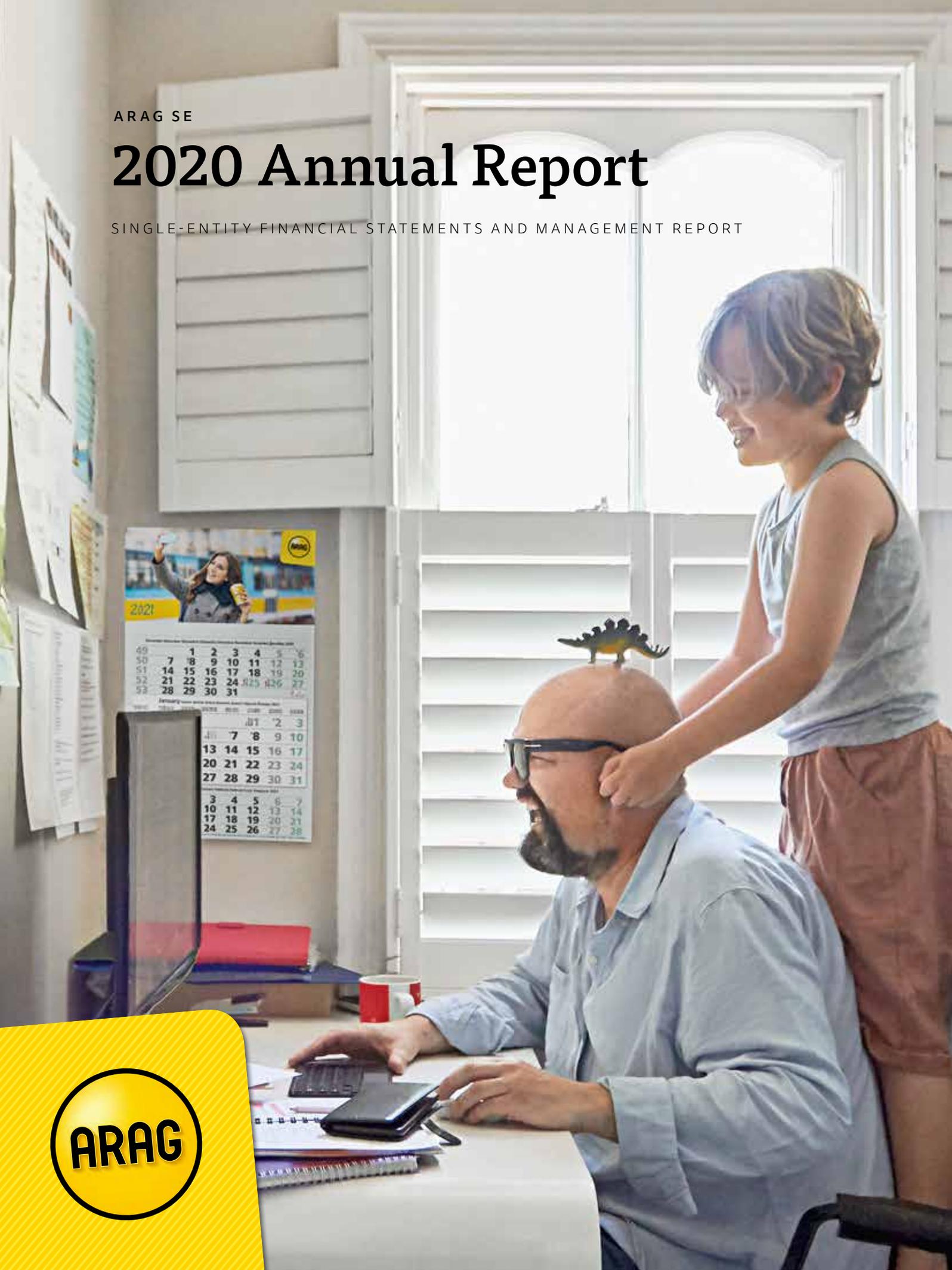


ARAG SE

2020 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS AND MANAGEMENT REPORT



Contents

Key Figures	4
<hr/>	
Profile of the ARAG Group	5
<hr/>	
Management Report	6
I. Company Fundamentals	6
II. Report on Economic Position	8
III. Dependent Company Report and Affiliated Companies	18
IV. Outlook, Opportunity and Risk Reports	19
<hr/>	
Financial Statements	29
<hr/>	
Independent Auditor's Report	63
<hr/>	
Report of the Supervisory Board	73
<hr/>	
Further Information	77
<hr/>	

Overview

ARAG SE Key Figures

(€'000)	2020	Change	2019	2018
Sales revenue				
Gross premiums written	1,009,786	3.28%	977,678	915,988
Premiums earned net of reinsurance	1,002,567	2.66%	976,582	915,213
Expenses				
Claims incurred net of reinsurance	509,729	0.52%	507,077	471,873
Claims ratio (basis: premiums earned)	50.8%	-1.1% pts.	51.9%	51.6%
Insurance business operating expenses net of reinsurance	443,518	3.92%	426,770	401,876
Cost ratio (basis: premiums earned)	44.2%	+0.5% pts.	43.7%	43.9%
Net income overview				
Underwriting result net of reinsurance	23,211	-29.82%	33,071	35,470
Gains and losses on investments	100,966	27.88%	78,951	51,776
Other net income/expense	-43,207	14.39%	-37,772	-35,073
Profit/loss from ordinary activities	80,970	9.05%	74,251	52,174
Net extraordinary income/expense	0	n.a.	0	0
Net income for the year	64,216	23.85%	51,848	31,598
Key ratios				
Technical provisions/ net premiums earned	149.1%	+4.3% pts.	144.8%	147.9%
Equity/premiums earned	51.6%	+2.2% pts.	49.4%	49.3%

Profile of the ARAG Group

Overview

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

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

Legal insurance

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

Casualty and property insurance

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

Personal insurance

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

Management Report of ARAG 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 make inroads into markets outside Germany 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 58.7 percent of its total gross premiums written accounted for by international business.

ARAG SE also serves as the operating parent company of the ARAG Group. In this capacity, it holds a controlling interest in ARAG Krankenversicherungs-AG and ARAG Allgemeine Versicherungs-AG, the companies that operate the personal insurance and casualty and property insurance businesses. ARAG SE Core Sales acts as a broker for their insurance products alongside its own legal insurance policies. There is a profit-and-loss transfer agreement in place with ARAG Allgemeine Versicherungs-AG.

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 Austria, Belgium, Spain, Greece, Italy, the Netherlands, Portugal, and Slovenia. In Germany, ARAG SE's activities are limited to just one class of insurance: legal insurance. 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. The subsidiary ARAG Allgemeine Versicherungs-AG operates the legal insurance business in the United Kingdom and the Republic of Ireland.

In addition, ARAG SE operates in Switzerland via an equity investment in a legal insurance associate. In the United Kingdom, Canada, and Australia, a Group company acts as a broker for legal insurance business and legal-insurance-related special service package business, passing this business to external primary insurers. Some of this insurance is then ceded to ARAG SE under quota-share reinsurance treaties. An equity investment is also held 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, 2020	Dec. 31, 2019
Germany	1,688,439	1,610,872
International	2,839,167	2,895,278
Total	4,527,606	4,506,150

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

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

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

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

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

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

The extent of the impact of the COVID-19 pandemic on German and international spheres of economic activity was varied. The German insurance industry proved to be robust in the face of the crisis, generating slight premium growth of approximately 0.4 percent (2019: 7.0 percent). Premium income in direct casualty and property insurance business will probably have gone up by 2.1 percent, which is still a notable increase against the

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

Business performance

ARAG SE can look back on a successful year in 2020, defying the original expectations from the beginning of the COVID-19 crisis. Consumers and customers are currently in great need of guidance and security, particularly when it comes to legal matters. The need, and thus demand, for legal insurance products is strong as a result. This is illustrated by the fact that the Company saw a net increase of around 80,000 in the number of legal insurance customers in Germany in the reporting year.

The underwriting result before the equalization provision rose from €44,129.4 thousand in 2019 to €52,065.8 thousand. The significant addition of €28,854.9 thousand to the equalization provision in the reporting year was mainly due to the exceptionally favorable pattern of claims and the growth of the portfolio in the inward reinsurance business. Gains and losses on investments recovered by the end of the year following the initial collapse in the capital markets and saw a further sharp year-on-year rise due to a one-off item.

Gross premiums written went up from €977,677.8 thousand to €1,009,786.0 thousand in the reporting year, a rise of 3.3 percent. This growth would have been even stronger were it not for the impact of the COVID-19 restrictions on the travel insurance business of the branches in Spain and Portugal: ARAG SE's legal insurance business alone expanded by 6.3 percent. This rate of growth even exceeded the figure that had been forecast in the 2019 annual report. The increase in premiums was attributable to various trends. Direct business in Germany advanced by 5.6 percent. Inward reinsurance business from the United Kingdom, the Republic of Ireland, Canada, and Australia was up by 8.8 percent. The increases in the international markets were mainly generated from indirect business. Premium growth was particularly high in Italy (up by 8.6 percent) and the Netherlands (up by 6.7 percent). In these countries, the Company mainly works with primary insurance providers offering legal insurance for motorists. The branch in Austria increased its premiums by 5.7 percent despite operating in a heavily saturated market. In Spain, the legal insurance business grew by 4.9 percent. Only in Portugal were legal insurance premiums down slightly. In the reporting year, the travel insurance business was heavily affected by the COVID-19 restrictions. Premiums in this business line fell sharply as a result, by 41.3 percent in Spain and by 48.2 percent in Portugal. Despite this, the total premium income generated by the international branches rose by 1.4 percent.

Of the total premium income generated by ARAG SE, €754,873.4 thousand (2019: €749,273.6 thousand) was derived from direct business. Of this amount, €30,708.9 thousand (2019: €57,056.1 thousand) was attributable to travel insurance and financial loss insurance offered by international branches in connection with legal insurance. Direct legal insurance business thus accounted for the remaining total of €724,164.5 thousand (2019: €692,217.5 thousand).

The proportion of ARAG SE's total gross premiums written accounted for by international business fell from 59.6 percent in 2019 to 58.7 percent in 2020 due to the sharp growth of business in Germany.

After deduction of the reinsurers' shares and changes in unearned premiums, the remaining net premiums earned for all business amounted to €1,002,567.4 thousand (2019: €976,582.3 thousand).

Despite the robust growth, gross claim payments across the business as a whole remained at virtually the same level as in the prior year. The claim payment ratio fell to 46.0 percent (2019: 47.2 percent). Net expenses for claims incurred came to €509,729.2 thousand, compared with €507,076.8 thousand in 2019. In line with the forecast made in the 2019 annual report, the claims ratio (net) based on the recognized claims incurred decreased from 51.9 percent to 50.8 percent. The main factors in this decline were the additional provision related to accumulation risk in Germany in the prior year and the profit on settlements from the prior-year claims reserve in the Italian business.

Insurance business operating expenses rose by 3.9 percent for growth-related reasons. At 44.2 percent, the cost ratio was higher than in the prior year (2019: 43.7 percent). The forecast in the 2019 report had anticipated a rise in commissions and thus an increase in the cost ratio for 2020. An increase in the commission rates of European primary insurers with which ARAG SE does indirect business was a particular factor in the rise of the cost ratio in the reporting year. One-off savings on travel and training costs due to the pandemic-related restrictions had a mitigating effect on costs, however.

After taking into account the sundry underwriting income and expenses (net income of €2,746.1 thousand; 2019: €1,394.2 thousand), the underwriting result net of reinsurance before the equalization provision showed a significant year-on-year improvement to a profit of €52,065.8 thousand (2019: €44,129.4 thousand). A total of €28,854.9 thousand was added to the equalization provision because of a claims shortfall (2019: €11,058.2 thousand).

After the addition to the equalization provision, the underwriting result amounted to a profit of €23,210.9 thousand (2019: €33,071.2 thousand), which was lower than in the prior year as expected.

Investments generated a net gain of €100,966.1 thousand (2019: €78,951.4 thousand). This was significantly higher than the forecast in the 2019 annual report. As budgeted, there was a sharp fall in current income from other investments owing to reinvestment in institutional funds. Although the businesses of the subsidiaries performed well, their income from equity investments declined significantly due to a deterioration in current gains and losses on investments. However, because the reasons for previously writing down the carrying amount of an equity investment relating to an affiliated company no longer applied, there was a one-off rise in reversals of write-downs on investments, from €52,014.1 thousand to €61,846.0 thousand. The lower level of write-downs in 2020 went at least some way to compensating for the gains on disposal that had resulted from the restructuring of the securities portfolio in the prior year. The net yield on the investment portfolio increased to 4.8 percent (2019: 4.0 percent).

The net expense reported for other net income/expense increased from €37,771.5 thousand in 2019 to €43,206.9 thousand in the reporting year.

Contrary to the forecast from the prior year, the profit before tax of €80,970.1 thousand was higher than the €74,251.1 thousand achieved in 2019. After deduction of the tax expense of €16,753.7 thousand (2019: €22,402.7 thousand), net income for the year amounted to €64,216.4 thousand, which represented a further significant year-on-year increase (2019: €51,848.4 thousand) and thus exceeded the forecast. The tax expense included an expense of €2,001.4 thousand (2019: €491.8 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 €394,712.7 thousand to €416,824.2 thousand, a year-on-year increase of 5.6 percent. After deduction of reinsurance premiums and the change in unearned premiums, net premiums earned came to €412,535.6 thousand (2019: €389,590.1 thousand).

Partly as a result of the growth in the insurance portfolio, claim payments increased by 2.5 percent, from €227,951.3 thousand in 2019 to €233,742.9 thousand in the year under review. Claims incurred rose by 9.2 percent to €288,692.6 thousand in the reporting year. The increase in court costs and attorney fees by an average of 13.0 percent from 2021 was a factor in this rise. The number of claims reports went up substantially, from 372,309 in the prior year to 441,985 in 2020. In addition to the growth in the insurance portfolio, this was due to more customers having their initial consultation over the telephone during the COVID-19 pandemic. Taking into account the claims incurred but not previously reported that were eventually reported in 2020, a total of 556,760 claims were reported in the year under review (2019: 479,045 claims), a rise of 16.2 percent.

Reinsurers' shares amounting to €67.4 thousand were recognized as income in 2020 (2019: €534.2 thousand). The remaining recognized claims incurred came to €277,608.3 thousand as against €260,923.9 thousand in 2019. The claims ratio (net) based on the recognized claims incurred was 67.3 percent compared with 67.0 percent in the prior year.

Gross insurance business operating expenses went up from €157,889.5 thousand in 2019 to €160,950.8 thousand in the reporting year. The rise in commissions as a result of premium growth was a key factor in this increase.

The additional commission expenses and the increase in claims incurred were covered by the additional premiums. Overall, the underwriting result before the equalization provision improved from a loss of €27,902.0 thousand in 2019 to a loss of €25,355.8 thousand in the reporting year.

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. 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 €26,289.9 thousand compared with €24,175.7 thousand in 2019. Claims incurred amounted to €22,008.2 thousand (2019: €18,763.9 thousand). Administrative expenses came to €1,851.5 thousand (2019: €1,190.4 thousand). The underwriting profit before the equalization provision stood at €4,040.1 thousand (2019: €3,869.6 thousand).

A sum of €3,120.3 thousand was added to the equalization provision (2019: €997.3 thousand). The underwriting result for the inward reinsurance business amounted to a profit of €919.8 thousand (2019: €2,872.3 thousand).

Non-underwriting result Conditions in the financial markets were disparate in the year under review. The equity markets initially collapsed in the spring because of the pandemic. But then a significant recovery set in from summer 2020 that meant that the Company did not have to significantly write down investments as had originally been feared. Interest rates fell again owing to the expansion of bond purchases by the ECB. In order to minimize future volatility in gains and losses on investments due to price fluctuations, ARAG SE reinvested income in institutional funds. This led to a decrease of €5,135.0 thousand in current income from securities. In Germany, total depreciation, amortization, and write-downs of investments fell sharply from €11,477.6 thousand in 2019 to €4,829.2 thousand in the reporting year. The reversals of write-downs on securities, which had reached €14,073.6 thousand in 2019, were restricted to €8,435.5 thousand in the reporting year due to the historical cost convention. Because the reasons for the previous write-down no longer applied, a write-down on a subsidiary was reversed in an amount of €52,014.1 thousand in 2020. Income generated from land held steady at €2,481.2 thousand (2019: €2,546.5 thousand). Dividend income from affiliated companies and equity investments fell by €3,284.7 thousand year on year. Despite dividends from equity investments in the US and Switzerland remaining at a very high level, a decline was unavoidable due to the required write-downs on the carrying amounts of the equity investments of second-tier subsidiaries. At €10,725.9 thousand, the profit transferred from ARAG Allgemeine Versicherungs-AG was roughly on a par with the prior-year level (2019: €11,281.5 thousand).

Net gains on investments totaled €88,926.8 thousand in the year under review compared with €61,484.2 thousand in 2019. Ordinary gains and losses on investments – after deduction of the expenses for the management of the investments – amounted to a net gain of €35,050.1 thousand (2019: €44,953.9 thousand). The current average yield was 2.7 percent (2019: 3.7 percent).

Other net income/expense amounted to a net expense of €39,649.0 thousand (2019: €32,396.5 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 2020 or 2019.

Taxes Current taxes amounted to a net expense of €1,644.4 thousand (2019: net income of €264.6 thousand), all of which related to prior years (2019: income of €264.6 thousand relating to taxes in prior years). Taking into account the miscellaneous taxes, the total tax expense came to €2,099.1 thousand compared with €501.4 thousand in 2019.

Net income/loss for the year, Germany The net income for the year generated by the German business of ARAG SE amounted to €22,742.7 thousand (2019: net loss of €3,556.5 thousand).

Branch performance The eight European branches of ARAG SE enjoyed further growth in the legal insurance business in the reporting year. The branches accounting for the highest level of premiums written were ARAG Netherlands with premiums written of €174,426.0 thousand (2019: €163,458.8 thousand), ARAG Italy with €154,070.0 thousand (2019: €141,806.3 thousand), ARAG Spain with €127,563.4 thousand (2019: €148,302.1 thousand), and ARAG Austria with €73,539.1 thousand (2019: €69,551.8 thousand). The premiums earned net of reinsurance amounted to a total of €563,741.9 thousand (2019: €562,816.5 thousand). The growth was predominantly generated from the intensification of the relationships with business partners in indirect business (Netherlands and Italy), the ongoing systematic development of insurance products in legal-insurance-related business (Spain and Italy), and further expansion of sales channels (Austria). However, growth was dampened by the substantial contraction of the travel insurance business in Spain and Portugal. Overall, gross premium income rose by 1.4 percent to €566,671.9 thousand (2019: €558,789.4 thousand).

The claims ratio decreased from 40.4 percent in 2019 to 37.3 percent in the reporting year. Reductions in components of the claims reserve in Italy played a key part in this. The absolute rise in insurance business operating expenses was driven by commissions. The cost ratio increased from 47.6 percent in 2019 to 49.8 percent. Including miscellaneous underwriting income and expenses of €468.6 thousand (2019: €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 €73,381.5 thousand (2019: €68,161.8 thousand). After an addition to the equalization provision of €25,734.6 thousand (2019: €10,060.9 thousand) that was required due to the reduced incidence of claims and the growth of the portfolio in the inward legal reinsurance business, the profit of €47,647.0 thousand reported under the underwriting account fell short of the prior-year figure (2019: €58,100.9 thousand).

The investments that are assigned to the insurance business of the branches generated a total net gain on investments of €12,039.3 thousand (2019: €17,467.2 thousand). Here, too, ordinary income was reinvested in institutional funds as a precaution against future volatility in the capital markets. As a result, ordinary net gains on investments deteriorated from €15,680.8 thousand in 2019 to €12,457.2 thousand in 2020. In addition, reversals of write-downs were higher in the prior year than in the reporting year. Other net income/expense amounted to an expense of €3,557.9 thousand (2019: expense of €5,375.0 thousand).

The branches again generated a high profit from ordinary activities of €56,128.3 thousand (2019: €70,193.1 thousand). The tax expense came to €14,654.6 thousand (2019: €21,901.3 thousand). The tax expense included an expense of €2,001.4 thousand (2019: €491.8 thousand) that resulted from a change in net deferred taxes.

With net income for the reporting year of €41,473.6 thousand (2019: €48,291.8 thousand), the European branches are – even in a COVID-19-dominated 2020 – 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 rapid growth of the legal insurance business in Europe. The COVID-19 crisis led to a rise in uncertainty among residents of European countries and increased their need for guidance and security, particularly with regard to legal matters, and thus made legal insurance a more important consideration. The sharp fall in sales revenue in the international travel insurance business, which was down by 41.3 percent because of the pandemic-related restrictions, was fully offset by the strong growth in the legal insurance business. Gross premium income generated by ARAG SE rose by 3.3 percent. The international insurance business thus retained its profitability. Net income in Germany was influenced by the increase in court costs and attorney fees from 2021. Nevertheless, the claims ratio fell from 51.9 percent in 2019 to 50.8 percent in the reporting year. Net premiums earned rose by 2.7 percent. However, insurance benefit payments increased by only 0.5 percent, which necessitated a significant addition to the equalization provision. The cost ratio rose from 43.7 percent in the prior year to 44.2 percent because of commission increases resulting from the growth in new business and from fresh negotiations with business partners in the inward legal reinsurance business, but also due to investment in digital technology and greater use of digital tools in business processes.

Underwriting profit before the equalization provision amounted to €52,065.8 thousand, which was higher than the prior-year figure of €44,129.4 thousand. After the addition to the equalization provision, the remaining underwriting profit was still at a solid level of €23,210.9 thousand (2019: €33,071.2 thousand).

In the year under review, the net gains on investments rose from €78,951.4 thousand to €100,966.1 thousand. The capital markets had fully recovered by the end of the year following their collapse in spring 2020. The prior year had seen reversals of write-downs on fixed-income securities and on shares/units in institutional funds, and there had been an additional impact from gains on disposals from the restructuring of institutional funds. In the reporting year, ordinary income was reinvested in institutional funds to balance out future volatility in the capital markets. Ordinary net gains on investments reached €47,507.4, which was lower than the prior-year level (2019: €60,634.6 thousand). This was

mainly because of the persistently low interest rates, reinvestment in institutional funds, and a small decline in income from equity investments. The net yield on investments was 4.8 percent in the year under review (2019: 4.0 percent); the current average yield fell to 2.3 percent (2019: 3.1 percent).

The net expense reported for other net income/expense deteriorated further year on year to €43,206.9 thousand (2019: €37,771.5 thousand).

Profit before tax amounted to a total of €80,970.1 thousand. Contrary to the forecasts, this was actually well above the prior-year figure of €74,251.1 thousand.

After deduction of the tax expense, net income for the year amounted to €64,216.4 thousand (2019: €51,848.4 thousand). The tax expense included an amount of €2,001.4 thousand (2019: €491.8 thousand) that resulted from a change in net deferred taxes. After taking into account the profit brought forward from 2019, the amount to be presented to the Annual General Meeting for a decision on appropriation is €64,294.5 thousand (2019: €51,878.1 thousand).

Considering the economic conditions, both in the core business and in the capital markets, the Company's business performance was extremely positive in 2020.

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

In addition to current bank balances and cash on hand of €117,614.0 thousand (December 31, 2019: €112,635.8 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 €125,306.9 thousand or 6.2 percent to €2,156,806.6 thousand as of December 31, 2020, was as follows:

Investments breakdown

(€'000)	Dec. 31, 2020		Dec. 31, 2019	
Land and buildings	49,263.0	2.3 %	85,942.2	4.2 %
Affiliated companies and equity investments	411,050.5	19.1 %	310,618.9	15.3 %
Lending to affiliated companies	0.0	0.0 %	1,040.0	0.1 %
Equities and investment fund shares/units	636,105.4	29.5 %	663,986.9	32.7 %
Bearer bonds	600,427.7	27.8 %	509,327.0	25.1 %
Loans secured by mortgages or land charges and fixed-income receivables	2,775.0	0.1 %	3,075.0	0.2 %
Registered bonds	130,511.3	6.1 %	130,511.3	6.4 %
Promissory notes, loans	232,982.7	10.8 %	235,982.7	11.6 %
Sundry lending	79.7	0.0 %	97.4	0.0 %
Bank deposits	26,769.0	1.2 %	27,469.0	1.4 %
Other investments	2,333.9	0.1 %	2,771.0	0.1 %
Deposits with ceding insurers	64,508.4	3.0 %	60,678.3	3.0 %
Total	2,156,806.6	100.0 %	2,031,499.7	100.0 %

Pursuant to section 341b (2) of the German Commercial Code (HGB), equities and investment fund shares/units with a carrying amount of €632,789.2 thousand had been classified as fixed assets as of the balance sheet date (December 31, 2019: €625,984.1 thousand). Bearer bonds with a carrying amount of €50,996.3 thousand (December 31, 2019: €59,908.2 thousand) were treated as fixed assets.

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

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. In accordance with section 40 VAG, a solvency and financial condition report must be published no later than 14 weeks after the end of the financial year. This report must explain the solvency position in a manner that is understandable to the general reader. Insurance groups must also ensure at group level that the solvency capital requirement is covered by eligible own funds and that these funds are appropriately allocated in the group. Evidence of compliance with the solvency requirements is submitted to the German Federal Financial Supervisory Authority (BaFin) on a quarterly basis.

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

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

Employees

At the end of 2020, ARAG SE had a total of 1,184 (December 31, 2019: 1,131) employees in Germany. A further 1,710 (December 31, 2019: 1,688) people were employed outside Germany. These figures include 151 people classified as non-active employees (December 31, 2019: 144) for reasons such as parental leave, maternity leave, and long-term illness. The average number of employees in 2020 was 2,867 (2019: 2,775).

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. To this end, numerous supporting measures are being implemented as part of the ARAGcare corporate health management program with its focus on work/life balance.

The actual proportion of women as of June 30, 2020 was 20 percent at the first management level below the Management Board and 34 percent at the second management level. The two targets to be attained by this deadline 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.

The actual proportion of women as of December 31, 2020 was 33 percent at the first management level below the Management Board and 37 percent at the second management level. The targets for June 30, 2021 are therefore exceeded at the present time, comfortably so in the case of the former. 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.

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 2020 Sustainability Report*) outside the group management report in accordance with section 341j (4) in conjunction 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

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

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

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

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

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

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

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

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

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

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

Despite the tough ongoing social, political, and economic conditions caused by the COVID-19 pandemic, ARAG SE is planning to maintain its existing pace of growth in 2021. Important factors are the high level of economic uncertainty and the associated risk of unemployment, which are generating significant demand for legal insurance and legal services. Customers are also looking to protect themselves from a legal standpoint in contractual matters and in the event of rental defaults. Furthermore, premium growth is expected to increase in the inward legal reinsurance business outside Europe.

Given this backdrop, demand for legal insurance can be expected to continue rising. ARAG stands to derive considerable benefit from this market growth through its products and services, which are tailored to customer requirements. They include the new generation of legal insurance policies introduced at the beginning of 2021 in Germany, whose features have been significantly expanded again. Overall, the expectation for 2021 is that the rate of growth will remain unchanged from the reporting year.

There were one-off effects in the reporting year that resulted in an exceptionally low level of claims incurred. Claims payments in Germany are expected to rise in the current year because of the changes to the law relating to attorney fees and court costs, and a moderate rise in the claims ratio is expected as a result. Investment in digitalization and process optimization is being continued in 2021 and beyond, which will lead to a further increase in expenses for IT consultancy and software licenses. A further rise in commissions in connection with the inward reinsurance business is also anticipated for the current year. Savings in travel and conference costs are going some way to offsetting the

rising costs described above. For growth-related reasons, the company's cost ratio is not expected to increase in 2021, but to remain at the same level as in the reporting year. The underwriting result after the equalization provision will probably be down significantly in 2021 compared with 2020.

It is not possible to reliably forecast the gains and losses on investments, in particular because of uncertainty surrounding the ongoing impact of the global pandemic, how the ECB will respond to rising inflation in Europe, and the performance of the US economy following the change of government in January 2021. Ordinary income from investments will rise slightly in 2021 due to the high level of income that was reinvested in institutional funds in the reporting year. Gains and losses on investments will deteriorate sharply in the current year compared with 2020. Overall, the forecast is for a markedly lower profit before tax for 2021.

Risk report

Risk management system

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

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

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

Independent risk management function The independent risk management function is responsible for implementing the risk management system. This function is carried out by the Group Risk Management Central Department. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level. The Chief Risk Officer is a member of the Management Board and bears responsibility for the implementation of the risk management system in all Group companies. The system is largely implemented in the form of a risk governance model, through which rules for implementing the risk-relevant processes in the Company are defined in groupwide policies and guidelines. By reporting regularly to the Management Board, the independent risk management function also ensures comprehensive transparency with regard to the risk position and any changes to the risk position. Operating decisions about whether or not to pursue opportunities and/or take on risk are made in the units with relevant responsibility.

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

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

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

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

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

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

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

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

Risk categories

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

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

- Premium/reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the duration of claims settlement and the amount involved.
- Accumulation risk: significant uncertainties regarding pricing and assumptions in respect of the recognition of technical provisions for extreme or exceptional events that affect multiple policyholders at the same time.
- 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.

Measures implemented to restrict the risks include risk limits and outward reinsurance treaties in the form of excess of loss treaties.

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

Changes in claims ratio

Financial year	Claims ratio, gross, total		Profit/loss on settlements
	<i>FY ratio</i>	<i>Financial statements</i>	<i>% of initial reserve</i>
2020	59.3	54.3	3.9
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

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

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

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

As of the balance sheet date, receivables from policyholders more than 90 days past due amounted to €6,279.8 thousand (December 31, 2019: €5,982.6 thousand). The average default rate for these receivables over the last three years as of December 31, 2020 was 13.9 percent (December 31, 2019: 20.5 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 €90.4 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 €31.5 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 (direct investment and funds)

(Proportion (%) by fair value)

AAA	20.9
AA	9.0
A	32.8
BBB	32.5
BB	3.1
B	1.7
CCC	0.0
CC	0.0
C	0.0
D	0.0
Not rated	0.0

The breakdown of fixed-income securities is as follows (fair values): Of the fixed-income securities – including securities held indirectly through institutional funds – approximately 31.0 percent are accounted for by financial services entities, 29.7 percent by public-sector bonds, and 39.3 percent by corporate bonds.

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

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

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

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

Risk limitation measures include ALM and rolling liquidity planning.

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

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

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

Overall risk position

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

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

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

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

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

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

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

Financial Statements

Financial Statements	29
Balance Sheet	30
Income Statement	34
<hr/>	
Notes to the Financial Statements	38
I. General Disclosures	38
II. Disclosures on Accounting Policies	38
III. Insurance Disclosures	48
IV. Non-Insurance Disclosures	50
V. Report on Post-Balance Sheet Events	56
VI. Other Disclosures	57
VII. Governing Bodies of the Company	59
VIII. Proposed Appropriation of Profit	62
<hr/>	
Independent Auditor's Report	63
<hr/>	
Report of the Supervisory Board	73
<hr/>	
Further Information	77
<hr/>	

Balance Sheet as of December 31, 2020

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: € 2,775,000.00 (Dec. 31, 2019: € 3,075,000.00)
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 from affiliated companies: € 4,762.84 (Dec. 31, 2019: € 46,686.61)
II.	Receivables from reinsurance business
	of which from affiliated companies: € 0.00 (Dec. 31, 2019: € 0.00)
III.	Miscellaneous receivables
	of which from affiliated companies: € 6,252,033.75 (Dec. 31, 2019: € 13,568,544.24)
	of which from other long-term investees and investors: € 143,139.04 (Dec. 31, 2019: € 102,073.93)

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, 2020	Dec. 31, 2019
				4,618,882.53	5,073,017.64
			49,263,014.05		85,942,205.88
		394,162,972.80			293,731,287.38
		0.00			1,040,000.00
		16,887,567.37			16,887,568.37
			411,050,540.17		311,658,855.75
		636,105,423.66			663,986,858.73
		600,427,667.46			509,327,025.17
		2,775,001.00			3,075,001.00
	130,511,291.88				130,511,291.88
	232,982,694.53				235,982,694.53
	79,712.02				97,454.62
		363,573,698.43			366,591,441.03
		26,768,966.00			27,468,966.00
		2,333,871.23			2,771,042.56
			1,631,984,627.78		1,573,220,334.49
			64,508,382.26		60,678,269.26
				2,156,806,564.26	2,031,499,665.38
		27,839,671.94			33,156,690.11
		21,781,979.87			21,989,323.64
			49,621,651.81		55,146,013.75
			52,461,789.56		50,331,809.50
			14,791,614.19		16,939,509.51
				116,875,055.56	122,417,332.76
			12,856,248.19		14,002,491.04
			90,845,078.87		85,166,883.15
			26,530,255.23		21,746,890.24
				130,231,582.29	120,916,264.43
			6,400,687.38		6,687,346.46
			6,332,585.28		5,545,658.98
				12,733,272.66	12,233,005.44
				2,421,265,357.30	2,292,139,285.65

Balance Sheet as of December 31, 2020

Equity and liabilities

(€)

A. Equity

- I. Subscribed capital
- II. Capital reserve
- III. Revenue reserves
 - 1. Statutory reserves
 - 2. Other revenue reserves
- IV. 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: € 46,515.88 (Dec. 31, 2019: € 61,876.83)
 - of which to other long-term investees and investors: € 0.00 (Dec. 31, 2019: € 46.22)
- II. Liabilities from reinsurance business
 - of which to affiliated companies: € 0.00 (Dec. 31, 2019: € 0.00)
- III. Miscellaneous liabilities
 - of which tax liabilities: € 16,824,365.65 (Dec. 31, 2019: € 18,683,143.91)
 - of which social security liabilities: € 2,657,049.47 (Dec. 31, 2019: € 1,870,694.39)
 - of which to affiliated companies: € 17,093,775.83 (Dec. 31, 2019: € 14,842,499.17)

G. Deferred income and accrued expenses

H. Deferred tax liabilities

Total equity and liabilities

			Dec. 31, 2020	Dec. 31, 2019
		100,000,000.00		100,000,000.00
		81,772,569.19		81,772,569.19
	10,000,000.00			10,000,000.00
	261,000,000.00			239,200,000.00
		271,000,000.00		249,200,000.00
		78,063.24		29,712.02
		64,216,389.12		51,848,351.22
			517,067,021.55	482,850,632.43
			30,000,000.00	30,000,000.00
	206,560,997.00			199,774,897.34
	0.00			0.00
		206,560,997.00		199,774,897.34
	1,224,888,908.39			1,178,322,298.73
	658,571.52			738,856.84
		1,224,230,336.87		1,177,583,441.89
		63,033,497.02		34,178,606.00
		970,000.00		2,556,829.42
			1,494,794,830.89	1,414,093,774.65
		204,356,320.88		196,968,184.65
		8,618,866.10		11,785,876.54
		70,013,063.41		65,014,217.84
			282,988,250.39	273,768,279.03
			59,869.41	165,341.73
	15,421,416.53			15,162,359.55
	23,899,605.39			22,242,696.44
		39,321,021.92		37,405,055.99
		2,940,971.38		2,764,236.08
		47,365,331.35		46,199,657.72
			89,627,324.65	86,368,949.79
			252,764.01	418,374.58
			6,475,296.40	4,473,933.44
			2,421,265,357.30	2,292,139,285.65

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

(€)

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:

			2020	2019
	1,009,785,997.83			977,677,823.50
	-849,295.82			-705,335.32
		1,008,936,702.01		976,972,488.18
	-6,369,257.09			-390,185.24
	0.00			0.00
		-6,369,257.09		-390,185.24
			1,002,567,444.92	976,582,302.94
			1,159,267.69	1,891,049.35
	461,474,737.41			461,140,303.38
	-235,650.80			-235,677.86
		461,239,086.61		460,904,625.52
	-48,409,876.26			-46,343,496.87
	-80,285.32			171,342.37
		-48,490,161.58		-46,172,154.50
			509,729,248.19	507,076,780.02
			1,586,829.42	-496,836.42
		443,518,467.80		426,770,379.21
		0.00		0.00
			443,518,467.80	426,770,379.21
			0.00	0.00
			52,065,826.04	44,129,356.64
			-28,854,891.02	-11,058,158.00
			23,210,935.02	33,071,198.64
			23,210,935.02	33,071,198.64

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

(€)

Brought forward:

II. Non-underwriting account

1. Income from investments

a) Income from equity investments

of which from affiliated companies: € 17,255,503.00 (2019: € 23,037,193.95)

b) Income from other investments

of which from affiliated companies: € 1,627,296.61 (2019: € 1,867,452.42)

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: € 5,605,375.97 (2019: € 13,075,035.53)

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: € 2,001,362.96 (2019: € 491,754.06)

10. Miscellaneous taxes

11. Net income for the year

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 2020 in accordance with the requirements of the German Commercial Code (HGB), taking into account the supplementary provisions applicable to large corporations and the additional provisions applicable to insurance companies, the German Insurance Supervision Act (VAG), and the German Regulation on the Accounting of Insurance Undertakings (RechVersV). The financial statements are presented on the basis of financial statement forms 1 and 2 pursuant to section 2 RechVersV.

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

II. Disclosures on Accounting Policies

Accounting policies

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

Purchased **intangible assets** are recognized at cost on the balance sheet and reduced by straight-line amortization according to their estimated useful life. The useful life for purchased software is three years (Germany, Spain, Italy), five years (Belgium, Netherlands), or five to seven years (Austria), for leasehold improvements five to ten years, and for goodwill six years. 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 estimated to be in the range of 40 to 50 years. No write-downs due to permanent asset impairment were recognized in the year under review (2019: €1,268,431.20). In 2020, reversals of write-downs were recognized in an amount of €1,202,183.01 because the reason for the original write-down no longer applied (2019: €0.00). 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.

Last year, the way in which ARAG 2000 GbR was reported was changed and it was recognized for the first time under shares in affiliated companies as of December 31, 2020.

Investments in affiliated companies and equity investments are valued at cost, in some cases reduced by write-downs as a consequence of permanent impairment. In this regard, write-downs amounting to €1,003,433.94 (2019: €11,251,114.42) were recognized in the reporting year. Reversals of write-downs were recognized in an amount of €52,014,428.60 in 2020 because the reasons for the original write-down no longer applied (2019: €0.00).

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	10,725,943.58
ARAG Krankenversicherungs-AG, Munich	94.00	84,852,897.92	9,400,000.00
b) Other companies – limited companies			
ARAG International Holding GmbH, Düsseldorf	100.00	59,674,573.55	13,665,324.33
ARAG Liegenschaftsverwaltungs- und Beratungsgesellschaft mbH, Düsseldorf	100.00	359,140.90	0.00
ARAG Service Center GmbH, Düsseldorf	80.00	476,982.98	93,087.32
ARAG IT GmbH, Düsseldorf	100.00	8,602,956.34	1,109.89
CURA Versicherungsvermittlung GmbH, Düsseldorf	100.00	1,401,504.78	524,214.89
Solfin GmbH, Düsseldorf	75.10	478,781.99	138,923.30
ALIN 1 Verwaltungs-GmbH, Düsseldorf	100.00	29,812.32	1,644.67
Justix GmbH, Cologne	100.00	1,998,468.83	204,853.65
ARAG plc, Bristol	100.00	12,230,321.89	450,032.96
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	297,716.36	-40,091.98
ARAG Scandinavia AS, Oslo	100.00	27,691,373.60	1,633.18
MIA Multiline Insurance Agency s. r. l., Verona	100.00	181,852.59	-218,506.87
ARAG Services Australia Pty Ltd., Sydney	100.00	1,072,813.51	-1,360,637.28
Agencia de Seguros ARAG SA, Barcelona ¹⁾	100.00	296,068.36	126,613.79
ARAG Services Spain & Portugal S.L., Barcelona ¹⁾	100.00	622,811.99	85,432.58
c) Other companies – partnerships			
ARAG 2000 GbR	50.9	76,265,870.87	3,886,233.54
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50.00	4,934,313.15	45,913.71
ALIN 1 GmbH & Co. KG, Düsseldorf	100.00	54,830,976.18	818,583.85
2. Associates			
AXA ARAG Rechtsschutz AG, Zurich ¹⁾	29.17	41,165,787.90	17,250,946.92

¹⁾ Figures from the last available financial statements (for the year ended December 31, 2019).

Equities, investment fund shares/units, other variable-yield securities, bearer bonds, and other fixed-income securities that have not been classified for permanent treatment as 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 2020: €74,400.77 (2019: €0.00) in respect of equities and investment fund shares/units and €457,266.83 (2019: €533,889.91) in respect of bonds. In application of the discretionary principle of lower of cost or market value, write-downs amounting to €3,656,683.23 (2019: €0.00) were recognized in respect of investment fund shares/units and to €203,715.33 (2019: €0.00) in respect of bonds. Reversals of write-downs were recognized in the year under review as follows: €0.00 (2019: €4,547.73) in respect of equities, €7,675,922.92 (2019: €15,609,728.01) in respect of investment fund shares/units, and €953,428.88 (2019: €2,644,096.40) in respect of bonds. As of the reporting date, as had also been the case a year earlier, there were no undisclosed liabilities that had not been netted as a result of the application of the discretionary principle of lower of cost or market value.

ARAG SE did not make 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, although the Management Board does intend to use these permanently as part of the working capital of the insurance business. 99.6 percent of the institutional funds by carrying amount and 8.5 percent of the bearer bonds are classified as permanent investments 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, 2020, the quoted market price of the individual securities was in each case assumed to be the long-term value. This method had also been applied in the prior year. The fixed-income securities within the funds were also 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. In 2020, a portion of the investment fund shares/units with a carrying amount totaling €38,212,056.40 was reclassified and added to the subset of the portfolio valued as fixed assets. No undisclosed liabilities arose as a result of the reclassification.

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. 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 the lower of cost or fair value on the reporting date. The fair value as of the reporting date is reviewed on the basis of the net asset values (NAVs) reported by the fund management companies. Write-downs amounting to €209,875.87 were recognized due to expected permanent impairment (2019: €0.00). Neither in 2020 nor in 2019 were there grounds for the reversal of write-downs as a result of the reason for the original write-down no longer applying.

Deposits with ceding insurers are recognized at the nominal value of the collateral furnished to cedants. With the exception of a sum of €549,702.24 (AUD900,000.00) that has an indefinite term, 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. 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 overall amount 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:

Rating class	Dec. 31, 2020	Dec. 31, 2019
<i>(Balance in €'000)</i>		
AA-	2,128.0	1,074.5
A+	4,677.2	4,549.1
A	686.2	479.2
A-	4,889.4	4,708.6
BBB+	2,789.2	5,870.4
BBB	726.5	718.4
BBB-	26,098.1	23,796.2
No rating	10,467.2	9,135.4
	52,461.8	50,331.8

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 €372,671.10 that had been issued but not executed as of the reporting date (December 31, 2019: €467,972.58) 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 €7,735.7 thousand (December 31, 2019: €5,224.6 thousand) related to German tax returns that have not yet been prepared.

Prepaid expenses and accrued income mainly consist of accrued rights to interest from fixed-income securities not yet due in the income period before the balance sheet date.

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** consist exclusively of amounts that shareholders have contributed to the equity of the Company 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 were issued by way of a private placement in 2014 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 (11) 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 figures 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.

In the reporting year, the profit on settlements in direct business for all classes of insurance amounted to 3.9 percent of the initial reserve (2019: 3.3 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** had 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 was reversed in full in 2020 as no more claims can be asserted against ARAG SE. 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 2018 G 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 2.30 percent was applied for the valuation as of December 31, 2020 (December 31, 2019: 2.71 percent). As of December 31, 2020, the difference between the application of the ten-year average and the seven-year average (1.60 percent; December 31, 2019: 1.97 percent) caused a reduction in the provision for pensions and other post-employment benefits of €21,238,477.00 (December 31, 2019: €21,312,131.00). 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. 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 €886,049.00 (December 31, 2019: €920,997.00). In addition, securities with a fair value of €2,618,070.00 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 €230,350.00 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 €779,925.24 (December 31, 2019: €765,908.75) in pension funds used to cover pension commitments to employees of the Belgium Branch. 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 €3,820.06 (2019: €6,675.29) and interest expenses of €86,733.44 (2019: €24,962.72) 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 1.60 percent (December 31, 2019: 1.97 percent).

In 2020, a provision in accordance with the **pre-retirement part-time employment agreement** for the private insurance industry dated June 11, 1997, based on the Accounting Principle issued by the Main Technical Committee of the Institute of Public Auditors in Germany (IDW AcP HFA 3) dated November 18, 1998, was recognized on the basis of a maturity-matched discount rate of 1.60 percent (2019: 1.97 percent). In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements and natural employee turnover were taken into account. Credit balances on employee working hours accounts models are protected against insolvency in accordance with the German Pre-Retirement Part-Time Employment Act (AltTZG) by means of a fixed liability guarantee from a German commercial bank.

A **long-service provision** was recognized in the year under review for long-service awards to be paid to employees. The provision was calculated using the projected unit credit method taking into account death rates in accordance with the 2018 G mortality tables published by Professor Klaus Heubeck and applying a discount rate of 1.60 percent (seven-year average; 2019: 1.97 percent). The calculation also included staff turnover at an average rate of 1.5 percent and salary increases at a rate of 2.5 percent. The earliest possible pension age under the RVAGAnpG was selected as the final age.

Deposits received are accounted for at the nominal value of the collateral received. Their residual maturity is less than one year.

Other liabilities are recognized at their settlement value. The residual maturity is 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, 2020, it also included discounts on registered bonds amounting to €6,390.26 (December 31, 2019: €8,711.66). **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 €2,001,362.96 in the reporting year (2019: €491,754.06).

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 €2,050,057.18 (2019: €1,247,854.65) and expenses of €261,640.96 (2019: €2,947,252.06). These amounts are realized and 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 internally 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 2020 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 NAV 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

	Direct insurance business				
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2020	Total 2019
Gross premiums written	724,165	22,485	8,224	754,873	749,274
Gross premiums earned	719,016	23,501	8,552	751,069	751,579
Net premiums earned	-	-	-	-	-
Claims incurred	390,635	16,560	507	407,702	398,146
of which payments for claims	345,651	18,375	870	364,896	367,167
Insurance business operating expenses	301,055	11,780	4,355	317,190	319,604
of which front-end fees	90,536	8,865	224	99,625	112,697
of which administrative expenses	210,519	2,916	4,131	217,565	206,907
Change in equalization provision	0	3,105	861	3,966	-1,095
Miscellaneous underwriting income and expenses	1,136	0	0	1,136	1,746
Underwriting result	28,462	-1,734	4,551	31,280	34,481
Technical provisions:					
Unearned premiums	150,754	2,466	3,995	157,215	153,411
Provision for outstanding claims	996,298	8,652	1,069	1,006,019	963,213
Equalization provision and similar provisions	0	5,776	2,402	8,178	12,144
Miscellaneous technical provisions	970	0	0	970	947

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

Direct insurance business	2020	2019
(No.)		
Germany	1,688,439	1,610,872
International	2,839,167	2,895,278
Total	4,527,606	4,506,150

	Inward reinsurance business				Outward reinsurance business		Total insurance business		
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2020	Total 2019	2020	2019	2020	2019
	241,668	12,801	443	254,913	228,404	-	-	1,009,786	977,678
	239,360	12,550	438	252,347	225,708	-	-	1,003,417	977,288
	-	-	-	-	-	849	705	1,002,567	976,582
	91,028	11,104	51	102,183	109,338	155	407	509,729	507,077
	85,138	11,367	73	96,579	93,973	236	236	461,239	460,905
	125,888	210	230	126,328	107,167	0	0	443,518	426,770
	530	162	22	714	773	-	-	-	-
	106,120	88	185	106,393	106,393	-	-	-	-
	-30,052	-2,799	29	-32,821	-9,963	0	0	-28,855	-11,058
	1,610	0	0	1,610	-352	0	0	2,746	1,394
	-5,998	-1,563	186	-7,375	-1,111	694	298	23,211	33,071
	45,290	3,947	109	49,346	46,364	0	0	206,561	199,775
	217,543	1,254	72	218,870	215,109	659	739	1,224,230	1,177,583
	48,044	6,772	39	54,856	22,035	0	0	63,033	34,179
	0	0	0	0	1,610	0	0	970	2,557

Source of insurance business by gross premiums written

Country/source	Direct insurance business			Inward reinsurance business			Total business
	Legal insurance	Emergency assistance insurance	Other	Legal insurance	Emergency assistance insurance	Other	
(€'000)							
Germany	416,824	0	0	0	0	0	416,824
Spain	61,249	22,129	4,124	27,134	12,801	127	127,563
Netherlands	106,029	0	0	68,397	0	0	174,426
Italy	32,542	0	4,100	117,112	0	317	154,070
Belgium	27,130	0	0	1,308	0	0	28,438
Austria	73,539	0	0	0	0	0	73,539
Slovenia	2,782	0	0	0	0	0	2,782
Greece	3,462	0	0	1,424	0	0	4,886
Canada	0	0	0	162	0	0	162
UK	0	0	0	25,501	0	0	25,501
Ireland	0	0	0	609	0	0	609
Australia	0	0	0	17	0	0	17
Portugal	608	356	0	4	0	0	968
Total	724,165	22,485	8,224	241,668	12,801	443	1,009,786

IV. Non-Insurance Disclosures

Changes in investments in 2020:

Changes in asset items A., B. I. to IV. from January 1 to December 31, 2020

Type of investment	Balance Jan. 1, 2020	Currency differences	Additions	Disposals	Reclassifica- tions
(€)					
A. Intangible assets					
1. Miscellaneous intangible assets	5,073,017.64	0.00	2,979,469.17	0.00	0.00
Total	5,073,017.64	0.00	2,979,469.17	0.00	0.00
B. I. Land, land rights and buildings, including buildings on third-party land	85,942,205.88	0.00	309,483.65	3,291,964.19	-34,006,312.00
B. II. Investments in affiliated com- panies and equity investments					
1. Shares in affiliated companies	293,731,287.38	0.00	15,769,633.05	355,254.29	34,006,312.00
2. Lending to affiliated companies	1,040,000.00	0.00	0.00	1,040,000.00	0.00
3. Equity investments	16,887,568.37	0.00	0.00	1.00	0.00
Total investments in affiliated companies and equity investments	311,658,855.75	0.00	15,769,633.05	1,395,255.29	34,006,312.00
B. III. Miscellaneous investments					
1. Equities, investment fund shares/units and other variable-yield securities	663,986,858.73	0.00	33,076,175.84	64,902,449.83	0.00
2. Bearer bonds and other fixed-income securities	509,327,025.17	0.00	136,506,706.43	45,698,510.86	0.00
3. Loans secured by mortgages or land charges and fixed-income receivables	3,075,001.00	0.00	0.00	300,000.00	0.00
4. Miscellaneous lending					
a) Registered bonds	130,511,291.88	0.00	0.00	0.00	0.00
b) Promissory notes and loans	235,982,694.53	0.00	0.00	3,000,000.00	0.00
c) Sundry lending	97,454.62	0.00	134,353.17	152,095.77	0.00
5. Bank deposits	27,468,966.00	0.00	1,768,966.00	2,468,966.00	0.00
6. Other investments	2,771,042.56	0.00	181,967.76	409,263.22	0.00
Total miscellaneous investments	1,573,220,334.49	0.00	171,668,169.20	116,931,285.68	0.00
B. IV. Deposits with ceding insurers	60,678,269.26	0.00	8,250,895.71	4,420,782.71	0.00
Total investments	2,031,499,665.38	0.00	195,998,181.61	126,039,287.87	0.00
Total including intangible assets	2,036,572,683.02	0.00	198,977,650.78	126,039,287.87	0.00

Reversals of write-downs	Depreciation/ amortization	Write-downs	Balance Dec. 31, 2020	Cost/ nominal amount	Fair value as of Dec. 31, 2020	Hidden reserves
21,182.36	3,454,786.64	0.00	4,618,882.53	36,697,813.32	4,618,882.53	0.00
21,182.36	3,454,786.64	0.00	4,618,882.53	36,697,813.32	4,618,882.53	0.00
1,202,183.01	892,582.30	0.00	49,263,014.05	59,281,559.38	68,746,000.00	19,482,985.95
52,014,428.60	0.00	1,003,433.94	394,162,972.80	436,179,483.97	845,819,468.87	451,656,496.07
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	16,887,567.37	18,505,247.35	72,809,000.00	55,921,432.63
52,014,428.60	0.00	1,003,433.94	411,050,540.17	454,684,731.32	918,628,468.87	507,577,928.70
7,675,922.92	0.00	3,731,084.00	636,105,423.66	643,752,506.65	672,946,747.33	36,841,323.67
953,428.88	0.00	660,982.16	600,427,667.46	601,766,231.59	642,187,578.43	41,759,910.97
0.00	0.00	0.00	2,775,001.00	2,775,001.00	2,775,001.00	0.00
0.00	0.00	0.00	130,511,291.88	130,511,291.88	139,184,652.34	8,673,360.46
0.00	0.00	0.00	232,982,694.53	232,982,694.53	249,926,902.69	16,944,208.16
0.00	0.00	0.00	79,712.02	79,712.02	79,712.02	0.00
0.00	0.00	0.00	26,768,966.00	26,768,966.00	26,768,966.00	0.00
0.00	0.00	209,875.87	2,333,871.23	2,543,747.10	4,510,151.16	2,176,279.93
8,629,351.80	0.00	4,601,942.03	1,631,984,627.78	1,641,180,150.77	1,738,379,710.97	106,395,083.19
0.00	0.00	0.00	64,508,382.26	64,508,382.26	64,521,148.38	12,766.12
61,845,963.41	892,582.30	5,605,375.97	2,156,806,564.26	2,219,654,823.73	2,790,275,328.22	633,468,763.96
61,867,145.77	4,347,368.94	5,605,375.97	2,161,425,446.79	2,256,352,637.05	2,794,894,210.75	633,468,763.96

Land, land rights and buildings, including buildings on third-party land, with a carrying amount of €29,396,269.97 (December 31, 2019: €29,552,823.33) are used for the Company's own business operations.

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. As of December 31, 2020, the carrying amount of the equity investment was €33,651,057.71 (December 31, 2019: €35,065,947.69). Some 97.3 percent (December 31, 2019: 97.9 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.

As of December 31, 2020, the shares in ARAG 2000 GbR were recognized for the first time under shares in affiliated companies.

Investment disclosures

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

Institutional funds

Institutional fund	Type of fund	Investment objective	Carrying amount as of Dec. 31, 2020	Market value as of Dec. 31, 2020	Difference	Dividend in 2020	Redemption
			(€)	(€)	(€)	(€)	
ADRENT	Fixed-income fund	Increased income	52,003,507.82	56,795,154.37	4,791,646.55	104,614.62	At any time
ATRI	Fixed-income fund	Increased income	163,157,959.38	163,157,959.38	0.00	418,610.54	At any time
ARRE	Fixed-income fund	Increased income	160,214,948.51	180,627,001.19	20,412,052.68	542,919.30	At any time
ARI 1	Fixed-income fund	Increased income	67,213,455.30	67,213,455.30	0.00	866,879.30	At any time
ARI 2	Fixed-income fund	Increased income	37,888,080.80	37,888,080.80	0.00	257,683.66	At any time
AAF	Equity fund	Increased income	61,467,132.17	70,907,802.32	9,440,670.15	0.00	At any time
EMA	Equity fund	Increased income	26,774,750.84	26,814,021.46	39,270.62	22.91	At any time
SIVE Fonds							
INKA	Equity fund	Increased income	64,069,365.35	66,181,590.18	2,112,224.83	0.00	At any time
			632,789,200.17	669,585,065.00	36,795,864.83	2,190,730.33	

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 did not make use of the option to select the discretionary principle of lower of cost or market value for institutional funds, even though the Management Board intends to use them permanently as part of the working capital of the insurance business. As of December 31, 2020, shares/units in investment funds (institutional funds) with a carrying amount of €632,789,200.17 had been classified as investments treated as fixed assets. The fair value of these investment fund shares/units classified as permanent investments amounted to €669,585,065.00 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 2020, securities with a carrying amount of €50,996,325.15 had been classified as investments treated as fixed assets. The fair value of these bearer bonds amounted to €54,487,009.15 as of the balance sheet date.

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

Other assets

(€)	Dec. 31, 2020	Dec. 31, 2019
Income tax refund right under current income tax assessment and on the basis of tax audit findings	21,145,853.71	16,564,746.14
Rights for interest not yet due on tax refunds	0.00	239,567.00
Italian insurance tax refund right	5,211,861.95	4,777,148.29
Sundry items	172,539.57	165,428.81
Total	26,530,255.23	21,746,890.24

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 €6,475,296.40 (December 31, 2019: €4,473,933.44) resulted mainly from excess liabilities in Austria (tax equalization provision), Spain (land and buildings), and the Netherlands (tax equalization provision).

Equity

		Dec. 31, 2020
(€)		
Total		517,067,021.55
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, 2020	81,772,569.19	
Changes in the reporting year	0.00	
Balance as of Dec. 31, 2020		81,772,569.19
III. Revenue reserves		
1. Statutory reserves		
Brought forward as of January 1, 2020	10,000,000.00	
Appropriation from profit	0.00	
Balance as of Dec. 31, 2020		10,000,000.00
<p>The full amount of the reserve has been recognized pursuant to section 150 (2) AktG.</p>		
2. Other revenue reserves		
Brought forward as of January 1, 2020	239,200,000.00	
Additions approved by the Annual General Meeting	21,800,000.00	
Appropriation from current net retained profit	0.00	
Balance as of December 31, 2020		261,000,000.00
		271,000,000.00
IV. Net retained profit		
Net retained profit as of December 31, 2019		51,878,063.24
Appropriation of profits: dividend		-30,000,000.00
Appropriation of profits: appropriation to other revenue reserves		-21,800,000.00
Net income for 2020		64,216,389.12
Appropriation to statutory reserves (section 150 (2) AktG)		0.00
Appropriation to other revenue reserves		0.00
Net retained profit as of December 31, 2020		64,294,452.36

Provisions for pensions and other post-employment benefits

Since 2010, this item has also included the offsetting of pension benefit entitlements under reinsurance in accordance with section 246 (2) sentence 2 HGB. The breakdown of the item as of December 31, 2020 was therefore as follows:

Defined benefit obligations

(€)	Dec. 31, 2020	Dec. 31, 2019
Amount required to settle the vested entitlements	207,860,439.88	200,541,973.65
of which offsetable against pension insurance assets	-886,049.00	-920,997.00
of which offsetable against securities	-2,618,070.00	-2,652,792.00
Remaining amount	204,356,320.88	196,968,184.65

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 €779,925.24 (December 31, 2019: €765,908.75) 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 €1,802,059.37 (December 31, 2019: €5,743,291.98) 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 €6,816,806.73 (December 31, 2019: €6,042,584.56) was recognized for miscellaneous taxes and for tax amounts identified by tax audits that have not yet been applied. Included in this is a sum of €2,349,000.00 that relates to VAT due to inconsistent application of the VAT rules in the member states of the European Union.

Miscellaneous provisions

(€)	Dec. 31, 2020	Dec. 31, 2019
Outstanding employee remuneration	19,010,956.23	17,373,782.59
Outstanding commission payments	16,731,626.58	12,742,197.95
Provision for outstanding invoices	6,210,275.77	6,487,180.37
Early retirement and pre-retirement part-time working obligations	4,626,823.60	5,514,346.91
Long-service provision	3,755,591.58	3,915,754.50
Severance payments (Austria and Slovenia)	3,356,887.20	2,624,179.54
Interest on taxes and additional tax-related charges	0.00	666,227.00
Compensation claims for agents leaving the Company	55,687.18	2,060,796.59
Performance-related and business-plan remuneration for agents	1,738,489.00	1,758,138.00
Costs for financial statements and tax audit	1,743,623.13	1,918,346.08
Severance payments	75,000.00	401,928.22
Sales competition awards	2,086,958.87	1,042,494.00
Supervisory Board and Advisory Council remuneration	663,980.00	752,968.00
Redundancy scheme and restructuring obligations	99,961.59	152,267.15
Current litigation costs	469,264.00	759,560.04
Sundry other provisions	9,387,938.68	6,844,050.90
Total	70,013,063.41	65,014,217.84

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: expense of €18,661,468.96 (2019: expense of €21,089,207.93) related to the year under review and income of €7,278,402.07 (2019: income of €351,517.32) related to prior years. They also included expenses arising from the change in the balance of deferred taxes amounting to €2,001,362.96 (2019: €491,754.06).

V. Report on Post-Balance Sheet Events

On March 15, 2021, ARAG SE acquired all the shares in DAS Legal Protection Inc., Canada. At the same time, it entered into a 100-percent quota-share reinsurance treaty with Temple Insurance Company, a primary insurer based in Canada, thereby substantially expanding its business activities in that country. These deals do not have any significant impact on the Company's net assets, financial position, and results of operations measured against the overall volume of business operated by ARAG SE. There were no other events of particular significance after December 31, 2020. The pandemic that broke out in Europe in spring 2020 is still not at an end. For the current year, it presents further risks but also opportunities for the business. So far in 2021, however, business performance has been in line with expectations.

VI. Other Disclosures

Commissions and other remuneration for insurance agents, staff costs

(€)	2020	2019
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	182,827,209.02	179,623,642.75
2. Other remuneration for insurance agents within the meaning of section 92 HGB	16,918,188.89	16,111,809.40
3. Wages and salaries	174,941,067.97	166,988,196.59
4. Social security and other employee benefit expenses	31,647,857.43	30,487,083.01
5. Pension and other post-employment benefit expenses	27,007,700.43	26,196,242.15
6. Total expenses	433,342,023.74	419,406,973.90

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 very remote, because the company has an equity ratio of 91.9 percent and generated net income for the year of €3,886,233.54.

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)	244,321.71
Private-equity funds (investment funds)	229,808.91

None of the unpaid contributions have been called up. The infrastructure and private-equity funds are no longer expected to call up contributions as the funds are already in the distribution phase. The unpaid contributions will not be called up in the short or medium term.

Investment agreements with a total volume of €111,921,662.00 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 available liquidity of €3,326.3 thousand remaining in the company, calls at short notice of €57,571.1 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 2020 annual financial statements and Solvency II balance sheet as of December 31, 2020. In the reporting year, an amount of €654,024.00 (excl. VAT: €549,600.00) was recognized as an expense in the income statement for audit services, including out-of-pocket expenses and non-deductible VAT. Included in this sum are the costs for auditing the Solvency II balance sheet as well as the share of the costs passed on by the parent company for the audit of its consolidated financial statements. No expenses were incurred in relation to tax consultancy services, while expenses of €3,654.00 were incurred for other services. These services mainly related to the provision of project-specific training and consultancy activities. As ARAG SE is not entitled to offset input VAT, the VAT was included in the recognized expense.

Employees

ARAG SE employed an average of 2,867 people in 2020 (2019: 2,775). As of December 31, 2020, the Company had 2,894 employees (December 31, 2019: 2,819).

Of the total as of December 31, 2020, 1,122 employees worked at the headquarters in Düsseldorf (December 31, 2019: 1,066), 1,621 employees worked in the international branches (December 31, 2019: 1,609), and 151 people were classified as non-active employees (December 31, 2019: 144) for reasons such as maternity leave, parental leave, and illness. Of these non-active employees, 62 were from the headquarters (December 31, 2019: 65) and 89 from the international branches (December 31, 2019: 79).

There were also four trainees (December 31, 2019: five).

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

The expense for Supervisory Board remuneration amounted to €580,000.00 and for the Advisory Council €83,980.00. The Management Board's remuneration came to €5,990,670.87. Parts of this amount were charged on to other Group companies that are under the same management. Remuneration for the former members of the Management Board and their surviving dependants totaled €2,593,476.56. A provision of €48,704,860.00 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, 2020. The consolidated financial statements of ARAG Holding SE are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection. 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:

Dr. Dr. h. c. Paul-Otto Faßbender CEO
of ARAG Holding SE,
Düsseldorf,
Member of the Supervisory Board (from July 4, 2020),
Chairman (from July 7, 2020)

Gerd Peskes Wirtschaftsprüfer (German Public Auditor),
Essen,
Chairman (until July 7, 2020),
Deputy Chairman (from July 7, 2020)

Professor Dr. Walter Ackermann University professor,
St. Gallen, Switzerland
(until June 30, 2020)

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. Walter Ackermann	University professor, St. Gallen, Switzerland (from July 1, 2020)
	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 (until March 11, 2020)
	Volker Steck	Chief Executive Officer of Helvetia Versicherungen/ Directorate for Germany, Frankfurt/Main
	Hans Schwarz	Chief Executive Officer of Stadtsparkasse 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 (until July 3, 2020)
	Dr. Renko Dirksen	Responsibilities: Investments/ Corporate Development/ Organization (until July 3, 2020), Responsibilities: Central Group Functions, Meerbusch, Speaker of the Management Board (from July 4, 2020)
	Dr. Matthias Maslaton	Responsibilities: Sales, Products and Innovation, Moers
	Wolfgang Mathmann	Responsibilities: Group Finance, Düsseldorf
	Hanno Petersen	Responsibilities: Group IT and Operations, Ratingen
	Dr. Joerg Schwarze	Responsibilities: Group Risk Management and Group Controlling, Düsseldorf
	Dr. Werenfried Wendler	Responsibilities: Group HR/Audit, Neustadt/Weinstrasse (from April 2, 2020)

VIII. Proposed Appropriation of Profit

The breakdown of net retained profit is as follows:

Net retained profit

(€)	
Net income for the year	64,216,389.12
Appropriation to other revenue reserves	0.00
Profit brought forward from 2019	78,063.24
Net retained profit	64,294,452.36

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 €34,200,000.00 is to be appropriated to other revenue reserves. The remaining sum of €94,452.36 is to be carried forward to the next period.

Düsseldorf, March 30, 2021

ARAG SE

The Management Board

Dr. Renko Dirksen

Dr. Matthias Maslaton

Wolfgang Mathmann

Hanno Petersen

Dr. Joerg Schwarze

Dr. Werenfried Wendler

Independent Auditor's Report*

To ARAG SE, Düsseldorf

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

Opinions

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

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

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to insurance companies and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2020 and of its financial performance for the financial year from January 1, 2020 to December 31, 2020 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the management report specified in the "Other Information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

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

Basis for the Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1, 2020 to December 31, 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Valuation of shares in affiliated companies

In respect of the accounting policies applied, please refer to the explanatory notes in the notes to the financial statements of the Company on pages 38 et seq. Statements on risk are included in the management report on pages 21 to 28.

The Financial Statement Risk

In its annual financial statements, the Company reports shares in affiliated companies amounting to €394 million. This equates to 16 percent of total assets. The fair value is €846 million.

The shares in affiliated companies are recognized at cost or, if they are expected to be permanently impaired, at their lower fair value. The Company determines the fair value of shares in affiliated companies using the income capitalization approach pursuant to the Accounting Principle issued by the IDW Main Technical Committee (IDW AcP HFA 10) in conjunction with standard IDW S 1.

The distributable earnings used for the income capitalization approach are based on equity investment-specific planning for the next few years, which is extrapolated on the basis of assumptions about long-term growth rates. The risk-free interest rate and market risk premium are based on the information on the cost of capital published by the IDW Committee for Company Valuation and Business Administration (FAUB). The beta factor is based on industry-specific empirical capital market data. If the fair value is lower than the carrying amount, qualitative and quantitative criteria are used to examine whether the impairment is expected to be permanent.

If the fair value is higher than the carrying amount, then – if a write-down was previously recognized – the write-down is reversed to no more than the original cost, provided the reasons for the impairment no longer apply.

The calculation of fair value using the income capitalization approach is complex and the assumptions made are heavily dependent on estimates and assessments made by management. This particularly applies to estimates of future distributable earnings and long-term growth rates, determination of the discount rates, and the assessment of whether the reasons for impairment no longer apply. In the case of estimates, there is an increased risk of incorrect disclosures in the financial reporting.

The Company believes that there is likely to be a sustained improvement in the performance of one subsidiary. The reasons for the previous write-down on the carrying amount of the equity investment in this subsidiary therefore no longer apply. Consequently, the Company reversed a write-down on shares in affiliated companies in 2020.

The risk in respect of the annual financial statements is that the fair value is not adequately determined and, therefore, impairment is not identified and thus avoided or write-downs are reversed without reason, reversed to the wrong amount, or are not reversed at all.

Our Audit Approach

In auditing the shares in affiliated companies, we used our own valuation specialists, as part of the audit team, for specific valuations and carried out the following key audit procedures::

- For specific equity investments, selected on the basis of risk criteria, we critically assessed the assumptions used for the projections of distributable earnings based on our understanding of the business and industry as well as macroeconomic conditions. We also reconciled them with the corporate planning approved by the Supervisory Board.
- To assess the quality of the internal forecasting process, we reconciled the projections with the budget accounts and compared the planning for previous years with the earnings actually achieved.

- We compared the assumptions and parameters underlying the discount rate – in particular the risk-free interest rate, the market risk premium, and the beta factor – with our own assumptions and publicly available data.
- With the involvement of our valuation specialists, we carried out our own evaluation of the valuation that led to the significant reversal of the write-down and satisfied ourselves that the reversal was limited to the write-downs recognized in the past.
- To ensure the mathematical accuracy of the valuation method used, we verified the Company's calculations using specific items selected on the basis of risk criteria.

Our Observations

The approach used for the measurement of shares in affiliated companies is appropriate and in line with the accounting policies. Overall, the Company's assumptions and data are appropriate.

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

In respect of the accounting policies applied, please refer to the explanatory notes in the notes to the financial statements of the Company on pages 38 et seq. Statements on risk are included in the management report on pages 21 to 28.

The Financial Statement Risk

The gross provision for outstanding claims in direct insurance business amounts to €1,006 million. This equates to 42 percent of total assets.

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

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

Valuation of the provision for reported claims is dependent on the relevant business model in Germany or abroad and is carried out using a group-based approach, using generally accepted actuarial methods and, in individual cases, separately according to the individual years in which the claims occurred. Provisions are recognized for claims incurred but not reported. These provisions are predominantly calculated on the basis of empirical data using generally accepted actuarial methods.

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

Our Audit Approach

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

- We assessed the process for determining the provisions in Germany and for significant foreign branches, identified the key controls intended to ensure completeness and accuracy of the estimates to be made, and tested them for appropriateness and effectiveness.
- For selected specific items, we satisfied ourselves that the claims files in Germany and in significant foreign branches are maintained properly in accordance with the rules laid down by the Company and verified the amount of individual provisions for reported claims on the basis of the files.
- We assessed the appropriateness of the calculation model used in the group-based approach and of the underlying assumptions. In particular, we assessed how the Company determined the estimated number of claims and their amount on the basis of historical experience and current developments.
- Using a time series comparison, in particular of the reporting-year and overall claims ratios, we analyzed the change in the claims provisions for the legal insurance business in Germany and abroad.
- We analyzed the actual change in the provisions for outstanding claims recognized in the previous year in Germany and abroad on the basis of the run-off result.
- We conducted our own actuarial reserve calculations for selected segments in Germany and abroad that we selected on the basis of risk considerations. This involved determining a point estimate of the total claim expense using statistical probabilities and comparing this with the Company's calculations.

Our Observations

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

Other Information

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

- the separate non-financial report referred to in the management report and which is expected to be presented to us after the date of this auditor's report,
- the corporate governance statement pursuant to Section 289f (4) of the German Commercial Code (disclosure on for the proportion of women in managerial positions), included in section II. Report on Economic Position of the management report.

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

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

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

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

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

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

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

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to insurance companies, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition,

management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the Supervisory Board meeting on April 2, 2020. We were engaged by the Supervisory Board on June 29, 2020. We have been the auditor of ARAG SE, Düsseldorf since the financial year 2020.

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

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

We performed an audit of the solvency II balance sheet and the dependency report for the audited company. For the entities controlled by the Company, we performed audits of solvency II balance sheets, audits and reviews of single-entity financial statements, audits of dependency reports and general advisory services.

German Public Auditor Responsible for the Engagement

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

Cologne, March 31, 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

Voss
German public auditor

Bramkamp
German public auditor

Report of the Supervisory Board

In the year under review, the Supervisory Board carried out the tasks required of it by law, the articles of incorporation, and rules of procedure 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.

The Supervisory Board held four ordinary meetings last year, at which it was able to satisfy itself that the Management Board was running the Company properly and appropriately. In addition to the ordinary meetings, the Supervisory Board met in the middle of the year under review for the constitutive meeting and for a further extraordinary constitutive meeting in which the previous CEO, Dr. Dr. h. c. Paul-Otto Faßbender was elected as Chairman of the Supervisory Board. The respective Chairman of the Supervisory Board received reports on the Group's business performance in regular meetings with either the CEO or the Speaker of the Management Board as applicable. The respective Chairman of the Supervisory Board was also immediately informed of key developments on the day that they occurred.

Last year, the Supervisory Board's work was dominated by the impact of COVID-19 on the Company's business operations. In the meetings of the full Supervisory Board and its committees, the Supervisory Board was informed in detail about how the pandemic was affecting the running of the business. Particular attention was paid to the impact on the underwriting of new policies and on claims as well as measures to keep employees safe. In addition, the Management Board provided the Supervisory Board with a monthly written report on the consequences of the pandemic.

Last year, with effect from April 2, 2020, the Supervisory Board appointed an additional member of the Management Board and agreed to reappoint an existing member of the Management Board, whose term of appointment was ending, for the maximum permitted term. Through a change to the rules of procedure for the Management Board, the Supervisory Board created the new position of Speaker of the Management Board to replace the CEO position.

Reports on the business performance of the Company, including that of its international branches and equity investments, were the main focus of the Supervisory Board meetings in 2020. The Group risk strategy, the risk and controlling report, and the strategic planning for the next three years formed part of these reports. The Supervisory Board received detailed reports on developments in the capital markets and on the precautions taken as a result of COVID-19. Information on the quarterly results under HGB and the latest projections were also presented to the Supervisory Board. The Supervisory Board addressed the appropriateness of Management Board remuneration and of the remuneration system used for employees, determined the fulfillment of the Management Board's targets for 2019, and agreed the targets for 2020. It also signed off the development plan for the Supervisory Board for 2021.

The Supervisory Board discussed at length the internationalization of HR work and the new arrangements for remote working. It received reports on matters such as the search for a new underwriting partner, the successes achieved in the Smart Insurer projects, and the IT roadmap. Furthermore, it addressed the adoption of the amended general investment policy, the progress of preparations for a disorderly Brexit, the mechanisms to fight terrorism and prevent money laundering, the sustainability requirements, the German Insurance Supervisory Requirements for IT (VAIT), the degree of digitalization of the process landscapes, the German Corporate Sanctions Act, the increase in lawyers' fees under the German Legal Fees Act (RVG) in 2021, the new product line for 2021, and other developments of significance for the Company. No written resolutions were made.

The Supervisory Board has formed three committees, for human resources, for finance, and for accounting and audit matters. The newly elected Chairman of the Supervisory Board was elected as chairman of all committees. Detailed reports on the committees' work were delivered at the Supervisory Board meetings.

The Human Resources Committee held four ordinary meetings in 2020 and adopted one resolution using a written procedure. The committee's meetings dealt with matters such as the training and continuing professional development measures in compliance with the 'fit and proper' requirements and the annual review of the Fit&Proper guidance, pension provision for the members of the Management Board, the evaluation of target achievement for 2019 and the agreement of targets for 2020 for the Management Board, the structure of ARAG SE's remuneration systems, the self-evaluation carried out by the members of the Supervisory Board, and the development plan created on this basis. The Human Resources Committee also approved transactions within the meaning of section 114 AktG both in meetings and using a written procedure.

The Finance Committee held four ordinary meetings and one extraordinary meeting in 2020. In addition, five written resolutions were adopted. Status updates on the activities of the equity investments in Canada and Australia were among the matters discussed at the meetings of the Finance Committee. The Finance Committee examined the transPARAGcy project, investment decisions in the legal tech and infrastructure debt segments, the investment strategy and the expansion of capabilities in alternative investments, the strategic asset allocation, a new fund structure for the future, and the change of custodian bank scheduled for 2021. In addition, the Finance Committee approved

various consultancy engagements. It was updated on activities in the real estate sector and discussed the underwriting of after-the-event risks (ATE risks) in the United Kingdom via the equity investment there.

The Accounting and Audit Committee held three ordinary meetings in 2020. Among the matters discussed at the meetings were the auditor's interim report on the audit of the 2019 annual financial statements, the single-entity financial statements for 2019, the report on non-audit services, the Solvency II balance sheets for 2019, and the third-quarter results for 2020 (third quarter only, not Q1-Q3). The committee also focused in particular on the valuation of individual subsidiaries. Furthermore, the committee drew up a proposal for the election of the auditor for 2020. At one of the committee's meeting, the auditor appointed by the Supervisory Board for 2020 presented its auditing procedures and audit standards. The Accounting and Audit Committee did not make any decisions using written resolutions.

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 2020 were, together with the bookkeeping system, audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Cologne, which had been selected and engaged by the Supervisory Board on April 2, 2020 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 15, 2021. 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 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 or disadvantages were compensated,
3. there are no circumstances in respect of the measures specified in the report that would justify an opinion materially different from the opinion of the Management Board.”

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 2020.

Düsseldorf, April 15, 2021

The Supervisory Board

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

Gerd Peskes
(Deputy Chairman)

Margit Schuler
(Deputy Chairwoman)

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.

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

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

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

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

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

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

Credits

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

