

ARAG SE

2019 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS



Contents

Key Figures	4
.....	
Profile of the ARAG Group	5
.....	
Management Report	6
I. Company Fundamentals	6
II. Report on Economic Position	8
III. Dependent Company Report	18
IV. Outlook, Opportunity and Risk Reports	19
.....	
Financial Statements	27
.....	
Independent Auditor's Report	61
.....	
Report of the Supervisory Board	69
.....	
Further Information	75
.....	

Overview

ARAG SE Key Figures

(€'000)	2019	Change	2018	2017
Sales revenue				
Gross premiums written	977,678	6.73%	915,988	870,004
Premiums earned net of reinsurance	976,582	6.71%	915,213	868,041
Expenses				
Claims incurred net of reinsurance	507,077	7.46%	471,873	462,746
Claims ratio (basis: premiums earned)	51.9%	0.3% pts.	51.6%	53.3%
Insurance business operating expenses net of reinsurance	426,770	6.19%	401,876	389,181
Cost ratio (basis: premiums earned)	43.7%	-0.2% pts.	43.9%	44.8%
Net income overview				
Underwriting result net of reinsurance	33,071	-6.76%	35,470	14,841
Gains and losses on investments	78,951	52.49%	51,776	73,016
Other net income/expense	-37,772	7.70%	-35,073	-31,066
Profit/loss from ordinary activities	74,251	42.32%	52,174	56,791
Net extraordinary income/expense	0	n.a.	0	0
Net income for the year	51,848	64.09%	31,598	32,031
Key ratios				
Technical provisions/ net premiums earned	144.8%	-3.1% pts.	147.9%	151.7%
Equity/premiums earned	49.4%	0.1% pts.	49.3%	50.6%

Profile of the ARAG Group

Overview

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

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

Legal insurance

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

Casualty and property insurance

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

Personal insurance

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

Management Report of ARAG SE

I. Company Fundamentals

Business model

ARAG SE is the largest family-managed insurance company in Germany. A provider of legal insurance, it focuses on product concepts aimed at both private customers and small businesses. It does not operate diversified corporate insurance business.

In the international markets, it also operates travel insurance business in connection with its provision of legal insurance.

ARAG SE began to operate outside Germany for the first time more than 50 years ago. The ARAG Group now operates in a total of 19 countries (Germany, 15 other European countries, the US, Canada, and Australia) through branches, subsidiaries, and equity investments.

The international branches run their operating businesses in their national markets independently, taking into account the specific local circumstances in each case.

ARAG SE is a highly internationalized German insurer, with 63.4 percent of its total gross premiums written accounted for by international business.

Territory

In Germany, ARAG SE's activities are limited to just one class of insurance: legal insurance. In Italy, Spain, and Portugal, it also operates legal-insurance-related special service package business in addition to legal insurance business.

The territory covered by ARAG SE includes Germany as well as the Netherlands, Belgium, Austria, Slovenia, Italy, Spain, Portugal, and Greece. ARAG SE's business outside Germany is operated by the branches.

Legal insurance is also provided in the US, in Norway and, through branches of the Norwegian subsidiary, in Sweden and Denmark. In each case, the business is operated through legally independent affiliated companies, under the unified management of ARAG SE in its role as parent company.

In addition, ARAG SE operates in Switzerland via an equity investment in a legal insurance associate. In both the United Kingdom and Canada, a Group company acts as a broker for legal insurance business and legal-insurance-related special service package business, passing this business to UK primary insurers. Some of this insurance is then ceded to ARAG SE under quota-share reinsurance treaties. The intermediary model successfully operated in the UK has been adapted for use in the Australian market, where ARAG has been offering legal insurance through a Group company since the end of 2019.

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

Insurance portfolio

The breakdown of the insurance portfolio (number of policies) as of the end of the reporting year was as follows:

Insurance portfolio		
(No.)	Dec. 31, 2019	Dec. 31, 2018
Germany	1,610,872	1,542,004
International	2,895,278	2,755,924
Total	4,506,150	4,297,928

Segments and classes of insurance operated by the Company

The range of products offered by ARAG SE in Germany includes all the types of insurance in the legal insurance class of insurance listed in the General Terms and Conditions for Legal Insurance plus financial loss legal insurance for members of supervisory boards, advisory councils, and management boards, and for senior managers. Subject to special terms and conditions of insurance, ARAG SE offers legal insurance covering victims' proceedings, divorce, maintenance payments issues, and criminal proceedings; in collaboration with its subsidiary ARAG Allgemeine Versicherungs-AG, it also offers ARAG 'Recht&Heim Aktiv', a bundled product providing all-round cover. In addition, ARAG SE is increasingly operating inward reinsurance business with third parties.

In Spain and Italy, ARAG SE's range of legal insurance products is complemented by policies that mitigate the financial consequences if a policyholder loses their driver's license. Business in Spain and Portugal also includes travel insurance.

II. Report on Economic Position

Economic and sector conditions

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

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

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

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

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

Business performance

ARAG SE can look back on a successful 2019. The underwriting result declined slightly but remained on a par with the good level achieved in 2018. Gains and losses on investments improved significantly thanks to the sustained low level of interest rates and the rise in share prices.

In the reporting year, gross premiums written rose by a substantial 6.7 percent, from €915,987.7 thousand to €977,677.8 thousand. Contrary to the forecast in the 2018 report, the pace of growth accelerated year on year (2018: 5.3 percent). This increase in premiums was attributable to various trends. Premiums in direct business grew by a further 5.9 percent in Germany. The United Kingdom was the only country in which inward reinsurance business declined, contracting by 5.1 percent. The increases in the international markets were mainly generated from indirect business. Spain returned to strong growth of 7.7 percent, having registered a decrease in premiums in 2018. Business remained buoyant in Italy, where premiums increased by 8.8 percent. This was mainly achieved by primary insurance providers offering legal insurance for motorists. The signing of a major new reinsurance treaty played a big part in the rise of 8.2 percent in the Netherlands. Austria also saw a healthy increase in premiums of 7.2 percent although the market there, like the German market, is heavily saturated. Only Greece and Slovenia recorded no growth in the reporting year.

The total premium income generated by the international branches rose by 7.9 percent.

Of the total premium income, €749,273.6 thousand (2018: €708,706.9 thousand) was derived from direct business. International branches offered travel insurance business and financial loss insurance business with a value of €57,056.1 thousand (2018: €53,072.2 thousand) in connection with legal insurance business. Of this amount, direct legal insurance business accounted for a total of €692,217.5 thousand (2018: €655,634.6 thousand).

The proportion of the total gross premiums written accounted for by international business increased from 59.3 percent in 2018 to 59.6 percent in 2019.

After deduction of the reinsurers' shares and changes in unearned premiums, the remaining net premiums earned for all business amounted to €976,582.3 thousand (2018: €915,213.2 thousand).

The robust growth meant that gross claim payments also increased across the business as a whole. The sharp rise in premiums caused the claim payment ratio (claim payments as a percentage of premiums earned) to fall to 47.2 percent (2018: 48.3 percent), despite the impact of accumulation losses involving a high volume of payments in 2019. Net expenses for claims incurred came to €507,076.8 thousand, compared with €471,872.6 thousand in 2018. Contrary to the forecast in the previous annual report, the claims ratio (net) based on the recognized claims incurred rose slightly to 51.9 percent (2018: 51.6 percent). This increase arose in connection with provision for accumulation risk in Germany for 2020.

Insurance business operating expenses went up by €24,894.4 thousand as a result of the growth in volume but they declined relative to premiums earned, as was expected. At 43.7 percent, the cost ratio was down slightly year on year (2018: 43.9 percent). One of the main reasons for this was that pension and other post-employment benefit expenses were much lower in the reporting year following the switch to new mortality tables in Germany in 2018. The forecast in the 2018 report had anticipated a moderate increase in the cost ratio in 2019.

After taking into account the sundry underwriting income and expenses (net income of €1,394.2 thousand; 2018: €253.2 thousand), the underwriting result net of reinsurance before the equalization provision showed a year-on-year improvement to a profit of €44,129.4 thousand (2018: profit of €41,717.8 thousand). A total of €11,058.2 thousand (2018: €6,247.4 thousand) was added to the equalization provision in respect of the travel insurance business in Spain and Portugal, the legal-insurance-related financial loss insurance business in Spain and Italy, and the inward legal reinsurance business in a number of countries.

After the addition to the equalization provision, the underwriting result amounted to a profit of €33,071.2 thousand (2018: €35,470.4 thousand) and was thus lower than predicted.

Investments generated a net gain of €78,951.4 thousand (2018: €51,775.6 thousand). This was significantly higher than the forecast in the 2018 annual report. As budgeted, there was a sharp one-off fall in current income from other investments owing to restructuring and reinvestment in institutional funds. The strong business performance of the US subsidiaries, however, resulted in a significant increase in income from equity investments. Moreover, rising market prices for securities led to substantial reversals of write-downs totaling €18,258.4 thousand, whereas prices in 2018 had meant write-downs were recognized on securities in an amount of €24,381.8 thousand. Restructuring of the securities portfolio resulted in gains on disposal of €14,340.0 thousand (2018: €2,571.1 thousand). The transfer of profit from a subsidiary under a profit-and-loss transfer agreement fell from €18,525.1 thousand in 2018 to €11,281.5 thousand in the year under review. The net yield on the investment portfolio increased to 4.0 percent (2018: 2.7 percent).

The net expense reported for other net income/expense increased from €35,072.5 thousand in 2018 to €37,771.5 thousand in the reporting year. One of the main reasons for this was capital expenditure on the Company's digital transformation. Contrary to expectations, profit before tax rose sharply year on year to reach €74,251.1 thousand (2018: €52,173.5 thousand).

After deduction of the tax expense of €22,402.7 thousand (2018: €20,576.0 thousand), net income for the year amounted to €51,848.4 thousand, which was much more than the €31,597.5 thousand achieved in 2018 and higher than the forecast. The tax expense included an expense of €491.8 thousand (2018: €3,971.6 thousand) that resulted from deferred taxes.

Financial performance by source country

Performance in Germany

Direct insurance business Gross premiums written in direct business rose from €372,597.8 thousand to €394,712.7 thousand, a year-on-year increase of 5.9 percent. After deduction of reinsurance premiums and the change in unearned premiums, net premiums earned came to €389,590.1 thousand (2018: €367,980.8 thousand).

As a result of the growth in the insurance portfolio and higher payments for accumulation losses, claim payments increased by 8.6 percent, from €209,992.5 thousand in 2018 to €228,109.1 thousand in the year under review. Claims incurred rose by 16.9 percent to €264,478.4 thousand in the reporting year. The number of claims reports went up substantially, from 325,799 in the prior year to 372,309 in 2019. The claims ratio for 2019 (gross), at 67.8 percent, was far higher than the equivalent 2018 figure of 61.4 percent. A total of 479,045 claims (2018: 441,502 claims) were reported in the year under review, a rise of 8.5 percent.

Reinsurers' shares amounting to €534.2 thousand were recognized as income in 2019 (2018: expenses of €21.2 thousand). The remaining recognized claims incurred came to €260,923.9 thousand as against €224,966.7 thousand in 2018. The claims ratio (net) based on the recognized claims incurred was 67.0 percent compared with 61.1 percent in the prior year.

Gross insurance business operating expenses rose from €152,935.8 thousand in 2018 to €157,889.5 thousand in the reporting year. Commissions went up by 5.7 percent in 2019 – from €88,312.1 thousand to €93,331.0 thousand – in line with the increase in premiums. Other primary administrative expenses went up in the year under review from €182,479.3 thousand to €184,778.7 thousand. As a result of the additional commission expenses on the back of the greater volume of business, combined with the increase in claims incurred due to accumulation loss events, the underwriting result before the equalization provision amounted to a much higher loss of €27,902.0 thousand (2018: loss of €8,777.5 thousand).

There was no requirement to recognize an equalization provision pursuant to section 29 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV) for the direct business owing to the low level of volatility.

Inward reinsurance business In Germany, ARAG SE takes on inward reinsurance business from primary insurers of third-party business in the United Kingdom under quota-share reinsurance treaties. The business with one of these insurers is being run off. There are also reinsurance treaties with a primary insurer in the UK for the Canadian business (quota-share treaty) and another primary insurer in Australia for the Australian business. Net premiums amounted to €24,175.7 thousand compared with €25,465.8 thousand in 2018. The underwriting profit before the equalization provision stood at €3,869.6 thousand (2018: €2,172.0 thousand) after taking into account claims incurred of €18,763.9 thousand (2018: €20,546.1 thousand), administrative expenses of €1,190.4 thousand (2018: €1,409.4 thousand), and the provision for profit-share agreements related to the distinctive features of the UK business.

A sum of €997.3 thousand was added to the equalization provision (2018: €377.1 thousand). The underwriting result for the inward reinsurance business amounted to a profit of €2,872.3 thousand (2018: €1,794.9 thousand).

Non-underwriting result Conditions in the financial markets were disparate in the year under review. On the one hand, interest rates fell because the European Central Bank (ECB) began purchasing bonds again. On the other, share prices rose sharply. As a result, there were significant reversals of write-downs on securities. This was particularly the case in the high-yield and emerging market segments, which had seen write-downs in the previous year. Total depreciation, amortization, and write-downs of investments at ARAG SE in Germany fell sharply from €19,521.1 thousand in 2018 to €11,477.6 thousand in the reporting year. Reversals of write-downs totaled €14,073.6 thousand and predominantly related to shares/units in institutional funds, whereas there had been reversals of write-downs on shares in affiliated companies of €1,877.9 thousand in 2018. Reinvestment of ordinary income in institutional funds and the persistently low level of interest rates caused current income from other investments to fall sharply from €21,152.7 thousand in 2018 to €12,034.3 thousand in the reporting year. Income generated from land also declined, from €2,865.1 thousand to €2,546.5 thousand. This was mainly due to renovation work in 2019. Dividend income from affiliated companies and equity investments rose by €5,683.3 thousand year on year. In particular, the equity investments in the US and Switzerland contributed to a high and stable level of income. The profit transferred from ARAG Allgemeine Versicherungs-AG decreased to €11,281.5 thousand (2018: €18,525.1 thousand).

Net gains on investments totaled €61,484.2 thousand in the year under review compared with €37,097.5 thousand in 2018. Ordinary gains and losses on investments – after deduction of the expenses for the management of the investments – amounted to a net gain of €44,953.9 thousand (2018: €55,396.7 thousand). The current average yield was 3.7 percent (2018: 4.7 percent).

Other net income/expense amounted to a net expense of €32,396.5 thousand (2018: €30,120.0 thousand). This includes the net figure for income and expense from the provision of services to Group companies and third parties, which is close to zero, and expenses to which income cannot be directly assigned. The latter expenses include addition of interest to the pension provision, Supervisory Board and Advisory Council remuneration, year-end costs, general legal and tax consultancy expenses, costs incurred in relation to the Solvency II regulatory regime, and the interest expense on subordinated liabilities.

Net extraordinary income/expense No extraordinary income or expense was recognized in either 2019 or 2018.

Taxes Current taxes amounted to net income of €264.6 thousand (2018: net expense of €1,113.8 thousand), all of which related to prior years (2018: income of €410.7 thousand relating to taxes in prior years). Taking into account the miscellaneous taxes, the total tax expense came to €501.4 thousand compared with €1,211.0 thousand in 2018.

Net income/loss for the year, Germany The net income for the year generated by the German business of ARAG SE amounted to €3,556.5 thousand (2018: net loss of €1,216.3 thousand).

Branch performance The eight European branches of ARAG SE enjoyed further growth in the reporting year, with gross premium income advancing by a total of 7.9 percent to €558,789.4 thousand (2018: €517,924.1 thousand). The branches accounting for the highest level of premiums written were ARAG Netherlands with premiums written of €163,458.8 thousand (2018: €151,066.0 thousand), ARAG Spain with €148,302.1 thousand (2018: €137,753.2 thousand), and ARAG Italy with €141,806.3 thousand (2018: €130,343.8 thousand). The premiums earned net of reinsurance amounted to a total of €562,816.5 thousand (2018: €521,766.6 thousand). The growth was predominantly generated from the acquisition of new business partners in indirect business (Netherlands), the ongoing systematic development of insurance products in legal-insurance-related business (Spain, Italy), and further expansion of sales channels (Austria).

The claims ratio fell from 43.4 percent in 2018 to 40.4 percent in the reporting year. The absolute rise in insurance business operating expenses was driven by commissions; at 47.6 percent, the cost ratio was largely unchanged year on year (2018: 47.4 percent). Including miscellaneous underwriting income and expenses of €424.8 thousand, the underwriting result before the equalization provision generated by the international legal insurance business amounted to a greatly improved profit year on year of €68,161.8 thousand (2018: €48,323.4 thousand). After an addition to the equalization provision of €10,060.9 thousand that was required due to the reduced incidence of claims (2018: €5,870.3 thousand), a much improved profit of €58,100.9 thousand was reported under the underwriting account (2018: €42,453.1 thousand).

The investments that are assigned to the insurance business of the branches generated a total net gain on investments of €17,467.2 thousand (2018: €14,678.1 thousand). This increase was attributable to reversals of write-downs as a result of conditions in the capital markets. Significant write-downs had been required in 2018. By contrast, ordinary net gains on investments deteriorated from €18,310.3 thousand in 2018 to €15,680.8 thousand in the reporting year. Other net income/expense amounted to an expense of €5,375.0 thousand (2018: expense of €4,952.5 thousand).

The branches generated a high profit from ordinary activities of €70,193.1 thousand (2018: €52,178.7 thousand). The tax expense came to €21,901.3 thousand (2018: €19,364.9 thousand). The tax expense included an expense of €491.8 thousand (2018: €3,971.6 thousand) that resulted from a change in net deferred taxes.

With a much larger net income for the year of €48,291.8 thousand in 2019 (2018: €32,813.8 thousand), the European branches are continuing to make a significant contribution to the overall net income of ARAG SE over the long term.

Overall net income for the year

The financial performance of ARAG SE was characterized by the growth in business activities across its entire operation. The international insurance business became more profitable. In Germany, net income was heavily influenced by accumulation losses in connection with the emissions scandal. Net premiums earned rose by 6.7 percent in the year under review. However, insurance benefit payments increased by 7.5 percent. Commission increases resulting from the higher level of new business and from new inward reinsurance treaties led to a rise in absolute costs. Despite this, the cost ratio fell slightly, from 43.9 percent in 2018 to 43.7 percent in the year under review.

Underwriting profit before the equalization provision amounted to €44,129.4 thousand, which was even higher than the prior-year figure of €41,717.8 thousand. After the addition to the equalization provision, which was required in particular for the inward reinsurance business segments, the remaining underwriting profit was still at a high level at €33,071.2 thousand (2018: €35,470.4 thousand).

In the year under review, the net gains on investments jumped from €51,775.6 thousand to €78,951.4 thousand. Share prices rose sharply. The lower level of interest rates led to reversals of write-downs on fixed-income securities and on shares/units in institutional funds, whereas there had been high write-downs in 2018. Restructuring of the institutional funds also resulted in gains on disposal. Ordinary gains on investments declined year on year to €60,634.6 thousand (2018: €73,707.0 thousand) due to persistently low interest rates, reinvestment in the institutional funds, and a slight decrease in income from equity investments. The net yield on investments was 4.0 percent in the year under review (2018: 2.7 percent); the current average yield was 3.1 percent (2018: 3.8 percent).

The net expense reported for other net income/expense deteriorated further year on year to €37,771.5 thousand (2018: €35,072.5 thousand). The reduction in pension and other post-employment benefit expenses in 2019 resulting from the switch in 2018 to new mortality tables, which are used to calculate the defined benefit obligation, was unable to compensate for capital expenditure on digitalization activities and expenses in connection with exchange-rate effects. Profit before tax amounted to a total of €74,251.1 thousand. Contrary to the forecasts, this was well above the prior-year figure of €52,173.5 thousand.

After deduction of the tax expense, net income for the year amounted to €51,848.4 thousand (2018: €31,597.5 thousand). The tax expense included an additional expense of €491.8 thousand (2018: €3,971.6 thousand) that resulted from a change in net deferred taxes. After taking into account the profit brought forward from 2018, the amount to be presented to the Annual General Meeting for a decision on appropriation is €51,878.1 thousand (2018: €31,629.7 thousand).

Considering the economic conditions, and particularly the situation in the capital markets, the Company's business performance was extremely positive in 2019.

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

Financial position

The objective of the management of financial resources is to ensure that the Company holds adequate capital and manages its liquidity such that it is able to satisfy its obligations arising from the insurance business at all times and to exceed, rather than simply satisfy, the regulatory requirements concerning the solvency capital adequacy of insurance entities. The subordinated liabilities reported on the balance sheet qualify as basic own funds in accordance with section 89 (3) no. 2 of the German Insurance Supervision Act (VAG). These subordinated liabilities comprise a registered bond with a value of €30,000.0 thousand that matures on July 29, 2024.

In addition to current bank balances and cash on hand of €112,635.8 thousand (December 31, 2018: €118,808.0 thousand), the Company has investments at its disposal that can be sold on the capital and financial markets at short notice, thus ensuring that the Company is able to satisfy its payment obligations under insurance contracts at all times.

Net assets

The breakdown of investments, which increased by €92,624.0 thousand or 4.8 percent to €2,031,499.7 thousand as of December 31, 2019, was as follows:

Investments breakdown

(€'000)	Dec. 31, 2019		Dec. 31, 2018	
Land and buildings	85,942.2	4.2 %	91,234.3	4.7 %
Affiliated companies and equity investments	310,618.9	15.3 %	308,778.7	15.9 %
Lending to affiliated companies	1,040.0	0.1 %	1,300.0	0.1 %
Equities and investment fund shares/units	663,986.9	32.7 %	606,304.2	31.3 %
Bearer bonds	509,327.0	25.1 %	428,501.9	22.1 %
Loans secured by mortgages or land charges and fixed-income receivables	3,075.0	0.2 %	8,879.9	0.4 %
Registered bonds	130,511.3	6.4 %	140,511.3	7.3 %
Promissory notes, loans	235,982.7	11.6 %	266,959.9	13.8 %
Sundry lending	97.4	0.0 %	107.9	0.0 %
Bank deposits	27,469.0	1.4 %	27,169.0	1.4 %
Other investments	2,771.0	0.1 %	3,193.2	0.1 %
Deposits with ceding insurers	60,678.3	3.0 %	55,935.4	2.9 %
Total	2,031,499.7	100.0 %	1,938,875.7	100.0 %

Pursuant to section 341 b (2) of the German Commercial Code (HGB), equities and investment fund shares/units with a carrying amount of €625,984.1 thousand had been classified as fixed assets as of the balance sheet date (December 31, 2018: €603,017.8 thousand). Bearer bonds with a carrying amount of €59,908.2 thousand (December 31, 2018: €73,218.7 thousand) were treated as fixed assets.

ARAG SE entered into investment obligations in private equity funds indirectly through an equity investment structure. The outstanding obligations amounted to €93,990.0 thousand as of December 31, 2019. They will be funded by the excess cash generated from future insurance business.

Further information on the structure and changes in investments can be found in the overview under the non-insurance disclosures in the Notes.

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

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

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

Employees

At the end of 2019, ARAG SE had a total of 1,131 (December 31, 2018: 1,132) employees in Germany. A further 1,688 (December 31, 2018: 1,547) people were employed outside Germany. The average number of employees in 2019 was 2,775 (2018: 2,643).

Corporate governance declaration

Targets for the proportion of women in management functions As required by the German Act on the Equal Participation of Women and Men in Managerial Positions (FührposGleichberG), the Company defines targets for the proportion of women at the two management levels below the Management Board, on the Management Board itself, and on the Supervisory Board and sets deadlines for achieving these targets. The Management Board advocates a rising proportion of women in managerial positions, and particularly so for as long as the proportion of women remains below 30 percent. To this end, numerous supporting measures are being implemented as part of the work/life balance project.

The Management Board had set a target for the proportion of women at the first management level below the Management Board of 11 percent and a target at the second management level of 30 percent, in both cases to be achieved by June 30, 2019. Both targets represent an increase compared with the situation at the time the targets were set. The Supervisory Board had set the following targets for June 30, 2019 in respect of the proportion of women: 11 percent on the Supervisory Board and 0 percent on the Management Board.

The actual proportion as of June 30, 2019 was 20 percent at the first management level below the Management Board and 34 percent at the second management level. The two targets were therefore comfortably exceeded. The actual proportions for the Supervisory Board and the Management Board were the same as the targets, i.e. 11 percent and 0 percent respectively.

For the next target attainment deadline of June 30, 2021, the Management Board has set a target for the proportion of women at the first management level below the Management Board of 20 percent and a target at the second management level of 36 percent. The Supervisory Board has decided on the following targets for June 30, 2021 in respect of the proportion of women: 11 percent on the Supervisory Board and 0 percent on the Management Board. These two targets are the same as the actual percentages at the time the targets were set.

Separate combined non-financial report

As a result of the provisions in the German CSR Directive Implementation Act (CSR-RUG), ARAG SE has been subject to a non-financial reporting obligation since 2017 in accordance with section 341a (1a) HGB. As ARAG SE is included in the group management report issued by its parent company ARAG Holding SE, Düsseldorf, ARAG SE has elected to exercise the exemption option under section 341a (1a) sentence 3 in conjunction with section 289b (2) HGB. The parent company ARAG Holding SE publishes a separate combined non-financial report (ARAG 2019 Sustainability Report*) outside the group management report in accordance with section 315b (3) HGB together with the group management report.

This sustainability report is publicly accessible at www.arag.com/en/press/publications/

* Not part of the management report.

III. Dependent Company Report and Affiliated Companies

ARAG Holding SE, Düsseldorf, indirectly holds a majority interest in ARAG SE. The existence of the majority interest was notified to ARAG Allgemeine Rechtsschutz-Versicherungs-AG (now ARAG SE) on April 28, 2000 by the Management Board of ARAG AG (now ARAG Holding SE) in accordance with section 20 (1) and (4) of the German Stock Corporation Act (AktG).

ARAG SE is therefore a dependent company within the meaning of section 17 (1) AktG in relation to ARAG Holding SE.

The report on relationships with affiliated companies pursuant to section 312 AktG concludes with the following declaration:

“In accordance with the circumstances known to us at the time the legal transactions were undertaken, our Company received an appropriate consideration for each legal transaction. Other than the legal transactions listed, the Company did not carry out or omit any other reportable legal transactions or activities.”

IV. Outlook, Opportunity and Risk Reports

Outlook and opportunity report

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

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

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

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

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

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

ARAG SE is optimistic about 2020 and about the future. Demand for legal insurance and legal services is rising, not least due to ever more complex rules and regulations in daily life. There is a growing need for insurance against legal risks. Europe's citizens increasingly regard access to justice as a civil right and yet, without legal insurance, it is often not truly available to all in equal measure because of attorney fees and court costs.

Given this backdrop, demand for legal insurance and the associated premium income can be expected to rise, further boosted by the forecast strength of domestic demand in Germany and other EU member states. ARAG SE anticipates that premiums will continue to grow in 2020, albeit at a slightly slower rate than in the year under review. The change in accumulation loss risk was taken into account in 2019. Further increases are not expected. The claims ratio is therefore predicted to fall slightly.

ARAG SE sees digital transformation as a clear set of opportunities. Online business is already making a substantial contribution to growth.

Over the coming years, the task of implementing the Company's digital transformation will lie at the heart of securing its future success. The ARAG Smart Insurer Program, launched in 2018, provides a groupwide frame of reference for this.

The Company's cost ratio will rise only slightly in 2020; higher commissions in inward reinsurance business are also anticipated.

The underwriting result after the equalization provision will probably be down slightly in 2020 compared with the level in 2019.

The forecasts for gains and losses on investments remain very uncertain, especially in view of the impact of health emergencies (COVID-19), which is currently very difficult to predict. Given that the economy is weakening slightly, it is likely that the ECB will maintain its expansionary monetary policy, which means that interest rates will remain very low or even negative. In any case, reversals of write-downs will be lower in 2020 than in 2019 due to the acquisition cost limit. Moreover, ordinary income from investments will be depressed by the low level of interest rates and is likely to fall. Gains and losses on investments will therefore deteriorate sharply compared with 2019. Overall, the forecast is for a markedly lower profit before tax for 2020.

Risk report

Risk management system

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk categories

Underwriting risk Underwriting risk is the risk of a loss arising from inadequate pricing or inadequate provisioning assumptions. These losses result from various risk types, including:

- Premium/reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the duration of claims settlement and the amount involved.
- 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. Likewise, catastrophe and accumulation risk is assessed by simulating potential accumulation losses in the legal insurance business. Lapse risk is calculated on the basis of cancellations in the past. The actual underwriting risk arises from the aggregation of the individual risks, taking diversification effects into account.

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

Changes in claims ratio

Financial year	Claims ratio, gross, total		Profit/loss on settlements
	<i>FY ratio</i>	<i>Financial statements</i>	<i>% of initial reserve</i>
2019	57.1	53.0	3.3
2018	54.7	51.6	2.5
2017	57.1	53.4	2.8
2016	57.7	51.2	4.6
2015	61.0	52.5	5.6
2014	61.7	55.8	3.7
2013	63.8	58.6	3.3
2012	60.0	55.4	3.0
2011	68.3	56.1	3.9
2010	68.6	63.6	2.8

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

Counterparty default risk is measured with the partial internal model.

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

The risk of default on receivables from policyholders and insurance brokers is measured. As of the balance sheet date, receivables from policyholders more than 90 days past due amounted to €5,982.6 thousand (December 31, 2018: €5,323.9 thousand). The average default rate for these receivables over the last three years as of December 31, 2019 was 20.5 percent (December 31, 2018: 24.4 percent).

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

- Interest-rate risk: changes in the term structure or volatility of interest rates. For example, an assumed increase or decrease of 1 percent in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by approximately €79.7 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 €41.7 million.
- Property risk: changes in the level or volatility of the market prices of real estate.

- Currency risk: changes in the level or volatility of exchange rates.
- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure.
- Migration/default risk: rating level changes or changes in the extent of projected defaults.

Fixed-income securities by rating class

(Proportion (%) by fair value)

AAA	18.4
AA	15.1
A	30.0
BBB	31.6
BB	2.4
B	2.3
CCC	0.1
CC	0.0
C	0.0
D	0.0
Not rated	0.1

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

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

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

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

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

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

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

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

Overall risk position

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

The overall risk position does not currently point to any trends in 2020 that could jeopardize the continued existence of the Company as a going concern or cause a significant negative impact on net assets, financial position, or results of operations.

Financial Statements

Financial Statements	27
Balance Sheet	28
Income Statement	32
<hr/>	
Notes to the Financial Statements	36
I. General Disclosures	36
II. Disclosures on Accounting Policies	36
III. Insurance Disclosures	46
IV. Non-Insurance Disclosures	48
V. Report on Post-Balance Sheet Events	54
VI. Other Disclosures	54
VII. Governing Bodies of the Company	57
VIII. Proposed Appropriation of Profit	60
<hr/>	
Independent Auditor's Report	61
<hr/>	
Report of the Supervisory Board	69
<hr/>	
Further Information	75
<hr/>	

Balance Sheet as of December 31, 2019

Assets

(€)

A. 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.	Lending to affiliated companies
3.	Equity investments
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 of which in respect of affiliated companies: € 3,075,000.00 (Dec. 31, 2018: € 3,375,000.00)
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
1.	from policyholders
2.	from insurance brokers
	of which to affiliated companies: € 46,686.61 (Dec. 31, 2018: € 1,572.00)
II.	Receivables from reinsurance business
	of which from affiliated companies: € 0.00 (Dec. 31, 2018: € 334,242.00)
III.	Miscellaneous receivables
	of which from affiliated companies: € 13,568,544.24 (Dec. 31, 2018: € 13,059,979.09)
	of which from other long-term investees and investors: € 102,073.93 (Dec. 31, 2018: € 51,121.29)

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

Total assets

				Dec. 31, 2019	Dec. 31, 2018
				5,073,017.64	6,514,494.40
			85,942,205.88		91,234,255.89
		293,731,287.38			291,891,169.32
		1,040,000.00			1,300,000.00
		16,887,568.37			16,887,569.37
			311,658,855.75		310,078,738.69
		663,986,858.73			606,304,170.24
		509,327,025.17			428,501,929.71
		3,075,001.00			8,879,927.98
	130,511,291.88				140,511,291.88
	235,982,694.53				266,959,862.44
	97,454.62				107,882.07
		366,591,441.03			407,579,036.39
		27,468,966.00			27,168,966.00
		2,771,042.56			3,193,205.81
			1,573,220,334.49		1,481,627,236.13
			60,678,269.26		55,935,437.98
				2,031,499,665.38	1,938,875,668.69
		33,156,690.11			29,188,014.35
		21,989,323.64			19,367,773.98
			55,146,013.75		48,555,788.33
			50,331,809.50		44,875,306.28
			16,939,509.51		15,484,864.34
				122,417,332.76	108,915,958.95
			14,002,491.04		13,544,071.77
			85,166,883.15		91,639,035.00
			21,746,890.24		23,142,773.07
				120,916,264.43	128,325,879.84
			6,687,346.46		7,067,767.98
			5,545,658.98		2,660,545.05
				12,233,005.44	9,728,313.03
				2,292,139,285.65	2,192,360,314.91

Balance Sheet as of December 31, 2019

Equity and liabilities

(€)

A. Equity

- I. Subscribed capital
- II. Capital reserve
- III. Revenue reserves
 - 1. Statutory reserves
 - 2. Other revenue reserves
- IV. Profit brought forward
- V. Net income for the year

B. Subordinated liabilities

C. Technical provisions

- I. Unearned premiums
 - 1. Gross amount
 - 2. less: portion for outward reinsurance business
- II. Provision for outstanding claims
 - 1. Gross amount
 - 2. less: portion for outward reinsurance business
- III. Equalization provision and similar provisions
- IV. Miscellaneous technical provisions

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
 - 1. to policyholders
 - 2. to insurance brokers
 - of which to affiliated companies: €61,876.83 (Dec. 31, 2018: €39,822.96)
 - of which to other long-term investees and investors: €46.22 (Dec. 31, 2018: €49.22)
- II. Liabilities from reinsurance business
 - of which to affiliated companies: €0.00 (Dec. 31, 2018: €35,683.32)
- III. Miscellaneous liabilities
 - of which tax liabilities: €18,683,143.91 (Dec. 31, 2018: €16,366,385.21)
 - of which social security liabilities: €1,870,694.39 (Dec. 31, 2018: €1,727,098.29)
 - of which to affiliated companies: €14,842,499.17 (Dec. 31, 2018: €18,758,801.65)

G. Deferred income and accrued expenses

H. Deferred tax liabilities

Total equity and liabilities

			Dec. 31, 2019	Dec. 31, 2018
		100,000,000.00		100,000,000.00
		81,772,569.19		81,772,569.19
	10,000,000.00			10,000,000.00
	239,200,000.00			227,600,000.00
		249,200,000.00		237,600,000.00
		29,712.02		32,184.31
		51,848,351.22		31,597,527.71
			482,850,632.43	451,002,281.21
			30,000,000.00	30,000,000.00
	199,774,897.34			199,032,061.52
	0.00			0.00
		199,774,897.34		199,032,061.52
	1,178,322,298.73			1,130,173,299.37
	738,856.84			567,514.47
		1,177,583,441.89		1,129,605,784.90
		34,178,606.00		23,120,448.00
		2,556,829.42		2,140,385.96
			1,414,093,774.65	1,353,898,680.38
		196,968,184.65		186,973,387.40
		11,785,876.54		12,809,895.22
		65,014,217.84		64,122,781.50
			273,768,279.03	263,906,064.12
			165,341.73	370,390.17
	15,162,359.55			14,084,742.77
	22,242,696.44			23,355,515.90
		37,405,055.99		37,440,258.67
		2,764,236.08		2,579,608.45
		46,199,657.72		48,683,984.08
			86,368,949.79	88,703,851.20
			418,374.58	496,868.45
			4,473,933.44	3,982,179.38
			2,292,139,285.65	2,192,360,314.91

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

(€)

I. Underwriting account

1. Premiums earned net of reinsurance
a) Gross premiums written
b) Reinsurance premiums ceded
c) Change in gross unearned premiums
d) Change in reinsurers' share of gross unearned premiums
2. Miscellaneous underwriting income net of reinsurance
3. 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
4. Change in miscellaneous net technical provisions
5. 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
6. Miscellaneous underwriting expenses net of reinsurance
7. Subtotal
8. Change in the equalization provision and similar provisions
9. Underwriting result net of reinsurance
Carried forward:

			2019	2018
	977,677,823.50			915,987,698.99
	-705,335.32			-634,680.81
		976,972,488.18		915,353,018.18
	-390,185.24			1,277,739.47
	0.00			-1,417,577.35
		-390,185.24		-139,837.88
			976,582,302.94	915,213,180.30
			1,891,049.35	1,703,613.41
	461,140,303.38			442,601,747.64
	-235,677.86			-887,624.02
		460,904,625.52		441,714,123.62
	-46,343,496.87			-28,158,165.15
	171,342.37			-2,000,335.74
		-46,172,154.50		-30,158,500.89
			507,076,780.02	471,872,624.51
			-496,836.42	-1,450,385.96
		426,770,379.21		401,875,969.76
		0.00		0.00
			426,770,379.21	401,875,969.76
			0.00	0.00
			44,129,356.64	41,717,813.48
			-11,058,158.00	-6,247,400.50
			33,071,198.64	35,470,412.98
			33,071,198.64	35,470,412.98

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

(€)

Brought forward:

II. Non-underwriting account

1. Income from investments

a) Income from equity investments

of which from affiliated companies: € 23,037,193.95 (2018: € 16,702,751.81)

b) Income from other investments

of which from affiliated companies: € 1,867,452.42 (2018: € 2,183,189.73)

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

bb) Income from other investments

c) Income from reversals of write-downs

d) Gains on the disposal of investments

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

2. Expenses for investments

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

b) Depreciation, amortization and write-downs of investments

of which write-downs: € 13,075,035.53 (2018: € 24,381,844.93)

c) Losses on the disposal of investments

3. Other income

4. Other expenses

Non-underwriting result**5. Profit/loss from ordinary activities**

6. Extraordinary income

7. Extraordinary expenses

8. Net extraordinary income/expense

9. Income taxes

of which deferred taxes: € 491,754.06 (2018: € 3,971,645.21)

10. Miscellaneous taxes

11. Net income for the year

				2019	2018
				33,071,198.64	35,470,412.98
		26,248,858.25			20,319,555.23
	6,297,930.21				6,568,522.57
	24,374,411.00				36,462,484.93
		30,672,341.21			43,031,007.50
		18,258,372.14			1,955,370.92
		14,339,980.74			2,571,073.89
		11,281,526.61			18,525,115.36
			100,801,078.95		86,402,122.90
		7,568,086.36			8,168,697.39
		13,983,592.61			25,287,809.02
		298,040.13			1,169,997.93
			21,849,719.10		34,626,504.34
				78,951,359.85	51,775,618.56
			103,564,016.17		99,911,487.93
			141,335,516.85		134,984,011.16
				-37,771,500.68	-35,072,523.23
				41,179,859.17	16,703,095.33
				74,251,057.81	52,173,508.31
			0.00		0.00
			0.00		0.00
				0.00	0.00
			21,229,444.67		20,066,486.82
			1,173,261.92		509,493.78
				22,402,706.59	20,575,980.60
				51,848,351.22	31,597,527.71

Notes to the Financial Statements

I. General Disclosures

ARAG SE is entered in the commercial register of the Düsseldorf local court under the number HRB 66846. Its registered office is ARAG Platz 1, 40472 Düsseldorf, Germany.

The Company has prepared these financial statements for 2019 in accordance with the requirements of the German Commercial Code (HGB), taking into account the supplementary provisions applicable to large corporations and the additional provisions applicable to insurance companies, the German Insurance Supervision Act (VAG), and the German Regulation on the Accounting of Insurance Undertakings (RechVersV). The financial statements are presented on the basis of financial statement forms 1 and 2 pursuant to section 2 RechVersV.

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

II. Disclosures on Accounting Policies

Accounting policies

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

Purchased **intangible assets** are recognized at cost on the balance sheet and reduced by straight-line amortization according to their estimated useful life. The useful life is three years for purchased software, five to ten years for leasehold improvements, and six years for goodwill. No internally generated intangible assets were recognized.

Land, land rights and buildings, including buildings on third-party land, are valued at cost less straight-line depreciation and amortization. The useful life of buildings is essentially estimated to be 40 years. Write-downs of €1,268,431.20 (2018: €4,521.00) were recognized in the year under review owing to permanent asset impairment. In the reporting year, there were no grounds for the reversal of write-downs as a result of the reason for the original write-down no longer applying. The carrying amount of land and buildings held for own use (see also section IV. 'Non-Insurance Disclosures') is determined on the basis of the primary actual usage of the overall plot.

Investments in affiliated companies and equity investments are valued at cost, in some cases reduced by write-downs as a consequence of permanent impairment. In this regard, write-downs amounting to €11,251,114.42 (2018: €2,655,832.10) were recognized in the reporting year. No write-downs were reversed in 2019 as a result of the reasons for the original write-downs no longer applying (2018: €1,877,900.00).

The table below shows shares in affiliated companies and equity investments with a shareholding of at least 20.0 percent that are intended to serve the Company's own operations by establishing a lasting relationship; the equity and profit/loss of these companies are stated:

Shares in affiliated companies and equity investments

Name and registered office of company	Shareholding (%)	Equity (€)	Profit/loss (€)
1. Affiliated companies			
a) Insurance companies			
ARAG Allgemeine Versicherungs-AG, Düsseldorf	100.00	55,322,905.72	11,281,526.61
ARAG Krankenversicherungs-AG, Munich	94.00	79,252,897.92	13,100,000.00
b) Other companies – limited companies			
ARAG International Holding GmbH, Düsseldorf	100.00	57,909,249.22	18,400,779.55
ARAG Liegenschaftsverwaltungs- und Beratungsgesellschaft mbH, Düsseldorf	100.00	359,140.90	-16,598.78
ARAG Service Center GmbH, Düsseldorf	80.00	383,895.66	40,811.10
ARAG IT GmbH, Düsseldorf	100.00	8,601,846.45	72,752.91
CURA Versicherungsvermittlung GmbH, Düsseldorf	100.00	877,289.89	178,281.25
Solfin GmbH, Düsseldorf	75.10	519,858.69	286,760.12
ALIN 1 Verwaltungs-GmbH, Düsseldorf	100.00	28,167.65	1,572.37
Justix GmbH, Cologne	100.00	1,793,615.18	-1,375,882.67
ARAG plc, Bristol	100.00	12,924,065.22	398,488.78
ARAG – France S.A.R.L. Assistance et Reglement de Sinistres Automobiles et Generaux, Versailles	100.00	18,988.00	0.00
ARAG Legal Services B.V., Leusden	100.00	337,808.34	111,883.02
ARAG Scandinavia AS, Oslo	100.00	29,429,642.61	22,199.57
MIA Multiline Insurance Agency s. r. l., Verona	100.00	400,359.46	-255,658.94
ARAG Services Australia Pty Ltd., Sydney	100.00	920,682.18	-784,069.46
Agencia de Seguros ARAG SA, Barcelona	100.00	296,068.36	126,613.79
ARAG Services Spain & Portugal S.L., Barcelona	100.00	622,811.99	85,432.58
c) Other companies – partnerships			
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50.00	4,888,399.44	160,904.66
ALIN 1 GmbH & Co. KG, Düsseldorf	100.00	40,621,162.19	309,813.99
2. Associates			
AXA ARAG Rechtsschutz AG, Zurich ¹⁾	29.17	35,639,876.12	10,672,445.13

¹⁾ Figures from the last available financial statements (for the year ended December 31, 2018).

Equities, investment fund shares/units, other variable-yield securities, bearer bonds, and other fixed-income securities that have not been classified as permanent fixed assets are valued at the lower of cost or quoted market price/market value as of the reporting date. Following the strict principle of lower of cost or market value, the following write-downs were recognized in 2019: €0.00 (2018: €329,806.10) in respect of equities and investment fund shares/units and €533,889.91 (2018: €2,298,265.56) in respect of bonds. Write-downs amounting to €0.00 (2018: €19,093,420.17) were recognized in respect of investment fund shares/units in application of the discretionary principle of lower of cost or market value. Reversals of write-downs were recognized in the year under review as follows: €4,547.73 (2018: €0.00) in respect of equities, €15,609,728.01 (2018: €0.00) in respect of investment fund shares/units, and €2,644,096.40 (2018: €77,470.92) in respect of bonds. As of the reporting date, there were no undisclosed liabilities (December 31, 2018: €13,826,804.68) that had not been netted as a result of the application of the discretionary principle of lower of cost or market value.

ARAG SE made use of the option to select the discretionary principle of lower of cost or market value for those institutional investment fund shares/units and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. All institutional funds and some of the bearer bonds are classified as permanent fixed assets at ARAG SE and are treated as fixed assets.

Subsequent valuation of the investment fund shares/units classified as fixed assets is based on the long-term value determined in a fund review. As of December 31, 2019, the quoted market price was assumed to be the long-term value. As of December 31, 2018, the long-term value of the institutional fund shares/units had been assessed using the long-term trend in the price/earnings ratio in the Stoxx Europe Large 200 and MSCI Emerging Markets indices. Fixed-income securities within the funds were valued at their market value. All items within the funds with a rating of BBB- or better were valued at their nominal amounts, as a minimum. The bearer bonds treated as fixed assets were valued in the same way.

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

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

Registered bonds are accounted for at their nominal or redemption amount. Where available, zero-coupon registered bonds are recognized 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.

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

Other investments comprise shares/units in infrastructure funds and private equity funds. They are valued at cost. The fair value as of the reporting date is reviewed on the basis of the net asset values (NAVs) reported by the fund management companies. As had also been the case in 2018, no write-downs due to expected permanent impairment had to be recognized in 2019. Neither in 2019 nor in 2018 were there grounds for the reversal of write-downs as a result of the reason for the original write-down no longer applying.

Deposits with ceding insurers are recognized at the nominal value of the collateral furnished to cedants. The residual maturity is less than one year because the contracts are renewed annually.

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

Receivables from direct insurance business are generally recognized at their nominal amount. All receivables become due for payment within no more than 14 days after the invoice has been raised. A general allowance for latent credit risk is deducted from **receivables from policyholders** after specific allowances have been recognized for receivables that are past due by a predefined period of time. Receivables from policyholders past due are valued at the average historical recovery rate. **Receivables from insurance brokers** are reduced by specific allowances and a general allowance in the amount of the likely default. The maturity of the receivables is less than one year.

Receivables from reinsurance business comprise amounts derived from both inward and outward reinsurance business. The balance of €50,331,809.50 as of December 31, 2019 arose for the most part from inward reinsurance business at the headquarters in Germany and at the branches in Spain, Italy, and the Netherlands. The amounts recognized are the outstanding balances. The breakdown by primary insurer or reinsurer was as follows:

Insurance companies

<i>(Balance in €'000)</i>	Dec. 31, 2019	Dec. 31, 2018
UNIPOL Assicurazioni, Italy, BBB – rating	23,586.9	22,306.2
ABN-AMRO Verzekeren, Netherlands, A+ rating	4,549.1	5,029.6
REALE, Spain, A – rating	3,404.3	3,169.3
ITALIANA (Reale Mutua Group), Italy, A – rating	596.4	669.3
Noordhollandsche van 1816, Netherlands, no rating	3,713.0	3,468.0
PLUSULTRA, Spain, no rating	0.00	1,426.5
GROUPAMA, Italy, BBB+ rating	264.6	1,087.6
ARCA (Unipol Group), Italy, BBB – rating	209.3	0.0
Cattolica, Italy, BBB rating	718.4	792.2
Intesa San Paolo, Italy, BBB+ rating	5,605.8	1,708.0
Helvetia, Italy, A rating	479.2	696.0
BRIT Syndicate 2987 at Lloyd's, United Kingdom, AA – rating	1,074.5	609.7
Sundry balances	6,130.3	3,912.9
	50,331.8	44,875.3

Miscellaneous receivables mainly comprise balances from intragroup services and items arising from the processing of leases, recourse claims (subrogation), payment receipts, accounts payable with a debit balance, and advances paid to employees. All items are due within one year. They are recognized at their nominal amounts.

Property and equipment is recognized at cost and depreciated on a straight-line basis over the standard operating useful life (13 years for office furniture, ten years for branch office fixtures and fittings, three years for monitors and PCs). The works of art included in property and equipment are not depreciated. Low-value assets are expensed immediately at the time of acquisition.

Inventories are determined by carrying out physical inventory checks. They are valued at cost and reduced by appropriate write-downs to account for storage risk and impaired marketability.

Bank balances, checks, and cash on hand are recognized at cost. This equates to the nominal amount. Bank balances denominated in foreign currency were translated using the middle spot exchange rate as of the reporting date, disregarding both historical cost convention and the realization principle. Balances are documented in the form of bank statements and cash records. Payment orders of €468.0 thousand that had been issued but not executed as of the reporting date (December 31, 2018: €4,248.5 thousand) were deducted from the balances for the purposes of the carrying amounts reported on the balance sheet.

Other assets are recognized at their nominal amount, which equates to their cost. This item mainly consists of tax assets. The residual maturities are less than one year, with the exception of an amount of €5,224.6 thousand (December 31, 2018: €4,570.2 thousand).

Prepaid expenses and accrued income mainly consist of accrued rights to interest not yet due in the income period before the balance sheet date. As of December 31, 2018, this item had also included premiums in connection with registered bonds amounting to €12,422.99.

If differences arise between the carrying amounts in the HGB financial statements and those in the tax base and these differences are expected to reverse in subsequent years, **deferred taxes** are recognized in respect of these differences using separate entity-specific tax rates applicable in the country in which the registered office of the entity concerned is situated. 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. The deferred tax assets and liabilities expected to result from the reversal effects are netted. They are recognized on the balance sheet only if there is a net liability. Net deferred tax assets are not recognized.

The **subscribed capital** has been fully paid up by the shareholders. The **capital reserves** include amounts that shareholders have contributed to the equity of the Company without being granted preferences in accordance with section 272 (2) no. 4 HGB. The full amount of the statutory reserves has been recognized pursuant to section 150 (2) of the German Stock Corporation Act (AktG).

Subordinated liabilities have been issued by way of private placement to improve the own funds used to determine the solvency ratio. The registered bond with a value of €30,000.0 thousand has a fixed maturity of ten years and will be redeemed on July 29, 2024. The subordinated registered bond has been recognized at its settlement amount. These bonds were not, and are not, tradable in Germany on a regulated market within the meaning of section 2 (5) of the German Securities Trading Act (WpHG).

Gross unearned premiums for direct insurance business are calculated pro rata for each individual policy on the basis of the premiums and lapses/cancellations posted, but excluding the installment surcharges. The calculated unearned premiums are reduced by the income components intended to cover the acquisition costs. An individually determined proportion (branches) or a flat rate of 85.0 percent (Group headquarters) of the commissions and other remuneration for agents is recognized as a non-transferable income component. The gross unearned premiums for inward reinsurance business are recognized in accordance with the requirements of the primary insurer. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

The **provision for outstanding claims** in relation to direct insurance business is recognized separately by event year for claims reported in the financial year concerned and for claims that have occurred up to the balance sheet date but have not yet been reported. 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 and, if necessary, adjusted (increased).

In the reporting year, the profit on settlements in direct business for all classes of insurance amounted to 3.3 percent of the initial reserve (2018: 2.5 percent).

The provision for outstanding claims in the inward reinsurance business is recognized in accordance with the information provided by the primary insurer (headquarters). 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 (branches) 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 **equalization provision** for the direct insurance and inward reinsurance business is recognized and valued in accordance with section 341h HGB in conjunction with section 29 RechVersV. The calculation is carried out separately for the direct insurance business and for the inward reinsurance business, in each case broken down by class of insurance. For the annual adjustment amounts, the calculated equalization provision is allocated between the Group headquarters and the branches according to gross premiums earned in each class of insurance.

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

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 (2) sentence 2 HGB on the basis of either the 2018G mortality tables published by Professor Klaus Heubeck or, for Austria, the AVÖ 2018-P tables for salaried employees. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. The discount rate used was the average interest rate for the past ten years published by the Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. A discount rate of 2.71 percent was applied for the valuation as of December 31, 2019 (December 31, 2018: 3.21 percent). As of December 31, 2019, the difference between the application of the ten-year average and the seven-year average (1.97 percent; December 31, 2018: 2.32 percent) caused a reduction in the provision for pensions and other post-employment benefits of €21,312,131.00 (December 31, 2018: €24,116,312.00). The difference is not prohibited from being distributed, provided that the distributable reserves that remain after distribution are not less than the difference; this was the case as of the balance sheet date.

The following actuarial parameters were used to calculate the obligations: earliest possible age under the German Pension Age Reform Act (RVAGAnpG), annual increase in salaries of 2.50 percent, annual increase in pension benefits of 1.75 percent (for Spain, 2.5 percent). The level of staff turnover taken into account reflects the generally observable age-dependent average for the industry and has only a minor impact on the settlement value. Assets from reinsurance were offset against the defined benefit obligation. The fair value of the assets corresponded to the settlement amount of the offset liabilities of €920,997.00. In addition, securities with a fair value of €2,652,792.00 in accordance with section 253 (1) sentence 4 HGB were offset against the present value of the obligation. The recognition at fair value gave rise to an amount of €235,072.00 that was not allowed to be distributed as a dividend pursuant to section 268 (8) sentence 3 HGB. Because of the distributable reserves, this amount does not actually affect the distributable dividend. The option pursuant to section 28 (1) of the Introductory Act to the German Commercial Code (EGHGB), which permits provisions for pensions and other post-employment benefits not to be recognized for legacy entitlements, has not been exercised. The long period of low interest rates has led to a shortfall of €765,908.75 (December 31, 2018: €263,785.73) in pension funds used to cover pension commitments to employees. This shortfall has been determined in accordance with actuarial principles and reported as a pension obligation.

Provisions for taxes are recognized in the anticipated settlement amount determined in accordance with prudent business practice.

The **miscellaneous provisions** are generally recognized in the amount that is necessary to settle the obligation according to prudent business practice. The residual maturity is generally less than one year. Interest income of €1,825.35 (2018: €34,399.06) and interest expenses of €8,310.90 (2018: €4,701.25) arose from the discounting of provisions with a maturity of more than one year.

Specific accounting policies are applied to the following key miscellaneous provisions:

Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles; as of the reporting date, the amounts were discounted to present value using a discount rate of 1.97 percent (December 31, 2018: 2.32 percent).

In 2019, a provision in accordance with the **pre-retirement part-time employment agreement** for the private insurance industry dated June 11, 1997, based on the Accounting Principle issued by the Main Technical Committee of the Institute of Public Auditors in Germany (IDW AcP HFA 3) dated November 18, 1998, was recognized on the basis of a maturity-matched discount rate of 1.97 percent (2018: 2.32 percent). In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements and natural employee turnover were taken into account. Credit balances on employee working hours accounts models are protected against insolvency in accordance with the German Pre-Retirement Part-Time Employment Act (AltTZG) by means of a fixed liability guarantee from a German commercial bank.

A **long-service provision** was recognized in the year under review for long-service awards to be paid to employees. The provision was calculated using the projected unit credit method taking into account death rates in accordance with the 2018G mortality tables published by Professor Klaus Heubeck and applying a discount rate of 1.97 percent (seven-year average; 2018: 2.32 percent). The calculation also included staff turnover at an average rate of 1.5 percent and salary increases at a rate of 2.5 percent. The earliest possible pension age under the RVAGAnpG was selected as the final age.

Deposits received are accounted for at the nominal value of the collateral received. They have a residual maturity of less than one year, as underlying reinsurance agreements are renewed annually.

Other liabilities are recognized at their settlement value. The residual maturity is generally less than one year.

The **liabilities from direct insurance business** and the **liabilities from reinsurance business** are valued at their nominal amount. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value. **Miscellaneous liabilities** are recognized at their settlement value.

The **deferred income and accrued expenses** item largely comprises as yet unbilled ancillary cost advances in connection with leased out real estate. As of December 31, 2019, it also included discounts on registered bonds amounting to €8,711.66 (December 31, 2018: €11,033.06). **Deferred tax liabilities** arise in connection with differences between the reported carrying amounts in the financial statements in accordance with HGB and those in the tax base, where these differences are expected to reverse in subsequent years resulting in a future tax expense overall. These liabilities are recognized on the balance sheet in the amount, within each jurisdiction, of any excess deferred tax liability after netting with deferred tax assets. The recognition of deferred tax liabilities resulted in an expense of €491,754.06 in the reporting year (2018: €3,971,645.21).

Currency translation

The cost of foreign currency investments is converted into euros using the transaction exchange rate on the date of acquisition. The quoted market price or market value for foreign 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. Income and expenses are recognized using the transaction exchange rate on the date of the relevant inflow or outflow. In the year under review, currency translation gave rise to income of €1,247,854.65 (2018: €920,309.01) and expenses of €2,947,252.06 (2018: €481,414.14). These amounts are reported in other net income/expense.

Fair value disclosures pursuant to section 54 RechVersV

Fair values of land, land rights and buildings, including buildings on third-party land Valuation reports have been prepared internally and by third parties to determine these fair values. These reports satisfy the requirements of section 55 (3) RechVersV. Each year, new valuation reports are prepared or the existing reports are revised based on updated underlying data. In line with the recommendation of the German Insurance Association (GDV), the internal adjustment is carried out on the basis of the simplified income capitalization approach using the market values calculated at the reporting date.

Fair values for investments in affiliated companies and equity investments The shares and equity investments have generally been valued using the income capitalization approach. In the case of companies that predominantly perform services for the ARAG Group and in the case of intermediate holding companies, the pro-rata net asset value has been used as the fair value. Due to the need to expedite year-end closing procedures (Solvency II), figures as of the end of the third quarter of 2019 were used in some instances. For equity investments and shares acquired recently, the carrying amount was used as the fair value.

Fair values of equities, investment fund shares/units, other variable-yield securities, bearer bonds, and other fixed-income securities These were valued in accordance with the valuation methods already described for these balance sheet line items.

Fair values of miscellaneous investments The fair values of line items B. III. 1., 2., and 3. on the balance sheet correspond to their quoted market price or market value as of the balance sheet date. The fair values of securities that are not exchange-traded (registered bonds, promissory notes) are calculated on the basis of the swap curve. This involves determining the discount rate on the swap curve corresponding to the maturity of the security being valued. Any spreads resulting from the structure of the individual security (maturity, collateral, credit rating, etc.) are taken into account as appropriate.

Fair values of other investments The fair values of line item B. III. 6. are derived from the net asset value reported by the investment management company for the quarter leading up to the balance sheet date.

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

III. Insurance Disclosures

(€'000)	Direct insurance business				
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2019	Total 2018
Gross premiums written	692,218	48,170	8,886	749,274	708,707
Gross premiums earned	694,582	47,904	9,094	751,579	706,934
Net premiums earned	-	-	-	-	-
Claims incurred	371,557	25,987	602	398,146	363,872
of which payments for claims	341,809	24,087	1,271	367,167	346,079
Insurance business operating expenses	293,208	21,428	4,968	319,604	311,036
of which front-end fees	93,393	18,664	640	112,697	109,903
of which administrative expenses	199,815	2,763	4,328	206,907	201,133
Change in equalization provision	0	-1,737	642	-1,095	-989
Miscellaneous underwriting income and expenses	1,746	0	0	1,746	1,592
Underwriting result	31,563	-1,249	4,166	34,481	32,628
Technical provisions:					
Unearned premiums	145,606	3,482	4,324	153,411	155,717
Provision for outstanding claims	951,315	10,467	1,432	963,213	932,235
Equalization provision and similar provisions	0	8,881	3,263	12,144	11,049
Miscellaneous technical provisions	947	0	0	947	802

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

Direct insurance business	2019	2018
(No.)		
Germany	1,610,872	1,542,004
International	2,895,278	2,755,924
Total	4,506,150	4,297,928

	Inward reinsurance business				Outward reinsurance business		Total insurance business		
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2019	Total 2018	2019	2018	2019	2018
	216,023	11,973	407	228,404	207,281	-	-	977,678	915,988
	213,430	11,790	489	225,708	210,332	-	-	977,288	917,265
	-	-	-	-	-	705	2,052	976,582	915,213
	97,719	11,569	50	109,338	106,888	407	-1,113	507,077	471,873
	82,144	11,794	35	93,973	96,523	236	888	460,905	441,714
	106,638	340	188	107,167	90,840	0	0	426,770	401,876
	519	252	3	773	860	-	-	-	-
	106,120	88	185	106,393	89,980	-	-	-	-
	-8,804	-1,442	284	-9,963	-5,259	0	0	-11,058	-6,247
	-352	0	0	-352	-1,338	0	0	1,394	253
	-84	-1,561	534	-1,111	6,007	298	3,165	33,071	35,470
	42,565	3,695	103	46,364	43,315	0	0	199,775	199,032
	213,497	1,518	95	215,109	197,939	739	568	1,177,583	1,129,606
	17,992	3,974	69	22,035	12,072	0	0	34,179	23,121
	1,610	0	0	1,610	1,338	0	0	2,557	2,140

Source of insurance business by gross premiums written

Country/source (€'000)	Direct insurance business			Inward reinsurance business			Total business
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	
Germany	394,713	0	0	0	0	0	394,713
Spain	58,637	47,483	4,428	25,647	11,973	133	148,302
Netherlands	103,974	0	0	59,484	0	0	163,459
Italy	31,692	0	4,458	105,383	0	274	141,806
Belgium	25,974	0	0	1,192	0	0	27,166
Austria	69,552	0	0	0	0	0	69,552
Slovenia	2,627	0	0	0	0	0	2,627
Greece	4,411	0	0	136	0	0	4,547
Canada	0	0	0	175	0	0	175
UK	0	0	0	24,000	0	0	24,000
Portugal	638	687	0	5	0	0	1,330
Total	692,218	48,170	8,886	216,023	11,973	407	977,678

IV. Non-Insurance Disclosures

Changes in investments in 2019:

Changes in asset items A., B. I. to IV. from January 1 to December 31, 2019

Type of investment	Balance Jan. 1, 2019	Currency differences	Additions	Disposals
(€)				
A. Intangible assets				
1. Miscellaneous intangible assets	6,514,494.40	0.00	2,456,997.84	125,178.60
Total	6,514,494.40	0.00	2,456,997.84	125,178.60
B. I. Land, land rights and buildings, including buildings on third-party land	91,234,255.89	0.00	0.00	3,115,061.73
B. II. Investments in affiliated companies and equity investments				
1. Shares in affiliated companies	291,891,169.32	0.00	13,091,232.48	0.00
2. Lending to affiliated companies	1,300,000.00	0.00	0.00	260,000.00
3. Equity investments	16,887,569.37	0.00	984,200.00	984,201.00
Total investments in affiliated companies and equity investments	310,078,738.69	0.00	14,075,432.48	1,244,201.00
B. III. Miscellaneous investments				
1. Equities, investment fund shares/units, and other variable-yield securities	606,304,170.24	0.00	138,958,529.06	96,890,116.31
2. Bearer bonds and other fixed-income securities	428,501,929.71	0.00	110,248,228.00	31,511,739.03
3. Loans secured by mortgages or land charges and fixed-income receivables	8,879,927.98	0.00	0.00	5,804,926.98
4. Miscellaneous lending				
a) Registered bonds	140,511,291.88	0.00	0.00	10,000,000.00
b) Promissory notes and loans	266,959,862.44	0.00	0.00	30,977,167.91
c) Sundry lending	107,882.07	0.00	74,200.00	84,627.45
5. Bank deposits	27,168,966.00	0.00	1,239,166.00	939,166.00
6. Other investments	3,193,205.81	0.00	5,040.00	427,203.25
Total miscellaneous investments	1,481,627,236.13	0.00	250,525,163.06	176,634,946.93
B. IV. Deposits with ceding insurers	55,935,437.98	0.00	8,516,344.80	3,773,513.52
Total investments	1,938,875,668.69	0.00	273,116,940.34	184,767,723.18
Total including intangible assets	1,945,390,163.09	0.00	275,573,938.18	184,892,901.78

Land, land rights and buildings, including buildings on third-party land, with a carrying amount of €29,552,823.33 (December 31, 2018: €30,669,996.61) are used for the Company's own business operations.

Reversals of write-downs	Depreciation/ amortization	Write-downs	Balance Dec. 31, 2019	Cost/ nominal amount	Fair value as of Dec. 31, 2019	Hidden reserves
0.00	3,773,296.00	0.00	5,073,017.64	44,628,883.53	5,073,017.64	0.00
0.00	3,773,296.00	0.00	5,073,017.64	44,628,883.53	5,073,017.64	0.00
0.00	908,557.08	1,268,431.20	85,942,205.88	96,330,549.92	146,348,349.12	60,406,143.24
0.00	0.00	11,251,114.42	293,731,287.38	386,758,793.21	723,482,397.81	429,751,110.43
0.00	0.00	0.00	1,040,000.00	1,040,000.00	1,040,000.00	0.00
0.00	0.00	0.00	16,887,568.37	20,517,877.49	58,003,000.00	41,115,431.63
0.00	0.00	11,251,114.42	311,658,855.75	408,316,670.70	782,525,397.81	470,866,542.06
15,614,275.74	0.00	0.00	663,986,858.73	676,588,435.68	696,882,053.62	32,895,194.89
2,644,096.40	0.00	555,489.91	509,327,025.17	511,244,345.07	539,868,473.23	30,541,448.06
0.00	0.00	0.00	3,075,001.00	3,075,001.00	3,075,001.00	0.00
0.00	0.00	0.00	130,511,291.88	130,511,291.88	137,975,104.28	7,463,812.40
0.00	0.00	0.00	235,982,694.53	235,982,694.53	251,986,422.76	16,003,728.23
0.00	0.00	0.00	97,454.62	97,454.62	97,454.62	0.00
0.00	0.00	0.00	27,468,966.00	27,468,966.00	27,468,966.00	0.00
0.00	0.00	0.00	2,771,042.56	2,771,042.56	6,116,370.31	3,345,327.75
18,258,372.14	0.00	555,489.91	1,573,220,334.49	1,587,739,231.34	1,663,469,845.82	90,249,511.33
0.00	0.00	0.00	60,678,269.26	60,678,269.26	60,678,269.26	0.00
18,258,372.14	908,557.08	13,075,035.53	2,031,499,665.38	2,153,064,721.22	2,653,021,862.01	621,522,196.63
18,258,372.14	4,681,853.08	13,075,035.53	2,036,572,683.02	2,197,693,604.75	2,658,094,879.65	621,522,196.63

In addition, there is an equity investment in a property-managing entity in the form of a partnership under the German Civil Code (GbR). The sole purpose of this entity is to operate an administrative building. The equity investment is reported under land and buildings. As of December 31, 2019, the carrying amount of the equity investment was €35,065,947.69 (December 31, 2018: €38,181,009.42). Some 97.9 percent (December 31, 2018: 98.1 percent) of the property managed by the entity (headquarters of the ARAG Group in Düsseldorf) is used for the Company's own business operations. The remaining proportion is used by affiliated companies for their operations.

Investment disclosures

The portfolio of investments contains the following **investment funds** of which more than 10.0 percent is held by the Company:

Institutional funds

Institutional fund	Type of fund	Investment objective	Carrying amount as of Dec. 31, 2019	Market value as of Dec. 31, 2019	Difference	Dividend in 2019	Redemption
			(€)	(€)	(€)	(€)	
ADRERENT	Fixed-income fund	Increased income	52,003,507.82	55,433,956.14	3,430,448.32	133,490.45	At any time
ATRI	Fixed-income fund	Increased income	157,240,678.87	157,240,678.87	0.00	496,431.73	At any time
ARRE	Fixed-income fund	Increased income	160,214,948.51	173,572,282.76	13,257,334.25	680,856.17	At any time
ARI 1	Fixed-income fund	Increased income	58,294,664.39	58,294,664.39	0.00	2,659,665.47	At any time
ARI 2	Fixed-income fund	Increased income	38,999,629.07	39,139,762.47	130,133.40	1,622,028.69	At any time
AAF	Equity fund	Increased income	104,053,492.73	112,653,253.43	8,599,760.70	989,680.70	At any time
EMA	Equity fund	Increased income	28,984,048.41	30,656,600.84	1,672,552.43	977,419.08	At any time
SIVE Fonds							
INKA	Equity fund	Increased income	60,805,264.67	66,445,439.32	5,640,174.65	1,054,124.07	At any time
			660,596,234.47	693,426,638.22	32,830,403.75	8,613,696.36	

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

ARAG SE made use of the option to select the discretionary principle of lower of cost or market value for those institutional funds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of December 31, 2019, shares/units in investment funds (institutional funds) with a carrying amount of €625,984,116.14 had been classified as investments treated as fixed assets. The fair value of these investment fund shares/units classified as permanent fixed assets amounted to €656,468,644.06 as of the balance sheet date.

ARAG SE also made use of the option to select the discretionary principle of lower of cost or market value for the bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of the end of 2019, securities with a carrying amount of €59,908,228.55 had been classified as investments treated as fixed assets. The fair value of these bearer bonds amounted to €62,212,062.55 as of the balance sheet date.

The breakdown of the **other assets** is as follows:

Other assets

(€)	Dec. 31, 2019	Dec. 31, 2018
Income tax refund right under current income tax assessment and on the basis of tax audit findings	16,564,746.14	19,488,374.54
Rights for interest not yet due on tax refunds	239,567.00	382,948.00
Italian insurance tax refund right	4,777,148.29	3,144,134.35
Sundry items	165,428.81	127,316.18
Total	21,746,890.24	23,142,773.07

Recognized deferred taxes

Deferred taxes are calculated using the current income tax rate of the country that will have the right to levy tax at the time that the differences are reversed and in accordance with the relevant double taxation convention. For financial reporting purposes, the effects of the reversal of the differences between the HGB financial statements and the tax base are reviewed in terms of their impact on the basis of tax assessment. Deferred tax assets were netted with the deferred tax liabilities. The recognized net deferred tax liabilities of €4,473.9 thousand (December 31, 2018: €3,982.2 thousand) resulted from excess liabilities in Austria (tax equalization provision), Spain (land and buildings), and the Netherlands (tax equalization provision).

Equity

		Dec. 31, 2019
(€)		
Total		482,850,632.43
I. Subscribed capital		
The share capital amounts to		100,000,000.00
<p>The share capital is divided into 62,500 no-par-value registered shares. All the shares are fully paid up. AFI Verwaltungs-Gesellschaft mbH, Düsseldorf, and ARAG Holding SE, Düsseldorf, each own more than one quarter of the shares in the Company. ARAG Holding SE indirectly owns the majority of the shares in the Company.</p>		
II. Capital reserves in accordance with section 272 (2) no. 4 HGB		
Brought forward as of January 1, 2019	81,772,569.19	
Changes in the reporting year	0.00	
Balance as of December 31, 2019		81,772,569.19
III. Revenue reserves		
1. Statutory reserves		
Brought forward as of January 1, 2019	10,000,000.00	
Appropriation from profit	0.00	
Balance as of December 31, 2019		10,000,000.00
The full amount of the reserve has been recognized pursuant to section 150 (2) AktG.		
2. Other revenue reserves		
Brought forward as of January 1, 2019	227,600,000.00	
Additions approved by the Annual General Meeting	11,600,000.00	
Appropriation from profit	0.00	
Balance as of December 31, 2019		239,200,000.00
		249,200,000.00
IV. Net retained profit		
Net retained profit as of December 31, 2018		31,629,712.02
Appropriation of profits: dividend		-20,000,000.00
Appropriation of profits: appropriation to other revenue reserves		-11,600,000.00
Net income for 2019		51,848,351.22
Appropriation to statutory reserves (section 150 (2) AktG)		0.00
Appropriation to other revenue reserves		0.00
Net retained profit as of December 31, 2019		51,878,063.24

Provisions for pensions and other post-employment benefits

Since 2010, this item has also included the offsetting of pension benefit entitlements under reinsurance in accordance with section 246 (2) sentence 2 HGB. The breakdown of the item as of December 31, 2019 was therefore as follows:

Defined benefit obligations

(€)	Dec. 31, 2019	Dec. 31, 2018
Amount required to settle the vested entitlements	200,541,973.65	190,559,965.40
of which offsetable against pension insurance assets	-920,997.00	-952,238.00
of which offsetable against securities	-2,652,792.00	-2,634,340.00
Remaining amount	196,968,184.65	186,973,387.40

The period of low interest rates has led to a shortfall of plan assets in a pension fund to which pension commitments to employees have been transferred. In the event of payment, the employer is liable to the employees entitled to a pension in the amount of the cover shortfall. The cover shortfall amounted to €765,908.75 (December 31, 2018: €263,785.73) and is included in the amount required to settle the vested entitlements that is shown above.

The transitional provision under section 67 (1) EGHGB and the option under section 28 (1) EGHGB have not been exercised. The defined benefit obligations have been recognized in full.

Provisions for taxes

A provision of €1,882,669.58 (December 31, 2018: €6,765,690.72) was recognized for income taxes to be paid to tax authorities (in Germany and the countries in which the branches have their registered offices) that have not yet been assessed. A provision of €6,042,584.56 (December 31, 2018: €6,044,204.50) was recognized for expected retrospective tax payments resulting from tax audits and for miscellaneous taxes.

Miscellaneous provisions

(€)	Dec. 31, 2019	Dec. 31, 2018
Outstanding employee remuneration	17,373,782.59	15,634,588.91
Outstanding commission payments	12,742,197.95	12,631,987.58
Provision for outstanding invoices	6,487,180.37	8,468,870.92
Early retirement and pre-retirement part-time working obligations	5,514,346.91	5,818,487.24
Long-service provision	3,915,754.50	3,657,266.25
Severance payments (Austria and Slovenia)	2,624,179.54	2,587,420.84
Interest on taxes and additional tax-related charges	666,227.00	678,447.00
Compensation claims for agents leaving the Company	2,060,796.59	2,508,992.33
Performance-related and business-plan remuneration for agents	1,758,138.00	1,775,000.00
Costs for financial statements and tax audit	1,918,346.08	2,069,409.50
Severance payments	401,928.22	679,027.87
Sales competition awards	1,042,494.00	843,385.00
Supervisory Board and Advisory Council remuneration	752,968.00	744,729.00
Redundancy scheme and restructuring obligations	152,267.15	215,548.91
Current litigation costs	759,560.04	711,261.21
Sundry other provisions	6,844,050.90	5,098,358.94
Total	65,014,217.84	64,122,781.50

Net extraordinary income/expense

No extraordinary income or expenses arose in the year under review.

Tax expense

The income taxes reported in the income statement included the following: €20,916,692.46 (2018: €18,699,475.11) related to the year under review and income of €179,001.85 (2018: income of €2,604,633.50) related to prior years. They also included expenses arising from the change in the balance of deferred taxes amounting to €491,754.06 (2018: €3,971,645.21).

V. Report on Post-Balance Sheet Events

There were no events of particular significance after December 31, 2019. The Company is monitoring the changes in the capital markets and the latest developments in relation to health emergencies (such as COVID-19). These may create both opportunities and risks in respect of business performance. So far in 2020, business performance has been in line with expectations.

VI. Other Disclosures**Commissions and other remuneration for insurance agents, staff costs**

(€)	2019	2018
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	179,623,642.75	165,874,269.31
2. Other remuneration for insurance agents within the meaning of section 92 HGB	16,111,809.40	20,429,792.44
3. Wages and salaries	166,988,196.59	160,905,318.96
4. Social security and other employee benefit expenses	30,487,083.01	28,127,489.81
5. Pension and other post-employment benefit expenses	26,196,242.15	29,946,544.17
6. Total expenses	419,406,973.90	405,283,414.69

Contingent liabilities and miscellaneous financial commitments (section 251 and section 285 HGB)

There were no known **miscellaneous financial commitments** arising outside the insurance business that were significant to the assessment of the Company's financial position. ARAG SE is a partner in ARAG 2000 Grundstücksgesellschaft bürgerlichen Rechts and is jointly and severally liable for the obligations of this partnership without limitation on the basis of its entire assets. The probability of ARAG SE being held liable for such obligations is remote, because the company has an equity ratio of 92.8 percent and generated net income for the year of €3.4 million.

There are **unpaid contributions** in respect of the following entities:

Unpaid contributions/obligations to pay in capital

(€)	
ARAG IT GmbH, Düsseldorf	1,495,000.00
ARAG Legal Services B.V., Leusden, Netherlands	6,977,311.00
Foyer-ARAG S.A., Leudelange, Luxembourg	24,788.00
Infrastructure funds (investment funds)	230,428.00
Private-equity funds (investment funds)	260,670.00

None of the unpaid contributions have been called up. It would be reasonable to expect contributions to be called up by the infrastructure and private-equity funds in the near future. The sundry unpaid contributions will not be called up for the time being.

Investment agreements with a total volume of €93,990,026.30 have been concluded through the affiliated company ALIN 1 GmbH & Co. KG with various private equity funds. Calls from the funds result in cash being paid into ALIN 1 GmbH & Co. KG shortly before payment is due in order to provide the required liquidity. Taking account of the liquidity of €2,460.2 thousand remaining in the company, calls at short notice of €53,209 thousand are expected on the basis of the open-ended investment agreements.

Auditor's fees

The Company's Supervisory Board agreed fees with the auditors for the audit of the 2019 annual financial statements and Solvency II balance sheet as of December 31, 2019. In the reporting year, an amount of €429,000.00 was recognized as an expense in the income statement for audit services, including out-of-pocket expenses and non-deductible VAT. Expenses of €23,654.23 were incurred in relation to tax consultancy services and €14,059.89 in relation to miscellaneous services. These services mainly related to the provision of project-specific tax advice and project-specific training and consultancy services. As ARAG SE is not entitled to offset input VAT, the VAT was included in the recognized expense. The auditors also provided services for subsidiaries in connection with voluntary audits of annual financial statements and as an independent trustee in the motor insurance business.

Employees

ARAG SE employed an average of 2,775 people in 2019 (2018: 2,643). As of December 31, 2019, the Company had 2,819 employees (December 31, 2018: 2,679).

Of the total as of December 31, 2019, 1,066 employees worked at the headquarters in Düsseldorf (December 31, 2018: 1,061), 1,609 employees worked in the international branches (December 31, 2018: 1,457), and 144 people were classified as non-active employees (December 31, 2018: 161) for reasons such as maternity leave, parental leave, and illness. There were also five trainees (December 31, 2018: seven).

Supervisory Board, Advisory Council, and Management Board remuneration pursuant to section 285 no. 9 a HGB

The expense for Supervisory Board remuneration amounted to €666,400.00 and for the Advisory Council €86,568.00. The Management Board's remuneration came to €6,030,798.61, with that for the former members of the Management Board and their surviving dependants totaling €2,245,688.42. A provision of €39,441,215.00 was recognized for current pensions and vested pension entitlements of former members of the Management Board and their surviving dependants.

The members of the Supervisory Board, Advisory Council, and Management Board are listed in the section 'Governing Bodies of the Company'.

Group affiliation

The Company and its subsidiaries were included in the consolidated financial statements of ARAG Holding SE for the period ended December 31, 2019. The consolidated financial statements of ARAG Holding SE are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection. The Company does not prepare its own consolidated financial statements, as the consolidated financial statements of ARAG Holding SE have an exempting effect pursuant to section 291 HGB.

VII. Governing Bodies of the Company

Supervisory Board

The employees have a right of codetermination pursuant to section 1 (1) of the German One-Third Participation Act (DrittelbG), under which one third of the members of the Supervisory Board must be employee representatives.

Supervisory Board Shareholder representatives:

Gerd Peskes Wirtschaftsprüfer (German Public Auditor),
Essen,
Chairman

Professor Dr. Walter Ackermann University professor,
St. Gallen, Switzerland

Dr. Tobias Bürgers Attorney,
Munich

Dr. Michael Pielorz Attorney,
Düsseldorf

Professor Dr. Fred Wagner University professor,
Leipzig

Dr. Sven Wolf Jurist,
Krefeld

Employee representatives:

Margit Schuler Vice President, Sales Personnel Training at
ARAG SE,
Mettmann,
Deputy Chairwoman

Marco Hoogendam Staff attorney at ARAG SE,
Netherlands Branch,
Amersfoort, Netherlands

Richard Wenhart Employee in Production Management/
IT System Monitoring at ARAG IT GmbH,
Buch a. Erlbach

Advisory Council	Christoph Buchbender	Member of the Management Board of Rheinland Holding AG, Neuss, Chairman
	Rainer Gebhart	Deputy Chief Executive Officer of WWK Lebensversicherung a. G., Rosenheim, Deputy Chairman
	Professor Dr. Dres. h. c. Rolf Dubs	University professor, St. Gallen, Switzerland
	Werner Gremmelmaier	Member of the Management Board of uniVersa Lebensversicherung a. G., Neukeferloh
	Dr. Volker Himmelseher	Graduate in Business Administration, Pulheim
	Dr. Dr. h. c. Burkhard Hirsch	Attorney, Düsseldorf
	Volker Steck	Chief Executive Officer of Helvetia Versicherungen/ Directorate for Germany, Frankfurt/Main
	Hans Schwarz	Chief Executive Officer of Stadtparkasse Düsseldorf (ret.), Düsseldorf
	Carl Ludwig Thiele	Attorney/ Member of the Executive Board of Deutsche Bundesbank (ret.), Osnabrück
	André Wüstner	Federal Chairman of the German Army Association (DBwV), Montabaur
	Professor Dr. Christian Zwirner	Auditor/tax consultant/ Managing Director, Dr. Kleeberg & Partner GmbH, Munich

Management Board	Dr. Dr. h. c. Paul-Otto Faßbender	Responsibilities: Central Group Functions, Düsseldorf, Chief Executive Officer
	Dr. Renko Dirksen	Responsibilities: Investments/Corporate Development/Organization, Meerbusch
	Dr. Matthias Maslaton	Responsibilities: Sales, Products and Innovation, Moers
	Wolfgang Mathmann	Responsibilities: Group Finance, Krefeld (since April 15, 2019)
	Werner Nicoll	Responsibilities: Group Finance, Herzogenrath (until April 14, 2019)
	Hanno Petersen	Responsibilities: Group IT and Operations, Ratingen
	Dr. Joerg Schwarze	Responsibilities: Group Risk Management and Group Controlling, Düsseldorf

VIII. Proposed Appropriation of Profit

The breakdown of net retained profit is as follows:

Net retained profit

(€)	
Net income for the year	51,848,351.22
Appropriation to other revenue reserves	0.00
Profit brought forward from 2018	29,712.02
Net retained profit	51,878,063.24

It is proposed that this net retained profit be used to pay a dividend of €30,000,000.00 to the shareholders. An amount of €21,800,000.00 is to be appropriated to other revenue reserves. The remaining sum of €78,063.24 is to be carried forward to the next period.

Düsseldorf, March 10, 2020

ARAG SE

The Management Board

Dr. Dr. h. c. Paul-Otto Faßbender

Dr. Renko Dirksen

Dr. Matthias Maslaton

Wolfgang Mathmann

Hanno Petersen

Dr. Joerg Schwarze

Independent Auditor's Report*

To ARAG SE, Düsseldorf

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

Audit Opinions

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

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

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

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

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

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

1. Measurement of investments
2. Measurement of claims provisions

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

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

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

1. In the Company's annual financial statements investments amounting to EUR 2,031 million (88.6% of total assets) are reported in the balance sheet. Investments that are not measured on the basis of stock exchange prices or other market prices are associated with increased risk regarding measurement due to the necessity of using model-based calculations. The executive directors are required to exercise judgment and make estimates and assumptions in this context. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of investments. Due to the material significance of the amounts of investments for the assets, liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of investments was of particular significance in the context of our audit.
2. Given the significance of investments for the Company's overall business, as part of our audit we assessed the assumptions made by the executive directors and the models used by the Company together with our internal specialists for investments. Thereby, we based our assessment on our valuation expertise with regard to investments, and our industry expertise and experience, among other things. In addition, we evaluated the design and effectiveness of the controls established by the Company for the purpose of measuring investments and recording the earnings from investments. On that basis, we carried out additional analytical audit procedures and tests of details relating to the measurement of investments. Among other things, we also examined the underlying amounts recorded and their recoverability on the basis of the documentation made available, and we evaluated the consistent application of the measurement methods and the allocation of amounts to the correct periods. Furthermore, we assessed the valuation reports prepared respectively obtained by the Company (including the measurement parameters used and the assumptions made) for its material equity investments. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the investments are substantiated and sufficiently documented.
3. The Company's disclosures on investments are contained in section II "Disclosures on Accounting Policies" of the notes to the financial statements.

2. Measurement of claims provisions

1. In the annual financial statements of the Company technical provisions (“claims provisions”) amounting to EUR 1,178 million (51.4% of total assets) are reported under the “Provisions for unsettled claims” balance sheet item. Insurance undertakings are required to recognize technical provisions to the extent necessary in accordance with prudent business judgment to ensure that they can meet their obligations from insurance contracts on a long-term basis. Defining assumptions for the purpose of measuring the technical provisions requires the Company’s executive directors, in addition to complying with the requirements of commercial and regulatory law, to make estimations of future events and to apply appropriate measurement methods. The methods used to determine the amount of the claims provisions and the calculation parameters are based on judgments and assumptions made by the executive directors. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of the claims provisions. Due to the material significance of the amounts of these provisions for the assets, liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of the claims provisions was of particular significance in the context of our audit.
2. Given the significance of the claims provisions for the Company’s overall business, as part of our audit we assessed the assumptions made by the executive directors and the methods used by the Company together with our internal measurement specialists. Thereby, we based our assessment on our industry expertise and experience, among other things, and considered recognized methods. We also evaluated the design and effectiveness of the controls established by the Company for the purpose of calculating and recording claims provisions. On that basis, we carried out additional analytical audit procedures and tests of details relating to the measurement of the claims provisions. Among other things, we also reconciled the data on which the calculation of the settlement amount was based with the underlying documentation. Therewith, we assessed the results of the Company’s calculations of the amount of the provisions with reference to the applicable legal requirements and evaluated the consistent application of the measurement methods and the allocation of amounts to the correct periods. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the claims provisions are substantiated and sufficiently documented.
3. The Company’s disclosures on claims provisions are contained in section II “Disclosures on Accounting Policies” of the notes to the financial statements.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the supervisory board on April 10, 2019. We were engaged by the supervisory board on April 10, 2019. We have been the auditor of ARAG SE, Düsseldorf, without interruption since the financial year 1992.

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

German Public Auditor Responsible for the Engagement

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

Düsseldorf, March 19, 2020

PricewaterhouseCoopers
Gesellschaft mit beschränkter Haftung
Wirtschaftsprüfungsgesellschaft

Ludger Koslowski
Wirtschaftsprüfer (German public auditor)

Michael Peters
Wirtschaftsprüfer (German public auditor)

Report of the Supervisory Board

In the year under review, the Supervisory Board carried out the tasks required of it by law, the articles of incorporation, and rules of procedure and continually monitored and advised the Management Board with regard to its running of the Company. The Supervisory Board was directly involved in all decisions of fundamental importance to the Company. The Management Board provided the Supervisory Board with regular, timely, and comprehensive written and oral reports on the economic situation and the performance of the Company and its subsidiaries, planned business policy, corporate planning, the risk situation, risk management, and significant individual transactions. The Management Board explained variances between the actual course of business and plans and targets individually, and these were noted by the Supervisory Board. Where management action required the approval of the Supervisory Board by law or other regulations, the Supervisory Board received detailed written information on the matter from the Management Board. The Supervisory Board discussed these reports extensively at its meetings, deliberated on them with the Management Board, and made the necessary decisions.

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

Reports on the business performance of the Company, including that of its international branches and its equity investments, were the main focus of the Supervisory Board meetings in 2019. The Group risk strategy, the risk and controlling report, the ORSA report as of June 30, 2018, and the strategic planning for the next three years formed part of these reports. A member of the Management Board retired in April, and the Supervisory Board adopted the necessary resolutions on his pension arrangements. In addition, two members of the Management Board were reappointed for the maximum permitted term. A joint conference was held at which the Supervisory Board underwent training on the basis of the 2019 development plan signed off at the start of the year. After carrying out another self-assessment in the current year, the Supervisory Board also discussed and signed off the development plan for 2020.

The Supervisory Board discussed the quarterly results under HGB and Solvency II, and the projections for 2019.

Further matters addressed by the Supervisory Board included the appropriateness of Management Board remuneration and of the remuneration system used for employees. In this context, there were initial discussions on new pension arrangements for future Management Board members, but no final resolution was adopted. Furthermore, the Supervisory Board addressed the issue of the gender composition of management in accordance with statutory requirements and specified the gender ratios for both the Management Board and the Supervisory Board up to 2021.

The Supervisory Board also assessed the fulfillment of the Management Board's targets for 2018 and specified Management Board targets for 2019 linked to variable remuneration. It received information on the introduction of a digital process for advising customers and the taking out of new policies and on recruitment and continuing professional development in Core Sales. Also in relation to Core Sales, the Supervisory Board was informed about a project to establish a lead and offer management system. It also received a data analytics report on using artificial intelligence and machine learning in insurance.

Furthermore, the Supervisory Board received information on the design of the compliance system and on the latest compliance matters and was given a presentation on business performance and planning at ARAG Austria following the change of manager at the branch.

Another topic at Supervisory Board meetings throughout 2019 was the planned appointment of a new auditor with effect from the 2020 financial year. There were regular progress reports on the selection process and the necessary resolutions were adopted (mainly defining the selection process, making necessary adjustments to the rules of procedure for the Supervisory Board, and starting the invitation to tender process).

Finally, the Supervisory Board granted commercial power of attorney (Prokura) as per its remit.

At the extraordinary meeting of the Supervisory Board, the required resolutions were adopted regarding the start of the CEO's retirement and the succession arrangements from July 2020.

The Supervisory Board did not make any decisions using written procedures.

The Supervisory Board has created three committees.

The Finance Committee held a total of four ordinary meetings in 2019. Agenda items at meetings included the real estate report for all ARAG entities, the authorization of IT consultancy work for the current and coming year, and various appointments to governing bodies of subsidiaries as per the committee's remit. The Finance Committee also obtained regular reports on the Company's investment policy and developments in the capital markets and received its annual update on performance in the area of private equity. The key figures for the claims situation relating to the (VW) emissions issue were presented to the Finance Committee regularly.

In addition, the Finance Committee was given an overview of ARAG SE's large-scale broker portfolio in terms of the underwriting of new policies, profitability, and strategy. Reports were submitted to the committee at regular intervals on the business performance of the Justix GmbH legaltech unit. A resolution was adopted on adjusting the strategy for 2019, and the planning up to 2022 was presented. The committee was also brought up to date with the business performance of ARAG Services Ltd. in Canada and with ARAG's expansion activities in Australia.

Furthermore, approval was granted for a capital addition for a brokerage agent of ARAG SE outside Germany and for the extension of a contract with a training center for Core Sales. The Finance Committee also approved a server replacement, the disposal of a plot of land, the invitation to tender for a new electricity supply contract, and the repurchase of the Company's subordinated bond.

A number of meetings of the Finance Committee addressed the acquisition of legal insurance portfolios currently available for sale and the general mergers and acquisitions strategy. In this context, approval was given for the submission of offers and provision of funding.

Finally, the Finance Committee approved a major digitalization project at an entity outside Germany.

In addition, the Finance Committee used a total of eight written resolutions to approve the engagement of IT consultants and appointments to governing bodies of subsidiaries as per its remit. It also approved the reallocation of an institutional fund and a change of fund manager.

The Accounting and Audit Committee held four ordinary meetings and one extraordinary meeting in the year under review. Besides the quarterly financial statements under HGB and Solvency II and forecasts for the 2019 annual financial statements, the committee discussed the strategic planning for the years 2020 to 2022 and recommended the plans to the Supervisory Board for approval. It also dealt with the tax reconciliation at Group level. In addition, the Accounting and Audit Committee was involved in determining the focus for the audit of the 2018 annual financial statements and, in this context, received a report on the audit of the 2018 annual financial statements and on the non-audit services performed in 2018.

At various meetings, the Accounting and Audit Committee discussed the planned appointment of a new auditor with effect from the 2020 financial year and adopted the necessary resolutions or prepared such resolutions for the full Supervisory Board. These mainly related to defining the selection process, making necessary adjustments to the rules of procedure for the Supervisory Board, starting the invitation to tender process, specifying the selection criteria, evaluating the tenders received, and issuing a recommendation for the resolution on selecting the auditor for the 2020 financial year onward.

The Accounting and Audit Committee did not make any decisions using written resolutions.

The Human Resources Committee held four ordinary meetings and one extraordinary meeting in 2019. Decisions were also made using a written procedure. Topics discussed in the meetings included the review of the attainment of targets and the agreement of new ones, the pension scheme and provision for surviving dependants, and the appropriateness of the Management Board's remuneration. In this context, the committee deliberated on the pension arrangements for Management Board members retiring in 2019 or 2020 and for former Management Board members; it also adopted the necessary resolutions to be adopted by the full Supervisory Board. The committee carried out the annual review and acceptance of the Fit&Proper guidance and remuneration policy, and issued the approvals pursuant to section 114 AktG in accordance with its responsibilities as specified in the rules of procedure. The Human Resources Committee also prepared resolutions for appointments to the Management Board.

Furthermore, the Human Resources Committee addressed the remuneration system and the issue of the gender composition of management in accordance with statutory requirements and, regarding the latter, provided the Supervisory Board with the proposed gender ratios for both the Management Board and the Supervisory Board up to 2021. Another focus of discussions was ensuring compliance with the 'fit and proper' requirements. In addition, the committee talked about adjusting the allocation of responsibilities of the Management Board once the CEO retires. Finally, before the matter was considered by the full Supervisory Board, the committee discussed the annual self-assessment process for the Supervisory Board and the development plan based on the self-assessment.

At the extraordinary meeting of the Human Resources Committee, resolutions were prepared for the full Supervisory Board regarding the start of the CEO's retirement and the succession arrangements from July 2020.

Further matters decided by means of a written procedure included the consents pursuant to section 114 AktG, responsibility for which is assigned to the Human Resources Committee in the rules of procedure.

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

The financial statements, which were prepared by the Management Board in accordance with the commercial-law accounting regulations for insurance companies, and the management report for 2019 were, together with the bookkeeping system, audited by PwC PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, which had been selected and engaged by the Supervisory Board on April 10, 2019 to carry out the audit and which issued an unqualified opinion.

All the members of the Accounting and Audit Committee of the Supervisory Board received the aforementioned documents, the annual report, the proposal for the appropriation of profit, and the auditor's report in good time before the Supervisory Board meeting on April 2, 2020. At the meeting, the Management Board also provided additional oral explanations of the documents. The auditors who had signed the auditor's report participated in the discussion of the documents by the Supervisory Board and the Accounting and Audit Committee, reported on the key findings of the audit, and were available to provide additional information.

The Accounting and Audit Committee had discussed these documents in detail prior to the meeting of the Supervisory Board and had recommended to the Supervisory Board that the financial statements and the management report be approved.

The Supervisory Board reviewed the financial statements, management report, and proposal for the appropriation of profit. There were no objections to be raised on the basis of the concluding findings of its review. Having carried out its own review and having taken into account the report of the Accounting and Audit Committee, the Supervisory Board agreed with the findings of the audit of the financial statements and management report by the auditors. The Supervisory Board approved the financial statements and management report and thereby adopted them. It also agreed with the Management Board's proposed appropriation of profit. The Supervisory Board proposes to the Annual General Meeting that it formally approve the acts of the Management Board members.

The report to be submitted by the Management Board pursuant to section 312 AktG concerning relationships with affiliated companies was also reviewed. The review encompassed the completeness and accuracy of the details in the report on the basis of the right to inspect the books and papers of the Company and on the basis of the reports and information submitted by the Management Board. The review did not give rise to any objections.

The independent auditors also audited the report submitted by the Management Board pursuant to section 312 AktG and issued the following audit opinion:

“Following our audit and evaluation exercising all due care and diligence, we confirm that:

1. the factual disclosures in the report are accurate,
2. the consideration paid by the Company for the transactions listed in the report was not inappropriately high.”

The Supervisory Board agrees with this opinion. Following the concluding findings of its review, the Supervisory Board has not expressed any reservations regarding the concluding statement by the Management Board in the report on relationships with affiliated companies.

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

Düsseldorf, April 2, 2020

The Supervisory Board

Gerd Peskes
(Chairman)

Margit Schuler
(Deputy Chairwoman)

Prof. Dr. Walter Ackermann

Dr. Tobias Bürgers

Marco Hoogendam

Dr. Michael Pielorz

Professor Dr. Fred Wagner

Richard Wenhart

Dr. Sven Wolf

Further Information

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

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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.

Credits

Editors	ARAG Corporate Communications/Marketing
Design and layout	Kammann Rossi GmbH, Cologne
Photography	Cover page: Getty Images

