly and

systematically moved online. The fast changeover to virtual formats ensured that ARAG could continue to run assessment centers for internal and external candidates without interruption despite the COVID-19 pandemic.

Corporate social responsibility

ARAG is a family enterprise. As a consequence, ARAG attaches great importance to the interconnection between corporate and social responsibility. This is reflected in the extra corporate social responsibility taken on by the Group, especially where government agencies are unable to step in with help where it is really needed.

Based on these values, ARAG is involved in a range of development programs and initiatives. Since 2014, ARAG has 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 389 school mediators at 137 high schools and vocational colleges in different school districts across North Rhine-Westphalia have taken part in the eight training cycles completed so far. As a consequence of the COVID-19 pandemic, many teachers and specialists in educational social work were presented in 2020 with the challenges of teaching online and implementing appropriate hygiene measures in schools. Particularly in view of the pandemic, ARAG decided to continue this development initiative and designed a digital training strategy to be used by the participants in the eighth training cycle. This led to a total of 23 participants from nine high schools across North Rhine-Westphalia being trained as school mediators in 2020.

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.

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. Since 2019, the [hass-streichen.de](https://www.hass-streichen.de) ('crossing out hate') website has provided comprehensive, up-to-date information on this issue.

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 25 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. The reporting year saw the start of the second project phase in the program via the portal 'bildung.digital – Netzwerk Ganztägig bilden'. Again, 40 selected schools from six federal states committed to using the cross-state networks in the program.

Equal opportunities is also the theme of the 'Kickwinkel' sports project in Düsseldorf, which ARAG initiated five years ago and supported 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 enabled 20 young people to train at a Düsseldorf club twice a week. After operating successfully, the project finished at the end of its scheduled lifespan.

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Group Management Report

Changes in premium income and sales revenue

(€ million)	2020	2019	2018
Legal insurance	1,155.1	1,085.3	1,004.3
of which domestic	443.1	418.9	397.7
of which international	712.0	666.4	606.6
Casualty and property insurance	263.4	285.0	275.7
of which domestic	216.2	214.9	209.6
of which international	47.2	70.1	66.1
Health insurance	430.2	393.2	373.7
Service companies	23.0	24.0	24.1
Total	1,871.7	1,787.5	1,677.8

- Growth of 4.8 percent for the Group, despite global pandemic
- Significant premium increase of 6.1 percent in Germany
- International business income up by 3.1 percent
- Best-ever 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. It does not operate diversified corporate insurance business. 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. Including Germany, the ARAG Group 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. Branches of ARAG Allgemeine Versicherungs-AG also operate legal insurance business in the United Kingdom and in the Republic of Ireland. The international branches run their operating businesses in their local 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 subsidiaries, under the unified management of ARAG SE in its role as parent company. In addition, the ARAG Group operates in Switzerland via an equity investment in a legal insurance associate. In the United Kingdom, ARAG 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 though the United Kingdom has left the European Union (EU), it is still possible to continue the UK operations on a permanent basis.

The successful intermediary model in the United Kingdom has been adopted for the Canadian market, where a Group company has been brokering legal insurance business for a British primary insurer since the end of 2016, the business then being ceded to ARAG SE. In addition, the model was used for ARAG's launch in the Australian market in 2019.

An equity investment is also held in a legal insurance company in Luxembourg.

Building on its dynamic growth and great willingness to embrace change, the ARAG Group is steadily extending 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, the world was confronted with huge, previously unknown challenges in the reporting year. In virtually no time at all, the COVID-19 pandemic cast a dark shadow over the entire globe.

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

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

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

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

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

The extent of the impact of the COVID-19 pandemic on German and international spheres of economic activity was varied. The German insurance industry proved to be robust in the face of the crisis, generating slight premium growth of approximately 0.4 percent (2019: 7.0 percent). Premium income in direct casualty and property insurance

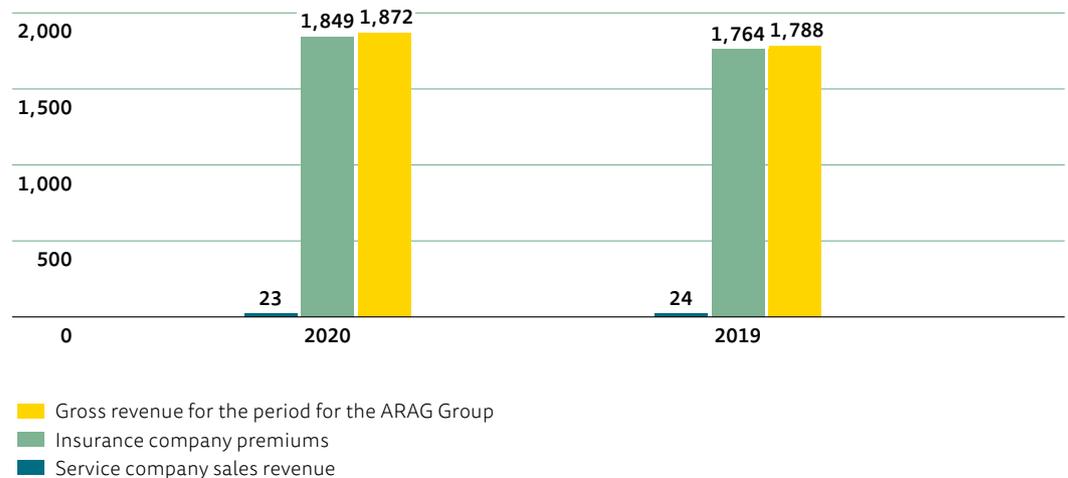
business will probably have gone up by 2.1 percent, which is still a notable increase against the general economic trend, albeit below the prior-year growth of 3.5 percent. The legal insurance segment saw steady premium growth of 3.0 percent (2019: 2.9 percent), driven to a large extent by the opportunity to adjust premiums. In the private health insurance business in Germany, a further premium increase of around 4.5 percent is anticipated (2019: 2.9 percent).

Business performance

The COVID-19 pandemic did not have any significant detrimental effect on the business of the ARAG Group in the reporting year. The business performed well, showing itself to be very resilient. The premium targets set for the reporting year were exceeded by some way. Gross premium income from insurance business rose by 4.8 percent in 2020, from €1,763,503.2 thousand to €1,848,678.9 thousand. With the inclusion of the service providers, the total premiums and sales revenue in the Group therefore amounted to €1,871,711.1 thousand (2019: €1,787,484.2 thousand).

Gross revenue for the period

(€ million)



In the German insurance market, ARAG benefited from high demand, as a result of which premium income swelled by 6.1 percent, comfortably exceeding the average market growth and amounting to €1,089,512.8 thousand (2019: €1,026,938.1 thousand). The growth in the reporting year was achieved on the back of significant new full-coverage health insurance business, a sharp rise in German legal insurance business, and a higher volume of inward legal reinsurance business.

Gross premium income in the German legal insurance market once again rose substantially year on year, by 5.8 percent. Gross premiums written went up by €24,225.6 thousand to €443,114.1 thousand. Most of this increase was derived from the addition of 77,567 policies to the direct business customer base.

The international legal insurance business also remained on a growth trajectory, with gross premiums rising by 6.8 percent to €711,953.2 thousand in 2020 (2019: €666,406.8 thousand). Significant increases in premiums were again achieved in the Netherlands and Italy as a consequence of growth in inward reinsurance business with primary insurance providers. The branch of ARAG Allgemeine Versicherungs-AG in the Republic of Ireland opened in 2019 delivered a further boost to this expansion. In the US, sales revenue once again rose significantly as a result of attracting new customers and increasing existing customers' membership. The markets with the highest sales revenue are the Netherlands, Italy, the US, Spain, Austria, and Scandinavia.

The Group also generated very strong growth in its health insurance business, where premiums were up by 9.4 percent, mainly driven by expansion in the full-coverage health insurance business. The number of policyholders went up by 5,790 in this business segment alone.

Significant factors for the business performance of the casualty and property insurance segment in 2020 were consolidation in Germany and a sharp fall in premiums from international special service package business. As anticipated, the latter was hit by the travel restrictions arising in connection with the COVID-19 pandemic, especially in Spain. Gross premiums written in this segment therefore declined by a total of 7.6 percent year on year to €263,431.9 thousand.

The Group's portfolios comprised 10.5 million policies as of the reporting date (December 31, 2019: 8.0 million). These can be broken down into 6.8 million policies (December 31, 2019: 4.4 million) related to the international business and 3.7 million policies (December 31, 2019: 3.6 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 by 4.0 percent, from €23,981.0 thousand to €23,032.2 thousand.

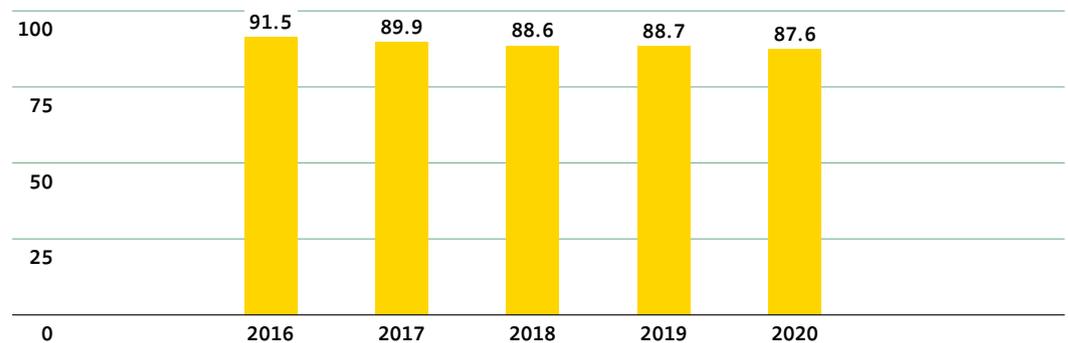
In the legal insurance business as a whole, claims incurred rose from €554,801.3 thousand in 2019 to €566,592.6 thousand in the year under review. The principal reasons were the expansion of the volume of business and the increase in attorney and court costs in Germany from 2021. The casualty and property insurance saw a marked decline of €21,817.7 thousand in the claims incurred related to the travel insurance and accident insurance businesses. This reflected the slump in the travel business and the restrictions imposed because of the pandemic. Club sports were also subject to massive constraints. In the health insurance business, expenses for claims incurred went up by 4.0 percent to €239,350.7 thousand because of the greater proportion of policyholders

with full-coverage insurance. Overall, claims incurred by the Group in the year under review were virtually the same as the prior-year figure. The Group claims ratio declined sharply from 53.5 percent to 50.9 percent, although this change was also aided by the strong premium growth.

Insurance business operating expenses in the Group rose by 9.0 percent to €673,945.9 thousand in 2020 (2019: €618,386.4 thousand). This increase can be attributed largely to the further rapid growth of the Group. The cost ratio rose accordingly from 35.3 percent in 2019 to 36.7 percent in 2020. As in the past and despite the strong growth, the Group's combined ratio was reduced slightly in the reporting year to 87.6 percent (2019: 88.7 percent), which is a sound level for this ratio.

Changes in combined ratio

(%)

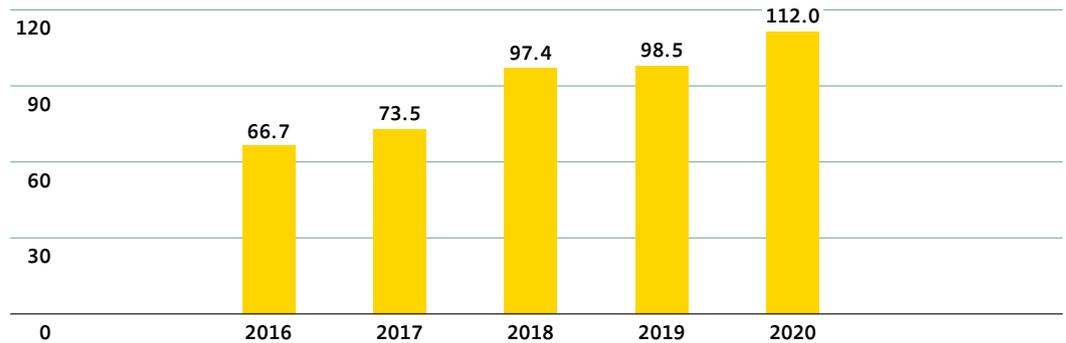


■ Combined ratio for the ARAG Group

The ARAG Group's underwriting result improved substantially, by 13.8 percent, advancing from a profit of €98,474.1 thousand in 2019 to €112,020.5 thousand in 2020. The main influence was the much better underwriting result in the casualty and property insurance business, which climbed to a profit of €13,972.3 thousand (2019: profit of €6,220.8 thousand), because of the low claims incurred. The underwriting result of the overall non-life insurance business (legal insurance and casualty and property insurance) rose significantly year on year to a profit of €83,256.6 thousand (2019: profit of €71,272.1 thousand) despite a considerable addition of €32,601.2 thousand (2019: €13,151.6 thousand) to the equalization provision. The core legal insurance business remains the most profitable Group segment, generating an underwriting profit of €69,284.3 thousand (2019: €65,051.3 thousand).

Changes in underwriting result

(€ million)



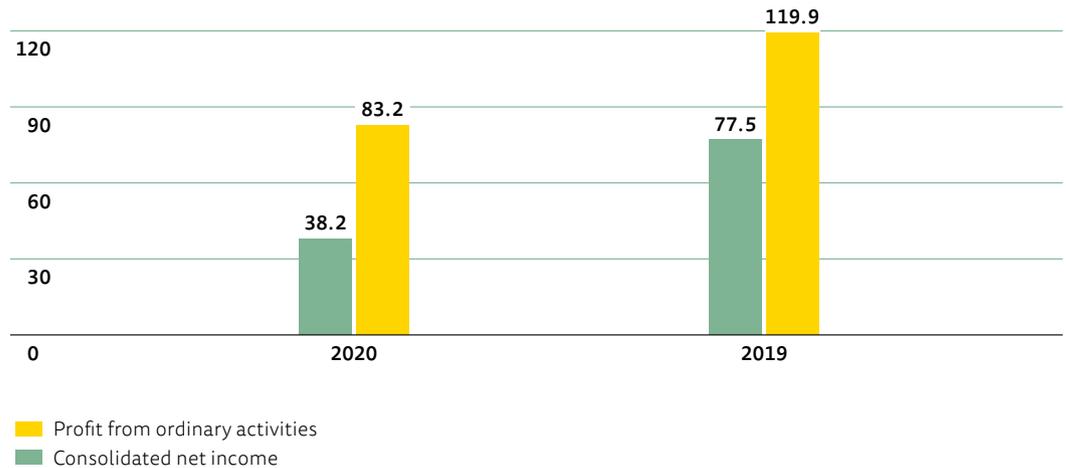
■ Underwriting result for the ARAG Group

In line with the forecast made in 2019, the Group's net gains on investments fell substantially, with a year-on-year decrease of 50.0 percent. One of the main reasons was the favorable environment in the capital markets in 2019 created by rising share prices. As a result, large reversals of write-downs were recognized in that year. Gains on disposals were also generated as a consequence of the restructuring of some of the institutional funds. These two effects were only present to a much lesser degree in the reporting year despite favorable capital market trends overall. There was also a further decline in ordinary income from investments, as anticipated. This decline was exacerbated by the reinvestment of ordinary income in institutional funds so that capital market volatility can be better absorbed in the future. Overall gains and losses on investments – including the share of gains and losses contained in the underwriting account – amounted to net gains of €78,476.9 thousand (2019: €156,913.9 thousand). Of this total, €48,057.1 thousand was assigned to the underwriting result (2019: €78,013.2 thousand).

The net expense of €59,148.0 thousand reported under other net income/expense was again higher than the net expense of €56,575.4 thousand recognized in 2019. Profit from ordinary activities amounted to €83,245.3 thousand and was thus below the corresponding prior-year figure of €119,852.4 thousand, as forecast. The Group's tax expense amounted to €45,070.3 thousand (2019: €42,315.5 thousand).

Net income

(€ million)



Financial position

The objective of the management of financial resources is to ensure that the Group 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 by some way, rather than simply satisfy, the regulatory solvency capital requirements for 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.

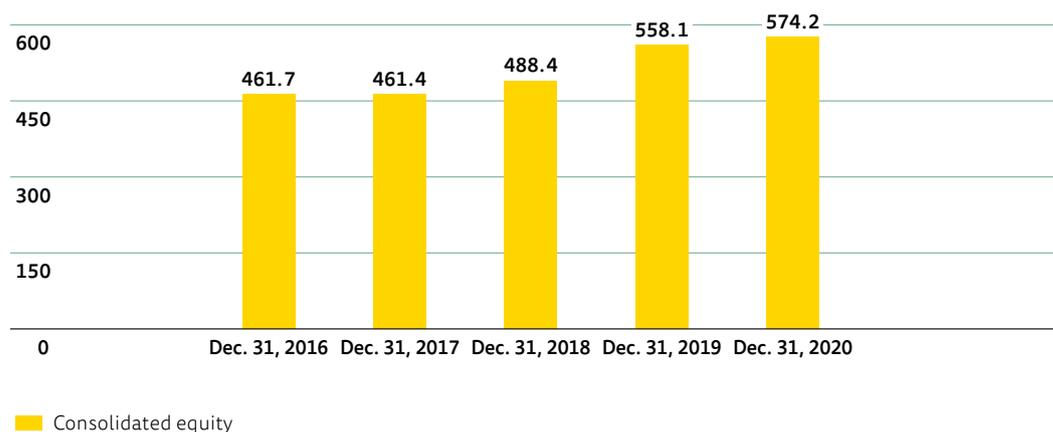
In addition to current bank balances and cash on hand of €281,637.7 thousand (December 31, 2019: €252,939.7 thousand), the Group has investments at its disposal that can be sold on the capital and financial markets at short notice, thus ensuring that the Group is able to satisfy its payment obligations under insurance contracts at all times. There are obligations to pay in capital into private equity funds and infrastructure funds in an amount of €149.3 million, which is funded using surplus liquidity from ongoing insurance business.

In the year under review, consolidated equity increased further, from €558,105.0 thousand to €574,215.1 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 5.0 percent in 2020, from €4,689,856.4 thousand to €4,925,560.6 thousand. The fair value of the Group's investments amounted to €5,684,601.3 thousand as of the balance sheet date (December 31, 2019: €5,301,581.2 thousand).

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

Type of investment

(€ million)

	Dec. 31, 2020		Dec. 31, 2019	
I. Land and buildings	182.1	3.7%	188.1	4.0%
II. Shares in affiliated companies and equity investments	14.9	0.3%	17.8	0.4%
III. Lending to affiliated companies and equity investments	3.8	0.1%	3.2	0.1%
IV. Equities and investment fund shares/units	1,554.5	31.6%	1,621.5	34.6%
V. Bearer bonds	1,821.0	37.0%	1,548.3	33.0%
VI. Loans secured by mortgages and land charges	0.0	0.0%	0.0	0.0%
VII. Registered bonds, promissory notes	1,064.5	21.6%	1,085.1	23.1%
VIII. Bank deposits	59.8	1.2%	53.8	1.1%
IX. Sundry lending	0.1	0.0%	0.1	0.0%
X. Miscellaneous investments	160.4	3.3%	111.3	2.4%
XI. Deposits with ceding insurers	64.5	1.3%	60.7	1.3%
Total	4,925.6	100.0%	4,689.9	100.0%

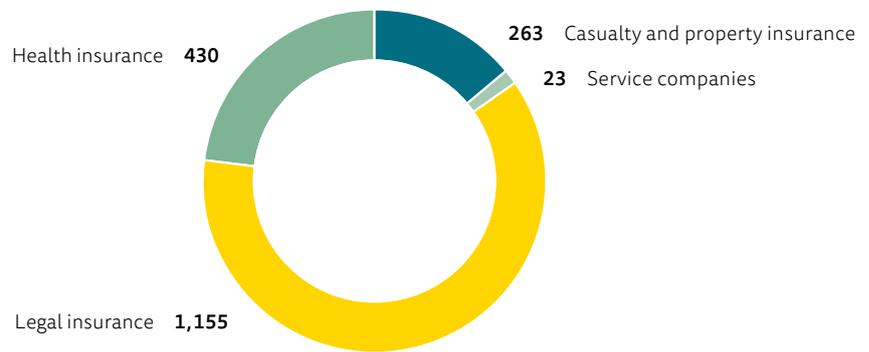
Segment reporting

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 2020

(€ million)



Gross premium income

(€ million)	2020	2019
Legal insurance	1,155	1,085

Legal insurance

The legal insurance segment represents the ARAG Group's core business and is the most profitable insurance segment. Sustained high increases in Germany, together with the continuation of the growth trajectory in international markets, resulted in a year-on-year rise in premium income in the segment of 6.4 percent or €69,772.1 thousand to €1,155,067.3 thousand. 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 61.6 percent (2019: 61.4 percent). The Netherlands, Italy, the US, and Scandinavia provided particularly strong impetus for this growth.

Claims incurred in the whole of the legal insurance segment rose from €554,801.3 thousand to €566,592.6 thousand. The main factors behind this increase were significant business expansion and the rise in attorney fees and court costs in Germany. The claims ratio for the segment fell from 51.1 percent in 2019 to 49.1 percent in the reporting year. This decrease resulted from the reversal of some of the provisions for accumulation losses. The cost ratio went up slightly, from 42.2 percent to 42.4 percent, as a result of higher commissions in the inward reinsurance business. The underwriting profit for the whole of the legal insurance segment rose again, advancing from €65,051.3 thousand to €69,284.3 thousand.

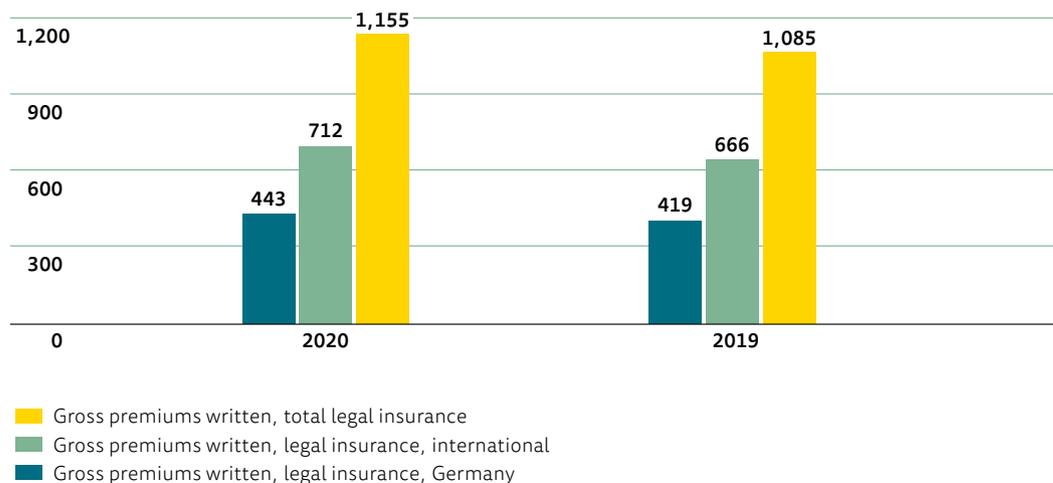
Net gains on investments in the legal insurance segment were again far higher than their prior-year level at €104,491.2 thousand (2019: €88,614.0 thousand). This figure included a non-recurring item of €52,014.1 thousand arising from the reversal of a write-down on the carrying amount of an equity investment relating to a Group company. In 2019, gains on disposal had been recognized as a result of reallocations within the portfolio of investments and favorable capital market trends had led to the reversal of some write-downs. These effects were not repeated to the same extent in the reporting year. Other net income/expense amounted to a net expense of €43,214.8 thousand, which equated to an increase compared with the 2019 figure of €38,156.7 thousand, largely due to further capital expenditure on digitalization in the Group.

The segment generated profit from ordinary activities of €130,560.8 thousand (2019: €115,508.6 thousand).

The **international legal insurance business** generated premium growth of 6.8 percent in the year under review. Gross premiums written amounted to €711,953.2 thousand compared with €666,406.8 thousand in 2019. These figures also included some of the sales revenue generated by the branches of ARAG Allgemeine Versicherungs-AG in the Republic of Ireland and the United Kingdom. The ARAG Group provides products and services for customers in Germany and a total of 18 other countries. Business grew by 9.2 percent in Italy, 6.7 percent in the Netherlands, 4.9 percent in Spain, and 7.5 percent in the US (measured in euros).

Legal insurance business shows continuous growth

(€ million)



In the reporting year, the expenses for claims incurred in the international legal insurance business went down from €275,113.5 thousand to €266,976.1 thousand despite the growth. Profit/loss on settlements arising in connection with the prior-year claims provision in Italy was a significant factor in this year-on-year decline. Overall, the claims ratio fell to 37.3 percent (2019: 41.0 percent).

The combined ratio in the international legal insurance business improved from 85.5 percent to the very good level of 82.9 percent.

The **legal insurance business in Germany** continued to build on the good premium growth of previous years. The year-on-year rise in premium income of 5.8 percent outstripped the market average. This was primarily attributable to the expansion of 4.8 percent (77,567 contracts) in the policy portfolio in German direct business and to the growth in the inward reinsurance business from the United Kingdom. Including the inward reinsurance business, the total income from gross premiums written in German legal insurance amounted to €443,114.1 thousand (2019: €418,888.4 thousand).

The claims ratio in the German legal insurance business went up from 67.6 percent in 2019 to 68.3 percent in 2020. In direct business, reported claims rose by 18.7 percent in 2020 because of business expansion and the consequences of the COVID-19 pandemic. Furthermore, the increase in attorney fees and court costs from 2021 had to be factored into the measurement of the claims reserve. Claims incurred therefore climbed from €279,687.8 thousand in 2019 to €299,616.5 thousand in the reporting year.

The net cost ratio fell to 37.2 percent in 2020 (2019: 38.4 percent).

An amount of €3,120.3 thousand was added to the equalization provision for the inward reinsurance business (2019: €997.3 thousand).

Overall, the German legal insurance business ended the year with an underwriting loss of €24,816.0 thousand, which was more or less at the level of the previous year (loss of €24,839.7 thousand).

Casualty and property insurance

Premiums from the legal-insurance-related special service package business are allocated to the international casualty and property insurance segment. The premiums written for this business line declined to €47,212.9 thousand (2019: €70,158.3 thousand). Premiums in the casualty and property insurance segment fell sharply in Europe because of the measures and restrictions imposed on the public in response to the pandemic. The travel insurance business in Spain and Portugal was particularly badly affected, suffering a drop in premiums of more than 40 percent. Growth slowed in the German casualty and property insurance business, amounting to just 0.6 percent for the year. Gross premiums written in this segment therefore went down by 7.6 percent year on year to €263,431.9 thousand (2019: €285,010.1 thousand).

Gross premium income

(€ million)	2020	2019
Casualty and property insurance	263	285

The reported claims for 2020 in the general accident insurance and liability insurance businesses fell substantially because of the COVID-19-related restrictions. Claims incurred in the accident and liability classes of insurance were correspondingly well down compared with the previous year. Taking account of the transfer of risk to reinsurers, the claims incurred in Germany decreased by 10.6 percent year on year. Claims incurred in the casualty and property segment as a whole amounted to €129,685.6 thousand and were thus significantly below the prior-year level of €151,503.3 thousand. The claims ratio fell accordingly from 55.1 percent to 51.2 percent.

The cost ratio rose year on year from 40.7 percent to 42.6 percent due to higher commission expenses. Underwriting profit before the equalization provision went up from €10,369.4 thousand in 2019 to €14,614.8 thousand in the reporting year. After an addition to the equalization provision amounting to €642.5 thousand (2019: €4,148.6 thousand), the underwriting profit amounted to €13,972.3 thousand, which was much higher than the equivalent prior-year figure (2019: €6,220.8 thousand). Net gains on investments amounted to €2,885.9 thousand, which equated to a year-on-year decrease of 76.0 percent. The decline arose because of income from the reversal of write-downs and gains on disposals recognized in 2019, combined with the reinvestment of ordinary income from institutional funds in the reporting year. After deducting the net expense under other net income/expense, which improved by €866.4 thousand, the casualty and property insurance segment delivered a profit from ordinary activities of €14,092.9 thousand (2019: €14,598.0 thousand).

Gross premium income

(€ million)	2020	2019
Health insurance	430	393

Health insurance

Gross premiums written went up by €36,981.8 thousand to a total of €430,179.7 thousand. This equates to growth of 9.4 percent, which was a much faster rate than for the private health insurance sector as a whole. In 2020, the growth of the health insurance business was once again driven by full-coverage health insurance. With a year-on-year increase of 12.1 percent, monthly premiums written in this product group continued to rise substantially. Premium adjustments were moderate, at just 2.0 percent or so of monthly premiums written.

Amounts paid out for claims rose by 4.0 percent to €239,350.7 thousand as a result of the higher level of claims. The addition to the actuarial reserve (including the change in the lapse provision) amounted to €136,094.5 thousand, a decrease compared with the equivalent figure of €159,137.5 thousand in 2019. The overall underwriting result in 2020, a profit of €28,763.9 thousand, was at a similar level to the profit of €27,202.0 thousand in 2019. This was achieved despite the considerably lower net gains on investments, which had been particularly high in 2019 because reversals of write-downs had been recognized. Gains and losses on investments declined from a net gain of €78,013.2 thousand to a net gain of €48,057.1 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 €24,887.0 thousand (2019: €22,243.8 thousand). This rapidly growing segment therefore once again made a substantial contribution to the consolidated profit before tax.

Sales revenue

(€ million)	2020	2019
Service companies	23	24

Services and asset management

This segment brings together Group companies that provide core services other than straightforward insurance business for the benefit of both Group companies and third parties. Their activities include 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 €66,852.5 thousand in 2019 to €67,863.0 thousand in 2020. After adjustment for the sales revenue generated in the service companies from business with Group companies in other Group segments, the remaining sales revenue generated from third parties came to €23,032.2 thousand compared with €23,981.0 thousand in 2019. Profit before tax amounted to €40,294.5 thousand (2019: €43,712.1 thousand). The year-on-year decline was largely attributable to higher investment expenses of €6,587.5 thousand (2019: €3,705.8 thousand).

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 2020 Sustainability Report*) outside the group management report in accordance with section 315 b (3) HGB. This sustainability report is published at the same time as the group management report and is publicly accessible at:

www.arag.de/service/infos-und-news/

blaetterkataloge/?catalog=arag-nachhaltigkeitsbericht_en_2020

* Not part of the management report.

III. Outlook, Opportunity and Risk Reports

Outlook and opportunity report

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

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

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

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

Turning to forward-looking political developments in Germany and Europe as a whole, one of the major concerns is still that the political and economic relationship between the United Kingdom and EU has not yet been definitively resolved. Although Brexit took place in January 2021, it is still impossible to make any firm predictions about the basis for the United Kingdom's long-term international relations and the economic effects.

The COVID-19 pandemic also had a significant impact on the German insurance industry. For example, the industry faced huge challenges in connection with the referral of new business. The volatile capital market environment had a negative impact on financial performance. Nevertheless, the German insurance industry proved to be rather robust, suffering a significantly smaller contraction than the rest of the economy. In such tough market conditions, enormous opportunities are presented by digitalization in insurance companies' own businesses. Digital technologies mean that it is possible to set up much more efficient administrative channels and, above all, facilitate and develop interaction with customers, regardless of the time of day or where the parties are located. The German insurance market remains subject to increasingly fierce competition. In many branches of insurance, opportunities for greater premium growth and further portfolio expansion are often only available if policyholders change provider.

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

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

Premium income in the insurance industry is expected to grow more significantly than in 2020. The German Insurance Association (GDV) is estimating that the increase in premiums in the German market will be 2.7 percent in 2021 (2020: 0.4 percent). The forecast growth for casualty and property insurance is 1.6 percent (2020: 2.1 percent). In the private health insurance business, a premium increase of 5.5 percent is anticipated (2020: 4.5 percent).

Despite the tough ongoing social, political, and economic conditions caused by the COVID-19 pandemic, the ARAG Group is planning to maintain its existing pace of growth in 2021. Important factors are the high level of economic uncertainty and the associated risk of unemployment, which are generating significant customer demand for protection in the form of legal insurance and legal services. Going forward, the pandemic will also encourage customers and consumers to give even more thought to private healthcare. Consequently, 2021 is expected to see a further rise in demand for private full-coverage and supplementary health insurance, as a result of which growth in the health insurance segment in the coming year is likely to be well above the market level, especially in the full-coverage health insurance business. Gross premiums written are expected to increase again, although this increase is likely to be lower than in the reporting year.

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 Group will continue its strategy of providing needs-based insurance cover for organizations offering recreational and high-performance sports activities. 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 2021, because the business brokered in the United Kingdom is relatively insignificant.

Claims payments in the legal insurance business in Germany are expected to rise in the current year because of the changes to the law covering attorney fees and court costs. This will lead to a moderate rise in the claims ratio. In the casualty and property insurance segment, the claims ratio is expected to rise year on year in the wake of the anticipated easing of COVID-19 restrictions by the end of the year, as a result of which there will be more accident and liability claims again. Expenses for claims incurred in health insurance are likely to rise further owing to the annual increase in healthcare costs and the consequences of the pandemic.

Overall, the Group's claims ratio is expected to rise moderately.

Over the coming years, the task of implementing the Group's digital transformation will continue to lie at the heart of securing its future success. The ARAG Smart Insurer Program provides a groupwide frame of reference for this and will remain the focus of investment activity. A further rise in commissions in connection with the inward legal reinsurance business is also anticipated. In addition, the acquisition costs in the health insurance segment are projected to remain at a high level. Overall, however, some of the anticipated rise in costs will again be offset by savings in travel and training costs in 2021. The Group's cost ratio is likely to fall slightly in 2021 as a result of the growth in the business.

The Group's overall combined ratio will increase moderately and the underwriting result for 2021 will be down compared with 2020.

It remains difficult to forecast the gains and losses on investments because of the ongoing COVID-19 pandemic, the policy of low interest rates maintained by the ECB, rising inflation, and the uncertainty surrounding the performance of the US economy following the change of government in January 2021. Nevertheless, it can be assumed that interest rates will remain very low or even negative under the ECB's monetary policy, leading to a fall in current investment income. Gains and losses on investments will therefore deteriorate sharply compared with 2020.

This year, further targeted capital expenditure on the Group's digital transformation may push the net expense recognized under other net income/expense above the figure reported for the year under review. Profit before tax will therefore probably be down again in 2021 compared with the level in 2020.

Even though population vaccination programs are now under way, there is currently still a great deal of uncertainty about the extent of the economic consequences of COVID-19, especially as European governments and the EU do not have a consistent strategy, nor is the effectiveness of their measures yet apparent. Consequently, the ARAG Group's financial performance in 2021 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 41.1 percent. The diversification of the Group's business across markets will continue to broaden on the back of steady expansion in existing markets and the acquisition of business in new countries. This approach opens up a wide range of opportunities that would otherwise not be available 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 six 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 significantly higher growth potential. ARAG is focusing considerable effort on exploiting this potential with a view to achieving further growth in the Group. In this regard, the ARAG Group 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 Group is also benefiting from its clear focus on legal insurance, property insurance, and health insurance business. Even more so in the pandemic, this positioning is enabling ARAG to meet significant consumer demand for legal insurance and health insurance products. The Group expects to continue to benefit from these circumstances going forward.

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. In this regard, the pandemic also presented an opportunity for the Group to demonstrate its substantial digital capabilities, whereby it could transition smoothly to supporting all customer-related processes on a decentralized basis. This applied to all the Group's activities around the globe.

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

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

ORSA The own risk and solvency assessment (ORSA) process verifies that the changes in the most significant individual risks over the next three financial years will remain manageable, thereby ensuring that the ARAG Group continues to meet the objective of the conservative risk and solvency policy over the long term. To this end, the ORSA process determines the ARAG Group'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 are defined in groupwide policies and guidelines. By reporting regularly to the Management Board, the independent risk management function also ensures comprehensive transparency with regard to the risk position and any changes to the risk position.

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

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

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

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

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

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

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

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

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

Risk categories

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

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.

Measures implemented to restrict the risks include risk limits and various reinsurance programs in the individual Group companies.

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

Changes in claims ratio

Financial year	Claims ratio, gross, total		Profit/loss on settlements
	<i>FY ratio</i>	<i>Financial statements</i>	<i>% of initial reserve</i>
2020	56.4	51.4	4.6
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	53.3	5.9
2012	62.6	50.9	7.0
2011	60.3	54.5	4.1

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 Group 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.

The measures implemented to limit the risk include reinsurance and the use of the available opportunities to structure policyholder profit participation and adjust premiums to the extent permitted by law.

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. The risk of default on receivables from policyholders and insurance brokers is measured. The amount of the receivables due from reinsurers, broken down by external ratings, can be found in the notes to the consolidated financial statements.

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

As of the balance sheet date, receivables from policyholders more than 90 days past due amounted to €18,816.2 thousand (December 31, 2019: €16,321.5 thousand). The average default rate for these receivables over the last three years as of December 31, 2020 was 22.2 percent (December 31, 2019: 17.9 percent).

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

- Interest-rate risk: changes in the term structure or volatility of interest rates. For example, an assumed increase or decrease of 1 percent in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by approximately €298.9 million.
- Equity risk: changes in the level or volatility of the market prices of equities. For example, an assumed fall in equities markets of 20 percent would cause a loss in fair value of €87.4 million.
- Property risk: changes in the level or volatility of the market prices of real estate.
- Currency risk: changes in the level or volatility of exchange rates.
- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure.
- Migration/default risk: rating level changes or changes in the extent of projected defaults. The breakdown of interest-bearing investments by rating is as follows:

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

(Proportion (%) by fair value)

AAA	24.1
AA	15.8
A	27.6
BBB	27.3
BB	3.1
B	1.6
CCC	0.0
CC	0.0
C	0.0
D	0.0
Not rated	0.6

The breakdown of fixed-income securities is as follows (fair values): Of the fixed-income securities – including securities held indirectly through institutional funds – approximately 29.5 percent are accounted for by financial services entities, 34.9 percent by public-sector bonds, and 35.6 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.

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

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

Liquidity risk is measured separately for each Group company by calculating the monthly excess liquidity cover or liquidity shortfall on a rolling basis. Liquidity planning is updated constantly so that ARAG has early warning of whether it will require liquidity in the coming months. Asset/liability management (ALM) is used to determine the liquidity requirement over the medium to long term, likewise at Group company level.

Risk limitation measures include ALM and rolling liquidity planning.

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

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

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

Overall risk position

The regulatory minimum capital requirement in accordance with VAG provisions is met in full. Moreover, the eligible own funds are significantly higher than the solvency capital requirements calculated in accordance with the VAG.

In addition to the risks described above, a pandemic and/or various aspects of digitalization could have a negative impact on the business model.

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

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

During the pandemic, the Group has also kept operational risks, such as business interruption risk and cyber risk, well under control. For example, it managed to continue running its operations in their entirety by switching to remote working, which for a time involved almost the whole of the workforce.

The more widespread use of home working could lead to an increase in cyberattacks. These are countered with enhanced IT security measures to prevent heightened risk. Further developments in the COVID-19 pandemic are being regularly analyzed so that further countermeasures can be taken if required.

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

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Consolidated Balance Sheet as of December 31, 2020

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: € 644.87 (Dec. 31, 2019: € 424.03)
- II. Receivables from reinsurance business
- III. Miscellaneous receivables
of which from affiliated companies: € 892,580.29 (Dec. 31, 2019: € 705,623.44)
of which from other long-term investees and investors: € 143,139.04 (Dec. 31, 2019: € 102,569.00)

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, 2020	Dec. 31, 2019
	2 p. 75	11,427,215.59	16,487,959.36
	3 p. 75	11,470,281.68	12,097,391.58
		22,897,497.27	28,585,350.94
	33 p. 84		
	4 p. 75	182,119,004.23	188,059,567.60
	5 p. 75		
		2,430,021.25	2,685,680.19
	31 p. 83	10,061,297.44	12,003,037.66
		2,431,626.92	3,153,133.92
		3,750,000.00	3,212,093.00
		18,672,945.61	21,053,944.77
	6 p. 76	1,554,479,369.92	1,621,521,616.93
	7 p. 76	1,821,022,674.95	1,548,290,360.30
	8 p. 77	1.00	1.00
	9 p. 77	567,029,876.30	596,011,291.88
	10 p. 77	497,478,013.44	489,052,263.44
	10 p. 77	79,712.02	97,454.62
		1,064,587,601.76	1,085,161,009.94
	11 p. 77	59,782,540.32	53,797,090.18
		160,388,046.37	111,294,555.39
		4,660,260,234.32	4,420,064,633.74
		64,508,382.26	60,678,269.26
		4,925,560,566.42	4,689,856,415.37
	12 p. 77		
		54,852,317.18	69,305,803.76
		54,852,317.18	69,305,803.76
		39,247,019.90	32,630,799.72
		94,099,337.08	101,936,603.48
		53,638,276.53	51,462,017.85
		17,871,094.64	13,590,880.48
		165,608,708.25	166,989,501.81
	13 p. 77	20,823,522.50	24,308,236.54
	14 p. 77		
	15 p. 77	221,855,187.51	199,142,619.24
	15 p. 77	26,964,491.57	22,128,566.01
		269,643,201.58	245,579,421.79
	16 p. 77		
		31,738,001.20	32,588,142.45
		11,900,544.53	11,949,760.89
		43,638,545.73	44,537,903.34
	17 p. 77		0.00
	34 p. 87		626,557.32
	18 p. 78		303,120.17
		5,427,674,214.21	5,176,478,270.74

Consolidated Balance Sheet as of December 31, 2020

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, 2020	Dec. 31, 2019
		19 p. 78 38 p. 94			
			200,000,000.00		200,000,000.00
			15,078,635.00		13,641,263.00
			352,826,438.48		287,731,047.63
			- 4,769,323.48		6,700,499.96
		1 p. 73	- 35,999,890.82		- 35,999,890.82
			327,135,859.18		272,072,919.77
			37,390,792.86		76,526,588.21
			8,904,314.38		8,495,218.77
			784,136.62		1,010,318.93
			9,688,451.00		9,505,537.70
				574,215,103.04	558,105,045.68
		20 p. 78		30,000,000.00	30,000,000.00
		21 p. 78			
			260,664,544.32		261,425,278.99
			- 23,614.57		0.00
			260,640,929.75		261,425,278.99
		22 p. 79			
			2,082,249,209.21		1,946,375,724.66
			0.00		0.00
			2,082,249,209.21		1,946,375,724.66
		23 p. 79			
			1,612,943,030.42		1,557,875,157.11
			- 33,815,539.32		- 33,667,767.25
			1,579,127,491.10		1,524,207,389.86
			248,770,259.87		260,055,022.89
		24 p. 80			
			121,722,714.02		89,154,014.00
		25 p. 80			
			4,056,492.90		4,808,340.70
			0.00		0.00
			4,056,492.90		4,808,340.70
				4,296,567,096.85	4,086,025,771.10
				4,900,782,199.89	4,674,130,816.78

Consolidated Balance Sheet as of December 31, 2020

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: € 0.00 (Dec. 31, 2019: € 14.56)
- II. Liabilities from reinsurance business
- III. Miscellaneous liabilities
 - of which tax liabilities: € 20,854,691.19 (Dec. 31, 2019: € 22,241,137.21)
 - of which social security liabilities: € 2,685,304.75 (Dec. 31, 2019: € 2,140,779.26)
 - of which to affiliated companies: € 446,474.38 (Dec. 31, 2019: € 170,873.85)

G. Deferred income and accrued expenses

H. Deferred tax liabilities

Total equity and liabilities

		Note		Dec. 31, 2020	Dec. 31, 2019
				4,900,782,199.89	4,674,130,816.78
		26 p. 81	267,267,206.00		255,900,253.62
			25,484,879.54		23,653,511.27
		27 p. 82	105,768,312.74		93,437,274.80
				398,520,398.28	372,991,039.69
		28 p. 82		59,869.41	165,341.73
		29 p. 83			
			27,698,717.03		25,700,880.03
			37,935,543.14		32,287,133.54
			65,634,260.17		57,988,013.57
		29 p. 83	3,442,113.70		3,698,441.68
			57,382,104.72		59,307,207.96
				126,458,478.59	120,993,663.21
		30 p. 83		700,068.68	8,197,409.33
				1,153,199.36	0.00
				5,427,674,214.21	5,176,478,270.74

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

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			2020	2019
	32 p. 83	1,418,499,199.83			1,370,305,326.52
		-10,631,805.57			-10,478,376.52
			1,407,867,394.26		1,359,826,950.00
		203,567.30			141,951.82
		23,614.57			-142,635.15
			227,181.87		-683.33
				1,408,094,576.13	1,359,826,266.67
				348,972.00	303,831.00
				1,426,100.96	2,498,907.16
		644,987,799.62			640,454,911.94
		-4,706,009.22			-4,576,346.76
			640,281,790.40		635,878,565.18
		56,144,156.82			68,160,623.48
		-147,772.07			2,265,367.54
			55,996,384.75		70,425,991.02
				696,278,175.15	706,304,556.20
			0.00		0.00
			1,693,011.80		-688,135.98
				1,693,011.80	-688,135.98
			598,661,813.72		570,751,313.74
			-1,088,382.33		-1,347,628.57
				597,573,431.39	569,403,685.17
				1,853,259.14	1,808,989.51
				115,857,795.21	84,423,637.97
				-32,601,205.17	-13,151,552.62
				83,256,590.04	71,272,085.35

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

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 (2019: € 13,256.88)
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: € 12,899,755.82 (2019: € 2,503,534.00)
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			2020	2019
	32 p. 83	430,179,713.03			393,197,885.45
		-400,538.30			-378,724.88
			429,779,174.73		392,819,160.57
		94,700.63			-605,992.14
		0.00			0.00
			94,700.63		-605,992.14
				429,873,875.36	392,213,168.43
				37,076,795.85	46,505,854.05
			0.00		0.00
		5,270,657.38			5,133,876.67
		52,109,178.69			62,406,479.13
			57,379,836.07		67,540,355.80
			5,852,964.60		19,345,864.77
			6,392,396.27		524,080.00
				69,625,196.94	87,410,300.57
				8,261,941.29	2,132,954.12
		233,284,321.45			230,689,802.03
		-760.31			-119,430.97
			233,283,561.14		230,570,371.06
		6,067,103.42			-391,096.30
		0.00			0.00
			6,067,103.42		-391,096.30
				239,350,664.56	230,179,274.76
		-135,873,915.55			-159,132,001.60
		0.00			0.00
			-135,873,915.55		-159,132,001.60
			-220,613.00		-5,470.00
				-136,094,528.55	-159,137,471.60
	37 p. 90			40,095,106.40	51,928,955.62
		66,360,238.83			39,689,012.31
		10,152,446.39			9,386,475.73
			76,512,685.22		49,075,488.04
			-140,169.66		-92,768.57
				76,372,515.56	48,982,719.47
			4,678,729.20		5,284,413.98
			14,043,899.29		3,663,571.15
			2,845,516.30		449,100.00
				21,568,144.79	9,397,085.13
				2,592,967.83	1,434,780.59
				28,763,881.75	27,201,990.00

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

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: € 309,000.00 (2019: € 696,000.00)
b) Income from associates
c) Income from other investments of which from affiliated companies: € 0.00 (2019: € 0.00)
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: € 7,065,025.84 (2019: € 3,127,157.57)
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: € 4,825,348.24 (2019: € 6,550,261.55)
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 € 1,779,756.68 (2019: tax expense of € 435,562.75)
15. Miscellaneous taxes
16. Net income for the year
17. of which non-controlling interests

	Note		2020	2019
			83,256,590.04	71,272,085.35
			28,763,881.75	27,201,990.00
			112,020,471.79	98,474,075.35
		659,000.00		803,930.00
		2,960,234.25		4,325,722.50
		17,174,323.72		16,930,534.22
		25,321,715.66		36,473,132.90
		42,496,039.38		53,403,667.12
		12,029,685.91		21,529,278.95
		3,077,259.22		18,815,032.89
			61,222,218.76	98,877,631.46
		14,722,674.15		12,632,784.14
		11,360,810.52		6,631,861.45
		4,369,887.39		408,452.95
		0.00		0.00
			30,453,372.06	19,673,098.54
			30,768,846.70	79,204,532.92
			-348,972.00	-303,831.00
			23,032,188.29	23,980,985.61
			23,079,288.44	24,928,016.35
			29,389,014.31	29,984,998.06
			88,537,007.19	86,560,354.07
			-59,147,992.88	-56,575,356.01
			-28,775,218.33	21,378,315.17
			83,245,253.46	119,852,390.52
	35 p. 88		0.00	0.00
	35 p. 88		0.00	0.00
			0.00	0.00
			83,245,253.46	119,852,390.52
	36 p. 88		41,662,463.80	40,912,686.58
			3,407,860.18	1,402,796.80
			45,070,323.98	42,315,483.38
			38,174,929.48	77,536,907.14
			-784,136.62	-1,010,318.93

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, 2020, 35 subsidiaries were included in the consolidated financial statements pursuant to section 301 (1) HGB (December 31, 2019: 35). A total of nine entities were not included in the consolidated financial statements pursuant to section 296 (1) no. 2 HGB because they were deemed to be of minor significance to the presentation of the Group's net assets, financial position, and results of operations. One Group company was consolidated as an associate pursuant to section 311 HGB.

In 2020, the basis of consolidation excluding associates comprised six insurance companies (2019: six), three service companies in the field of information technology and business organization (2019: three), two real-estate management companies (2019: two), three investment vehicles (2019: three), 17 other service companies (2019: 17), and five holding and asset management companies (including the parent company, ARAG Holding SE; 2019: 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	94.01
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	94.01
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	94.01
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

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	234,571.95	64,503.59
2 ARAG Services Spain & Portugal S. L., Barcelona/Spain*	100.00	622,811.99	85,432.58
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	443,433.77	220,248.35
5 COLUMBUS Immobilien Fonds XVI GmbH & Co. KG, Munich*	55.57	1,452,286.11	-380,845.68
6 Easy2claim Limited, Bristol/United Kingdom** (inactive)	100.00	1.13	0.00
7 Multiline Insurance Agency (MIA) S. r. l., Verona/Italy	100.00	181,852.59	-218,506.87
8 Prinzregent Vermögensverwaltungs-GmbH, Düsseldorf	100.00	33,509.79	147.48
9 VIF Gesellschaft für Versicherungsvermittlung mit beschränkter Haftung, Düsseldorf	100.00	375,468.34	343,702.09

* Figures from the financial statements for the year ended December 31, 2019

** 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, 2020 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 (15 years). If a future benefit from goodwill is no longer expected, the remaining amount is written off. No write-offs were recognized in the reporting year.

In the case of subsidiaries that were already included in the consolidated financial statements in 1989 in accordance with section 27 of the Introductory Act to the German Commercial Code (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 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. No subsidiaries were deconsolidated in 2020.

The investment in the associate is 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 associate's 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 €11,469,823.44, 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 withdrawn from 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' have been 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 €6,561,239.42 as of December 31, 2020 (December 31, 2019: €7,498,559.30). The useful life was originally set at 15 years because the goodwill was defined as in-force business.

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

The carrying amount of €11,470,281.68 can be broken down as follows: €7,692,125.03 for software, €269,775.65 for leasehold improvements in business premises in Italy, €68,986.00 for industrial property rights and licenses, and €3,439,395.00 relating to in-force business from the acquisition of contracts in the Republic of Ireland in 2019. Most software is amortized on a straight-line basis over five years. 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 arising from the acquisition of a portfolio is being amortized over ten years. No write-downs were recognized in 2020.

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 €7,477,874.00 (2019: €2,221,409.17) were recognized in the year under review in respect of land owing to anticipated permanent asset impairment. Reversals of write-downs were recognized in an amount of €2,179,703.25 (2019: €0.00) because the reasons for the recognition of the original write-downs no longer applied. 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 €255,658.94 were recognized on non-consolidated affiliated companies (2019: €61,981.60) and of €721,506.00 on miscellaneous equity investments (2019: €0.00). No reversals of

write-downs pursuant to section 253 (5) HGB were recognized in 2020 on shares in non-consolidated affiliated companies or on miscellaneous equity investments (2019: €148,022.75). **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 €287,907.00 (2019: €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 341b (2) HGB in conjunction with section 253 (1), (4), and (5) HGB. The option to select the discretionary principle of lower of cost or market value pursuant to section 341b (2) second half-sentence HGB has not been used. The Management Board has designated some institutional investment fund shares/units and bearer bonds 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, 2020, the quoted market price was deemed to be the long-term value. 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 €9,263,013.64 were recognized due to expected permanent impairment (2019: €28,948.39). Reversals of write-downs pursuant to section 253 (5) HGB were recognized in an amount of €12,697,238.79 in 2020 (2019: €33,765,047.10). The designation of institutional fund shares/units for permanent use in business operations did not result in any undisclosed liabilities due to write-downs not being recognized. As of December 31, 2020, the total fair value was €129,317 thousand more than the carrying amount (December 31, 2019: €112,108 thousand more 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 341b (2) second half-sentence HGB, some of the bonds and securities have been classified for permanent use in business operations. Because of this subset of bonds and securities being classified in this way, no undisclosed liabilities had arisen as of December 31, 2020 as any impairment was assumed to be only temporary and no write-downs were therefore recognized. Reversals of write-downs were recognized in an amount of €2,717,801.47 in 2020 (2019: €6,747,897.55) because there was a recovery in value. Write-downs of €1,594,949.55 had to be recognized (2019: €2,601,481.38).

- 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. Write-downs pursuant to section 253 (3) sentence 5 HGB were recognized in an amount of €651,779.53 in 2020 (2019: €0.00). **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 €26,619.6 thousand (December 31, 2019: €21,547.8 thousand), interest receivables of €4.1 thousand in respect of tax assets (December 31, 2019: €239.6 thousand), insurance assets of €88.1 thousand (December 31, 2019: €91.3 thousand), and miscellaneous items amounting to €252.7 thousand (December 31, 2019: €249.9 thousand). Asset values relating to reinsurance are recognized at the amount provided by the insurance company.
- 16 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 €1,612,104.93 (December 31, 2019: €2,586,205.71) 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 based on the income tax rates expected to apply when differences reverse. 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 are not recognized in respect of tax loss carryforwards.

18 The **excess of plan assets over pension liabilities** is the asset 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 2020, 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. Furthermore, section 253 (6) HGB specifies that the difference arising from the measurement of obligations for pensions and other post-employment benefits using the ten-year market discount rate average compared with that based on the seven-year market discount rate average can only be distributed as a dividend from freely available reserves. As the single-entity financial statements of the parent company ARAG Holding SE only partially include such items, or do not include them at all, and, furthermore, these consolidated financial statements do not serve as the basis for the measurement of any dividend distribution, there is no need to disclose any amounts subject to a restriction on distribution, even though there are circumstances that give rise to a prohibition, in principle, on the distribution of certain amounts as a dividend. In any case, there are sufficient freely available reserves at Group level to satisfy the requirements in full. The articles of incorporation do not include any restrictions on the use of profits.

20 **Subordinated liabilities** have been issued by way of a 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 2.57 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 the United Kingdom is determined on the basis of past experience and statistics produced by the Group's own local claims settlement company. In the case of inward reinsurance business that is treated as direct insurance business because the reinsurer settles the claims, the provision is recognized in accordance with the same principles as apply to direct insurance business. The proportions relating to outward reinsurance business are calculated in accordance with the stipulations in the reinsurance treaties. 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. The valuation method used was the same one used in the previous year.

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, such as a processing backlog, 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. Valuation is based on values as of the balance sheet date. The figures are not discounted.

24 The **equalization provision** is recognized for the Europe territory (excluding 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** had been recognized in 2019 to cover the risk arising where the ARAG Group had entered into quota-share reinsurance treaties with UK primary insurers and these insurers granted a share of profits to policyholders and agents, affecting the reinsurance result via a net premium agreement. This provision contained amounts for third-party profit shares that had not yet been definitively determined as of the reporting date because of an analysis period covering a number of years. The provision was recognized at a settlement amount measured in accordance with prudent business practice. The provision was reversed in full in 2020.

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 2018 G mortality tables published by Professor Klaus Heubeck or local mortality tables that accurately reflect life expectancy outside Germany. 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 discount rate, the provision for pensions and other post-employment benefits as of December 31, 2020 was €28,519,496.00 lower than if the seven-year discount rate had been used (December 31, 2019: €28,422,502.00 lower). 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, 2019: 2.5 percent); annual increase in pension benefits: 1.75 percent (December 31, 2019: 1.75 percent); discount rate: 2.30 percent (December 31, 2019: 2.71 percent; discount rate pursuant to section 253 (2) sentence 2 HGB, ten-year average) and 1.60 percent (December 31, 2019: 1.97 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 €779,925.24 as of December 31, 2020 (December 31, 2019: €765,908.75). 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, 2020	Dec. 31, 2019
Amount required to settle the vested entitlements	271,732,516.60	260,466,400.42
Netted assets (fair value)	-4,465,310.60	-4,566,146.80
Amount reported on the balance sheet	267,267,206.00	255,900,253.62

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 €2,618,070 (December 31, 2019: €2,652,792).

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 1.60 percent (December 31, 2019: 1.97 percent). In 2020, 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 using a maturity-matched discount rate of 1.60 percent (2019: 1.97 percent). In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements and natural employee turnover were taken into account. Credit balances on employee working hours accounts models are protected against insolvency in accordance with 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 2018 G mortality tables published by Professor Klaus Heubeck and applying a discount rate of 1.60 percent (2019: 1.97 percent). The calculation also included staff turnover at an average rate of 1.50 percent and salary increases at a rate of 2.50 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 €3,820.06 (2019: €6,675.29) and interest expenses of €139,031.61 (2019: €29,031.60) 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 341c (2) sentence 1 HGB of €209,222.66 (December 31, 2019: €4,383,991.15).

31 Associates

The total goodwill arising on the consolidation of associates using the equity method amounted to €0.00 as of December 31, 2020 (December 31, 2019: €0.00) as this goodwill had already been fully amortized. Accordingly, no amortization or write-downs were recognized on the goodwill of associates in 2020.

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	416,824	216,166	430,180		53	1,063,223
Netherlands	106,029			68,397		174,426
Spain	61,249	26,704		27,132	12,920	128,005
Italy	32,542	4,100		117,112	317	154,070
USA	130,850			695		131,545
Austria	73,539					73,539
Norway	41,647					41,647
UK*	5,043	2,145		25,501		32,690
Belgium	27,130			1,308		28,438
Greece	3,462			1,424		4,886
Slovenia	2,782					2,782
Sweden	4,814					4,814
Portugal	608	356		4		968
Ireland	3,787	198		2,998	474	7,456
Canada*				162		162
Denmark	11					11
Australia*				17		17
Total	910,317	249,668	430,180	244,750	13,763	1,848,679

* 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 2020

Changes in asset items

(€'000)	Carrying amount as of Jan. 1, 2020	Additions	Additions/ disposals in basis of consolidation	Reclassifications
A. Intangible assets				
1. Goodwill	16,488	0	0	0
2. Miscellaneous intangible assets	12,097	5,224	0	0
Total for A.	28,585	5,224	0	0
B. I. Land, land rights and buildings, including buildings on third-party land	188,060	7,044	0	0
B. II. Investments in affiliated companies and equity investments				
1. Shares in affiliated companies	2,686	0	0	0
2. Lending to affiliated companies	0	0	0	0
3. Equity investments	15,156	2,893	0	0
4. Lending to long-term investees and investors	3,212	250	0	0
Total for B. II.	21,054	3,143	0	0
B. III. Miscellaneous investments				
1. Equities, investment fund shares/units, and other variable-yield securities	1,621,522	75,831	0	0
2. Bearer bonds and other fixed-income securities	1,548,290	413,281	0	0
3. Loans secured by mortgages or land charges and fixed-income receivables	0	0	0	0
4. Miscellaneous lending				
a) Registered bonds	596,011	10,000	0	0
b) Promissory notes and loans	489,052	16,426	0	0
c) Loans and prepayments for certificates of insurance	0	0	0	0
d) Sundry lending	97	134	0	0
5. Bank deposits	53,797	6,070	0	0
6. Other investments	111,295	60,664	0	0
Total for B. III.	4,420,065	582,406	0	0
Total for B. I. to B. III.	4,629,178	592,593	0	0
B. IV. Deposits with ceding insurers	60,678	8,251	0	0
Total for investments B. I. to B. IV.	4,689,856	600,844	0	0

Land, land rights and buildings on third-party land with a carrying amount of €130,269,069.80 (December 31, 2019: €139,285,209.33) 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, 2020	Fair value pursuant to sec. 54 RechVersV	Hidden reserves
0	-97	0	4,963	11,427		
0	-98	21	5,774	11,470		
0	-196	21	10,737	22,897		
2,174	-73	2,180	12,918	182,119	366,989	184,870
0	0	0	256	2,430	8,009	5,579
0	0	0	0	0	0	0
4,839	4	0	722	12,493	75,203	62,710
0	0	288	0	3,750	3,750	0
4,839	4	288	977	18,673	86,962	68,289
144,750	-1,558	12,697	9,263	1,554,479	1,683,796	129,317
129,989	-11,682	2,718	1,595	1,821,023	2,008,119	187,097
0	0	0	0	0	0	0
38,981	0	0	0	567,030	673,160	106,130
8,000	0	0	0	497,478	561,553	64,075
0	0	0	0	0	0	0
152	0	0	0	80	80	0
0	-85	0	0	59,783	59,783	0
10,918	0	0	652	160,388	179,639	19,251
332,791	-13,325	15,415	11,510	4,660,260	5,166,129	505,869
339,803	-13,394	17,883	25,405	4,861,052	5,620,080	759,028
4,421	0	0	0	64,508	64,521	13
344,224	-13,394	17,883	25,405	4,925,561	5,684,601	759,041

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, 2020	Market value as of Dec. 31, 2020	Difference	Dividend in 2020	Redemption
			(€)	(€)	(€)	(€)	
ADRENT	Fixed-income fund	Increased income	52,003,507.82	56,795,154.37	4,791,646.55	104,614.62	At any time
ATRI	Fixed-income fund	Increased income	163,157,959.38	163,157,959.38	0.00	418,610.54	At any time
ARRE	Fixed-income fund	Increased income	160,214,948.51	180,627,001.19	20,412,052.68	542,919.30	At any time
ARI 1	Fixed-income fund	Increased income	145,153,543.53	145,153,543.53	0.00	2,327,779.54	At any time
ARI 2	Fixed-income fund	Increased income	116,453,502.79	116,453,502.79	0.00	789,056.41	At any time
ALLTIRENT	Fixed-income fund	Increased income	52,007,807.22	61,613,263.95	9,605,456.73	126,855.31	At any time
ALLTRI	Mixed fund	Increased income	130,362,998.04	169,795,122.59	39,432,124.55	384,042.12	At any time
ADZ	Fixed-income fund	Increased income	132,449,199.76	133,844,690.63	1,395,490.87	0.00	At any time
EMA	Equity fund	Increased income	53,646,884.53	53,686,155.15	39,270.62	45.57	At any time
AKR	Fixed-income fund	Increased income	214,325,046.82	226,089,565.01	11,764,518.19	3,990,031.00	At any time
AAF	Equity fund	Increased income	128,131,700.67	152,546,096.85	24,414,396.18	0.00	At any time
SIVE Fonds INKA	Equity fund	Increased income	143,397,088.37	150,922,716.06	7,525,627.69	0.00	At any time
			1,491,304,187.44	1,610,684,771.50	119,380,584.06	8,683,954.41	

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. Reversals of write-downs pursuant to section 253 (5) HGB were recognized on the entire portfolio in an amount of €12,697,238.79 in 2020 (2019: €33,765,047.10).

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, 2020	Deferred taxes as of Dec. 31, 2019
Intangible assets	640	597
Investments	437	754
Receivables	2,483	2,252
Miscellaneous assets	83	78
Prepaid expenses and accrued income	0	386
Technical provisions	-7,160	-6,011
Other provisions	2,367	2,570
Other liabilities	-2	0
Deferred income and accrued expenses	0	0
Loss carryforwards	0	0
	-1,153	627

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 2020 or 2019 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		2020		2019	
	(%)	(€)	(%)	(€)	
Profit before tax (HGB financial statements)		83,245,253.46			119,852,390.52
Expected income tax expense based on tax rate	31.23	25,997,492.66	31.23		37,429,901.55
Current taxes		39,882,707.12			40,477,123.83
Deferred taxes		1,779,756.68			435,562.75
Reported income tax expense		41,662,463.80			40,912,686.58
Effective tax rate	50.05		34.14		
Miscellaneous taxes		3,407,860.18			1,402,796.80
Tax expense reported in the income statement		45,070,323.98			42,315,483.38

The difference between the expected and effective tax expense was attributable to a range of factors. Firstly, the Group operates in a number of countries. Each entity is taxable in its home country based on the taxable income determined according to local regulations. Depending on the loss carryback rules in each country, entities that incur losses may only receive a reduced tax credit or no tax credit at all. However, the income components of all the entities and permanent establishments included in the consolidation are aggregated within the Group's profit before tax, regardless of the actual applicable jurisdiction. This tends to lead to a higher tax rate. Furthermore, tax law in virtually all the countries in which the ARAG Group operates provides for add-ons and deductions that are separate from the financial statements, but that are applied to the profit reported in the tax base in order to determine the actual basis for the assessment of tax. In this process, the tax assessment may disregard (expense and/or income) elements of the consolidated profit before tax. The consolidated tax expense is also affected by the change in the balance of deferred taxes caused by differences between the valuation of assets and liabilities in the HGB financial statements and that in the tax base. Lastly, the consolidated tax expense also includes tax refunds and retrospective tax payments for previous years that are unrelated to profit before tax for the reporting period. These items amounted to €4,405,476.37 (income balance) in 2020 and €676,795.36 (income balance) in 2019.

In the reporting year, just a small expense amounting to €155.7 thousand (2019: income of €57.8 thousand) arose from consolidation effects, specifically from the decrease in net deferred tax assets at Group level.

The net deferred tax liability arises as a result of variations in the valuations for tax purposes of intangible assets, investments, receivables from policyholders, the provision for outstanding claims, the technical provisions, 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 €1,400.0 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	149,258,546.41
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 €4,832,299.73 as of the reporting date (December 31, 2019: €4,569,295.16).

Auditor's fees

The auditor of the consolidated financial statements is KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne. The Group companies incurred expenses for auditor's fees of €1,207,147.00 for the audit of annual financial statements and Solvency II balance sheets, and €3,654.00 for other consulting or advisory services. No tax consulting services were provided in the reporting year and no related fee expenses were therefore incurred. The amounts above 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

(€)	2020	2019
Expenses for performance-based bonuses and rebates	40,095,106.40	50,860,084.53
Expenses for non-performance-based bonuses and rebates	0.00	1,068,871.09
Total expenses	40,095,106.40	51,928,955.62

Commissions and other remuneration for insurance agents, staff costs

(€)	2020	2019
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	295,882,610.10	267,547,328.29
2. Other remuneration for insurance agents within the meaning of section 92 HGB	18,653,936.05	17,669,520.14
3. Wages and salaries	276,887,839.76	265,494,295.54
4. Social security and other employee benefit expenses	46,539,871.82	44,985,684.73
5. Pension and other post-employment benefit expenses	34,395,729.98	32,553,064.23
6. Total expenses	672,359,987.71	628,249,892.93

Average number of employees in 2020

The Group's fully consolidated entities employed an average of 4,306 people in 2020 (2019: 4,172). As of December 31, 2020, the Group had a total of 4,449 employees (December 31, 2019: 4,315).

The insurance companies employed an average of 3,804 people (2019: 3,665). The average number of people employed by all of the administrative entities and service companies was 593 (2019: 591). In the German Group companies, an additional 30 people were employed for the purpose of vocational training (2019: 24). At the end of 2020, the ARAG Group had a total of 2,087 (December 31, 2019: 1,989) employees in Germany. A further 2,362 (December 31, 2019: 2,326) people were employed outside Germany, equating to 53.1 percent (December 31, 2019: 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 €295,000.00.

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 €1,762,507.21. 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

For almost a year, there has been little change in the situation caused by the COVID-19 pandemic. It continues to have a huge impact on public life and the economy. Society and economic activity are still subject to significant restrictions worldwide. The insurance industry, and thus the ARAG Group, are likely to feel the effects. The situation is giving rise to both risks and opportunities. As well as operational constraints, there may be restrictions in sales (such as a reduction in new business or rising lapse rates), higher insurance benefit payments, and effects on investment portfolios. It is also conceivable that the greater uncertainty could lead to a fall in insurance benefit payments (because of social restrictions) and a rise in legal insurance premiums. The impact on the Group's net assets, financial position, and results of operations depends on the evolution of the crisis and still cannot be reliably forecast.

On March 15, 2021, ARAG SE acquired all the shares in DAS Legal Protection Inc., Canada. At the same time, it entered into a 100-percent quota-share reinsurance treaty with Temple Insurance Company, a primary insurer based in Canada, thereby substantially expanding its business activities in that country. These deals do not have any significant impact on the Group's net assets, financial position, and results of operations measured against the overall volume of business operated by the ARAG Group.

So far in 2021, the Group's business performance has been in line with expectations.

Düsseldorf, April 16, 2021

ARAG Holding SE

The Management Board

Dr. Dr. h. c. Paul-Otto Faßbender

Klaus Heiermann

Dr. Sven Wolf

Consolidated Cash Flow Statement for 2020

Cash flow statement

(€)	2020	2019
Cash flows from operating activities		
Profit for the period	38,174,929	77,536,907
Increase(+)/decrease(-) in technical provisions, net	210,541,326	248,654,045
Increase(-)/decrease(+) in deposits with ceding insurers and in receivables from reinsurance business	-6,006,372	-9,040,819
Increase(+)/decrease(-) in deposits from reinsurers and liabilities from reinsurance business	-361,800	344,762
Increase(-)/decrease(+) in receivables from direct insurance business	7,837,266	-14,929,002
Increase(+)/decrease(-) in liabilities from direct insurance business	7,646,247	2,525,187
Increase(-)/decrease(+) in miscellaneous receivables	-4,280,214	9,480,911
Increase(+)/decrease(-) in miscellaneous liabilities	-1,925,103	5,052,528
Change in miscellaneous balance sheet items not related to investing or financing activities	-240,150,117	-259,162,278
Other non-cash income and expenses, and adjustment of the profit/loss for the period	39,443,935	-15,604,421
Gain(-)/loss (+) on the disposal of investments, property and equipment, and intangible fixed assets	-2,257,933	-18,383,307
Expenses for/income from extraordinary items	0	0
Current income tax expense/income	39,882,707	40,477,124
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Income taxes paid	-46,509,320	-38,976,021
Cash flows from operating activities	42,035,551	27,975,617
Cash flows from investing activities		
Proceeds from disposal of consolidated entities	0	0
Proceeds from disposal of property and equipment	51,604	752,247
Proceeds from disposal of intangible fixed assets	0	125,179
Payments to acquire property and equipment	-4,150,858	-8,761,240
Payments to acquire intangible fixed assets	-5,223,728	-7,163,340
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	-9,322,982	-15,047,154
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	22,712,568	2,928,463
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	199,142,619	196,214,156
Cash and cash equivalents at end of period	221,855,188	199,142,619

38 Statement of Changes in Group Equity in Accordance with GAS 22 for the Year Ended December 31, 2020

(€'000)

Equity attributable to parent entity

	(Adjusted) subscribed capital			Capital reserves			Reserves			
	Sub- scribed capital	Treasury shares	Uncalled unpaid contri- butions	Total			Revenue reserves			
	Ordinary shares				Pursuant to sec. 272 (2) nos. 1-3 HGB	Pursuant to sec. 272 (2) no. 4 HGB	Total	Statutory reserves	Reserves provided for by the articles of incor- poration	Other revenue reserves
Balance as of Jan. 1, 2020	200,000			200,000				13,641		251,731
Transfers to/ withdrawals from reserves								1,437		65,089
Distribution										
Currency translation										
Miscellaneous changes										6
Changes in the basis of consolidation										
Consolidated net income										
Balance as of Dec. 31, 2020	200,000			200,000				15,079		316,827

		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										
265,372	265,372	6,700		76,527	548,600	8,467	28	1,010	9,506	558,105
66,527	66,527			-66,527	-10,000	557		-557	-453	-10,453
		-11,470			-11,470					-11,470
6	6				6	-148			-148	-142
				37,391	37,391			784	784	38,175
331,905	331,905	-4,769		37,391	564,527	8,876	28	784	9,688	574,215

Segment Reporting – Balance Sheet

(€'000)	Legal insurance		Casualty and property insurance	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
A. Intangible assets	11,019	11,577	0	0
B. Investments	2,392,172	2,230,725	470,080	470,717
I. Land and buildings, including buildings on third-party land	55,830	56,363	31,029	33,266
II. Investments in affiliated companies and equity investments	440,110	376,686	42,964	40,811
III. Miscellaneous investments	1,834,617	1,740,292	393,194	393,346
IV. Deposits with ceding insurers	61,616	57,383	2,893	3,295
C. Miscellaneous segment assets	306,915	305,411	19,093	19,436
Total segment assets	2,710,106	2,547,714	489,173	490,154
A. Technical provisions	1,544,561	1,463,887	335,856	337,491
I. Unearned premiums	201,153	202,079	43,671	43,410
II. Actuarial reserve	0	0	18	18
III. Provision for outstanding claims	1,292,256	1,241,075	252,493	254,673
IV. Provision for bonuses and rebates	0	0	0	0
V. Equalization provision	50,841	18,915	70,881	70,239
VI. Miscellaneous technical provisions	970	2,557	1,973	2,079
VII. Reinsurers' share of technical provisions	-659	-739	-33,181	-32,929
B. Miscellaneous segment liabilities	419,634	401,166	53,945	50,449
Total segment liabilities	1,964,195	1,865,053	389,801	387,940
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 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, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
54	40	1,375	1,693	12,448	13,311	10,449	15,275	22,897	28,585
2,530,036	2,397,965	498,428	475,772	5,890,716	5,575,179	-965,156	-885,323	4,925,561	4,689,856
67,517	69,585	30,720	31,832	185,097	191,046	-2,978	-2,986	182,119	188,060
63,722	48,289	434,056	437,606	980,851	903,391	-962,178	-882,337	18,673	21,054
2,398,797	2,280,091	33,652	6,335	4,660,260	4,420,065	0	0	4,660,260	4,420,065
0	0	0	0	64,508	60,678	0	0	64,508	60,678
80,930	52,913	72,278	79,649	479,216	457,410	0	627	479,216	458,037
2,611,020	2,450,919	572,081	557,114	6,382,381	6,045,900	-954,707	-869,422	5,427,674	5,176,478
2,416,150	2,284,648	0	0	4,296,567	4,086,026	0	0	4,296,567	4,086,026
15,841	15,936	0	0	260,665	261,425	0	0	260,665	261,425
2,082,231	1,946,357	0	0	2,082,249	1,946,376	0	0	2,082,249	1,946,376
68,194	62,127	0	0	1,612,943	1,557,875	0	0	1,612,943	1,557,875
248,770	260,055	0	0	248,770	260,055	0	0	248,770	260,055
0	0	0	0	121,723	89,154	0	0	121,723	89,154
1,113	172	0	0	4,056	4,808	0	0	4,056	4,808
0	0	0	0	-33,839	-33,668	0	0	-33,839	-33,668
50,006	41,719	39,000	39,013	562,584	532,347	-5,692	0	556,892	532,347
2,466,155	2,326,367	39,000	39,013	4,859,151	4,618,373	-5,692	0	4,853,459	4,618,373
								574,215	558,105
								5,427,674	5,176,478

The service companies and asset management companies comprise the Group parent company, other intermediate holding companies that manage assets, and a number of other entities, including 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	
	2020	2019	2020	2019
Underwriting income				
Gross premiums written	1,155,067	1,085,295	263,432	285,010
Direct insurance business	910,317	866,494	249,668	272,570
Inward reinsurance business	244,750	218,801	13,763	12,441
Reinsurance premiums ceded	-712	-602	-9,920	-9,876
Change in net unearned premiums	460	276	-233	-277
Premiums earned net of reinsurance	1,154,816	1,084,969	253,279	274,857
Premiums from the gross provision for bonuses and rebates	0	0	0	0
Investment income allocated to the underwriting account	0	0	349	304
Miscellaneous underwriting income net of reinsurance	1,159	1,891	267	608
Total underwriting income	1,155,975	1,086,860	253,895	275,769
Underwriting expenses				
Claims incurred net of reinsurance	-566,593	-554,801	-129,686	-151,503
Change in sundry net technical provisions	1,587	-497	106	-191
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	-489,726	-457,508	-107,847	-111,896
of which front-end fees	-108,900	-109,136	-34,743	-41,474
of which administrative expenses	-380,826	-348,372	-74,193	-71,769
of which reinsurers' share	0	0	1,088	1,348
Investment expenses allocated to the underwriting account	0	0	0	0
Miscellaneous underwriting expenses net of reinsurance	0	0	-1,853	-1,809
Total underwriting expenses	-1,054,732	-1,012,806	-239,280	-265,399
Subtotal	101,243	74,054	14,615	10,369
Change in the equalization provision and similar provisions	-31,959	-9,003	-643	-4,149
Underwriting result net of reinsurance	69,284	65,051	13,972	6,221
Income from investments	128,417	113,076	8,556	16,677
Expenses for investments	-23,926	-24,462	-5,670	-4,668
Gains and losses on investments	104,491	88,614	2,886	12,009
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	24,735	25,301	3,845	2,264
Other expenses	-67,950	-63,458	-6,610	-5,896
Other net income/expense	-43,215	-38,157	-2,765	-3,632
Profit/loss from ordinary activities	130,561	115,509	14,093	14,598
Net extraordinary income/expense	0	0	0	0
Profit/loss before tax	130,561	115,509	14,093	14,598
Tax expense				
Net income for the year				
of which non-controlling interests				

Health insurance		Services and asset management		Total		Consolidation		Group total	
2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
430,180	393,198	0	0	1,848,679	1,763,503	0	0	1,848,679	1,763,503
430,180	393,198	0	0	1,590,165	1,532,261	0	0	1,590,165	1,532,261
0	0	0	0	258,514	231,242	0	0	258,514	231,242
-401	-379	0	0	-11,032	-10,857	0	0	-11,032	-10,857
95	-606	0	0	322	-607	0	0	322	-607
429,874	392,213	0	0	1,837,968	1,752,039	0	0	1,837,968	1,752,039
37,077	46,506	0	0	37,077	46,506	0	0	37,077	46,506
69,625	87,410	0	0	69,974	87,714	0	0	69,974	87,714
8,262	2,133	0	0	9,688	4,632	0	0	9,688	4,632
544,838	528,262	0	0	1,954,707	1,890,891	0	0	1,954,707	1,890,891
-239,351	-230,179	0	0	-935,629	-936,484	0	0	-935,629	-936,484
-136,095	-159,137	0	0	-134,402	-159,826	0	0	-134,402	-159,826
-40,095	-51,929	0	0	-40,095	-51,929	0	0	-40,095	-51,929
-40,095	-50,860	0	0	-40,095	-50,860	0	0	-40,095	-50,860
0	-1,069	0	0	0	-1,069	0	0	0	-1,069
-76,373	-48,983	0	0	-673,946	-618,386	0	0	-673,946	-618,386
-66,360	-39,689	0	0	-210,002	-190,300	0	0	-210,002	-190,300
-10,152	-9,386	0	0	-465,172	-429,527	0	0	-465,172	-429,527
140	93	0	0	1,229	1,440	0	0	1,229	1,440
-21,568	-9,397	0	0	-21,568	-9,397	0	0	-21,568	-9,397
-2,593	-1,435	0	0	-4,446	-3,244	0	0	-4,446	-3,244
-516,074	-501,060	0	0	-1,810,086	-1,779,266	0	0	-1,810,086	-1,779,266
28,764	27,202	0	0	144,622	111,626	0	0	144,622	111,626
0	0	0	0	-32,601	-13,152	0	0	-32,601	-13,152
28,764	27,202	0	0	112,020	98,474	0	0	112,020	98,474
69,625	87,410	51,406	51,679	258,004	268,842	-127,157	-82,554	130,847	186,288
-21,568	-9,397	-6,588	-3,706	-57,752	-42,233	5,381	12,859	-52,370	-29,374
48,057	78,013	44,819	47,973	200,253	226,609	-121,776	-69,695	78,477	156,914
-48,057	-78,013	0	0	-48,057	-78,013	0	0	-48,057	-78,013
0	0	67,863	66,853	67,863	66,853	-44,831	-42,872	23,032	23,981
0	0	-67,910	-67,800	-67,910	-67,800	44,831	42,872	-23,079	-24,928
0	0	-47	-947	-47	-947	0	0	-47	-947
2,496	1,688	774	956	31,851	30,209	-2,462	-224	29,389	29,985
-6,373	-6,646	-5,251	-4,270	-86,185	-80,270	-2,352	-6,290	-88,537	-86,560
-3,877	-4,958	-4,477	-3,314	-54,334	-50,061	-4,814	-6,515	-59,148	-56,575
24,887	22,244	40,295	43,712	209,835	196,062	-126,590	-76,210	83,245	119,852
0	0	0	0	0	0	0	0	0	0
24,887	22,244	40,295	43,712	209,835	196,062	-126,590	-76,210	83,245	119,852
								-45,070	-42,315
								38,175	77,537
								-784	-1,010

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	
2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
1,089,513	1,026,938	759,166	736,565	1,848,679	1,763,503	0	0	1,848,679	1,763,503
1,063,170	1,002,693	526,996	529,569	1,590,165	1,532,261	0	0	1,590,165	1,532,261
26,343	24,246	232,170	206,996	258,514	231,242	0	0	258,514	231,242
-10,456	-10,559	-576	-298	-11,032	-10,857	0	0	-11,032	-10,857
-4,580	-5,428	4,902	4,821	322	-607	0	0	322	-607
1,074,476	1,010,951	763,492	741,089	1,837,968	1,752,039	0	0	1,837,968	1,752,039
37,077	46,506	0	0	37,077	46,506			37,077	46,506
69,974	87,714	0	0	69,974	87,714	0	0	69,974	87,714
9,214	4,078	474	554	9,688	4,632	0	0	9,688	4,632
1,190,742	1,149,249	763,966	741,643	1,954,707	1,890,891	0	0	1,954,707	1,890,891
-640,121	-622,994	-295,508	-313,490	-935,629	-936,484	0	0	-935,629	-936,484
-134,397	-159,697	-5	-129	-134,402	-159,826	0	0	-134,402	-159,826
-40,095	-51,929	0	0	-40,095	-51,929	0	0	-40,095	-51,929
-40,095	-50,860	0	0	-40,095	-50,860	0	0	-40,095	-50,860
0	-1,069	0	0	0	-1,069	0	0	0	-1,069
-326,969	-292,632	-346,977	-325,754	-673,946	-618,386	0	0	-673,946	-618,386
-150,787	-125,911	-59,216	-64,388	-210,002	-190,300	0	0	-210,002	-190,300
-177,411	-168,162	-287,761	-261,366	-465,172	-429,527	0	0	-465,172	-429,527
1,229	1,440	0	0	1,229	1,440	0	0	1,229	1,440
-21,568	-9,397	0	0	-21,568	-9,397	0	0	-21,568	-9,397
-4,446	-3,244	0	0	-4,446	-3,244	0	0	-4,446	-3,244
-1,167,596	-1,139,893	-642,490	-639,373	-1,810,086	-1,779,266	0	0	-1,810,086	-1,779,266
23,146	9,356	121,476	102,270	144,622	111,626	0	0	144,622	111,626
-4,864	-2,892	-27,738	-10,260	-32,601	-13,152	0	0	-32,601	-13,152
18,282	6,464	93,739	92,010	112,020	98,474	0	0	112,020	98,474
235,559	240,338	22,445	28,505	258,004	268,842	-127,157	-82,554	130,847	186,288
-53,159	-38,729	-4,592	-3,504	-57,752	-42,233	5,381	12,859	-52,370	-29,374
182,400	201,609	17,853	25,000	200,253	226,609	-121,776	-69,695	78,477	156,914
-48,057	-78,013	0	0	-48,057	-78,013	0	0	-48,057	-78,013
67,863	66,853	0	0	67,863	66,853	-44,831	-42,872	23,032	23,981
-67,910	-67,800	0	0	-67,910	-67,800	44,831	42,872	-23,079	-24,928
-47	-947	0	0	-47	-947	0	0	-47	-947
27,916	26,103	3,935	4,106	31,851	30,209	-2,462	-224	29,389	29,985
-77,968	-76,052	-8,217	-4,218	-86,185	-80,270	-2,352	-6,290	-88,537	-86,560
-50,052	-49,949	-4,282	-111	-54,334	-50,061	-4,814	-6,515	-59,148	-56,575
102,526	79,163	107,309	116,899	209,835	196,062	-126,590	-76,210	83,245	119,852
0	0	0	0	0	0	0	0	0	0
102,526	79,163	107,309	116,899	209,835	196,062	-126,590	-76,210	83,245	119,852
								-45,070	-42,315
								38,175	77,537
								-784	-1,010

Independent Auditor's Report*

To ARAG Holding SE, Duesseldorf

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, 2020, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement and group segment reporting for the financial year from January 1, 2020 to December 31, 2020, and notes to the consolidated financial statements, including a summary of the accounting policies. In addition, we have audited the group management report of ARAG Holding SE, Düsseldorf, for the financial year from January 1, 2020 to December 31, 2020.

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

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

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law and, in compliance with German Legally Required Accounting Principles, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2020, and of its financial performance for the financial year from January 1, 2020 to December 31, 2020, 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 opinion on the group management report does not cover the content of those parts of the group management report specified in the "Other Information" section of the auditor's report.

Pursuant to Section 322 (3) 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.

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

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Other Information

The Management Board and Supervisory Board are responsible for the other information. The other information comprises the following components of the group management report, whose content was not audited:

- the separate non-financial group report, that is expected to be presented to us after the date of our auditor's report, referred to in the group management report.

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

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

Our 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 opinion or any other form of assurance conclusion thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, which we obtained prior to the date of our auditor's report, we are required to report that fact. We have nothing to report in this regard.

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

The Management Board is 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, in compliance with German Legally Required Accounting Principles, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board is 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 Management Board is 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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is 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 Management Board is 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 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 Section 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 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 control.
- 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 opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 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 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 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 Management Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Cologne, April 19, 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

Voss
German public auditor

Bramkamp
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. A written procedure was used twice to adopt two resolutions. 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 up-to-date reports on the consequences of the COVID-19 pandemic for 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 capital investment planning. The Supervisory Board was also regularly informed of the content and scope of internal audits. The report on investments during the period of low interest rates was a further focus of attention.

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.

The two separate written procedures covered the decision to sell a property and decisions relating to investments.

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, KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, audited the Company's single-entity financial statements and the consolidated financial statements for the year ended December 31, 2020, 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, 2020. 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 27, 2021

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:

ARAG
Corporate Communications/Marketing
ARAG Platz 1
40472 Düsseldorf
Germany
Tel: +49 (0)211 963 3488
Fax: +49 (0)211 963 2025
+49 (0)211 963 2220
Email: medien@ARAG.de

If you would like an individual quote, you can contact us at any time by telephone, fax, or email:

Tel: +49 (0)211 98 700 700
Fax: +49 (0)211 963 2850
Email: service@ARAG.de

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

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

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