

ARAG HOLDING SE

2017 Annual Report

CONSOLIDATED FINANCIAL STATEMENTS



Dive into life.

The ARAG Group at a Glance

Premium income/sales revenue:

€ **1.61** billion

↘ 2016: €1.78 billion*

Combined ratio:

89.9 %

↗ 2016: 91.5%*

Underwriting result for own account:

€ **73.5** million

↗ 2016: €66.7 million*

Consolidated equity:

€ **461** million

↘ 2016: €462 million*

Profit from ordinary activities:

€ **81.2** million

↘ 2016: €87.0 million*

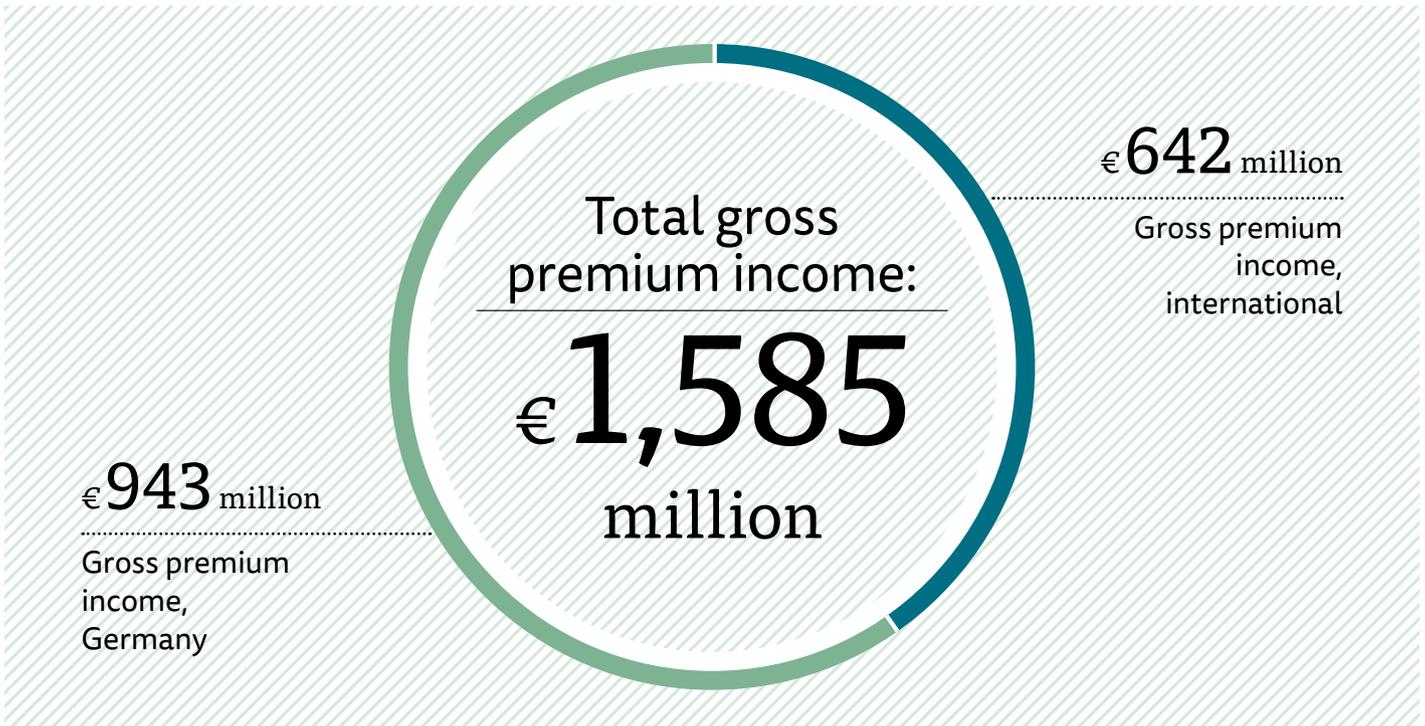
Consolidated net income:

€ **27.8** million

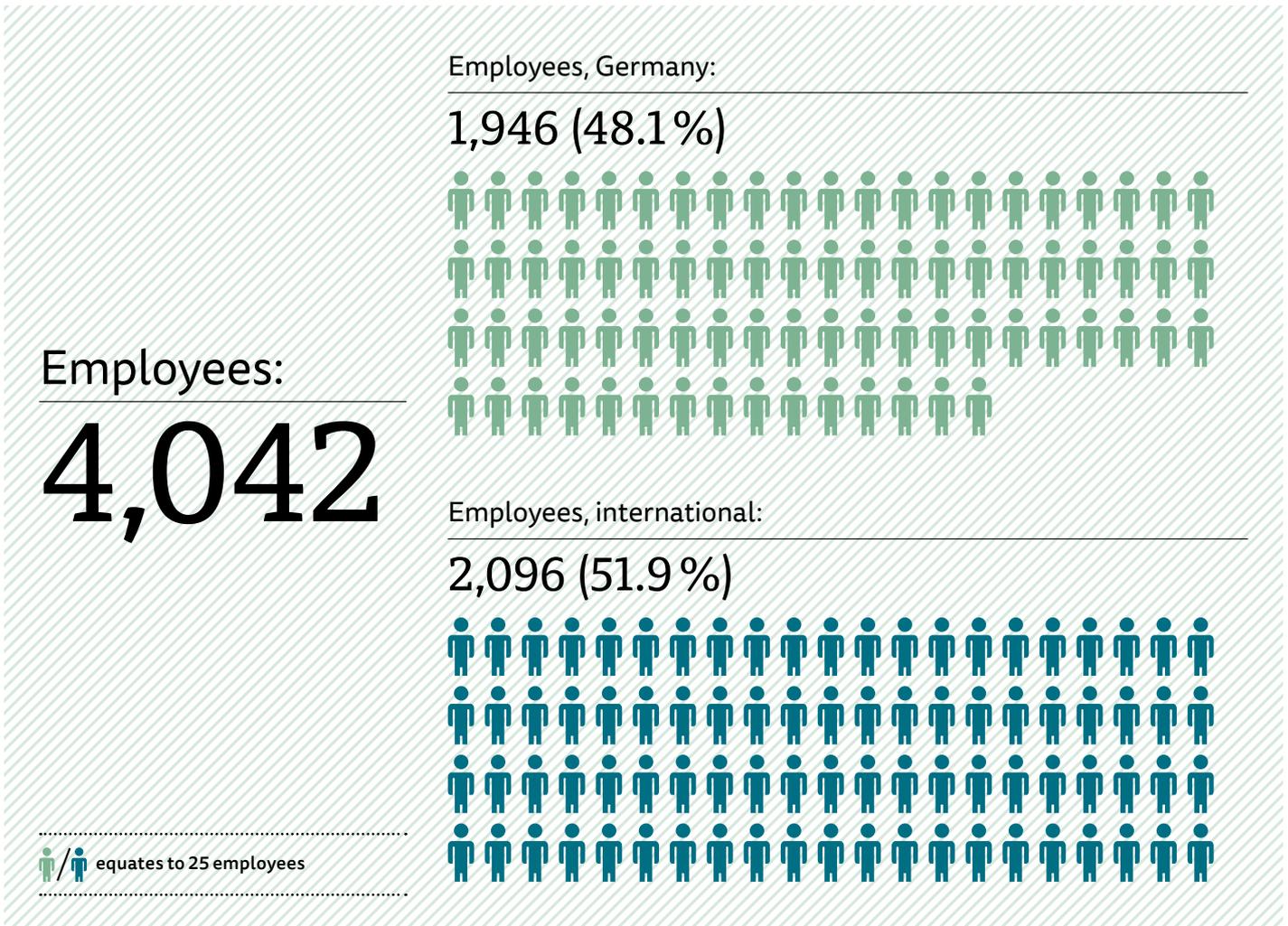
↘ 2016: €43.1 million*

* The prior-year figures include the life insurance business (with premium income of €213.7 million), which was sold in 2017

Gross premium income broken down by domestic and international business



Number of employees and breakdown



Insurance segments in the ARAG Group and their parent operating companies

Legal insurance
ARAG SE

€ 939 million*

↗ 2016:

€ 893 million*

Personal legal insurance and legal insurance for motorists, employment, homeowners and tenants, businesses, trades, self-employed professionals, and associations

Casualty and property insurance
ARAG Allgemeine Versicherungs-AG

€ 281 million*

↗ 2016:

€ 266 million*

Liability insurance, home contents insurance, accident insurance, accident disability insurance, Top Special Service Package, building insurance, business insurance, sports insurance

Health insurance
ARAG Krankenversicherungs-AG

€ 365 million*

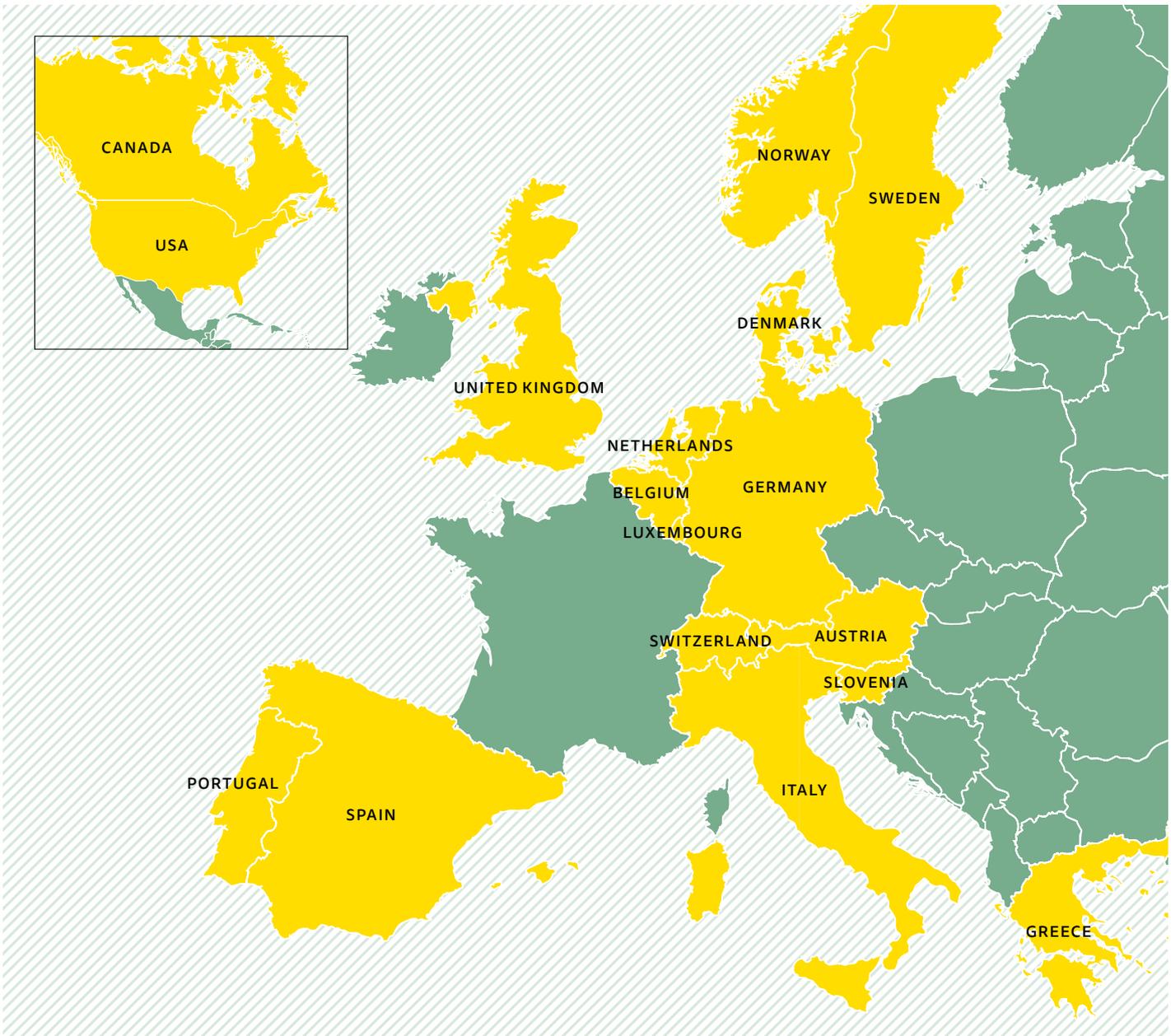
↗ 2016:

€ 357 million*

Private full-coverage health insurance, supplementary health insurance, long-term nursing care insurance, supplementary nursing care insurance, corporate health insurance, foreign travel health insurance

* Gross premium income

Countries in which the ARAG Group operates



Accolades received by the ARAG Group (selection)

www.ARAG.de was crowned **best website** by AMC Finanzmarkt GmbH, which evaluated the online presence of 126 insurers. In the **2017 Plus X Award** for innovation, ARAG won five product awards and, once again, received the **Most Innovative Brand Award**. At the end of 2017, ARAG Health was voted the **most popular supplementary health insurance provider** for the 40th quarter in succession in the quarterly **AssCompact Trends** survey of brokers.

At the **Italy Protection Forum Awards**, ARAG Italy was a winner in the Legal Protection and Digital Innovation at the Service of Clients and Intermediaries category. The Dutch financial supervisor (Stv) renewed the **Keurmerk Klantgericht Verzekeren customer quality seal of approval** that it had awarded to ARAG Netherlands in 2016. In the ranking compiled by Innovación Aseguradora, **ARAG's Spanish website** took **first place** for the

first time in 2017 and then defended this position. Spanish broker organization ADECOSE awarded bronze stars to ARAG Spain as the **best legal insurance company** and for the **ARAG travel chatbot** on Facebook. ARAG plc was crowned **Managing General Agents Team of the Year for the third time** and **Legal Expenses Team of the Year for the fifth time** at the Underwriting Service Awards in 2017. At the National Payroll Giving Excellence Awards, it was recognized

in the small employer class in the **Most Innovative Campaign (first place)** and **Best Promotional Partnership** categories. ARAG Austria was ranked **first** by the Austrian Society for Consumer Studies (ÖGVS) for the **transparency of its website**. In the Assekuranz Award Austria organized by the Austrian Insurance Broker Association, it came **first** in the **Legal Insurance Specialist** category and **second** in the **Corporate Legal Insurance** category.

At the end of 2017, Der Börsianer designated the company the **best legal insurance specialist** in the Special Insurer category. ARAG North America received the **Talent Management Award** from the Association for Talent Development in recognition of its team development initiative. At the NOVA Award 2017, it secured **second and third place respectively in the Direct and Online Marketing** categories.

ARAG Group

Asset and investment management

ARAG Holding SE

Operating Group Holding Company

ARAG SE

and legal insurance

CEO and Central Group Functions

Group Development, Business Organization

Group Sales/ Products and Innovation

Group Finance

Group IT and Operations

Group Risk Management/ Controlling

Operating insurance companies

ARAG Allgemeine Versicherungs-AG

(Casualty and property insurance)

ARAG Krankenversicherungs-AG

(Health insurance)

Interlloyd Versicherungs-AG

(Specialized in broker sales)

International companies

(Legal insurance/ legal services)

Service companies

ARAG IT GmbH

(IT services for the ARAG Group)

Cura Versicherungsvermittlung GmbH

(Brokerage firm)

ARAG Service Center GmbH

(Emergency telephone service)

Contents

Key Figures	8
Profile of the ARAG Group	9
Introduction	10
Group Management Report	12
I. Group Fundamentals	13
II. Report on Economic Position	14
III. Outlook, Opportunity and Risk Reports	46
Consolidated Financial Statements	63
Independent Auditor's Report	106
Report of the Supervisory Board	110
Governing Bodies of the Company	112

Overview

ARAG Holding SE Key Figures – Consolidated Financial Statements

(€ million)	2017	Change	2016*	2015
Sales revenue				
Gross premiums written	1,585.0	-8.4%	1,729.7	1,656.1
Premiums earned for own account	1,570.6	-8.0%	1,706.4	1,631.2
Revenue of non-insurance companies	25.4	-53.7%	54.8	66.6
Expenses				
Claims incurred net of reinsurance	854.0	-15.9%	1,014.9	974.6
Claims ratio (basis: premiums earned)	54.4%	-5.1% pts.	59.5%	59.7%
Own account insurance business operating expenses	558.4	2.2%	546.5	530.7
Cost ratio (basis: premiums earned)	35.6%	3.6% pts.	32.0%	32.6%
Net income overview				
Underwriting result for own account	73.5	10.2%	66.7	66.1
Gains and losses on investments	136.1	-43.3%	240.0	211.0
of which included in underwriting result	74.5	-57.8%	176.7	158.0
Other net income/expense	-52.2	8.1%	-48.3	-57.0
Profit/loss from ordinary activities	81.2	-6.6%	87.0	66.7
Consolidated net income	27.8	-35.5%	43.1	29.2
Technical provisions/ net premiums earned	233.2%	-116.4% pts.	349.6%	350.8%

* The prior-year figures include the life insurance business (with premium income of €213.7 million), which was sold in 2017

Profile of the ARAG Group

Overview

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

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

Legal insurance

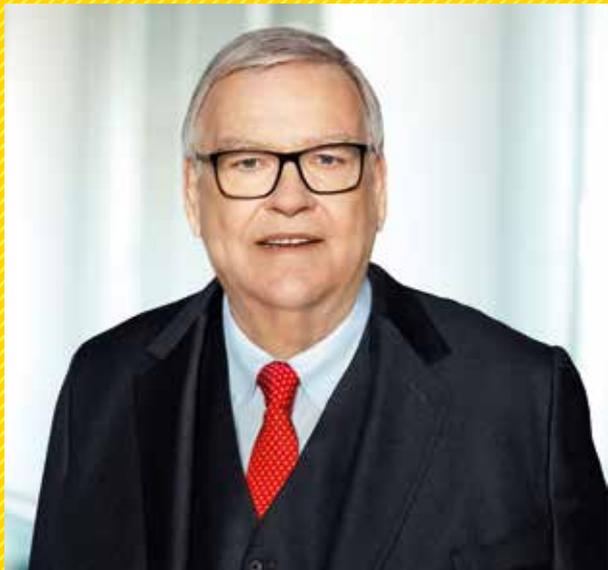
In its core legal insurance segment, ARAG plays a major role in shaping its markets both in Germany and abroad with innovative products and services. For some years now, the international legal insurance business has been the Group's most significant area of activity. The units outside Germany involved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

Casualty and property insurance

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

Personal insurance

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



Dr. Dr. h. c. Paul-Otto Faßbender

Introduction

A look back at the 2017 financial year shows us that the ARAG Group remains on a path of success as a result of the considerable changes that it has made. Following the deconsolidation of the life insurance business, which was carried out retroactively with effect from January 1, 2017, ARAG is now entirely focused on property and health insurance. In this business, we know where our strengths lie and where we have a clear competitive edge. The year under review is the first complete financial year in which the Group operated in its new constellation. It was in good shape from the start.

The 'new ARAG' grew by 4.6 percent in its property and health insurance business. This positive trend was driven both by national and international business. The Company is successfully attracting new customers, thereby improving its customer base. In international markets, premiums increased at the particularly robust rate of 6.5 percent, with our units in Spain, the US, Scandinavia, Austria, and Italy providing the greatest growth impetus. At the same time, international business continues to generate a very encouraging level of income.

As in previous years, the Group increased premiums at a faster rate than the German market as a whole – by 3.3 percent this year. All insurance segments in Germany are firmly on an upward trajectory. The German legal insurance business notched up the strongest growth, followed by health insurance. ARAG continues to benefit from its passion for innovation when it comes to digitalization. The number of new policies entered into online again rose by 11 percent. As a result, online customers made up 11 percent of the total customer base in Germany at the end of 2017.

Besides strong premium growth, the Group achieved a very healthy financial performance. Despite the sustained expansion of business, the underwriting result improved by a substantial 10 percent. At €81.2 million, profit from ordinary activities remained at a very good level.

Last year was an impressive demonstration of the ARAG Group's huge potential. We have gone through a lengthy and energy-sapping process of realignment. Nonetheless, we never lost sight of our customers' wishes and were able to increase our income by just over €70 million in challenging market conditions. In short, we are acting with clarity of purpose, delivering good results, and successfully taking the Company forward.

We are not waiting until the world around us has changed but are actively helping to shape this process. And we are tackling the critical issue faced by the insurance industry, the digital transformation, just as resolutely. We will work with complete commitment and enthusiasm to drive forward the ARAG digital story. To sum up, ARAG's prospects are looking good – for our customers and partners, for our employees, and thus for the entire Company.



Dr. Dr. h. c. Paul-Otto Faßbender

Group Management Report

Changes in premium income and sales revenue

(€ million)	2017	2016	2015
Legal insurance	938.9	893.0	841.7
of which domestic	370.9	351.5	330.5
of which international	568.0	541.5	511.2
Casualty and property insurance	281.0	266.1	246.6
of which domestic	206.8	204.7	197.2
of which international	74.2	61.4	49.4
Life insurance	-	213.7	220.3
Health insurance	365.1	356.9	347.5
Service companies	25.4	54.8	66.6
Total	1,610.3	1,784.5	1,722.7

- All Group segments remain on a clear path of growth
- Above-average 3.3 percent increase in premiums in Germany
- International business is very buoyant, with a strong financial performance
- Combined ratio at a very healthy 89.9 percent despite the expansion of business
- Underwriting result improves by a substantial 10 percent

Group Management Report

I. Group Fundamentals

The ARAG Group is the largest family-managed insurance company in Germany and is one of the world's three leading providers of legal insurance. It focuses on state-of-the-art insurance products and services aimed at both private and small business customers. ARAG is a provider of high-quality insurance with a multidimensional approach, offering its customers in Germany not only its core legal insurance policies but also needs-based products and services in casualty and property insurance and health insurance business. In view of the protracted period of low interest rates, the ARAG Group had made a decision in 2016 to sell its life insurance business. The sale was completed on June 30, 2017 (with retroactive effect from January 1, 2017) following the conclusion of the ownership control process carried out by the German Federal Financial Supervisory Authority (BaFin). Accordingly, the entire Group's premiums and sales revenue in 2017, as well as its total assets as of December 31, 2017, declined year on year. The disposal only had a negligible impact on the Group's net income.

ARAG began to make inroads into markets outside Germany more than 50 years ago. The main purpose was to set up separate international companies in the Group that could provide support for the German legal insurance customers in the event of a claim. It became clear that this model in itself was not sustainable. However, there was a demand for legal insurance within each of the countries themselves, as a result of which it was possible to develop new business models in line with the various circumstances and tap into new markets. Including Germany, ARAG now operates in a total of 17 countries through branches, subsidiaries, and equity investments. The Company launched business activities most recently in Canada in 2016.

In addition to the Group headquarters in Düsseldorf and the offices in Munich, the ARAG Group maintains, through ARAG SE, international branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, and Spain. The international branches run their operating businesses in their national markets independently, taking into account the specific local circumstances in each case.

Legal insurance is also provided in the US, Norway, Sweden, and Denmark. In each case, the business is operated through legally independent affiliated companies, under the unified management of ARAG SE in its role as parent company. In addition, ARAG SE operates in Switzerland via an equity investment in a legal insurance associate. In the United Kingdom, a Group company acts as a broker for legal insurance business and legal-insurance-related special service package business, passing this business to UK primary insurers. Some of this insurance is then ceded to ARAG SE under quota-share reinsurance treaties. This intermediary model has been adapted for use in the Canadian market.

ARAG SE also holds an equity investment in a legal insurance company in Luxembourg.

Building on its dynamic growth and great willingness to embrace change, ARAG is continuing to extend its competitive edge in property and health insurance. In doing so, it is sustaining its systematic approach to internationalizing the legal insurance business.

II. Report on Economic Position

Economic and sector conditions

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

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

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

The German economy is benefiting from a long sustained period of robust growth, built on ever-broader foundations. This growth is being driven by strong domestic demand, economic recovery in the eurozone, and economic policy that remains expansionary. While government spending and investment in construction have been increasing steadily for some time, spending on capital equipment and research & development expenditure are now also rising more quickly again. In addition, growth in key sales markets, particularly in the eurozone, has recently been gathering pace significantly. In Germany, household consumption continues to be the single greatest factor fueling the economic growth.

Consumer sentiment is very favorable, supported by a willingness to spend and positive income expectations. Consumer spending growth rates are being maintained at a very high level. This is closely associated with the ongoing improvement in the number of people in work and the sharp rise in real disposable incomes.

The German Council of Economic Experts has predicted a 2.0 percent rise in real GDP for 2017. Adjusted for the different number of working days, the rise is as much as 2.3 percent. This means that a German economic boom is gradually developing. A growth rate of 1.4 percent is forecast for 2018. Against this backdrop and the very slow normalization of monetary policy by the European Central Bank (ECB), but combined with steady energy prices, the increase in inflation in 2018 is likely to remain modest. Looking further ahead however, inflation is projected to rise over the medium term.

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

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

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

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

Growth in private health insurance in Germany has largely remained steady despite the uncertainty surrounding the outcome of political discussions about a citizens' health insurance scheme. According to the GDV, the precise effects on the private health insurance business model will only become evident during the course of 2018. Once again in 2017, the prolonged phase of low interest rates affected gains and losses on investments. Furthermore, demographic change and the associated changes in the customer base are also having a significant impact on private health insurance, inevitably leading to higher benefit expenses.

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

Business performance

In the year under review, the ARAG Group implemented a comprehensive strategic realignment so that it is now focused entirely on its strengths in property and health insurance. The life insurance business was deconsolidated with retroactive effect from January 1, 2017. As a consequence, the ARAG Group's premium volume fell from €1,729,698.5 thousand in 2016 to €1,584,976.9 thousand in the reporting year. After adjusting for the fact that the discontinued life insurance business had contributed €213,694.2 thousand to premium income in the last available figures, the net premium growth generated by the Group in its property and health insurance business amounted to €68,972.7 thousand or 4.6 percent. Growth in the business lines now constituting the core business of the Group (legal insurance, casualty and property insurance, health insurance) was clearly consolidated in the year under review. The legal insurance segment accounted for the strongest premium growth in absolute terms. Gross premiums written from direct business in the German legal insurance market rose by 6.1 percent year on year. The reasons were premium adjustments and a significant expansion in the policy portfolio, to which 49,613 contracts were added. The international legal insurance business generated growth of 4.9 percent. The markets with the highest sales revenue are the Netherlands, Spain, Italy, the US, Austria, and Scandinavia. The casualty and property insurance business was the segment with the second-fastest growth in the Group in the year under review. The premiums generated by this business in 2017 went up by 5.6 percent year on year, boosted in particular by the travel insurance business in Spain. Despite tough market conditions, the private health insurance segment nevertheless achieved premium growth of 2.3 percent. Only a small proportion of this increase stemmed from premium adjustments; most of it was derived from further targeted expansion in the supplementary health insurance business, where ARAG has been traditionally strong and well positioned for many years.

Sales revenue in the Group's non-insurance entities went down by 53.7 percent, a sharp contraction caused by the disposal of the real estate development business, which accounted for the greatest proportion of this sales revenue.

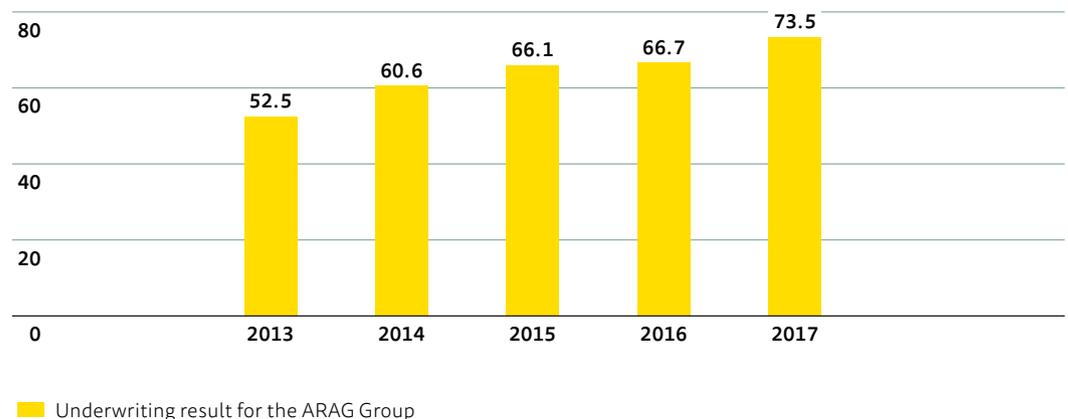
In the legal insurance business as a whole, claims incurred rose from €440,047.9 thousand in 2016 to €479,345.9 thousand in the year under review. Claims incurred also went up in the casualty and property insurance business, rising by €12,987.6 thousand. The reasons

included a number of minor storm events in 2017. In the health insurance business, claims incurred increased by a total of €19,988.7 thousand. Overall, claims incurred by the Group in the year under review were up by 9.3 percent compared with the prior-year figure (excluding life insurance business).

Insurance business operating expenses rose by 6.7 percent. This increase arose because of a non-recurring item in 2016 in which the pension and other post-employment benefit expenses for the year had been virtually eliminated after applying a statutory requirement for a switch in accounting principles. Other reasons included higher commission expenses and a headcount increase, especially in the international branches and subsidiaries. Insurance business operating expenses rose to €558,367.7 thousand (2016: €546,474.1 thousand). The cost ratio went up from 32.0 percent to 35.6 percent in the reporting year.

Changes in underwriting result

(€ million)



The ARAG Group's underwriting result improved by a substantial 10.2 percent, advancing from a profit of €66,735.0 thousand in 2016 to €73,534.6 thousand in 2017. A key contributing factor was the sharp improvement in the underwriting result from the personal insurance business following the disposal of the life insurance business, although there was a slight fall in the underwriting result for the property insurance business as a whole.

Underwriting profit in the legal insurance segment was lower than in the prior year, whereas the casualty and property insurance business's underwriting result increased considerably. The underwriting result in the health insurance business also improved significantly.

Net gains on investments declined slightly, reflecting the effects of the persistently low interest rates. The balance of write-downs and reversals of write-downs had been more favorable in 2016 than in 2017. The Group had also generated higher gains on disposals in 2016. On the other hand, ordinary income from investments, especially from institutional funds, was better in the year under review. Overall however, the non-underwriting net gains on investments decreased year on year from €63,353.0 thousand to €61,530.9 thousand.

Other net income/expense amounted to a net expense of €52,257.5 thousand, which was higher than the equivalent figure of €48,331.9 thousand in 2016, as expected. The main reason for this was the one-off reduction in pension and other post-employment benefit expenses in 2016 resulting from the change in the discount rate used for defined benefit obligations. In addition, the disposal of the life insurance business gave rise to further goodwill, resulting in a further annual amortization charge of €3,888.0 thousand.

At €81,245.3 thousand, profit from ordinary activities was again at a very good level (2016: €87,039.2 thousand).

The net extraordinary expense of €21.8 thousand (2016: net expense of €266.8 thousand) arose in connection with expenses from the application of the transitional provisions in the Introductory Act to the German Commercial Code (EGHGB) relating to the accounting treatment of pension and other post-employment benefit obligations.

Consolidated net income amounting to €27,806.6 thousand was impacted by the change in deferred tax assets at €20,000.6 thousand (2016: €23,041.6 thousand).

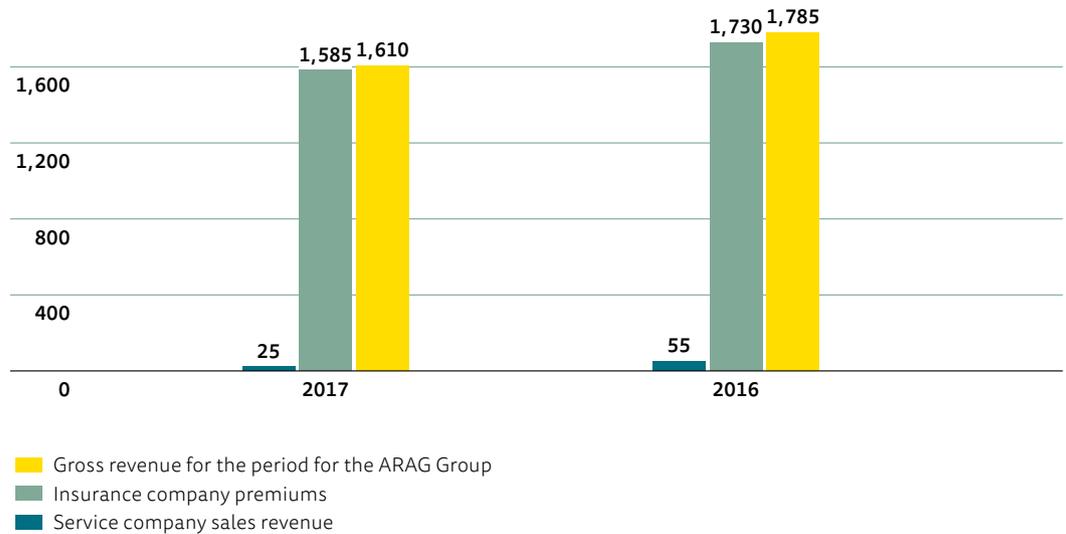
Premiums/sales revenue In 2017, the ARAG Group successfully remained on the growth trajectory it has established over the last few years, with a significant year-on-year increase in premiums of 4.6 percent. As described above, all domestic and international ARAG units provided encouraging growth impetus for the Group.

Even though growth in the overall German insurance market was just 1.3 percent, the ARAG Group raised its premium income in this market by 3.3 percent. The life insurance business sold with effect from January 1, 2017 is excluded from this percentage. Premium income in Germany amounted to €942,701.5 thousand compared with €1,126,695.7 thousand in the prior year, although €213,694.2 thousand in 2016 had been accounted for by the life insurance business, which has now been sold. The premium growth of €68,972.7 thousand in the year under review has already made up for more than one third of the premiums lost in connection with the sale of the life insurance business. In the German legal insurance business (including inward reinsurance business), premiums rose by €19,368.4 thousand to €370,839.6 thousand in 2017. The German casualty and property insurance business grew by €2,105.5 thousand to €206,763.0 thousand. Health insurance business went up by €8,226.1 thousand to €365,098.9 thousand. Sales revenue generated by the Group's service companies decreased by €29,465.9 thousand to €25,363.8 thousand because of the sale of the real estate development business. As a consequence of the effects described above, total premium income and sales revenue in the ARAG Group also declined – by 9.8 percent, from €1,784,528.1 thousand in 2016 to €1,610,340.7 thousand in the year under review.

The Group's portfolios comprised 6.9 million policies as of the reporting date (December 31, 2016: 7.1 million). The prior-year figure included 0.3 million life insurance policies. At the end of the reporting year, the portfolio comprised 3.6 million policies (December 31, 2016: 3.5 million) related to the international business and 3.3 million policies (December 31, 2016: 3.6 million) arising from domestic business. Added to this were a further 20.9 million insured risks in the domestic sports insurance business (casualty and property insurance segment), which were covered via 18 group policies, primarily with state sports associations.

Gross revenue for the period

(€ million)

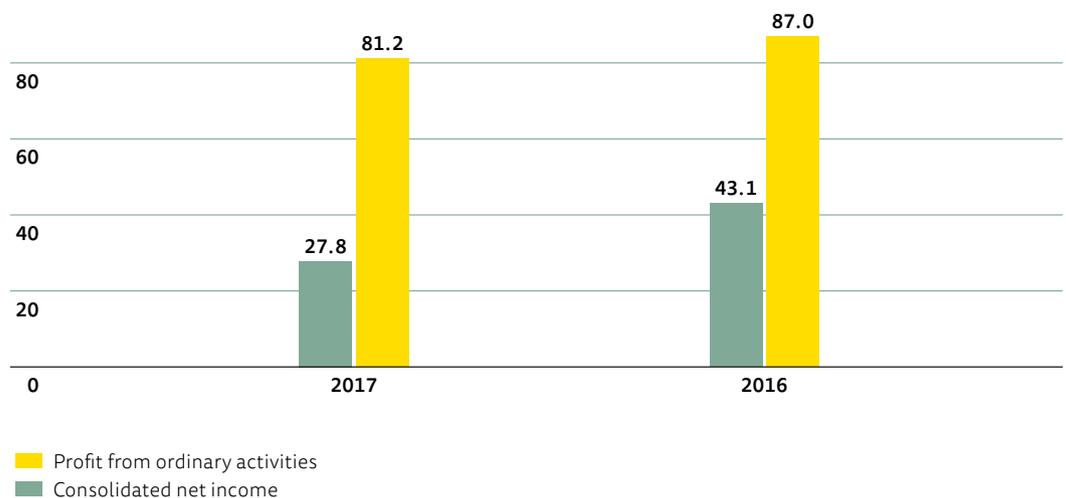


Financial performance

Overall, the Group maintained its very high level of financial performance. In the segments, the underwriting result and volatility in gains and losses on investments evened each other out for the most part. Lower net positive balances from write-downs/reversals of write-downs on investments and from gains/losses on disposals of investments were offset by a higher level of ordinary income. Nevertheless, net gains on investments fell from €240,022.0 thousand to €136,073.4 thousand as a consequence of the disposal of the life insurance business. Adjusted for the life insurance business, the ARAG Group's financial performance from an overall perspective remained more or less stable compared with 2016. Profit before tax decreased year on year by €5,548.8 thousand (6.4 percent).

Net income

(€ million)



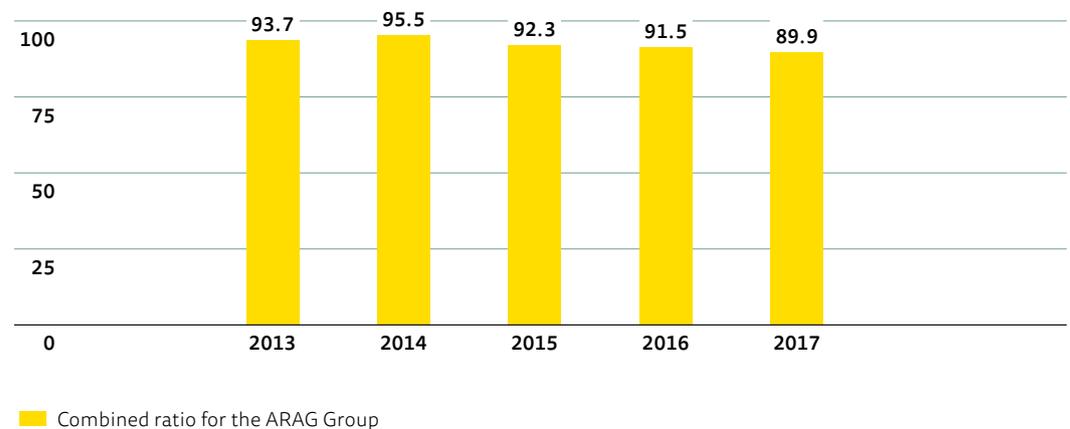
The underwriting result, which was boosted by a 4.6 percent rise in gross premiums written (excluding life insurance business), came to €73,534.6 thousand (2016: €66,735.0 thousand). This increase was largely due to the sale of the life insurance business and the positive situation in the health insurance business: In 2016, the life insurance business had caused an underwriting loss of €5,437.3 thousand. In the year under review, no further charges were incurred in connection with the life insurance business and the underwriting result in the health insurance business improved by €8,870.3 thousand. However, the underwriting result in the property insurance business fell by €9,829.9 thousand, caused by a rise of €52,285.5 thousand (9.0 percent) in claims incurred and an increase of €32,470.8 thousand (6.7 percent) in insurance business operating expenses.

Nonetheless, the Group claims ratio improved, falling from 59.5 percent to 54.4 percent, because the claims ratio of the sold life insurance business had been 111.9 percent in the last available figures for the business. The Group cost ratio went up from 32.0 percent to 35.6 percent in the reporting year.

The Group was able to reduce its combined ratio from 91.5 percent in the previous year to 89.9 percent.

Changes in combined ratio

(%)



The contraction in the non-underwriting net gains on investments from €63,353.0 thousand to €61,530.9 thousand arose primarily as a consequence of lower interest-rate-related reversals of write-downs on securities and lower realized gains on disposals, which were not then offset by the rise in ordinary income.

Other net income/expense had received a substantial boost in 2016 from the change to the statutory discount rate for pension and other post-employment benefit obligations. Following this non-recurring item in 2016, the net expense increased again in 2017 from €48,331.9 thousand to €52,247.5 thousand.

There was only a small year-on-year decrease in profit from ordinary activities, which amounted to €81,245.3 thousand and was thus close to the prior-year figure of €87,039.2 thousand, the highest level achieved in the last five years. Extraordinary expenses of €21.8 thousand arose from the revaluation of pension provisions and pre-retirement part-time working obligations in application of the transitional provisions under the German Accounting Law Modernization Act (BilMoG).

Overall, profit before tax and before non-controlling interests declined from €86,772.3 thousand in 2016 to €81,223.5 thousand in 2017.

The consolidated tax expense, which was adversely affected by the reduction in net deferred tax assets of €20,000.6 thousand (2016: €23,041.6 thousand), amounted to €53,416.9 thousand (2016: €43,654.3 thousand). After deduction of taxes and non-controlling interests, consolidated net income came to €27,037.8 thousand.

Financial position

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

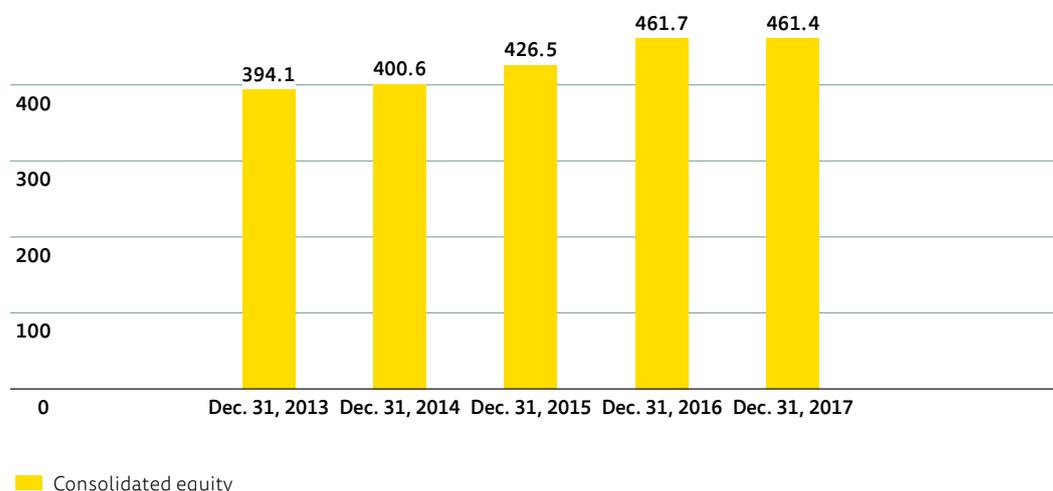
The underwriting liabilities are covered by investments of €4,215,928.9 thousand (December 31, 2016: €6,483,596.1 thousand). In addition to current bank balances and cash on hand of €87,099.3 thousand (December 31, 2016: €195,562.2 thousand), the ARAG Group has investments at its disposal that can be sold on the capital and financial markets at short notice, thus ensuring that the Group is able to satisfy its payment obligations under insurance contracts at all times.

Consolidated equity contracted slightly from €461,714.1 thousand as of December 31, 2016 to €461,368.8 thousand as of the reporting date owing to changes in the euro/US dollar and euro/pound sterling exchange rates.

Further information on the extent of investments, purchases of intangible assets, and changes in the liquidity of the Group in the year under review can be found in the cash flow statement on page 97.

Changes in equity

(€ million)



Net assets

The Group's portfolio of investments contracted by 35.0 percent in 2017, from €6,483,596.1 thousand to €4,215,928.9 thousand. The reason for this decrease was the disposal of the life insurance business. In the last available figures for this business, investments of €2,609,446.2 thousand had been allocated to the life insurance segment. The fair value of the Group's investments amounted to €4,704,976.3 thousand as of the balance sheet date (December 31, 2016: €7,259,077.7 thousand).

The breakdown and year-on-year changes in investments were as follows:

Type of investment

(€ million)

	Dec. 31, 2017		Dec. 31, 2016	
I. Land and buildings	202.0	4.8%	237.1	3.7%
II. Shares in affiliated companies and equity investments	17.9	0.4%	20.5	0.3%
III. Lending to affiliated companies and equity investments	0.0	0.0%	0.0	0.0%
IV. Equities and investment fund shares/units	1,484.3	35.2%	2,432.1	37.5%
V. Bearer bonds	1,171.6	27.8%	1,642.8	25.3%
VI. Loans secured by mortgages and land charges	6.5	0.1%	88.8	1.4%
VII. Registered bonds, promissory notes	1,149.9	27.3%	1,729.3	26.7%
VIII. Bank deposits	87.1	2.1%	195.6	3.0%
IX. Sundry lending	3.2	0.1%	6.8	0.1%
X. Miscellaneous investments	43.7	1.0%	86.1	1.3%
XI. Deposits with ceding insurers	49.7	1.2%	44.4	0.7%
Total	4,215.9	100.0%	6,483.6	100.0%

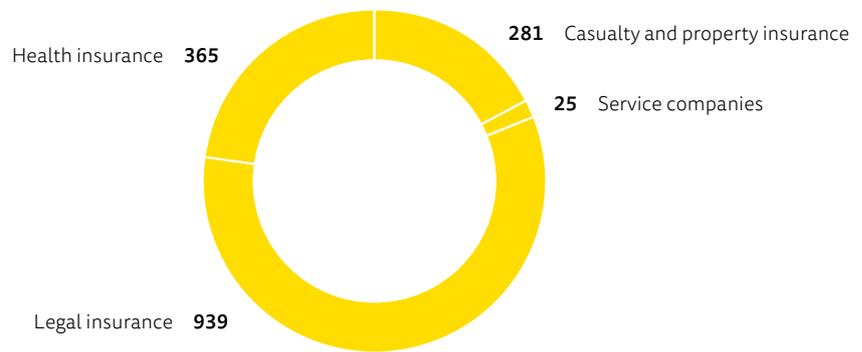
Segment reporting

The Group comprises the following operating segments:

- Legal insurance
- Casualty and property insurance
- Health insurance
- Services and asset management.

Premiums and sales revenue by segment in 2017

(€ million)



Gross premium income

(€ million)	2017	2016
Legal insurance	939	893

Legal insurance

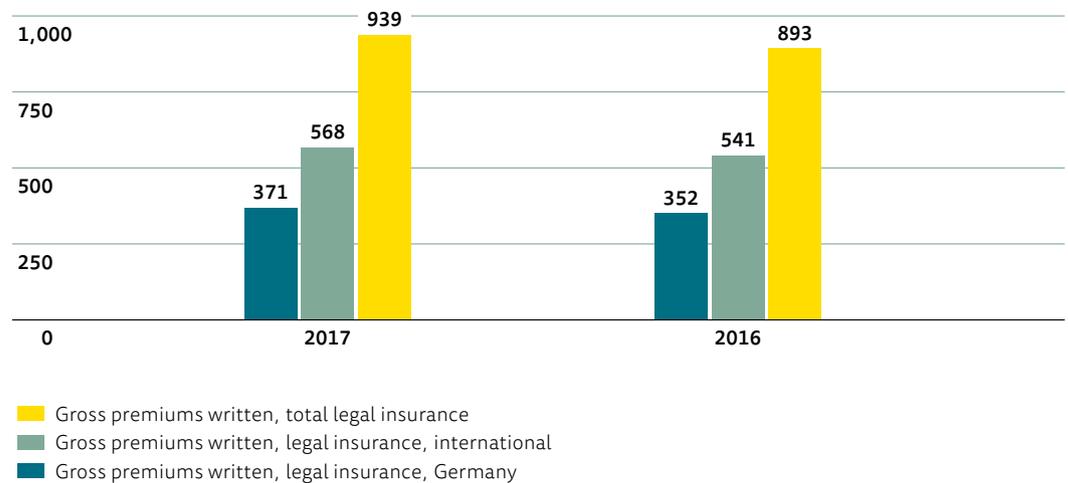
In 2017, the legal insurance segment continued to consolidate its important role as the fastest-growing and most profitable insurance segment in the ARAG Group. A further strong increase in Germany, along with the continuation of the growth trajectory in international markets, resulted in an overall rise in premiums of €45,854.4 thousand. The markets with the highest sales revenue are the Netherlands, Spain, Italy, the US, Austria, and Scandinavia. In total, premiums written in the segment rose by a significant 5.1 percent, from €893,021.5 thousand in 2016 to €938,875.9 thousand in the year under review. The further substantial rise in premiums in the German legal insurance business accompanied by the growth in the international legal insurance business meant that the proportion of total legal insurance premiums accounted for by the international business (60.5 percent) remained roughly at the level of the previous year (60.6 percent).

Claims incurred in the whole of the legal insurance segment rose from €440,047.9 thousand to €479,345.9 thousand. The main contributing factors were the greater level of business, accumulation losses, and the diesel emissions issue. Overall, the segment claims ratio went up from 49.5 percent to 51.3 percent. The cost ratio advanced from 43.2 percent to 44.1 percent as a result of an increase in headcount in the year under review and the non-recurring reduction in pension and other post-employment benefit expenses in 2016. Accordingly, the underwriting profit for the whole of the legal insurance segment declined from €63,474.8 thousand to €43,617.4 thousand, but was sustained at a high level by the dynamic growth.

Net gains on investments in the legal insurance segment were up by 12.2 percent year on year at €84,080.5 thousand (2016: €74,925.1 thousand). This was primarily attributable to higher income from equity investments. The segment generated a high level of profit from ordinary activities at €97,232.9 thousand (2016: €103,738.5 thousand). This included the net expense under other net income/expense of €30,464.9 thousand, which was once again lower than the prior-year figure (2016: net expense of €34,661.4 thousand).

International legal insurance business shows continuous growth

(€ million)



The year under review saw further growth of 4.9 percent in the **international legal insurance business**. Gross premiums written amounted to €568,036.2 thousand compared with €541,550.3 thousand in 2016. The ARAG Group provides products and services for customers in Germany and a total of 16 other countries. Business grew by 11.7 percent in Spain, 5.1 percent in Austria, 4.3 percent in Italy, and (measured in euros) 8.5 percent in the US and 8.0 percent in Scandinavia.

Gross premiums written included further premium income of €73,566.4 thousand (2016: €60,869.1 thousand) derived from the legal-insurance-related special service package business generated by the Spanish, Italian, and Portuguese branches of ARAG SE. These premiums are reported under the casualty and property insurance segment.

In the reporting year, the expenses for claims incurred in the international legal insurance business climbed from €227,447.1 thousand to €238,661.4 thousand due to the considerably larger business volume. However, the overall claims ratio remained at 42.0 percent. As a consequence of higher commissions and an increase in the number of employees, the combined ratio in the international legal insurance business went up marginally from 86.7 percent to 87.6 percent.

The sustained growth in premiums enjoyed in the **German legal insurance business** was maintained in the year under review. Once again, the rise in premium income of 6.1 percent outstripped the market average. The increase was attributable to premium adjustments and, in particular, the expansion of the policy portfolio by 3.4 percent (49,613 contracts). Taking account of the slower rise in inward reinsurance business as a result of movements in the euro/pound sterling exchange rate, the total income from gross premiums written in German legal insurance business amounted to €370,839.6 thousand (2016: €351,471.2 thousand).

The claims ratio in the German legal insurance business went up from 61.3 percent in 2016 to 65.6 percent in 2017. This increase was attributable not so much to the rise in business volume, but rather to the greater occurrence of expensive accumulation losses. In absolute terms, claims incurred went up from €212,600.8 thousand in 2016 to €240,684.5 thousand in the reporting year. This amount included additional provisions recognized for potential accumulation losses that could arise in connection with the emissions issue affecting diesel vehicles.

The net cost ratio rose slightly to 41.7 percent in 2017 (2016: 40.7 percent). This reflected the non-recurring reduction in the pension and other post-employment benefit expenses in 2016 and the increase in staff costs caused by collectively agreed pay rises and new appointments in the year under review.

An amount of €232.1 thousand was added to the equalization provision for the inward reinsurance business (2016: €350.0 thousand).

Overall, the German legal insurance business ended the year with an underwriting loss of €25,371.9 thousand (2016: loss of €5,987.8 thousand).

Casualty and property insurance

The casualty and property insurance segment also maintained its steady growth in the year under review, thereby contributing to ARAG's sound business performance in property insurance. Gross premiums written rose by 5.6 percent to €281,002.2 thousand in the year under review (2016: €266,110.0 thousand). There was a positive impact in 2017 from the action initiated over the last few years to revamp and bring a strategic focus to the product portfolio. The lapse rate remained steady at a low level; the portfolio relating to 'Recht&Heim' all-round cover expanded. Sales through brokers via the Group's own brokerage specialist, Interlloyd Versicherungs-AG, also contributed to the increase in premiums with growth of 1.1 percent despite the termination of a syndicate agreement. Premium income from the legal-insurance-related special service package business in the Spanish, Portuguese, and Italian branches of ARAG SE is allocated to the casualty and property insurance segment. The growth in this income was particularly strong, rising from €60,869.1 thousand to €73,566.4 thousand.

Claims incurred in 2017 were affected by a number of comparatively small storm events. As a result, the number of reported claims in the composite residential buildings insurance business increased. There were also higher expenses in the year under review arising from major claims in the organization and sports business. The strong growth in the legal-insurance-related business in Spain, Portugal, and Italy caused claims incurred to rise by an additional €12,987.6 thousand. Claims incurred in the casualty and property segment totaled €151,896.1 thousand and were thus higher than the prior-year level of €138,908.5 thousand. Despite the rise in premiums, the claims ratio went up from 54.8 percent to 55.9 percent.

Gross premium income		
(€ million)	2017	2016
Casualty and property insurance	281	266

The cost ratio decreased year on year from 40.2 percent to 39.0 percent. In the international business, the strong growth led to fixed-cost degression, which more than offset the slight increase in the cost ratio in the German business. Underwriting profit before the equalization provision went up a little from €12,418.0 thousand in 2016 to €12,875.7 thousand in the reporting year. After an addition to the equalization provision of €346.6 thousand, the underwriting profit amounted to €12,529.1 thousand (2016: €2,501.6 thousand). Profit from ordinary activities in the casualty and property insurance segment amounted to €17,945.7 thousand (2016: €11,367.9 thousand), which included a year-on-year decline of €495.2 thousand in net gains on investments and an increase of €2,954.4 thousand in other net expense.

Gross premium income

(€ million)	2017	2016
Health insurance	365	357

Health insurance

The health insurance segment once again demonstrated that it was in good shape and continued to consolidate its excellent positioning as one of the most efficient private health insurers in Germany. Despite challenging conditions, the ARAG Group managed to expand its health insurance business by a further 2.3 percent, with premium income increasing from €356,872.8 thousand to €365,098.9 thousand. The premium growth was derived mainly from an increase in the cost-share health insurance business, an area in which the Group has been traditionally strong. Premium adjustments at approximately 1.0 percent were modest compared with the market as a whole.

Amounts paid out for claims rose by 9.9 percent to €222,784.6 thousand. The addition to the actuarial reserve amounted to €117,351.8 thousand, a decrease compared with the equivalent figure of €140,890.8 thousand in 2016.

Despite the higher benefit expenses, the overall underwriting result improved substantially in the year under review, rising from a profit of €8,517.8 thousand to a profit of €17,388.2 thousand. The net gains on investments included in this figure rose by €7,008.6 thousand year on year to €74,542.4 thousand.

After taking into account the sundry income and expense items and the addition to the provision for bonuses and rebates, profit before tax increased significantly to €12,764.4 thousand (2016: €6,812.4 thousand), thereby making a considerable contribution to the consolidated profit before tax.

Sales revenue

(€ million)	2017	2016
Service companies	25	55

Services and asset management

This segment brings together those Group companies that provide core services outside straightforward insurance business or operate non-insurance business, such as IT services and the central emergency telephone service for ARAG customers. The segment also consists of the holding companies, including ARAG Holding SE. The insurance brokerage firm in the Group, Cura Versicherungsvermittlung GmbH, and the insurance agent for the UK reinsurance business are also assigned to this segment. Following the disposal of the life insurance business, the real estate development business was also discontinued. The sales revenue generated by the non-insurance companies with third parties and the other segments in the Group therefore fell from €98,002.3 thousand in 2016 to €63,709.3 thousand in 2017. After adjustment for the intragroup sales revenue in the service companies, the remaining sales revenue generated from third parties came to €25,363.8 thousand compared with €54,829.7 thousand in 2016. Profit before tax was €28,367.3 thousand (2016: €29,311.2 thousand).

Consolidation

Transactions between the Group's segments are offset in order to present the Group as one overall entity. Business between Group companies that are allocated to the same segment is consolidated when the segment reporting is produced so as to present each segment as one unit.

Transfers between segments are largely the result of the receipt of dividends in the multilayer Group structure. Intercompany charges for services between group companies are also eliminated.

Sales organization

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

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

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

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

In addition, ARAG increased its customer base in online business to more than 230,000 customers. This equates to almost 11 percent of the German customer base. ARAG's online business is therefore increasingly turning into a further strong sales channel. In Germany, the ARAG Group's sales channel mix also includes sales partnerships in which made-to-measure, high-performance ARAG insurance solutions are offered under partnership agreements with other insurance companies, banks, other companies, associations, and clubs.

Non-financial performance indicators

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

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

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

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

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

ARAG has shown itself to be a trailblazer in the industry, based on exceptional product ideas. An excellent example is ARAG's Sofort legal insurance for motorists, introduced in 2016. This insurance offers retroactive cover and is unique in the German legal insurance market. Following this successful pilot project, a further policy with retroactive cover was designed in 2017 and launched at the beginning of February 2018: ARAG Sofort legal insurance for tenants provides retroactive cover for customers going back up to twelve months without any qualifying period. The legal insurance policy is available to individuals to cover losses in a total of five tenancy-related scenarios (e.g. legal problems in connection with rent increases, ancillary costs disputes, or, in the case of the 'Extra' variant, landlord's termination of a lease citing property required for his/her own use).

ARAG CyberSchutz – launched in 2017 by ARAG Allgemeine Versicherungs-AG, the provider of casualty and property insurance in the Group – is aimed particularly at small businesses and the self-employed, and provides comprehensive cover for online risks and cyberattacks, such as theft of sensitive customer data by hackers or damage to business IT systems caused by a virus. The policy includes the costs of restoring data, the provision of expert IT support with effective emergency measures, and even crisis management following a cyberattack. The ARAG CyberSchutz Plus product variant also includes cyber liability and loss-of-income insurance; it offers significantly higher sums insured, which can be up to €250,000.

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

ARAG continued to set the pace with innovative digital services in the year under review. These included two new online services from ARAG Krankenversicherungs-AG that are unique in the market in terms of design, offering value added in the form of practical, attractive functions. Based on the groundbreaking ARAG GesundheitsApp, a health app, and the new TeleClinic product, which facilitates access to consultation with a doctor via video, the company has been able to position itself out in front in the health insurance market as a provider of innovative, beneficial services. The GesundheitsApp product has been available since May 2017 to private health insurance customers (full coverage and supplementary insurance) and can even be expanded, simply and securely, to become a personal health file. Accelerated billing with a PDF file available directly in the customer's app is a notable first in the market. Equally innovative is the opportunity to consult a doc-

tor using videochat. The collaboration with business start-up TeleClinic and its network of more than 100 general practitioners and specialists throughout Germany means that customers with full-coverage private health insurance can obtain useful guidance and an initial assessment from a doctor – quickly and wherever the customer happens to be, even at weekends or during a vacation. ARAG customers using the primary-care-physician model ('Komfort' scale of rates), whereby a primary care physician is always the initial point of contact, can even use TeleClinic to arrange a transfer to a specialist physician.

Complementing these health insurance innovations, virtually all of ARAG's international branches and companies have adapted services such as live chat for policyholders and the ARAG Wallet-Card – which are already well established in the German market – and have successfully incorporated them as fixed components of their range of services.

In 2017, the ARAG Group launched the first advisory chatbot for insurance products on the German market, accompanied by great deal of publicity. On Facebook Messenger, users can find out how best to minimize travel risks and can immediately take out the most suitable level of insurance cover online. The signal effect from this innovative service was not confined to Germany: ARAG SE's branch in Spain quickly adapted the chatbot and made it available on Facebook.

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

The groupwide transfer of knowledge and technology has proven itself to be invaluable as a successful model when designing international ARAG websites. Further websites have been optimized in this way and standardized in terms of branding. In the year under review, ARAG Belgium, ARAG Austria, and ARAG Slovenia adopted the core Group solution when relaunching their websites. As a result, the Group is also presenting itself to best effect at an international level. In the first half of 2017, the ARAG Spain website for the first time came out top in the overall evaluation as part of a comparison run by Spanish insurance portal Innovación Aseguradora, in which 66 companies were assessed. The branch was also able to maintain this top ranking in the second half of the year.

The sales partners of ARAG Core Sales in Germany are also benefiting from the strong, completely revised websites with simple navigation and clear product structures. One of the features of the sites is that the sales partners can include their own, customized content. In addition, all new business concluded online using the website is assigned immediately to the relevant portfolio. In a further digital innovation, ARAG has introduced its own Facebook pages for the branch offices and for ARAG partners.

If the process of digitalization is to be successfully advanced in the widest possible range of activities, one of the fundamental requirements is that IT systems must be upgraded. In mid-2017, the Group reached a key milestone and bade farewell to the world of mainframe computers. Since then, ARAG has been operating with state-of-the-art Linux-based servers. This high-performance system architecture with distributed server systems meets future IT operating requirements, not least in terms of security and stability. ARAG has therefore

already introduced systems that many competitors are still only starting to address. Another major project initiated in the year under review was the introduction of Office 365 software. The cloud-based office application will create new, flexible forms of collaboration and communication, both for ARAG employees and for sales partners. Data protection, data security, and quality standards will be given top priority. Following the successful pilot phase in 2017, a rollout is scheduled to be completed at European level by the end of 2018.

Digitalization is a key theme in the Group and extends beyond digital services and IT system upgrades. ARAG is also actively exploiting the changes and opportunities associated with digitalization at a strategic level. It has created a separate new legaltech unit to position itself in the fiercely competitive legal advice market in Europe. To this end, in February 2017, it established Justix GmbH in Cologne as a wholly owned subsidiary of ARAG. Back in June 2017, the start-up launched its first business model, an online legal services platform under the brand name HelloLaw, in the Netherlands. The business is not restricted to existing customers.

Products As an innovative provider of high-quality insurance, the ARAG Group did more than simply launch brand new and innovative product concepts and services in Germany and its international markets in the year under review, it also constantly consolidated its existing product portfolio.

For example, in early 2017, it added an attractive variant to ARAG Recht&Heim, the Group's successful bundled product providing all-round cover for private customers encompassing legal, liability, and home contents insurance in one policy with an option for residential buildings cover. Previously, Recht&Heim was based on premium cover in each class of insurance. Now, ARAG has launched Recht&Heim Komfort for more price-sensitive customers – with comprehensive protection provided by the convenience-level cover for relevant areas of life. Different deductible levels can be chosen separately for each class of insurance. In this case too, one of the main features is a no claims discount of up to 40 percent. The comprehensive, clear premium calculator, which has been completely revised, also makes the sales and advisory process easier.

The new ARAG CyberSchutz and ARAG Business Assistance products from ARAG Allgemeine Versicherungs-AG already described in detail under 'Innovation' can also be combined with other products. They offer an ideal complement to the bundled ARAG Business Aktiv product for commercial policyholders (specifically aimed at the self-employed and traders). In this case, both of the new products can be included in the cover as optional additional components at reduced rates. ARAG Business Aktiv's various insurance modules, which can be selected by the customer as required, mean that the product can be tailored even more closely to the requirements of the sector, business model, and business in line with needs.

ARAG Krankenversicherungs-AG took a noticeable lead in its private health insurance market in 2017 with the introduction of four new supplementary scales of rates for dental treatment, offering a very broad range of benefits. These scales of rates were the outcome of a structured market survey and target group segmentation. The new product family offers bespoke protection for a wide variety of needs, without waiting times, and broken down into four rate scale levels. The difference between the scales of rates is the amount of the additional payment required in the event of a benefit claim. For example, Dent70 offers a 70 percent reimbursement for dental prosthesis, and Tarif90 a reimburse-

ment of up to 90 percent. The Dent90+ scale of rates includes add-on benefits, such as 90 percent reimbursement for dental prosthesis, even without a record of preventive visits, improved orthodontics benefits for children, or benefits covering pain-relief measures such as hypnosis or general anesthetic. The premium Dent100 scale of rates covers an all-round package of benefits and for the first time also includes teeth-whitening work. The new generation of scales of rates is therefore aimed at a broad target group: from price-conscious customers looking to significantly reduce their copayments for dental treatment to high-end customers seeking all-round protection. In 2017, ARAG Krankenversicherungs-AG also expanded its scales of rates for supplementary nursing care insurance. The revised ARAG IndividualPflege nursing care policy closes gaps in statutory nursing care insurance and has been modified in line with the new requirements specified in the second German Act to Strengthen Long-Term Care (PSG II). The flexible scale of rates offers value for money, and policies can be taken out individually and for each level of nursing care. One of the many key features of the supplementary nursing care insurance is a simplified medical check.

The high quality of the services is reflected in the numerous awards and seals of approval received by ARAG in 2017. In a comparison of legal insurance carried out by the German Society for Consumer Studies in collaboration with the N24 television news channel in mid-2017, ARAG legal insurance came out as the winner of the test in both the overall assessment and the 'Customer service' subcategory. In a survey carried out by Focus Money magazine, ARAG gained the distinction of 'fairest legal insurance provider' and received a rating of 'very good' in the middle of the reporting year. The service provided by ARAG also received top marks in a number of follow-up certification processes carried out by TÜV Saarland. A rating of 'very good' was received twice around the middle of the year under review: firstly for inhouse mediation at ARAG Service Center GmbH and in the second instance for ARAG Legal Service at ARAG SE.

Above all, the high quality of the ARAG Krankenversicherungs-AG company itself was highlighted by its excellent performance in the ratings issued by company ratings provider [ascore] Das Scoring in 2017. These ratings scrutinized 33 health insurance providers, with ARAG Krankenversicherungs-AG awarded 5.5 stars out of a possible six.

The Company also performed impressively in international markets in 2017 via its branches, subsidiaries, and equity investments thanks to numerous innovative, beneficial product and service ideas.

For example, ARAG Belgium launched a new legal insurance policy for the self-employed and micro-businesses without employees in the year under review. The cover provided includes copyright infringements and identity theft. ARAG Belgium also restructured its legal insurance product for small and medium-sized enterprises and included a number of new types of cover.

ARAG SE's Norwegian subsidiary, HELP Forsikring AS, gained a new strategic partner in 2017 in the form of Dipper, the country's largest telephone company. Dipper will now offer HELP legal insurance, which includes contractual and employment legal insurance, as an additional benefit for businesses with up to 15 employees. HELP Forsikring AS has also developed special legal insurance for landlords; this will be sold in collaboration with two major Norwegian companies. In another development going forward, customers of Norwegian telecoms provider Talkmore will be able to take out special HELP legal insurance against identity theft on an individual basis when they enter into a Talkmore contract.

HELP Forsikring Filial, the Danish branch of the Norwegian subsidiary HELP Forsikring AS, entered into an alliance with Danish cellphone provider 'Call me' in the reporting year. 'Call me' offers its customers WebHELP as an integral part of its cellphone agreements.

In March 2017, HELP Försäkring Filial in Sweden, likewise a branch of the subsidiary HELP Forsikring AS in Oslo, entered into an alliance with the company 'My Safety', a specialist in the deletion of unwanted web content. HELP Försäkring Filial offers customers of My Safety an add-on in the form of special legal insurance covering criminal investigations.

In May 2017, ARAG UK introduced Care Providers' Legal Solutions in the UK market, a new innovative product aimed at the care industry. The new legal insurance policy is tailored to the specific needs of this sector. It provides bespoke cover for care home operators and care industry service providers, who are increasingly exposed to legal and regulatory risks. The UK subsidiary of ARAG SE also entered into a new collaborative partnership with Neos, an insurtech business offering smart home solutions controlled via an app. The new technology identifies fire, break-ins, or water damage and reports the incidents in real time to the customer's smartphone. An ARAG special service package and legal insurance are included to provide a comprehensive product.

In 2017, ARAG Greece also launched a similarly innovative, highly topical product solution that provides special legal insurance for the owners of unmanned drones to cover potential legal disputes.

ARAG Services Corporation, the ARAG Group's Canadian subsidiary established in 2015, has set up a new collaborative partnership with broker Benson Kearly in which ARAG legal insurance is provided as mandatory add-on cover to Benson Kearly's special liability product. This product is aimed at the managers of apartment blocks. In 2017, ARAG Services Corporation also developed legal insurance specifically tailored for various police organizations and associations.

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

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

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



You can find out more at
www.arag.com/en/company/corporate-principles

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

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

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

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

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

The provisions of the EU's Insurance Distribution Directive (IDD) were implemented in the Company on schedule on February 23, 2018. The IDD aims to strengthen consumer protection and create a level playing field for all those involved in insurance sales and distribution. The areas covered by the new regulations include remuneration systems, skills, qualifications, and continuing professional development (CPD) requirements for employees in both field sales and sales administration, and additional requirements for advisory and documentation processes. The new EU Directive provides ARAG with the opportunity

to achieve further improvements in quality and ensure that activities are consistently centered on the interests of the customer. This means that the focus is on sales and on the insurance product itself – starting from product development (plus the requirements for product information) through to customer contact and the settlement of claims.

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

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

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

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

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

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. Further details can be found in the non-financial report below under '4. Dialog with the community and policymakers'.

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

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

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

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

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

Employees

In 2017, there was a year-on-year fall in the number of employees across the entire Group as a result of the sale of ARAG Lebensversicherungs-AG. Including the companies not encompassed by the consolidation, 4,042 people were employed as of December 31, 2017 (December 31, 2016: 4,053). At the end of 2017, the ARAG Group had a total of 1,946 (December 31, 2016: 2,042) employees in Germany. A further 2,096 (December 31, 2016: 2,011) people were employed outside Germany, equating to 51.9 percent of the total workforce.

Employees

	Dec. 31, 2017	Dec. 31, 2016
(permanent)		
Consolidated companies	3,923	3,985
Total Group	4,042	4,053

Non-financial statement for the ARAG Group

German CSR Directive Implementation Act

As the parent entity of the ARAG Group, which predominantly consists of insurance companies and employs more than 500 people, ARAG Holding SE was required for the first time to publish non-financial information in 2017. This obligation arises from the EU's directive on the disclosure of non-financial and diversity information (2014/95/EU), referred to as the CSR Directive, and its implementation in the EU member states. This section of the group management report satisfies the obligation of ARAG Holding SE, as the entity responsible for managing the assets and equity investments in the Group, to publish a report pursuant to the German CSR Directive Implementation Act (CSR-RUG), which came into force in April 2017. At the same time, this report also satisfies the reporting requirements for all subsidiaries subject to the same obligation, where such subsidiaries have included in their management reports a cross-reference to this group management report and the exemption this thus confers in respect of their own reporting obligation.

This report covers the following: employer matters, environmental, social, and corporate governance (ESG) aspects of asset management, and the integration of human rights issues, environmental concerns, social concerns, and measures to combat bribery and corruption.

In application of the net method, in the year under review and on the reporting date, no material risks were identifiable that, in all probability, had or would have a serious negative impact on the issues referred to above. No reference has been made to amounts or additional disclosures reported in the annual financial statements.

No framework has been used because a separate voluntary sustainability report has been prepared in accordance with the Global Reporting Initiative (GRI) standards. As an independent family enterprise in the insurance industry, ARAG is aware of the importance of reliability and resilience. A detailed sustainability report for ARAG Holding SE was therefore published for the first time in June 2017. The report covered 2016 and satisfied the latest standards set out in the GRI. This detailed sustainability report has been expanded and updated for 2017. It includes an in-depth discussion of non-financial information and performance indicators covering all key issues. This group management report references the relevant sections of the sustainability report. Cross-references to information outside the group management report constitute supplementary information and do not form an integral part of the non-financial statement for the Group.

The disclosures in the non-financial statement for the Group have been subject to a business management audit by the auditing firm PricewaterhouseCoopers GmbH in accordance with ISAE 3000 (Revised) with limited audit assurance.

Description of the business model

ARAG's business model is described on page 13 of the group management report and forms the basis for the details set out below.



You can find out more at
[www.arag.com/en/
 press/publications](http://www.arag.com/en/press/publications)

1. Employer of choice with future prospects

Both in Germany and at its international sites, ARAG has to compete for the best employees. Besides certifications, ARAG also uses constant market monitoring and benchmark analyses to compare its hiring criteria with those of its competitors. ARAG's excellent reputation, low staff turnover, and the very low number of unfilled vacancies underline how attractive ARAG is as an employer.

ARAG is keen to provide a forward-looking working environment that offers opportunities, fairness, and security. The Company's self-image and corporate values are laid down in the ARAG Essentials and are put into concrete terms in the ARAG Leadership Standards. A range of company agreements and remuneration guidelines also help shape the working conditions.

Employee skills and qualifications As a family enterprise, ARAG is an ambitious, yet reliable, employer. High levels of commitment and quality are expected of the employees, and in return ARAG offers a multi-faceted and varied working environment. It has become extremely important, in particular, to ensure that employees who have the right skills and experience are retained by the Company over the long term in view of demographic change and the associated challenges faced by the Company when recruiting suitably qualified talent. That is why ARAG places great value on retaining high performers on the one hand, and ensuring the best positioning of the Company on the domestic and international labor markets on the other.

The ARAG Group relies on a competent, highly dedicated, and committed workforce in order to deliver on its value proposition. ARAG's ambition is to become one of the best insurance providers in the market. That is why the Company attaches great importance to the skills, qualifications, professional development, and vocational training of its employees.

The regulatory requirements for financial services providers, such as the Solvency II Directive and the Insurance Distribution Directive (IDD), have increased the requirements for staff and management training at offices located in EU member states. At the same time social and cultural changes, such as internationalization, Generation Y, and the digital transformation, have brought about new requirements with regards to creativity, flexibility, technical understanding, and the ability to collaborate and respond quickly. Suitable training and development of employees not only fulfills ARAG's legal obligations, but also helps the Company to respond innovatively to future needs. ARAG is meeting these challenges through comprehensive and wide-ranging knowledge management.

ARAG operates a web-based skills and qualifications platform known as ARAG IQ, enabling all employees in Germany to keep their knowledge and capabilities up to date. The CPD options include classroom-based seminars, training sessions, and e-learning. Numerous CPD options are offered every year. In total, 3,838 CPD measures were taken in 2017. This means that ARAG Administration employees each participated in two CPD activities on average over the course of 2017. The main topics are specialist and methodological skills, leadership skills, personal and social skills, insurance-related and commercial knowledge, project and process management, and foreign languages. Additional train-

ing on leadership in transformation, creativity and design thinking, and agile project management is also offered as part of the Future Fitness program. ARAG also educates its workforce on regulatory matters such as Solvency II, VAG, risk management, internal auditing and compliance, data protection, and occupational health and safety. Since 2016, the members of ARAG's senior management staff in Germany and abroad have participated in a one-day training course on the changes and challenges arising from the new VAG and the Solvency II Directive. The aim of the course was to prepare management staff for future requirements in the industry. In 2018, an e-learning program on the same topic will be provided for all employees of the Group. Both in Germany and at the international offices, training and professional development measures are based on the needs of the Company and its employees. ARAG carefully selects its training measures and providers to ensure that its offering is of the highest quality. For example, ARAG UK operates a web-based platform called SkillCast, which enables employees to keep their skill sets up to date. The Company also supports employees with the preparation for their professional insurance certification. ARAG North America focuses not only on professional training but also on comprehensive personal development. The Company firmly believes that this improves employees' confidence and commitment, which ultimately makes the business as a whole more resilient.

Diversity Digitalization, demographic change, and globalization are now key factors that influence a company's success. A strong increase in diversity has been the result. The ARAG Group is addressing these issues with fairness and openness, as clearly expressed in the ARAG Essentials corporate guidelines. These guidelines help the Management Board to ensure that the focus and positioning of managers and employees are reliable and transparent. ARAG's success as an international insurer is heavily dependent on good working relationships across all countries and cultures. Experience has shown that diverse teams generate creative ideas and promote the long-term success of the Company. Diversity and equal opportunities are enshrined in the corporate strategy and the corporate values. ARAG's active diversity management goes beyond promoting equal job opportunities for men and women. ARAG has also set itself the objective of offering all employees the same opportunities for professional development – irrespective of age, nationality, marital status, or other personal circumstances. Suitable conditions and structures have been put in place to make this possible.

The operational strategies of the Human Resources and Corporate Communications departments specify implementation measures that make diversity and equal opportunities possible. Examples include a commitment to part-time working for managers, flexible working models, and company agreements on working remotely. These agreements offer employees suitable flexibility in terms of when and where they work – at all stages of their life. The representative for employees with a severe disability and the anti-bullying officer at ARAG have specific areas of responsibility that help to promote equality within the Group. Employees can approach either of these two representatives or the Works Council with any concerns.

The Gender Diversity project produced a 20-point catalog of measures aimed at promoting equal opportunities for women and men. ARAG supports the Women in Management initiative of the Employers' Association of insurance companies in Germany (AGV). ARAG also offers training and coaching programs specifically for female managers.

Although the percentage of women at management levels F2 and F1 has increased in recent years, a gender balance has not yet been achieved. Appropriate measures such as specific support for female employees, further steps toward more flexibility on working hours and working remotely, and better childcare options are being implemented to remove the remaining obstacles step by step. In 2017, ARAG entered into a new agreement for certification by berufundfamilie GmbH in which it undertook to implement further measures relating to working-time arrangements, more flexible working hours, more family-oriented working structures, the promotion of women in management, and lifelong learning.

One of ARAG's strengths is its great willingness to fully accept and appreciate the different (international) cultures in the Group. Employees are allowed and even actively encouraged to express their individual personalities and views, which the Company considers as a source of added value. Challenges arise from the need to win acceptance at management level for concepts that offer added value for employees but are more complicated and time-consuming to administer, such as working from home and allowing part-time staff to take on management roles.

Occupational health and safety Safety at work is ensured through adherence to German statutory provisions and through internal safety standards that exceed these. First and foremost it serves to minimize risk, such as accidents or fire, and to prevent employees from suffering physical or mental harm at work. The central departments Group Central Services and Group Human Resources are responsible for work safety.

ARAG supports a positive work/life balance and increases employees' health-consciousness through ARAGcare, its corporate health management program. The Company organizes regular health days and check-ups with a focus on prevention and raising awareness among the workforce. In Germany, ARAG's health & safety committee (ASA) convenes regularly. Matters relating to occupational health and safety and fire safety are discussed by the committee, whose members include an employer representative, members of the Works Council, the company physician, the occupational health and safety officer, the safety officer, and other relevant individuals.

At the 2017 German Corporate Health Awards, ARAG's holistic health strategy and workplace health promotion offers achieved top honors for the eighth time.

2. Environmental, social, and corporate governance factors in asset management, and integration of human rights issues

ARAG's Group Asset Management unit follows the approach of integrating environmental, social, and governance (ESG) criteria. At the heart of this approach lies the integration of ESG criteria into asset management, which is traditionally more oriented toward finance. In contrast to positive and negative selection, there are initially no constraints on the investment universe with the ESG integration approach.

Inclusion in investment decisions The portfolio managers are urged to take account of environmental and social factors, including human rights issues, and any aspects pertaining to the governance of a company, in their investment decision.

A check is run as part of newly implemented due diligence processes for externally authorized fund and portfolio managers to see which ESG approaches can be applied. This applies not only for the area of listed securities, but also for future investments in infrastructure and for private equity. A sustainability initiative that was launched in the Group Asset Management unit in 2016 has led to greater awareness of ESG topics among employees.

Integration of human rights issues ARAG is a provider of financial services with operating activities primarily in European countries and is subject to comprehensive rules and regulations under employment law. The risk of a violation of human rights in ARAG's own operating activities is therefore very low. In 2017, ARAG did not become aware of any violations of human rights in which it was involved.

Efforts to minimize risk are therefore focused on integrating ESG criteria (including human rights aspects) into asset management. The appraisal of environmental and social risks during a risk analysis offers an additional perspective and helps the investor to make a comprehensive assessment.

3. Focus on energy in environmental concerns

The most important factor at ARAG in terms of the environmental impact of its operating activities is energy consumption. In the future, new ways of working will have a major influence on the Company's energy budget. In terms of buildings, organization, and user behavior, however, ARAG is well-prepared for further reductions in energy consumption across all of its locations and has been implementing environmental protection measures proactively for years. For example, strategies for the use of office space are also optimized from the perspective of energy and resource consumption.

Energy management Energy is also a key element of ARAG's operational continuity management. A consistent energy supply plays a crucial role in maintaining a pleasant office climate in buildings and in guaranteeing the 24-hour availability of the IT infrastructure and IT systems. To maintain an overview of the risk profile and potential savings, energy consumption and the costs are periodically recorded and analyzed.

It is the responsibility of the Group Central Services department, which reports directly to the Management Board, to ensure that there are enough workplaces and that these have all the necessary functionality. As an internal service provider, Facility Management controls the energy consumption and associated CO₂ emissions. The Procurement department is responsible for buying in energy and for putting all related services out to tender in the market.

ARAG is a service provider and the greenhouse gas emissions caused by its operations therefore only make a comparatively minor contribution to global climate risk. Nevertheless, employees attach great importance to this issue, which also plays a role in the perception of ARAG by the general public, especially where views are influenced by corporate headquarters like ARAG Tower. ARAG therefore draws up a greenhouse gas emissions balance sheet and reports on its measures to reduce these emissions.

Energy and greenhouse gas emissions The ace in the pack in terms of sustainability is the ARAG Tower corporate headquarters, completed in 2001. At nearly 125 meters and 32 floors the ARAG Tower is the tallest office building in Düsseldorf. The overall energy efficiency is exceptionally high for such a building. Primary energy consumption is almost 25 percent lower than the value specified in the Energy Saving Regulation. Nevertheless, energy efficiency is being continuously improved, for example by gradually switching from halogen lamps to more efficient LED lighting. It is calculated that this measure has achieved a saving of around 100,000 kWh per year in the ARAG Tower, equivalent to 3 percent of the total energy used in the high-rise building. Central Services also identified potential savings early on at ARAG's data center. Around six years ago the server landscape was revamped. The terminals are now completely housed in racks so that only the IT equipment itself, and not the whole server room, needs to be kept cool.

The managers and staff in Building Services receive regular training from external specialists and experts. The training covers areas such as lighting, ventilation and climate control, heating, elevator technology, and noise and emission prevention in the office. Awareness is raised among users through operating instructions and usage guidelines. As part of the 2017 ARAG Sustainability Day, the building engineering team set up an information booth on the theme of 'Right equipment and proper handling' and advised ARAG employees on topics such as ventilation, temperature, lighting, paper consumption, and waste disposal.

A detailed discussion of the energy and greenhouse gas emissions balance sheet can be found in the 2017 Sustainability Report.

4. Dialog with the community and policymakers

Social trends influence the perception of customers, business and sales partners, and employees. They are paying increasingly close attention to the additional economic and social benefits that ARAG is prepared to provide. This perception and the associated expectations are shaping the business environment in which ARAG operates. In this context, Corporate Responsibility is run by a support department within the Group Communications management division. The Group's social commitment and the resulting perception are regularly assessed through participant surveys and response analyses.

Corporate social responsibility As an independent enterprise, ARAG can operate without any pressure from external investors and with a view to the longer term, thus enabling it to engage in credible corporate social responsibility (CSR) activities. This also makes a significant contribution to the success of the business. The corporate mission enshrined in the ARAG Essentials guidelines emphasizes the Group's corporate citizenship. ARAG's main CSR activities are in the German federal states of North Rhine-Westphalia and Bavaria, and at the locations of its international subsidiaries and branches.

Corporate citizenship activities include both large-scale projects with budgets in the single-digit millions as well as smaller commitments. All activities aim to improve the business climate and quality of life in the local area. ARAG takes a long-term approach to such projects and believes in providing regular funding and support. Financial assistance and sponsorship commitments contribute to ARAG's good reputation and also ultimately serve to legitimize its business model.

As an insurer with a focus on legal insurance, ARAG believes that, in the social context, a preventive approach is important. That is why ARAG launched the 'Conflict Management in Schools' initiative in early 2014. With the support of the Ministry for Education and Schools of North Rhine-Westphalia, the 'Conflict Management in Schools' program is offered to all high schools and vocational colleges in the state of North Rhine-Westphalia. During the four training cycles so far, a total of around 300 teachers, specialists in social work, and parents from almost 100 high schools and vocational colleges in different school districts across the state have taken part. The project is currently running at twelve other schools. The project focuses on the introduction of universal quality standards for conflict management structures, preventive measures, and intervention techniques. Teachers, parents, specialists in educational social work, and school pastors are trained as school mediators. Using the knowledge they acquire, they then train school students as conflict controllers. The project has been certified under the name ARAG Mediators as a 'Commitment to Action' by the Clinton Global Initiative (CGI). Please refer to the 2017 Sustainability Report for further information on ARAG's corporate social responsibility activities.

Engagement with policymakers Developments in the political and regulatory landscape have a considerable influence on ARAG's business activities. They have a direct effect on the Group's risk structure and capital resources, and also influence the way products are designed, marketed, and sold. ARAG is in constant communication with public authorities and government in order to represent the Company's interests. The CEO and the Chief Representative are responsible for the dialog with these important stakeholders.

The ARAG Group is as politically interested and active as it can be, which is why the Company is committed to supporting the democratic structures in Germany. This includes donations to the larger parties represented in parliament at federal and state level. In the reporting year, the total amount of financial contributions to these parties was €105,000.

5. Prevention of bribery and corruption

As an insurance provider with a strong focus on legal insurance, ARAG considers compliance with all statutory and regulatory requirements to be of vital importance. After all, a good reputation is an important competitive factor for ARAG, and retaining the trust of policyholders is critical. ARAG is obliged to prevent all forms of bribery and corruption. Its business activities may not particularly expose ARAG to a risk of corruption, but the Group still takes measures that exceed the statutory requirements.

Internal requirements To minimize risks and prevent negative consequences, relevant internal regulations and guidance on preventing bribery and corruption are available to employees in the compliance handbook, the code of compliance, and the compliance guideline on invitations, promotional activities, and company events.

ARAG also takes guidelines and recommendations of international organizations into account. For example, it follows the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the recommendations of Transparency International.

All German insurance companies owned by ARAG have signed up to the GDV code of conduct. Every two years an independent auditor assesses the adequacy and efficacy of internal anti-corruption provisions and their compliance with the GDV code of conduct.

Corruption risks are described in detail in the code of compliance. In relation to ARAG's own operating activities, the code states, for example, that no employee may – directly or indirectly – offer or grant unauthorized benefits to others in connection with their business activities, either in the form of money or non-monetary benefits. They are also prohibited from abusing their position to demand, accept, or obtain such benefits, or promises of such benefits. Promotional gifts and invitations may only be granted if doing so does not give the appearance of dishonesty or impropriety. As a rule, no gifts should ever be presented to public officials and other holders of public office. Conflicts of interest should always be avoided.

Under the GDV code of conduct, each insurance company must issue compliance requirements for its employees and agents. These requirements must cover the prohibition of active and passive corruption. The compliance handbook and the ARAG code of compliance include specific requirements for accepting or granting benefits in business transactions.

ARAG carries out an annual compliance risk analysis and, on this basis, produces a compliance plan with appropriate measures. The progress of their implementation is reported to the Management Board in the compliance report. The report also includes analyses from the complaints management system. The extent to which compliance efforts have been successful is indicated by the complaints received and the number of compliance breaches identified. Corruption risks are continually and systematically analyzed at federal-state level. Once again, no incidents of corruption were identified in 2017.

The Supervisory Board members, all Management Board members, and senior managers at the first and second management levels learn about corruption risks and corruption prevention during their general compliance training to ensure a high level of compliance over the long term. Senior managers are obliged to train their staff according to the 'train the trainer' principle. Regular and ad hoc intranet updates on corruption issues are also published to keep employees informed.

Due diligence in business transactions In the insurance sector, greater awareness of corruption issues is required in connection with business relationships arising through 'partner sales'. ARAG is very mindful that the interests of insurance brokers and of other agents should not overshadow customers' interests. The commission scheme has been adapted with this in mind. In 2016 the issue of broker commission was covered during compliance training in Sales. In 2017, the focus was on harmonizing compliance standards such as the requirements under the Solvency II Directive and provisions from supporting national legislation across the Group through classroom-based training courses.

The employees of ARAG are required to comply with the corruption prevention provisions in business transactions, both in Germany and abroad. Responsibility for complying with the provisions not only falls to the central compliance functions, but is also devolved to supervisors and the employees themselves.

With the growing use of digital technologies, data protection is also moving into the spotlight. ARAG takes utmost care to comply with all relevant statutory requirements in order to maintain the trust of its existing and prospective customers and to avoid reputational damage. The comprehensive data protection management system is based on well-coordinated rules and regulations, comprising the ARAG Information Security Guidelines, the ARAG Information Security Standard, and the data protection strategy, together with other policies and procedural instructions. ARAG has undertaken to comply with the GDV's code of conduct for processing personal data, established in conjunction with the German data protection authorities. In 2017, all ARAG's European companies prepared for the implementation of the EU's General Data Protection Regulation (GDPR), which was scheduled to come into force in most places in the spring of 2018.

In the digital age, data protection is an interdisciplinary function, which is why responsibility for adhering to data protection requirements also lies with all departments in addition to the data protection officer, the IT security officer, and Group audit. They are supported by the data protection officer in accordance with his or her duties enshrined in law. The data protection officer provides training sessions to improve employees' data protection skills and qualifications and thereby enhance the level of protection. ARAG also implements measures to increase awareness and uses internal communications channels to keep employees abreast of the latest developments.

III. Outlook, Opportunity and Risk Reports

Outlook

The ARAG Group operates in a total of 17 countries: Germany, 14 other European countries, the US and, since 2016, Canada. Given the strong international focus of the Group, economic trends in Europe and North America in particular have an impact on business performance.

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

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

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

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

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

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

The excellent economic situation offers an opportunity to focus on the future challenges as part of a potential readjustment in economic policy. These challenges include, notably, demographic change and digitalization.

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

The digitalization of the economy and society is leading to a comprehensive structural transformation, which politicians should make every effort to facilitate, for instance through innovation-friendly regulation, the systematic digitalization of government administrative activities, and measures to ensure that the labor market is flexible. In addition, education and training needs to be enhanced so that employees are more adaptable to the new requirements in the digital working environment. Digitalization is the basis for

the great hope that it will be possible to achieve increases in labor productivity in the future. Greater connectivity between players, the associated improvements in the provision and use of information, and the growing maturity of autonomous systems hold out the prospect of increasing the efficiency of production processes and enhancing product quality. These changes also mean that business models and service delivery processes can be modified so that they have a greater focus on the needs and wishes of consumers.

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

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

As in prior years, examples of other action priorities include the increasing differentiation between customer groups and, as described above, the need to respond to demographic change. In addition, continuous shifts in insurance markets are being brought about by changes in the product landscape, some of which (such as the pluralization of sales structures) are far-reaching.

Furthermore, digitalization – one of the major challenges going forward – is stepping up the pressure and the speed of change in the rather conservative insurance industry. There is a need to open up additional new sales, service, and communication channels with a focus on consumers. However, because the market is not made up solely of online customers, development is not concentrated on ‘either-or’ concepts or short-term solutions, which would not satisfy customer wishes. Whether consumers decide to opt for a digital offering or not depends on the product, the target group, and sentiment. Ultimately, the goal is to offer easy, barrier-free access to smart insurance benefits and services. Online business models will therefore soon no longer be aimed at particularly price-sensitive customers but will have to become an integral component – configured for maximum ease of use – in the range of services provided by each and every insurance company.

For property insurers, the main source of risk is the much-discussed climate change that has taken place in past years and decades. The last few years have clearly demonstrated that storms and hurricanes are not the only natural disasters that can hit the whole of a state; recurring loss events can also include torrential rainfall and hail. These events can lead to flooding in which entire homes are destroyed. Some years ago, national and state-level natural disasters insurance campaigns were implemented and a country-wide natural disasters portal established. The German National Meteorological Service (DWD) and the GDV have also initiated a project focusing on torrential rain, which is exploring as yet uncharted scientific territory. For the first time, they are investigating where exactly torrential rain occurs and what damage it causes. The project is being managed by an interdisciplinary team of meteorologists, hydrologists, mathematicians, and

insurance professionals with the aim of creating a countrywide risk map that indicates the local risk and critical level of precipitation for each region in Germany, something that has never been done before. This map can then be used as a basis for calculating risk-appropriate levels of insurance cover for flooding resulting from torrential rain.

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

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

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

The ARAG Group met the forecasts made last year for the 2017 reporting year. The disposal of the life insurance business initiated in 2016 was completed on schedule in the year under review. Accordingly, ARAG Lebensversicherungs-AG was deconsolidated with retroactive effect from January 1, 2017. The associated strategic realignment of the Group with a clear focus on property insurance and health insurance will shape the performance of the business over the coming years. To this extent, the reporting year represented a milestone in the further development of the business. As forecast, the Group's gross premium income fell by 8.4 percent in the year under review as a result of the sale of the life insurance business. At the same time, the adjusted premium income in the property and health insurance businesses grew significantly by 4.6 percent. The forecasts for the individual segments were met. The legal insurance, casualty and property insurance, and health insurance businesses all provided – in some cases significant – growth impetus, while their contributions to earnings were in line with the budget. In terms of earnings, the ARAG Group underlined its operating efficiency as expected by posting another very good underwriting result and continued to consolidate its sound level of bottom-line profitability.

Looking ahead, the ARAG Group has – by comprehensively realigning the business – laid the foundations for a strong performance in the forecast period. It is therefore forging ahead with its strategy of two-dimensional diversification, which will have an even stronger influence on ARAG in the future. The focus on the property insurance and health insurance businesses, accompanied by the simultaneous and gradual internationalization of the legal insurance business, means that ARAG will markedly improve its competitiveness as well as its risk exposures, both in its portfolio of in-force business and in its investments.

The ARAG Group expects business performance to remain good over the forecast period despite the unstable macroeconomic conditions. The Group's segments will remain on a growth trajectory, although earnings projections are slightly lower than in prior years. In the coming years, stable income – derived in particular from a good level of underwriting profit and a sustained, sound level of funding – will remain the clear objective of ARAG's business policy. The Group will benefit from the modern international structure of its business based on branches and subsidiaries, and from its diversification strategy. Strategically, ARAG will focus on increasing the use of digital technologies in its products and processes, introducing digital services, and making targeted inroads into fast-growing international markets. Overall, ARAG is taking an aggressive approach to the challenges presented by digitalization, which it sees as a huge growth opportunity for the Group. A highly motivated workforce, willingness to innovate, and sound financial performance represent an advantageous framework in which ARAG is able to drive forward the process of digitalization for the benefit of customers and largely free of restructuring constraints commonly prevailing in the industry.

The share of the Group's sales revenue generated outside Germany will continue to increase as a result of the progressive internationalization of ARAG's business.

Preparatory work aimed specifically at meeting new regulatory requirements – necessitating additional reporting and documentation – has already been completed. Approval from BaFin to use a partial internal model to determine capital requirements underlines the profound solidity of the ARAG Group.

A cautious investment strategy has stood the Group in good stead in the years since the European sovereign debt crisis in 2008. Interest rates are expected to rise in the medium term as the European Central Bank comes under increasing pressure to change its policy of zero interest rates and follow the lead of the US Fed in starting to raise rates once again.

The ARAG Group regularly updates its strategy, aligning it with the prevailing conditions. This strategy is always codified in the corporate guidelines, the ARAG Essentials. These guidelines help the senior management to ensure that ARAG's focus is predictable, reliable, and transparent, creating a clear operational framework for managers and employees. The growing corporate social responsibility requirements are also taken into account.

ARAG is continuing to concentrate on providing specific, beneficial services – solutions that customers can try out straight away. Consumers appreciate ARAG's great agility and willingness to innovate. The high number of policies for ARAG products that continue to be concluded online indicates that the needs of the relevant target groups are being addressed appropriately.

Over the forecast period, the Group will keep to its conservative, earnings-oriented operating policy.

The Group's projections for the period vary depending on the segment involved.

In the legal insurance segment, the Group expects to see further growth in gross premium income, although market conditions will be very different across many European countries.

In the German market, the recent significant expansion in the legal insurance business is likely to continue. The strong rise in premiums in 2017 confirms that ARAG SE has returned to a path of growth for the long term in Germany. The combination of product innovation, high-quality claims processing and services, and a sustainable sales strategy are laying the foundations for further successful growth. ARAG is therefore predicting a continued rise in premiums from the German legal insurance business in 2018.

The international branches and subsidiaries will continue to provide growth stimulus in the forecast period to a degree similar to that in 2017. This takes into account the fact that there will still be challenging market environments. The Group has noticed that business in southern Europe is recovering, aided by its provision of combination products offering cover through legal-insurance-related special service packages. In the US, the Company is carrying out fundamental groundwork in order to improve its business base. It has successfully applied for permission to operate in additional federal states where ARAG is currently not directly represented and instead underwrites policies through a fronting partner. This approval gives the Group the option to be directly represented in those states. ARAG will also remain on a path of growth in its Scandinavian markets and, in particular, intends to step up business in Sweden and Denmark.

The growth in premiums will only lead to a small increase in the claims ratios. It will also be possible to limit the adverse effects in the forecast period from potential accumulation losses in connection with the diesel vehicle emissions issue.

The cost ratio for the ARAG Group increased slightly in 2017, not least because of the realignment. It is not anticipated that there will be any further rise in 2018 or in subsequent years.

The casualty and property segment brings together ARAG's property, liability, and accident insurance business outside the legal insurance segment. To a lesser extent, legal-insurance-related special service package business in individual international markets is also allocated to the casualty and property segment. In the German market, the Group is continuing to generate a good level of premium growth in this segment after overcoming a phase of continuous premium decline, as it has also done in the legal insurance business. This uptrend in the segment will also be sustained. Over the forecast period, the action already initiated to consolidate the portfolio and expand new business will have a further impact. The casualty and property segment remains clearly focused on private customers going forward and is characterized by very efficient claims management. This is one of the reasons why this segment is one of the most profitable units in the ARAG Group. Assuming that no relevant major claims events occur, the segment will be able to achieve a combined ratio of well below 100 percent in the forecast period. The Group predicts that the financial performance of this segment will continue to be very good.

In the forecast period, the health insurance segment will continue to strengthen its position as a key business line for ARAG in the German market. ARAG plays a special role in the market based on its clear strategic focus on high-quality cost-share insurance. It is therefore somewhat more independent from decisions affecting the strategic direction of health policy. The ongoing discussions about this policy are a regular source of deep concern among consumers. The Group is conscious of this special position and will therefore adopt a systematic approach to continue to strengthen this area of business. In the case of supplementary insurance, supplementary nursing care insurance will become increasingly important in the portfolio of products. Corporate health insurance is also becoming another important area of business for ARAG. Overall, the Group expects to see dynamic growth with a stable level of cancellations/lapses in the cost-share insurance business over the next few years.

Against the backdrop of further premium growth, ARAG Krankenversicherungs-AG is paying particular attention to implementing more improvements in the efficiency of application procedures and the processing of benefits. As in other segments, the Group is focusing in the health insurance segment on an expansion of IT infrastructure with a view to further streamlining time-consuming processes in supplementary insurance.

Despite the forecast expansion in business, ARAG anticipates that the claims ratio in this segment will remain steady.

Operating performance is not the only factor that has affected the profitability of health insurers. Their financial performance has also been significantly impacted by trends in financial markets. The long period of low interest rates has not only hit life insurance companies but also had adverse implications for health insurers because of the frequent need to adjust discount rates. The ARAG Group continues to take a conservative approach to capital market activities and has also moderately adjusted its discount rate for health insurance.

The health insurance segment is predicted to secure a growing share of the market in 2018 and 2019.

Even after selling its life insurance business, ARAG will still be able to offer life insurance products to its customers. Given the great importance of being able to provide comprehensive, needs-based advice for customers, offering such products is essential. In fact, the Company's Core Sales organization began selling life insurance from Alte Leipziger at the end of 2016. The partnership is highly successful and is running smoothly.

The ARAG Group managed to maintain its profit before tax and before non-controlling interests at the very sound level of €81.2 million in 2017. The very good operating efficiency of the Group was a major contributing factor. Traditionally, ARAG has attached great importance to generating a good level of underwriting earnings on an ongoing basis to enable it to offset some of the capital market volatility. In the year under review, ARAG improved its underwriting result by more than 10 percent. The Group will continue to pursue this business policy consistently over the forecast period. Overall, the ARAG Group therefore anticipates that the good level of financial performance will be sustained over the next few years.

As in previous years, it is currently scarcely possible to arrive at any kind of reliable forecast regarding trends in capital markets. It is not really feasible to assess the impact on financial markets of growing political uncertainty arising from the continued lack of clarity surrounding the UK's exit from the EU and from increasingly confrontational politi-

cal trends around the globe. The ARAG Group is therefore assuming that conditions in financial markets will remain challenging. This includes an assumption that interest rates will stay at a low level. In these circumstances, the Group predicts that the net gains on investments in the forecast period will be at the 2017 level.

Taking into account the opportunities and risks currently discernible, the ARAG Group forecasts that business performance in 2018 will remain steady and sound. Overall, the realigned Group will continue to grow and once again demonstrate the strength of its earnings power.

Opportunity report

Based on the structure of its business, ARAG has one of the highest proportions of international business among German insurers. Some 40.5 percent of premium income in the ARAG Group is generated from international business. This structure gives rise to opportunities and risks for the Group.

The excellent international diversification in the ARAG Group makes it more independent of the trends in individual national markets. This applies particularly to the saturated German legal insurance market, which offers few genuine growth prospects. Germany is nevertheless ARAG's traditional core market and thus remains important to the Group. The good level of growth achieved from the legal insurance business in Germany, the original home market, also serves as a significant point of reference for the international business. The strategy of the ARAG Group for the whole of the legal insurance business is to continue the international diversification of this segment.

The international structure of the ARAG Group is the logical business consequence of the advanced saturation of the overall German market and the highly varied economic trends within Europe and around the globe. The legal insurance markets outside Germany still offer significant growth potential. ARAG is focusing considerable effort on exploiting this potential with a view to achieving further growth in the Group. In this regard, ARAG attaches great importance to taking into account the particular features of the market in each country.

Responsibilities are distributed throughout the ARAG Group so that the position enjoyed by the ARAG brand in the German market will be further consolidated and improved by the strengthening of the non-legal-insurance segments. This two-dimensional diversification strategy in the Group is also enabling ARAG to move away from the original tightly focused positioning as a niche provider in Germany. A domestic specialist insurer concentrating solely on one line of business is considerably more susceptible to risk. The strategic approach at ARAG is therefore one of active risk reduction and is based on spreading risk more evenly across all markets and segments. The extended period of low interest rates has particularly demonstrated that this is the right approach, which offers both advantages and disadvantages for ARAG. In Germany, the low interest rates are adversely impacting the pension products business. At the same time, the trend in interest rates is supporting the economic recovery in southern Europe, thereby boosting business performance in this region. The Group is also benefiting from its focus on property and health insurance business.

To manage the international structure of the ARAG Group, the Management Board is supported by a Group Executive Committee (GEC). This committee comprises the members of the Group Management Board, representatives of the main European branches, and representatives of the other insurance segments in Germany. This committee improves the sharing of information between the European branches and the German insurance companies in the ARAG Group. One of the main objectives of the GEC is to ensure that innovations and market changes are converted more quickly into specific business processes, both in Germany and abroad, if the committee believes that these innovations or changes offer clear opportunities for the successful further development of the business.

Overall, the European management structure makes it possible to exploit the diverse opportunities available to the ARAG Group in both its German and international business over the long term. In addition, experience with this structure has demonstrated that market risks become transparent more quickly for managers across all levels, enabling the Group to respond more promptly.

The ARAG Group will work systematically and energetically to meet the challenges presented by the markets. It will open up opportunities to bring about successful advancement of the business in a demanding and varied market environment. The ARAG Group's clear corporate strategy is to continue the international diversification of the business and significantly expand the share of the international activities in the Group's operations.

Risk report

Risk management system

The assumption of risk is the core business of an insurance group. 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 of which the operational risk management process forms the core element. Taking a multifaceted approach, including a risk strategy, a limit system, and an own risk and solvency assessment (ORSA), ARAG ensures that its risk management activities to control its business operations remain within the prescribed risk-bearing capacity requirements.

Based on the corporate strategy, the Management Board specifies the risk strategy and defines the capital adequacy requirements and the required 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.

To implement the risk strategy, the Group has implemented a risk management system, which is the responsibility of the risk management function. This function is performed by 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 at ARAG SE and therefore performs the role of an independent risk control function. The Chief Risk Officer of ARAG SE is responsible for the implementation of the risk management system in all Group companies. Group Risk Management bears process responsibility for the risk management system and, by means of

quarterly risk reports to the Management Board, ensures that there is comprehensive transparency with regard to the risk position and any changes to the risk position. Group Risk Management is also responsible for refining the risk management system and for drawing up proposals for uniform standards to be applied throughout the Group. The remit of the central department also includes developing models for determining risk-bearing capacity, solvency capital requirements, and the allocation of solvency capital.

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

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

Risk identification The aim of risk identification is to identify the emergence of new risks or changes in existing risks at an early stage and to assess them using a standard procedure. For example, risks arising in connection with the development of new markets or the launch of new products are identified, analyzed, assessed, and submitted to the Management Board for decision using an appropriate cross-functional new-product process. Corresponding processes have also been put in place for new investment products and reinsurance instruments. These procedures are also integrated into the existing limit and monitoring processes.

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

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

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

Groupwide risk standards are applied to ensure a consistent and appropriate procedure is used in risk modeling, performance measurement, and in the use of relevant risk parameters in the calculations.

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

To calculate the limits, the minimum coverage ratio determined by business policy requirements and the eligible own funds are used to determine the maximum permitted solvency capital requirement for the Group. 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 continuous basis.

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

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

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

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

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

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

Internal audit The Group Audit function, which has been delegated to ARAG SE, is an instrument of ARAG Holding SE's Management Board, to which it is directly accountable and to which it reports. Group Audit is bound only by the instructions of the Management Board.

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

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

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

Individual risks

Underwriting risk in indemnity, liability and accident insurance, and in legal insurance 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 and accumulation 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. Losses are simulated in the same way for catastrophe and accumulation risk; such losses may arise from natural disasters, large claims caused by people, or accumulation losses in the legal insurance business. 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>
2017	56.0	52.4	3.1
2016	55.9	50.3	4.7
2015	58.0	51.6	6.1
2014	60.2	55.4	3.6
2013	61.3	55.3	5.9
2012	62.6	50.9	7.0
2011	60.3	54.5	4.1
2010	66.7	61.3	4.2
2009	66.4	58.0	6.5
2008	65.2	55.4	7.7

At operational level, underwriting risk arising from indemnity, liability, accident, and legal insurance is managed by means of underwriting, premium, and reinsurance policy measures.

Underwriting risk in health insurance 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 the following three risk components and their associated sub-risks:

1. Risk from health insurance policies that are operated on an actuarial basis comparable to that of indemnity insurance:
 - Premium and reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the timing of claims settlement and the amount involved.
 - Lapse risk (indemnity insurance): changes in the level or volatility of the rates of insurance policy lapses, terminations, renewals, and surrenders.
2. Risk from health insurance policies that are operated on an actuarial basis comparable to that of life insurance:
 - Mortality risk: changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.
 - Longevity risk: changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.
 - Disability-morbidity risk: changes in the level, trend, or volatility of disability, sickness, and morbidity rates.
 - Expense risk: changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.
 - Revision risk: changes in the level, trend, or volatility of the revision rates applied to annuities due to changes in the legal environment or in the state of health of the person insured.
 - Lapse risk (life insurance): changes in the level or volatility of the rates of insurance policy lapses, terminations, renewals, and surrenders.
3. Risk from health insurance policies under which claims are made as a result of catastrophes:
 - Mass accident risk: the risk of having many people in one location at the same time, causing mass accidental deaths, disabilities, and injuries with a high impact on the cost of medical treatment sought.
 - Accident concentration risk: the risk of having concentrated exposures due to densely populated locations, causing concentrations of accidental deaths, disabilities, and injuries in the event of the mass accident scenario described above.
 - Pandemic risk: the risk of having a large number of non-lethal disability and income protection claims and where victims are unlikely to recover as a result of a pandemic.

These risks are measured with the standard formula. Depending on the risk involved, prescribed factors or stress scenarios are used in order to determine their impact on changes in the fair value of the liabilities. One of the methods used by the Group for this purpose is the inflation-neutral measurement method. The sub-risks determined in this way are aggregated into the three risk components for health insurance. The actual underwriting risk arises from the further aggregation of these three components, taking diversification effects into account.

At operational level, underwriting risk arising from health insurance is managed by means of underwriting, benefits, and reinsurance policy measures.

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

Counterparty default risk is measured with the standard formula. The method used to bring together the different types of exposure, aggregate them, and determine the associated correlations is specified in the formula.

The risk of default on receivables from reinsurers and bank deposits is measured on the basis of the information available and proportionality considerations. The reinsurers' and banks' individual credit ratings are explicitly used. 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 €11.6 million (December 31, 2016: €28.1 million). The average default rate for these receivables over the last three years as of December 31, 2017 was 9.9 percent (December 31, 2016: 12.1 percent). Receivables from policyholders are managed by means of an automated reminder and dunning process.

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

- Interest-rate risk: changes in the term structure or volatility of interest rates. An assumed increase or decrease of 1.0 percent in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by €241.3 million. The breakdown of interest-bearing investments by rating is as follows:

Fixed-income securities by rating class

(Proportion (%) by fair value)

AAA	19.8
AA	22.4
A	23.9
BBB	28.6
BB	3.7
B	1.4
CCC	0.0
CC	0.0
C	0.0
D	0.0
Not rated	0.1

The breakdown of fixed-income securities is as follows (fair values): of the fixed-income securities – including securities held indirectly through institutional funds – approximately 32.0 percent are accounted for by financial services entities, 33.8 percent by public-sector bonds, and 34.2 percent by bonds of non-financial services entities.

- Equity risk: changes in the level or volatility of the market prices of equities. A hypothetical fall in equities markets of 20 percent would cause a loss in fair value of €88.0 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.
- Concentration risk: all risk exposures with a loss potential that is large enough to threaten solvency or financial position.

These risks are measured with the standard formula. New fair values of investments and liabilities are determined in the stress scenarios for interest rates, share prices, real estate prices, credit spreads, credit ratings/defaults, and exchange rates. The actual market risk arises from the aggregation of the sub-risks and from concentration risk, taking diversification effects into account.

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

Liquidity risk Liquidity risk is the risk that insurance companies are unable to realize investments and other assets in order to settle their financial obligations when they fall due.

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

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

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

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

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

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

Specific measures are agreed upon and carried out in order to manage the identified risks at operational level.

Overall risk position

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

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

* Not part of the management report.

Consolidated Financial Statements

Consolidated Financial Statements	63
Consolidated Balance Sheet	64
Consolidated Income Statement	70
<hr/>	
Notes to the Consolidated Financial Statements	76
I. Disclosures on the Basis of Consolidation, Accounting Policies, and Consolidation Methods	76
II. Source of Insurance Business by Premiums Written	87
III. Changes in Asset Items A., B. I. to IV. in 2017	88
IV. Other Disclosures	90
V. Report on Post-Balance Sheet Events	96
<hr/>	
Consolidated Cash Flow Statement	97
<hr/>	
Statement of Changes in Group Equity	98
<hr/>	
Segment Reporting	100
<hr/>	
Independent Auditor's Report	106
<hr/>	
Report of the Supervisory Board	110
<hr/>	
Governing Bodies of the Company	112
<hr/>	

Consolidated Balance Sheet as of December 31, 2017

Assets

(€)

A. Intangible assets

1. Goodwill
2. Miscellaneous 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. Investments in associates
 4. Miscellaneous equity investments
 5. 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. Investments for the account and at the risk of life insurance policyholders

D. Receivables

- I. Receivables from direct insurance business from
 1. policyholders
 - a) Claims due
 - b) Claims not yet due
 2. insurance brokers
of which from affiliated companies: € 69.34 (Dec. 31, 2016: € 0.00)
- II. Receivables from reinsurance business
- III. Miscellaneous receivables
of which from affiliated companies: € 345,748.70 (Dec. 31, 2016: € 757,283.36)
of which from other long-term investees and investors: € 2,229,310.45 (Dec. 31, 2016: € 3,033,335.03)

E. Miscellaneous assets

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

F. Prepaid expenses and accrued income

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

G. Deferred tax assets

H. Excess of plan assets over pension liabilities

Total assets

Note		Dec. 31, 2017	Dec. 31, 2016
	2 p. 80	26,322,428.30	16,446,994.14
	3 p. 80	10,411,772.64	11,675,365.00
		36,734,200.94	28,122,359.14
	33 p. 88		
	4 p. 81	201,984,968.57	237,092,966.86
	5 p. 81		
		3,331,198.98	1,449,140.76
		0.00	0.00
		10,498,846.36	13,515,114.94
		4,106,360.87	5,517,422.64
		0.00	32,735.82
		17,936,406.21	20,514,414.16
	6 p. 81	1,484,291,594.61	2,432,231,368.42
	7 p. 82	1,171,625,748.36	1,642,813,616.03
	10 p. 82	6,468,927.98	88,799,939.30
	9 p. 82	594,511,291.88	1,031,556,459.40
		555,404,324.89	697,791,202.11
		0.00	43,927,845.32
	8 p. 82	3,179,078.08	6,798,348.41
		1,153,094,694.85	1,780,073,855.24
	12 p. 82	87,099,254.50	195,562,200.64
		43,750,374.86	42,118,890.86
		3,946,330,595.16	6,181,599,870.49
		49,676,929.50	44,388,849.23
		4,215,928,899.44	6,483,596,100.74
	11 p. 82		0.00
	13 p. 82		287,406,912.03
		51,854,166.13	55,966,269.75
		0.00	25,353,139.51
		51,854,166.13	81,319,409.26
		24,681,422.95	27,066,953.08
		76,535,589.08	108,386,362.34
		47,630,544.87	45,605,086.66
		14,971,799.12	30,736,786.68
		139,137,933.07	184,728,235.68
	14 p. 82	26,941,921.45	25,201,470.71
	15 p. 82	113,811,640.52	150,350,131.84
	16 p. 82	25,506,512.48	46,330,389.71
		166,260,074.45	221,881,992.26
	17 p. 82		
		34,502,577.25	58,361,383.99
		8,520,835.32	10,493,526.31
		43,023,412.57	68,854,910.30
	18 p. 82	5,525,455.01	23,586,916.89
	34 p. 91		
	19 p. 83	86,593.64	3,763.28
		4,606,696,569.12	7,298,181,190.32

Consolidated Balance Sheet as of December 31, 2017

Equity and liabilities

(€)

A. Equity

I.	Subscribed capital
II.	Revenue reserves
1.	Statutory reserves
2.	Other revenue reserves
3.	Currency translation differences
4.	Difference pursuant to section 309 (1) HGB
III.	Net income attributable to the Group
1.	Consolidated net income
IV.	Non-controlling interests
1.	in the capital
2.	in the net income

B. Goodwill arising on consolidation

C. Subordinated liabilities

D. 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
V.	Equalization provision and similar provisions
VI.	Miscellaneous technical provisions
1.	Gross amount
2.	less: portion for outward reinsurance business

E. Technical provisions in the life insurance business where the investment risk is borne by the policyholders

I.	Actuarial reserve
II.	Sundry technical provisions

Carried forward:

		Note		Dec. 31, 2017	Dec. 31, 2016
		31 p. 87 39 p. 98			
			200,000,000.00		200,000,000.00
			11,311,280.00		10,339,995.00
			249,105,224.40		223,959,634.47
			779,980.21		12,468,449.13
		1 p. 79	- 35,999,890.82		- 35,999,890.82
			225,196,593.79		210,768,187.78
			27,037,760.15		42,804,068.63
			8,365,537.28		7,827,933.08
			768,862.26		313,900.77
			9,134,399.54		8,141,833.85
				461,368,753.48	461,714,090.26
				0.00	0.00
		20 p. 83		30,000,000.00	30,000,000.00
		21 p. 83			
			258,579,421.77		258,223,476.56
			- 1,649,936.96		- 2,766,334.14
			256,929,484.81		255,457,142.42
		22 p. 83			
			1,663,620,352.98		3,954,990,308.88
			0.00		- 34,081,811.00
			1,663,620,352.98		3,920,908,497.88
		23 p. 84			
			1,442,259,299.91		1,399,696,151.58
			- 33,269,276.04		- 31,207,617.42
			1,408,990,023.87		1,368,488,534.16
			248,546,847.89		323,424,352.47
		24 p. 85			
			80,877,431.50		78,610,550.00
		25 p. 85			
			2,852,652.72		18,059,344.80
			0.00		0.00
			2,852,652.72		18,059,344.80
				3,661,816,793.77	5,964,948,421.73
			0.00		245,822,385.34
			0.00		41,584,526.69
				0.00	287,406,912.03
				4,153,185,547.25	6,744,069,424.02

Consolidated Balance Sheet as of December 31, 2017

Equity and liabilities

(€)

Brought forward:

F. Other provisions

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

G. Deposits received from reinsurers

H. Other liabilities

- I. Liabilities from direct insurance business to
 - 1. policyholders
 - 2. insurance brokers
 - of which to affiliated companies: € 13.87 (Dec. 31, 2016: € 13.87)
- II. Liabilities from reinsurance business
- III. Miscellaneous liabilities
 - of which tax liabilities: € 23,067,659.53 (Dec. 31, 2016: € 20,665,471.25)
 - of which social security liabilities: € 1,992,388.16 (Dec. 31, 2016: € 1,998,559.48)
 - of which to affiliated companies: € 1,000,000.00 (Dec. 31, 2016: € 237,277.65)
 - of which to other long-term investees and investors: € 0.00 (Dec. 31, 2016: € 0.00)
 - of which secured by a property lien: € 0.00 (Dec. 31, 2016: € 0.00)

I. Deferred income and accrued expenses

J. Deferred tax liabilities

Total equity and liabilities

		Note		Dec. 31, 2017	Dec. 31, 2016
				4,153,185,547.25	6,744,069,424.02
		26 p. 85			230,811,037.36
			224,009,603.89		16,776,935.12
		27 p. 86			95,514,918.73
			23,259,834.16		
			88,592,121.01		
				335,861,559.06	343,102,891.21
		28 p. 86		1,345,966.41	36,991,408.31
		29 p. 86			
			18,824,249.91		63,801,327.73
			33,568,151.42		30,693,360.65
			52,392,401.33		94,494,688.38
		29 p. 86			3,534,870.24
			2,671,476.00		
			54,061,376.12		59,204,800.55
				109,125,253.45	157,234,359.17
		30 p. 86		7,178,242.95	16,783,107.61
				0.00	0.00
				4,606,696,569.12	7,298,181,190.32

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

Line item

(€)

I. Underwriting account for casualty and property insurance

1. Premiums earned for own account

a) Gross premiums written

b) Reinsurance premiums ceded

c) Change in gross unearned premiums

d) Change in reinsurers' share of gross unearned premiums

2. Technical interest income for own account

3. Miscellaneous underwriting income for own account

4. Claims incurred net of reinsurance

a) Payments for claims

aa) Gross amount

bb) Reinsurers' share

b) Change in provision for outstanding claims

aa) Gross amount

bb) Reinsurers' share

5. Change in miscellaneous net technical provisions

a) Net actuarial reserve

b) Miscellaneous technical provisions

6. Expenses for performance-based and non-performance-based bonuses and rebates for own account

7. Own account insurance business operating expenses

a) Gross insurance business operating expenses

b) less: commissions received and profit sharing received from outward reinsurance business

8. Miscellaneous underwriting expenses for own account

9. Subtotal

10. Change in the equalization provision and similar provisions

11. Underwriting result for own account in casualty and property insurance

	Note			2017	2016
	32 p. 87	1,219,878,018.98			1,159,131,503.00
		-8,875,654.02			-13,000,424.59
			1,211,002,364.96		1,146,131,078.41
		-4,642,690.86			-4,410,610.54
		35,798.59			220,599.00
			-4,606,892.27		-4,190,011.54
				1,206,395,472.69	1,141,941,066.87
				371,355.00	633,896.00
				2,212,054.13	1,901,346.15
		587,725,020.03			564,473,901.98
		-5,279,092.26			-3,135,571.97
			582,445,927.77		561,338,330.01
		51,137,616.09			14,966,069.38
		-2,341,579.08			2,652,019.30
			48,796,037.01		17,618,088.68
				631,241,964.78	578,956,418.69
			0.00		0.00
			204,946.08		173,548.84
				204,946.08	173,548.84
	38 p. 94			0.00	0.00
			518,325,882.88		488,284,632.90
			-627,286.85		-3,056,824.62
				517,698,596.03	485,227,808.28
				1,829,918.36	1,697,562.09
				58,413,348.73	78,768,068.80
				-2,266,881.50	-12,791,716.00
				56,146,467.23	65,976,352.80

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

Line item

(€)

II. Underwriting account for life and health insurance

1. Premiums earned for own account
a) Gross premiums written
b) Reinsurance premiums ceded
c) Change in gross unearned premiums
d) Change in reinsurers' share of gross unearned premiums
2. Premiums from the gross provision for bonuses and rebates
3. Income from investments
a) Income from equity investments
b) Income from associates
c) Income from other investments
of which from affiliated companies: €6,628.44 (2016: €19,447.12)
aa) Income from land, land rights and buildings, including buildings on third-party land
bb) Income from other investments
d) Income from reversals of write-downs
e) Gains on the disposal of investments
4. Unrealized gains on investments
5. Miscellaneous underwriting income for own account
6. 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
7. Change in miscellaneous net technical provisions
a) Net actuarial reserve
aa) Gross amount
bb) Reinsurers' share
b) Miscellaneous technical provisions
8. Expenses for performance-based and non-performance-based bonuses and rebates for own account
9. Own account insurance business operating expenses
a) Front-end fees
b) Administrative expenses
c) less: commissions received and profit sharing received from outward reinsurance business
10. Expenses for investments
a) Expenses for the management of investments, interest expense and similar charges and other expenses for investments
b) Depreciation, amortization and write-downs of investments
of which write-downs: €22,000.00 (2016: €9,766,837.97)
c) Losses on the disposal of investments
11. Unrealized losses on investments
12. Miscellaneous underwriting expenses for own account
13. Underwriting result for own account in life and health insurance

Note				2017	2016
	32 p. 87	365,098,893.62			570,566,972.51
		-363,483.48			-5,880,855.23
			364,735,410.14		564,686,117.28
		-553,687.92			-156,427.84
		0.00			-24,133.61
			-553,687.92		-180,561.45
				364,181,722.22	564,505,555.83
				8,278,691.92	37,394,969.64
			143,716.09		158,085.46
			0.00		0.00
		3,613,477.35			12,973,433.78
		68,010,350.16			138,788,067.45
			71,623,827.51		151,761,501.23
			5,373,479.35		21,841,961.45
			1,602,607.87		35,448,974.64
				78,743,630.82	209,210,522.78
	35 p. 91			0.00	1,605,083.54
				2,278,495.32	7,552,659.26
		216,893,829.60			451,983,739.04
		-44,766.95			-8,074,796.32
			216,849,062.65		443,908,942.72
		-5,935,545.00			8,749,495.45
		0.00			-763,473.13
			-5,935,545.00		7,986,022.32
				222,784,607.65	435,922,920.40
		-117,385,697.55			-188,963,511.16
		0.00			-4,205,899.00
			-117,385,697.55		-193,169,410.16
			33,919.00		6,410,129.73
				-117,351,778.55	-186,759,280.43
	38 p. 94			49,931,205.18	71,482,360.87
		31,987,312.17			47,010,594.55
		8,795,317.74			15,788,166.52
			40,782,629.91		62,798,761.07
			-113,547.27		-1,552,489.36
				40,669,082.64	61,246,271.71
			2,935,340.05		10,866,335.46
			937,965.32		12,507,786.94
			327,880.00		9,167,415.63
				4,201,185.37	32,541,538.03
				0.00	7,277,635.77
				1,156,505.99	24,280,125.57
				17,388,174.90	758,658.27

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

Line item

(€)

III. Non-underwriting account

1. Underwriting result for own account
 - a) in casualty and property insurance
 - b) in life and health insurance
2. Income from investments, unless listed under II. 3.
 - a) Income from equity investments
of which from affiliated companies: € 654,000.00 (2016: € 421,888.65)
 - b) Income from associates
 - c) Income from other investments
of which from affiliated companies: € 65,400.00 (2016: € 65,695.56)
 - aa) Income from land, land rights and buildings,
including buildings on third-party land
 - bb) Income from other investments
 - d) Income from reversals of write-downs
 - e) Gains on the disposal of investments
3. Expenses for investments, unless listed under II. 10.
 - a) Expenses for the management of investments, interest expense and similar charges and other expenses for investments
 - b) Depreciation, amortization and write-downs of investments
of which write-downs: € 6,061,212.49 (2016: € 5,519,801.19)
 - c) Losses on the disposal of investments
 - d) Transfer of losses from associates accounted for using the equity method
4. Technical interest income
5. Market fees for goods and services provided by non-insurance companies
6. Cost of goods and services provided by non-insurance companies
to generate market fees
7. Other income
8. Other expenses
of which write-downs on goodwill arising on consolidation: € 9,216,347.76 (2016: € 3,132,819.56)

9. Non-underwriting result

10. Profit/loss from ordinary activities

11. Extraordinary income
12. Extraordinary expenses

13. Profit before tax

14. Income taxes
of which resulting from the change in recognized deferred taxes: tax expense of € 20,000,596.88
(2016: tax expense of € 23,041,647.08)
15. Miscellaneous taxes

16. Net income for the year

17. of which non-controlling interests

				2017	2016
Note					
			56,146,467.23		65,976,352.80
			17,388,174.90		758,658.27
				73,534,642.13	66,735,011.07
		820,214.73			563,701.13
		4,357,473.34			3,907,835.95
		16,704,162.15			14,597,831.16
		48,786,099.19			46,367,178.07
		65,490,261.34			60,965,009.23
		5,753,604.55			9,275,203.49
		7,792,617.25			10,152,336.11
			84,214,171.21		84,864,085.91
		12,587,688.97			11,035,063.08
		8,821,831.87			8,865,331.35
		902,375.91			976,812.39
		0.00			0.00
			22,311,896.75		20,877,206.82
				61,902,274.46	63,986,879.09
				-371,355.00	-633,896.00
				25,363,788.32	54,829,662.22
				26,936,506.14	49,546,577.00
			38,476,494.37		29,254,101.17
			90,723,993.79		77,586,028.16
				-52,247,499.42	-48,331,926.99
				7,710,702.22	20,304,141.32
				81,245,344.35	87,039,152.39
	36 p. 92		0.00		0.00
	36 p. 92		21,823.00		266,844.00
				-21,823.00	-266,844.00
				81,223,521.35	86,772,308.39
	37 p. 92		50,802,413.22		42,225,520.13
			2,614,485.72		1,428,818.86
				53,416,898.94	43,654,338.99
				27,806,622.41	43,117,969.40
				-768,862.26	-313,900.77

Notes to the Consolidated Financial Statements

I. Disclosures on the Basis of Consolidation, Accounting Policies, and Consolidation Methods

Legal basis of preparation

ARAG Holding SE is entered in the commercial register of the Düsseldorf local court under the number HRB 66673. Its registered office is ARAG Platz 1, 40472 Düsseldorf, Germany. The consolidated financial statements of ARAG Holding SE and the group management report are prepared in accordance with the requirements of the German Commercial Code (HGB) for large corporations and with the supplementary provisions for insurance companies dated November 8, 1994 (Regulation on the Accounting of Insurance Undertakings, RechVersV), in particular in compliance with the requirements on consolidated accounting pursuant to sections 341 i and 341 j HGB and sections 58–60 RechVersV and with the German accounting standards (GAS). The latter are applied to the extent that they do not limit accounting consistency and to the extent that they are material to the reporting of the Group's net assets, financial position, and results of operations. The transitional provisions relating to the German Accounting Law Modernization Act (BilMoG) dated May 25, 2009 in section 67 of the Introductory Act to the German Commercial Code (EGHGB) are applied in respect of some of the Group companies. In accordance with section 291 (1) HGB, these consolidated financial statements exempt those group companies that are obliged to prepare consolidated financial statements under section 290 HGB from that obligation.

The consolidated financial statements are presented on the basis of financial statement forms 1 and 4 pursuant to section 58 (1) RechVersV. The forms are supplemented to reflect Group-specific characteristics and items relating to non-insurance business.

The single-entity financial statements of the entities included in the consolidated financial statements are nearly all prepared in accordance with the same accounting policies used by the ARAG Group. With the exception of associates, the financial statements of Group companies that are not prepared in accordance with the requirements of the HGB and RechVersV are reconciled with regard to recognition, presentation, and valuation and brought into line with German accounting standards.

The associates' accounting policies generally differ from German accounting principles. One equity investment based in Switzerland prepares its financial statements in accordance with the Swiss Code of Obligations (OR). The financial statements are not reconciled because the foreign accounting policies are largely similar to those of the HGB.

Basis of consolidation

As of December 31, 2017, 31 subsidiaries were included in the consolidated financial statements pursuant to section 301 (1) HGB (December 31, 2016: 36). Two companies had been deconsolidated with effect from September 30, 2016 because they had been sold to third parties. Three companies were deconsolidated with an effective date of January 1, 2017 because they had been sold on the basis of a contract signed on September 16, 2016, although the sale was only

completed on June 30, 2017 following the conclusion of the ownership control process carried out by BaFin. A further company was liquidated, and another one newly established. One Group company was consolidated as an associate pursuant to section 311 HGB.

In 2017, the basis of consolidation excluding associates comprised six insurance companies (2016: seven), three service companies in the field of information technology and business organization (2016: two), two real-estate management companies (2016: two), three investment vehicles (2016: four), 14 other service companies (2016: 18), and four holding and asset management companies (including the parent company; 2016: four).

The following companies are included in the consolidated financial statements:

Name of company	Shareholding (%)
1 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	100.00
2 ALIN 1 Verwaltungs-GmbH, Düsseldorf	100.00
3 ALIN 2 Verwaltungs-GmbH, Düsseldorf	100.00
4 ALIN 4 Verwaltungs-GmbH, Düsseldorf	94.00
5 ALIN 1 GmbH & Co. KG, Düsseldorf	100.00
6 ALIN 2 GmbH & Co. KG, Düsseldorf	100.00
7 ALIN 4 GmbH & Co. KG, Düsseldorf	94.00
8 ARAG 2000 Beteiligungs-Gesellschaft mbH & Co. KG, Düsseldorf	100.00
9 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	94.90
10 ARAG Allgemeine Versicherungs-AG, Düsseldorf	100.00
11 ARAG Association LLC, Des Moines, Iowa/USA	100.00
12 ARAG Holding SE, Düsseldorf, Group parent company	100.00
13 ARAG Insurance Company Inc., Des Moines, Iowa/USA	100.00
14 ARAG International Holding GmbH, Düsseldorf	100.00
15 ARAG IT GmbH, Düsseldorf	100.00
16 ARAG Krankenversicherungs-AG, Munich	94.00
17 ARAG Legal Services B.V., Leusden/Netherlands	100.00
18 ARAG Liegenschaftsverwaltungs- und Beratungs-Gesellschaft mbH, Düsseldorf	100.00
19 ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	100.00
20 ARAG LLC, Des Moines, Iowa/USA	100.00
21 ARAG North America Inc., Des Moines, Iowa/USA	100.00
22 ARAG Plc., Bristol/United Kingdom	100.00
23 ARAG SE, Düsseldorf	100.00
24 ARAG Service Center GmbH, Düsseldorf	100.00
25 ARAG Services Corporation, Toronto/Canada	100.00
26 ARAG Services LLC, Des Moines, Iowa/USA	100.00
27 CUR Versicherungsmakler GmbH, Düsseldorf	100.00
28 Cura Versicherungsvermittlung GmbH, Düsseldorf	100.00
29 HELP Forsikring AS, Oslo/Norway	100.00
30 Interlloyd Versicherungs-AG, Düsseldorf	100.00
31 Justix GmbH, Cologne	100.00
32 SolFin GmbH, Düsseldorf	75.10

The following company is included as an associate:

Name of company	Shareholding (%)
1 AXA-ARAG Rechtsschutzversicherungsgesellschaft, Zurich/Switzerland	29.17

There were 13 Group companies that were not included in the consolidated financial statements (2016: twelve) because these entities are not material, which means that their non-consolidation does not adversely affect the Group's net assets, financial position, or results of operations.

Janolaw AG, Sulzbach, in which the Group holds 25.1 percent of the shares, was not consolidated as an associate pursuant to section 311 (2) HGB because the entity does not prepare its financial statements in time and is not material to the Group's net assets, financial position, and results of operations.

The following entities are not included in the consolidated financial statements in accordance with section 296 (2) and section 311 (2) HGB:

Name of company	Shareholding (%)	Equity (€)	Net income for the year (€)
1 Agencia de Seguros ARAG S. A., Barcelona/Spain*	100.00	375,815.65	224,669.41
2 ARAG Scandinavia AS, Oslo/Norway	100.00	3,047.79	0.00
3 ARAG Digital Services AS, Oslo/Norway	100.00	3,047.79	0.00
4 ARAG Services Spain & Portugal S. L., Barcelona/Spain*	100.00	427,967.99	66,142.36
5 ARAG-France S. A. R. L. Assistance et Règlement de Sinistres Automobiles et Généraux, Versailles/France	100.00	18,988.00	0.00
6 ATE Group Services Limited i. L., Bristol/United Kingdom, Company was wound up on February 21, 2017	100.00	0.00	0.00
7 ATE Limited i. L. (dormant), Bristol/United Kingdom*, Company was wound up on February 18, 2017	100.00	0.00	0.00
8 COLUMBUS Immobilien Fonds XVI GmbH & Co. KG, Munich*	55.57	3,648,125.74	-314,046.65
9 Easy2claim Limited, Bristol/United Kingdom*	100.00	1.13	0.00
10 JuroFoon B. V., Leusden/Netherlands*	100.00	456,029.00	-457,716.00
11 Multiline Insurance Agency (MIA) S. r. l., Verona/Italy	100.00	50,000.00	0.00
12 Prinzregent Vermögensverwaltungs-GmbH, Düsseldorf	100.00	33,004.84	-513.25
13 VIF Gesellschaft für Versicherungsvermittlung mit beschränkter Haftung, Düsseldorf	100.00	246,118.75	214,309.88

* Figures from the financial statements for the year ended December 31, 2016

Procedures of consolidation

The consolidated financial statements are prepared on the basis of the single-entity financial statements of the Group companies. The financial year covered the period January 1 to December 31, 2017 and was identical to the financial years of the consolidated companies.

Up to and including 2010, the accounting for subsidiaries in consolidated financial statements was based on the carrying amount method; the revaluation method used in subse-

quent years involved subtracting the equity attributable to the Group at the time of initial consolidation from the cost of the equity investments in the consolidated subsidiaries. Where subtracting the equity attributable to the Group at the time of initial consolidation from the cost resulted in a positive difference, the carrying amounts of assets of the relevant subsidiaries were written up accordingly if there was the flexibility to do so in their valuation. Where there was no further scope to do so, the remaining amount was recognized as goodwill and amortized over its estimated useful life.

1 In the case of subsidiaries that were already included in the consolidated financial statements in 1989 in accordance with section 27 EGHGB or in cases where negative goodwill had arisen on acquisition that had affected the financial statements of the parent company in previous years, there was an offsetting against revenue reserves in earlier years. Goodwill amounts on initial consolidation have not been offset against revenue reserves since 2010 because this is no longer permitted under section 301 (3) HGB and German accounting standard (GAS) 23 nos. 84 and 91.

On deconsolidation of a subsidiary, the proceeds from the disposal are offset against the consolidated (residual) carrying amounts of the assets and liabilities attributable to that subsidiary, including any goodwill that has not already been offset. The share of non-controlling interests in the deconsolidated entity is derecognized in consolidated equity. A subsidiary is deconsolidated when the majority shareholders of the Group cease to have control pursuant to section 290 (2) HGB over the subsidiary. ARAG elected to make use of the consolidation option available under section 296 (1) no. 2 HGB and deconsolidated ARAG Lebensversicherungs-AG with effect from January 1, 2017.

The investments in associates are recognized at the proportion of equity attributable to the Group or at historical cost to the Group pursuant to section 312 HGB. On initial application, the equity method is based on the values at the time of acquisition or at the time of preparation of the first annual financial statements after the acquisition where interim financial statements are not available. The different valuation of the assets and liabilities in the associates' financial statements compared with the valuation under commercial law is not adjusted for the purpose of applying the equity method.

Intercompany profit that is required to be eliminated is deducted from the carrying amounts of the affected assets and recognized in the income statement, provided that, overall, the amounts concerned are material to presenting a true and fair view of the net assets, financial position, and results of operations. The option pursuant to section 341j (2) HGB is generally utilized where the intercompany profit forms the basis for policyholder claims.

Group companies' receivables from, and liabilities to, other Group companies are offset against each other.

Consolidated entities' revenue from the provision of goods and services to other consolidated entities is offset against the associated expenses incurred by the providing entity to avoid the need to reallocate secondary costs among the consolidated insurance companies for the purposes of the consolidated financial statements.

Consolidated insurance companies' brokerage services provided to other consolidated insurance companies are performed on the basis of arm's-length terms and conditions that are typical in the market. Commission resulting from brokerage and income from goods and services provided by other Group companies to Group insurance companies are consolidated at the level of the providing entity by offsetting the income against the related expenses.

Currency translation

Balance sheets prepared in foreign currencies are translated into euros at the middle spot rate as of the balance sheet date in accordance with the balance-sheet-date principle. Amounts on the income statement that are recognized for the period are translated at an average of the month-end exchange rates. An amount of €11,688,468.92, representing the proportion attributable to the Group of the difference between the equity translated at the historical exchange rate and the equity translated at the closing rate, was withdrawn from revenue reserves directly in equity (currency translation differences).

Comparability of prior-year figures

The disposal of ARAG Lebensversicherungs-AG means that any comparison with the prior-year figures is limited. Further disclosures on the changes can be found in the statement of changes in investments and in the segment reporting.

Recognition, valuation, and presentation methods

The consolidated balance sheet and consolidated income statement are presented on the basis of the financial statement forms prescribed by the RechVersV.

Because the Group has multiple lines of business, the line items 'Market fees for goods and services provided by non-insurance companies' and 'Cost of goods and services provided by non-insurance companies to generate market fees' had to be added to the income statement.

2 Goodwill results partly from accounting for subsidiaries in consolidated financial statements and partly from acquisitions.

In accordance with GAS 23 no. 115, the amortization period is defined on the basis of the estimated useful life. Up to 2010, this was assumed to be 15 years (value of in-force business) for insurance companies or estimated at up to five years on a case-by-case basis. Since 2010, useful lives of more than ten years have no longer been applied based on the principle stated in section 253 (3) sentence 4 HGB. Goodwill with a remaining useful life of more than five years amounted to €9,373.2 thousand as of December 31, 2017. The useful life was originally set at 15 years because the goodwill was recognized as in-force business.

3 Miscellaneous intangible assets are recognized at cost less straight-line amortization. The carrying amount of €10,411,772.64 can be broken down as follows: €7,876,687.19 for software, €1,051,195.28 for leasehold improvements in business premises in Italy, €50,315.00 for industrial property rights and licenses, and €1,433,575.17 for goodwill arising on an acquisition in Spain. Software is essentially amortized over five years using the straight-line method. Leasehold improvements are amortized over the remaining term of

the leases using the straight-line method. The industrial property rights and licenses are not amortized (recognition at a fixed value). Goodwill is amortized over a period of six years. No write-downs were recognized in 2017.

- 4 Land** and buildings are valued at cost less depreciation and are written down in accordance with the discretionary principle of lower of cost or market value. Write-downs of €2,563,558.48 were recognized in the year under review in respect of land owing to anticipated permanent asset impairment. No land is encumbered by land charges used as collateral for liabilities to banks.
- 5 Shares in non-consolidated affiliated companies and miscellaneous equity investments** are carried at cost in accordance with section 253 (1) HGB, less write-downs resulting from long-term impairment. No amortization or write-downs were recognized in the year under review in respect of non-consolidated affiliated companies or miscellaneous equity investments. Equally, no reversals of write-downs pursuant to section 253 (5) HGB were recognized on shares in non-consolidated affiliated companies or on miscellaneous equity investments. **Investments in associates** are valued at their carrying amount at the time the shares were acquired or at the time of initial consolidation, plus or minus the pro-rata amount of changes in equity in subsequent years. The goodwill arising from using the equity method at the time of initial consolidation is already fully amortized. **Lending to non-consolidated affiliated companies** is recognized at the nominal amount. In the event of long-term impairment, the loans are written down to their fair value. These loans
- 6** were redeemed in full in the year under review. **Equities, investment fund shares/units, and other variable-yield securities** are generally valued at the lower of cost or market value as of the reporting date in accordance with section 341 b (2) HGB in conjunction with section 253 (1), (4), and (5) HGB. The investment fund shares/units classified as fixed assets are valued using the discretionary principle of lower of cost or market value in accordance with section 253 (3) sentence 5 HGB. Write-downs are recognized only to the extent that the underlying impairment is considered to be long term. Correspondingly, reversals of write-downs are recognized only if the reversal is regarded as long term. As of December 31, 2017, the long-term market value was generally assumed to be the quoted market price – as it had been a year earlier. An exception was applied to the fixed-income institutional fund shares/units, the market value of which was calculated as the total of the redemption amounts of the bonds contained in the fund concerned, provided that the bonds have an investment-grade rating. In the reporting year, write-downs amounting to €934,396.40 were recognized due to expected permanent impairment (2016: €2,297,284.30). Reversals of write-downs pursuant to section 253 (5) HGB were recognized in an amount of €8,724,168.59 in 2017 (2016: €24,991,398.96).
- The classification of institutional fund shares/units for permanent use in business operations resulted in undisclosed liabilities of €530,751.61 (December 31, 2016: €2,640,468.07) due to write-downs not being recognized. As of December 31, 2017, the total fair value was not less than the carrying amount.

- 7 Bearer bonds and other fixed-income securities** are generally valued in accordance with the requirements for current assets pursuant to section 253 (1) sentence 1, (4), and (5) and section 256 HGB. In accordance with section 341b (2) second half-sentence HGB, some of the bonds and securities have been classified for permanent use in business operations. Because of this classification, which was carried out in previous years, and because no write-downs are recognized in this case if impairment is only temporary, undisclosed liabilities of €775,292.65 had arisen in respect of this subset of bonds and securities as of December 31, 2017 (December 31, 2016: €193,030.70).
- 8 Sundry lending** comprises preliminary loans for construction projects and miscellaneous loans. These loans are recognized at cost less repayments made, as in the case of **promissory notes and loans**.
- 9 Registered bonds** are accounted for at their nominal amount. Discounts are deferred using the straight-line method. Premiums are capitalized and recognized in income using the straight-line method over the term to maturity.
- 10 Loans secured by mortgages or land charges and fixed-income receivables, and other investments** are accounted for at cost or at their redemption amount. No write-downs pursuant to section 253 (3) sentence 5 HGB were recognized in the year under review (2016: €1,245,006.06).
- 11 Investments for the account and at the risk of life insurance policyholders** were recognized in 2016 at fair value. The gross provisions shown in line item F. under equity and liabilities corresponded to this fair value.
- 12 Bank deposits** are recognized at their nominal amount. **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. No write-downs pursuant to section 253 (3) sentence 5 HGB have been necessary to date.
- 13 Receivables** are generally recognized at their nominal amount. A general allowance for latent credit risk is deducted from receivables from policyholders and from trade receivables. Receivables from agents are reduced by specific allowances and a general allowance in the amount of the likely level of default.
- 14** In accordance with section 253 (1) sentence 1 HGB, **property and equipment** is recognized at cost and depreciated using the straight-line method over the standard operating useful life.
- 15 Inventories** are determined by carrying out physical inventory checks. They are measured at cost.
- 16 Other assets** as well as **current bank balances, checks, and cash on hand** are recognized at their nominal amounts. Asset values relating to reinsurance are recognized at the amount provided by the insurance company. This item predominantly consists of tax assets. **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 of cash payments expensed after the balance sheet date. This line item also includes an amount of €3,794,306.65 (December 31, 2016: €4,463,554.30) stemming from the difference pursuant to section 341c (2) sentence 2 HGB.
- 18 Deferred tax assets** include the likely tax benefit in subsequent financial years in the amount of the current or future income tax rates. If valuation adjustments required to

ensure consistent valuation in the consolidated financial statements arise between the carrying amounts in the HGB financial statements and those in the tax base because of temporary differences between the HGB financial statements and the tax base reported in single-entity financial statements and if differences arise because of consolidation activities, and these differences are expected to reverse in subsequent years, deferred taxes are recognized in respect of these valuation adjustments and differences using separate entity-specific tax rates. This also includes differences for which the timing of the reversal is not yet precisely known or depends on action by the entity concerned, and differences that would only reverse in the event of any liquidation. Deferred tax assets have not been recognized for tax loss carryforwards. Differences are only recognized if their elimination in subsequent years is likely to lead to a decrease in the future tax expense as a result of a reduction in taxable income or a decline in effects from deferred tax liabilities. Differences that are unlikely to have been eliminated before the end of the five-year forecast period will not be recognized if they give rise to net deferred tax assets in order to take account of future imponderables that go beyond entity-specific planning and changes in future tax law. In 2017, €9,919.7 thousand of the amount resulting from expected reversal effects impacting on the basis of tax assessment in the future was derecognized in the income statement; an equivalent amount of €24,671.4 thousand had been derecognized in 2016.

- 19** The **excess of plan assets over pension liabilities** is the balance of pension obligations at present value and the fair value of the securities held to cover these liabilities.
- 20** **Subordinated liabilities** have been issued by way of private placement to strengthen the own funds used to determine the solvency ratio. The subordinated liabilities are recognized at their repayment amount (= settlement amount). The registered bonds are not negotiable in Germany on a regulated market within the meaning of section 2 (5) of the German Securities Trading Act (WpHG).
- 21** **Gross unearned premiums** for direct insurance business are calculated pro rata temporis on the basis of the premiums and lapses/cancellations posted, less the installment surcharges. In accordance with a circular from the German Federal Ministry of Finance (BMF) dated April 30, 1974, the non-transferable income components are deducted from the unearned premiums for the domestic parts of the business of the Group's insurance companies. A total of 85 percent of the commissions and other remuneration for agents is recognized as non-transferable income components. The capitalized portion of the acquisition costs is deducted from the unearned premiums for the non-German parts of the business.
- The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.
- 22** The **actuarial reserve for health insurance** is calculated in accordance with actuarial principles defined in the technical basis of calculation individually for each insurance policy, applying the underlying data from the insurance policy in question. The transfer amounts contained in the actuarial reserve have been determined in accordance with section 14 of the German Regulation on the Supervision of Business Activities in Private Health Insurance (KVAV). The average discount rate is 3.05 percent.

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.

23 The **provision for outstanding claims** in relation to direct casualty and property insurance business is recognized separately by event year for claims reported in the financial year concerned and for anticipated claims that are reported after the balance sheet date. A provision for claim settlement expenses is also recognized. These provisions are valued in accordance with prudent business practice, taking into account the ongoing need to satisfy the obligations under insurance contracts. Valuation is based on values as of the balance sheet date. The provisions are not discounted. The results from the group-based and individual valuations are reviewed on a portfolio basis using actuarial methods. Recourse claims that are expected to be recovered in the next year are deducted from the property insurance companies' claims provision. 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 appointed actuary for the casualty and property insurance segment, taking the expenses required for settlement into account.

The provision for outstanding claims in the inward reinsurance business is recognized in accordance with the information provided by the primary insurer. The provision for outstanding claims in connection with the inward reinsurance business from primary insurers in the United Kingdom is determined on the basis of past experience and statistics produced by the Group's own claims settlement company. The proportions relating to outward reinsurance business are calculated in accordance with the stipulations in the reinsurance treaties.

The valuation method used was the same one used in the previous year.

In the year under review, currency-related adjustments to the claims reserves were applied on the basis of exchange rates at the end of each quarter. The resulting exchange differences were recognized under other net income/expense.

Technical interest income is calculated at 0.9 percent of the arithmetic mean of the opening and closing balances of the actuarial reserve and the benefit reserves for annuities in the casualty and property insurance segment.

The provision for claims that had occurred by the balance sheet date but were **still outstanding in health insurance** was recognized on the basis of the claims payments in the reporting year in respect of previous years, taking a volume increase into consideration. One-off items that had not occurred in previous years were taken into account separately. The expenses that are likely to be incurred after the balance sheet date for settling claims from previous years were determined in accordance with the tax rules pursuant to section 341g (1) HGB on the basis of coordinated regulations issued by the German federal states on February 2, 1973.

- 24** The **equalization provision** is recognized for the Europe territory (excluding Norway, Sweden, and Denmark) in accordance with section 341h HGB in conjunction with section 29 RechVersV. The equalization provision for the US, Canada, Norway, Sweden, and Denmark territories is calculated, where required, according to local regulatory rules.
- 25** The **lapse provision** reported under miscellaneous technical provisions to cover the discontinuation or reduction of technical risk is recognized in the amount of the estimated requirement.
- 26** In accordance with standard international practice, **the provisions for pensions and other post-employment benefits** are calculated using the projected unit credit (PUC) method and applying section 253 (1) sentence 2 HGB on the basis of the 2005G mortality tables published by Professor Klaus Heubeck or local mortality tables that accurately reflect life expectancy. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. In accordance with section 253 (2) sentence 2 HGB, the discount rate used is the average interest rate for the past ten years published by Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. As a result of using a ten-year instead of a seven-year discount rate, the provision for pensions and other post-employment benefits decreased by €28,482,960.00 as of December 31, 2017 (December 31, 2016: €23,137,082.00).

The following actuarial parameters were used to calculate the obligations: pension age: earliest possible age under the Pension Age Reform Act (RVAGAnpG) in Germany, in accordance with individual agreements in Austria, 65 years in Spain; annual increase in salaries: 2.5 percent (December 31, 2016: 2.5 percent); annual increase in pension benefits: 1.75 percent (December 31, 2016: 1.75 percent); discount rate: 3.68 percent (December 31, 2016: 4.01 percent; discount rate pursuant to section 253 (2) sentence 2 HGB, ten-year average) and 2.80 percent (December 31, 2016: 3.24 percent; seven-year average).

The level of staff turnover taken into account reflects the generally observable age-dependent average for the industry (1.5 percent or sliding scale linked to age) and has only a minor impact on the settlement value.

As of December 31, 2017, there were no longer any outstanding amounts under the transitional rules in section 67 (1) EGHGB that it would have been necessary still to add to the provision in the future.

Since 2010, assets that are protected from the claims of all other creditors and are used solely to settle liabilities arising from pension obligations have been offset against the obligation. This line item is therefore calculated as follows:

Net provisions for pensions and other post-employment benefits

(€)	Dec. 31, 2017	Dec. 31, 2016
Amount required to settle the vested entitlements	228,729,220.69	239,075,495.46
Netted assets (fair value)	-4,719,616.80	-6,667,883.10
Not yet added in accordance with section 67 (1) EGHGB	0.00	-1,596,575.00
Amount reported on the balance sheet	224,009,603.89	230,811,037.36

The decrease in the obligations was attributable to the Group's disposal of the life insurance business.

The option pursuant to section 28 (1) EGHGB, which permits provisions for pensions and other post-employment benefits not to be recognized for legacy entitlements, has not been exercised.

27 The **provision for early retirement obligations** is recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles. The probability of utilization is estimated individually. In 2017, a **provision in accordance with the pre-retirement part-time employment agreement** for the private insurance industry dated June 11, 1997 and in accordance with the Accounting Principle issued by the Main Technical Committee of the Institute of Public Auditors in Germany (IDW AcP HFA 3) dated November 18, 1998 was recognized on the basis of a discount rate of 2.80 percent for matching maturities. 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 attrition were taken into account. Credit balances on employee working hours accounts models are protected against insolvency in accordance with section 8a of the German Pre-Retirement Part-Time Employment Act (AltTZG) by means of a fixed liability guarantee from a German commercial bank.

The **undry provisions** and the **provisions for taxes** are recognized in the amount that is necessary to settle the obligation according to prudent business practice. A **long-service provision** was recognized in the year under review for long-service awards to be paid to employees. The provision was calculated using the projected unit credit method taking into account death rates in accordance with the 2005G mortality tables published by Professor Klaus Heubeck and applying a discount rate of 3.24 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.

Interest income of €35,999.34 and interest expenses of €4,701.25 arose from the discounting of provisions with a maturity of more than one year.

28 **Deposits received from reinsurers** and **other liabilities** are recognized at their settlement value. The residual maturity is less than one year in each case.

29 The **liabilities from direct insurance business** and **liabilities from reinsurance business** are valued at their settlement value (nominal amount). The residual maturity is less than one year in each case.

30 **Deferred income and accrued expenses** contain differences pursuant to section 341 c (2) sentence 1 HGB of €4,769,653.08 (December 31, 2016: €13,544,647.63). The year-on-year decline is attributable to the contraction in the investment portfolio as a consequence of the disposal of the life insurance business.

31 Consolidated equity

Consolidated equity is presented in detail on pages 98 and 99 in accordance with GAS 22. The subscribed capital of the Group's parent company amounts to €200,000,000.00. It is divided into 200,000 no-par-value shares. All of the shares are registered.

The subscribed capital is fully paid up.

The parent company plans to appropriate an amount of €10,000,000.00 from the profits generated in 2017, to be paid as a dividend to the shareholders.

Associates

The total goodwill arising on the consolidation of associates using the equity method amounted to €0.00 as of December 31, 2017 (December 31, 2016: €0.00) as this goodwill had already been fully amortized. Accordingly, no amortization or write-downs were recognized on the goodwill of associates in 2017.

32 II. Source of Insurance Business by Premiums Written

Country/source (€'000)	Direct insurance business			Inward reinsurance business		Total business
	Legal insurance	Casualty and property insurance	Health insurance	Legal insurance	Casualty and property insurance	
Germany	349,202	206,634	365,099		125	921,060
Netherlands	92,531			49,929		142,460
Spain	51,717	53,954		19,078	14,843	139,592
Italy	28,808	4,697		89,678	336	123,519
USA	87,806			7,819		95,625
Austria	61,073					61,073
Norway	38,935					38,935
UK*	3,663	125		21,569		25,357
Belgium	23,774			743		24,517
Greece	5,042			44		5,086
Sweden	4,340					4,340
Slovenia	2,277					2,277
Portugal	455	288		165		908
Denmark	160					160
Canada				68		68
Total	749,783	265,698	365,099	189,093	15,304	1,584,977

* The reinsurance business involving risk in the UK is underwritten by ARAG SE in Düsseldorf.

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

Changes in asset items

(€'000)	Carrying amount as of Jan. 1, 2017	Additions	Additions/ disposals in basis of consolidation	Reclassifications
A. Intangible assets				
1. Purchased goodwill	16,447	19,440	0	0
2. Miscellaneous intangible assets	11,675	4,025	-105	0
Total for A.	28,122	23,466	-105	0
B. I. Land, land rights and buildings, including buildings on third-party land	237,093	57,449	-86,301	0
B. II. Investments in affiliated companies and equity investments				
1. Shares in affiliated companies	1,449	1,908	-26	0
2. Lending to affiliated companies	0	250	0	0
3. Equity investments	19,033	5,344	-2,746	0
4. Lending to long-term investees and investors	33	0	-33	0
Total for B. II.	20,514	7,501	-2,804	0
B. III. Miscellaneous investments				
1. Equities, investment fund shares/units, and other variable-yield securities	2,432,231	173,997	-1,035,532	0
2. Bearer bonds and other fixed-income securities	1,642,814	207,926	-590,324	0
3. Loans secured by mortgages or land charges and fixed-income receivables	88,800	6,469	-88,800	0
4. Miscellaneous lending				
a) Registered bonds	1,031,556	40,000	-462,045	0
b) Promissory notes and loans	697,791	18,000	-143,337	0
c) Loans and prepayments for certificates of insurance	43,928	0	-43,928	0
d) Sundry lending	6,798	4,723	-6,648	0
5. Bank deposits	195,562	0	-42,000	0
6. Other investments	42,119	19,129	-14,573	0
Total for B. III.	6,181,600	470,244	-2,427,186	0
Total for B. I. to B. III.	6,439,207	535,195	-2,516,291	0
B. IV. Deposits with ceding insurers	44,389	9,616	0	0
Total for investments B. I. to B. IV.	6,483,596	544,810	-2,516,291	0

Land, land rights and buildings on third-party land with a carrying amount of €154,551,242.25 are used for the business operations of the Group's insurance companies.

Disposals	Exchange-rate adjustments	Reversals of write-downs	Write-downs	Carrying amount as of Dec. 31, 2017	Fair value pursuant to sec. 54 RechVersV	Hidden reserves
0	-209	0	9,356	26,322		
20	-2	0	5,163	10,412		
20	-211	0	14,518	36,734		
29	0	13	6,240	201,985	317,725	115,740
0	0	0	0	3,331	5,329	1,997
250	0	0	0	0	0	0
6,341	-1,134	449	0	14,605	42,723	28,118
0	0	0	0	0	0	0
6,591	-1,134	449	0	17,936	48,052	30,115
92,215	-1,979	8,724	934	1,484,292	1,562,224	77,933
76,019	-12,126	1,940	2,585	1,171,626	1,273,306	101,680
0	0	0	0	6,469	6,469	0
15,000	0	0	0	594,511	685,193	90,682
17,050	0	0	0	555,404	622,487	67,083
0	0	0	0	0	0	0
1,694	0	0	0	3,179	3,179	0
65,446	-1,017	0	0	87,099	87,099	0
2,925	0	0	0	43,750	49,564	5,814
270,349	-15,123	10,664	3,520	3,946,331	4,289,522	343,192
276,969	-16,257	11,127	9,760	4,166,252	4,655,299	489,047
4,328	0	0	0	49,677	49,677	0
281,297	-16,257	11,127	9,760	4,215,929	4,704,976	489,047

IV. Other Disclosures

Investment fund disclosures

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

Institutional funds

Name	Type of fund	Investment objective	Carrying amount as of Dec. 31, 2017	Market value as of Dec. 31, 2017	Difference	Dividend in 2017	Redemption
			(€)	(€)	(€)	(€)	
ADRERENT	Fixed-income fund	Increased income	51,269,359.25	53,448,827.56	2,179,468.31	1,149,228.73	At any time
ATRI	Fixed-income fund	Increased income	151,654,738.13	151,182,469.40	-472,268.73	3,363,584.94	At any time
ARRE	Mixed fund	Increased income	252,714,620.12	266,843,617.07	14,128,996.95	6,730,573.50	At any time
ARI 1	Fixed-income fund	Increased income	222,555,495.97	222,828,606.01	273,110.04	9,721,340.75	At any time
ALLTIRENT	Fixed-income fund	Increased income	68,125,950.38	76,475,631.84	8,349,681.46	1,344,904.86	At any time
ALLTRI	Mixed fund	Increased income	130,885,813.29	153,185,928.68	22,300,115.39	3,609,804.16	At any time
ADZ	Fixed-income fund	Increased income	123,949,376.64	123,890,893.76	-58,482.88	1,494,368.35	At any time
EMA	Equity fund	Increased income	54,604,470.25	55,915,990.27	1,311,520.02	1,021,994.84	At any time
AKR	Fixed-income fund	Increased income	205,872,112.77	206,852,477.43	980,364.66	5,507,297.20	At any time
AAF	Equity fund	Increased income	59,902,236.73	68,494,931.51	8,592,695.78	1,649,785.76	At any time
SIVE Fonds							
INKA	Equity fund	Increased income	116,573,713.34	127,042,950.81	10,469,237.47	11,741,285.04	At any time
			1,438,107,885.87	1,506,162,324.34	68,054,438.47	47,334,168.13	

The investment objectives of the funds – which can be traded ahead of a stock market trading day – are based on the relevant benchmarks derived from the strategic investment structure. The Group made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341 b (2) second half-sentence HGB for those institutional funds that are intended to be used permanently as part of the working capital of the Group. By classifying the listed funds as fixed assets, undisclosed liabilities of €530,751.61 were created (December 31, 2016: €2,640,468.07). Reversals of write-downs pursuant to section 253 (5) HGB were recognized on these funds in an amount of €8,233,709.51 in 2017 (2016: €24,516,193.53).

BaFin and the German Insurance Association (GDV) jointly specify the principles for determining the fair value pursuant to section 253 (3) sentence 5 HGB. These principles are followed when valuing fixed assets in accordance with the requirements.

34 Deferred taxes disclosures

The recognized deferred taxes arise from the differences between the HGB financial statements and the tax base. They relate to the following items:

Balance sheet items

(€'000)	Deferred taxes as of Dec. 31, 2017	Deferred taxes as of Dec. 31, 2016
Intangible assets	0	492
Investments	1,832	4,753
Receivables	- 163	1,317
Miscellaneous assets	- 440	138
Prepaid expenses and accrued income	- 59	- 265
Technical provisions	4,396	12,143
Other provisions	- 41	5,023
Other liabilities	0	- 14
Deferred income and accrued expenses	0	0
Loss carryforwards	0	0
	5,525	23,587

Differences that would not be accompanied by sufficient taxable income at the time of their probable reversal or would not be offset by countervailing effects in deferred taxes have been capped. In 2017, the reversal effects were compared with the outcome of a tax planning process. Where there was no impact on current taxes or the effects were not offset by circumstances that increased the deferred taxes at the time of reversal, the notional net deferred tax asset was written down at the level of the single-entity financial statements in accordance with section 274 (1) sentence 2 HGB. Net deferred taxes that arose as a consolidation effect at Group level in accordance with section 306 HGB were valued on the basis of the Group's financial performance and not written down. Deferred tax assets are not recognized on losses carried forward.

35 Unrealized gains and losses on investments

The amount reported in 2016 was the difference between the fair values at the start (or the cost) and the fair values at the end of the financial year of the investments for the account and at the risk of life insurance policyholders. A corresponding expense was contained in 'Change in sundry net technical provisions'. Figures have no longer been reported under this item in the year under review because of the disposal of the life insurance business.

36 Net extraordinary income/expense

The extraordinary expenses arise as a result of applying the transitional provisions of the BilMoG dated May 25, 2009 in section 67 (1) EGHGB for the valuation of defined benefit obligations and pre-retirement part-time working obligations.

37 Income taxes

The breakdown of income taxes in the income statement is as follows:

Income taxes		2017		2016	
	(%)	(€)	(%)	(€)	
Profit before tax (HGB financial statements)		81,223,521.35		86,772,308.39	
Expected income tax expense based on tax rate	31.20	25,341,738.67	31.20	27,072,960.22	
Current taxes		30,801,816.34		19,183,873.05	
Deferred taxes		20,000,596.88		23,041,647.08	
Reported income tax expense		50,802,413.22		42,225,520.13	
Effective tax rate	62.55		48.67		
Miscellaneous taxes		2,614,485.72		1,428,818.86	
Tax expense reported in the income statement		53,416,898.94		43,654,338.99	

The discrepancy between the expected and effective tax expense essentially results from a write-down of €9,919.7 thousand on net deferred tax assets, because it is forecast that there will be no impact on current taxes when the related differences reverse, and from deferred tax liabilities in an amount of €4,682.6 thousand arising on intercompany profits in accordance with section 341j (2) HGB caused by the sale of assets within the Group.

Miscellaneous financial commitments pursuant to section 285 no. 3 HGB

Rental and leasing agreements with varying terms for premises, vehicles, and office equipment as well as for the hardware and software used in a data center that have been concluded outside the insurance business give rise to total annual obligations that are of a standard magnitude for the industry.

The following unpaid contributions in respect of equity investments and private-equity fund structures are attributable to the Group:

Unpaid contributions and obligations to pay in capital

Name of company	(€)
INVESCO Beteiligungsverwaltungs GmbH & Co. KG	79,460.65
RREEF Pan European Infrastructure Feeder GmbH & Co. KG	299,893.64
ACF V Growth Buy-out Europe GmbH & Co. KG	1,147,500.00
ACF VI Growth Buy-out Europe GmbH & Co. KG	2,146,755.00
AXA LBO Fund V Core	84,905.00
AXA LBO Fund V Supplementary	29,960.00
PAI Europe IV – Global SCSp	2,181,962.00
Bridgepoint Europe V	1,147,441.30
CROWN PREMIUM VI	7,384,000.00
Ardian LBO VI	6,064,603.11
Cube II	7,079,332.47
YIELCO I	14,750,000.00
CROWN PREMIUM VII	24,250,000.00
YIELCO Special Solutions	7,278,507.48
YIELCO Special Situations Europe	8,000,000.00
PAI VII	10,000,000.00
FOYER-ARAG S. A., Luxembourg	24,788.00

None of the unpaid contributions have been called up. It would be reasonable to expect obligations to pay in capital to be called up by the investment funds (infrastructure and private-equity funds) in the near future. The sundry unpaid contributions will not be called up for the time being.

Contingent liabilities

The Group is a member of the protection fund for providers of substitutive private health insurance. This protection fund can collect special contributions up to a maximum of 0.2 percent of the total net technical provisions for health insurance, which amounted to €3,983,411.19 as of the reporting date (December 31, 2016: €3,671,688.31).

Auditor's fees

The auditor of the consolidated financial statements is PricewaterhouseCoopers GmbH, Düsseldorf branch. The Group companies incurred expenses for the auditor's fees of €1,038,753.19 for the audit of annual financial statements and Solvency II balance sheets. The expense for other attestation services amounted to €58,573.29, and for other consultancy or advisory services €79,868.42. Tax consultancy fees of €187,337.97 were paid. These amounts include the standard levels of out-of-pocket expenses. They also include the VAT on the auditor's fees and out-of-pocket expenses as this input VAT cannot be reclaimed.

38 Expenses for bonuses and rebates for own account

(€)	2017	2016
Expenses for performance-based bonuses and rebates	48,574,846.24	70,241,816.83
Expenses for non-performance-based bonuses and rebates	1,356,358.94	1,240,544.04
Total expenses	49,931,205.18	71,482,360.87

Commissions and other remuneration for insurance agents, staff costs

(€)	2017	2016
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	237,504,249.47	249,971,181.09
2. Other remuneration for insurance agents within the meaning of section 92 HGB	18,863,443.14	16,302,558.54
3. Wages and salaries	243,417,932.36	241,577,391.59
4. Social security and other employee benefit expenses	39,138,417.61	39,084,775.63
5. Pension and other post-employment benefit expenses	26,306,607.48	8,269,863.90
6. Total expenses	565,230,650.06	555,205,770.75

Average number of employees in 2017

The Group's fully consolidated entities employed an average of 3,882 people in 2017 (2016: 3,921). As of December 31, 2017, the Group had a total of 4,042 employees (December 31, 2016: 4,053).

The insurance companies employed an average of 3,441 people (2016: 3,460). The average number of people employed by all of the administrative entities and service companies was 515 (2016: 524). In the German Group companies, an additional 16 people were employed for the purpose of vocational training (2016: eight).

Remuneration of the Supervisory Board and Management Board of ARAG Holding SE

The expense for Supervisory Board remuneration in all Group companies came to €288,575.00.

The remuneration for the members of the Management Board of the parent company in return for the responsibilities undertaken in the parent company and in the subsidiaries, including remuneration not actually paid but recognized as a provision, amounted to €1,901,938.64. There are no current pensions or vested pension entitlements for former members of the Management Board and their surviving dependants.

V. Report on Post-Balance Sheet Events

There were no events of particular importance between the end of the reporting year and the date of preparation of the consolidated financial statements. Business performance so far has been in line with expectations.

Düsseldorf, April 10, 2018

ARAG Holding SE

The Management Board

Dr. Dr. h. c. Paul-Otto Faßbender

Klaus Heiermann

Dr. Sven Wolf

Consolidated Cash Flow Statement for 2017

Cash flow statement

(€)	2017	2016
Cash flows from operating activities		
Profit for the period	27,806,622	43,117,969
Increase(+)/decrease(-) in technical provisions, net	-2,590,538,540	231,467,598
Increase(-)/decrease(+) in deposits with ceding insurers and in receivables from reinsurance business	-7,313,538	-8,918,989
Increase(+)/decrease(-) in deposits from reinsurers and liabilities from reinsurance business	-36,508,836	-4,759,144
Increase(-)/decrease(+) in receivables from direct insurance business	31,850,773	8,885,401
Increase(+)/decrease(-) in liabilities from direct insurance business	-42,102,287	17,450,770
Increase(-)/decrease(+) in miscellaneous receivables	10,265,789	29,174,788
Increase(+)/decrease(-) in miscellaneous liabilities	-8,758,647	-56,284,034
Change in miscellaneous balance sheet items not related to investing or financing activities	2,548,846,504	-235,104,352
Other non-cash income and expenses, and adjustment of the profit/loss for the period	38,261,043	8,488,749
Gain(-)/loss (+) on the disposal of investments, property and equipment, and intangible fixed assets	-13,020,534	-41,799,734
Expenses for/income from extraordinary items	21,823	266,844
Current income tax expense/income	30,801,816	19,183,873
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Income taxes paid	-2,346,789	-2,161,192
Cash flows from operating activities	-12,734,800	9,008,548
Cash flows from investing activities		
Proceeds from disposal of consolidated entities	28,800,000	11,000,000
Proceeds from disposal of property and equipment	890,338	269,493
Proceeds from disposal of intangible fixed assets	130,842	84,010
Payments to acquire property and equipment	-11,244,443	-5,703,229
Payments to acquire intangible fixed assets	-23,465,581	-4,077,130
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	-4,888,844	1,573,144
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
Dividends paid	-10,000,000	-10,000,000
Proceeds(+)/cash payments(-) related to miscellaneous financing activities	0	0
Cash flows from financing activities	-10,000,000	-10,000,000
Net change in cash and cash equivalents	-27,623,644	581,692
Effect on cash and cash equivalents of exchange rate movements and remeasurements	0	0
Effect on cash and cash equivalents of changes in the basis of consolidation	-8,914,847	-5,543,576
Cash and cash equivalents at beginning of period	150,350,132	155,312,016
Cash and cash equivalents at end of period	113,811,641	150,350,132

39 Statement of Changes in Group Equity in Accordance with GAS 22 for the Year Ended December 31, 2017

(€'000)

Equity attributable to parent entity

	(Adjusted) subscribed capital				Capital reserves			Reserves		
	Subscribed capital	Treasury shares	Uncalled unpaid contributions	Total				Revenue reserves		
	Ordinary shares				Pursuant to sec. 272 (2) nos. 1-3 HGB	Pursuant to sec. 272 (2) no. 4 HGB	Total	Statutory reserves	Reserves provided for by the articles of incorporation	Other revenue reserves
Balance as of Jan. 1, 2017	200,000	0	0	200,000	0	0	0	10,340	0	187,960
Transfers to/withdrawals from reserves				0			0	971		31,833
Distribution				0			0			
Currency translation				0			0			
Miscellaneous changes				0			0			
Changes in the basis of consolidation				0			0			-6,687
Consolidated net income				0			0			
Balance as of Dec. 31, 2017	200,000	0	0	200,000	0	0	0	11,311	0	213,105

		Equity attributable to parent entity				Non-controlling interests			Consolidated equity	
	Reserves	Currency translation difference	Retained profits brought forward	Consolidated net income attributable to the parent entity	Total	Non-controlling interests before currency translation differences	Currency translation differences attributable to non-controlling interests	Profit or loss attributable to non-controlling interests	Total	Total
	Total									
Revenue reserves										
Total										
198,300	198,300	12,468	0	42,804	453,572	7,800	28	314	8,142	461,714
32,804	32,804			-32,804	0	-79		79	0	0
0	0			-10,000	-10,000			-393	-393	-10,393
0	0	-11,688			-11,688		0		0	-11,688
0	0				0	-141			-141	-141
-6,687	-6,687				-6,687	758			758	-5,929
0	0			27,038	27,038			769	769	27,807
224,417	224,417	780	0	27,038	452,234	8,338	28	769	9,134	461,369

Segment Reporting – Balance Sheet

	Legal insurance		Casualty and property insurance		Health insurance	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
(€'000)						
A. Intangible assets	9,056	10,075	137	273	79	77
B. Investments	2,058,678	1,929,202	455,180	438,109	2,036,381	1,866,695
I. Land and buildings, including buildings on third-party land	61,524	70,172	34,817	30,394	75,925	30,182
II. Investments in affiliated companies and equity investments	359,085	284,573	36,138	35,329	18,390	12,049
III. Miscellaneous investments	1,591,331	1,535,212	381,287	367,242	1,942,066	1,824,464
IV. Deposits with ceding insurers	46,739	39,245	2,938	5,144	0	0
C. Investments for the account and at the risk of life insurance policyholders	0	0	0	0	0	0
D. Sundry segment assets	229,643	257,355	24,312	27,515	63,610	57,595
Total segment assets	2,297,377	2,196,631	479,629	465,898	2,100,071	1,924,368
A. Technical provisions	1,344,582	1,307,081	325,529	315,506	1,991,706	1,835,844
I. Unearned premiums	198,212	195,537	45,418	44,479	14,950	14,396
II. Actuarial reserve	0	0	5	4	1,663,615	1,546,230
III. Provision for outstanding claims	1,143,384	1,109,502	234,457	224,113	64,419	58,483
IV. Provision for bonuses and rebates	0	0	0	0	248,547	216,526
V. Equalization provision	6,282	4,361	74,596	74,249	0	0
VI. Miscellaneous technical provisions	690	882	1,987	2,001	175	209
VII. Reinsurers' share of technical provisions	-3,985	-3,202	-30,934	-29,340	0	0
B. Technical provisions in the life insurance business where the investment risk is borne by the insurance companies	0	0	0	0	0	0
C. Miscellaneous segment liabilities	372,020	358,993	48,925	47,057	26,760	19,176
Total segment liabilities	1,716,603	1,666,075	374,454	362,563	2,018,466	1,855,020
Equity*						
Total equity and liabilities						

* Consolidated equity including non-controlling interests and goodwill arising on consolidation

The segment reporting has largely been adapted in line with German accounting standard GAS 3-20 published by the German Accounting Standards Board (GASB). The segment data is presented after consolidation of internal transactions within each business line. Reconciliation with the figure for the Group is based on the amounts stated in the 'Consolidation' column. Gains and losses on investments are retained in the segments and then eliminated later in the 'Consolidation' column.

The segmentation follows the internal organizational and management structure of the ARAG Group, which is based on strategic business lines. The segments chosen reflect the Group's risks and opportunities.

The strategic business lines are:

- Legal insurance
- Casualty and property insurance
- Health insurance
- Services and asset management.

Life insurance		Services and asset management		Total		Consolidation		Group total	
Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
0	105	2,537	2,891	11,809	13,421	24,925	14,702	36,734	28,122
0	2,609,446	473,019	386,170	5,023,259	7,229,622	-807,330	-746,025	4,215,929	6,483,596
0	102,410	32,721	6,946	204,988	240,104	-3,003	-3,011	201,985	237,093
0	79,850	408,652	351,728	822,264	763,529	-804,328	-743,015	17,936	20,514
0	2,427,186	31,647	27,495	3,946,331	6,181,600	0	0	3,946,331	6,181,600
0	0	0	0	49,677	44,389	0	0	49,677	44,389
0	287,407	0	0	0	287,407	0	0	0	287,407
0	90,675	30,942	50,227	348,508	483,367	5,525	15,689	354,033	499,056
0	2,987,632	506,499	439,287	5,383,576	8,013,816	-776,879	-715,635	4,606,697	7,298,181
0	2,506,517	0	0	3,661,817	5,964,948	0	0	3,661,817	5,964,948
0	3,812	0	0	258,579	258,223	0	0	258,579	258,223
0	2,408,757	0	0	1,663,620	3,954,990	0	0	1,663,620	3,954,990
0	7,598	0	0	1,442,259	1,399,696	0	0	1,442,259	1,399,696
0	106,898	0	0	248,547	323,424	0	0	248,547	323,424
0	0	0	0	80,877	78,611	0	0	80,877	78,611
0	14,967	0	0	2,853	18,059	0	0	2,853	18,059
0	-35,514	0	0	-34,919	-68,056	0	0	-34,919	-68,056
0	287,407	0	0	0	287,407	0	0	0	287,407
0	125,475	35,806	33,410	483,511	584,112	0	0	483,511	584,112
0	2,919,400	35,806	33,410	4,145,328	6,836,467	0	0	4,145,328	6,836,467
								461,369	461,714
								4,606,697	7,298,181

The service companies and asset management companies comprise the Group parent company and other intermediate holding companies that manage assets, including, but not limited to, real-estate management companies, IT companies, and service companies that support the insurance business.

Because deferred taxes are recognized in accordance with the temporary concept, the segment breakdown of the income statement only goes as far as the 'Profit/loss before tax' line.

Segment Reporting – Income Statement by Class of Insurance

(€'000)	Legal insurance		Casualty and property insurance		Health insurance	
	2017	2016	2017	2016	2017	2016
Underwriting income						
Gross premiums written	938,876	893,021	281,002	266,110	365,099	356,873
Direct insurance business	749,783	705,268	265,698	255,809	365,099	356,873
Inward reinsurance business	189,093	187,753	15,304	10,301	0	0
Reinsurance premiums ceded	-302	-4,506	-8,573	-8,494	-363	-315
Change in net unearned premiums	-3,701	-242	-905	-3,948	-554	-417
Premiums earned for own account	934,872	888,274	271,524	253,667	364,182	356,141
Premiums from the gross provision for bonuses and rebates	0	0	0	0	8,279	34,736
Investment income allocated to the underwriting account	0	0	371	634	78,744	74,491
Unrealized gains on investments	0	0	0	0	0	0
Miscellaneous underwriting income for own account	1,683	1,464	529	437	2,278	1,805
Total underwriting income	936,555	889,738	272,424	254,738	453,483	467,173
Underwriting expenses						
Claims incurred net of reinsurance	-479,346	-440,048	-151,896	-138,908	-222,785	-202,796
Change in sundry net technical provisions	192	-6	13	180	-117,352	-140,891
Expenses for bonuses and rebates	0	0	0	0	-49,931	-68,891
of which performance-based	0	0	0	0	-49,931	-67,651
of which non-performance-based	0	0	0	0	0	-1,241
Unrealized losses on investments	0	0	0	0	0	0
Insurance business operating expenses	-411,793	-383,334	-105,906	-101,894	-40,669	-38,203
of which front-end fees	-100,134	-90,394	-36,501	-35,242	-31,987	-29,649
of which administrative expenses	-311,641	-295,340	-70,050	-67,309	-8,795	-8,554
of which reinsurers' share	-17	2,400	645	656	114	0
Investment expenses allocated to the underwriting account	0	0	0	0	-4,201	-6,958
Miscellaneous underwriting expenses for own account	-71	0	-1,759	-1,698	-1,157	-917
Total underwriting expenses	-891,018	-823,388	-259,548	-242,320	-436,094	-458,655
Subtotal	45,538	66,350	12,876	12,418	17,388	8,518
Change in equalization provision and similar provisions	-1,920	-2,875	-347	-9,916	0	0
Underwriting result for own account	43,617	63,475	12,529	2,502	17,388	8,518
Income from investments	99,920	93,937	15,650	15,405	78,744	74,491
Expenses for investments	-15,840	-19,012	-4,896	-4,156	-4,201	-6,958
Gains and losses on investments	84,080	74,925	10,754	11,249	74,542	67,534
Gains and losses on investments assigned to the underwriting account	0	0	0	0	-74,542	-67,534
Market fees for goods and services provided by non-insurance companies	0	0	0	0	0	0
Cost of goods and services provided by non-insurance companies to generate market fees	0	0	0	0	0	0
Gross profit	0	0	0	0	0	0
Other income	34,510	18,720	1,457	3,513	1,557	1,870
Other expenses	-64,975	-53,381	-6,795	-5,895	-6,181	-3,576
Other net income/expense	-30,465	-34,661	-5,337	-2,383	-4,624	-1,705
Profit/loss from ordinary activities	97,233	103,739	17,946	11,368	12,764	6,812
Net extraordinary income/expense	0	0	0	0	0	0
Profit/loss before tax	97,233	103,739	17,946	11,368	12,764	6,812
Tax expense						
Net income for the year						
of which non-controlling interests						

Life insurance		Services and asset management		Total		Consolidation		Group total	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
0	213,694	0	0	1,584,977	1,729,698	0	0	1,584,977	1,729,698
0	213,694	0	0	1,380,580	1,531,645	0	0	1,380,580	1,531,645
0	0	0	0	204,397	198,054	0	0	204,397	198,054
0	-5,566	0	0	-9,239	-18,881	0	0	-9,239	-18,881
0	237	0	0	-5,161	-4,371	0	0	-5,161	-4,371
0	208,365	0	0	1,570,577	1,706,447	0	0	1,570,577	1,706,447
0	2,659	0	0	8,279	37,395	0	0	8,279	37,395
0	137,041	0	0	79,115	212,166	0	-2,322	79,115	209,844
0	1,605	0	0	0	1,605	0	0	0	1,605
0	5,748	0	0	4,491	9,454	0	0	4,491	9,454
0	355,418	0	0	1,662,461	1,967,067	0	-2,322	1,662,461	1,964,745
0	-233,127	0	0	-854,027	-1,014,879	0	0	-854,027	-1,014,879
0	-45,868	0	0	-117,147	-186,586	0	0	-117,147	-186,586
0	-2,591	0	0	-49,931	-71,482	0	0	-49,931	-71,482
0	-2,591	0	0	-49,931	-70,242	0	0	-49,931	-70,242
0	0	0	0	0	-1,241	0	0	0	-1,241
0	-7,278	0	0	0	-7,278	0	0	0	-7,278
0	-23,043	0	0	-558,368	-546,474	0	0	-558,368	-546,474
0	-17,362	0	0	-168,622	-172,646	0	0	-168,622	-172,646
0	-7,234	0	0	-390,486	-378,437	0	0	-390,486	-378,437
0	1,552	0	0	741	4,609	0	0	741	4,609
0	-25,584	0	0	-4,201	-32,542	0	0	-4,201	-32,542
0	-23,363	0	0	-2,986	-25,978	0	0	-2,986	-25,978
0	-360,855	0	0	-1,586,660	-1,885,218	0	0	-1,586,660	-1,885,218
0	-5,437	0	0	75,802	81,849	0	-2,322	75,802	79,527
0	0	0	0	-2,267	-12,792	0	0	-2,267	-12,792
0	-5,437	0	0	73,535	69,057	0	-2,322	73,535	66,735
0	137,041	34,530	29,844	228,844	350,718	-65,886	-56,644	162,958	294,075
0	-25,584	-1,955	-2,539	-26,893	-58,249	8	4,196	-26,884	-54,053
0	111,457	32,575	27,304	201,951	292,470	-65,878	-52,448	136,073	240,022
0	-111,457	0	0	-74,542	-178,991	0	2,322	-74,542	-176,669
0	0	63,709	98,002	63,709	98,002	-38,345	-43,173	25,364	54,830
0	0	-65,282	-92,719	-65,282	-92,719	38,345	43,173	-26,937	-49,547
0	0	-1,573	5,283	-1,573	5,283	0	0	-1,573	5,283
0	4,406	952	745	38,476	29,254	0	0	38,476	29,254
0	-7,666	-3,564	-3,951	-81,515	-74,469	-9,209	-3,117	-90,724	-77,586
0	-3,259	-2,613	-3,206	-43,039	-45,215	-9,209	-3,117	-52,247	-48,332
0	-8,697	28,389	29,381	156,332	142,603	-75,087	-55,564	81,245	87,039
0	-197	-22	-70	-22	-267	0	0	-22	-267
0	-8,893	28,367	29,311	156,310	142,337	-75,087	-55,564	81,224	86,772
								-53,417	-43,654
								27,807	43,118
								-769	-314

Segment Reporting – Income Statement by German and International Business

(€'000)	German	
	2017	2016
Underwriting income		
Gross premiums written	942,702	1,126,696
Direct insurance business	920,939	1,104,331
Inward reinsurance business	21,763	22,364
Reinsurance premiums ceded	-9,138	-14,624
Change in net unearned premiums	-4,176	-6,269
Premiums earned for own account	929,388	1,105,803
Premiums from the gross provision for bonuses and rebates	8,279	37,395
Investment income allocated to the underwriting account	79,115	212,166
Unrealized gains on investments	0	1,605
Miscellaneous underwriting income for own account	4,088	9,282
Total underwriting income	1,020,869	1,366,251
Underwriting expenses		
Claims incurred net of reinsurance	-573,217	-754,140
Change in sundry net technical provisions	-117,118	-186,612
Expenses for bonuses and rebates	-49,931	-71,482
of which performance-based	-49,931	-70,242
of which non-performance-based	0	-1,241
Unrealized losses on investments	0	-7,278
Insurance business operating expenses	-269,851	-277,898
of which front-end fees	-108,223	-116,521
of which administrative expenses	-162,387	-163,586
of which reinsurers' share	758	2,209
Investment expenses allocated to the underwriting account	-4,201	-32,542
Miscellaneous underwriting expenses for own account	-2,244	-25,489
Total underwriting expenses	-1,016,563	-1,355,441
Subtotal	4,306	10,811
Change in the equalization provision and similar provisions	580	-7,585
Underwriting result for own account	4,886	3,225
Income from investments	203,900	323,308
Expenses for investments	-23,029	-50,578
Gains and losses on investments	180,871	272,730
Gains and losses on investments assigned to the underwriting account	-74,542	-178,991
Market fees for goods and services provided by non-insurance companies	63,709	98,002
Cost of goods and services provided by non-insurance companies to generate market fees	-65,282	-92,719
Gross profit	-1,573	5,283
Other income	33,924	27,040
Other expenses	-73,877	-64,326
Other net income/expense	-39,953	-37,286
Profit/loss from ordinary activities	69,688	64,961
Net extraordinary income/expense	-22	-267
Profit/loss before tax	69,667	64,695
Tax expense		
Net income for the year		
of which non-controlling interests		

International		Total		Consolidation		Group total	
2017	2016	2017	2016	2017	2016	2017	2016
642,275	603,003	1,584,977	1,729,698	0	0	1,584,977	1,729,698
459,641	427,314	1,380,580	1,531,645	0	0	1,380,580	1,531,645
182,634	175,689	204,397	198,054	0	0	204,397	198,054
-102	-4,258	-9,239	-18,881	0	0	-9,239	-18,881
-984	1,899	-5,161	-4,371	0	0	-5,161	-4,371
641,190	600,644	1,570,577	1,706,447	0	0	1,570,577	1,706,447
0	0	8,279	37,395			8,279	37,395
0	0	79,115	212,166	0	-2,322	79,115	209,844
0	0	0	1,605	0	0	0	1,605
402	172	4,491	9,454	0	0	4,491	9,454
641,592	600,816	1,662,461	1,967,067	0	-2,322	1,662,461	1,964,745
-280,809	-260,739	-854,027	-1,014,879	0	0	-854,027	-1,014,879
-29	26	-117,147	-186,586	0	0	-117,147	-186,586
0	0	-49,931	-71,482	0	0	-49,931	-71,482
0	0	-49,931	-70,242	0	0	-49,931	-70,242
0	0	0	-1,241	0	0	0	-1,241
0	0	0	-7,278	0	0	0	-7,278
-288,516	-268,576	-558,368	-546,474	0	0	-558,368	-546,474
-60,399	-56,125	-168,622	-172,646	0	0	-168,622	-172,646
-228,099	-214,851	-390,486	-378,437	0	0	-390,486	-378,437
-17	2,400	741	4,609	0	0	741	4,609
0	0	-4,201	-32,542	0	0	-4,201	-32,542
-742	-488	-2,986	-25,978	0	0	-2,986	-25,978
-570,096	-529,778	-1,586,660	-1,885,218	0	0	-1,586,660	-1,885,218
71,496	71,038	75,802	81,849	0	-2,322	75,802	79,527
-2,847	-5,206	-2,267	-12,792	0	0	-2,267	-12,792
68,649	65,832	73,535	69,057	0	-2,322	73,535	66,735
24,944	27,410	228,844	350,718	-65,886	-56,644	162,958	294,075
-3,864	-7,671	-26,893	-58,249	8	4,196	-26,884	-54,053
21,081	19,739	201,951	292,470	-65,878	-52,448	136,073	240,022
0	0	-74,542	-178,991	0	2,322	-74,542	-176,669
0	0	63,709	98,002	-38,345	-43,173	25,364	54,830
0	0	-65,282	-92,719	38,345	43,173	-26,937	-49,547
0	0	-1,573	5,283	0	0	-1,573	5,283
4,553	2,214	38,476	29,254	0	0	38,476	29,254
-7,639	-10,143	-81,515	-74,469	-9,209	-3,117	-90,724	-77,586
-3,086	-7,929	-43,039	-45,215	-9,209	-3,117	-52,247	-48,332
86,644	77,642	156,332	142,603	-75,087	-55,564	81,245	87,039
0	0	-22	-267	0	0	-22	-267
86,644	77,642	156,310	142,337	-75,087	-55,564	81,224	86,772
				-53,417	-43,654	-53,417	-43,654
				-128,504	-99,219	27,807	43,118
				-769	-314	-769	-314

Independent Auditor's Report*

To ARAG Holding SE, Düsseldorf

Audit Opinions

We have audited the consolidated financial statements of ARAG Holding SE, Düsseldorf, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows, as well as the consolidated segment reporting for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the group management report of ARAG Holding SE for the financial year from January 1 to December 31, 2017. We have not audited the non-financial group statement in accordance with the German legal requirements.

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

- the accompanying consolidated 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 Group as at December 31, 2017 and of its financial performance for the financial year from January 1 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the above mentioned non-financial statement referred to above.

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

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with §317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

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

Other Information

The executive directors are responsible for the other information. The other information comprises the non-financial group statement. The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group 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 consolidated financial statements, with the group 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 Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the requirements of German commercial law, and that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group 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 group management report.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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 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 consolidated financial statements and this group 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 consolidated financial statements and of the group 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 control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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.
- 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 Group'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 consolidated financial statements and in the group 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 Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group 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.

Düsseldorf, April 11, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Ludger Koslowski
Wirtschaftsprüfer (German Public Auditor)

Sven Capousek
Wirtschaftsprüfer (German Public Auditor)

Report of the Supervisory Board

The Supervisory Board continually monitored and advised the Management Board during the financial year, holding five ordinary Supervisory Board meetings for this purpose. One resolution was adopted using a written procedure. Monitoring was based on the written and oral reports presented by the Management Board, which provided the Supervisory Board with timely and comprehensive information on relevant planning matters, the performance of the Company and its equity investments, the risk situation, and risk management. The Supervisory Board also received detailed information between meetings on projects and plans of particular importance or urgency to the Company. At the meetings, the Management Board agreed the Company's strategic direction with the Supervisory Board. The Supervisory Board was involved in decisions of fundamental importance to the Company. Progress on implementing the strategy was regularly discussed in the meetings.

The main topics deliberated on during the Supervisory Board meetings included the completion and conclusion of the sale of the investee company ARAG Lebensversicherungs-AG, the business performance of the investee company ARAG SE, the business performance of the international branches and Group companies, and the investment in the Group's own real estate, including related reporting.

The Supervisory Board also regularly received explanations regarding risk reporting from the Management Board and discussed the risk strategy and the corporate strategy.

Finally, the Supervisory Board examined the allocation of responsibilities among the members of the Management Board and the appropriateness of the Management Board's remuneration. The planning for the professional development of the Management Board and the Supervisory Board was also covered at the meetings.

No special monitoring measures were required last year. The Supervisory Board believes that the Management Board manages the business lawfully, properly, and appropriately. In particular, the Management Board fulfills its duty of care regarding the Company's continued existence and long-term profitability.

The Supervisory Board reviewed the consolidated financial statements and group management report. To do so, it exercised its powers pursuant to section 111 (2) of the German Stock Corporation Act (AktG) including, but not limited to, inspecting the books and papers of the Company. The review was conducted on the basis of the regular written and oral reports from the Management Board about the business situation and all major transactions and on the basis of the commercial-law accounting regulations.

The scope of the review of the consolidated financial statements also covered the accounting options exercised by the Management Board. The findings of the review were as follows:

1. The Management Board's financial reporting complies with the legal requirements and the provisions in the articles of incorporation. The management report is consistent with the financial statements.
2. The accounting policy decisions that were made on a discretionary basis were exercised for the benefit of the Company and the Group and took shareholders' interests into account to an appropriate degree.

On behalf of the Supervisory Board, PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the consolidated financial statements for the year ended December 31, 2017, including the bookkeeping system and the group management report, and issued an unqualified opinion. The audit report was presented to the Supervisory Board on time. Having studied the report and on the basis of its own final review, the Supervisory Board agrees with the auditor's opinion. It has no comments to make about the audit report.

There are no objections to be raised on the basis of the concluding findings of the review of the consolidated financial statements, group management report, and audit report.

The Supervisory Board also discussed the non-financial statement prepared by the Management Board for ARAG Holding SE and the Group for the period ended December 31, 2017. An auditing firm reviewed this statement to provide the Supervisory Board with limited assurance and issued an unqualified opinion. At the meetings, the Management Board explained the documents in detail; the representatives of the auditing firm reported on the main findings of their review and answered additional questions from the members of the Supervisory Board. The Supervisory Board did not express any reservations on completion of its own review.

Düsseldorf, May 8, 2018

ARAG Holding SE

The Supervisory Board

Gerd Peskes
(Chairman)

Dr. Tobias Bürgers
(Deputy chairman)

Professor Dr. Brigitte Grass

Governing Bodies of the Company

Supervisory Board	Gerd Peskes	Wirtschaftsprüfer (German Public Auditor), Essen Chairman
	Professor Dr. Dr. h. c. Rolf Dubs	University professor, St. Gallen/Switzerland Deputy chairman (until May 10, 2017)
	Dr. Tobias Bürgers	Attorney, Munich Deputy chairman (since May 10, 2017)
	Professor Dr. Brigitte Grass	University professor, Cologne (since May 10, 2017)
Management Board	Dr. Dr. h. c. Paul-Otto Faßbender	Chief Executive Officer, Düsseldorf
	Klaus Heiermann	Cologne (since March 1, 2018)
	Dr. Sven Wolf	Krefeld

Information

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

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

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

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

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

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

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

Credits

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

