ARAG SE

2022 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS AND MANAGEMENT REPORT

5→30

ARAG

ARAG 5→30

Group strategy: ARAG **5→30**

You need to know what you are aiming for to be able to get there. Having a focus is key, particularly in times of major upheaval and far-reaching global turmoil. With this in mind, ARAG has revised its Group strategy, gearing it toward five areas of action. ARAG **5→30** shows what the Group is aiming for in the period up to 2030 and what it needs to get there.

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ARAG SE Key Figures

(€'000)	2022	Change	2021	2020
Sales revenue				
Gross premiums written	**1,169,859**	**7.09 %**	1,092,403	1,009,786
Premiums earned net of reinsurance	**1,155,709**	**7.38 %**	1,076,242	1,002,567
Expenses				
Claims incurred net of reinsurance	**574,355**	**3.41 %**	555,394	509,729
Claims ratio (basis: premiums earned)	**49.70 %**	**– 1.91 % pts.**	51.60 %	50.84 %
Insurance business operating expenses net of reinsurance	**512,188**	**5.73 %**	484,434	443,518
Cost ratio (basis: premiums earned)	**44.32 %**	**– 0.69 % pts.**	45.01 %	44.24 %
Net income overview				
Underwriting result net of reinsurance	**55,563**	**109.40 %**	26,535	23,211
Gains and losses on investments	**34,560**	**– 46.69 %**	64,823	100,966
Other net income/expense	**– 48,710**	**7.35 %**	– 45,373	– 43,207
Profit/loss from ordinary activities	**41,413**	**– 9.94 %**	45,985	80,970
Net extraordinary income/expense	**0**	**n.a.**	0	0
Net income for the year	**21,654**	**– 7.82 %**	23,491	64,216
Key ratios				
Technical provisions/ net premiums earned	**145.42 %**	**– 4.06 % pts.**	149.48 %	149.10 %
Equity/premiums earned	**44.32 %**	**– 3.12 % pts.**	47.44 %	51.57 %

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 €2.2 billion and employs over 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 a million 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 was founded in 1935 to enable equality of opportunity before the law for everyone, helping them out when they need it most. Our business model is still based on that vision. Today, ARAG SE is the largest family-owned insurance company in Germany and 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. However, ARAG SE does offer legal insurance covering criminal proceedings.

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 60 years ago. The ARAG Group now operates in a total of 19 countries (Germany, 15 other European countries, the United States, 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 59.8 percent of its total gross premiums written accounted for by international business.

ARAG SE also serves as the operating management 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 United States, 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 and legal-insurance-related emergency assistance 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, Australia, and the Republic of Ireland, 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 direct insurance portfolio (number of policies) as of the end of the reporting year was as follows:

Insurance portfolio

(No.)	Dec. 31, 2022	Dec. 31, 2021
Germany	1,806,980	1,747,331
International	2,946,844	2,930,458
Total	**4,753,824**	**4,677,789**

The European branches in particular also offer legal insurance policies in inward reinsurance business that is treated as direct insurance business. This business accounts for 40.0 percent of the entire business volume of the branches.

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

Three years after the outbreak of the COVID-19 pandemic, the global economy is still facing significant challenges. The zero-COVID policy in the People's Republic of China, which encompassed strict measures such as the closure of businesses and production facilities and was pursued until the end of 2022, adversely affected downstream supply chains around the world.

The challenging situation worsened dramatically at the start of 2022 when the Russian Federation invaded Ukraine. In response, various sanctions were imposed on Russia, primarily by western nations, including restrictions on the supply of Russian gas. This further exacerbated the existing disruptions to production. What is more, energy costs soared, pushing up the production cost of industrial products and food. Inflation rates across Europe, the United States, and other economies surged and wages plummeted in real terms, hitting households and businesses very hard. The German Council of Economic Experts estimates that the global rate of consumer price inflation stood at around 7.6 percent in 2022 (2021: 3.4 percent).

The fast pace of inflation put central banks around the world under intense pressure to react and saw the US Federal Reserve (Fed) raise interest rates for the first time in March 2022, followed by several more hikes throughout the year. After some initial hesitation, the European Central Bank (ECB) followed suit in autumn 2022. Fanned by the expansionary monetary policy pursued in virtually all major economies in recent years, government borrowing and thus government debt jumped. Given the higher interest rates, public budgets have been left with considerably less leeway.

In the first half of 2022, the lifting of measures to contain the spread of COVID-19 revived the global economy. However, this revival was overshadowed by the aforementioned effects from the war in Ukraine and the related political and financial uncertainty. According to estimates by the German Council of Economic Experts, the resulting dent in global trade and the contraction in worldwide industrial output led to growth of 2.8 percent in global gross domestic product (GDP) in 2022, compared with growth of 6.2 percent in 2021.

In Germany, the energy crisis coupled with inflation heaped financial pressure on households, leading to a fall in consumer demand. The 2022 annual report of the German Council of Economic Experts predicts that the eurozone's GDP will have risen by roughly 3.3 percent (2021: 5.3 percent) and that of Germany by 1.7 percent (2021: 2.6 percent) in the reporting year.

According to the ifo Institute of Economic Research (ifo), the German insurance industry was generally negative about the course of business in 2022. Despite the challenging economic conditions, however, it again proved to be robust in the face of a crisis and its premiums declined by only around 0.3 percent (2021: growth of 1.7 percent) according to the German Insurance Association (GDV). Notably, the decline was driven by a sharp decrease in premiums in the life insurance business, which ARAG has discontinued. Premium income in direct casualty and property insurance business will probably have gone up by 4.0 percent, which is well up on the prior-year growth of 3.0 percent and is mainly the result of inflation adjustments. The legal insurance segment did not manage to beat the premium growth notched up in the previous year but nonetheless recorded another notable increase of 3.0 percent (2021: 4.5 percent), driven by the opportunity to moderately adjust premiums. In the private health insurance segment, the rise in premium income of 3.9 percent in 2022 was still healthy (2021: 5.7 percent). It was driven by adjustments to rate scales in full-coverage health insurance and ongoing demand for supplementary health insurance.

Business performance and results of operations

ARAG SE's insurance business was very encouraging in 2022 despite the ongoing crises caused by the war in Ukraine, supply chain disruptions, and the shortage of skilled workers, the effects of which were felt globally, across Europe, and in Germany, as described above. Tangible restrictions on day-to-day life resulting from inflation and government restrictions in connection with the receding pandemic and energy rationing mean that people are increasingly looking for reassurance. Property insurance is well suited to assuage some of the prevailing uncertainty. Demand for legal insurance in Germany and in Europe as a whole remains at a very high level. Because specialist and experienced insurers are best placed to provide the reassurance that people are looking for, ARAG is concluding an ever greater number of polices in the legal insurance segment. On the back of its performance in 2022, ARAG SE has cemented its position as the leading legal insurer worldwide.

The number of legal insurance policies in Germany rose by a net total of 59,649 in 2022; the number in international branch business (only direct business) rose by 16,386.

The underwriting result before the equalization provision climbed sharply from a profit of €37,929.1 thousand in 2021 to a profit of €70,484.5 thousand. This was mainly due to the strong growth, the favorable claims trend, and cost savings. The claims ratio based on the recognized claims incurred net of reinsurance declined from 51.6 percent to 49.7 percent in the reporting year on the back of the strong growth in new business. The addition to the equalization provision once again reflected the claims shortfall in legal insurance business. As the favorable claims trend continued in 2022 and there was no major new treaty for inward reinsurance business, unlike in 2021, the addition to the equalization provision rose to €14,921.3 thousand. Gains and losses on investments took a huge hit from the impact of the war in Europe, the inflation that it triggered, and the ECB's interest-rate hikes, falling from a net gain of €64,823.4 thousand to a net gain of €34,560.3 thousand.

Gross premiums written went up from €1,092,403.2 thousand to €1,169,858.9 thousand in the reporting year, a further tangible rise of 7.1 percent. This growth reflects the bounce-back in travel insurance business in the branches in Spain and Portugal. ARAG SE's core legal insurance business expanded by 4.9 percent. This rate of growth was in line with the forecast in the 2021 annual report, which anticipated a slowdown in growth. The different parts of the business contributed to the increase in premiums to varying extents. Direct business in Germany advanced by 5.6 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 €4,207.4 thousand (9.3 percent). This growth is principally attributable to business performance in Canada and the favorable EUR/GBP exchange rate. The increases in the markets served by ARAG SE's international branches were mainly generated from indirect business. Premium growth was highest overall in Spain (up by 21.4 percent), in the Netherlands (6.8 percent), and in Austria (up by 6.6 percent). In Spain, the lifting of pandemic-related travel restrictions in the summer saw travel insurance business recover. A new primary insurance provider was signed up for inward reinsurance business in the Netherlands. In Austria, there was no let-up in the strong growth being seen in the legal insurance market. The premium income generated by the international branches rose by 8.0 percent overall.

Of the total premium income generated by ARAG SE, €860,616.5 thousand (2021: €797,738.1 thousand) was derived from direct business. Of this amount, €59,464.8 thousand (2021: €34,258.9 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 €801,151.6 thousand (2021: €763,479.2 thousand).

The proportion of ARAG SE's total gross premiums written accounted for by international business increased from 55.0 percent in 2021 to 59.7 percent in 2022 due to the faster pace of growth in the international branches. 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 (2021: 64.0 percent).

After deduction of the reinsurers' shares and changes in unearned premiums, the remaining net premiums earned for all business amounted to €1,155,708.8 thousand (2021: €1,076,242.1 thousand).

Gross claim payments across the business as a whole rose by 5.8 percent. The rise in the reporting year is attributable to growth. In 2021, there had been catch-up effects from when courts in Austria and Spain were closed during the pandemic. The claim payment ratio declined to 45.5 percent (2021: 46.3 percent). Net expenses for claims incurred came to €574,355.1 thousand, compared with €555,394.5 thousand in 2021. Contrary to the forecast made in the prior year, there was a decrease in the claims ratio (net) based on the recognized claims incurred. These effects were intensified by further profits on settlements from the prior-year claims reserve in the Italian and the Austrian businesses and by an adjustment of the provision for claims incurred but not reported in Germany in line with the declining pattern of subsequent reporting.

Insurance business operating expenses rose by only 5.7 percent in spite of the high level of growth, partly due to an only moderate increase in salary expenses, training costs, and occupancy costs. Expenses for pension and other post-employment benefits, however, were unexpectedly higher than in the prior year, up by €7,859.7 thousand as a result of inflation. Process automation and the use of external software-as-a-service models are keeping IT costs elevated, although they will lead to cost savings in the long term. The cost ratio went down from 45.0 percent in 2021 to 44.3 percent in 2022 due to growth-induced economies of scale. After taking into account the sundry underwriting income and expenses (net income of €1,319.0 thousand; 2021: €1,515.7 thousand), the underwriting result net of reinsurance before the equalization provision showed a strong year-on-year increase to a profit of €70,484.5 thousand (2021: €37,929.1 thousand). The forecast in the prior year had only been for a slight increase. An overall sum of €14,921.3 thousand was added to the equalization provision (2021: €11,394.2 thousand).

After the addition to the equalization provision, the underwriting result improved to a profit of €55,563.2 thousand (2021: €26,534.9 thousand).

Investments generated a net gain of €34,560.3 thousand (2021: €64,823.4 thousand). This was in line with the forecast in the 2021 annual report, albeit with a much more pronounced decline as a result of the unexpected increase in inflation. Current income from other investments remained low as virtually all ordinary income was reinvested in institutional funds. Investment income from subsidiaries rose only marginally as the subsidiaries are also affected by the turmoil in the capital markets. In the prior year, there had been income from reversals of write-downs and an only very low level of write-downs (net expense of €2,350.8 thousand). In 2022, despite designating a large portion of the fixed-interest bearer paper as fixed assets held for long-term investment and thus avoiding write-downs based on the strict principle of lower of cost or market value, this figure fell to a net expense of €31,018.8 thousand. The redemption of investment fund share/units resulted in losses on disposals of €5,621.0 thousand, which gains on disposals of fixed-income securities (€2,719.5 thousand) were not able to offset. The net yield on the investment portfolio decreased from 2.9 percent in 2021 to 1.5 percent in the reporting year. However, the current average yield was virtually unchanged year on year at 2.9 percent.

The net expense reported for other net income/expense increased from €45,373.5 thousand in 2021 to €48,710.4 thousand in 2022. This was largely attributable to inflation, which impacts the pension trend used to determine defined benefit obligations and mainly affects the beneficiaries who have already retired.

In line with the forecast from the prior year, the profit before tax of €41,413.1 thousand did not reach the level of €45,984.8 thousand achieved in 2021. After deduction of the tax expense of €19,759.4 thousand (2021: €22,493.3 thousand), net income for the year amounted to €21,653.7 thousand, which was only slightly lower than the prior-year figure of €23,491.5 thousand. The tax expense included income of €1,528.3 thousand (2021: income of €2,001.4 thousand) that resulted from deferred taxes.

Financial performance by source country

Performance in Germany

Direct insurance business In Germany, gross premium income in direct business rose from €446,140.0 thousand to €471,067.7 thousand, a year-on-year increase of 5.6 percent. After deduction of reinsurance premiums and the change in unearned premiums, net premiums earned came to €465,015.6 thousand (2021: €439,008.6 thousand).

Due to the growth in the insurance portfolio, claim payments increased by 2.9 percent, from €252,887.7 thousand in 2021 to €260,276.8 thousand in 2022. Claims incurred for the reporting year advanced by 3.9 percent year on year to €304,488.1 thousand. The number of claims reports for the reporting year rose from 446,364 in the prior year to 514,482 in 2022. Taking into account the claims incurred but not previously reported that were eventually reported in 2022, a total of 618,211 claims were reported in the year under review (2021: 559,235 claims), a rise of 10.5 percent.

Reinsurers' shares amounting to €955.9 thousand were recognized as income in 2022 (2021: expense of €363.3 thousand). The remaining recognized claims incurred came to €282,739.2 thousand as against €284,645.2 thousand in 2021. In 2022, some of the provision for claims incurred in prior years but not reported was reversed due to changes in the assumptions based on subsequent reporting. The claims ratio (net) based on the recognized claims incurred was 60.8 percent compared with 64.8 percent in the prior year.

Gross insurance business operating expenses went up from €173,853.4 thousand in 2021 to €182,999.5 thousand in the reporting year. This increase was attributable not only to a growth-related rise in commissions but also – due to inflation – higher expenses for pension and other post-employment benefits, higher travel and training costs, and an increase in the cost of purchased services. The additional commission expenses were covered by the additional premiums, which, all in all, outweighed the total rise in costs. Overall, the underwriting result before the equalization provision improved greatly from a loss of €18,455.6 thousand in 2021 to a profit of €297.2 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. Net premiums amounted to €49,310.1 thousand compared with €45,102.7 thousand in 2021. Claims incurred amounted to €32,265.7 thousand (2021: €42,246.7 thousand). This was down significantly year on year because a necessary addition determined in accordance with actuarial principles had been made to the claims reserve for the new inward reinsurance business from Canada in 2021. Administrative expenses came to €14,973.8 thousand (2021: €9,518.9 thousand). This increase mainly resulted from the commissions payable under the new Canadian treaty and from profit sharing with UK primary insurers. The underwriting profit before the equalization provision stood at €2,070.6 thousand (2021: underwriting loss of €6,652.5 thousand).

A sum of €3,159.2 thousand was added to the equalization provision (2021: €4,050.0 thousand). The underwriting result for the inward reinsurance business amounted to a loss of €1,088.7 thousand (2021: loss of €10,702.4 thousand).

Non-underwriting result In the midst of the ongoing COVID-19 pandemic and the resulting global disruption to supply chains, the Russian Federation launched a war of aggression in Europe on February 24, 2022. In response, European countries imposed extensive economic sanctions on Russia. This sparked an energy crisis as Russian supplies of gas and oil to the European Union came to a halt as a result of the sanctions, and energy prices soared. 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. This led to a string of interest-rate rises by the central banks in the United States and Europe. Elevated interest rates gave rise to high losses on fixed-income securities. No turnaround in interest rates was in sight as of December 31, 2022.

To avoid having to recognize write-downs on the securities portfolio because of price volatility, ARAG SE has reinvested almost all ordinary income in institutional funds in the past two years. However, this merely slowed the fall in current income from securities. Despite reclassifying virtually all fixed-income securities with a term of more than one year as fixed assets to be held as long-term investments, total depreciation, amortization, and write-downs of investments rose sharply from €7,887.4 thousand in 2021 to €25,517.9 thousand in the reporting year. Dividend income from affiliated companies and equity investments increased from €52,607.8 thousand to €53,603.0 thousand, but there was an overall deterioration in gains and losses on the investments in those entities. 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.

Net gains on investments totaled €29,171.4 thousand in the year under review compared with €58,310.3 thousand in 2021. Ordinary gains and losses on investments – after deduction of the expenses for the management of the investments and of depreciation and amortization – amounted to a net gain of €57,863.5 thousand (2021: €54,362.5 thousand).

Other net income/expense amounted to an expense of €38,525.4 thousand (2021: expense of €42,773.6 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. The year-on-year improvement was mainly attributable to exchange-rate effects.

Net extraordinary income/expense No extraordinary income or expense was recognized in either 2022 or 2021.

Taxes Current taxes amounted to a net expense of €1,633.8 thousand (2021: €3,607.3 thousand), of which €690.8 thousand related to the reporting year and €943.0 thousand to prior years (2021: expense of €3,607.3 thousand relating to taxes in prior years). Taking into account the miscellaneous taxes, the total tax expense came to €1,978.9 thousand compared with €3,991.0 thousand in 2021.

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 €12,124.4 thousand (2021: net loss of €17,612.4 thousand).

Branch performance The eight European branches of ARAG SE grew again in the reporting year, running their business successfully and profitably. The branches accounting for the highest level of premiums written were ARAG Netherlands with premiums written of €187,614.1 thousand (2021: €175,619.8 thousand), ARAG Italy with €169,477.7 thousand (2021: €170,114.2 thousand), ARAG Spain with €165,486.0 thousand (2021: €136,296.8 thousand), and ARAG Austria with €84,226.8 thousand (2021: €79,048.0 thousand). The premiums earned net of reinsurance amounted to a total of €641,383.1 thousand (2021: €592,120.3 thousand). This growth was predominantly generated due to the signing up of new primary insurance providers and sales partners (Netherlands, Belgium, Slovenia), the recovery of the travel insurance business following the lifting of restrictions imposed to contain COVID-19 in prior years (Spain and Portugal), new products (Spain), and consumers' increased receptiveness to legal insurance (Austria, Belgium). In Italy, premiums earned net of reinsurance declined by 0.4 percent due to the loss of a primary insurance provider. Overall, gross premium income rose by 8.0 percent to €649,481.2 thousand (2021: €601,160.5 thousand).

The claims ratio went up from 38.6 percent in 2021 to 40.4 percent in the reporting year as the travel insurance business picked up again and a higher level of accumulation risk was measured in Austria, necessitating an increase in reserves. At 9.0 percent, the rise in claim payments was higher, however, due to adjustments to rate scales for salaried attorneys in the Netherlands and due to the higher volume of travel insurance business in Spain and Portugal.

The absolute rise in insurance business operating expenses was driven by commissions as well as higher staff expenses. The cost ratio nonetheless decreased from 50.8 percent in 2021 to 49.0 percent. Including miscellaneous underwriting income and expenses of €298.8 thousand (2021: €478.4 thousand), the underwriting result before the equalization provision generated by the international branches was at a high level once again and amounted to a profit of €68,116.7 thousand (2021: €63,037.2 thousand). A sum of €11,762.1 thousand was added to the equalization provision because of a significant claims shortfall in inward legal reinsurance business (2021: €7,344.2 thousand). The underwriting result was therefore on a par with the prior-year level at a profit of €56,354.6 thousand (2021: €55,693.0 thousand).

The investments that are assigned to the insurance business of the branches generated a total net gain on investments of €5,388.9 thousand (2021: €6,513.2 thousand). Here, too, ordinary income was reinvested in institutional funds as a precaution against future volatility in the capital markets. Ordinary net gains on investments declined from €10,964.8 thousand in 2021 to €10,551.4 thousand in 2022. In the prior year, a higher level of depreciation, amortization, and write-downs had been necessary than in 2022 because of write-downs at subsidiaries.

Other net income/expense amounted to an expense of €10,185.0 thousand (2021: expense of €2,600.0 thousand). Expenses rose in the reporting year due to project expenses for the rollout of new portfolio and claims systems (Belgium), the back payment of VAT on claim payments in prior years, and additional expenses for pension and other post-employment benefits for non-active employees (Netherlands).

Overall, the branches generated a high profit from ordinary activities of €51,558.6 thousand (2021: €59,606.2 thousand). The tax expense came to €17,780.5 thousand (2021: €18,502.3 thousand). The tax expense included income of €1,528.3 thousand (2021: income of €2,001.4 thousand) that resulted from a change in net deferred taxes.

Despite the lower net income for the year of €33,778.1 thousand in 2022 (2021: €41,103.9 thousand), the European branches made another very healthy contribution to the overall net income of ARAG SE.

Overall net income for the year

In spite of the generally unfavorable economic conditions caused by inflation and rising interest rates, the Company's business performance was very positive in 2022.

As already explained, the underwriting result after the addition to the equalization provision far exceeded expectations with a profit of €55,563.2 thousand (2021: €26,534.9 thousand). Investments generated a net gain of €34,560.3 thousand (2021: €64,823.4 thousand). Other net income/expense amounted to a net expense of €48,710.4 thousand (2021: net expense of €45,373.5 thousand).

The profit before tax of €41,413.1 thousand was, contrary to expectations, slightly below the prior-year figure of €45,984.8 thousand. After deduction of the tax expense, net income for the year amounted to €21,653.7 thousand, which was also below the prior-year level of €23,491.5 thousand.

After taking into account the profit brought forward from 2021, the amount to be presented to the Annual General Meeting for a decision on appropriation is €21,739.7 thousand (2021: €23,585.9 thousand).

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. In addition to current bank balances and cash on hand of €116,667.7 thousand (December 31, 2021: €100,096.6 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 €84,918.7 thousand or 3.7 percent to €2,376,726.8 thousand as of December 31, 2022, was as follows:

Investments breakdown

(€'000)	Dec. 31, 2022		Dec. 31, 2021	
Land and buildings	47,869.4	2.0%	49,951.9	2.2%
Affiliated companies and equity investments	446,183.3	18.8%	440,188.4	19.2%
Lending to affiliated companies	2,175.0	0.1%	2,475.0	0.1%
Equities and investment fund shares/units	632,894.1	26.6%	645,825.4	28.2%
Bearer bonds	833,894.1	35.1%	702,985.7	30.7%
Loans secured by mortgages or land charges and fixed-income receivables	0.0	0.0%	0.0	0.0%
Registered bonds	94,511.3	4.0%	125,511.3	5.5%
Promissory notes, loans	196,850.6	8.3%	227,987.4	9.9%
Sundry lending	118.1	0.0%	76.3	0.0%
Bank deposits	57,029.8	2.4%	28,229.8	1.2%
Other investments	0.0	0.0%	16.0	0.0%
Deposits with ceding insurers	65,201.0	2.7%	68,560.8	3.0%
Total	**2,376,726.8**	**100.0%**	**2,291,808.0**	**100.0%**

Further information on the changes in investments and the fair values as of the balance sheet date can be found in the breakdown of investments shown in the notes to the financial statements.

Changes in equity

ARAG SE has subscribed capital of €100,000.0 thousand. The Company also has capital reserves of €81,772.6 thousand and statutory reserves of €10,000.0 thousand. Both reserves can be used to offset losses. There were no changes in these items in 2022.

Other revenue reserves were topped up by €3,500.0 thousand in the reporting year using net income from the prior year and now amount to €298,700.0 thousand. Utilization of the capital reserves and the other revenue reserves is not restricted to offsetting losses; the Management Board may also use them for other purposes.

Including net income for the year, total equity stood at €512,212.2 thousand as of December 31, 2022, which was 0.3 percent higher than at the end of 2021. Of this total, €20,000.0 thousand has been earmarked for a dividend payment in the coming year.

Employees

At the end of 2022, ARAG SE had a total of 1,213 (December 31, 2021: 1,210) employees in Germany. A further 1,769 (December 31, 2021: 1,725) people were employed outside Germany. These figures include 175 individuals classified as non-active employees (December 31, 2021: 154) for reasons such as parental leave, maternity leave, and long-term illness. The average number of employees in 2022 was 2,967 (2021: 2,926).

Corporate governance declaration

Targets for the proportion of women in management functions The ARAG Group firmly believes in the importance of equality and diversity. The development of female managerial staff at all levels is therefore a key priority. ARAG SE also 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.

The targets for the proportion of women in management functions, which were set in 2021 with a deadline of June 30, 2023, remained in place in 2022.
As of June 30, 2022, the Company's Supervisory Board had a target of 11.1 percent, which tallied with the actual proportion.

The Management Board has a target of 16.7 percent in the period to June 30, 2023. The actual proportion as of June 30, 2022 was 0 percent. The target of 16.7 percent set by the Supervisory Board will be met in 2023 due to the appointment of Dr. Shiva Meyer to the Company's Management Board with effect from April 2, 2023.

As of June 30, 2022, the actual proportion at the first management level below the Management Board was 32.2 percent. The target proportion as of June 30, 2023 is 34 percent.

At the second management level below the Management Board, the actual proportion as of June 30, 2022 was 36.3 percent. The target set for June 30, 2023 remains at 36 percent.

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 2022 Sustainability Report[1)]) 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/

Thanks to ARAG employees and the Works Council

ARAG SE thanks all its employees and sales partners for their hard work. It also extends its thanks to the Works Council and its committees for the close and constructive cooperation. In addition, ARAG SE would like to thank its customers for the trust they have placed in the Company.

1) 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

Since 2022, the global economy has been suffering under the combination of the fallout from the ongoing COVID-19 pandemic and the Russian Federation's war of aggression in Ukraine. This uncertain market environment is creating downside risk, fueling fears of a recession.

The economy will continue to be heavily influenced by the pandemic and by the related risks for society and business around the world. The danger of a renewed flare-up entailing a repeat of the restrictive public health measures, especially strict lockdowns, has not been fully eliminated. This can be seen from the dramatic developments – including the abrupt break with the zero-COVID strategy – in the People's Republic of China, on whose production facilities other countries around the world depend. The lengthy trade dispute between the People's Republic of China and the United States also adversely impacted the economy. Attempts to eliminate the bilateral trade deficit between these two countries by imposing tariffs have failed in the past.

The Russian Federation's war of aggression against Ukraine that was launched in February 2022 may also continue beyond the end of the forecast period, with the sanctions against Russia remaining in place. The supply of gas from Russia has been largely cut off, making European countries' gas supplies less secure. In addition, there is an increased danger that the volume stored for 2023 will be insufficient to meet demand. The sanctions imposed are seeing the price of gas, crude oil, and electricity soar, which – particularly in Europe – is driving the inflationary pressure around the world that set in during the pandemic. In its annual report, the German Council of Economic Experts predicts inflation of 7.4 percent for the eurozone in 2023 (2022: 8.5 percent) and inflation of 7.4 percent for Germany too (2022: 8.0 percent).

Governments worldwide are taking financial and fiscal policy measures in order to counteract the negative economic trends. The fast pace of inflation is putting central banks around the world under intense pressure to react, and experts are predicting that the US Fed will likely raise interest rates to more than 4 percent and the ECB to up to 3.3 percent in 2023. This would make borrowing and spending/investment less attractive for businesses and consumers in the forecast period, and could lead to a further fall in German GDP.

The Russia-Ukraine war is also taking its toll on the euro. The fall in the value of the euro is making imports more expensive, notably energy and commodities, as these are generally settled in US dollars. The increased energy costs will likely hinder German and European companies' ability to compete on price in the global market in the short and medium term. This can increase the likelihood of rising unemployment and insolvencies.

Moreover, according to research by the German Economic Institute (IW), the number of people in employment in Germany may continue to fall in the short term. This would heighten the lack of skilled labor and make it even harder to fill vacant positions. Conversely, the employment market is having a stabilizing effect as companies in many areas will be endeavoring to retain existing personnel in view of the skills shortage.

In terms of the outlook for the forecast period, the uncertainties described are clearly predominant at present. Taking the prevailing risks into account, the latest annual report of the German Council of Economic Experts predicts that 2023 will see a downtrend, with a much lower rise in eurozone GDP of 0.3 percent (2022: 3.3 percent) and a fall in German GDP of 0.2 percent (2022: rise of 1.7 percent).

The COVID-19 pandemic will continue to have an impact on the German insurance industry in 2023. Depending on infection rates going forward, the insurance business could be affected by renewed restrictions imposed by the authorities on contact with others or lockdowns.

Furthermore, the German insurance market remains subject to fierce competition. In many branches of insurance, opportunities for greater premium growth and portfolio expansion are often only available if policyholders change provider. Inflation remaining at a high level may lead to an increase in lapse rates in some property insurance segments.

By contrast, digitalization still offers substantial opportunities. Digital technologies will mean that it is possible to set up much more efficient administrative channels and, above all, facilitate and develop customer contact, 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. In terms of regulation, the insurance industry and the banking industry will play a pivotal role.

On top of demographic change in the years ahead, the danger of old-age poverty poses a challenge for the insurance industry. Old-age poverty could lead to a reduction in consumer purchasing power.

Climate change continues to present risks for non-life insurers. The last few years have clearly demonstrated that storms and hurricanes are not the only natural disasters that can hit the whole of a country; natural disaster loss events can also be triggered by hail, heat waves, and rain. Claims incurred in the property insurance segments may rise in the short term as a result of inflation.

All in all, premium income in the insurance industry is expected to continue to grow in these difficult economic times. In its latest projection for 2023, the GDV is forecasting premium growth in the German market of up to 3.0 percent in 2023 (2022: decrease of 0.3 percent). The forecast growth for casualty and property insurance is 6.1 percent (2022: 4.0 percent). In the private health insurance business, a premium increase of 3.5 percent is anticipated (2022: 3.9 percent).

Against this economic backdrop, ARAG SE plans to keep pursuing its growth strategy, albeit potentially at a reduced pace. The mounting economic uncertainty, the associated risk of unemployment, and regulatory restrictions have made people more receptive to the idea of legal insurance, which will likely intensify over time. The economic climate is also driving a desire among customers to protect themselves in legal transactions and to insure against lost rental income. Given that many Europeans are traveling more again, which is partly a reflection of pent-up demand caused by COVID-19 restrictions in the past, sales revenue from travel insurance policies will likely increase. From the spring, ARAG SE will operate a further branch in the United Kingdom, which will offer both direct legal insurance business and inward reinsurance business (conventional insurance business and ATE business). This year, further premium growth will be generated by focusing on ATE business in Canada and the United Kingdom.

Gross premiums written are forecast to exceed the €1.2 billion mark in the course of the year. The net claims ratio will not change significantly compared with 2022. The increased use of other insurance companies and brokers as sales channels (inward reinsurance business, Partner Sales) is set to lead to a slight increase in the commission rate. Renewed investment in digitalization and process optimization in 2023 will outweigh the savings achieved so far. This means that the cost ratio will initially rise somewhat, but in the medium term it will fall back to a level below that of the reporting year.

The underwriting result after the equalization provision will probably be down substantially in 2023 compared with 2022.

In terms of gains and losses on investments, a further rise in key interest rates is expected owing to the persistently high level of inflation in Germany and the rest of Europe. Unlike in 2022, this will not give rise to a high level of write-downs as the bulk of adjustments have already been made. However, uncertainty persists regarding the stock markets. Nonetheless, opportunities resulting from new investments at higher interest rates should mitigate these risks, at least partly. Overall, the forecast is for a much better level of gains and losses on investments in 2023 than in 2022. However, this presupposes that the war on the eastern European borders does not escalate into a global conflict.

Other net income/expense is expected to be in line with that of the reporting year in 2023.

Overall, the forecast is for a huge improvement in profit before tax for 2023.

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 the 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 or if risks need to be reduced. 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. Ad hoc reports are submitted if this is the case.

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 counterparty default risk, liquidity risk, and operational risk are of lesser importance.

Underwriting risk Underwriting risk is the risk of a loss arising from inadequate pricing or inadequate assumptions used in determining underwriting liabilities. 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 in relation to the premiums generated in an insurance period.
- 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. A 1 in 200 year event indicates the one-year loss anticipated with a probability of 99.5 percent. 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 past lapse rates. 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 excess of loss treaties as outward reinsurance.

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
	FY ratio	*Financial statements*	*% of initial reserve*
2022	55.4	50.3	4.2
2021	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

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 €65.8 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 €35.4 million.
- Property risk: changes in the level or volatility of the market prices of real estate.
- Currency risk: changes in the level or volatility of exchange rates.
- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure.
- Migration/default risk: rating changes or changes in the extent of projected defaults. The breakdown of interest-bearing investments by rating is as follows:

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

(Proportion [%] by fair value)	
AAA	22.5
AA	15.7
A	30.9
BBB	27.0
BB	2.7
B	1.2
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 28.5 percent are accounted for by financial services entities, 32.6 percent by public-sector bonds, and 38.9 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.

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 €6,050.0 thousand (December 31, 2021: €5,895.1 thousand). The average default rate for these receivables over the last three years as of December 31, 2022 was 7.7 percent (December 31, 2021: 6.9 percent).

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 using an expert assessment 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. When identifying and evaluating operational risks, the risk managers consider known loss events that are recorded in a loss database. This contains data on all loss events that have occurred and their actual impact. Consequently, the plausibility of subjective estimates can be tested. 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 the provisions of the German Insurance Supervision Act (VAG) is met in full. Moreover, the eligible own funds are higher than the solvency capital requirements calculated in accordance with VAG.

Over a planning period of three years, the risks were assessed using the scenarios of rising costs and claims, persistently high inflation with a rise in interest rates, and the impact of climate change on investments. The outcome showed that the solvency capital requirement will be sufficiently covered for the next three years of the plan.

In addition to the risks described above, disruptions to the energy supply, an escalation of the war in Ukraine, and/or aspects of digitalization – i.e. cyber risk – could have a negative impact on the business model.

Besides the repercussions for the Company's business operations, the impact of a sustained bottleneck in the supply of energy through to an energy shortage would primarily affect the underwriting business and investments. In underwriting business, an increase in energy costs reduces the purchasing power of private customers, which inhibits new business and can potentially give rise to an increase in lapse rates. There could also be a strong increase in labor disputes, for example due to dismissals. Accumulation risk could be more likely as a result of legal action potentially being brought against utility companies for withdrawing electricity or gas tariffs and/or due to customer supply outages. Targeted measures to avoid lapses, boost new business and the sales organizations, and provide selected services mitigate these effects. In investment business, the market value of the equities and corporate bonds of companies that do not offer essential consumer goods or which are energy intensive could fall. However, the impact of the energy crisis on the investment portfolio is examined on an ongoing basis. Susceptible companies and sectors are regularly discussed and any further measures that may be required are determined.

For the Company, risks stemming from an escalation of the war in Ukraine are directly manifesting in losses in the capital markets. Risks are effectively monitored and managed on an ongoing basis by maintaining the strategic asset allocation and implementing the specified risk monitoring process. In underwriting business, general economic impacts such as raw materials shortages and inflation would push up claim amounts. Furthermore, a reduction in the purchasing power of (potential) customers would be expected, which would in turn affect new business and the lapse rate. The aforementioned measures for avoiding lapses and boosting new business come into play here. Cyberattacks and an outage of critical infrastructure would heighten operational risk. These impacts are limited to a short timeframe thanks to increased IT security, contingency plans, and insurance policies.

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.

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

Balance Sheet as of December 31, 2022

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, 2021: € 0.00)
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, 2021: € 48.53)
II. Receivables from reinsurance business of which from affiliated companies: € 0.00 (Dec. 31, 2021: € 0.00) of which from other long-term investees and investors: € 51,790.97 (Dec. 31, 2021: € 45,564.35)
III. Miscellaneous receivables of which from affiliated companies: € 22,202,240.78 (Dec. 31, 2021: € 16,196,583.20) of which from other long-term investees and investors: € 156,257.83 (Dec. 31, 2021: € 150,840.87)
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, 2022	Dec. 31, 2021
			3,035,280.68		3,845,860.50
				3,035,280.68	**3,845,860.50**
			47,869,446.79		49,951,927.66
		429,130,733.54			423,135,796.13
		2,175,000.00			2,475,000.00
		17,052,566.37			17,052,566.37
			448,358,299.91		442,663,362.50
		632,894,103.60			645,825,437.92
		833,894,052.76			702,985,735.33
		1.00			1.00
	94,511,291.88				125,511,291.88
	196,850,578.02				227,987,392.36
	118,144.15				76,260.86
		291,480,014.05			353,574,945.10
		57,029,800.00			28,229,800.00
		0.00			16,000.00
			1,815,297,971.41		1,730,631,919.35
			65,201,045.19		68,560,809.48
				2,376,726,763.30	**2,291,808,018.99**
		35,262,316.17			31,809,023.22
		21,938,255.74			21,915,895.97
			57,200,571.91		53,724,919.19
			60,795,233.06		55,669,767.52
			28,544,412.87		21,650,604.98
				146,540,217.84	**131,045,291.69**
			13,776,911.82		10,883,202.49
			59,637,878.81		71,866,848.08
			17,236,891.39		25,088,637.25
				90,651,682.02	**107,838,687.82**
			6,646,214.77		6,148,552.73
			7,703,707.67		7,624,966.10
				14,349,922.44	**13,773,518.83**
				2,631,303,866.28	**2,548,311,377.83**

Balance Sheet as of December 31, 2022

Equity and liabilities

(€)
A. Equity
I. Subscribed capital
II. Capital reserves
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: €249,348.89 (Dec. 31, 2021: €67,113.22) of which to other long-term investees and investors: €0.00 (Dec. 31, 2021: €0.00)
II. Liabilities from reinsurance business of which to affiliated companies: €0.00 (Dec. 31, 2021: €0.00) of which to other long-term investees and investors: €0.00 (Dec. 31, 2021: €0.00)
III. Miscellaneous liabilities of which tax liabilities: €22,440,761.75 (Dec. 31, 2021: €19,420,978.15) of which social security liabilities: €1,746,417.29 (Dec. 31, 2021: €1,744,267.37) of which to affiliated companies: €11,679,208.73 (Dec. 31, 2021: €19,720,907.70)
G. Deferred income and accrued expenses
H. Deferred tax liabilities
Total equity and liabilities

		Dec. 31, 2022	Dec. 31, 2021
	100,000,000.00		100,000,000.00
	81,772,569.19		81,772,569.19
10,000,000.00			10,000,000.00
298,700,000.00			295,200,000.00
	308,700,000.00		305,200,000.00
	85,943.03		94,452.36
	21,653,714.71		23,491,490.67
		512,212,226.93	**510,558,512.22**
		30,000,000.00	**30,000,000.00**
232,688,529.63			221,416,334.75
0.00			0.00
	232,688,529.63		221,416,334.75
1,358,731,610.13			1,312,251,339.92
1,195,262.55			227,610.05
	1,357,536,347.58		1,312,023,729.87
	89,348,998.01		74,427,691.00
	1,080,000.00		949,000.00
		1,680,653,875.22	**1,608,816,755.62**
	223,186,402.61		210,624,944.31
	10,282,089.39		10,309,212.96
	76,751,995.04		72,851,707.62
		310,220,487.04	**293,785,864.89**
		3,941.11	**11,062.39**
16,210,671.00			17,363,468.18
27,058,340.16			26,426,845.40
	43,269,011.16		**43,790,313.58**
	1,252,739.94		747,865.04
	50,549,841.17		56,012,127.37
		95,071,592.27	**100,550,305.99**
		196,164.64	**115,023.14**
		2,945,579.07	**4,473,853.58**
		2,631,303,866.28	**2,548,311,377.83**

Income Statement
for the Period from January 1 to December 31, 2022

(€)
I. Underwriting account
1. Premiums earned net of reinsurance
a) Gross premiums written
b) Reinsurance premiums ceded
c) Change in gross unearned premiums
d) Change in reinsurers' share of gross unearned premiums
2. Miscellaneous underwriting income net of reinsurance
3. Claims incurred net of reinsurance
a) Payments for claims
aa) Gross amount
bb) Reinsurers' share
b) Change in provision for outstanding claims
aa) Gross amount
bb) Reinsurers' share
4. Change in miscellaneous net technical provisions
5. Insurance business operating expenses net of reinsurance
a) Gross insurance business operating expenses
b) less: commissions received and profit sharing received from outward reinsurance business
6. Miscellaneous underwriting expenses net of reinsurance
7. Subtotal
8. Change in the equalization provision and similar provisions
9. Underwriting result net of reinsurance
Carried forward:

			2022	2021
	1,169,858,909.58			1,092,403,152.23
	–951,097.72			–870,649.17
		1,168,907,811.86		1,091,532,503.06
	–13,199,034.62			–15,290,449.09
	0.00			0.00
		–13,199,034.62		–15,290,449.09
			1,155,708,777.24	**1,076,242,053.97**
			1,450,044.41	**1,494,694.57**
	526,456,196.16			497,945,802.11
	–166,102.54			–296,276.52
		526,290,093.62		497,649,525.59
	–49,032,611.43			–57,313,971.86
	967,652.50			–430,961.47
		–48,064,958.93		–57,744,933.33
			574,355,052.55	**555,394,458.92**
			–131,000.00	**21,000.00**
		512,188,311.90		484,434,184.82
		0.00		0.00
			512,188,311.90	**484,434,184.82**
			0.00	**0.00**
			70,484,457.20	**37,929,104.80**
			–14,921,307.01	**–11,394,193.98**
			55,563,150.19	**26,534,910.82**
			55,563,150.19	**26,534,910.82**

Income Statement
for the Period from January 1 to December 31, 2022

(€)
Brought forward:
II. Non-underwriting account
1. Income from investments
a) Income from equity investments of which from affiliated companies: € 42,386,912.44 (2021: € 36,828,132.37)
b) Income from other investments of which from affiliated companies: € 139,800.71 (2021: € 122,324.93)
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: € 30,062,786.88 (2021: € 13,790,942.31)
c) Losses on the disposal of investments
3. Other income
4. Other expenses
5. Profit/loss from ordinary activities
6. Extraordinary income
7. Extraordinary expenses
8. Net extraordinary income/expense
9. Income taxes of which deferred income taxes: – € 1,528,274.51 (2021: – € 2,001,442.82)
10. Miscellaneous taxes
11. Net income for the year

				2022	2021
				55,563,150.19	**26,534,910.82**
		48,915,913.05			40,791,857.25
	4,505,119.75				4,487,073.45
	17,233,327.29				15,393,497.58
		21,738,447.04			19,880,571.03
		185,390.02			12,563,771.71
		2,719,501.18			1,874,624.17
		4,941,126.44			11,815,960.91
			78,500,377.73		86,926,785.07
		7,114,887.58			7,101,087.24
		31,204,150.25			14,914,533.52
		5,621,020.60			87,754.97
			43,940,058.43		22,103,375.73
				34,560,319.30	**64,823,409.34**
			127,412,203.75		116,956,423.33
			176,122,581.14		162,329,913.05
				−48,710,377.39	**−45,373,489.72**
				41,413,092.10	**45,984,830.44**
			0.00		0.00
			0.00		0.00
				0.00	**0.00**
			18,824,711.77		23,937,004.31
			934,665.62		−1,443,664.54
				19,759,377.39	**22,493,339.77**
				21,653,714.71	**23,491,490.67**

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 2022 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 four 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 masonry buildings is estimated to be in the range of 40 to 50 years. Write-downs of €244,818.00 (2021: €108,555.00) were recognized in the year under review owing to permanent asset impairment. Reversals of write-downs were recognized in an amount of €184,608.82 because the reason for the original write-down no longer applied (2021: €901,011.46). 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 €8,100,047.51 (2021: €3,687,737.87) were recognized in the reporting year. No write-downs were reversed in 2022 as a result of the reasons for the original write-downs no longer applying (2021: €4,517,859.51).
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
(amounts translated into euros using the closing rate)	*(%)*	*(€)*	*(€)*
1. Affiliated companies			
a) Insurance companies			
ARAG Allgemeine Versicherungs-AG, Düsseldorf	100.00	55,322,905.72	4,941,126.44
ARAG Krankenversicherungs-AG, Munich	94.00	93,852,897.92	8,200,000.00
b) Other companies – limited companies			
ARAG International Holding GmbH, Düsseldorf	100.00	77,409,416.12	34,390,365.62
ARAG Liegenschaftsverwaltungs- und Beratungsgesellschaft mbH, Düsseldorf	100.00	359,581.43	1,061.45
ARAG Service Center GmbH, Düsseldorf	80.00	326,198.70	45,190.09
ARAG IT GmbH, Düsseldorf	100.00	8,238,347.93	14,668.84
CURA Versicherungsvermittlung GmbH, Düsseldorf	100.00	2,637,416.81	635,414.80
Solfin GmbH, Düsseldorf	75.10	633,837.56	300,458.67
ALIN 1 Verwaltungs-GmbH, Düsseldorf	100.00	33,162.15	1,571.07
Justix GmbH, Cologne	100.00	859,579.47	–1,133,441.89
ARAG plc, Bristol	100.00	12,994,987.77	386,134.16
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	312,311.48	–25,064.18
ARAG Scandinavia AS, Oslo	100.00	27,757,043.59	20,191,495.52
MIA Multiline Insurance Agency s. r. l., Verona	100.00	55,936.51	–46,782.30
ARAG Services Australia Pty Ltd., Sydney	100.00	1,116,227.70	–1,135,636.70
Agencia de Seguros ARAG SA, Barcelona	100.00	232,255.00	60,948.70
ARAG Services Spain & Portugal S.L., Barcelona [1]	100.00	615,843.92	–2,766,780.90
c) Other companies – partnerships			
ARAG 2000 GbR	50.90	70,705,591.06	3,955,815.01
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50.00	5,346,697.48	246,294.66
ALIN 1 GmbH & Co. KG, Düsseldorf	100.00	87,253,758.83	6,361,420.54
2. Associates			
AXA ARAG Rechtsschutz AG, Zurich [1]	29.17	44,523,163.98	19,463,909.69

[1] Figures from the last available financial statements (for the year ended December 31, 2021).

Equities, investment fund shares/units, and other variable-yield securities that have not been classified for permanent treatment as fixed assets are valued following the strict principle of lower of cost or quoted market price/market value as of the reporting date. If the reasons for a write-down in prior years cease to apply, the write-down is reversed to the lower of cost or fair value. If investment fund shares/units are classified for permanent use in business operations, short-term fluctuations in the market price do not result in changes to the carrying amount. Only long-term changes in fair value are recognized. 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 are their credit rating and nominal amount. Comparisons with historical valuation parameters are used for equities. For shares in affiliated companies, in infrastructure investments, and in real estate investments, expert appraisals are obtained from the investment management companies based on the net asset values (NAVs) for the quarter prior to the reporting date.
No write-downs following the strict principle of lower of cost or market value needed to be recognized in the reporting year (2021: €37,343.52). Applying the discretionary principle of lower of cost or market value, write-downs amounting to €12,282,835.91 (2021: €5,326,468.08) were recognized. No write-downs were reversed in 2022 (2021: €6,935,807.89). As of the reporting date, application of the discretionary principle of lower of cost or market value resulted in undisclosed liabilities of €22,534,881.74 that had been netted (December 31, 2021: €134,032.00).

Contrary to the principle set forth in section 341b (2) HGB, **bearer bonds and other fixed-income securities** are treated as fixed assets and therefore the discretionary principle of lower of cost or market value is used. For securities with a credit rating of less than BBB- (second-best rating) or which have been downgraded by two or more notches, the probability of default and the loss given default are analyzed. On this basis, the relevant securities are written down according to their credit risk, to a maximum of their fair value. The same applies if the issuer’s rating falls below the stated threshold during the holding period. The strict principle of lower of cost or market value is applied for securities without a rating. If securities are acquired above or below par and held to maturity, the difference between this amount and the nominal value forms a component of cost. It is posted together with the security but treated separately. The difference (known as a premium where the cost is higher than the nominal value, or a discount where the cost is lower than the nominal value) is amortized over the term of the bearer bond using the effective interest method. In 2022, write-downs of €8,416,647.43 were recognized following the strict principle of lower of cost or market value (2021: €4,630,837.84) and write-downs of €876,683.77 were recognized following the discretionary principle of lower of cost or market value (2021: €0.00). Write-downs of €781.20 were reversed (2021: €209,092.85). As of December 31, 2022, the classification of bearer bonds of €579,401.9 thousand for permanent use resulted in undisclosed liabilities of €92,053.4 thousand that had been netted.

ARAG SE made use of the option to select the discretionary principle of lower of cost or market value for 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. 100 percent of the institutional funds by carrying amount and 78.3 percent of the bearer bonds are classified as permanent investments at ARAG SE and are accounted for as fixed assets.

Loans secured by mortgages or land charges and fixed-income receivables, promissory notes, loans, and sundry lending items are recognized at cost unless permanently impaired. Write-downs of €141,754.26 (2021: €0.00) to a lower fair value were recognized. In addition to the nominal amount, premiums and discounts are recognized as a separate component of 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 are amortized using the effective interest method.

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 for investment purposes 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) from the prior year 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:

Rating class

(Balance in €'000)	Dec. 31, 2022	Dec. 31, 2021
AA	0.0	18.8
AA–	0.0	15.0
A+	3,907.7	11,019.1
A	0.0	0.0
A–	7,657.8	31,601.9
BBB+	0.0	0.0
BBB	0.0	3,447.1
BBB–	0.0	0.0
No rating	49,229.7	9,567.7
	60,795.2	**55,669.8**

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

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

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

Bank balances, checks, and cash on hand are recognized at cost. This equates to the nominal amount. Bank balances denominated in foreign currency were translated using the middle spot exchange rate as of the reporting date, disregarding both historical cost convention and the realization principle. Balances are documented in the form of bank statements and cash records. Payment orders of €934,112.27 that had been issued but not executed as of the reporting date (December 31, 2021: €1,337,410.45) were added to 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 €10,152.8 thousand (December 31, 2021: €10,266.6 thousand) related to German tax returns that have not yet been prepared.

Prepaid expenses and accrued income consist of accrued rights to interest from fixed-income securities that are not yet due in respect of the income period before the balance sheet date, and cash payments made before the balance sheet date that are treated as an expense in the subsequent year.

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. If there is a high number of open claims with similar risks, group-based valuation approaches are used if individual valuation would be difficult or involve a disproportionate amount of effort. In the legal insurance business, there are frequently many claims of the same type, where the individual claims each involve a low amount. Specific reserves are therefore limited to known claims from years that have largely been settled. These reserves are valued in accordance with prudent business practice. Based on the special principle of prudence for the claims provision under HGB accounting rules, the estimate was not carried out on a risk-neutral basis in terms of the weighting of opportunities and risks. Instead, uncertainties were factored in to prevent subsequent expenditure on a single claim exceeding the estimated amount recognized as a provision. 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 has been brought into line with the findings from the regulatory estimate in the context of Solvency II.

In the reporting year, the profit on settlements in direct business for all classes of insurance amounted to 4.2 percent of the initial reserve (2021: 2.8 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 had been recognized in the prior year on the basis of inhouse actuarial calculations. At the end of the year, this reserve was adjusted in line with business performance. 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 portions 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. A discount rate of 1.79 percent (2021: 1.87 percent) was used. The defined benefit obligations were discounted in accordance with section 253 (2) sentence 1 HGB using the average market interest rate, which in the case of provisions for pensions, is based on the market interest rate for the past ten years. The interest rate used was forecast at the reporting date using market data as of October 31, 2022 and was determined in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV). Exercising the option granted by section 253 (2) sentence 2 HGB, a remaining term of 15 years was assumed. As of December 31, 2022, the difference between the application of the ten-year average and the seven-year average (1.45 percent; December 31, 2021: 1.35 percent) caused a reduction in the provision for pensions and other post-employment benefits of €11,213,833.00 (December 31, 2021: €16,310,342.00). 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 2.30 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 €840,781.00 (December 31, 2021: €856,481.00). In addition, securities with a fair value of €925,100.00 in accordance with section 253 (1) sentence 4 HGB were offset against the present value of the obligation. As the fair value was the same as the carrying amount, there was no amount 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 did 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 €120,258.10 (December 31, 2021: €635,534.12) 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 €15,687.07 (2021: €0.00) and interest expenses of €107,423.27 (2021: €128,019.04) 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 1.45 percent (December 31, 2021: 1.35 percent).

In 2022, a provision in accordance with the **pre-retirement part-time employment agreement** for the private insurance industry dated June 11, 1997 was recognized – in line with 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 – using a maturity-matched discount rate of 1.45 percent (2021: 1.35 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 1.45 percent (seven year average; 2021: 1.35 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 RVAGAnpG was selected as the final age. In Italy, there are obligations to assume medical expenses for employees leaving the Company upon reaching retirement age, obligations for additional pension benefits for long-serving employees, and obligations to convert severance payments into pension entitlements. The obligations were measured on the basis of actuarial principles using the life expectancy taken from gender-specific table A62, staff turnover until the age of 65 of 3.0 percent, and a discount rate of 1.45 percent (2021: 1.35 percent).

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 real estate that has been let. As of December 31, 2022, it also included discounts on registered bonds amounting to €1,747.46 (December 31, 2021: €4,068.86). **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 €1,528,274.51 in the reporting year (2021: income of €2,001,442.82).

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 €5,351,343.34 (2021: €523,282.67) and expenses of €2,670,206.97 (2021: €4,048,953.78). These amounts are reported in other net income/expense.

Fair value disclosures pursuant to section 54 RechVersV

Fair values of land, land rights and buildings, including buildings on third-party land Valuation reports have been prepared internally and by third parties to determine these fair values. These reports satisfy the requirements of section 55 (3) RechVersV. Each year, new valuation reports are prepared or the existing reports are revised 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 2022 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 corresponded to the nominal amount. Other investments previously comprised shares in cooperatives, but no such investments were held as of the reporting date.

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

III. Insurance Disclosures

(€'000)				Direct insurance business	
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2022	Total 2021
Gross premiums written	801,152	51,717	7,748	860,616	797,738
Gross premiums earned	793,281	50,865	7,747	851,893	786,632
Net premiums earned	–	–	–	–	–
Claims incurred	395,970	31,232	913	428,114	410,778
of which payments for claims	377,694	24,150	939	402,783	385,744
Insurance business operating expenses	331,879	24,385	4,263	360,526	336,828
of which front-end fees	103,940	21,219	237	125,396	113,667
of which administrative expenses	227,939	3,166	4,025	235,130	223,160
Change in equalization provision	0	1,330	535	1,865	–912
Miscellaneous underwriting income and expenses	1,319	0	0	1,319	1,516
Underwriting result	66,752	–3,421	3,106	66,437	39,630
Technical provisions:					
Unearned premiums	169,506	3,794	3,744	177,045	168,321
Provision for outstanding claims	1,040,269	15,198	917	1,056,384	1,031,053
Equalization provision and similar provisions	0	6,135	1,090	7,225	9,090
Miscellaneous technical provisions	1,080	0	0	1,080	949

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

Direct insurance business	2022	2021
(No.)		
Germany	1,806,980	1,747,331
International	2,946,844	2,930,458
Total	**4,753,824**	**4,677,789**

A significant proportion of the business undertaken by the international branches (40.0 percent) is inward reinsurance business. The policies held and the risks assumed in this business are not included in the above figures.

			Inward reinsurance business		Outward reinsurance business		Total insurance business	
Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2022	Total 2021	2022	2021	2022	2021
294,363	14,567	312	309,242	294,665	–	–	1,169,859	1,092,403
290,489	13,989	288	304,767	290,480	–	–	1,156,660	1,077,113
–	–	–	–	–	951	871	1,155,709	1,076,242
131,980	15,348	46	147,374	144,482	−1,134	135	574,355	555,394
108,781	14,834	59	123,673	112,202	166	296	526,290	497,650
151,191	245	226	151,662	147,606	0	0	512,188	484,434
693	245	27	965	687	–	–	–	–
150,498	0	199	150,697	146,920	–	–	–	–
−16,298	−482	−7	−16,786	−10,482	0	0	−14,921	−11,394
0	0	0	0	0	0	0	1,319	1,516
−8,980	−2,086	10	−11,056	−12,090	183	−1,005	55,563	26,535
50,975	4,586	83	55,644	53,095	0	0	232,689	221,416
299,913	2,378	56	302,347	281,198	1,195	228	1,357,536	1,312,024
73,556	8,517	51	82,124	65,338	0	0	89,349	74,428
0	0	0	0	0	0	0	1,080	949

Gross premiums written in the direct insurance business in Germany amounted to €471,067.7 thousand in 2022 (2021: €446,140.0 thousand). Premiums of €389,548.8 thousand (2021: €351,598.1 thousand) were written in the business with 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.

IV. Non-Insurance Disclosures

Changes in investments in 2022:
Changes in asset items A., B. I. to III. in the financial year 2022

Type of investment (€)		Balance Jan. 1, 2022	Currency differences	Additions	Disposals	Reclassifications
A.	**Intangible assets**					
	1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	3,845,860.50	0.00	1,834,152.07	0.00	0.00
	Total for A.	**3,845,860.50**	**0.00**	**1,834,152.07**	**0.00**	**0.00**
B. I.	**Land, land rights and buildings, including buildings on third-party land**	**49,951,927.66**	**0.00**	**213,496.68**	**1,094,405.00**	**0.00**
B. II.	**Investments in affiliated companies and equity investments**					
	1. Shares in affiliated companies	423,135,796.13	0.00	15,510,473.62	1,415,488.70	0.00
	2. Lending to affiliated companies	2,475,000.00	0.00	0.00	300,000.00	0.00
	3. Equity investments	17,052,566.37	0.00	0.00	0.00	0.00
	Total for B. II.	**442,663,362.50**	**0.00**	**15,510,473.62**	**1,715,488.70**	**0.00**
B. III.	**Miscellaneous investments**					
	1. Equities, investment fund shares/units and other variable-yield securities	645,825,437.92	0.00	56,533,810.03	57,182,308.44	0.00
	2. Bearer bonds and other fixed-income securities [1)]	702,985,735.33	0.00	235,633,989.56	95,433,122.13	0.00
	3. Loans secured by mortgages or land charges and fixed-income receivables	1.00	0.00	0.00	0.00	0.00
	4. Miscellaneous lending					
	a) Registered bonds	125,511,291.88	0.00	0.00	31,000,000.00	0.00
	b) Promissory notes and loans	227,987,392.36	0.00	5,020,530.92	36,015,591.00	0.00
	c) Sundry lending	76,260.86	0.00	90,995.00	49,111.71	0.00
	5. Bank deposits	28,229,800.00	0.00	30,029,800.00	1,229,800.00	0.00
	6. Other investments	16,000.00	0.00	0.00	16,000.00	0.00
	Total for B. III.	**1,730,631,919.35**	**0.00**	**327,309,125.51**	**220,925,933.28**	**0.00**
Total		**2,227,093,070.01**	**0.00**	**344,867,247.88**	**223,735,826.98**	**0.00**

1) *In 2022, bearer bonds of € 557,514.1 thousand in this item were reclassified from current assets to fixed assets.*

	Reversals of write-downs	Depreciation/ amortization	Write-downs	Balance Dec. 31, 2022	Cost/ nominal amount	Fair value as of Dec. 31, 2022	Valuation reserve
	0.00	2,644,731.89	0.00	3,035,280.68	40,401,218.43	3,035,280.68	0.00
	0.00	**2,644,731.89**	**0.00**	**3,035,280.68**	**40,401,218.43**	**3,035,280.68**	**0.00**
	184,608.82	**1,141,363.37**	**244,818.00**	**47,869,446.79**	**63,208,957.70**	**73,985,000.00**	**26,115,553.21**
	0.00	0.00	8,100,047.51	429,130,733.54	478,417,170.58	1,171,030,101.21	741,899,367.67
	0.00	0.00	0.00	2,175,000.00	2,175,000.00	2,175,000.00	0.00
	0.00	0.00	0.00	17,052,566.37	17,052,566.37	57,746,000.00	40,693,433.63
	0.00	**0.00**	**8,100,047.51**	**448,358,299.91**	**497,644,736.95**	**1,230,951,101.21**	**782,592,801.30**
	0.00	0.00	12,282,835.91	632,894,103.60	648,350,368.97	610,359,221.86	–22,534,881.74
	781.20	0.00	9,293,331.20	833,894,052.76	848,460,794.46	742,475,536.60	–91,418,516.16
	0.00	0.00	0.00	1.00	1.00	1.00	0.00
	0.00	0.00	0.00	94,511,291.88	94,511,291.88	89,901,249.49	–4,610,042.39
	0.00	0.00	141,754.26	196,850,578.02	196,982,694.53	186,752,624.48	–10,097,953.54
	0.00	0.00	0.00	118,144.15	118,144.15	118,144.15	0.00
	0.00	0.00	0.00	57,029,800.00	57,029,800.00	57,029,800.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	781.20	**0.00**	**21,717,921.37**	**1,815,297,971.41**	**1,845,453,094.99**	**1,686,636,577.58**	**–128,661,393.83**
	185,390.02	**3,786,095.26**	**30,062,786.88**	**2,314,560,998.79**	**2,446,708,008.07**	**2,994,607,959.47**	**680,046,960.68**

Land, land rights and buildings, including buildings on third-party land, with a carrying amount of €28,785,095.72 (December 31, 2021: €29,507,255.04) 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, 2022, the carrying amount of the equity investment was €30,820,875.28 (December 31, 2021: €32,236,363.98). 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, 2022	Market value as of Dec. 31, 2022	Difference	Dividend in 2022	Redemption
			(€)	(€)	(€)	(€)	
ARRE	Fixed-income fund	Increased income	376,630,295.05	332,200,018.09	–44,430,276.96	882,450.36	At any time
ARI 1	Fixed-income fund	Increased income	61,906,210.82	56,622,302.75	–5,283,908.07	399,294.89	At any time
ARI 2	Fixed-income fund	Increased income	34,682,504.07	33,264,102.87	–2,418,401.20	345,389.96	At any time
AAF	Equity fund	Increased income	61,467,132.17	78,271,822.49	16,804,690.32	0.00	At any time
EMA	Equity fund	Increased income	23,029,819.63	23,029,819.63	0.00	5,349.88	At any time
SIVE Fonds INKA	Equity fund	Increased income	64,405,202.74	75,544,418.33	11,139,215.59	0.00	At any time
Total			**622,121,164.47**	**598,932,484.16**	**–23,188,680.31**	**1,632,485.09**	

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, 2022, shares/units in investment funds with a carrying amount of €632,174,619.63 had been classified as investments treated as fixed assets. The fair value of these investment fund shares/units classified as permanent investments amounted to €609,625,384.84 as of the balance sheet date. No write-downs were charged as a review of the individual investments held in the funds indicated that the impairment is only temporary.

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 2022, securities with a carrying amount of €652,940,383.80 had been classified as investments treated as fixed assets. The fair value of these bearer bonds amounted to €560,887,032.35 as of the balance sheet date. Non-permanent impairment is also assumed for these bearer bonds (e.g. in the case of an interest-rate-induced decline in the fair value where the intention is to hold the security until maturity and then redeem it at nominal value), such that no write-downs were charged.

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

Other assets

(€)	Dec. 31, 2022	Dec. 31, 2021
Income tax refund right under current income tax assessment and on the basis of tax audit findings	10,607,882.01	18,958,937.27
Italian insurance tax refund right	6,389,498.30	5,952,282.02
Sundry items	239,511.65	177,417.96
Total	**17,236,891.39**	**25,088,637.25**

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 €2,945,579.07 (December 31, 2021: €4,473,853.58) resulted mainly from an excess of liabilities in Austria (tax equalization provision), Spain (land and buildings), and the Netherlands (tax equalization provision).

Equity

(€)		Dec. 31, 2022
Total		**512,212,226.93**
I. Subscribed capital		
The share capital amounts to		**100,000,000.00**
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.		
II. Capital reserves in accordance with section 272 (2) no. 4 HGB		
Brought forward as of Jan. 1, 2022	81,772,569.19	
Changes in the reporting year	0.00	
Balance as of Dec. 31, 2022		**81,772,569.19**
III. Revenue reserves		
1. Statutory reserves		
Brought forward as of Jan. 1, 2022	10,000,000.00	
Appropriation from profit	0.00	
Balance as of Dec. 31, 2022		10,000,000.00
The full amount of the reserve has been recognized pursuant to section 150 (2) AktG.		
2. Other revenue reserves		
Brought forward as of Jan. 1, 2022	295,200,000.00	
Additions approved by the Annual General Meeting	3,500,000.00	
Appropriation from current net retained profit	0.00	
Balance as of Dec. 31, 2022		298,700,000.00
		308,700,000.00
IV. Net retained profit		
Net retained profit as of Dec. 31, 2021		23,585,943.03
Appropriation of profits: dividend		–20,000,000.00
Appropriation of profits: appropriation to other revenue reserves		–3,500,000.00
Net income for 2022		21,653,714.71
Appropriation to statutory reserves (section 150 (2) AktG)		0.00
Appropriation to other revenue reserves		0.00
Net retained profit as of Dec. 31, 2022		**21,739,657.74**

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 this item as of December 31, 2022 was therefore as follows:

Defined benefit obligations

(€)	Dec. 31, 2022	Dec. 31, 2021
Amount required to settle the vested entitlements	224,952,283.61	214,016,245.31
of which offsetable against pension insurance assets	–840,781.00	–856,481.00
of which offsetable against securities	–925,100.00	–2,534,820.00
Remaining amount	**223,186,402.61**	**210,624,944.31**

The period of low interest rates that lasted until September 2022 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 €120,258.10 (December 31, 2021: €635,534.12) 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 €1,157,859.76 (December 31, 2021: €1,926,262.23) 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 €9,124,229.63 (December 31, 2021: €8,382,950.73) was recognized for miscellaneous taxes and for tax amounts identified by tax audits that have not yet been pursued.

Miscellaneous provisions

(€)	Dec. 31, 2022	Dec. 31, 2021
Outstanding employee remuneration	24,137,691.88	23,275,233.20
Outstanding commission payments	18,822,859.91	18,744,801.92
Provision for outstanding invoices	7,280,086.07	6,598,395.40
Early retirement and pre-retirement part-time working obligations	6,287,495.23	3,728,587.28
Long-service provision	4,039,139.96	4,072,063.86
Severance payments (Austria, Slovenia, Greece)	3,110,232.41	3,249,396.97
Interest on taxes and additional tax-related charges	654,769.00	0.00
Compensation claims for agents leaving the Company	1,354,516.44	1,271,627.40
Performance-related and business-plan remuneration for agents	1,708,000.00	1,737,000.00
Costs for financial statements and tax audit	1,840,667.75	1,887,721.01
Severance payments	786,313.90	422,732.00
Sales competition awards	1,194,311.40	1,808,320.11
Supervisory Board and Advisory Council remuneration	687,782.00	683,522.00
Redundancy scheme and restructuring obligations	21,480.71	26,470.05
Current litigation costs	260,480.31	420,847.56
Sundry other provisions	4,566,168.27	4,924,988.86
Total	**76,751,995.04**	**72,851,707.62**

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 €19,724,536.25 (2021: expense of €21,569,700.01) related to the year under review and expense of €628,450.03 (2021: expense of €4,368,747.12) related to prior years. They also included income arising from the change in the balance of deferred taxes amounting to €1,528,274.51 (2021: €2,001,442.82).

V. Report on Post-Balance Sheet Events

There were no events of particular significance after December 31, 2022. So far in 2023, business performance has been in line with expectations.

VI. Other Disclosures

Commissions and other remuneration for insurance agents, staff costs

(€)	2022	2021
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	202,611,351.81	186,519,355.35
2. Other remuneration for insurance agents within the meaning of section 92 HGB	15,567,915.67	16,715,281.89
3. Wages and salaries	188,495,445.36	185,366,488.90
4. Social security and other employee benefit expenses	33,651,835.14	33,411,805.52
5. Pension and other post-employment benefit expenses	37,097,499.76	29,237,830.00
6. Total expenses	**477,424,047.74**	**451,250,761.66**

An additional sum of €133,851,716.37 was incurred for commissions in the inward reinsurance business (2021: €131,254,704.32).

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 91.4 percent (€70.7 million), has financial resources of €4,541.9 thousand, and generated net income for the year of €3,955.8 thousand.

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 €61,564,916.00 (nominal value of CAD 89.2 million) and two bank accounts with a total credit balance equivalent to €8,710,620.74 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)	6,655,620.45

None of the unpaid contributions have been called up. The infrastructure and private-equity funds are expected to call up contributions of only €6,308,395.24 within approximately twelve months. Some of the funds are already in the distribution phase, so remaining amounts will no longer be called up by those funds. The unpaid contributions will not be called up in the short or medium term.
Investment agreements with a total volume of €190,996,259.92 have been concluded with various private-equity and infrastructure funds through the affiliated company ALIN 1 GmbH & Co. KG. 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. As of December 31, 2022, there were obligations to pay capital into ALIN 1 GmbH & Co. KG of €90,486,036.06 in total.

Auditor's fees
The Company's Supervisory Board agreed fees with the auditor for the audit of the 2022 annual financial statements and Solvency II balance sheet as of December 31, 2022. In the reporting year, a provision of €719,566.00 (excl. VAT: €687,200.00) 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. In addition, a fee of €6,510.00 (excl. VAT) was paid for an assurance engagement in the Netherlands. 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 2,967 people in 2022 (2021: 2,926). As of December 31, 2022, the Company had 2,982 employees (December 31, 2021: 2,935).
Of the total as of December 31, 2022, 1,135 employees worked at the headquarters in Düsseldorf (December 31, 2021: 1,145), 1,672 employees worked in the international branches (December 31, 2021: 1,636), and 175 people were classified as non-active employees (December 31, 2021: 154) for reasons such as maternity leave, parental leave, and illness. Of these non-active employees, 78 were from the headquarters (December 31, 2021: 65) and 97 from the international branches (December 31, 2021: 89).
There were also four trainees (December 31, 2021: seven).

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 €87,782.00. The Management Board's remuneration came to €5,815,606.98. 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 €3,167,230.80. A provision of €52,621,328.00 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, 2022. 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	CEO 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 (until April 26, 2022)
Kirsten Rose	Chairwoman of the Works Council of ARAG SE, Düsseldorf, Deputy Chairwoman (since April 26, 2022)
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 (until April 26, 2022)

	Wolfgang Platen	Chairman of the Works Council of ARAG Allgemeine Versicherungs-AG/ Interlloyd Versicherungs-AG, Mönchengladbach (since April 26, 2022)
Advisory Council	**Christoph Buchbender**	Member of the Management Board of Rheinland Holding AG, Neuss, Chairman
	Rainer Gebhart	Deputy Chief Executive Officer of WWK Lebensversicherung a. G., Rosenheim, Deputy Chairman
	Professor Dr. Walter Ackermann	University professor, Arbon, Switzerland
	Professor Dr. Dres. h. c. Rolf Dubs	University professor, St. Gallen, Switzerland
	Werner Gremmelmaier	Member of the Management Board of uniVersa Lebensversicherung a. G., Nuremberg
	Volker Steck	Chief Executive Officer of Helvetia Versicherungen/ Directorate for Germany, Frankfurt/Main
	Hans Schwarz	Chief Executive Officer of Stadtsparkasse Düsseldorf (ret.), Düsseldorf
	Carl Ludwig Thiele	Attorney/ Member of the Executive Board of Deutsche Bundesbank (ret.), Osnabrück
	André Wüstner	Federal Chairman of the German Army Association (DBwV), Berlin

	Professor Dr. Christian Zwirner	Auditor/tax consultant/ Managing Director, Dr. Kleeberg & Partner GmbH, Munich
Management Board	**Dr. Renko Dirksen**	Responsibilities: Central Group Functions/ Speaker of the Management Board, Meerbusch
	Dr. Matthias Maslaton	Responsibilities: Group Sales, Products and Innovation, Moers
	Wolfgang Mathmann	Responsibilities: Group Finance, Düsseldorf
	Hanno Petersen	Responsibilities: Group IT and Operations, Ratingen
	Dr. Joerg Schwarze	Responsibilities: Group Risk Management and Group Controlling, Düsseldorf
	Dr. Werenfried Wendler	Responsibilities: Group Human Resources/Group Internal 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	21,653,714.71
Appropriation to other revenue reserves	0.00
Profit brought forward from 2021	85,943.03
Net retained profit	21,739,657.74

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 €1,700,000.00 is to be appropriated to other revenue reserves. The remaining sum of €39,657.74 is to be carried forward to the next period.

Düsseldorf, March 14, 2023

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 [1)]

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, 2022, and the income statement for the financial year from January 1 to December 31, 2022, 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 to December 31, 2022.

In accordance with German legal requirements, we have not audited the content of the corporate governance declaration pursuant to section 289f (4) HGB (disclosure on the proportion of women in managerial positions), included in section II of the management 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, 2022 and of its results of operations for the financial year from January 1 to December 31, 2022, 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.

[1)] 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, 2022. 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 €1,056.4 million. This equates to 40.1 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.

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 obtained an understanding of the process for calculating the provisions, identified key process risks 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 of the correctness of the record keeping in Germany and in significant foreign branches 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). In particular, we assessed the process for determining the estimated number of claims and their amount on the basis of historical experience and current trends.
- We analyzed the actual change in the provision for outstanding claims recognized in the previous year in Germany and abroad on the basis of the profit/loss on settlements.
- Using a time series comparison, in particular of the number of claims, frequency of claims, average claim amounts, and reporting-year and overall claims ratios, we analyzed the change in the claims provision for the legal insurance business in Germany and abroad.
- 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 Management Board and Supervisory Board are responsible for the other information. The other information comprises the following management report components 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 Management Board and Supervisory Board for the annual financial statements and management report

The Management Board is 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 Management Board is responsible for the internal controls that it, in compliance with German accepted accounting principles, considers necessary for the preparation of annual financial statements that are free from material misstatements, whether due to fraud (i.e. fraudulent financial reporting and misappropriation of assets) or error.

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

Furthermore, the Management Board is 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 Management Board is responsible for such arrangements and measures (systems) that it considers 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 from material misstatements, whether due to fraud (i.e. fraudulent financial reporting and misappropriation of assets) 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 Management Board and the reasonableness of the estimates made by the Management Board and related disclosures.
- Draw conclusions about the Management Board's 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 modify 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 Management Board in the management report. On the basis of sufficient appropriate audit evidence, we examine, in particular, the significant assumptions underlying the Management Board's 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 significant 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 where applicable, the actions taken or safeguards applied to eliminate independence threats.

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 Annual General Meeting on April 26, 2022. We were engaged by the Supervisory Board on November 7, 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 of the audited Company:

We performed, for the audited Company, the audit of the Solvency II balance sheet and the dependency report as of December 31, 2022. 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 branch. 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, 2022.

German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Thorsten Klitsch.

Cologne, March 29, 2023

KPMG AG
Wirtschaftsprüfungsgesellschaft

Klitsch
Wirtschaftsprüfer
(German Public Auditor)

Bramkamp
Wirtschaftsprüfer
(German Public Auditor)

Report of the Supervisory Board

In the year under review, the Supervisory Board carried out the tasks required of it by law, the articles of incorporation, and rules of procedure and continually monitored and advised the Management Board with regard to its running of the Company. The Supervisory Board was directly involved in all decisions of fundamental importance to the Company. The Management Board provided the Supervisory Board with regular, timely, and comprehensive written and oral reports on the economic situation and the performance of the Company and its subsidiaries, business policy going forward, 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 or its committees by law or other regulations, the Supervisory Board or its committees received detailed written information on the matter from the Management Board. The Supervisory Board or its committees discussed these reports extensively at their meetings, deliberated on them with the Management Board, and made the necessary decisions.

The Supervisory Board held four ordinary meetings and one extraordinary meeting last year, at which it was able to satisfy itself that the Management Board was running the Company properly and appropriately. In addition, the Supervisory Board convened immediately following the Annual General Meeting for the constitutive meeting of the Supervisory Board. The meetings were either held in person or online using Microsoft Teams. The Chairman of the Supervisory Board received reports on the business performance of the Group and its individual companies in regular meetings with the Speaker of the Management Board. The Chairman of the Supervisory Board was updated daily on key developments. At regular intervals, the Supervisory Board was provided with a written report on the impact of COVID-19 on the ARAG Group and a controlling report detailing premiums written, external claim payments, and commissions.

In 2022, the Supervisory Board's work was dominated by the war in Ukraine and its impact on business and the Company's business operations. The Management Board provided the Supervisory Board with ongoing reports about adherence to sanctions, the impact of inflation and possible options to combat it, and its direct effect on investments. Another focus of the Supervisory Board's work was on the ARAG **5→30** strategy devised by the Management Board and the five core targets to be met by 2030. The Supervisory Board also appointed Dr. Shiva Meyer to the Management Board to succeed Dr. Werenfried Wendler. She will be responsible for Human Resources/Group Internal Audit. Finally, the Supervisory Board proposed a motion for the Annual General Meeting to (re)appoint the following Supervisory Board members: Gerd Peskes, Dr. Tobias Bürgers, Dr. Michael Pielorz, Professor Dr. Fred Wagner, Dr. Sven Wolf, Marco Hoogendam, Wolfgang Platen, and Kirsten Rose.

Other key focuses of the Supervisory Board meetings in 2022 were regular reports on the business performance of the Company, including that of its international branches and equity investments (including the Group risk strategy), and on the performance of the capital markets, as well as the risk and controlling report. The Management Board's reports also dealt with measures to protect against cyberattacks and blackout scenarios. The quarterly results under the German Commercial Code (HGB) and the year-end forecasts were also presented. The Supervisory Board approved the strategic plan for 2023 to 2025 and the development plan for the Supervisory Board in 2023. It again discussed the appropriateness of Management Board remuneration. The Supervisory Board examined the own risk and solvency assessment (ORSA) process in detail and obtained a deeper understanding of after-the-event (ATE) insurance, lead and quote management, the European legal insurance market, the ARAG sustainability strategy, and other matters of significance for the Company.

At the ordinary meetings of the Supervisory Board, the Chairman of the Supervisory Board provided information on the work of the committees that have been formed to deal with human resources, finance, and accounting and audit matters.

The single-entity financial statements, which were prepared by the Management Board in accordance with the commercial-law accounting regulations for insurance companies, and the management report were, together with the bookkeeping system, audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, which issued an unqualified opinion. The auditor had been elected by the Annual General Meeting on April 26, 2022 and engaged to carry out the audit.

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, 2023. 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. KPMG presented its audit planning in detail to the Accounting and Audit Committee.

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 of the German Stock Corporation Act (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 2022.

Düsseldorf, April 26, 2023

ARAG SE

The Supervisory Board

Dr. Dr. h. c. Paul-Otto Faßbender (Chairman)	Gerd Peskes (Deputy Chairman)	Kirsten Rose (Deputy Chairwoman)
Dr. Tobias Bürgers	Marco Hoogendam	Wolfgang Platen
Dr. Michael Pielorz	Professor Dr. Fred Wagner	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:

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