

ARAG ALLGEMEINE VERSICHERUNGS-AG

2016 Annual Report

SINGLE-ENTITY FINANCIAL STATEMENTS



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Overview

ARAG Allgemeine Versicherungs-AG Key Figures

(€'000)	2016	Change	2015	2014
Sales revenue				
Gross premiums written	175,870	4.39%	168,476	164,884
Premiums earned for own account	168,212	3.35%	162,766	157,912
Expenses				
Claims incurred net of reinsurance	91,197	12.38%	81,150	90,534
Claims ratio (basis: premiums earned)	54.22%	4.36% pts.	49.86%	57.33%
Own account insurance business operating expenses	64,675	0.64%	64,264	61,959
Cost ratio (basis: premiums earned)	38.45%	-1.03% pts.	39.48%	39.24%
Net income overview				
Underwriting result before equalization provision, gross	18,671	-1.76%	19,006	4,095
Underwriting result before equalization provision, for own account	12,345	-27.87%	17,114	5,569
Underwriting result after equalization provision, for own account	7,322	-50.04%	14,656	15,796
Gains and losses on investments	8,914	27.46%	6,994	12,515
Other net income/expense	-2,201	66.72%	-6,612	-4,222
Profit/loss from ordinary activities	14,035	-6.66%	15,037	24,089
Net income for the year (before profit transfer under profit-and-loss transfer agreement)	14,019	-6.63%	15,015	23,889
Key ratios				
Technical provisions/ premiums earned for own account	142.78%	3.06% pts.	139.72%	146.20%
Equity/premiums earned for own account	32.89%	-1.10% pts.	33.99%	35.03%

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. At the end of 2016, the Group sold ARAG Lebensversicherungs-AG as part of a strategic realignment to focus squarely on property and health insurance. The sale is subject to approval by BaFin. The Company aims to generate growth across all insurance segments in Germany and to exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 17 countries (Germany, 14 other European countries, the US, and – since 2016 – Canada) through branches, subsidiaries, and equity investments. It generates sales revenue and premiums of approximately €1.8 billion and employs more than 4,000 people.

ARAG SE is responsible for strategic Group management and the legal insurance operating business at both domestic and international levels. The other ARAG insurance and service companies are responsible for the operational management of their respective lines of business. 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 international units 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 an attractive provider of property, liability and accident insurance policies, which have been highly ranked in numerous independent performance comparisons. 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 brokering services 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 a provider of full-coverage and supplementary health insurance. To complement its range of products for customers, ARAG Core Sales successfully offers pension products from its strategic partner Alte Leipziger.

Management Report of ARAG Allgemeine Versicherungs-AG

I. Company Fundamentals

Business model

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

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

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

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

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

Territory

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

Insurance portfolio

At the end of the year under review, the portfolio of direct insurance contracts comprised 863,300 policies (December 31, 2015: 859,310 policies). Of this total, 861,242 policies (December 31, 2015: 859,310 policies) were attributable to the business in Germany, while the UK branch accounted for 2,058 policies. In addition to its head office in Düsseldorf, ARAG Allgemeine maintains 15 offices at insured state sports associations and one office at the German Skiing Association.

Sales organization

The Group's sales organization makes a fundamental contribution to ARAG's business success in Germany. ARAG Core Sales is the traditionally strong sales channel selling ARAG products exclusively: The 1,000-plus ARAG Sales Partners use the network of over 160 main branch offices and other branch offices across Germany to provide customers with professional, face-to-face support and advice at local level. This is underpinned by ARAG's holistic 'Red Thread' approach to insurance advice and support. For customer visits, ARAG Sales Partners can use either a paper version or a digital version for tablets that can be accessed via a proprietary advice app. Core Sales also uses digital touchpoints for greater connectivity, whether for contact with customers or to sign up new sales partners. Use of the holistic 'Red Thread' advisory approach is an integral element of the basic training delivered by the ARAG sales academy, whose broad-based and regularly updated range of courses ensure the exclusive agents receive high-quality training and development on ARAG and its products.

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. The online portal for brokers was completely revamped in 2016 and, besides being easier to use, includes plenty of useful new content.

In the year under review, the two main sales channels in Germany accounted for 82.8 percent (Core Sales) and 8.4 percent (Partner Sales) of new policies underwritten. Following the growth in 2015, ARAG Allgemeine saw a further increase in its premium income from online business of more than 8 percent in 2016. Overall, the online business is developing into a relevant sales channel with which ARAG can reach out to internet-savvy customer groups. In Germany, the ARAG sales channel mix also includes sales partnerships in which made-to-measure, high-performance ARAG insurance solutions are sold under partnership agreements with other insurance companies, banks, associations, and clubs.

Segments and classes of insurance operated by the Company

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

General accident insurance

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

Motor insurance

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

Liability insurance

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

Marine insurance

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

Credit and guarantee insurance

Legal insurance

Business interruption insurance

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

Assistance insurance

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

Aerospace liability insurance

- Aircraft liability insurance

Fire insurance

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

Burglary, theft and robbery insurance

Water damage insurance

Glass insurance

Storm and tempest insurance

Composite home contents insurance

Composite residential buildings insurance

Technical insurance

- Electronic equipment insurance
- Construction contractors' all risks insurance

Miscellaneous indemnity insurance

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

Miscellaneous consequential loss insurance

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

Fidelity insurance**Research and development**

In 2016, ARAG Allgemeine's activities in the field of sports accident and injury research and prevention continued to be concentrated in the 'Sicherheit im Sport' foundation, which promotes safety in sports. Since the formation of the foundation in 2015, ARAG and its partner donors – German Olympic Sports Confederation (DOSB), North Rhine-Westphalia State Sports Confederation (LSB NRW), Sporthilfe NRW e.V., Ruhr University Bochum, TÜV SÜD Management Service GmbH, and Erwin Himmelseher Assekuranz-Vermittlung GmbH & Co. KG – have been collaborating closely with other experts and partner institutions in a variety of committees of the foundation.

The legal setup as a foundation and the extensive network of key participants have created good conditions for creating greater awareness of safety in sports among politicians, in society and, above all, among sports organizations and everyone who is actively involved in sports. The management board of the foundation, of which David Schulz – Head of the Sports Injuries Assessment Unit (ASU) at ARAG Allgemeine – is a member, is responsible for the crucial task of coordinating the various activities. The management board also develops ideas and concepts that mainly focus on creating and expanding a secure financial basis for the foundation in the first few years after its establishment. For all partners involved in the foundation, it is of utmost importance to clearly communicate the message that sports and physical activity can have a multitude of positive effects and that the benefits of sports for society as a whole by far outweigh the costs that may result from accidents, injuries or damage. The foundation therefore serves the purpose of minimizing these undesirable consequences of sporting activity. Academic studies have found evidence that clearly supports the success of this endeavor.

This foundation remains the only institution in Germany dedicated exclusively to researching and preventing sports injuries and accidents, taking a perspective that encompasses all social groups. This approach is receiving increasing attention and appreciation, not least from politicians and sports associations. Many sports organizations in particular have proactively approached the foundation, and joint projects have been initiated. In addition, collaboration with other organizations focusing on specific areas, such as traumatic brain injury or child safety, was intensified in 2016.

To ensure its work is consistently professional from the outset, the foundation began to develop a quality management concept shortly after its formation. At present, the foundation's activities are predominantly operational, but the quality management concept already covers the awarding of grants by the foundation in the future.

It is crucial for a fledgling organization like Stiftung Sicherheit im Sport to build a strong, positive reputation based on successful activities and projects. The foundation therefore undertakes projects in different sports-related contexts with relevant partners. A key resource in this context is the database of sports injuries and accidents, which ARAG and Ruhr University Bochum have been developing since 1986. Tailored preventive solutions are devised for the individual areas, also taking account of other findings from sports research and practice. This means that the focus is not only on practical sports-related approaches, such as special types of training and exercise, but also on technical and policy measures, for example in relation to rules and refereeing. Other important aspects include sports facilities and protective equipment, as well as treatment, care, and advice provided to sports participants by doctors and other specialists.

In addition to the continued close cooperation with the Chair of Sports Medicine and Sports Nutrition at Ruhr University Bochum, projects with several other partners have been successfully initiated and realized through the foundation. As the main sponsor of the foundation, ARAG is highly appreciated by many partners across the field of sports. ARAG's long-standing efforts to develop the foundation provide a solid basis on which the foundation can continue to improve safety in sports in the coming years and decades. The strategy of combining projects to promote safety in sports with efforts to position this topic more prominently, especially in the political sphere, is intended to further strengthen the foundation's financial basis.

After all, of the two million sports injuries that occur in Germany each year, only some fall within the remit of institutions that have a statutory responsibility for preventing such injuries. The main organizations in this context are the VBG employers' liability insurance association in relation to professional sport and, in relation to sport in schools, the public-sector accident insurance providers and the German Social Accident Insurance organization (DGUV). For other sports contexts, such as activities within and outside sports clubs, there is no specific institution that is responsible for prevention and is appropriately equipped for this purpose. Thus, one of the objectives of this initiative is to develop the foundation into an institution that can fulfill this important task within society.

II. Report on Economic Position

Economic and sector conditions

Global economic growth is currently only muted but, from a historical perspective, is not unusually slow. In fact, it appears to be returning to normal levels following the extreme expansion rates and related overheating in the run-up to the global financial crisis in 2008.

The turmoil in international financial markets at the start of 2016, the unexpected result of the Brexit referendum in the United Kingdom last summer, and the surprising outcome of the US presidential election have not had a lasting detrimental effect on the pace of global economic growth. Although the vote for Brexit and the new political regime in the US created heightened uncertainty in financial markets for a time, the impact on the real economy has been limited so far. Capacity utilization in manufacturing continued to increase. At the same time, the situation in emerging markets stabilized, above all thanks to the strengthening of the Chinese economy. The steadying of the oil price is also likely to have had a positive effect on commodity-exporting emerging markets.

Industrialized countries are going through a phase of economic recovery. In most of them, capacity underutilization in the product and labor markets decreased further in the first half of 2016. Particularly in the eurozone and Japan, economic output rose faster than the estimated potential output. By contrast, growth in the US was slightly lower than expected in the first half of the year. The German Council of Economic Experts currently estimates that total global production grew by 2.5 percent in 2016.

The eurozone's economic recovery continued over the course of 2016. Production in the economy as a whole has been rising steadily for three years now. Employment has risen noticeably in recent years; at 10.1 percent, the unemployment rate is at its lowest since 2011. The economic recovery is driven, above all, by domestic demand. In particular, there is steady growth in consumer demand. At the same time, the fall in the oil price has helped to push up real disposable income. The expansionary monetary policy of the European Central Bank (ECB) has also played a key part in the eurozone's economic growth. The proportion of government bonds with negative yields over the medium to long term has risen sharply. Purchase programs for government bonds and other securities have been hugely expanded in the past two years. Quantitative easing led to depreciation of the euro and a significant increase in prices of equities, real estate, and other assets.

The German economy also generated substantial growth in 2016. The German Council of Economic Experts predicted a 1.9 percent rise in real gross domestic product (GDP). Improved consumer sentiment reflected the good situation in the labor market. The number of people in employment is predicted to see a further rise of more than 500,000 to 43.6 million this year. Effective wages are also going up, albeit more slowly than in previous years. This year, household incomes have also benefited from the raising of the basic tax threshold and the tax threshold for parents and from repayment of some of the tax receipts caused by bracket creep. According to the German Insurance Association (GDV), growth in households' nominal disposable income will have been 2.7 percent in 2016. The rate of inflation, projected to be around 0.3 percent, was roughly the same as in 2015. The low inflation rate meant that the purchasing power of German households again rose significantly. Given the low interest rates, consumer spending also continued to be boosted by a relatively low propensity to save. The savings ratio for households will again go up slightly this year, although the increase of 0.8 percentage points since 2013 to its current level of 9.8 percent of disposable income is modest. Overall, the GDV expected an inflation-adjusted increase in household consumption of 2.0 percent in 2016.

Following the sharp rise in the capital market rate (yield on listed German government securities with a residual maturity of nine to ten years) during the summer, this rate fell back again to an average for the year of around 0.2 percent as a result of the rate of inflation remaining low last year. Share prices benefited from favorable macroeconomic conditions. Whereas the EURO STOXX 50's increase of 0.4 percent was only small, the German DAX share index climbed by 6.9 percent to 11,481 points at the end of the year.

The GDV's most recent forecasts for the insurance industry as a whole predicted that premium income would hold steady, barely changing compared with 2015, which had not seen any noticeable increase in premiums. By contrast, gross premiums written in direct casualty and property insurance business increased by 2.8 percent (projected). The reasons included increases in the sums insured and some extension of the cover in property insurance. In legal insurance, there was even stronger growth in premiums at around 5.0 percent owing to the opportunities to adjust premiums as part of cost increases resulting from Germany's Second Act Modernizing the Law on Court Costs (Second KostRMOG). Premium growth in health insurance was around 1.8 percent. Life insurance continued to operate in tough conditions. This segment faces the difficult challenge of continuing to generate a guaranteed rate of return despite the persistently low interest rates. According to the GDV, the life insurance segment was likely to post a decline in premiums of 2.8 percent.

The property insurance segment had already taken a significant hit from the severe weather brought about by the low-pressure system Niklas back in 2015. In the year under review, it also had to deal with the adverse impact of heavy rain in some regions. According to GDV estimates, these extreme weather events between late May and early June 2016 gave rise to claims with a total value of €1.2 billion, substantially exceeding previous losses such as those caused by storm Ela in 2014. Nonetheless, as property insurers were spared any other major storms or hailstorms in 2016, it can be assumed that last year was slightly below average in terms of natural hazards. According to the GDV, a significant rise in the number of claims made caused claims incurred in the legal insurance segment to increase further, which means that the combined ratio in this insurance segment is likely to be around 100 percent for 2016. Overall, the GDV predicted that the combined ratio for direct casualty and property insurance business would stagnate at 97.0 percent.

Business performance

Once again, ARAG Allgemeine achieved a level of premium growth significantly above the market average, confirming the premium turnaround that it reached several years ago. Despite fierce competition in the insurance market and at times difficult conditions in the financial environment, premium growth was strong at 4.4 percent.

Income from gross premiums written amounted to €175.9 million in the year under review (2015: €168.5 million). This increase was more than sufficient to offset the fall in premium income in the motor insurance segment. Given the sometimes ruinous price wars involved in attracting new motor insurance business, ARAG Allgemeine ceased writing new insurance in this segment back in its 2010 year-end business and entered into a strategic sales partnership with Helvetia Schweizerische Versicherungsgesellschaft AG. Since then, ARAG has been marketing Helvetia motor insurance policies. In return, Helvetia acts as a broker for the sale of new legal insurance and special service packages on behalf of companies in the ARAG Group.

In the domestic business for the organization as a whole, income from gross premiums written grew by approximately 3.9 percent year on year (2015: 3.8 percent). The most significant proportions were accounted for by general liability, composite residential buildings, and home contents insurance. One of the most notable features in these classes of insurance was the significant expansion in the number of policies involving 'Recht&Heim' all-round cover. It is therefore clear that there was once again a positive impact in 2016 from the action initiated by the Company over the last few years, particularly the action aimed at revamping and bringing a strategic focus to the product portfolio. The lapse rate in organizational business held steady compared with 2015, remaining at a low level of 7.5 percent as a result of a number of factors, including policy renewals involving the premium 'Recht&Heim' product.

As described in the section on economic and sector conditions, one of the factors with a significant negative impact on the insurance industry's level of claims incurred last year was heavy rain. However, ARAG Allgemeine remained largely unaffected by these extreme weather phenomena in 2016, which tended to affect only specific regions. As a

result, the number of reported claims in the composite residential buildings insurance segment dropped by more than 800 claims. Across all lines of insurance in the organization business, claims reported for 2016 were down by more than 4 percent year on year. However, this was more than offset by the greater need for provisions for claims incurred but not reported (IBNR claims) and for benefit reserves for annuities. As a result, the overall gross claims ratio increased slightly, from 50.0 percent in 2015 to 51.9 percent in the year under review.

Insurance business operating expenses increased in 2016, primarily due to the increase in premium income and the resulting additional commissions incurred. A change to the discount rate applied in the calculation of defined benefit obligations had a countervailing effect. Under the new rules, the average market interest rate for the past ten financial years is applied, whereas previously the average for the past seven financial years was used. This change had a favorable one-off effect on insurance business operating expenses. Overall, the gross cost ratio fell to 37.5 percent (2015: 38.5 percent).

Despite some residual uncertainty in various eurozone capital markets, trends in equities markets in 2016 were encouraging. Gains were registered by both the German DAX index and the EURO STOXX 50 share index. ARAG Allgemeine also made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341b (2) second half-sentence of the German Commercial Code (HGB) for those institutional funds and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. In 2016, reversals of write-downs pursuant to section 253 (5) HGB on these investments were recognized in an amount of €1.6 million (2015: €0.00). No write-downs on the investment portfolio were necessary in 2016 (2015: €1.8 million). Overall, gains and losses on investments increased by €1.9 million year on year to a net gain of €8.9 million.

In challenging market conditions, ARAG Allgemeine once again demonstrated the robustness of its profitability. The profit to be transferred to the parent company ARAG SE for the 2016 financial year amounted to €14.0 million (2015: €15.0 million).

Results of operations

In the year under review, income from gross premiums written rose from €168.5 million to €175.9 million. The Company was therefore able to maintain the growth trajectory established in 2014 and 2015 following years of premium erosion.

Premium income in the domestic direct business grew by 3.5 percent. If motor insurance is excluded, the increase in direct business in Germany was as much as 4.0 percent. The income from gross premiums written in motor insurance declined again, decreasing by €0.5 million or approximately 14 percent. The reason was ARAG Allgemeine's withdrawal from the motor insurance business, as described above.

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

In sports business, ARAG Allgemeine sees itself as a partner of the sports community and plays a leading role in this area of activity in Germany. Although this business typically tends to be rather stable, the Company was able to achieve noticeable premium growth of €0.9 million.

In the inward reinsurance business, gross premiums written advanced by 4.4 percent to €29.4 million. The rise in premium income in the inward reinsurance business was accounted for by the long-term growth in the wholly owned subsidiary Interlloyd Versicherungs-AG, with which ARAG Allgemeine holds a quota-share reinsurance treaty. Interlloyd Versicherungs-AG's quota share of 50 percent remained unchanged in the year under review.

The premiums earned for own account amounted to €168.2 million in the year under review (2015: €162.8 million).

The expenses for claims incurred in 2016 were 54.2 percent of net premiums earned compared with 49.9 percent in 2015. Overall, claims incurred net of reinsurance rose to €91.2 million (2015: €81.2 million). The strongest impact on the claims ratio was, as explained above, the greater need for provisions for claims incurred but not reported (IBNR claims) and for benefit reserves for annuities.

The Company's gross cost ratio decreased year on year from 38.5 percent to 37.5 percent. Overall, the gross operating expenses for the insurance business went up by 1.0 percent to €65.3 million. The ratio of own account insurance business operating expenses to net premiums earned was 1.1 percentage points lower year on year at 38.4 percent.

The volume of outward reinsurance, measured on the basis of insurance premiums paid, rose by €0.9 million in 2016 to €6.0 million. The reinsurance program was not subject to any material changes. It continued to be focused on using non-proportional reinsurance agreements to minimize the risk from large claims and accumulation. The reinsurers benefited from greater reversals of unused claims provisions and improved their positive underwriting result significantly, from €1.9 million in 2015 to €6.3 million in 2016.

In 2016, the underwriting result before the equalization provision amounted to €12.3 million (2015: €17.1 million), and was therefore well below the 2015 figure. In accordance with the calculation requirements specified in the German Regulation on the Accounting of Insurance Undertakings (RechVersV), a sum of €5.0 million was added to the equalization provision (2015: €2.5 million) on the basis of the trends in claims and premiums. The underwriting result for own account in 2016 therefore amounted to €7.3 million (2015: €14.7 million). The net combined ratio of 92.7 percent (2015: 89.3 percent) confirmed the profitability of the operating business.

Performance of the individual insurance segments in direct insurance business

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

General accident insurance: The figures for 2016 demonstrated that the general accident insurance segment continued to account for the greatest volume of revenue in the Company, making a significant contribution to the positive underwriting result. Gross premium income amounted to €48.008 million (2015: €47.928 million). Premiums earned for own account came to €46.705 million (2015: €46.753 million). After expenses for claims incurred of €24.521 million (2015: €15.733 million) and insurance business operating expenses of €15.126 million (2015: €15.403 million), in each case for own account, this segment generated an underwriting profit of €7.799 million (2015: €16.248 million). The recognition of an equalization provision was not required in either 2016 or 2015.

General liability insurance: Gross premium income in the general liability insurance segment amounted to €41.406 million (2015: €39.954 million). Premiums earned for own account came to €38.781 million (2015: €38.397 million). After expenses for claims incurred of €18.102 million (2015: €17.040 million) and insurance business operating expenses of €16.106 million (2015: €15.996 million), in each case for own account, this segment generated an underwriting profit before the equalization provision of €4.695 million (2015: €5.406 million). A sum of €1.426 million was added to the equalization provision (2015: €3.053 million). The segment generated a profit of €3.270 million in 2016 (2015: €2.354 million).

Motor insurance: Gross premium income amounted to €3.311 million (2015: €3.857 million). Premiums earned for own account came to €3.082 million (2015: €3.627 million). After expenses for claims incurred of €2.118 million (2015: €648 thousand) and insurance business operating expenses of €459 thousand (2015: €660 thousand), in each case for own account, this segment generated an underwriting profit of €520 thousand (2015: €2.337 million), which after a reversal of the equalization provision of €680 thousand (2015: €1.335 million) produced a profit of €1.200 million (2015: €3.672 million).

Fire and property insurance

Fire insurance: The premium income for fire insurance amounted to €2.050 million gross (2015: €2.065 million). Premiums earned for own account came to €1.933 million (2015: €1.873 million). After expenses for claims incurred of €593 thousand (2015: €969 thousand) and insurance business operating expenses of €882 thousand (2015: €713 thousand), in each case for own account, this segment generated an underwriting profit of €328 thousand (2015: €34 thousand), which after an addition to the equalization provision of €239 thousand (2015: reversal of €59 thousand) produced a profit of €89 thousand (2015: €93 thousand).

Burglary insurance: Of the income from gross premiums written of €1.699 million (2015: €1.728 million), the net premiums earned amounted to €1.703 million (2015: €1.659 million). Expenses for claims incurred came to €1.120 million (2015: €1.084 million) and insurance business operating expenses to €508 thousand (2015: €662 thousand), in each case for own account, resulting in an underwriting profit for the segment of €97 thousand (2015: loss of €74 thousand), which after an addition to the equalization provision of €43 thousand (2015: €21 thousand) produced a profit of €55 thousand (2015: loss of €94 thousand).

Water damage insurance: Gross premium income amounted to €942 thousand (2015: €958 thousand). Premiums earned for own account came to €942 thousand (2015: €927 thousand). After net expenses for claims incurred of €1.048 million (2015: €619 thousand) and insurance business operating expenses of €413 thousand (2015: €385 thousand), in each case for own account, this class of insurance incurred an underwriting loss of €502 thousand (2015: €70 thousand). After a reversal of the equalization provision of €77 thousand (2015: addition of €316 thousand), the loss incurred was €425 thousand (2015: €386 thousand).

Storm and tempest insurance: Gross premium income amounted to €750 thousand (2015: €697 thousand). Premiums earned for own account came to €642 thousand (2015: €621 thousand). After the deduction of expenses for claims incurred of €525 thousand (2015: €435 thousand) and insurance business operating expenses of €339 thousand (2015: €284 thousand), in each case for own account, this class of insurance incurred an underwriting loss of €209 thousand (2015: €92 thousand). After an addition to the equalization provision of €20 thousand (2015: €100 thousand), the loss incurred was €229 thousand (2015: €192 thousand).

Glass insurance: With gross premiums at €1.456 million (2015: €1.410 million), the net premiums earned amounted to €1.389 million (2015: €1.450 million). Net expenses for claims incurred came to €620 thousand (2015: €697 thousand) and insurance business operating expenses to €424 thousand (2015: €600 thousand), resulting in an underwriting profit of €360 thousand (2015: €163 thousand). The recognition of an equalization provision was not required in either 2016 or 2015. The final underwriting profit at the end of the year therefore amounted to €360 thousand (2015: €163 thousand).

Composite home contents insurance: Gross premiums written came to €19.356 million (2015: €18.688 million); after deduction of the reinsurance premiums, the remaining premiums earned for own account were €18.512 million (2015: €17.649 million). Expenses for claims incurred came to €9.228 million (2015: €9.944 million) and insurance business operating expenses to €8.045 million (2015: €8.102 million), in each case for own account, resulting in an underwriting profit for the segment of €1.155 million (2015: loss of €528 thousand), which after an addition to the equalization provision of €458 thousand (2015: reversal of €915 thousand) produced a profit of €697 thousand (2015: €387 thousand).

Composite residential buildings insurance: Gross premium income amounted to €12.748 million (2015: €11.276 million). Premiums earned for own account came to €11.662 million (2015: €10.601 million). After expenses for claims incurred of €10.085 million (2015: €10.991 million) and insurance business operating expenses of €4.277 million (2015: €4.392 million), in each case for own account, this segment incurred an underwriting loss of €2.862 million (2015: €4.944 million). A sum of €1.069 million was added to the equalization provision (2015: €0.00). The final underwriting loss at the end of the year therefore amounted to €3.930 million (2015: €4.944 million).

Technical insurance: Most of the business in this category related to insurance for electrical and gas equipment, which accounted for 68.9 percent (2015: 68.6 percent) of the gross premiums written. Electronic equipment insurance with premium income of €570 thousand (2015: €555 thousand) and construction contractors' all risks insurance with total premiums of €93 thousand (2015: €60 thousand) were also reported in this segment. Of the income from gross premiums of €2.133 million (2015: €1.956 million), the net premiums earned for own account amounted to €2.024 million (2015: €1.933 million). Net expenses for claims incurred came to €1.296 million (2015: €914 thousand) and net insurance business operating expenses to €757 thousand (2015: €818 thousand), resulting in an underwriting loss for the segment of €13 thousand (2015: profit of €209 thousand), which after a reversal of the equalization provision of €184 thousand (2015: addition of €34 thousand) produced a profit of €170 thousand (2015: €176 thousand).

Business interruption insurance: The gross premium income reported for this class of insurance amounted to €974 thousand (2015: €160 thousand). Premiums earned for own account came to €706 thousand (2015: €189 thousand). After net expenses for claims incurred of €231 thousand (2015: €310 thousand) and net insurance business operating expenses of €423 thousand (2015: €177 thousand), in each case for own account, this segment incurred an underwriting profit of €4 thousand (2015: loss of €310 thousand). After an addition to the equalization provision of €343 thousand (2015: €0.00), the loss incurred was €339 thousand (2015: €310 thousand).

Emergency assistance insurance: The gross premium income reported in this category related to extended motoring and cycling assistance insurance and amounted to €5.775 million (2015: €5.470 million). No reinsurance premiums were paid in this class of insurance, so premiums earned amounting to €5.459 million (2015: €5.084 million) were recognized in the income statement. Expenses for claims incurred came to €2.664 million (2015: €2.799 million) and the insurance business operating expenses were €2.876 million (2015: €2.976 million). A loss of €54 thousand (2015: €650 thousand) was reported under the underwriting account. The recognition of an equalization provision was not required in either 2016 or 2015. The final underwriting loss at the end of the year therefore amounted to €54 thousand (2015: €650 thousand).

Sundry insurance: The main components of the premium income in this category were the premiums from legal insurance business generated by the UK branch as well as premiums from insurance covering ski breakages and theft, fidelity insurance, and cycle insurance. Together with other classes of insurance (in particular insurance covering baggage, hunting and sporting firearms, events, insolvency, and loss of rent as well as marine insurance and aviation liability insurance), gross premium income in this category amounted to €5.850 million (2015: €4.168 million). Premiums earned for own account came to €5.508 million (2015: €4.096 million). After expenses for claims incurred of €4.069 million (2015: €3.595 million) and insurance business operating expenses of €2.128 million (2015: €1.485 million), in each case for own account, this segment generated an underwriting loss of €689 thousand (2015: €991 thousand), which after an addition to the equalization provision of €7 thousand (2015: reversal of €75 thousand) produced a loss of €696 thousand (2015: €917 thousand). Claims varied significantly between the different sub-risks.

Performance of the inward reinsurance business

Premium income of €29.413 million (2015: €28.163 million) was generated from inward reinsurance business in the year under review. A substantial proportion of this inward reinsurance business was accounted for by the proportion of risk assumed on behalf of the wholly owned subsidiary Interlloyd Versicherungs-AG, which generated a premium of €28.426 million (2015: €27.166 million). ARAG Allgemeine's quota share was 50 percent, as in 2015.

Premiums earned for own account came to €29.164 million (2015: €27.905 million). After expenses for claims incurred of €14.975 million (2015: €15.370 million) and insurance business operating expenses of €11.916 million (2015: €11.612 million), in each case for own account, this business generated an underwriting profit of €1.715 million (2015: €374 thousand). A sum of €2.360 million was added to the equalization provision (2015: €1.320 million), after which an underwriting loss of €645 thousand (2015: €945 thousand) was reported for the business.

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

In **general accident insurance**, net premiums earned amounted to €5.878 million (2015: €5.854 million). After deduction of expenses for claims incurred of €2.725 million (2015: €2.630 million) and insurance business operating expenses of €2.277 million (2015: €2.308 million), the reported profit came to €877 thousand (2015: €908 thousand). After an addition to the equalization provision of €7 thousand (2015: reversal of €136 thousand), the profit amounted to €870 thousand (2015: €1.044 million).

The **general liability insurance segment** generated €2.741 million (2015: €2.642 million) in premiums earned for own account. After expenses for claims incurred of €919 thousand (2015: €659 thousand) and insurance business operating expenses of €1.141 million (2015: €1.112 million), the profit came to €677 thousand (2015: €869 thousand). After a reversal of the equalization provision of €33 thousand (2015: €216 thousand), the profit amounted to €710 thousand (2015: €1.085 million).

In the **composite home contents insurance** segment, premiums earned for own account amounted to €7.572 million (2015: €7.429 million). After taking into account expenses for claims incurred of €3.835 million (2015: €4.318 million) and insurance business operating expenses of €3.073 million (2015: €3.109 million), the segment reported an underwriting profit of €442 thousand (2015: loss of €223 thousand). After a reversal of the equalization provision of €205 thousand (2015: addition of €114 thousand) the reported profit was €647 thousand (2015: loss of €337 thousand).

The **composite residential buildings insurance** segment reported premiums earned for own account of €8.684 million (2015: €8.049 million). Claims incurred net of reinsurance came to €4.942 million (2015: €5.360 million) and the insurance business operating expenses were €3.611 million (2015: €3.423 million). The underwriting loss amounted to €115 thousand (2015: €962 thousand). After an addition to the equalization provision of €2.476 million (2015: €1.538 million), the reported loss was €2.591 million (2015: €2.499 million).

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

Non-underwriting result

Gains and losses on investments at ARAG Allgemeine amounted to a net gain of €8.9 million in 2016 (2015: €7.0 million) and therefore increased significantly compared with the previous year. One of the reasons for this increase was the substantial improvement of €0.8 million in the net income reported by the Interlloyd subsidiary. The existing profit transfer agreement also includes an obligation to absorb losses, so the earnings contribution from Interlloyd Versicherungs-AG was reported in 2016 under expenses from the transfer of losses. In addition, the net gain on investments was increased by reversals of write-downs of €1.6 million, whereas no such reversals had been recognized in 2015.

Other net income/expense improved from a net expense of €6.6 million to a net expense of €2.2 million, caused by a decline in reclassifications from the Company's functional expenses and reduced additions to the provision for pensions and other post-employment benefits.

Net extraordinary income/expense

There was no extraordinary income or expense in either 2016 or 2015.

Net income for the year

Under the profit-and-loss transfer agreement entered into with ARAG SE in 2006, ARAG Allgemeine was required to transfer the full sum of its net income for the year amounting to €14.0 million (2015: €15.0 million) to the parent company.

Financial position

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

Cash flow statement

(€)	2016	2015
Cash flows from operating activities		
Profit for the period	14,019,208	15,014,826
Increase (+)/decrease (-) in technical provisions, net	12,741,247	-3,436,146
Increase (-)/decrease (+) in deposits with ceding insurers and in receivables from reinsurance business	1,030,878	-271,854
Increase (+)/decrease (-) in deposits from reinsurers and liabilities from reinsurance business	-784,289	-938,170
Increase (-)/decrease (+) in receivables from direct insurance business	-3,583,909	-111,085
Increase (+)/decrease (-) in liabilities from direct insurance business	961,976	-993,012
Increase (-)/decrease (+) in miscellaneous receivables	846,086	1,257,003
Increase (+)/decrease (-) in miscellaneous liabilities	-4,148,533	5,027,228
Change in miscellaneous balance sheet items not related to investing or financing activities	-4,489,381	9,762,036
Other non-cash income and expenses, and adjustment of the profit/loss for the period	-1,403,874	1,768,235
Gain (-)/loss (+) on the disposal of investments, property and equipment, and intangible fixed assets	-58,172	-1,100,027
Expenses for/income from extraordinary items	0	0
Income tax expense/income	0	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Income taxes paid	173,149	173,149
Cash flows from operating activities	15,304,385	26,152,184
Cash flows from investing activities		
Proceeds from disposal of property and equipment	0	0
Proceeds from disposal of intangible fixed assets	0	0
Payments to acquire property and equipment	0	0
Payments to acquire intangible fixed assets	0	0
Proceeds from disposal of investments related to fund-linked life insurance	0	0
Payments to acquire investments related to fund-linked life insurance	0	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Cash flows from investing activities	0	0
Cash flows from financing activities		
Proceeds from capital contributions by shareholders	0	0
Cash payments to shareholders from the redemption of shares	0	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Dividends paid	-15,014,826	-23,889,096
Proceeds (+)/cash payments (-) related to miscellaneous financing activities	0	0
Cash flows from financing activities	-15,014,826	-23,889,096
Net change in cash and cash equivalents	289,559	2,263,088
Effect on cash and cash equivalents of exchange rate movements and remeasurements	0	0
Cash and cash equivalents at beginning of period	2,982,139	719,051
Cash and cash equivalents at end of period	3,271,698	2,982,139

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

Net assets

Investments contracted by 1.8 percent in 2016 to €326.8 million. The breakdown of investments by asset class was as follows:

Investments breakdown

(€ million)	Dec. 31, 2016		Dec. 31, 2015	
Land and buildings	22.7	6.9%	22.7	7.1%
Affiliated companies and equity investments	11.6	3.6%	9.8	3.1%
Equities and investment fund shares/units	219.0	67.0%	211.2	65.8%
Bearer bonds	14.1	4.3%	9.4	2.9%
Registered bonds	25.0	7.7%	22.5	7.0%
Promissory notes, loans	32.0	9.8%	32.0	10.0%
Sundry lending	0.0	0.0%	1.0	0.3%
Bank deposits	0.1	0.0%	10.0	3.1%
Other investments	2.2	0.7%	2.2	0.7%
Deposits with ceding insurers	0.1	0.0%	0.1	0.0%
	326.8	100.0%	320.9	100.0%

The equities, investment fund shares/units and other variable-yield securities category includes shares/units in one mixed institutional fund, two equity funds, and two fixed-income funds that are classified as fixed assets in accordance with section 341b HGB. In 2016, no write-downs for impairments that are likely to be permanent were recognized in respect of these investment fund shares/units; whereas corresponding write-downs of €1.8 million had been recognized in 2015. Reversals of write-downs on these shares/units amounted to €1.6 million (2015: €0.00). As of the balance sheet date, investment fund shares/units with a carrying amount of €219.1 million (December 31, 2015: €211.2 million) were classified as fixed assets. The fair value of these investments amounted to €244.1 million as of the balance sheet date (December 31, 2015: €239.3 million). No write-downs were avoided under equities, investment fund shares/units and other variable-yield securities by classifying these investments as fixed assets (2015: write-downs of €0.3 million avoided).

A total of 18 securities (December 31, 2015: 19) that are classified as fixed assets in accordance with section 341b HGB were reported under bearer bonds and other fixed-income securities. As in 2015, no write-downs due to expected permanent impairment were recognized in respect of these securities in the year under review. Equally, no reversals of write-downs in accordance with section 253 (5) HGB were recognized in respect of these securities in 2016, as had also been the case in 2015. As of the balance sheet date, the carrying amount of these bearer bonds was €9.0 million (December 31, 2015: €9.2 million) and the fair value €10.1 million (December 31, 2015: €10.6 million). By classifying these securities as fixed assets, write-downs of €3 thousand were avoided (2015: €7 thousand).

The fair value of investments as of December 31, 2016 amounted to a total of €372.5 million compared with €367.7 million as of December 31, 2015. Net gains on investments increased from €7.0 million to €8.9 million. The net yield in the year under review was 2.8 percent (2015: 2.2 percent).

Disclosures on the hidden reserves in respect of investments are presented in the balance sheet disclosures (pages 62 and 63).

Non-financial performance indicators

The ARAG Group has set out its self-image very clearly in its corporate guidelines: ARAG is the internationally successful, innovative quality insurer – independent and family-owned. For more than 80 years, the business concept has been based on the aim of establishing equality of opportunity. Accordingly, the ARAG Group helps its customers create scope to make personal choices – at all stages of their lives. Based on innovative insurance products and beneficial services, ARAG minimizes the risks faced by its customers, so that customers can concentrate entirely on the opportunities available to them, leading an active, independent life. This is also clearly reflected in the brand tagline 'ARAG. Dive into Life'. ARAG again added a wide range of content to the section with the same title on its website www.ARAG.de in 2016. It also ran new and attractive adverts as part of the successful advertising campaign launched in 2015. The aim is to demonstrate the day-to-day relevance of ARAG products and services. The brand promotion film, which was shown on TV and in movie theaters throughout Germany before selected movies likely to reach a wide audience, complemented three online commercials featuring ARAG product innovations. A radio commercial was added to the Germany-wide campaign in the autumn.

Another major, and logical, step taken in 2016 was the modernization of ARAG's logo. The family enterprise is thus reflecting the lasting changes that have taken place in recent years. The new ARAG logo, which had last been updated 13 years ago, was launched at the end of March 2016 at the same time as the new campaign. The word ARAG is a lot more prominent and easier to read, and the crossed swords have been removed. This new and modernized logo is thus more suited to the broad product portfolio of ARAG, which today offers appealing legal insurance products in Germany and 16 other countries and is also a successful provider of attractive health insurance and casualty and property insurance.

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

Innovation Innovativeness is a key driving force for ARAG and one of its major strengths. Besides refining the portfolio, the Company has implemented new and groundbreaking ideas for products and services that are always geared to meeting customer requirements and creating benefits for them. In autumn 2016, ARAG became the first insurance company in the market to offer a digital service card. Available for legal insurance and casualty

and property insurance customers, the ARAG Wallet-Card can be installed on a smartphone, so customers can access all their important data, such as their policy number or the contact details for headquarters and their advisor, while on the go. Telephone numbers can be dialed and emails and websites opened directly from the app. Since the end of 2016, legal insurance and casualty and property insurance customers have also had their policy number sent to them in a text message when they take out the policy; they also receive a link that enables them to install the ARAG Wallet-Card easily and directly.

There were also a number of innovations for the sales partners of ARAG Core Sales in the year under review. Many new features were added to the advice app that had been launched in 2015, including navigating to the customer, downloading sent advisory documents, transmitting appointments and contacts via QR code, scanning policy numbers using the camera, recording spoken notes, using digital signatures, and selling legal insurance directly from the app. Not only the branch offices but also all individual partners of ARAG Core Sales now receive a complete ARAG-branded website with all the functions, including simple page navigation with clear product information, that has been optimized for use on tablets and smartphones. Policies taken out online via sales partners' websites are allocated directly to the respective partner.

ARAG's website has also been optimized at international level and standardized in order to strengthen the brand. This included establishing a central online platform for European countries that is progressively being rolled out to them. It features a standardized content management system with an identical navigation concept. The system can be maintained in the relevant local language, and its responsive design ensures that page content is automatically presented in an optimum manner for the various end devices, including smartphones and tablets. An integrated analysis tool collects details of the usage behavior of visitors and customers, thus enabling the website to be adapted and optimized specifically for users in each country.

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

ARAG Allgemeine continued the targeted modernization of its insurance product portfolio and, for example, launched ARAG Alltagshelfer® in 2016, the first service product of its kind in the market. This new product provides help with many practical and organizational tasks that have to be carried out when everyday life is affected by events such as a hospital stay, birth or death in the family, or even strikes organized by a labor union. Customers receive all kinds of assistance and care services when they need emotional and practical support in exceptional circumstances such as these, including laundry and meal services, shopping, house cleaning, childcare and pet sitting, and psychological counseling over the telephone.

At the beginning of 2016, the premium ARAG 'Recht&Heim' all-round cover package was upgraded to include extensive benefits, including the integration of enhanced legal insurance for criminal proceedings, the JuraCheck® legal advice service, and other new legal insurance features. Customers can also choose between different levels of deductibles: one for legal insurance and a different one for home contents, liability, and residential buildings insurance. Work was carried out to extend the ARAG 'Recht&Heim' all-round cover product line in 2016: Since the first half of 2017, the existing premium package has been joined by a brand-new and attractively priced Komfort package that features a wide range of benefits.

ARAG Allgemeine's 'Business Aktiv' product for commercial policyholders, which offers comprehensive insurance for the self-employed and small businesses, was also expanded in 2016 and launched on the market in 2017. In particular, the new features include the CyberSchutz and CyberSchutz Plus add-on modules as well as ARAG Business Assistance. The new CyberSchutz module was developed especially for small businesses, providing them with support in respect of risks, problems, and security weaknesses on the internet, in emails, in online banking, or in their online shop.

ARAG Allgemeine has also received a variety of awards and top ratings that bear witness to the comprehensive, tailored protection that the casualty and property insurer offers its customers. For example, the ARAG Alltagshelfer® and ARAG Alltagshelfer Plus® products won the 2016 Customer Innovation Award of the German Institute for Service Quality. Both the Premium and the Komfort variants of ARAG's accident insurance scored an excellent five-star rating in the product reviews conducted by independent analysts Morgen&Morgen. In the Plus X Award for innovation, the products ARAG Alltagshelfer® and ARAG Alltagshelfer® Plus won the Most Innovative Brand Award 2016 in the insurance category.

In addition, numerous ARAG Allgemeine products received the seal of approval from [ascore] Das Scoring GmbH once again in 2016. For the private liability insurance product, the Premium and Komfort variants of the family version were each given the top rating of 'outstanding'. The Comfort residential buildings rate (2008) was assessed as 'excellent' again in 2016, as was the Premium version of the home contents insurance product.

ARAG Allgemeine also received awards for its customer service: Euro magazine and German market research provider Deutsches Kundeninstitut (DKI) teamed up to evaluate the customer service of German direct insurers, rating ARAG Allgemeine's customer service for its personal liability, household, and accident insurance products as 'very good'.

Furthermore, ARAG Allgemeine continues to underline its role as Europe's largest sports insurer. The product portfolio was enhanced in mid-2016 with a new insurance solution aimed at sports clubs: The package of services provided by ARAG Sports Insurance can be tailored to each club's requirements and the types of sports that they represent. ARAG Sports Insurance covers clubs' equipment and other property. The product also includes a receivables management module for the collection of outstanding debts as well as extended 'away from premises' cover. The service quality of ARAG Sports Insurance and customers' satisfaction with the product were once again certified by the product standards regulator TÜV Süd Service Management GmbH as 'very good' in 2016.

Customers who have taken out an 'ARAG Unfall-Schutz' accident insurance policy also continue to enjoy a bonus in the form of a special payment in the event of a successful claim, depending on the length of time the policy has been in force. The bonus entitlement is published in the Company's annual report and applies to all new claims submitted in the 2016 and 2017 financial years.

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

Bonus

Number of complete years policy in force	Benefit bonus level	2017/2018 bonus declaration		
		Disability	Accident disability	Benefit type Death
1	1	0.0%	0.0%	0.0%
2	2	3.0%	3.0%	3.0%
3	3	6.0%	6.0%	6.0%
4	4	8.0%	8.0%	8.0%
5	5	10.0%	10.0%	10.0%
6	6	10.0%	10.0%	10.0%
7	7	11.0%	11.0%	11.0%
8	8	11.0%	11.0%	11.0%
9	9	12.0%	12.0%	12.0%
10	10	12.0%	12.0%	12.0%
11	11	13.0%	13.0%	13.0%
12	12	13.0%	13.0%	13.0%
13	13	14.0%	14.0%	14.0%
14	14	14.0%	14.0%	14.0%
15	15	15.0%	15.0%	15.0%
16	16	15.0%	15.0%	15.0%
17	17	15.0%	15.0%	15.0%
18	18	15.0%	15.0%	15.0%
19	19	15.0%	15.0%	15.0%
20	20	15.0%	15.0%	15.0%
21	21	15.0%	15.0%	15.0%
22	22	15.0%	15.0%	15.0%
23	23	15.0%	15.0%	15.0%
24	24	15.0%	15.0%	15.0%
25 or more	25	15.0%	15.0%	15.0%

Claims service and claims settlement ARAG Allgemeine's claims service was last evaluated by TÜV Saarland in 2015. Claims processing and settlement were rated as 'very good', which means the service repeated the excellent results it achieved in 2013 and 2011. The rating is valid for two years.

Employees, employee skills and qualifications ARAG relies on a skilled and highly motivated workforce to ensure that it delivers on its value proposition. At the end of 2016, ARAG Allgemeine had a total of 167 employees, of which 125 were employed full-time and 42 part-time. ARAG Allgemeine also provides successful training programs, enabling its trainees to gain vocational qualifications in insurance and finance. Alongside vocational training, ARAG attaches huge importance to the skills, qualifications, and professional development of its workforce. ARAG intends to remain one of the best insurers in the market. ARAG operates a web-based skills and qualifications platform known as ARAG IQ enabling all employees to keep their knowledge and capabilities up to date. The continuing professional development (CPD) options include classroom-based seminars, training sessions, and e-learning. The content is wide-ranging and includes executive programs, seminars on personal and social skills, project management training, coaching, and foreign languages. All planned and completed CPD has been centrally recorded in ARAG IQ since 2016.

A further key component in ARAG's strategy for retaining suitably qualified employees in the Group is ARAG myCareer, an in-house 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 ARAG INTandem international professional development program, which was launched in February 2015 with a view to systematically expanding this integration and embedding it in the Group, continued in the reporting year. ARAG's sales academy ensures that continuous, high-quality skills development is provided for ARAG partners in the Field Sales force. This unit offers a broad range of needs-based seminars covering the entire spectrum of knowledge related to sales and the performance of ARAG products.

ARAG Essentials The revision of the ARAG Essentials in 2014 included the development of a multifaceted communications concept for the corporate guidelines of the ARAG Group. This strategy included the new ARAG Essentials online tool at www.ARAG.com and meetings throughout the Group to communicate these guidelines. The ARAG Essentials online tool enables users to explore the world of ARAG Essentials in a virtual environment and find out more about the various ARAG locations. The tool is accessible to both the employees and external users on the Group's website at www.ARAG.com, and is available in twelve different languages. As part of the communication activities for ARAG Essentials 2.0, a values mentoring scheme was set up in March 2015. Since then, the approximately 100 executives in the Group's first level of management have been taking it in turns – in alphabetical order – to carry out mentoring with their team for a one-month period. The scheme will continue until December 2017, and details have been published on the groupwide intranet. Since 2012, the ARAG AWARD has been presented in recognition of exemplary implementation of the ARAG Essentials. Prizes are awarded in three catego-

ries (Germany, International, and (German) Sales) to team projects proactively initiated by employees that stand out as models of successful implementation of the principles in day-to-day activities. The winning teams receive their awards at the next ARAG Group Management Conference.

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

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

Codes of conduct for sales With effect from July 1, 2013, all the German companies in the ARAG Group signed up to the revised GDV code of conduct for the sale of insurance products. This code represents a clear industry commitment to more consumer protection, better quality of advice, development of skills and qualifications for agents, and transparent, mandatory rules for dealing with customers. It thereby establishes the foundations for strengthening trust and confidence in the entire area of insurance broking. 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. In ARAG Partner Sales, very close attention is paid to ensuring that, in the collaboration with brokers, the fundamental rules laid down by the broker associations also correspond to the provisions in the GDV code of conduct. The GDV code of conduct provides for a mandatory audit to be carried out by an independent auditor every two years. All five ARAG companies successfully underwent the initial appropriateness test in 2015 and published a description of the compliance management system that serves as the basis for the test and the positive audit report from the independent auditor, PricewaterhouseCoopers, 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 ARAG companies will undergo the follow-up test in spring 2017. The ARAG companies are thus adhering to the promise of high quality defined in the GDV code of conduct in their product brokerage.

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

ARAGcare is aimed at supporting the personal health of employees. The tried-and-tested components include health checks, diverse company sports activities, regular preventive medical services, and health courses. One of the main features of these expanded services is a reorganized return-to-work and disability management system, which is now run by an external partner. In the year under review, greater emphasis was also given to the second pillar of ARAGcare: work/life balance. To this end, ARAG underwent a comprehensive third-party audit with the aim of developing and embedding a sustainable HR policy that takes into account family requirements and stage of life. Targets were drawn up and set during the course of this project, and the 'audit berufundfamilie' certification is accompanied by an obligation for the Company to achieve these targets by 2017. Numerous measures are already being implemented. Examples include action in connection with the Part-Time Management project, the expansion of teleworking and working from home, an employee assistance program, a new range of courses, and many other individual measures. In 2016, ARAG again received a Corporate Health Award certificate of excellence in recognition of these extensive activities by ARAGcare.

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. At the time the target ratios were defined, no changes were anticipated in the management functions, so the relevant governing bodies retained a target proportion for June 30, 2017 of 0 percent in respect of the Supervisory Board, the Management Board, and the first and second management levels. However, the intention is to give preferential consideration to female candidates when new appointments are to be made to managerial positions.

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

Supported by the North Rhine-Westphalia Ministry for Education and Schools, this program is offered to all high schools and vocational colleges in the German state of North Rhine-Westphalia. During the three training cycles so far, a total of 233 teachers, specialists in educational social work, and parents from 65 high schools and vocational colleges in different school districts across the state have taken part. The project is currently running at 19 other schools. The project focuses on the introduction of universal quality

standards for conflict management structures, preventive measures, and intervention techniques. Teachers, parents, specialists in educational social work, and school pastors are trained as school mediators and go on to train school students as conflict controllers. The project has been certified under the name ARAG Mediators as a 'Commitment to Action' by the Clinton Global Initiative (CGI).

The 2016 ARAG Educational Day, attended by Sylvia Löhrmann, North Rhine-Westphalia's Minister for Education and Schools, was held in June in the ARAG Tower. Participants from schools all over North Rhine-Westphalia took part in ten workshops on intercultural conflict management and mediation.

Another key area of activity is the internet. It is changing and affecting the lives of people around the globe – including to a large degree the lives of children and young people – but is also bringing risks. Suitable prevention is important to avert these risks. ARAG SE 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.

The ARAG Digital Risks Survey, an international trend study conducted by ARAG and the Institute for Cyberpsychology and Media Ethics, was presented in Berlin at the end of May 2016. Leading academics in the field of cyberpsychology from the UK, Italy, the Netherlands, Norway, Poland, Spain, and the US investigated the impact of cyberbullying and provided their assessment of this phenomenon and its future development. The findings show that cyberbullying and cyberviolence are evolving from a phenomenon of youth culture into a social problem affecting all age groups. The experts surveyed particularly highlighted the increasing violation of the right of individuals to privacy when online. From 2017, ARAG will therefore focus more intensely on protecting online privacy rights. Corporate social responsibility at ARAG also extends to the provision of support for the German Children and Youth Foundation (DKJS), specifically in the area of digital education. For 20 years, this charity has been operating projects and programs throughout Germany, helping children and young people have the courage to take control of their own lives and play a role in society. This approach is a perfect match for ARAG's definition of corporate responsibility – and also fits in well with its current commitments. Since 2014, ARAG has been supporting the DKJS as a program partner, helping to raise awareness among children and young people about the challenges presented by cyberlife and the risks from cyberbullying.

'ZEIT für die Schule' is a project promoted by Germany's weekly DIE ZEIT newspaper. The project is the largest nationwide school project run by a German newspaper and aims to foster reading skills as well as introduce children from the age of around 14 or 15 to the medium of newspapers. As part of the project, ARAG supported the publication of free worksheets for teachers in the lower and upper stages of secondary education, the delivery of free copies of DIE ZEIT and special publications for schools covering media studies and what to do after the Abitur high-school diploma, and the preparation of newsletters for teachers.

III. Dependent Company Report and Affiliated Companies

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

ARAG Allgemeine and the parent company holding all of its shares entered into a profit-and-loss transfer agreement on October 31, 2006. Given this profit-and-loss transfer agreement with the controlling entity, there was no requirement, as permitted by section 316 AktG, to prepare a report on relationships with affiliated companies in accordance with section 312 AktG. From the net income for 2016, a profit of €14.0 million (2015: €15.0 million) will be transferred to ARAG SE.

ARAG Allgemeine entered into a profit-and-loss transfer agreement with Interlloyd Versicherungs-AG, Düsseldorf, with effect from January 1, 1999. In the year under review, this led to the absorption of losses of €0.1 million (2015: €0.9 million) by ARAG Allgemeine.

IV. Outlook, Opportunity and Risk Reports

Outlook and opportunity report

Future global economic growth is currently subject to many significant risks. As well as ongoing geopolitical issues, these risks also include a crisis-like escalation of political uncertainty in Europe, a renewed flaring up of the European sovereign debt crisis, an unexpected downturn in China's economy, and possible turmoil in international financial markets.

Following a temporary period of weakness in the first half of 2016, the US economy is likely to return to a stronger rate of growth. The recovery in Japan and the eurozone is expected to continue. The pace of growth may falter as monetary policy effects and the positive impact of lower oil prices on real incomes disappear. Reflecting the slight rise in oil prices, inflation will go up again. China's economic output is not predicted to slump, and other emerging markets will probably maintain the process of stabilization that they have begun. Overall, the German Council of Economic Experts anticipates that the moderate rate of global economic growth will continue, forecasting a rise in economic output of around 2.8 percent in 2017.

Political developments in Europe demand particular attention. One major concern is that the future political and economic relationships between the United Kingdom and the European Union have not yet been clarified. So far, the vote for Brexit has not had any substantial adverse effects on the real economy. This indicates a prevailing expectation that a solution will be found that will limit the damage to the economy. If the two sides cannot resolve their political differences, much greater effects are likely to be felt in the UK in terms of investment, trade, and employment. However, Europe's political risks are not restricted to the uncertainty surrounding Brexit. In many member states, parties on the fringes of the political spectrum are enjoying strong popularity. This brings with it the danger of growing political risk. Moreover, a number of member states have unstable governments. At the end of December, for example, Italy held a referendum on constitutional reforms. The lasting political impact of the vote's outcome is not yet clear to see. The eurozone is also heavily affected by the banking sector's unresolved problems, which have mainly been created by low levels of capitalization and the still high volumes of non-performing loans, e.g. in Italy and Portugal. For the eurozone as a whole, the German Council of Economic Experts predicts that economic output will increase by 1.4 percent in 2017.

Germany's upturn is likely to continue this year. Although the growth in real gross domestic product is expected to drop to 1.3 percent, 0.4 percentage points of this slowdown in the pace of growth is due solely to there being fewer working days in 2017. Excluding this one-off effect, the German economy would expand at virtually the same rate as in 2016. It can be assumed that capacity utilization in manufacturing will continue to rise. The expansionary monetary policy of the European Central Bank (ECB) will probably play a significant part in the German economy's upturn. The effect of the ECB's unconventional measures has been to considerably improve the foreign trade environment for German exports since mid-2014, despite muted global demand. Although currently in a good posi-

tion, the German economy is not immune to the performance of the rest of the euro area. A marked downturn in the other eurozone countries or an unexpected appreciation of the euro could cause the increase in production to slow down significantly.

One of the factors fueling the sustained upturn is the sharp rise in consumer spending and house-building. This is a reflection of the continued robust health of the labor market, as can be seen from the steady growth of employment. The number of people in employment is predicted to increase by more than 400,000 to a total of 44.0 million in 2017. Nevertheless, a major challenge for German economic policy will be to integrate into the job market those who remain unemployed and a rising number of refugees who have been granted asylum. Disposable income is expected to carry on increasing in the forecast period as conditions in the labor market continue to improve. Pension adjustments made in mid-2016 will also push up monetary welfare benefits in 2017. Consumer spending is therefore predicted to go up by 1.3 percent this year. A higher rate of inflation is also likely in 2017, firstly because energy prices will probably increase and secondly because the core inflation rate is slowly rising due to growing capacity utilization in manufacturing. The average rate of inflation is expected to be 1.6 percent.

The insurance industry will not remain unaffected by the above trends. One of the factors taken into account in the latest forecasts of the German Insurance Association (GDV) is that heightened uncertainty caused, for example, by geopolitical risks is one of the major influences on current macroeconomic conditions. Any change in the projected economic growth could therefore also have an impact on business trends in the insurance industry.

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

As in prior years, other action priorities include the increasing differentiation between customer groups and 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 unisex rates or the pluralization of sales structures) are far-reaching.

One transformation that is clearly becoming increasingly important is the digital revolution. The digitalization of the financial sector is increasing the pressure for change in the rather conservative insurance industry. There is a need to open up additional sales, service, and communication channels for consumers. Other technologies such as telematics are beginning – at least in selected European markets – to have an impact on the realignment of product and pricing policy. ‘Either-or’ concepts are not sufficient in this context, as there are no online-only customers. Whether consumers decide to opt for a digital offering or not depends on the product, the target group, and sentiment. Ultimately, the goal is to offer consumers easy, barrier-free access to insurance benefits. The approaches adopted so far have mostly been reaction-driven. However, an overarching approach is crucial to being able to address the fundamental changes in customer behavior in the digi-

tal age. Online business models will therefore soon no longer be aimed at particularly price-sensitive customers but will become an integral component – configured for maximum ease of use – in the range of services provided by each and every insurance company.

For property insurers, the main source of risk is the much-discussed climate change that has taken place in past years and decades. Events in early summer 2016 once again showed that natural disasters are an increasingly important issue. Storms and heavy rain caused severe destruction in the southern German towns of Braunsbach and Simbach am Inn. However, politicians had decided against mandatory insurance for natural disasters in summer 2015. Instead, the measures to be taken include national and state-level natural disasters insurance campaigns and the establishment of a country-wide natural disasters portal. The federal state of Thuringia launched such a campaign in June 2015, and the planning for running the same campaign in North Rhine-Westphalia began in 2016. Another campaign is to be launched in Lower Saxony. The German National Meteorological Service (DWD) and the GDV have also initiated a project focusing on heavy rain, which is exploring as yet uncharted scientific territory. For the first time, they are investigating where exactly heavy rain occurs and what damage it causes. In the first project of this kind, the DWD and GDV are researching the risk of flooding caused by heavy rain with the aim of creating a countrywide risk map that indicates the local risk and critical level of precipitation for each region in Germany. This map can then be used as a basis for calculating risk-appropriate levels of insurance cover for flooding resulting from heavy rain. The project has been set up with a timeline of three to four years and is being managed by an interdisciplinary team of meteorologists, hydrologists, mathematicians, and insurance professionals. The federal government also wants to cut greenhouse gas emissions in Germany to zero by 2050. The insurance industry has contributed its expertise to the development of a strategy, and the sector's experts are also working on new building regulations for Germany and Europe.

As before, sales activities in the German insurance industry are being made more difficult because the market is relatively saturated. Opportunities for further premium growth and for additional expansion of in-force business are largely limited to customers who are switching between insurers. This trend will continue going forward. Consequently, premium growth will most probably be rather modest in the insurance industry. The GDV forecasts growth of up to 1.0 percent for the German market in 2017. Assuming that there is no unforeseen deterioration in the macroeconomic environment, premiums in the casualty and property insurance segment are expected to be up by around 2.1 percent this year. In the case of legal insurance, the GDV predicts a rise in premiums of 4.5 percent in view of the opportunities to adjust premiums. As in prior years, there is a chance in general accident insurance that the impetus from growth will help to offset the persistent portfolio erosion. The overall result is that premium growth in this insurance segment is likely to be slight at 0.5 percent.

In these conditions, ARAG Allgemeine again sees good opportunities in 2017 to successfully continue the current measures aimed at consolidating existing business and increasing new business over the coming years. For the next three years, the Company has budgeted moderate premium growth on average, slightly below the level achieved in 2016. When compared against the forecast for 2016, ARAG Allgemeine was able to meet its premium target for the year and even exceeded it slightly. If motor insurance is disregarded, the gross premiums written also exceeded the original budget slightly. As planned, the motor insurance segment will continue to post declining premiums over the next few years because the Company has entered into a sales partnership with Helvetia in connection with this business and has ceased to write new motor insurance. ARAG Allgemeine's objective is to focus on strategic core segments in its private customers business. In the sports insurance business, the Company will continue its existing successful strategy of providing needs-based, customized insurance cover for organizations offering recreational and high-performance sports activities.

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

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

The Company is confident that it can maintain its profitability at a high level over the coming years and transfer a profit in the double-digit millions to its parent company on a long-term basis. This target remains valid and unchanged despite the fact that ARAG Allgemeine fell short of its 2016 profit forecast as a result of the lower discount rate for the calculation of the benefit reserve for annuities and necessary additions to the equalization provision. The Company expects that the amount of profit after the equalization provision that will be transferred in 2017 will once again be a surplus well above the 2016 level. Financial stability indicators such as a ratio of equity plus technical provisions to total assets of more than 80 percent for the coming year are a key measure of security and stability, and emphasize the sound capital adequacy of the Company. Taking into account the opportunities and risks currently discernible, ARAG Allgemeine forecasts that business performance will be steady in 2017.

Risk report

Risk management system

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The 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>
2016	57.9	51.9	4.9
2015	58.3	49.0	7.1
2014	59.9	60.2	-0.2
2013	61.2	41.0	14.3
2012	62.2	40.0	14.4
2011	61.5	40.4	12.9
2010	66.1	46.9	11.7
2009	62.1	47.8	8.9
2008	70.1	47.2	15.0
2007	68.9	57.8	7.8

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

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

Counterparty default risk is measured with the standard formula. The risk is an aggregation of the solvency capital requirement for receivables from reinsurers and the solvency capital requirement for receivables from policyholders/insurance brokers. This aggregation takes account of specified correlations.

The risk of default on receivables from reinsurers is modeled on the basis of the information available and proportionality considerations. The reinsurers' individual credit ratings are explicitly used. Receivables of €0.4 million (December 31, 2015: €1.4 million) arose from reinsurance business. All third-party reinsurers to whom ARAG Allgemeine Versicherungs-AG has ceded insurance business have an internally specified minimum rating.

Default risk in connection with reinsurance contracts 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 €2.5 million (December 31, 2015: €1.8 million). The average default rate over the last three years as of December 31, 2016 was 0.8 percent (December 31, 2015: 0.8 percent). Receivables from policyholders are managed by means of an automated reminder and dunning process.

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

- Interest-rate risk: changes in the term structure or volatility of interest rates. An assumed increase or decrease of 1 percent in the general level of interest rates would decrease or increase the fair value of ARAG Allgemeine's fixed-income securities by €15.1 million.
- Equity risk: changes in the level or volatility of the market prices of equities. A hypothetical fall in equities markets of 20 percent would cause a loss in fair value of €11.8 million.
- Property risk: changes in the level or volatility of the market prices of real estate.
- Spread risk: changes in the level or volatility of credit spreads over the risk-free interest-rate term structure.

- Migration/default risk: rating level changes or changes in the extent of projected defaults. The breakdown of interest-bearing investments by rating is as follows:

Fixed-income securities by rating class

(Proportion (%) by fair value)

AAA	23.2
AA	18.3
A	22.3
BBB	30.6
BB	3.7
B	1.9
CCC	0.0
CC	0.0
C	0.0
D	0.0
Not rated	0.0

The breakdown of fixed-income securities is as follows (fair values): Of the fixed-income securities – including securities held indirectly through institutional funds – approximately 31.8 percent are accounted for by financial services entities, 31.6 percent by public-sector bonds, and 36.6 percent by bonds of non-financial services entities.

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

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

The strategic asset allocation is defined in order to manage the risks. This allocation is used to optimize the investment portfolio so that the desired risk/return ratio can be achieved. Portfolio management is based on the prudent person principle and follows the related regulatory requirements. Interest-rate risk is contained separately by means of asset-liability management. In addition, derivatives are used within institutional funds to

hedge changes in interest rates, share prices, and exchange rates. Investments in hedge funds, the funding of investments by borrowing, and the sale of shares not owned by ARAG Allgemeine (short selling) are not permitted.

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

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

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

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

Operational risk Operational risk is the risk arising from inadequate or failed internal processes or systems, employee misconduct, or unexpected external events that disrupt or even prevent business operations. 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 are agreed upon and carried out in order to manage the identified risks at operational level.

Risks to the Company's survival as a going concern There are no internal or external risks that could have a permanent adverse impact on the net assets, financial position, or results of operations of the Company. The overall risk position does not currently point to any trends in 2017 that could jeopardize the continued existence of the Company as a going concern or cause a significant negative impact on net assets, financial position, or results of operations.

Risk position New regulatory requirements for the quantification of the risk position have been in force since January 1, 2016. The regulatory minimum capital requirement pursuant to section 122 of the German Insurance Supervision Act (VAG) is met in full. Moreover, the eligible own funds are significantly higher than the solvency capital requirements calculated in accordance with section 97 VAG. Further details of the coverage situation can be found in the solvency and financial condition report.

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Balance Sheet as of December 31, 2016

Assets

(€)

A. Intangible assets

B. Investments

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

C. Receivables

- I. Receivables from direct insurance business
 1. from policyholders
 2. from insurance brokers
of which from affiliated companies: € 0.00 (Dec. 31, 2015: € 0.00)
- II. Receivables from reinsurance business
of which from affiliated companies: € 185,224.45 (Dec. 31, 2015: € 0.00)
- III. Miscellaneous receivables
of which from affiliated companies: € 7,920,133.69 (Dec. 31, 2015: € 8,583,824.39)

D. Miscellaneous assets

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

E. Prepaid expenses and accrued income

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

F. Deferred tax assets

G. Excess of plan assets over pension liabilities

Total assets

As of December 31, 2016, the actuarial reserve amounted to €35,948,497.00 for annuities from general accident insurance, €1,403,744.00 for annuities from general liability insurance, and €5,514,048.00 for annuities from motor liability insurance.

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

				Dec. 31, 2016	Dec. 31, 2015
				0.00	0.00
				22,696,439.62	22,696,439.62
				11,627,801.57	9,777,801.57
				0.00	0.00
				0.00	0.00
				0.00	0.00
				11,627,801.57	9,777,801.57
				219,052,916.37	211,233,862.97
				14,088,726.00	9,428,180.00
				0.00	0.00
				25,000,000.00	22,500,000.00
				31,970,412.57	31,970,412.57
				0.00	0.00
				0.00	1,000,000.00
				56,970,412.57	55,470,412.57
				87,654.42	10,000,000.00
				2,156,369.15	2,143,995.80
				292,356,078.51	288,276,451.34
				95,055.50	100,567.62
				326,775,375.20	320,851,260.15
				7,655,026.24	3,897,696.66
				2,710,199.61	2,883,620.48
				10,365,225.85	6,781,317.14
				387,435.52	1,412,801.31
				7,975,388.40	8,821,473.97
				18,728,049.77	17,015,592.42
				0.00	0.00
				3,271,697.91	2,982,138.63
				210,900.71	420,769.83
				3,482,598.62	3,402,908.46
				827,360.68	1,102,326.61
				11,309.76	15,079.68
				838,670.44	1,117,406.29
				0.00	0.00
				0.00	0.00
				349,824,694.03	342,387,167.32

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

Düsseldorf, January 2, 2017

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

Balance Sheet as of December 31, 2016

Equity and liabilities

(€)

A. Equity

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

B. Technical provisions

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

C. Other provisions

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

D. Deposits received from reinsurers

E. Other liabilities

- I. Liabilities from direct insurance business
 - 1. to policyholders
 - 2. to insurance brokers
of which to affiliated companies: € 724.87 (Dec. 31, 2015: € 198.70)
- II. Liabilities from reinsurance business
of which to affiliated companies: € 0.00 (Dec. 31, 2015: € 717,262.79)
- III. Miscellaneous liabilities
of which to affiliated companies: € 13,567,203.01 (Dec. 31, 2015: € 17,752,693.08)
of which tax liabilities: € 1,665,180.34 (Dec. 31, 2015: € 2,837,540.40)
of which social security liabilities: € 0.00 (Dec. 31, 2015: € 0.00)

F. Deferred income and accrued expenses

G. Deferred tax liabilities

Total equity and liabilities

			Dec. 31, 2016	Dec. 31, 2015
		44,000,000.00		44,000,000.00
		10,490,518.89		10,490,518.89
	743,744.95			743,744.95
	88,641.88			88,641.88
		832,386.83		832,386.83
		0.00		0.00
			55,322,905.72	55,322,905.72
	25,453,883.71			23,781,306.50
	188,762.14			173,565.22
		25,265,121.57		23,607,741.28
	4,009.00			4,385.00
	0.00			0.00
		4,009.00		4,385.00
	194,433,488.82			190,659,906.51
	27,462,950.90			29,919,100.93
		166,970,537.92		160,740,805.58
	0.00			0.00
	0.00			0.00
		0.00		0.00
		46,258,258.00		41,234,576.00
	1,666,243.30			1,835,415.14
	0.00			0.00
		1,666,243.30		1,835,415.14
			240,164,169.79	227,422,923.00
		28,599,347.00		29,005,132.00
		32,413.09		19,549.39
		2,900,803.17		2,845,138.23
			31,532,563.26	31,869,819.62
			342,691.48	640,325.18
	4,278,574.43			3,160,444.30
	1,762,430.55			1,918,584.78
		6,041,004.98		5,079,029.08
		756,539.16		1,243,194.36
		15,664,819.64		20,808,970.36
			22,462,363.78	27,131,193.80
			0.00	0.00
			0.00	0.00
			349,824,694.03	342,387,167.32

Income Statement for the Period from January 1 to December 31, 2016

Direct insurance and inward reinsurance business

(€)

I. Underwriting account

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

			2016	2015
	175,869,632.13			168,475,563.02
	-5,991,831.49			-5,051,948.05
		169,877,800.64		163,423,614.97
	-1,681,494.88			-730,470.47
	15,196.92			72,433.67
		-1,666,297.96		-658,036.80
			168,211,502.68	162,765,578.17
			595,350.00	565,251.00
			371,161.01	467,181.14
	86,514,069.29			90,953,889.48
	-1,497,174.78			-3,042,206.52
		85,016,894.51		87,911,682.96
				0.00
	3,724,180.52			-7,078,505.38
	2,456,150.03			317,239.50
		6,180,330.55		-6,761,265.88
			91,197,225.06	81,150,417.08
			169,547.84	-232,724.16
			0.00	0.00
		65,275,074.32		64,619,647.02
		-599,982.15		-355,226.59
			64,675,092.17	64,264,420.43
			1,130,024.76	1,036,127.91
			12,345,219.54	17,114,320.73
			-5,023,682.00	-2,458,179.00
			7,321,537.54	14,656,141.73
			7,321,537.54	14,656,141.73

Income Statement for the Period from January 1 to December 31, 2016

Direct insurance and inward reinsurance business

(€)

Brought forward:

II. Non-underwriting account

1. Income from investments

a) Income from equity investments

of which from affiliated companies: € 61,326.48 (2015: € 24,825.14)

b) Income from other investments

of which from affiliated companies: € 933,120.20 (2015: € 764,383.64)

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

bb) Income from other investments

c) Income from reversals of write-downs

d) Gains on the disposal of investments

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

2. Expenses for investments

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

b) Depreciation, amortization and write-downs of investments

c) Losses on the disposal of investments

d) Expenses from the transfer of losses

3. Technical interest income

4. Other income

5. Other expenses

6. Profit/loss from ordinary activities

7. Extraordinary income

8. Extraordinary expenses

9. Net extraordinary income/expense

10. Income taxes

11. Miscellaneous taxes

12. Income from the transfer of losses

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

14. Net income for the year

15. Profit/loss brought forward from 2015

16. Transfer from the capital reserve

17. Transfer from revenue reserves

18. Transfer from profit-sharing rights

19. Appropriation to revenue reserves

20. Replenishment of profit-sharing rights

21. Net retained profit

Notes to the Financial Statements

I. Disclosures on Accounting Policies

Financial reporting standards

ARAG Allgemeine Versicherungs-AG, Düsseldorf, (entered in the commercial register under the number HRB 10418) has prepared these financial statements for 2016 in accordance with the requirements of the German Commercial Code (HGB), including but not limited to sections 341 et seq., and the German Regulation on the Accounting of Insurance Undertakings (RechVersV) dated November 8, 1994.

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

Accounting policies

The accounting principles and measurement requirements in sections 341 et seq. HGB were applied. The additional accounting standards of the German Accounting Standards Committee (DRSC) that, according to section 342 (2) HGB, are considered to be 'generally accepted accounting principles' for consolidated financial statements have largely been applied where their application is recommended for separate financial statements.

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

Investments in affiliated companies and equity investments are valued at cost. In 2016, there was no requirement for the recognition of impairment losses for write-downs pursuant to section 253 (3) sentence 5 HGB that are expected to be permanent nor for the recognition of reversals of write-downs pursuant to section 253 (5) HGB.

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

Shareholdings of at least 20 percent as of December 31, 2016

Name and registered office of company	Shareholding	Equity	Net income for the year
	(%)	(€)	(€)
Shares in affiliated companies			
Interlloyd Versicherungs-AG, Düsseldorf ¹⁾	100	7,392,771.59	- 114,597.88
ALIN 2 Verwaltungs-GmbH, Düsseldorf	100	22,299.82	1,785.18
ALIN 2 GmbH & Co. KG, Düsseldorf	100	2,451,552.33	- 16,854.39
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50	6,076,554.58	122,747.10
ARAG Service Center GmbH, Düsseldorf	20	347,206.00	- 12,312.13

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

Equities, investment fund shares/units, other variable-yield securities, bearer bonds and other fixed-income securities that have not been classified as permanent fixed assets are measured at the lower of cost or quoted market price/market value as of the reporting date in accordance with section 341 b (2) HGB in conjunction with section 253 (1) and (4) HGB. In application of the strict principle of lower of cost or market value, write-downs of €199 thousand (2015: €0.00) were recognized on securities in this line item. ARAG Allgemeine may make 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. Subsequent valuation of the bearer bonds classified as fixed assets is at cost, taking account of the individual debtor's creditworthiness. In 2016, no write-downs were required on these investments (2015: €1.768 million). Reversals of write-downs pursuant to section 253 (5) HGB were recognized in an amount of €1.603 million in 2016, whereas no such reversals had occurred in 2015.

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

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

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

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

Current bank balances are recognized at their nominal amount.

Other assets are recognized at their nominal amount. Where the other assets constitute rights to payment in connection with corporation tax credits within the meaning of the German 'law on accompanying tax measures for the introduction of the European company and the amendment of further tax legislation' (SEStEG), which came into force in 2006, these receivables were discounted to December 31, 2016 at a discount rate of 4.5 percent.

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

The **subscribed capital** has been fully paid up by the shareholders. The **capital reserves** include amounts that shareholders have contributed to the equity of the Company without being granted preferences in accordance with section 272 (2) no. 4 HGB.

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

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

The **provision for outstanding claims** is generally determined individually and measured according to specific requirements. In the ski breakage and theft insurance segment, the claims reserves are recognized according to the average value of claims (number of claims multiplied by the average value of claims plus a surcharge for inflation). The benefit reserve for annuities contained in the provision for outstanding claims is calculated individually using actuarial principles and in accordance with the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) – based on the prevailing maximum interest rate of 1.25 percent – by the Company's responsible actuary, taking the expenses required for settlement into account. General provisions are recognized for claims incurred but not reported and reopened claims on the basis of empirical values. Owing to the positive settlement trend, particularly in the general accident insurance segment, the Company's settlements in direct business amount to nearly 5 percent in relation to the corresponding initial reserve.

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

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

Technical interest income was calculated at 1.75 percent of the arithmetic mean of the opening and closing balances of the actuarial reserves and the benefit reserves for annuities. The **equalization provision** was recognized in accordance with section 341h HGB in conjunction with section 29 RechVersV.

Miscellaneous technical provisions were recognized for the following risks:

The **cancellation provision** for discontinuation and reduction of risk in direct insurance business was calculated using a cancellation rate based on empirical values in the year under review. The breakdown by individual insurance segment is based on the allocation formula for premiums.

The **provision recognized for premium waivers** relates to the scales of rates offered by the Company under which the obligation to pay the premiums is waived for up to five years, e.g. in the event of unemployment. The provision offsets the expenses that are likely to be incurred (claims, costs, commissions) during the period of unemployment. The expected duration of the waiver of premiums is estimated on the basis of internal statistical analysis.

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

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

The **reinsurers' share** of technical provisions is determined in accordance with the prevailing quota-share, facultative, and excess-of-loss treaties.

In accordance with standard international practice, the **provisions for pensions and other post-employment benefits** are calculated using the projected unit credit (PUC) method and applying section 253 (1) sentence 2 HGB on the basis of the 2005G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. In accordance with section 253 (2) sentence 2 HGB, the discount rate used is the average interest rate for the past ten years published by Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. A discount rate of 4.01 percent was applied for the valuation as of December 31, 2016 (December 31, 2015: 3.89 percent). Reflecting the statutory discount rate in force at the time, the average interest rate for the past seven years had been used in 2015. The difference in the amount prohibited from being distributed, which arises from the application of the percentage rate for the ten-year average rather than the percentage rate for the seven-year average pursuant to section 253 (6) HGB, amounted to €2,987,565.00 at the end of 2016.

The following actuarial parameters were used to calculate the obligations: pension age of 63 years, annual increase in salaries of 2.5 percent, annual increase in pension benefits of 1.75 percent, discount rate of 4.01 percent.

The level of staff turnover taken into account reflects the generally observable age-dependent average for the industry and has only a minor impact on the settlement value. In accordance with section 246 (2) sentence 2 HGB, assets from reinsurance are offset against the defined benefit obligation. The settlement value of the offset liabilities corresponds to the asset value of the reinsurance taken out as matched cover and amounts to €251,550.00. In accordance with section 246 (2) sentence 2 HGB in conjunction with section 253 (1) sentence 4 HGB, the reinsurance is measured at fair value (asset value). In 2016, an expense of €9,670.00 arising on the increase in the liability was recognized in the income statement.

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

Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles. In 2016, a **provision was recognized in accordance with the pre-retirement part-time employment agreement** for the private insurance industry dated June 11, 1997 and the pronouncement of the Institute of Public Auditors in Germany (IDW) dated November 18, 1998. The provision was calculated pursuant to section 253 (2) no. 2 HGB and a residual maturity of 15 years was assumed. The corresponding seven-year average was 3.24 percent. In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements was taken into account. A bank guarantee was provided as collateral for the provisions pursuant to section 8a of the German Pre-retirement Part-time Employment Act (AltTZG). The investment fund shares/units previously pledged in favor of those eligible for pre-retirement part-time employment were released.

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

No interest income (2015: €0.00) and interest expenses of €270.20 (2015: €5,111.81) arose on the discounting of non-current provisions with a maturity of more than one year.

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

Other liabilities are recognized at their settlement value.

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

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

Currency translation

Assets and liabilities denominated in foreign currencies are translated at the middle spot rate on the balance sheet date pursuant to section 256a HGB. Income and expenses recognized in the income statement that are denominated in foreign currencies are translated at the average middle spot rate. Currency conversions generated income of €9,086.23 in 2016 (2015: €0.00).

Fair value disclosures pursuant to section 54 RechVersV

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

An externally produced valuation report dated August 15, 2016 is available for calculating fair value. This satisfies the requirements of section 55 (3) and (7) RechVersV. Land and land rights with a carrying amount of €22.696 million are used for the Company's own business operations and for the business operations of other Group companies.

Fair values of investments in affiliated companies and equity investments

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

Fair values of miscellaneous investments

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

The fair values are shown by asset class in the table on pages 62 and 63, which presents the changes in investments.

II. Insurance Disclosures

Direct insurance and inward reinsurance business

(€'000)	Total insurance business		Direct insurance business (total)		Accident insurance		Liability insurance		Motor liability insurance	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Gross premiums written	175,870	168,476	146,456	140,313	48,008	47,928	41,406	39,954	2,369	2,612
Gross premiums earned	174,188	167,745	145,010	139,822	48,042	47,815	40,834	40,248	2,369	2,612
Net premiums earned	168,212	162,766	139,048	134,860	46,705	46,753	38,781	38,397	2,140	2,382
Gross expenses for claims	90,238	83,875	75,263	68,505	24,629	17,420	15,870	15,491	1,695	1,046
Gross insurance business operating expenses	65,275	64,620	53,359	53,008	15,515	15,684	16,106	15,996	289	435
of which front-end fees	15,101	14,539	13,086	12,730	0	0	0	0	0	0
of which administrative expenses	50,174	50,081	40,273	40,278	0	0	0	0	0	0
Reinsurance balance	6,325	1,891	6,311	1,873	840	-906	4,284	3,400	-146	-936
Underwriting result for own account before equalization provision	12,345	17,114	10,630	16,740	7,799	16,248	4,695	5,406	544	2,081
Underwriting result for own account after equalization provision	7,322	14,656	7,966	15,601	7,799	16,248	3,270	2,354	1,097	3,483
Gross technical provision (total)	267,816	257,516	226,352	219,818	89,884	86,618	75,652	76,238	19,601	20,344
of which gross provision for outstanding claims	194,433	190,660	177,983	175,392	84,380	81,003	56,844	59,376	15,954	16,127
of which cancellation provision	1,655	1,815	1,320	1,470	386	447	308	345	21	27
of which equalization provision and similar provisions	46,258	41,235	28,185	25,522	0	0	13,135	11,709	3,626	4,179
Number of insurance policies with a term of at least one year	863,300	859,310	863,300	859,310	167,238*	168,380*	306,785*	292,862*	8,339	10,726
Technical interest income for own account relating to benefit reserves for annuities (1.75 percent)	595	565	595	565	590	564	5	0	1	1

* These insurance segments contain 18 group contracts (2015: 18) with 20,789,020 insured risks (2015: 20,721,002).

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

Direct insurance business	2016	2015
(No.)		
German	861,242	859,310
International	2,058	0
Total	863,300	859,310

Miscellaneous motor insurance		Fire and property insurance		of which composite home contents insurance		of which miscellaneous property insurance		Emergency assistance insurance		Miscellaneous insurance		Inward business (total)	
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
942	1,245	42,106	38,937	19,356	18,688	22,750	20,249	5,775	5,470	5,850	4,168	29,413	28,163
942	1,245	41,847	38,712	19,545	18,548	22,302	20,164	5,459	5,084	5,518	4,105	29,178	27,923
942	1,245	39,512	36,903	18,512	17,649	21,000	19,254	5,459	5,084	5,508	4,096	29,164	27,905
798	767	25,538	27,387	9,253	10,040	16,285	17,347	2,664	2,799	4,069	3,595	14,975	15,370
169	225	16,273	16,205	8,078	8,102	8,195	8,103	2,876	2,976	2,131	1,488	11,916	11,612
0	0	0	0	0	0	0	0	0	0	0	0	2,015	1,809
0	0	0	0	0	0	0	0	0	0	0	0	9,901	9,803
0	0	1,326	307	975	803	351	-496	0	0	8	7	14	18
-24	256	-1,641	-5,611	1,155	-528	-2,796	-5,083	-54	-650	-689	-991	1,715	374
103	189	-3,552	-5,107	697	387	-4,249	-5,494	-54	-650	-696	-917	-645	-945
783	807	33,311	30,037	10,363	10,398	22,948	19,639	2,709	2,212	4,411	3,561	41,464	37,698
193	86	17,599	16,484	4,234	4,504	13,364	11,980	708	521	2,306	1,795	16,449	15,268
9	13	502	538	231	258	271	280	69	76	26	25	335	345
581	708	10,693	8,782	4,951	4,492	5,742	4,290	0	0	150	143	18,073	15,713
5,357	7,156	250,715	253,160	177,824	175,443	72,891	77,717	92,066	99,889	32,800*	27,137*	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source of insurance business by premiums written

Direct insurance business	2016	2015
(€'000)		
German	174,575	168,476
International	1,295	0
Total	175,870	168,476

III. Non-Insurance Disclosures

Changes in asset items A., B. I. to IV. in 2016

(€'000)

	Carrying amount as of Dec. 31, 2015
A. Intangible assets	0
B. I. Land, land rights and buildings, including buildings on third-party land	22,696
B. II. Investments in affiliated companies and equity investments	
1. Shares in affiliated companies	9,778
2. Lending to affiliated companies	0
3. Equity investments	0
4. Lending to long-term investees and investors	0
5. Total for B. II.	9,778
B. III. Miscellaneous investments	
1. Equities, investment fund shares/units, and other variable-yield securities	211,234
2. Bearer bonds and other fixed-income securities	9,428
3. Loans secured by mortgages or land charges and fixed-income receivables	0
4. Miscellaneous lending	
a) Registered bonds	22,500
b) Promissory notes and loans	31,970
c) Loans and prepayments for certificates of insurance	0
d) Sundry lending	1,000
5. Bank deposits	10,000
6. Other investments	2,144
7. Total for B. III.	288,276
B. IV. Deposits with ceding insurers	101
Total	320,851

Additions	Disposals	Reversals of write-downs	Write-downs	Carrying amount as of Dec. 31, 2016	Fair value pursuant to sec. 54 RechVersV
0	0	0	0	0	0
0	0	0	0	22,696	38,979
1,850	0	0	0	11,628	12,433
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
1,850	0	0	0	11,628	12,433
8,650	2,434	1,603	0	219,053	244,123
5,065	205	0	199	14,089	15,199
0	0	0	0	0	0
10,000	7,500	0	0	25,000	25,045
5,000	5,000	0	0	31,970	33,486
0	0	0	0	0	0
0	1,000	0	0	0	0
88	10,000	0	0	88	88
153	141	0	0	2,156	3,049
28,955	26,279	1,603	199	292,356	320,990
110	115	0	0	95	95
30,915	26,395	1,603	199	326,775	372,497

Investment fund disclosures

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

Institutional funds

(€)	Carrying amount	Fair value	Dividend
	as of Dec. 31, 2016	as of Dec. 31, 2016	for 2016
Alltri Fonds Inka mixed fund	123,007,017.54	139,346,482.08	3,403,141.28
Alltrirent Fonds Inka fixed-income fund	67,136,696.63	75,525,713.66	1,480,493.04
EMA Fonds Inka equity fund	6,878,149.99	6,878,149.99	266,532.00

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

ARAG Allgemeine made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341 b (2) second half-sentence HGB for those institutional funds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of December 31, 2016, shares/units in one mixed institutional fund, two equity funds, and two fixed-income funds with a carrying amount of €219,052,916.37 (December 31, 2015: €211,233,862.97) had been classified as fixed assets. The fair value of these investment fund shares/units classified as permanent fixed assets amounted to €244,123,307.21 as of the balance sheet date (December 31, 2015: €239,327,134.43). No write-downs in respect of these securities were recognized in the reporting year (2015: €1,768,235.19). No write-downs were avoided by classifying these securities as fixed assets (2015: write-downs of €345,894.29 avoided). In 2016, reversals of write-downs pursuant to section 253 (5) HGB on these investments were recognized in an amount of €1,603,248.04 (2015: €0.00).

ARAG Allgemeine also made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341 b (2) second half-sentence HGB for the bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. As of the end of 2016, a total of 18 securities with a carrying amount of €9,018,070.00 were classified as fixed assets (December 31, 2015: €9,222,650.00). The fair value of these bearer bonds amounted to €10,128,776.00 as of the balance sheet date (December 31, 2015: €10,603,900.00). No write-downs due to expected permanent impairment were recognized in respect of these securities (2015: €0.00). By classifying them as fixed assets, write-downs of €3,340.00 were avoided (2015: €6,858.00). There were no reversals of write-downs pursuant to section 253 (5) HGB in respect of these securities in 2016, as had also been the case in 2015.

Other assets

A receivable from the tax authorities of €210,900.71 is recognized under this item (December 31, 2015: €420,769.83). In 2016, this receivable constituted rights to payment arising on corporation tax credits within the meaning of the German 'law on accompanying tax measures for the introduction of the European company and the amendment of further tax legislation' (SEStEG), which came into force on December 12, 2006.

Equity

(€)	Dec. 31, 2016	Dec. 31, 2015
Total equity	55,322,905.72	55,322,905.72
of which:		
I. Subscribed capital		
The share capital amounts to: It is divided into 2,200,000 fully paid-up no-par-value shares.	44,000,000.00	44,000,000.00
II. Capital reserve		
pursuant to section 272 (2) HGB	10,490,518.89	10,490,518.89
III. Revenue reserves		
1. Statutory reserves	743,744.95	743,744.95
2. Other revenue reserves	88,641.88	88,641.88
	832,386.83	832,386.83
IV. Net retained profit	0.00	0.00

Provisions for taxes

In 2016, provisions for taxes of €20,000.00 (December 31, 2015: €19,549.39) had to be recognized for tax assets for periods before the single entity for tax purposes was created, the reason for or amount of which was not yet known.

Miscellaneous provisions

This line item essentially consists of long-service provisions of €467,949.00 (December 31, 2015: €418,867.00), costs for the financial statements and auditing of €431,781.57 (December 31, 2015: €389,324.00), pre-retirement part-time employment provisions of €405,114.00 (December 31, 2015: €401,688.00), provisions for litigation costs of €234,766.00 (December 31, 2015: €234,766.00), bonuses of €209,074.99 (December 31, 2015: €318,422.20), vacation entitlement obligations of €176,574.00 (December 31, 2015: €169,242.00), early retirement benefits of €168,279.00 (December 31, 2015: €327,105.00), and provisions for reimbursement of the Supervisory Board's expenses of €149,537.50 (December 31, 2015: €149,537.50). There are also provisions for association fees and sundry contingent liabilities, the reason for and/or the amount of which is not yet known.

Net extraordinary income/expense

There was no extraordinary income or expense in either 2016 or 2015.

Tax expense

Following the conclusion of the profit-and-loss transfer agreement, ARAG Allgemeine and ARAG SE form a single entity for tax purposes. Consequently, income has been taxed at the level of the parent company since 2006. The results of the more realistic assessment (BMF circular dated May 5, 2000) and the discounting of the claims provisions (BMF circular dated August 16, 2000) are taken into account when determining the basis of assessment for income tax.

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

The tax expense recognized of €15,950.70 (2015: €22,540.24) relates to miscellaneous taxes.

IV. Report on Post-Balance Sheet Events

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

V. Other Disclosures

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

Investment agreements with a total volume of €8,086,069.06 have been concluded through the affiliated company ALIN 2 GmbH & Co. KG with various private equity funds. Calls from the funds result in cash being paid into ALIN 2 GmbH & Co. KG immediately before payment is due in order to provide the required liquidity. Calls at short notice of €6,277,534.66 are expected on the basis of open-ended investment agreements.

Amounts not allowed to be distributed as dividends

Amounts not allowed to be distributed as dividends may result from the measurement of assets at fair value pursuant to section 253 (1) sentence 4 HGB. The difference in the amount prohibited from being distributed, which arises from the application of the percentage rate for the ten-year average rather than the percentage rate for the seven-year average when calculating provisions for pensions and other post-employment benefits pursuant to section 253 (6) HGB, amounted to €2,987,565.00 at the end of 2016 (December 31, 2015: €0.00).

Auditor's fees

The Company's Supervisory Board agreed fees of €174,103.00 (2015: €167,790.00) with the auditors for the audit of the 2016 financial statements. As there was no entitlement to offset input VAT, the additional VAT incurred was included in the recognized expense. Fees of €4,817.12 were incurred for additional consultancy/advisory services, tax consultancy services, and other services.

Commissions and other remuneration for insurance agents, staff costs

(€)	2016	2015
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	32,152,692.18	30,868,210.34
2. Other remuneration for insurance agents within the meaning of section 92 HGB	0.00	0.00
3. Wages and salaries	10,153,598.48	10,096,379.56
4. Social security and other employee benefit expenses	1,682,410.51	1,653,113.63
5. Pension and other post-employment benefit expenses	373,039.89	2,884,224.14
Total expenses	44,361,741.06	45,501,927.67

Employees

The average number of employees in 2016 was 167 (2015: 168), of whom 87 worked in domestic claims, 59 in sports insurance, and 21 in other departments.

Supervisory Board and Management Board remuneration

In the year under review, the Company's Supervisory Board received remuneration pursuant to section 285 no. 9a HGB of €149,537.50. Pursuant to section 286 (4) HGB, it is not required to state the remuneration of the Management Board. Remuneration for former members of the Management Board and their surviving dependants amounted to €922,344.26. A provision of €14,742,494.00 was recognized for current pensions and vested pension entitlements of former members of the Management Board and their surviving dependants. The members of the Supervisory Board and Management Board are listed on page 72 of this report.

Group affiliation

ARAG Allgemeine Versicherungs-AG, Düsseldorf, is wholly owned by ARAG SE, Düsseldorf. ARAG SE and all of its Group companies are included in the consolidated financial statements of ARAG Holding SE, Düsseldorf, for the year ended December 31, 2016. The consolidated financial statements of ARAG Holding SE are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection. ARAG Allgemeine does not prepare its own consolidated financial statements and group management report, as the consolidated financial statements and group management report of ARAG Holding SE have an exempting effect pursuant to section 291 HGB.

Düsseldorf, February 22, 2017

ARAG Allgemeine Versicherungs-Aktiengesellschaft

The Management Board

Wolfgang Mathmann

Christian Vogée

Auditor's Report*

We have audited the financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system and the management report of ARAG Allgemeine Versicherungs-Aktiengesellschaft, Düsseldorf, for the financial year from January 1, 2016 to December 31, 2016. The maintenance of the books and records and the preparation of the financial statements and management report in accordance with German commercial law and the supplementary provisions of the Company's articles of incorporation are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the financial statements in accordance with section 317 of the German Commercial Code (HGB) and German generally accepted auditing standards promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the financial statements in accordance with German accepted accounting principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the financial statements, and management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position, and results of operations of the Company in accordance with German accepted accounting principles. The management report is consistent with the annual financial statements, complies with the legal requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 6, 2017

PricewaterhouseCoopers
Gesellschaft mit beschränkter Haftung
Wirtschaftsprüfungsgesellschaft

Ludger Koslowski
Wirtschaftsprüfer (German Public Auditor)

Sven Capousek
Wirtschaftsprüfer (German Public Auditor)

* 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.

Report of the Supervisory Board

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

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

During the reporting period, the Supervisory Board kept up to date on the situation in the capital markets and its impact on the Company. The other major items on the agenda at the different meetings included discussions about the Company's current financial results and the latest forecasts, deliberation on audit reports, regular risk reports, and discussions about the strategic planning for ARAG Allgemeine for the three-year period from 2017 to 2019 as well as the adoption of the strategic plan for 2017. In addition, the Supervisory Board examined measures relating to the implementation of the 'fit and proper' guidance, the reinsurance structure of the Company, new reports pursuant to Solvency II provisions, and the implications of the EU's reform of audit legislation for the Company and the Supervisory Board. The Supervisory Board also discussed the appropriateness of the Management Board's remuneration, the remuneration system used by the Company for its employees, and the continuing internationalization of the business, and adopted corresponding resolutions. In addition, the Supervisory Board proposed a successor for a resigning Supervisory Board member and the re-election of an established Supervisory Board member at the Annual General Meeting (AGM). The AGM supported both proposals.

By means of a written procedure, the Supervisory Board adopted a resolution to amend the Management Board's rules of procedure with regard to investment volumes requiring approval.

The Supervisory Board has formed two committees – the Finance Committee and the Human Resources Committee. The Finance Committee held one extraordinary meeting in 2016. At this meeting, the Finance Committee obtained information on the performance and risks of the Company's investments and the underlying strategy for 2017 and adopted corre-

sponding resolutions. It also approved an investment decision of the Management Board. The Finance Committee used a total of six written procedures to adopt resolutions for a private equity investment and for a mandate adjustment to this effect. Within the scope of its responsibilities, the Finance Committee also approved an agreement for payments by installment, services of the appointed auditor that are subject to review, and an HR decision.

The Human Resources Committee held three meetings in 2016, at which it discussed the implementation of the 'fit and proper' guidance, the Management Board's remuneration, and the Company's remuneration structures in preparation for resolutions to be adopted by the full Supervisory Board. In addition, the Human Resources Committee deliberated on necessary adjustments to the remuneration system, especially in the light of new statutory requirements, and on the target agreements. In a supplementary written procedure, the Human Resources Committee approved the amendment of the Company's internal 'fit and proper' guidance. Detailed reports on the committees' meetings and work were delivered at the Supervisory Board meetings. Additional areas of focus for the auditors were agreed upon with the chairman of the Supervisory Board.

The financial statements, which were prepared by the Management Board in accordance with the commercial-law accounting regulations for insurance companies (RechVersV), and the management report for 2016 were, together with the bookkeeping system, audited by PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, which had been selected and engaged by the Supervisory Board on April 13, 2016, to carry out the audit and which issued an unqualified opinion.

The members of the Supervisory Board received the aforementioned documents, annual report, and auditor's report in good time before the Supervisory Board meeting that was held to adopt the financial statements. At the meeting, the Management Board also provided additional oral explanations of the documents. The auditors who had signed the auditor's report participated in the Supervisory Board's discussion of the documents, reported on the key findings of the audit, and were available to provide additional information.

The Supervisory Board reviewed the financial statements and management report. There were no objections to be raised on the basis of the concluding findings of its review. Having carried out its own review, the Supervisory Board agreed with the findings of the audit of the financial statements and management report by the auditors. The Supervisory Board approved the financial statements and management report and thereby adopted them. The Supervisory Board proposes to the AGM that it formally approve the acts of the Management Board and of the Supervisory Board's current members and those former members who left the Supervisory Board in 2016.

The Supervisory Board would like to express its thanks and appreciation for the work of the Management Board and all employees in 2016.

Düsseldorf, March 24, 2017

The chairman of the Supervisory Board

Dr. Dr. h. c. Paul-Otto Faßbender

Governing Bodies of the Company

Supervisory Board	Dr. Dr. h. c. Paul-Otto Faßbender	Chief Executive Officer of ARAG SE, Düsseldorf, chairman
	Dr. Karl-Heinz Strohe	Attorney, Cologne, deputy chairman (until April 13, 2016)
	Hanno Petersen	Member of the Management Board of ARAG SE, Ratingen, deputy chairman
	Dr. Matthias Maslaton	Member of the Management Board of ARAG SE, Moers (since April 13, 2016)
	Dr. Joerg Schwarze	Member of the Management Board of ARAG SE, Düsseldorf
	Elected by the employees:	
	Johannes Berg	Insurance professional, Dormagen
	Wolfgang Platen	Insurance professional, Mönchengladbach
Management Board	Wolfgang Mathmann	Krefeld
	Christian Vogée	Düsseldorf

Information

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

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

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You can find the latest **information about the Group and our products** on our website:

www.ARAG.com

Credits

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