

Flexible, connected, agile



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The advance of digitalization in the insurance sector is unstoppable. That is why we are specifically preparing ARAG, which is an agile company, and its products and services for these changes. We have already laid the foundations in the form of numerous suitable digital solutions. Now we need to focus directly on our customers' constantly changing requirements while maintaining our flexibility. We are helped in this regard by our position as an independent family enterprise with many of the characteristics of a medium-sized enterprise with an international presence. Short decision-making channels and close integration enable us to act with strong customer focus and thereby reaffirm our role as a multifaceted and innovative provider of high-quality insurance products.

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Overview

ARAG Allgemeine Versicherungs-AG Key Figures

(€'000)	2015	Change	2014	2013
Sales revenue				
Gross premiums written	168,476	2.18%	164,884	158,757
Premiums earned for own account	162,766	3.07%	157,912	155,352
Expenses				
Claims incurred net of reinsurance	81,150	-10.36%	90,534	67,522
Claims ratio (basis: premiums earned)	49.86%	-7.47% pts.	57.33%	43.46%
Own account insurance business operating expenses	64,264	3.72%	61,959	64,089
Cost ratio (basis: premiums earned)	39.48%	0.24% pts.	39.24%	41.25%
Net income overview				
Underwriting result before equalization provision, gross	19,006	364.09%	4,095	26,013
Underwriting result before equalization provision, for own account	17,114	207.33%	5,569	23,441
Underwriting result after equalization provision, for own account	14,656	-7.21%	15,796	22,516
Gains and losses on investments	6,994	-44.12%	12,515	8,327
Other net income/expense	-6,612	-56.62%	-4,222	-5,151
Profit/loss from ordinary activities	15,037	-37.58%	24,089	25,692
Net income for the year (before profit transfer under profit-and-loss transfer agreement)	15,015	-37.15%	23,889	25,405
Key ratios				
Technical provisions/ premiums earned for own account	139.72%	-6.48% pts.	146.20%	151.59%
Equity/premiums earned for own account	33.99%	-1.04% pts.	35.03%	35.61%

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 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. The Company aims to generate growth across all insurance segments in Germany as well as exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 16 countries (Germany, 14 other European countries, and the US) through branches, subsidiaries, and equity investments. It generates sales revenue and premiums of approximately €1.7 billion and employs more than 3,800 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 ARAG units involved in this business are a valuable source of impetus for growth, helping to ensure the successful performance of the Group as a whole. In September 2015, the Group commenced operations in Denmark, a new market with very good prospects. At the same time, ARAG SE is also back on course to perform well 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 some 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. Back in 2006, ARAG Leben (ARAG Life) converted its range of products from traditional life insurance policies to the successful fund-linked 'ARAG FoRte 3D' family of products.

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 Aktiv' product (with legal, liability, home contents, and residential buildings insurance modules) and the 'Business Aktiv' product (which extends business legal insurance policies to include commercial general liability insurance and contents insurance with business interruption cover).

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 break-ages 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.

Insurance portfolio

At the end of the year under review, the portfolio of direct insurance contracts comprised 859,310 policies (December 31, 2014: 867,768 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.

Products and product development

The new private liability and home contents insurance policies, and the 'Existenz-Schutz' livelihood insurance policy (functional disability insurance), launched by ARAG Allgemeine in 2014 far exceeded sales forecasts. At the beginning of 2015, the new benefits under the liability and home contents insurance policies were also included in the new generation of rates for the successful 'Recht&Heim' all-round cover product offered throughout the Group. These rates also enable a motorists' special service package to be integrated into the comprehensively revised legal insurance for motorists. In addition to the tried and tested, highly efficient Top Special Service Package, ARAG Allgemeine is now also offering for the first time a low-cost vehicle-related special service package as well as a special service package for commercial vehicles. These three variants can also be bundled with legal insurance contracts offered by ARAG SE.

At the beginning of 2016, the 'Recht&Heim' all-round cover product was upgraded to include even more components and more extensive benefits. Notable changes include integration of the JuraCheck legal advice service and enhanced legal insurance for criminal proceedings. The legal insurance component of 'Recht&Heim' has also been revised with a particular focus on employment matters. In another radical improvement, the 2016 generation of rates for the first time enables 'Recht&Heim' policyholders to choose two different deductibles: one deductible level for legal insurance and a different one applicable to house contents, liability and residential buildings insurance.

A further comprehensive service product was developed in 2015 in the form of the 'ARAG Alltagshelfer' day-to-day assistance offering. This support is a completely new type of product that extends the benefits in the accident special service package – which has been successfully marketed since 2012 – to cover other situations. The assistance and care benefits already available under the accident special service package can now be obtained by the insured if needed following

- an outpatient operation,
- inpatient treatment in a hospital,
- the birth of a child, or
- the death of a family member.

In the premium 'ARAG Alltagshelfer Plus' option, the services are also available if the insured is unable to work for more than eight days. If a strike organized by trade unions leads to additional costs, these will be reimbursed up to a maximum of €50 per day and €250 per year. The 'ARAG Alltagshelfer' will be launched during the spring of 2016.

In 2015, ARAG Allgemeine also developed an unemployment cover option as an annex product for the new private customer legal insurance offered by ARAG SE. Policyholders can take up this new feature to protect themselves against financial loss in the event of unemployment and close the gap between statutory unemployment benefit and their net income for up to 21 months following compulsory redundancy.

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
- Other and non-itemized liability insurance

Marine insurance

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

Credit and guarantee insurance

Business interruption insurance

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

Assistance insurance

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

Aerospace liability insurance

- Aircraft liability insurance

Fire insurance

- Industrial fire insurance
- Agricultural fire insurance
- Other 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
- Contractors' all risks insurance

Other indemnity insurance

- Other 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)

Other 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 2015, ARAG Allgemeine founded the 'Stiftung Sicherheit im Sport', a charitable foundation focusing on safety in sports. ARAG's partner donors in this foundation are as follows: the 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.

This charitable foundation is the only institution in Germany dedicated exclusively to researching and preventing sports injuries and accidents, working across all social groups.

It is conceived as a partner for sport and intends to work in close collaboration with the sports community to help ensure that as many people as possible can remain active in sports throughout their lives. Starting points for better prevention of sports injuries include both practical sports-related approaches, such as special types of training and exercise, and technical and policy measures, such as rules and refereeing. Preventive activities also focus on sports facilities, protective equipment, and the treatment and care provided for sports participants by doctors and other specialists.

ARAG is involved in 'Stiftung Sicherheit im Sport' in a variety of ways. As a donor, ARAG is entitled to appoint a representative on the foundation's supervisory board. The current representative is Christian Vogée, a Member of the Board of ARAG Allgemeine, who was also elected chairman of the supervisory board of the foundation on June 1, 2015. In addition, David Schulz, Head of the Sports Injuries Assessment Unit (ASU) at ARAG Allgemeine, is one of the two members of the foundation's executive board.

ARAG Allgemeine's role as the driving force in the establishment of the foundation was very well received by its partners in sport, demonstrated among other things by the success in involving the German Olympic Sports Confederation, which is also represented on the supervisory board by its vice-president Walter Schneeloch. The extent to which the sporting community values ARAG's commitment and the resulting additional benefits for sport has been evident in many different ways.

It goes without saying that the successful well-established partnership between ARAG and the Chair of Sports Medicine and Sports Nutrition at Ruhr University Bochum is being continued and closely integrated with the activities of the foundation. For example, two scientists at Ruhr University, Dr. Thomas Henke and Dr. Gernot Jendrusch, are members of the foundation's scientific advisory council. Both were also on the team that laid the groundwork for the establishment of the foundation.

Numerous discussions and meetings were held both before and during the first few months after the establishment of the foundation, as a result of which it succeeded in recruiting further partners and creating an even stronger network for the organization. A range of smaller projects have already been carried out. Most of these projects have been concerned with implementing specific measures to prevent sports injuries in practice.

ARAG Allgemeine's objective is to promote the development of the foundation over the long term. The establishment of the foundation was therefore just the starting point and the prerequisite for helping to ensure that the issue of safety in sport gradually gains more prominence. There are currently more than two million sports injuries in Germany each year, but it is only when all sports participants realize that sports injuries are not simply 'bad luck' that we will have any chance of reducing this number.

Employees, employee skills and qualifications

At the end of 2015, ARAG Allgemeine had a total of 167 employees, of whom 126 were employed full-time and 41 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 platform has recently been completely revamped from both technical and content perspectives to provide even better access to the various services and enable all professional development needs and implemented activities to be recorded centrally. This includes classroom-based seminars and training sessions as well as e-learning. The content is wide-ranging and includes executive programs, courses on personal and social skills, project management training, coaching, and foreign languages.

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 is also playing a key role in this development. An international professional development program referred to as ARAG INTandem was launched in February 2015 with a view to systematically expanding this integration and embedding it in the Group. This strategy also impressed the judges of the InnoWard training award presented by BWV, the German insurance industry's vocational training organization. ARAG INTandem was awarded third prize.

The ARAG Sales Training unit 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.

The revision of the ARAG Essentials in 2014 included the development of a multifaceted communications concept for these new groupwide corporate guidelines. This strategy included the ARAG Essentials online tool at www.ARAG.com and meetings throughout the Group to communicate these guidelines. In these meetings covering self-image, corporate mission and values, the units came up with many suggestions for everyday use, some of which could be implemented immediately. 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 all the languages used in the Group. The mandatory ARAG Leadership Guidelines, which are derived from the ARAG Essentials, are currently set to be revised.

Since 2012, the ARAG AWARD has been presented in recognition of exemplary implementation of the ARAG Essentials. Prizes are awarded each year in three categories (Germany, International, and (German) Sales) to proactive employee team projects that stand out as models of successful implementation of the principles in day-to-day activities. The winning teams in 2015 received their awards in January 2016 at the ARAG Group Management Conference.

The ARAG Group is widely regarded as a demanding employer who 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. In the reporting year, numerous topics and action plans arising from the gender diversity project, which had been completed on schedule in 2014, were continued as part of the work/life

balance project. Initial action plans arising from the projects are already being implemented. Examples include action in connection with part-time management and the expansion of teleworking and working from home.

ARAG Allgemeine thanks its customers for the trust they have placed in the Company. Equally, thanks are due to the employees in sales administration and field sales for their high level of commitment and the demonstrable quality of their output, which were key factors in helping ARAG Allgemeine deliver its strong operating performance.

Targets for the proportion of women in management roles

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 Board of Management, on the Board of Management itself and on the Supervisory Board. As things stand, no changes are anticipated in the management functions, so the relevant governing bodies have continued to set a target proportion for June 30, 2017 of 0 percent in respect of the Supervisory Board, the Board of Management and the first and second management levels. However, the plan for the future is to give preferential consideration to female candidates when new appointments are to be made to managerial positions.

II. Report on Economic Position

Economic and sector conditions

The global economy expanded at only a modest rate during the course of 2015. This was primarily attributable to weaker growth in the emerging markets. The downturn in the Chinese economy, the contraction in global demand for commodities and significant supply-side problems adversely impacted growth in the newly industrialized economies. Brazil and Russia even suffered a recession.

In contrast, the industrialized nations experienced much more favorable economic trends. The US and the UK continued to enjoy an economic upturn. The eurozone economy also gained some momentum. This was partly attributable to further progress in the macroeconomic adjustments applied in some parts of the eurozone. A number of one-off factors also had a beneficial effect on the economy of the eurozone as a whole. The reform of economic structures in Ireland, Spain, and Portugal, in particular, led to greater competitiveness, in turn generating new growth. The implementation of the banking union and the associated comprehensive assessment are also likely to have contributed to a further easing of the situation in the eurozone's financial system and to an increase in lending. In addition, the dramatic fall in the price of oil boosted household purchasing power and contributed to a marked rise in consumer spending.

The economic differences between the major industrialized countries have given rise to a significant conflict of interests in the global economy in relation to the direction of monetary policy. Whereas monetary policy in the eurozone and Japan was loosened still further during the course of the year and more expansionary measures are not out of the question, the US and UK are facing imminent rises in interest rates after pursuing a policy of low interest rates for the last seven years. The fall in the value of the euro coupled with positive economic trends in the US and the UK led to a strengthening of foreign trade.

The German economy continued to demonstrate that it was in good shape in the past year. The German Council of Economic Experts was forecasting growth in real economic output of 1.7 percent for 2015. Impetus for growth was again derived from domestic demand and from foreign trade. The rise in consumer prices remained low, mainly as a consequence of the sharp fall in energy prices in the last few months of the year. On the other hand, domestic prices remained on an upward trend. Price increases, particularly for foodstuffs, have gained momentum recently. By contrast, services have seen only modest price rises, attributable primarily to muted growth in residential rentals. The rise in employment was sustained in the last few months, especially in the service sector. There was sharp growth in employment subject to social security contributions, more than offsetting the fall in exclusively marginal employment and self-employment. The rate of unemployment reflected these positive trends. The seasonally adjusted figure in November 2015 fell to 6.3 percent, the lowest level since 1991.

The German Insurance Association (GDV) estimated that the rate of inflation for 2015 was 0.3 percent. The low inflation rate meant that the purchasing power of German households went up significantly. Given the low interest rates, consumer spending also continued to be boosted by a relatively lower propensity to save. The GDV expected an inflation-adjusted increase in household consumption of 2.0 percent in 2015.

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 of 2015, this rate fell back again to an average for the year of around 0.5 percent as a result of the further drop in the rate of inflation in the last few months of the year. This trend pushed up share prices to a new all-time high. The German DAX index saw a gain of approximately 9.6 percent, with the Euro Stoxx 50 also rising by almost 4 percent.

The most recent GDV forecasts for the German insurance industry as a whole predicted that premium income would remain stable and therefore unchanged compared with 2014. However, gross premiums written in direct property and casualty insurance business rose by 2.6 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 3.5 percent, although premium growth in health insurance was only 1.5 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 1.9 percent.

The property insurance segment had already taken a significant hit from a severe weather event back in 2014 when storm Ela crossed Europe over the Whitsun weekend. In the year under review, it also had to deal with the adverse impact from another major event in the form of Cyclone Niklas at the end of March. According to GDV estimates, Cyclone Niklas gave rise to claims with a total value of €750 million, substantially exceeding the losses caused by storm Ela in the previous year. The consequence of the significant resulting rise in claims expenses in 2015 was a marked increase in the combined ratio for property insurance. The effects of the Second German Act Modernizing the Law on Court Costs (Second KostRMoG) became evident in the legal insurance segment. Despite the fact that this Act had already been in force over the whole of 2014, there was still an increase of 3.0 percent in the claims incurred for losses related to 2015. Although the combined ratio fell by one percentage point, there are likely to be underwriting losses in this insurance segment for a further year. Overall, the GDV predicted that the combined ratio for direct non-life business would rise by 2.4 percentage points to 97.0 percent.

Business performance

In 2015, ARAG Allgemeine consolidated the turnaround in the premium trend. The increase in gross premiums written of approximately 2.2 percent once again more than offset the contraction in motor insurance premiums. 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.

Excluding motor insurance, direct business in 2015 reaffirmed the upturn in premiums achieved in 2014. In business for the organization as a whole, income from gross premiums written grew by approximately 3.8 percent year on year (2014: 4.2 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 the 'Recht&Heim' product. It is therefore clear that there was once again a positive impact in 2015 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 organization business also fell by 0.3 percentage points year on year as a result of a number of factors, including policy renewals involving the premium 'Recht&Heim Aktiv' product.

One of the factors that impacted the profitability of the Company in 2015 was Cyclone Niklas. Even though there had already been a notable severe weather event in 2014 in the form of the Ela Whitsun storm, claims reported in the composite residential buildings insurance segment still rose again in 2015 by approximately 28 percent year on year. At the same time, however, the figures for 2015 no longer included the effects of the changes to the cost allocation key in the sports business, which had a significant adverse impact on the underwriting result in 2014 as a consequence of a rise in provisions for internal claim settlement costs.

Despite some residual uncertainty in various eurozone capital markets, trends in equities markets in 2015 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 choose 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 that the Board of Management intends to use permanently as part of the working capital of the insurance business. Nevertheless, a decline in the profit transfer from the Interlloyd Versicherungs-AG subsidiary led to considerably lower investment income at ARAG Allgemeine. In addition, the net gains and losses on investments were reduced by write-downs of €1.8 million whereas these write-downs had amounted to only €0.1 million in 2014. Overall, gains and losses on investments declined by €5.5 million year on year to a net gain of €7 million.

In challenging market conditions, ARAG Allgemeine has once again demonstrated the robustness of its profitability. The profit to be transferred to the parent company ARAG SE for the 2015 financial year amounted to €15.0 million (2014: €23.9 million).

Results of operations

In the year under review, income from gross premiums written rose from €164.9 million to €168.5 million. The Company was therefore able to maintain the growth trajectory established in 2014 following years of premium erosion.

Premium income in direct business grew by 1.4 percent. If motor insurance is excluded, the increase in direct business was as much as 2.4 percent. The income from gross premiums written in motor insurance declined by €1.2 million, which once again equated to a decrease of approximately one quarter. 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 Aktiv' 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. Traditionally, this business tends to be rather stable and the Company registered a slight fall in premiums of €0.5 million in 2015, which was attributable in particular to a rigorous restructuring of the unprofitable sports insurance business in Spain.

In the inward reinsurance business, gross premiums written advanced by 6.0 percent to €28.2 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 €162.8 million in the year under review (2014: €157.9 million).

The expenses for claims incurred in 2015 equated to 49.9 percent of net premiums earned compared with 57.3 percent in 2014. Overall, the claims incurred fell to €81.2 million (2014: €90.5 million).

As already explained, the claims ratio was significantly impacted by Cyclone Niklas and by the absence of the effect from changes to the cost allocation key that in 2014 had caused a substantial one-off rise in the provisions for internal claim settlement costs.

The Company's gross cost ratio rose year on year from 38.3 percent to 38.5 percent. Overall, the gross operating expenses for the insurance business went up by 3.4 percent to €64.6 million. The ratio of own account insurance business operating expenses to net premiums earned was 0.3 percentage points higher year on year at 39.5 percent.

The volume of outward reinsurance, measured on the basis of insurance premiums paid, rose by €0.2 million in 2015 to €5.1 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 generated an improved underwriting result in 2015 of €1.9 million compared with a loss of €1.5 million in 2014.

In 2015, the underwriting result before equalization provision amounted to €17.1 million (2014: €5.6 million), and was therefore well in excess of the 2014 figure. In accordance with the calculation requirements specified in the German Regulation on the Accounting of Insurance Undertakings (RechVersV), a sum of €2.5 million was added to the equalization provision (2014: reversal of €10.2 million) on the basis of the trends in claims and premiums. The underwriting result for own account in 2015 therefore amounted to €14.7 million (2014: €15.8 million). The net combined ratio of 89.3 percent (2014: 96.6 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 2015 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 €47.928 million (2014: €47.949 million). Premiums earned for own account came to €46.753 million (2014: €47.403 million). After expenses for claims incurred of €15.733 million (2014: €17.724 million) and insurance business operating expenses of €15.403 million (2014: €16.113 million), in each case for own account, this segment generated an underwriting profit of €16.248 million (2014: €14.341 million). The recognition of an equalization provision was not required in either 2015 or 2014.

General liability insurance: Gross premium income in the general liability insurance segment amounted to €39.954 million (2014: €39.237 million). Premiums earned for own account came to €38.397 million (2014: €37.091 million). After expenses for claims incurred of €17.040 million (2014: €26.860 million) and insurance business operating expenses of €15.996 million (2014: €15.205 million), in each case for own account, this segment generated an underwriting profit of €5.406 million (2014: loss of €4.852 million) before equalization provision reversals. A sum of €3.053 million was allocated to the equalization provision (2014: reversal of €7.731 million). The segment generated a profit of €2.354 million in 2015 (2014: €2.879 million).

Motor insurance: Gross premium income amounted to €3.857 million (2014: €5.018 million). Premiums earned for own account came to €3.627 million (2014: €4.750 million). After expenses for claims incurred of €648 thousand (2014: €2.749 million) and insurance business operating expenses of €660 thousand (2014: €763 thousand), in each case for own account, this segment generated an underwriting profit of €2.337 million (2014: €1.263 million), which after a reversal of equalization provisions of €1.335 million (2014: €810 thousand) produced a profit of €3.672 million (2014: €2.073 million).

Fire and property insurance

Fire insurance: The premium income for fire insurance amounted to €2.065 million gross (2014: €1.984 million). Premiums earned for own account came to €1.873 million (2014: €1.782 million). After expenses for claims incurred of €969 thousand (2014: €45 thousand) and insurance business operating expenses of €713 thousand (2014: €662 thousand), in each case for own account, this segment generated an underwriting profit of €34 thousand (2014: €930 thousand), which after a reversal of equalization provisions of €59 thousand (2014: allocation of €393 thousand) produced a profit of €93 thousand (2014: €537 thousand).

Burglary insurance: Of the income from gross premiums written of €1.728 million (2014: €1.596 million), the net premiums earned amounted to €1.659 million (2014: €1.546 million). Expenses for claims incurred came to €1.084 million (2014: €1.133 million) and insurance business operating expenses to €662 thousand (2014: €614 thousand), in each case for own account, resulting in an underwriting loss for the segment of €74 thousand (2014: €182 thousand), which after an allocation to equalization provisions of €21 thousand (2014: reversal of €147 thousand) produced a loss of €94 thousand (2014: €35 thousand).

Water damage insurance: Gross premium income amounted to €958 thousand (2014: €896 thousand). Premiums earned for own account came to €927 thousand (2014: €861 thousand). After net expenses for claims incurred of €619 thousand (2014: €760 thousand) and insurance business operating expenses of €385 thousand (2014: €371 thousand), in each case for own account, this class of insurance incurred an underwriting loss of €70 thousand (2014: €260 thousand). After an allocation to the equalization provision of €316 thousand (2014: €98 thousand), the loss incurred was €386 thousand (2014: €357 thousand).

Storm and tempest insurance: Gross premium income amounted to €697 thousand (2014: €663 thousand). Premiums earned for own account came to €621 thousand (2014: €569 thousand). After the deduction of expenses for claims incurred of €435 thousand (2014: €503 thousand) and insurance business operating expenses of €284 thousand (2014: €275 thousand), in each case for own account, this class of insurance incurred an underwriting loss of €92 thousand (2014: €203 thousand). After an allocation to the equalization provision of €100 thousand (2014: €0 thousand), the loss incurred was €192 thousand (2014: €203 thousand).

Glass insurance: With gross premiums at €1.410 million (2014: €1.360 million), the net premiums earned amounted to €1.450 million (2014: €1.364 million). Net expenses for claims incurred came to €697 thousand (2014: €562 thousand) and insurance business operating expenses to €600 thousand (2014: €632 thousand), resulting in an underwriting profit of €163 thousand (2014: €186 thousand). The recognition of an equalization provision was not required in either 2015 or 2014. The final underwriting profit at the end of the year therefore amounted to €163 thousand (2014: €186 thousand).

Composite home contents insurance: Gross premiums written came to €18.688 million (2014: €18.136 million); after deduction of the reinsurance premiums, the remaining premiums earned for own account were €17.649 million (2014: €17.108 million). Expenses for claims incurred came to €9.944 million (2014: €9.720 million) and insurance business operating expenses to €8.102 million (2014: €7.908 million), in each case for own account, resulting in an underwriting loss for the segment of €528 thousand (2014: €595 thousand), which after a reversal of equalization provisions of €915 thousand (2014: €818 thousand) produced a profit of €387 thousand (2014: €224 thousand).

Composite residential buildings insurance: Gross premium income amounted to €11.276 million (2014: €10.075 million). Premiums earned for own account came to €10.601 million (2014: €8.913 million). After expenses for claims incurred of €10.991 million (2014: €8.934 million) and insurance business operating expenses of €4.392 million (2014: €3.531 million), in each case for own account, this segment incurred an underwriting loss of €4.944 million (2014: €3.671 million). As in 2014, no recognition of an allocation to the equalization provision was required. The final underwriting loss at the end of the year therefore amounted to €4.944 million (2014: €3.671 million).

Technical insurance: Most of the business in this category related to insurance for electrical and gas equipment, which accounted for 68.6 percent (2014: 67.4 percent) of the gross premiums written. Electronic equipment insurance with premium income of €555 thousand (2014: €553 thousand) and construction contractors' all risks insurance with total premiums of €60 thousand (2014: €54 thousand) were also reported in this segment. Of the income from gross premiums of €1.956 million (2014: €1.864 million), the net premiums earned for own account amounted to €1.933 million (2014: €1.833 million). Net expenses for claims incurred came to €914 thousand (2014: €916 thousand) and net insurance business operating expenses to €818 thousand (2014: €792 thousand), resulting in an underwriting profit for the segment of €209 thousand (2014: €141 thousand), which after an allocation to equalization provisions of €34 thousand (2014: €4 thousand) produced a profit of €176 thousand (2014: €136 thousand).

Business interruption insurance: The gross premium income reported for this class of insurance amounted to €160 thousand (2014: €163 thousand). Premiums earned for own account came to €189 thousand (2014: €107 thousand). After net expenses for claims incurred of €310 thousand (2014: €492 thousand) and net insurance business operating expenses of €177 thousand (2014: €68 thousand), in each case for own account, this segment reported an underwriting loss of €310 thousand (2014: €464 thousand). No changes were made to the equalization provisions (2014: reversal of €235 thousand), so the final reported underwriting loss was €310 thousand (2014: €229 thousand).

Emergency assistance insurance: The gross premium income reported in this category related to extended motoring and cycling assistance insurance and amounted to €5.470 million (2014: €5.553 million). No reinsurance premiums were paid in this class of insurance, so premiums earned amounting to €5.084 million (2014: €4.869 million) were recognized in the income statement. Expenses for claims incurred came to €2.799 million (2014: €2.320 million) and the insurance business operating expenses were €2.976 million (2014: €2.970 million). A loss of €650 thousand (2014: €365 thousand) was reported under the underwriting account. The recognition of an equalization provision was not required in either 2015 or 2014. The final underwriting loss at the end of the year therefore amounted to €650 thousand (2014: €365 thousand).

Miscellaneous insurance: The main components of the premium income in this category were the 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 €4.168 million (2014: €3.834 million). Premiums earned for own account came to €4.096 million (2014: €3.666 million). After expenses for claims incurred of €3.595 million (2014: €3.672 million) and insurance business operating expenses of €1.485 million (2014: €1.315 million), in each case for own account, this segment reported an underwriting loss of €991 thousand (2014: €1.325 million), which after a reversal of equalization provisions of €75 thousand (2014: €136 thousand) produced a loss of €917 thousand (2014: €1.189 million). Claims varied significantly between the different sub-risks.

Performance of the inward reinsurance business

Premium income of €28.163 million (2014: €26.556 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 €27.166 million (2014: €25.649 million). ARAG Allgemeine's quota share was 50 percent, as in 2014.

Premiums earned for own account came to €27.905 million (2014: €26.052 million). After expenses for claims incurred of €15.370 million (2014: €14.144 million) and insurance business operating expenses of €11.612 million (2014: €10.741 million), in each case for own account, this business generated an underwriting profit of €374 thousand (2014: €625 thousand). A sum of €1.320 million was allocated to the equalization provision (2014: reversal of €845 thousand), after which an underwriting loss of €945 thousand (2014: profit of €1.470 million) 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 €5.854 million (2014: €5.711 million). After deduction of expenses for claims incurred of €2.630 million (2014: €1.559 million) and insurance business operating expenses of €2.308 million (2014:

€2.237 million), the reported profit came to €908 thousand (2014: €1.908 million). After a reversal of equalization provisions of €136 thousand (2014: €808 thousand), the profit amounted to €1.044 million (2014: €2.716 million).

The **general liability insurance segment** generated €2.642 million (2014: €2.501 million) in premiums earned for own account. After expenses for claims incurred of €659 thousand (2014: €741 thousand) and insurance business operating expenses of €1.112 million (2014: €1.027 million), the profit came to €869 thousand (2014: €729 thousand). After a reversal of equalization provisions of €216 thousand (2014: €572 thousand), the profit amounted to €1.085 million (2014: €1.300 million).

In the **composite home contents insurance** segment, premiums earned for own account amounted to €7.429 million (2014: €7.172 million). After taking into account expenses for claims incurred of €4.318 million (2014: €4.178 million) and insurance business operating expenses of €3.109 million (2014: €2.967 million), the segment reported an underwriting loss of €223 thousand (2014: €194 thousand). After also recognizing an allocation to the equalization provision of €114 thousand (2014: reversal of €137 thousand), the reported loss was €337 thousand (2014: €57 thousand).

The **composite residential buildings insurance** segment reported premiums earned for own account of €8.049 million (2014: €7.156 million). Claims incurred net of reinsurance came to €5.360 million (2014: €5.566 million) and the insurance business operating expenses were €3.423 million (2014: €3.031 million). The underwriting loss amounted to €962 thousand (2014: €1.677 million). After an allocation to the equalization provision of €1.538 million (2014: €438 thousand), the reported loss was €2.499 million (2014: €2.115 million).

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

Non-underwriting result

Gains and losses on investments at ARAG Allgemeine amounted to €7.0 million in 2015 (2014: €12.5 million) and therefore decreased significantly compared with the previous year. One of the reasons for this decline was the substantial fall of €3.4 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 2015 under expenses from the absorption of losses. In addition, the net gains and losses on investments were reduced by write-downs of €1.8 million, whereas in 2014 these write-downs had amounted to only €0.1 million.

Other net income/expense deteriorated from a net expense of €4.2 million to a net expense of €6.6 million, caused by a rise in reclassifications from the Company's functional expenses and additions to the pension provisions.

Net extraordinary income/expense

There was no extraordinary income or expense in either 2015 or 2014.

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 €15.0 million (2014: €23.9 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. The changes in own funds and technical provisions in 2015 compared with 2014 were as follows:

Own funds and technical provisions

(€ million)	Dec. 31, 2015	Dec. 31, 2014
Subscribed capital	44.0	44.0
Capital reserves and revenue reserves	11.3	11.3
Net retained profit not appropriated for dividends	0.0	0.0
Own funds	55.3	55.3
Technical provisions	227.4	230.9
Own funds and technical provisions	282.7	286.2

Cash flow statement

(€)	2015	2014
Cash flows from operating activities		
Profit for the period	15,014,826	23,889,096
Increase (+)/decrease (-) in technical provisions, net	-3,436,146	-4,638,277
Increase (-)/decrease (+) in deposits with ceding insurers and in receivables from reinsurance business	-271,854	1,328,150
Increase (+)/decrease (-) in deposits from reinsurers and liabilities from reinsurance business	-938,170	623,341
Increase (-)/decrease (+) in receivables from direct insurance business	-111,085	-2,266,559
Increase (+)/decrease (-) in liabilities from direct insurance business	7,881,258	4,033,658
Increase (-)/decrease (+) in other receivables	1,257,003	-4,241,547
Increase (+)/decrease (-) in other liabilities	-3,847,042	-2,170,140
Change in other balance sheet items not related to investing or financing activities	9,762,036	8,915,137
Other non-cash income and expenses, and adjustment of the profit for the period	1,768,235	-202,509
Gain (-)/loss (+) on the disposal of investments, property and equipment, and intangible fixed assets	-1,100,027	-423,893
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	184,812
Cash flows from operating activities	26,152,184	25,031,267
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	-23,889,096	-25,405,414
Proceeds (+)/cash payments (-) related to other financing activities	0	0
Cash flows from financing activities	-23,889,096	-25,405,414
Net change in cash funds	2,263,088	-374,147
Effect on cash funds of exchange rate movements and remeasurements	0	0
Cash funds at beginning of period	719,051	1,093,198
Cash funds at end of period	2,982,139	719,051

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

Net assets

Investments declined by 1.8 percent in 2015 to €320.9 million. The breakdown of investments by asset class was as follows:

Investments breakdown

(€ million)	Dec. 31, 2015		Dec. 31, 2014	
Land and buildings	22.7	7.1 %	22.0	6.7 %
Affiliated companies and equity investments	9.8	3.1 %	7.9	2.4 %
Equities and investment fund shares/units	211.2	65.8 %	213.0	65.2 %
Bearer bonds	9.4	2.9 %	9.6	3.0 %
Registered bonds	22.5	7.0 %	12.5	3.8 %
Promissory notes, loans	32.0	10.0 %	42.0	12.8 %
Other lending	1.0	0.3 %	2.5	0.8 %
Bank deposits	10.0	3.1 %	15.0	4.6 %
Other investments	2.2	0.7 %	2.3	0.7 %
Deposits with ceding insurers	0.1	0.0 %	0.1	0.0 %
	320.9	100.0 %	326.9	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. Write-downs in an amount of €1.8 million were recognized in respect of these investment fund shares/units in 2015 to take into account impairment that is likely to be permanent; the corresponding write-downs in 2014 amounted to €0.1 million. No reversals of write-downs on these shares/units were recognized in 2015 (2014: €0.3 million). As of the balance sheet date, investment fund shares/units with a carrying amount of €211.2 million (December 31, 2014: €213.0 million) were classified as fixed assets. The fair value of these investments amounted to €239.3 million as of the balance sheet date (December 31, 2014: €239.1 million). By classifying these investments as fixed assets, it was possible to avoid write-downs of €0.3 million (2014: €0.0) under equities, investment fund shares/units and other variable-yield securities.

A total of 19 securities (December 31, 2014: 20) that are classified as fixed assets in accordance with section 341b HGB were reported under bearer bonds and other fixed-income securities. No write-downs due to expected permanent impairment were recognized in respect of these securities (2014: €3 thousand). Equally, no reversals of write-downs in accordance with section 253 (5) HGB were recognized in respect of these securities in 2015, as had also been the case in 2014. As of the balance sheet date, the carrying amount of these bearer bonds was €9.2 million (December 31, 2014: €9.4 million) and the fair value €10.6 million (December 31, 2014: €11.1 million). By classifying these securities as fixed assets, write-downs of €7 thousand were avoided (2014: €0.0).

The fair value of investments as of December 31, 2015 amounted to a total of €367.7 million compared with €380.3 million as of December 31, 2014. Net gains on investments declined from €12.5 million to €7.0 million. The net yield in the year under review was 2.2 percent (2014: 3.8 percent).

Disclosures on the hidden reserves in respect of investments are presented in the balance sheet disclosures (pages 56 and 57).

Non-financial performance indicators

The TÜV Saarland testing organization singled out the 'ARAG Unfall-Schutz' accident cover and 'ARAG Unfall-Schutzbrief' special service package for praise in the year under review, rating the products as 'very good' in all three variants (basic, superior, and premium). TÜV Saarland also rated the basic, superior, and premium versions of the 'ARAG Haushalt-Schutz' home cover product as 'very good'.

Numerous ARAG Allgemeine products received the seal of approval from [ascore] Das Scoring GmbH. For the private liability insurance product, the basic family version was rated 'very good' and the superior variant 'excellent', with the premium version in the top category of 'outstanding'. The superior-level residential buildings rate (2008) was assessed as 'excellent'. Both the premium house contents insurance and the 'ARAG Existenz-Schutz' livelihood insurance products were judged to be 'outstanding'. The premium versions of the 'ARAG Privathaftpflicht-Schutz' private liability and 'ARAG Unfallversicherung' accident insurance products enjoyed further distinction, both products receiving the 'Plus X Award' for transparency and scope of benefits.

However, the accolades were not restricted simply to ARAG Allgemeine products. The Company itself was also rated as excellent by [ascore] Das Scoring in its corporate scoring process.

ARAG Allgemeine's private liability insurance received multiple awards from 'ÖKO-TEST' magazine. The premium liability insurance was ranked first in all three of its options (single, family and seniors), with the superior-level product being ranked second.

Franke & Bornberg also analyzed various ARAG products. In its analysis of accident insurance, it awarded the basic ARAG product the best score of 'FFF' in the 'Basic cover' category. Likewise the combination of basic product and accident special service package. In the 'Top cover' category, the premium version of the accident insurance product attracted the highest score of 'FFF' (outstanding), both as a standalone product and in combination with the accident special service package. A rating of 'FFF' was also awarded to the superior version of the residential buildings insurance product in the 'Standard cover' category. In addition, ARAG was awarded two top scores ('FFF') for its private liability insurance products: for both the singles and family versions of its premium private liability insurance product in the 'Top cover' rating category.

'ARAG web@ktiv Plus', the new internet policy from the ARAG Group, was the winner in the 'Insurance' category of Deutscher Kunden-Innovationspreis 2015, a German award for creative, customer-oriented product and service solutions. The product specifically expands on the range of benefits available from the web@ktiv internet insurance product: 'ARAG web@ktiv Plus' includes benefits for legal disputes – and even includes compensation for criminal activity on the web. This insurance against loss caused by internet criminal activity is provided by ARAG Allgemeine and allows the policyholder to take out more extensive cover.

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 a 2007 or 2012 version of the 'ARAG Unfall-Schutz' accident insurance policy (general terms and conditions of accident insurance 2007 and general terms and conditions of accident insurance 2012 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	2016/2017 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 once again 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.

III. Report on Post-Balance Sheet Events

A branch of ARAG Allgemeine Versicherungs-AG was established in the UK in 2016 to enable the Company to operate direct insurance business in this market from the current year. There were no other 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.

IV. 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. Out of the net income for 2015, a profit of €15.0 million (2014: €23.9 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 an absorption of losses of €0.9 million (2014: profit of €2.5 million) by ARAG Allgemeine.

V. Outlook, Opportunity and Risk Reports

Outlook and opportunity report

As in 2015, the current year once again brings a range of unknowns that could have a major impact on macroeconomic trends in Germany, the eurozone and around the globe.

Future global economic growth is subject to significant risks. These include the response of the real economy and financial markets to the tentative uplift in interest rates in the US and the extent to which growth in the Chinese economy has slowed. It is reasonable to expect continued growth in the US. However, the pace of growth is likely to be gradually held back because of the high degree of production capacity utilization. Although available data suggests that there will not be a sharp fall in growth in China at the moment, the close economic interconnectivity means that the slowdown in growth in China will have a marked dampening effect on other countries. A key factor in this regard is the weaker demand for commodities in China. Overall, global production is expected to grow by 2.6 percent in 2016. In line with this forecast, global trade in 2016 is likely to expand by 3.1 percent.

Compared with previous years, the risk that the crisis in the eurozone will flare up again has receded noticeably, one of the reasons being that the monetary policy of the European Central Bank (ECB) has led to a massive cut in risk premiums throughout the entire euro area. As a consequence, the economic recovery in the eurozone is expected to continue over the period of the forecast. This trend will be driven primarily by rising consumer spending and exports. Nevertheless, the recovery is fragile. In particular, the positive impact on growth from the fall in the oil price will probably peter out over time. The transition to a self-perpetuating upturn is unlikely at the moment.

The upswing in the German economy will continue to be sustained over the coming year by the rise in consumer spending. Although the positive effects on real income from the drop in energy prices will probably evaporate at the start of 2016, the sustained strength of the labor market is likely to lead to a marked increase in employment and to significant pay rises. Stronger growth in the German economy over the coming year will be hampered by the economic downturn in emerging markets. A persistent slowdown in these markets, particularly in China and commodity-exporting countries, represents a risk to German growth. On top of this, the export stimulus derived from the sharp fall in the value of the euro will probably diminish over the coming year. Overall, it would be reasonable to expect inflation-adjusted growth in German gross domestic product (GDP) to be around 1.6 percent in 2016. However, inflation-adjusted GDP growth per inhabitant is likely to be considerably lower at 1.1 percent as a consequence of the high level of net inward migration. The balance of trade will not provide any appreciable impetus for economic growth. Consumer spending will be by far the greatest contributor to the rise in GDP. In view of the substantial expansion in production, there is likely to be further improvement in the labor market. The number of people in employment is predicted to rise by more than 300,000 in 2016; average unemployment figures over the year are likely

to be around 2.89 million. The rate of inflation is forecast to rise again in 2016 because there will be no further fall in energy prices. However, the rate is expected to remain well under 2 percent.

The insurance industry will not remain unaffected by the above trends. The latest GDV forecasts take into account the fact that one of the major features of current macroeconomic conditions is heightened uncertainty, caused, for example, by necessary adjustments following the global financial crisis and by geopolitical risks. 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. The growing integration of domestic and international insurance markets is also intensifying competition in the German insurance market.

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 pluralisation of sales structures) are far-reaching.

One transformation that is clearly becoming increasingly important is the digital revolution. The digitalization of the financial sector has already reached the rather conservative insurance industry. Increasing numbers of insurers are using social networks. Many businesses are also focusing on apps to simplify interaction with their customers. Another popular move is to equip field sales staff with mobile devices. 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. What is missing however is the integration of these developments into one overarching, cross-functional approach. The developments are frequently a reaction rather than being based on an analysis of customer needs. Furthermore, only seldom do they cut across the traditional boundaries between the individual sales and communication channels. Such an overarching approach is, however, critical to being able to address the fundamental changes in customer behavior in the digital age. Online business models will therefore no longer simply be a vehicle for accessing 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.

Given the external factors affecting the insurance industry, premium growth is likely to be rather modest. The GDV forecasts that growth in the German market in 2016 will be only around 0.5 percent. Assuming that there is no further unforeseen deterioration in the macroeconomic environment, premiums in the non-life insurance segment are expected to be only up by 2.5 percent in the coming year. In the case of legal insurance, the GDV predicts a rise in premiums of 3 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 end result is that premium income in this insurance segment is likely to remain at the same level.

In these conditions, ARAG Allgemeine again sees good opportunities in 2016 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 above the level achieved in 2015. When compared with the forecast for 2015, ARAG Allgemeine more or less attained its premium target for the year. In fact, if motor insurance is disregarded, the gross premiums written actually exceeded the original budget by around €30 thousand. 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 customer business. In the sports insurance business, the Company will continue its existing successful strategy of transferring its proven insurance concept to other organizations with structures similar to the sports associations that are already part of its customer base in this segment.

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, even though ARAG Allgemeine fell short of its 2015 profit forecast by approximately 30 percent as a result of various major losses and severe weather events. The Company expects the amount of profit after equalization provision that will be transferred in 2016 will once again be a surplus well above the 2015 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.

Risk report

Risk management objectives Risk management is one of ARAG Allgemeine's core competencies and therefore a key component of its business management. As part of this process, the aim of risk management is to safeguard the existence of the Company as a going concern and its future success. The effective and integrated management of risk enables the Company to satisfy the aspirations of its customers with the highest possible degree of security and will create shareholder value over the long term for its owners. In line with this mission, risk and capital issues are firmly established as part of the strategic planning process and at the same time form the basis for value- and risk-oriented management in accordance with the EVA® concept in the ARAG Group.

The guiding principles of risk management at ARAG Allgemeine are as follows:

- Risks are managed where they arise.
- All identified risks are monitored and regularly reassessed.
- Newly identified risks are included in the monitoring, assessed, and communicated.
- Limits and thresholds are set for all material risks; appropriate management action is triggered if the thresholds are exceeded.
- All risks, together with associated decisions and action, are adequately documented.
- Regular reports on the risk situation are submitted to relevant internal and external parties.

Organizational structure of risk management Risk governance at ARAG Allgemeine is designed such that local and global risks can be managed as a whole and such that the Company can ensure at an early stage that the overall risk profile is consistent with the risk strategy.

The Board of Management specifies the business policy objectives and risk strategy, sets out the capital adequacy requirements, and lays down the Company's limits. The Supervisory Board deliberates on these matters and receives regular reports on compliance with the risk strategy and the limits.

Within the Group, the Chief Risk Officer of ARAG SE is responsible for the central communication of risk-relevant issues, which involves submitting regular reports (at least quarterly) and, if required, ad hoc reports to the Management Board and Supervisory Board of ARAG Allgemeine. The Chief Risk Officer is also responsible for the cross-function planning, management, and monitoring of the entire risk architecture.

Responsibility for identifying, analyzing, assessing, managing, monitoring, and reporting risks at Group level lies with the Group Risk Management and Group Controlling Department in consultation with the relevant risk-bearing operating unit. The Group Risk Management and Group Controlling Department is a separate department up to Group Management Board level and therefore carries out the tasks of an independent risk control function.

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 manual.

The risk management system is refined on a targeted basis and is based on the principle of a holistic analysis of asset-side and liability-side risks. Group Risk Management in collaboration with the operating units is responsible for identifying, assessing, managing, and monitoring these risks for all German and international companies and therefore also for preparing associated decisions by the Board of Management.

Group Risk Management bears process responsibility for the risk management system and, by means of quarterly risk reports to the Board of Management, ensures that there is comprehensive transparency with regard to the risk position and any changes. 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 Group Risk Management also includes developing models for determining risk-bearing capacity and risk capital, and for allocating risk capital.

Investment risk control is an independent risk control function and its tasks include the analysis and monitoring of market risk. These activities include the analysis of asset-side and liability-side economic and accounting risk arising from interest-bearing exposures and a detailed analysis of the risk drivers for the various investment classes.

The requirements for specifying and managing these areas of risk are laid down and monitored by the Board of Management with the assistance of Group Risk Management. The central and local tools and processes used in the risk management system follow a holistic approach, which takes into account economic conditions as well as the requirements and expectations of customers, supervisory authorities, and the shareholder.

Strict separation of functions is observed between the operational management of risk and Group Risk Management. In addition, Group Risk Management works in close cooperation with the Internal Audit Department. The systems implemented by the Company meet the requirements of the German Control and Transparency of Companies Act (KonTraG).

The risk management system The risk management system is an integral component of all risk-relevant processes and its objective is to prevent actions or decisions that fall outside the constraints laid down in the risk management manual and risk strategy. The risk management system is regularly reviewed by Group Audit. The integrated risk management system enables the Company, at an early stage, to identify new risks or developments subject to risk, systematically assess these risks using uniform criteria, and then actively manage the risks involved. An audit of the early-warning system for risk also forms part of the audit of the annual financial statements in the individual Group companies. The core components of the ARAG risk management system consist of the processes for risk identification, risk assessment, risk capital allocation, risk management, risk monitoring, and risk reporting.

Risk identification The aim of risk identification is to identify the emergence of new risks or changes in existing risks and to assess these risks 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, reinsurance instruments, etc. These procedures are also integrated into the existing limit and monitoring processes.

Risk assessment All identified risks are constantly quantified, analyzed, and assessed 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 consistent with the specified limits.

The key element in this process is the risk capital requirement calculated for all quantified downside risks (value-at-risk). The purpose is to ensure that unexpected losses are covered. A partial internal model is used to calculate the risk 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. 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. Stress tests, backtesting, and validation tests are also continuously carried out in respect of the risk exposures.

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

Risk capital allocation The risk-bearing capacity of the Company is determined on the basis of the aggregated risk capital requirement and the available cover assets. This takes into account the regulatory and internal requirements regarding minimum cover. Available risk capital is allocated by using a system of limits, whereby the overall limit specified in the risk strategy is apportioned to the identified risk categories.

Risk management The risk management functions at Group and segment levels specify suitable strategies and concepts for consciously taking on risk and implementing measures to mitigate, minimize, transfer, and/or diversify all identified and analyzed risks. The risk limits ensure that the risks actually taken on are at all times consistent with the risk strategy and risk-bearing capacity.

Risk monitoring and reporting The actual utilization of limits is ascertained and continuously monitored by reconciling the risks assumed with the specified limits. Portfolios are regularly analyzed to detect overarching risk trends at an early stage. The results from the risk monitoring process and the associated recommendations for action are reported to the senior management promptly, without restriction, and on a continuous basis. Decision-makers are then able to manage the risks proactively. The external communication of risks takes into account the interests of the shareholder and the supervisory authorities.

Internal control system The internal control system (ICS) refers to all monitoring and control mechanisms as well as other measures aimed at ensuring compliance with internal management specifications and external statutory and regulatory requirements. In particular, the system encompasses the entire framework of risk policy measures aimed at appropriate income and risk management on the basis of the business and risk strategy.

Focus issue

Solvency II project

In 2015, the ARAG Group received authorization from the German Federal Financial Supervisory Authority (BaFin) to use a partial internal model from January 1, 2016 onward to calculate its solvency capital requirement. Following the successful completion of the project phase covering the preparation for Solvency II and the development phase for the partial internal model, the testing phase also demonstrated that the partial internal model would be used extensively in the Group and would play a key role in corporate management.

Together with three other corporate groups based in Germany, ARAG is one of the few insurers to have successfully completed this very demanding auditing process.

The management of underwriting risk in line with the risk involved and the level of market risk assumed by the Group represent significant success factors for ARAG. Only by using a partial internal model is it possible to model the special features of the ARAG Group's business structure in line with the risk and to calculate the capital requirement accordingly. The use of the partial internal risk model will be an important contributing factor in helping ARAG continue the process of enhancing its competitiveness.

Underwriting risk in property, liability, and accident insurance

ARAG Allgemeine's underwriting risk can be broken down into the following material sub-risks:

- Premium risk: defined as a loss that arises if the premium income for a period is insufficient to settle all claims incurred in the same period.
- Reserve risk: defined as a loss that arises if the provisions recognized for claims incurred in the past turn out to be inadequate.
- Natural disaster risk: defined as losses from particularly extreme or exceptional natural disasters.

To assess the premium and reserve risk, specified criteria are used to aggregate historical losses into groups of risks sharing similar characteristics, while natural disaster risk is modeled separately. On this basis, the risk capital requirement is then determined for each identified risk. The risks are reported as both gross and net values (the latter being after reinsurance). Given the product and customer structure of the Company and the well-established reinsurance arrangements, the existing policy portfolio is not subject to any exceptional risk in terms of major risk that could materialize and jeopardize the continued existence of the Company as a going concern. Claims are much more likely to be affected by changes in statutory, economic, social or climate conditions.

ARAG Allgemeine makes use of a variety of measures to monitor and manage underwriting risk. Insurance rates as well as terms and conditions are adjusted where necessary and sufficient safety margins are included in the claims provisions.

The responsible actuary oversees the recognition of provisions determined in accordance with actuarial principles to cover benefit payment obligations arising from accident, liability, and motor liability insurance claims, ensuring that future obligations can be met.

The tasks of the actuarial function specified in article 48 of the Solvency II Directive are carried out by the department of the same name, and this department is under the direct control of the Chief Risk Officer. Functional separation from sales units up to the level of the Board of Management ensures the independence of the actuarial function in the tasks specified in article 48 of the Solvency II Directive.

The Company also has excess-of-loss reinsurance treaties for major risks and risks arising from natural disasters and uses facultative reinsurance arrangements with a number of reinsurers. Receivables of €1.4 million (December 31, 2014: €1.2 million) arose from reinsurance business. All reinsurers to whom ARAG Allgemeine has ceded insurance business have an internally specified minimum rating.

The consistency of the insurance business and the settlements in relation to the initial reserve can be seen in the following disclosures on the changes in the claims ratio for the direct insurance business over the last ten financial years.

Changes in claims ratio

Financial year	Claims ratio, gross		Settlements
	<i>FY ratio</i>	<i>Financial statements</i>	<i>% of initial reserve</i>
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
2006	66.9	58.1	7.0

Risk of defaults on insurance receivables Defaults on insurance receivables are minimized by the use of an efficient, systematic dunning procedure. An allocation to the general allowance amounting to €10 thousand (2014: €10 thousand) was recognized in the financial statements in 2015 to account for the residual default risk. As of the balance sheet date, receivables from policyholders and insurance brokers more than 90 days past due amounted to €1.8 million (December 31, 2014: €0.8 million). The average default rate on receivables over the previous three years as of December 31, 2015 was 0.8 percent (December 31, 2014: 0.8 percent).

Investment risk Within investment operations, ARAG Allgemeine focuses on securing a market-level rate of return and maintaining the balance between opportunities for generating gains from price movements and the risk of a write-down requirement. ARAG Allgemeine's investments are subject to the risk of a possible loss arising from adverse changes in market prices. Credit risk and liquidity risk are also significant categories of risk alongside market risk.

Market risk Market risk mainly comprises the risk of changes in interest rates, equity prices, and/or exchange rates.

Interest-rate risk affects the portfolio of fixed-income securities and the underwriting liabilities. It is caused largely by changes in interest rates and in the premiums for default risk and illiquidity. These changes are countered by asset liability management. An assumed increase or decrease of 1 percentage point in the general level of interest rates would decrease or increase the fair value of ARAG Allgemeine's fixed-income securities by €12.2 million.

Equity risk arises from unfavorable changes in the value of equities held in the portfolio. Some 16.2 percent of the Company's investments are subject to equity risk. This risk is diversified by specifically spreading the risk across different industries and regions. A hypothetical fall in equities markets of 20 percent would cause a loss in fair value of €12.1 million.

Currency risk arises from fluctuations in exchange rates, particularly if the currencies in which underwriting liabilities and investments are denominated are different. In the case of fixed-income securities, open currency exposures are hedged to minimize the risk. Currency risk in respect of fixed-income securities in institutional funds is limited to a

maximum of 5 percent of the fund value. The Company does not hold any bonds denominated in foreign currency as part of its direct investments.

To **monitor and manage** market risk, the Company focuses on compliance with the regulatory investment requirements as specified in section 54 et seq. of the German Insurance Supervision Act (VAG; in the version prior to the recent amendment) and in the associated Investment Regulation. This ensures that a high degree of risk mitigation is achieved through the investment mix and diversification. A broad diversification of the portfolio limits individual risk because the investments are then widely distributed across different types of investment, investees, and regions. The Company has also developed investment policies that further restrict the investment risk. Derivatives are used exclusively to hedge currency or interest-rate risk in institutional funds. A further component is a risk-capital-based management concept, which is used in conjunction with continuous market monitoring and a system of prompt reporting, to provide the Company with an early-warning system. The risk position and the financial stability of the Company are also regularly reviewed (quarterly) using internal tests. The stress tests check whether the Company would be in a position, despite external crises in the capital markets, to fulfill its obligations to policyholders without corrective measures.

Credit risk Credit risk is mitigated to a significant extent by applying stringent requirements for the financial standing of debtors. This principle is taken into account in the case of fixed-income securities by restricting such investment activity almost exclusively to investment-grade securities. Given the quality of the securities portfolio, the Company believes that the default risk arising from credit risk is low. The breakdown of interest-bearing investments by rating is as follows:

Rating class

(Percentage proportion)

AAA	23.0
AA	18.9
A	23.3
BBB	28.6
BB	3.9
B	1.9
CCC	0.0
CC	0.0
C	0.0
Not rated	0.4

The breakdown of fixed-income securities is as follows (fair values): of the fixed-income securities – including securities held indirectly through institutional funds – approximately 38.8 percent are accounted for by financial services entities, 27.1 percent by public-sector bonds, and 34.1 percent by corporate bonds.

The Company holds a very low volume of government bonds issued by GIIPS states (Greece, Ireland, Italy, Portugal, and Spain) including securities held through institutional funds (1.2 percent in terms of fair value in relation to all the Company's investments). This

is not considered to be an intolerable risk given the European support mechanisms and the de facto joint liability of all European countries.

Liquidity risk Liquidity risk is limited by a system of revolving financial planning in which all relevant cash flows are determined and matched with each other in good time. The investments also benefit from a high degree of liquidity, which means that they can generally be sold at short notice.

Operational risk Operational risk comprises all operational risks that arise in connection with human resources, processes, organization, administration, IT, technologies, and the external environment. Legal risk also forms part of operational risk. The portfolio of operational risks is updated quarterly.

Operational risk is managed by using subjective assessments in combination with a quantifiable early-warning system. The individual risks are identified and assessed in the operating units. A central database is used for recording and managing these risks; it is also used as the basis for appropriate reporting. The reports additionally include detailed action plans aimed at averting, avoiding, and/or mitigating the identified risks. Compliance with the management action plans is regularly reviewed and forms an integral part of the risk report.

The Company anticipates adverse developments within the administration by implementing rules and controls within the departments. Internal control measures, which are regularly reviewed by Internal Audit, minimize the risk of serious errors in administrative activities and/or acts of embezzlement.

These measures help to ensure that operational risk is limited to a level that can be tolerated by the Company.

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 2016 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 The regulatory solvency requirement in accordance with section 53c VAG (version prior to the most recent amendment) and the German Regulation on the Capital Resources of Insurance Companies (KapAusstV) in the version referred to in the German Act on the Reorganization and Winding-Up of Insurance Undertakings of December 10, 2003 (German Federal Law Gazette I p. 2478) amounted to €29.9 million (December 31, 2014: €29.5 million). The own funds available to cover this requirement amounted to €55.3 million (December 31, 2014: €55.3 million). Valuation reserves are not included in these own funds. The excess cover as of December 31, 2015 thus amounted to €25.4 million (December 31, 2014: €25.8 million) and equated to a solvency excess of 85.2 percent (December 31, 2014: 87.4 percent). Current calculations show that, under the new capital requirements in accordance with Solvency II applicable from January 1, 2016, ARAG Allgemeine has an appropriate level of capital resources and satisfies the future requirements.

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Balance sheet as of December 31, 2015

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.	Other investments
1.	Equities, investment fund shares/units, and other variable-yield securities
2.	Bearer bonds and other fixed-income securities
3.	Mortgage, land charge, and fixed-income receivables
4.	Other lending
a)	Registered bonds
b)	Promissory notes and loans
c)	Loans and prepayments for certificates of insurance
d)	Other 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, 2014: € 0.00)
II.	Receivables from reinsurance business
	of which from affiliated companies: € 0.00 (Dec. 31, 2014: € 0.00)
III.	Other receivables
	of which from affiliated companies: € 8,583,824.39 (Dec. 31, 2014: € 9,734,470.31)

D. Other 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.	Other prepaid expenses and accrued income

F. Deferred tax assets

G. Excess of plan assets over pension liabilities

Total assets

As of December 31, 2015, the actuarial reserve amounted to €32,602,722.00 for annuities from general accident insurance, €331,066.00 for annuities from general liability insurance, and €5,426,965.00 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 section

				Dec. 31, 2015	Dec. 31, 2014
				0.00	0.00
				22,696,439.62	21,946,439.62
				9,777,801.57	7,919,441.92
				0.00	0.00
				0.00	0.00
				0.00	0.00
				9,777,801.57	7,919,441.92
				211,233,862.97	213,048,101.78
				9,428,180.00	9,628,614.00
				0.00	0.00
				22,500,000.00	12,500,000.00
				31,970,412.57	41,970,412.57
				0.00	0.00
				1,000,000.00	2,500,000.00
				55,470,412.57	56,970,412.57
				10,000,000.00	15,000,000.00
				2,143,995.80	2,294,416.24
				288,276,451.34	296,941,544.59
				100,567.62	84,254.74
				320,851,260.15	326,891,680.87
				3,897,696.66	4,075,050.64
				2,883,620.48	2,595,181.98
				6,781,317.14	6,670,232.62
				1,412,801.31	1,157,260.40
				8,821,473.97	10,078,477.18
				17,015,592.42	17,905,970.20
				0.00	0.00
				2,982,138.63	719,050.87
				420,769.83	613,918.70
				3,402,908.46	1,332,969.57
				1,102,326.61	1,701,938.34
				15,079.68	0.00
				1,117,406.29	1,701,938.34
				0.00	0.00
				0.00	0.00
				342,387,167.32	347,832,558.98

341f and 341g HGB and, in accident insurance, in accordance with the statutory regulation enacted on the basis of section 65 (1) VAG (version prior to the most recent amendment).

Düsseldorf, January 4, 2016

The responsible actuary
Kathrin Smeja, Bachelor of Mathematics

Balance sheet as of December 31, 2015

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 reserves
 - 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 premium refunds
 - 1. Gross amount
 - 2. less: portion for outward reinsurance business
- V. Equalization provisions and similar provisions
- VI. Other 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. Provision for taxes
- III. Other 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: € 198.70 (Dec. 31, 2014: € 38.11)
- II. Liabilities from reinsurance business
 - of which to affiliated companies: € 717,262.79 (Dec. 31, 2014: € 1,458,461.04)
- III. Other liabilities
 - of which to affiliated companies: € 17,752,693.08 (Dec. 31, 2014: € 21,875,960.70)
 - of which tax liabilities: € 2,837,540.40 (Dec. 31, 2014: € 2,505,316.82)
 - of which social security liabilities: € 0.00 (Dec. 31, 2014: € 0.00)

F. Deferred income and accrued expenses

G. Deferred tax liabilities

Total equity and liabilities

			Dec. 31, 2015	Dec. 31, 2014
		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
	23,781,306.50			23,050,836.03
	173,565.22			101,131.55
		23,607,741.28		22,949,704.48
	4,385.00			6,693.00
	0.00			0.00
		4,385.00		6,693.00
	190,659,906.51			197,762,231.96
	29,919,100.93			30,236,340.43
		160,740,805.58		167,525,891.53
	0.00			0.00
	0.00			0.00
		0.00		0.00
		41,234,576.00		38,776,397.00
	1,835,415.14			1,600,382.98
	0.00			0.00
		1,835,415.14		1,600,382.98
			227,422,923.00	230,859,068.99
		29,005,132.00		25,043,589.00
		19,549.39		39,549.39
		2,845,138.23		3,017,702.36
			31,869,819.62	28,100,840.75
			640,325.18	953,306.76
	3,160,444.30			4,332,557.60
	1,918,584.78			1,739,483.97
		5,079,029.08		6,072,041.57
		1,243,194.36		1,868,382.43
		20,808,970.36		24,656,012.76
			27,131,193.80	32,596,436.76
			0.00	0.00
			0.00	0.00
			342,387,167.32	347,832,558.98

Income statement for the period from January 1 to December 31, 2015

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. Other 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 other net technical provisions
6. Expenses for performance-based and non-performance-based premium refunds 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. Other underwriting expenses for own account
9. Subtotal
10. Change in the equalization provision and similar provisions
11. Underwriting result for own account
Carryover:

			2015	2014
	168,475,563.02			164,883,660.60
	-5,051,948.05			-4,946,077.50
		163,423,614.97		159,937,583.10
	-730,470.47			-1,938,331.31
	72,433.67			-87,666.42
		-658,036.80		-2,025,997.73
			162,765,578.17	157,911,585.37
			565,251.00	579,901.00
			467,181.14	476,595.46
	90,953,889.48			88,920,789.60
	-3,042,206.52			-2,078,554.06
		87,911,682.96		86,842,235.54
				0.00
	-7,078,505.38			7,598,771.89
	317,239.50			-3,907,211.37
		-6,761,265.88		3,691,560.52
			81,150,417.08	90,533,796.06
			-232,724.16	74,396.65
			0.00	0.00
		64,619,647.02		62,471,993.35
		-355,226.59		-513,171.81
			64,264,420.43	61,958,821.54
			1,036,127.91	981,136.07
			17,114,320.73	5,568,724.81
			-2,458,179.00	10,226,981.00
			14,656,141.73	15,795,705.81
			14,656,141.73	15,795,705.81

Income statement for the period from January 1 to December 31, 2015

Direct insurance and inward reinsurance business

(€)

Carryover:

II. Non-underwriting account

1. Income from investments

- a) Income from equity investments
of which from affiliated companies: € 24,825.14 (2014: € 303,010.12)
- b) Income from other investments
of which from affiliated companies: € 764,383.64 (2014: € 829,229.24)
 - 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
other expenses for investments
- b) Write-downs on 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. Other 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 2014

16. Transfer from the capital reserve

17. Transfer from revenue reserves

18. Transfer from profit-sharing rights

19. Additions 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 prepared these financial statements for 2015 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) sentence 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 2015 there was no requirement for the recognition of write-downs pursuant to section 253 (3) sentence 3 HGB for impairment losses 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, 2015

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	- 887,462.94
ALIN 2 Verwaltungs-GmbH, Düsseldorf	100	20,514.64	- 2,104.76
ALIN 2 GmbH & Co. KG, Düsseldorf	100	618,359.65	3,736.67
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co, Immobilien KG, Düsseldorf	50	6,076,554.58	49,556.14
ARAG Service Center GmbH, Düsseldorf	20	359,518.13	- 17,362.90

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

Equities, investment fund shares/units, and other variable-yield securities and bearer bonds and other fixed-income securities that have not been classified as permanent fixed assets are valued at the lower of cost or quoted market price/market value as of the reporting date in accordance with section 341b (2) HGB in conjunction with section 253 (1) and (4) HGB. No write-downs in accordance with the strict principle of lower of cost or market value had to be recognized on securities in this line item in 2015. ARAG Allgemeine made use of the option to choose 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 sustainable 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 2015, write-downs on investments of €1.768 million were recognized. These were attributable entirely to long-term securities. Reversals of write-downs pursuant to section 253 (5) HGB were not recognized last year.

Registered bonds are accounted for at face value or at their redemption amount. Discounts are deferred using the straight-line method. Premiums are capitalized and released using the straight-line method over the term to maturity.

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

Deposits, current bank balances, and deposits with and deposits received from ceding insurers are recognized at their nominal amount.

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

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, 2015 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.

Gross unearned premiums for direct insurance business were calculated pro rata tempore 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 valued 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 for new investments and 1.75 percent for annuities that existed before January 1, 2015 – 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 approximately 7 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 balance 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.

Other 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 **other 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 in conjunction with section 253 (1) sentence 2 HGB on the basis of the 2005G mortality tables published by Professor Klaus Heubeck. In addition to current facts, future developments with regard to salaries, pensions, and staff turnover were taken into account. In accordance with section 253 (2) sentence 2 HGB, the discount rate used was the average interest rate for the past seven years published by Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual term to maturity of 15 years. The expected market interest rate as of December 31, 2015 was used for the measurement as of December 31, 2015. The values published as of the balance sheet date were reviewed.

The following actuarial parameters were used to calculate the obligations: pension age of 65 years, annual increase in salaries of 2.5 percent, annual increase in pension benefits of 1.75 percent, discount rate of 3.89 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 were offset against the obligation arising on the pension entitlements. The settlement value of the offset liabilities corresponds to the asset value of the reinsurance taken out as matched cover and amounts to €249,770.00. In accordance with section 246 (2) sentence 2 HGB in conjunction with section 253 (1) sentence 4 HGB, the reinsurance is valued at fair value (asset value). In 2015, an expense of €28,283.86 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 were recognized for those persons with whom individual contractual agreements have been reached. The provisions were calculated using actuarial principles. In 2015, a **provision 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 was recognized on the basis of a discount rate of 3.89 percent for matching maturities. In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements and natural employee attrition were taken into account. 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 **other 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. It was calculated in line with the provisions of section 6 (1) no. 3 in conjunction with section 5 (4) of the German Income Tax Act (EStG) on the basis of a discount rate of 3.89 percent for matching maturities. The restriction for the tax calculation pursuant to section 52 (6) EStG was not applied in the financial statements.

No interest income (2014: €0.00) and interest expenses of €5,111.81 (2014: €5,779.44) arose on the discounting of non-current provisions with a maturity of more than one year.

Other liabilities are recognized at their settlement value.

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

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

Currency translation

Assets and liabilities denominated in foreign currencies as well as income and expenses recognized in the income statement that are denominated in foreign currencies are translated at the mean currency spot rate.

Fair value disclosures pursuant to section 54 RechVersV

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

An internally produced valuation report dated September 4, 2014 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 discounted earnings method 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 other 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 measured. 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 56 and 57, which presents the changes in investments.

II. Insurance Disclosures

Direct insurance and inward reinsurance business

(€'000)	Total insurance business		Direct business (total)		Accident insurance		Liability insurance		Motor liability insurance	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Gross premiums written	168,476	164,884	140,313	138,327	47,928	47,949	39,954	39,237	2,612	3,365
Gross premiums earned	167,745	162,945	139,822	136,878	47,815	48,035	40,248	38,738	2,612	3,365
Net premiums earned	162,766	157,912	134,860	131,860	46,753	47,403	38,397	37,091	2,382	3,096
Gross expenses for claims	83,875	96,520	68,505	82,375	17,420	17,714	15,491	30,649	1,046	2,197
Gross insurance business operating expenses	64,620	62,472	53,008	51,731	15,684	16,228	15,996	15,205	435	478
of which front-end fees	14,539	14,704	12,730	12,706						
of which administrative expenses	50,081	47,768	40,278	39,025						
Reinsurance balance	1,891	-1,473	1,873	-1,489	-906	527	3,400	-2,142	-936	-272
Underwriting result for own account before equalization provision	17,114	5,569	16,740	4,944	16,248	14,341	5,406	-4,852	2,081	983
Underwriting result for own account after equalization provision	14,656	15,796	15,601	14,326	16,248	14,341	2,354	2,879	3,483	1,715
Gross technical provision (total)	257,568	261,197	219,848	226,458	86,618	91,857	76,238	77,454	20,344	23,851
of which gross provision for outstanding claims	190,660	197,763	175,392	183,889	81,003	86,420	59,376	63,407	16,127	18,222
of which cancellation provision	1,815	1,580	1,470	1,240	447	382	345	289	27	34
of which equalization provision and similar provisions	41,235	38,776	25,522	24,383	0	0	11,709	8,657	4,179	5,581
Number of insurance policies with a term of at least one year	859,310	867,768	859,310	867,768	168,380*	171,973*	292,862*	279,562*	10,726	13,723
Technical interest income for own account relating to benefit reserves for annuities (1.75 percent)	565	580	565	580	564	579	0	1	1	0

* These insurance segments contain 18 group contracts (2014: 18) with 20,721,002 insured risks (2014: 20,837,800).

III. Non-insurance Disclosures

Change in asset items A., B. I. to IV. in 2015

(€'000)	Carrying amount as of Dec. 31, 2014
A. Intangible assets	0
B. I. Land, land rights and buildings, including buildings on third-party land	21,946
B. II. Investments in affiliated companies and equity investments	
1. Shares in affiliated companies	7,919
2. Lending to affiliated companies	0
3. Equity investments	0
4. Lending to long-term investees and investors	0
5. Total for B. II.	7,919
B. III. Other investments	
1. Equities, investment fund shares/units, and other variable-yield securities	213,048
2. Bearer bonds and other fixed-income securities	9,629
3. Mortgage, land charge, and fixed-income receivables	0
4. Other lending	
a) Registered bonds	12,500
b) Promissory notes and loans	41,970
c) Loans and prepayments for certificates of insurance	0
d) Other lending	2,500
5. Bank deposits	15,000
6. Other investments	2,294
7. Total for B. III.	296,942
B. IV. Deposits with ceding insurers	84
Total	326,892

Additions	Disposals	Reversals of write-downs	Write-downs	Carrying amount as of Dec. 31, 2015	Fair value pursuant to sec. 54 RechVersV
0	0	0	0	0	0
750	0	0	0	22,696	36,271
1,858	0	0	0	9,778	11,027
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
1,858	0	0	0	9,778	11,027
5,353	5,399	0	1,768	211,234	239,327
0	201	0	0	9,428	10,817
0	0	0	0	0	0
15,000	5,000	0	0	22,500	22,117
5,000	15,000	0	0	31,970	34,146
0	0	0	0	0	0
0	1,500	0	0	1,000	1,000
30,000	35,000	0	0	10,000	10,000
259	409	0	0	2,144	2,907
55,612	62,509	0	1,768	288,276	320,314
245	228	0	0	101	101
58,465	62,737	0	1,768	320,851	367,713

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, 2015	as of Dec. 31, 2015	for 2015
Alltri Fonds Inka mixed fund	116,133,897.86	136,697,106.42	3,705,344.58
Alltrirent Fonds Inka fixed-income fund	66,044,603.03	73,554,284.44	1,644,028.40
EMA Fonds Inka equity fund	5,344,446.47	5,344,446.47	155,439.00

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 choose the discretionary principle of lower of cost or market value in accordance with section 341b (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, 2015, shares/units in one mixed institutional fund, two equity funds, and two fixed-income funds with a carrying amount of €211,233,862.97 (December 31, 2014: €213,048,101.78) had been classified as fixed assets. The fair value of these investment fund shares/units classified as permanent fixed assets amounted to €239,327,134.43 as of the balance sheet date (December 31, 2014: €239,081,334.22). Write-downs of €1,768,235.19 were recognized in respect of these securities (2014: €61,936.52). By classifying them as fixed assets, write-downs of €345,894.29 were avoided (2014: €0.00). There were no reversals of write-downs pursuant to section 253 (5) HGB in respect of these investments in 2015 (2014: €267,512.00).

ARAG Allgemeine also made use of the option to choose the discretionary principle of lower of cost or market value in accordance with section 341b (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 2015, a total of 19 securities with a carrying amount of €9,222,650.00 were classified as fixed assets (December 31, 2014: €9,423,084.00). The fair value of these bearer bonds amounted to €10,603,900.00 as of the balance sheet date (December 31, 2014: €11,068,685.00). No write-downs due to expected permanent impairment were recognized in respect of these securities (2014: €3,066.00). By classifying them as fixed assets, write-downs of €6,858.00 were avoided (2014: €0.00). There were no reversals of write-downs pursuant to section 253 (5) HGB in respect of these securities in 2015, as had also been the case in 2014.

Other assets

A receivable from the tax authorities of €420,769.83 is recognized under this item (December 31, 2014: €613,918.70). In 2015, in addition to a right to reimbursement of VAT, 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, 2015	Dec. 31, 2014
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) nos. 1 – 4 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 2015, provisions for taxes of €19,549.39 (December 31, 2014: €39,549.39) 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.

Other provisions

This line item essentially consists of long-service provisions of €418,867.00 (December 31, 2014: €327,409.00 €), pre-retirement part-time employment provisions of €401,688.00 (December 31, 2014: €564,650.00) costs for the financial statements and auditing of €389,324.00 (December 31, 2014: €433,563.00), early retirement benefits of €327,105.00 (December 31, 2014: €448,525.00), bonuses of €318,422.20 (December 31, 2014: €150,417.60), provisions for litigation costs of €234,766.00 (December 31, 2014: €234,766.00), vacation entitlement obligations of €169,242.00 (December 31, 2014: €170,387.00), and provisions for reimbursement of the Supervisory Board's expenses of €149,537.50 (December 31, 2014: €149,537.50). There are also provisions for association fees and other 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 2015 or 2014.

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 €22,540.24 (2014: €199,857.65) relates to financial years before the single entity for tax purposes was created and primarily consists of items arising from the tax audit for the 2004 to 2006 financial years and other taxes.

IV. Other Disclosures

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

Investment agreements with a total volume of €1,750,000.00 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 €1,377,086.90 are expected on the basis of open-ended investment agreements.

Furthermore, ARAG Allgemeine has entered into a guarantee obligation of €140,000.00 based on a judgement of the Thuringian regional appeal court.

As of the balance sheet date, there were no other financial obligations that had arisen in connection with the insurance business that are significant to the assessment of the Company's financial position.

Amounts not allowed to be distributed as dividends

Amounts not allowed to be distributed as dividends, which result from the measurement of assets at fair value pursuant to section 253 (1) sentence 4 HGB, were not recognized in 2015 (2014: €0.00).

Auditor's fees

The Company's Supervisory Board agreed fees of €167,790.00 (2014: €166,600.00) with the auditors for the audit of the 2015 financial statements. This amount was recognized as an expense in 2015. As there is no entitlement to offset input VAT, this amount includes VAT. Additional consultancy/advisory services, tax consultancy services, and other services were not performed.

Commissions and other remuneration for insurance agents, staff costs

(€)	2015	2014
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	30,868,210.34	29,930,637.20
2. Other remuneration for insurance agents within the meaning of section 92 HGB	0.00	0.00
3. Wages and salaries	10,096,379.56	9,707,290.61
4. Social security and other employee benefit expenses	1,653,113.63	1,589,939.71
5. Pension and other post-employment benefit expenses	2,884,224.14	1,407,381.80
Total expenses	45,501,927.67	42,635,249.32

Employees

The average number of employees in 2015 was 168 (2014: 168), of which 43 were part-time (2014: 43).

Supervisory Board and Management Board remuneration

The Company's Supervisory Board received remuneration pursuant to section 285 no. 9a HGB of €149,537.50 last year. The Management Board's remuneration came to €720,788.52. Remuneration for former members of the Management Board and their surviving dependants amounted to €857,791.90. A provision of €12,962,134.00 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 66 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, 2015. 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.

Düsseldorf, March 11, 2016

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, 2015 to December 31, 2015. 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 financial statements 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 18, 2016

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Christian Sack	Sven Capousek
Wirtschaftsprüfer (German Public Auditor)	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 detailed written information on the matter from the Management Board. The Supervisory Board discussed these reports extensively at its meetings, deliberated on them with the Management Board, and made the necessary decisions.

Last year, the 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 its constitutive meeting. Outside the meetings, the chairman of the Supervisory Board was also in regular contact with the Management Board and was kept informed about the current business situation and major business transactions.

During the reporting period, the Supervisory Board kept up to date on the situation in the capital markets and its impact on the Company. The other major items on the agenda at the different meetings included discussions about the Company's current financial results and the latest forecasts, deliberation on the annual audit report, regular risk reports, and the approval of the strategic planning for ARAG Allgemeine for the three-year period from 2016 to 2018. In addition, the Supervisory Board examined the measures for implementing the Fit&Proper guidance, the current remuneration system, and the reappointment of Management Board members.

The Supervisory Board adopted resolutions by means of written procedures in order to grant commercial powers of attorney (Prokura) and amend clauses in the Management Board members' service contracts.

The Supervisory Board has formed two committees. Last year, the Finance Committee used a written procedure to discuss the private equity investment in the second round of investment.

The Human Resources Committee held three meetings in 2015, at which it prepared a resolution on the reappointment of Management Board members and examined the

implementation of normative changes, including application of the statutory requirements on the percentage of women in managerial roles. Furthermore, the Human Resources Committee prepared for the Supervisory Board's discussion on Management Board remuneration and the Company's remuneration structures. 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 2015 were, together with the bookkeeping system, audited by PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were selected and engaged by the Supervisory Board on April 20, 2015, to carry out the audit and who 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 Annual General Meeting that it formally approve the acts of the Management Board members.

The Supervisory Board would like to express its thanks and appreciation for the work of the Management Board and all employees in 2015.

Düsseldorf, April 13, 2016

The chairman of the Supervisory Board

Dr. Paul-Otto Faßbender

Governing Bodies of the Company

Supervisory Board	Dr. Dr. h. c. Paul-Otto Faßbender	CEO of ARAG SE, Düsseldorf, chairman
	Dr. Karl-Heinz Strohe	Attorney, Cologne, deputy chairman
	Hanno Petersen	Member of the Management Board of ARAG SE, Ratingen
	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.

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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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