

ARAG SE

2018 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS



Dive into life.

Contents

Key Figures	4
.....	
Profile of the ARAG Group	5
.....	
Management Report	6
I. Company Fundamentals	6
II. Report on Economic Position	11
III. Dependent Company Report	32
IV. Outlook, Opportunity and Risk Reports	33
.....	
Financial Statements	49
.....	
Independent Auditor's Report	80
.....	
Report of the Supervisory Board	88
.....	
Governing Bodies of the Company	92
.....	

Overview

ARAG SE Key Figures

(€'000)	2018	Change	2017	2016
Sales revenue				
Gross premiums written	915,988	5.29%	870,004	824,616
Premiums earned net of reinsurance	915,213	5.43%	868,041	814,252
Expenses				
Claims incurred net of reinsurance	471,873	1.97%	462,746	415,393
Claims ratio (basis: premiums earned)	51.6%	-1.7% pts.	53.3%	51.0%
Insurance business operating expenses net of reinsurance	401,876	3.26%	389,181	364,385
Cost ratio (basis: premiums earned)	43.9%	0.9% pts.	44.8%	44.8%
Net income overview				
Underwriting result net of reinsurance	35,470	139.01%	14,841	30,377
Gains and losses on investments	51,776	-29.09%	73,016	72,679
Other net income/expense	-35,073	-12.90%	-31,066	-35,028
Profit/loss from ordinary activities	52,174	-8.13%	56,791	68,028
Net extraordinary income/expense	0	n.a.	0	0
Net income for the year	31,598	-1.35%	32,031	31,663
Key ratios				
Technical provisions/ net premiums earned	147.9%	-3.8% pts.	151.7%	156.5%
Equity/premiums earned	49.3%	-1.3% pts.	50.6%	51.9%

Profile of the ARAG Group

Overview

The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established more than 80 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products. Besides legal insurance, it offers its customers in Germany its own unique needs-based products and services covering casualty and property insurance and health insurance. The Smart Insurer Program launched in 2018 is a key initiative in the ARAG Group's efforts to comprehensively harness the opportunities presented by digitalization, one of the major challenges going forward, thereby creating appropriate added value for customers. The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 17 countries (Germany, other European countries, the US, and Canada) through branches, subsidiaries, and equity investments. It is also preparing to launch in two other markets in 2019: the Republic of Ireland and Australia. The Group generates sales revenue and premiums of around €1.7 billion and employs over 4,100 people.

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

Legal insurance

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

Casualty and property insurance

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

Personal insurance

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

Management Report of ARAG SE

I. Company Fundamentals

Business model

ARAG SE 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 product concepts aimed at both private and small business customers. The modular structure of these concepts means that insurance can be precisely tailored to the requirements of each customer.

An important role is also played by customized legal insurance products designed for particular target groups.

ARAG SE is the provider of legal insurance for private customers and small businesses. It does not operate diversified corporate insurance business. In the international markets, it also operates travel insurance business in connection with its provision of legal insurance.

ARAG began to operate outside Germany for the first time 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. ARAG now operates in a total of 17 countries (Germany, 14 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.

In addition to the Group headquarters in Düsseldorf, ARAG SE maintains operational branches in Austria, Belgium, Greece, Italy, the Netherlands, Portugal, Slovenia, and Spain. This centralized, star-shaped organizational structure emerged from the merger of previously independent subsidiaries in 2012. The international branches run their operating businesses in their national markets independently, taking into account the specific local circumstances in each case.

ARAG SE is one of the most internationalized insurers in Germany with 59.3 percent of its total gross premiums written accounted for by international business.

Scope of operations

In Germany, ARAG SE's activities are limited to just one class of insurance: legal insurance. In Italy, Spain, and Portugal, it also operates legal-insurance-related special service package business in addition to legal insurance business.

The territory covered by ARAG SE includes Germany as well as the Netherlands, Belgium, Austria, Slovenia, Italy, Spain, Portugal, and Greece. ARAG SE's business outside Germany is operated by the branches.

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.

Sales organization

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

The Group's sales organization makes a fundamental contribution to ARAG's business success in Germany. ARAG Core Sales is the traditionally strong sales channel selling ARAG products exclusively: Some 1,000 ARAG Sales Partners use the network of 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 code of conduct of the German Insurance Association (GDV) covering the sale of insurance products. This code represents a clear industry commitment to more consumer protection, better quality of advice, development of skills and qualifications for agents, and transparent, mandatory rules for dealing with customers. It thereby establishes the foundations for strengthening trust and confidence throughout the entire area of insurance broking.

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

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

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

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

Insurance portfolio

The breakdown of the insurance portfolio (number of policies) as of the end of the reporting year was as follows:

Insurance portfolio

(No.)	Dec. 31, 2018	Dec. 31, 2017
German	1,542,004	1,495,840
International	2,755,924	2,664,666
Total	4,297,928	4,160,506

Types of insurance in the insurance business

The range of products offered by ARAG SE in Germany includes all the types of insurance in the legal insurance class of insurance listed in the General Terms and Conditions for Legal Insurance plus financial loss legal insurance for members of supervisory boards, advisory councils, and management boards, and for senior managers. Subject to special terms and conditions of insurance, ARAG SE offers legal insurance covering victims' proceedings, divorce, maintenance payments issues, and criminal proceedings; in collaboration with its subsidiary ARAG Allgemeine Versicherungs-AG, it also offers 'Recht&Heim Aktiv', a bundled product providing all-round cover. In addition, ARAG SE is increasingly operating inward reinsurance business with third parties.

In Spain and Italy, ARAG SE's range of legal insurance products is complemented by policies that mitigate the financial consequences if a policyholder loses his or her driver's license. The Company also operates travel insurance business in Spain and Portugal.

II. Report on Economic Position

Economic and sector conditions

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

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

Economic risks in Germany were greater in 2018 compared with the previous year. Most notably, the global economic conditions gave rise to risks that particularly affected the German economy because of its significant dependence on exports – for example, risks caused by the protectionist trade policy pursued by the US. In spite of this and the numerous uncertainties, especially in the international environment, the German economy maintained its recovery in the first half of 2018 and then expanded at a weaker rate toward the end of the year. One of the main drivers remained the robust domestic economy, bolstered by a sharp rise in employment and low interest rates. On the other side of the equation, however, the level of new orders contracted and production capacity remained rather static, caused by tough conditions in key eurozone markets for German companies. The number of people in employment grew by 590,000 in 2018. Unemployment fell by 192,000, reducing the unemployment rate to 5.2 percent. The favorable labor market conditions led to a rise of 2.6 percent in collectively agreed monthly pay, as a result

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

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

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

In recent months, as previously mentioned, the Brexit discussions have been dominating the political and economic relationship between the UK and the EU. This had no material impact on the business performance of ARAG SE in 2018, as the Company only operates in the UK via reinsurance relationships that are not directly affected by whether the UK is a member of the EU or not.

Business performance

The muted prospects for GDP growth in Germany and the challenging economic data in many European countries have so far had only limited impact on the business performance of ARAG SE. Whereas the underwriting result actually improved significantly year on year, there was a deterioration in gains and losses on investments.

Gross premiums written rose by a further 5.3 percent year on year from €870,004.1 thousand to €915,987.7 thousand. This increase in premiums was attributable to various trends. Premiums grew by a further 7.3 percent in Germany. The increases in the international markets were mainly generated from indirect business. In Spain, the termination of a reinsurance treaty caused premiums to decline by a modest 0.9 percent. Business was buoyant in Italy, where premiums grew by 5.5 percent. This was mainly achieved by primary insurance providers offering legal insurance for motorists. In the Netherlands, growth was driven by the portfolio transfer to authorized brokers, which realized contract renewals and premium rises. Inward reinsurance business from primary insurers also grew in this market.

Overall, the international branches achieved growth of 3.8 percent. Premiums collected by the Austria branch rose by 6.3 percent in a highly saturated market. Growth was also reported by the branches in Italy, the Netherlands, and Belgium.

Of the total premium income, €708,706.9 thousand (2017: €673,251.8 thousand) was derived from direct business. At the international branches, travel insurance business and financial loss insurance business with a value of €53,072.2 thousand (2017: €58,373.0 thousand) was generated in connection with legal insurance business. Direct legal insurance business accounted for a total of €655,634.6 thousand (2017: €614,878.8 thousand). Gross premiums written in the direct legal insurance business in Germany increased by 6.7 percent, from €349,202.4 thousand to €372,597.8 thousand. This sustained growth in premiums since 2013 is attributable to a high volume of new business combined with a consistently low level of lapses. After deduction of the reinsurers' shares and changes in unearned premiums, the remaining net premiums earned for all business amounted to €915,213.2 thousand compared with €868,041.4 thousand in 2017.

Having contracted last year, claim payments across the business as a whole held more or less steady in 2018 at 48.3 percent of premiums earned (2017: 48.6 percent). This was partly attributable to accumulation loss events and to state-of-the-art insurance products that offer retroactive cover and, as factored in, trigger a loss event at the time the contract is entered into. Claims incurred amounted to €471,872.6 thousand compared with €462,745.8 thousand in 2017. Overall, the claims ratio fell from 53.3 percent in 2017 to 51.6 percent in the reporting year. The fall was the result of a change in the parameters used to estimate the number of claims incurred but not reported and came despite the strengthening of reserves for legal insurance claims from previous event years following increases in claim payments related to accumulation risk.

Consequently, insurance business operating expenses decreased relative to premiums earned – even though in absolute terms they increased by €12,695.4 thousand year on year because of growth. Despite higher commissions in connection with the increase in new business, the cost ratio was down year on year at 43.9 percent (2017: 44.8 percent).

After taking into account the sundry underwriting income and expenses (net income of €253.2 thousand), the underwriting result net of reinsurance before the equalization provision showed a significant year-on-year improvement to a profit of €41,717.8 thousand (2017: profit of €17,919.5 thousand). A total of €6,247.4 thousand was added to the equalization provision in respect of the travel insurance business in Spain and Italy and the inward legal reinsurance business in a number of countries.

After the addition to the equalization provision, the underwriting result amounted to a profit of €35,470.4 thousand (2017: €14,840.7 thousand). Investments generated a net gain of €51,775.6 thousand (2017: €73,015.9 thousand). This included write-downs totaling €24,381.8 thousand resulting from falls in the price of securities. Equity investments were also written down, by €2,655.8 thousand. Reversals of write-downs had amounted to €4,086.7 thousand in 2017 but declined to €1,955.4 thousand in the year under review. However, transfers of profit from subsidiaries under profit-and-loss transfer agreements rose from €17,964.4 thousand in 2017 to €18,525.1 thousand in the year under review.

With regard to other net income/expense, the net expense increased from €31,065.9 thousand in 2017 to €35,072.5 thousand in the reporting year. This was mainly due to the rise in pension and other post-employment benefit expenses for inactive former employees and governing body members, which was caused by the switch to new mortality tables and a further fall in discount rates. At €52,173.5 thousand, profit before tax ultimately held steady at a similarly high level as in the prior year (2017: €56,790.6 thousand).

After deduction of the tax expense of €20,576.0 thousand (2017: €24,759.5 thousand), net income for the year amounted to €31,597.5 thousand, which was only slightly lower than the €32,031.2 thousand achieved in 2017. The tax expense included an expense of €3,971.6 thousand (2017: €6,090.9 thousand) that resulted from deferred taxes.

Financial performance by source country

Performance in Germany

Direct insurance business Gross premiums written in direct business rose from €349,202.4 thousand to €372,597.8 thousand, a year-on-year increase of 6.7 percent. After deduction of reinsurance premiums and the change in unearned premiums, net premiums earned came to €367,980.8 thousand (2017: €345,275.3 thousand).

As a result of the growth in the insurance portfolio and the occurrence of accumulation loss events, claim payments rose by 7.5 percent, from €195,439.6 thousand in 2017 to €209,992.5 thousand in the year under review. Claims incurred rose by 0.4 percent to €226,150.7 thousand in the reporting year. The number of claims reports fell from 338,196 in the prior year to 325,653 in 2018. Because of the growth in the portfolio, the claims ratio for 2018 (gross), at 61.4 percent, was lower than the equivalent 2017 figure of 65.2 percent. A total of 441,502 claims (2017: 432,252 claims) were reported in the year under review, a year-on-year rise of 2.1 percent.

Reinsurers' shares amounting to €21.2 thousand were recognized as expenses in 2018 (2017: income of €1,017.3 thousand). The remaining recognized claims incurred came to €224,966.7 thousand as against €220,646.6 thousand in 2017. The claims ratio (net) based on the recognized claims incurred was 61.1 percent compared with 63.9 percent in the prior year.

Gross insurance business operating expenses rose from €152,290.3 thousand in 2017 to €152,935.8 thousand in the reporting year. Commissions went up by 7.4 percent in 2018 – from €82,189.7 thousand to €88,312.1 thousand – in line with the increase in premiums. Other primary administrative expenses (before cost allocations) went up in the year under review from €176,630.7 thousand to €182,479.3 thousand. The relatively stable level of wages and salaries, the rise of €8,072.2 thousand in pension and other post-employment benefit expenses, and the €1,931.3 thousand decrease in operating costs were the main influencing factors here. Pension and other post-employment benefit expenses increased because of a further fall in discount rates for defined benefit obligations and because of the switch to new mortality tables. Because the greater volume of business and the fall in costs compensated for the higher level of claims incurred, the underwriting result before the equalization provision in direct insurance business improved significantly from a loss of €26,159.7 thousand in 2017 to a loss of €8,777.5 thousand in the reporting year.

There was no requirement to recognize an equalization provision pursuant to section 29 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV) for the direct business owing to the low level of volatility.

Inward reinsurance business In Germany, the Company takes on inward reinsurance business from primary insurers of third-party business in the United Kingdom under quota-share reinsurance treaties. The business with one of these insurers is being run off. There are also reinsurance treaties with a subsidiary in the US (excess of loss treaty) and with a primary insurer in the UK for the Canadian business (quota-share treaty). Net premiums amounted to €25,465.8 thousand compared with €21,922.2 thousand in 2017. The underwriting profit before the equalization provision stood at €2,172.0 thousand (2017: €852.0 thousand) after taking into account claims incurred of €20,546.1 thousand (2017: €20,037.9 thousand), administrative expenses of €1,409.4 thousand (2017: €1,032.3 thousand), and the first-time recognition of a provision for profit-share agreements related to the distinctive features of the UK business.

A sum of €377.1 thousand was added to the equalization provision (2017: €232.1 thousand). The underwriting result for the inward reinsurance business amounted to a profit of €1,794.9 thousand (2017: €619.9 thousand).

Non-underwriting result

Conditions in the financial markets deteriorated overall in the year under review. Share prices fell as a result. Interest rates remain at a very low level without any prospect of change in the immediate future. This led to significant write-downs on securities – particularly in the high-yield and emerging market segments. Total depreciation, amortization, and write-downs of investments at ARAG SE rose sharply from €1,993.1 thousand in 2017 to €19,521.1 thousand in the reporting year. Material reversals of write-downs on shares in affiliated companies amounted to €1,877.9 thousand in 2018. In the prior year, reversals of write-downs had mainly applied in respect of investment fund shares/units and had amounted to €3,698.2 thousand. With interest rates at a persistently low level, current income from other investments rose from €20,289.5 thousand in 2017 to €21,152.7 thousand in the reporting year on the back of higher dividends from institutional funds. Current income generated from land rose to €2,865.1 thousand (2017: 2,374.5 thousand). Dividend income from affiliated companies and equity investments fell by €757.5 thousand year on year. The equity investments in the US and Switzerland performed very well, however. The profit transferred from ARAG Allgemeine Versicherungs-AG amounted to €18,525.1 thousand, which was higher than the prior-year figure of €17,964.4 thousand.

Net gains on investments totaled €37,097.5 thousand in the year under review compared with €58,233.3 thousand in 2017. Ordinary gains and losses on investments – after deduction of the expenses for the management of the investments – amounted to a net gain of €55,396.7 thousand (2017: €55,532.6 thousand). The current average yield was 4.7 percent (2017: 4.9 percent).

Other net income/expense amounted to a net expense of €30,120.0 thousand (2017: €27,716.4 thousand). The other net income/expense figure includes the almost fully offset income and expense from the provision of services to Group companies and third parties and expenses to which income cannot be directly assigned. The latter expenses include addition of interest to the pension provision, Supervisory Board and Advisory Council remuneration, year-end costs, general legal and tax consultancy expenses, costs incurred in relation to the Solvency II regulatory regime, and the interest expense on subordinated liabilities. In 2018, there was an improvement in the income and expense from the provision of services following the renegotiation of commissions for brokering insurance contracts in the non-legal segment for other insurance companies. However, this was unable to compensate for higher expenses for pensions and other post-employment benefits, central IT costs related to a change in operating system, and a deterioration in the gain/loss on exchange rate changes.

Net extraordinary income/expense

No extraordinary income or expense was recognized in either 2018 or 2017.

Taxes

Current taxes amounted to a net expense of €1,113.8 thousand (2017: net income of €1,320.2 thousand). Within this total, there was income of €410.7 thousand (2017: income of €1,613.5 thousand) relating to prior years. The total amount of miscellaneous taxes in the prior year had included a non-recurring amount related to the findings of a tax audit outside Germany. Taking into account the miscellaneous taxes, the total tax expense came to €1,211.0 thousand compared with €682.2 thousand in 2017.

Net income/loss for the year, Germany

The German business of ARAG SE recorded a net loss for the year of €1,216.3 thousand (2017: net income of €4,295.0 thousand).

Branch performance

The eight European branches of ARAG SE enjoyed further growth overall, with gross premium income advancing by 3.8 percent to €517,924.1 thousand (2017: €498,879.6 thousand). The branches accounting for the highest level of premiums written were ARAG Netherlands with premiums written of €151,066.0 thousand (2017: €142,459.8 thousand), ARAG Spain with €137,753.2 thousand (2017: €139,039.7 thousand), and ARAG Italy with €130,343.8 thousand (2017: €123,519.2 thousand). The premiums earned net of reinsurance amounted to a total of €521,766.6 thousand (2017: €500,843.9 thousand). The growth was generated from new contracts in indirect business (Netherlands, Greece), the ongoing systematic development of insurance products in legal-insurance-related business (Spain, Italy), the adjustment of premiums (Belgium), and further expansion of sales channels (Netherlands, Austria).

The claims ratio fell from 44.3 percent in 2017 to 43.4 percent in the reporting year. Higher commission expenses as a result of entering into new reinsurance treaties with primary insurance companies led to a further increase in the cost ratio from 47.1 percent in 2017 to 47.4 percent in the reporting year. Including miscellaneous underwriting income and expenses of €447.4 thousand, the underwriting result before the equalization provision generated by the international legal insurance business amounted to an improved profit year on year of €48,323.4 thousand (2017: €43,227.2 thousand). After an addition to the equalization provision of €5,870.3 thousand (2017: €2,846.7 thousand), an improved profit of €42,453.1 thousand was reported under the underwriting account (2017: €40,380.5 thousand).

The investments assigned to the insurance business of the branches generated a total net gain on investments of €14,678.1 thousand (2017: €14,782.5 thousand). This year-on-year decline was also the result of write-downs, particularly on institutional fund shares/units. However, these were largely offset by gains on disposals. Other net income/expense amounted to an expense of €4,952.5 thousand (2017: expense of €3,349.5 thousand).

The branches generated profit from ordinary activities of €52,178.7 thousand (2017: €51,813.5 thousand). The tax expense came to €19,364.9 thousand (2017: €24,077.3 thousand). The tax expense included an expense of €3,971.6 thousand (2017: €6,090.9 thousand) that resulted from a change in net deferred tax assets.

With net income for the year of €32,813.8 thousand in 2018 (2017: €27,736.2 thousand), the European branches are continuing to make a very high contribution to the overall net income of ARAG SE over the long term.

Overall net income for the year

The financial performance of ARAG SE was characterized by the growth in business activities across its entire operation. The insurance business became more profitable, with net premiums earned rising by 5.4 percent in the year under review. Insurance benefit payments, meanwhile, rose by only 2.0 percent. Commission increases resulting from the higher level of new business and from new inward reinsurance treaties are leading to a rise in absolute costs. Despite this, the cost ratio improved from 44.8 percent in 2017 to 43.9 percent in the year under review.

Underwriting profit before the equalization provision amounted to €41,717.8 thousand, which was significantly higher than the prior-year figure of €17,919.5 thousand. After the addition to the equalization provision, which was required in particular for the inward reinsurance business segments, the remaining underwriting profit amounted to a significant €35,470.4 thousand (2017: €14,840.7 thousand).

By contrast, the net gains on investments deteriorated steeply from €73,015.9 thousand in 2017 to €51,775.6 thousand in the reporting year. Developments such as the introduction of new customs tariffs and withdrawals from international treaties triggered falls in the stock markets and therefore write-downs on securities. The European Central Bank's ongoing policy of keeping interest rates low meant that rates on bonds could not fall any further and so there were no reversals of write-downs on fixed-income securities. Ordinary gains on investments actually rose year on year to €73,707.0 thousand (2017: €73,597.6 thousand) despite persistently low interest rates and a slight decrease in income from equity investments.

With regard to other net income/expense, the net expense deteriorated year on year to €35,072.5 thousand. Reductions in expenses resulting from changes to commission agreements in the brokerage business were unable to compensate for higher expenses incurred by the Company as a whole. Profit before tax amounted to a total of €52,173.5 thousand. In line with forecasts, this was below the prior-year figure of €56,790.6 thousand.

After deduction of the tax expense, net income for the year amounted to €31,597.5 thousand (2017: €32,031.2 thousand). The tax expense included an additional expense of €3,971.6 thousand (2017: €6,090.9 thousand) that resulted from a change in net deferred tax assets. After taking into account the profit brought forward from 2017, the amount to be presented to the Annual General Meeting for a decision on appropriation is €31,629.7 thousand (2017: €32,032.2 thousand).

Financial position

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

The underwriting liabilities are covered by investments of €1,938,875.7 thousand (December 31, 2017: €1,911,846.5 thousand). In addition to current bank balances and cash on hand of €118,808.0 thousand (December 31, 2017: €116,272.4 thousand), the Company has investments at its disposal that can be sold on the capital and financial markets at short notice, thus ensuring that the Company is able to satisfy its payment obligations under insurance contracts at all times.

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

Cash flow statement*

(€)	2018	2017
Cash flows from operating activities		
Profit for the period	31,597,528	32,031,163
Increase(+)/decrease(-) in technical provisions, net	37,235,760	42,084,430
Increase(-)/decrease(+) in deposits with ceding insurers and in receivables from reinsurance business	-4,393,660	-7,191,906
Increase(+)/decrease(-) in deposits from reinsurers and liabilities from reinsurance business	-643,986	205,650
Increase(-)/decrease(+) in receivables from direct insurance business	-3,113,408	387,093
Increase(+)/decrease(-) in liabilities from direct insurance business	3,561,137	-1,570,138
Increase(-)/decrease(+) in miscellaneous receivables	-7,417,934	2,394,451
Increase(+)/decrease(-) in miscellaneous liabilities	2,324,780	389,838
Change in miscellaneous balance sheet items not related to investing or financing activities	-27,556,789	-87,660,967
Other non-cash income and expenses, and adjustment of the profit/loss for the period	30,991,913	9,317,443
Gain(-)/loss (+) on the disposal of investments, property and equipment, and intangible fixed assets	-1,386,341	-967,689
Expenses for/income from extraordinary items	0	0
Income tax expense/income	20,066,487	22,181,607
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Income taxes paid	-23,269,866	-84,238
Cash flows from operating activities	57,995,621	11,516,737
Cash flows from investing activities		
Proceeds from disposal of property and equipment	7,953	145,018
Proceeds from disposal of intangible fixed assets	58	14,030
Payments to acquire property and equipment	-1,895,750	-3,147,828
Payments to acquire intangible fixed assets	-2,772,327	-3,137,319
Proceeds from disposal of investments related to fund-linked life insurance	0	0
Payments to acquire investments related to fund-linked life insurance	0	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Cash flows from investing activities	-4,660,065	-6,126,100
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	-20,000,000	-15,000,000
Proceeds(+)/cash payments(-) related to miscellaneous financing activities	0	0
Cash flows from financing activities	-20,000,000	-15,000,000
Net change in cash and cash equivalents	33,335,556	-9,609,363
Effect on cash and cash equivalents of exchange rate movements and remeasurements		
Cash and cash equivalents at beginning of period	58,303,479	67,912,842
Cash and cash equivalents at end of period	91,639,035	58,303,479

* The cash flow statement has been prepared in accordance with German accounting standard GAS 21 appendix 3.

Net assets

Investments The breakdown of investments, which increased by €27,029.2 thousand or 1.4 percent to €1,938,875.7 thousand as of December 31, 2018, was as follows:

Investments breakdown

(€'000)	Dec. 31, 2018		Dec. 31, 2017	
Land and buildings	91,234.3	4.7%	93,557.6	4.9%
Affiliated companies and equity investments	308,778.7	15.9%	289,904.3	15.2%
Lending to affiliated companies	1,300.0	0.1%	0.0	0.0%
Equities and investment fund shares/units	606,304.2	31.3%	617,622.8	32.3%
Bearer bonds	428,501.9	22.1%	396,850.2	20.8%
Loans secured by mortgages or land charges and fixed-income receivables	8,879.9	0.4%	9,179.9	0.5%
Registered bonds	140,511.3	7.3%	140,511.3	7.3%
Promissory notes, loans	266,959.9	13.8%	251,959.9	13.2%
Sundry lending	107.9	0.0%	79.1	0.0%
Bank deposits	27,169.0	1.4%	57,969.0	3.0%
Other investments	3,193.2	0.1%	4,535.5	0.2%
Deposits with ceding insurers	55,935.4	2.9%	49,676.9	2.6%
Total	1,938,875.7	100.0%	1,911,846.5	100.0%

Pursuant to section 341b (2) of the German Commercial Code (HGB), equities and investment fund shares/units with a carrying amount of €603,017.8 thousand had been classified as fixed assets as of the balance sheet date (December 31, 2017: €599,848.9 thousand). Bearer bonds with a carrying amount of €73,218.7 thousand (December 31, 2017: €9,980.0 thousand) were treated as fixed assets.

The fair value of investments as of December 31, 2018 amounted to a total of €2,438,418.6 thousand compared with €2,308,781.5 thousand as of December 31, 2017. After taking into account the premium and discount amounts recognized under prepaid expenses and accrued income and under deferred income and accrued expenses in connection with the securities recognized at their nominal amount in accordance with section 341c HGB, the valuation reserves therefore amounted to €499,541.5 thousand as of the balance sheet date (December 31, 2017: €396,920.3 thousand).

Further information on the structure and changes in investments can be found in the overview under the non-insurance disclosures in the Notes.

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 a certificate of insurance or the last invoice, or make changes to the data, they must prove their identity by entering a password, which will be sent to them by postal mail following initial registration. In the current year, the new customer portal will be gradually expanded and further documents, together with policy-related services, will be added.

The Group 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.

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 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'.

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.

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.

Employees, employee skills and qualifications ARAG SE relies on a skilled, focused, and highly motivated workforce in Germany and in its international markets to ensure that it delivers on its value proposition. At the end of 2018, ARAG SE had a total of 1,132 (December 31, 2017: 1,121) employees in Germany. A further 1,547 (December 31, 2017: 1,511) people were employed outside Germany. Alongside vocational training, ARAG attaches huge importance to the skills, qualifications, and professional development of its workforce. ARAG's ambition is to be one of the best insurance providers in the market. ARAG operates a web-based skills and qualifications platform known as ARAG IQ enabling all employees to keep their knowledge and capabilities up to date. The continuing professional development (CPD) options include classroom-based seminars, specialist

training sessions, and e-learning. The content is wide-ranging and includes executive programs covering leadership and management, seminars on personal development, project management training, coaching, and foreign languages. All planned and completed CPD has been centrally recorded in ARAG IQ since 2016. Since 2018, the CPD requirements resulting from the provisions in the new Insurance Distribution Directive (IDD) have also been recorded and monitored using ARAG IQ.

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

A fundamental factor in the successful performance of the entire ARAG Group is the targeted internationalization of the business. The growing cross-border integration of corporate units also plays a key role in this development. The academy offers a broad range of needs-based seminars covering the entire spectrum of knowledge related to sales and the performance of ARAG products.

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

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

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

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

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

The personal health of employees is at the core of the first pillar, health & fitness. In addition to health checks, a multitude of company sports options, and a range of preventive services, activities in 2018 focused on the reorganization of occupational medical care at the Düsseldorf offices. The Company now has a permanent medical officer, offering regular consultation times and preventive medical checkups. Appointments can be made and managed quickly and easily through the new digital booking platform. ARAG also operates a return-to-work and disability management system to ensure that the statutory requirements are implemented professionally. External specialists are regularly brought in to make sure that the individuals concerned are provided with the best possible support.

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

Targets for the proportion of women in management functions In accordance with the provisions in the German Act on the Equal Participation of Women and Men in Managerial Positions (FührposGleichberG), the Company must set targets for the proportion of women at the two management levels below the Management Board, on the Management Board itself and on the Supervisory Board, and must also determine appropriate deadlines for achieving the targets. The Management Board advocates a rising proportion of women in managerial positions, especially as long as the proportion remains below 30 percent. To this end, numerous supporting measures are being implemented as part of the work/life balance project.

The Management Board has set a target for the proportion of women at the first management level below the Management Board of 11 percent and a target at the second management level of 30 percent, in both cases to be achieved by June 30, 2019. Both targets represent an increase compared with the situation at the time the targets were set. The Supervisory Board has set the following targets for June 30, 2019 in respect of the proportion of women: 11 percent on the Supervisory Board and 0 percent on the Management Board. These two targets are the same as the actual percentages at the time the targets were set.

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'.

Non-financial statement for the Group

As a result of the provisions in the German CSR Directive Implementation Act (CSR-RUG), ARAG SE has been subject to a non-financial reporting obligation since 2017 in accordance with section 341a (1a) HGB. As ARAG SE is included in the non-financial statement for the Group issued by its parent company ARAG Holding SE, Düsseldorf, ARAG SE has elected to exercise the exemption option under section 341a (1a) sentence 3 in conjunction with section 289b (2) HGB. The exempting non-financial statement for the Group issued by ARAG Holding SE is publicly accessible in German at www.arag.com/german/press/publications/

This is complemented by the detailed reporting in ARAG's 2018 Sustainability Report.*

Solvency

Under section 89 (1) VAG, all insurance companies are obliged to have eligible own funds available at all times that, as a minimum, are sufficient to satisfy the solvency capital requirement. The Solvency II rules came into force on January 1, 2016. In accordance with section 40 VAG, a solvency and financial condition report must be published no later than 14 weeks after the end of the financial year. This report must explain the solvency position in a manner that is understandable to the general reader. Insurance groups must also ensure at group level that the solvency margin is covered by eligible own funds and that these funds are appropriately allocated in the group. Evidence of compliance with the solvency requirements is submitted to the German Federal Financial Supervisory Authority (BaFin) on a quarterly basis.

Solvency ratios must be calculated quarterly at the level of the insurance company and at group level.

In the year under review, ARAG SE ensured that it covered the statutory requirement for the solvency margin in accordance with current solvency regulations at all times.

* Not part of the management report.

III. Dependent Company Report

ARAG Holding SE, Düsseldorf, indirectly holds a majority interest in ARAG SE. The existence of the majority interest was notified to ARAG Allgemeine Rechtsschutz-Versicherungs-AG (now ARAG SE) on April 28, 2000 by the Management Board of ARAG AG (now ARAG Holding SE) in accordance with section 20 (1) and (4) of the German Stock Corporation Act (AktG).

ARAG SE is therefore a dependent company within the meaning of section 17 (1) AktG in relation to ARAG Holding SE.

The report on relationships with affiliated companies pursuant to section 312 AktG concludes with the following declaration:

“In accordance with the circumstances known to us at the time the legal transactions were undertaken, our Company received an appropriate consideration for each legal transaction. Other than the legal transactions listed, the Company did not carry out or omit any other reportable legal transactions or activities.”

IV. Outlook, Opportunity and Risk Reports

Outlook

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. 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.

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

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

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

In the year under review, ARAG SE maintained its sound level of performance in line with the forecasts made in the previous year. However, the projected premium income increase of approximately 2.5 percent was well exceeded by the actual figure of 5.3 percent. The proportion of the gross premiums written accounted for by international business nudged down from 59.9 percent in 2017 to 59.3 percent in the reporting year due to the high level of premium growth in Germany. In contrast to the prior-year forecast, the claims ratio fell by 1.7 percentage points compared with 2017 despite the strengthening of reserves for accumulation risk resulting from remeasurement of claims incurred but not reported at headquarters. Absolute costs rose in the reporting year as expected. In line with the forecast, the cost ratio increased only slightly compared with the prior year because of the strong premium growth. The underwriting result was significantly better than the forecast. A deterioration in gains and losses on investments had been predicted, but it proved to be much larger than expected, at 29.1 percent. This was mainly driven by uncertainty in the equity markets and a small increase in interest rates. At €52,173.5 thousand, profit before tax was lower than in 2017 (€56,790.6 thousand), as anticipated. The net income for the year of €31,597.5 thousand exceeded the forecast by some way.

ARAG SE is optimistic about the prospects for 2019. Although expectations regarding the global economy may be pointing to a slowdown in output in a number of countries, the fact is that GDP has stabilized at a high level in Germany and many other European countries. Even though the growth rate will not reach the same heights that have been seen in recent years, there will still be a lot of demand among people looking to protect themselves against legal risks. The strong recent performance of the economy has given them the opportunity to use some of their income to satisfy this need. Innovation and customer friendliness will continue to be a major focus for ARAG, which is why a further, albeit smaller, increase in premiums is predicted for 2019. Improvements in the service provided to customers who make claims, the use of digital solutions, and a greater proportion of claims settled inhouse (in jurisdictions where this is permitted) will contribute to a modest fall in the claims ratio. The Company expects to see a moderate increase in its cost ratio in both absolute and relative terms because of economically driven pay increases in Germany and many other European countries. The underwriting result after the equalization provision will probably reach the same level in 2019 as it did in 2018.

Making a prediction for gains and losses on investments is difficult, not least because of the trade dispute between the US and China and the uncertainty that still surrounds the departure of the UK from the European Union. It is assumed that the equity market will continue to come under pressure. The expectation is that interest rates will rise, albeit slowly. A decline in ordinary income from investments will probably be offset by the absence in 2019 of the significant write-downs recognized in 2018. This means that the gains and losses on investments could be slightly better than in the reporting year. Overall, the forecast is for a modest improvement in profit before tax for 2019.

Opportunity report

ARAG's focus on property and health insurance business is making it stronger and more competitive. In addition, the sale of the life insurance business has significantly reduced business risk. Based on this realignment, ARAG has responded to the challenges presented by the low interest rates and has answered, as far as its own business is concerned, one of the critical questions in the insurance industry. The reorganization is proving to have been the correct course of action and quickly showed its worth. Group premiums rose by nearly €70,000.0 thousand in the year under review. ARAG SE, in combination with its international branches, enjoys unique competitive advantages.

In the reporting year, ARAG focused on the challenges presented by the digital transformation, and it will do so again in 2019. ARAG SE sees digital transformation as a clear set of opportunities. It is taking on the related challenges with the clear aspiration of playing a pioneering role, and indeed is already doing so with the many digitalization projects and activities that it has successfully implemented to date. This applies both to Germany and to the international markets, in which suitable digitalization concepts are being developed for each of the markets concerned. Even in the context of digitalization, the basic principle that ARAG will decide, perform, and deliver in the interests of its customers applies throughout the Group. Online business is already making a substantial contribution to growth: At the end of the year under review, nearly 12 percent of the customer portfolio in Germany had already been derived from this sales channel.

ARAG is now building on this strong foundation to tackle the next stage in its development – consolidating the Company's digital activities under the ARAG Smart Insurer Program and formulating a plan of action on this basis. Smart Services, Smart Data, and Smart Culture have been identified as the main areas of action. The advancement of the Company along these program-driven lines will be one of its major future-focused tasks over the coming years.

ARAG's Group strategy continues to provide for a distribution of responsibilities throughout the Group so that the position enjoyed by the ARAG brand in the German market will be further consolidated and improved by the strengthening of the property and health insurance segments. ARAG's international structure is also the 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 SE 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.

This two-dimensional diversification strategy in the Group is also enabling ARAG SE to move away from its original tightly focused positioning as a niche provider in Germany. A specialist insurer concentrating solely on one line of business in its portfolio is considerably more susceptible to risk. The strategic approach at ARAG is therefore to actively reduce risk and is based on spreading risk evenly across all markets and segments.

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

ARAG SE will work systematically and energetically to meet the challenges presented by the markets. In direct implementation of the Group strategy, ARAG SE will continue the process of international diversification and significantly expand the international share of the business.

Risk report

Risk management system

The assumption of risk is the core business of ARAG as an insurer. This means that its activities aimed at achieving its strategic business objectives naturally involve taking on risks in order to achieve the desired success. To deal with the risks, ARAG has implemented a risk management system, the core elements of which are the risk strategy, a system of limits, a process for own risk and solvency assessment (ORSA), and the operational risk management process, comprising the identification, analysis, measurement, monitoring and reporting of risk. The risk management function is responsible for implementing the risk management system. It monitors ARAG's business and central units in the internal control system as part of the second line of defense and in turn is monitored itself by the internal audit function.

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

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

Limit system The risk-bearing capacity describes the extent to which potential losses from the assumed risks can be offset by own funds. The latest Solvency II balance sheet and the resulting regulatory solvency capital requirements are taken into account when assessing the assumed risks. From a regulatory perspective, risk-bearing capacity is in place if the solvency capital requirement does not exceed the value of own funds, i.e. the regulatory coverage ratio is at least 100.0 percent. As a matter of business policy, the Management Board has set a minimum coverage ratio of 150.0 percent based on ARAG SE's conservative approach to risk and solvency. ARAG SE 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 Group Risk Management Central Department is responsible for implementing the risk management system. 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 The Group Audit function is an instrument of the Management Board, to which it is accountable and to which it reports. It is assigned to the Management Board member responsible for the Central Group Functions at ARAG SE, who is the board member to whom responsibility for Group Audit is assigned under the schedule of responsibilities. Group Audit is bound only by the instructions of the Management Board.

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

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

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

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

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

Individual risks

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

- Premium/reserve risk: fluctuations in the timing, frequency, and severity of insured events and in the duration of claims settlement and the amount involved.
- Catastrophe 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. Likewise, catastrophe and accumulation risk is assessed by simulating losses that may arise from cumulative claims 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	54.7	51.6	2.5
2017	57.1	53.4	2.8
2016	57.7	51.2	4.6
2015	61.0	52.5	5.6
2014	61.7	55.8	3.7
2013	63.8	58.6	3.3
2012	60.0	55.4	3.0
2011	68.3	56.1	3.9
2010	68.6	63.6	2.8
2009	71.7	64.8	3.8

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

Counterparty default risk While counterparty default risk attaching to investments is calculated as part of market risk, counterparty default risk in the insurance business is treated separately. Counterparty default risk in the insurance business largely arises in connection with receivables from reinsurers, receivables from policyholders, and receivables from insurance brokers. It is the downside risk arising from the unexpected default or deterioration in the credit standing of counterparties and debtors during the next twelve months.

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

The risk of default on receivables from reinsurers is measured on the basis of the information available and proportionality considerations. The reinsurers' individual credit ratings are explicitly used. 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 €5,323.9 thousand (December 31, 2017: €3,956.5 thousand). As of December 31, 2018, the average default rate over the last three years for these receivables in respect of the headquarters in Germany was 24.4 percent (December 31, 2017: 25.1 percent). Receivables from policyholders are managed by means of an automated reminder and dunning process.

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

- Interest-rate risk: changes in the term structure or volatility of interest rates. An assumed increase or decrease of 1.0 percent in the general level of interest rates would decrease or increase the fair value of ARAG SE's fixed-income securities by €70.4 million.
- Equity risk: changes in the level or volatility of the market prices of equities. A hypothetical fall in equities markets of 20.0 percent would cause a loss in fair value of €31.7 million.
- Property risk: changes in the level or volatility of the market prices of real estate.
- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure.
- Currency risk: changes in the level or volatility of exchange rates.
- Migration/default risk: rating level changes or changes in the extent of projected defaults. The breakdown of interest-bearing investments by rating is as follows:

Fixed-income securities by rating class

(Proportion (%) by fair value)

AAA	19.9
AA	15.1
A	30.5
BBB	30.3
BB	2.7
B	1.4
CCC	0.0
CC	0.0
C	0.0
D	0.0
Not rated	0.1

The breakdown of fixed-income securities is as follows (fair values): Of the fixed-income securities – including securities held indirectly through institutional funds – approximately 35.6 percent are accounted for by financial services entities, 29.4 percent by public-sector bonds, and 35.0 percent by corporate bonds.

These risks are measured with an internal model. An economic scenario generator is used to simulate capital market scenarios looking at interest rates, share prices, real estate prices, credit spreads, credit ratings/defaults, and exchange rates. These risk factors are used to determine the possible fair values of investments in one year's time. The market risk itself results from the 1 in 200 year event considering all risk factors simultaneously, and from concentration risk, taking diversification effects into account.

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

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

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

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

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

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

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

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

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

Overall risk position

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

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

* Not part of the management report.

Financial Statements

Financial Statements	49
Balance Sheet	50
Income Statement	54
<hr/>	
Notes to the Financial Statements	58
I. General Disclosures	58
II. Disclosures on Accounting Policies	58
III. Insurance Disclosures	68
IV. Non-Insurance Disclosures	70
V. Report on Post-Balance Sheet Events	76
VI. Other Disclosures	76
VII. Proposed Appropriation of Profit	79
<hr/>	
Independent Auditor's Report	80
<hr/>	
Report of the Supervisory Board	88
<hr/>	
Governing Bodies of the Company	92
<hr/>	

Balance Sheet as of December 31, 2018

Assets

(€)

A. Intangible assets

B. Investments

- I. Land, land rights and buildings, including buildings on third-party land
- II. Investments in affiliated companies and equity investments
 1. Shares in affiliated companies
 2. Lending to affiliated companies
 3. Equity investments
- III. Miscellaneous investments
 1. Equities, investment fund shares/units, and other variable-yield securities
 2. Bearer bonds and other fixed-income securities
 3. Loans secured by mortgages or land charges and fixed-income receivables of which in respect of affiliated companies: € 3,375,000.00 (Dec. 31, 2017: € 3,675,000.00)
 4. Miscellaneous lending
 - a) Registered bonds
 - b) Promissory notes and loans
 - c) Sundry lending
 5. Bank deposits
 6. Other investments
- IV. Deposits with ceding insurers

C. Receivables

- I. Receivables from direct insurance business
 1. from policyholders
 2. from insurance brokers
of which from affiliated companies: € 1,572.00 (Dec. 31, 2017: € 26,950.14)
- II. Receivables from reinsurance business
of which from affiliated companies: € 334,242.00 (Dec. 31, 2017: € 299,490.57)
- III. Miscellaneous receivables
of which from affiliated companies: € 13,059,979.09 (Dec. 31, 2017: € 3,957,434.38)
of which from other long-term investees and investors: € 51,121.29 (Dec. 31, 2017: € 231,393.78)

D. Miscellaneous assets

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

E. Prepaid expenses and accrued income

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

Total assets

				Dec. 31, 2018	Dec. 31, 2017
				6,514,494.40	7,658,413.63
			91,234,255.89		93,557,587.84
		291,891,169.32			273,016,708.28
		1,300,000.00			0.00
		16,887,569.37			16,887,569.37
			310,078,738.69		289,904,277.65
		606,304,170.24			617,622,846.16
		428,501,929.71			396,850,198.80
		8,879,927.98			9,179,927.98
	140,511,291.88				140,511,291.88
	266,959,862.44				251,959,862.44
	107,882.07				79,078.08
		407,579,036.39			392,550,232.40
		27,168,966.00			57,968,966.00
		3,193,205.81			4,535,534.31
			1,481,627,236.13		1,478,707,705.65
			55,935,437.98		49,676,929.50
				1,938,875,668.69	1,911,846,500.64
		29,188,014.35			27,443,545.84
		19,367,773.98			17,998,834.22
			48,555,788.33		45,442,380.06
			44,875,306.28		46,740,155.11
			15,484,864.34		8,066,930.76
				108,915,958.95	100,249,465.93
			13,544,071.77		15,330,876.20
			91,639,035.00		58,303,479.05
			23,142,773.07		23,290,583.17
				128,325,879.84	96,924,938.42
			7,067,767.98		7,400,196.42
			2,660,545.05		2,050,228.36
				9,728,313.03	9,450,424.78
				2,192,360,314.91	2,126,129,743.40

Balance Sheet as of December 31, 2018

Equity and liabilities

(€)

A. Equity

- I. Subscribed capital
- II. Capital reserve
- III. Revenue reserves
 - 1. Statutory reserves
 - 2. Other revenue reserves
- IV. Profit brought forward
- V. Net income for the year

B. Subordinated liabilities

C. Technical provisions

- I. Unearned premiums
 - 1. Gross amount
 - 2. less: portion for outward reinsurance business
- II. Provision for outstanding claims
 - 1. Gross amount
 - 2. less: portion for outward reinsurance business
- III. Equalization provision and similar provisions
- IV. Miscellaneous technical provisions

D. Other provisions

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

E. Deposits received from reinsurers

F. Other liabilities

- I. Liabilities from direct insurance business
 - 1. to policyholders
 - 2. to insurance brokers
 - of which to affiliated companies: € 39,822.96 (Dec. 31, 2017: € 38,604.22)
 - of which to other long-term investees and investors: € 49.22 (Dec. 31, 2017: € 47.89)
- II. Liabilities from reinsurance business
 - of which to affiliated companies: € 35,683.32 (Dec. 31, 2017: € 95,657.16)
- III. Miscellaneous liabilities
 - of which tax liabilities: € 16,366,385.21 (Dec. 31, 2017: € 18,842,528.53)
 - of which social security liabilities: € 1,727,098.29 (Dec. 31, 2017: € 1,765,107.33)
 - of which to affiliated companies: € 18,758,801.65 (Dec. 31, 2017: € 18,017,463.12)

G. Deferred income and accrued expenses

H. Deferred tax liabilities

Total equity and liabilities

			Dec. 31, 2018	Dec. 31, 2017
		100,000,000.00		100,000,000.00
		81,772,569.19		81,772,569.19
	10,000,000.00			10,000,000.00
	227,600,000.00			215,600,000.00
		237,600,000.00		225,600,000.00
		32,184.31		1,021.52
		31,597,527.71		32,031,162.79
			451,002,281.21	439,404,753.50
			30,000,000.00	30,000,000.00
	199,032,061.52			200,629,038.37
	0.00			1,417,577.35
		199,032,061.52		199,211,461.02
	1,130,173,299.37			1,102,456,262.53
	567,514.47			2,567,850.21
		1,129,605,784.90		1,099,888,412.32
		23,120,448.00		16,873,047.50
		2,140,385.96		690,000.00
			1,353,898,680.38	1,316,662,920.84
		186,973,387.40		172,270,708.69
		12,809,895.22		18,260,905.42
		64,122,781.50		63,071,289.08
			263,906,064.12	253,602,903.19
			370,390.17	1,458,215.89
	14,084,742.77			9,181,718.98
	23,355,515.90			24,697,402.32
		37,440,258.67		33,879,121.30
		2,579,608.45		2,135,769.00
		48,683,984.08		48,835,347.02
			88,703,851.20	84,850,237.32
			496,868.45	140,178.49
			3,982,179.38	10,534.17
			2,192,360,314.91	2,126,129,743.40

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

(€)

I. Underwriting account

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

Carried forward:

			2018	2017
	915,987,698.99			870,004,120.46
	-634,680.81			-1,201,294.40
		915,353,018.18		868,802,826.06
	1,277,739.47			-761,425.27
	-1,417,577.35			0.00
		-139,837.88		-761,425.27
			915,213,180.30	868,041,400.79
			1,703,613.41	1,683,218.94
	442,601,747.64			423,876,206.67
	-887,624.02			-1,704,250.90
		441,714,123.62		422,171,955.77
	-28,158,165.15			-41,357,688.74
	-2,000,335.74			783,818.41
		-30,158,500.89		-40,573,870.33
			471,872,624.51	462,745,826.10
			-1,450,385.96	192,000.00
		401,875,969.76		389,482,522.93
		0.00		-301,993.32
			401,875,969.76	389,180,529.61
			0.00	70,803.73
			41,717,813.48	17,919,460.29
			-6,247,400.50	-3,078,766.50
			35,470,412.98	14,840,693.79
			35,470,412.98	14,840,693.79

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

(€)

Brought forward:

II. Non-underwriting account

1. Income from investments

a) Income from equity investments

of which from affiliated companies: € 16,702,751.81 (2017: € 14,908,374.67)

b) Income from other investments

of which from affiliated companies: € 2,183,189.73 (2017: € 1,695,210.96)

aa) Income from land, land rights and buildings, including buildings
on third-party land

bb) Income from other investments

c) Income from reversals of write-downs

d) Gains on the disposal of investments

e) Income from profit-pooling, profit-transfer and partial profit-transfer agreements

2. Expenses for investments

a) Expenses for the management of investments, interest expense and similar charges and
miscellaneous expenses for investments

b) Depreciation, amortization and write-downs of investments

of which write-downs: € 24,381,844.93 (2017: € 4,638,237.27)

c) Losses on the disposal of investments

3. Other income

4. Other expenses

Non-underwriting result**5. Profit/loss from ordinary activities**

6. Extraordinary income

7. Extraordinary expenses

8. Net extraordinary income/expense

9. Income taxes

of which deferred taxes: € 3,971,645.21 (2017: € 6,090,914.96)

10. Miscellaneous taxes

11. Net income for the year

Notes to the Financial Statements

I. General Disclosures

ARAG SE operates legal insurance and reinsurance business. Outside Germany, the insurance offering also includes cover for a variety of financial losses as well as emergency assistance insurance. The Company holds equity investments in other insurance companies and other companies pursuing a purpose that is related to the business activities of ARAG SE. ARAG SE is entered in the commercial register of the Düsseldorf local court under the number HRB 66846. Its registered office is ARAG Platz 1, 40472 Düsseldorf, Germany. The financial statements have been prepared in accordance with Book Three of the German Commercial Code (HGB), taking into account the supplementary provisions applicable to large corporations in Part Two and the additional provisions applicable to insurance companies in subsection 2, as well as the supplementary provisions in the Regulation on the Accounting of Insurance Undertakings (RechVersV).

The Company is a large corporation within the meaning of section 267 (3) HGB. Therefore, and pursuant to the obligations under section 341a (1) HGB, the accounting rules for large corporations have been applied.

The financial statements are presented on the basis of financial statement forms 1 and 2 pursuant to section 2 RechVersV.

II. Disclosures on Accounting Policies

Accounting policies

Purchased **intangible assets** are recognized at cost on the balance sheet and reduced by straight-line amortization according to their estimated useful life. No internally generated intangible assets were recognized.

Land and buildings are valued at cost less depreciation. Write-downs of €4,521.00 (2017: €1,473,390.08) were recognized in the year under review owing to permanent asset impairment. In the reporting year, there were no grounds for the reversal of write-downs as a result of the reason for the original write-down no longer applying. The carrying amount of land and buildings held for own use (see also section IV. 'Non-Insurance Disclosures') is determined on the basis of the primary actual usage of the overall plot.

Investments in affiliated companies and equity investments are valued at cost, in some cases reduced by write-downs as a consequence of permanent impairment. In this regard, write-downs amounting to €2,655,832.10 (2017: €391,000.00) were recognized in the reporting year. In 2018, reversals of write-downs pursuant to section 253 (5) HGB were recognized in an amount of €1,877,900.00 (2017: €0.00) as the reasons for the write-downs ceased to apply.

The table below shows shares in affiliated companies and equity investments that are intended to serve the Company's own operations by establishing a lasting relationship; the equity and profit/loss of these companies are stated:

Shares in affiliated companies and equity investments

Name and registered office of company	Shareholding (%)	Equity (€)	Profit/loss (€)
1. Affiliated companies			
a) Insurance companies			
ARAG Allgemeine Versicherungs-AG*, Düsseldorf	100.00	55,322,905.72	18,525,115.36
ARAG Krankenversicherungs-AG, Munich	94.00	69,252,897.92	7,800,000.00
b) Other companies – limited companies			
ARAG International Holding GmbH, Düsseldorf	100.00	58,008,469.67	11,824,249.46
ARAG Liegenschaftsverwaltungs- und Beratungsgesellschaft mbH, Düsseldorf	100.00	375,739.68	-23,904.73
ARAG Service Center GmbH, Düsseldorf	80.00	343,084.56	-51,772.19
ARAG IT GmbH, Düsseldorf	100.00	8,829,093.54	323,513.04
CURA Versicherungsvermittlung GmbH, Düsseldorf	100.00	699,008.64	-281,778.88
Solfin GmbH, Düsseldorf	75.10	497,048.57	174,434.99
ALIN 1 Verwaltungs-GmbH, Düsseldorf	100.00	26,595.28	1,889.05
Justix GmbH, Cologne	100.00	3,169,497.85	-4,414,121.58
ARAG plc., Bristol	100.00	12,293,057.75	514,029.54
ARAG-France S.A.R.L. Assistance et Reglement de Sinistres Automobiles et Generaux, Versailles	100.00	18,988.00	0.00
ARAG Legal Services B.V., Leusden	100.00	225,925.32	-26,808.35
ARAG Scandinavia AS, Oslo	100.00	29,121,559.71	48,216.93
MIA Multiline Insurance Agency s. r. l., Verona	100.00	156,018.00	-61,982.00
ARAG Services Australia Pty Ltd., Sydney	100.00	603,065.34	-12,293.39
Agencia de Seguros ARAG SA, Barcelona	100.00	569,454.57	405,851.53
ARAG Services Spain & Portugal S.L., Barcelona	100.00	537,379.41	-289,460.51
c) Other companies – partnerships			
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50.00	4,727,494.78	-240,661.79
ALIN 1 GmbH & Co. KG, Düsseldorf	100.00	29,243,438.61	377,723.58
2. Associates			
AXA ARAG Rechtsschutz AG, Zurich	29.17	35,639,876.12	10,672,445.13

* Profit before profit transfer.

Equities, investment fund shares/units, and other fixed-income and variable-yield securities that have not been classified as permanent fixed assets are valued at the lower of cost or quoted market price/market value as of the reporting date in accordance with section 341b (2) HGB in conjunction with section 253 (1), (4), and (5) HGB. Following the strict principle of lower of cost or market value, the following write-downs were recognized in 2018: €329,806.10 (2017: €39,568.24) in respect of equities and investment fund shares/units and €2,298,265.56 (2017: €1,894,253.76) in respect of bonds. Write-downs amounting to €19,093,420.17 (2017: €840,025.19) were recognized in respect of investment fund shares/units in application of the discretionary principle of lower of cost or market value. In 2018, no reversals of write-downs pursuant to section 253 (5) HGB were recognized on equities (2017: €90,127.74) or on investment fund shares/units (2017: €3,806,013.24). However, they were recognized in an amount of €77,470.92 (2017: €190,557.57) in relation to bonds. As of the reporting date, undisclosed liabilities of €13,826,804.68 (December 31, 2017: €472,268.73) were not netted as a result of the application of the discretionary principle of lower of cost or market value.

ARAG SE made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341b (2) second half-sentence 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. This valuation method avoided write-downs of €10,997,719.53. 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 Company could have decided not to recognize any write-down at all for institutional fund shares/units classified as fixed assets.

As in prior years, additions to investment fund shares/units, but not additions to bearer bonds, were recognized under fixed assets. During the reporting year, however, bearer bonds of €63,238,695.42 were reclassified to the holdings intended to be used permanently as part of the working capital. This reclassification avoided write-downs of €2,829,085.15.

Loans secured by mortgages or land charges and fixed-income receivables, promissory notes, loans, and sundry lending items are recognized at cost unless permanently impaired. No write-downs to a lower fair value were necessary in the year under review or the previous year.

Registered bonds are accounted for at their nominal or redemption amount. Discounts are deferred using the straight-line method. Premiums are capitalized and recognized in income using the straight-line method over the term to maturity.

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

Other investments comprise shares/units in infrastructure funds and private equity funds. They are valued at cost. The fair value as of the reporting date is reviewed on the basis of the net asset values reported by the fund management companies. No write-downs pursuant to section 253 (3) sentence 5 HGB have been necessary to date.

Deposits with ceding insurers are recognized at the nominal value of the collateral furnished to cedants. The residual maturity is less than one year because the contracts are renewed annually.

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

Receivables are generally recognized at their nominal amount. A general allowance for latent credit risk is deducted from **receivables from policyholders** after specific allowances have been recognized for receivables that are past due by a predefined period of time. Receivables from policyholders past due are valued at the average historical recovery rate. **Receivables from insurance brokers** are reduced by specific allowances and a general allowance in the amount of the likely default. The maturity of the receivables is less than one year.

Receivables from reinsurance business comprise amounts derived from both inward and outward reinsurance business. The balance of €44,875,306.28 as of December 31, 2018 arose for the most part from inward reinsurance business at the headquarters in Germany and at the branches in Spain, Italy, and the Netherlands. The amounts recognized are the outstanding balances. The breakdown by primary insurer or reinsurer was as follows:

Insurance companies

<i>(Balance in €'000)</i>	Dec. 31, 2018	Dec. 31, 2017
UNIPOL Assicurazioni, Italy, BBB- rating	22,306.2	23,367.1
ABN-AMRO Verzekeren, Netherlands, A+ rating	5,029.6	4,448.5
REALE, Spain and Italy, BBB+ rating	3,169.3	3,733.8
Noordhollandsche van 1816, Netherlands, no rating	3,468.0	3,215.5
PLUSULTRA, Spain, no rating	1,426.5	0.0
GROUPAMA, Italy, BBB+ rating	1,087.6	2,005.3
Italiana Assicurazioni, Italy, BBB+ rating	669.3	947.3
Cattolica, Italy, BBB- rating	792.2	901.3
Intesa San Paolo, Italy, BBB+ rating	1,708.0	609.5
Helvetia, Italy, A rating	696.0	586.2
BRIT Syndicate 2987 at Lloyd's, United Kingdom, AA- rating	609.7	571.3
Sundry balances	3,912.9	6,354.4
	44,875.3	46,740.2

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

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.

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

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

Other assets are recognized at their nominal amount, which equates to their cost. This item mainly consists of tax assets. The residual maturities are less than one year with the exception of the amount of €4,570.2 thousand (December 31, 2017: €6,308.8 thousand).

Prepaid expenses and accrued income mainly consist of accrued rights to interest not yet due in the income period before the balance sheet date. As of December 31, 2018, this item also included premiums in connection with registered bonds amounting to €12,422.99 (December 31, 2017: €28,058.83).

If differences arise between the carrying amounts in the HGB financial statements and those in the tax base and these differences are expected to reverse in subsequent years, **deferred taxes** are recognized in respect of these differences using separate entity-specific tax rates applicable in the country in which the registered office of the entity concerned is situated. This also includes differences for which the timing of the reversal is not yet precisely known or depends on action by the entity concerned, and differences that would only reverse in the event of any liquidation.

The **subscribed capital** has been fully paid up by the shareholders. The **capital reserves** include amounts that shareholders have contributed to the equity of the Company without being granted preferences in accordance with section 272 (2) no. 4 HGB. The full amount of the statutory reserves has been recognized pursuant to section 150 (2) of the German Stock Corporation Act (AktG).

Subordinated liabilities have been issued by way of private placement to improve the own funds used to determine the solvency ratio. The registered bond with a value of €30,000.0 thousand has a fixed maturity of ten years and will be redeemed on July 29, 2024. The subordinated registered bond has been recognized at its settlement amount. These bonds were not, and are not, tradable in Germany on a regulated market within the meaning of section 2 (5) of the German Securities Trading Act (WpHG).

Gross unearned premiums for direct insurance business are calculated pro rata for each individual policy on the basis of the premiums and cancellations posted, less the installment surcharges. The calculated unearned premiums are reduced by the income components intended to cover the acquisition costs. An individually determined proportion (branches) or a flat rate of 85.0 percent (Group headquarters) of the commissions and other remuneration for agents is recognized as a non-transferable income component. The gross unearned premiums for inward reinsurance business are recognized in accordance with the requirements of the primary insurer. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

The **provision for outstanding claims** in relation to direct insurance business is recognized separately by event year for claims reported in the financial year concerned and for claims that have occurred up to the balance sheet date but have not yet been reported. A provision for claim settlement expenses is also recognized. 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.

In the reporting year, the settlements in direct business for all classes of insurance amounted to 2.5 percent of the initial reserve (2017: 2.8 percent).

The provision for outstanding claims in the inward reinsurance business is recognized in accordance with the information provided by the primary insurer. The provision for outstanding claims in connection with the inward reinsurance business from the United Kingdom is determined on the basis of past experience and statistics produced by the Group's own local claims settlement company. The proportions relating to outward reinsurance business are calculated in accordance with the stipulations in the reinsurance treaties. In the year under review, currency-related adjustments to the claims reserves were applied on the basis of exchange rates at the end of each quarter. The resulting exchange differences were recognized under other net income/expense.

The **equalization provision** for the direct insurance and inward reinsurance business is recognized and valued in accordance with section 341h HGB in conjunction with section 29 RechVersV. The calculation is carried out separately for the direct insurance business and for the inward reinsurance business, in each case broken down by class of insurance. The calculated equalization provision is allocated between the Group headquarters and the branches according to gross premiums earned in each class of insurance.

The **lapse provision** reported under miscellaneous technical provisions to cover the discontinuation or reduction of technical risk is recognized in the amount of the estimated requirement. 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.

In accordance with standard international practice, the **provisions for pensions and other post-employment benefits** are calculated using the projected unit credit (PUC) method and applying section 253 (2) sentence 2 HGB on the basis either of the 2018G (December 31, 2017: 2005G) mortality tables published by Professor Klaus Heubeck, or, for Austria, the AVÖ 2018-P tables for salaried employees. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. In accordance with section 253 (2) sentence 2 HGB, the discount rate used is the average interest rate for the past ten years published by Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. A discount rate of 3.21 percent was applied for the valuation as of December 31, 2018 (December 31, 2017: 3.68 percent). As of December 31, 2018, the difference between the application of the ten-year average and the seven-year average (2.32 percent; December 31, 2017: 2.80 percent) caused a reduction in the provision for pensions and other post-employment benefits of €24,116,312.00 (December 31, 2017: €21,524,915.00).

The following actuarial parameters were used to calculate the obligations: earliest possible age under the German Pension Age Reform Act (RVAGAnpG), annual increase in salaries of 2.5 percent, annual increase in pension benefits of 1.75 percent (for Spain, 2.5 percent). The level of staff turnover taken into account reflects the generally observable age-dependent average for the industry and has only a minor impact on the settlement value.

In accordance with section 246 (2) sentence 2 HGB, assets from reinsurance are offset against the defined benefit obligation. As of December 31, 2018, the fair value of these assets amounted to €952,238.00. The settlement value of the offset liabilities amounted to €952,238.00. In addition, securities with a fair value of €2,634,340.00 in accordance with section 253 (1) sentence 4 HGB were offset against the present value of the obligation. The valuation at fair value gave rise to an amount of €216,620.00 that was not allowed to be distributed as a dividend pursuant to section 268 (8) sentence 3 HGB. Neither the option under section 28 (1) of the Introductory Act to the German Commercial Code (EGHGB), which permits provisions for pensions and other post-employment benefits not to be recognized for legacy entitlements, nor the transitional provision under section 67 (1) EGHGB has been exercised. The long period of low interest rates has led to a shortfall of €263,785.73 (December 31, 2017: €274,983.33) in pension funds used to cover pension commitments to employees. This shortfall has been determined in accordance with actuarial principles and reported as a pension obligation.

Provisions for taxes are recognized in the anticipated settlement amount determined in accordance with prudent business practice.

The **miscellaneous provisions** are generally recognized in the amount that is necessary to settle the obligation according to prudent business practice. The residual maturity is generally less than one year. Specific accounting policies are applied to the following key miscellaneous provisions:

Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles; as of the reporting date, the amounts were discounted to present value using a discount rate of 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 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.

Interest income of €1,825.35 (2017: €34,399.06) and interest expenses of €8,310.90 (2017: €4,701.25) arose from the discounting of provisions with a maturity of more than one year.

Deposits received are accounted for at the nominal value of the collateral received. They have a residual maturity of less than one year, as underlying reinsurance agreements are renewed annually.

Other liabilities are recognized at their settlement value. The residual maturity is less than one year.

The **liabilities from direct insurance business** and **liabilities from reinsurance business** are valued at their 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. All non-interest-bearing liabilities are valued at the higher of their nominal amount or settlement value. **Miscellaneous liabilities** are recognized at their settlement value.

The **deferred income and accrued expenses** item largely comprises as yet unbilled ancillary cost advances in connection with leased out real estate. As of December 31, 2018, it also included discounts on registered bonds amounting to €11,033.06 (December 31, 2017: €13,354.46). **Deferred tax liabilities** arise in connection with differences between the reported carrying amounts in the financial statements in accordance with HGB and those in the tax base, where these differences are expected to reverse in subsequent years resulting in a future tax expense overall. These liabilities are recognized on the balance sheet in the amount, within each jurisdiction, of any excess deferred tax liability after netting with deferred tax assets. The recognition of deferred tax liabilities resulted in an expense of €3,971,645.21 in the reporting year.

Currency translation

The cost of foreign currency investments is converted into euros using the transaction exchange rate on the date of acquisition. The quoted market price or market value for foreign shares in affiliated companies and equity investments denominated in foreign currency is determined by using the middle spot rate on the reporting date; all other assets are valued using the lower of the exchange rate on the date of payment or the exchange rate on the balance sheet date. The sundry assets and liabilities with a residual maturity of up to one year are translated using the middle spot rate on the balance sheet date, disregarding the historical cost convention and the realization principle. Income and expenses are recognized using the transaction exchange rate on the date of the relevant inflow or outflow. In the year under review, currency translation gave rise to income of €920,309.01 (2017: €1,769,852.43) and expenses of €481,414.14 (2017: €105,153.96). These are reported in other net income/expense.

Fair value disclosures pursuant to section 54 RechVersV

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

Valuation reports have been prepared internally and by third parties to determine these fair values. These reports satisfy the requirements of section 55 (3) RechVersV. Each year, new valuation reports are prepared or the existing reports are revised based on updated underlying data. In line with the recommendation of the GDV, the internal adjustment is carried out using the simplified income capitalization approach on the basis of the market values calculated at the reporting date.

Fair values for investments in affiliated companies and equity investments

The shares and equity investments have generally been valued using the income capitalization approach. In the case of companies that predominantly perform services for the ARAG Group and in the case of intermediate holding companies, the pro-rata net asset value has been used as the fair value. Due to the need to expedite year-end closing procedures (Solvency II), figures as of the end of the third quarter of 2018 were used in some instances. For equity investments and shares acquired recently, the carrying amount was used as the fair value.

Fair values of miscellaneous investments

The fair values of line items B. III. 1. and 2. on the balance sheet correspond to their quoted market price or market value as of the balance sheet date. The fair values of securities that are not exchange-traded (registered bonds, promissory notes) are calculated on the basis of the swap curve. This involves determining the discount rate on the swap curve corresponding to the maturity of the security being valued. Any spreads resulting from the structure of the individual security (maturity, collateral, credit rating, etc.) are taken into account as appropriate.

The fair values are shown in the '**Changes in investments in 2018**' table.

III. Insurance Disclosures

(€'000)	Direct insurance business				
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2018	Total 2017
Gross premiums written	655,635	43,467	9,605	708,707	673,252
Gross premiums earned	653,700	43,555	9,679	706,934	672,940
Net premiums earned	-	-	-	-	-
Claims incurred	337,842	24,817	1,214	363,872	359,510
of which payments for claims	320,672	24,325	1,082	346,079	331,011
Insurance business operating expenses	285,199	19,950	5,887	311,036	304,360
of which front-end fees	91,983	17,090	830	109,903	105,579
of which administrative expenses	193,216	2,860	5,057	201,133	198,781
Change in equalization provision	0	-409	-580	-989	-772
Miscellaneous underwriting income and expenses	1,592	0	0	1,592	1,804
Underwriting result	32,251	-1,621	1,998	32,628	10,102
Technical provisions:					
Unearned premiums	147,970	3,215	4,532	155,717	153,944
Provision for outstanding claims	921,567	8,566	2,102	932,235	914,441
Equalization provision and similar provisions	0	7,144	3,905	11,049	10,060
Miscellaneous technical provisions	802	0	0	802	690

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

Direct insurance business	2018	2017
(No.)		
Germany	1,542,004	1,495,840
International	2,755,924	2,664,666
Total	4,297,928	4,160,506

	Inward reinsurance business				Outward reinsurance business		Total insurance business		
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2018	Total 2017	2018	2017	2018	2017
	194,939	11,897	446	207,281	196,752	-	-	915,988	870,004
	196,250	13,690	392	210,332	196,303	-	-	917,265	869,243
	-	-	-	-	-	2,052	1,201	915,213	868,042
	94,220	12,654	14	106,888	105,724	-1,113	2,488	471,873	462,746
	83,329	13,148	46	96,523	92,866	888	1,704	441,714	422,172
	90,286	362	192	90,840	85,123	0	302	401,876	389,181
	550	306	4	860	839	-	-	-	-
	89,736	56	189	89,980	84,283	-	-	-	-
	-2,906	-2,405	53	-5,259	-2,307	0	0	-6,247	-3,079
	-1,338	0	0	-1,338	0	0	0	253	1,804
	7,500	-1,731	238	6,007	3,150	3,165	-1,589	35,470	14,841
	39,618	3,512	185	43,315	46,686	0	1,418	199,032	199,212
	196,116	1,743	80	197,939	188,015	568	2,568	1,129,606	1,099,888
	9,188	2,532	352	12,072	6,813	0	0	23,121	16,873
	1,338	0	0	1,338	0	0	0	2,140	690

Source of insurance business by premiums written

Country/source	Direct insurance business			Inward reinsurance business			Total business
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	
(€'000)							
Germany	372,598	0	0	0	0	0	372,598
Spain	56,061	43,014	4,833	21,788	11,896	161	137,753
Netherlands	99,274	0	0	51,792	0	0	151,066
Italy	30,316	0	4,772	94,970	0	285	130,344
Belgium	24,431	0	0	862	0	0	25,293
Austria	64,896	0	0	0	0	0	64,896
Slovenia	2,682	0	0	0	0	0	2,682
Greece	4,885	0	0	53	0	0	4,937
USA	0	0	0	334	0	0	334
UK	0	0	0	25,132	0	0	25,132
Portugal	492	453	0	8	0	0	953
Total	655,635	43,467	9,605	194,939	11,896	446	915,988

IV. Non-Insurance Disclosures

Changes in investments in 2018:

Changes in asset items A., B. I. to IV. from January 1 to December 31, 2018

Type of investment	Balance Jan. 1, 2018	Currency differences	Additions	Disposals
(€)				
A. Intangible assets				
1. Miscellaneous intangible assets	7,658,413.63	0.00	2,772,326.57	58.44
Total	7,658,413.63	0.00	2,772,326.57	58.44
B. I. Land, land rights and buildings, including buildings on third-party land	93,557,587.84	0.00	0.00	1,412,846.86
B. II. Investments in affiliated companies and equity investments				
1. Shares in affiliated companies	273,016,708.28	0.00	49,673,747.86	30,021,354.72
2. Lending to affiliated companies	0.00	0.00	1,300,000.00	0.00
3. Equity investments	16,887,569.37	0.00	0.00	0.00
Total investments in affiliated companies and equity investments	289,904,277.65	0.00	50,973,747.86	30,021,354.72
B. III. Miscellaneous investments				
1. Equities, investment fund shares/units, and other variable-yield securities	617,622,846.16	0.00	40,252,986.86	32,148,436.51
2. Bearer bonds and other fixed-income securities	396,850,198.80	0.00	89,343,165.09	55,470,639.54
3. Loans secured by mortgages or land charges and fixed-income receivables	9,179,927.98	0.00	0.00	300,000.00
4. Miscellaneous lending				
a) Registered bonds	140,511,291.88	0.00	0.00	0.00
b) Promissory notes and loans	251,959,862.44	0.00	20,000,000.00	5,000,000.00
c) Sundry lending	79,078.08	0.00	98,265.65	69,461.66
5. Bank deposits	57,968,966.00	0.00	19,200,000.00	50,000,000.00
6. Other investments	4,535,534.31	0.00	27,614.41	1,369,942.91
Total miscellaneous investments	1,478,707,705.65	0.00	168,922,032.01	144,358,480.62
B. IV. Deposits with ceding insurers	49,676,929.50	0.00	10,181,947.95	3,923,439.47
Total investments	1,911,846,500.64	0.00	230,077,727.82	179,716,121.67
Total including intangible assets	1,919,504,914.27	0.00	232,850,054.39	179,716,180.11

Land, land rights and buildings, including buildings on third-party land, with a carrying amount of €30,669,996.61 (December 31, 2017: €30,692,648.70) are used for the Company's own business operations.

Reversals of write-downs	Depreciation/ amortization	Write-downs	Balance Dec. 31, 2018	Cost/ nominal amount	Fair value as of Dec. 31, 2018	Hidden reserves
0.00	3,916,187.36	0.00	6,514,494.40	42,310,309.69	6,514,494.40	0.00
0.00	3,916,187.36	0.00	6,514,494.40	42,310,309.69	6,514,494.40	0.00
0.00	905,964.09	4,521.00	91,234,255.89	99,415,611.65	150,384,241.27	59,149,985.38
1,877,900.00	0.00	2,655,832.10	291,891,169.32	373,667,560.73	685,835,134.41	393,943,965.09
0.00	0.00	0.00	1,300,000.00	1,300,000.00	1,300,000.00	0.00
0.00	0.00	0.00	16,887,569.37	26,161,255.48	46,088,000.00	29,200,430.63
1,877,900.00	0.00	2,655,832.10	310,078,738.69	401,128,816.21	733,223,134.41	423,144,395.72
0.00	0.00	19,423,226.27	606,304,170.24	636,335,996.63	596,681,032.00	-9,623,138.24
77,470.92	0.00	2,298,265.56	428,501,929.71	432,989,392.95	439,234,130.08	10,732,200.37
0.00	0.00	0.00	8,879,927.98	8,879,927.98	8,879,927.98	0.00
0.00	0.00	0.00	140,511,291.88	140,511,291.88	144,338,603.37	3,827,311.49
0.00	0.00	0.00	266,959,862.44	266,959,862.44	276,293,869.83	9,334,007.39
0.00	0.00	0.00	107,882.07	107,882.07	107,882.07	0.00
0.00	0.00	0.00	27,168,966.00	27,168,966.00	27,168,966.00	0.00
0.00	0.00	0.00	3,193,205.81	3,193,205.81	6,171,374.04	2,978,168.23
77,470.92	0.00	21,721,491.83	1,481,627,236.13	1,516,146,525.76	1,498,875,785.37	17,248,549.24
0.00	0.00	0.00	55,935,437.98	55,935,437.98	55,935,437.98	0.00
1,955,370.92	905,964.09	24,381,844.93	1,938,875,668.69	2,072,626,391.60	2,438,418,599.03	499,542,930.34
1,955,370.92	4,822,151.45	24,381,844.93	1,945,390,163.09	2,114,936,701.29	2,444,933,093.43	499,542,930.34

In addition, there is an equity investment in a property-managing entity in the form of a partnership under the German Civil Code (GbR). The sole purpose of this entity is to operate an administrative building. The equity investment is reported under land and buildings. As of December 31, 2018, the carrying amount of the equity investment was €38,181,009.42 (December 31, 2017: €39,593,856.28). Some 98.1 percent (December 31, 2017: 98.0 percent) of the property managed by the entity (headquarters of the ARAG Group in Düsseldorf) is used for the Company's own business operations. The remaining proportion is used by affiliated companies for their operations.

Investment fund disclosures

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

Institutional funds

Institutional fund	Type of fund	Investment objective	Carrying amount as of Dec. 31, 2018	Market value as of Dec. 31, 2018	Difference	Dividend in 2018	Redemption
			(€)	(€)	(€)	(€)	
ADRERENT	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	49,253,933.49	48,550,468.31	-703,465.18	3,272,976.08	At any time
ARI 2	Fixed-income fund	Increased income	21,357,480.21	21,340,882.36	-16,597.85	413,919.71	At any time
AAF	Equity fund	Increased income	23,003,226.03	23,003,226.03	0.00	3,390,356.93	At any time
EMA	Equity fund	Increased income	28,008,580.50	24,897,712.35	-3,110,868.15	912,794.41	At any time
SIVE Fonds							
INKA	Equity fund	Increased income	25,049,447.16	23,195,884.26	-1,853,562.90	888,331.24	At any time
			603,017,817.89	593,330,833.51	-9,686,984.38	19,685,420.19	

The investment objectives of the funds – which can be traded on any stock market trading day – are based on the relevant benchmarks derived from the strategic investment structure.

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

Other assets

(€)	Dec. 31, 2018	Dec. 31, 2017
Income tax refund right under current income tax assessment and on the basis of tax audit findings	19,488,374.54	18,736,245.71
Rights for interest not yet due on tax refunds	382,948.00	2,365,322.02
Italian insurance tax refund right	3,144,134.35	1,972,652.92
Sundry items	127,316.18	216,362.52
Total	23,142,773.07	23,290,583.17

Deferred taxes are calculated using the current income tax rate of the country that will have the right to levy tax on the assessment basis concerned at the time that the differences reverse in accordance with the relevant double taxation convention. For financial reporting purposes, the effects of the reversal of the differences between the HGB financial statements and the tax base are reviewed in terms of their impact on the basis of tax assessment. The recognized deferred tax liabilities of €3,982.2 thousand (December 31, 2017: €10.5 thousand) resulted from excess liabilities in Austria, Spain, and the Netherlands.

Disclosures on amounts prohibited from being distributed as a dividend

Overall, the following amounts are not allowed to be paid out as a dividend pursuant to section 268 (8) HGB:

Amounts prohibited from being distributed

(€)	Dec. 31, 2018	Dec. 31, 2017
Difference pursuant to section 253 (6) sentence 1 HGB (provision for pensions and other post-employment benefits)	24,116,312.00	21,524,915.00
Amount by which the carrying amount of assets exceeds the cost (plan assets – valued at fair value – covering personnel liabilities)	216,620.00	273,656.00
Net asset balance of deferred tax assets and deferred tax liabilities	0.00	0.00
Total amount prohibited from being distributed	24,332,932.00	21,798,571.00

The amount is covered in full by freely available equity components.

Equity

(€)	Dec. 31, 2018
Total	451,002,281.21
I. Subscribed capital	
The share capital amounts to	100,000,000.00
<p>The share capital is divided into 62,500 no-par-value registered shares. All the shares are fully paid up. AFI Verwaltungs-Gesellschaft mbH, Düsseldorf, and ARAG Holding SE, Düsseldorf, each own more than one quarter of the shares in the Company. ARAG Holding SE indirectly owns the majority of the shares in the Company.</p>	
II. Capital reserves in accordance with section 272 (2) no. 4 HGB	
Brought forward as of January 1, 2018	81,772,569.19
Changes in the reporting year	0.00
Balance as of December 31, 2018	81,772,569.19
III. Revenue reserves	
1. Statutory reserves	
Brought forward as of January 1, 2018	10,000,000.00
Appropriation from profit	0.00
Balance as of December 31, 2018	10,000,000.00
<p>The full amount of the reserve has been recognized pursuant to section 150 (2) AktG.</p>	
2. Other revenue reserves	
Brought forward as of January 1, 2018	215,600,000.00
Additions approved by the Annual General Meeting	12,000,000.00
Appropriation from profit	0.00
Balance as of December 31, 2018	227,600,000
	237,600,000
IV. Net retained profit	
Net retained profit as of December 31, 2017	32,032,184.31
Appropriation of profits: dividend	-20,000,000.00
Appropriation of profits: appropriation to other revenue reserves	-12,000,000.00
Net income for 2018	31,597,527.71
Appropriation to statutory reserves (section 150 (2) AktG)	0.00
Appropriation to other revenue reserves	0.00
Net retained profit as of December 31, 2018	31,629,712.02

Provisions for pensions and other post-employment benefits

Since 2010, this item has also included the offsetting of pension benefit entitlements under reinsurance in accordance with section 246 (2) sentence 2 HGB. The breakdown of the item as of December 31, 2018 was therefore as follows:

Defined benefit obligations

(€)	Dec. 31, 2018	Dec. 31, 2017
Amount required to settle the vested entitlements	190,559,965	175,957,362
of which offsetable against pension insurance assets	- 952,238	- 995,277
of which offsetable against securities	- 2,634,340	- 2,691,376
Remaining amount	186,973,387	172,270,709

The transitional provision under section 67 (1) EGHGB and the option under section 28 (1) EGHGB have not been exercised. The defined benefit obligations have been recognized in full.

Miscellaneous provisions

(€)	Dec. 31, 2018	Dec. 31, 2017
Outstanding employee remuneration	15,634,588.91	14,515,858.34
Outstanding commission payments	12,631,987.58	12,195,448.58
Provision for outstanding invoices	8,468,870.92	7,848,658.17
Early retirement and pre-retirement part-time working obligations	5,818,487.24	5,612,789.31
Long-service provision	3,657,266.25	3,465,038.60
Severance payments (Austria and Slovenia)	2,587,420.84	2,600,071.19
Interest on taxes and additional tax-related charges	678,447.00	2,506,434.00
Compensation claims for agents leaving the Company	2,508,992.33	2,440,136.18
Performance-related and business-plan remuneration for agents	1,775,000.00	1,929,000.00
Costs for financial statements and tax audit	2,069,409.50	1,884,620.00
Severance payments	679,027.87	1,047,190.08
Sales competition awards	843,385.00	829,367.00
Supervisory Board and Advisory Council remuneration	744,729.00	586,368.00
Redundancy scheme and restructuring obligations	215,548.91	578,771.26
Current litigation costs	711,261.21	442,902.59
Subsequent performance obligations related to services	0.00	0.00
Sundry other provisions	5,098,358.94	4,588,635.78
Total	64,122,781.50	63,071,289.08

Prepaid expenses and accrued income, deferred income and accrued expenses

Prepaid expenses and accrued income includes premiums of €12,422.99 (December 31, 2017: €28,058.83), and deferred income and accrued expenses discounts of €11,033.06 (December 31, 2017: €13,354.46) pursuant to section 341c (2) HGB. These amounts are reclassified to income over the maturity of the investments concerned.

Net extraordinary income/expense

No extraordinary income or expenses arose in the year under review.

Tax expense

The income taxes reported in the income statement included the following: €18,650,826.51 (2017: €16,983,709.30) related to the year under review and income of €2,604,633.50 (2017: income of €1,186,339.67) related to prior years. They also included expenses arising from the change in the balance of deferred taxes amounting to €3,971,645.21 (2017: €6,090,914.96) and expenses for foreign taxes not attributable to permanent establishments in the amount of €48,648.60 (2017: €293,322.73).

V. Report on Post-Balance Sheet Events

There were no events of particular significance after December 31, 2018.

VI. Other Disclosures**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	165,874,269.31	164,633,485.57
2. Other remuneration for insurance agents within the meaning of section 92 HGB	20,429,792.44	14,741,441.86
3. Wages and salaries	160,905,318.96	158,086,982.44
4. Social security and other employee benefit expenses	28,127,489.81	27,672,471.24
5. Pension and other post-employment benefit expenses	29,946,544.17	20,758,457.59
6. Total expenses	405,283,414.69	385,892,838.70

Contingent liabilities and miscellaneous financial commitments (section 251 and section 285 HGB)

There were no known **miscellaneous financial commitments** arising outside the insurance business that were significant to the assessment of the Company's financial position.

ARAG SE is a partner in ARAG 2000 Grundstücksgesellschaft bürgerlichen Rechts and is jointly and severally liable for the obligations of this partnership without limitation on the basis of its entire assets.

There are **unpaid contributions** in respect of the following entities:

Unpaid contributions/obligations to pay in capital

(€)

ARAG IT GmbH, Düsseldorf	1,495,000.00
ARAG Legal Services B.V., Leusden, Netherlands	6,977,311.00
Foyer-ARAG S.A., Leudelange, Luxembourg	24,788.00
Infrastructure funds (investment funds)	230,428.38
Private-equity funds (investment funds)	509,460.00

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

Investment agreements with a total volume of €74,597,204.39 have been concluded through the affiliated company ALIN 1 GmbH & Co. KG with various private equity funds. Calls from the funds result in cash being paid into ALIN 1 GmbH & Co. KG shortly before payment is due in order to provide the required liquidity. Taking account of the liquidity remaining in the company, calls at short notice of €45,700 thousand are expected on the basis of the open-ended investment agreements.

Auditor's fees

The Company's Supervisory Board agreed fees with the auditors for the audit of the 2018 annual financial statements and Solvency II balance sheet as of December 31, 2018. In the reporting year, a provision of €418,000 was recognized as an expense in the income statement for audit services, including out-of-pocket expenses and non-deductible VAT. Expenses of €13,702 were incurred in relation to tax consultancy services. These services mainly related to the provision of project-specific tax advice. As there was no entitlement to offset input VAT, the VAT was included in the recognized expense. The auditors also provided services for subsidiaries in connection with voluntary audits of annual financial statements and as an independent trustee in the motor insurance business.

Employees

ARAG SE employed an average of 2,643 (2017: 2,631) people in 2018. As of December 31, 2018, the Company had 2,679 (December 31, 2017: 2,632) employees.

Workforce breakdown

Unit	As of December 31, 2018	As of December 31, 2017
Central Group Functions	81	80
Accounting, Asset Management, Taxes, Central Services	187	178
Sales, Products and Innovation	306	341
Customer and Claims Service, IT Steering	421	420
Risk Management/Controlling	46	39
Group Development, Business Organization	20	18
Netherlands Branch	621	583
Belgium Branch	78	72
Italy Branch	144	138
Spain Branch	463	475
Portugal Branch	6	7
Austria Branch	110	111
Slovenia Branch	11	11
Greece Branch	24	22
Non-active employees (works council, parental leave, pre-retirement part-time employment)	161	137
Total	2,679	2,632
Plus: trainees	7	6
Plus: interns and volunteers	3	3

Supervisory Board, Advisory Council, and Management Board remuneration pursuant to section 285 no. 9 a HGB

The expense for Supervisory Board remuneration amounted to €666,400.00 and for the Advisory Council €78,329.00. The Management Board's remuneration came to €5,843,344.79, with that for the former members of the Management Board and their surviving dependants totaling €2,075,252.21. A provision of €34,985,729.00 was recognized for current pensions and vested pension entitlements of former members of the Management Board and their surviving dependants.

The members of the Supervisory Board, Advisory Council, and Management Board are listed in the section 'Governing Bodies of the Company'.

Group affiliation

The Company and its subsidiaries were included in the consolidated financial statements of ARAG Holding SE for the period ended December 31, 2018. The consolidated financial statements of ARAG Holding SE are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection. The Company does not prepare its own consolidated financial statements, as the consolidated financial statements of ARAG Holding SE have an exempting effect pursuant to section 291 HGB.

VII. Proposed Appropriation of Profit

The breakdown of net retained profit is as follows:

Net retained profit

(€)	
Net income for the year	31,597,527.71
Appropriation to other revenue reserves	0.00
Profit brought forward from 2017	32,184.31
Net retained profit	31,629,712.02

It is proposed that this net retained profit be used to pay a dividend of €20,000,000.00 to the shareholders. An amount of €11,600,000.00 is to be appropriated to other revenue reserves. The remaining sum of €29,712.02 is to be carried forward to the next period.

Düsseldorf, March 18, 2019

ARAG SE

The Management Board

Dr. Dr. h. c. Paul-Otto Faßbender

Dr. Renko Dirksen

Dr. Matthias Maslaton

Werner Nicoll

Hanno Petersen

Dr. Joerg Schwarze

Independent Auditor's Report*

To ARAG SE, Düsseldorf

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

Audit Opinions

We have audited the annual financial statements of ARAG SE, Düsseldorf, which comprise the balance sheet as at December 31, 2018, and the statement of profit and loss for the financial year from January 1 to December 31, 2018, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of ARAG SE for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

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

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

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

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

1. Measurement of investments
2. Measurement of claims provisions

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

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

Hereinafter we present the key audit matters:**1. Measurement of investments**

1. In the Company's annual financial statements investments amounting to EUR 1,939 million (88.4% of total assets) are reported in the balance sheet. Investments that are not measured on the basis of stock exchange prices or other market prices are associated with increased risk regarding measurement due to the necessity of using model-based calculations. The executive directors are required to exercise judgment and make estimates and assumptions in this context. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of investments. Due to the material significance of the amounts of investments for the assets, liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of investments was of particular significance in the context of our audit.
2. Given the significance of investments for the Company's overall business, as part of our audit we assessed the assumptions made by the executive directors and the models used by the Company together with our internal specialists for investments. Thereby, we based our assessment on our valuation expertise with regard to investments, and our industry expertise and experience, among other things. In addition, we evaluated the design and effectiveness of the controls established by the Company for the purpose of measuring investments and recording the earnings from investments. On that basis, we carried out additional analytical audit procedures and tests of details relating to the measurement of investments. Among other things, we also examined the underlying amounts recorded and their recoverability on the basis of the documentation made available, and we evaluated the consistent application of the measurement methods and the allocation of amounts to the correct periods. Furthermore, we assessed the valuation reports prepared or obtained by the Company (including the measurement parameters used and the assumptions made) for its material equity investments. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the investments are substantiated and sufficiently documented.
3. The Company's disclosures on investments are contained in section II "Disclosures on Accounting Policies" of the notes to the financial statements.

2. Measurement of claims provisions

1. In the annual financial statements of the Company technical provisions (“claims provisions”) amounting to EUR 1,130 million (51.5% of total assets) are reported under the “Provisions for unsettled claims” balance sheet item. Insurance undertakings are required to recognize technical provisions to the extent necessary in accordance with prudent business judgment to ensure that they can meet their obligations from insurance contracts on a long-term basis. Defining assumptions for the purpose of measuring the technical provisions requires the Company’s executive directors, in addition to complying with the requirements of commercial and regulatory law, to make estimations of future events and to apply appropriate measurement methods. The methods used to determine the amount of the claims provisions and the calculation parameters are based on judgments and assumptions made by the executive directors. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of the claims provisions. Due to the material significance of the amounts of these provisions for the assets, liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of the claims provisions was of particular significance in the context of our audit.
2. Given the significance of the claims provisions for the Company’s overall business, as part of our audit we assessed the assumptions made by the executive directors and the methods used by the Company together with our internal measurement specialists. Thereby, we based our assessment on our industry expertise and experience, among other things, and considered recognized methods. We also evaluated the design and effectiveness of the controls established by the Company for the purpose of calculating and recording claims provisions. On that basis, we carried out additional analytical audit procedures and tests of details relating to the measurement of the claims provisions. Among other things, we also reconciled the data on which the calculation of the settlement amount was based with the underlying documentation. Therewith, we assessed the results of the Company’s calculations of the amount of the provisions with reference to the applicable legal requirements and evaluated the consistent application of the measurement methods and the allocation of amounts to the correct periods. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the claims provisions are substantiated and sufficiently documented.
3. The Company’s disclosures on claims provisions are contained in section II “Disclosures on Accounting Policies” of the notes to the financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289 f Abs. 4 HGB (disclosures on the quota for women on executive boards).

The other information comprises further remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

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

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

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

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

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

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

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

preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

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

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

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

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

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

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

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

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the supervisory board on April 26, 2018. We were engaged by the supervisory board on October 2, 2018. We have been the auditor of ARAG SE, Düsseldorf, without interruption since the financial year 1992.

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

German Public Auditor Responsible for the Engagement

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

Düsseldorf, March 22, 2019

PricewaterhouseCoopers
Gesellschaft mit beschränkter Haftung
Wirtschaftsprüfungsgesellschaft

Ludger Koslowski Wirtschaftsprüfer (German Public Auditor)	Michael Peters Wirtschaftsprüfer (German Public Auditor)
---	---

Report of the Supervisory Board

In the year under review, the Supervisory Board carried out the tasks required of it by law, the articles of incorporation, and rules of procedure and continually monitored and advised the Management Board with regard to its running of the Company. The Supervisory Board was directly involved in all decisions of fundamental importance to the Company. The Management Board provided the Supervisory Board with regular, timely, and comprehensive written and oral reports on the economic situation and the performance of the Company and its subsidiaries, planned business policy, corporate planning, the risk situation, risk management, and significant individual transactions. The Management Board explained variances between the actual course of business and plans and targets individually, and these were noted by the Supervisory Board. Where management action required the approval of the Supervisory Board by law or other regulations, the Supervisory Board received detailed written information on the matter from the Management Board. The Supervisory Board discussed these reports extensively at its meetings, deliberated on them with the Management Board, and made the necessary decisions.

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

Reports on the business performance of the Company, including that of its international branches and equity investments, were the main focus of the Supervisory Board meetings in 2018. The Group risk strategy, the risk and controlling report, and the strategic planning for the next three years formed part of these reports. The Supervisory Board also dealt with a succession issue resulting from the retirement of a Management Board member in April 2019 and, consequently, appointed a new member of the Management Board and adopted a resolution on the future allocation of responsibilities. In addition, one member of the Management Board whose term of appointment was ending was reappointed for the maximum permitted term. A joint conference was held to enable the Supervisory Board to obtain in-depth information on the regulatory changes and requirements arising from the Solvency II Framework Directive. A report on asset liability management was also presented to the Supervisory Board and it discussed the quarterly results under HGB and Solvency II, and the projections for 2018.

Further matters addressed by the Supervisory Board included the appropriateness of Management Board remuneration and of the remuneration system used for employees. In connection with the former, changes were made to the rules governing the surviving dependants' pension for one member of the Management Board. The Supervisory Board also assessed the fulfillment of the Management Board's targets for 2017 and specified Management Board targets for 2018 linked to variable remuneration. Furthermore, it

received presentations on the ARAG Smart Insurer Program (in respect of the forward march of digitalization), an updated employee model in Sales, and an analysis of synergies and cannibalization risks applicable to the various sales channels.

Finally, there was a presentation on a new self-assessment process for the Supervisory Board that will be repeated annually henceforth and a presentation on the subsequent preparation of a development plan building on the self-assessment. The Supervisory Board did not make any decisions using written procedures.

The Supervisory Board has created three committees.

The Finance Committee held a total of eleven meetings in 2018, including four ordinary meetings. Agenda items at meetings included the real estate report for all ARAG entities, the authorization of IT consultancy work for the current and coming year, and various appointments to governing bodies of subsidiaries as per the committee's remit. The Finance Committee also received reports on the Company's investment policy and investment limit system and on stress tests that go beyond the requirements of Solvency II, as well as a presentation on ARAG SE's current major contracts in Germany and abroad. In addition, reports were submitted to the committee at regular intervals on the performance of the Justix GmbH legaltech unit. Revised planning was presented as well. The committee was also brought up to date with the business performance of ARAG Services Ltd. in Canada and with ARAG's planned expansion into Australia, for which approval was given for a subsidiary to be established. Further authorizations were granted in respect of various capital additions to the Company's international entities and to the granting of an intragroup loan. The Finance Committee also approved a public land charge (Baulast) application, the sale of shares, capital spending on new storage systems for the ARAG Group, and a change to the volume of investment in the private-equity segment.

Finally, a number of meetings of the Finance Committee addressed the acquisition of legal insurance portfolios currently available for sale and the general mergers and acquisitions strategy. In this context, approval was given for the submission of binding offers and for the transactions. In addition, the Finance Committee used a total of seven written resolutions to approve the engagement of IT consultants and appointments to governing bodies of subsidiaries as per the committee's remit. It also authorized the procurement of new hardware for employees.

The Accounting and Audit Committee met on four occasions in the year under review. Besides the quarterly financial statements under HGB and Solvency II and forecasts for the 2018 annual financial statements, the committee discussed the strategic planning for the years 2019 to 2021 and recommended the plans to the Supervisory Board for approval. It also dealt with the tax planning process, the ongoing tax audits at ARAG SE's international sites, and non-audit services. In addition, the Accounting and Audit Committee was involved in determining the focus for the audit of the 2018 financial statements and was brought up to date with the new mandatory requirement to rotate audit firms. The success factors for the business of ARAG SE's branch in Austria and the use of loss carryforwards were also on the committee's agenda. The Accounting and Audit Committee did not make any decisions using written resolutions.

The Human Resources Committee held four ordinary meetings in 2018. A total of four decisions were also made using a written procedure. Topics discussed in the meetings included the review of the attainment of targets and the agreement of new ones, the pension scheme and provision for surviving dependants, and the appropriateness of the Management Board's remuneration. In respect of the latter, the committee was brought up to date with the remuneration of the management boards/senior managers in the German and international branches and in the Company's subsidiaries. The committee carried out the annual review and acceptance of the Fit&Proper guidance and remuneration policy, and issued the approvals pursuant to section 114 AktG in accordance with its responsibilities as specified in the rules of procedure. The Human Resources Committee also prepared resolutions for appointments to the Management Board.

Furthermore, the Human Resources Committee dealt with the remuneration system, the remuneration of members of the Company's Management Board who also sit on supervisory boards within the Group, and with claims for expenses at the international branches. Another focus of discussions was ensuring compliance with the 'fit and proper' requirements. The committee also prepared resolutions for the full Supervisory Board for the reappointment/appointment of Management Board members and for corresponding changes to the allocation of responsibilities. And finally, before the matter was considered by the full Supervisory Board, the committee discussed the annual self-assessment process for the Supervisory Board and subsequent creation of a development plan.

Further matters decided by means of a written procedure included the consents pursuant to section 114 AktG and the approval of an increase to the pension benefits for a former member of the Company's Management Board. Detailed reports on the committees' meetings and work were delivered at the Supervisory Board meetings.

The financial statements, which were prepared by the Management Board in accordance with the commercial-law accounting regulations for insurance companies, and the management report for 2018 were, together with the bookkeeping system, audited by PwC PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, which had been selected and engaged by the Supervisory Board on April 26, 2018 to carry out the audit and which issued an unqualified opinion.

All the members of the Accounting and Audit Committee of the Supervisory Board received the aforementioned documents, the annual report, the proposal for the appropriation of profit, and the auditor's report in good time before the Supervisory Board meeting on April 10, 2019. At the meeting, the Management Board also provided additional oral explanations of the documents. The auditors who had signed the auditor's report participated in the discussion of the documents by the Supervisory Board and the Accounting and Audit Committee, reported on the key findings of the audit, and were available to provide additional information.

The Accounting and Audit Committee had discussed these documents in detail prior to the meeting of the Supervisory Board and had recommended to the Supervisory Board that the financial statements and the management report be approved. The Supervisory Board reviewed the financial statements, management report, and proposal for the appropriation of profit. There were no objections to be raised on the basis of the concluding findings of its review. Having carried out its own review and having taken into account the report of the Accounting and Audit Committee, the Supervisory Board agreed with the

findings of the audit of the financial statements and management report by the auditors. The Supervisory Board approved the financial statements and management report and thereby adopted them. It also agreed with the Management Board's proposed appropriation of profit. The Supervisory Board proposes to the AGM that it formally approve the acts of the Management Board members.

The report to be submitted by the Management Board pursuant to section 312 AktG concerning relationships with affiliated companies was also reviewed. The review encompassed the completeness and accuracy of the details in the report on the basis of the right to inspect the books and papers of the Company and on the basis of the reports and information submitted by the Management Board. The review did not give rise to any objections. The independent auditors also audited the report submitted by the Management Board pursuant to section 312 AktG and issued the following audit opinion:

"Following our audit and evaluation exercising all due care and diligence, we confirm that:

1. the factual disclosures in the report are accurate,
2. the consideration paid by the Company for the transactions listed in the report was not inappropriately high or disadvantages were compensated."

The Supervisory Board agrees with this opinion. Following the concluding findings of its review, the Supervisory Board has not expressed any reservations regarding the concluding statement by the Management Board in the report on relationships with affiliated companies.

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

Düsseldorf, April 10, 2019

ARAG SE

The Supervisory Board

Gerd Peskes
(Chairman)

Margit Schuler
(Deputy Chairwoman)

Professor Dr. Walter
Ackermann

Dr. Tobias Bürgers

Marco Hoogendam

Dr. Michael Pielorz

Professor Dr. Fred Wagner

Richard Wenhart

Dr. Sven Wolf

Governing Bodies of the Company

Supervisory Board

The employees have a right of codetermination pursuant to section 1 (1) of the German One-Third Participation Act (DrittelbG), under which one third of the members of the Supervisory Board must be employee representatives.

Supervisory Board Shareholder representatives:

Gerd Peskes Wirtschaftsprüfer (German Public Auditor),
Essen,
Chairman

Professor Dr. Walter Ackermann University professor,
St. Gallen, Switzerland

Dr. Tobias Bürgers Attorney,
Munich

Dr. Michael Pielorz Attorney,
Düsseldorf

Professor Dr. Fred Wagner University professor,
Leipzig

Dr. Sven Wolf Jurist,
Krefeld

Employee representatives:

Margit Schuler Vice President, Sales Personnel Training,
Mettmann,
Deputy Chairwoman

Marco Hoogendam Staff attorney,
Amersfoort, Netherlands

Richard Wenhart Employee in Production Management/
IT System Monitoring,
Buch a. Erlbach

Advisory Council	Christoph Buchbender	Member of the Management Board of Rheinland Holding AG, Neuss, Chairman
	Rainer Gebhart	Deputy Chief Executive Officer of WWK Lebensversicherung a. G., Rosenheim, Deputy Chairman
	Burkhard Balz	Member of the European Parliament, Stadthagen (until August 31, 2018)
	Professor Dr. Dres. h. c. Rolf Dubs	University professor, St. Gallen, Switzerland
	Werner Gremmelmaier	Member of the Management Board of uniVersa Lebensversicherung a. G., Neukeferloh
	Dr. Volker Himmelseher	Graduate in Business Administration, Pulheim
	Dr. Dr. h. c. Burkhard Hirsch	Attorney, Düsseldorf
	Friedrich-Wilhelm Metzeler	Attorney/ Graduate in Business Administration, Düsseldorf (until June 3, 2018)
	Volker Steck	Chief Executive Officer of Helvetia Versicherungen/ Directorate for Germany, Frankfurt
	Hans Schwarz	Chief Executive Officer of Stadtparkasse Düsseldorf (ret.), Düsseldorf
	Carl Ludwig Thiele	Attorney/ Member of the Executive Board of Deutsche Bundesbank (ret.), Osnabrück (since November 15, 2018)

André Wüstner Federal Chairman of the
German Army Association (DBwV),
Montabaur

Professor Dr. Christian Zwirner Auditor/tax consultant/
Managing Director,
Dr. Kleeberg & Partner GmbH,
Munich
(since November 15, 2018)

Management Board **Dr. Dr. h. c. Paul-Otto Faßbender** Düsseldorf,
Chief Executive Officer

Dr. Renko Dirksen Meerbusch

Dr. Matthias Maslaton Moers

Werner Nicoll Herzogenrath

Hanno Petersen Ratingen

Dr. Joerg Schwarze Düsseldorf

Information

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

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

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

