

ARAG HOLDING SE

2018 Annual Report

CONSOLIDATED FINANCIAL STATEMENTS



Dive into life.

The ARAG Group at a Glance

Premium income/sales revenue:

€ **1.68** billion

↗ 2017: €1.61 billion

Combined ratio:

88.6 %

↘ 2017: 89.9%

Underwriting result net of reinsurance:

€ **97.4** million

↗ 2017: €73.5 million

Consolidated equity:

€ **488** million

↗ 2017: €461 million

Profit from ordinary activities:

€ **70.2** million

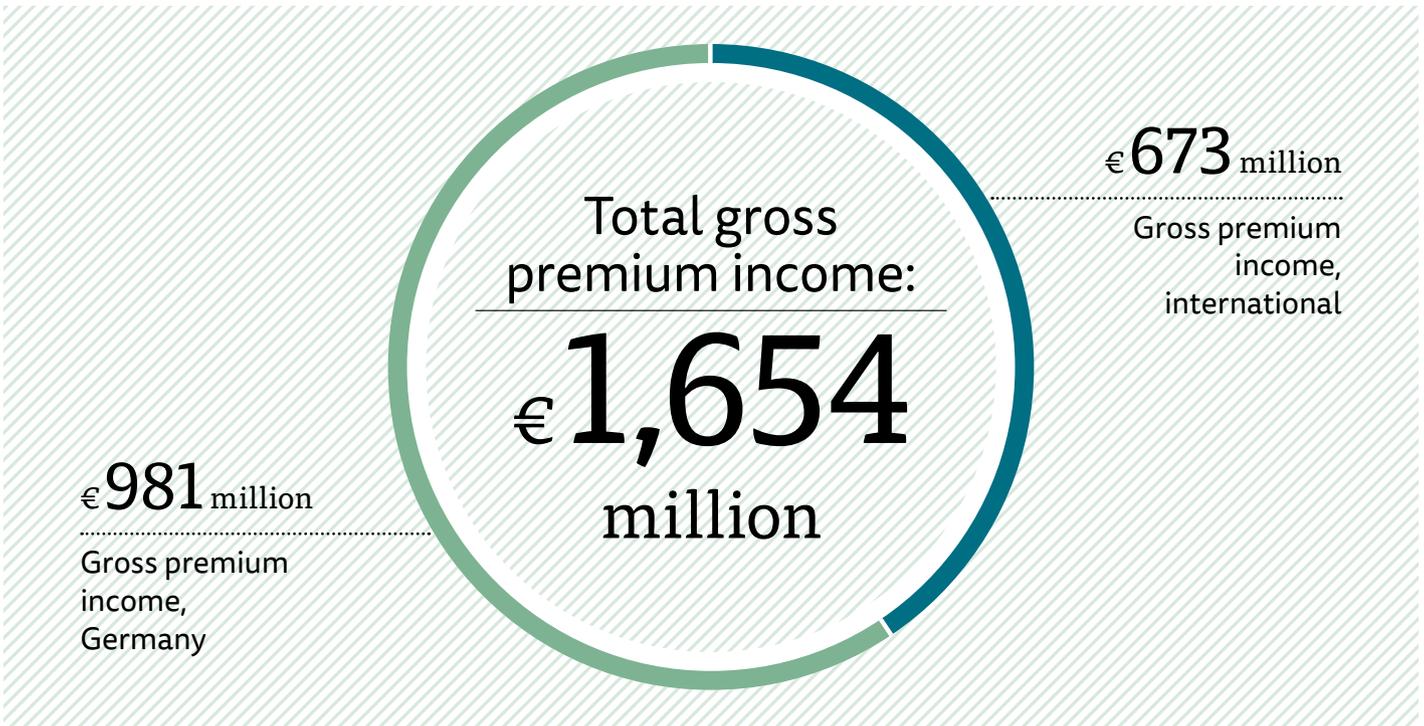
↘ 2017: €81.2 million

Consolidated net income:

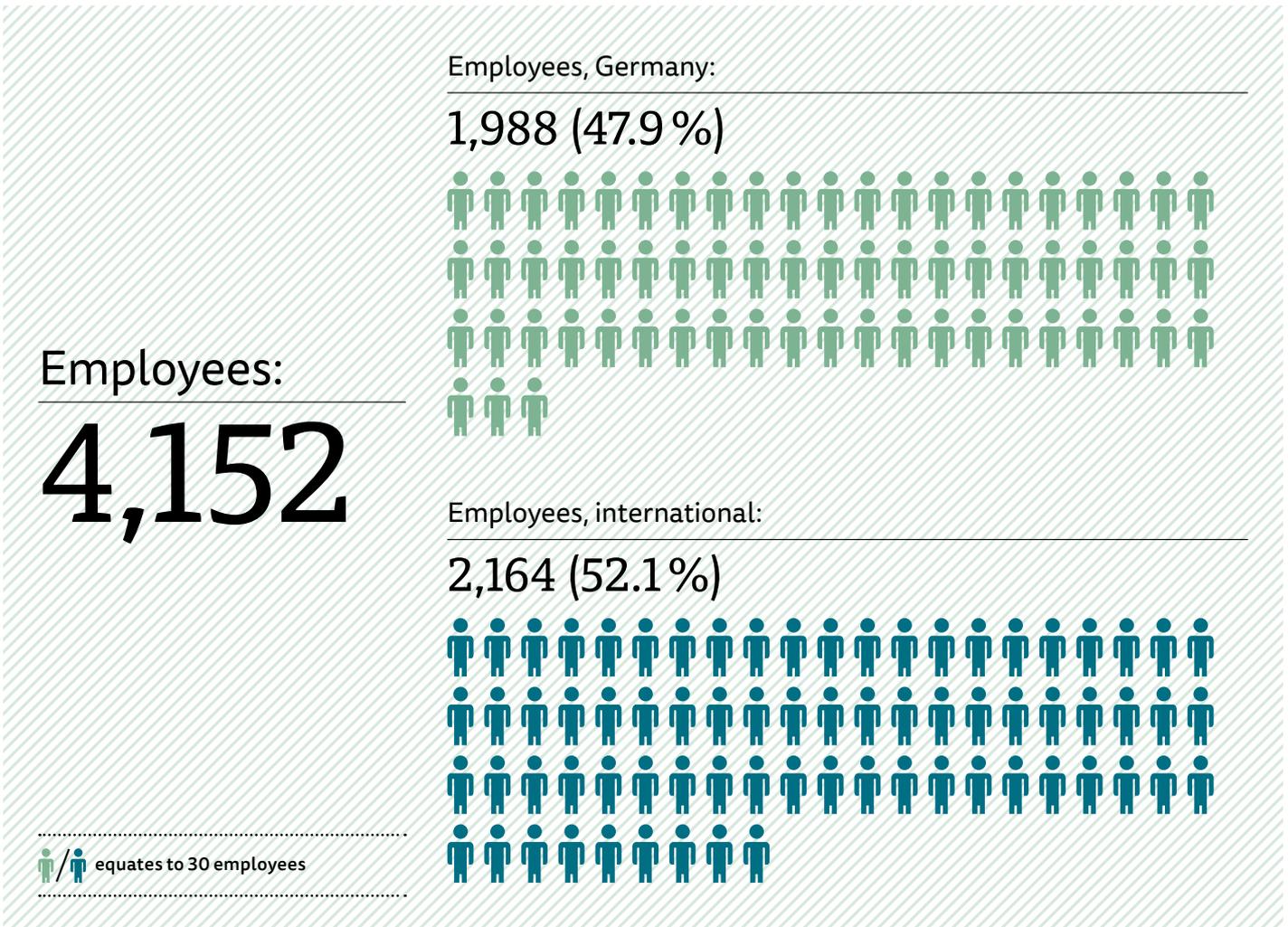
€ **34.7** million

↗ 2017: €27.8 million

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

€ 1,004 million*

↗ 2017:

€ 939 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

€ 276 million*

↘ 2017:

€ 281 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

€ 374 million*

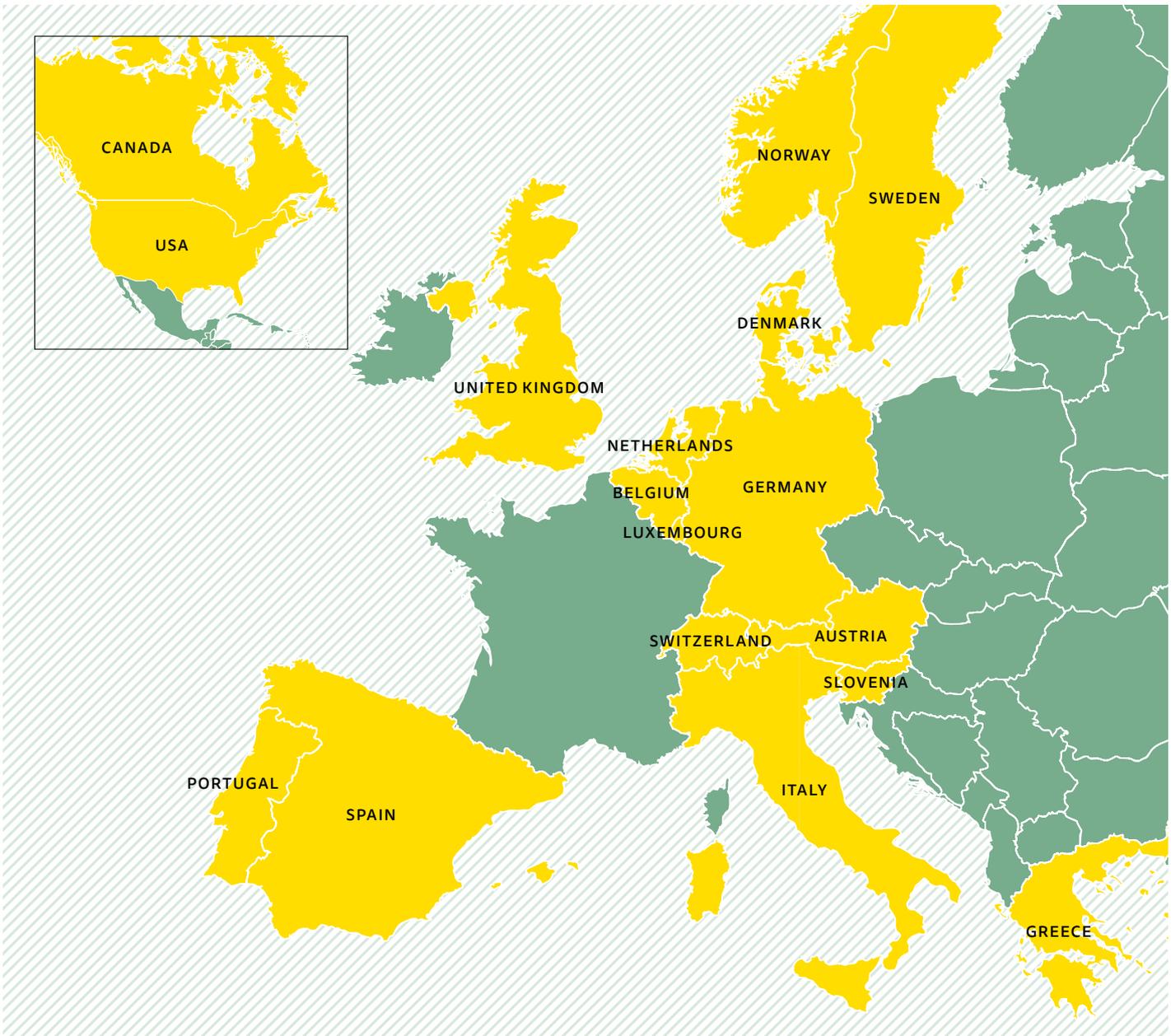
↗ 2017:

€ 365 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)

In 2018, ARAG received the distinction of **Most Innovative Brand** in the Plus X Award for innovation for the third year in succession. The Group was ranked **number one** in the 2019 Email Marketing Benchmarks survey. For the second time in a row, **www.ARAG.de** was singled out by AMC Finanzmarkt GmbH as the **top website** in the industry. In the portfolio institutionell Awards 2018, ARAG SE received an award for **Best Risk Management** for the second time.

In 2018, ARAG Krankenversicherung (ARAG Health) was the beneficiary of multiple **accolades from third-party analysts and rating agencies** for the high quality associated with the company. These included distinctions from Morgen & Morgen, [ascore] Das Scoring, softfair, and Deutsches Finanz-Serivce Institut GmbH. At the end of 2018, ARAG Health was also voted the **most popular supplementary health insurance provider** for the 44th quarter in succession in the AssCompact Trends survey of brokers.

ARAG Italy once again featured among the **winners in the Italy Protection Awards** in 2018. Its digital marketing campaigns also won the **Best Digital Project** category at the Italy Insurance Forum. In 2018, ARAG Spain's website and social media management again received **top rankings** from Innovación Aseguradora. **Bronze, silver, and gold** stars were awarded by Spanish broker organization ADECOSE.

In the Best Companies Index for 2018, ARAG Plc. successfully retained its two-star status as one of the **Best in the West** employers. The Charities Aid Foundation conferred its **Payroll Giving Platinum Award** on both the company and its employees. ARAG Austria came out **top** in the Legal Insurance category of the Austrian AssCompact Awards 2018. It was also **ranked second** in the Legal Insurance Specialist category of the Assekuranz Award Austria organized by the Austrian Insurance Broker Association.

BenchmarkPortal again singled out ARAG North America for its excellent customer service in the Small Centers category at the Top Contact Centers Contest, classifying the company's customer center as one of its **top 100 call centers** and a **BenchmarkPortal center of excellence**. The branded content campaign earned **two bronze medals** in The Telly Awards.

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/ Group 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)

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Overview

ARAG Holding SE Key Figures – Consolidated Financial Statements

(€ million)	2018	Change	2017	2016*
Sales revenue				
Gross premiums written	1,653.7	4.3%	1,585.0	1,729.7
Premiums earned net of reinsurance	1,640.0	4.4%	1,570.6	1,706.4
Sales revenue of non-insurance companies	24.1	-5.1%	25.4	54.8
Expenses				
Claims incurred net of reinsurance	870.0	1.9%	854.0	1,014.9
Claims ratio (basis: premiums earned)	53.1%	-1.4% pts.	54.4%	59.5%
Insurance business operating expenses net of reinsurance	582.7	4.4%	558.4	546.5
Cost ratio (basis: premiums earned)	35.5%	-0.1% pts.	35.6%	32.0%
Net income overview				
Underwriting result net of reinsurance	97.4	32.5%	73.5	66.7
Gains and losses on investments	81.2	-40.4%	136.1	240.0
of which included in underwriting result	52.8	-29.1%	74.5	176.7
Other net income/expense	-51.7	-1.0%	-52.2	-48.3
Profit/loss from ordinary activities	70.2	-13.6%	81.2	87.0
Consolidated net income	34.7	24.9%	27.8	43.1
Technical provisions/ net premiums earned	234.0%	0.8% pts.	233.2%	349.6%

* The 2016 comparative 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 its own unique needs-based products and services covering casualty and property insurance and health insurance. The Smart Insurer Program launched in 2018 is a key initiative in the ARAG Group's efforts to comprehensively harness the opportunities presented by digitalization, one of the major challenges going forward, thereby creating appropriate added value for customers. The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 17 countries (Germany, other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It is also preparing to launch in two other markets in 2019: the Republic of Ireland and Australia. The Group generates sales revenue and premiums of around €1.7 billion and employs over 4,100 people.

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

Legal insurance

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

Casualty and property insurance

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

Personal insurance

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



Dr. Dr. h. c. Paul-Otto Faßbender

Introduction

The business maxim of the ARAG Group is 'act, perform, and deliver'. A glance at the key figures for 2018 shows what this means in practice. ARAG has enjoyed rapid, successful growth focused on the property and health insurance business, demonstrating that we have chosen the right, sustainable strategic direction.

The ARAG Group generated premium growth of 4.3 percent in the year under review. The business is performing well, both in Germany and abroad. It is not only premium income that is going up, however: We are managing to achieve a net rise in the number of customers, attracted by our impressive range of products and services. For a number of years now, the international business has been a very reliable engine of growth in the Group. Premium income from the international activities went up by 4.7 percent in 2018, with the main impetus for this growth coming from the teams in the US, Scandinavia, the Netherlands, and the UK. We are also preparing for a market launch in Australia.

In the German market, premium growth was at its highest, as in previous years, in the legal insurance business at 7.3 percent. An important milestone was reached in this regard in 2018 as premium income from our legal insurance business passed the €1 billion mark for the first time. Across all classes of insurance, ARAG generated growth of 4.1 percent in Germany, once again outperforming the market. At the same time, ARAG achieved another healthy financial performance. The underwriting result – the measure of operating efficiency in the Group – rose by 32.5 percent. The combined ratio fell to 88.6 percent, the fifth year in a row we have achieved a reduction.

The ARAG Group will continue to grow rapidly going forward. We will not be resting on our laurels. As far as we are concerned, digitalization – and all the transformation and momentum it entails – is a stroke of luck. It is enabling us to make the most of our strengths as a mid-sized company and we are already delivering measurable results. The sheer size of our competitors hampers the speed of their response and we must exploit this to our advantage.

We have therefore launched into a new stage of development for the ARAG Group: The aim of the ARAG Smart Insurer Program is to bring greater coherence to the many innovations and enhancements that we have been driving forward for a number of years under the general heading of 'digitalization' and create a much sharper focus on delivering benefits for our customers.

On this basis, ARAG will maintain its momentum in 2019. We have a clear idea of how we are going to sustain the successful development of the Group and respond to critical issues such as digital transformation. Buoyed by our impressive business performance, we head into the future with confidence and optimism.



Dr. Dr. h. c. Paul-Otto Faßbender

Group Management Report

Changes in premium income and sales revenue

(€ million)	2018	2017	2016
Legal insurance	1,004.3	938.9	893.0
of which domestic	397.7	370.9	351.5
of which international	606.6	568.0	541.5
Casualty and property insurance	275.7	281.0	266.1
of which domestic	209.6	206.8	204.7
of which international	66.1	74.2	61.4
Life insurance	-	-	213.7
Health insurance	373.7	365.1	356.9
Service companies	24.1	25.4	54.8
Total	1,677.8	1,610.3	1,784.5

- ARAG premium increase of 4.3 percent
- Above-average growth of 4.1 percent in Germany
- International business income up by 4.7 percent
- Premium income in legal insurance segment tops €1 billion for first time
- Further significant improvement in underwriting result

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 its own needs-based products and services in casualty and property insurance and health insurance business.

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. It is also preparing to launch in two other markets in 2019: the Republic of Ireland and Australia.

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. It will be possible to continue the business in the UK in the future regardless of how the country's exit from the EU is arranged.

The intermediary model successfully operated in the UK has been adapted for use in the Canadian market, where ARAG has been offering legal insurance through a Group company since the end of 2016. The model will additionally be used for the Australian market from 2019.

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

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

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

Economic risks in Germany were greater in 2018 compared with the previous year. Most notably, the global economic conditions gave rise to risks that particularly affected the German economy because of its significant dependence on exports – for example, risks caused by the protectionist trade policy pursued by the US. In spite of this and the numerous uncertainties, especially in the international environment, the German economy maintained its recovery in the first half of 2018 and then expanded at a weaker rate toward the end of the year. One of the main drivers remained the robust domestic economy, bolstered by a sharp rise in employment and low interest rates. On the other side of the equation, however, the level of new orders contracted and production capacity remained rather static, caused by tough conditions in key eurozone markets for German companies. The number of people in employment grew by 590,000 in 2018. Unemployment fell by 192,000, reducing the unemployment rate to 5.2 percent. The favorable labor

market conditions led to a rise of 2.6 percent in collectively agreed monthly pay, as a result of which household consumption continued to make a substantial contribution to economic expansion in the year under review. As a consequence, consumer prices also rose slightly. Overall, this led to an inflation rate of approximately 1.8 percent. The institutions represented in the Joint Economic Forecast project team are also forecasting GDP growth of 1.7 percent for 2018.

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

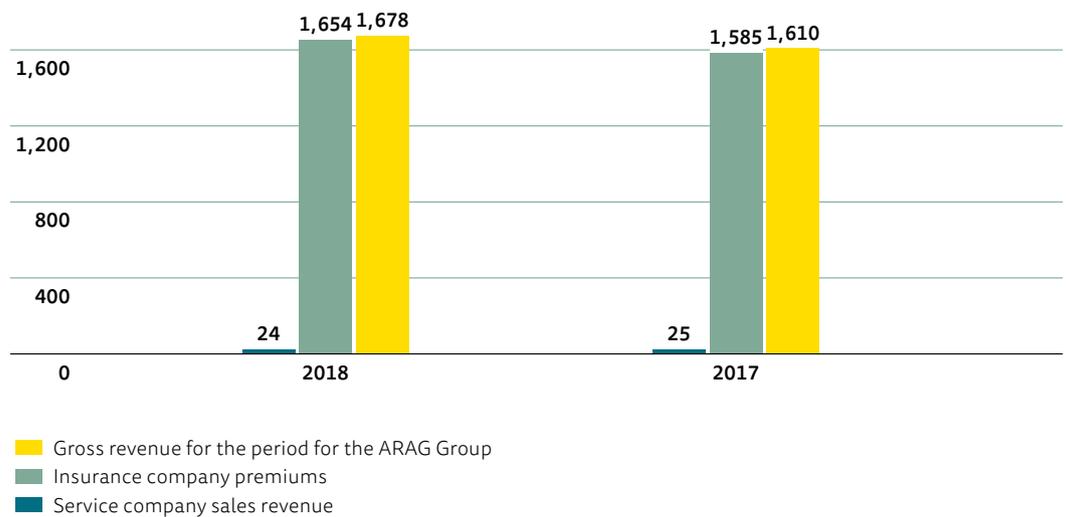
The German Insurance Association (GDV) predicts that the German insurance market will have seen growth in premiums compared with 2017. Year on year, gross premiums written rose by approximately 2.6 percent overall in 2018 (2017: 1.9 percent). Premium income in direct casualty and property insurance business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

Business performance

In the year under review, the ARAG Group continued to pursue the successful growth strategy established over the last few years. Gross premium income from insurance business rose by 4.3 percent in 2018, from €1,584,977.0 thousand to €1,653,719.8 thousand. With the inclusion of the service providers, the total premiums and sales revenue in the Group therefore amounted to €1,677,778.3 thousand (2017: €1,610,340.7 thousand).

Gross revenue for the period

(€ million)



Even though growth in the overall German insurance market was just 2.6 percent, ARAG lifted its premium income in this market by 4.1 percent. Premium income amounted to €981,047.8 thousand compared with €942,701.5 thousand in 2017. The growth was driven primarily by the increase in the Group's share of the German legal insurance market. Gross premium income from direct business in the German legal insurance market rose by 7.3 percent year on year. Gross premiums written went up by €26,889.7 thousand to €397,729.3 thousand. Most of this increase was derived from the addition of 46,164 policies to the policy portfolio; only a small proportion was due to premium adjustments.

The international legal insurance business remained a fast-growing area of activity, returning an increase of 6.8 percent in gross premiums, which climbed from €568,036.2 thousand in 2017 to €606,573.5 thousand in the reporting year. The markets with the highest sales revenue are the Netherlands, Spain, Italy, the US, Austria, and Scandinavia. Despite tough conditions in the private health insurance market, the Group's health insurance business 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, mainly in the supplementary health insurance

business, where ARAG has been traditionally strong and well positioned for many years. A significant feature of the performance of the casualty and property insurance segment in 2018 was a gain in premiums in Germany, although this was insufficient to fully offset premium losses in the international special service package business caused by contractual changes. Accordingly, gross premiums written in this segment contracted by a total of 1.9 percent year on year to €275,676.7 thousand.

The Group's portfolios comprised 7.1 million policies as of the reporting date (December 31, 2017: 6.9 million). The portfolio comprised 3.6 million policies (December 31, 2017: 3.6 million) related to the international business and 3.5 million policies (December 31, 2017: 3.3 million) arising from domestic business. Added to this were a further 20.8 million insured risks in the domestic sports insurance business (property and casualty insurance segment), which were covered via 18 group policies – primarily with state sports associations.

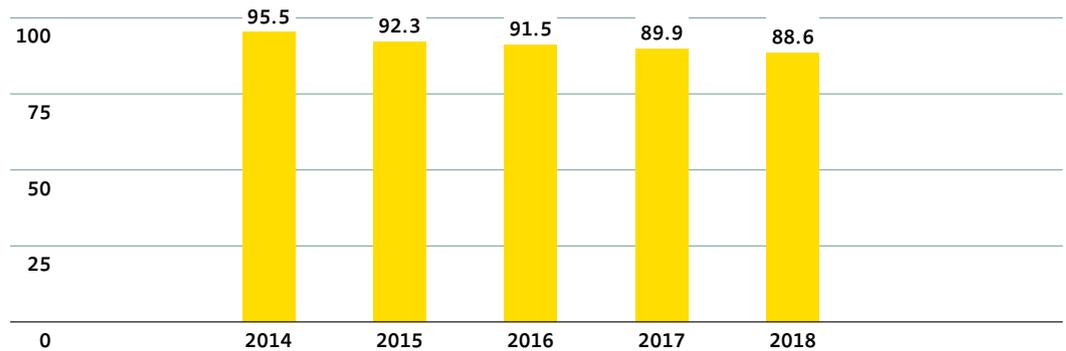
The sales revenue generated by non-insurance companies in the Group declined by 5.2 percent from €25,363.8 thousand to €24,058.4 thousand. In 2017, ARAG had still provided IT services for third parties in connection with the sale of ARAG Lebensversicherungs-AG in the same year. These services were no longer provided from mid-2018.

In the legal insurance business as a whole, claims incurred rose from €479,345.9 thousand in 2017 to €506,150.8 thousand in the year under review. This was primarily attributable to the growth in business volume. By contrast, claims incurred went down in the casualty and property insurance business, decreasing by €4,560.1 thousand. Expenses for claims incurred in health insurance declined by a total of €6,270.0 thousand owing to a more favorable pattern of claims. Overall, claims incurred by the Group in the year under review were up by 1.9 percent compared with the prior-year figure. Because of the good level of premium growth, the Group claims ratio showed a further improvement, falling from 54.4 percent to 53.1 percent.

Insurance business operating expenses in the Group rose by 4.4 percent. This increase was a consequence of the significant growth and was linked to the additional commission expense. Another significant factor in this regard was the headcount increase, especially in the international branches and subsidiaries. The mortality tables used for calculating the German defined benefit obligations had also been adjusted for the year under review in line with the rise in life expectancy. Insurance business operating expenses rose to €582,672.4 thousand (2017: €558,367.7 thousand). The Group cost ratio was 35.5 percent, which was more or less the same as the prior-year level (35.6 percent). In 2018, the Group's combined ratio declined to 88.6 percent (2017: 89.9 percent), the fifth year in succession that this ratio has fallen.

Changes in combined ratio

(%)

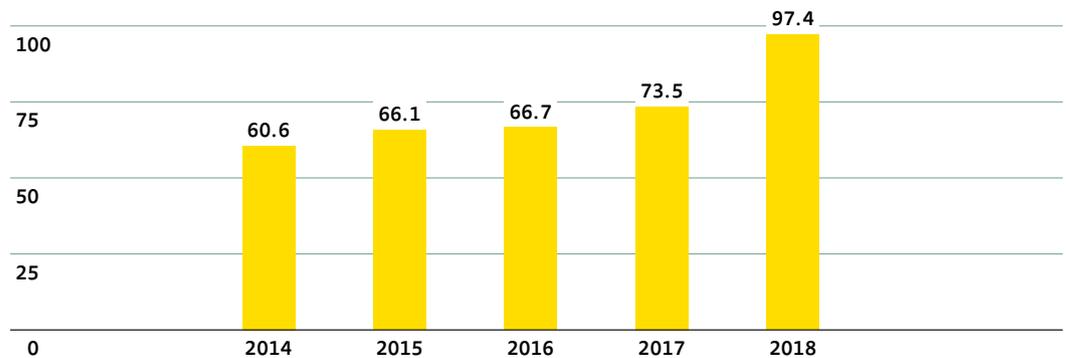


■ Combined ratio for the ARAG Group

The ARAG Group's underwriting result improved by a substantial 32.5 percent, advancing from a profit of €73,534.6 thousand in 2017 to €97,438.6 thousand in 2018. A key factor in this regard was the much better underwriting result in the property insurance business, especially in the legal insurance segment. In the latter, which is the largest Group segment, underwriting profit was up by €19,677.4 thousand year on year. The underwriting result in casualty and property insurance improved by €4,028.4 thousand, whereas the corresponding result in health insurance once again remained stable.

Changes in underwriting result

(€ million)



■ Underwriting result for the ARAG Group

The Group's net gains on investments declined significantly. The main reason was a fall in market prices, primarily for institutional investment funds, leading to write-downs. In 2017, the balance of write-downs, reversals of write-downs, and net gains/losses on disposals had still been well into positive territory. On the other hand, ordinary income from investments, including that from institutional funds, remained steady. Overall, the non-underwriting net gains on investments decreased year on year from €61,530.9 thousand to €28,318.8 thousand.

The net expense of €51,707.9 thousand reported under other net income/expense was slightly lower than the equivalent prior-year figure (net expense of €52,247.5 thousand), one factor being that the write-downs on goodwill arising on consolidation had been higher in 2017 on a non-recurring basis. At €70,236.4 thousand, profit from ordinary activities was again at a sound level (2017: €81,245.3 thousand).

The net extraordinary expense of €21.8 thousand in 2017 had arisen 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. As expected, no further adjustment expenses arose in the year under review.

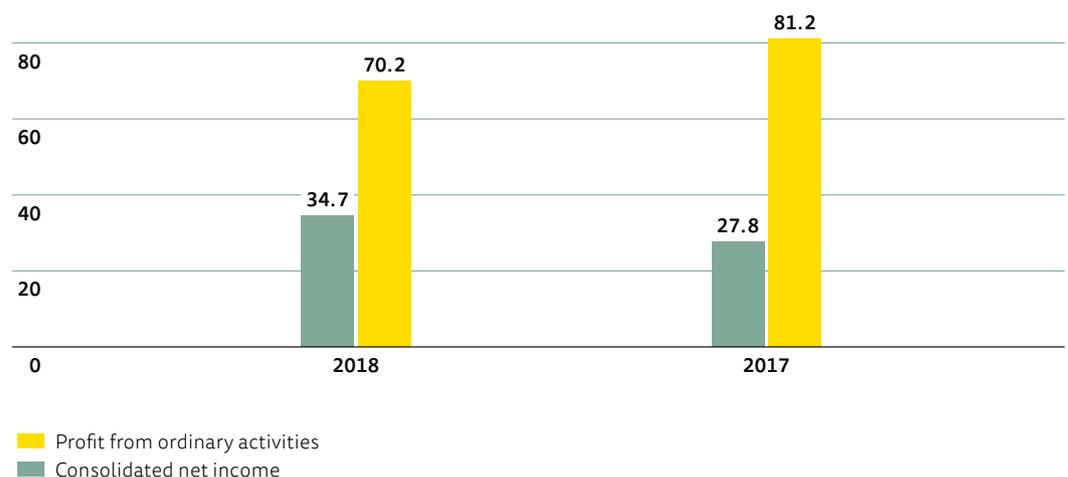
Overall, profit before tax decreased year on year by €10,987.1 thousand, or 13.5 percent, to €70,236.4 thousand.

The Group's tax expense amounted to €35,492.0 thousand (2017: €53,416.9 thousand). In 2017, the high level of tax expense had been caused by the change in net deferred tax assets in an amount of €20,000.6 thousand.

After deduction of taxes and non-controlling interests, consolidated net income came to €34,047.1 thousand (2017: €27,037.8 thousand).

Net income

(€ million)



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.

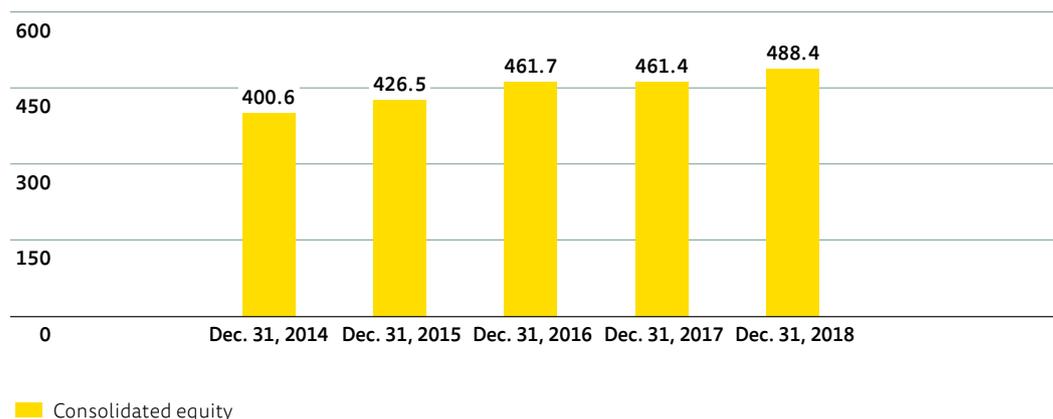
The underwriting liabilities are covered by investments of €4,353,323.5 thousand (December 31, 2017: €4,215,928.9 thousand). In addition to current bank balances and cash on hand, the ARAG Group has investments at its disposal that can be sold on the capital and financial markets at short notice, thus ensuring that the Group is able to satisfy its payment obligations under insurance contracts at all times.

In the year under review, consolidated equity increased from €461,368.8 thousand to €488,403.2 thousand.

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 within the consolidated financial statements.

Changes in equity

(€ million)



Net assets

The Group's portfolio of investments grew by 3.3 percent in 2018, from €4,215,928.9 thousand to €4,353,323.5 thousand. The fair value of the Group's investments amounted to €4,715,463.6 thousand as of the balance sheet date (December 31, 2017: €4,704,976.3 thousand).

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

Type of investment

(€ million)	Dec. 31, 2018		Dec. 31, 2017	
I. Land and buildings	194.7	4.5 %	202.0	4.8 %
II. Shares in affiliated companies and equity investments	15.4	0.4 %	17.9	0.4 %
III. Lending to affiliated companies and equity investments	0.4	0.0 %	0.0	0.0 %
IV. Equities and investment fund shares/units	1,483.2	34.0 %	1,484.3	35.2 %
V. Bearer bonds	1,331.6	30.6 %	1,171.6	27.8 %
VI. Loans secured by mortgages and land charges	5.5	0.1 %	6.5	0.1 %
VII. Registered bonds, promissory notes	1,137.5	26.1 %	1,149.9	27.3 %
VIII. Bank deposits	48.9	1.1 %	87.1	2.1 %
IX. Sundry lending	0.1	0.0 %	3.2	0.1 %
X. Miscellaneous investments	80.2	1.8 %	43.7	1.0 %
XI. Deposits with ceding insurers	55.9	1.3 %	49.7	1.2 %
Total	4,353.3	100.0 %	4,215.9	100.0 %

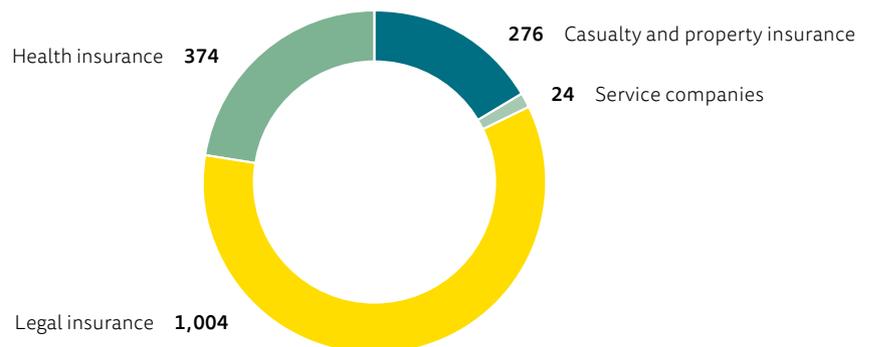
Segment reporting

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 2018

(€ million)



Gross premium income

(€ million)	2018	2017
Legal insurance	1,004	939

Legal insurance

In 2018, the legal insurance segment again proved to be the fastest-growing and most profitable insurance segment in the ARAG Group. A very high increase in Germany, together with the continuation of the growth trajectory in international markets, resulted in an overall rise in premiums of €65,427.0 thousand. Alongside Germany, the markets with the highest sales revenue are the Netherlands, Spain, Italy, the US, Austria, and Scandinavia. In the year under review, the Group reached a historic milestone in its legal insurance business: The premiums written in the segment passed the €1 billion mark for the first time, rising by 7.0 percent overall from €938,875.9 thousand in the previous year to €1,004,302.9 thousand in 2018. 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 (60.4 percent) remained almost at the level of the previous year (60.5 percent).

Claims incurred in the whole of the legal insurance segment rose from €479,345.9 thousand to €506,150.8 thousand. As in 2017, the main contributing factors were the greater level of business, accumulation losses, and the diesel emissions issue. Overall, the segment claims ratio went down from 51.3 percent to 50.6 percent because of the simultaneous strong rate of growth. The cost ratio fell from 44.1 percent to 42.8 percent despite an increase in headcount in the year under review and the rise in pension and other post-employment benefit expenses caused by the switch to new mortality tables. Accordingly, the underwriting profit for the whole of the legal insurance segment rose sharply, climbing from €43,617.4 thousand to €63,294.8 thousand.

Net gains on investments in the legal insurance segment were down by 33.1 percent year on year at €56,272.7 thousand (2017: €84,080.5 thousand). This was primarily attributable to a high level of write-downs. The segment generated profit from ordinary activities of €84,445.5 thousand (2017: €97,232.9 thousand). This included the net expense under other net income/expense of €35,122.0 thousand, which was higher than the equivalent prior-year figure (2017: net expense of €30,464.9 thousand).

The **international legal insurance business** generated premium growth of 6.8 percent in the year under review. Gross premiums written amounted to €606,573.5 thousand compared with €568,036.2 thousand in 2017. The ARAG Group provides products and services for customers in Germany and a total of 16 other countries. Business grew by 6.0 percent in the Netherlands, 6.3 percent in Austria, and 5.5 percent in Italy. ARAG's business in the US expanded by 13.0 percent (measured in US dollars) and in Scandinavia by 16.0 percent (measured in Norwegian kroner).

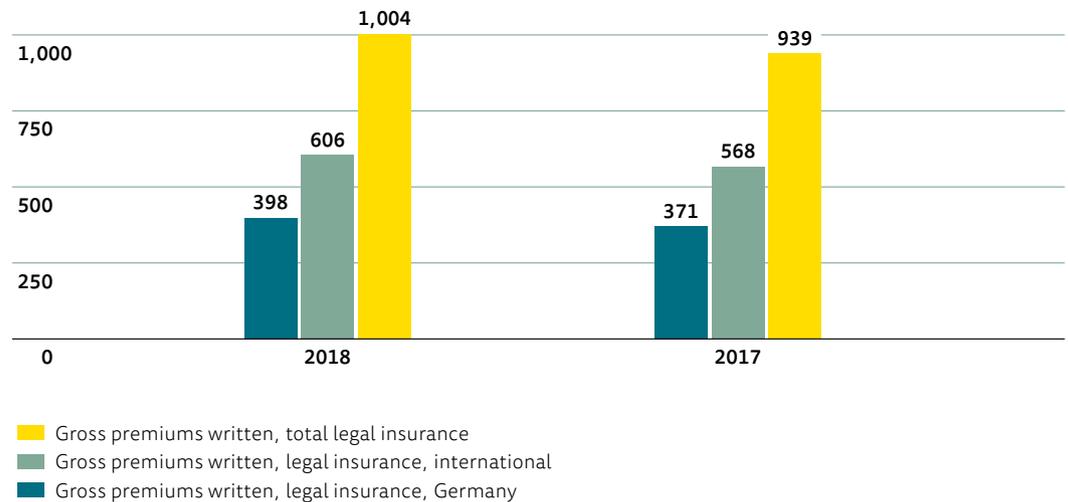
Gross premiums written included further premium income of €65,414.6 thousand (2017: €73,566.4 thousand) derived from the legal-insurance-related special service package business generated by the Spanish, Italian, and Portuguese branches of ARAG SE. These premiums are reported under the casualty and property insurance segment.

In the reporting year, the expenses for claims incurred in the international legal insurance business went up from €238,661.4 thousand to €260,637.9 thousand due to the considerably larger business volume. Overall, the claims ratio only increased slightly however, to 42.9 percent (2017: 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 87.6 percent to 87.9 percent.

International legal insurance business shows continuous growth

(€ million)



The **legal insurance business in Germany** maintained strong premium growth in 2018. The rise in premium income of 7.3 percent outstripped the market average by some way. This was primarily attributable to the expansion of the policy portfolio by 3.1 percent (46,164 contracts) and to the growth in the inward reinsurance business from the UK. Premium adjustments only made a small contribution to the growth. Including the inward reinsurance business, the total income from gross premiums written in German legal insurance amounted to €397,729.3 thousand (2017: €370,839.6 thousand).

The claims ratio in the German legal insurance business went down from 65.6 percent in 2017 to 62.5 percent in 2018. Greater provision for increased accumulation losses led to a rise in the claims incurred from €240,684.5 thousand in the previous year to €245,512.8 thousand in 2018.

The net cost ratio fell to 39.4 percent in 2018 (2017: 41.7 percent). On the one hand, costs were pushed up by a rise in staff expenses caused by collectively agreed pay rises and new appointments. On the other hand, there was a redistribution of selling costs among the segments in the Group as a result of a change in commission agreements in the year under review. This cut the costs in the German legal insurance business, which had previously borne the bulk of these costs.

An amount of €377.1 thousand was added to the equalization provision for the inward reinsurance business (2017: €232.1 thousand).

Overall, the German legal insurance business ended the year with an underwriting loss, which at €7,860.2 thousand was nevertheless considerably lower than the loss incurred in 2017 (€25,371.9 thousand).

Casualty and property insurance

The casualty and property insurance segment was unable to remain on its growth trajectory in the year under review. Gross premiums written declined by 1.9 percent to €275,676.7 thousand in 2018 (2017: €281,002.2 thousand). There was some impact in 2018 from the action initiated over the last few years aimed at revamping and bringing a strategic focus to the product portfolio in Germany in that premium income went up in the German market. Sales through brokers via the Group's own brokerage specialist, Interlloyd Versicherungs-AG, contracted, resulting in a decrease of 1.3 percent in premium income from this sales channel. Premiums from the legal-insurance-related special service package business in the Spanish, Portuguese, and Italian branches of ARAG SE are allocated to the casualty and property insurance segment. Following the termination of major contracts by ARAG Spain, premium income from this business declined from €73,566.4 thousand to €65,414.6 thousand.

Claims incurred in 2018 were affected by storm events, such as storm Friederike in Germany at the beginning of the year. 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. As a result of the transfer of risk to reinsurers, the claims incurred in Germany decreased by 0.9 percent year on year. The contraction of the business volume in the legal-insurance-related business in Spain, Portugal, and Italy caused claims incurred to fall by an additional €3,608.7 thousand. Claims incurred in the casualty and property segment totaled €147,336.0 thousand and were thus lower than the prior-year level of €151,896.1 thousand. As a consequence of this decrease in expenses, the claims ratio went down from 55.9 percent to 55.3 percent.

The cost ratio increased year on year from 39.0 percent to 41.1 percent. The primary contributing factor in this case was the modification of the distribution of selling costs in the Group at the beginning of 2018 resulting from new commission agreements. The impact from this change was not fully offset by a fall in commissions outside Germany. Underwriting profit before the equalization provision therefore went down from €12,875.7 thousand in 2017 to €8,736.3 thousand in the reporting year. After a reversal of the equalization provision amounting to €7,821.2 thousand, the underwriting profit

Gross premium income

(€ million)	2018	2017
Casualty and property insurance	276	281

amounted to €16,557.5 thousand, which was higher than the equivalent prior-year figure (2017: €12,529.1 thousand). Including net gains on investments, which declined by €4,469.5 thousand, and other net income/expense, which improved by €1,197.3 thousand, the casualty and property insurance segment again delivered a sound level of profit from ordinary activities, which amounted to €18,702.0 thousand (2017: €17,945.7 thousand).

Gross premium income

(€ million)	2018	2017
Health insurance	374	365

Health insurance

Once again in 2018, the Group was able to continue expanding its premium income in the private health insurance segment. Gross premiums written went up by €8,641.4 thousand to a total of €373,740.3 thousand. This equates to growth of 2.4 percent, which was slightly above the level for the health insurance sector as a whole. The main growth driver for the segment was and remains ARAG's traditionally strong supplementary health insurance business. However full-coverage health insurance regained some ground and also contributed to the growth.

Amounts paid out for claims fell by 2.8 percent to €216,514.6 thousand owing to a more favorable pattern of claims compared with the previous year. The addition to the actuarial reserve amounted to €123,601.5 thousand, an increase compared with the equivalent figure of €117,351.8 thousand in 2017. Overall, the underwriting result in 2018 was very similar to that in 2017 at a profit of €17,586.3 thousand (2017: profit of €17,388.2 thousand). The net gains on investments included in this figure went down by €21,709.8 thousand year on year, however, to €52,832.6 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 slightly to €13,277.1 thousand (2017: €12,764.4 thousand), thereby sustaining a reasonable contribution to the consolidated profit before tax.

Sales revenue

(€ million)	2018	2017
Service companies	24	25

Services and asset management

This segment brings together Group companies that provide core services outside straightforward 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 and Canadian reinsurance business are also assigned to this segment. The sales revenue generated by the non-insurance companies with third parties and the other segments in the Group fell from €63,709.3 thousand in 2017 to €62,034.5 thousand in 2018. After adjustment for the intra-group sales revenue in the service companies, the remaining sales revenue generated from third parties came to €24,058.4 thousand compared with €25,363.8 thousand in 2017. Profit before tax was €26,087.5 thousand (2017: €28,367.3 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 Germany

Since the close integration brought about in 2017 by the creation of a new Group area of responsibility referred to as 'Sales, Products and Innovation', all sales channels are now operating as one and are already enabling ARAG to leverage valuable synergies.

The Group's sales organization makes a fundamental contribution to ARAG's business success in Germany. ARAG Core Sales is the traditionally strong sales channel selling ARAG products exclusively: Some 1,000 ARAG Sales Partners use the network of over 115 main branch offices and other branch offices across Germany to provide customers with professional, face-to-face support and advice at local level.

This is underpinned by ARAG's holistic 'Red Thread' approach to insurance advice and support. For customer visits, ARAG Sales Partners can use either a paper version or a digital version for tablets that can be accessed via a proprietary advice app. Since 2018, applications for legal, property, liability, and accident insurance have no longer been printed out, reflecting in particular the key issues of sustainability in the ARAG Group and the advance of digitalization. Core Sales also uses digital touchpoints for greater connectivity, whether for contact with customers or to sign up new sales partners.

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

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

ARAG Partner Sales is ARAG's successful sales channel specializing in brokers and non-exclusive agents. It has a wealth of experience in working with a wide variety of target groups, from specialist brokers to pool structures and sales outfits. Streamlined structures and processes minimize the effort involved for agents, while knowledgeable contacts in the Field Sales and Sales Administration organizations ensure that brokers and non-exclusive agents receive professional support in every regard. In 2018, the online broker portal also continued to be revised and expanded.

In addition, ARAG increased its customer base in online business to more than 250,000 customers. This equates to almost 12 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.

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 throughout the entire area of insurance broking.

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

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

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

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

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

Non-financial performance indicators

ARAG is the internationally successful, innovative quality insurer – independent and family-owned. The ARAG Group has enshrined this self-image in its corporate guidelines. Since ARAG was established in 1935, the business concept of the Company has been based on the aim of establishing equality of opportunity and enabling any individual to have access to the law, regardless of his or her financial circumstances. Accordingly, the ARAG Group helps its customers create scope to make personal choices at any stage of their lives.

Based on innovative insurance products and beneficial services, ARAG minimizes the risks faced by its customers, so that customers can concentrate entirely on the opportunities available to them, leading an active, independent life. ARAG made four of its unique insurance products the focus of an advertising campaign launched in May 2018. Particular emphasis was given to the two legal insurance products with retroactive cover: ARAG Sofort legal insurance for motorists and ARAG Sofort legal insurance for tenants, the latter being available since the beginning of 2018. The message in the commercials for both products was that it does not matter what happens when you are covered by ARAG insurance. ARAG will help immediately and even retroactively. The commercials featuring special characters – a ‘rent shark’ and a ‘bully ox’ – came across best. The new advertising campaign also included two brief commercials focusing on the attractive supplementary dental insurance offered by ARAG Krankenversicherung. The campaign was effective in the brand target group. The successful series of campaigns is being continued in 2019.

In the year under review, the ARAG Group again systematically expanded its products and services – always focused on the constantly changing requirements and needs of customers and consumers. Based on optimum integration between these innovative product activities, a highly efficient workforce and IT structures, a state-of-the-art brand presence, the guidance provided by the new Smart Insurer Program (see the section ‘Innovation’), and clear strategic positioning as an independent, international provider of high-quality insurance products and services, ARAG has established the best possible foundations for further sustainable growth.

Innovation In the ARAG Group, ongoing systematic development gives rise to a wide range of innovations. This is reflected in the targeted expansion of the portfolio and in the design of groundbreaking product and service ideas. It is imperative for the Group that these activities are sharply focused on new customer needs and requirements, which are changing rapidly in the digital age. The key to success also increasingly lies in identifying individual customer needs as early as possible. The critical role played by data mining and data analytics will therefore become more and more significant.

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

This was clearly demonstrated by the distinction once again conferred in the Plus X Award, in which ARAG was singled out as the most innovative brand in insurance. In 2018, the prestigious innovation award was presented to ARAG for the third year in succession. The new ARAG Sofort legal insurance for tenants and the ARAG Sofort Extra legal insurance for tenants (for details, see the subsection 'Products') received seals of approval in the innovation, transparency, and features subcategories.

Innovative product and service approaches are not just limited to the domestic market, however. As an international insurer of considerable renown offering innovative, high-quality insurance products, ARAG is habitually one of the leaders in its international markets, based on its legal insurance and legal services. Outside Germany, ARAG now operates in 16 countries – including the US and Canada – where it is focusing on the targeted expansion of its existing business models. The Group is systematically continuing its successful policy of internationalization and thereby opening up new areas of growth. In the year under review, ARAG took a huge step toward expanding into a new region: Australia. To prepare for entry into this market, ARAG is setting up a local underwriting agency and the authorization procedure is expected to be completed in mid-2019. The Group is also preparing for a market launch in the Republic of Ireland in 2019 and already has an eye on other attractive markets.

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

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

their identity by entering a password, which will be sent to them by postal mail following initial registration. In the current year, the new customer portal will be gradually expanded and further documents, together with policy-related services, will be added.

The Group has also set up a state-of-the-art, interactive, user-friendly customer portal in Norway. The digital services from the HELP Forsikring AS subsidiary were introduced in 2018 and are being enthusiastically received by our customers in Scandinavia. Customers can log in with a standard ID number that can also be used in Norway for access to services from public authorities and banks.

The Group has emphasized its role as a digital trailblazer with another service introduced in June 2018 in which it can offer useful legal insurance information and services through Alexa, Amazon's virtual assistant with voice interaction. The Group was the first to position itself in this market with legal insurance expertise. Prospective customers and existing insurance customers can use the keyword 'legal insurance' to activate a 'skill' for Amazon Echo voice control. This gives access, for example, to the premium calculator for ARAG legal insurance products or even the list of penalties for car drivers. Alexa can also be used to make contact with ARAG.

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

Greater transparency and efficiency, together with faster and simpler sales processes, are also the benefits from the following digital innovations in the international business: In 2018, the branch of ARAG SE in Italy launched an innovative broker support tool in the local market. The practical tool has been specifically developed for brokers who are not internet-savvy to help them approach new customers. These brokers make their customer data available to ARAG. In the name of the broker, the tool uses a fully electronic process to generate and send an individual broker offer to relevant customers. In 2018, ARAG Spain significantly speeded up the process in which customers can sign up to online policies for the successful Alquiler real estate legal insurance. A very fast, user-friendly system enables customers to determine premiums with a rates calculator, sign up to a policy, and immediately upload all the necessary documents.

The Group ensures that the pages on its websites are clear and particularly appealing. In 2018, the Group took a further important step toward achieving a uniform online brand presence at international level with the relaunch of the websites for ARAG Italy, ARAG Netherlands, and most recently, ARAG plc in Bristol. The international relaunch has

therefore been completed for the most part, although changes relating to one small international unit remain outstanding. The online presence of the international ARAG units is based on the design and technical platform used by ARAG's German websites, which have already garnered multiple awards. For example, AMC Finanzmarkt GmbH has this year once again selected the ARAG Group's German website as one of the top websites in the industry – out of a total of 129 insurance company websites. In the year under review, ARAG Spain's website retained its top ranking from 2017 in the website assessments published by Spanish insurance portal Innovación Aseguradora.

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

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

ARAG Smart Insurer Program

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

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

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

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

Products ARAG once again set the pace in 2018, both in its home territory in Germany and in international markets, with rapid improvements to its product and service portfolio as requirements changed.

Having been the first company to introduce retroactive insurance with the launch of the Sofort legal insurance for motorists back in August 2016, thereby establishing itself as a trailblazer in this regard in the German legal insurance market, ARAG then continued to expand on this innovative product approach in 2018. The ARAG Sofort legal insurance for tenants launched in February provides retroactive insurance cover for a period of up to twelve months. This legal insurance policy is available to individuals without any qualifying period to cover losses in a total of five tenancy-related scenarios. Customers can choose between two product variants. ARAG Sofort legal insurance for tenants provides help in the event of disputes with landlords, whether these disputes concern repairs or billing for ancillary costs. Customers can also rely on assistance from ARAG if there are problems with the repayment of a deposit or issues surrounding an increase in rent. The second product variant, ARAG Sofort Extra legal insurance for tenants, additionally includes landlord's termination of a lease citing property required for his/her own use. In this case, ARAG covers the court costs and the non-court-related legal costs.

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

Back in 2017, ARAG Krankenversicherungs-AG was the digital pioneer, establishing the use of TeleClinic for video consultations with a doctor on general medical issues, almost regardless of location or time of day. The company has now taken this one step further, with the introduction of remote treatment in the year under review. Since May 2018, ARAG Health has been running a trial that is unique in Germany in which customers in

Baden-Württemberg with full-coverage insurance have been able to obtain a diagnosis by video or telephone through ARAG's partner TeleClinic. Since the end of 2018, customers of ARAG Health throughout Germany have also been able to use TeleClinic and its network of doctors to arrange for the issue of prescriptions. The powerful ARAG GesundheitsApp feature, which can be used as a personal, digital health record, was further expanded in the year under review to become more of a communications platform. Customers can now use the app to chat with ARAG, compose messages using their own text, submit invoices using a QR code, or directly report address changes. Following the initial iOS version for iPhones, an Android version has now also been available since March 2018. As of the end of 2018, a total of more than 100,000 customers had already registered for one of the two versions.

ARAG Health's successful supplementary dental care scales of rates were also enhanced in 2018 and in the current year to include attractive, smart services. In addition to a broad range of benefits, these policies now also include services offering customers genuine added value. Thanks to a partnership with the Dent-Net network – which includes more than 1,000 dentists throughout Germany plus a dental laboratory – holders of dental insurance policies receive attractive terms on dental prosthesis and faster appointments. Since the beginning of 2019, policyholders have benefited from a further partnership with the DocMorris mail-order pharmacy.

ARAG was a pioneer in cyber protection for retail customers as early as 2012 when it launched its unique and highly successful ARAG web@ktiv online legal insurance product on the market. This was followed by a policy specifically aimed at the self-employed and the even more extensive ARAG web@ktiv Plus-Schutz product. In the year under review, the Group developed a new-generation ARAG web@ktiv product that will be launched in the second quarter of 2019. The product has been designed in line with the latest requirements and needs: It consists of three product versions (with Basis, Komfort, and Premium rate scales), has a unique approach to cover, and is specifically aimed at different target groups. The scope of cover for the risk of copyright infringement has been significantly increased. If the customer with the web@ktiv Komfort version has already received advice, the attorney will thereafter also handle non-court-related correspondence with the other party. In the Premium version, ARAG will even cover any court costs incurred up to €15,000. Building on the benefits in the Basis version, which focuses on online reputation and cyberbullying, the Komfort version also encompasses disputes arising from contracts entered into online and compensation for financial loss. Special electronics cover is also a completely new addition to the Premium protection. This is primarily aimed at the gamer and influencer target groups and, in particular, offers cover for damage to electronic devices such as games consoles, laptops, cellphones, monitors, and other peripherals relevant to gaming. In the new generation of ARAG web@ktiv products, self-employed customers benefit from a number of features, including a reputation check from the Basis version upward, tailored protection in connection with the EU General Data Protection Regulation (GDPR) from the Komfort version upward, and, in the Premium version, legal insurance in connection with anti-trust law as well as insurance policy legal protection covering the pursuit of claims under a cyber policy should a loss event arise.

Numerous awards and top rankings received by ARAG in 2018 are testimony to the high quality of its services and benefits. In the 2018 Excellence Awards presented by German market research organization Deutsches Institut für Service-Qualität and DUB Unternehmer magazine, the ARAG Sofort legal insurance for motorists was ranked one of the top

three outstanding products. TÜV Saarland certified the Komfort and Premium versions of the ARAG Aktiv legal insurance product as 'very good'; the Basis version was assessed as 'good'. Just four weeks after being launched, the Premium version of the ARAG accident cover product, including special service package and Fit Plus, received its first top evaluation in the form of an 'FFF – outstanding' rating from independent analysts Franke und Bornberg.

Once again in 2018, ARAG was deemed to be one of the fairest providers of legal insurance. Focus-Money magazine and ServiceValue GmbH analyzed 25 well-known providers from the perspective of fairness. ARAG scored well in the categories of customer advice, communications and service, and benefits.

As many as four outstanding corporate ratings underline the strong performance of ARAG Krankenversicherung. Four stars were awarded by analysts Morgen & Morgen – and therefore one star more than in 2017. The outstanding trend in key figures was a contributing factor in this 'very good' rating. The rating from [ascore] Das Scoring was '5.5 stars – excellent', with softfair issuing a corporate rating of '5 owl-eye symbols – outstanding'. In a test of company quality conducted by Deutsches Finanz-Service Institut GmbH, ARAG Health took fourth place with a score of '1.4 – very good'.

ARAG Krankenversicherung's new dental care insurance rates introduced in November 2017 also received top scores. In the ratings issued by German consumer organization Stiftung Warentest, the Dent90, Dent90+, and Dent100 scales of rates plus the established Z90Bonus rate scale received the overall rating of 'very good'. In the product ratings issued by analysts Morgen & Morgen, all four of the new Dent scales of rates received the highest rating of five stars. The same also applies for comparative software provider Levelnine: 'excellent' for the product line across the board. The scales of rates also do well on the Check24 and Verivox comparison portals.

ARAG SE also performed impressively in international markets via its branches, subsidiaries, and equity investments thanks to numerous innovative, beneficial products and services, as demonstrated by the selected examples below.

In 2018, ARAG Spain launched the 'Calidad de vida' product in the Spanish market, the first time in this market that it has placed a product including both ARAG legal insurance and benefits from Interlloyd Versicherungs-AG. This product enables customers to maintain their standard of living if they suffer unemployment or an extended period of incapacity to work. If a customer becomes unemployed or is sick for a long time, he or she will receive a compensation payment to cover key living expenses selected in advance, such as rent or loan repayments.

In 2018, ARAG Belgium developed ARAG Legal U, a legal insurance product suitable for everyone and everything. The product has a modular structure and can be tailored to the personal circumstances of the customer. Legal U includes numerous features and exclusive product components that cover all legal aspects of personal life, including divorce and building a home. ARAG Belgium has also developed tax-related legal insurance as additional cover in its silver and gold business products. This is specifically intended for the broker sales channel. In collaboration with a partner, ARAG Belgium is offering two types of supplementary insurance. ARAG personal legal insurance (bronze version), which provides liability insurance, and the real estate legal insurance product, which provides fire insurance for a partner organization. ARAG plc, the UK subsidiary of ARAG SE, relaunched three products aimed at small businesses in the year under review. These products now include new features, higher sums insured, and a number of other components, including one covering crisis communications.

Two new products from ARAG Italy that can only be taken out online are aimed specifically at motorists. One covers a situation in which the customer loses his or her driver's license or incurs fines that he or she believes to have been unjustly imposed. The other protects the customer against the risk of unexpected costs if his/her driver's license is withdrawn and reimburses, for example, the costs of the course that the driver must take to get the license back. In the year under review, the Italian branch of the ARAG Group also received an award for its innovative marketing automation tool for brokers. The award, which was in the Best Digital Product category, was presented by IKN, Institute of Knowledge & Networking Italia, at the Italy Insurance Forum 2018.

In March 2018, ARAG SE's Norwegian subsidiary, HELP Forsikring, launched a partnership with Telenor, the country's largest telecommunications company. Telenor customers can take out insurance covering identity theft and also sign up for the webHELP online legal insurance product, including a deletion service.

ARAG Services Corporation, the Canadian subsidiary in the ARAG Group established in 2015, entered into a comprehensive group agreement with various police associations in the year under review. Since then, members of these associations have been able to benefit from ARAG legal insurance in connection with the work they perform.



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

ARAG Essentials The ARAG Essentials are the corporate guidelines and encapsulate the objectives of the commitment that ARAG's employees, managers, and owners share. They include ARAG's self-image, corporate mission, and values. They help to shape the Company's future for the benefit of its customers. The ARAG Essentials online tool on the Group website at www.ARAG.com conveys the six corporate values in a light-hearted way in all the languages used in the Group. It also offers information on the individual international companies. The tool is regularly updated and includes the details of any new local subsidiaries.

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

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

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

managed quickly and easily through the new digital booking platform. ARAG also operates a return-to-work and disability management system to ensure that the statutory requirements are implemented professionally. External specialists are regularly brought in to make sure that the individuals concerned are provided with the best possible support.

The focus of ARAGcare's second pillar is work/life balance. Following a comprehensive evaluation phase in 2017, the year under review saw the start of the implementation phase for the newly agreed targets for re-certification by berufundfamilie Service GmbH. Comprehensive berufundfamilie auditing is an initiative of the not-for-profit Hertie foundation. It aims to develop and embed a sustainable HR policy that takes into account family requirements and stage of life. The newly agreed targets are linked to an obligation to implement them in the Company by 2020. The measures include, for example, overall management with an increase in the proportion of women in management positions and changes to make the arrangements for working hours and working location even more flexible. There will also be a focus on improving information and communication in relation to work/life balance issues and sabbatical leave for employees. In addition to the improvements in work/life balance as a result of the audit by berufundfamilie Service GmbH, ARAGcare offers special support in the form of vacation care programs for employees' children and parent-child offices. ARAGcare also offers an advice hotline for employees at any ARAG office for issues relating to childcare or caring for relatives.

Corporate social responsibility ARAG is a family enterprise. As a consequence, ARAG attaches a huge amount of importance to the interconnection between corporate and social responsibility. The independence that ARAG enjoys as a family enterprise means that the assumption of responsibility becomes even more significant because it is incumbent on the ARAG Group to use this independence responsibly. Since March 2014, ARAG has therefore been successfully offering its innovative development project known as Conflict Management in Schools. More than 280 teachers, school principals, specialists in educational social work, and parents from almost 100 high schools and vocational colleges in different school districts across the German state of North Rhine-Westphalia have taken part in the five training cycles completed so far.

Supported by the North Rhine-Westphalia Ministry for Education and Schools, this program is offered to all high schools and vocational colleges in North Rhine-Westphalia. The project is currently running at 13 other schools. It focuses on the introduction of universal quality standards for conflict management structures, preventive measures, and intervention techniques. Teachers, parents, specialists in educational social work, and school pastors are trained as school mediators and go on to train school students as conflict controllers.

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

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

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

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

Equal opportunities is also the theme of the 'Kickwinkel' project in Düsseldorf, which ARAG initiated and supports on an ongoing basis together with other local partners. 'Kickwinkel' is an integration project based on football for unaccompanied male refugees from Iraq, Afghanistan, Somalia, Eritrea, Gambia, Guinea, and Iran. The project enables 20 young people to train at a Düsseldorf club twice a week. Another tournament with teams from all the project partners was held in September 2018, demonstrating yet again that 'sport unites'.

Employees

In 2018, there was a year-on-year rise in the number of employees across the entire Group. Including the companies not encompassed by the consolidation, 4,152 people were employed as of December 31, 2018 (December 31, 2017: 4,042). At the end of 2018, the ARAG Group had a total of 1,988 (December 31, 2017: 1,946) employees in Germany. A further 2,164 (December 31, 2017: 2,096) people were employed outside Germany, equating to 52.1 percent of the total workforce.

Employees

	Dec. 31, 2018	Dec. 31, 2017
(permanent)		
Consolidated companies	4,072	3,923
Total Group	4,152	4,042

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 to publish non-financial information in 2017 for the first time. 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).

In a materiality analysis, the following aspects specified by legislators were identified as material: social concerns, employee concerns, and prevention of bribery and corruption. ARAG also classified two further aspects as material: customer concerns and digitalization.

Overview of relevant concerns and details

Material aspects	Relevant details	Relevant section of the statement
Social concerns	Corporate social responsibility	4. Dialog with the community and policymakers
	Engagement with policymakers	
	Social value generated	1. Corporate culture, business model, and social responsibility
	Responsible investor	
	Economic performance	
	Corporate culture and mission	
Employee concerns	Working conditions	2. Employer of choice with future prospects
	Training and education	
	Diversity and equal opportunity	
	Responsible remuneration and incentives	
Customer concerns	Sustainable products and services	3. Products, sales, and customer relationships
	Innovative customer offerings	
	Customer focus	
	Transparency management and services	
Prevention of bribery and corruption	Legal compliance	5. Legal compliance
Digitalization	Cyber risks and data protection	6. Digitalization, data protection, and protection against cybercrime
	Digitalization	



You can find out more at
www.arag.com/en/press/publications

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

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. The 2018 sustainability report includes a discussion of further non-financial information and performance indicators not required to be reported here. Cross-references to information outside the group management report constitute voluntary, 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) under a limited assurance engagement. The auditor's report on its limited assurance engagement is set out in the section 'Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting'.

1. Corporate culture, business model, and social responsibility

ARAG is a provider of high-quality insurance with a multidimensional approach, offering its customers not only its core legal insurance policies but also needs-based products and services in casualty and property insurance and health insurance business. The products and services provide customers with guidance and security, because personal risks such as pension provision, litigation, and health can be comprehensively insured. ARAG's business model is described in more detail in section I. 'Group Fundamentals' in the group management report and forms the basis for the details set out below. Information on taxes, levies, wages, salaries, and pension payments, which also form part of ARAG's valuable contribution to society, can be found within the notes to the consolidated financial statements in this annual report. The consolidated balance sheet and consolidated income statement present ARAG's economic performance (see the section 'Consolidated Financial Statements').

ARAG's sustainability philosophy Corporate social responsibility plays a major role at ARAG because responsible activities make a substantial contribution to the success of the business. Customers, business partners, sales partners, and employees pay increasingly close attention to the additional social benefits that ARAG can provide. As an independent family enterprise, ARAG believes that its responsibility to society lies in ensuring its activities are sustainable with a focus on the long term.

The corporate culture is shaped by the corporate guidelines, which are known as the ARAG Essentials. These include ARAG's self-image, its corporate mission, and the six corporate values of openness, pioneering spirit, farsightedness, fairness, discipline, and drive. These values apply to every individual in the Group and highlight the nature of the

organization. Responsibility for their implementation is shared by each individual department; in other words, the task forms part of everyone's remit. As presented in its self-image, ARAG is the internationally successful, innovative quality insurer – family-owned and thus able to operate independently. More detailed information can be found on the ARAG website and in section II. 'Report on Economic Position' in the group management report in this annual report. The corporate value of 'openness' is reflected in the transparent management of ARAG, where it is considered highly important to have open communications at all levels. ARAG also maintains reporting systems covering various areas of the business, for example as part of financial communications and the schedule of responsibilities.

Furthermore, ARAG's commitment to corporate social responsibility is mirrored in its investments. In ARAG's definition, sustainable investments are all investments in which the investment decision takes into account non-financial criteria in addition to the established decision-making criteria (risk, return, liquidity). In specific terms, the individual approach used by ARAG applies a negative screening filter, includes the assessment criterion of 'sustainability' in the due diligence when awarding external investment briefs, and focuses on further expansion of the commitment to infrastructure investment as part of the existing alternative investments program.

A negative selection procedure is used for the portfolio of fungible investments managed by ARAG. The rejection criteria applied in this procedure are based on both standards and values. The following criteria are used to produce a negative screening list: Standards-based – entities responsible for serious violations of the principles applicable under the UN Global Compact, specifically in relation to

- labor, including International Labour Organization (ILO) standards on child labor and forced labor
- human rights

Values-based – entities operating in contentious fields of business, specifically

- controversial weapons (atomic, biological, and chemical weapons, landmines, cluster bombs)

There is a block on investment involving any entity on the negative screening list. It is still possible to dispose of such investments, but no further purchases can be made. Issuers with business activities involving controversial weapons must be removed from the portfolio. Overall, the target is to ensure that the proportion of direct investments that meet ARAG's minimum sustainability standards does not fall below 97.0 percent. This target was attained in 2018.

2. Employer of choice with future prospects

Both in Germany and at its international sites, ARAG has to compete for the best employees. Besides certifications (berufundfamilie GmbH, Corporate Health Award), 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 aims 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. ARAG believes that codetermination is important and maintains a constructive working relationship with the Works Council. Information on HR issues is communicated to the Management Board in the weekly departmental meeting.

Responsible remuneration and incentives A responsible remuneration policy is an integral part of corporate governance and is therefore also of particular importance to all members of the ARAG Group. ARAG is able to attract suitably qualified staff and managers because its remuneration is both commensurate with performance and competitive. Having employees and executives who are motivated and whose performance is rewarded lays the foundation for sustained business success. On the other hand, care must be taken to ensure that the remuneration policy encourages the correct behavior and does not pose risks or even create misincentives that could damage the Company, the Group, and ultimately customers and all those working for the Company too. To this end, remuneration guidelines have been in place since 2017. The guidelines apply to all employees, but particularly those appointed to key positions. In addition, the remuneration management handbook describes the objectives, general principles, and processes involved in remuneration management, together with the remuneration structure and approach to salary adjustments. Of the total variable remuneration granted to Management Board members, 40 percent is linked to the attainment of short-term financial targets, with the remaining 60 percent dependent on the attainment of financial targets over the long term. In the case of managers, variable remuneration is linked to the achievement of short-term economic targets and social targets associated, for example, with the corporate values of fairness, openness, and farsightedness.

Group Human Resources examines the appropriateness of the target agreement system every year, because of the important role it plays in remuneration. The findings of the review are presented to the Supervisory Board of the respective company, which can then form an opinion on the appropriateness of the system in accordance with the VAG.

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 digital transformation, 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 efficient 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 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 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 training and knowledge management. The provision of training and development is governed by ARAG's training guidelines. Professional development opportunities are generally available to all employees. ARAG promotes access to continuing professional development (CPD) in Germany and across its international locations. Both internal employees of ARAG and Field Sales representatives are therefore allowed to dedicate working time to training measures and can obtain generous company contributions to training costs.

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. ARAG Workshop, a new space dedicated to learning and creativity, opened its doors in September 2018. The space is used for initiating, learning, testing, and experiencing new approaches and provides a place where workshop and project teams can work on innovative ideas and concepts. ARAG, with all the benefits of being a family enterprise, therefore offers its workforce an optimum environment for interactive and creative working and learning.

Numerous CPD options are offered every year. Employees completed around 8,500 CPD activities in 2018 (e-learning sessions and classroom-based seminars). This means that ARAG Administration employees each participated in four CPD activities on average over the course of 2018. Many more CPD activities were documented in 2018 as a result of the implementation of the IDD and the associated training requirement of 15 hours per employee per year. ARAG employees also took part in mandatory e-learning activities relating to the EU GDPR, health & safety, and IT security in 2018. The total number of CPD hours was therefore much higher than in the previous year. The main topics were specialist and methodological skills, leadership skills, personal and social skills, insurance-related and commercial knowledge, project and process management, and foreign languages. Additional training on project work and project management in transformation, creativity and design thinking, and agile project management is offered as part of the forward-looking '#einfachmalanders' ('#doitdifferently') initiative. 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. Up to the beginning of 2018, the members of ARAG's senior management staff in Germany and abroad 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 2019, 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 trends that influence the success of any company. 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 more 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 gender equality in terms of job opportunities. 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, as follows:

- The operational strategies of the Human Resources and Corporate Communications departments specify implementation measures that promote diversity and equal opportunities. 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 promote equality within the Group. Employees can approach either of these two representatives or the Works Council with any concerns.
- In 2014, the Gender Diversity project produced a 20-point catalog of measures aimed at promoting equal opportunities for women and men. Examples included the provision of appropriately equipped parent-child offices and advice on caring for relatives. The gender diversity project was concluded in 2018. 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 (status as of 2017). 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 imple-

mented to remove the remaining obstacles step by step. In 2017, ARAG signed a new three-year agreement for certification by berufundfamilie Service GmbH. In this agreement, it undertook to implement further measures relating to working-time arrangements, more flexible working hours, more family-oriented working structures, the advancement of women in management, and lifelong learning. These measures agreed in 2017 continued to be implemented on schedule in 2018. The progress was accepted in the annual meetings held with berufundfamilie Service GmbH.

- One of ARAG's strengths is the extent to which the different (international) cultures in the Group are accepted and appreciated. 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 concepts include working from home and allowing managers to work part time.

3. Products, sales, and customer relationships

ARAG is an innovative provider of high-quality insurance, offering private customers and small businesses in Germany not only its core legal insurance policies but also its own products and services in casualty and property insurance and health insurance business. ARAG attaches huge importance to providing needs-based products and excellent service, so that customers and consumers derive the greatest possible benefit. It therefore focuses on innovative products that are both high-quality and fair. An end-to-end process encompassing all the departments involved is used to make sure ARAG always complies with new statutory and market requirements. The process satisfies the requirements in Solvency II and is subdivided into an upstream product pipeline process and a downstream product introduction process, an approach that has been efficiently refined over the years in the Sales and Products unit. The product oversight and governance (POG) requirements introduced in 2018 are directed primarily at the manufacturers of insurance products (ARAG products). Under these requirements, ARAG must carry out a product approval process for all newly developed or extensively modified insurance products. By complying with the requirements, ARAG ensures that all insurance products presented for sale satisfy the requirements of the target market concerned, preventing or reducing the risks for the customer at an early stage. ARAG is also under an obligation to carry out suitable tests on insurance products, and to regularly monitor and review these products. It does this, for example, by carrying out surveys of customers/sales partners and by monitoring portfolio changes and claims ratios.

Innovative customer products and services/customer focus The demands and needs of ARAG customers are changing constantly and rapidly. To anticipate these changes, ARAG needs suitable structures, tools, and a culture of empathy that takes customer needs seriously and translates them into new types of service as fast as possible. Based on a partnership and dialog involving customers, sales partners, customer-facing staff, and organizational units, ARAG develops innovations that are consistently aligned with customer needs.

As set out in the corporate strategy, ARAG focuses on offering innovative insurance products and services aimed at both private and small business customers. ARAG products must always satisfy the requirements and needs of customers. However, they must also be financially viable. ARAG therefore regularly reviews their profitability and monitors portfolio trends. These portfolio details and profitability analyses are presented to Management Board members in the annual portfolio status reports.

Sales transparency In ARAG sales channels, the needs of an existing or potential customer are determined using the details provided, and clear, objective information about relevant insurance products is then produced. This is the only way in which an existing or prospective customer can make a well-informed decision. ARAG Core Sales uses a sales process based on a holistic advisory approach. In this case, ARAG analyzes the customer's circumstances, determines the customer requirement from these circumstances, and provides a well-reasoned recommendation for suitable products.

ARAG considers it a given that its products and services comply with all applicable national and international legislation and regulations. Among the most important regulatory requirements are the German Insurance Contracts Act (VVG), the VAG, legislation to implement the GDPR, the IDD, and the guidelines published by the German Federal Financial Supervisory Authority (BaFin). ARAG also believes it is extremely important that product and customer information can be understood. It takes care to use a large number of examples to make it easier for any necessary legal wording to be understood. Appropriate software is used to check texts for insurance terms and conditions, brochures, and product information against the criteria of the Hohenheim comprehensibility index (HVI), which are then applied as far as possible.

All the training and development activities conducted by ARAG Core Sales are supported by the ARAG sales academy, which is the central training department in the Group. The target groups for these activities include ARAG Partners, heads of main branch offices, sales administration employees at the main branch offices, and trainees. A comprehensive information and training portal is also available. CPD is based on statutory requirements and the Group strategy. The CPD activities are based on standards that are set out, for example, in the industry's 'gut beraten' (advise well) initiative and that are already applicable to all sales employees and ARAG Sales Partners. This guarantees a high level of quality in all ARAG CPD activities for employees subject to the IDD.

4. Dialog with the community and policymakers

Social trends influence the expectations of customers, business and sales partners, and employees – i.e. the key stakeholders. They are paying increasingly close attention to the economic and social benefits that ARAG provides. These expectations shape the business environment in which ARAG operates. Projects are used to ensure expectations are satisfied in a professional manner. The Group's social commitment and the resulting perception are regularly assessed through participant surveys and response analyses. In this context, Corporate Responsibility has the task of recording these expectations in dialog with stakeholders. The unit is run by a support department within the Group Communications/Marketing management division.

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 autonomously in 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 over an extended period. Financial assistance and sponsorship commitments contribute to ARAG's good reputation and also ultimately serve to encourage approval of its business model. All commitments to provide support are decided by means of a Management Board resolution.

In 2017, ARAG initiated the 'bildung.digital' (digital education) program in a joint project with the German Children and Youth Foundation (DKJS). It continued to provide financial support for this project in 2018. This program helps schools to develop digital education strategies and ensure that the strategies become firmly established. In collaboration with the federal states of Berlin, Bavaria, Hamburg, Hessen, Saarland, Saxony, Saxony-Anhalt, and Schleswig-Holstein, the program supports 40 (full) day schools using four cross-state school networks.

As an insurer with a focus on legal insurance, ARAG believes that a preventive approach is important. That is why ARAG launched the 'Conflict Management in Schools' initiative in early 2014. Supported by the North Rhine-Westphalia Ministry for Education and Schools, this program is offered to all high schools and vocational colleges in North Rhine-Westphalia. During the six training cycles so far, a total of around 320 teachers, school principals, specialists in social work, and parents from more than 100 high schools and vocational colleges in different school districts across the state have taken part. The sixth cycle of the project is currently in progress at 13 other schools. The project focuses on the introduction of universal quality standards for conflict management structures, preventive measures, and intervention techniques. Teachers, school principals, parents,

and specialists in educational social work are trained as school mediators. Using the knowledge they acquire, they can help to improve the climate in the school, change the way in which conflicts are handled, and in turn train school students as conflict controllers. Please refer to the 2018 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 parties represented in parliament at federal and state level. In the reporting year, the total amount of financial contributions to these parties was €60,000.

5. Legal compliance

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 customers is critical. ARAG is committed to fair competition and happy to market its products on this basis.

To minimize risks and prevent negative consequences, relevant internal regulations and guidance on preventing conflicts of interest are available to employees in the compliance guideline, the code of compliance, and the compliance policy 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. In addition, all German insurance companies within the ARAG Group have signed up to the GDV code of conduct.

Possible circumstances in which conflicts of interest could arise are described in detail in the compliance guideline. In relation to ARAG's own operating activities, the guideline states, for example, that no employee may – directly or indirectly – offer or grant unauthorized benefits to others in connection with their business activities, in the form of either 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.

Under the GDV code of conduct, an insurance company must issue compliance requirements for its employees and agents. These requirements must also cover the management of conflicts of interest. The ARAG compliance guideline therefore includes specific requirements for accepting or granting benefits in business transactions and for handling customer and commission interests. 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 annually to the Management Board in the compliance report. The report also includes assessments from the complaints management system. The risk of conflicts of interest is continually and systematically analyzed at country level. Once again, no circumstances in which conflicts of interest had a negative impact were identified in 2018. As part of general compliance training, the Supervisory Board members, all Management Board members, and senior managers at the first and second management levels receive regular training on managing conflicts of interest to ensure a high level of compliance over the long term. On the basis of the 'train the trainer' principle, senior managers are obliged to train their staff. In addition, a new employee training program was designed in 2018 and is scheduled to be implemented in the current year.

6. Digitalization, data protection, and protection against cybercrime

ARAG believes that digitalization presents it with an opportunity to make the most of its strengths as a mid-sized insurer compared with the major corporations. In this context, it launched its Smart Insurer Program in 2018. The program provides a guiding operational framework for digital transformation and will further bolster the significant growth momentum built up over the past few years. With support from each individual in the Group, the program focuses on local activities in three major areas, as follows:

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

Independently of the above, ARAG offers its customers added value based on stable, routine digital processes. For example, it has renovated its entire data center and also provides online customer service options as well as alternative payment systems. More information on the Smart Insurer Program and digitalization can be found in section II. 'Report on Economic Position' in the group management report.

However, the forward march of digitalization also means that data protection is becoming more critical. It is therefore of the utmost importance to ARAG that it protects the data of existing and potential customers, business partners, and employees in order to maintain their trust, meet legal requirements, and avoid reputational damage. The Company's comprehensive and updated data protection management system is based on a well-integrated set of policies and procedural instructions that include the ARAG Information Security Guidelines, the ARAG Information Security Standard, the ARAG Data Protection Guideline, and the ARAG Data Protection Management Policy.

Prompted by the enactment of the EU's GDPR on May 25, 2018, ARAG carried out an implementation project to analyze the new regulatory requirements, which it then codified in the ARAG Data Protection Guideline and the ARAG Data Protection Management Policy. The implementation project was completed at all affected locations by the time the regulation came into effect on May 25, 2018. Since then, ARAG has been in compliance with all new data protection requirements.

ARAG has also voluntarily undertaken to comply with the GDV's code of conduct for processing personal data, which was originally established in conjunction with the German data protection authorities and revised in 2018.

In the digital age, data protection is an interdisciplinary function for which all departments need to take responsibility, incorporating it permanently into their activities. The departments are supported in this task by the newly established Data Protection Organization, whose team includes the IT Security Officer. In the 'three lines of defense' model, the Company's Data Protection Officer (second line of defense) and Group Audit (third line of defense) monitor compliance with the new data protection requirements.

In addition, the Data Protection Officer provides training sessions and individual advice to improve employees' data protection skills and qualifications and thereby continuously enhance the level of protection. These activities include classroom-based training and awareness days on various topics, IT-supported training, and other options. ARAG also implements measures to increase awareness and uses internal communications channels to keep employees abreast of the latest developments.

In connection with the issue of cybercrime, the German Insurance Supervisory Requirements for IT (VAIT) came into effect in 2018. These are legally binding on all insurance companies. One of the requirements is that the Company must have an independent Information Security Officer (ISO) with no operating responsibilities. The ISO must submit regular reports to senior management about security incidents and the IT security situation at ARAG. At Group level, the ISO is simultaneously the Chief Information Security Officer (CISO). At local level, each individual international branch has a Local Information Security Officer (LISO) who submits regular reports to the CISO. In Germany, the LISO heads the security team, which is responsible for implementing security measures.

At the same time, ARAG IT GmbH (ARAG SE's IT service provider) set up an ISO 27001 project with the aim of receiving ISO certification at the end of the first quarter of 2019. ISO 27001 is an internationally recognized standard for establishing an information security management system (ISMS). At the end of 2018, the Management Board of ARAG SE approved the information security guideline, which is the most important document for ISMS purposes.

All applications, especially those particularly exposed to cyber attacks, are regularly examined for vulnerabilities in order to prevent such attacks. Penetration tests conducted by third-party specialists are also used to carry out a thorough analysis of new applications for any weaknesses, so that they can be eliminated before the applications are used in live systems. This ensures that ARAG has the best possible level of protection against cyber risks.

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. It is also preparing to launch in two other markets in 2019: the Republic of Ireland and Australia. Given the strong international focus of the Group, economic trends in Europe and North America in particular have an impact on business performance.

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

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

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

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

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

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

The favorable economic situation offers an opportunity to focus on the future challenges as part of a readjustment in economic policy. These challenges include, notably, demographic change and digitalization. Demographic change will cause the size of the available workforce to shrink. A shortage of specialists is already evident in some sectors of the economy. It will therefore become all the more critical to make better use of the available workforce potential and improve employee retention. The digitalization of the economy and society is leading to a comprehensive structural transformation, which politicians should make every effort to facilitate, for instance through innovation-friendly regulation, the systematic digitalization of government administrative activities, and measures to ensure that the labor market is flexible. In addition, education and training needs to be enhanced so that employees are more adaptable to the new requirements in the digital working environment. Digitalization is the basis for the great hope that it will be

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

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

Insurers continue to be faced by challenges caused by a clear trend toward fiercer competition.

As in prior years, examples of other action priorities include the increasing differentiation between customer groups and, as already mentioned, the need to respond to demographic change. In addition, continuous shifts in insurance markets are being brought about by changes in the product landscape, some of which (such as the pluralization of sales structures) are far-reaching. Furthermore, digitalization – one of the major challenges going forward – is stepping up the pressure and the speed of change in the rather conservative insurance industry. There is a need to open up additional new sales, service, and communication channels with a focus on consumers. Ultimately, the goal is to offer easy, barrier-free access to smart insurance benefits and services. For some time, online business models have no longer been aimed at particularly price-sensitive customers. Rather, they tend to be an integral component of the entire range of services from each and every insurance company and are set up to be as user-friendly as possible.

For property insurers, the main source of risk is the much-discussed climate change that has taken place in past years and decades. The last few years have clearly demonstrated that storms and hurricanes are not the only natural disasters that can hit the whole of a state; recurring loss events can also include torrential rainfall and hail. These events can lead to flooding in which entire homes are destroyed. Other loss events in this category include prolonged droughts, which can have a particularly detrimental effect on agriculture, causing serious crop losses. Some years ago, national and state-level natural disasters insurance campaigns were implemented and a countrywide natural disasters portal established. The German National Meteorological Service (DWD) and the GDV have also initiated a project focusing on torrential rain, which is exploring as yet uncharted scientific territory. For the first time, they are investigating where exactly torrential rain occurs and what damage it causes. The project is being managed by an interdisciplinary team of meteorologists, hydrologists, mathematicians, and insurance professionals with the aim of creating a countrywide risk map that indicates the local risk and critical level of precipitation for each region in Germany. This map can then be used as a basis for calculating risk-appropriate levels of insurance cover for flooding resulting from torrential rain. In this approach, research is providing the basis for suitable preventive measures, insurance cover commensurate with the risk involved, and a state-of-the-art claims management system.

As before, sales activities in the German insurance industry are being made more difficult because the market is very mature. Opportunities for further premium growth and for additional expansion of in-force business can often only be created through predatory competition. However, the very good economic conditions currently being enjoyed by consumers are creating a favorable environment for an increase in the demand for insurance services. Furthermore, rapid technological advances and digitalization are fueling fierce innovation-based competition, to which insurance companies are being forced to adapt. As a result of new interactive channels, permanent connectivity, availability of new data, and low-cost processing, digital technologies are creating starting points for innovative products and services.

As a consequence, premium income in the insurance industry is expected to continue to grow. The GDV is forecasting that the increase in the German market in 2019 will be in a range from 0.6 percent to 2.7 percent (2018: 2.0 percent). Assuming that the positive economic situation continues to support consumer spending, premiums in the casualty and property insurance segment are expected to be up by around 2.0 percent to 3.5 percent in 2019 (2018: 2.9 percent). Rising sums insured and extensions of the cover could once again be the growth drivers in the private property insurance segment, leading to an increase in the premium income generated by this segment of between 4.0 percent and 5.5 percent (2018: 5.0 percent). In the case of legal insurance, the GDV predicts a rise in premiums of between 1.0 percent and 3.0 percent (2018: 3.0 percent) in view of a number of factors, notably the opportunities to adjust premiums. In 2019, the private health insurance business will also benefit from continuation of the favorable circumstances enjoyed by consumers. The GDV is forecasting a rise in premiums of approximately 3.0 percent in 2019.

As already described at the beginning of the outlook and opportunity report, it is still not possible to predict the final outcome of the Brexit negotiations between the UK and the EU. However, there will be no material impact on the course of the ARAG Group's underwriting business in 2019, although there could be indirect implications for the Group's investments from as yet unknown effects on capital markets.

In previous years, the ARAG Group set the main strategic direction of its business by focusing its activities on property and health insurance. The outlook in past annual reports emphasized that the Group was thus concentrating on its strengths to achieve significant improvements in competitiveness. Developments in 2018 clearly confirmed that the Group had made the right decisions. The ARAG Group maintained its growth trajectory and, in particular, once again substantially improved its underwriting profitability. The forecasts for the trends in the primary Group segments of legal insurance and health insurance were confirmed. Both segments generated the projected growth and income figures. In the casualty and property insurance segment, the loss of major contracts in the Spanish special service package business led to a slight contraction in premium income. As predicted, profit from ordinary activities was lower overall compared with 2017 but nevertheless remained at a sound level.

Despite the unstable macroeconomic conditions, the ARAG Group expects premiums and sales revenue in the forecast period to remain at a good level, roughly as in previous years. Following the successfully completed repositioning, ARAG has substantially reduced its risk exposures in its policy portfolio and investments. ARAG's business model is therefore significantly more robust as a result.

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. The ARAG Smart Insurer Program already referred to above will play a key role in providing new momentum in this regard. 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.

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, including those in accordance with environmental, social, and governance (ESG) criteria, 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. ARAG anticipates that it will continue to generate premium growth from this online business going forward.

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

The continued growth in premiums will only lead to a small increase in the claims ratios. In 2018, the cost ratio remained virtually at the prior-year level. It is not anticipated that there will be any rise in 2019 or in subsequent years compared with the year under review.

The Group's projections for 2019 and subsequent years vary depending on the segment involved.

In the legal insurance segment, the Group expects to see slightly lower growth in gross premium income overall compared with 2018, although conditions will be very different across international markets.

In the German market, the legal insurance business is likely to continue expanding. The strong rise in premiums in 2018 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 2019 at a rate slightly ahead of the market overall, even though the Company is projecting a flatter growth curve over the forecast period.

The international branches and subsidiaries will continue to provide a significant contribution to growth in the forecast period to a degree similar to that in 2018. The claims ratio will probably remain steady year on year. 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 all 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. Following ARAG's commencement of insurance activities in Canada, it is now preparing a further market launch in Australia. At the beginning of 2019, ARAG also took over the legal insurance portfolio of DAS in the Republic of Ireland, which has premium income of €6 million.

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 premium growth in this segment after overcoming an extended phase of continuous premium decline, as it has also done in the legal insurance business. Accordingly, ARAG anticipates that there will be a slight increase in premiums in the casualty and property insurance segment. 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 good, as in previous years.

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. In the forecast period, the segment is also aiming to provide new, improved full-coverage insurance services. Overall, the Group expects to see clear 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 at the 2018 level.

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 the forecast period.

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

The ARAG Group generated profit before tax and before non-controlling interests of €70.2 million in 2018, which was below the very high level of previous years. The write-downs on investments, which were the reason for the year-on-year decline, are explained in this annual report. Traditionally, ARAG has attached great importance to generating a good level of underwriting earnings on an ongoing basis to enable it to offset capital market volatility. The effectiveness of this approach was demonstrated in the year under review. In 2018, ARAG improved its underwriting result by more than 32 percent. The Group will continue to pursue this business policy consistently over the forecast period. Overall, the ARAG Group therefore anticipates that the pattern established over previous years will be continued and the good level of financial performance will be sustained over the next few years.

As in previous years, it is 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 political 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. Gains and losses on investments are expected to improve in the forecast period because the necessary write-downs have already been applied.

Taking into account the opportunities and risks currently discernible, the ARAG Group forecasts that business performance in 2019 will remain steady and sound. Overall, the Group will continue to grow in the forecast period and once again demonstrate the strength of its earnings power.

Opportunity report

Based on the structure of its business, the ARAG Group has one of the highest proportions of international business among German insurers. Some 40.7 percent of premium income in the ARAG Group is generated from international business. This structure gives rise to opportunities and risks for the Group.

ARAG's excellent international diversification makes it more independent of the trends in individual national markets. This even applies to the very mature German legal insurance market, despite the successful growth achieved by ARAG in the last five years. Germany is nevertheless ARAG's traditional core market and thus remains extremely important to the Group. Strong growth in this original home market 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 all the insurance segments. This two-dimensional (i.e. national and international) 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 period of persistently low interest rates has particularly demonstrated that this is the right approach, which offers both advantages and disadvantages for ARAG. The low

interest rates are adversely impacting investment income in Germany and thus making property and health insurance more expensive. 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 clear focus on legal insurance, property insurance, and health insurance 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.

One of the main additional opportunities available to the ARAG Group is the significant growth potential offered by digital transformation processes. Having carried out successful innovation work over the last few years, the Group is now moving into the next stage of development. ARAG is bringing together all the various threads of its activities around the globe under the umbrella of the newly developed ARAG Smart Insurer Program. This program sets out ARAG's ambitions and objectives in connection with the epochal shift of digital transformation. The program is described in this report. The Group has made a sum of €80 million available over the next three years to leverage the associated potential.

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

Risk strategy The Management Board specifies the risk strategy on the basis of the business strategy. The risk strategy sets out the risk policy framework for the structure of the individual risk exposures associated with the strategic business objectives. It defines each risk category and the specifications for the relevant risk management process. It also describes the tools for ensuring compliance with the prescribed risk-bearing capacity based on the specified risk appetite. These tools are the regulatory and business policy minimum coverage ratio and the system of limits. Risks are therefore managed in the round, ensuring at all times that the overall risk profile is consistent with the risk strategy. The Supervisory Board deliberates on these matters and receives regular reports on the risk situation.

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

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

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

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

Risk management function The risk management function is responsible for implementing the risk management system. This function has been outsourced to the Group Risk Management Central Department at ARAG SE. Group Risk Management is separate from the operational departments with profit-and-loss responsibility up to Management Board level. The Chief Risk Officer is responsible for the implementation of the risk management system in all Group companies. The Chief Risk Officer is a member of the Management Board of ARAG SE and responsible for Group Risk Management and Group Controlling. Group Risk Management bears process responsibility for the risk management system and, by means of regular risk reports to the Management Board, ensures that there is comprehensive transparency with regard to the risk position and any changes to the risk position. Group Risk Management is also responsible for refining the risk management system and for drawing up proposals for uniform standards to be applied throughout the Group. The remit of the central department also includes developing and operating models for determining risk-bearing capacity, solvency capital requirements, and the allocation of solvency capital.

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

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

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

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

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

The key element in this process is the solvency capital requirement calculated for all quantified downside risk (value-at-risk). The purpose is to ensure that unexpected losses are covered. A partial internal model is used to calculate the solvency capital requirement. The model calculates the maximum loss from risk exposures covered in the model within a specific holding period (one year in this model) and with a specified level of probability (99.5 percent in this model). The loss could arise as a result of unfavorable movements affecting investments, unexpected developments in the insurance business, or operational risk. The methodology is regularly reviewed using backtesting and validation tests. Stress tests are also continuously carried out in respect of the risk exposures. Relevant risks that do not form part of the solvency capital requirement are measured as part of the ORSA process.

Risk management The Company's approach is to manage risk where it arises. Operational management of risk is thus carried out by the managers and process owners in those departments where the risks occur. Risk management consists of implementing measures to reduce, mitigate, transfer, and diversify identified and analyzed risks.

Risk monitoring and reporting A key element of risk monitoring is examining changes in the risk profile over time, focusing on risk-bearing capacity and utilization of the limits. The risk-bearing capacity of the Company is determined on the basis of the aggregated solvency capital requirement and the eligible own funds that are available. This takes into account the regulatory and internal requirements regarding minimum cover.

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

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

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

Internal control system The ARAG Group defines the internal control system (ICS) as follows: "The internal control system refers to all control and monitoring mechanisms as well as other measures that help to support the effectiveness and profitability of business

activities and to identify and minimize risk at an early stage. It also ensures compliance with the applicable laws and regulations, all regulatory requirements, and internal rules.”

The ICS has a consistent structure throughout the Group, ensuring that the connected systems and reports in the Group can be verified.

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

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

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

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

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

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

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

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

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

To ensure that it is able to fulfill its role and responsibilities properly, Group Audit does not get involved in operational processes. It is not permitted to assign tasks to employees of Group Audit that would conflict with Group Audit's independence within the ARAG Group, nor are these employees allowed to carry out non-auditing work or operational activities. Group Audit itself does not have any authority to issue instructions to employees in other departments.

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

Individual risks

Underwriting risk 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>
2018	55.1	52.1	2.7
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

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 decline 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 €14,030.6 thousand (December 31, 2017: €11,582.2 thousand). The average default rate for these receivables over the last three years as of December 31, 2018 was 13.4 percent (December 31, 2017: 9.9 percent). Receivables from policyholders are managed by means of an automated reminder and dunning process.

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

- Interest-rate risk: changes in the term structure or volatility of interest rates. For example, an assumed increase or decrease of 1.0 percent in the general level of interest rates would decrease or increase the fair value of the fixed-income securities by €236.2 million. The breakdown of interest-bearing investments by rating is as follows:

Fixed-income securities by rating class

(Proportion (%) by fair value)

AAA	21.5
AA	22.8
A	24.3
BBB	26.6
BB	3.1
B	1.6
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 31.3 percent are accounted for by financial services entities, 36.1 percent by public-sector bonds, and 32.6 percent by bonds of non-financial services entities.

- Equity risk: changes in the level or volatility of the market prices of equities. For example, an assumed fall in equities markets of 20 percent would cause a loss in fair value of €77.8 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 concentration risk, taking diversification effects into account.

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

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

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

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

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

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

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

Overall risk position

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

The overall risk position does not currently point to any trends in 2019 that could jeopardize the continued existence of the Company as a going concern or cause a significant negative impact on net assets, financial position, or results of operations. This also includes Brexit; the latest assessment suggests that this will not have any material impact on the Company.

* Not part of the management report.

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Consolidated Balance Sheet as of December 31, 2018

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. Investments in associates
 3. Miscellaneous equity investments
 4. Lending to long-term investees and investors
- III. Miscellaneous investments
 1. Equities, investment fund shares/units, and other variable-yield securities
 2. Bearer bonds and other fixed-income securities
 3. Loans secured by mortgages or land charges and fixed-income receivables
 4. Miscellaneous lending
 - a) Registered bonds
 - b) Promissory notes and loans
 - c) Sundry lending
 5. Bank deposits
 6. Other investments

IV. Deposits with ceding insurers

C. Receivables

- I. Receivables from direct insurance business from
 1. policyholders
 - a) Amounts due
 2. insurance brokers

of which from affiliated companies: € 327.25 (Dec. 31, 2017: € 69.34)
- II. Receivables from reinsurance business
- III. Miscellaneous receivables

of which from affiliated companies: € 294,848.20 (Dec. 31, 2017: € 345,748.70)

of which from other long-term investees and investors: € 2,049,037.96 (Dec. 31, 2017: € 2,229,310.45)

D. Miscellaneous assets

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

E. Prepaid expenses and accrued income

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

F. Deferred tax assets

G. Excess of plan assets over pension liabilities

Total assets

Note		Dec. 31, 2018	Dec. 31, 2017
	2 p. 87	23,152,347.51	26,322,428.30
	3 p. 87	10,448,173.02	10,411,772.64
		33,600,520.53	36,734,200.94
	33 p. 96		
	4 p. 87	194,672,144.77	201,984,968.57
	5 p. 87		
		1,897,661.79	3,331,198.98
		10,394,963.87	10,498,846.36
		3,062,263.07	4,106,360.87
		400,000.00	0.00
		15,754,888.73	17,936,406.21
	6 p. 88	1,483,200,340.90	1,484,291,594.61
	7 p. 88	1,331,622,337.96	1,171,625,748.36
	8 p. 89	5,504,927.98	6,468,927.98
	9 p. 89	582,511,291.88	594,511,291.88
		554,948,515.58	555,404,324.89
	10 p. 89	107,882.07	3,179,078.08
		1,137,567,689.53	1,153,094,694.85
	11 p. 89	48,898,427.86	87,099,254.50
		80,167,282.49	43,750,374.86
		4,086,961,006.72	3,946,330,595.16
		55,935,437.98	49,676,929.50
		4,353,323,478.20	4,215,928,899.44
	12 p. 89		
		62,248,276.00	51,854,166.13
		62,248,276.00	51,854,166.13
		24,759,325.49	24,681,422.95
		87,007,601.49	76,535,589.08
		47,164,030.01	47,630,544.87
		23,071,791.73	14,971,799.12
		157,243,423.23	139,137,933.07
	13 p. 89	22,421,752.87	26,941,921.45
	14 p. 89	196,214,156.37	113,811,640.52
	15 p. 89	23,529,301.64	25,506,512.48
		242,165,210.88	166,260,074.45
	16 p. 89		
		33,538,578.33	34,502,577.25
		8,959,452.30	8,520,835.32
		42,498,030.63	43,023,412.57
	17 p. 89	1,062,120.07	5,525,455.01
	34 p. 99	17,997.65	86,593.64
	18 p. 90		
		4,829,910,781.19	4,606,696,569.12

Consolidated Balance Sheet as of December 31, 2018

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. Subordinated liabilities

C. 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

Carried forward:

		Note		Dec. 31, 2018	Dec. 31, 2017
		19 p. 90 39 p. 106			
			200,000,000.00		200,000,000.00
			12,230,250.00		11,311,280.00
			265,153,554.44		249,105,224.40
			3,802,336.95		779,980.21
		1 p. 85	-35,999,890.82		-35,999,890.82
			245,186,250.57		225,196,593.79
			34,047,113.78		27,037,760.15
			8,472,558.52		8,365,537.28
			697,249.54		768,862.26
			9,169,808.06		9,134,399.54
				488,403,172.41	461,368,753.48
		20 p. 90		30,000,000.00	30,000,000.00
		21 p. 90			
			258,134,113.75		258,579,421.77
			-142,635.15		-1,649,936.96
			257,991,478.60		256,929,484.81
		22 p. 91			
			1,787,244,347.06		1,663,620,352.98
			0.00		0.00
			1,787,244,347.06		1,663,620,352.98
		23 p. 91			
			1,483,715,689.98		1,442,259,299.91
			-35,933,134.79		-33,269,276.04
			1,447,782,555.19		1,408,990,023.87
			264,196,379.36		248,546,847.89
		24 p. 92			
			75,962,462.00		80,877,431.50
		25 p. 92			
			4,194,503.68		2,852,652.72
			0.00		0.00
			4,194,503.68		2,852,652.72
				3,837,371,725.89	3,661,816,793.77
				4,355,774,898.30	4,153,185,547.25

Consolidated Balance Sheet as of December 31, 2018

Equity and liabilities

(€)

Brought forward:

D. Other provisions

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

E. Deposits received from reinsurers

F. Other liabilities

- I. Liabilities from direct insurance business to
 - 1. policyholders
 - 2. insurance brokers
 - of which to affiliated companies: € 14.56 (Dec. 31, 2017: € 13.87)
- II. Liabilities from reinsurance business
- III. Miscellaneous liabilities
 - of which tax liabilities: € 19,703,847.78 (Dec. 31, 2017: € 23,067,659.53)
 - of which social security liabilities: € 2,039,700.37 (Dec. 31, 2017: € 1,992,388.16)
 - of which to affiliated companies: € 0.00 (Dec. 31, 2017: € 1,000,000.00)

G. Deferred income and accrued expenses

Total equity and liabilities

		Note		Dec. 31, 2018	Dec. 31, 2017
				4,355,774,898.30	4,153,185,547.25
		26 p. 93	243,032,829.70		224,009,603.89
			20,199,716.56		23,259,834.16
		27 p. 94	90,518,575.19		88,592,121.01
				353,751,121.45	335,861,559.06
		28 p. 94		370,390.17	1,345,966.41
		29 p. 95			
			24,871,298.35		18,824,249.91
			30,591,527.89		33,568,151.42
			55,462,826.24		52,392,401.33
		29 p. 95	3,148,631.66		2,671,476.00
			53,524,724.03		54,061,376.12
				112,136,181.93	109,125,253.45
		30 p. 95		7,878,189.34	7,178,242.95
				4,829,910,781.19	4,606,696,569.12

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

Line item

(€)

I. Underwriting account for casualty and property insurance

1. Premiums earned net of reinsurance

a) Gross premiums written

b) Reinsurance premiums ceded

c) Change in gross unearned premiums

d) Change in reinsurers' share of gross unearned premiums

2. Technical interest income net of reinsurance

3. Miscellaneous underwriting income net of reinsurance

4. Claims incurred net of reinsurance

a) Payments for claims

aa) Gross amount

bb) Reinsurers' share

b) Change in provision for outstanding claims

aa) Gross amount

bb) Reinsurers' share

5. Change in miscellaneous net technical provisions

a) Net actuarial reserve

b) Miscellaneous technical provisions

6. Insurance business operating expenses net of reinsurance

a) Gross insurance business operating expenses

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

7. Miscellaneous underwriting expenses net of reinsurance

8. Subtotal

9. Change in the equalization provision and similar provisions

10. Casualty and property insurance underwriting result net of reinsurance

	Note			2018	2017
	32 p. 95	1,279,979,533.15			1,219,878,018.98
		-11,727,001.51			-8,875,654.02
			1,268,252,531.64		1,211,002,364.96
		254,719.72			-4,642,690.86
		-1,507,301.81			35,798.59
			-1,252,582.09		-4,606,892.27
				1,266,999,949.55	1,206,395,472.69
				386,615.00	371,355.00
				2,211,524.50	2,212,054.13
		620,806,185.21			587,725,020.03
		-8,302,373.16			-5,279,092.26
			612,503,812.05		582,445,927.77
		43,646,785.38			51,137,616.09
		-2,663,858.75			-2,341,579.08
			40,982,926.63		48,796,037.01
				653,486,738.68	631,241,964.78
			0.00		0.00
			-1,364,350.96		204,946.08
				-1,364,350.96	204,946.08
			539,454,140.17		518,325,882.88
			-1,473,244.74		-627,286.85
				537,980,895.43	517,698,596.03
				1,828,751.25	1,829,918.36
				74,937,352.73	58,413,348.73
				4,914,969.50	-2,266,881.50
				79,852,322.23	56,146,467.23

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

Line item

(€)

II. Underwriting account for health insurance

1. Premiums earned net of reinsurance
a) Gross premiums written
b) Reinsurance premiums ceded
c) Change in gross unearned premiums
d) Change in reinsurers' share of gross unearned premiums
2. Premiums from the gross provision for bonuses and rebates
3. Income from investments
a) Income from equity investments
b) Income from other investments
of which from affiliated companies: € 0.00 (2017: € 6,628.44)
aa) Income from land, land rights and buildings, including buildings on third-party land
bb) Income from other investments
c) Income from reversals of write-downs
d) Gains on the disposal of investments
4. Miscellaneous underwriting income net of reinsurance
5. 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
6. Change in miscellaneous net technical provisions
a) Net actuarial reserve
aa) Gross amount
bb) Reinsurers' share
b) Miscellaneous technical provisions
7. Expenses for performance-based and non-performance-based bonuses and rebates net of reinsurance
8. Insurance business operating expenses net of reinsurance
a) Front-end fees
b) Administrative expenses
c) less: commissions received and profit sharing received from outward reinsurance business
9. 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: € 24,289,792.58 (2017: € 22,000.00)
c) Losses on the disposal of investments
10. Miscellaneous underwriting expenses net of reinsurance
11. Health insurance underwriting result net of reinsurance

Note				2018	2017
	32 p. 95	373,740,305.53			365,098,893.62
		-393,187.68			-363,483.48
			373,347,117.85		364,735,410.14
		-380,064.37			-553,687.92
		0.00			0.00
			-380,064.37		-553,687.92
				372,967,053.48	364,181,722.22
				19,852,554.09	8,278,691.92
			0.00		143,716.09
		5,148,210.65			3,613,477.35
		69,621,540.49			68,010,350.16
			74,769,751.14		71,623,827.51
			22,000.00		5,373,479.35
			8,173,990.36		1,602,607.87
				82,965,741.50	78,743,630.82
				3,337,257.37	2,278,495.32
		218,488,992.02			216,893,829.60
		-74,223.38			-44,766.95
			218,414,768.64		216,849,062.65
		1,900,119.00			-5,935,545.00
		0.00			0.00
			1,900,119.00		-5,935,545.00
				216,514,649.64	222,784,607.65
		-123,610,029.08			-117,385,697.55
		0.00			0.00
			-123,610,029.08		-117,385,697.55
			8,535.00		33,919.00
				-123,601,494.08	-117,351,778.55
	37 p. 102			45,087,878.67	49,931,205.18
		35,813,595.06			31,987,312.17
		8,981,361.22			8,795,317.74
			44,794,956.28		40,782,629.91
			-103,458.22		-113,547.27
				44,691,498.06	40,669,082.64
			2,700,795.29		2,935,340.05
			25,434,115.58		937,965.32
			1,998,200.89		327,880.00
				30,133,111.76	4,201,185.37
				1,507,720.94	1,156,505.99
				17,586,253.29	17,388,174.90

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

Line item

(€)

III. Non-underwriting account

1. Underwriting result net of reinsurance
a) in casualty and property insurance
b) in health insurance
2. Income from investments, unless listed under II. 3.
a) Income from equity investments of which from affiliated companies: € 422,000.00 (2017: € 654,000.00)
b) Income from associates
c) Income from other investments of which from affiliated companies: € 76,000.00 (2017: € 65,400.00)
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: € 27,728,312.79 (2017: € 6,061,212.49) of which in respect of affiliated companies: € 777,620.59 (2017: € 0.00)
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: € 4,825,348.24 (2017: € 9,216,347.76)
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 € 2,555,013.80 (2017: tax expense of € 20,000,596.88)
15. Miscellaneous taxes
16. Net income for the year
17. of which non-controlling interests

Note				2018	2017
			79,852,322.23		56,146,467.23
			17,586,253.29		17,388,174.90
				97,438,575.52	73,534,642.13
		519,190.98			820,214.73
		3,014,803.35			4,357,473.34
		16,894,563.58			16,704,162.15
		50,905,777.97			48,786,099.19
		67,800,341.55			65,490,261.34
		770,307.65			5,753,604.55
		5,435,056.55			7,792,617.25
			77,539,700.08		84,214,171.21
		14,373,639.61			12,587,688.97
		31,910,537.14			8,821,831.87
		2,550,093.83			902,375.91
		0.00			0.00
			48,834,270.58		22,311,896.75
				28,705,429.50	61,902,274.46
				-386,615.00	-371,355.00
				24,058,436.90	25,363,788.32
				27,871,545.77	26,936,506.14
			29,197,055.39		38,476,494.37
			80,904,924.77		90,723,993.79
				-51,707,869.38	-52,247,499.42
				-27,202,163.75	7,710,702.22
				70,236,411.77	81,245,344.35
	35 p. 100		0.00		0.00
	35 p. 100		0.00		21,823.00
				0.00	-21,823.00
				70,236,411.77	81,223,521.35
	36 p. 100		34,918,474.38		50,802,413.22
			573,574.07		2,614,485.72
				35,492,048.45	53,416,898.94
				34,744,363.32	27,806,622.41
				-697,249.54	-768,862.26

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.

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, 2018, 36 subsidiaries were included in the consolidated financial statements pursuant to section 301 (1) HGB (December 31, 2017: 31). Five entities were included in the consolidated financial statements for the first time in 2018. One Group company was consolidated as an associate pursuant to section 311 HGB.

In 2018, the basis of consolidation excluding associates comprised six insurance companies (2017: six), three service companies in the field of information technology and business organization (2017: three), two real-estate management companies (2017: two), three investment vehicles (2017: three), 17 other service companies (2017: 14), and five holding and asset management companies (including the parent company; 2017: 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 Digital Services AS, Oslo/Norway	100.00
13 ARAG Holding SE, Düsseldorf, Group parent company	100.00
14 ARAG Insurance Company Inc., Des Moines, Iowa/USA	100.00
15 ARAG International Holding GmbH, Düsseldorf	100.00
16 ARAG IT GmbH, Düsseldorf	100.00
17 ARAG Krankenversicherungs-AG, Munich	94.00
18 ARAG Legal Services B.V., Leusden/Netherlands	100.00
19 ARAG Liegenschaftsverwaltungs- und Beratungs-Gesellschaft mbH, Düsseldorf	100.00
20 ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	100.00
21 ARAG LLC, Des Moines, Iowa/USA	100.00
22 ARAG North America Inc., Des Moines, Iowa/USA	100.00
23 ARAG Plc., Bristol/United Kingdom	100.00
24 ARAG Scandinavia AS, Oslo/Norway	100.00
25 ARAG SE, Düsseldorf	100.00
26 ARAG Service Center GmbH, Düsseldorf	100.00
27 ARAG Services Australia Pty. Ltd., Sydney/Australia	100.00
28 ARAG Services Corporation, Toronto/Canada	100.00
29 ARAG Services LLC, Des Moines, Iowa/USA	100.00
30 CUR Versicherungsmakler GmbH, Düsseldorf	100.00
31 Cura Versicherungsvermittlung GmbH, Düsseldorf	100.00
32 HelloLaw GmbH, Cologne	100.00
33 HELP Forsikring AS, Oslo/Norway	100.00
34 Interlloyd Versicherungs-AG, Düsseldorf	100.00
35 Jurofoon B. V., Leusden/Netherlands	100.00
36 Justix GmbH, Cologne	100.00
37 SolFin GmbH, Düsseldorf	81.92

The following company is included as an associate:

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

There were eight Group companies that were not included in the consolidated financial statements (2017: 13) 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, and ARCAP Beteiligungsverwaltung GmbH & Co. COLUMBUS Immobilien-Fonds IV 'Haus der Wirtschaftsförderung Duisburg' KG i. L. (in liquidation), Munich, in which the Group holds 26.04 percent of the partnership as limited partner, were not consolidated as associates pursuant to section 311 (2) HGB because the entities do not prepare their financial statements in time and are 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	569,454.57	405,851.53
2 ARAG Services Spain & Portugal S. L., Barcelona/Spain	100.00	537,379.41	-289,460.51
3 ARAG-France S. A. R. L. Assistance et Règlement de Sinistres Automobiles et Généraux, Versailles/France	100.00	18,988.00	0.00
4 COLUMBUS Immobilien Fonds XVI GmbH & Co. KG, Munich*	55.57	3,648,125.74	-314,046.65
5 Easy2claim Limited, Bristol/United Kingdom*	100.00	1.13	0.00
6 Multiline Insurance Agency (MIA) S. r. l., Verona/Italy	100.00	156,018.00	-61,982.00
7 Prinzregent Vermögensverwaltungs-GmbH, Düsseldorf	100.00	33,168.42	163.58
8 VIF Gesellschaft für Versicherungsvermittlung mit beschränkter Haftung, Düsseldorf	100.00	274,836.53	243,717.78

* 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, 2018 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 subsequent 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. No subsidiaries were deconsolidated in 2018.

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 because the impact is not material.

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 entitlements of policyholders.

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

Consolidated entities' sales 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 using the modified closing-rate method. In this method, assets and liabilities (but not equity items) are translated at the middle spot rate on the balance sheet date. Amounts on the income statement that are recognized for the period are translated at an average of the month-end exchange rates in the reporting year. An amount of €3,022,356.74, representing the proportion attributable to the Group of the difference between the equity items translated at the historical exchange rate and the equity items translated at the closing rate, was transferred to revenue reserves directly in equity (currency translation differences). Currency translation differences that arise as part of the consolidation of intragroup balances are derecognized through the income statement. Intercompany profits are not affected by exchange rates.

Transactions denominated in foreign currency in single-entity financial statements are translated at the spot rate on the date of the transaction. In this case, income and expenses are translated at the same exchange rate used for the balance sheet items concerned. The quoted market price or market value for shares in affiliated companies and equity investments denominated in foreign currency is determined by using the middle spot rate on the reporting date; all other assets are valued using the lower of the exchange rate on the date of payment or the exchange rate on the balance sheet date. The sundry assets and liabilities with a residual maturity of up to one year are translated using the middle spot rate on the balance sheet date, disregarding the historical cost convention and the realization principle.

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 €8,435.9 thousand as of December 31, 2018 (December 31, 2017: €9,373.2 thousand). The useful life was originally set at 15 years because the goodwill was defined as in-force business.

- 3 Miscellaneous intangible assets** are recognized at cost less straight-line amortization.

The carrying amount of €10,448,173.02 can be broken down as follows: €8,814,365.13 for software, €790,722.07 for leasehold improvements in business premises in Italy, €65,112 for industrial property rights and licenses, and €777,973.82 for goodwill arising on an acquisition in Spain. Software is essentially amortized over five years on a straight-line basis. Leasehold improvements are amortized over the remaining term of the leases (eleven years) using the straight-line method. Most of 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 2018.

- 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 €4,521.00 (2017: €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. In the reporting year, write-downs of €777,620.59 were recognized on non-consolidated affiliated companies (2017: €0.00) and of €301,906.42 on miscellaneous equity investments (2017: €0.00). 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 long-term investees and investors is recognized at cost, net of any repayments of principal.

6 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 ARAG 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 investment fund shares/units and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. Subsequent valuation of the investment fund shares/units classified as fixed assets is based on the long-term market value determined in a fund review. As of December 31, 2018, the long-term market value was not based on the quoted market price. Instead, the institutional fund shares/units were valued using the long-term trend in the price/earnings ratio in the Stoxx Europe Large 200 and MSCI Emerging Markets indices. Under this approach, the long-term market value was capped at 20.0 percent above the market price of the shares/units as of December 31, 2018. Fixed-income securities within the funds were valued at their nominal amounts, as a minimum. Market value was used for all other items within the funds with a rating of BBB- or better. In the reporting year, write-downs amounting to €45,261,221.56 were recognized due to expected permanent impairment (2017: €934,396.40). Reversals of write-downs pursuant to section 253 (5) HGB were recognized in an amount of €644,035.34 in 2018 (2017: €8,724,168.59).

The classification of institutional fund shares/units for permanent use in business operations resulted in undisclosed liabilities of €36,393 thousand (December 31, 2017: €531 thousand) due to write-downs not being recognized. As of December 31, 2018, the total fair value was €2,547 thousand less than the carrying amount. There were no instances in which historical price fluctuations resulted in the IDW's criteria for triggering a write-down requirement being fulfilled, which means that the ARAG Group could have decided not to recognize any write-down at all for institutional fund shares/units classified as fixed assets.

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 341 b (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 €6,163 thousand had arisen in respect of this subset of bonds and securities as of December 31, 2018 (December 31, 2017: €775 thousand).

- 8 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 were recognized pursuant to section 253 (3) sentence 5 HGB in either the reporting year or the prior year.
- 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 Promissory notes and loans** are recognized at cost less repayments made. **Sundry lending** comprises miscellaneous loans; this lending is recognized and measured in the same way as promissory notes and loans.
- 11 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.
- 12 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.
- 13** In accordance with section 253 (1) sentence 1 HGB, **property and equipment** is recognized at cost and depreciated on a straight-line basis over the standard operating useful life.
- 14 Inventories** are determined by carrying out physical inventory checks. They are measured at cost.
- 15 Current bank balances, checks, and cash on hand**, together with **other assets**, are recognized at their nominal amounts. Other assets include tax assets of €22,883.8 thousand (December 31, 2017: €22,799.7 thousand), interest receivables of €382.9 thousand in respect of tax assets (December 31, 2017: €2,365.3 thousand), insurance assets of €94.5 thousand (December 31, 2017: €97.8 thousand), and other items amounting to €168.1 thousand (December 31, 2017: €243.6 thousand).
Asset values relating to reinsurance are recognized at the amount provided by the insurance company.
- 16 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 €2,925,028.57 (December 31, 2017: €3,794,306.65) stemming from the difference pursuant to section 341 c (2) sentence 2 HGB.
- 17 Deferred tax assets** include the likely tax benefit in subsequent financial years in the amount of the current or future income tax rates. If differences arise between the carrying amounts in the HGB consolidated financial statements and those in the tax base as a result of consolidation adjustments and these differences are expected to reverse in subsequent years, deferred taxes are recognized in respect of these differences using separate

entity-specific tax rates. 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.

18 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.

19 **Group equity:** Group equity is presented in detail in the statement of changes in group equity. These items are broken down 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 2018, to be paid as a dividend to the shareholders. In principle, amounts equivalent to net deferred tax assets and assets intended to cover defined benefit obligations, where such assets are valued at a fair value that exceeds cost, are prohibited from being distributed as a dividend under section 268 (8) HGB. As the single-entity financial statements of the parent company ARAG Holding SE do not include any such items and, furthermore, these consolidated financial statements do not serve as the basis for the measurement of any dividend distribution, there are no amounts subject to a restriction on distribution to be disclosed, even though there are circumstances in other Group companies that give rise to a prohibition, in principle, on the distribution of certain amounts as a dividend. The articles of incorporation do not include any restrictions on the use of profits.

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 tradable 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 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 from the total of the provisions for increasing age arising from the additional premiums and the provisions for increasing age in respect of terminated premium scales. The average discount rate is 2.96 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 Company's appointed actuary, 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 and, for the business in Germany, 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) for discontinuation and reduction of risk in direct insurance business was calculated using a lapse rate based on empirical values in the year under review. The breakdown by individual insurance segment is based on the allocation formula for premiums. The **provision recognized for premium waivers** relates to the scales of rates offered in the property and casualty insurance business under which the obligation to pay the premiums is waived for up to five years, e.g. in the event of unemployment. The provision offsets the expenses that are likely to be incurred (claims, costs, commissions) during the period of unemployment. The expected duration of the waiver of premiums is estimated on the basis of internal statistical analysis. The **provision for assistance for victims of traffic accidents** is recognized on the basis of the share specified by the German Road Casualty Support Organization (VOH). A **provision for non-performance-based bonuses and rebates** has been recognized to cover the risk arising where the ARAG Group has entered into quota share reinsurance treaties with UK primary insurers and these insurers grant a share of profits to policyholders and agents, affecting the reinsurance result via a net premium agreement. This provision contains amounts for third-party profit shares that have not yet been definitively determined as of the reporting date because of an analysis period covering a number of years. The provision is recognized at a settlement amount measured in accordance with prudent business practice.

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 2018G (2017: 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 €32,158,022.00 as of December 31, 2018 (December 31, 2017: €28,482,960.00).

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, 2017: 2.5 percent); annual increase in pension benefits: 1.75 percent (December 31, 2017: 1.75 percent); discount rate: 3.21 percent (December 31, 2017: 3.68 percent; discount rate pursuant to section 253 (2) sentence 2 HGB, ten-year average) and 2.32 percent (December 31, 2017: 2.80 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. The settlement value includes a shortfall in pension funds used to cover pension commitments to employees. The shortfall has been caused by the long period of low interest rates and amounted to €263,785.73 as of December 31, 2018 (December 31, 2017: €274,983.33). It has been determined in accordance with actuarial principles and reported as a pension obligation.

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, 2018	Dec. 31, 2017
Amount required to settle the vested entitlements	247,627,294.40	228,729,220.69
Netted assets (fair value)	-4,594,464.70	-4,719,616.80
Amount reported on the balance sheet	243,032,829.70	224,009,603.89

The netted assets consist of reinsurance assets equating to the value of the pension obligations and two securities with a cost of €2,417,720 recognized at a fair value of €2,634,340 (December 31, 2017: €3,612,800).

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 Provisions for early retirement obligations** are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles; as of the reporting date, the amounts were discounted to present value using a discount rate of 2.32 percent (December 31, 2017: 2.80 percent). In 2018, a **provision in accordance with the pre-retirement part-time employment agreement** for the private insurance industry dated June 11, 1997, based on the Accounting Principle issued by the Main Technical Committee of the Institute of Public Auditors in Germany (IDW AcP HFA 3) dated November 18, 1998, was recognized on the basis of a maturity-matched discount rate of 2.32 percent (2017: 2.80 percent). In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements and natural employee turnover were taken into account. Credit balances on employee working hours accounts models are protected against insolvency in accordance with section 8a of the German Pre-Retirement Part-Time Employment Act (AltTZG) by means of a fixed liability guarantee from a German commercial bank. A **long-service provision** was recognized in the year under review for long-service awards to be paid to employees. The provision was calculated using the projected unit credit method taking into account death rates in accordance with the 2018G (2017: 2005G) mortality tables published by Professor Klaus Heubeck and applying a discount rate of 2.32 percent (2017: 2.80 percent). The calculation also included staff turnover at an average rate of 1.5 percent and salary increases at a rate of 2.5 percent. The earliest possible pension age under the RVAGAnpG was selected as the final age. The **sundry provisions** and the **provisions for taxes** are recognized in the amount that is necessary to settle the obligation according to prudent business practice. Interest income of €5,681.89 and interest expenses of €8,839.58 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). Liabilities denominated in foreign currency are translated using the middle spot exchange rate as of the reporting date, disregarding both the historical cost convention and the realization principle. The residual maturity is less than one year in each case.

30 **Deferred income and accrued expenses** contain differences pursuant to section 341c (2) sentence 1 HGB of €4,576,822.13 (December 31, 2017: €4,769,653.08).

31 Associates

The total goodwill arising on the consolidation of associates using the equity method amounted to €0.00 as of December 31, 2018 (December 31, 2017: €0.00) as this goodwill had already been fully amortized. Accordingly, no amortization or write-downs were recognized on the goodwill of associates in 2018.

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	372,598	209,479	373,740		99	955,916
Netherlands	99,274			51,792		151,066
Spain	56,062	48,358		21,786	12,049	138,255
Italy	30,316	4,772		94,970	285	130,343
USA	97,963			6,455		104,418
Austria	64,896					64,896
Norway	41,617					41,617
UK*	3,194	181		25,024		28,399
Belgium	24,431			862		25,293
Greece	4,885			53		4,938
Sweden	4,689					4,689
Slovenia	2,682					2,682
Portugal	491	453		8		952
Denmark	147					147
Canada*				107		107
Total	803,245	263,243	373,740	201,057	12,433	1,653,718

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

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

Changes in asset items

(€'000)	Carrying amount as of Jan. 1, 2018	Additions	Additions/ disposals in basis of consolidation	Reclassifications
A. Intangible assets				
1. Purchased goodwill	26,322	1,725	0	0
2. Miscellaneous intangible assets	10,412	5,718	0	0
Total for A.	36,734	7,443	0	0
B. I. Land, land rights and buildings, including buildings on third-party land	201,985	1,784	0	0
B. II. Investments in affiliated companies and equity investments				
1. Shares in affiliated companies	3,331	1,168	0	0
2. Lending to affiliated companies	0	0	0	0
3. Equity investments	14,605	18,260	0	-15,889
4. Lending to long-term investees and investors	0	400	0	0
Total for B. II.	17,936	19,829	0	-15,889
B. III. Miscellaneous investments				
1. Equities, investment fund shares/units, and other variable-yield securities	1,484,292	140,399	0	0
2. Bearer bonds and other fixed-income securities	1,171,626	276,350	0	0
3. Loans secured by mortgages or land charges and fixed-income receivables	6,469	0	0	0
4. Miscellaneous lending				
a) Registered bonds	594,511	0	0	0
b) Promissory notes and loans	555,404	30,000	0	0
c) Loans and prepayments for certificates of insurance	0	0	0	0
d) Sundry lending	3,179	98	0	0
5. Bank deposits	87,099	0	0	0
6. Other investments	43,750	31,345	0	15,889
Total for B. III.	3,946,331	478,192	0	15,889
Total for B. I. to B. III.	4,166,252	499,805	0	0
B. IV. Deposits with ceding insurers	49,677	10,182	0	0
Total for investments B. I. to B. IV.	4,215,929	509,987	0	0

Land, land rights and buildings on third-party land with a carrying amount of €145,007,485.55 (December 31, 2017: €148,801,274.48) 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, 2018	Fair value pursuant to sec. 54 RechVersV	Netted valuation reserves
0	65	0	4,960	23,152		
0	-53	0	5,629	10,448		
0	12	0	10,588	33,601		
3,744	-21	0	5,331	194,672	314,752	120,080
1,824	0	0	778	1,898	8,142	6,245
0	0	0	0	0	0	0
3,625	408	0	302	13,457	49,126	35,669
0	0	0	0	400	400	0
5,450	408	0	1,080	15,755	57,668	41,913
97,033	160	644	45,261	1,483,200	1,480,654	-2,547
113,086	2,257	148	5,673	1,331,622	1,397,666	66,044
964	0	0	0	5,505	5,505	0
12,000	0	0	0	582,511	656,657	74,145
30,456	0	0	0	554,949	606,763	51,814
0	0	0	0	0	0	0
3,169	0	0	0	108	108	0
38,202	1	0	0	48,898	48,898	0
10,818	0	0	0	80,167	90,857	10,689
305,728	2,419	792	50,934	4,086,961	4,287,108	200,147
314,922	2,806	792	57,345	4,297,388	4,659,528	362,140
3,923	0	0	0	55,935	55,935	0
318,846	2,806	792	57,345	4,353,323	4,715,464	362,140

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, 2018	Market value as of Dec. 31, 2018	Difference	Dividend in 2018	Redemption
			(€)	(€)	(€)	(€)	
ADRENT	Fixed-income fund	Increased income	52,003,507.82	52,797,357.12	793,849.30	859,913.59	At any time
ATRI	Fixed-income fund	Increased income	150,184,178.51	148,255,902.79	-1,928,275.72	3,147,576.43	At any time
ARRE	Mixed fund	Increased income	254,157,464.17	251,289,400.29	-2,868,063.88	6,799,551.80	At any time
ARI 1	Fixed-income fund	Increased income	146,259,786.66	144,170,843.79	-2,088,942.87	10,234,415.71	At any time
ARI 2	Fixed-income fund	Increased income	76,520,099.55	76,460,632.36	-59,467.19	1,480,520.10	At any time
ALLTRI-RENT	Fixed-income fund	Increased income	69,179,570.38	75,668,932.17	6,489,361.79	1,237,474.63	At any time
ALLTRI	Mixed fund	Increased income	131,502,310.17	144,861,204.30	13,358,894.13	4,035,120.84	At any time
ADZ	Fixed-income fund	Increased income	124,131,708.03	122,908,639.43	-1,223,068.60	1,911,484.81	At any time
EMA	Equity fund	Increased income	56,432,188.00	49,848,038.99	-6,584,149.01	1,827,518.18	At any time
AKR	Fixed-income fund	Increased income	205,871,343.37	202,884,422.77	-2,986,920.60	4,462,852.62	At any time
AAF	Equity fund	Increased income	65,411,215.86	65,411,215.86	0.00	9,640,740.08	At any time
SIVE Fonds INKA	Equity fund	Increased income	120,903,394.36	112,917,141.32	-7,986,253.04	4,324,406.01	At any time
			1,452,556,766.88	1,447,473,731.19	-5,083,035.69	49,961,574.80	

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 €25,725,140.91 were created (December 31, 2017: €530,751.61). There were no reversals of write-downs pursuant to section 253 (5) HGB in respect of this portfolio in 2018 (2017: €8,233,709.51).

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, 2018	Deferred taxes as of Dec. 31, 2017
Intangible assets	532	0
Investments	516	1,832
Receivables	- 331	- 163
Miscellaneous assets	94	- 440
Prepaid expenses and accrued income	0	- 59
Technical provisions	- 2,193	4,396
Other provisions	2,444	- 41
Other liabilities	0	0
Deferred income and accrued expenses	0	0
Loss carryforwards	0	0
	1,062	5,525

The net deferred tax asset pursuant to section 274 (1) sentence 2 HGB was not reported at single-entity financial statements level. Only deferred tax liabilities that were reported in single-entity financial statements have been included in the consolidated financial statements. 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. In this regard, net deferred tax assets were also included in the carrying amounts of the consolidated financial statements. However, these have been offset in the consolidated financial statements against the net deferred tax liabilities from the single-entity financial statements. This netting has led to differences compared with the prior year at balance sheet item level. Deferred tax assets are not recognized on losses carried forward.

35 Net extraordinary income/expense

In 2017, extraordinary expenses had arisen 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.

36 Income taxes

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

	2018		2017	
	(%)	(€)	(%)	(€)
Profit before tax (HGB financial statements)		70,236,411.77		81,223,521.35
Expected income tax expense based on tax rate	31.20	21,913,760.47	31.20	25,341,738.67
Current taxes		32,363,460.58		30,801,816.34
Deferred taxes		2,555,013.80		20,000,596.88
Reported income tax expense		34,918,474.38		50,802,413.22
Effective tax rate	49.72		62.55	
Miscellaneous taxes		573,574.07		2,614,485.72
Tax expense reported in the income statement		35,492,048.45		53,416,898.94

The difference between the expected and effective tax expense was attributable both to off-balance-sheet additions and reductions to determine the tax assessment basis starting from the net retained profit for tax purposes and to the change in net deferred taxes. In the reporting year, only a small level of income amounting to €181.8 thousand arose from consolidation effects, specifically from the increase in net deferred tax assets at Group level. In 2017, the effective tax rate had also been increased by the derecognition of net deferred tax assets of €9,919.7 thousand because it was forecast that there would be no impact on current taxes when the related differences reversed, and by the recognition of 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. There are payment obligations of €1,799.0 thousand in connection with loans to third parties that have not yet been drawn down by the borrower. Drawdown is anticipated in the near future.

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/type of obligation to pay in capital	(€)
Private-equity and infrastructure funds	115,780,676.96
FOYER-ARAG S. A., Luxembourg	24,788.00

The unpaid contributions have not been called up. They are not expected to be called up in the short term. 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.

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 €4,258,873.13 as of the reporting date (December 31, 2017: €3,983,411.19).

Auditor's fees

The auditor of the consolidated financial statements is PricewaterhouseCoopers GmbH, Düsseldorf branch. The Group companies incurred expenses for auditor's fees of €969,800.00 for the audit of annual financial statements and Solvency II balance sheets, and €6,269.98 for other consulting or advisory services. Tax consultancy fees of €13,701.89 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.

37 Expenses for bonuses and rebates net of reinsurance

(€)	2018	2017
Expenses for performance-based bonuses and rebates	45,085,083.01	48,574,846.24
Expenses for non-performance-based bonuses and rebates	2,795.66	1,356,358.94
Total expenses	45,087,878.67	49,931,205.18

Commissions and other remuneration for insurance agents, staff costs

(€)	2018	2017
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	248,693,913.94	237,504,249.47
2. Other remuneration for insurance agents within the meaning of section 92 HGB	21,948,995.49	18,863,443.14
3. Wages and salaries	249,025,398.36	243,417,932.36
4. Social security and other employee benefit expenses	40,032,646.93	39,138,417.61
5. Pension and other post-employment benefit expenses	37,132,774.75	26,306,607.48
6. Total expenses	596,833,729.47	565,230,650.06

Average number of employees in 2018

The Group's fully consolidated entities employed an average of 4,015 people in 2018 (2017: 3,882). As of December 31, 2018, the Group had a total of 4,152 employees (December 31, 2017: 4,042).

The insurance companies employed an average of 3,483 people (2017: 3,441). The average number of people employed by all of the administrative entities and service companies was 612 (2017: 515). In the German Group companies, an additional 22 people were employed for the purpose of vocational training (2017: 16).

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

The expense for Supervisory Board remuneration in all Group companies came to €342,125.00.

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 €2,253,029.56. 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 12, 2019

ARAG Holding SE

The Management Board

Dr. Dr. h. c. Paul-Otto Faßbender

Klaus Heiermann

Dr. Sven Wolf

Consolidated Cash Flow Statement for 2018

Cash flow statement

(€)	2018	2017
Cash flows from operating activities		
Profit for the period	34,744,363	27,806,622
Increase(+)/decrease(-) in technical provisions, net	175,554,932	-2,590,538,540
Increase(-)/decrease(+) in deposits with ceding insurers and in receivables from reinsurance business	-5,791,994	-7,313,538
Increase(+)/decrease(-) in deposits from reinsurers and liabilities from reinsurance business	-498,421	-36,508,836
Increase(-)/decrease(+) in receivables from direct insurance business	-10,472,012	31,850,773
Increase(+)/decrease(-) in liabilities from direct insurance business	3,070,425	-42,102,287
Increase(-)/decrease(+) in miscellaneous receivables	-9,207,323	10,265,789
Increase(+)/decrease(-) in miscellaneous liabilities	2,555,087	-8,758,647
Change in miscellaneous balance sheet items not related to investing or financing activities	-145,917,483	2,548,846,504
Other non-cash income and expenses, and adjustment of the profit/loss for the period	70,633,002	38,261,043
Gain(-)/loss (+) on the disposal of investments, property and equipment, and intangible fixed assets	-9,035,013	-13,020,534
Expenses for/income from extraordinary items	0	21,823
Current income tax expense/income	30,455,139	30,801,816
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Income taxes paid	-34,497,241	-2,346,789
Cash flows from operating activities	101,593,462	-12,734,800
Cash flows from investing activities		
Proceeds from disposal of consolidated entities	0	28,800,000
Proceeds from disposal of property and equipment	88,899	890,338
Proceeds from disposal of intangible fixed assets	58	130,842
Payments to acquire property and equipment	-3,050,821	-11,244,443
Payments to acquire intangible fixed assets	-6,229,084	-23,465,581
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	-9,190,947	-4,888,844
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	82,402,516	-27,623,644
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	0	-8,914,847
Cash and cash equivalents at beginning of period	113,811,641	150,350,132
Cash and cash equivalents at end of period	196,214,156	113,811,641

39 Statement of Changes in Group Equity in Accordance with GAS 22 for the Year Ended December 31, 2018

	Equity attributable to parent entity									
	(Adjusted) subscribed capital				Capital reserves			Reserves		
	Sub- scribed capital	Treasury shares	Uncalled unpaid contri- butions	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 incor- poration	Other revenue reserves
Balance as of Jan. 1, 2018	200,000	0	0	200,000	0	0	0	11,311	0	213,105
Transfers to/ withdrawals from reserves				0			0	919		16,119
Distribution				0			0			
Currency translation				0			0			
Miscellaneous changes				0			0			-70
Changes in the basis of consolidation				0			0			
Consolidated net income				0			0			
Balance as of Dec. 31, 2018	200,000	0	0	200,000	0	0	0	12,230	0	229,154

		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
Revenue reserves	Total									
Total										
224,417	224,417	780	0	27,038	452,234	8,338	28	769	9,134	461,369
17,038	17,038			-17,038	0	308		-308	0	0
0	0			-10,000	-10,000			-461	-461	-10,461
0	0	3,022			3,022		0		0	3,022
-70	-70				-70	-201			-201	-272
0	0				0				0	0
0	0			34,047	34,047			697	697	34,744
241,384	241,384	3,802	0	34,047	479,233	8,445	28	697	9,170	488,403

Segment Reporting – Balance Sheet

(€'000)	Legal insurance		Casualty and property insurance	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
A. Intangible assets	9,273	9,056	0	137
B. Investments	2,112,184	2,058,678	457,036	455,180
I. Land and buildings, including buildings on third-party land	59,200	61,524	34,060	34,817
II. Investments in affiliated companies and equity investments	376,442	359,085	39,144	36,138
III. Miscellaneous investments	1,623,862	1,591,331	380,576	381,287
IV. Deposits with ceding insurers	52,678	46,739	3,257	2,938
C. Sundry segment assets	277,266	229,643	19,939	24,312
Total segment assets	2,398,723	2,297,377	476,975	479,629
A. Technical provisions	1,389,404	1,344,582	318,531	325,529
I. Unearned premiums	199,533	198,212	43,271	45,418
II. Actuarial reserve	0	0	19	5
III. Provision for outstanding claims	1,179,110	1,143,384	242,087	234,457
IV. Provision for bonuses and rebates	0	0	0	0
V. Equalization provision	9,188	6,282	66,774	74,596
VI. Miscellaneous technical provisions	2,140	690	1,887	1,987
VII. Reinsurers' share of technical provisions	-568	-3,985	-35,508	-30,934
B. Miscellaneous segment liabilities	387,003	372,020	49,687	48,925
Total segment liabilities	1,776,408	1,716,603	368,218	374,454
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

Health insurance		Services and asset management		Total		Consolidation		Group total	
Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
54	79	2,448	2,537	11,776	11,809	21,825	24,925	33,601	36,734
2,181,544	2,036,381	476,583	473,019	5,227,347	5,023,259	-874,023	-807,330	4,353,323	4,215,929
71,546	75,925	32,860	32,721	197,666	204,988	-2,994	-3,003	194,672	201,985
32,146	18,390	439,052	408,652	886,784	822,264	-871,029	-804,328	15,755	17,936
2,077,852	1,942,066	4,671	31,647	4,086,961	3,946,331	0	0	4,086,961	3,946,331
0	0	0	0	55,935	49,677	0	0	55,935	49,677
79,159	63,610	65,561	30,942	441,925	348,508	1,062	5,525	442,987	354,033
2,260,757	2,100,071	544,592	506,499	5,681,047	5,383,576	-851,136	-776,879	4,829,911	4,606,697
2,129,437	1,991,706	0	0	3,837,372	3,661,817	0	0	3,837,372	3,661,817
15,330	14,950	0	0	258,134	258,579	0	0	258,134	258,579
1,787,225	1,663,615	0	0	1,787,244	1,663,620	0	0	1,787,244	1,663,620
62,518	64,419	0	0	1,483,716	1,442,259	0	0	1,483,716	1,442,259
264,196	248,547	0	0	264,196	248,547	0	0	264,196	248,547
0	0	0	0	75,962	80,877	0	0	75,962	80,877
167	175	0	0	4,195	2,853	0	0	4,195	2,853
0	0	0	0	-36,076	-34,919	0	0	-36,076	-34,919
31,078	26,760	36,368	35,806	504,136	483,511	0	0	504,136	483,511
2,160,514	2,018,466	36,368	35,806	4,341,508	4,145,328	0	0	4,341,508	4,145,328
								488,403	461,369
								4,829,911	4,606,697

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	
	2018	2017	2018	2017
Underwriting income				
Gross premiums written	1,004,303	938,876	275,677	281,002
Direct insurance business	803,245	749,783	263,244	265,698
Inward reinsurance business	201,058	189,093	12,433	15,304
Reinsurance premiums ceded	-507	-302	-11,220	-8,573
Change in net unearned premiums	-3,308	-3,701	2,056	-905
Premiums earned net of reinsurance	1,000,488	934,872	266,512	271,524
Premiums from the gross provision for bonuses and rebates	0	0	0	0
Investment income allocated to the underwriting account	0	0	387	371
Miscellaneous underwriting income net of reinsurance	1,704	1,683	508	529
Total underwriting income	1,002,191	936,555	267,407	272,424
Underwriting expenses				
Claims incurred net of reinsurance	-506,151	-479,346	-147,336	-151,896
Change in sundry net technical provisions	-1,450	192	86	13
Expenses for bonuses and rebates	0	0	0	0
of which performance-based	0	0	0	0
of which non-performance-based	0	0	0	0
Insurance business operating expenses	-428,389	-411,793	-109,592	-105,906
of which front-end fees	-106,287	-100,134	-39,460	-36,501
of which administrative expenses	-322,101	-311,641	-71,605	-70,050
of which reinsurers' share	0	-17	1,473	645
Investment expenses allocated to the underwriting account	0	0	0	0
Miscellaneous underwriting expenses net of reinsurance	0	-71	-1,829	-1,759
Total underwriting expenses	-935,990	-891,018	-258,671	-259,548
Subtotal	66,201	45,538	8,736	12,876
Change in equalization provision and similar provisions	-2,906	-1,920	7,821	-347
Underwriting result net of reinsurance	63,295	43,617	16,558	12,529
Income from investments	97,068	99,920	14,276	15,650
Expenses for investments	-40,795	-15,840	-7,992	-4,896
Gains and losses on investments	56,273	84,080	6,284	10,754
Gains and losses on investments assigned to the underwriting account	0	0	0	0
Market fees for goods and services provided by non-insurance companies	0	0	0	0
Cost of goods and services provided by non-insurance companies to generate market fees	0	0	0	0
Gross profit	0	0	0	0
Other income	24,705	34,510	1,784	1,457
Other expenses	-59,827	-64,975	-5,924	-6,795
Other net income/expense	-35,122	-30,465	-4,140	-5,337
Profit/loss from ordinary activities	84,445	97,233	18,702	17,946
Net extraordinary income/expense	0	0	0	0
Profit/loss before tax	84,445	97,233	18,702	17,946
Tax expense				
Net income for the year				
of which non-controlling interests				

Health insurance		Services and asset management		Total		Consolidation		Group total	
2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
373,740	365,099	0	0	1,653,720	1,584,977	0	0	1,653,720	1,584,977
373,740	365,099	0	0	1,440,229	1,380,580	0	0	1,440,229	1,380,580
0	0	0	0	213,490	204,397	0	0	213,490	204,397
-393	-363	0	0	-12,120	-9,239	0	0	-12,120	-9,239
-380	-554	0	0	-1,633	-5,161	0	0	-1,633	-5,161
372,967	364,182	0	0	1,639,967	1,570,577	0	0	1,639,967	1,570,577
19,853	8,279	0	0	19,853	8,279	0	0	19,853	8,279
82,966	78,744	0	0	83,352	79,115	0	0	83,352	79,115
3,337	2,278	0	0	5,549	4,491	0	0	5,549	4,491
479,123	453,483	0	0	1,748,721	1,662,461	0	0	1,748,721	1,662,461
-216,515	-222,785	0	0	-870,001	-854,027	0	0	-870,001	-854,027
-123,601	-117,352	0	0	-124,966	-117,147	0	0	-124,966	-117,147
-45,088	-49,931	0	0	-45,088	-49,931	0	0	-45,088	-49,931
-45,085	-49,931	0	0	-45,085	-49,931	0	0	-45,085	-49,931
-3	0	0	0	-3	0	0	0	-3	0
-44,691	-40,669	0	0	-582,672	-558,368	0	0	-582,672	-558,368
-35,814	-31,987	0	0	-181,561	-168,622	0	0	-181,561	-168,622
-8,981	-8,795	0	0	-402,688	-390,486	0	0	-402,688	-390,486
103	114	0	0	1,577	741	0	0	1,577	741
-30,133	-4,201	0	0	-30,133	-4,201	0	0	-30,133	-4,201
-1,508	-1,157	0	0	-3,336	-2,986	0	0	-3,336	-2,986
-461,536	-436,094	0	0	-1,656,197	-1,586,660	0	0	-1,656,197	-1,586,660
17,586	17,388	0	0	92,524	75,802	0	0	92,524	75,802
0	0	0	0	4,915	-2,267	0	0	4,915	-2,267
17,586	17,388	0	0	97,439	73,535	0	0	97,439	73,535
82,966	78,744	35,326	34,530	229,635	228,844	-69,130	-65,886	160,505	162,958
-30,133	-4,201	-2,321	-1,955	-81,240	-26,893	1,886	8	-79,354	-26,884
52,833	74,542	33,005	32,575	148,395	201,951	-67,243	-65,878	81,151	136,073
-52,833	-74,542	0	0	-52,833	-74,542	0	0	-52,833	-74,542
0	0	62,035	63,709	62,035	63,709	-37,976	-38,345	24,058	25,364
0	0	-65,848	-65,282	-65,848	-65,282	37,976	38,345	-27,872	-26,937
0	0	-3,813	-1,573	-3,813	-1,573	0	0	-3,813	-1,573
2,019	1,557	903	952	29,412	38,476	-215	0	29,197	38,476
-6,329	-6,181	-4,008	-3,564	-76,087	-81,515	-4,818	-9,209	-80,905	-90,724
-4,309	-4,624	-3,104	-2,613	-46,675	-43,039	-5,033	-9,209	-51,708	-52,247
13,277	12,764	26,088	28,389	142,512	156,332	-72,276	-75,087	70,236	81,245
0	0	0	-22	0	-22	0	0	0	-22
13,277	12,764	26,088	28,367	142,512	156,310	-72,276	-75,087	70,236	81,224
								-35,492	-53,417
								34,744	27,807
								-697	-769

Segment Reporting – Income Statement by German and International Business

(€'000)

Underwriting income

Gross premiums written

Direct insurance business

Inward reinsurance business

Reinsurance premiums ceded

Change in net unearned premiums

Premiums earned net of reinsurance

Premiums from the gross provision for bonuses and rebates

Investment income allocated to the underwriting account

Miscellaneous underwriting income net of reinsurance

Total underwriting income

Underwriting expenses

Claims incurred net of reinsurance

Change in sundry net technical provisions

Expenses for bonuses and rebates

of which performance-based

of which non-performance-based

Insurance business operating expenses

of which front-end fees

of which administrative expenses

of which reinsurers' share

Investment expenses allocated to the underwriting account

Miscellaneous underwriting expenses net of reinsurance

Total underwriting expenses

Subtotal

Change in the equalization provision and similar provisions

Underwriting result net of reinsurance

Income from investments

Expenses for investments

Gains and losses on investments

Gains and losses on investments assigned to the underwriting account

Market fees for goods and services provided by non-insurance companies

Cost of goods and services provided by non-insurance companies to generate market fees

Gross profit

Other income

Other expenses

Other net income/expense

Profit/loss from ordinary activities

Net extraordinary income/expense

Profit/loss before tax

Tax expense

Net income for the year

of which non-controlling interests

German		International		Total		Consolidation		Group total	
2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
981,048	942,702	672,672	642,275	1,653,720	1,584,977	0	0	1,653,720	1,584,977
955,817	920,939	484,412	459,641	1,440,229	1,380,580	0	0	1,440,229	1,380,580
25,231	21,763	188,260	182,634	213,490	204,397	0	0	213,490	204,397
-11,864	-9,138	-256	-102	-12,120	-9,239	0	0	-12,120	-9,239
-4,462	-4,176	2,830	-984	-1,633	-5,161	0	0	-1,633	-5,161
964,721	929,388	675,246	641,190	1,639,967	1,570,577	0	0	1,639,967	1,570,577
19,853	8,279	0	0	19,853	8,279			19,853	8,279
83,352	79,115	0	0	83,352	79,115	0	0	83,352	79,115
5,007	4,088	541	402	5,549	4,491	0	0	5,549	4,491
1,072,933	1,020,869	675,787	641,592	1,748,721	1,662,461	0	0	1,748,721	1,662,461
-570,824	-573,217	-299,177	-280,809	-870,001	-854,027	0	0	-870,001	-854,027
-124,872	-117,118	-94	-29	-124,966	-117,147	0	0	-124,966	-117,147
-45,088	-49,931	0	0	-45,088	-49,931	0	0	-45,088	-49,931
-45,085	-49,931	0	0	-45,085	-49,931	0	0	-45,085	-49,931
-3	0	0	0	-3	0	0	0	-3	0
-282,599	-269,851	-300,073	-288,516	-582,672	-558,368	0	0	-582,672	-558,368
-120,315	-108,223	-61,247	-60,399	-181,561	-168,622	0	0	-181,561	-168,622
-163,861	-162,387	-238,826	-228,099	-402,688	-390,486	0	0	-402,688	-390,486
1,577	758	0	-17	1,577	741	0	0	1,577	741
-30,133	-4,201	0	0	-30,133	-4,201	0	0	-30,133	-4,201
-3,336	-2,244	0	-742	-3,336	-2,986	0	0	-3,336	-2,986
-1,056,853	-1,016,563	-599,344	-570,096	-1,656,197	-1,586,660	0	0	-1,656,197	-1,586,660
16,081	4,306	76,443	71,496	92,524	75,802	0	0	92,524	75,802
10,785	580	-5,870	-2,847	4,915	-2,267	0	0	4,915	-2,267
26,866	4,886	70,573	68,649	97,439	73,535	0	0	97,439	73,535
199,918	203,900	29,717	24,944	229,635	228,844	-69,130	-65,886	160,505	162,958
-71,591	-23,029	-9,649	-3,864	-81,240	-26,893	1,886	8	-79,354	-26,884
128,326	180,871	20,068	21,081	148,395	201,951	-67,243	-65,878	81,151	136,073
-52,833	-74,542	0	0	-52,833	-74,542	0	0	-52,833	-74,542
62,035	63,709	0	0	62,035	63,709	-37,976	-38,345	24,058	25,364
-65,848	-65,282	0	0	-65,848	-65,282	37,976	38,345	-27,872	-26,937
-3,813	-1,573	0	0	-3,813	-1,573	0	0	-3,813	-1,573
26,133	33,924	3,278	4,553	29,412	38,476	-215	0	29,197	38,476
-67,616	-73,877	-8,471	-7,639	-76,087	-81,515	-4,818	-9,209	-80,905	-90,724
-41,483	-39,953	-5,193	-3,086	-46,675	-43,039	-5,033	-9,209	-51,708	-52,247
57,064	69,688	85,448	86,644	142,512	156,332	-72,276	-75,087	70,236	81,245
0	-22	0	0	0	-22	0	0	0	-22
57,064	69,667	85,448	86,644	142,512	156,310	-72,276	-75,087	70,236	81,224
								-35,492	-53,417
								34,744	27,807
								-697	-769

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 balance sheet as at December 31, 2018, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement and the consolidated segment report for the financial year from January 1, 2018 to December 31, 2018, and notes to the consolidated financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the group management report of ARAG Holding SE for the financial year from January 1, 2018 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of the non-financial group report.

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, 2018 and of its financial performance for the financial year from January 1, 2018 to December 31, 2018 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 non-financial group report referred to above.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], 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 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

* 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.

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.

Other Information

The executive directors are responsible for the other information. The other information comprises the non-financial group report. 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 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 15, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Ludger Koslowski
Wirtschaftsprüfer (German Public Auditor)

Michael Peters
Wirtschaftsprüfer (German Public Auditor)

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting*

To ARAG Holding SE, Düsseldorf

We have performed a limited assurance engagement on the non-financial group statement pursuant to § (Article) 341j Abs. (paragraph) 4 HGB ("Handelsgesetzbuch": "German Commercial Code") contained in section "Nichtfinanzielle Konzernklärung" of the group management report of ARAG Holding SE, Düsseldorf, (hereinafter the "Company") for the period from 01 January 2018 to 31 December 2018 (hereinafter the "Non-financial Group Statement").

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Group Statement in accordance with §§ 341j Abs. 4 in conjunction with 315 b Abs. 2 to 4 and 315 c in conjunction with 289 c to 289 e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures, which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control, as they have considered necessary to enable the preparation of a Non-financial Group Statement that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

* PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the non-financial group statement and issued an independent practitioner's report in German language, which is authoritative. The following text is a translation of the independent practitioner's report.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the information in the Non-financial Group Statement based on the assurance engagement we have performed.

Within the scope of our engagement, we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Group Statement.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Group Statement for the period from 01 January 2018 to 31 December 2018 has not been prepared, in all material aspects, in accordance with §§ 341j Abs. 4 in conjunction with 315b Abs. 2 to 4 and 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement, the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization
- Inquiries of personnel involved in the preparation of the Non-financial Group Statement regarding the preparation process, the internal control system relating to this process and disclosures in the Non-financial Group Statement
- Identification of the likely risks of material misstatement of the Non-financial Group Statement
- Analytical evaluation of disclosures in the Non-financial Group Statement
- Comparison of disclosures with corresponding data in the consolidated financial statements and in the group management report
- Evaluation of the presentation of the disclosures

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Group Statement for the period from 01 January 2018 to 31 December 2018 has not been prepared, in all material aspects, in accordance with §§ 341j Abs. 4 in conjunction with 315b Abs. 2 to 4 and 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement.

The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt am Main, 15 April 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke
Wirtschaftsprüfer (German public auditor)

ppa. Dieter W. Horst

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:

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.

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, 2018, 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, 2018. 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, April 30, 2019

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
	Dr. Tobias Bürgers	Attorney, Munich Deputy chairman
	Professor Dr. Brigitte Grass	President of Düsseldorf University of Applied Sciences, Cologne
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 (currency, percent) in some computations.

Credits

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