

ARAG ALLGEMEINE VERSICHERUNGS-AG

2017 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS



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Overview

ARAG Allgemeine Versicherungs-AG Key Figures

(€'000)	2017	Change	2016	2015
Sales revenue				
Gross premiums written	180,036	2.37%	175,870	168,476
Premiums earned for own account	173,822	3.34%	168,212	162,766
Expenses				
Claims incurred net of reinsurance	96,921	6.28%	91,197	81,150
Claims ratio (basis: premiums earned)	55.76%	1.54% pts.	54.22%	49.86%
Own account insurance business operating expenses	67,077	3.71%	64,675	64,264
Cost ratio (basis: premiums earned)	38.59%	0.14% pts.	38.45%	39.48%
Net income overview				
Underwriting result before equalization provision, gross	10,440	-44.08%	18,671	19,006
Underwriting result before equalization provision, for own account	9,813	-20.51%	12,345	17,114
Underwriting result after equalization provision, for own account	11,404	55.76%	7,322	14,656
Gains and losses on investments	11,229	25.97%	8,914	6,994
Other net income/expense	-4,672	-112.28%	-2,201	-6,612
Profit/loss from ordinary activities	17,962	27.98%	14,035	15,037
Net income for the year (before profit transfer under profit-and-loss transfer agreement)	17,964	28.14%	14,019	15,015
Key ratios				
Technical provisions/ premiums earned for own account	141.81%	-0.96% pts.	142.78%	139.72%
Equity/premiums earned for own account	31.83%	-1.06% pts.	32.89%	33.99%

Profile of the ARAG Group

Overview

The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established more than 80 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products. Besides legal insurance, it offers its customers in Germany attractive, needs-based products and services covering casualty and property, health, and pension insurance. In the area of digitalization – one of the major challenges going forward – ARAG has been responding rapidly, using its professional expertise to continuously implement innovative, beneficial ideas, thereby delivering further value added for the customer. The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 17 countries (Germany, 14 other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It generates sales revenue and premiums of more than €1.6 billion and employs around 4,000 people.

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

Legal insurance

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

Casualty and property insurance

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

Personal insurance

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

Management Report of ARAG Allgemeine Versicherungs-AG

I. Company Fundamentals

Business model

ARAG Allgemeine offers modular insurance cover for general accident insurance, general liability insurance, and private property insurance (mainly composite residential buildings and home contents insurance) to its predominantly private and commercial customers.

ARAG Allgemeine provides a broad spectrum of competitive products in which the variable modules allow the policyholders in the target groups to obtain precisely tailored insurance cover and minimize their risks exactly in accordance with their requirements.

Examples include the 'Recht&Heim' all-round cover product (with legal, liability, home contents, and residential buildings insurance modules) and the 'Business Aktiv' product for commercial policyholders (separate commercial general liability insurance and contents insurance including business interruption cover that complement business legal insurance).

The Company also offers the 'ARAG Haushalt-Schutz' product, which offers all-round protection for private households. Modular components such as cycle theft cover (which includes 24-hour cycle theft protection and loss compensation at the replacement value of the cycle), innovative electronics cover (with payment of the replacement value for electrical or gas equipment up to two years after purchase), insurance for glass breakages, or the home special service package can be combined with each other to meet policyholder requirements.

ARAG Allgemeine also considers itself to be a partner of the sports community, based on long-established ties in this area of business. The Company's objective is to provide needs-based insurance cover for clubs and associations involved in sports and the arts, most of which are insured under group policies. The extra services provided by the Company continue to represent a key factor in the successful performance of this business line. These services include product benefits focused on the wishes and needs of recreational sports and claims processing support.

Territory

The territory covered by ARAG Allgemeine includes the Federal Republic of Germany and, for some classes of insurance, Spain and the United Kingdom. The UK business is operated by a branch established in 2016.

Insurance portfolio

At the end of the year under review, the portfolio of direct insurance contracts comprised 960,346 policies (December 31, 2016: 863,300 policies). Of this total, 858,873 policies (December 31, 2016: 861,242 policies) were attributable to the business in Germany, while the UK branch accounted for 101,473 policies (December 31, 2016: 2,058 policies). In addition to its head office in Düsseldorf, ARAG Allgemeine maintains 15 offices at insured state sports associations and one office at the German Ski Association.

Sales organization

In 2017, the close integration between the Sales and the Products and Innovation units was taken a step further with the creation of a new Group area of responsibility to be referred to as 'Sales, Products and Innovation'. All sales channels are now operating as one and are already enabling ARAG to leverage valuable synergies.

The Group's sales organization makes a fundamental contribution to ARAG's business success in Germany. ARAG Core Sales is the traditionally strong sales channel selling ARAG products exclusively: The 1,000-plus ARAG Sales Partners use the network of over 160 main branch offices and other branch offices across Germany to provide customers with professional, face-to-face support and advice at local level. This is underpinned by ARAG's holistic 'Red Thread' approach to insurance advice and support. For customer visits, ARAG Sales Partners can use either a paper version or a digital version for tablets that can be accessed via a proprietary advice app. From 2018, all applications for legal, property, liability, and accident insurance will no longer be printed out, reflecting in particular the key issues of sustainability in the ARAG Group and the steady advance of digitalization. Core Sales also uses digital touchpoints for greater connectivity, whether for contact with customers or to sign up new sales partners.

Use of the holistic 'Red Thread' approach to insurance advice is an integral element of the basic training delivered by the ARAG sales academy. The broad-based and regularly updated range of courses in this training ensures the exclusive agents receive high-quality training and development covering ARAG and its products. The aim of the holistic advice is to clearly establish the customer's current situation and needs regarding insurance and then to develop precisely tailored solutions, taking into account all statutory requirements.

ARAG Partner Sales is ARAG's successful sales channel specializing in brokers and non-exclusive agents. It has a wealth of experience in working with a wide variety of target groups, from specialist brokers to pool structures and sales outfits. Streamlined structures and processes minimize the effort involved for agents, while knowledgeable contacts in the Field Sales and Sales Administration organizations ensure that brokers and non-exclusive agents receive professional support in every regard. In the year under review, the online broker portal also continued to be revised and expanded.

In 2017, the two main sales channels in Germany accounted for 80.1 percent (Core Sales) and 10.1 percent (Partner Sales) of new policies underwritten. Following the growth in 2016, ARAG Allgemeine saw a further increase in its premium income from online business of almost 10 percent in 2017. In Germany, the ARAG Group's sales channel mix also includes sales partnerships in which made-to-measure, high-performance ARAG insurance solutions are sold under partnership agreements with other insurance companies, banks, other companies, associations, and clubs.

Segments and classes of insurance operated by the Company

ARAG Allgemeine operations cover direct and indirect business in the following segments and classes of insurance:

General accident insurance

- Accident insurance
- Functional disability insurance
- Insurance against non-occupational accidents
- Travel accident insurance
- Sports injuries insurance
- Air travel accident insurance
- Motor accident insurance

Motor insurance

- Motor liability insurance
- Full-coverage vehicle insurance
- Cost-share vehicle insurance

Liability insurance

- Personal liability insurance
- Commercial general liability and professional indemnity insurance
- Water pollution liability insurance
- Sundry and non-itemized liability insurance

Marine insurance

- Comprehensive river insurance (including comprehensive pleasure craft insurance)
- Comprehensive lake and river craft insurance
- Sundry marine insurance

Credit and guarantee insurance

Legal insurance

Business interruption insurance

- Insurance for business interruption caused by fire
- Insurance for business interruption caused by technical failure
- Miscellaneous business interruption insurance

Assistance insurance

- Special service package insurance
- Sundry and non-itemized assistance insurance

Aerospace liability insurance

- Aircraft liability insurance

Fire insurance

- Industrial fire insurance
- Agricultural fire insurance
- Miscellaneous fire insurance

Burglary, theft and robbery insurance

Water damage insurance

Glass insurance

Storm and tempest insurance

Composite home contents insurance

Composite residential buildings insurance

Technical insurance

- Electronic equipment insurance
- Construction contractors' all risks insurance

Miscellaneous indemnity insurance

- Miscellaneous property insurance
- Cycle insurance
- Cloakroom insurance
- Hunting and sporting firearms insurance
- Musical instruments insurance
- Insurance for goods in frozen storage facilities
- Baggage insurance
- Recreational sports equipment insurance (including insurance for ski breakage and theft)

Miscellaneous consequential loss insurance

- Boycott and strike insurance
- Travel cancellation insurance
- Insolvency insurance
- Loss of rent insurance (insured events)
- Loss of rent insurance (tenant default)

Fidelity insurance**Research and development**

The 'Sicherheit im Sport' foundation, which was established by ARAG Allgemeine Versicherungs-AG, the German Olympic Sports Confederation (DOSB), and the North Rhine-Westphalia State Sports Association (LSB NRW) in 2015 and promotes safety in sport, enjoyed another successful year in 2017. Support from further donor organizations, such as Sporthilfe NRW e.V., Ruhr University Bochum, TÜV SÜD Management Service GmbH, and Erwin Himmelseher Assekuranz-Vermittlung GmbH & Co. KG, enabled even more projects and activities to be organized and successfully completed.

One of the main focuses of the foundation's work in 2017 was networking with political decision-makers at federal state and national level. In particular, it was able to arrange a parliamentary debate in the German Bundestag in March. Franz Müntefering, chairman of the board of trustees, and the foundation's management board presented the foundation and the subject of safety in sport to numerous members of the Bundestag. There were also numerous meetings with politicians whose remit includes sport or health, including in North Rhine-Westphalia (NRW) with the governing parties, the SPD party, and the secretary of state for sport.

At the end of 2017, the members of the foundation's management board took up an invitation from the sports committee of the NRW state parliament to develop and implement specific measures for the prevention of sports accidents in NRW. The possibility of the federal state providing institutional support for the foundation was also discussed.

Furthermore, the foundation launched projects to reduce the risk of sports injuries. The Kniekontrolle ('knee control') app, for example, reduces the risk of injuries to the lower limbs and is the first proven warm-up program to be made available in German. Advice and training are also offered in collaboration with various sports associations.

Through its work, the foundation aims to embed the prevention of sports accidents and injuries in the work of associations. People in charge of club sports have now realized that taking a constructive approach to this issue can be a hallmark of quality for sports associations.

Since 2017, the foundation has also been sharing its expertise with various committees of the German Institute for Standardization in order to improve safety at other levels of sport. The current focus is on sports facilities and equipment, particularly equestrian facilities. A working group chaired by David Schulz, a member of the foundation's management board and Head of the Sports Injuries Assessment Unit (ASU) at ARAG Allgemeine, is currently developing safety requirements for horse riding. Numerous experts, including from various employers' liability insurance associations, and the German Equestrian Federation are taking part in this process.

The message from everyone involved is that sport and physical activity are known to have a multitude of positive effects. The benefits for society therefore far outweigh the costs that may result from accidents, injuries, or damage.

Another key resource for the planning and running of the foundation's projects is a database of sports injuries and accidents that Ruhr University Bochum has been developing and updating since 1986. A standardized process is used to combine the data with other findings from sports research and practice so that preventive measures can be developed by panels of experts.

In its first few years, the foundation has established itself as the only institution in Germany dedicated exclusively to preventing sports injuries and accidents, taking a perspective that encompasses all social groups. The majority of the around two million sports injuries that occur each year do not fall within the remit of institutions that have a statutory responsibility for preventing such injuries in Germany. For sports activities within and outside sports clubs, it is therefore very important that an organization be established in Germany that has sufficient resources to be able to effectively reduce the number and severity of sports accidents, injuries, and damage. Key steps were taken in 2017, particularly in the political sphere.

This is another reason why the long-term commitment made by ARAG Allgemeine Versicherungs-AG, the largest sponsor of the foundation, continues to be very highly valued by all partners. The objectives for the years ahead are to improve the financial basis, attract further supporters, and ensure that Germany attaches a similar importance to the prevention of sports accidents as other countries – e.g. Switzerland and Austria – have been doing for years, true to the motto 'do sport, but safely!'

II. Report on Economic Position

Economic and sector conditions

In 2017, the recovery in the global economy gained significant momentum compared with the previous year. The pace of growth in global gross domestic product (GDP) picked up markedly. In particular, growth in the eurozone has recently been unexpectedly strong. The economic situation in many emerging markets has also improved, which can be attributed, at least in the case of oil-exporting countries, to stabilization of the price of crude oil. Together with the favorable financing terms available, the high levels of capacity utilization already reached in many businesses, and an expansionary economic policy, this has led to an increase in capital spending and an accompanying upturn in global trade. As a consequence of the economic recovery, the labor market has also improved markedly in many economies, notably in the US and Japan. Unemployment rates are now falling again significantly in many countries.

Risks previously threatening the recovery have not materialized or, at least, have diminished. Although the vote in favor of Brexit and the subsequent exit negotiations have indeed slowed growth in the United Kingdom, there has been no economic slump.

In the eurozone, the unexpectedly strong economic recovery has extended to all the member countries. Currently, consumer spending is the most significant driver behind the upturn, although some of the growth has also been attributable to the continuation in the very expansionary monetary policy. In addition, the structural adjustments in many of the member countries since the financial crisis are likely to have been significant factors contributing to the brighter economic conditions. Both capital investment and exports were up sharply, reflecting dynamic growth in both of these areas. Employment also went up again in the eurozone in 2017. The German Council of Economic Experts currently estimates that total eurozone production grew by 2.3 percent in 2017.

The German economy is benefiting from a long sustained period of robust growth, built on ever-broader foundations. This growth is being driven by strong domestic demand, economic recovery in the eurozone, and economic policy that remains expansionary. While government spending and investment in construction have been increasing steadily for some time, spending on capital equipment and research & development expenditure are now also rising more quickly again. In addition, growth in key sales markets, particularly in the eurozone, has recently been gathering pace significantly. In Germany, household consumption continues to be the single greatest factor fueling the economic growth. Consumer sentiment is very favorable, supported by a willingness to spend and positive income expectations. Consumer spending growth rates are being maintained at a very high level. This is closely associated with the ongoing improvement in the number of people in work and the sharp rise in real disposable incomes. The German Council of Economic Experts has predicted a 2.0 percent rise in real GDP for 2017. Adjusted for the different number of working days, the rise is as much as 2.3 percent. This means that a German

economic boom is gradually developing. A growth rate of 1.4 percent is forecast for 2018. Against this backdrop and the very slow normalization of monetary policy by the European Central Bank (ECB), but combined with steady energy prices, the increase in inflation in 2018 is likely to remain modest. Looking further ahead however, inflation is projected to rise over the medium term.

Following the fall in the capital market rate (yield on listed German government securities with a residual maturity of nine to ten years) in the summer of 2016 to a historic low of minus 0.2 percent, this rate rose again in the period up to July 2017 to just over 0.6 percent. Overall, however, the capital market rate has remained at a relatively low level. Share prices benefited from these favorable macroeconomic conditions. Whereas the EURO STOXX 50's increase of 6.5 percent was still notable, the performance of the German DAX share index was even more significant, climbing by 12.6 percent to 12,918 points at the end of the year.

The German Insurance Association (GDV) is projecting that premiums will have grown year on year in 2017. According to these forecasts, total gross premiums written in 2017 will have risen by approximately 1.3 percent compared with the previous year (2016: 0.2 percent).

Premium income in direct casualty and property insurance business is expected to have increased by 2.9 percent (2016: 2.9 percent). The reasons included increases in the sums insured and extension of the cover in property insurance. From the perspective of claims incurred, a number of rather minor storm events were the main features of 2017. For example, according to the GDV, storms at the end of the first half of the year caused insured losses of approximately €300 million. Nevertheless, the claims incurred equated to an increase compared with 2016, which had been a below-average year in terms of storm and hail events. Accordingly, based on GDV projections, underwriting losses are anticipated in the residential buildings insurance segment.

The legal insurance class of insurance also saw strong premium growth of around 4.0 percent, primarily as a result of opportunities to adjust premiums, although the increase was lower than in the previous year (2016: 5.7 percent). Opportunities to adjust premiums available as of October 1, 2017 will generate a further increase in premiums in the industry in 2018. Following three years of underwriting losses in this class of insurance, there will still be no underwriting profit for a fourth year, even though the growth in premiums exceeded the increase in claims incurred: According to a GDV forecast, the industry-wide combined ratio in 2017 was approximately 100 percent.

The private health insurance segment also anticipated significant premium growth of around 3.5 percent in 2017 (2016: 1.2 percent). In the beneficial economic conditions, the rising number of employment contracts subject to social security contributions had a positive impact on the portfolio of comprehensive insurance contracts.

Business performance

Once again, ARAG Allgemeine achieved premium growth, confirming the premium turnaround that it reached several years ago. Despite fierce competition in the insurance market and at times difficult conditions in the financial environment, premium growth was encouraging at 2.4 percent.

Income from gross premiums written amounted to €180.036 million in the year under review (2016: €175.870 million). This increase was more than sufficient to offset the fall in premium income in the motor insurance segment. Given the sometimes ruinous price wars involved in attracting new motor insurance business, ARAG Allgemeine ceased writing new insurance in this segment back in its 2010 year-end business and entered into a strategic sales partnership with Helvetia Schweizerische Versicherungsgesellschaft AG. Since then, ARAG has been marketing Helvetia motor insurance policies. In return, Helvetia acts as a broker for the sale of new legal insurance and special service packages on behalf of companies in the ARAG Group.

In the domestic business for the organization as a whole, income from gross premiums written grew by approximately 1.6 percent year on year (2016: 3.9 percent). The most significant proportions were accounted for by general liability, composite residential buildings, and home contents insurance. One of the most notable features in these classes of insurance was the expansion in the number of policies involving 'Recht&Heim' all-round cover. It is therefore clear that there was once again a positive impact in 2017 from the action initiated by the Company over the last few years, particularly the action aimed at revamping and bringing a strategic focus to the product portfolio. The lapse rate in organizational business held steady compared with 2016, remaining at a low level of 7.9 percent as a result of a number of factors, including policy renewals involving the premium 'Recht&Heim' product.

As described in the section on economic and sector conditions, one of the factors with a negative impact on the insurance industry's level of claims incurred last year was the occurrence of a number of comparatively small storm events. This also affected claims at ARAG Allgemeine in 2017. As a result, the number of reported claims in the composite residential buildings insurance segment increased by more than 1,000. Across all lines of insurance in the organization business, claims reported for 2017 were up by almost 2 percent year on year. Moreover, the expense for major claims for 2017 in the direct organization and sports business, particularly in the accident class of insurance, was up by €1.125 million compared with 2016. Gross expenses for claims incurred rose by approximately €11.297 million. The gross claims ratio increased by 4.7 percentage points to 56.5 percent in the year under review.

Insurance business operating expenses rose again slightly last year, primarily due to the positive one-off effect recognized in 2016 as a result of the change to the discount rate applied in the calculation of defined benefit obligations. Under the new rules, the average market interest rate for the past ten financial years is applied, whereas previously the average for the past seven financial years was used. Overall, the gross cost ratio rose slightly in 2017 to reach 37.7 percent (2016: 37.5 percent).

Despite some residual uncertainty in various eurozone capital markets, trends in equities markets in 2017 were encouraging. Gains were registered by both the German DAX index and the EURO STOXX 50 share index. ARAG Allgemeine also made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341b (2) second half-sentence of the German Commercial Code (HGB) for those institutional funds and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. In 2017, reversals of write-downs pursuant to section 253 (5) HGB on these investments were again recognized, in an amount of €1.033 million (2016: €1.603 million). No write-downs on the investment portfolio were necessary in 2017 (2016: €199 thousand). The net profit/loss transferred from the subsidiary Interlloyd Versicherungs-AG improved by €2.538 million to €2.424 million. Overall, gains and losses on investments increased by €2.315 million year on year to a net gain of €11.229 million.

In sometimes challenging market conditions, ARAG Allgemeine once again demonstrated the robustness of its profitability. The profit to be transferred to the parent company ARAG SE for the 2017 financial year amounted to €17.964 million (2016: €14.019 million).

Results of operations

In the year under review, income from gross premiums written rose from €175.870 million to €180.036 million. The Company was therefore able to maintain the growth trajectory established in recent years.

Premium income in the domestic direct business grew by 1.0 percent. If motor insurance is excluded, the increase in direct business in Germany was as much as 1.7 percent. The income from gross premiums written in motor insurance declined again, decreasing by €985 thousand or approximately 30 percent. The reason was ARAG Allgemeine's withdrawal from the motor insurance business, as described above.

ARAG Allgemeine notched up premium growth in significant sub-portfolios within its organization business. For example, sales of the 'Recht&Heim' all-round cover and 'ARAG Haushalt-Schutz' home insurance products led to greater income from gross premiums in the relevant segments of composite residential buildings and home contents insurance. In insurance business with commercial and business customers, the further success of the 'Business Aktiv' product in the marketplace resulted in the continued expansion of the portfolio of liability insurance policies.

In sports business, ARAG Allgemeine sees itself as a partner of the sports community and plays a leading role in this area of activity in Germany. This business typically tends to be rather stable, and the Company registered a small decrease in premiums of €187 thousand.

In the inward reinsurance business, gross premiums written advanced by 0.7 percent to €29.634 million. The rise in premium income in the inward reinsurance business was accounted for by the long-term growth in the wholly owned subsidiary Interlloyd Versicherungs-AG, with which ARAG Allgemeine holds a quota-share reinsurance treaty. Interlloyd Versicherungs-AG's quota share of 50 percent remained unchanged in the year under review.

The premiums earned for own account amounted to €173.822 million in the year under review (2016: €168.212 million).

The expenses for claims incurred in 2017 were 55.8 percent of net premiums earned compared with 54.2 percent in 2016. Overall, claims incurred net of reinsurance rose to €96.921 million (2016: €91.197 million). The strongest impact on the claims ratio was, as explained above, the greater need for provisions in connection with comparatively small storm events in 2017 and an increased level of claims incurred arising from major claims for 2017 in the direct organization and sports business.

The Company's gross cost ratio rose slightly year on year, from 37.5 percent to 37.7 percent. Overall, the gross operating expenses for the insurance business went up by 3.7 percent to €67.660 million. The ratio of own account insurance business operating expenses to net premiums earned was slightly higher, by 0.2 percentage points, compared with 2016 at 38.6 percent.

The volume of outward reinsurance, measured on the basis of insurance premiums paid, was virtually unchanged year on year at €5.872 million (2016: €5.992 million). The reinsurance program was not subject to any material changes. It continued to be focused on using non-proportional reinsurance agreements to minimize the risk from large claims and accumulation. In the reinsurance business, there was a higher share of claims incurred in 2017. In total, the reinsurers' underwriting result fell to €627 thousand in 2017 (2016: €6.325 million).

Last year, the underwriting result before the equalization provision amounted to €9.813 million (2016: €12.345 million), and was therefore below the 2016 figure. In accordance with the calculation requirements specified in the German Regulation on the Accounting of Insurance Undertakings (RechVersV), there was a reversal of the equalization provision of €1.591 million (2016: addition of €5.024 million) on the basis of the trends in claims and premiums. The underwriting result for own account in 2017 therefore amounted to €11.404 million (2016: €7.322 million). The net combined ratio of 94.3 percent (2016: 92.7 percent) confirmed the profitability of the operating business.

Performance of the individual insurance segments in direct insurance business

The business performance of the individual insurance segments in direct insurance business is explained below with reference to the main income and expense components.

General accident insurance: The figures for 2017 demonstrated that the general accident insurance segment continued to account for the greatest volume of revenue in the Company, making a significant contribution to the positive underwriting result. Gross premium income amounted to €47.684 million (2016: €48.008 million). Premiums earned for own account came to €46.191 million (2016: €46.705 million). After expenses for claims incurred of €29.085 million (2016: €24.521 million) and insurance business operating expenses of €15.332 million (2016: €15.126 million), in each case for own account, this segment generated an underwriting profit of €2.145 million (2016: €7.799 million). The recognition of an equalization provision was not required in either 2017 or 2016.

General liability insurance: Gross premium income in the general liability insurance segment amounted to €41.864 million (2016: €41.406 million). Premiums earned for own account came to €39.929 million (2016: €38.781 million). After expenses for claims incurred of €15.219 million (2016: €18.102 million) and insurance business operating expenses of €16.221 million (2016: €16.106 million), in each case for own account, this segment generated an underwriting profit before the equalization provision of €8.632 million (2016: €4.695 million). There was a reversal of the equalization provision of €863 thousand (2016: addition of €1.426 million). The segment generated a profit of €9.495 million in 2017 (2016: €3.270 million).

Motor insurance: Gross premium income amounted to €2.326 million (2016: €3.311 million). Premiums earned for own account came to €2.159 million (2016: €3.082 million). After expenses for claims incurred of €1.778 million (2016: €2.118 million) and insurance business operating expenses of €369 thousand (2016: €459 thousand), in each case for own account, this segment generated an underwriting profit of €6 thousand (2016: €520 thousand), which after a reversal of the equalization provision of €1.415 million (2016: €680 thousand) produced a profit of €1.421 million (2016: €1.200 million).

Fire and property insurance

Fire insurance: The premium income for fire insurance amounted to €2.176 million gross (2016: €2.050 million). Premiums earned for own account came to €1.799 million (2016: €1.933 million). After expenses for claims incurred of €541 thousand (2016: €593 thousand) and insurance business operating expenses of €600 thousand (2016: €882 thousand), in each case for own account, this segment generated an underwriting profit of €542 thousand (2016: €328 thousand), which after a reversal of the equalization provision of €153 thousand (2016: addition of €239 thousand) produced a profit of €694 thousand (2016: €89 thousand).

Burglary insurance: Of the income from gross premiums written of €1.864 million (2016: €1.699 million), the net premiums earned amounted to €1.787 million (2016: €1.703 million). Expenses for claims incurred came to €1.116 million (2016: €1.120 million) and insurance business operating expenses to €548 thousand (2016: €508 thousand), in each case for own account, resulting in an underwriting profit for the segment of €161 thousand (2016: €97 thousand), which after an addition to the equalization provision of €76 thousand (2016: €43 thousand) produced a profit of €85 thousand (2016: €55 thousand).

Water damage insurance: Gross premium income amounted to €1.032 million (2016: €942 thousand). Premiums earned for own account came to €991 thousand (2016: €942 thousand). After net expenses for claims incurred of €1.299 million (2016: €1.048 million) and insurance business operating expenses of €289 thousand (2016: €413 thousand), in each case for own account, this class of insurance incurred an underwriting loss of €574 thousand (2016: €502 thousand). After a reversal of the equalization provision of €242 thousand (2016: €77 thousand), the loss incurred was €331 thousand (2016: €425 thousand).

Storm and tempest insurance: Gross premium income amounted to €832 thousand (2016: €750 thousand). Premiums earned for own account came to €750 thousand (2016: €642 thousand). After the deduction of expenses for claims incurred of €524 thousand (2016: €525 thousand) and insurance business operating expenses of €209 thousand (2016: €339 thousand), in each case for own account, this class of insurance generated an underwriting profit of €34 thousand (2016: loss of €209 thousand). After an addition to the equalization provision of €152 thousand (2016: €20 thousand), the loss incurred was €118 thousand (2016: €229 thousand).

Glass insurance: With gross premiums at €1.522 million (2016: €1.456 million), the net premiums earned amounted to €1.528 million (2016: €1.389 million). Net expenses for claims incurred came to €667 thousand (2016: €620 thousand) and insurance business operating expenses to €433 thousand (2016: €424 thousand), resulting in an underwriting profit of €448 thousand (2016: €360 thousand). The recognition of an equalization provision was not required in either 2017 or 2016. The final underwriting profit at the end of the year therefore amounted to €448 thousand (2016: €360 thousand).

Composite home contents insurance: Gross premiums written came to €20.096 million (2016: €19.356 million); after deduction of the reinsurance premiums, the remaining premiums earned for own account were €19.153 million (2016: €18.512 million). Expenses for claims incurred came to €9.897 million (2016: €9.228 million) and insurance business operating expenses to €8.269 million (2016: €8.045 million), in each case for own account, resulting in an underwriting profit for the segment of €922 thousand (2016: €1.155 million), which after an addition to the equalization provision of €184 thousand (2016: €458 thousand) produced a profit of €737 thousand (2016: €697 thousand).

Composite residential buildings insurance: Gross premium income amounted to €14.297 million (2016: €12.748 million). Premiums earned for own account came to €13.538 million (2016: €11.662 million). After expenses for claims incurred of €14.157 million (2016: €10.085 million) and insurance business operating expenses of €4.700 million (2016: €4.277 million), in each case for own account, this segment incurred an underwriting loss of €5.472 million (2016: €2.862 million). There was a reversal of the equalization provision of €956 thousand (2016: addition of €1.069 million). The final underwriting loss at the end of the year therefore amounted to €4.516 million (2016: €3.930 million).

Technical insurance: Most of the business in this category related to insurance for electrical and gas equipment, which accounted for 69.2 percent (2016: 68.9 percent) of the gross premiums written. Electronic equipment insurance with premium income of €639 thousand (2016: €570 thousand) and construction contractors' all risks insurance with total premiums of €85 thousand (2016: €93 thousand) were also reported in this segment. Of the income from gross premiums of €2.350 million (2016: €2.133 million), the net premiums earned for own account amounted to €2.296 million (2016: €2.024 million). Net expenses for claims incurred came to €1.347 million (2016: €1.296 million) and net insurance business operating expenses to €793 thousand (2016: €757 thousand), resulting in an underwriting profit for the segment of €177 thousand (2016: loss of €13 thousand), which after a reversal of the equalization provision of €59 thousand (2016: €184 thousand) produced a profit of €236 thousand (2016: €170 thousand).

Business interruption insurance: The gross premium income reported for this class of insurance amounted to €1.080 million (2016: €974 thousand). Premiums earned for own account came to €1.014 million (2016: €706 thousand). After net expenses for claims incurred of €608 thousand (2016: €231 thousand) and net insurance business operating expenses of €418 thousand (2016: €423 thousand), in each case for own account, this segment incurred an underwriting loss of €57 thousand (2016: profit of €4 thousand). After an addition to the equalization provision of €229 thousand (2016: €343 thousand), the loss incurred was €286 thousand (2016: €339 thousand).

Emergency assistance insurance: The gross premium income reported in this category related to extended motoring and cycling assistance insurance and amounted to €4.823 million (2016: €5.775 million). No reinsurance premiums were paid in this class of insurance, so premiums earned amounting to €5.179 million (2016: €5.459 million) were recognized in the income statement. Expenses for claims incurred came to €2.790 million (2016: €2.664 million) and the insurance business operating expenses were €2.828 million (2016: €2.876 million). A loss of €435 thousand (2016: €54 thousand) was reported under the underwriting account. The recognition of an equalization provision was not required in either 2017 or 2016. The final underwriting loss at the end of the year therefore amounted to €435 thousand (2016: €54 thousand).

Sundry insurance: The main components of the premium income in this category were the premiums from legal insurance business generated by the UK branch as well as premiums from insurance covering ski breakages and theft, fidelity insurance, and cycle insurance. Together with other classes of insurance (in particular insurance covering baggage, hunting and sporting firearms, events, insolvency, and loss of rent as well as marine insurance and aviation liability insurance), gross premium income in this category amounted to €8.456 million (2016: €5.850 million). Premiums earned for own account came to €8.004 million (2016: €5.508 million). After expenses for claims incurred of €5.481 million (2016: €4.069 million) and insurance business operating expenses of €3.405 million (2016: €2.128 million), in each case for own account, this segment generated an underwriting loss of €883 thousand (2016: €689 thousand), which after an addition to the equalization provision of €495 thousand (2016: €7 thousand) produced a loss of €1.377 million (2016: €696 thousand). Claims varied significantly between the different sub-risks.

Performance of the inward reinsurance business

Premium income of €29.634 million (2016: €29.413 million) was generated from inward reinsurance business in the year under review. A substantial proportion of this inward reinsurance business was accounted for by the proportion of risk assumed on behalf of the wholly owned subsidiary Interlloyd Versicherungs-AG, which generated a premium of €28.709 million (2016: €28.426 million). ARAG Allgemeine's quota share was 50 percent, as in 2016.

Premiums earned for own account came to €29.504 million (2016: €29.164 million). After expenses for claims incurred of €12.412 million (2016: €14.975 million) and insurance business operating expenses of €12.662 million (2016: €11.916 million), in each case for own account, this business generated an underwriting profit of €4.168 million (2016: €1.715 million). A sum of €961 thousand was added to the equalization provision (2016: €2.360 million), after which an underwriting profit of €3.207 million (2016: loss of €645 thousand) was reported for the business.

The business performance of the individual insurance segments in inward reinsurance business is set out below with reference to the main income and expense components.

In **general accident insurance**, net premiums earned amounted to €5.562 million (2016: €5.878 million). After deduction of expenses for claims incurred of €2.257 million (2016: €2.725 million) and insurance business operating expenses of €2.250 million (2016: €2.277 million), the reported profit came to €1.102 million (2016: €877 thousand). After a reversal of the equalization provision of €248 thousand (2016: addition of €7 thousand), the profit amounted to €1.350 million (2016: €870 thousand).

The **general liability insurance segment** generated €2.765 million (2016: €2.741 million) in premiums earned for own account. After expenses for claims incurred of €693 thousand (2016: €919 thousand) and insurance business operating expenses of €1.181 million (2016: €1.141 million), the profit came to €913 thousand (2016: €677 thousand). After a reversal of the equalization provision of €295 thousand (2016: €33 thousand), the profit amounted to €1.208 million (2016: €710 thousand).

In the **composite home contents insurance** segment, premiums earned for own account amounted to €7.609 million (2016: €7.572 million). After taking into account expenses for claims incurred of €3.124 million (2016: €3.835 million) and insurance business operating expenses of €3.417 million (2016: €3.073 million), the segment reported an underwriting profit of €930 thousand (2016: €442 thousand). After a reversal of the equalization provision of €18 thousand (2016: €205 thousand) the reported profit was €948 thousand (2016: €647 thousand).

The **composite residential buildings insurance** segment reported premiums earned for own account of €8.802 million (2016: €8.684 million). Claims incurred net of reinsurance came to €4.255 million (2016: €4.942 million) and the insurance business operating expenses were €3.754 million (2016: €3.611 million). The underwriting profit amounted to €653 thousand (2016: loss of €115 thousand). After an addition to the equalization provision of €1.311 million (2016: €2.476 million), the reported loss was €658 thousand (2016: €2.591 million).

The classes of insurance included in **sundry property insurance** are fire, burglary, water damage, glass, storm and tempest, technical, assistance, marine, business interruption, and miscellaneous indemnity insurance.

Non-underwriting result

Gains and losses on investments at ARAG Allgemeine amounted to a net gain of €11.229 million in 2017 (2016: €8.914 million) and therefore increased significantly compared with the previous year. One of the reasons for this increase was the substantial improvement of €2.538 million in the net income reported by the Interlloyd subsidiary. The existing profit transfer agreement also includes an obligation to absorb losses, so the earnings contribution from Interlloyd Versicherungs-AG was reported in 2017 under income from profit-pooling, profit-transfer and partial profit-transfer agreements.

Other net income/expense deteriorated from a net expense of €2.201 million to a net expense of €4.672 million, caused by a rise in reclassifications from the Company's functional expenses, severance payments, and other factors.

Net extraordinary income/expense

There was no extraordinary income or expense in either 2017 or 2016.

Net income for the year

Under the profit-and-loss transfer agreement entered into with ARAG SE in 2006, ARAG Allgemeine was required to transfer the full sum of its net income for the year amounting to €17.964 million (2016: €14.019 million) to the parent company.

Financial position

The objective of the financial management system is to ensure that the Company holds adequate financial resources and manages its liquidity such that it is able to satisfy its obligations arising from the insurance business at all times and to exceed, rather than simply satisfy, the regulatory requirements concerning the capital adequacy of insurance entities.

Cash flow statement

(€)	2017	2016
Cash flows from operating activities		
Profit for the period	17,964,357	14,019,208
Increase(+)/decrease(-) in technical provisions, net	6,338,367	12,741,247
Increase(-)/decrease(+) in deposits with ceding insurers and in receivables from reinsurance business	-915,296	1,030,878
Increase(+)/decrease(-) in deposits from reinsurers and liabilities from reinsurance business	-154,531	-784,289
Increase(-)/decrease(+) in receivables from direct insurance business	2,126,117	-3,583,909
Increase(+)/decrease(-) in liabilities from direct insurance business	271,603	961,976
Increase(-)/decrease(+) in miscellaneous receivables	-12,484,737	846,086
Increase(+)/decrease(-) in miscellaneous liabilities	2,651,182	-4,148,533
Change in miscellaneous balance sheet items not related to investing or financing activities	-1,415,682	-4,489,381
Other non-cash income and expenses, and adjustment of the profit/loss for the period	-1,032,587	-1,403,874
Gain(-)/loss (+) on the disposal of investments, property and equipment, and intangible fixed assets	-464,956	-58,172
Expenses for/income from extraordinary items	0	0
Income tax expense/income	-18,628	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Income taxes paid	224,529	173,149
Cash flows from operating activities	13,089,738	15,304,385
Cash flows from investing activities		
Proceeds from disposal of property and equipment	0	0
Proceeds from disposal of intangible fixed assets	0	0
Payments to acquire property and equipment	0	0
Payments to acquire intangible fixed assets	0	0
Proceeds from disposal of investments related to fund-linked life insurance	0	0
Payments to acquire investments related to fund-linked life insurance	0	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Cash flows from investing activities	0	0
Cash flows from financing activities		
Proceeds from capital contributions by shareholders	0	0
Cash payments to shareholders from the redemption of shares	0	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Profit transfer	-14,019,208	-15,014,826
Proceeds(+)/cash payments(-) related to miscellaneous financing activities	0	0
Cash flows from financing activities	-14,019,208	-15,014,826
Net change in cash and cash equivalents	-929,470	289,559
Effect on cash and cash equivalents of exchange rate movements and remeasurements	0	0
Cash and cash equivalents at beginning of period	3,271,698	2,982,139
Cash and cash equivalents at end of period	2,342,228	3,271,698

Cash funds include only bank balances and cash on hand; cash equivalents are not included.

Net assets

Investments rose by 1.5 percent in 2017 to €331.673 million. The breakdown of investments by asset class was as follows:

Investments breakdown

(€'000)	Dec. 31, 2017		Dec. 31, 2016	
Land and buildings	22,006	6.6 %	22,696	6.9 %
Affiliated companies and equity investments	13,128	4.0 %	11,628	3.6 %
Equities and investment fund shares/units	223,425	67.4 %	219,053	67.0 %
Bearer bonds	19,060	5.8 %	14,089	4.3 %
Registered bonds	25,000	7.5 %	25,000	7.7 %
Promissory notes, loans	26,982	8.1 %	31,970	9.8 %
Sundry lending	0	0.0 %	0	0.0 %
Bank deposits	84	0.0 %	88	0.0 %
Other investments	1,876	0.6 %	2,156	0.7 %
Deposits with ceding insurers	112	0.0 %	95	0.0 %
	331,673	100.0 %	326,775	100.0 %

The equities, investment fund shares/units and other variable-yield securities category includes shares/units in one mixed institutional fund, one equity fund, and two fixed-income funds that are classified as fixed assets in accordance with section 341b HGB. In 2017, as had also been the case in 2016, no write-downs for impairments that are likely to be permanent were recognized in respect of these investment fund shares/units. Reversals of write-downs on these shares/units amounted to €1.018 million (2016: €1.603 million). As of the balance sheet date, investment fund shares/units with a carrying amount of €223.425 million (December 31, 2016: €219.053 million) were classified as fixed assets. The fair value of these investments amounted to €253.594 million as of the balance sheet date (December 31, 2016: €244.123 million). No write-downs were avoided under equities, investment fund shares/units and other variable-yield securities by classifying these investments as fixed assets (2016: €0.00).

A total of 15 securities (December 31, 2016: 18) that are classified as fixed assets in accordance with section 341b HGB were reported under bearer bonds and other fixed-income securities. As in 2016, no write-downs due to expected permanent impairment were recognized in respect of these securities in the year under review. Equally, no reversals of write-downs in accordance with section 253 (5) HGB were recognized in respect of these securities in 2017, as had also been the case in 2016. As of the balance sheet date, the carrying amount of these bearer bonds was €8.423 million (December 31, 2016: €9.018 million) and the fair value €9.206 million (December 31, 2016: €10.129 million). By classifying these securities as fixed assets, write-downs of €3 thousand were avoided (2016: €3 thousand).

The fair value of investments as of December 31, 2017 amounted to a total of €386.306 million compared with €372.497 million as of December 31, 2016. Net gains on investments increased from €8.914 million to €11.229 million. The net yield in the year under review was 3.4 percent (2016: 2.8 percent).

Disclosures on the hidden reserves in respect of investments are presented in the balance sheet disclosures (pages 66 and 67).

Non-financial performance indicators

The ARAG Group has set out its self-image clearly in its corporate guidelines: ARAG is the internationally successful, innovative quality insurer – independent and family-owned. For more than 80 years, the business concept has been based on the aim of establishing equality of opportunity. Accordingly, the ARAG Group helps its customers create scope to make personal choices – at all stages of their lives.

Based on innovative insurance products and beneficial services, ARAG minimizes the risks faced by its customers, so that customers can concentrate entirely on the opportunities available to them, leading an active, independent life. This is also clearly reflected in the brand tagline 'ARAG. Auf ins Leben' (ARAG. Dive into Life). ARAG again added a wide range of new content to the section with the same title on its website www.ARAG.de in 2017. At the same time, it launched a new eye-catching brand marketing campaign at the end of April 2017. The underlying message, which is highly memorable, is that ARAG stands ready as a reliable partner with suitable solutions for anyone – young or old – who is open to something new. The centerpiece of the campaign was the 'Bereit' ['Ready'] commercial, which ran in movie theaters throughout Germany and also on various online channels. All the action in the clip centered on new plans and challenges, such as learning to drive, becoming a parent, or building a home. The ARAG commercial was supported by a number of other approaches, notably various social media activities. The content of the campaign launched in the first half of 2018 moves away from straightforward brand statements. It is now focusing on innovative new legal insurance products with retroactive cover and the huge significance of these products in terms of providing support for customers and consumers in their day-to-day lives.

In the year under review, the ARAG Group again systematically expanded its products and services – always clearly guided by the constantly changing requirements and needs of customers and consumers. Based on optimum integration between these innovative product activities, a highly efficient workforce, a state-of-the-art brand presence, and clear strategic positioning as an independent, international provider of high-quality insurance products and services, ARAG has established the best possible foundations for further sustainable growth.

Innovation ARAG believes it is critical to take the lead and shape the market with innovative, trend-setting product and service ideas. This approach is reflected in a wide variety of activities – most notably in the targeted expansion of the portfolio, which is constantly refined in the interests, and for the benefit, of customers.

This innovative strength is regularly confirmed by third parties. ARAG Allgemeine received a number of accolades in the Plus X Awards for innovation in the year under review: ARAG Alltagshelfer® and ARAG Alltagshelfer® Plus, a product providing cover for day-to-day assistance, ARAG CyberSchutz cover for cyberattacks, and ARAG Business Assistance were singled out for awards in the Innovation and Transparency categories. ARAG Alltagshelfer® Plus also led the field in the Scope of Benefits category. ARAG SE's Sofort legal insurance for motorists also won a Plus X Award. As a result, ARAG overall received the Most Innovative Brand Award 2017 in the Insurance Companies category, an accolade that it had also received in 2016.

ARAG CyberSchutz – launched in 2017 by ARAG Allgemeine – is aimed particularly at small businesses and the self-employed, and provides comprehensive cover for online risks and cyberattacks, such as theft of sensitive customer data by hackers or damage to business IT systems caused by a virus. The policy includes the costs of restoring data, the provision of expert IT support with effective emergency measures, and even crisis management following a cyberattack. The ARAG CyberSchutz Plus product variant also includes cyber liability and loss-of-income insurance; it offers significantly higher sums insured, which can be up to €250 thousand.

In 2017, the Company also launched its new ARAG Business Assistance product, its first solution in the German market providing assistance for small businesses. The cover, which can also be taken out completely independently, offers substantial support for smaller businesses and the self-employed. It includes comprehensive support services in the event of a claim or emergency, and also during business trips (e.g. car rental or locksmith services). In addition to a prevention and training offering, ARAG Business Assistance also encompasses legal-insurance-related services, such as an online contract check and receivables management.

Besides its innovative product work, the ARAG Group attaches a high priority to innovative digital services. Last year, for example, virtually all of ARAG's international branches and companies adapted digital services such as live chat for policyholders and the ARAG Wallet-Card – which are already well established in the German market – and successfully incorporated them as fixed components of their range of services. In 2017, the ARAG Group launched the first advisory chatbot for insurance products on the German market, accompanied by a great deal of publicity. On Facebook Messenger, users can find out how best to minimize travel risks and can immediately take out the most suitable level of insurance cover online. The signal effect from this innovative service was not confined to Germany: ARAG SE's branch in Spain quickly adapted the chatbot and made it available on Facebook.

The ARAG Group is also constantly adding new pages to its websites. For example, the relaunch of all German ARAG websites was successfully completed in the year under review. The model from both design and technical perspectives was, and continues to be, the continuously upgraded website at www.ARAG.de. In December 2017, this site was for the first time ranked as the best website out of a total of 126 insurance companies included in a regular survey carried out by AMC Finanzmarkt GmbH. ARAG achieved the outstanding overall score of 100 percent in this comparison of 'Insurance on the internet'.

If the process of digitalization is to be successfully advanced in the widest possible range of activities, one of the fundamental requirements is that IT systems must be upgraded. In mid-2017, the Group reached a key milestone and bade farewell to the world of mainframe computers. Since then, ARAG has been operating solely with state-of-the-art Linux-based servers. This high-performance system architecture with distributed server systems meets future IT operating requirements, not least in terms of security and stability. ARAG has therefore already introduced systems that many competitors are still only starting to address. Another major project initiated in the year under review was the introduction of Office 365 software. The cloud-based office application will create new, flexible forms of collaboration and communication, both for ARAG employees and for customers. Data protection, data security, and quality standards will be given top priority. Following the successful pilot phase in 2017, a rollout is scheduled to be completed at European level by the end of 2018.

Products and product development As an innovative provider of high-quality insurance, the ARAG Group does more than simply launch brand new and innovative product concepts. It also constantly refines its existing broad range of products and services in order to ensure that these meet the needs of prospective and existing customers.

ARAG Allgemeine continued the targeted modernization of its insurance product portfolio and in 2017, for example, updated the premium 'Recht&Heim' all-round cover package. It also launched ARAG Recht&Heim Komfort, a brand-new and more attractively priced Komfort package featuring a wide range of benefits, to complement the existing premium package. Moreover, both product lines now enable customers to decide on the deductibles for legal insurance, home contents insurance, liability insurance, and residential buildings insurance separately, with five levels of deductible that can be selected by the customer as required.

In 2017, ARAG Allgemeine also expanded its 'Business Aktiv' product for commercial policyholders, which offers comprehensive insurance for the self-employed and small businesses. In particular, the new features include the CyberSchutz and CyberSchutz Plus add-on modules as well as ARAG Business Assistance. The new CyberSchutz module was developed especially for small and medium-sized businesses, providing them with support in respect of risks, problems, and security weaknesses on the internet, in emails, in online banking, or in their online shop.

Work continued on a new type of accident cover in 2017. It is likely to be launched in the first half of 2018 and incorporates numerous product improvements, such as a new FitPlus component for people who do a lot of sport. The sales process and the generation of quotes are also being revised, in particular to simplify the procedure for health checks when producing quotes.

The quality of the products was also confirmed in 2017 by numerous awards and top ratings. For the liability insurance product, for example, the Premium Family package was given several ratings of 'excellent' by [ascore] Das Scoring. This package also received the highest rating of 'very good (1.0)' from Stiftung Warentest/Finanztest while the Komfort package for personal liability insurance was graded 'very good (1.4)'. The Premium and Komfort packages for pet owners' liability insurance was rated as 'outstanding' by the company softfair analyse. Franke und Bornberg also gave the Premium accident cover product, including an accident special service package, a rating of 'outstanding (FFF)'. The Premium accident cover product, including death benefit, and the Premium children's accident cover product, including death benefit, were both rated as 'excellent' by [ascore] Das Scoring. Moreover, the 'Existenz-Schutz' livelihood insurance product received the top grade of 'outstanding' from [ascore] Das Scoring in the functional disability insurance category.

Customers who have taken out an 'ARAG Unfall-Schutz' accident insurance policy also continue to enjoy a bonus in the form of a special payment in the event of a successful claim, depending on the length of time the policy has been in force. The bonus entitlement is published in the Company's annual report and applies to all new claims submitted in the 2017 and 2018 financial years.

In addition to the contractually agreed benefits, holders of an AUB 2007, AUB 2012, or AUS 2016 version of the 'ARAG Unfall-Schutz' accident insurance policy (general terms and conditions of accident insurance 2007, general terms and conditions of accident insurance 2012, and general terms and conditions of accident insurance 2016 respectively) receive, in the event that benefits are paid out under the policy, the following bonus (as a percentage of the contracted benefits) in accordance with the special terms and conditions of the insurance:

Bonus

Number of complete years policy in force	Benefit bonus level	2018/2019 bonus declaration		
		Disability	Accident disability	Death
1	1	0.0%	0.0%	0.0%
2	2	3.0%	3.0%	3.0%
3	3	6.0%	6.0%	6.0%
4	4	8.0%	8.0%	8.0%
5	5	10.0%	10.0%	10.0%
6	6	10.0%	10.0%	10.0%
7	7	11.0%	11.0%	11.0%
8	8	11.0%	11.0%	11.0%
9	9	12.0%	12.0%	12.0%
10	10	12.0%	12.0%	12.0%
11	11	13.0%	13.0%	13.0%
12	12	13.0%	13.0%	13.0%
13	13	14.0%	14.0%	14.0%
14	14	14.0%	14.0%	14.0%
15	15	15.0%	15.0%	15.0%
16	16	15.0%	15.0%	15.0%
17	17	15.0%	15.0%	15.0%
18	18	15.0%	15.0%	15.0%
19	19	15.0%	15.0%	15.0%
20	20	15.0%	15.0%	15.0%
21	21	15.0%	15.0%	15.0%
22	22	15.0%	15.0%	15.0%
23	23	15.0%	15.0%	15.0%
24	24	15.0%	15.0%	15.0%
25 or more	25	15.0%	15.0%	15.0%

Claims service and claims settlement ARAG Allgemeine's claims service was awarded the outstanding rating of 'very good' (1.5) by TÜV Saarland for the fifth time in succession. Of the customers surveyed online after reporting a claim, 92 percent said they were 'very satisfied' or 'satisfied' with the service. The rating is valid for two years. In this year's follow-up audit, TÜV SÜD again confirmed the outstanding service quality and customer focus of ARAG Sports Insurance.

Employees, employee skills and qualifications ARAG relies on a skilled and highly motivated workforce to ensure that it delivers on its value proposition. At the end of 2017, ARAG Allgemeine Versicherungs-AG had a total of 158 employees, of which 118 were employed full-time and 40 part-time. The Company also provides successful training programs, enabling its trainees to gain vocational qualifications in insurance and finance. Alongside vocational training, ARAG attaches huge importance to the skills, qualifications, and professional development of its workforce. ARAG intends to remain one of the best insurers in the market. ARAG operates a web-based skills and qualifications platform known as ARAG IQ enabling all employees to keep their knowledge and capabilities up to date. The continuing professional development (CPD) options include classroom-based seminars, training sessions, and e-learning. The content is wide-ranging and includes executive programs, seminars on personal and social skills, project management training, coaching, and foreign languages. All planned and completed CPD has been centrally recorded in ARAG IQ since 2016. From 2018, the CPD requirements resulting from the provisions in the new Insurance Distribution Directive (IDD) will also be recorded and monitored using ARAG IQ.

A further key component in ARAG's strategy for retaining suitably qualified employees in the Group is ARAG myCareer, an inhouse talent management program introduced in 2011. This program offers an enhanced set of tools to support recruitment and professional development. It helps employees to plan their development and careers, and at the same time ensures that both specialist and interdisciplinary expertise is retained in the Company.

A fundamental factor in the successful performance of the entire ARAG Group is the targeted internationalization of the business. The growing cross-border integration of corporate units also plays a key role in this development. With a view to systematically expanding this integration and embedding it in the Group, 20 management events around the theme of the business significance and impact of Solvency II were held in 2017 with the involvement of the top three management levels in all companies and branches. ARAG's sales academy ensures that continuous, high-quality skills development is provided for ARAG partners in the Field Sales force of ARAG Core Sales. The academy offers a broad range of needs-based seminars covering the entire spectrum of knowledge related to sales and the performance of ARAG products.

ARAG Essentials The revision of the ARAG Essentials in 2014 included the development of a multifaceted communications concept (ARAG Essentials 2.0) for the corporate guidelines of the ARAG Group, which was then introduced in March 2015.

The communications process included discussions throughout the Group, the publication of an ARAG Essentials online tool at www.ARAG.com, and the creation of a values mentoring scheme. The online tool is available to all users around the clock and in all Group languages through the Group website. Users can access information on the ARAG Essentials and on the Group's locations in a fun, virtual environment. The tool is regularly updated and includes the details of any new local subsidiaries.

In each month since 2015, three out of a total of around 100 domestic and international managers at the first management level have taken on the role of mentor in the values mentoring scheme. The scheme ran until December 2017. The associated activities were published on the groupwide intranet.

The scheme covered three main areas: team campaigns aimed at bringing about positive changes in operating processes, leading to long-term improvements; mentoring aimed at optimizing individual teams' collaboration; and mentoring focusing on the social responsibility of teams outside the business, likewise with a positive impact on team development.

Since 2012, the ARAG AWARD has been presented in recognition of exemplary implementation of the ARAG Essentials. Prizes are awarded in three categories (Germany, International, and (German) Sales) to team projects proactively initiated by employees that stand out as models of successful implementation of the principles in day-to-day activities. These projects both reinforce the ARAG Essentials values and contribute to the associated activity – in the form of customer focus, expertise, and efficiency. The winning teams receive their awards at the next ARAG Group Management Conference.

Corporate responsibility In the ARAG Group, responsible dealings with employees, customers, and partners are based on a long-term, and therefore sustainable, approach. ARAG positions itself as the internationally successful, innovative quality insurer – independent and family-owned. Starting from this fundamental philosophy, the Company takes its corporate social responsibility very seriously. When Heinrich Faßbender established ARAG more than 80 years ago, he had a clear objective in mind: to enable all citizens to enjoy equality of opportunity before the law. This notion still remains an underlying principle in the ARAG Group – and ensures that a high degree of corporate social responsibility is directly enshrined in the ARAG business model.

Today, ARAG brings together the sustainable management of the business at different levels under the general heading of corporate responsibility: The aim is to ensure that customers and consumers derive the greatest possible benefit from the Company's products and services. ARAG also takes responsibility for its employees and supports suitable social projects. The principles of corporate governance set out firmly established voluntary undertakings, providing the framework for socially responsible activities.

Codes of conduct for sales With effect from July 1, 2013, all the German companies in the ARAG Group signed up to the revised GDV code of conduct for the sale of insurance products. This code represents a clear industry commitment to more consumer protection, better quality of advice, development of skills and qualifications for agents, and transparent, mandatory rules for dealing with customers. It thereby establishes the foundations for strengthening trust and confidence in the entire area of insurance broking.

The GDV code of conduct provides for a mandatory audit to be carried out by an independent auditor every two years. All ARAG companies in Germany underwent both an initial audit in 2015 and a subsequent audit in 2017, and emerged successfully from both audits, which were conducted in the form of an appropriateness test. The description of the compliance management system used as the basis for the audit and the positive audit report issued by the independent auditors PricewaterhouseCoopers have been published on the GDV website. The appropriateness test examines whether internal corporate rules reflect the regulations in the code. This approach ensures a high degree of commitment and self-monitoring. The audit report demonstrates that ARAG insurance companies are appropriately implementing the challenging requirements in the code in terms of quality of advice, product development, and sales management, and have successfully and sustainably put the code's main core objectives into practice in the companies' compliance and sales organization.

It is mandatory for ARAG companies to impose a requirement on the agents in the Core Sales and Partner Sales operations to comply with the code. A number of basic steps are already covered by the ARAG 'Red Thread' advisory approach in Core Sales; furthermore, the promise that customers will receive high-quality products and services is in any case an essential component of ARAG's positioning as a high-quality insurer.

The provisions of the EU's Insurance Distribution Directive (IDD) were implemented in the Company on schedule on February 23, 2018. The IDD aims to strengthen consumer protection and create a level playing field for all those involved in insurance sales and distribution. The areas covered by the new regulations include remuneration systems, skills, qualifications, and CPD requirements for employees in both field sales and sales administration, and additional requirements for advisory and documentation processes. The new EU Directive provides ARAG with the opportunity to achieve further improvements in quality and ensure that activities are consistently centered on the interests of the customer. This means that the focus is on sales and on the insurance product itself – starting from product development (plus the requirements for product information) through to customer contact and the settlement of claims.

The ARAG Group has done the groundwork over the last few years, although this has not been limited just to its holistic advisory approach in ARAG Core Sales and the adoption of the GDV code of conduct. Uniform standards have been rolled out for all the German companies, enabling ARAG to implement the IDD requirements on time.

ARAGcare The ARAG Group is widely regarded as a demanding employer that expects high levels of performance from its workforce. In return, the Group invests in a comprehensive range of services for its employees. The key component is ARAGcare, the corporate health management program.

The personal health of employees is at the core of the first pillar of ARAGcare. The tried-and-tested components include health checks, diverse company sports activities, regular preventive medical services, and health courses. ARAG also operates a return-to-work and disability management system to ensure that the statutory requirements are implemented professionally. External specialists are regularly brought in to make sure that the individuals concerned are provided with the best possible support.

In the year under review, greater emphasis was also given to the second pillar of ARAG-care: work/life balance. ARAG once again received certification in this regard in 2017. What is officially referred to as re-auditing is in fact, as far as the Company is concerned, both a distinction and a voluntary commitment. Certification from berufundfamilie Service GmbH, an initiative of the not-for-profit Hertie foundation, is a demanding, multi-stage process. ARAG was first audited in June 2014. Subsequent certification during the late summer of 2017 involved a detailed analysis of the current position and of the further development of an HR policy that takes into account family requirements and stage of life. Following comprehensive evaluation activities, new targets were agreed, together with mandatory measures that ARAG will implement by 2020. These measures include, for example, overall management with an increase in the proportion of women in management positions and changes to make the arrangements for working hours and working location even more flexible. There will also be a focus on improving information and communication in relation to work/life balance issues and sabbatical leave for employees.

For the eighth time, ARAG received a seal of approval in the Corporate Health Awards 2017 based on its comprehensive offering covering occupational health management and work/life balance.

Targets for the proportion of women in management functions In accordance with the provisions in the German Act on the Equal Participation of Women and Men in Managerial Positions (FührposGleichberG), the Company must set targets for the proportion of women at the two management levels below the Management Board, on the Management Board itself and on the Supervisory Board, and must also determine appropriate deadlines for achieving the targets. At the time the target ratios were defined, no changes were anticipated in the management functions, so the relevant governing bodies retained a target proportion for June 30, 2017 of 0 percent in respect of the Supervisory Board, the Management Board, and the first and second management levels.

The same applies to the target proportion to be achieved by June 30, 2019: As changes in the management functions are still not anticipated, the relevant governing bodies have retained a target proportion for June 30, 2019 of 0 percent in respect of the Supervisory Board, the Management Board, and the first and second management levels. However, the intention is to give preferential consideration to female candidates when new appointments are to be made to managerial positions.

Corporate social responsibility ARAG is a family enterprise. As a consequence, ARAG attaches a huge amount of importance to the interconnection between corporate and social responsibility. The independence that ARAG enjoys as a family enterprise means that the assumption of responsibility becomes even more significant because it is incumbent on the ARAG Group to use this independence responsibly. Since March 2014, ARAG has therefore been successfully offering its innovative development project known as Conflict Management in Schools.

Supported by the North Rhine-Westphalia Ministry for Education and Schools, this program is offered to all high schools and vocational colleges in the German state of North Rhine-Westphalia. During the four training cycles so far, a total of 316 teachers, specialists in educational social work, and parents from 96 high schools and vocational colleges in different school districts across the state have taken part. The project is currently running at twelve other schools. The project focuses on the introduction of universal quality standards for conflict management structures, preventive measures, and intervention techniques. Teachers, parents, specialists in educational social work, and school pastors are trained as school mediators and go on to train school students as conflict controllers. The project has been certified under the name ARAG Mediators as a 'Commitment to Action' by the Clinton Global Initiative (CGI).

Since September 2016, ARAG has been a sponsor of MediationsZentrale München e. V. The school mediation team at this not-for-profit organization regularly sends out professionally trained mediators to public sector and private schools in the Greater Munich area to act as impartial points of contact for all conflicts and problems arising in day-to-day school activities.

Another key area of activity is the internet. It is changing and affecting the lives of people around the globe – including to a large degree the lives of children and young people – but is also bringing risks. Suitable prevention is important to avert these risks. ARAG has a comprehensive range of prevention experience and believes that important areas of prevention lie in the long-term development of media skills and in the provision of information and education, as well as the raising of awareness, about the consequences of bullying.

In 2017, ARAG therefore focused more intensely on protecting online privacy rights. At the instigation of ARAG, a joint research project was launched in cooperation with the Research Center for IT Law and Social Networks Policy at the University of Passau. The project involved developing an alternative to the contentious Enforcement of Rights on Social Networks Act (NetzDG) in Germany. The results were published on Safer Internet Day at the beginning of February 2018.

Corporate social responsibility at ARAG also extends to the provision of support for the German Children and Youth Foundation (DKJS), specifically in the area of digital education. For 20 years, this charity has been operating projects and programs throughout Germany, helping children and young people have the courage to take control of their own lives and play a role in society. Schools throughout Germany are faced with the challenge presented by the digital transformation. At the same time, digitalization opens up numerous opportunities for school-based education. ARAG and DKJS therefore launched a joint program in November 2017 referred to as 'bildung.digital' (digital education). This program helps schools to develop digital education strategies and ensure that the strategies become firmly established as part of their activities. Some 40 (full) day schools from eight federal states have committed to using four cross-state networks in the program via the portal 'bildung.digital-Netzwerk ganztägig bilden'.

Equal opportunities is also the theme of the 'Kickwinkel' project in Düsseldorf, which ARAG initiated and supports on an ongoing basis together with other local partners. 'Kickwinkel' is an integration project based on football for unaccompanied male refugees from Iraq, Afghanistan, Somalia, Eritrea, Gambia, Guinea, and Iran. The project enables 20 young people to train at a Düsseldorf club twice a week. A tournament with teams from all the project partners was held in July 2017, demonstrating yet again that 'sport unites'.

III. Dependent Company Report and Affiliated Companies

In 2006, ARAG SE, Düsseldorf, acquired the remaining shares in the Company from ARAG Holding SE, Düsseldorf. Since then, ARAG SE has held all the shares in ARAG Allgemeine Versicherungs-AG and thus has a controlling interest within the meaning of section 16 (1) of the German Stock Corporation Act (AktG). ARAG SE has notified ARAG Allgemeine of this controlling interest in accordance with section 20 (1) and (4) AktG. ARAG Holding SE indirectly holds a majority interest in ARAG SE. ARAG Allgemeine is therefore indirectly controlled by ARAG Holding SE and a dependent entity within the meaning of section 17 (1) AktG in accordance with article 9 (1) of the Regulation on the statute for a European company (SE) of November 10, 2001 in conjunction with section 17 (2) AktG.

ARAG Allgemeine Versicherungs-AG and the parent company holding all of its shares entered into a profit-and-loss transfer agreement on October 31, 2006. Given this profit-and-loss transfer agreement with the controlling entity, there was no requirement, as permitted by section 316 AktG, to prepare a report on relationships with affiliated companies in accordance with section 312 AktG. From the net income for 2017, a profit of €17.964 million (2016: €14.019 million) will be transferred to ARAG SE.

ARAG Allgemeine entered into a profit-and-loss transfer agreement with Interlloyd Versicherungs-AG, Düsseldorf, with effect from January 1, 1999. In the year under review, this led to the transfer of a profit of €2.424 million to ARAG Allgemeine (2016: absorption of losses of €115 thousand).

IV. Outlook, Opportunity and Risk Reports

Outlook and opportunity report

Future global economic growth remains subject to many significant risks. Besides the risk of a sudden fall in growth in individual economies around the globe, these risks include a potential increase in protectionist trends as well as political risks, especially in Europe. In the case of the latter, the most notable danger is the possibility of a disorderly hard Brexit resulting from a lack of progress in the negotiations on the UK's withdrawal from the EU. However, a potential deterioration of the conflict in Catalonia and new political scenarios arising from elections in 2018 could also jeopardize stability in Europe.

Furthermore, it is possible that the low interest rates could contribute to excesses in the financial system. For example, there is a risk of misallocations caused by a distortion of market prices. In addition, the risk of financial market turmoil arising in the wake of the forthcoming shift away from the long-standing policy of low interest rates pursued by many central banks should not be discounted. This shift is only happening very slowly at the moment, if at all. At present, consumer price inflation is at a modest level, but this could change in view of the current monetary environment and rising capacity utilization. Central banks could then be forced into an unexpectedly rapid rise in interest rates. Another factor is that global indebtedness has continued to grow since the financial crisis and is now at a record level. While public sector indebtedness in the industrialized economies has continued to rise, the volume of lending to households and businesses as a proportion of GDP has retreated a little in recent years.

Political developments in Europe demand particular attention. One major concern is that the future political and economic relationships between the UK and the EU have not yet been clarified. So far, the vote for Brexit has not had any substantial adverse effects on the real economy. This indicates a prevailing expectation that the parties will find a solution limiting the damage to the economy. However, given the progress in the negotiations to date, it is not at all clear whether an agreement can be reached by the spring of 2019. If the negotiations fail, a hard Brexit would have a negative economic impact, primarily on the UK, but also to a lesser extent on its European trading partners. It is unlikely that this would lead to any serious adverse consequences for the global economy. However, Europe's political risks are not restricted just to the uncertainty surrounding Brexit. In many EU member states, parties on the fringes of the political spectrum are enjoying a surge in popularity. If surveys are to be believed, support for parties critical of the EU and/or the euro is at a very high level. The recent developments in Catalonia underline the political tensions that continue to prevail. Forthcoming elections in some European countries will also bring additional risks. A situation that reignites the crisis in the eurozone can therefore not be fully ruled out.

On the other side of the equation, however, there are numerous opportunities and a great deal of potential for stronger growth in the global economy. An unexpectedly sharp increase in capital spending, predominantly in the eurozone, could push up the rate of expansion markedly. A more expansionary fiscal policy in the US could provide an additional stimulus not currently factored into the forecasts. Overall, the German Council of Economic Experts anticipates that growth will continue, both globally and in Europe. For 2018, it is forecasting a rise in global economic output of around 3.2 percent and an increase in eurozone GDP of 2.1 percent.

In Germany, the economic recovery is now in its fifth year. Capacity utilization is higher than usual. The rapid growth means the country is fast approaching an economic boom, increasing the risk of overheating. Higher inflation rates compared with recent years will also have a dampening effect on wage growth in real terms. However, the forecasts do not show any dip in the uptrend in consumer spending in the future. Consumer sentiment remains very favorable, bolstered by the stability in the labor market; willingness to spend and income expectations are still positive. Nevertheless, consumer price inflation is projected to rise slightly over the forecast period. Again in 2018, household consumption will remain the primary driver behind the country's economic growth, making a substantial contribution to the increase in the nation's GDP. The number of people in employment is predicted to rise once again by around 500,000 in 2018; current forecasts project that there will be 32.7 million people in employment subject to social security contributions and 4.7 million in exclusively marginal employment (jobs with very low earnings).

In all probability, however, it will not be possible to maintain the current pace of growth at quite the same level in 2018. Nevertheless, because of the significant carryover from 2017, the Council of Economic Experts is predicting an average GDP growth rate for the year of 2.2 percent.

The excellent economic situation offers an opportunity to focus on the future challenges as part of a potential readjustment in economic policy. These challenges include, notably, demographic change and digitalization. Demographic change will cause the size of the available workforce to shrink. A shortage of specialists is already evident in some sectors of the economy. It will therefore become increasingly critical to make better use of the available workforce potential and improve employee retention. This could trigger the need for measures related to work/life balance, such as the further expansion of childcare facilities, and immigration legislation. Politicians should also focus their attention on reducing long-term unemployment and integrating genuine asylum seekers into the job market.

The digitalization of the economy and society is leading to a comprehensive structural transformation, which politicians should make every effort to facilitate, for instance through innovation-friendly regulation, the systematic digitalization of government administrative activities, and measures to ensure that the labor market is flexible. In addition, education and training needs to be enhanced so that employees are more adaptable to the new requirements in the digital working environment. Digitalization is the basis for the great hope that it will be possible to achieve increases in labor productivity in the future. Greater connectivity between players, the associated improvements in the provision and use of information, and the growing maturity of autonomous systems hold out the prospect of increasing the efficiency of production processes and enhancing product quality. These changes also mean that business models and service delivery processes can be modified so that they have a greater focus on the needs and wishes of consumers.

The insurance industry is being heavily impacted by the trends described above. One of the factors taken into account in the latest forecasts of the GDV is that heightened uncertainty caused, for example, by geopolitical risks is one of the major influences on current macroeconomic conditions. Any change in the projected economic growth could therefore also have an impact on business trends in the insurance industry.

Insurers continue to be faced by challenges caused by an unmistakable trend toward fiercer competition.

As in prior years, examples of other action priorities include the increasing differentiation between customer groups and, as described above, the need to respond to demographic change. In addition, continuous shifts in insurance markets are being brought about by changes in the product landscape, some of which (such as the pluralization of sales structures) are far-reaching. Furthermore, digitalization – one of the major challenges going forward – is stepping up the pressure and the speed of change in the rather conservative insurance industry. There is a need to open up additional new sales, service, and communication channels with a focus on consumers. However, because the market is not made up solely of online customers, development is not concentrated on ‘either-or’ concepts or short-term solutions, which would not satisfy customer wishes. Whether consumers decide to opt for a digital offering or not depends on the product, the target group, and sentiment. Ultimately, the goal is to offer easy, barrier-free access to smart insurance benefits and services. Online business models will therefore soon no longer be aimed at particularly price-sensitive customers but will have to become an integral component – configured for maximum ease of use – in the range of services provided by each and every insurance company.

For property insurers, the main source of risk is the much-discussed climate change that has taken place in past years and decades. The last few years have clearly demonstrated that storms and hurricanes are not the only natural disasters that can hit the whole of a state; recurring loss events can also include torrential rainfall and hail. These events can lead to flooding in which entire homes are destroyed. Some years ago, national and state-level natural disasters insurance campaigns were implemented and a countrywide natural disasters portal established. The German National Meteorological Service (DWD) and the GDV have also initiated a project focusing on torrential rain, which is exploring as yet uncharted scientific territory. For the first time, they are investigating where exactly torrential rain occurs and what damage it causes. The project is being managed by an interdisciplinary team of meteorologists, hydrologists, mathematicians, and insurance professionals with the aim of creating a countrywide risk map that indicates the local risk and critical level of precipitation for each region in Germany, something that has never been done before. This map can then be used as a basis for calculating risk-appropriate levels of insurance cover for flooding resulting from torrential rain.

As before, sales activities in the German insurance industry are being made more difficult because the market is very mature. Opportunities for further premium growth and for additional expansion of in-force business are largely limited to customers who are switching between insurers. This trend will continue going forward. However, demand for insurance services is currently being positively impacted by the very favorable financial position enjoyed by consumers on the back of the beneficial situation in the German job market.

As a consequence, premium income in the insurance industry is expected to continue to grow. The GDV is forecasting an increase of approximately 1.3 percent for the German market in 2018 (2017: 1.3 percent). Assuming that there is no unforeseen deterioration in the macroeconomic environment, premiums in the casualty and property insurance segment are expected to be up by around 3.0 percent in 2018 (2017: 2.9 percent). Rising sums insured and extensions of the cover could once again be the growth drivers in the private property insurance segment, leading to an increase in the premium income generated by this segment of up to 4.0 percent (2017: 4.5 percent). In the case of legal insurance, the GDV again predicts a rise in premiums of around 4.0 percent (2017: 4.0 percent) in view of a number of factors, notably the opportunities to adjust premiums.

In the coming year, the private health insurance business will also benefit from a continuation in the favorable circumstances enjoyed by consumers and the rise in the number of people in employment subject to social security contributions. The GDV is forecasting a rise in premiums of approximately 2.0 percent in 2018 (2017: 3.5 percent).

In view of the current opportunities and risks, ARAG Allgemeine believes that 2018 will offer a stable basis on which to successfully continue the current measures aimed at consolidating existing business and increasing new business. For the next three years, the Company has budgeted moderate premium growth on average, slightly below the level achieved in 2017. When compared against the original forecast, ARAG Allgemeine fell just short of its premium target for 2017. As planned, the motor insurance segment will continue to post declining premiums over the next few years because the Company has entered into a sales partnership with Helvetia in connection with this business and has ceased to write new motor insurance. ARAG Allgemeine's objective is to focus on strategic core segments in its private customers business. In the sports insurance business, the Company will continue its successful strategy of providing needs-based, customized insurance cover for organizations offering recreational and high-performance sports activities.

ARAG Allgemeine forecasts that it will continue to perform well over the next three years in terms of its underwriting result. The Company expects to maintain the combined ratio at under 100 percent at all times in the future.

In capital markets, yields on low-risk securities such as German pfandbriefs remain very low. The huge demand for secure or collateralized fixed-income securities, German government bonds, and pfandbriefs is leading to further low returns. For some time now, the low interest rates have been making new investment and reinvestment difficult. This situation means that it will also remain a challenge in the future to generate sustainable net returns on investments that are attractive compared with competitors. In view of these conditions, any forecast of capital market trends continues to be subject to a significant degree of uncertainty. In its strategic planning, ARAG Allgemeine has therefore applied a conservative investment policy and assumed that investment income (excluding any possible profit or loss transfer from Interlloyd Versicherungs-AG) will be slightly below that generated in the last few years, which themselves have been challenging.

However, the Company is confident that it can maintain its profitability at a high level over the coming years. When compared against the forecast for 2017, ARAG Allgemeine was able to exceed its profit target by approximately €2.496 million. Nonetheless, the Company expects that the amount of profit after the equalization provision that will be transferred in 2018 will be a surplus slightly below the 2017 level. ARAG Allgemeine also anticipates that its premium income will increase at a rate slightly higher than that of the market as a whole. In terms of the claims trend, it predicts a slightly more favorable rate. The cost ratio is expected to be a little lower than in 2017. Overall, the combined ratio is anticipated to remain below 100 percent in 2018. Financial stability indicators, such as a ratio of equity plus technical provisions to total assets of more than 80 percent for the coming year, emphasize the sound capital adequacy of the Company and are a key measure of security and stability. Taking into account the opportunities and risks discernible, ARAG Allgemeine forecasts that business performance will be steady in 2018.

Risk report

Risk management system

The assumption of risk is the core business of ARAG as an insurer. This means that its activities aimed at achieving its strategic business objectives naturally involve taking on risks in order to achieve the desired success. To deal with these risks, ARAG has implemented a risk management system of which the operational risk management process forms the core element. Taking a multifaceted approach, including a risk strategy, a limit system, and an own risk and solvency assessment (ORSA), ARAG ensures that its risk management activities to control its business operations remain within the prescribed risk-bearing capacity requirements.

Based on the business strategy, the Management Board specifies the risk strategy and defines the capital adequacy requirements and the required limits for the Company. Risks are therefore managed in the round, ensuring at all times that the overall risk profile is consistent with the risk strategy. The Supervisory Board deliberates on these matters and receives regular reports on the risk situation.

To implement the risk strategy, the Company has implemented a risk management system, which is the responsibility of the risk management function that has been delegated to ARAG SE. This function is performed 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 and therefore performs the role of an independent risk control function. The Chief Risk Officer of ARAG SE is responsible for the implementation of the risk management system in all Group companies. Group Risk Management bears process responsibility for the risk management system and, by means of quarterly risk reports to the Management Board, ensures that there is comprehensive transparency with regard to the risk position and any changes to the risk position. Group Risk Management is also responsible for refining the risk management system and for drawing up proposals for uniform standards to be applied throughout the Group. The remit of the central department also includes developing models for determining risk-bearing capacity, solvency capital requirements, and the allocation of solvency capital.

Decisions about whether or not to pursue opportunities and/or take on risk are made in the operating units. The roles and responsibilities of all the people involved in the process, such as members of the Management Board, managers, local and central risk controllers and managers, are clearly defined and documented in the ARAG Group's risk management guidelines.

The core element of the risk management system is the risk management process, comprising the identification, analysis, measurement, management, and monitoring of risk as well as risk reporting.

Risk identification 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, assessed, and submitted to the Management Board for decision using an appropriate cross-functional new-product process. Corresponding processes have also been put in place for new investment products and reinsurance instruments. These procedures are also integrated into the existing limit and monitoring processes.

Risk analysis To ensure risks are managed appropriately, the influencing factors determining the relevant exposures on the Solvency II balance sheet are examined. These influencing factors are regularly validated to check that they are appropriate for the measurement of risk.

Risk assessment All identified risks are constantly quantified using suitable methods and on the basis of systematically captured and continuously updated data. This process also includes checks to ensure that the risk profile is within the specified limits.

The key element in this process is the solvency capital requirement calculated for all quantified downside risk (value-at-risk). The purpose is to ensure that unexpected losses are covered. A partial internal model is used to calculate the solvency capital requirement. The model calculates the maximum loss from risk exposures covered in the model within a specific holding period (one year in this model) and with a specified level of probability (99.5 percent in this model). The loss could arise as a result of unfavorable movements affecting investments or as a result of unexpected developments in the insurance business. The methodology is regularly reviewed using backtesting and validation tests. Stress tests are also continuously carried out in respect of the risk exposures.

Risk management The Company's approach is to manage risk where it arises. Operational management of risk is thus 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 identified and analyzed risks.

Risk monitoring and reporting 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. The risk-bearing capacity of the Company is determined on the basis of the aggregated solvency capital requirement and the eligible own funds that are available. This takes into account the regulatory and internal requirements regarding minimum cover. The actual utilization of limits is determined by reconciling the individual risks assumed and the aggregated risk with the specified limits.

To calculate the limits, the minimum coverage ratio determined by business policy requirements and the eligible own funds are used to determine the maximum permitted solvency capital requirement for the Company. The Management Board sets an overall limit in accordance with its risk tolerance. This overall limit is then apportioned to the risks.

The results from the risk monitoring process and the associated recommendations for action are reported to the Management Board promptly, without restriction, and on a continual basis.

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 ICS is based on the principles, functions, processes, measures, and policies implemented by the Management Board and on statutory and regulatory requirements that ensure the decisions of the Management Board are implemented operationally.

ARAG structures its internal control system in accordance with the 'three lines of defense' model.

The first line of defense is formed by all employees and managers in operational roles. They are directly responsible for the risks and processes in their departments.

The second line of defense is the monitoring of the first line of defense by the interdisciplinary functions Group Controlling, Group Risk Management, and Legal/Compliance, and by the Actuarial function. These functions specify standards for the design and monitoring of controls and for the handling of risk.

In the third line of defense, Group Audit conducts internal audits of the functions in the first and second lines of defense within the ARAG Group.

Internal audit The Group Audit function, which has been delegated to ARAG SE, is an instrument of the Management Board of ARAG Allgemeine Versicherungs-AG, to which it is accountable and to which it reports. Group Audit is bound only by the instructions of the Management Board.

Following the orders issued by the Management Board, Group Audit examines the operational and organizational structure as well as the internal control system for all operating and business processes from a risk perspective, including those that have been outsourced to other companies.

The Management Board makes sure that Group Audit carries out its duties autonomously and independently of the units that it audits, particularly in respect of its audit planning, audit procedures, and evaluation of audit findings.

So that it can fulfill its role and responsibilities properly, Group Audit does not get involved in operational processes. Employees in Group Audit are not permitted to be assigned tasks that would conflict with Group Audit's independence within the ARAG Group and are not allowed to carry out non-auditing work or operational activities. Group Audit itself does not have any authority to issue instructions to employees in other departments.

Underwriting risk Underwriting risk is the risk of a loss or adverse change in the value of insurance liabilities arising from inadequate pricing and inadequate provisioning assumptions. These losses result from:

- Premium/reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the duration of claims settlement and the amount involved.
- Catastrophe risk: significant uncertainties regarding pricing and assumptions in respect of the recognition of technical provisions for extreme or exceptional events.
- Lapse risk: changes in the level or volatility of the rates of insurance policy lapses and terminations.

These risks are measured with an internal model. Using a simulation, the losses and adverse changes in liabilities that could occur within one year are forecast. The value of the risk equates to the negative simulation result expected only every 200 years (1 in 200 year event). Each risk is measured separately. For premium and reserve risk, specified criteria are used to aggregate historical losses into groups of risks sharing similar characteristics. These are then used for 200,000 simulations of future unexpected claims and/or required additions to reserves. Likewise, catastrophe risk is assessed by simulating losses that may arise from natural disasters or large claims caused by people. Lapse risk is calculated on the basis of exceptional cancellations in the past. The actual underwriting risk arises from the aggregation of the individual risks, taking diversification effects into account.

The adequacy of the claims provisions 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		Settlements
	<i>FY ratio</i>	<i>Financial statements</i>	<i>% of initial reserve</i>
2017	62.3	59.4	2.5
2016	57.9	51.9	4.9
2015	58.3	49.0	7.1
2014	59.9	60.2	-0.2
2013	61.2	41.0	14.3
2012	62.2	40.0	14.4
2011	61.5	40.4	12.9
2010	66.1	46.9	11.7
2009	62.1	47.8	8.9
2008	70.1	47.2	15.0

At operational level, underwriting risk arising from casualty and property insurance is managed by means of underwriting, premium, and reinsurance policy measures.

Over the past few years, a decrease in settlement volumes and a fall in the maximum interest rates used to calculate the benefit reserves for annuities have resulted in a decrease in settlements.

Counterparty default risk While counterparty default risk attaching to investments is calculated as part of market risk, counterparty default risk in the insurance business is treated separately. Counterparty default risk in the insurance business largely arises in connection with receivables from reinsurers, receivables from policyholders, and receivables from 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 method used to bring together the different types of exposure, aggregate them, and determine the associated correlations is specified in the 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. Receivables of €1.286 million (December 31, 2016: €387 thousand) arose from reinsurance business. All third-party reinsurers to whom ARAG Allgemeine Versicherungs-AG has ceded insurance business have an internally specified minimum rating.

Default risk in connection with reinsurance treaties is managed in accordance with the reinsurance strategy, which is reviewed at regular intervals.

To measure the risk of default on receivables from policyholders and insurance brokers, a constant factor is applied to the fair value of the relevant exposures on the Solvency II balance sheet. As of the balance sheet date, receivables from policyholders more than 90 days past due amounted to €1,241 million (December 31, 2016: €2,549 million). The average default rate for these receivables over the last three years as of December 31, 2017 was 0.6 percent (December 31, 2016: 0.8 percent). Receivables from policyholders are managed by means of an automated reminder and dunning process.

Market risk Market risk is the risk of loss or of 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. An assumed increase or decrease of 1 percent in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by €15.0 million.
- Equity risk: changes in the level or volatility of the market prices of equities. A hypothetical fall in equities markets of 20 percent would cause a loss in fair value of €12.5 million.
- Property risk: changes in the level or volatility of the market prices of real estate.

- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure.
- Migration/default risk: rating level changes or changes in the extent of projected defaults. The breakdown of interest-bearing investments by rating is as follows:

Fixed-income securities by rating class

(Proportion (%) by fair value)

AAA	23.0
AA	15.7
A	22.9
BBB	31.6
BB	4.4
B	2.5
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 32.2 percent are accounted for by financial services entities, 30.9 percent by public-sector bonds, and 36.9 percent by corporate bonds.

- Currency risk: changes in the level or volatility of exchange rates.
- Concentration risk: all risk exposures with a loss potential that is large enough to threaten solvency or financial position.

These risks are measured with an internal model. An economic scenario generator is used to simulate capital market scenarios looking at 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.

The strategic asset allocation is defined in order to manage the risks. This allocation is used to optimize the investment portfolio so that the desired risk/return ratio can be achieved. Portfolio management is based on the prudent person principle and follows the related regulatory requirements. Interest-rate risk is contained separately by means of asset-liability management. In addition, derivatives are used to hedge changes in interest rates, share prices, and exchange rates. Investments in hedge funds, the funding of investments by borrowing, and the sale of shares not owned by ARAG Allgemeine (short selling) are not permitted under the internal investment policies.

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.

Currently, there is no regulatory solvency requirement for the coverage of liquidity risk so it is not measured. Instead, the monthly excess liquidity cover or liquidity shortfall is calculated on a rolling basis.

Each line item on the balance sheet is assigned to a liquidity class so that the liquidity of the investment portfolio can be adjusted if necessary. To ensure the Company can always meet its liabilities when due, most investments are made in the 'available-for-sale at short notice' liquidity class.

The liquidity planning is updated constantly so that liquidity can be managed. The Company thus has early warning of whether it will require liquidity in the coming months.

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

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

Measurement for operational purposes is derived from the estimated gross and net values of each individual operational risk based on the risk's probability of occurrence and its impact on the income statement. The probability of occurrence describes the likelihood that an operational risk will materialize within a defined period. The scale is calibrated for a period of one year. Both a qualitative and a quantitative estimate of the impact can be prepared. In the case of a quantitative estimate, the risk is classified directly using a risk matrix. With a qualitative estimate, the impact is determined by comparing the risk matrix classification with the class limits. This risk matrix enables the risks to be prioritized. As risks are measured using subjective estimates carried out by experts, the employees responsible have an additional instrument, the loss event database, that helps them to determine the values. This contains data on all loss events that have occurred in the past and their actual impact on the income statement.

Specific measures are agreed upon and carried out in order to manage the identified risks at operational level. With regard to cyber risk, these measures include information technology security measures and insurance solutions. Additional measures have been taken to counter the potential impact from a cyberattack. These include, for example, appropriate countermeasures in a business continuity management system.

Risks to the Company's survival as a going concern There are no internal or external risks that could have a permanent adverse impact on the net assets, financial position, or results of operations of the Company. The overall risk position does not currently point to any trends in 2018 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.

Risk position The regulatory minimum capital requirement pursuant to section 122 of the German Insurance Supervision Act (VAG) is met in full. Moreover, the eligible own funds are significantly higher than the solvency capital requirements calculated in accordance with section 97 VAG. Further details of the coverage situation can be found in the solvency and financial condition report*.

* Not part of the management report.

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Balance Sheet as of December 31, 2017

Assets

(€)

A. Intangible assets

B. Investments

- I. Land, land rights and buildings, including buildings on third-party land
- II. Investments in affiliated companies and equity investments
 - 1. Shares in affiliated companies
 - 2. Lending to affiliated companies
 - 3. Equity investments
 - 4. Lending to long-term investees and investors
- III. Miscellaneous investments
 - 1. Equities, investment fund shares/units, and other variable-yield securities
 - 2. Bearer bonds and other fixed-income securities
 - 3. Loans secured by mortgages or land charges and fixed-income receivables
 - 4. Miscellaneous lending
 - a) Registered bonds
 - b) Promissory notes and loans
 - c) Loans and prepayments for certificates of insurance
 - d) Sundry lending
 - 5. Bank deposits
 - 6. Other investments
- IV. Deposits with ceding insurers

C. Receivables

- I. Receivables from direct insurance business
 - 1. from policyholders
 - 2. from insurance brokers
 - of which from affiliated companies: € 0.00 (Dec. 31, 2016: € 0.00)
- II. Receivables from reinsurance business
 - of which from affiliated companies: € 95,657.16 (Dec. 31, 2016: € 185,224.45)
- III. Miscellaneous receivables
 - of which from affiliated companies: € 20,386,204.53 (Dec. 31, 2016: € 7,920,133.69)

D. Miscellaneous assets

- I. Property and equipment and inventories
- II. Current bank balances, checks and cash on hand
- III. Other assets

E. Prepaid expenses and accrued income

- I. Accrued interest and rent
- II. Miscellaneous prepaid expenses and accrued income

F. Deferred tax assets

G. Excess of plan assets over pension liabilities

Total assets

As of December 31, 2017, the actuarial reserve amounted to € 38,392,132.00 for annuities from general accident insurance, € 39,610.00 for annuities from general liability insurance, and € 5,779,084.00 for annuities from motor liability insurance.

It is confirmed that the actuarial reserves recognized in line items B. II. 1. and B. III. 1. on the equity and liabilities side of the balance sheet have been calculated in accordance with section

				Dec. 31, 2017	Dec. 31, 2016
				0.00	0.00
				22,005,522.07	22,696,439.62
				13,127,801.57	11,627,801.57
				0.00	0.00
				0.00	0.00
				0.00	0.00
				13,127,801.57	11,627,801.57
				223,424,702.05	219,052,916.37
				19,060,380.00	14,088,726.00
				0.00	0.00
				25,000,000.00	25,000,000.00
				26,981,734.23	31,970,412.57
				0.00	0.00
				0.00	0.00
				51,981,734.23	56,970,412.57
				84,450.90	87,654.42
				1,875,776.06	2,156,369.15
				296,427,043.24	292,356,078.51
				112,249.48	95,055.50
				331,672,616.36	326,775,375.20
				3,824,471.34	7,655,026.24
				4,414,637.31	2,710,199.61
				8,239,108.65	10,365,225.85
				1,285,537.49	387,435.52
				20,460,125.09	7,975,388.40
				29,984,771.23	18,728,049.77
				0.00	0.00
				2,342,227.58	3,271,697.91
				0.00	210,900.71
				2,342,227.58	3,482,598.62
				653,935.15	827,360.68
				7,539.84	11,309.76
				661,474.99	838,670.44
				0.00	0.00
				0.00	0.00
				364,661,090.16	349,824,694.03

341f and 341g HGB and in accordance with the statutory regulation enacted on the basis of section 88 (3) VAG.

Düsseldorf, January 4, 2018

The appointed actuary
Kathrin Smeja, Dipl.-Mathematikerin
(Bachelor of Mathematics)

Balance Sheet as of December 31, 2017

Equity and liabilities

(€)

A. Equity

- I. Subscribed capital
- II. Capital reserve
- III. Revenue reserves
 - 1. Statutory reserves
 - 2. Other revenue reserves

IV. Net retained profit

B. Technical provisions

- I. Unearned premiums
 - 1. Gross amount
 - 2. less: portion for outward reinsurance business
- II. Actuarial reserve
 - 1. Gross amount
 - 2. less: portion for outward reinsurance business
- III. Provision for outstanding claims
 - 1. Gross amount
 - 2. less: portion for outward reinsurance business
- IV. Provision for performance-based and non-performance-based bonuses and rebates
 - 1. Gross amount
 - 2. less: portion for outward reinsurance business
- V. Equalization provision and similar provisions
- VI. Miscellaneous technical provisions
 - 1. Gross amount
 - 2. less: portion for outward reinsurance business

C. Other provisions

- I. Provisions for pensions and other post-employment benefits
- II. Provisions for taxes
- III. Miscellaneous provisions

D. Deposits received from reinsurers

E. Other liabilities

- I. Liabilities from direct insurance business
 - 1. to policyholders
 - 2. to insurance brokers
 - of which to affiliated companies: €0.00 (Dec. 31, 2016: €724.87)
- II. Liabilities from reinsurance business
 - of which to affiliated companies: €313,335.23 (Dec. 31, 2016: €0.00)
- III. Miscellaneous liabilities
 - of which to affiliated companies: €19,338,616.77 (Dec. 31, 2016: €13,567,203.01)
 - of which tax liabilities: €2,006,329.42 (Dec. 31, 2016: €1,665,180.34)
 - of which social security liabilities: €0.00 (Dec. 31, 2016: €0.00)

F. Deferred income and accrued expenses

G. Deferred tax liabilities

Total equity and liabilities

			Dec. 31, 2017	Dec. 31, 2016
		44,000,000.00		44,000,000.00
		10,490,518.89		10,490,518.89
	743,744.95			743,744.95
	88,641.88			88,641.88
		832,386.83		832,386.83
		0.00		0.00
			55,322,905.72	55,322,905.72
	25,800,447.75			25,453,883.71
	209,770.22			188,762.14
		25,590,677.53		25,265,121.57
	5,042.00			4,009.00
	0.00			0.00
		5,042.00		4,009.00
	203,746,914.22			194,433,488.82
	28,814,590.33			27,462,950.90
		174,932,323.89		166,970,537.92
	0.00			0.00
	0.00			0.00
		0.00		0.00
		44,667,196.00		46,258,258.00
	1,307,297.72			1,666,243.30
	0.00			0.00
		1,307,297.72		1,666,243.30
			246,502,537.14	240,164,169.79
		29,761,561.00		28,599,347.00
		29,810.19		32,413.09
		3,525,817.97		2,900,803.17
			33,317,189.16	31,532,563.26
			0.00	342,691.48
	3,415,499.08			4,278,574.43
	2,897,109.35			1,762,430.55
		6,312,608.43		6,041,004.98
		944,699.39		756,539.16
		22,261,150.32		15,664,819.64
			29,518,458.14	22,462,363.78
			0.00	0.00
			0.00	0.00
			364,661,090.16	349,824,694.03

Income Statement for the Period from January 1 to December 31, 2017

Direct insurance and inward reinsurance business

(€)

I. Underwriting account

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

			2017	2016
	180,035,905.40			175,869,632.13
	-5,872,050.24			-5,991,831.49
		174,163,855.16		169,877,800.64
	-363,041.42			-1,681,494.88
	21,008.08			15,196.92
		-342,033.34		-1,666,297.96
			173,821,821.82	168,211,502.68
			328,823.00	595,350.00
			463,575.29	371,161.01
	92,196,788.48			86,514,069.29
	-3,262,935.87			-1,497,174.78
		88,933,852.61		85,016,894.51
	9,338,792.26			3,724,180.52
	-1,351,639.43			2,456,150.03
		7,987,152.83		6,180,330.55
			96,921,005.44	91,197,225.06
			357,912.58	169,547.84
			0.00	0.00
		67,660,227.47		65,275,074.32
		-583,520.76		-599,982.15
			67,076,706.71	64,675,092.17
			1,161,118.59	1,130,024.76
			9,813,301.95	12,345,219.54
			1,591,062.00	-5,023,682.00
			11,404,363.95	7,321,537.54
			11,404,363.95	7,321,537.54

Income Statement for the Period from January 1 to December 31, 2017

Direct insurance and inward reinsurance business

(€)

Brought forward:

II. Non-underwriting account

1. Income from investments

a) Income from equity investments

of which from affiliated companies: € 92,360.29 (2016: € 61,326.48)

b) Income from other investments

of which from affiliated companies: € 755,150.19 (2016: € 933,120.20)

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

c) Losses on the disposal of investments

d) Expenses from the transfer of losses

3. Technical interest income

4. Other income

5. Other expenses

6. Profit/loss from ordinary activities

7. Extraordinary income

8. Extraordinary expenses

9. Net extraordinary income/expense

10. Income taxes

11. Miscellaneous taxes

12. Income from the transfer of losses

13. Profits transferred under a profit-pooling, profit-transfer or partial profit-transfer agreement

14. Net income for the year

15. Profit/loss brought forward from 2016

16. Transfer from the capital reserve

17. Transfer from revenue reserves

18. Transfer from profit-sharing rights

19. Appropriation to revenue reserves

20. Replenishment of profit-sharing rights

21. Net retained profit

Notes to the Financial Statements

I. Disclosures on Accounting Policies

Financial reporting standards

ARAG Allgemeine Versicherungs-AG is entered in the commercial register of the Düsseldorf local court under the number HRB 10418. Its registered office is ARAG Platz 1, 40472 Düsseldorf, Germany. The Company has prepared these financial statements for 2017 in accordance with the requirements of the German Commercial Code (HGB), including but not limited to sections 341 et seq., and the German Regulation on the Accounting of Insurance Undertakings (RechVersV) dated November 8, 1994.

The financial statements are presented on the basis of the financial statement forms 1 and 2 pursuant to section 2 RechVersV that have been modified in accordance with sections 266 and 275 HGB.

Accounting policies

The accounting principles and measurement requirements in sections 341 et seq. HGB were applied. German accounting standard no. 20 (GAS 20) has also been applied where its application is recommended for single-entity financial statements.

Land, land rights and buildings, including buildings on third-party land, are valued at cost less depreciation and amortization. Write-downs pursuant to section 253 (3) HGB and reversals of write-downs pursuant to section 253 (5) HGB were not recognized in the financial year. The office tower completed in 2001, in which the Company holds a 25 percent stake through ARAG 2000 GbR, is used by companies in the ARAG Group.

Investments in affiliated companies and equity investments are valued at cost. In 2017, there was no requirement for the recognition of write-downs for impairment losses pursuant to section 253 (3) sentence 5 HGB that are expected to be permanent nor for the recognition of reversals of write-downs pursuant to section 253 (5) HGB.

Shares in affiliated companies and equity investments with a shareholding of at least 20 percent were held in the following companies as of the balance sheet date:

Shareholdings of at least 20 percent as of December 31, 2017

Name and registered office of company	Shareholding	Equity	Net income for the year
	(%)	(€)	(€)
Shares in affiliated companies			
Interlloyd Versicherungs-AG, Düsseldorf ¹⁾	100	7,392,771.59	2,423,611.61
ALIN 2 Verwaltungs-GmbH, Düsseldorf	100	24,919.43	2,619.61
ALIN 2 GmbH & Co. KG, Düsseldorf	100	3,968,359.65	109,167.61
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50	4,968,156.57	-1,108,398.01
ARAG Service Center GmbH, Düsseldorf	20	394,856.75	47,650.75

¹⁾ A profit-and-loss transfer agreement exists.

Equities, investment fund shares/units, other variable-yield securities, bearer bonds and other fixed-income securities that have not been classified as permanent fixed assets are measured at the lower of cost or quoted market price/market value as of the reporting date in accordance with section 341 b (2) HGB in conjunction with section 253 (1) and (4) HGB. In application of the strict principle of lower of cost or market value, no write-downs were recognized on securities in this line item (2016: €199 thousand). ARAG Allgemeine may make use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341 b (2) second half-sentence HGB for those institutional investment fund shares/units and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. Subsequent valuation of the investment fund shares/units classified as fixed assets is based on the long-term market value determined in a fund review. Subsequent valuation of the bearer bonds classified as fixed assets is at cost, taking account of the individual debtor's creditworthiness. In 2017 and 2016, no write-downs were required on these investments. Reversals of write-downs pursuant to section 253 (5) HGB were recognized in an amount of €1.033 million (2016: €1.603 million).

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.

Promissory notes, loans, and sundry lending are recognized at amortized cost in accordance with section 341 c (3) HGB.

Bank deposits as well as deposits with ceding insurers are recognized at their nominal amount.

Receivables are generally recognized at their nominal amount. A general allowance for latent credit risk is deducted from receivables from policyholders. Receivables from policyholders past due are valued at the average historical recovery rate. Receivables from agents are reduced by specific allowances in the amount of the likely default.

Current bank balances are recognized at their nominal amount.

Other assets are recognized at their nominal amount. Where the other assets constitute rights to payment in connection with corporation tax credits within the meaning of the German 'law on accompanying tax measures for the introduction of the European company and the amendment of further tax legislation' (SEStEG), which came into force in 2006, these receivables were discounted to December 31, 2017 at a discount rate of 4.5 percent.

Prepaid expenses and accrued income mainly consist of accrued rights to interest that are not yet due in respect of the income period before the balance sheet date.

The **subscribed capital** has been fully paid up by the shareholders. The **capital reserves** include amounts that shareholders have contributed to the equity of the Company without being granted preferences in accordance with section 272 (2) no. 1 HGB.

Gross unearned premiums for direct insurance business were calculated pro rata temporis on the basis of the premiums and lapses/cancellations posted, less the installment surcharges. In accordance with circular IV B/5 – S 2750 – 15/74 from the German Federal Ministry of Finance (BMF) dated April 30, 1974, the non-transferable income components were deducted from the unearned premiums. Following consultation with the GDV, it is assumed that this rule was not set aside by the BMF circular IV C 9 – O 1000 – 86/5 on the elimination of bureaucracy dated June 7, 2005. Accordingly, 85 percent of the commissions and other remuneration for agents is recognized as non-transferable income components. The gross unearned premiums for inward reinsurance business are recognized in accordance with the information provided by the primary insurer. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

The components of premiums from anticipated premium-free children's accident insurance policies are added to the **children's accident actuarial reserves**. The calculation is carried out using mathematical principles in accordance with the underwriting business plan.

The **provision for outstanding claims** is generally determined individually and measured according to specific requirements. In the ski breakage and theft insurance segment, the claims reserves are recognized according to the average value of claims (number of claims multiplied by the average value of claims plus a surcharge for inflation). The benefit reserve for annuities contained in the provision for outstanding claims is calculated individually using actuarial principles and in accordance with the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) – based on the prevailing maximum interest rate of 0.9 percent – by the Company's appointed actuary, taking the expenses required for settlement into account. General provisions are recognized for claims incurred but not reported and reopened claims on the basis of empirical values. Owing to the positive settlement trend, particularly in the general liability insurance segment, the Company's settlements in direct business amount to nearly 2.5 percent in relation to the corresponding initial reserve.

The provision for claim settlement expenses is based on the coordinated regulations issued by the German federal states on February 2, 1973. The provision for claim settlement costs is recognized in accordance with section 341 g (1) sentence 2 HGB. The benefit reserves for annuities, which are recognized in accordance with actuarial principles, were not included in the calculation. Recourse claims, reduced in accordance with the average realization rate, were deducted from the claims provision. The valuation method used was the same one used in the previous year.

The claims provisions for inward reinsurance business were recognized in accordance with the information provided by the primary insurer.

Technical interest income was calculated at 0.9 percent of the arithmetic mean of the opening and closing balances of the actuarial reserves and the benefit reserves for annuities. The **equalization provision** was recognized in accordance with section 341h HGB in conjunction with section 29 RechVersV.

Miscellaneous technical provisions were recognized for the following risks:

The **lapse provision** for discontinuation and reduction of risk in direct insurance business was calculated using a lapse rate based on empirical values in the year under review. The breakdown by individual insurance segment is based on the allocation formula for premiums. The **provision recognized for premium waivers** relates to the scales of rates offered by the Company under which the obligation to pay the premiums is waived for up to five years, e.g. in the event of unemployment. The provision offsets the expenses that are likely to be incurred (claims, costs, commissions) during the period of unemployment. The expected duration of the waiver of premiums is estimated on the basis of internal statistical analysis.

The **provision for assistance for victims of traffic accidents** is recognized on the basis of the share specified by the German Road Casualty Support Organization (VOH).

The **miscellaneous technical provisions in inward reinsurance business** are recognized in the amount of the premiums ceded by the primary insurer.

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 (1) sentence 2 HGB on the basis of the 2005G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. In accordance with section 253 (2) sentence 2 HGB, the discount rate used is the average interest rate for the past ten years published by Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. A discount rate of 3.68 percent was applied for the valuation as of December 31, 2017 (December 31, 2016: 4.01 percent). Reflecting the statutory discount rate in force at the time, the average interest rate for the past seven years was used until 2015. The difference in the amount prohibited from being distributed, which arises from the application of the percentage rate for the ten-year average rather than the percentage rate for the seven-year average pursuant to section 253 (6) HGB, amounted to €3,629,849.00 at the end of 2017.

The following actuarial parameters were used to calculate the obligations: pension age of 63 years, annual increase in salaries of 2.5 percent, annual increase in pension benefits of 1.75 percent, discount rate of 3.68 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. In accordance with section 246 (2) sentence 2 HGB, assets from reinsurance are offset against the defined benefit obligation. The settlement value of the offset liabilities corresponds to the asset value of the reinsurance taken out as matched cover and amounts to €215,207.00. In accordance with section 246 (2) sentence 2 HGB in conjunction with section 253 (1) sentence 4 HGB, the reinsurance is measured at fair value (asset value). In 2017, an expense of €9,782.00 arising on the increase in the liability and income of €30,901.74 on the assets were recognized in the income statement.

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.

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. In 2017, a **provision was recognized in accordance with the pre-retirement part-time employment agreement** for the private insurance industry dated June 11, 1997 and the pronouncement of the Institute of Public Auditors in Germany (IDW) dated November 18, 1998. The provision was calculated pursuant to section 253 (2) no. 2 HGB and a residual maturity of 15 years was assumed. The corresponding seven-year average was 2.80 percent (2016: 3.24 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 was taken into account. A bank guarantee was provided as collateral for the provisions pursuant to section 8a of the German Pre-retirement Part-time Employment Act (AltTZG). The investment fund shares/units previously pledged in favor of those eligible for pre-retirement part-time employment were released.

The **miscellaneous provisions** are recognized in the amount that is necessary according to prudent business practice. A long-service provision was recognized in the year under review for long-service awards to be paid to employees. The provision was calculated pursuant to section 253 (2) no. 2 HGB and a residual maturity of 15 years was assumed. The corresponding seven-year average was 3.24 percent.

Interest income of €1,600.28 arose from the discounting of provisions with a maturity of more than one year (2016: €0.00). There were no interest expenses (2016: €270.20).

Deposits received from ceding insurers are recognized at their nominal amount.

Other liabilities are recognized at their settlement value.

The **liabilities from reinsurance business** and **liabilities from direct insurance business** are valued at their nominal amount.

All non-interest-bearing **liabilities** are valued at the higher of their nominal amount or settlement value.

Currency translation

Assets and liabilities denominated in foreign currencies are translated at the middle spot rate on the balance sheet date pursuant to section 256a HGB. Income and expenses recognized in the income statement that are denominated in foreign currencies are translated at the middle spot rate. Currency conversions generated income of €13,714.78 in 2017 (2016: €9,086.23).

Fair value disclosures pursuant to section 54 RechVersV

Fair values of land, land rights and buildings, including buildings on third-party land

An externally produced valuation report dated August 15, 2016 is available for calculating fair value. This satisfies the requirements of section 55 (3) and (7) RechVersV. Land and land rights with a carrying amount of €22.006 million are used for the Company's own business operations and for the business operations of other Group companies.

Fair values of investments in affiliated companies and equity investments

These shares and equity investments were generally measured using the income capitalization approach based on the principles of conducting business valuations in accordance with standard IDW S1 from the Institute of Public Auditors in Germany. In the case of companies that predominantly perform services for the ARAG Group, the pro-rata net asset value was used as the fair value. For equity investments and shares acquired recently, the carrying amount was used as the fair value.

Fair values of miscellaneous investments

The fair values of line items B. III. 1. and 2. 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.

The fair values are shown by asset class in the table on pages 66 and 67, which presents the changes in investments.

II. Insurance Disclosures

Direct insurance and inward reinsurance business

(€'000)	Total insurance business		Direct insurance business (total)		Accident insurance		Liability insurance		Motor liability insurance	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Gross premiums written	180,036	175,870	150,402	146,456	47,684	48,008	41,864	41,406	1,564	2,369
Gross premiums earned	179,673	174,188	150,150	145,010	47,711	48,042	41,814	40,834	1,564	2,369
Net premiums earned	173,822	168,212	144,318	139,048	46,191	46,705	39,929	38,781	1,397	2,140
Gross expenses for claims	101,536	90,238	89,124	75,263	30,620	24,629	16,967	15,870	1,563	1,695
Gross insurance business operating expenses	67,660	65,275	54,999	53,359	15,784	15,515	16,221	16,106	242	289
of which front-end fees	16,577	15,101	14,555	13,086	0	0	0	0	0	0
of which administrative expenses	51,083	50,174	40,444	40,273	0	0	0	0	0	0
Reinsurance balance	627	6,325	609	6,311	-467	840	137	4,284	-54	-146
Underwriting result for own account before equalization provision	9,813	12,345	5,646	10,630	2,145	7,799	8,632	4,695	-189	544
Underwriting result for own account after equalization provision	11,404	7,322	8,197	7,966	2,145	7,799	9,495	3,270	1,163	1,097
Gross technical provision (total)	275,527	267,816	233,512	226,352	98,917	89,884	71,461	75,652	18,144	19,601
of which gross provision for outstanding claims	203,747	194,433	187,458	177,983	93,449	84,380	53,460	56,844	15,834	15,954
of which lapse provision	1,290	1,655	1,290	1,320	363	386	298	308	27	21
of which equalization provision and similar provisions	44,667	46,258	25,633	28,185	0	0	12,272	13,135	2,274	3,626
Number of insurance policies with a term of at least one year	962,088	863,300	962,088	863,300	163,022*	167,238*	310,110*	306,785*	6,662	8,339
Technical interest income for own account relating to benefit reserves for annuities (0.9 percent)	329	595	329	595	326	590	2	5	0	1

* These insurance segments contain 18 group contracts (2016: 18) with 20,873,133 insured risks (2016: 20,789,020).

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

Direct insurance business	2017	2016
(No.)		
German	858,873	861,242
International	101,473	2,058
Total	960,346	863,300

Miscellaneous motor insurance		Fire and property insurance		of which composite home contents insurance		of which miscellaneous property insurance		Emergency assistance insurance		Miscellaneous insurance		Inward business (total)	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
762	942	45,250	42,106	20,096	19,356	25,154	22,750	4,823	5,775	8,456	5,850	29,634	29,413
762	942	45,106	41,847	20,147	19,545	24,959	22,302	5,178	5,459	8,015	5,518	29,522	29,178
762	942	42,854	39,512	19,153	18,512	23,701	21,000	5,178	5,459	8,005	5,508	29,504	29,164
434	798	31,269	25,538	9,838	9,253	21,431	16,285	2,790	2,664	5,481	4,069	12,412	14,975
128	169	16,389	16,273	8,269	8,078	8,119	8,195	2,828	2,876	3,407	2,131	12,662	11,916
0	0	0	0	0	0	0	0	0	0	0	0	2,022	2,015
0	0	0	0	0	0	0	0	0	0	0	0	10,640	9,901
1	0	984	1,326	1,053	975	-69	351	0	0	7	8	18	14
194	-24	-3,819	-1,641	922	1,155	-4,740	-2,796	-436	-54	-882	-689	4,168	1,715
258	103	-3,051	-3,552	737	697	-3,788	-4,249	-436	-54	-1,377	-696	3,207	-645
640	783	36,293	33,311	11,176	10,363	25,159	22,948	2,502	2,709	5,513	4,411	42,015	41,464
109	193	21,224	17,599	4,911	4,234	16,354	13,364	873	708	2,469	2,306	16,289	16,449
13	9	508	502	226	231	282	271	53	69	28	26	0	335
518	581	9,925	10,693	5,135	4,951	4,790	5,742	0	0	645	150	19,034	18,073
4,083	5,357	253,211	250,715	179,759	177,824	73,452	72,891	105,846	92,066	119,154*	32,800*	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source of insurance business by premiums written

Direct insurance business	2017	2016
(€'000)		
German	176,248	174,575
International	3,788	1,295
Total	180,036	175,870

III. Non-Insurance Disclosures

Changes in Asset Items A., B. I. to III. in 2017

(€'000)	Carrying amount as of Dec. 31, 2016
A. Intangible assets	0
B. I. Land, land rights and buildings, including buildings on third-party land	22,696
B. II. Investments in affiliated companies and equity investments	
1. Shares in affiliated companies	11,628
2. Lending to affiliated companies	0
3. Equity investments	0
4. Lending to long-term investees and investors	0
5. Total for B. II.	11,628
B. III. Miscellaneous investments	
1. Equities, investment fund shares/units, and other variable-yield securities	219,053
2. Bearer bonds and other fixed-income securities	14,089
3. Loans secured by mortgages or land charges and fixed-income receivables	0
4. Miscellaneous lending	
a) Registered bonds	25,000
b) Promissory notes and loans	31,970
c) Loans and prepayments for certificates of insurance	0
d) Sundry lending	0
5. Bank deposits	88
6. Other investments	2,156
7. Total for B. III.	292,356
Total	326,680

Additions	Disposals	Reversals of write-downs	Write-downs	Carrying amount as of Dec. 31, 2017	Fair value pursuant to sec. 54 RechVersV
0	0	0	0	0	0
0	691	0	0	22,006	38,973
1,500	0	0	0	13,128	17,934
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
1,500	0	0	0	13,128	17,934
6,992	3,639	1,018	0	223,425	253,594
5,757	800	14	0	19,060	19,967
0	0	0	0	0	0
0	0	0	0	25,000	24,970
0	4,989	0	0	26,982	27,638
0	0	0	0	0	0
0	0	0	0	0	0
0	3	0	0	84	84
28	309	0	0	1,876	3,033
12,777	9,739	1,033	0	296,427	329,286
14,277	10,430	1,033	0	331,560	386,193

Investment fund disclosures

The portfolio of investments contains the following investment funds of which more than 10 percent is held by the Company:

Institutional funds

(€)	Carrying amount	Fair value	Dividend
	as of Dec 31, 2017	as of Dec 31, 2017	for 2017
Alltri Fonds Inka mixed fund	123,017,908.62	144,837,769.19	3,416,568.35
Alltrirent Fonds Inka fixed-income fund	68,125,950.38	76,475,631.84	1,344,904.86
ARI1 Fonds Inka fixed-income fund	27,233,853.86	27,233,853.86	1,213,872.15

The investment objectives for all of the funds are benchmark management and the achievement of a higher profit.

ARAG Allgemeine made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341 b (2) second half-sentence HGB for those institutional funds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of December 31, 2017, shares/units in one mixed institutional fund, one equity fund, and two fixed-income funds with a carrying amount of €223,424,702.05 (December 31, 2016: €219,052,916.37) had been classified as fixed assets. The fair value of these investment fund shares/units classified as permanent fixed assets amounted to €253,594,244.08 as of the balance sheet date (December 31, 2016: €244,123,307.21). No write-downs in respect of these securities were recognized in the reporting year (2016: €0.00). No write-downs were avoided by classifying these securities as fixed assets (2016: €0.00). In 2017, reversals of write-downs pursuant to section 253 (5) HGB on these investments were recognized in an amount of €1,018,136.94 (2016: €1,603,248.04).

ARAG Allgemeine also made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341 b (2) second half-sentence HGB for 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 2017, a total of 15 securities (December 31, 2016: 18 securities) with a carrying amount of €8,422,630.00 were classified as fixed assets (December 31, 2016: €9,018,070.00). The fair value of these bearer bonds amounted to €9,206,378.00 as of the balance sheet date (December 31, 2016: €10,128,776.00). No write-downs due to expected permanent impairment were recognized in respect of these securities (2016: €0.00). By classifying them as fixed assets, write-downs of €2,570.00 were avoided (2016: €3,340.00). There were no reversals of write-downs pursuant to section 253 (5) HGB in respect of these securities in 2017, as had also been the case in 2016.

Other assets

A receivable from the tax authorities of €210,900.71 had still been recognized under this item as of December 31, 2016. This receivable constituted rights to payment arising on corporation tax credits within the meaning of the German 'law on accompanying tax measures for the introduction of the European company and the amendment of further tax legislation' (SEStEG), which came into force on December 12, 2006. The receivable did not need to be recognized as of December 31, 2017.

Equity

(€)	Dec. 31, 2017	Dec. 31, 2016
Total equity	55,322,905.72	55,322,905.72
of which:		
I. Subscribed capital		
The share capital amounts to: It is divided into 2,200,000 fully paid-up no-par-value shares.	44,000,000.00	44,000,000.00
II. Capital reserve		
pursuant to sec. 272 (2) no. 1 HGB	10,490,518.89	10,490,518.89
III. Revenue reserves		
1. Statutory reserves	743,744.95	743,744.95
2. Other revenue reserves	88,641.88	88,641.88
	832,386.83	832,386.83
IV. Net retained profit	0.00	0.00

Provisions for taxes

In 2017, provisions for taxes of €15,000.00 (December 31, 2016: €20,000.00) had to be recognized for tax demands relating to periods before the single entity for tax purposes was created, the reason for or amount of which was not yet known.

Miscellaneous provisions

This line item essentially consists of long-service provisions of €464,668.00 (December 31, 2016: €467,949.00), costs for the financial statements and auditing of €452,384.00 (December 31, 2016: €431,781.57), pre-retirement part-time employment provisions of €412,202.00 (December 31, 2016: €405,114.00), bonuses of €312,139.66 (December 31, 2016: €209,074.99), provisions for litigation costs of €234,766.00 (December 31, 2016: €234,766.00), vacation entitlement obligations of €184,066.00 (December 31, 2016: €176,574.00), provisions for reimbursement of the Supervisory Board's expenses of €144,800.00 (December 31, 2016: €149,537.50), and early retirement benefits of €59,130.00 (December 31, 2016: €168,279.00). There are also provisions for association fees and sundry contingent liabilities, the reason for and/or the amount of which is not yet known.

Net extraordinary income/expense

There was no extraordinary income or expense in either 2017 or 2016.

Tax expense

Following the conclusion of the profit-and-loss transfer agreement, ARAG Allgemeine and ARAG SE form a single entity for tax purposes. Consequently, income has been taxed at the level of the parent company since 2006. The results of the more realistic assessment (BMF circular dated May 5, 2000) and the discounting of the claims provisions (BMF circular dated October 20, 2016) are taken into account when determining the basis of assessment for income tax.

Deferred taxes resulting from differences between the carrying amounts in the Company's financial statements and those in the tax base are recognized in the parent company's financial statements prepared in accordance with commercial law.

The tax income recognized of €2,460.67 (2016: expense of €15,950.70) largely relates to trade tax.

IV. Report on Post-Balance Sheet Events

There were no events of particular importance after the end of the financial year. The performance of the business in the current year to date is as forecast.

V. Other Disclosures

Miscellaneous financial obligations, contingencies and commitments pursuant to sections 251 and 285 no. 3 a HGB

Investment agreements with a total volume of €13,830,320.03 have been concluded through the affiliated company ALIN 2 GmbH & Co. KG with various private equity funds. Calls from the funds result in cash being paid into ALIN 2 GmbH & Co. KG immediately before payment is due in order to provide the required liquidity. Calls at short notice of €10,015,028.53 are expected on the basis of open-ended investment agreements. As of the reporting date, ARAG Allgemeine had call commitments of €347,830.21 toward four other of its investments on the basis of outstanding contributions to be made by the Company as a limited partner that were not yet due.

Amounts not allowed to be distributed as dividends

Amounts not allowed to be distributed as dividends may result from the measurement of assets at fair value pursuant to section 253 (1) sentence 4 HGB. The difference in the amount prohibited from being distributed, which arises from the application of the percentage rate for the ten-year average rather than the percentage rate for the seven-year average when calculating provisions for pensions and other post-employment benefits pursuant to section 253 (6) HGB, amounted to €3,629,849.00 at the end of 2017 (December 31, 2016: €2,987,565.00).

Auditor's fees

The Company's Supervisory Board agreed fees of €174,033.61 (2016: €174,103.00) with the auditors, PricewaterhouseCoopers GmbH Germany, for the audit of the 2017 financial statements. As there was no entitlement to offset input VAT, the additional VAT incurred was included in the recognized expense. The auditors also provided services as an independent trustee in 2017, the fees for which amounted to €6,432.30. No other additional consultancy/advisory or non-audit services were performed.

Commissions and other remuneration for insurance agents, staff costs

(€)	2017	2016
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	33,340,486.54	32,152,692.18
2. Other remuneration for insurance agents within the meaning of section 92 HGB	0.00	0.00
3. Wages and salaries	10,155,732.90	10,153,598.48
4. Social security and other employee benefit expenses	1,697,787.88	1,682,410.51
5. Pension and other post-employment benefit expenses	2,129,012.88	373,039.89
Total expenses	47,323,020.20	44,361,741.06

Employees

The average number of employees in 2017 was 164 (2016: 167), of whom 83 worked in domestic claims, 60 in sports insurance, and 21 in other departments.

Supervisory Board and Management Board remuneration

In the year under review, the Company's Supervisory Board received remuneration pursuant to section 285 no. 9a HGB of €144,550.00. Pursuant to section 286 (4) HGB, it is not required to state the remuneration of the Management Board. Remuneration for former members of the Management Board and their surviving dependants amounted to €1,063,677.58. A provision of €14,936,487.00 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 and Management Board are listed on page 84 of this report.

Group affiliation

ARAG Allgemeine Versicherungs-AG, Düsseldorf, is wholly owned by ARAG SE, Düsseldorf. ARAG SE and all of its Group companies are included in the consolidated financial statements of ARAG Holding SE, Düsseldorf, for the year ended December 31, 2017. The consolidated financial statements of ARAG Holding SE are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection. ARAG Allgemeine does not prepare its own consolidated financial statements and group management report, as the consolidated financial statements and group management report of ARAG Holding SE have an exempting effect pursuant to section 291 HGB.

Düsseldorf, March 6, 2018

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Management Board

Wolfgang Mathmann

Christian Vogée

Independent Auditor's Report*

To ARAG Allgemeine Versicherungs-Aktiengesellschaft, Düsseldorf

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

Audit Opinions

We have audited the annual financial statements of ARAG Allgemeine Versicherungs-Aktiengesellschaft, Düsseldorf, which comprise the balance sheet as at December 31, 2017, and the statement of profit and loss for the financial year from January 1 to December 31, 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of ARAG Allgemeine Versicherungs-Aktiengesellschaft for the financial year from January 1 to December 31, 2017. We have not audited the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the proportion of women) in accordance with the German legal requirements.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2017 and of its financial performance for the financial year from January 1 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and
 - the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion does not cover the content of the statement on corporate governance referred to above.
- Pursuant to §322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

1. Measurement of investments
2. Measurement of claims provisions

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

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

Hereinafter We Present the Key Audit Matters:

1. Measurement of Investments

1. In the Company's annual financial statements investments amounting to EUR 331,673 thousand (91.0% of total assets) are reported in the balance sheet. Investments that are not measured on the basis of stock exchange prices or other market prices are associated with increased risk regarding measurement due to the necessity of using model-based calculations. The executive directors are required to exercise judgment and make estimates and assumptions in this context. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of investments. Due to the material significance of the amounts of investments for the assets liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of investments was of particular significance in the context of our audit.
2. Given the significance of investments for the Company's overall business, as part of our audit we assessed the assumptions made by the executive directors and the models used by the Company together with our internal specialists for investments. Thereby, we based our assessment on our industry expertise and experience, among other things, and considered recognized market practices. In addition, we evaluated the design and effectiveness of the controls established by the Company for the purpose of measuring investments and recording the earnings from investments. On that basis, we carried out additional analytical audit procedures and tests of details relating to the measurement of investments. Among other things, we also examined the underlying amounts recorded and their recoverability on the basis of the documentation made available, and we evaluated the consistent application of the measurement methods and the allocation of amounts to the correct periods. Furthermore, we assessed the valuation reports prepared respectively obtained by the Company (including the measurement parameters used and the assumptions made) for its material equity investments. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the investments are substantiated and sufficiently documented.
3. The Company's disclosures on the measurement of investments are contained in section I "Disclosures on Accounting Policies" of the notes to the financial statements.

2. Measurement of Claims Provisions

1. In the annual financial statements of the Company technical provisions (“claims provisions”) amounting to EUR 174,932 thousand net (48.0% of total assets) are reported under the “Provisions for unsettled claims” balance sheet item. The methods used to determine the amount of the claims provisions and the calculation parameters are based on judgments and assumptions made by the executive directors. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of the claims provisions. Due to the material significance of the amounts of these provisions for the assets, liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of the claims provisions was of particular significance in the context of our audit.
2. Given the significance of the claims provisions for the Company’s overall business, as part of our audit we assessed the assumptions made by the executive directors and the methods used by the Company together with our internal measurement specialists. Thereby, we based our assessment on our industry expertise and experience, among other things, and considered recognized methods. We also evaluated the design and effectiveness of the controls established by the Company for the purpose of calculating and recording claims provisions. On that basis, we carried out additional analytical audit procedures and tests of details relating to the measurement of the claims provisions. Among other things, we also reconciled the data on which the calculation of the settlement amount was based with the underlying documentation. Therewith, we assessed the results of the Company’s calculations of the amount of the provisions with reference to the applicable legal requirements and evaluated the consistent application of the measurement methods and the allocation of amounts to the correct periods. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the claims provisions are substantiated and sufficiently documented.
3. The Company’s disclosures on the measurement of claims provisions are contained in section I “Disclosures on Accounting Policies” of the notes to the financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to §289f Abs. 4 HGB (disclosures on the proportion of women). The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

Further Information Pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the supervisory board on March 24, 2017. We were engaged by the supervisory board on October 17, 2017. We have been the auditor of ARAG Allgemeine Versicherungs-Aktiengesellschaft, Düsseldorf, without interruption since the financial year 1992.

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

German Public Auditor Responsible for the Engagement

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

Düsseldorf, March 7, 2018

PricewaterhouseCoopers
Gesellschaft mit beschränkter Haftung
Wirtschaftsprüfungsgesellschaft

Ludger Koslowski Wirtschaftsprüfer (German Public Auditor)	Sven Capousek Wirtschaftsprüfer (German Public Auditor)
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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. It continually monitored and advised the Management Board with regard to its running of the Company and was directly involved in all decisions of fundamental importance to the Company. The Management Board provided the Supervisory Board with regular, timely, and comprehensive written and oral reports on the economic situation and the performance of the Company and its subsidiaries, planned business policy, corporate planning, the risk situation, risk management, and significant individual transactions. The Management Board explained variances between the actual course of business and plans and targets individually, and these were noted by the Supervisory Board. Where management action required the approval of the Supervisory Board by law or other regulations, the Supervisory Board received the necessary information on the matter from the Management Board. The Supervisory Board discussed these reports extensively at its meetings, deliberated on them with the Management Board, and made the necessary decisions.

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

During the reporting period, the Supervisory Board kept up to date on the situation in the capital markets and its impact on the Company. The other major items on the agenda at the different meetings included discussions about the Company's current financial results and the latest forecasts, deliberation on the business and risk strategies, Solvency II balance sheets, and the ORSA report, regular risk reports, and discussions about the strategic planning for ARAG Allgemeine for the three-year period from 2018 to 2020 and its approval. The Supervisory Board examined the 'fit and proper' guidance, the remuneration policy, the Company's reinsurance renewal for 2017, and the future of the Company's motor insurance portfolio, which is being run off. It also discussed the appropriateness of the Management Board's remuneration together with the remuneration system used by the Company for its employees. In this regard, it reached decisions to reorganize variable remuneration for the Management Board and increase the sum insured in the directors' and officers' insurance policy (D&O insurance) taken out for the Management Board. A similar increase in D&O insurance for the Supervisory Board was proposed to the Annual General Meeting (AGM), where it was approved. The Supervisory Board agreed the introduction of a digital meetings folder and digitalization of the board's activities; it decided on the necessary

changes to statutes and proposed amendments to the articles of incorporation to the AGM, which the AGM then approved. Finally, the Supervisory Board addressed the issue of the gender composition of management in accordance with statutory requirements and specified new gender ratios for both the Management Board and the Supervisory Board. It also received reports on actual and potential (new) female managers in the Company.

Using a written procedure, the Supervisory Board consented to the creation of an audit committee in connection with the new EU Audit Regulation. As the new committee has the same members as the existing Finance Committee, it was renamed 'Finance and Audit Committee'.

The Supervisory Board has formed two committees: the Finance and Audit Committee and the Human Resources Committee.

The Finance and Audit Committee held one extraordinary meeting in the year under review. At this meeting, it received a presentation on, and approved, the 'Guidelines on reviewing and approving the legitimacy of the performance of non-audit services'. It also approved the list of non-audit services that the independent auditors would be permitted to provide. The Finance and Audit Committee used a total of four written procedures to approve other permissible non-audit services from the independent auditors, consented to a private-equity investment, and approved the list of duties and responsibilities of the Finance and Audit Committee.

The Human Resources Committee held three meetings in 2017, at which it discussed the implementation of the 'fit and proper' guidance, the remuneration policy, the Management Board's remuneration, and the Company's remuneration structures in preparation for resolutions to be adopted by the full Supervisory Board. In addition, the Human Resources Committee addressed the reorganization of variable remuneration for the Management Board as well as the evaluation of targets and the target agreements. It also discussed the requirement to adjust the sum insured under the D&O insurance policy. No other resolutions were adopted using written procedures.

Detailed reports on the committees' meetings and work were delivered at the Supervisory Board meetings. Additional areas of focus for the auditors were agreed upon with the chairman of the Supervisory Board.

The financial statements, which were prepared by the Management Board in accordance with the commercial-law accounting regulations for insurance companies (RechVersV), and the management report for 2017 were, together with the bookkeeping system, audited by PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, which had been selected and engaged by the Supervisory Board on March 24, 2017 to carry out the audit and which issued an unqualified opinion.

The members of the Supervisory Board received the aforementioned documents, annual report, and auditor's report in good time before the Supervisory Board meeting that was held to adopt the financial statements. 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 Supervisory Board's discussion of the documents, reported on the key findings of the audit, and were available to provide additional information.

The Supervisory Board reviewed the financial statements and management report. There were no objections to be raised on the basis of the concluding findings of its review. Having carried out its own review, the Supervisory Board agreed with the findings of the audit of the financial statements and management report by the auditors. The Supervisory Board approved the financial statements and management report and thereby adopted them. The Supervisory Board proposes to the AGM that it formally approve the acts of the Management Board members.

The Supervisory Board would like to express its thanks and appreciation for the work of the Management Board and all employees in 2017.

Düsseldorf, March 23, 2018

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Supervisory Board

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

Hanno Petersen
(Deputy chairman)

Johannes Berg

Dr. Matthias Maslaton

Wolfgang Platen

Dr. Joerg Schwarze

Governing Bodies of the Company

Supervisory Board	Dr. Dr. h. c. Paul-Otto Faßbender	Chief Executive Officer of ARAG SE, Düsseldorf, chairman
	Hanno Petersen	Member of the Management Board of ARAG SE, Ratingen, deputy chairman
	Dr. Matthias Maslaton	Member of the Management Board of ARAG SE, Moers
	Dr. Joerg Schwarze	Member of the Management Board of ARAG SE, Düsseldorf
	Elected by the employees:	
	Johannes Berg	Insurance professional, Dormagen
	Wolfgang Platen	Insurance professional, Mönchengladbach
Management Board	Wolfgang Mathmann	Krefeld
	Christian Vogée	Düsseldorf

Information

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

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

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

Credits

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

