

ARAG SE

# 2021 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS AND MANAGEMENT REPORT





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# Overview

## ARAG SE Key Figures

(€'000)	2021	Change	2020	2019
<b>Sales revenue</b>				
Gross premiums written	1,092,403	8.18%	1,009,786	977,678
Premiums earned net of reinsurance	1,076,242	7.35%	1,002,567	976,582
<b>Expenses</b>				
Claims incurred net of reinsurance	555,394	8.96%	509,729	507,077
Claims ratio (basis: premiums earned)	51.60%	+ 0.76 % pts.	50.84%	51.92%
Insurance business operating expenses net of reinsurance	484,434	9.23%	443,518	426,770
Cost ratio (basis: premiums earned)	45.01%	+ 0.77 % pts.	44.24%	43.70%
<b>Net income overview</b>				
Underwriting result net of reinsurance	26,535	14.32%	23,211	33,071
Gains and losses on investments	64,823	- 35.80%	100,966	78,951
Other net income/expense	- 45,373	5.01%	- 43,207	- 37,772
Profit/loss from ordinary activities	45,985	- 43.21%	80,970	74,251
Net extraordinary income/expense	0	n.a.	0	0
Net income for the year	23,491	- 63.42%	64,216	51,848
<b>Key ratios</b>				
Technical provisions/ net premiums earned	149.48%	+ 0.38 % pts.	149.10%	144.80%
Equity/premiums earned	47.44%	- 4.13 % pts.	51.57%	49.44%

# Profile of the ARAG Group

## Overview

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

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

## Legal insurance

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

## Casualty and property insurance

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

## Personal insurance

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

# Management Report of ARAG SE

## I. Company Fundamentals

### Business model

ARAG SE is the largest family-managed insurance company in Germany. It is the leading legal insurer worldwide. The company 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 64.0 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, respectively, the health insurance business and casualty and property insurance business. ARAG SE Core Sales acts as a broker for their insurance products alongside its own legal insurance policies; the offering is rounded off by insurance products, for example life insurance, provided by non-Group insurance companies. 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. 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, 2021	Dec. 31, 2020
Germany	1,747,331	1,688,439
International	2,930,458	2,839,167
<b>Total</b>	<b>4,677,789</b>	<b>4,527,606</b>

### 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 outside Germany. This includes the after-the-event (ATE) business for legal disputes.

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

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

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

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

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

In these challenging economic conditions, the German insurance industry again proved to be robust in the face of a crisis and generated further premium growth, of approximately 1.1 percent (2020: 1.7 percent). Premium income in direct casualty and

property insurance business will probably have gone up by 2.2 percent, which is below the prior-year growth of 2.6 percent. However, this is still a notable increase given that some aspects of the economic environment remain challenging. The legal insurance segment exceeded the premium growth notched up in the previous year and recorded an increase of 4.0 percent (2020: 3.0 percent), although this was driven to a large extent by the opportunity to adjust premiums. In the private health insurance segment, the rise in premiums of 5.0 percent was also higher than in the previous year (2020: 4.6 percent).

### **Business performance**

ARAG SE can look back on another successful year. The insurance business performed very well, despite the ongoing COVID-19 crisis. The uncertainties surrounding the crisis mean that the need among consumers and customers for legal guidance and reassurance remains high. Demand for legal insurance grew as a result. The number of legal insurance policies in Germany rose by a net total of 58,892 in 2021.

The underwriting result before the equalization provision fell from €52,065.8 thousand in 2020 to €37,929.1 thousand. This was mainly due to the strong growth and the related increase in acquisition commission. The claims ratio based on the recognized claims incurred rose from 50.8 percent to 51.6 percent in the reporting year on the back of the strong growth in new business. At €28,854.9 thousand, the addition to the equalization provision in 2020 was at a high level because of a claims shortfall. In 2021, it was limited to €11,394.2 thousand due to the net effect of the continuation of the favorable claims trend in the existing business on the one hand and, as the main factor on the other, a new treaty for inward reinsurance business. The gain reported under gains and losses on investments fell sharply in 2021 due to a non-recurring item that had been recognized in 2020 and to income components of institutional funds used specifically for risk provisioning purposes.

Gross premiums written went up from €1,009,786.0 thousand to €1,092,403.2 thousand in the reporting year, a further significant rise of 8.2 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 core legal insurance business expanded by 8.2 percent. This rate of growth significantly exceeded the figure that had been forecast in the 2020 annual report. The increase in premiums was attributable to various trends. Direct business in Germany advanced by 7.0 percent. Inward reinsurance business from the United Kingdom and from the newer business activities in Canada, Australia, and the Republic of Ireland was up by €18,812.8 thousand, of which €18,117.3 thousand was attributable to the business in Canada. Most of this growth resulted from ARAG SE entering into new inward reinsurance treaties with two insurance companies in Canada. The increases in the markets served by ARAG SE's international branches were mainly generated from indirect business. Premium growth was highest overall in Italy (up by 10.4 percent), Austria (up by 7.5 percent), and Spain (up by

6.9 percent). In Italy, the Company works for the most part with primary insurance providers offering legal insurance for motorists. By contrast, the branch in Austria predominantly sells its products via brokers. In Spain, premium income in the special service package business continued to be adversely affected by the ongoing pandemic-related restrictions. However, this was more than made up for by the increase in legal insurance business generated via primary insurance providers. The premium income generated by the international branches rose by 6.1 percent overall.

Of the total premium income generated by ARAG SE, €797,738.1 thousand (2020: €754,873.4 thousand) was derived from direct business. Of this amount, €34,258.9 thousand (2020: €30,708.9 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 €763,479.2 thousand (2020: €724,164.5 thousand).

The proportion of ARAG SE's total gross premiums written accounted for by international business fell from 56.1 percent in 2020 to 55.0 percent in 2021 due to the sharp growth of the legal insurance business in Germany. If the calculation includes the premiums from headquarters' inward reinsurance business originating from the United Kingdom, the Republic of Ireland, Canada, and Australia, the international proportion comes to 64.0 percent (2020: 58.7 percent).

After deduction of the reinsurers' shares and changes in unearned premiums, the remaining net premiums earned for all business amounted to €1,076,242.1 thousand (2020: €1,002,567.4 thousand).

Gross claim payments across the business as a whole rose by 7.9 percent. The principal reasons for this were the further expansion of the volume of business and the increase in attorney and court costs in Germany from 2020. Also, the courts in Austria and Spain had been closed at times in 2020 because of the pandemic, which resulted in a higher number of proceedings in the reporting year. The claim payment ratio edged up to 46.3 percent (2020: 46.0 percent). Net expenses for claims incurred came to €555,394.5 thousand, compared with €509,729.2 thousand in 2020. As forecast in the 2020 annual report, there was an increase in the claims ratio (net) based on the recognized claims incurred. These effects were partly offset by further profits on settlements from the prior-year claims reserve in the Italian business and by an adjustment of the provision for claims incurred but not reported in Germany in line with the actual pattern of subsequent reporting by policyholders.

Insurance business operating expenses rose by 9.2 percent owing to unbudgeted growth. The cost ratio went up from 44.2 percent in 2020 to 45.0 percent in 2021 as a result. An increase in the commission rates of European primary insurers with which ARAG SE does indirect business was a particular factor in the rise in the cost ratio. In addition, costs were substantially higher for purchased services in connection with process automation and with the use of external software-as-a-service models. The rise in costs was mitigated to some extent by further savings on travel and training costs that were achieved by changing working methods and using modern communications media.

After taking into account the sundry underwriting income and expenses (net income of €1,515.7 thousand; 2020: €2,746.1 thousand), the underwriting result net of reinsurance before the equalization provision showed a year-on-year decrease to a profit of €37,929.1 thousand (2020: €52,065.8 thousand). An overall sum of €11,394.2 thousand was added to the equalization provision (2020: €28,854.9 thousand).

After the addition to the equalization provision, the underwriting result improved to a profit of €26,534.9 thousand (2020: €23,210.9 thousand).

Investments generated a net gain of €64,823.4 thousand (2020: €100,966.1 thousand). This was in line with the forecast in the 2020 annual report. As budgeted, there was a further fall in current income from other investments as virtually all ordinary income was reinvested in institutional funds. Conversely, investment income from subsidiaries returned to strong growth following a sharp decline in 2020. Income from reversals of write-downs fell year on year from €61,846.0 thousand to €12,563.8 thousand because the prior-year figure had included a non-recurring item amounting to €52,014.1 thousand. In 2020, restructuring of the securities portfolio had resulted in gains on disposal of €1,671.1 thousand as well as losses on disposal of €3,560.4 thousand. There was a very similar level of gains on disposal in the reporting year (2021: €1,874.6 thousand) but only marginal losses (€87.8 thousand) on account of maturing investments. The net yield on the investment portfolio decreased from 4.8 percent in 2020 to 2.9 percent in the reporting year. However, the current average yield rose from 2.3 percent to 2.9 percent.

The net expense reported for other net income/expense increased from €43,206.9 thousand in 2020 to €45,373.5 thousand in the reporting year.

In line with the forecast from the prior year, the profit before tax of €45,984.8 thousand was not at the level of the €80,970.1 thousand achieved in 2020. After deduction of the tax expense of €22,493.3 thousand (2020: €16,753.7 thousand), net income for the year amounted to €23,491.5 thousand, which was – as expected – well below the prior-year figure of €64,216.4 thousand. The tax expense included income of €2,001.4 thousand (2020: expense of €2,001.4 thousand) that resulted from deferred taxes.

## Financial performance by source country

### Performance in Germany

**Direct insurance business** In Germany, gross premiums written in direct business rose from €416,824.2 thousand to €446,140.0 thousand, a year-on-year increase of 7.0 percent. After deduction of reinsurance premiums and the change in unearned premiums, net premiums earned came to €439,008.6 thousand (2020: €412,535.6 thousand).

Due to the increase in attorney and court costs in the prior year and the growth in the insurance portfolio, claim payments went up by 8.2 percent, from €233,742.9 thousand in 2020 to €252,868.9 thousand in the reporting year. Claims incurred for the reporting year advanced by 1.5 percent year on year to €292,985.9 thousand. The increase in court costs and attorney fees by an average of 13.0 percent from 2021 was a factor in this rise. At 446,364, the number of claims reports for the reporting year was only slightly higher in 2021 than in the prior year (2020: 441,985). Taking into account the claims

incurred but not previously reported that were eventually reported in 2021, a total of 559,235 claims were reported in the year under review (2020: 556,760 claims), a rise of 0.4 percent.

Reinsurers' shares amounting to €363.3 thousand were recognized as expenses in 2021 (2020: income of €64.7 thousand). The remaining recognized claims incurred came to €284,645.2 thousand as against €277,608.3 thousand in 2020. The claims ratio (net) based on the recognized claims incurred was 64.8 percent compared with 67.3 percent in the prior year.

Gross insurance business operating expenses went up from €160,950.8 thousand in 2020 to €173,853.4 thousand in the reporting year. This increase was attributable not only to a growth-related rise in commissions but also to higher staff expenses, higher expenses for pension and other post-employment benefits, and an increase in the cost of purchased services. The additional commission expenses and the rise in claims incurred were covered by the additional premiums. Overall, the underwriting result before the equalization provision improved from a loss of €25,355.8 thousand in 2020 to a loss of €18,455.6 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. Reinsurance treaties are also in place with primary insurers for the Canadian business (quota-share treaties), for the Australian business, and for the Irish business. In the reporting year, the Company entered into another reinsurance treaty with a major primary insurer in Canada, which led to a substantial increase in the volume of business. Net premiums amounted to €45,102.7 thousand compared with €26,289.9 thousand in 2020. Claims expenses came to €42,246.7 thousand (2020: €22,008.2 thousand) and included an addition to the claims reserve for the inward reinsurance business from Canada, determined in accordance with actuarial principles. Administrative expenses came to €9,518.9 thousand (2020: €1,851.5 thousand). This increase mainly resulted from the commissions payable under the new Canadian treaty. The underwriting loss before the equalization provision stood at €6,652.5 thousand (2020: underwriting profit of €4,040.1 thousand).

A sum of €4,050.0 thousand was added to the equalization provision (2020: €3,120.3 thousand). The underwriting result for the inward reinsurance business amounted to a loss of €10,702.4 thousand (2020: profit of €919.8 thousand).

**Non-underwriting result** COVID-19 continued to have a major impact on the global economy in the reporting year. However, there were initially signs of recovery after an easing of the often drastic protective measures and the associated restrictions on economic and social activity. The support packages introduced by governments in various countries were accompanied by progressive monetary policy on the part of the central banks. From the middle of 2021, the global recovery increasingly led to bottlenecks in the supply of raw

materials and certain goods. These supply bottlenecks hindered further growth and instead combined with surging energy prices to stoke inflation, which by the end of the year had reached its highest level since 1992. Outside Europe, the central banks signaled toward the end of the year that they would soon be raising interest rates and this led to a fall in the prices of securities.

To avoid having to recognize heavy impairment losses on the securities portfolio in future because of price volatility, ARAG SE reinvested ordinary income in institutional funds. This resulted in a decrease in current income from securities, which meant that current income from other investments fell from €6,899.4 thousand in 2020 to €6,635.2 thousand in the reporting year. A write-down on a subsidiary had been reversed in an amount of €52,014.4 thousand in 2020 as the reasons for the previous write-down had no longer applied. In Germany, total depreciation, amortization, and write-downs of investments rose sharply from €4,829.2 thousand in 2020 to €7,887.4 thousand in the reporting year due to the anticipated rise in interest rates. Dividend income from affiliated companies and equity investments went up by €18,280.7 thousand year on year. The main factors in this increase were the dividends from the US business and from an equity investment in Switzerland and the income that is, as scheduled, now starting to be generated by private equity and infrastructure investments. At €11,816.0 thousand, the transfer of profit from ARAG Allgemeine Versicherungs-AG was higher than in the prior year (2020: €10,725.9 thousand).

Net gains on investments totaled €58,310.3 thousand in the year under review compared with €88,926.8 thousand in 2020. Ordinary gains and losses on investments – after deduction of the expenses for the management of the investments – amounted to a net gain of €54,422.5 thousand (2020: €35,050.1 thousand).

Other net income/expense amounted to a net expense of €42,773.6 thousand (2020: €39,649.0 thousand). This includes the net figure for income and expense from the provision of services to Group companies and third parties, which is close to zero, and expenses to which income cannot be directly assigned. The latter expenses include addition of interest to the pension provision, expenses for pension and other post-employment benefits, 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 2021 or 2020.

**Taxes** Current taxes amounted to a net expense of €3,607.3 thousand (2020: €1,644.4 thousand), all of which related to prior years (2020: expense of €3,607.3 thousand relating to taxes in prior years). Taking into account the miscellaneous taxes, the total tax expense came to €3,991.0 thousand compared with €2,099.1 thousand in 2020.

**Net income/loss for the year, Germany** The net income for the year generated by the German business of ARAG SE amounted to a net loss of €17,612.4 thousand (2020: net income of €22,742.7 thousand).

**Branch performance** The eight European branches of ARAG SE performed well again in the reporting year and were able to grow their business further. The branches accounting for the highest level of premiums written were ARAG Netherlands with premiums written of €175,619.8 thousand (2020: €174,426.0 thousand), ARAG Italy with €170,114.2 thousand (2020: €154,070.0 thousand), ARAG Spain with €136,296.8 thousand (2020: €127,563.4 thousand), and ARAG Austria with €79,048.0 thousand (2020: €73,539.1 thousand). The premiums earned net of reinsurance amounted to a total of €592,120.3 thousand (2020: €563,741.9 thousand). The growth was predominantly generated from the intensification of the relationships with business partners in indirect business (Netherlands, Italy, and Spain), the ongoing systematic development of insurance products in legal-insurance-related business (Spain and Italy), and consumers' increased receptiveness to legal insurance (Austria). However, growth was dampened once again by the contraction of the travel insurance business in Spain and Portugal due to protective measures in connection with COVID-19 (travel restrictions). Overall, gross premium income rose by 6.1 percent to €601,160.5 thousand (2020: €566,671.9 thousand).

The claims ratio went up from 37.3 percent in 2020 to 38.6 percent in the reporting year following a reassessment of accumulation risk in Austria that necessitated an increase in reserves. As expected, however, the rise in claim payments was higher, at 5.7 percent, because the courts in Austria and Spain had been closed at times in 2020.

The absolute rise in insurance business operating expenses was, as before, driven by commissions. The cost ratio increased from 49.8 percent in 2020 to 50.8 percent. Including miscellaneous underwriting income and expenses of €478.4 thousand (2020: €468.6 thousand), however, the underwriting result before the equalization provision generated by the international branches amounted to a profit of €63,037.2 thousand that was substantially lower than in the prior year (2020: €73,381.5 thousand). A sum of only €7,344.2 thousand was added to the equalization provision (2020: €25,734.6 thousand). The underwriting result of €55,693.0 thousand exceeded the prior-year level as a result (2020: €47,647.0 thousand).

The investments that are assigned to the insurance business of the branches generated a total net gain on investments of €6,513.2 thousand (2020: €12,039.3 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 €12,457.2 thousand in 2020 to €10,964.8 thousand in 2021. In 2021, a higher level of depreciation, amortization, and write-downs was necessary than in the prior year because of write-downs at a subsidiary.

Other net income/expense amounted to an expense of €2,600.0 thousand (2020: expense of €3,557.9 thousand). The branches generated a high profit from ordinary activities of €59,606.2 thousand (2020: €56,128.3 thousand). The tax expense came to €18,502.3 thousand (2020: €14,654.6 thousand). The tax expense included income of €2,001.4 thousand (2020: expense of €2,001.4 thousand) that resulted from a change in net deferred taxes.

With net income for the year of €41,103.9 thousand in 2021 (2020: €41,473.6 thousand), the European branches made another very healthy contribution to the overall net income of ARAG SE.

### Overall net income for the year

Considering the economic conditions, both in the core business and in the capital markets, the Company's business performance was extremely positive in 2021.

As already explained, the underwriting result after the addition to the equalization provision exceeded expectations with a profit of €26,534.9 thousand (2020: €23,210.9 thousand). Investments generated a net gain of €64,823.4 thousand (2020: €100,966.1 thousand). Other net income/expense amounted to a net expense of €45,373.5 thousand (2020: net expense of €43,206.9 thousand).

The profit before tax of €45,984.8 thousand was, as expected, below the exceptionally high prior-year figure of €80,970.1 thousand. After deduction of the tax expense, net income for the year amounted to €23,491.5 thousand, which, as forecast, was well below the prior-year level of €64,216.4 thousand.

After taking into account the profit brought forward from 2020, the amount to be presented to the Annual General Meeting for a decision on appropriation is €23,585.9 thousand (2020: €64,294.5 thousand).

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. Compliance with the regulatory solvency capital requirement is also monitored by risk management and overseen by the Management Board. 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 €100,096.6 thousand (December 31, 2020: €117,614.0 thousand), the Company has investments at its disposal that can be sold on the capital and financial markets at short notice, thus ensuring that the Company is able to satisfy its payment obligations under insurance contracts at all times.

### Net assets

The breakdown of investments, which increased by €135,001.5 thousand or 6.3 percent to €2,291,808.0 thousand as of December 31, 2021, was as follows:

### Investments breakdown

(€'000)	Dec. 31, 2021		Dec. 31, 2020	
Land and buildings	49,951.9	2.2 %	49,263.0	2.3 %
Affiliated companies and equity investments	440,188.4	19.2 %	411,050.5	19.1 %
Lending to affiliated companies	2,475.0	0.1 %	0.0	0.0 %
Equities and investment fund shares/units	645,825.4	28.2 %	636,105.4	29.5 %
Bearer bonds	702,985.7	30.7 %	600,427.7	27.8 %
Loans secured by mortgages or land charges and fixed-income receivables	0.0	0.0 %	2,775.0	0.1 %
Registered bonds	125,511.3	5.5 %	130,511.3	6.1 %
Promissory notes, loans	227,987.4	9.9 %	232,982.7	10.8 %
Sundry lending	76.3	0.0 %	79.7	0.0 %
Bank deposits	28,229.8	1.2 %	26,769.0	1.2 %
Other investments	16.0	0.0 %	2,333.9	0.1 %
Deposits with ceding insurers	68,560.8	3.0 %	64,508.4	3.0 %
<b>Total</b>	<b>2,291,808.0</b>	<b>100.0 %</b>	<b>2,156,806.6</b>	<b>100.0 %</b>

Pursuant to section 341b (2) of the German Commercial Code (HGB), equities and investment fund shares/units with a carrying amount of €642,673.0 thousand had been classified as fixed assets as of the balance sheet date (December 31, 2020: €632,789.2 thousand). Bearer bonds with a carrying amount of €47,343.3 thousand (December 31, 2020: €50,996.3 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 2021, ARAG SE had a total of 1,210 (December 31, 2020: 1,184) employees in Germany. A further 1,725 (December 31, 2020: 1,710) people were employed outside Germany. These figures include 154 individuals classified as non-active employees (December 31, 2020: 151) for reasons such as parental leave, maternity leave, and long-term illness. The average number of employees in 2021 was 2,926 (2020: 2,867).

## Corporate governance declaration

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

As of June 30, 2021, the Company's Supervisory Board had a target of 11 percent for the proportion of female members, which was achieved (rounded to one decimal place) with a ratio of 11.1 percent. The ratio of 11.1 percent that was achieved also meets the new target for June 30, 2023.

As of June 30, 2021, due to ongoing terms of appointment, the Company's Management Board had a target of 0 percent for the proportion of female members. This matched the actual proportion as of June 30, 2021. The Supervisory Board, however, has now set a target quota for the Management Board of 16.7 percent female members for June 30, 2023.

A target quota of 20 percent female managers had been set for the first management level below the Management Board as of June 30, 2021. This was comfortably met with an actual proportion of 34.3 percent. Given the lack of foreseeable staff turnover to any relevant extent in the existing positions, the objective for the next target date of June 30, 2023 is to consolidate the current ratio at 34.0 percent.

At the second management level below the Management Board, the proportion of 36.0 percent female managers that was achieved as of June 30, 2021 matched the target quota for that date. The target set by the Management Board for the proportion of female members at this management level as of the next target date of June 30, 2023 remains unchanged at 36.0 percent as well.

## Separate combined non-financial report

Pursuant to section 341a (1a) of the German Commercial Code (HGB), ARAG SE is required to report on non-financial matters to meet the requirements of the EU CSR Directive (2014/95/EU) and of the CSR Directive Implementation Act, which came into force in April 2017. 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 (3) HGB. The parent company ARAG Holding SE publishes a separate combined non-financial report (ARAG 2021 Sustainability Report<sup>1)</sup>) outside the group management report in accordance with section 341j (4) in conjunction with section 315b (3) HGB and section 315c in conjunction with sections 289c to 289e HGB together with the group management report.

This sustainability report is publicly accessible at [www.arag.com/en/press/publications/](http://www.arag.com/en/press/publications/)

<sup>1)</sup> 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

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

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

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

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

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

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

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

By contrast, digitalization still offers substantial opportunities and is a priority topic that continues to be driven by Germany's new government. Digital technologies will mean that it is possible to set up much more efficient administrative channels and, above all, facilitate and develop interaction with customers, regardless of the time of day or where the parties are located. Fundamentally, the sustainable transformation of the economy and society will be one of the defining challenges for the insurance industry, along with digitalization. But it also offers opportunities because new risks are emerging and existing ones are having to be reassessed.

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

Overall, premium income in the insurance industry is expected to grow more significantly than in 2021. Based on a projection from January 2022, the German Insurance Association (GDV) is estimating that premiums in the German market will increase by up to 2.7 percent in 2022 (2021: 1.1 percent). The forecast growth for casualty and property insurance is 3.0 percent (2021: 2.2 percent). In the private health insurance business, a premium increase of 5.0 percent is anticipated (2021: 5.0 percent).

In an environment still shaped by tough social, political, and economic conditions, ARAG SE is planning to continue generating growth in 2022, although probably at a slightly slower pace. The high level of economic uncertainty, the associated risk of unemployment, and regulatory restrictions have made people more receptive to the idea of legal insurance, thereby boosting demand not only for legal insurance but also legal services. Customers are also looking to protect themselves from a legal standpoint in contractual matters and in the event of rental defaults. Following the expected lifting of restrictions in the spring, many Europeans will start traveling again, which should lead to increased sales revenue from travel insurance policies. The stepping up of business outside Europe, which is underwritten using reinsurance treaties, was achieved following the signing of new treaties in the reporting year. This year, further premium growth will be generated by focusing on ATE business, which constitutes legal insurance with the benefit of finance for the cost of legal proceedings.

ARAG will share in the anticipated market growth with products and services that are tailored to customers' needs. Overall, the expectation for 2022 is that the rate of growth will be slightly lower than in the reporting year.

Despite the predicted increase in claim payments following changes to the law relating to attorney fees and court costs in Germany, the claims ratio will remain unchanged year on year. However, capital expenditure on further digitalization and in process optimization will start to generate savings in 2022 and, supported by growth, enable a small reduction in the cost ratio. A further rise in commissions in connection with the inward reinsurance business will not be enough to reverse this trend.

The underwriting result after the equalization provision will probably be a little higher in 2022 compared with 2021.

It is difficult to reliably forecast the gains and losses on investments, in particular because of uncertainty surrounding the ongoing impact of rapidly rising inflation, the difference in the approaches of the central banks in Europe and the US, the performance of the global economy in the face of existing supply bottlenecks, and the possibility of further pandemic-related restrictions in the autumn. It is also unclear what overall impact the conflict that has broken out on the fringes of eastern Europe will have on the economy and financial markets.

Income from equity investments will increase slightly. The reinvestment of ordinary income in institutional funds could continue this year and keep ordinary income from investments at a low level. Gains and losses on investments are expected to deteriorate slightly in the current year compared with 2021. Overall, the forecast is for a virtually unchanged profit before tax for 2022.

## Risk report

### Risk management system

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

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

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

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

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

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

To ensure risks are assessed appropriately, the influencing factors determining the relevant exposure on the Solvency II balance sheet are analyzed. These influencing factors are 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>
<b>2021</b>	55.8	52.2	2.8
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

**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 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 €5,895.1 thousand (December 31, 2020: €6,279.8 thousand). The average default rate for these receivables over the last three years as of December 31, 2021 was 6.9 percent (December 31, 2020: 13.9 percent).

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

- Interest-rate risk: changes in the term structure or volatility of interest rates. For example, an assumed increase or decrease of 1 percentage point in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by approximately €86.8 million.
- Equity risk: changes in the level or volatility of the market prices of equities. For example, an assumed fall in equities markets of 20 percent would cause a loss in fair value of €40.9 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	21.8
AA	12.6
A	33.4
BBB	27.8
BB	2.9
B	1.6
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 29.1 percent are accounted for by financial services entities, 32.8 percent by public-sector bonds, and 38.1 percent by corporate bonds.

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

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

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

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

Risk limitation measures include ALM and rolling liquidity planning.

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

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

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

### **Overall risk position**

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

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

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

Trends are observable – particularly online – whereby service providers or attorneys proactively try to sign up additional clients through targeted campaigns on certain legal matters. This may result in legal insurance providers facing higher costs for legal cases. ARAG offers professional guidance by steering its customers through the legal issues and is stepping up its monitoring of claims so that it can take countermeasures promptly.

Figures for the planning period have been tested using scenarios of rising costs and claims, inflation increases, and natural disasters. The outcome showed that the solvency capital requirement will be sufficiently covered for the next few years.

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

# Financial Statements

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## Balance Sheet as of December 31, 2021

### Assets

(€)

#### A. Intangible assets

- I. Purchased concessions, industrial and similar rights and assets and licenses in such rights and 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 from affiliated companies: € 0.00 (Dec. 31, 2020: € 2,775,000.00)
  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 from
  1. policyholders
  2. insurance brokers  
of which from affiliated companies: € 0.00 (Dec. 31, 2020: € 4,762.84)  
of which from other long-term investees and investors: € 45,564.35 (Dec. 31, 2020: € 0.00)
- II. Receivables from reinsurance business  
of which from affiliated companies: € 0.00 (Dec. 31, 2020: € 0.00)  
of which from other long-term investees and investors: € 45,564.35 (Dec. 31, 2020: € 0.00)
- III. Miscellaneous receivables  
of which from affiliated companies: € 16,196,583.20 (Dec. 31, 2020: € 6,252,033.75)  
of which from other long-term investees and investors: € 150,840.87 (Dec. 31, 2020: € 143,139.04)

#### 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, 2021	Dec. 31, 2020
				3,845,860.50	4,618,882.53
				<b>3,845,860.50</b>	<b>4,618,882.53</b>
				49,951,927.66	49,263,014.05
				423,135,796.13	394,162,972.80
				2,475,000.00	0.00
				17,052,566.37	16,887,567.37
				442,663,362.50	411,050,540.17
				645,825,437.92	636,105,423.66
				702,985,735.33	600,427,667.46
				1.00	2,775,001.00
				125,511,291.88	130,511,291.88
				227,987,392.36	232,982,694.53
				76,260.86	79,712.02
				353,574,945.10	363,573,698.43
				28,229,800.00	26,768,966.00
				16,000.00	2,333,871.23
				1,730,631,919.35	1,631,984,627.78
				68,560,809.48	64,508,382.26
				<b>2,291,808,018.99</b>	<b>2,156,806,564.26</b>
				31,809,023.22	27,839,671.94
				21,915,895.97	21,781,979.87
				53,724,919.19	49,621,651.81
				55,669,767.52	52,461,789.56
				21,650,604.98	14,791,614.19
				<b>131,045,291.69</b>	<b>116,875,055.56</b>
				10,883,202.49	12,856,248.19
				71,866,848.08	90,845,078.87
				25,088,637.25	26,530,255.23
				<b>107,838,687.82</b>	<b>130,231,582.29</b>
				6,148,552.73	<b>6,400,687.38</b>
				7,624,966.10	6,332,585.28
				<b>13,773,518.83</b>	<b>12,733,272.66</b>
				<b>2,548,311,377.83</b>	<b>2,421,265,357.30</b>

## Balance Sheet as of December 31, 2021

### Equity and liabilities

(€)

#### A. Equity

- I. Subscribed capital
- II. Capital reserve
- III. Revenue reserves
  - 1. Statutory reserves
  - 2. Other revenue reserves
- IV. 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 to:
  - 1. policyholders
  - 2. insurance brokers
    - of which to affiliated companies: € 67,113.22 (Dec. 31, 2020: € 46,515.88)
    - of which to other long-term investees and investors: € 0.00 (Dec. 31, 2020: € 0.00)
- II. Liabilities from reinsurance business
  - of which to affiliated companies: € 0.00 (Dec. 31, 2020: € 0.00)
  - of which to other long-term investees and investors: € 0.00 (Dec. 31, 2020: € 0.00)
- III. Miscellaneous liabilities
  - of which tax liabilities: € 19,420,978.15 (Dec. 31, 2020: € 16,824,365.65)
  - of which social security liabilities: € 1,744,267.37 (Dec. 31, 2020: € 2,657,049.47)
  - of which to affiliated companies: € 19,720,907.70 (Dec. 31, 2020: € 17,093,775.83)

#### G. Deferred income and accrued expenses

#### H. Deferred tax liabilities

#### Total equity and liabilities

			Dec. 31, 2021	Dec. 31, 2020
		100,000,000.00		100,000,000.00
		81,772,569.19		81,772,569.19
	10,000,000.00			10,000,000.00
	295,200,000.00			261,000,000.00
		305,200,000.00		271,000,000.00
		94,452.36		78,063.24
		23,491,490.67		64,216,389.12
			<b>510,558,512.22</b>	<b>517,067,021.55</b>
			<b>30,000,000.00</b>	<b>30,000,000.00</b>
	221,416,334.75			206,560,997.00
	0.00			0.00
		221,416,334.75		206,560,997.00
	1,312,251,339.92			1,224,888,908.39
	227,610.05			658,571.52
		1,312,023,729.87		1,224,230,336.87
		74,427,691.00		63,033,497.02
		949,000.00		970,000.00
			<b>1,608,816,755.62</b>	<b>1,494,794,830.89</b>
		210,624,944.31		204,356,320.88
		10,309,212.96		8,618,866.10
		72,851,707.62		70,013,063.41
			<b>293,785,864.89</b>	<b>282,988,250.39</b>
			<b>11,062.39</b>	<b>59,869.41</b>
	17,363,468.18			15,421,416.53
	26,426,845.40			23,899,605.39
		<b>43,790,313.58</b>		<b>39,321,021.92</b>
		747,865.04		2,940,971.38
		56,012,127.37		47,365,331.35
			<b>100,550,305.99</b>	<b>89,627,324.65</b>
			<b>115,023.14</b>	<b>252,764.01</b>
			<b>4,473,853.58</b>	<b>6,475,296.40</b>
			<b>2,548,311,377.83</b>	<b>2,421,265,357.30</b>

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

(€)

**I. Underwriting account**

1. Premiums earned net of reinsurance
a) Gross premiums written
b) Reinsurance premiums ceded
c) Change in gross unearned premiums
d) Change in reinsurers' share of gross unearned premiums
2. 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
<b>7. Subtotal</b>
8. Change in the equalization provision and similar provisions
<b>9. Underwriting result net of reinsurance</b>
Carried forward:

			2021	2020
	1,092,403,152.23			1,009,785,997.83
	-870,649.17			-849,295.82
		1,091,532,503.06		1,008,936,702.01
	-15,290,449.09			-6,369,257.09
	0.00			0.00
		-15,290,449.09		-6,369,257.09
			<b>1,076,242,053.97</b>	<b>1,002,567,444.92</b>
			<b>1,494,694.57</b>	<b>1,159,267.69</b>
	497,945,802.11			461,474,737.41
	-296,276.52			-235,650.80
		497,649,525.59		461,239,086.61
	-57,313,971.86			-48,409,876.26
	-430,961.47			-80,285.32
		-57,744,933.33		-48,490,161.58
			<b>555,394,458.92</b>	<b>509,729,248.19</b>
			<b>21,000.00</b>	<b>1,586,829.42</b>
		484,434,184.82		443,518,467.80
		0.00		0.00
			<b>484,434,184.82</b>	<b>443,518,467.80</b>
			<b>0.00</b>	<b>0.00</b>
			<b>37,929,104.80</b>	<b>52,065,826.04</b>
			<b>-11,394,193.98</b>	<b>-28,854,891.02</b>
			<b>26,534,910.82</b>	<b>23,210,935.02</b>
			<b>26,534,910.82</b>	<b>23,210,935.02</b>

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

(€)
Brought forward:
<b>II. Non-underwriting account</b>
1. Income from investments
a) Income from equity investments of which from affiliated companies: € 36,828,132.37 (2020: € 17,255,503.00)
b) Income from other investments of which from affiliated companies: € 122,324.93 (2020: € 1,627,296.61)
aa) Income from land, land rights and buildings, including buildings on third-party land
bb) Income from other investments
c) Income from reversals of write-downs
d) Gains on the disposal of investments
e) Income from profit-pooling, profit-transfer and partial profit-transfer agreements
2. Expenses for investments
a) Expenses for the management of investments, interest expense and similar charges and miscellaneous expenses for investments
b) Depreciation, amortization and write-downs of investments of which write-downs: € 13,790,942.31 (2020: € 5,605,375.97)
c) Losses on the disposal of investments
3. Other income
4. Other expenses
<b>5. Profit/loss from ordinary activities</b>
6. Extraordinary income
7. Extraordinary expenses
<b>8. Net extraordinary income/expense</b>
9. Income taxes of which deferred income taxes: -€ 2,001,442.82 (2020: € 2,001,362.96)
10. Miscellaneous taxes
<b>11. Net income for the year</b>



## 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 2021 in accordance with the requirements of the German Commercial Code (HGB), taking into account the supplementary provisions applicable to large corporations and the additional provisions applicable to insurance companies, the German Insurance Supervision Act (VAG), and the German Regulation on the Accounting of Insurance Undertakings (RechVersV). The financial statements are presented on the basis of financial statement forms 1 and 2 pursuant to section 2 RechVersV.

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

### II. Disclosures on Accounting Policies

#### Accounting policies

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

Purchased **intangible assets** are recognized at cost on the balance sheet and reduced by straight-line amortization according to their estimated useful life. The useful life for purchased software is three years (Germany, Spain, Italy), five years (Belgium, Netherlands), or three years for standard software and to up to seven years for customized software (Austria). The useful life for leasehold improvements is between five and ten 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. Write-downs of €108,555.00 (2020: €0.00) were recognized in the year under review owing to permanent asset impairment. Reversals of write-downs were recognized in an amount of €901,011.46 because the reason for the original write-down no longer applied (2020: €1,202,183.01). The carrying amount of land and buildings held for own use (see also section IV. 'Non-Insurance Disclosures') is determined on the basis of the primary actual usage of the overall plot.

**Investments in affiliated companies and equity investments** are valued at cost, in some cases reduced by write-downs as a consequence of permanent impairment. In this regard, write-downs amounting to €3,687,737.87 (2020: €1,003,433.94) were recognized in the reporting year. Reversals of write-downs were recognized in an amount of €4,517,859.51 in 2021 because the reasons for the original write-down no longer applied (2020: €52,014,428.60).

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 (€)
<b>1. Affiliated companies</b>			
<b>a) Insurance companies</b>			
ARAG Allgemeine Versicherungs-AG, Düsseldorf	100.00	55,322,905.72	11,815,960.91
ARAG Krankenversicherungs-AG, Munich	94.00	90,252,897.92	9,200,000.00
<b>b) Other companies – limited companies</b>			
ARAG International Holding GmbH, Düsseldorf	100.00	58,019,050.50	25,844,476.95
ARAG Liegenschaftsverwaltungs- und Beratungsgesellschaft mbH, Düsseldorf	100.00	358,519.98	- 620.92
ARAG Service Center GmbH, Düsseldorf	80.00	281,008.61	- 195,974.37
ARAG IT GmbH, Düsseldorf	100.00	8,223,679.09	- 379,277.25
CURA Versicherungsvermittlung GmbH, Düsseldorf	100.00	2,002,002.01	600,497.23
Solfin GmbH, Düsseldorf	75.10	613,378.89	274,596.90
ALIN 1 Verwaltungs-GmbH, Düsseldorf	100.00	31,591.08	1,778.76
Justix GmbH, Cologne	100.00	1,993,021.36	- 5,447.47
ARAG plc, Bristol	100.00	14,800,570.96	1,866,338.61
ARAG – France S.A.R.L. Assistance et Reglement de Sinistres Automobiles et Generaux, Versailles	100.00	18,988.00	0.00
ARAG Legal Services B.V., Leusden	100.00	337,375.67	39,054.05
ARAG Scandinavia AS, Oslo	100.00	29,208,241.02	3,972,125.85
MIA Multiline Insurance Agency s. r. l., Verona <sup>1)</sup>	100.00	181,852.59	- 218,506.87
ARAG Services Australia Pty Ltd., Sydney	100.00	344,745.10	- 1,541,288.21
Agencia de Seguros ARAG SA, Barcelona <sup>1)</sup>	100.00	234,571.95	64,503.59
ARAG Services Spain & Portugal S.L., Barcelona <sup>2)</sup>	100.00	622,811.99	85,432.58
<b>c) Other companies – partnerships</b>			
ARAG 2000 GbR	50.90	73,486,511.87	3,332,880.00
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50.00	5,100,402.82	166,089.67
ALIN 1 GmbH & Co. KG, Düsseldorf	100.00	73,649,560.03	3,604,198.80
<b>2. Associates</b>			
AXA ARAG Rechtsschutz AG, Zurich <sup>1)</sup>	29.17	34,495,876.61	9,919,491.63

<sup>1)</sup> Figures from the last available financial statements (for the year ended December 31, 2020).

<sup>2)</sup> 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. Unlike in the prior year, shares/units in infrastructure funds and private equity funds were reported under investment fund shares/units.

Following the strict principle of lower of cost or market value, the following write-downs were recognized in 2021: €37,343.52 (2020: €74,400.77) in respect of investment fund shares/units and €4,630,837.84 (2020: €457,266.83) in respect of bonds. In application of the discretionary principle of lower of cost or market value, write-downs amounting to €5,326,468.08 (2020: €3,656,683.23) were recognized in respect of investment fund shares/units and amounting to €0.00 (2020: €203,715.33) in respect of bonds. Reversals of write-downs were recognized in the year under review in respect of investment fund shares/units in an amount of €6,935,807.89 (2020: €7,675,922.92) and in respect of bonds in an amount of €209,092.85 (2020: €953,428.88). As of the reporting date, and in a change from the prior year, application of the discretionary principle of lower of cost or market value resulted in undisclosed liabilities of €134,032.00 that had not been netted.

ARAG SE made use of the option to select the discretionary principle of lower of cost or market value for those institutional investment fund shares/units and bearer bonds, as the Management Board intends 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 6.7 percent of the bearer bonds are classified as permanent investments at ARAG SE and are treated as fixed assets. The long-term fund value is calculated by reviewing the individual components of the fund. Criteria for reviewing long-term changes in the value of fixed-income securities include their credit rating and nominal amount. Comparisons with historical valuation parameters are used for equities. If there is long-term impairment, the investment fund shares/units are written down to the sum of the long-term values of the securities in the investment fund. Write-downs are reversed up to the amount of the historical cost if there is a sustained price recovery. Shares/units in private equity funds and infrastructure funds are valued at the lower of cost or fair value on the reporting date. The fair value as of the reporting date is reviewed on the basis of the net asset values (NAVs) reported by the fund management companies. If the reason for the original write-down no longer applies, write-downs are reversed to the historical cost. As in prior years, additions to investment fund shares/units were recognized in full under investments treated as fixed assets. The amount recognized under this item for additions to bearer bonds, however, was only €12,767.88.

Unlike in the previous year, **bearer bonds** treated as fixed assets were treated in the same way as registered bonds in terms of amortization of premiums and discounts. However, the effective interest method was used rather than the straight-line method that is used for registered bonds. Because the premiums and discounts are recognized in the carrying amount of the securities themselves rather than under prepaid expenses and accrued income and under deferred income and accrued expenses, this treatment led to a net derecognition of assets amounting to €344,102.01.

**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. In addition to the nominal amount, premiums and discounts are recognized at cost. In the case of promissory notes and loans, they are taken to income over the term to maturity using the effective interest method and are recognized as interest income or treated as negative interest income. Premiums and discounts were amortized using the effective interest method for the first time in the year under review.

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** are recognized at their nominal value, while **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 (AUD 900,000.00) 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 recoverable 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:

<b>Rating class</b>	<b>Dec. 31, 2021</b>	<b>Dec. 31, 2020</b>
<i>(Balance in €'000)</i>		
AA	18.8	0.0
AA-	15.0	2,128.0
A+	11,019.1	4,677.2
A	0.0	686.2
A-	31,601.9	4,889.4
BBB+	0.0	2,789.2
BBB	3,447.1	726.5
BBB-	0.0	26,098.1
No rating	9,567.7	10,467.2
	<b>55,669.8</b>	<b>52,461.8</b>

**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 €1,337,410.45 that had been issued but not executed as of the reporting date (December 31, 2020: €372,671.10) 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 €10,266.6 thousand (December 31, 2020: €7,735.7 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 provisions are not discounted. The results from the group-based and individual valuations are reviewed on a portfolio basis using actuarial methods and, if necessary, adjusted. The estimate process for group valuations was amended in the reporting year, bringing it into line with the findings from the regulatory estimate in the context of

Solvency II. This adjustment did not give rise to any material changes with an impact on the Company's net assets, financial position, and results of operations in the year under review.

In the reporting year, the profit on settlements in direct business for all classes of insurance amounted to 2.8 percent of the initial reserve (2020: 3.9 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 Company's own local claims settlement company. For inward after-the-event (ATE) business from Canada, an additional reserve was recognized on the basis of inhouse actuarial calculations because the reserve provided by the primary insurer is clearly insufficient. 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 Company 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.

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 Heubeck 2018 G mortality tables 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 1.87 percent was applied for the valuation as of December 31, 2021 (December 31, 2020: 2.30 percent). As of December 31, 2021, the difference between the application of the ten-year average and the seven-year average (1.35 percent; December 31, 2020: 1.60 percent) caused a reduction in the provision for pensions and other post-employment benefits of €16,310,342.00 (December 31, 2020: €21,238,477.00). 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 €856,481.00 (December 31, 2020: €886,049.00). In addition, securities with a fair value of €2,534,820.00 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 €117,100.00 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 €635,534.12 (December 31, 2020: €779,925.24) 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 €0.00 (2020: €3,820.06) and interest expenses of €128,019.04 (2020: €86,733.44) 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 1.35 percent (December 31, 2020: 1.60 percent).

In 2021, a provision in accordance with the **pre-retirement part-time employment agreement** for the private insurance industry dated June 11, 1997, based on the Accounting Principle issued by the Main Technical Committee of the Institute of Public Auditors in Germany (IDW AcP HFA 3) dated November 18, 1998, was recognized using a maturity-matched discount rate of 1.35 percent (2020: 1.60 percent). In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements and natural employee turnover were taken into account. Credit balances on employee working hours accounts models are protected against insolvency in accordance with the German Pre-Retirement Part-Time Employment Act (AltTZG) by means of a fixed liability guarantee from a German commercial bank.

A **long-service provision** was recognized in the year under review for long-service awards to be paid to employees. The provision was calculated using the projected unit credit method taking into account death rates in accordance with the Heubeck 2018 G mortality tables and applying a discount rate of 1.35 percent (seven year average; 2020: 1.60 percent). The calculation also included staff turnover at an average rate of 1.5 percent and salary increases at a rate of 2.5 percent. The earliest possible pension age under the RVAGAnpG was selected as the final age.

**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, 2021, it also included discounts on registered bonds amounting to €4,068.86 (December 31, 2020: €6,390.26). **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 income of €2,001,442.82 in the reporting year (2020: expense of €2,001,362.96).

### 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 €523,282.67 (2020: €2,050,057.18) and expenses of €4,048,953.78 (2020: €261,640.96). 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 2021 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. The fair values of private equity funds and infrastructure funds are derived from the NAV reported by the investment management company for the quarter leading up to the balance sheet date.

**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 value corresponds to the nominal amount. Other investments comprise shares in cooperatives.

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

### III. Insurance Disclosures

(€'000)	Direct insurance business				
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2021	Total 2020
Gross premiums written	763,479	26,615	7,643	797,738	754,873
Gross premiums earned	752,598	26,138	7,896	786,632	751,069
Net premiums earned	-	-	-	-	-
Claims incurred	397,253	12,664	861	410,778	407,702
of which payments for claims	371,559	13,199	987	385,744	364,896
Insurance business operating expenses	318,820	13,737	4,270	336,828	317,190
of which front-end fees	102,844	10,558	266	113,667	99,625
of which administrative expenses	215,977	3,179	4,004	223,160	217,565
Change in equalization provision	0	-1,689	777	-912	3,966
Miscellaneous underwriting income and expenses	1,516	0	0	1,516	1,136
Underwriting result	38,040	-1,951	3,541	39,630	31,280
Technical provisions:					
Unearned premiums	161,635	2,943	3,743	168,321	157,215
Provision for outstanding claims	1,021,993	8,117	943	1,031,053	1,006,019
Equalization provision and similar provisions	0	7,465	1,625	9,090	8,178
Miscellaneous technical provisions	949	0	0	949	970

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

Direct insurance business	2021	2020
(No.)		
Germany	1,747,331	1,688,439
International	2,930,458	2,839,167
<b>Total</b>	<b>4,677,789</b>	<b>4,527,606</b>

	Inward reinsurance business				Outward reinsurance business		Total insurance business		
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2021	Total 2020	2021	2020	2021	2020
	281,106	13,207	352	294,665	254,913	-	-	1,092,403	1,009,786
	276,955	13,145	380	290,480	252,347	-	-	1,077,113	1,003,417
	-	-	-	-	-	871	849	1,076,242	1,002,567
	130,988	13,439	55	144,482	102,183	-135	155	555,394	509,729
	99,314	12,829	58	112,202	96,579	296	236	497,650	461,239
	147,136	191	279	147,606	126,328	0	0	484,434	443,518
	507	159	21	687	714	-	-	-	-
	146,630	32	258	146,920	106,393	-	-	-	-
	-9,215	-1,263	-5	-10,482	-32,821	0	0	-11,394	-28,855
	0	0	0	0	1,610	0	0	1,516	2,746
	-10,384	-1,747	41	-12,090	-7,375	1,005	694	26,535	23,211
	49,013	4,008	74	53,095	49,346	0	0	221,416	206,561
	279,266	1,864	69	281,198	218,870	228	659	1,312,024	1,224,230
	57,259	8,035	44	65,338	54,856	0	0	74,428	63,033
	0	0	0	0	0	0	0	949	970

Gross premiums written in the direct insurance business in Germany amounted to €446,140.0 thousand. Premiums of €351,598.1 thousand were written in the business with the other member states of the European Community and with other countries that have signed up to the Agreement on the European Economic Area (EEA). There was no direct business with non-EEA countries.

Casualty and property insurance accounted for the entirety of gross premiums written in the inward reinsurance business (€294,665.1 thousand).

## IV. Non-Insurance Disclosures

### Changes in investments in 2021:

#### Changes in asset items A., B. I. to IV. from January 1 to December 31, 2021

Type of investment (€)	Balance Jan. 1, 2021	Currency differences	Additions	Disposals	Reclassifi- cations
<b>A. Intangible assets</b>					
1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	4,618,882.53	0.00	2,276,550.76	9,921.06	0.00
<b>Total for A.</b>	<b>4,618,882.53</b>	<b>0.00</b>	<b>2,276,550.76</b>	<b>9,921.06</b>	<b>0.00</b>
<b>B. I. Land, land rights and buildings, including buildings on third-party land</b>	<b>49,263,014.05</b>	<b>0.00</b>	<b>1,220,009.54</b>	<b>199,961.18</b>	<b>0.00</b>
<b>B. II. Investments in affiliated com- panies and equity investments</b>					
1. Shares in affiliated companies	394,162,972.80	0.00	29,557,395.42	1,414,693.73	0.00
2. Lending to affiliated companies	0.00	0.00	0.00	225,000.00	2,700,000.00
3. Equity investments	16,887,567.37	0.00	0.00	1.00	165,000.00
<b>Total for B. II.</b>	<b>411,050,540.17</b>	<b>0.00</b>	<b>29,557,395.42</b>	<b>1,639,694.73</b>	<b>2,865,000.00</b>
<b>B. III. Miscellaneous investments</b>					
1. Equities, investment fund shares/units and other variable-yield securities fixed-income securities	636,105,423.66	0.00	218,520,743.50	212,525,596.76	2,152,871.23
2. Bearer bonds and other fixed-income securities	600,427,667.46	0.00	155,207,244.96	48,227,432.10	0.00
3. Loans secured by mortgages or land charges and fixed-income receivables	2,775,001.00	0.00	0.00	75,000.00	-2,700,000.00
4. Miscellaneous lending					
a) Registered bonds	130,511,291.88	0.00	0.00	5,000,000.00	0.00
b) Promissory notes and loans	232,982,694.53	0.00	20,118.21	5,015,420.38	0.00
c) Sundry lending	79,712.02	0.00	40,000.00	43,451.16	0.00
5. Bank deposits	26,768,966.00	0.00	10,429,800.00	8,968,966.00	0.00
6. Other investments	2,333,871.23	0.00	0.00	0.00	-2,317,871.23
<b>Total for B. III.</b>	<b>1,631,984,627.78</b>	<b>0.00</b>	<b>384,217,906.67</b>	<b>279,855,866.40</b>	<b>-2,865,000.00</b>
<b>Total</b>	<b>2,096,917,064.53</b>	<b>0.00</b>	<b>417,271,862.39</b>	<b>281,705,443.37</b>	<b>0.00</b>

Reversals of write-downs	Depreciation/ amortization	Write-downs	Balance Dec. 31, 2021	Cost/ nominal amount	Fair value as of Dec. 31, 2021	Valuation reserve
0.00	3,039,651.73	0.00	3,845,860.50	38,960,737.96	3,845,860.50	0.00
<b>0.00</b>	<b>3,039,651.73</b>	<b>0.00</b>	<b>3,845,860.50</b>	<b>38,960,737.96</b>	<b>3,845,860.50</b>	<b>0.00</b>
<b>901,011.46</b>	<b>1,123,591.21</b>	<b>108,555.00</b>	<b>49,951,927.66</b>	<b>64,430,461.02</b>	<b>73,419,000.00</b>	<b>23,467,072.34</b>
4,517,859.51	0.00	3,687,737.87	423,135,796.13	464,322,185.66	1,064,109,545.00	640,973,748.87
0.00	0.00	0.00	2,475,000.00	2,475,000.00	2,475,000.00	0.00
0.00	0.00	0.00	17,052,566.37	17,052,566.37	68,338,000.00	51,285,433.63
<b>4,517,859.51</b>	<b>0.00</b>	<b>3,687,737.87</b>	<b>442,663,362.50</b>	<b>483,849,752.03</b>	<b>1,134,922,545.00</b>	<b>692,259,182.50</b>
6,935,807.89	0.00	5,363,811.60	645,825,437.92	651,857,792.87	711,746,893.42	65,921,455.50
209,092.85	0.00	4,630,837.84	702,985,735.33	708,578,395.24	728,483,693.54	25,497,958.21
0.00	0.00	0.00	1.00	1.00	1.00	0.00
0.00	0.00	0.00	125,511,291.88	125,511,291.88	130,835,290.75	5,323,998.87
0.00	0.00	0.00	227,987,392.36	227,982,694.53	238,457,814.71	10,470,422.35
0.00	0.00	0.00	76,260.86	76,260.86	76,260.86	0.00
0.00	0.00	0.00	28,229,800.00	28,229,800.00	28,229,800.00	0.00
0.00	0.00	0.00	16,000.00	16,000.00	16,000.00	0.00
<b>7,144,900.74</b>	<b>0.00</b>	<b>9,994,649.44</b>	<b>1,730,631,919.35</b>	<b>1,742,252,236.38</b>	<b>1,837,845,754.28</b>	<b>107,213,834.93</b>
<b>12,563,771.71</b>	<b>4,163,242.94</b>	<b>13,790,942.31</b>	<b>2,227,093,070.01</b>	<b>2,329,493,187.39</b>	<b>3,050,033,159.78</b>	<b>822,940,089.77</b>

Land, land rights and buildings, including buildings on third-party land, with a carrying amount of €29,507,255.04 (December 31, 2020: €29,396,269.97) 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, 2021, the carrying amount of the equity investment was €32,236,363.98 (December 31, 2020: €33,651,057.71). The property managed by the entity (headquarters of the ARAG Group in Düsseldorf) is used almost exclusively for the Company's own business operations. The use by affiliated companies for their operations is insignificant.

### Investment disclosures

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

#### Institutional funds

Institutional fund	Type of fund	Investment objective	Carrying amount as of Dec. 31, 2021	Market value as of Dec. 31, 2021	Difference	Dividend in 2021	Redemption
			(€)	(€)	(€)	(€)	
ARRE	Fixed-income fund	Increased income	376,630,305.05	390,719,047.98	14,088,742.93	977,883.16	At any time
ARI 1	Fixed-income fund	Increased income	64,767,302.64	64,633,270.64	- 134,032.00	456,019.63	At any time
ARI 2	Fixed-income fund	Increased income	38,144,456.62	38,144,456.62	0.00	288,362.46	At any time
AAF	Equity fund	Increased income	61,467,132.17	90,992,680.01	29,525,547.84	0.00	At any time
EMA	Equity fund	Increased income	28,984,048.41	30,017,484.13	1,033,435.72	4,963.76	At any time
SIVE Fonds							
INKA	Equity fund	Increased income	64,405,202.74	83,531,692.29	19,126,489.55	0.00	At any time
<b>Total</b>			<b>634,398,447.63</b>	<b>698,038,631.67</b>	<b>63,640,184.04</b>	<b>1,727,229.01</b>	

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.

As of December 31, 2021, shares/units in investment funds (institutional funds) with a carrying amount of €642,672,957.28 had been classified as investments treated as fixed assets. The fair value of these investment fund shares/units classified as permanent investments amounted to €708,544,160.54 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 2021, securities with a carrying amount of €47,343,324.27 had been classified as investments treated as fixed assets. The fair value of these bearer bonds amounted to €49,992,840.00 as of the balance sheet date.

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

### Other assets

(€)	Dec. 31, 2021	Dec. 31, 2020
Income tax refund right under current income tax assessment and on the basis of tax audit findings	18,958,937.27	21,145,853.71
Italian insurance tax refund right	5,952,282.02	5,211,861.95
Sundry items	177,417.96	172,539.57
<b>Total</b>	<b>25,088,637.25</b>	<b>26,530,255.23</b>

### Recognized deferred taxes

Deferred taxes are calculated using the current income tax rate of the country that will have the right to levy tax at the time that the differences are reversed and in accordance with the relevant double taxation convention. For financial reporting purposes, the effects of the reversal of the differences between the HGB financial statements and the tax base are reviewed in terms of their impact on the basis of tax assessment. Deferred tax assets were netted with the deferred tax liabilities. The recognized net deferred tax liabilities of €4,473,853.58 (December 31, 2020: €6,475,296.40) resulted mainly from excess liabilities in Austria (tax equalization provision), Spain (land and buildings), and the Netherlands (tax equalization provision).

## Equity

(€)		Dec. 31, 2021
<b>Total</b>		<b>510,558,512.22</b>
<b>I. Subscribed capital</b>		
<b>The share capital amounts to</b>		<b>100,000,000.00</b>
<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>		
<b>II. Capital reserves in accordance with section 272 (2) no. 4 HGB</b>		
Brought forward as of January 1, 2021	81,772,569.19	
Changes in the reporting year	0.00	
<b>Balance as of Dec. 31, 2021</b>		<b>81,772,569.19</b>
<b>III. Revenue reserves</b>		
1. Statutory reserves		
Brought forward as of January 1, 2021	10,000,000.00	
Appropriation from profit	0.00	
Balance as of Dec. 31, 2021		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, 2021	261,000,000.00	
Additions approved by the Annual General Meeting	34,200,000.00	
Appropriation from current net retained profit	0.00	
Balance as of Dec. 31, 2021		295,200,000.00
		<b>305,200,000.00</b>
<b>IV. Net retained profit</b>		
Net retained profit as of December 31, 2020		64,294,452.36
Appropriation of profits: dividend		- 30,000,000.00
Appropriation of profits: appropriation to other revenue reserves		- 34,200,000.00
Net income for 2021		23,491,490.67
Appropriation to statutory reserves (section 150 (2) AktG)		0.00
Appropriation to other revenue reserves		0.00
<b>Net retained profit as of December 31, 2021</b>		<b>23,585,943.03</b>

### Provisions for pensions and other post-employment benefits

Since 2010, this item has also included the offsetting of pension benefit entitlements under reinsurance in accordance with section 246 (2) sentence 2 HGB. The breakdown of the item as of December 31, 2021 was therefore as follows:

### Defined benefit obligations

(€)	Dec. 31, 2021	Dec. 31, 2020
Amount required to settle the vested entitlements	214,016,245.31	207,860,439.88
of which offsetable against pension insurance assets	- 856,481.00	- 886,049.00
of which offsetable against securities	- 2,534,820.00	- 2,618,070.00
<b>Remaining amount</b>	<b>210,624,944.31</b>	<b>204,356,320.88</b>

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 €635,534.12 (December 31, 2020: €779,925.24) 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 €1,926,262.23 (December 31, 2020: €1,802,059.37) 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 €8,382,950.73 (December 31, 2020: €6,816,806.73) was recognized for miscellaneous taxes and for tax amounts identified by tax audits that have not yet been applied. Included in this figure in the prior year was a sum of €2,349,000.00 that related to VAT due to inconsistent application of the VAT rules in the member states of the European Union. The provision was reversed in full in 2021.

### Miscellaneous provisions

(€)	Dec. 31, 2021	Dec. 31, 2020
Outstanding employee remuneration	23,275,233.20	19,010,956.23
Outstanding commission payments	18,744,801.92	16,731,626.58
Provision for outstanding invoices	6,598,395.40	6,210,275.77
Early retirement and pre-retirement part-time working obligations	3,728,587.28	4,626,823.60
Long-service provision	4,072,063.86	3,755,591.58
Severance payments (Austria, Slovenia, Greece)	3,249,396.97	3,356,887.20
Interest on taxes and additional tax-related charges	0.00	0.00
Compensation claims for agents leaving the Company	1,271,627.40	1,190,871.75
Performance-related and business-plan remuneration for agents	1,737,000.00	1,738,489.00
Costs for financial statements and tax audit	1,887,721.01	1,743,623.13
Severance payments	422,732.00	75,000.00
Sales competition awards	1,808,320.11	2,086,958.87
Supervisory Board and Advisory Council remuneration	683,522.00	663,980.00
Redundancy scheme and restructuring obligations	26,470.05	99,961.59
Current litigation costs	420,847.56	469,264.00
Sundry other provisions	4,924,988.86	8,252,754.11
<b>Total</b>	<b>72,851,707.62</b>	<b>70,013,063.41</b>

**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 €21,569,700.01 (2020: expense of €18,661,468.96) related to the year under review and expense of €4,368,747.12 (2020: income of €7,278,402.07) related to prior years. They also included income arising from the change in the balance of deferred taxes amounting to €2,001,442.82 (2020: expense of €2,001,362.96).

**V. Report on Post-Balance Sheet Events**

There were no events of particular significance after December 31, 2021. 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. The dramatic escalation of the conflict with Russia and the Russian Federation's invasion of Ukrainian territory have sent shock waves through the existing world order. ARAG does not operate its own insurance business in eastern Europe, Ukraine, or the Russian Federation. At the present time, it is difficult to assess the impact of the macroeconomic changes in Europe and worldwide that have been triggered by this war. So far in 2022, business performance has been in line with expectations.

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

(€)	2021	2020
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	186,519,355.35	182,827,209.02
2. Other remuneration for insurance agents within the meaning of section 92 HGB	16,715,281.89	16,918,188.89
3. Wages and salaries	185,366,488.90	174,941,067.97
4. Social security and other employee benefit expenses	33,411,805.52	31,647,857.43
5. Pension and other post-employment benefit expenses	29,237,830.00	27,007,700.43
<b>6. Total expenses</b>	<b>451,250,761.66</b>	<b>433,342,023.74</b>

An additional sum of €131,254,704.32 was incurred for commissions in the inward reinsurance business (2020: €111,086,079.28).

### 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 extremely remote, because the company has an equity ratio of 92.0 percent (€73.5 million) and generated net income for the year of €3.3 million.

Collateral was pledged to secure the obligations arising from two quota share reinsurance treaties with two Canadian primary insurers. Securities with a carrying amount of €55,309,206.90 (nominal value of CAD 82.1 million) and two bank accounts with a total credit balance equivalent to €6,598,105.13 were pledged to the two primary insurers and are not available to cover any underwriting risk other than the underwriting risk for which they are designated as collateral.

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
Private-equity and infrastructure funds (investment funds)	9,189,434.97

None of the unpaid contributions have been called up. The infrastructure and private-equity funds are expected to call up contributions of only €8,830,385.37 within approximately 18 to 24 months, as some of 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 €142,816,705.07 have been concluded through the affiliated company ALIN 1 GmbH & Co. KG with various private-equity and infrastructure 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 €5,520.0 thousand remaining in the company, calls at short notice of €66,070.1 thousand are expected on the basis of the open-ended investment agreements.

**Auditor's fees**

The Company's Supervisory Board agreed fees with the auditor for the audit of the 2021 annual financial statements and Solvency II balance sheet as of December 31, 2021. In the reporting year, a provision of €727,700.00 (excl. VAT: €632,596.19) was recognized 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. Of the provision of €654,024.00 recognized in the prior year, a sum of €79,571.54 that was unutilized in 2021 was reversed and recognized in the income statement. Expenses of €8,551.58 were incurred in relation to tax consultancy services. 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 2,926 people in 2021 (2020: 2,867). As of December 31, 2021, the Company had 2,935 employees (December 31, 2020: 2,894).

Of the total as of December 31, 2021, 1,145 employees worked at the headquarters in Düsseldorf (December 31, 2020: 1,122), 1,636 employees worked in the international branches (December 31, 2020: 1,621), and 154 people were classified as non-active employees (December 31, 2020: 151) for reasons such as maternity leave, parental leave, and illness. Of these non-active employees, 65 were from the headquarters (December 31, 2020: 62) and 89 from the international branches (December 31, 2020: 89).

There were also seven trainees (December 31, 2020: four).

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

The expense for Supervisory Board remuneration amounted to €600,000.00 and for the Advisory Council €83,522.00. The Management Board's remuneration came to €7,289,016.69. 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 €3,079,243.88. A provision of €50,236,853.00 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, 2021. The consolidated financial statements of ARAG Holding SE will be published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice. 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** Chief Executive Officer  
of ARAG Holding SE,  
Düsseldorf,  
Chairman

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

**Dr. Tobias Bürgers** Attorney,  
Munich

**Dr. Michael Pielorz** Attorney,  
Düsseldorf

**Professor Dr. Fred Wagner** University professor,  
Leipzig

**Dr. Sven Wolf** Member of the Management Board of  
ARAG Holding SE,  
Krefeld

#### Employee representatives:

**Margit Schuler** Vice President, Sales Quality  
and Talent Management at ARAG SE,  
Mettmann,  
Deputy Chairwoman

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

**Richard Wenhart** Employee in Production Systems/  
Application Services at ARAG IT GmbH,  
Buch a. Erlbach

<b>Advisory Council</b>	<b>Christoph Buchbender</b>	Member of the Management Board of Rheinland Holding AG, Neuss, Chairman
	<b>Rainer Gebhart</b>	Deputy Chief Executive Officer of WWK Lebensversicherung a. G., Rosenheim, Deputy Chairman
	<b>Professor Dr. Walter Ackermann</b>	University professor, St. Gallen, Switzerland
	<b>Professor Dr. Dres. h. c. Rolf Dubs</b>	University professor, St. Gallen, Switzerland
	<b>Werner Gremmelmaier</b>	Member of the Management Board of uniVersa Lebensversicherung a. G., Neukeferloh
	<b>Dr. Volker Himmelseher</b>	Graduate in Business Administration, Pulheim (until April 15, 2021)
	<b>Volker Steck</b>	Chief Executive Officer of Helvetia Versicherungen/ Directorate for Germany, Frankfurt/Main
	<b>Hans Schwarz</b>	Chief Executive Officer of Stadtparkasse Düsseldorf (ret.), Düsseldorf
	<b>Carl Ludwig Thiele</b>	Attorney/ Member of the Executive Board of Deutsche Bundesbank (ret.), Osnabrück
	<b>André Wüstner</b>	Federal Chairman of the German Army Association (DBwV), Montabaur
	<b>Professor Dr. Christian Zwirner</b>	Auditor/tax consultant/ Managing Director, Dr. Kleeberg & Partner GmbH, Munich

<b>Management Board</b>	<b>Dr. Renko Dirksen</b>	Responsibilities: Central Group Functions/ Speaker of the Management Board, Meerbusch
	<b>Dr. Matthias Maslaton</b>	Responsibilities: Sales, Products and Innovation, Moers
	<b>Wolfgang Mathmann</b>	Responsibilities: Group Finance, Düsseldorf
	<b>Hanno Petersen</b>	Responsibilities: Group IT and Operations, Ratingen
	<b>Dr. Joerg Schwarze</b>	Responsibilities: Group Risk Management and Group Controlling, Düsseldorf
	<b>Dr. Werenfried Wendler</b>	Responsibilities: Group Human Resources/Audit, Neustadt/Weinstrasse

## VIII. Proposed Appropriation of Profit

The breakdown of net retained profit is as follows:

### Net retained profit

(€)	
Net income for the year	23,491,490.67
Appropriation to other revenue reserves	0.00
Profit brought forward from 2020	94,452.36
Net retained profit	23,585,943.03

It is proposed that this net retained profit be used to pay a dividend of €20,000,000.00 to the shareholders. An amount of €3,500,000.00 is to be appropriated to other revenue reserves. The remaining sum of €85,943.03 is to be carried forward to the next period.

Düsseldorf, March 15, 2022

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<sup>1)</sup>

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 of December 31, 2021, and the income statement for the financial year from January 1 to December 31, 2021, and the notes to the financial statements, including a summary of the accounting policies. In addition, we have audited the management report of ARAG SE for the financial year from January 1, 2021 to December 31, 2021.

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

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

- The accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to insurance companies and, in compliance with German accepted accounting principles, give a true and fair view of the net assets and financial position of the Company as of December 31, 2021 and of its results of operations for the financial year from January 1, 2021 to December 31, 2021, and
- The accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of those parts of the management report specified in the 'Other information' section.

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

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

**Basis for the opinions**

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

**Key audit matters in the audit of the annual financial statements**

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

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

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

### **The financial statement risk**

The gross provision for outstanding claims in direct insurance business amounts to €1,031 million. This equates to 40.5 percent of total assets and has a material effect on the financial position of the Company.

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

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

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 valuation 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 were predominantly calculated on the basis of empirical data using generally accepted actuarial methods.

In 2021, actuarial estimation methods were used to modify the group-based valuation approach for the domestic business.

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

### **Our audit approach**

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

- We assessed the process for calculating the provisions, identified key process risks both in the domestic business and in key international branches and the controls that pertain to them, and tested these controls for appropriateness and effectiveness. In particular, we satisfied ourselves that the controls designed to ensure an accurate valuation have been established properly and are carried out effectively.
- For selected specific items, we 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 evaluated the appropriateness of the modified group-based valuation approach for reported claims and claims incurred but not reported (actuarial estimation), which was adopted for the first time for the domestic business in 2021. In particular, we looked at how the assumptions used to estimate the number of claims are derived and how their average amounts are determined.
- 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 profit/loss on settlements.
- 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 partial provisions for reported claims and for claims incurred but not reported included in the gross provision for outstanding claims in direct insurance business are appropriate and consistent with the applicable accounting policies. The underlying assumptions were derived appropriately.

**Other information**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatements, whether due to fraud or error, in the annual financial statements and management report, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls.
- Obtain an understanding of the internal control system that is relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these Company systems.
- Evaluate the appropriateness of the accounting policies used by the executive directors and the reasonableness of the estimates made by the executive directors and related disclosures.
- Draw conclusions about the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether there is material uncertainty surrounding events or circumstances that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that there is material uncertainty, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and management report or, if such disclosures are not appropriate, to qualify our opinion. We draw our conclusions based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may lead to a situation in which the Company is no longer able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that, in compliance with German accepted accounting principles, gives a true and fair view of the net assets, financial position and results of operations of the Company.

- Assess the consistency of the management report with the annual financial statements, its conformity with the law, and the view that it provides of the Company's position.
- Conduct audit procedures in respect of forward-looking statements made by the executive directors in the management report. On the basis of sufficient appropriate audit evidence, we examine, in particular, the significant assumptions underlying the executive directors' forward-looking statements and assess whether these statements have been correctly derived from these assumptions. We do not express a specific opinion on the forward-looking statements or on the underlying assumptions. There is a substantial unavoidable risk of material discrepancies between future events and the forward-looking statements.

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

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

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

## Other legal and regulatory requirements

### Further information pursuant to article 10 of the EU Audit Regulation

We were elected as auditor by the Supervisory Board meeting on April 15, 2021. We were engaged by the Supervisory Board on January 11, 2022. We have been the auditor of ARAG SE without interruption since the 2020 financial year.

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

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

We performed, for the audited Company, the audit of the Solvency II balance sheet and the dependency report as of December 31, 2021. In addition, two agreed upon procedures were performed in relation to notifications of premiums to the terrorism pool and to the insurance association by the Dutch branches. We also provided a tax consultancy service, which was concluded as of December 31, 2021, in connection with a change of custodian bank. For entities controlled by the Company, we performed audits of solvency II balance sheets, audits and reviews of annual financial statements, and the audit of a dependency report, in each case for the period ended December 31, 2021.

### German public auditor responsible for the engagement

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

Cologne, March 31, 2022

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Voß  
German public auditor

Bramkamp  
German public auditor

## Report of the Supervisory Board

In the year under review, the Supervisory Board carried out the tasks required of it by law, the articles of incorporation, and rules of procedure 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 convened immediately following the Annual General Meeting for the constitutive meeting of the Supervisory Board. The Chairman of the Supervisory Board received reports on the Group's business performance in regular meetings with the Speaker of the Management Board. The Chairman of the Supervisory Board was updated daily on key developments. At monthly intervals, the Supervisory Board was provided with a written report on the impact on COVID-19 on the ARAG Group and a controlling report detailing premiums written, external claim payments, and commissions. Strict hygiene protocols were adhered to at all meetings where the Supervisory Board or its committees met in person.

In 2021, the Supervisory Board's work continued to be dominated by the impact of COVID-19 on the Company's business operations. At all its ordinary meetings, the Supervisory Board was provided with detailed information on how COVID-19 was affecting business operations and business performance. The Supervisory Board's work also focused on monitoring the appropriateness of IT security and compliance with the German Insurance Supervisory Requirements for IT (VAIT). Furthermore, the Supervisory Board examined the Company's activities from the perspective of the various aspects of sustainability as well as relevant regulatory requirements.

Reports on the business performance of the Company, including that of its international branches and equity investments, were other key focuses of the Supervisory Board meetings in 2021. The Group risk strategy, the risk report and controlling report, and trends in the capital markets formed part of these reports. Information on the quarterly results under HGB and the latest projections were also presented to the Supervisory Board. The Supervisory Board approved the strategic plan for 2022 to 2024 and again discussed the appropriateness of Management Board remuneration as well as the

remuneration system used for employees. The management statistics required by law and the development plan for the Supervisory Board were also approved in 2022. The Supervisory Board examined the own risk and solvency assessment (ORSA) report in detail. It also discussed the progress of the recent expansions, governance and internal control systems (ICS) of the branches and subsidiaries as well as other developments of significance for the Company.

The Supervisory Board has formed committees for human resources, for finance, and for accounting and audit matters. The Chairman of the Supervisory Board provided timely and detailed information on the work of the committees at the ordinary meetings of the Supervisory Board.

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 2021 were, together with the bookkeeping system, audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Cologne, which had been selected and engaged by the Supervisory Board on April 15, 2021 to carry out the audit and which issued an unqualified opinion.

All the members 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 26, 2022. 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 auditor. The Supervisory Board approved the single-entity 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 2021.

Düsseldorf, April 26, 2022

ARAG SE

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**  
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**Tel: +49 (0)211 963 3488**  
**Fax: +49 (0)211 963 2025**  
**+49 (0)211 963 2220**  
**Email: [medien@ARAG.de](mailto: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](mailto:service@ARAG.de)**

You can find the latest **information about the Group and our products** on our website:  
**[www.ARAG.com](http://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

