

ARAG ALLGEMEINE VERSICHERUNGS-AG

2018 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS



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Overview

ARAG Allgemeine Versicherungs-AG Key Figures

(€'000)	2018	Change	2017	2016
Sales revenue				
Gross premiums written	181,844	1.00%	180,036	175,870
Premiums earned net of reinsurance	173,985	0.09%	173,822	168,212
Expenses				
Claims incurred net of reinsurance	95,583	-1.38%	96,921	91,197
Claims ratio (basis: premiums earned)	54.94%	-0.82% pts.	55.76%	54.22%
Insurance business operating expenses net of reinsurance	73,254	9.21%	67,077	64,675
Cost ratio (basis: premiums earned)	42.10%	3.51% pts.	38.59%	38.45%
Net income overview				
Underwriting result before equalization provision, gross	1,074	-89.71%	10,440	18,671
Underwriting result before equalization provision, net of reinsurance	4,779	-51.30%	9,813	12,345
Underwriting result after equalization provision, net of reinsurance	11,770	3.20%	11,404	7,322
Gains and losses on investments	10,515	-6.36%	11,229	8,914
Other net income/expense	-3,753	19.68%	-4,672	-2,201
Profit/loss from ordinary activities	18,532	3.17%	17,962	14,035
Net income for the year (before profit transfer under profit-and-loss transfer agreement)	18,525	3.12%	17,964	14,019
Key ratios				
Technical provisions/premiums earned net of reinsurance	139.27%	-2.55% pts.	141.81%	142.78%
Equity/premiums earned net of reinsurance	31.80%	-0.03% pts.	31.83%	32.89%

Profile of the ARAG Group

Overview

The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established more than 80 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products. Besides legal insurance, it offers its customers in Germany its own unique needs-based products and services covering casualty and property insurance and health insurance. The Smart Insurer Program launched in 2018 is a key initiative in the ARAG Group's efforts to comprehensively harness the opportunities presented by digitalization, one of the major challenges going forward, thereby creating appropriate added value for customers. 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, other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It is also preparing to launch in two other markets in 2019: the Republic of Ireland and Australia. The Group generates sales revenue and premiums of around €1.7 billion and employs over 4,100 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 (ARAG Health) 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, complementing ARAG's 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, support and advice at local level, and claims processing support.

Territory

The territory covered by ARAG Allgemeine includes the Federal Republic of Germany and, for some classes of insurance, 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 914,063 policies (December 31, 2017: 960,346 policies). Of this total, 913,997 policies (December 31, 2017: 858,873 policies) were attributable to the business in Germany, while the UK branch accounted for 66 policies (December 31, 2017: 101,473 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

Since the close integration brought about in 2017 by the creation of a new Group area of responsibility 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: Some 1,000 ARAG Sales Partners use the network of over 115 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. Since 2018, applications for legal, property, liability, and accident insurance have no longer been printed out, reflecting in particular the key issues of sustainability in the ARAG Group and the advance of digitalization. Core Sales also uses digital touchpoints for greater connectivity, whether for contact with customers or to sign up new sales partners.

A new, entirely digital sales process for ARAG Core Sales was developed in 2018 and rolled out in February 2019. When meeting with customers, ARAG Sales Partners can now use a seamless process on an iPad to provide the full range of advice across the extent of the customer's risk situation up to the point at which the customer enters into an agreement. At the end, the customer also receives the completed advisory documentation. In this regard, the ARAG Group is investing extensively in a new digital infrastructure for its core organization. ARAG Sales Partners are therefore a key component of the Group's digitalization strategy.

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 2018, the online broker portal also continued to be revised and expanded.

With effect from July 1, 2013, all the German companies in the ARAG Group signed up to the revised code of conduct of the German Insurance Association (GDV) covering 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 throughout 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 continuing professional development (CPD) requirements for employees in both field sales and sales administration, and additional requirements for advisory and documentation processes. The IDD 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.

Research and development

The 'Sicherheit im Sport' foundation, which was established by ARAG Allgemeine Versicherungs-AG and a number of partners, including the German Olympic Sports Confederation (DOSB), the North Rhine-Westphalia State Sports Association (LSB NRW), Sporthilfe NRW e.V., Ruhr University Bochum, TÜV SÜD Management Service GmbH, and Erwin Himmelseher Assekuranz-Vermittlung GmbH & Co. KG, in 2015 and promotes safety in sport, enjoyed another successful year in 2018.

In the reporting year, the foundation's management board launched a variety of activities on the basis of the planning for the foundation's areas of focus, which was determined in cooperation with all the partners.

At the end of 2017, a successful presentation on the prevention of sports accidents had been made to the sports committee of the North-Rhine Westphalia (NRW) state parliament. Then, at the start of 2018, follow-up talks were held with the NRW state chancellery and representatives from the parties in government. The foundation was able to persuade them to champion its objectives. During the talks with the NRW state chancellery, the next steps to be carried out in North Rhine-Westphalia were defined, a conference was scheduled, and financial support for the project was agreed upon. Following extensive preparations, the conference was held in Essen on December 6, 2018 and attended by 70 or so experts. The findings were analyzed in spring 2019 and provide the basis for the follow-on project. For the first time, the 'Sicherheit im Sport' foundation has thus succeeded in having the prevention of sports accidents included (by applying for project funding) in the budget of the state of North Rhine-Westphalia. Initial talks on how exactly to implement the project have already taken place.

As well as North Rhine-Westphalia, where significant progress is being made in relation to the prevention of sports accidents, the foundation also operates in other federal states. In Lower Saxony, for example, the foundation is currently carrying out the necessary groundwork that will enable it to step up its activities in a targeted way. To this end, the foundation has signed a memorandum of understanding with the Lower Saxony state sports association.

Agreements on long-term collaboration have also been signed with umbrella organizations such as the German University Sports Federation (adh).

Another focus of the foundation's activities in 2018 was its work on standards committees of the German Institute for Standardization (DIN). Because the available resources are currently still relatively limited, the foundation follows this approach as a way of exercising significant influence on safety in sport in a comparatively cost-effective manner. An area receiving particular attention is the safety of equestrian facilities. The severity and number of serious and extremely serious injuries is higher for equestrian sports than for other types of sport. The new standard is thus a crucial first step toward

ensuring even better protection for riders and horses and toward reducing the number of accidents. The competent working group is chaired by David Schulz, Head of the Sports Injuries Assessment Unit at ARAG Allgemeine Versicherungs-AG and a member of the 'Sicherheit im Sport' foundation's management board.

The foundation is also represented on the higher-level DIN standards committee for sports equipment (NASport), which is responsible for setting national standards for equipment and facilities to be used in competition, training, and recreation.

Supported by BARMER and the German Social Accident Insurance organization (DGUV), the foundation prepared content for a brochure on non-purpose-built sports halls used for workplace health promotion activities. The aim was to provide information for companies that typically do not have any purpose-built sports halls on how they can safely use other rooms for exercise and sport. The detailed content was prepared by a distinguished panel of experts and the brochure was published in spring 2019.

As well as raising awareness of safety in sport, the foundation's main objectives are to acquire project funds and, in the long term, to secure public-sector institutional funding.

The foundation's core message remains unchanged: Exercise and sport are known to have a multitude of positive effects. The benefits for society far outweigh the costs that may result from sports accidents, injuries, or damage.

Another of the foundation's key resources for the planning and running of projects is a database of sports injuries and accidents that ARAG and Ruhr University Bochum have been operating since 1986. Information gleaned from the database is combined with findings from sports research and practice so that concrete preventive measures can be developed by panels of experts.

In its first few years, the 'Sicherheit im Sport' foundation's success has been impressive. Above all, it has managed to create greater awareness of safety in sport and to raise its own profile. Decision-makers – especially politicians – are increasingly recognizing the importance of this issue, and how little awareness there has been of it in the past. In the years ahead, the foundation will continue to position itself as an institution dedicated exclusively to preventing sports injuries and accidents throughout Germany, taking a perspective that encompasses all social groups. The goal for the medium term is for this issue to be discussed in the context of health policy, paving the way for institutional funding at national level. The main argument is that approximately two-thirds of the around two million sports injuries each year occur at locations in Germany that do not fall within the remit of institutions that have a statutory responsibility for preventing such injuries. This is particularly the case for sports activities within and outside sports clubs. The first steps in the right direction have already been taken, and this issue must now be driven forward. With its growing network of partners and supporters, the foundation will work to make sport in Germany safer.

ARAG Allgemeine is the foundation's largest sponsor, and all partner institutions highly value its long-term and sustained support. As described above, the foundation is working hard to bring exciting projects to fruition and to further improve its financial basis. It continues to strive to ensure that Germany attaches a similar importance to the prevention of sports accidents as its neighbors Switzerland and Austria have been doing for years.

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

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

II. Report on Economic Position

Economic and sector conditions

The global economy continued to recover during the first half of 2018. Virtually all major economies contributed to this trend. In the eurozone, and particularly in the eastern European member states of the European Union (EU), the pace of growth was better than forecast. However, the second half of the year saw a marked deterioration in this positive trend. The withdrawal of international investors from emerging markets has led to more challenging financial conditions for these countries. Furthermore, trade disputes between the US and China are weighing on the global economy. The differences in the rate of expansion between individual countries have also become greater. In 2018, the US enjoyed a boom on the back of a strong boost from fiscal policy. Production also rose substantially in China. On the other hand, the eurozone economy lost momentum, especially in Italy and France. The uncertainty surrounding the future political and economic relationship between the UK and the EU remained a major concern in 2018. There is still the risk of a disorderly (hard) Brexit. So far, the vote for Brexit has had relatively little impact on the real economy.

Worldwide, consumer prices in the larger advanced economies rose noticeably over the year under review, caused by a substantial increase in oil prices. The rate of inflation in the US reached almost 3 percent in the middle of the year. In the eurozone, the inflation rate slightly exceeded the medium-term target of 2.0 percent set by the European Central Bank (ECB). European gross domestic product (GDP) also lost some of its traction in the year under review. Some of the risks previously threatening the recovery actually materialized with a resulting dampening effect on the economy. However, the Joint Economic Forecast project team is predicting a return to a growth rate of 2.0 percent. According to this forecast, favorable financing conditions and a high level of capacity utilization will continue to encourage capital investment. The positive position in the labor market and rising wages and salaries are boosting consumer spending.

Economic risks in Germany were greater in 2018 compared with the previous year. Most notably, the global economic conditions gave rise to risks that particularly affected the German economy because of its significant dependence on exports – for example, risks caused by the protectionist trade policy pursued by the US. In spite of this and the numerous uncertainties, especially in the international environment, the German economy maintained its recovery in the first half of 2018 and then expanded at a weaker rate toward the end of the year. One of the main drivers remained the robust domestic economy, bolstered by a sharp rise in employment and low interest rates. On the other side of the equation, however, the level of new orders contracted and production capacity remained rather static, caused by tough conditions in key eurozone markets for German

companies. The number of people in employment grew by 590,000 in 2018. Unemployment fell by 192,000, reducing the unemployment rate to 5.2 percent. The favorable labor market conditions led to a rise of 2.6 percent in collectively agreed monthly pay, as a result of which household consumption continued to make a substantial contribution to economic expansion in the year under review. As a consequence, consumer prices also rose slightly. Overall, this led to an inflation rate of approximately 1.8 percent. The institutions represented in the Joint Economic Forecast project team are also forecasting GDP growth of 1.7 percent for 2018.

In the last few months of the year, trends in European financial markets were shaped by various geopolitical uncertainties, such as the increasing deterioration in the budget situation in Italy and the UK's forthcoming exit from the EU already referred to above. Capital markets were also affected by significant rises in interest rates, predominantly in the US, and also the prospect of a hike in interest rates in Europe. These unfavorable conditions are having a considerable detrimental impact on share prices. The EURO STOXX 50 suffered a notable slide of 14.3 percent, but the drop in the German DAX share index was even more significant with a fall of 18.3 percent to 10,559 points at the end of the year.

The GDV predicts that the German insurance market will have seen growth in premiums compared with 2017. Year on year, gross premiums written rose by approximately 2.6 percent overall in 2018 (2017: 1.9 percent). Premium income in direct casualty and property insurance business went up by 3.3 percent, slightly higher than the prior-year growth of 3.1 percent. The reasons included a steady level of sums insured and extension of the cover in property insurance, bolstered by the favorable trend in households' financial circumstances. From the perspective of claims incurred, a number of major storm events were the main features of 2018. For example, the storms Friederike and Burglind caused huge losses. According to the GDV, the total insured losses amounted to approximately €1.1 billion, more than half of which were attributable to the two storms mentioned above. Information provided by the GDV states that 2018 was one of the five worst storm years in the last 20 years. Losses from broader natural disasters (which includes torrential rain) have been slightly below average to date at €0.2 billion. The legal insurance segment once again posted strong premium growth at around 4.0 percent (2017: 4.0 percent), which was attributable to a large degree to the opportunity to adjust premiums. The private health insurance segment expects further premium growth of approximately 2.0 percent, although this is slightly weaker compared with the prior-year growth of 4.8 percent. In the beneficial economic conditions, the rising number of employment contracts subject to social security contributions continued to have a positive impact on the portfolio of full-coverage insurance business.

Business performance

ARAG Allgemeine recorded another year of growth in premiums. Despite fierce competition in the insurance market, and at times difficult conditions in the financial environment, premiums rose by 1.0 percent (2017: 2.4 percent).

Income from gross premiums written amounted to €181,844 thousand in the year under review (2017: €180,036 thousand). 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 several years ago 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 3.3 percent year on year (2017: 1.6 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 2018 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 aforementioned storm Friederike, which hit Germany at the beginning of the year, was one of the factors with a negative impact on the insurance industry's level of claims incurred last year. This also affected claims at ARAG Allgemeine, and the number of reported claims in the composite residential buildings insurance segment went up by almost 700. Moreover, the expense for major claims for 2018 in the direct organization and sports business, particularly in the composite residential buildings class of insurance, increased by €1,911 thousand compared with 2017. Gross expenses for claims incurred rose by approximately €4,555 thousand. The gross claims ratio increased by 1.7 percentage points to 58.2 percent in the year under review.

Insurance business operating expenses rose in 2018, primarily due to a positive one-off effect. The commission rates under the insurance agent agreement with ARAG SE, which governs the use of ARAG Field Sales, were adjusted with effect from the start of the reporting year. This, along with the growth of the portfolio, played a major part in the €6,057 thousand increase in ARAG Allgemeine's gross commission expense in direct business in Germany. Overall, the gross cost ratio rose to 41.0 percent (2017: 37.7 percent).

The uncertainties plaguing European financial markets in recent months, such as the United Kingdom's upcoming departure from the European Union (Brexit) and the lack of clarity about some of the knock-on effects, are also taking their toll on national and international financial markets. The possibility of interest-rate rises are causing share indices to fall. As it had in 2017, ARAG Allgemeine made use of the option to select the discretionary principle of lower of cost or market value 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 2018, write-downs on these investments, which are classified as fixed assets, were recognized in an amount of €2,053 thousand (2017: €0 thousand); there were no reversals of such write-downs (2017: €1,033 thousand). The net profit transferred from the subsidiary Interlloyd Versicherungs-AG improved by €3,504 thousand to €5,927 thousand. Overall, gains and losses on investments decreased by €714 thousand year on year to a net gain of €10,515 thousand.

Brexit – referred to in the section on economic and sector conditions – has dominated the debate about the political and economic relationship between the United Kingdom and the European Union in recent months but did not have any major impact on the course of business at ARAG Allgemeine in 2018, because the business brokered by the Company in the United Kingdom is relatively insignificant.

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 2018 financial year amounted to €18,525 thousand (2017: €17,964 thousand).

Results of operations

In the reporting year, income from gross premiums written rose from €180,036 thousand to €181,844 thousand. The Company was therefore able to maintain the growth trajectory established in recent years.

Premium income in the domestic direct business grew by 2.5 percent (2017: 1.0 percent). If motor insurance is excluded, the increase in direct business in Germany was as much as 2.8 percent (2017: 1.7 percent). The income from gross premiums written in motor insurance decreased by €457 thousand, a further decline of approximately 20 percent that was almost exactly in line with the planned reduction. The reason was ARAG Allgemeine's withdrawal from the motor insurance business, as explained above.

ARAG Allgemeine notched up premium growth in significant sub-portfolios within its organization business. For example, increased 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 its sports insurance 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 increase in premiums of €33 thousand.

In the inward reinsurance business, gross premiums written declined by 4.7 percent to €28,247 thousand. The fall in premium income in the inward reinsurance business was partly accounted for by the decrease in premiums at the wholly owned subsidiary Interlloyd Versicherungs-AG, with which ARAG Allgemeine has entered into a quota-share reinsurance treaty. The termination of a reinsurance treaty with ARAG SE in the general accident insurance and general liability classes of insurance also had an effect. Interlloyd Versicherungs-AG's quota share of 50.0 percent remained unchanged in the year under review.

The premiums earned net of reinsurance amounted to €173,985 thousand in the year under review (2017: €173,822 thousand).

The expenses for claims incurred in the reporting year were 54.9 percent of net premiums earned (2017: 55.8 percent). Overall, claims incurred net of reinsurance dropped to €95,583 thousand (2017: €96,921 thousand). The strongest impact on the claims ratio was, as explained above, the increase in payments in connection with storm Friederike in 2018 and a higher level of gross expenses for claims incurred arising from major claims for 2018 in the direct organization and sports insurance businesses.

The Company's gross cost ratio rose year on year, from 37.7 percent to 41.0 percent. This was due to the aforementioned growth in commission expenses. Overall, the gross operating expenses for the insurance business went up by €6,995 thousand to €74,655 thousand. The ratio of insurance business operating expenses net of reinsurance to net premiums earned climbed by 3.5 percentage points to 42.1 percent.

The volume of outward reinsurance, measured on the basis of insurance premiums paid, rose to €8,137 thousand in 2018 (2017: €5,872 thousand). A new reinsurance treaty entered into for motor insurance resulted in material changes to the reinsurance program. 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 2018. In total, the reinsurers' underwriting result fell to a loss of €3,705 thousand in 2018 (2017: profit of €627 thousand).

Last year, the underwriting result before the equalization provision amounted to €4,779 thousand (2017: €9,813 thousand), and was therefore below the prior-year 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 €6,990 thousand (2017: €1,591 thousand) on the basis of the trends in claims and premiums. The underwriting result net of reinsurance in 2018 therefore amounted to €11,770 thousand (2017: €11,404 thousand). The net combined ratio of 97.0 percent (2017: 94.3 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 2018 demonstrated that the general accident insurance segment continued to account for the greatest volume of sales revenue in the Company, making a significant contribution to the positive underwriting result. Gross premium income amounted to €47,698 thousand (2017: €47,684 thousand). Premiums earned net of reinsurance came to €46,191 thousand (2017: €46,191 thousand). After expenses for claims incurred of €24,128 thousand (2017: €29,085 thousand) and insurance business operating expenses of €17,265 thousand (2017: €15,332 thousand), in each case net of reinsurance, this segment generated an underwriting profit of €5,288 thousand (2017: €2,145 thousand). The recognition of an equalization provision was not required in either 2018 or 2017.

General liability insurance: Gross premium income in the general liability insurance segment amounted to €42,361 thousand (2017: €41,864 thousand). Premiums earned net of reinsurance came to €40,619 thousand (2017: €39,929 thousand). After expenses for claims incurred of €18,588 thousand (2017: €15,219 thousand) and insurance business operating expenses of €17,677 thousand (2017: €16,221 thousand), in each case net of reinsurance, this segment generated an underwriting profit before the equalization provision of €4,470 thousand (2017: €8,632 thousand). A sum of €1,065 thousand was added to the equalization provision (2017: reversal of €863 thousand). The segment generated a profit of €3,405 thousand in 2018 (2017: €9,495 thousand).

Motor insurance: Gross premium income amounted to €1,869 thousand (2017: €2,326 thousand). Premiums earned net of reinsurance came to €0 thousand (2017: €2,159 thousand). After expenses for claims incurred of €525 thousand (2017: €1,778 thousand) and insurance business operating income of €503 thousand (2017: expenses of €369 thousand), in each case net of reinsurance, this segment generated an underwriting loss of €1 thousand (2017: profit of €6 thousand). After a reversal of the equalization provision of €2,791 thousand (2017: €1,415 thousand), this became a profit of €2,791 thousand (2017: €1,421 thousand).

Fire and property insurance

Fire insurance: The premium income for fire insurance amounted to €2,338 thousand gross (2017: €2,176 thousand). Premiums earned net of reinsurance came to €1,964 thousand (2017: €1,799 thousand). After expenses for claims incurred of €1,167 thousand (2017: €541 thousand) and insurance business operating expenses of €704 thousand (2017: €600 thousand), in each case net of reinsurance, this segment generated an underwriting loss of €111 thousand (2017: profit of €542 thousand). After a reversal of the equalization provision of €324 thousand (2017: €153 thousand), this became a profit of €213 thousand (2017: €694 thousand).

Burglary insurance: Of the income from gross premiums written of €1,876 thousand (2017: €1,864 thousand), the net premiums earned amounted to €1,844 thousand (2017: €1,787 thousand). Expenses for claims incurred came to €1,097 thousand (2017: €1,116 thousand) and insurance business operating expenses to €742 thousand (2017: €548 thousand), in each case net of reinsurance, resulting in an underwriting profit for the segment of €10 thousand (2017: €161 thousand). After an addition to the equalization provision of €106 thousand (2017: €76 thousand), this became a loss of €96 thousand (2017: profit of €85 thousand).

Water damage insurance: Gross premium income amounted to €1,119 thousand (2017: €1,032 thousand). Premiums earned net of reinsurance came to €1,101 thousand (2017: €991 thousand). After net expenses for claims incurred of €1,885 thousand (2017: €1,299 thousand) and insurance business operating expenses of €409 thousand (2017: €289 thousand), in each case net of reinsurance, this class of insurance incurred an underwriting loss of €1,192 thousand (2017: €574 thousand). After a reversal of the equalization provision of €94 thousand (2017: €242 thousand), the loss incurred was €1,098 thousand (2017: €331 thousand).

Storm and tempest insurance: Gross premium income amounted to €1,077 thousand (2017: €832 thousand). Premiums earned net of reinsurance came to €986 thousand (2017: €750 thousand). After the deduction of expenses for claims incurred of €606 thousand (2017: €524 thousand) and insurance business operating expenses of €336 thousand (2017: €209 thousand), in each case net of reinsurance, this class of insurance generated an underwriting profit of €46 thousand (2017: €34 thousand). After an addition to the equalization provision of €295 thousand (2017: €152 thousand), the loss incurred was €248 thousand (2017: €118 thousand).

Glass insurance: With gross premiums at €1,419 thousand (2017: €1,522 thousand), the net premiums earned amounted to €1,437 thousand (2017: €1,528 thousand). Net expenses for claims incurred came to €551 thousand (2017: €667 thousand) and insurance business operating expenses to €661 thousand (2017: €433 thousand), resulting in an underwriting profit of €232 thousand (2017: €448 thousand). The recognition of an equalization provision was not required in either 2018 or 2017. The final underwriting profit at the end of the year therefore amounted to €232 thousand (2017: €448 thousand).

Composite home contents insurance: Gross premiums written came to €20,412 thousand (2017: €20,096 thousand); after deduction of the reinsurance premiums, the remaining premiums earned net of reinsurance were €19,344 thousand (2017: €19,153 thousand). Expenses for claims incurred came to €8,764 thousand (2017: €9,897 thousand) and insurance business operating expenses to €9,589 thousand (2017: €8,269 thousand), in each case net of reinsurance, resulting in an underwriting profit for the segment of €973 thousand (2017: €922 thousand). After a reversal of the equalization provision of €1,096 thousand (2017: addition of €184 thousand), this resulted in a profit of €2,069 thousand (2017: €737 thousand).

Composite residential buildings insurance: Gross premium income amounted to €15,974 thousand (2017: €14,297 thousand). Premiums earned net of reinsurance came to €14,981 thousand (2017: €13,538 thousand). After expenses for claims incurred of €13,113 thousand (2017: €14,157 thousand) and insurance business operating expenses of €6,059 thousand (2017: €4,700 thousand), in each case net of reinsurance, this segment incurred an underwriting loss of €4,378 thousand (2017: €5,472 thousand). A sum of €1,468 thousand was added to the equalization provision (2017: reversal of €956 thousand). The final underwriting loss at the end of the year therefore amounted to €5,846 thousand (2017: €4,516 thousand).

Technical insurance: Most of the business in this category related to insurance for electrical and gas equipment, which accounted for 74.0 percent (2017: 69.2 percent) of the gross premiums written. Electronic equipment insurance with premium income of €571 thousand (2017: €639 thousand) and construction contractors' all risks insurance with total premiums of €67 thousand (2017: €85 thousand) were also reported in this segment. Of the income from gross premiums of €2,453 thousand (2017: €2,350 thousand), the net premiums earned net of reinsurance amounted to €2,455 thousand (2017: €2,296 thousand). Net expenses for claims incurred came to €1,754 thousand (2017: €1,347 thousand) and net insurance business operating expenses to €1,032 thousand (2017: €793 thousand), resulting in an underwriting loss for the segment of €323 thousand (2017: profit of €177 thousand). After a reversal of the equalization provision of €390 thousand (2017: €59 thousand), this became a profit of €68 thousand (2017: €236 thousand).

Business interruption insurance: The gross premium income reported for this class of insurance amounted to €1,077 thousand (2017: €1,080 thousand). Premiums earned net of reinsurance came to €985 thousand (2017: €1,014 thousand). After net expenses for claims incurred of €956 thousand (2017: €608 thousand) and net insurance business operating expenses of €464 thousand (2017: €418 thousand), in each case net of reinsurance, this segment incurred an underwriting loss of €480 thousand (2017: €57 thousand). After a reversal of the equalization provision of €153 thousand (2017: addition of €229 thousand), the loss incurred was €327 thousand (2017: €286 thousand).

Emergency assistance insurance: The gross premium income reported in this category related to extended motoring and cycling assistance insurance and amounted to €5,708 thousand (2017: €4,823 thousand). No reinsurance premiums were paid in this class of insurance, so premiums earned amounting to €5,523 thousand (2017: €5,179 thousand) were recognized in the income statement. Expenses for claims incurred came to €2,967 thousand (2017: €2,790 thousand) and the insurance business operating expenses were €3,055 thousand (2017: €2,828 thousand). A loss of €480 thousand (2017: €435 thousand) was reported under the underwriting account. The recognition of an equalization provision was not required in either 2018 or 2017. The final underwriting loss at the end of the year therefore amounted to €480 thousand (2017: €435 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 €8,217 thousand (2017: €8,456 thousand). Premiums earned net of reinsurance came to €8,319 thousand (2017: €8,004 thousand). After expenses for claims incurred of €5,566 thousand (2017: €5,481 thousand) and insurance business operating expenses of €3,214 thousand (2017: €3,405 thousand), in each case net of reinsurance, this segment generated an underwriting loss of €453 thousand (2017: €883 thousand). After an addition to the equalization provision of €129 thousand (2017: €495 thousand), this resulted in a loss of €582 thousand (2017: €1,377 thousand). Claims varied significantly between the different sub-risks.

Performance of the inward reinsurance business

Premium income of €28,247 thousand (2017: €29,634 thousand) 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 €28,148 thousand (2017: €28,709 thousand). ARAG Allgemeine's quota share was 50.0 percent, as in 2017.

Premiums earned net of reinsurance came to €28,237 thousand (2017: €29,504 thousand). After expenses for claims incurred of €13,914 thousand (2017: €12,412 thousand) and insurance business operating expenses of €12,550 thousand (2017: €12,662 thousand), in each case net of reinsurance, this business generated an underwriting profit of €1,177 thousand (2017: €4,168 thousand). There was a reversal of €5,205 thousand from the equalization provision (2017: addition of €961 thousand), after which an underwriting profit of €6,382 thousand (2017: €3,207 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 €4,744 thousand (2017: €5,562 thousand). After deduction of expenses for claims incurred of €2,400 thousand (2017: €2,257 thousand) and insurance business operating expenses of €1,879 thousand (2017: €2,250 thousand), the reported profit came to €451 thousand (2017: €1,102 thousand). After a reversal of the equalization provision of €3,944 thousand (2017: €248 thousand), the profit amounted to €4,395 thousand (2017: €1,350 thousand).

The **general liability insurance segment** generated €2,458 thousand (2017: €2,765 thousand) in premiums earned net of reinsurance. After expenses for claims incurred of €1,164 thousand (2017: €693 thousand) and insurance business operating expenses of €1,092 thousand (2017: €1,181 thousand), the profit came to €194 thousand (2017: €913 thousand). After a reversal of the equalization provision of €2 thousand (2017: €295 thousand), the profit amounted to €197 thousand (2017: €1,208 thousand).

In the **composite home contents insurance** segment, premiums earned net of reinsurance amounted to €7,466 thousand (2017: €7,609 thousand). After taking into account expenses for claims incurred of €3,610 thousand (2017: €3,124 thousand) and insurance business operating expenses of €3,308 thousand (2017: €3,417 thousand), the segment reported an underwriting profit of €324 thousand (2017: €930 thousand). After a reversal of the equalization provision of €1,957 thousand (2017: €18 thousand), the reported profit was €2,281 thousand (2017: €948 thousand).

The **composite residential buildings insurance** segment reported premiums earned net of reinsurance of €8,673 thousand (2017: €8,802 thousand). Claims incurred net of reinsurance came to €4,770 thousand (2017: €4,255 thousand) and the insurance business operating expenses were €4,026 thousand (2017: €3,754 thousand). The underwriting loss amounted to €366 thousand (2017: profit of €653 thousand). After an addition to the equalization provision of €661 thousand (2017: €1,311 thousand), the reported loss was €1,027 thousand (2017: €658 thousand).

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 €10,515 thousand in 2018 (2017: €11,229 thousand) and therefore decreased slightly compared with the previous year. The reasons for this reduction included the €2,055 thousand higher write-down that was required and losses on disposal of €1,087 thousand. The substantial improvement in the net income reported by the Interlloyd subsidiary did not fully offset these negative factors. The existing profit transfer agreement also includes an obligation to absorb losses, so the earnings contribution from Interlloyd Versicherungs-AG was reported in 2018 under income from profit-pooling, profit-transfer and partial profit-transfer agreements.

Other net income/expense improved from a net expense of €4,672 thousand to a net expense of €3,753 thousand, in part due to lower severance payments.

Net extraordinary income/expense

There was no extraordinary income or expense in either 2018 or 2017.

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 €18,525 thousand (2017: €17,964 thousand) 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

(€)	2018	2017
Cash flows from operating activities		
Profit for the period	18,525,115	17,964,357
Increase(+)/decrease(-) in technical provisions, net	-4,198,341	6,338,367
Increase(-)/decrease(+) in deposits with ceding insurers and in receivables from reinsurance business	-1,260,862	-915,296
Increase(+)/decrease(-) in deposits from reinsurers and liabilities from reinsurance business	131,355	-154,531
Increase(-)/decrease(+) in receivables from direct insurance business	-2,302,065	2,126,117
Increase(+)/decrease(-) in liabilities from direct insurance business	-1,400,118	271,603
Increase(-)/decrease(+) in miscellaneous receivables	8,191,688	-12,484,737
Increase(+)/decrease(-) in miscellaneous liabilities	-3,011,017	2,651,182
Change in miscellaneous balance sheet items not related to investing or financing activities	775,735	-1,415,682
Other non-cash income and expenses, and adjustment of the profit/loss for the period	2,044,562	-1,032,587
Gain(-)/loss (+) on the disposal of investments, property and equipment, and intangible fixed assets	1,081,007	-464,956
Expenses for/income from extraordinary items	0	0
Income tax expense/income	1,619	-18,628
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Income taxes paid	-1,619	224,529
Cash flows from operating activities	18,577,059	13,089,738
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	-17,964,357	-14,019,208
Proceeds(+)/cash payments(-) related to miscellaneous financing activities	0	0
Cash flows from financing activities	-17,964,357	-14,019,208
Net change in cash and cash equivalents	612,702	-929,470
Effect on cash and cash equivalents of exchange rate movements and remeasurements	0	0
Cash and cash equivalents at beginning of period	2,342,228	3,271,698
Cash and cash equivalents at end of period	2,954,929	2,342,228

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

Net assets

Investments declined by 0.8 percent in 2018 to €328,890 thousand. The breakdown of investments by asset class was as follows:

Investments breakdown

(€'000)	Dec. 31, 2018		Dec. 31, 2017	
Land and buildings	21,312	6.5 %	22,006	6.6 %
Affiliated companies and equity investments	16,828	5.1 %	13,128	4.0 %
Equities and investment fund shares/units	219,447	66.7 %	223,425	67.4 %
Bearer bonds	22,869	7.0 %	19,060	5.8 %
Registered bonds	25,000	7.6 %	25,000	7.5 %
Promissory notes, loans	21,982	6.7 %	26,982	8.1 %
Sundry lending	0	0.0 %	0	0.0 %
Bank deposits	83	0.0 %	84	0.0 %
Other investments	1,369	0.4 %	1,876	0.6 %
Deposits with ceding insurers	0	0.0 %	112	0.0 %
	328,890	100.0 %	331,673	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 three fixed-income funds that are classified as fixed assets in accordance with section 341b HGB. Write-downs for impairments that are likely to be permanent were recognized in respect of these investment fund shares/units in an amount of €2,053 thousand (2017: €0.00). No reversals of write-downs on these shares/units were recognized in 2018 (2017: €1,018 thousand). As of the balance sheet date, investment fund shares/units with a carrying amount of €219,447 thousand (December 31, 2017: €223,425 thousand) were classified as fixed assets. The fair value of these investments amounted to €238,440 thousand as of the balance sheet date (December 31, 2017: €253,594 thousand). By classifying these investments as fixed assets, it was possible to avoid write-downs of €862 thousand (2017: €0.00) under equities, investment fund shares/units and other variable-yield securities.

A total of 14 securities (December 31, 2017: 15) that are classified as fixed assets in accordance with section 341b HGB were reported under bearer bonds and other fixed-income securities. As in 2017, 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 were recognized in respect of these securities in 2018, as had also been the case in 2017. As of the balance sheet date, the carrying amount of these bearer bonds was €8,219 thousand (December 31, 2017: €8,423 thousand) and the fair value €8,586 thousand (December 31, 2017: €9,206 thousand). By classifying these securities as fixed assets, write-downs of €16 thousand were avoided (2017: €3 thousand).

The fair value of investments as of December 31, 2018 amounted to a total of €384,640 thousand compared with €386,306 thousand as of December 31, 2017. Net gains on investments decreased from €11,229 thousand to €10,515 thousand. The net yield in the year under review was 3.2 percent (2017: 3.4 percent).

The key figures for the Company's performance over the past three years can be found in the overview at the start of the annual report. Disclosures on the hidden reserves in respect of investments are presented in the balance sheet disclosures (section IV. 'Non-Insurance Disclosures').

Non-financial performance indicators

ARAG is the internationally successful, innovative quality insurer – independent and family-owned. The ARAG Group has enshrined this self-image in its corporate guidelines. Since ARAG was established in 1935, the business concept of the Company has been based on the aim of establishing equality of opportunity and enabling any individual to have access to the law, regardless of his or her financial circumstances. Accordingly, the ARAG Group helps its customers create scope to make personal choices at any stage 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. ARAG made four of its unique insurance products the focus of an advertising campaign launched in May 2018. Particular emphasis was given to the two legal insurance products with retroactive cover: ARAG Sofort legal insurance for motorists and ARAG Sofort legal insurance for tenants, the latter being available since the beginning of 2018. The message in the commercials for both products was that it does not matter what happens when you are covered by ARAG insurance. ARAG will help immediately and even retroactively. The commercials featuring special characters – a 'rent shark' and a 'bully ox' – came across best. The new advertising campaign also included two brief commercials focusing on the attractive supplementary dental insurance offered by ARAG Krankenversicherung. The campaign was effective in the brand target group. The successful series of campaigns is being continued in 2019.

In the year under review, the ARAG Group again systematically expanded its products and services – always focused on the constantly changing requirements and needs of customers and consumers. Based on optimum integration between these innovative product activities, a highly efficient workforce and IT structures, a state-of-the-art brand presence, the guidance provided by the new Smart Insurer Program (see the section 'Innovation'), 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 In the ARAG Group, ongoing systematic development gives rise to a wide range of innovations. This is reflected in the targeted expansion of the portfolio and in the design of groundbreaking product and service ideas. It is imperative for the Group that these activities are sharply focused on new customer needs and requirements, which are changing rapidly in the digital age. The key to success also increasingly lies in identifying individual customer needs as early as possible. The critical role played by data mining and data analytics will therefore become more and more significant.

Based on the considerable innovative strength of the Group, ARAG was again able to remain at the forefront of developments in 2018, delivering strong performance in the marketplace with unique solutions such as beneficial services.

This was clearly demonstrated by the distinction once again conferred in the Plus X Award, in which ARAG was singled out as the most innovative brand in insurance. In 2018, the prestigious innovation award was presented to ARAG for the third year in succession.

Digitalization remains a core issue in the Group. The changes and opportunities associated with digital transformation are being proactively exploited by ARAG and for a long time now have been an integral component of its activities, at both domestic and international levels. This is demonstrated by the large number of digital processes, digital tools, and digital services that have already been initiated, a process that continued in 2018.

A good example is the new MeineARAG customer portal, which was designed and developed in the year under review and launched at the beginning of 2019. The portal is used to bring together important policy information and customer data. Customers enter their insurance policy number and postal (zip) code to gain access to simple policy information, submit a claim, or view any relevant contact details, such as those for their personal agent. The intelligent combination of existing digital services – such as the ARAG Wallet-Card, ARAG claims tracking, and the ARAG Online Legal Service – has produced a very user-friendly customer portal. If customers wish to access personal data, such as a certificate of insurance or the last invoice, or make changes to the data, they must prove their identity by entering a password, which will be sent to them by postal mail following initial registration. In the current year, the new customer portal will be gradually expanded and further documents, together with policy-related services, will be added.

The Group ensures that the pages on its websites are clear and particularly appealing. In 2018, the Group took a further important step toward achieving a uniform online brand presence at international level with the relaunch of the websites for ARAG Italy, ARAG Netherlands, and most recently, ARAG plc in Bristol. The international relaunch has therefore been completed for the most part, although changes relating to one small international unit remain outstanding. The online presence of the international ARAG units is based on the design and technical platform used by ARAG's German websites,

which have already garnered multiple awards. For example, AMC Finanzmarkt GmbH has this year once again selected the ARAG Group's German website as one of the top websites in the industry – out of a total of 129 insurance company websites. In the year under review, ARAG Spain's website retained its top ranking from 2017 in the website assessments published by Spanish insurance portal Innovación Aseguradora.

Operations in ARAG Core Sales are also becoming much more digitally based: The first quarter of 2019 saw the introduction of a new technical sales process that makes all procedures more cutting-edge, rapid, resource-efficient, and customer-friendly. The end-to-end process is run entirely on an iPad. The innovative advisory and sales tool was developed in the Group during the year under review. From the very beginning, the sales partners of ARAG Core Sales were heavily involved in the design. Every step in the sales process is seamlessly digital and all relevant information is contained in the state-of-the-art selling tool. The steps include recording all customer data via a needs analysis, recommending suitable products, calculating rates, and signing up the customer in the system, including all advisory documentation. ARAG customers therefore also benefit to a significant degree from the advanced possibilities offered by this fully electronic process. They receive everything immediately on their smartphone, including application, record of advice, and an Outlook invitation for the next meeting.

The introduction of Office 365 software has opened up new use and access options as well as flexible forms of collaboration and communication throughout the Group. The large-scale project for rolling out the cloud-based office application was successfully implemented in the year under review. All computers in Germany were fully migrated to the new application back in August 2018. Besides ARAG employees in Düsseldorf and Munich and ARAG Sales Partners, international units will benefit going forward from the multifaceted services and tools offered by Office 365. In this regard, the highest priority is given to data protection, data security, and quality standards. It is planned to complete the rollout in all ARAG countries by mid-2019. The ARAG Group is also investing in hardware, and all employees in Germany will be provided with new generations of computers in the first half of 2019. As part of the 'Upgrade your work!' project, employees were given a choice in 2018 between four very different devices. These ranged from fully mobile solutions to a stationary desktop machine. This capital investment represents another significant upgrade to the working environment that the Group provides for its employees, offering them a great deal more flexibility to decide how they want to arrange the work in their job at ARAG.

New, agile working methods are also being used in the Group. These methods foster creativity in projects and in workshops, supported by precisely tailored professional development structures. The new ARAG Workshop opened in September 2018 at the Düsseldorf site is a prime example of these advances. The new offices serve simultaneously as a working and learning environment and are designed to support the use of the latest methodologies, such as interaction room, scrum, and design thinking.

ARAG Smart Insurer Program

In 2018, ARAG initiated a holistic, domestic, and international strategy known as the Smart Insurer Program to bolster the growth momentum provided by the wide-ranging action plans and at the same time reinforce the independence of the Group in the digital world. In this program-based approach, the plethora of individual solutions that the Group has already initiated and will continue to develop in the future are brought together in a common roadmap. ARAG's declared intention is to turn itself and its Group companies into a 'smart insurer' by 2021. The strategy focuses on three core themes:

- **Smart Services** for digital services, products, access methods, and communication channels
- **Smart Data** to make even better use of customer data for the benefit of the Group's business
- **Smart Culture** to strengthen ARAG's corporate culture for the digital age

All teams in Germany and abroad have been actively involved in determining the most important areas for action. In the second half of 2018, the units both in Germany and abroad were asked to specify a maximum of five core measures that they thought were necessary from their perspective to help them better implement the requirements under the ARAG Smart Insurer Program. The measures were proposed to the next level of management, which then had to use the information to determine, for its part, up to five measures.

All ARAG entities dedicated a great deal of effort to this process, as a result of which a total of 85 core measures had been received by the Group Management Board from all the Group units in Germany and abroad by the end of 2018. The Group Management Board evaluated the proposals and finally settled on seven core areas for action to be implemented as a priority from 2019. In addition, the teams have been called upon to independently pursue any individual measures that they submitted but that have not been included in the priority list.

Products and product development ARAG once again set the pace in 2018, with rapid improvements to its product and service portfolio as requirements changed.

The new ARAG accident cover from ARAG Allgemeine, which has been available since May 2018 in three versions (Basis, Komfort, and Premium), protects customers for more than just an accident and assists them with numerous new benefits and services. The new 'Fit Plus' cross-segment product module offers specific extras for sports customers and consumers, including physiotherapy and personal trainer sessions following an accident as well as reimbursements for defective sports equipment. The new accident cover policy also encompasses the use of services from ARAG partner TeleClinic, which facilitates access to consultation with a doctor via video. Immediate assistance in the event of a cancer diagnosis has also been added as a new component. Under this benefit, the insured party receives a previously specified monetary amount upon initial diagnosis.

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. It offers tailored protection against financial loss resulting from cybercrime and hacking, combined with effective emergency measures. The ARAG CyberSchutz Plus product variant also includes cyber liability and loss-of-income insurance. Offering insurance cover of up to €250 thousand, it compares favorably with many similar policies.

Numerous awards and top rankings received by ARAG in 2018 are testimony to the high quality of its services and benefits. Just four weeks after being launched, the Premium version of the ARAG accident cover product, including special service package and Fit Plus, received its first top evaluation in the form of an 'FFF – outstanding' rating from independent analysts Franke und Bornberg.

Claims service and claims settlement ARAG Allgemeine's claims service was last evaluated by TÜV Saarland in 2017. Achieving a 'very good' rating for claims processing and 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 the 2017 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 2018, ARAG Allgemeine Versicherungs-AG had a total of 159 employees, of which 118 were employed full-time and 41 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. Since 2018, the CPD requirements resulting from the provisions in the new Insurance Distribution Directive (IDD) have also been 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. 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 ARAG Essentials are the corporate guidelines and encapsulate the objectives of the commitment that ARAG's employees, managers, and owners share. They include ARAG's self-image, corporate mission, and values. They help to shape the Company's future for the benefit of its customers. The ARAG Essentials online tool on the Group website at www.ARAG.com conveys the six corporate values in a light-hearted way in all the languages used in the Group. It also offers information on the individual international companies. The tool is regularly updated and includes the details of any new local subsidiaries.

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 ARAG Essentials in day-to-day activities. These projects reinforce both the ARAG Essentials values and the associated corporate mission, thereby ultimately promoting 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.

ARAGcare The corporate health management program ARAGcare is an important core component of the forward-looking HR policy in the ARAG Group. The objective of ARAGcare is to maintain and nurture employees' capacity to work. The comprehensive range of services is grouped into two main pillars: health & fitness and work/life balance.

The personal health of employees is at the core of the first pillar, health & fitness. In addition to health checks, a multitude of company sports options, and a range of preventive services, activities in 2018 focused on the reorganization of occupational medical care at the Düsseldorf offices. The Company now has a permanent medical officer, offering regular consultation times and preventive medical checkups. Appointments can be made and managed quickly and easily through the new digital booking platform. 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.

The focus of ARAGcare's second pillar is work/life balance. Following a comprehensive evaluation phase in 2017, the year under review saw the start of the implementation phase for the newly agreed targets for re-certification by berufundfamilie Service GmbH. Comprehensive berufundfamilie auditing is an initiative of the not-for-profit Hertie foundation. It aims to develop and embed a sustainable HR policy that takes into account family requirements and stage of life. The newly agreed targets are linked to an obligation to implement them in the Company by 2020. The 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. In addition to the

improvements in work/life balance as a result of the audit by berufundfamilie Service GmbH, ARAGcare offers special support in the form of vacation care programs for employees' children and parent-child offices. ARAGcare also offers an advice hotline for employees at any ARAG office for issues relating to childcare or caring for relatives.

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, 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. More than 280 teachers, school principals, specialists in educational social work, and parents from almost 100 high schools and vocational colleges in different school districts across the German state of North Rhine-Westphalia have taken part in the five training cycles completed so far.

Supported by the North Rhine-Westphalia Ministry for Education and Schools, this program is offered to all high schools and vocational colleges in North Rhine-Westphalia. The project is currently running at 13 other schools. It 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.

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 active strengthening of the public good on the internet. The internet 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.

Since 2017, ARAG has therefore focused even more intensely on protecting online privacy rights and, jointly with the Research Center for IT Law and Social Networks Policy at the University of Passau, has developed a legislative alternative to the contentious Enforcement of Rights on Social Networks Act (NetzDG) in Germany. Since the publication of this alternative at the beginning of 2018, ARAG has repeatedly drawn the attention of expert audiences and policymakers to the draft act and the associated proposed changes in favor of victim protection. In February 2019, for example, the *hass-streichen.de* ('crossing out hate') website was launched to provide comprehensive information to the public on the subject of cyberbullying and how to tackle it.

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, DKJS 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. Another tournament with teams from all the project partners was held in September 2018, 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 2018, a profit of €18,525 thousand (2017: €17,964 thousand) 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 €5,927 thousand to ARAG Allgemeine (2017: €2,424 thousand).

IV. Outlook, Opportunity and Risk Reports

Outlook and opportunity report

Global economic growth will continue to be impacted by numerous significant risks going forward. These risks include the possibility of a sudden fall in growth in individual economies. To add to the risk of a rising trend toward protectionism, businesses also face political risks, such as import duties imposed by the US and a possible trade dispute between the US and China, and indeed between the US and Europe. Global trade could be dampened as a consequence, with businesses possibly facing planning uncertainty. Turmoil in financial markets cannot be ruled out in the wake of the anticipated end to the long-standing policy of low interest rates pursued by many central banks, especially if, for example, political uncertainty or trade disputes continue to escalate.

Turning to political developments in Europe, one major concern is that the future political and economic relationship between the UK and the EU has not yet been resolved. So far, the vote for Brexit has not had any substantial adverse effects on the real economy, although there have already been some individual business decisions that will have a detrimental effect on the UK economy. If the negotiations fail, a hard Brexit would have a negative economic impact, primarily on the UK, but also on its European trading partners, especially Germany. Should no further agreement be reached before the exit in spring 2019, the UK would revert to the status of a 'third country' in its relationship with the other EU member states, potentially leading to the reimposition of customs duties on goods traded between the UK and the EU.

Another cloud of uncertainty is hanging over the European economy as a result of the Italian government's decision to implement an expansionary fiscal policy on a grand scale. This could heighten doubts about the stability of Italy's fiscal policy and reignite the crisis in the eurozone. In many EU member states, parties on the fringes of the political spectrum are also enjoying a surge in popularity, boosted by political uncertainty arising, for example, from the refugee issue throughout Europe in general and in Germany in particular. If surveys are to be believed, support for parties critical of the EU and/or the euro is at a very high level. The elections for the European Parliament in May 2019 will be an important test of the mood and represent a decision on the direction of travel.

On the other side of the equation, however, there are just as many opportunities and a great deal of potential for stronger growth in the global economy. Global economic growth is currently being bolstered by the expanding US economy. It is anticipated that the global economy will remain on an upward trajectory in 2019, driven mainly by tax cuts and higher government spending. The Joint Economic Forecast project team is projecting a rise of 3.0 percent in overall economic output in 2019.

In the eurozone, favorable financing conditions and a high level of capacity utilization are encouraging capital investment. The positive position in the labor market and high wages and salaries are also helping to lift consumer spending. GDP growth in Europe is likely to be 1.8 percent in 2019, sustaining the recovery in the eurozone.

In Germany, the economic recovery is now in its sixth year. One of the main drivers is the domestic economy, bolstered by the sharp rise in employment and low interest rates. On the other hand, production capacity utilization is flatlining. The German economy has slowed as a consequence of a drop in the volume of new orders. Moreover, German businesses are facing shortages, above all in terms of labor and intermediate goods. In the labor market, the rising number of unfilled posts and greater wage pressures indicate that the high level of demand for personnel increasingly cannot be satisfied by the diminishing pool of people seeking work. This is likely to lead to further increases in pay. The number of people in employment is predicted to rise once again, by around 420,000, in 2019. Household consumption will continue to contribute to economic expansion, as in previous years. Over the coming years, households' disposable incomes will receive a noticeable boost from fiscal policy, for example as a result of adjustments to income tax rates. This could cause consumer prices to accelerate slightly, as a consequence of which the inflation rate for 2019 is forecast at 1.9 percent. Because of the very high level of capacity utilization and the availability of finance on excellent terms, capital investment will remain strong. Overall however, the overutilization of economic capacity is expected to persist in subsequent years.

The favorable economic situation offers an opportunity to focus on the future challenges as part of a 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 all the more critical to make better use of the available workforce potential and improve employee retention. 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 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 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 a clear trend toward fiercer competition.

As in prior years, examples of other action priorities include the increasing differentiation between customer groups and, as already mentioned, 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. Ultimately, the goal is to offer easy, barrier-free access to smart insurance benefits and services. For some time, online business models have no longer been aimed at particularly price-sensitive customers. Rather, they tend to be an integral component of the entire range of services from each and every insurance company and are set up to be as user-friendly as possible.

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. Other loss events in this category include prolonged droughts, which can have a particularly detrimental effect on agriculture, causing serious crop losses. 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. This map can then be used as a basis for calculating risk-appropriate levels of insurance cover for flooding resulting from torrential rain. In this approach, research is providing the basis for suitable preventive measures, insurance cover commensurate with the risk involved, and a state-of-the-art claims management system.

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 can often only be created through predatory competition. However, the very good economic conditions currently being enjoyed by consumers are creating a favorable environment for an increase in the demand for insurance. Furthermore, rapid technological advances and digitalization are fueling fierce innovation-based competition, to which insurance companies are being forced to adapt. As a result of new interactive channels, permanent connectivity, availability of new data, and low-cost processing, digital technologies are creating starting points for innovative products and services.

As a consequence, premium income in the insurance industry is expected to continue to grow. The GDV is forecasting that the increase in the German market in 2019 will be in a range from 0.6 percent to 2.7 percent (2018: 2.0 percent). Assuming that the positive economic situation continues to support consumer spending, premiums in the casualty and property insurance segment are expected to be up by around 2.0 percent to 3.5 percent in 2019 (2018: 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 between 4.0 percent and 5.5 percent (2018: 5.0 percent). In the case of legal insurance, the GDV predicts a rise in premiums of between 1.0 percent and 3.0 percent (2018: 3.0 percent) in view of a number of factors, notably the opportunities to adjust premiums. In 2019, the private health insurance business will also benefit from continuation of the favorable circumstances enjoyed by consumers. The GDV is forecasting a rise in premiums of approximately 3.0 percent in 2019.

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 2019, the Company has budgeted moderate premium growth on average that is on a par with the market and higher than the increase in premiums achieved in 2018. ARAG Allgemeine fell just short of the premium target in its forecast for 2018. This was due to a slight decrease in premiums in inward reinsurance business. 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.

As already described at the beginning of the outlook and opportunity report, it is still not possible to predict the final outcome of the Brexit negotiations between the UK and the EU. However, there will be no material impact on the course of ARAG Allgemeine's underwriting business in 2019, because the business brokered by the Company in the United Kingdom is relatively insignificant. Nevertheless, the Company will closely monitor developments in the Brexit negotiations.

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 above that generated in 2018.

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 2018, ARAG Allgemeine was able to exceed its profit target by approximately €1,930 thousand. Due to the likelihood of smaller reversals of the equalization provision, the Company expects a significant year-on-year decrease in the amount of profit that will be transferred in 2019. In terms of the claims trend, it predicts a slightly more favorable rate. The cost ratio is expected to be a little higher than in 2018. Overall, the combined ratio is anticipated to remain below 100 percent in 2019. Financial stability indicators, such as a ratio of equity plus technical provisions to total assets of almost 85 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 discernible opportunities and risks, ARAG Allgemeine forecasts that business performance will be steady in 2019.

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 the risks, ARAG has implemented a risk management system, the core elements of which are the risk strategy, a system of limits, a process for own risk and solvency assessment (ORSA), and the operational risk management process, comprising the identification, analysis, measurement, monitoring and reporting of risk. The risk management function is responsible for implementing the risk management system. It monitors ARAG's business and central units in the internal control system as part of the second line of defense and in turn is monitored itself by the internal audit function.

Risk strategy The Management Board specifies the risk strategy on the basis of the business strategy. The risk strategy sets out the risk policy framework for the structure of the individual risk exposures associated with the strategic business objectives. It defines each risk category and the specifications for the relevant risk management process. It also describes the tools for ensuring compliance with the prescribed risk-bearing capacity based on the specified risk appetite. These tools are the regulatory and business policy minimum coverage ratio and the system of limits. 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.

The risk strategy is reviewed at least once a year to make sure that it is up to date. It is adjusted if required. It may also be adjusted during the year if there are substantial changes to the overall risk profile.

Limit system The risk-bearing capacity describes the extent to which potential losses from the assumed risks can be offset by own funds. The latest Solvency II balance sheet and the resulting regulatory solvency capital requirements are taken into account when assessing the assumed risks. From a regulatory perspective, risk-bearing capacity is in place if the solvency capital requirement does not exceed the value of own funds, i.e. the regulatory coverage ratio is at least 100.0 percent. As a matter of business policy, the Management Board has set a minimum coverage ratio of 150.0 percent based on ARAG Allgemeine's conservative approach to risk and solvency. ARAG Allgemeine therefore maintains a risk buffer that is significantly higher than the regulatory requirement. The risk contribution from individual risk categories is monitored in addition to the coverage ratio in order to assess risk-bearing capacity. After the Management Board has specified an overall limit, this limit is apportioned to the most important risk categories (including sub-risks). The utilization of the limits is calculated during the year so that an assessment can then be made as to whether further risks can be assumed, risks need to be reduced, or an

increase in limits is possible. A traffic light system is used, for both risk-bearing capacity and the limits at risk category level. The system enables ARAG to identify changes in the utilization of limits in good time and initiate corrective measures if necessary.

ORSA The ORSA process verifies that the changes in the most significant individual risks over the next three financial years will remain within the current limits and the regulatory solvency capital requirement will be satisfied, thereby ensuring that the ARAG Group continues to meet the objective of the conservative risk and insolvency policy over the long term. To this end, the ORSA process determines ARAG's overall solvency requirement (referred to as overall solvency needs, OSN) and the change in own funds. Own funds are compared against the OSN for each planning year, providing an indication of the future coverage situation.

The Management Board is responsible for the annual ORSA process and takes a lead role in ensuring it is carried out. This mainly consists of managing the process, specifying the requirements for the way in which the ORSA process is to be implemented, and scrutinizing the overall results.

Risk management function The risk management function is responsible for implementing the risk management system. This function has been outsourced to the Group Risk Management Central Department at ARAG SE. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level. The Chief Risk Officer is responsible for the implementation of the risk management system in all Group companies. The Chief Risk Officer is a member of the Management Board of ARAG SE and responsible for Group Risk Management and Group Controlling. Group Risk Management bears process responsibility for the risk management system and, by means of regular 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 and operating models for determining risk-bearing capacity, solvency capital requirements, and the allocation of solvency capital.

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

Risk management process The risk management process for each individual risk consists of a number of steps, involving identifying, analyzing, measuring, managing, monitoring, and reporting the risk.

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, measured, 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 assessed appropriately, the influencing factors determining the relevant exposure 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 measurement 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, unexpected developments in the insurance business, or operational risk. The methodology is regularly reviewed using backtesting and validation tests. Stress tests are also continuously carried out in respect of the risk exposures. Relevant risks that do not form part of the solvency capital requirement are measured as part of the ORSA process.

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.

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.

Unexpected or extreme events can also affect a company's risk profile. For this reason, ad hoc reports may be submitted if necessary.

Internal control system The ARAG Group defines the internal control system (ICS) as follows: "The internal control system 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 has a consistent structure throughout the Group, ensuring that the connected systems and reports in the Group can be verified.

It 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.

The Management Board has delegated the day-to-day running of the entire ICS to the responsible managers in the ARAG Group. The ARAG Group structures its ICS in accordance with the 'three lines of defense' model:

First line of defense The first line of defense is formed by all employees and managers in operational roles. Responsibility for risks and processes lies with the Senior Vice Presidents, branch CEOs, and senior management of the subsidiaries. The people in this first line are directly responsible for the risks and processes in their departments. In the risk control process, the risk managers are responsible for identifying and evaluating the risks in their area.

Second line of defense The monitoring of the business and central units is carried out by various interdisciplinary functions (Group Controlling, Legal/Compliance, Group Risk Management, and the Actuarial function) that are also part of the organizational structure of the ICS. They specify standards for the design and monitoring of controls and for the handling of risk.

Third line of defense The Group Audit Central Department conducts internal audits of the functions in the first and second lines of defense within the ARAG Group. The Group Audit Central Department is also the internal auditor for the Group companies that have contractually appointed it to this role.

Internal audit In accordance with a service agreement, ARAG SE performs all internal auditing tasks – in particular the actual auditing but also the reporting – for ARAG Allgemeine. The exception is the fundamental decision, which is still the responsibility of the Company's Management Board, about the manner in which internal auditing is set up and carried out.

Group Audit assists the Management Board of ARAG Allgemeine with corporate management and helps it to fulfill its managerial and monitoring duties. Group Audit ensures that auditing activities are carried out professionally and in a manner appropriate to the risk situation, in relation to both the Group's targets and its operations.

Following the orders issued by the Management Board, Group Audit examines the operational and organizational structure as well as the ICS for all operating and business processes from a risk perspective.

The Management Board ensures 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 results.

To ensure that it is able to fulfill its role and responsibilities properly, Group Audit does not get involved in operational processes. It is not permitted to assign tasks to employees of Group Audit that would conflict with Group Audit's independence within the ARAG Group, nor are these employees 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.

To avoid conflicts of interest, ARAG Group Audit does not conduct any project-related audit procedures. Its involvement in projects is limited to an advisory role, in particular regarding the design of the ICS. Group Audit does not sign off the results of (sub) projects. This safeguards its independence and ensures it does not have any responsibility for the outcome of the projects in question.

Individual risks

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

Changes in claims ratio

Financial year	Claims ratio, gross, total		Settlements
	<i>FY ratio</i>	<i>Financial statements</i>	<i>% of initial reserve</i>
2018	63.3	59.9	2.8
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

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

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 and receivables from policyholders/insurance brokers. It is the downside risk arising from the unexpected default or decline 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 €2,659 thousand (December 31, 2017: €1,286 thousand) and liabilities of €1,076 thousand (December 31, 2017: €945 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 €1,896 thousand (December 31, 2017: €1,241 thousand). The average default rate for these receivables over the last three years as of December 31, 2018 was 0.6 percent (December 31, 2017: 0.6 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. For example, an assumed increase or decrease of 1.0 percent in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by €13.9 million.
- Equity risk: changes in the level or volatility of the market prices of equities. For example, an assumed fall in equities markets of 20.0 percent would cause a loss in fair value of €10.6 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.
- Currency risk: changes in the level or volatility of exchange rates.
- 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	24.4
AA	13.5
A	24.6
BBB	31.5
BB	3.5
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 33.1 percent are accounted for by financial services entities, 30.0 percent by public-sector bonds, and 36.9 percent by corporate bonds.

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

Market risk is managed at strategic level through strategic asset allocation, and at operating level through investment policies. Asset/liability management is particularly important in the management of this risk. A liability-driven investment approach is used to match investments to the underwriting liabilities.

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

There is no regulatory solvency capital requirement for the coverage of liquidity risk.

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

To support liquidity management, the investment policies include requirements aimed at ensuring that the portfolio includes an adequate proportion of liquid assets.

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

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

Measurement for operational purposes is 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 (accept, reduce, transfer, or avoid) are agreed upon and carried out in order to manage the identified risks at operational level.

Overall risk position

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

The overall risk position does not currently point to any trends in 2019 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. This also includes Brexit; the latest assessment suggests that this will not have any material impact on the Company.

* Not part of the management report.

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Balance Sheet as of December 31, 2018

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: € 180,408.94 (Dec. 31, 2017: € 0.00)
II.	Receivables from reinsurance business
	of which from affiliated companies: € 35,683.32 (Dec. 31, 2017: € 95,657.16)
III.	Miscellaneous receivables
	of which from affiliated companies: € 12,182,010.15 (Dec. 31, 2017: € 20,386,204.53)

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, 2018, the actuarial reserve amounted to € 38,100,957.00 for annuities from general accident insurance, € 65,006.00 for annuities from general liability insurance, and € 5,641,707.00 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

				Dec. 31, 2018	Dec. 31, 2017
				0.00	0.00
				21,311,589.42	22,005,522.07
				16,827,801.57	13,127,801.57
				0.00	0.00
				0.00	0.00
				0.00	0.00
				16,827,801.57	13,127,801.57
				219,447,035.76	223,424,702.05
				22,869,021.67	19,060,380.00
				0.00	0.00
				25,000,000.00	25,000,000.00
				21,981,734.23	26,981,734.23
				0.00	0.00
				0.00	0.00
				46,981,734.23	51,981,734.23
				83,251.93	84,450.90
				1,369,411.54	1,875,776.06
				290,750,455.13	296,427,043.24
				0.00	112,249.48
				328,889,846.12	331,672,616.36
				8,029,328.85	3,824,471.34
				2,511,844.58	4,414,637.31
				10,541,173.43	8,239,108.65
				2,658,649.05	1,285,537.49
				12,268,437.24	20,460,125.09
				25,468,259.72	29,984,771.23
				0.00	0.00
				2,954,929.36	2,342,227.58
				0.00	0.00
				2,954,929.36	2,342,227.58
				523,594.37	653,935.15
				3,769.92	7,539.84
				527,364.29	661,474.99
				0.00	0.00
				0.00	0.00
				357,840,399.49	364,661,090.16

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

Düsseldorf, January 3, 2019

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

Balance Sheet as of December 31, 2018

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, 2017: €0.00)
- II. Liabilities from reinsurance business
 - of which to affiliated companies: €471,347.36 (Dec. 31, 2017: €313,335.23)
- III. Miscellaneous liabilities
 - of which to affiliated companies: €17,834,140.82 (Dec. 31, 2017: €19,338,616.77)
 - of which tax liabilities: €1,816,219.80 (Dec. 31, 2017: €2,006,329.42)
 - of which social security liabilities: €0.00 (Dec. 31, 2017: €0.00)

F. Deferred income and accrued expenses

G. Deferred tax liabilities

Total equity and liabilities

			Dec. 31, 2018	Dec. 31, 2017
		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
	25,447,445.77			25,800,447.75
	142,635.15			209,770.22
		25,304,810.62		25,590,677.53
	19,007.00			5,042.00
	0.00			0.00
		19,007.00		5,042.00
	211,746,143.67			203,746,914.22
	33,659,985.34			28,814,590.33
		178,086,158.33		174,932,323.89
	0.00			0.00
	0.00			0.00
		0.00		0.00
		37,676,922.00		44,667,196.00
	1,217,297.72			1,307,297.72
	0.00			0.00
		1,217,297.72		1,307,297.72
			242,304,195.67	246,502,537.14
		31,821,233.00		29,761,561.00
		65,095.22		29,810.19
		2,527,534.15		3,525,817.97
			34,413,862.37	33,317,189.16
			0.00	0.00
	4,343,262.48			3,415,499.08
	569,228.12			2,897,109.35
		4,912,490.60		6,312,608.43
		1,076,053.89		944,699.39
		19,810,891.24		22,261,150.32
			25,799,435.73	29,518,458.14
			0.00	0.00
			0.00	0.00
			357,840,399.49	364,661,090.16

Income Statement for the Period from January 1 to December 31, 2018

Direct insurance and inward reinsurance business

(€)

I. Underwriting account

1. Premiums earned net of reinsurance
a) Gross premiums written
b) Reinsurance premiums ceded
c) Change in gross unearned premiums
d) Change in reinsurers' share of gross unearned premiums
2. Technical interest income net of reinsurance
3. Miscellaneous underwriting income net of reinsurance
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 net of reinsurance
7. Insurance business operating expenses net of reinsurance
a) Gross insurance business operating expenses
b) less: commissions received and profit sharing received from outward reinsurance business
8. Miscellaneous underwriting expenses net of reinsurance
9. Subtotal
10. Change in the equalization provision and similar provisions
11. Underwriting result net of reinsurance
Carried forward:

			2018	2017
	181,844,030.96			180,035,905.40
	-8,136,641.91			-5,872,050.24
		173,707,389.05		174,163,855.16
	345,141.29			-363,041.42
	-67,135.07			21,008.08
		278,006.22		-342,033.34
			173,985,395.27	173,821,821.82
			341,103.00	328,823.00
			446,815.63	463,575.29
	98,068,082.97			92,196,788.48
	-5,662,163.32			-3,262,935.87
		92,405,919.65		88,933,852.61
	8,022,173.09			9,338,792.26
	-4,845,395.01			-1,351,639.43
		3,176,778.08		7,987,152.83
			95,582,697.73	96,921,005.44
			76,035.00	357,912.58
			0.00	0.00
		74,655,093.64		67,660,227.47
		-1,401,422.17		-583,520.76
			73,253,671.47	67,076,706.71
			1,233,726.94	1,161,118.59
			4,779,252.76	9,813,301.95
			6,990,274.00	1,591,062.00
			11,769,526.76	11,404,363.95
			11,769,526.76	11,404,363.95

Income Statement for the Period from January 1 to December 31, 2018

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: € 71,234.89 (2017: € 92,360.29)

b) Income from other investments

of which from affiliated companies: € 1,003,666.76 (2017: € 755,150.19)

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 2017

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. General Disclosures

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 2018 in accordance with the requirements of the German Commercial Code (HGB), taking into account the supplementary provisions applicable to large corporations and the additional provisions applicable to insurance companies, the German Insurance Supervision Act (VAG), and the German Regulation on the Accounting of Insurance Undertakings (RechVersV). The financial statements are presented on the basis of the financial statement forms 1 and 2 pursuant to section 2 RechVersV and, where applicable, modified in accordance with section 3 RechVersV in line with sections 266 and 275 HGB. The Company is a large corporation within the meaning of section 267 (3) HGB. Therefore, and pursuant to the obligations under section 341a (1) HGB, the accounting rules for large corporations have been applied.

II. Disclosures on Accounting Policies

Accounting policies

The accounting principles and measurement requirements arising from the pertinent legislation were applied. German accounting standard no. 20 (GAS 20) has also been applied where its application is recommended for single-entity financial statements. Unless otherwise indicated, the single-entity financial statements were prepared in euros.

Land, land rights and buildings, including buildings on third-party land, are valued at cost; buildings are valued at cost less depreciation. Depreciation is recognized at the rates permitted for tax purposes. As had also been the case in 2017, no write-downs due to permanent impairment had to be recognized in 2018. Neither in 2018 nor in 2017 were there grounds for the reversal of write-downs as a result of the reason for the original write-down no longer applying. 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, if applicable reduced by write-downs as a consequence of permanent impairment. As had also been the case in 2017, no such write-downs were recognized in the reporting year. Neither in 2018 nor in 2017 were there grounds for the reversal of write-downs as a result of the reason for the original write-down no longer applying. Shares in affiliated companies and equity investments with a shareholding of at least 20.0 percent were held in the following companies as of the balance sheet date:

Shareholdings of at least 20.0 percent as of December 31, 2018

Name and registered office of company	Shareholding	Equity	Net income/ loss for the year
	(%)	(€)	(€)
Shares in affiliated companies			
Interlloyd Versicherungs-AG, Düsseldorf ¹⁾	100	7,392,771.59	5,927,250.49
ALIN 2 Verwaltungs-GmbH, Düsseldorf	100	26,774.50	1,855.07
ALIN 2 GmbH & Co. KG, Düsseldorf	100	7,668,359.65	71,234.89
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50	4,727,494.78	- 240,661.79
ARAG Service Center GmbH, Düsseldorf	20	343,084.56	- 51,772.19

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 valued at the lower of cost or quoted market price/market value as of the reporting date.

Following the strict principle of lower of cost or market value, no write-downs were recognized on equities and investment fund shares/units in 2018 (2017: €0.00) while write-downs of €2,010.00 were recognized on bonds (2017: €0.00). Reversals of write-downs on these securities amounted to €10,150.00 in 2018 (2017: €14,450.00).

ARAG Allgemeine made use of the option to select the discretionary principle of lower of cost or market value for those institutional investment fund shares/units and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. All institutional funds and some of the bearer bonds are classified as permanent fixed assets at ARAG Allgemeine. 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. As of December 31, 2018, the long-term market value was not based on the quoted market price. Instead, the institutional fund shares/units were valued using the long-term trend in the price/earnings ratio in the Stoxx Europe Large 200 and MSCI Emerging Markets indices. Under this approach, it was deemed appropriate to set the long-term market value at 20 percent above the market price of the shares/units as of December 31, 2018. Fixed-income securities within the funds were valued at their nominal amounts, as a minimum. Market value was used for all other items within the funds and any securities classed as non-investment grade. The bearer bonds

classified as fixed assets were valued in the same way. Write-downs amounting to €2,052,702.01 (2017: €0.00) were recognized in respect of these investment fund shares/units in application of the discretionary principle of lower of cost or market value. No reversals of write-downs on these securities were recognized in 2018 (2017: €1,018,136.94). As of the reporting date, undisclosed liabilities of €878,386.93 (December 31, 2017: €2,570.00) were not netted as a result of the application of the discretionary principle of lower of cost or market value.

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

Registered bonds are accounted for at their nominal or redemption amount. No write-downs to a lower fair value were necessary in the year under review or the previous year. Zero-coupon registered bonds are recognized at their nominal amount. Premiums are accrued and discounts deferred, and they are reclassified to income, over the term to maturity.

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

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

Other investments comprise shares/units in infrastructure funds and private equity funds. They are valued at cost. The fair value as of the reporting date is reviewed on the basis of the net asset values reported by the fund management companies.

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

Deposits with ceding insurers are recognized at the nominal value of the collateral furnished to cedants.

Receivables from direct insurance business are generally recognized at their nominal amount. Where necessary, **receivables from policyholders** are written down, are reduced by specific allowances on the basis of exceeding a predefined due date, or are reduced by a general allowance on the basis of rates of default in previous years. Receivables from policyholders past due are valued at the average historical recovery rate. If needed, **receivables from insurance brokers** are reduced by specific allowances and a general allowance in the amount of the likely default. The maturity of the receivables is generally less than one year.

Receivables from reinsurance business comprise amounts derived from outward reinsurance business. The balance of €2,658,649.05 (December 31, 2017: €1,285,537.49) generally arises from outward reinsurance business. The amounts recognized are the outstanding balances.

Miscellaneous receivables mainly comprise amounts in connection with the profit-and-loss transfer agreement entered into with Interlloyd and balances from intragroup services. All items are due within one year. They are recognized at their nominal amounts.

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

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 and premiums in connection with registered bonds.

If differences arise between the carrying amounts in the HGB financial statements and those in the tax base and these differences are expected to reverse in subsequent years, **deferred taxes** are recognized in respect of these differences using the entity-specific tax rate. Deferred tax assets and liabilities are netted when determining deferred taxes. As ARAG Allgemeine and ARAG SE form a single entity for corporation tax, trade tax, and VAT purposes, however, the deferred taxes are recognized at the level of the parent company.

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 on the basis of the premiums and lapses/cancellations posted, less the installment surcharges. The non-transferable income components were deducted from the unearned premiums. 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 accident insurance segment, the Company's settlements in direct business amount to nearly 2.8 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 341g (1) sentence 2 HGB. The benefit reserves for annuities, which are recognized in accordance with actuarial principles, were not included in the calculation.

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. The calculated equalization provision is, if necessary, allocated between business in Germany and the branches according to gross premiums earned in each class of insurance.

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.

Provisions for pensions and other post-employment benefits were calculated using actuarial principles in accordance with the projected unit credit (PUC) method on the basis of the 2018G (2017: 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. The discount rate used was 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. As had been the case a year earlier, a discount rate was applied for the valuation as of December 31, 2018 based on the average for the past ten years; this rate as of the reporting date was 3.21 percent (December 31, 2017: 3.68 percent). The difference in the amount that arises from the application of the percentage rate for the ten-year average rather than the percentage rate for the seven-year average amounted to €4,021,259.00 at the end of 2018 (December 31, 2017: €3,629,849.00). The following actuarial parameters were used to calculate the obligations: earliest possible age under the German Pension Age Reform Act (RVAGAnpG), annual increase in salaries of 2.50 percent, annual increase in pension benefits of 1.75 percent. The level of staff turnover taken into account reflects the generally observable age-dependent average for the industry and has only a minor impact on the settlement value.

Assets from reinsurance were offset against the defined benefit obligation. The settlement value of the offset liabilities corresponds to the asset value of the reinsurance taken out as matched cover and amounts to €205,242.00. The reinsurance is measured at fair value (asset value). In 2018, an expense of €20,712.92 arising on the increase in the liability and an interest expense of €7,857.00 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 taxes are recognized in the anticipated settlement amount determined in accordance with prudent business practice.

The **miscellaneous provisions** are generally recognized in the amount that is necessary to settle the obligation according to prudent business practice. Their residual maturity is generally less than one year.

Interest expenses of €432.34 arose from the discounting of provisions with a maturity of more than one year (2017: €0.00). Interest income arose in an amount of €3,856.54 (2017: €1,600.28). Specific accounting policies are applied to the following key miscellaneous provisions:

Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated in accordance with actuarial principles on the basis of the 2018G mortality tables published by Professor Klaus Heubeck, applying a discount rate of 2.32 percent (seven-year average; 2017: 2.80 percent) and future salary increases of 2.5 percent per year.

In 2018, a provision in accordance with the **pre-retirement part-time employment agreement** for the private insurance industry, based on the IDW accounting principle, was recognized on the basis of a discount rate of 2.32 percent for matching maturities (2017: 2.80 percent). In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements and natural employee turnover were taken into account. Credit balances on employee working hours accounts models are protected against insolvency in accordance with the German Pre-Retirement Part-Time Employment Act (AltTZG) by means of a fixed liability guarantee from a German commercial bank.

A **long-service provision** was recognized in the year under review for long-service awards to be paid to employees. The calculation was based on the Company's possible use of the provision for early retirement benefits in connection with individual contractual agreements. The provision was calculated using the projected unit credit method taking into account death rates in accordance with the 2018G mortality tables published by Professor Klaus Heubeck and applying a discount rate of 2.32 percent (seven-year average; 2017: 2.80 percent). The calculation also included staff turnover at an average rate of 1.5 percent and salary increases at a rate of 2.5 percent. The earliest possible pension age under the RVAGAnpG was selected as the final age.

Other liabilities are generally recognized at their settlement value. The residual maturity is generally less than one year. The **liabilities from direct insurance business** and the **liabilities from reinsurance business** are valued at their nominal amount. All other non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value. **Miscellaneous liabilities** are recognized at their 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 are recognized using the transaction exchange rate on the date of the relevant inflow or outflow. Currency conversions generated expenses of €17,984.53 in 2018 (2017: income of €13,714.78).

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 €21,312 thousand (December 31, 2017: €22,006 thousand) are used for the Company's own business operations and for the business operations of other Group companies.

Fair values for investments in affiliated companies and equity investments

The shares and equity investments have generally been valued using the income capitalization approach. In the case of companies that predominantly perform services for the ARAG Group and in the case of intermediate holding companies, the pro-rata net asset value has been used as the fair value. Where equity investments and shares were acquired close to the reporting date, the carrying amount was used as the fair value.

Fair values of equities, investment fund shares/units, bearer bonds, and other fixed-income securities

The fair values of equities, investment fund shares/units, bearer bonds, and other fixed-income securities were calculated at the quoted market price on the reporting date.

Fair values of miscellaneous investments

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 remaining investments were recognized at market value.

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

III. Insurance Disclosures

Direct insurance and inward reinsurance business

(€'000)	Total insurance business		Direct insurance business (total)		Accident insurance		Liability insurance		Motor liability insurance	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Gross premiums written	181,844	180,036	153,597	150,402	47,698	47,684	42,361	41,864	1,294	1,564
Gross premiums earned	182,189	179,673	153,952	150,150	47,882	47,711	42,461	41,814	1,294	1,564
Net premiums earned	173,985	173,822	145,749	144,318	46,191	46,191	40,619	39,929	0	1,397
Gross expenses for claims	106,090	101,536	92,176	89,124	25,815	30,620	21,963	16,967	954	1,563
Gross insurance business operating expenses	74,655	67,660	62,105	54,999	17,760	15,784	17,677	16,221	198	242
of which front-end fees	20,547	16,577	18,855	14,555						
of which administrative expenses	54,108	51,083	43,250	40,444						
Reinsurance balance	-3,705	627	-3,705	609	-490	-467	-1,534	137	189	-54
Underwriting result net of reinsurance before equalization provision	4,779	9,813	3,602	5,646	5,288	2,145	4,470	8,632	-33	-189
Underwriting result net of reinsurance after equalization provision	11,770	11,404	5,387	8,197	5,288	2,145	3,405	9,495	2,241	1,163
Gross technical provision (total)	276,107	275,527	238,847	233,512	101,527	98,917	76,734	71,461	15,152	18,144
of which gross provision for outstanding claims	211,746	203,747	195,044	187,458	96,260	93,449	57,789	53,460	15,138	15,834
of which lapse provision	1,200	1,290	1,200	1,290	333	363	277	298	14	27
of which equalization provision and similar provisions	37,677	44,667	23,848	25,633	0	0	13,337	12,272	0	2,274
Number of insurance policies with a term of at least one year	914,063	962,088	914,063	962,088	158,190*	163,022*	287,648*	310,110*	5,604	6,662
Technical interest income net of reinsurance relating to benefit reserves for annuities (0.90 percent)	341	329	341	329	341	326	0	2	0	0

* These insurance segments contain 84 group contracts (2017: 18) with 20,842,765 insured risks (2017: 20,873,133).

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

Direct insurance business	2018	2017
(No.)		
German	913,997	858,873
International	66	101,473
Total	914,063	960,346

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)	
2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
575	762	47,744	45,250	20,412	20,096	27,332	25,154	5,708	4,823	8,217	8,456	28,247	29,634
575	762	47,887	45,106	20,432	20,147	27,454	24,959	5,523	5,178	8,330	8,015	28,237	29,522
0	762	45,096	42,854	19,344	19,153	25,751	23,701	5,523	5,178	8,319	8,005	28,237	29,504
441	434	34,471	31,269	8,947	9,838	25,524	21,431	2,967	2,790	5,566	5,481	13,914	12,412
89	128	20,110	16,389	9,589	8,269	10,521	8,119	3,055	2,828	3,216	3,407	12,550	12,662
												1,691	2,022
												10,859	10,640
21	1	-1,900	984	906	1,053	-2,806	-69	0	0	9	7	0	18
32	194	-5,223	-3,819	973	922	-6,196	-4,740	-479	-436	-454	-882	1,177	4,168
550	258	-5,034	-3,051	2,069	737	-7,103	-3,788	-479	-436	-583	-1,377	6,382	3,207
134	640	36,330	36,293	9,118	11,176	27,212	25,159	2,669	2,502	6,301	5,513	37,260	42,015
127	109	21,613	21,224	3,988	4,911	17,625	16,354	855	873	3,262	2,469	16,703	16,289
6	13	486	508	208	226	278	282	56	53	28	28	0	0
0	518	9,736	9,925	4,039	5,135	5,697	4,790	0	0	774	645	13,829	19,034
3,285	4,083	316,416	253,211	182,892	179,759	133,524	73,452	99,515*	105,846	43,405*	119,154*	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	2018	2017
(€'000)		
German	178,468	176,248
International	3,376	3,788
Total	181,844	180,036

IV. Non-Insurance Disclosures

Changes in Asset Items A., B. I. to III. in 2018

(€'000)	Carrying amount as of Dec. 31, 2017
A. Intangible assets	0
B. I. Land, land rights and buildings, including buildings on third-party land	22,006
B. II. Investments in affiliated companies and equity investments	
1. Shares in affiliated companies	13,128
2. Lending to affiliated companies	0
3. Equity investments	0
4. Lending to long-term investees and investors	0
5. Total for B. II.	13,128
B. III. Miscellaneous investments	
1. Equities, investment fund shares/units, and other variable-yield securities	223,425
2. Bearer bonds and other fixed-income securities	19,060
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	26,982
c) Loans and prepayments for certificates of insurance	0
d) Sundry lending	0
5. Bank deposits	84
6. Other investments	1,876
7. Total for B. III.	296,427
Total	331,560

Additions	Disposals	Reversals of write-downs	Write-downs	Carrying amount as of Dec. 31, 2018	Fair value pursuant to sec. 54 RechVersV
0	0	0	0	0	0
0	694	0	0	21,312	39,118
3,700	0	0	0	16,828	34,147
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
3,700	0	0	0	16,828	34,147
14,287	16,212	0	2,053	219,447	238,440
5,991	2,190	10	2	22,869	23,383
0	0	0	0	0	0
0	0	0	0	25,000	24,730
0	5,000	0	0	21,982	22,197
0	0	0	0	0	0
0	0	0	0	0	0
0	1	0	0	83	83
13	520	0	0	1,369	2,542
20,291	23,923	10	2,055	290,750	311,375
23,991	24,617	10	2,055	328,890	384,640

Investment fund disclosures

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

Institutional funds

(€)	Carrying amount	Fair value	Dividend
	as of Dec 31, 2018	as of Dec 31, 2018	for 2018
Alltri Fonds Inka mixed fund	123,601,366.68	136,967,245.43	3,815,232.72
Alltrirent Fonds Inka fixed-income fund	69,179,570.38	75,668,932.17	1,237,474.63
ARI2 Fonds Inka fixed-income fund	11,618,773.62	11,609,744.15	225,167.48

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 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, 2018, shares/units in one mixed institutional fund, one equity fund, and three fixed-income funds with a carrying amount of €219,447,035.76 (December 31, 2017: €223,424,702.05) had been classified as fixed assets. The fair value of these investment fund shares/units classified as permanent fixed assets amounted to €238,440,109.37 as of the balance sheet date (December 31, 2017: €253,594,244.08).

ARAG Allgemeine also made use of the option to select the discretionary principle of lower of cost or market value for the bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of the end of 2018, a total of 14 securities (December 31, 2017: 15 securities) with a carrying amount of €8,219,490.00 were classified as fixed assets (December 31, 2017: €8,422,630.00). The fair value of these bearer bonds amounted to €8,585,886.00 as of the balance sheet date (December 31, 2017: €9,206,378.00).

Equity

(€)	Dec. 31, 2018	Dec. 31, 2017
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

In previous years, the **statutory reserve** had to be recognized in accordance with section 300 of the German Stock Corporation Act (AktG). No addition was made to the statutory reserve in 2018.

Other provisions

This line item essentially consists of provisions for pensions and other post-employment benefits of €31,821,233.00 (December 31, 2017: €29,761,561.00), long-service provisions of €523,469.00 (December 31, 2017: €464,668.00), costs for the financial statements and auditing of €448,729.09 (December 31, 2017: €452,384.00), bonuses of €286,335.60 (December 31, 2017: €312,139.66), pre-retirement part-time employment provisions of €271,328.00 (December 31, 2017: €412,202.00), vacation entitlement obligations of €208,365.00 (December 31, 2017: €184,066.00), and provisions for reimbursement of the Supervisory Board's expenses of €165,200.00 (December 31, 2017: €144,800.00). There are also provisions for association fees and sundry contingent liabilities, the reason for and/or the amount of which is not yet known.

Provisions for taxes

In 2018, provisions for taxes of €15,000.00 (December 31, 2017: €15,000.00) 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.

Net extraordinary income/expense

There was no extraordinary income or expense in either 2018 or 2017.

Taxes

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 expense recognized of €6,787.52 (2017: income of €2,460.67) relates to trade tax and motor vehicle tax.

V. 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.

VI. 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 €19,013,842.47 (December 31, 2017: €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 €12,564,670.64 (2017: €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 €334,344.75 (December 31, 2017: €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.

Difference pursuant to section 253 no. 6 HGB

Differences pursuant to section 253 no. 6 HGB may arise when calculating provisions for pensions and other post-employment benefits as a result of applying the percentage rate for the ten-year average rather than the percentage rate for the seven-year average. At the end of the reporting year, this difference stood at €4,021,259.00 (December 31, 2017: €3,629,849.00).

Auditor's fees

The Company's Supervisory Board agreed fees of €164,705.88 (2017: €174,033.61) with the auditors, PricewaterhouseCoopers GmbH Germany, for the audit of the 2018 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 2018, the fees for which amounted to €6,269.98 (2017: €6,432.30). No other additional consultancy/advisory or non-audit services were performed.

Commissions and other remuneration for insurance agents, staff costs

(€)	2018	2017
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	38,911,806.65	33,340,486.54
2. Other remuneration for insurance agents within the meaning of section 92 HGB	0.00	0.00
3. Wages and salaries	9,688,333.49	10,155,732.90
4. Social security and other employee benefit expenses	1,568,267.33	1,697,787.88
5. Pension and other post-employment benefit expenses	2,968,582.25	2,129,012.88
Total expenses	53,136,989.72	47,323,020.20

Employees

The average number of employees in 2018 was 158 (2017: 164), of whom 77 worked in domestic claims, 58 in sports insurance, and 23 in other departments.

Supervisory Board and Management Board remuneration

In the year under review, the Company's Supervisory Board received remuneration of €144,550.00 (2017: €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 €1,076,821.67 (2017: €1,063,677.58). A provision of €15,495,614.00 was recognized for current pensions and vested pension entitlements of former members of the Management Board and their surviving dependants (December 31, 2017: €14,936,487.00). The members of the Supervisory Board and Management Board are listed at the end of this annual 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, 2018. 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, 2019

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Management Board

Wolfgang Mathmann

Christian Vogée

Dr. Werenfried Wendler
(from January 1, 2019)

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, 2018, and the statement of profit and loss for the financial year from January 1 to December 31, 2018, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of ARAG Allgemeine Versicherungs-Aktiengesellschaft for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited those parts of the management report listed in the "Other Information" section of our auditor's report, e.g. the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2018 and of its financial performance for the financial year from January 1 to December 31, 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2018. 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 328,890 thousand (91.9% of total assets) are reported in the balance sheet. Investments that are not measured on the basis of stock exchange prices or other market prices are associated with increased risk regarding measurement due to the necessity of using model-based calculations. The executive directors are required to exercise judgment and make estimates and assumptions in this context. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of investments. Due to the material significance of the amounts of investments for the assets, liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of investments was of particular significance in the context of our audit.
2. Given the significance of investments for the Company's overall business, as part of our audit we assessed the assumptions made by the executive directors and the models used by the Company together with our internal specialists for investments. Thereby, we based our assessment on our valuation expertise with regard to investments, and our industry expertise and experience, among other things. In addition, we evaluated the design and effectiveness of the controls established by the Company for the purpose of measuring investments and recording the earnings from investments. On that basis, we carried out additional analytical audit procedures and tests of details relating to the measurement of investments. Among other things, we also examined the underlying amounts recorded and their recoverability on the basis of the documentation made available, and we evaluated the consistent application of the measurement methods and the allocation of amounts to the correct periods. Furthermore, we assessed the valuation reports prepared or obtained by the Company (including the measurement parameters used and the assumptions made) for its material equity investments and real estate. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the investments are substantiated and sufficiently documented.
3. The Company's disclosures on investments are contained in section II "Disclosures on Accounting Policies" of the notes to the financial statements.

2. Measurement of claims provisions

1. In the annual financial statements of the Company technical provisions (“claims provisions”) amounting to EUR 178,086 thousand net (49.7% of total assets) are reported under the “Provisions for unsettled claims” balance sheet item. Insurance undertakings are required to recognize technical provisions to the extent necessary in accordance with prudent business judgment to ensure that they can meet their obligations from insurance contracts on a long-term basis. Defining assumptions for the purpose of measuring the technical provisions requires the Company’s executive directors, in addition to complying with the requirements of commercial and regulatory law, to make estimations of future events and to apply appropriate measurement methods. The methods used to determine the amount of the claims provisions and the calculation parameters are based on judgments and assumptions made by the executive directors. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of the claims provisions. Due to the material significance of the amounts of these provisions for the assets, liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of the claims provisions was of particular significance in the context of our audit.
2. Given the significance of the claims provisions for the Company’s overall business, as part of our audit we assessed the assumptions made by the executive directors and the methods used by the Company together with our internal measurement specialists. Thereby, we based our assessment on our industry expertise and experience, among other things, and considered recognized methods. We also evaluated the design and effectiveness of the controls established by the Company for the purpose of calculating and recording claims provisions. On that basis, we carried out additional analytical audit procedures and tests of details relating to the measurement of the claims provisions. Among other things, we also reconciled the data on which the calculation of the settlement amount was based with the underlying documentation. Therewith, we assessed the results of the Company’s calculations of the amount of the provisions with reference to the applicable legal requirements and evaluated the consistent application of the measurement methods and the allocation of amounts to the correct periods. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the claims provisions are substantiated and sufficiently documented.
3. The Company’s disclosures on claims provisions are contained in section II “Disclosures on Accounting Policies” of the notes to the financial statements.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the supervisory board on March 23, 2018. We were engaged by the supervisory board on October 26, 2018. 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, 2019

PricewaterhouseCoopers
Gesellschaft mit beschränkter Haftung
Wirtschaftsprüfungsgesellschaft

Ludger Koslowski Wirtschaftsprüfer (German Public Auditor)	Michael Peters 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, the ORSA report, regular risk reports, and discussions about the strategic planning for ARAG Allgemeine for the three-year period from 2019 to 2021 and its approval. The Supervisory Board examined the Company's reinsurance renewal for 2018, its strategic activities, forward-looking initiatives relating to the casualty and property insurance business, and the future of the sports insurance portfolio. It also discussed the appropriateness of the Management Board's remuneration together with the remuneration system used by the Company for its employees. With regard to the Management Board's remuneration, the Supervisory Board also assessed the fulfillment of the Management Board's targets for 2017 and specified Management Board targets for 2018 linked to variable remuneration. The full Supervisory Board proposed to the Annual General Meeting (AGM) that the Supervisory Board chairman be reappointed for the maximum permitted term. The AGM approved this proposal.

Following preparation by the Human Resources Committee, the full Supervisory Board adopted the necessary resolutions regarding the appointment of Management Board members in light of amended requirements relating to the creation of a single entity for VAT purposes and approved the necessary changes to the allocation of responsibilities. The ordinary meetings in 2018 also featured a report on implementation of the auditor's findings from the audit of the 2017 annual financial statements, a presentation on a new self-assessment process for the Supervisory Board that will be repeated annually henceforth, a presentation on the subsequent preparation of a development plan building on the self-assessment, and a discussion on how the Company's UK business should be handled in the future in view of Brexit.

The Supervisory Board did not adopt any resolutions using written procedures in 2018.

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

The Finance and Audit Committee held one meeting in the year under review. During the meeting, there was a presentation on a proposal to increase the volume of investment in the private-equity segment, which the committee then approved. The Finance and Audit Committee also adopted three resolutions in writing, in which it signed off an amended version of the guidelines on approving non-audit services, acknowledged the 2017 report on non-audit services, and approved the submission of a binding offer in relation to a purchase option before then giving its final approval for the transaction.

The Human Resources Committee held three meetings in 2018, at which it discussed the implementation of the Fit&Proper guidance, the remuneration policy, the Management Board's remuneration, the Company's remuneration structures, and the appointment of Management Board members (including the necessary changes to the allocation of responsibilities) in preparation for resolutions to be adopted by the full Supervisory Board. In addition, the Human Resources Committee deliberated on the assessment and agreement of the Management Board's targets for its variable remuneration. It was also brought up to date with the remuneration of the management boards/senior managers in the international branches and in the Company's subsidiaries and carried out preparations for the Supervisory Board's annual process of self-evaluation and subsequent creation of a development plan. In a written procedure, the Human Resources Committee also approved an increase to the pension benefits for former members of the Company's Management Board.

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 2018 were, together with the bookkeeping system, audited by PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, which had been selected and engaged by the Supervisory Board on March 23, 2018 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.

Dr. Werenfried Wendler was appointed to the Company's Management Board with effect from January 1, 2019. He is in charge of a new, third responsibility area: Human Resources.

The Supervisory Board would like to express its thanks and appreciation for the work of the Management Board and all employees in 2018.

Düsseldorf, March 22, 2019

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
	Dr. Werenfried Wendler	Neustadt/Weinstrasse (from January 1, 2019)

Information

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

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

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

Credits

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

