ANNUAL REPORT 2010 CONSOLIDATED FINANCIAL STATEMENTS

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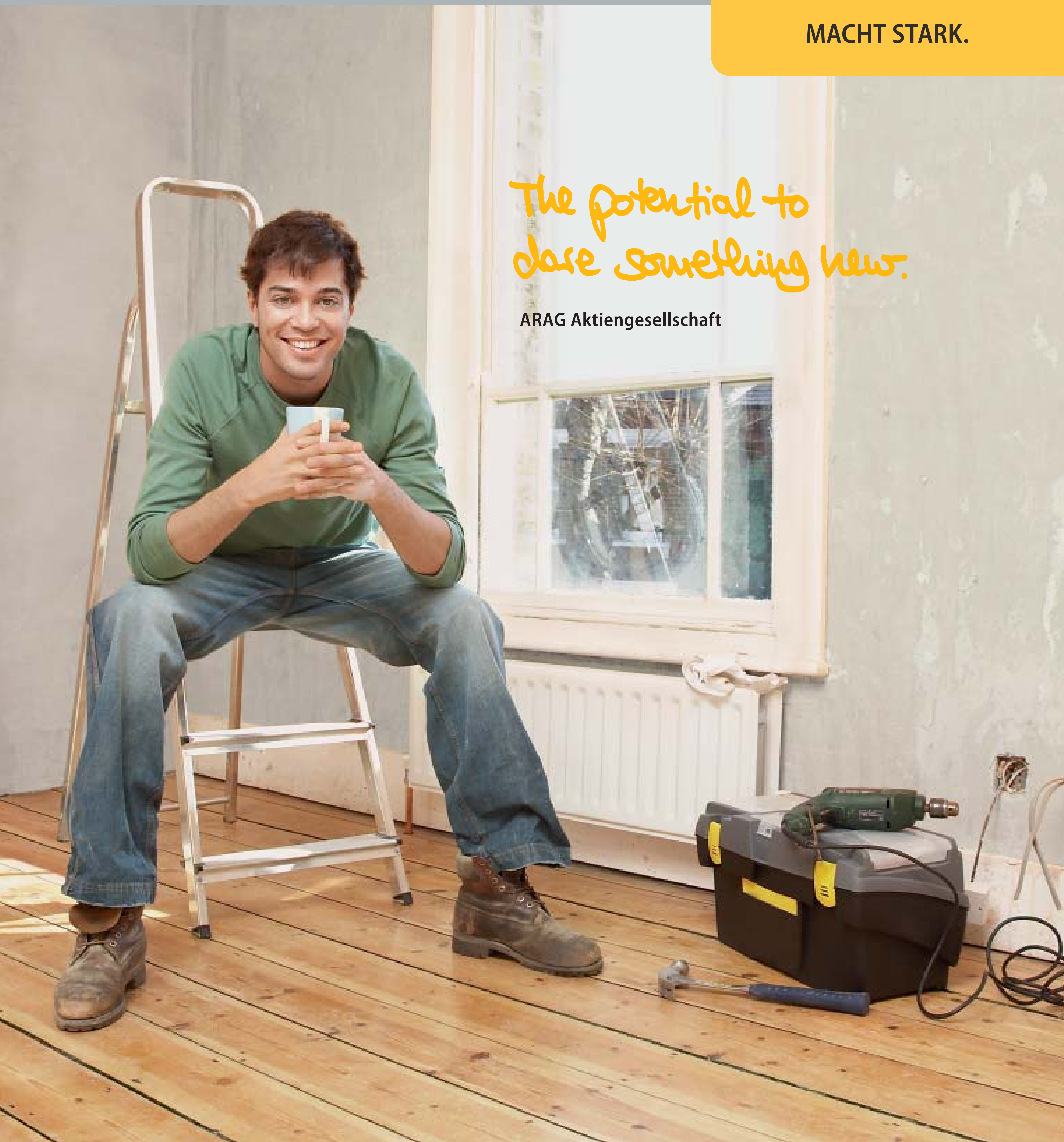

The potential to dare something new.

ARAG Aktiengesellschaft

The potential to dare something new.

Life is full of possibilities. But only those who are independent are in a position to take advantage of them. Our customers can concentrate on exploiting their opportunities to the fullest – because we take care of the risks: we help them to assess situations properly and ensure professional risk provision. So ARAG customers can embark on life's adventures with confidence.

Overview

Key Figures

ARAG AG – Consolidated Financial Statements

(in million euros)	2010	Change	2009	2008
Sales				
Gross premiums written	1,429.9	4.4%	1,369.8	1,361.0
Earned premiums for own account	1,417.1	4.4%	1,356.8	1,339.8
Sales revenues of non-insurance subsidiaries	57.9	34.7%	43.0	40.9
Costs				
Cost of claims for own account	927.5	2.0%	909.6	860.1
Claims ratio (basis: earned premiums)	65.5%	-1.5% pts.	67.0%	64.2%
Cost of insurance business for own account	489.2	8.4%	451.2	441.3
Cost ratio (basis: earned premiums)	34.5%	1.2% pts.	33.3%	32.9%
Overview of profit and loss				
Underwriting result for own account	16.5	-8.8%	18.1	63.1
Income from capital investments	227.2	13.4%	200.4	103.6
portion included in the underwriting result	155.4	14.3%	136.0	102.4
Other income/expenses	-23.3	33.8%	-35.2	-42.3
Profit on ordinary activities	64.2	38.4%	46.4	22.0
Net income before external components	50.1	138.6%	21.0	3.8
Underwriting reserves/earned premiums (net)	344.6%	-3.3% pts.	347.9%	342.6%

Contents

ARAG companies in Germany and their products and services

ARAG Allgemeine Rechtsschutz-Versicherungs-AG
- Legal insurance for motorists, employment, personal and home-related issues, for businesses, trades, self-employed professionals and associations

ARAG Allgemeine Versicherungs-AG
- Liability insurance
- Home effects insurance
- Accident insurance
- Accident disability pension
- TOP Special service package
- Building insurance
- Business insurance
- Sport insurance

ARAG Lebensversicherungs-AG
- Mutual-fund linked pension insurance
- Private pension insurance (incl. Riester/Rürup plans)
- Endowment insurance
- Term life insurance
- Disability, survivors' and accidental-death supplementary insurance
- Company pension plans

ARAG Krankenversicherungs-AG
- Private full-coverage health insurance
- Supplementary health insurance
- Statutory long-term care insurance
- Supplementary long-term care insurance
- Foreign travel health insurance

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Assurance en Protection Juridique
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Des Moines, Iowa 50309
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Structure of the ARAG Group

Asset and Shareholding Management	**ARAG Aktiengesellschaft**						
Operative Group Holding	**ARAG Allgemeine Rechtsschutz-Versicherungs-AG**						
	Central Group Functions	**Group Finances**	**Group Risk Management/ Controlling**	**Group Sales National**	**Underwriting/ Services**	**Group IT/ Business Organization**	**Group International**

Operative Insurance Companies	**ARAG Allgemeine Versicherungs-AG** Composite Insurance	**ARAG Lebensversicherungs-AG** Life Insurance	**ARAG Krankenversicherungs-AG** Health Insurance	**Interlloyd Versicherungs-AG** Brokerage Specialist	**International Companies** Legal Insurance/ Legal Services
Service Companies		**ARAG IT GmbH** IT Services for the ARAG Group	**Cura GmbH & Co. KG** Insurance Agency Firm	**ARAG Service Center GmbH** Emergency Telephone Service	

Profile of the ARAG Group

An overview ARAG is the internationally recognized, independent partner for legal matters and protection. From its first day onward ARAG, the legal insurance pioneer, has always seen itself as a partner of its customers. Today, ARAG the quality insurer applies this understanding to all its insurance services: our flexible, high-quality, high-performance offerings comprising prevention, consultation and cost reimbursement ensure that customers can depend on us for solution strategies and security across all segments – even in difficult life situations.

As the largest family enterprise in the German insurance industry, the ARAG Group is totally committed to maintaining its entrepreneurial independence and continuity. This assures the Group's stability, opens up long-term development perspectives and enables greater entrepreneurial freedom.

In the most recent reporting period, ARAG, with just under 3,500 employees, generated a sales and premium volume of more than € 1.4 billion. ARAG Allgemeine Rechtsschutz-Versicherungs-AG is responsible for the strategic management of the Group and oversees the operational legal insurance business both domestically and internationally. All other insurance companies and the ARAG service companies are grouped below this holding level, and each bears responsibility for the operative management of its respective line of business. As the asset-managing holding company, ARAG AG represents the formal legal umbrella of the ARAG Group with its direct and indirect subsidiaries.

Legal insurance The ARAG Group is one of the world's two leading legal insurance companies. ARAG Rechtsschutz actively shapes the markets in this sector both domestically and abroad. The company most recently redefined the German market with its innovative new legal insurance products. In 2010, ARAG Legal Service was additionally awarded the mark of 1.34 (very good) by auditing agency TÜV for its service quality – the best result in the industry to date. The Group is successfully exploiting the know-how gained through decades of experience in its home legal insurance market in twelve other European countries and in the USA. More than half of the premium income of the legal insurance companies is earned in the international arena.

Composite insurance ARAG Allgemeine, the Group's composite insurer, is proving itself a strong provider of property, liability and accident insurance in a highly competitive market. Its products have often placed right at the top in numerous independent performance and benefit comparisons; in 2009, TÜV rated ARAG Allgemeine's service quality 1.40 (very good). In addition, ARAG Allgemeine is Europe's largest sport insurer, covering around 21 million leisure and competitive athletes. The subsidiary Interlloyd supplements the Group's portfolio as a brokerage specialist in the trade and private customer segment.

Personal insurance ARAG Kranken and ARAG Leben round out the Group's offerings with new ideas in the market for private health insurance and private retirement saving. ARAG Kranken is one of the Group's fastest growing segments, while remaining tightly focused on profitability. Its attractive, high-performance offerings regularly place at the forefront of product and company ratings. With its family of investment fund-linked pension insurance products, ARAG Leben has established a customer-oriented retirement savings offering on the market. The flexible fund-linked policy also places at the top of performance comparisons.

Foreword

Dr. Paul-Otto Faßbender

The dynamism of the developments in the financial industry has by no means abated. The 2010 fiscal year provided impressive evidence of this. At the start of the year under review, an attitude of cautious reserve predominated in the estimations of the business opportunities in our industry. By the end of the year, this caution had given way to broad confidence. The key figures of the ARAG Group documented in this 2010 Annual Report are no exception.

The Company is in excellent condition, with strong growth and a further significant improvement in profits. Our business model as an internationally active family company continues to prove as sound, dependable and sustainable as ever. This is first and foremost the achievement of all our employees, who are supremely committed to making ARAG successful.

The owners are satisfied with the business development of the Group. However, this is no reason to slacken our efforts going forward. We at ARAG have our eyes fixed firmly on the future and we will continue to evolve the Company.

Our greatest guide will remain our conservative business principle: premium gains must always be accompanied and balanced by earning improvements. ARAG's customers, who depend on us to provide for their risks, benefit greatly from this approach.

This results in an enterprise development that is unspectacular, but all the more sustainable. In the coming year, our objective is nothing less than to rigorously continue on this course. We are taking on this task with strong momentum and superb spirit.

Dr. Paul-Otto Faßbender


I see the potential, not the risk.
340 20 10
340 30 15
340 40 20
330 70 10
330 70 15
330 70 20
310 50 10
310 50
270 20 10
270 20


Albristhorn
Simmentaler Häuser
Lenk
I SEE THE ADVENTURE, NOT THE RISK.


I see the prospect, not the risk.
词典
Dictionary
Chinese
Chinese–English
English–Chinese


MUTTERPASS
I see the joy,
not the risk!


I see the opportunity,
not the risk.

Management Report

Development of premium income and sales

(in million euros)	**2010**	2009	2008
Legal insurance	**706.5**	685.6	684.6
share domestic	299.8	307.1	317.3
share international	406.7	378.5	367.2
Composite	**229.9**	228.2	236.5
share domestic	184.5	190.4	199.2
share international	45.4	37.8	37.3
Life	**206.6**	200.6	206.0
Health	**286.8**	255.4	233.9
Service companies	**57.9**	43.0	41.0
Total	**1,487.7**	1,412.8	1,402.0

- ARAG grows significantly by 4.4 percent
- Profit on ordinary activities increases by over one third
- International business and health insurance continue on growth trajectory
- Turnaround: premiums again growing in life insurance

ARAG Group Management Report for Fiscal Year 2010

I. Business and Market Conditions

The general economic conditions of the fiscal year under review were characterized by a general recovery from the economic crisis that preceded it. However, the development in Europe was extremely uneven. In Germany, the increase in gross domestic product was driven by strong signals from the global economy. Over the course of the year, signs that the German economic recovery was becoming self-sustaining multiplied. Only the uncertainty in connection with the crisis in public finance in some EU nations cast a faint shadow. Private consumer spending in Germany increased for the first time in a year. Unemployment has also declined steadily since spring 2010. The increase in German real gross domestic product for 2010 was around 3.6 percent.

Emerging from the banking and economic crisis, the German insurance industry was able to achieve a considerable increase in revenues, with premiums gaining by 4.7 percent. However, this was mainly due to one-time life insurance premium payments. Premium revenues in property and accident insurance stagnated. However, appreciable declines in demand are not expected in future.

For years, intensive price competition has been characteristic of large portions of property and accident insurance. At the same time, growth is restricted by the high market saturation already attained in many segments. The phase of only moderately expanding or even declining premium revenues that began 15 years ago continues.

Development of ARAG in the overall economic environment In the 2010 fiscal year as well, the ARAG Group once more demonstrated the performance capability of its German and international business model through solid earning power. Profit on ordinary activities increased once again over the previous year by more than one third.

In spite of the challenging overall conditions – such as extreme competitive pressure in Germany, the selective underwriting policy in the German legal insurance business and the continuing aftereffects of the global economic crisis in several international markets – the Group expanded its premium revenues in all segments. Total premium revenues in the insurance business thus rose by 4.4 percent to € 1,429.9 million. The international legal insurance business continued to play a key role here: it again increased its premium revenues by 7.4 percent – following 3.1 percent in the crisis-overshadowed previous year. The Group is today the market leader in Italy and Spain; in the US and the Netherlands it is among the legal insurance leaders. In the German market, the health insurance business underscores its role as the Group’s growth engine, increasing its premium revenues by a further 12.3 percent in the fiscal year under review.

The claims load for employment-related legal insurance as a consequence of the financial crisis dropped significantly in the fiscal year under review due to the decline in claims. In the international legal insurance business, by contrast, claims expenditures increased substantially. These result primarily from the changing general conditions to which ARAG in Austria is subject in the event of claims on account of possibly faulty investment consultations by financial service companies. The Group has created a corresponding provision here in the interest of its Austrian customers.

The strong expansion of the health and life insurance business generated increased commission and personnel costs. Additionally, Group Risk Management added to its staff to implement the equity rules under Solvency II. For these reasons, the cost ratio increased moderately in the fiscal year under review. The net cost ratio increased by 1.2 percentage points to 34.5 percent.

On a Group-wide basis, income from capital investments recovered thanks to the improved overall economic conditions. It increased by 13.4 percent from € 200.4 million to € 227.2 million.

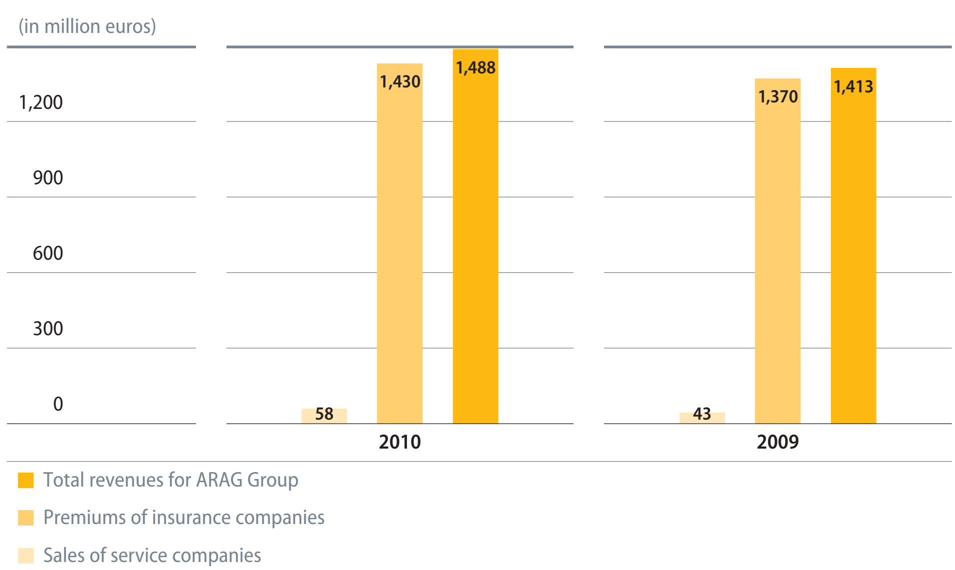
Due to the revision of accounting requirements in Germany, an extraordinary loss amounting to € 9.7 million was incurred due to the altered valuation of pension obligations.

In all, the ARAG Group looks back on a successful fiscal year with good revenue development and very good earnings development. The ARAG Group continues to prove itself a sound and stable partner for its customers. In addition, the high performance capability of the staff and the modern, attractive product portfolio constitute the key basis for the further successful development of the ARAG Group, which will continue to be shaped by its proven conservative business principles.

II. Earnings Situation

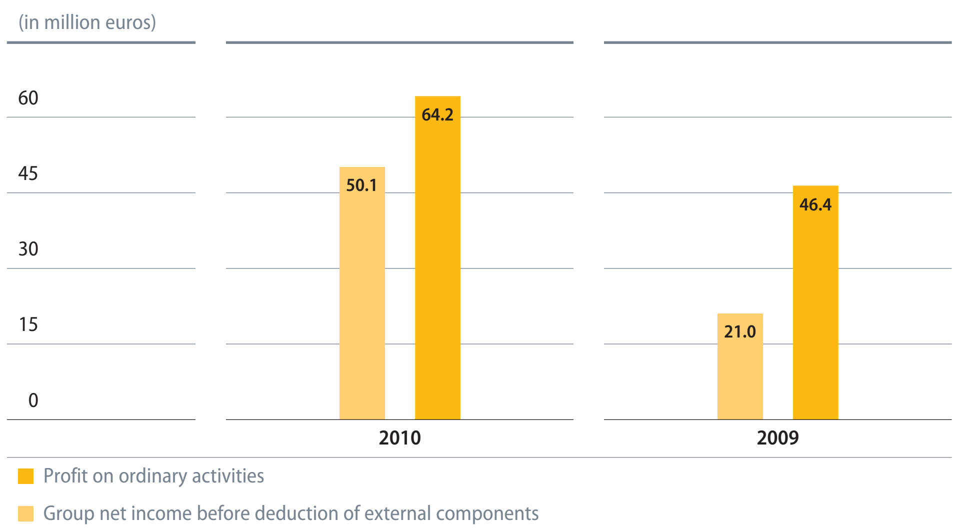
Premiums/sales The premium revenues of the insurance companies of the ARAG Group increased by 4.4 percent, from € 1.37 billion to € 1.43 billion, in spite of the unfavorable economic conditions in some European countries and extreme competitive pressure in the German market. The greatest growth was achieved with additional premium revenues in the German health insurance business, at € 31.4 million, and in the international legal insurance business with € 28.2 million. The sales revenues of the service companies increased to € 57.9 million, following on € 43.0 million in the previous year.

Total revenues



In all, the Group's portfolios comprise some 5.9 million policies. Our international business accounts for 2.5 million of these. The domestic sport business (composite segment) comprises a further 20.9 million insured risks, which enjoy the benefits of ARAG insurance cover through 15 state sport associations.

Group net profit



Earnings situation The earnings situation of the German and international insurance companies in the fiscal year under review was clearly influenced by the recovery on the financial markets. The ARAG Group continued to profit from its strong international orientation and its good product and segment mix.

The underwriting result of € 16.5 million was 8.8 percent below the previous year's level of € 18.1 million. In the fiscal year under review, a significant decline in claims expenditures for employment legal insurance cases was posted. However, this was offset by the previously mentioned additional cost of claims at two international subsidiaries. Additionally, factors including the increased closing commissions due to the expanded new business and the enlarged staff in Group Risk Management led to higher administrative costs. By contrast, the income from capital investments once again increased over the previous year's level, by 13.4 percent. Other income and expenses showed a significant improvement over the previous year, from € -35.2 million to € -23.3 million, primarily due to the development of asset prices on account of the current valuation of the fund assets covering pensions. Under consideration of all effects, profit on ordinary activities once again improved appreciably over the previous year, from € 46.4 million to € 64.2 million.

The Group has assumed insurance totaling € 927.5 million (previous year: € 909.6 million) on behalf of its customers. This increase is due in part to the development in legal insurance for possibly faulty investment advising by financial service companies mentioned above and in part to the strong growth in the health insurance segment. Still, the increase in premiums achieved reduced the Group's claims ratio from 67.0 percent to 65.5 percent. Due to the expansion of business and the associated increased commission expenditures as well as the increased staffing in Group Risk Management, it was not possible to hold the cost ratio for fiscal 2010 at the previous year's level. It increased from 33.3 percent to 34.5 percent. In all, the Group improved its combined ratio slightly, to 100.0 percent (previous year: 100.3 percent).

In the year under review the income from capital investments increased once more, by 13.4 percent to € 227.2 million, following € 200.4 million in the previous year. This increase was due primarily to the sale of shareholdings to third parties and the further recovery of asset prices on the capital markets. Due to uncertainties relating to the repayment of certain sovereign bonds, extraordinary write-downs came to the level of the previous year.

Increases in the present values of securities serving as security for pension obligations and reduced one-time expenses for the realization of optimization measures resulted in an improvement in other income/expenses with a net expense of € 23.3 million, as opposed to € 35.2 million in the previous year.

Taxes incurred in the fiscal year under review totaled € 4.5 million. The low tax rate of 8.2 percent is due to the development in deferred taxes.

After deduction of the tax expenditure, the Group net income before deduction of external components was more than twice that of the previous year, rising from € 21.0 million to € 50.1 million.

III. Financial Situation

The objective of financial management is to ensure that all obligations from the insurance business can be fulfilled at all times and to not merely meet the regulators' capital requirements for insurance companies, but to achieve a surplus cover, by means of sufficient capital and liquidity controlling. The lower-ranking liabilities stated in the balance sheet qualify as own funds within the meaning of the German insurance oversight law (Art. 53c (3) No. 3b VAG). This bond is for an indefinite term and can be terminated by ARAG after ten years from the date of issue.

The conservative reserves policy of the ARAG Group was consistently pursued throughout the year under review. The underwriting reserves were increased by a further 3.5 percent from € 4.72 billion to € 4.88 billion. However, the ratio of underwriting reserves to earned premiums declined over the previous year by 3.3 percentage points, from 347.9 percent to 344.6 percent, due to the increase in premiums.

In comparison with the previous year, the Group's own funds and guarantee funds developed as follows:

Development of own funds

(in million euros)	2010	2009
Subscribed capital – paid in	200.0	200.0
Reserves	42.0	28.5
Capital shares of minority shareholders	32.6	30.3
Group net profit after external components	46.1	18.8
Total equity	**320.7**	**277.6**
Lower-ranking bond	50.0	50.0
Own funds	370.7	327.6
Underwriting reserves	4,883.9	4,720.5
Guarantee funds	**5,254.6**	**5,048.1**

The guarantee funds are covered by capital investments in the amount of € 5,285.9 million (previous year: € 5,097.4 million). To ensure that it can meet all payment obligations from its insurance policies at any time, the Group has at its disposal, in addition to current account balances at financial institutions amounting to € 81.2 million (previous year: € 69.5 million), in particular capital investments that can be liquidated on the capital and financial markets on short notice.

For details respecting the scope of capital investments and investments in intangible assets undertaken in the fiscal year and the development of the Group's liquidity in the fiscal year under review, please refer to the Statement of Cash Flow on page 83.

IV. Asset Situation

The capital investment portfolio of the Group grew in fiscal 2010 by 3.7 percent, from € 5,097.4 million to 5,285.9 million. The present values of these capital investments amounted to € 5,545.1 million as of the day of accounting.

The capital investment structure in comparison to the previous year is as follows:

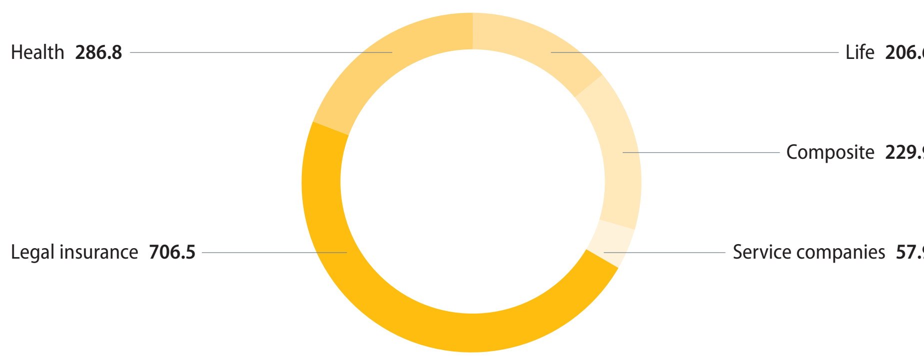
Type of capital investment

(in million euros)	2010		2009	
I. Real estate and buildings	218.0	4.1%	197.3	3.8%
II. Shares in affiliated companies and holdings	77.1	1.5%	87.3	1.7%
III. Lending to affiliated companies and holdings	0.8	0.0%	3.4	0.1%
IV. Stocks and investment fund shares	2,028.7	38.4%	1,966.4	38.6%
V. Bearer bonds	534.0	10.0%	445.3	8.7%
VI. Mortgages receivable and other similar rights	204.1	3.9%	217.7	4.3%
VII. Registered debentures, promissory notes	1,817.9	34.4%	1,867.1	36.6%
VIII. Bank deposits	279.1	5.3%	168.3	3.3%
IX. Other lending	41.7	0.8%	61.0	1.2%
X. Other capital investments	73.5	1.4%	78.9	1.5%
XI. Portfolio assets	11.0	0.2%	4.7	0.1%
	5,285.9	**100.0%**	**5,097.4**	**100.0%**

V. Segment Reporting

Premiums and revenues by segment 2010

(in million euros)



The Group comprises the operational segments
- Legal insurance business
- Composite insurance business
- Life insurance business
- Health insurance business
- Services and asset management

Gross premium revenues

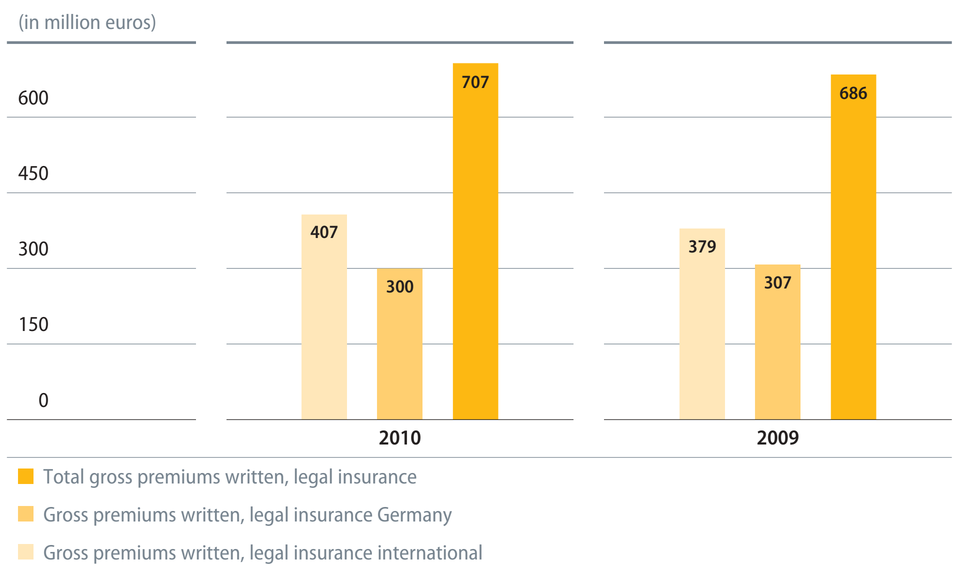
(in million euros)	2010	2009
Legal insurance	707	686

Legal insurance business In legal insurance, the Group continued to grow in the fiscal year under review. Gross premiums written increased by 3.1 percent, from € 685.6 million to € 706.5 million. The share of premiums attributable to international legal insurance business grew further in comparison with German legal insurance, and now constitutes 57.6 percent of all legal insurance business.

The cost of insurance claims in the entire legal insurance segment rose, from € 414.3 million to € 435.7 million. The increased cost of claims is due primarily to provisions for Austrian customers who need to take action against possibly faulty financial advising. In Germany, the elevated utilization of employment legal insurance due to the financial crisis in the previous year has again fallen significantly. In all, the cost of claims increased slightly from 61.0 percent to 61.9 percent. Consequently the underwriting losses increased from € 13.6 million in the previous year to € 33.6 million in the fiscal year under review.

The income from capital investments for the legal insurance segment as a whole developed positively, to € 51.5 million following € 46.5 million in the previous year. Under consideration of the improved cost balance of € 19.9 million from other income/expenses, profit/loss on ordinary activities showed a slight loss of € 1.9 million, following a profit of € 4.6 million in the previous year.

Uninterrupted growth in international legal insurance business



In the fiscal year under review as well, international legal insurance business lived up to its role as a growth engine of the Group: the gross premiums written by the Group's largest business sector posted a further considerable increase of 7.4 percent, from € 378.5 million in the previous year to € 406.7 million. ARAG Italy delivered a major growth surge. In the first half of the year, it assumed the entire legal insurance business of UGF Assicurazioni. This generated a further substantial growth spurt in ARAG's premium revenues in the Italian market, and extending the company's market lead even further. An additional € 45.5 million in premium revenues are attributable to the comparable special service package business of ARAG Spain, which was booked under the composite insurance sector. Including this figure, total revenues achieved in the international legal insurance business amounted to € 452.2 million. The largest single subsidiaries are active in Spain, the Netherlands and Italy. The combined ratio in international legal insurance deteriorated from 102.9 to 107.4 percent on account of the claims development cited above. The income from capital investments was not sufficient to offset this, so that the previous year's profit from ordinary business of € 2.1 million declined to a loss of € 13.0 million for the fiscal year under review.

The ARAG Group's German legal insurance business continues to operate in the extremely demanding, mature German insurance market, with its intense competitive pressure. Overall, the premium attrition slowed slightly over the previous year. Gross premiums written dropped by 2.3 percent from € 307.1 million to € 299.8 million. Premiums declined in spite of the revival in new business, as the actions taken to prevent cancellation have yet to develop their full effect. The claims ratio declined from 64.8 percent in the previous year to 64.6 percent in the fiscal year under review. This is due mainly to the further reduction in claims for employment legal insurance. On account of the increase in new business and the resulting rise in commission expenses, as well as the costs for preparing for the new solvency regulations (Solvency II), it was not possible to maintain the cost ratio at the level of the previous year. The net cost ratio increased to 38.5 percent in the fiscal year under review, following 36.6 percent in the previous year. Profit from ordinary business closed with a significantly greater increase of € 11.1 million (previous year: € 2.5 million) on a 54.1 percent gain in income from capital investments.

Gross premium revenues

(in million euros)	2010	2009
Composite insurance	230	228

Composite insurance business The gross premium revenues in the composite segment rose again for the first time in five years. They came to € 229.9 million (previous year: € 228.2 million). In the year under review, declines were posted in the motorist, accident and liability segments of the organization business. By contrast, Interlloyd Versicherungs-AG, a wholly owned subsidiary of ARAG Allgemeine that operates exclusively through brokers, succeeded in increasing its premiums by 4.0 percent, contributing to this segment's premium growth. The strategic cooperation between subsidiaries of the ARAG Group and the German subsidiary of Helvetia took effect in time for the year-end business in the motorist segment. ARAG Allgemeine was thus able to withdraw from the ruinous price war in this segment and is now selling the automotive insurance of Helvetia. In return, Helvetia is generating new business in the legal insurance and special service package areas for ARAG Group subsidiaries.

The legal insurance-like special service package of ARAG Spain, which is booked in the composite segment, increased over the previous year from € 37.8 million to € 45.5 million, a further 20.4 percent gain.

The cost of claims was at a gratifyingly low level on account of the lack of major and catastrophic losses in the fiscal year under review, resulting in an excellent claims ratio of 49.8 percent. Additionally, a slight decline in the cost ratio from 38.4 percent to 37.3 percent resulted in an increase in the underwriting result before fluctuation reserve to € 29.1 million (previous year: € 22.1 million). After adjustment of the fluctuation reserve by € 2.7 million, the underwriting result rose to € 31.8 million. When the greatly improved income from capital investments and other income/expenses are taken into consideration, income from ordinary business in the composite segment surged to € 50.3 million (previous year: € 28.2 million), making this segment the Group's most important income earner once more.

Gross premium revenues

(in million euros)	2010	2009
Health insurance	287	255

Health insurance business In the fiscal year under review, the health insurance business of the ARAG Group cemented its role as the fastest-growing Group segment with a further significant gain in premium revenues. Gross premium revenues grew from € 255.4 million in the previous year to € 286.8 million. This 12.3 percent increase in premiums once more exceeds the industry average for private health insurers. On the benefits side, the costs for insurance claims and transfers to the actuarial reserves increased by 12.6 percent in all to € 256.0 million. In spite of the vigorous growth in new business, commissions and administrative costs, at € 43.7 million, came in at 2.2 percent below the figure for the previous year. Income from capital investments once more grew from € 34.0 million to € 41.1 million, a gain of 20.8 percent, thanks to the improved financial market conditions. After consideration of the other expense and income items and transfer to the provisions for premium rebates, pre-tax earnings of € 8.3 million were achieved. This corresponds to an improvement of € 2.3 million over the previous year.

Gross premium revenues

(in million euros)	2010	2009
Life insurance	207	201

Life insurance business The life insurance segment achieved a turnaround in premium revenues in the fiscal year under review: premiums are once again increasing, and at € 206.6 million were 3.0 percent higher than in the previous year (€ 200.6 million). In variance from the market trend, this increase was achieved without pushing the sale of policies with so-called short-term single premiums. Rather, it is based on the increasing sales success of the new mutual fund policy generation ARAG FoRte 3D. This has stimulated sales through brokers in particular, who are becoming increasingly convinced of the high quality of ARAG's mutual fund-linked policies.

On the benefits side, expenses for insurance claims as well as the change in the underwriting reserve over the previous year resulted in an increase in expenditures of € 9.8 million to € 263.1 million. Commissions and administrative costs totaled € 55.0 million, as opposed to € 41.0 million in the previous year. In line with the more favorable overall conditions on the capital markets, income from capital investments grew from € 101.3 million to € 113.8 million. Under consideration of other expense and income items and the tax charge, this segment generated a gross profit of € 33.7 million. This enabled € 26.4 million (previous year: € 27.2 million) to be transferred to the provisions for premium rebates. A profit on ordinary activities in the amount of € 7.2 million remained for the Group net profit, as following on € 8.3 million in the previous year.

Sales revenues

(in million euros)	2010	2009
Service companies	58	43

Services and asset management This segment bundles all subsidiaries of the Group that perform central services outside of the pure insurance business – such as IT services or the operation of a central customer emergency hotline. It also includes the holding companies, of which ARAG AG is one. The agency subsidiary of the Group, Cura GmbH & Co. KG, is also included in this segment. Sales revenues of the non-insurance subsidiaries with external third parties and other Group segments increased from € 84.0 million in the previous year to € 96.1 million. This is due in particular to the increase in the real estate sales of the Group's residential real estate development companies. After adjusting for intra-Group revenues of the service companies, external sales amounted to € 57.9 million as opposed to € 43.0 million in 2009.

Profit/loss on ordinary activities improved from a loss of € 2.2 million in the previous year to a profit of € 3.8 million. Start-up losses were incurred in the previous year in a British brokerage subsidiary.

VI. Product Development, Employees and Other Performance Factors

Product development In the fiscal year under review as well, the top priority of the ARAG Group, the internationally recognized partner for legal matters and protection, was on the consistent, targeted expansion and enhancement of our innovative products, services and prevention offerings.

In its core legal insurance segment, ARAG rolled out a new product generation, “ARAG Aktiv-Rechtsschutz”, on the German market at the start of 2010. Mediation as extrajudicial conflict resolution is now the capstone that crowns the existing prevention and consultation services of ARAG Rechtsschutz. The inclusion of consultation in conjunction with job-related mutual-consent termination agreements up to € 1,000 – even when no conventional legal insurance case exists – and the Europe-wide unlimited cover are additional new features. ARAG Aktiv legal insurance also offers expanded criminal legal insurance for job and volunteer positions as an option.

The new legal insurance product line is meeting with great interest on the part of customers and consumers. In the first year alone, it generated € 18 million in premium revenues. The product “ARAG Aktiv-Rechtsschutz Komfort” also triumphed in its very first product rating, taking an excellent second place in a performance comparison of the consumer finance magazine Focus-Money just after its official rollout.

Mediation is also a key benefit in “ARAG Recht&Heim Aktiv”, the new generation of ARAG’s premium hybrid product that debuted at the start of 2010. This product combines legal insurance, liability coverage, household-effects and glass breakage coverage plus optional homeowners insurance in a single policy, and was expanded with numerous extra services in the new rate. Thus, ARAG supports its Recht&Heim-Aktiv customers for example not only through low-stress extrajudicial conflict resolution in the form of mediation. It is also the first insurer in the German market to offer immediate psychological assistance following a burglary or robbery. The changes in the product design – including the unique claim-free rebate and attractive rates – also make this product extremely competitive: it achieved premium revenues of over € 13 million in just its first year.

The certification of rating agency TÜV Saarland proves once again that ARAG as a quality insurer is setting standards not only with its products but with its service as well. Following a customer survey, ARAG Legal Service was awarded an excellent overall mark of 1.34 in the middle of the fiscal year under review. ARAG Rechtsschutz is thus positioning itself as the industry leader among the insurers tested by TÜV Saarland. The basis for this top rating was the extremely high customer satisfaction: 96 percent of respondents who reported a new legal insurance claim by telephone were extremely satisfied or satisfied with ARAG Legal Service. These excellent results are underscored by the fact that as of September 2010, ARAG Rechtsschutz can approve coverage within 24 hours. With this top mark of 1.34, ARAG Rechtsschutz supersedes the previous leader among the insurance companies tested by TÜV Saarland – another ARAG subsidiary: in mid-2009 the Claims Service of ARAG Allgemeine set a new standard with a score of 1.40 (“very good”).

In its international legal insurance business, ARAG scored points in the Dutch market with an innovative and useful product idea. Air travelers whose flights are delayed or cancelled can verify the amount of possible compensation and claim this quickly and easily via internet or smart phone with the aid of the ARAG Flight Claim Service. In just the first four months from its rollout, this legal service was utilized 9,000 times. Almost half of all users received compensation. Customers of ARAG Netherlands benefit particularly from the Flight Claim Service: it is free of charge for them.

The Norwegian legal insurer HELP Forsikring AS, in which the ARAG Group holds a 44.58 percent stake, won a tender for a large group policy with the Norwegian umbrella labor organization Landsorganisasjonen i Norge (LO). 850,000 members organized in 21 individual unions now have access to an optional family legal insurance product from ARAG's Norwegian subsidiary.

In the Group's composite segment, the "Business Aktiv" product line debuted in the middle of the previous fiscal year. Thanks to its modern cover concept, this policy effectively insures small and medium-sized businesses, self-employed persons and also non-profit associations against the most important risks in the area of property and liability insurance. ARAG Business Aktiv offers individuals solutions that are customized to fit their individual business based on three main pillars: business insurance, liability coverage and loss-of-earnings insurance. The new product is part of our strategic business offensive. In this way, ARAG now covers the entire spectrum of business risks in conjunction with the extremely attractive individual legal insurance for self-employed persons introduced at the end of 2008, which ideally complements ARAG Business Aktiv.

The composite segment is also making a special contribution to the perception of the ARAG Group as a quality insurer. Last year alone, rate variants of the ARAG Haftpflicht-Schutz liability product introduced in 2009 won 15 new seals and product certifications – including the ranking 1.0 from the magazine Finanztest, four times first place from the periodical Öko-Test and two times the M&M TOP-Ranking of the highly respected analysis firm of Morgen & Morgen.

In the health insurance segment, ARAG Krankenversicherungs-AG expanded its role as a high-performance provider in the areas of full-coverage private health insurance and in supplementary insurance. The high-performance, needs-oriented three-level concept in full-coverage health insurance covers all requirements – from entry level to premium customers. Additionally, all full-coverage ARAG customers now have at their disposal something unique in the German market: for the first time, they receive a powerful patient legal insurance for asserting claims for damages in the event of medical errors or malpractice – at no extra premium. In this way, ARAG is significantly improving the "balance of power" of its customers in the doctor-patient relationship. ARAG is the first private German health insurer ever to insure its customers against such a legal insurance risk at no extra charge.

The supplementary insurance rates of ARAG Kranken also offer excellent value for money. This is underscored by first-rate results in a wide range of product ratings – for example by the magazines Öko-Test and Finanztest. Independent agents and brokers are an especially important target group for the health insurance business. This group demonstrates a high level of confidence in ARAG Krankenversicherungs-AG and its products. This was revealed in a particularly impressive manner at the 2010 AssCompact PKV-Awards. Once again, the surveyed agents and brokers voted ARAG Krankenversicherung their favorite supplementary health insurance provider. ARAG took pride of place one in eleven of the twelve performance criteria queried. In 2010, the independent analyst firm Morgen & Morgen examined the balance sheets of 33 private health insurers. ARAG Krankenversicherung received the top ranking of “excellent”. The continuing double-digit growth in the number of persons purchasing supplementary insurance affirms the high acceptance of ARAG Kranken and its product spectrum.

In the life insurance business, the unique innovative power of ARAG Lebensversicherungs-AG made it possible to realize further market potential. The development of the new Riester rate of the proven ARAG FoRte 3D product line played a key role here. To this end, ARAG worked together with a specialized sales partner and a major financial institution to create an 80-percent capital preservation fund as a central component of the dynamic 3D capital preservation process; in this fund, assets are rolled over on a monthly basis and a portion of the fund’s makeup is actively managed. This cooperation significantly expanded an important sales channel for ARAG FoRte 3D. With this new Riester rate, ARAG Leben gained a significant overall advantage in the market. As a consequence, the proportion of new business written in Riester contracts jumped to one third in the fiscal year under review. This enabled the company to post an increase in overall new business – counter to the market trend – in the double-digit percentage points. The highly respected analyst firm Morgen & Morgen once more awarded the successful ARAG FoRte 3D product family – supplemented with the new Riester rate in the second retirement level – top ratings. The rating agency Franke & Bornberg graded the ARAG mutual fund-linked policies “FFF” (excellent).

Other performance factors In its anniversary year 2010, the ARAG Group expressed its gratitude to consumers in a unique action, by giving them access to the competence of 75 lawyers on the occasion of its 75th anniversary. On 29 September, all callers received a free initial attorney telephone consultation. This special action was intended to increase awareness for legal insurance in general as well as for initial attorney telephone consultation – the latter being an integral component of all ARAG legal insurance policies. For nine hours, anyone interested could call the toll-free number and obtain answers to questions from all areas relating to personal matters. The response was extremely positive: around 1,900 callers in Germany took advantage of this unique action.

Following a significant production increase at the end of 2009, ARAG core sales continued to extend its upward trend throughout the fiscal year under review. The final rollout of the "Red Thread", the consultation and leadership standard that enables comprehensive, holistic, transparent consultation and servicing of ARAG customers, sparked a considerable increase in productivity in the exclusive sales organization. The sales team, today 1,300 strong, grew by 9.3 percent in all in the fiscal year under review. Additionally, work toward implementing new, centrally maintained websites for the ARAG sales team was carried out. As of the beginning of 2011, the new Web presences of the ARAG main branch offices now showcase ARAG in a unified manner, reflecting the Group's uniform brand understanding.

The German website of the ARAG Group, www.ARAG.de, which went live with a complete makeover in terms of both content and design in 2009, was widely hailed as one of the best internet presences in the insurance industry in the fiscal year under review. It ranked 9th (previous year 15th) in the AMC Benchmark Study. For the 14th year, the Assekuranz Marketing Circle GmbH (AMC) analyzed and rated the Web presences of 123 German insurers. With its "sterling company presentation", AMC GmbH found, ARAG provides "an overwhelming offering that shows the competition what for"; AMC also praised the website's product presentation.

AMC considered the ARAG Aktiv Navigator a particular success. It is the game-changer in the internet portal www.aktiv-leben.de launched at the beginning of 2010, and also rates in its own header on the ARAG Group website. The Aktiv Navigator is not merely the optimum companion to the Legal Navigator – ARAG's comprehensive legal internet knowledge base – but also has an analogous structure. "Aktiv leben" offers lots of helpful information on living an active life, focusing on the topics of health, sports and travel. In this way, the ARAG Group is reinforcing its profile as an active insurer and taking advantage of its unique strengths in the areas of law, health and sport. The ARAG career pages are another new online feature. Launched at mid-fiscal year, these show the entire spectrum of possible career paths in the family company – in Düsseldorf, Munich and the nationwide ARAG core sales.

In the fiscal year under review, ARAG became the first German insurer to earn the official security certification "Deutsches Sicherheitszertifikat nach ISO 27001 von BSI IT-Grundschutz" from the German Federal Office for Information Security (BSI). The operation of ARAG's online offerings on all Web and application servers of ARAG IT was inspected. It took 15 months of project work to bring IT security into compliance with the requirements of BSI basic protection. The entire ARAG computer center, with its network and all servers that host the online offerings were subjected to the BSI security check.

The animal eyecatchers of ARAG's advertising campaign – the maki, the kangaroos and the gorilla – remained popular through fiscal 2010 and even won numerous international prizes. Several international ARAG subsidiaries also adopted the successful animal campaign. Among them was ARAG Belgium, which won the Decavi Trophy for best marketing campaign using two of the animal motifs. The resonance was also extremely positive for ARAG Slovenia, which used the marketing campaign to promote internet direct sales.

A promising sales cooperation was concluded in the fiscal year under review between subsidiaries of the ARAG Group and the German subsidiary of Helvetia. This provides for mutual representation of legal insurance, motorist and special service package business between the two companies. Helvetia traditionally pursues no legal insurance business of its own, and is thus using ARAG's extensive offerings in this segment. In return, Helvetia's motorist insurance will in future be sold not only via Helvetia sales channels, but by ARAG core sales as well. This cooperation between the two insurers builds on a shared history; for a long time now, ARAG and Helvetia have been cooperating in the Italian market in the sale of legal insurance.

The highly focused international expansion – one of the decisive factors for the Group's entrepreneurial success – continued in the fiscal year under review. In addition to exploring co-operation arrangements and shareholdings, ARAG also continued on its growth course with its international Group subsidiaries.

The international subsidiaries also demonstrated their excellent potential in the fiscal year under review through numerous awards. ARAG North America was a multiple prize-winner: a study for the Hermes Creative Awards, which are presented by the Association of Marketing and Communications Professionals, rated the company's communications as "excellent". Additionally, two other professional organizations showcased ARAG North America's excellent communications management as well. The company was also once more named a Center of Excellence by BenchmarkPortal, and several sources, including Business Insurance Magazine, again ranked it one of the "Best Places to Work". ARAG plc in Bristol also received an award: ARAG's British subsidiary was named "after-the-event" insurer of the year for its excellent and comprehensive services. The superlative product quality of ARAG Austria was impressively confirmed at the "Assekuranz Award Austria 2010": the company was the winner in this cross-segment category.

Employees In the fiscal year under review, the number of employees in the Group as a whole was slightly below the level for the previous year. Including companies outside the scope of consolidation, 3,460 persons were employed as of 31 December 2010 (previous year: 3,484). As of 31 December 2010, a total of 3,456 persons were employed in the consolidated companies on a permanent basis (previous year: 3,387). The increase was due in part to the hiring of additional personnel at the international subsidiaries – but also due to such factors as hiring at ARAG Krankenversicherung in response to the expanded new business and in Group Risk Management on account of implementation of Solvency II. Still, the number of employees in the Group overall declined over the previous year on account of the sale of a service subsidiary. During the reporting period, 45.2 percent of all ARAG Group employees worked outside of Germany.

Employees

(permanent staff)	2010	2009
Consolidated companies	3,456	3,387
Entire Group	3,460	3,484

In view of the dynamic market developments in Germany and abroad, it is essential for the Group to be able to depend on a staff capable of superior performance. Our employees are characterized by a high level of loyalty to and identification with this family company. As most of our employees have served with us for many years, they possess a profound knowledge of their areas of experience in both the domestic and international insurance business. The employees appreciate our excellent corporate culture and the forthright atmosphere in this family company.

The ARAG Essentials, the Group's vision, and the ARAG Leadership Standards derived from these were systematically advanced through new actions, impetus and ideas. At their joint conference at the start of 2010, ARAG's executives evaluated numerous ideas that were filtered out from a Group-wide employee survey and prioritized them for implementation. Additionally, it was decided to institute the ARAG Award for the entire enterprise. Starting in 2012, this prize will honor the best employee ideas for cementing and implementing the ARAG Essentials and further increasing awareness of the six ARAG Essentials values.

As a family company, the Group places special emphasis on offering its employees superior development and continuing education opportunities. The corresponding broad-based offerings are managed via a Group-wide education platform, ARAG IQ. Its scope has grown even more, as the first-ever ARAG Continuing Education Report documents. Already, well over 60 different seminars have been offered via this internet portal since its launch two years ago. The health program ARAGcare also scores points with extensive activities and offerings – and not only with ARAG employees. ARAG's health program was rated among the best in the industry: it took second place in the Corporate Health Award 2010 in the insurance/finance category. In addition to the health of its employees, ARAGcare also aims to help ARAG employees reconcile family and career. At the beginning of March 2010, a parent-child office was inaugurated at the ARAG Tower as part of a "family day". In this way, the Group supports employees in the event of a bottleneck in regular child care. Additionally, the ARAGcare link in ARAGnet also provides access to important information and news on child care, caring for family members and all aspects of health.

VII. Supplementary Report

As of the beginning of 2011, ARAG Aktiengesellschaft and ARAG Allgemeine Rechtsschutz-Versicherungs-AG initiated the process of transformation into a Societas Europaea (SE); this process is due to be completed before the end of the year. Düsseldorf will remain the headquarters location. The ARAG brand name will also be retained. With this step, the ARAG Group is recognizing its ongoing internationalization. Already, almost half of all employees are working outside Germany today. The international legal insurance business has been the ARAG Group's largest single line of business for three years now. The new legal form is also intended to facilitate expansion in Europe's new markets and thus open up additional options for the Company's development.

No other events of particular importance occurred following the end of the fiscal year under review.

VIII. Risk Report

Objectives of risk management Risk management is a core competence of the ARAG Group and thus an important component of business controlling. In the context of this controlling, the objective of risk management is to secure the financial strength of all Group subsidiaries and increase the value of the companies on a sustained basis. Effective, integrated risk management fulfills the entitlements of customers with the greatest possible security and creates sustained enterprise value for shareholders. In accordance with this objective, risk and capital aspects are a fixed part of the strategic planning process and also the basis of value- and risk-oriented controlling in accordance with the EVA® concept in the ARAG Group.

The risk management guidelines of the ARAG Group are:

– Risks are managed where they occur.
– All identified risks are observed and regularly reassessed.
– Newly identified risks are included in the monitoring process, assessed and communicated.
– Limits and thresholds exist for all material risks, and corresponding management actions are triggered when these are exceeded.
– All risks and associated decisions and actions are sufficiently documented.
– Regular internal and external reporting.

Organizational structure of risk management The risk governance of the ARAG Group comprises all Group subsidiaries and is designed so that local and global risks are holistically controlled, while simultaneously ensuring that the overall risk profile remains appropriate to the Group risk strategy and the risk-bearing capacity.

The Group Board establishes the business-policy objectives, the risk strategy as well as the capital requirements and limits of the individual Group subsidiaries.

The tasks and responsibilities of all active persons, such as the members of the Board of Management, executives, decentralized and central risk controllers and managers are clearly defined and documented in the Group Risk Policy of the ARAG Group. The responsibility for the assumption of risks and the oversight functions are strictly separated all the way up to the Board level in the Board-level functions Group Risk Management and Group Controlling. The Board controls the risks of the Group with the support of the Group Chief Risk Officer and ensures the central communication of risk-relevant issues through reports to the Supervisory Board on a regular basis and as required. This officer is also responsible for inter-divisional planning, controlling and monitoring of the entire risk architecture.

The decisions as to the utilization of opportunities and the assumption of risks are generally taken by the operative units on the basis of the Group Risk Policy, which limits the risk framework. In performing these tasks, these units are supported by Group Risk Management acting as an independent controlling function.

The further development of the risk management system is carried out systematically and is based on the principle of the holistic consideration of asset- and liability-side risks. Group Risk Management is responsible for identifying, assessing, controlling and monitoring these risks for all domestic and international subsidiaries and preparing associated board-level decisions.

Group Risk Management bears the process responsibility for the risk management system and ensures comprehensive transparency with respect to the risk situation and changes in it through a quarterly risk report to the Board of Management. Additionally, Group Risk Management is responsible for the further development of the risk management system and for preparing proposals for uniform Group-wide standards. Group Risk Management is furthermore responsible for developing and calculating models for determining the risk-bearing capacity, the risk capital and risk capital allocation.

Capital investment controlling is an independent risk controlling function that is responsible for monitoring asset-liability management. This focuses not only on the asset- and liability-side economic and balance-sheet risks but also on a potential mismatch between underwriting obligations stated on the liabilities side and their coverage by asset items.

The rules for specifying and controlling these risk fields are defined and monitored by the Board of Management with the support of Group Risk Management. The central and local instruments and processes deployed in the risk management system follow a uniform approach that takes into account the overall economic conditions as well as the requirements and expectations of customers, regulators, rating agencies and the shareholders.

Furthermore, a strict functional separation exists between the operational controlling of risks and Group Risk Management. Group Risk Management also works closely with Internal Auditing. The implemented systems meet the requirements of the German Act on Control and Transparency in Enterprises (KonTraG).

The risk management system The risk management system as an integral part of all risk-relevant processes ensures that no actions or decisions that fall outside the provisions set out in the Group Risk Policy and the risk strategy are taken. The risk management system is audited regularly by Group Auditing. In conjunction with the integrated risk management, the Group is able to identify new risk or developments entailing risks in a timely manner, systematically assess them according to uniform criteria and actively manage them. The review of the risk early warning system is also a part of the auditing process of the year-end audit of the individual Group subsidiaries.

The core elements of the ARAG risk management system comprise the processes of risk identification, risk analysis and assessment, risk controlling and risk monitoring and communication.

Risk identification: The aim of risk identification is to recognize the emergence of new risks or changes in existing risks in a timely manner and assess these according to a uniform procedure/standard. For example, risks from the opening of new markets and introduction of new products are identified, analyzed and assessed across all departments and submitted to the Board of Management for a decision in a corresponding new-product process. Analogous processes are implemented for the new capital investment products, reinsurance instruments, etc. They are also integrated in existing limit and monitoring processes.

Risk analysis and assessment: All identified risks are continuously quantified, analyzed and assessed using suitable methods and on the basis of systematically collected and continually updated data. This process also examines whether the risk profile corresponds to the established limits.

The key element here is the risk capital required to cover unexpected losses in the value at risk. This is calculated in the internal risk capital model. This model calculates the maximum loss in value of risk positions covered in the model within a specific retention period (one year in this model) and with a specific probability. The loss in value can be caused due to an unfavorable development on the capital investment side or an unexpected development in insurance business.

Both the methodology and the risk positions are regularly verified and plausibility-tested by means of sensitivity analyses, stress tests, back-testing and validation tests.

Group-wide risk standards ensure a consistent and appropriate approach in risk modeling, performance measurement and the application of relevant risk parameters in the calculations.

Risk controlling: The risk management functions on the Group and segment levels define suitable strategies and concepts for overseeing both the conscious assumption of risks and the implementation of controlling measures in the sense of minimization, hedging, transfer and diversification of all identified and analyzed risks. Risk limitation ensures that the risks actually assumed are compatible with the risk strategy, respectively the risk capacity, at all times.

Risk monitoring and communication: The actual limit utilization is determined and monitored on a continuing basis through comparison of the assumed risks with the specified limits. The portfolio is analyzed on a regular basis to identify large-scale risk trends. The results of risk monitoring and the action recommendations derived from these are reported to general management on a continuing, timely and unrestricted basis. This enables decision-makers to control risks proactively. The external communication of risks takes into account the interests of the shareholders and regulatory authorities.

FOCUS ISSUE

Solvency II, risk capital requirements and internal risk capital model

The Solvency II project of the European insurance industry has completed a further key stage on the way to the new regulation of solvability regulations for insurance companies with the Fifth Impact Study. In Germany, it is anticipated that the reform will apply as of 2013.

The ARAG Group participated in the Fifth Impact Study and submitted the required evaluations for its German and international subsidiaries to the respective regulatory authorities within the deadline.

Compared to the current solvability regulations pursuant to Solvency I, the new solvability regulations focus more strongly on risks associated with the business model of an insurance company (for example underwriting risk, market risk, etc.). To determine solvability under Solvency II, the risk capital requirement quantified according to a standard approach or a certified internal risk capital model is compared with the risk capital available in the company that can be used to cover losses.

Under Solvency II, the risk capital requirement is defined as the value at risk for a period of one year with a certainty level of 99.5 percent. Insurance companies can chose between a standard model and an internal model in determining their risk capital requirement. The latter must be approved by the German Federal Financial Supervisory Authority (BaFin).

The ARAG Group is seeking certification of a partial internal model under Solvency II. For ARAG, risk-appropriate management of underwriting risks and the assumed market price risks is a key success factor. Only the use of an internal model enables the special characteristics of the ARAG Group's business model to be risk-appropriately reflected and the capital requirement calculated accordingly.

Consequently, a Solvency II project was initiated on the Group level in 2010 to develop the existing internal model further; this created the technical, IT-infrastructure and methodological and documentation foundations for certification of the partial internal model by the supervisory authority.

Main risks

Underwriting risks in property and accident insurance: Due to the product and client structure, the Group's insurance portfolio holds only a few extraordinary risks regarding possible major claims that would endanger its continued existence. These are covered by means of reinsurance contracts, so that only the acceptable deductible remains, which does not endanger the continued existence of the Company. The claims situation is actually influenced more by the effects of changing legal, economic and social parameters. Furthermore, our claims expenditures can increase as a result of changes to laws and statutory instruments or legal charges and fees – even for claims that have already been reported. We counter these risks by constantly monitoring legal and social developments and analyzing their impact on our insurance portfolio.

The table below illustrates the stability of the Group's insurance business and the consistently adequate estimation of claims reserves by summarizing the claim development trend over the last ten fiscal years (self-contracted business of headquarters). The trend shows that the development to date has not been subject to any significant fluctuations.

Development of claims

Fiscal year		Gross claims ratio, total	Settlement result
	Ratio for fy	Balance	in % of initial reserves
2010	66.7	61.3	4.2
2009	66.4	58.0	6.4
2008	65.2	55.4	7.6
2007	66.8	62.6	3.4
2006	65.2	59.2	5.1
2005	65.6	59.9	4.8
2004	64.4	60.1	3.9
2003	65.6	54.3	9.4
2002	68.4	60.8	6.6
2001	64.4	59.7	4.3

Underwriting risks in life insurance and health insurance: The underwriting risk comprises the danger that the collected premiums are no longer sufficient to finance the actual insurance benefits (premium/insurance benefit risk), that the net income from capital investments is not sufficient to fulfill the interest guarantees (interest guarantee risk), and that the underwriting reserves established are not sufficient to fulfill future insurance benefits (reserves risk). Among other strategies, these risks are countered by calculating the premiums and insurance benefits and the corresponding reserves to be set aside in accordance with recognized actuarial principles under observance of all statutory requirements. The risk that an interest rate appropriate for the customer, respectively the guaranteed interest rate, cannot be achieved on account of the current low capital market interest rates is met by allocating the capital investment portfolios in a differentiated manner according to the term and debtor structure. The portfolio of fixed-interest capital investments generates a return that exceeds the current interest rate level; new investments are made solely in securities with a rating of "BBB", for terms that correspond to the expectations with respect to the development of capital-market interest rates.

With regard to the biometric basis for calculation (death probabilities, disability probabilities, etc.), ARAG only uses the recognized decrement tables provided by the German actuarial association DAV and BaFin (German Federal Financial Supervisory Authority) as these are considered sufficiently reliable.

In addition, the anticipated values arrived at using the decrement tables are regularly compared with actual claims in order to validate the appropriateness of the biometric calculation basis. In the case of pension insurance, the assessment of the longevity risk is particularly important. The effects of increasing life spans correlates with a reduction of the safety margins in the pension tables used to date in calculating the actuarial reserves.

Cancellation probabilities are not considered in calculating the actuarial reserves. In addition, the provisions of the German directive regulating the accounting of German insurance companies, RechVersV, require that reserves must at least equal the surrender value. For life insurance policies in which the claims against the policyholders are capitalized, the risk of cancellation is provided for by means of appropriate valuation allowances.

In health insurance, the underwriting risks are minimized through a comparison (by rate) conducted at least annually of the necessary insurance benefits and death probabilities and those calculated using the technical calculation basis. If the actual values deviate from the expectations within certain limits, the calculation basis is reviewed (claims requirement, actuarial interest rate, mortality, cancellation). Where required, the premiums are matched to current developments with the approval of an independent actuarial trustee. The current mortality tables of the German Private Health Insurers Association are used in calculating the probability of death.

Risk from default on debts in the insurance business: Losses due to default on debts in the insurance business are minimized by an efficient and persistent dunning system. The residual default risk is anticipated by setting aside general provisions for bad debt against receivables in the financial statements.

As of 31 December 2010, receivables in insurance business more than 90 days past due amounted to € 14.5 million. The average default rate on receivables is less than 1 percent with reference to written premiums.

Market price risks: In the area of capital investments, our adherence to the regulations of Art. 54 ff. VAG (statute governing the regulation of insurance companies) along with the investment regulations issued pursuant to this statute already provides a high level of risk limitation with regard to the structure and diversification of the capital investments portfolio. ARAG has also implemented investment rules which limit capital investments risks further. Derivative financial instruments are used to a very restricted extent, and only to hedge against risks of exchange rate or interest rate changes in funds. As of the 2008 fiscal year, shares in special investment assets were assigned to the investment assets and valued according to the modified lower of cost or market principle. Since 2009 some individual bearer securities have also been treated as investment assets. All other securities were valued at the strict lower of cost or market principle.

As an insurance company, the assumption and professional management of risks are a part of the fundamental business of ARAG, and thus a significant element of capital investments controlling. Specifically, the risks of capital investments comprise the market risk, the credit risk and the liquidity risk. A broad diversification of the portfolio limits the individual risks by broadly spreading the capital investments on the basis of investment types, debtors and regions.

The market risk is countered by a risk-based controlling concept that enables a capital investments early warning system in conjunction with continuing market monitoring and timely reporting. Additionally, a security concept is implemented that safeguards the stock portfolios against further exchange losses when certain price indices are reached. Furthermore, the risk situation and the financial stability are reviewed on a regular quarterly basis in the form of internal tests based on the same criteria as the official stress tests of German financial regulators. The stress tests examine whether the Company would be able to meet its obligations to its insurance customers in spite of extreme crisis situations on the capital markets without recourse to extraordinary measures. In the stress tests, which comprise four scenarios, the following simultaneously occurring losses in value are assumed:

Scenario	R10	A20	RA19	AI24
Bonds	-10%	–	-5%	–
Stocks	–	-20%	-14%	-14%
Real estate	–	–	–	-10%

As a result of these analyses it may be stated that as of the accounting date, all domestic insurance subsidiaries of the Group have passed all stress tests mandated by regulatory authorities without restriction. Strict requirements respecting the financial soundness of debtors and the avoidance of a concentration on individual debtors reduce the credit risk to a great extent. The restriction of fixed-interest securities almost exclusively to investment-grade instruments is the logical consequence of this principle.

Investment class

	(percent share)
Financial services companies	51.0
Corporate bonds	13.9
Sovereign nations	35.1

87.3 percent of the individual risks show a minimum rating of "A" according to Standard & Poor's or a comparable rating. The Group regards the default risk as a form of the credit risk as slight in view of the credit ratings of the securities portfolio, the cover assets of the pfandbriefe and the government stabilization actions for the banking sector in response to the financial crisis.

Rating class

	(percent share)
AAA	42.6
AA	24.3
A	20.4
BBB	8.6
BB	1.5
B	0.8
CCC	0.6
CC	0.0
C	0.1
NR	1.1

The Group holds sovereign bonds of the so-called PIIGS nations including holdings in special funds amounting to € 224.9 million (4.3 percent of all capital investments). Of these, € 19.4 million is attributable to Portugal, € 112.0 million to Italy, € 20.4 million to Ireland, € 35.8 million to Greece and € 37.3 million to Spain (by acquisition cost). The portfolio contains no participation certificates or high-risk ABS items. The currency risk from fixed-interest securities is limited to a maximum of 5 percent of the investment volume. 4.2 percent of capital investments are subject to a stock risk.

The liquidity risk is limited by revolving financial planning which identifies the payment flows in good time and allows them to be matched through asset-liability management. In addition, the high fungibility of our capital investments ensures that these can be liquidated on short notice.

The use of derivative instruments is regulated by our general principles and internal guidelines and is restricted exclusively to hedging purposes in funds.

The ARAG Group manages the risks resulting from its holdings and subsidiaries by means of constant monitoring as well as integration in the planning and controlling system. Management of operative risks is sufficiently provided for by the subsidiaries themselves.

Credit risks: Credit risks are potential losses in value that occur when a debtor no longer can or is willing to service his payment obligations in part or in full as stipulated in the contract. The credit risk is described using three indicators: (1) the likelihood of default, (2) the anticipated amount of the debt at the time of default and (3) the loss ratio due to default.

The credit risk is modeled in the internal model. The parameters are estimated on the basis of statistical analyses or expert opinions, respectively.

The ARAG Group monitors and controls the credit risk with the aid of a limit system. This also includes monitoring of credit concentrations in order to avoid peak concentrations by industries and counterparties.

Operational risks: The operational risks include all risks that pertain to staff, processes, organization, IT, natural disasters, technologies and external circumstances. The portfolio of operational risks is updated on a quarterly basis. Risks are controlled through the implementation of actions for the purpose of risk protection, risk avoidance or risk reduction.

The Company guards against the risk of administrative failures through rules and audits in the respective departments. Internal controlling measures and the continuing deployment of internal auditing minimize the risk of serious working errors and acts of embezzlement. A professional software tool is used world-wide for managing the operational risks (identification, administration and controlling).

Summary of risk situation At present, the overall risk situation does not indicate any trends that could endanger the existence of individual subsidiaries of the Group or severely impair the Group's asset, financial or earnings situation.

Quantification of the overall risk situation/solvability The Group had at its disposal sufficient own funds of the regulatory solvability requirements as set forth in the applicable statute (Art. 104g VAG). The calculation of the Group's solvability as of 31 December 2010 shows a sufficient coverage with own funds, whereby these come to around 119 percent of requirements in spite of the difficult overall conditions.

IX. Outlook

The overall economic conditions for Germany in 2011 appear positive. The forecasts are calling for the German gross domestic product to expand by between 1.7 and 2.5 percent. All demand components are contributing to an accelerating economic development. Private consumption expenditures already increased significantly in 2010. Important indicators for the situation of companies, such as the ifo Business Climate Survey, show sustained recovery since the crisis years of 2008 and 2009. Gross business investment in Germany and exports both climbed again in 2010.

Support for the revival of demand came from the gratifying situation on the German employment market. It is additionally expected that in 2011, private households in Germany will participate in the favorable economic development through higher collective-bargaining agreements and that real incomes will rise.

However, it must be noted that the rapid economic recovery in Germany is, for all practical purposes, decoupled from developments elsewhere, particularly in Europe. Large European economies continue to suffer the consequences of the global recession. The looming consolidation of public finances in many countries of Europe and monetary measures that promote repayment liquidity will impair the economic situation in the medium term.

In Germany, the business outlook for property and accident insurance is largely positive given the sustained economic recovery. The Business Climate Index of the ifo Institute for Economic Research for the insurance industry has improved almost without interruption since the beginning of 2009. Admittedly, the insurance market in property and accident insurance – and particularly in legal insurance – continues to be characterized by intensive seller competition and high market maturity. However, the disposable income of private households and the situation on the job market are having an increasingly positive influence on the demand behavior of consumers.

The ARAG Group is consciously positioning itself as a high-performance family company in both German and international contexts. In the eyes of consumers, this type of enterprise stands for dependability, soundness and continuity. The economic crisis is driving a fundamental, conservative shift in values among consumers which will shape the general conditions of the insurance markets to a much greater extent going forward. Consumer surveys show that ARAG as the largest family company in the German insurance industry can profit from this development. Consumers appreciate ARAG's rational, cautious corporate growth and its strong international position as a sign of soundness and stability. From these analyses, we may conclude that consumers prefer to obtain insurance services from a large family company. Encouraged by these benevolent assessments, ARAG will emphasize its family company attribute more strongly in future. Here, the Group benefits from the fact that it has already positioned itself as a quality insurer for its customers. The surveys also revealed that consumers consider high-quality products and services as important indicators of the performance capability of a family enterprise.

One important task of the Group will thus be to define its profile as an international family company more clearly in public as well. To this end, ARAG will thoroughly revise and modernize its brand strategy. The aim is to position ARAG as a brand-name provider in the insurance industry. The brand also must be more closely aligned with the enterprise reality as a multi-segment insurance provider. A corresponding strategic branding concept has been prepared and will be executed over the forecasting period. A correspondingly revised advertising campaign will start in summer 2011. The international subsidiaries are also involved in the implementation of the revised brand strategy.

In the forecasting period 2011/2012, the ARAG Group will remain true to its conservative, earnings-oriented business policy. Thanks to the strong international diversification of its core business, the Company expects a continuing moderate growth course. The expectations for each Group segment vary.

In the legal insurance segment, the international business will remain on its growth course thanks to a further increase in premiums and cement its role as the Group's largest line of business. In view of the differing economic situations in the respective markets and the effects of the financial market crisis in each, the development of business in the international subsidiaries will vary. In all, a premium growth in international legal insurance business slightly below that of the fiscal year under review is anticipated over the forecasting period.

In the German legal insurance business, plans call for an increase in production across all sales channels: in addition to the continuing expansion and increasing effectiveness of the comprehensive "Red Thread" sales process and the resulting strengthening of core sales, broker and cooperation sales also play a key role in increasing production. Cooperation sales can profit in particular from the sales cooperation with Helvetia, which commenced in the fiscal year under review. Additionally, a broad-based cancellation prevention project was pursued in 2010. The aim is to further reduce portfolio attrition in German legal insurance over the forecasting period through a greater integration of all actions, and ultimately halt this by the end of the 2013 fiscal year.

In the composite segment, the current actions to enhance portfolio stability and new business will be consistently pursued in the coming years. The ongoing overhaul of the property, liability and accident insurance product portfolio, the assumed special service package business as part of the sales cooperation with Helvetia and the intensified supplementary insurance business for associations as part of sport insurance will generate key contributions to this.

The health insurance unit has all the prerequisites for continuing its successful business development with continually increasing premium revenues and thus underscoring its role as the Group's growth engine. The product portfolio, excellently positioned in the market and closely matched to customer needs – in both full-coverage health insurance and the ever more important supplementary health insurance – gives reason to anticipate a further expansion of the share of the German health insurance market.

The Group's life insurance unit has an excellent basis for expanding its business further in the form of the successful ARAG FoRte 3D product family – now expanded with a new Riester rate in the second retirement-savings layer. In the coming years, this product family is also slated to be optimized further in close cooperation with qualified sales partners. A further revival of business above the market average is anticipated for the coming fiscal years.

Across all segments, new risk management regulations stipulated by insurance oversight law are being implemented within the ARAG Group. The Board-level functions Group Risk Management and Group Controlling, reorganized over the course of the fiscal year for this purpose, worked intensively on implementing the requirements of the new solvability regulation in a comprehensive project throughout the year under review. The aim is to attain certification of a partial internal model that appropriately reflects the unique features of the business model of the ARAG subsidiaries and makes it possible to calculate capital requirements accordingly.

In view of the ARAG Group's increasing internationalization, the process of transforming the asset-managing Group holding company ARAG Aktiengesellschaft and the operative Group holding company ARAG Allgemeine Rechtsschutz-Versicherungs-AG into European companies is being pursued. The boards of management and supervisory boards of both companies have approved the transformation into a Societas Europaea (SE). The change in the legal form is to be finalized over the course of 2011. The headquarters of both companies will remain in Düsseldorf. The ARAG brand name will also be retained. The new legal form is intended to facilitate expansion in Europe's new markets and thus open up additional options for the Company's development. Through this conversion, the Düsseldorf-based family company is strengthening its reputation as an internationally active insurer and improving its acceptance directly with European customers.

The earnings expectations of the ARAG Group for the forecasting period 2011/2012 are guardedly optimistic. The Company continues to benefit from the extensive optimization actions initiated in 2003. The high-earning operational insurance business will be a source of strength for ARAG in the coming years as well. The Company will accordingly continue to adhere to its conservative business policy, with the main focus on enhancing underwriting income. For the owners, good to excellent internal financing capability remains a top ARAG priority. Consequently, the Group is operating with a consistent earnings orientation rather than being growth-oriented. With respect to the ARAG Group's organic expansion of business, the focus is on high-earning growth opportunities, which ARAG sees primarily in international business and in health insurance. The Group will examine external growth opportunities for their strategic potential and utilize them where the conditions are right. This applies to the legal insurance segment in particular.

Under consideration of all opportunities and risks, the ARAG Group is assuming stable and satisfactory business results for the 2011 and 2012 fiscal years that achieve the level of the fiscal year under review.

Consolidated Financial Statements

ARAG Aktiengesellschaft

Consolidated Financial Statements

Consolidated Balance Sheet as of 31 December 2010

Assets
(in euros)
A. Intangible assets
1. Goodwill
2. Other intangible assets
B. Capital investments
I. Real estate, comparable rights and buildings including those on third-party property
II. Capital investments in affiliated companies and shareholdings
1. Shares in affiliated companies
2. Lending to affiliated companies
3. Holdings in associated companies
4. Other holdings
5. Lending to companies with which a shareholding relationship exists
III. Other capital investments
1. Stocks, investment fund shares and other non-fixed interest securities
2. Bearer bonds and other fixed-interest securities
3. Mortgages receivable, other similar rights and fixed-interest debts
4. Other lending
a) Registered debentures
b) Promissory notes and loans
c) Loans and advance disbursements on insurance policies
d) Remaining lending
5. Bank deposits
6. Other capital investments
IV. Portfolio assets from assumed reinsurance business
C. Capital investments for the account and risk of life insurance policyholders
D. Accounts receivable
I. Accounts receivable for self-contracted insurance business from:
1. Policy-holders
a) Claims due
b) Claims not yet due
2. Insurance agents portion from affiliated companies: € 560.99 (previous year: € 0.00)
II. Settlement receivables from reinsurance business
III. Other accounts receivable portion from affiliated companies: € 430,491.82 (previous year: € 3,966,939.76) portion from companies with which a shareholding relationship exists: € 157,099.12 (previous year: € 292,586.33)
E. Other assets
I. Real estate intended for sale and other assets of non-insurance companies
II. Tangible assets and supplies
III. Current bank balances, checks and cash in hand
IV. Other assets
F. Accrued and deferred items
I. Deferred interest and rents
II. Other accrued and deferred items
G. Asset-side deferred taxes
H. Asset-side difference from offsetting of assets
Total assets

Appendix				2010	2009
33 p. 74					
1 p. 63			33,901,033.47		40,144,439.36
2 p. 64			15,792,718.80		15,275,110.22
				49,693,752.27	**55,419,549.58**
33 p. 74					
3 p. 64			217,994,427.15		197,349,906.13
4 p. 64					
		2,837,782.29			3,703,821.77
		650,000.00			3,257,102.59
		9,825,652.56			13,684,563.46
		64,397,559.66			69,957,019.44
		112,156.99			113,325.30
			77,823,151.50		90,715,832.56
5 p. 64		2,028,705,704.60			1,966,387,929.84
6 p. 65		534,005,976.09			445,277,359.79
8 p. 65		204,109,666.92			217,674,912.60
8 p. 65					
	917,591,049.43				892,150,519.60
	900,305,407.09				974,995,661.78
	72,692,555.84				78,819,702.70
7 p. 65	41,680,651.14				61,030,901.46
		1,932,269,663.50			2,006,996,785.54
10 p. 65		279,083,644.65			168,263,430.61
8 p. 65		890,028.29			101,807.95
			4,979,064,684.05		4,804,702,226.33
			11,074,145.86		4,674,430.72
				5,285,956,408.56	**5,097,442,395.74**
9 p. 65				**86,368,112.31**	**56,190,551.00**
11 p. 65					
	50,189,299.63				53,397,646.24
	35,975,740.52				21,659,295.60
		86,165,040.15			75,056,941.84
		31,507,963.25			31,054,509.32
			117,673,003.40		106,111,451.16
			21,736,375.05		17,535,820.67
			23,172,266.82		19,395,308.46
				162,581,645.27	**143,042,580.29**
			14,861,679.87		33,517,748.07
12 p. 65 13 p. 65			20,133,412.70		19,722,186.04
			81,164,385.54		69,502,330.58
14 p. 66			61,355,639.29		65,197,107.24
				177,515,117.40	**187,939,371.93**
15 p. 66					
			55,414,986.85		55,665,322.76
			18,882,253.51		12,148,595.87
				74,297,240.36	**67,813,918.63**
16 p. 66 34 p. 77				**55,607,003.61**	**24,952,041.46**
17 p. 66				**913,298.70**	**0.00**
				5,892,932,578.48	**5,632,800,408.63**

Consolidated Balance Sheet as of 31 December 2010

Liabilities

(in euros)
A. Equity
I. Subscribed capital
II. Revenue reserves
1. Statutory reserves
2. Other revenue reserves
3. Currency exchange rate reserves
4. Difference according to Art. 309 (1) HGB
III. Group loss/profit
1. Group net profit
IV. Balancing item for shares of other shareholders
B. Difference from consolidation of capital
C. Lower-ranking liabilities
D. Special reserve item
E. Underwriting reserves
I. Unearned premiums
1. Gross amount
2. less: portion for reinsured business
II. Actuarial reserves
1. Gross amount
2. less: portion for reinsured business
III. Provision for outstanding claims
1. Gross amount
2. less: portion for reinsured business
IV. Provision for profit-linked and non-profit-linked premium rebates
V. Fluctuation reserve and similar provisions
VI. Other underwriting reserves
1. Gross amount
2. less: portion for reinsured business
F. Underwriting reserves in the life insurance segment, insofar as the investment risk is borne by the policyholders
I. Actuarial reserves
II. Other underwriting reserves
Carryover:

Appendix			2010	2009
31 p. 71 40 p. 84				
		200,000,000.00		200,000,000.00
	6,268,896.00			5,564,914.00
	70,695,417.02			61,037,205.85
	1,005,563.38			-2,057,188.39
	-35,999,890.81			-35,999,890.81
		41,969,985.59		28,545,040.65
	46,068,022.07			18,830,376.00
		46,068,022.07		18,830,376.00
		32,567,853.86		30,314,676.99
			320,605,861.52	**277,690,093.64**
			656,541.96	**656,541.98**
18 p. 66			**50,000,000.00**	**50,000,000.00**
19 p. 66			**4,957.87**	**4,957.87**
20 p. 67				
	219,849,445.92			221,005,534.77
	-2,278,483.17			-2,469,193.81
		217,570,962.75		218,536,340.96
21 p. 67				
	3,187,779,745.32			3,083,721,030.15
	-61,346,948.00			-65,401,460.00
		3,126,432,797.32		3,018,319,570.15
22 p. 69				
	1,282,552,533.04			1,227,727,849.61
	-38,560,577.14			-39,170,883.02
		1,243,991,955.90		1,188,556,966.59
		231,304,671.35		224,646,055.21
23 p. 69		59,212,462.00		65,434,193.00
24 p. 69				
	5,345,311.44			5,056,150.43
	0.00			0.00
		5,345,311.44		5,056,150.43
			4,883,858,160.76	**4,720,549,276.34**
		53,298,900.48		29,614,580.37
		33,069,211.83		26,575,970.63
			86,368,112.31	**56,190,551.00**
			5,341,493,634.42	**5,105,091,420.83**

Consolidated Balance Sheet as of 31 December 2010

Liabilities

(in euros)
Carryover:
G. Other provisions
I. Reserve for pensions and similar obligations
II. Reserve for taxes
III. Reserve for anticipated tax liability for subsequent fiscal years according to Art. 274 (1) HGB from previous year
IV. Other reserves
H. Portfolio liabilities for reinsured insurance business
I. Other liabilities
I. Liabilities from self-contracted insurance business toward:
1. policyholders
2. insurance agents portion to affiliated companies: € 0.00 (previous year: € 8,446.40)
II. Settlement liabilities from reinsurance business
III. Debts to banks
IV. Other liabilities portion attributable to taxes: € 13,314,299.10 (previous year: € 14,874,486.10) portion attributable to social security: € 608,201.17 (previous year: € 588,075.46) portion to affiliated companies € 48,165.41 (previous year: € 1,480,726.42) portion to companies with which a shareholding relationship exists: € 85,892.37 (previous year: € 24,410.22) portion secured by property lien: € 0.00 (previous year: € 2,480,000.00)
J. Accrued and deferred items
K. Liability-side deferred taxes
Total liabilities

Appendix			2010	2009
			5,341,493,634.42	**5,105,091,420.83**
25 p. 69		203,427,783.00		192,571,193.65
		37,706,292.24		25,586,713.71
		0.00		4,393,650.44
26 p. 70		51,690,064.37		60,449,682.96
			292,824,139.61	**283,001,240.76**
27 p. 71			**66,402,381.27**	**72,487,155.73**
27 p. 71				
28 p. 71				
	57,252,971.38			58,410,970.56
	35,595,636.78			31,987,018.87
		92,848,608.16		90,397,989.43
28 p. 71		4,933,307.12		2,285,984.54
29 p. 71		13,628,397.85		16,541,855.63
		70,700,955.72		57,844,210.15
			182,111,268.85	**167,070,039.75**
30 p. 71			**10,101,154.33**	**5,150,551.56**
34 p. 77			**0.00**	**0.00**
			5,892,932,578.48	**5,632,800,408.63**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2010

Item
(in euros)
I. Underwriting account for property and accident insurance business
1. Earned premiums for own account
a) Gross premiums written
b) Premiums for reinsured business
c) Change in gross unearned premiums
d) Change in reinsurers' portion of gross unearned premiums
2. Technical interest earned for own account
3. Other underwriting result for own account
4. Cost of claims for own account
a) Payments for claims
aa) Gross amount
bb) Reinsurers' portion
b) Change in provision for outstanding claims
aa) Gross amount
bb) Reinsurers' portion
5. Change in other net underwriting reserves
a) Net actuarial reserves
b) Other underwriting reserves
6. Cost of profit-linked and non-profit-linked premium rebates for own account
7. Cost of insurance business for own account
a) Gross cost of insurance business
b) less: commissions and profit-sharing received from reinsured insurance business
8. Other underwriting costs for own account
9. Subtotal
10. Change in fluctuation reserve and similar provisions
11. Underwriting result for own account in property and accident insurance business

Appendix			2010	2009
32 p. 72	936,470,001.62			913,821,000.65
	-7,685,736.92			-7,340,518.09
		928,784,264.70		906,480,482.56
	-1,875,970.02			-4,203,138.10
	97,174.45			15,947.79
		-1,778,795.57		-4,187,190.31
			927,005,469.13	**902,293,292.25**
			574,243.00	**591,412,00**
			3,183,061.12	**3,153,122.47**
	501,454,264.84			495,336,780.49
	-5,979,507.26			-5,395,471.44
		495,474,757.58		489,941,309.05
	50,782,597.02			36,695,777.60
	721,496.65			4,286,003.66
		51,504,093.67		40,981,781.26
			546,978,851.25	**530,923,090.31**
		0.00		0.00
		53,726.99		794,205.92
			53,726.99	**794,205.92**
39 p. 81			**13,108.13**	**-10,497.50**
38 p. 81				
		391,306,364.94		366,244,922.38
		-762,931.86		-685,237.96
			390,543,433.08	**365,559,684.42**
			1,265,495.36	**1,006,060.44**
			-7,984,387.58	**9,353,694.97**
			6,221,731.00	**-7,226,288.00**
			-1,762,656.58	**2,127,406.97**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2010

Item
(in euros)
II. Underwriting account for life and health insurance business
1. Earned premiums for own account
a) Gross premiums written
b) Premiums for reinsured business
c) Change in gross unearned premiums
d) Change in reinsurers' portion of gross unearned premiums
2. Premiums from gross provisions for premium rebates
3. Income from capital investments
a) Earnings from shareholdings
b) Earnings from associated companies
c) Income from other capital investments portion from affiliated companies: € 0.00 (previous year: € 0.00)
aa) Income from real estate, comparable rights and buildings including those on third-party property
bb) Income from other capital investments
d) Gains from write-ups
e) Gains from sale of capital investments
f) Gains from dissolution of special reserve item
4. Unrealized gains from capital investments
5. Other underwriting result for own account
6. Cost of claims for own account
a) Payments for claims
aa) Gross amount
bb) Reinsurers' portion
b) Change in provision for outstanding claims
aa) Gross amount
bb) Reinsurers' portion
7. Change in other net underwriting reserves
a) Net actuarial reserves
aa) Gross amount
bb) Reinsurers' portion
b) Other underwriting reserves
8. Cost of profit-linked and non-profit-linked premium rebates for own account
9. Cost of insurance business for own account
a) Cost of sales
b) Administrative expenses
c) less: commissions and profit-sharing received from reinsured insurance business
10. Costs of capital investments
a) Costs for administration of capital investments, interest costs and other costs for capital investments
b) Write-downs on capital investments portion for extraordinary write-downs: € 13,547,157.73 (previous year: € 9,422,703.64)
c) Losses from sale of capital investments
11. Unrealized losses from capital investments
12. Other underwriting costs for own account
13. Underwriting result for own account in life and health insurance business

Appendix			2010	2009
32 p. 72	493,417,075.97			456,012,374.23
	-2,606,833.94			-2,048,383.65
		490,810,242.03		453,963,990.58
	-530,965.41			1,489,194.68
	-206,354.93			-967,484.13
		-737,320.34		521,710.55
			490,072,921.69	**454,485,701.13**
			27,866,218.29	**19,104,887.48**
		1,574,689.30		983,925.10
		0.00		0.00
	7,532,963.26			4,142,098.66
	139,929,541.64			130,625,697.71
		147,462,504.90		134,767,796.37
		12,954,014.64		7,930,807.05
		15,571,431.39		9,265,886.23
		0.00		0.00
			177,562,640.23	**152,948,414.75**
35 p. 78			**8,617,923.86**	**12,004,773.32**
			22,552,481.72	**8,302,229.89**
	385,685,226.51			386,517,673.36
	-8,146,324.48			-11,671,506.71
		377,538,902.03		374,846,166.65
	-3,110,225.98			-3,587,937.37
	129,713.51			-207,432.90
		-2,980,512.47		-3,795,370.27
			380,519,414.50	**378,641,536.92**
	-127,743,587.28			-87,991,798.61
	-4,054,512.00			-5,158,750.00
		-131,798,099.28		-93,150,548.61
		-6,835,577.20		-8,832,749.35
			-138,633,676.48	**-101,983,297.96**
39 p. 81			**55,958,008.89**	**41,195,949.88**
38 p. 81				
	82,889,899.05			67,615,978.31
	16,473,997.11			16,097,742.07
		99,363,896.16		83,713,720.38
		-726,769.70		1,943,032.69
			98,637,126.46	**85,656,753.07**
		7,311,752.68		6,811,180.12
		15,173,886.97		10,367,109.88
		240,912.23		343,431.60
			22,726,551.88	**17,521,721.60**
			1,581.79	**566.10**
			11,923,716.57	**5,904,856.31**
			18,272,109.22	**15,941,324.73**

Consolidated Statement of Profit and Loss for the Period 1 January to 31 December 2010

Item
(in euros)
III. Non-underwriting account
1. Underwriting result for own account
a) in property and accident insurance business
b) in life and health insurance business
2. Income from capital investments, where not stated under II. 3.
a) Earnings from shareholdings portion from affiliated companies: € 47,000.00 (previous year: € 1,257,367.49)
b) Earnings from associated companies
c) Income from other capital investments portion from affiliated companies: € 0.00 (previous year: € 0.00)
aa) Income from real estate, comparable rights and buildings including those on third-party property
bb) Income from other capital investments
d) Gains from write-ups
e) Gains from sale of capital investments
3. Costs of capital investments, where not stated under II. 10.
a) Costs for administration of capital investments, interest costs and other costs for capital investments
b) Write-downs on capital investments portion for extraordinary write-downs: € 12,503,607.79 (previous year: € 15,562,637.74)
c) Losses from sale of capital investments
d) Assumption of losses from associated company according to equity method
4. Technical interest earnings
5. Sales revenues of non-insurance subsidiaries
6. Production costs of performing the services for achieving the sales revenues of non-insurance subsidiaries
7. Other earnings
8. Other costs portion for write-downs on company values from consolidation of capital: € 6,993,590.02 (previous year: € 5,405,217.56)
9. Non-underwriting result
10. Profit on ordinary activities
11. Extraordinary earnings
12. Extraordinary expenses
13. Taxes on income and earnings Portion from change in accounting of deferred taxes: € 34,235,462.04 gain (previous year: € 1,348,700.00 gain)
14. Other taxes
15. Profit/loss for year before external components
16. Profit attributable to other shareholders
17. Loss attributable to other shareholders
18. Net income

Appendix				2010	2009
			-1,762,656.58		2,127,406.97
			18,272,109.22		15,941,324.73
				16,509,452.64	**18,068,731.70**
		1,698,964.27			1,753,733.64
		538,126.37			606,659.67
	13,833,797.00				16,974,506.13
	56,952,051.38				56,147,623.21
		70,785,848.38			73,122,129.34
		15,725,696.58			16,974,661.38
		17,090,743.79			9,246,405.92
			105,839,379.39		101,703,589.95
		13,270,890.21			15,277,199.58
		15,957,389.07			19,417,591.52
		4,259,306.38			2,082,556.86
		0.00			0.00
			33,487,585.66		36,777,347.96
				72,351,793.73	**64,926,241.99**
				-574,243.00	**-591,412.00**
				57,857,413.72	**43,026,383.92**
				58,631,997.13	**43,812,044.66**
			37,798,057.22		26,956,831.53
			61,060,856.71		62,205,453.72
				-23,262,799.49	**-35,248,622.19**
				47,740,167.83	**28,300,547.06**
				64,249,620.47	**46,369,278.76**
36 p. 78			499,779.23		0.00
36 p. 78			10,189,729.40		0.00
				-9,689,950.17	**0.00**
34 p. 77 37 p. 78			4,357,097.96		24,207,423.51
			108,272.33		1,128,921.61
				4,465,370.29	**25,336,345.12**
				50,094,300.01	**21,032,933.64**
			-5,614,995.18		-3,060,442.01
			1,588,717.24		857,884.37
				-4,026,277.94	**-2,202,557.64**
				46,068,022.07	**18,830,376.00**

I. Notes on Scope of Consolidation as well as Accounting, Valuation and Consolidation Methods

Legal basis for preparation of the Consolidated Financial Statements The year-end Consolidated Financial Statements of ARAG Aktiengesellschaft for fiscal 2010 and the Group Management Report were prepared according to the provisions of the German Commercial Code (HGB) for large corporations, under observance of the supplementary requirements for insurance companies promulgated 8 November 1994 (RechVersV) under particular consideration of the accounting regulations for conglomerates as set forth in Art. 341i, 341j HGB and Art. 58 to 60 RechVersV as well as the German accounting standards (DRS). The latter were applied only insofar as they do not impair the continuity of valuation, insofar as the exercise of legal alternatives is significant for reporting the asset, financial and earnings situation of the Group. The transitional regulations of the German Accounting Law Modernization Act (BilMoG) of 25 May 2009 set out in articles 66 and 67 of the Introductory Law to the German Commercial Code (EGHGB) were complied with. Under application of Art. 67 (8) EGHGB, the previous year's figures were not adjusted throughout and the regulations regarding consistency of valuation and presentation were not applied with reference to the previous year. In accordance with Art. 58 (1) RechVersV, forms 1 and 4 were used for the structure of the Consolidated Financial Statements. The forms were expanded to reflect special features of the Group as well as items for non-insurance business.

To the greatest extent possible, the financial statements of the companies included in the Consolidated Financial Statements were prepared in a uniform manner using the accounting and valuation principles of the ARAG Group. Financial statements of subsidiaries that were not prepared according to HGB and RechVersV regulations have been adapted to German accounting principles following a rollover of amounts, breakdown and valuation, insofar as these are not associated companies.

The accounting and valuation methods of the associated companies vary fundamentally from German accounting principles. A Norway-based holding prepared its annual financial statement according to the Norwegian accounting statute, the Kredittilsynet. A further holding located in Switzerland prepared its annual financial statement according to the Swiss Code of Obligations. Adapting the financial statements was waived on account of the largely identical foreign accounting methodology with respect to HGB.

Scope of consolidation The Consolidated Financial Statements report on 40 subsidiaries in accordance with Art. 301 (1) HGB as of 31 December 2010. Two companies within the scope of consolidation were included as associated companies within the meaning of Art. 311 HGB. In the second quarter, shares in a German legal insurer that was among the associated Group companies up to that point were sold to third parties. Additionally, three service companies that were previously included completely in consolidation were removed from the scope of consolidation as of 31 December 2010, as these companies are no longer of strategic importance and the business activity which they pursue is to be abandoned over the medium term.

As of 31 December 2010, the scope of consolidation including associated companies comprises 14 insurance companies (previous year: 15), two service providers in the area of electronic data processing and business organization (previous year: two), four real estate management companies (previous year: four), 15 other service companies (previous year: 18) and five holding and asset management companies (including the top-level company) (previous year: six).

The Consolidated Financial Statements omit 27 Group subsidiaries, as on account of the minor significance of these companies their omission from the scope of consolidation in no way impairs the asset, financial or earnings situation of the Group.

The following companies were included in the Consolidated Financial Statements:

	Name of company	Group share (in percent)
1	Advisory Communications System Inc., Des Moines, Iowa, USA	91.23
2	AFI Verwaltungs-Gesellschaft mbH, Düsseldorf, Germany	89.86
3	ALV Vermögens- und Beteiligungs-Verwaltungs AG, Munich, Germany	86.39
4	ARAG 2000 Beteiligungs-Gesellschaft mbH & Co. KG, Munich, Germany	86.39
5	ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf, Germany	93.31
6	ARAG Aktiengesellschaft, Düsseldorf, Germany, **parent company of the Group**	100.00
7	ARAG Allgemeine Rechtsschutz-Versicherungs-AG, Düsseldorf, Germany	94.93
8	ARAG Allgemeine Versicherungs-AG, Düsseldorf, Germany	94.93
9	ARAG Assicurazioni Rischi Automobilistici e Generali S.p.A., Verona, Italy	94.92
10	ARAG Association LLC, Des Moines, Iowa, USA	94.93
11	ARAG Compañía Internacional de Seguros y Reaseguros S.A., Barcelona, Spain	94.93
12	ARAG Insurance Company Inc., Des Moines, Iowa, USA	91.23
13	ARAG International Holding GmbH, Düsseldorf, Germany	94.93
14	ARAG IT GmbH, Düsseldorf, Germany	94.93
15	ARAG Krankenversicherungs-AG, Munich, Germany	88.53
16	ARAG Lebensversicherungs-AG, Munich, Germany	86.39
17	ARAG Liegenschaftsverwaltungs- und Beratungs-Gesellschaft mbH, Düsseldorf, Germany	94.93
18	ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf, Germany	94.93
19	ARAG LLC, Des Moines, Iowa, USA	91.23
20	ARAG North America Inc., Des Moines, Iowa, USA	94.93
21	ARAG Österreich Allgemeine Rechtsschutz-Versicherungs-AG, Vienna, Austria	94.93
22	ARAG Plc., Bristol, Great Britain	94.93

The following companies were included in the Consolidated Financial Statements:

	Name of company	Group share
		(in percent)
23	ARAG S.A. Assurance en Protection Juridique, Brussels, Belgium	94.90
24	ARAG Service Center GmbH, Düsseldorf, Germany	94.93
25	ARAG Services LLC, Des Moines, Iowa, USA	91.23
26	ARAG zavarovanje pravne zaščite d. d., Ljubljana, Slovenia	94.93
27	ARAG-Nederland Algemene Rechtsbijstand Verzekeringmaatschappij N.V., Leusden, Netherlands	94.74
28	ATE Limited, Bristol, Great Britain	94.93
29	COLUMBUS CAPITAL Service GmbH, Munich, Germany (until 31 December 2010)	86.39
30	Cur Versicherungsmakler GmbH, Düsseldorf, Germany	94.93
31	Cura Gesellschaft für Vermögensverwaltung und für Vermittlung mbH, Düsseldorf, Germany	94.93
32	Cura GmbH & Co. KG, Düsseldorf, Germany	94.93
33	GWV-AVUS Beteiligungsmanagement GmbH, Munich, Germany (until 31 December 2010)	86.39
34	IGD Immobilien GmbH & Co. Dresden KG, Düsseldorf, Germany	90.09
35	IGD Immobilien GmbH, Düsseldorf, Germany	94.93
36	Interlloyd Versicherungs-AG, Düsseldorf, Germany	94.93
37	ITS-Haus GmbH Wohn- und Gewerbebau, Munich, Germany (until 31 December 2010)	86.39
38	Rechtswijzer B.V., Leusden, Netherlands	94.55
39	SolFin GmbH, Düsseldorf, Germany	71.29
40	TERRA Gesellschaft für Finanzdienstleistungen und Beratung mbH, Düsseldorf, Germany	94.93
41	WOWOBAU Wohnungsbaugesellschaft mbH, Munich, Germany	86.39

The following companies were included as associated companies:

	Name of company	Share held
		(in percent)
1	Allrecht Rechtsschutzversicherung AG, Düsseldorf, Germany (until 30 June 2010)	26.00
2	AXA-ARAG Rechtsschutzversicherungsgesellschaft, Zurich, Switzerland	29.17
3	HELP Forsikring AS, Oslo, Norway	44.58

Janolaw AG, Sulzbach, in which the Group holds 25.1 percent of the shares, was not included as an associated company pursuant to Art. 311 (2) HGB, as the company does not prepare its annual financial statements in a timely manner and is additionally of only secondary importance for the asset, financial and earnings situation of the Group.

The following companies were not included in the Consolidated Financial Statements in accordance with Art. 296 (2) and Art. 311 (2) HGB:

	Name of company	Group share	Equity	Profit/loss for year
		(in percent)	(in euros)	(in euros)
1	ABRAL Beteiligungsverwaltung GmbH, Munich, Germany	86.39	172,202.70	-4,850.44
2	Agencia de Seguros Cap. ARAG S.A., Barcelona, Spain	94.93	138,361.22	74,814.80
3	ALVA Aktiengesellschaft, Munich, Germany	86.39	265,018.50	2,521.72
4	ARAG International BV, Leusden, Netherlands	94.74	9,594.00	-3,853.00
5	ARAG Legal Service S.L., Barcelona, Spain	94.93	349,015.07	213,707.41
6	ARAG Service S.R.L., Verona, Italy	94.92	648,664.00	194,985.00
7	ARAG-France S.A.R.L. Assistance et Règlement de Sinistres Automobiles et Généraux, Rueil Malmaison, France	94.93	10,988.00	-1,000.00
8	ARCA-A GmbH, Munich, Germany	86.39	24,098.46	-1,813.36
9	ARCA-B GmbH, Munich, Germany	86.39	24,148.66	-1,756.33
10	ARCA-C GmbH, Munich, Germany	86.39	23,802.72	-1,940.26
11	ARCA-D GmbH, Munich, Germany	86.39	24,209.78	-1,748.50
12	ARCA-E GmbH, Munich, Germany	86.39	15,331.17	-684.58
13	ARCA-F GmbH, Munich, Germany	86.39	24,198.05	-1,756.88
14	ARCA-G GmbH, Munich, Germany	86.39	24,187.94	-1,774.76
15	ARCA-H GmbH, Munich, Germany	86.39	24,204.91	-1,755.64
16	ARCA-I GmbH, Munich, Germany	86.39	24,179.94	-1,772.34
17	ARCA-J GmbH, Munich, Germany	86.39	23,851.56	-1,798.63
18	ARCANSA Beteiligungsverwaltung GmbH, Munich, Germany	86.39	-367,295.05	45,079.02
19	ATE Group Services Limited, Bristol, Great Britain	94.93	87,737.13	0.00
20	BuZ Vermittlungsgesellschaft mbH, Münster, Germany	86.39	-73,232.07	721,213.67
21	Easy2claim Limited, Bristol, Great Britain	94.93	1.17	0.00
22	JuroDirect B.V., Maastricht, Netherlands	31.57	450,204.00	160,385.00
23	Jurofoon B.V., Maastricht, Netherlands	31.57	421,537.22	222,993.00
24	Juronet B.V., Maastricht, Netherlands	31.57	-228,299.00	-17,307.00
25	Prinzregent Vermögensverwaltung-GmbH, Munich, Germany	86.39	32,314.93	97.50
26	Stella Gesellschaft mbH Werbeagentur i. L., Düsseldorf, Germany	73.36	161,233.27	675.99
27	VIF Gesellschaft für Versicherungsvermittlung mit beschränkter Haftung, Düsseldorf, Germany	94.93	89,501.22	59,040.82

Consolidation principles The Consolidated Financial Statements were prepared on the basis of the individual financial statements of the respective subsidiaries. The fiscal year comprises the period from 1 January to 31 December 2010 and is identical to all fiscal years of the subsidiaries involved. The consolidation of capital was undertaken using the book-value method through offsetting of the acquisition costs of the shareholdings of the subsidiaries involved with their proportional equity as of the date they were first selected for consolidation. Any resulting asset side differences were allocated to the valuations of the assets of the respective subsidiary, insofar as valuation scope existed. The asset-side difference that exceeds the permissible attribution was in all cases stated as goodwill and depreciated over the anticipated period of use.

Insofar as subsidiaries were included in the 1989 Consolidated Financial Statements under application of Art. 27 EGHGB, or the asset-side difference represents a loss that was reflected in previous years' financial statements of the parent company, an open offsetting against the revenue reserves was performed in past years. The offsetting of differences and revenue reserves is now no longer performed for first-time consolidations, as this is no longer permitted under Art. 301 (3) HGB and DRS 4.28.

Liabilities-side differences from capital consolidation are stated as income-relevant in the year in which the expected losses occur. In special cases, offsetting against revenue reserves was performed in an income-neutral manner in past years.

The final consolidation of the subsidiaries eliminated from the consolidation scope is always performed so as to be income-relevant by setting off the assets and liabilities of the subsidiary sold as a proportion of consolidated values against the sale proceeds. Effective 30 June 2010, one insurance company previously included as an associated company and one holding company previously included according to the principles of full consolidation were removed from the scope of consolidation due to their sale to third parties. This removal from the scope of consolidation resulted in a gain of € 3.6 million. Additionally, three service companies that were previously included according to the principles of full consolidation were removed from the scope of consolidation effective 31 December 2010. This removal from the scope of consolidation resulted in a gain of € 0.3 million.

The holdings in associated companies were stated as the proportional equity or the Group's acquisition costs, respectively, in accordance with Art. 312 HGB. The values as of the time of acquisition, respectively the date of the first financial statement following acquisition, were used for the first-time application of the equity method, insofar as no interim financial statement was available. The diverging valuation of assets and debts of associated companies in their financial statements was not adjusted so as to enable application of the equity method.

Intra-Group profits subject to elimination were deducted from the valuations of the respective assets in an income-relevant manner, insofar as they are of more than minor significance for obtaining an accurate understanding of the asset, financial and earnings situation when taken as a whole. The discretionary right pursuant to Art. 341j (2) HGB was exercised consistently, insofar as the intra-group profit gave rise to entitlements of policyholders.
Accounts receivable and payable between Group subsidiaries were set off against each other.
Earnings from services between companies included in the Consolidated Financial Statements were set off against their respective shares of the costs of the service providers.
Mutual agency services of insurance companies included in the Consolidated Financial Statements are performed on the basis of standard, externally comparable market terms and conditions. The consolidation of commissions arising from agency services was performed in the Consolidated Financial Statements on the level of the company performing the service by setting these off against the associated costs.

Currency conversion The financial statements prepared in foreign currencies were converted into euros using the reporting-date principle on the basis of the mean exchange rate as of the date of accounting. The difference between the historical exchange rate and the equity converted at the exchange rate as of date of accounting that is attributable to the Group in the amount of € 3,062,751.77 was transferred to the revenue reserves in an income-neutral manner.

Accounting and valuation principles The Consolidated Balance Sheet and the Consolidated Statement of Profit and Loss were organized in virtually all respects using the forms specified in the RechVersV. Sheets 1 and 2 according to Art. 2 RechVersV, modified pursuant to Art. 266 and 275 HGB, were used for organizing the annual financial statement (separate line items for asset-side and liability-side deferred taxes and for asset-side differences from offsetting of assets).
As the Group is active in multiple lines of business, the balance sheet structure had to be expanded to include the line item "Real estate intended for sale and other assets of non-insurance companies", while the line items "Sales revenues of non-insurance subsidiaries" and "Production costs of performing the services for achieving the sales revenues of non-insurance subsidiaries" were added to the statement of profit and loss.
1 The goodwill results from capital consolidation as well as from enterprise acquisitions.
The depreciation period was determined as the anticipated useful life in accordance with DRS 4 item 31. This is assumed to be 15 years (portfolio value) for insurance companies and is estimated for other companies on a case-by-case basis (up to five years). As of 31 December 2010, goodwill values with a residual period of use of over five years exist in the amount of € 17.6 million (eight years). The period of use was originally set at 15 years, as the goodwill value was booked as insurance portfolio. According to experience, these fluctuate by around 6 to 7 percent per year.

2 Other intangible assets are stated at their acquisition costs, depreciated linearly. The book value of € 15,792,718.80 breaks down as € 14,785,149.83 for software, € 662,875.94 attributable to goodwill from the acquisition of a company in the US, € 294,693.03 for tenant improvements to business premises in Italy and € 50,000.00 for an industrial property right. IT software is primarily depreciated linearly over five years. The goodwill value resulting from the acquisition has a residual period of use of six years, and is an insurance portfolio. Tenant improvements are linearly depreciated over the remaining term of the lease. No depreciation was taken against the industrial property right. No unplanned write-downs were taken in the fiscal year under review.

3 Real estate is valued at its acquisition or production cost reduced by scheduled depreciation and write-downs according to the strict lower of cost or market principle. Extraordinary write-downs on real estate in the amount of € 160,000.00 were necessary in the fiscal year under review (previous year: € 3,795,822.02) on account of anticipated permanent impairment. No real estate was encumbered by land charges as security for bank debts in the fiscal year under review (previous year: real estate with a book value of € 2,501,200.00).

4 Shares of affiliated companies not included in the Consolidated Financial Statements and the other holdings are valued at their acquisition costs in accordance with Art. 253 (1) HGB, reduced by extraordinary write-downs on account of permanent impairment. In the fiscal year under review, no write-downs were taken on affiliated companies not included in the scope of consolidation (previous year: € 339,399.56). Holdings in associated companies were valued at the book value at the time of acquisition of the shares or their initial inclusion in the Consolidated Financial Statements, respectively, increased or decreased by the proportional amount of equity changes in subsequent years. The goodwill value resulting from the application of the equity method is € 1,159,202.70, which will be depreciated in a linear manner over the one-year residual use period until 31 December 2011.

Lending to affiliated companies not included in the scope of consolidation is always stated at par value. On account of difficulties relating to creditworthiness, extraordinary write-downs totaling € 115,000.00 were taken on one loan to each of two affiliated companies not included in the scope of consolidation in the previous year.

5 Stocks, investment fund shares and other non-fixed-interest securities are always valued in accordance with Art. 341b (2) HGB in connection with Art. 253 (1), (3) and (4) HGB at acquisition cost or at the lower value at the day of accounting respectively. For investment fund shares and securities from the directly held portfolio assigned to capital investments in fiscal 2002, 2008 and 2009, an assessment of the value to be reported was taken in accordance with the modified lower of cost or market principle as provided for under Art. 253 (3) sen. 3 HGB. Write-downs were only taken to the extent that the underlying decline in value is considered to be permanent. In the fiscal year under review, write-downs in the amount of € 10,622,159.55 (previous year: € 21,152,806.09) were required on account of the anticipated long-term loss of value. Write-ups pursuant to Art. 253 (5) HGB were taken in the fiscal year under review in the amount of € 24,867,260.15 (previous year: € 0.00).

In the fiscal year under review, no further assets were assigned to permanent use in business operations; in the previous year, this was used to avoid write-downs of € 18,407,892.95. Concurrently, valuation reserves amounting to € 16,776,635.40 (previous year: € 16,466,823.55) exist.
In accordance with Art. 8a of the law governing senior part-time employment, investment-fund shares in the amount of € 3,357,412.84 (previous year: € 4,008,792.16) have been pledged to employees as security for performance arrears in accordance with the block model.

6 Bearer bonds and other fixed-interest securities are always valued in accordance with Art. 253 (1) sen. 1, (4) and (5) and Art. 256 HGB, which govern working assets. In accordance with Art. 341 (2), second clause, HGB, a proportion of the portfolio with a book value of € 140,898,101.00 has been dedicated to permanent use in business operations. Write-downs totaling € 6,184,934.00 (previous year: € 648,150.47) on this portion of the portfolio were avoided in the fiscal year under review on account of the temporary character of the loss in value. Additionally, bearer bonds totaling € 1,086,000.00 (previous year: € 1,086,000.00) are pledged as security for bank sureties.

7 The remaining lending consists of registered participation certificates, other loans and prepayments against insurance certificates. These are valued at the nominal value minus redemption payments.

8 Other lending, mortgages receivable, other similar rights, fixed-interest debts and other capital investments are stated at their par or redemption values, respectively. Write-downs according to Art. 253 (3) sen. 3 HGB in the amount of € 6,232,590.40 (previous year: € 83,472.76) were taken. Discounts are distributed straight-line using the accrual method of income recognition. Premiums are carried as assets and released as scheduled over the duration.

9 Capital investments for the account and risk of life insurance policyholders are stated at present value. This valuation corresponds to the gross reserves stated on the liability side under item F.

10 Bank deposits are stated at par value.

11 Accounts receivable are always stated at par value. In the case of receivables against policyholders and for supply and performance, a general charge is made for the potential risk of nonpayment; receivables against agents are adjusted using individual bad debt charges plus a general charge equivalent to the expected bad debts.

12 According to Art. 253 (1) sen. 1 HGB tangible assets are capitalized at the acquisition cost decreased by straight-line depreciation over their normal period of use.

13 Supplies are determined by taking a physical inventory. These are valued at their procurement costs. The supplies of the non-insurance companies were valued at their cost of production, to which appropriate portions of general administrative costs and precisely calculable portions of financing costs attributable to the period of production have been added. Supplies with a book value of € 12,787,037.12 million (previous year: € 37,974,091.77) of the Group's property development companies are encumbered with land charges in favor of the financing banks.

14 **Other assets** are stated at par value. Tax credits in accordance with Art. 37 (5) of the German Corporate Income Tax Act KstG are valued at their cash value based on a discount rate of 4.5 percent.

15 **Accrued and deferred items** mainly include deferred interest not yet payable in the period of income up to the day of accounting as well as disbursements that are payable as expenses after the date of accounting. This item also contains € 9,860,938.67 (previous year: € 5,175,528.73) from the difference determined according to Art. 341c (2) sen. 2 HGB.

16 The **asset-side deferred taxes** take into account the anticipated tax relief for subsequent fiscal years in the amount of current and future income tax rates, respectively, when the valuation is sufficiently reliable.

Insofar as differences arise between commercial and tax valuations due to temporary differences between commercial and tax balance sheets contained in the individual financial statements, value adjustments for the purpose of realizing a uniform valuation in the Consolidated Financial Statements and consolidation actions, insofar as these are expected to be reduced in subsequent fiscal years, deferred taxes are determined for these on the basis of the tax rates applicable to each company. This also takes into account differences for which the reversal date is not yet precisely determined or is dependent on a disposition of the Company or would not occur until the date of liquidation. Insofar as they exist, tax losses carried forward are taken into account to the extent that these are expected to be compensated in the subsequent five fiscal years. The first-time application of Art. 274 HGB caused an income-neutral transfer of € 771,017.51 to the revenue reserves for asset-side deferred taxes under application of the transitional provision in Art. 67 (6) EGHGB.

The previous year's figures were only adjusted for a comparable statement of tax deferment items. The adjustment has no effect on the asset, financial and earnings situation of the previous year.

17 The balance from the pension obligations at cash value and the present value of the covering assets from reinsurance are stated as the **asset-side difference from asset offsetting**.

18 **Lower-ranking liabilities** were issued by means of a private placement in order to strengthen the own funds with respect to Group solvability. The lower-ranking bearer debentures were stated as liabilities at the repayment amount (settlement amount). These securities are not tradable on an organized market in Germany pursuant to Art. 2 (5) of the applicable securities statute.

19 **Special reserve item** The special reserve item was formed in previous years entirely from Belgian advances on investment which will be set off against acquisitions in future. This item was retained in the fiscal year under review pursuant to Art. 67 (3) EGHGB.

20 **Gross unearned premiums** for the self-contracted insurance business are calculated on the basis of written premiums and cancellations using the pro rata temporis method and reduced by the charges for installments contained therein. The unearned premiums of the domestic insurance subsidiaries are reduced by the portion ineligible for carrying forward in accordance with the memorandum of the German Finance Ministry (BMF) dated 30 April 1974. 85 percent of agent commissions and other compensation are classified as non-transferable parts of the revenues. In accordance with the German Insurance Association GDV, we are assuming that this rule has not been rescinded by the Finance Ministry memorandum IV C 9 – O 1000 – 86/5 of 7 June 2005 respecting the reduction of bureaucracy.

Reinsurers' portions of unearned premiums were assessed according to the contractual arrangements.

21 The **life insurance actuarial reserves** – for insured amounts and bonus amounts – of the legacy portfolio were calculated according to actuarial principles that have been established with the German Federal Financial Supervisory Authority in accordance with the business plan. These actuarial reserves were calculated on a contract-by-contract basis using the prospective method with implicit consideration of future costs. The following calculation principles were applied for the accounting categories of individual endowment policies and capital-accumulation insurance policies (accounting for 46.7 percent of the total actuarial reserve): actuarial interest rates of 3 percent and 3.5 percent, maximum zillmerization 35 per mil of insured amount (exception: rates with higher death benefit) as well as mortality rates according to the mortality tables ADSt 01/10 Gesamt, ADSt 24/26 M, ADSt 60/62 mod. M and ADSt 1986, separately for men and women.

The actuarial reserves for new insurance policies subject to premium payment were calculated on a contract-by-contract basis according to the prospective method with implied consideration of future administrative costs. In calculating the surrender values and balance-sheet actuarial reserves from rate structure 2008 on, the cost of sales was distributed over five years in accordance with the provisions of the German Insurance Contract Act VVG. For non-contributory policies – particularly bonus insured amounts and insurance policies with an abbreviated contribution period – an explicit provision was formed for administrative costs in the non-contributory periods.

The German Federal Financial Supervisory Authority has been informed of the calculation principles used in this calculation in compliance with Art. 13d No. 6 VAG. The actuarial reserves for individual endowment insurance policies (24.4 percent of total actuarial reserves) were calculated with an actuarial interest rate of 4 percent (rate structures 94/95 and 98), 3.25 percent (rate structure 2000), 2.75 percent (rate structure 2004) and 2.25 percent (rate structures 2007 and 2008), respectively, with a zillmerization rate of 33 per mil of the insured amount (rate structures 94/95, except for rates with higher death benefit) and 40 per mil of the insured amount (rate structures 98, 2000, 2004, 2007 und 2008), respectively and mortality rates in accordance with mortality table DAV 1994 T, separately for men and women.

For individual pension insurance policies (21.0 percent of total actuarial capital), the following calculation principles were applied until 2004: actuarial interest rates of 4 percent, 3.25 percent and 2.75 percent, respectively, zillmerization rate of 33 per mil of the capital settlement (rate structure 94/95) respectively 40 per mil of the premium amount (rate structures 98, 2000 and 2004), and mortality rates in accordance with mortality table DAV 1994 R, separately for men and women.

Studies of the German association of actuaries Deutsche Aktuarvereinigung (DAV) with respect to longevity trends reveal that the mortality table DAV 1994 R is no longer appropriate for determining pension insurance reserves. In its directive dated 21 June 2004, the DAV published new mortality tables for both new business (mortality table DAV 2004 R) and existing pension insurance portfolios (mortality table DAV 2004 R-Bestand respectively R-B20). Under consideration of the individual company cancellation and capital settlement probabilities, the actuarial reserves for the entire portfolio of deferred and current pension insurance policies were thus also calculated according to the new tables as of 31 December 2010 and a positive difference of € 8.80 million between the old and new actuarial reserves was additionally allocated to the actuarial reserves.

Effective 1 January 2005, the rate structure for pension insurance according to the previous calculation basis was closed for new policies. Since then, new pension insurance policies have been concluded solely using rates according to the latest calculation base with actuarial interest rates of 2.75 percent (rate structure 2004) and 2.25 percent (rate structures 2007 and 2008), respectively.

Insofar as unredeemed claims against policyholders for actuarial costs of sales could not be offset against the actuarial reserve, they were capitalized under the line item “Accounts receivable not yet due from self-contracted business” after deduction of general provisions for bad debt in the amount of the anticipated defaults.

For the generally marketed supplementary invalidity insurance rates, the invalidity tables DAV 1997 I with an actuarial interest rate of 2.25 percent (rate structure 2008) were used. A verification calculation was performed for new supplementary invalidity insurance policies using older calculation bases according to the current calculation basis of the German Association of Actuaries. This revealed a follow-on reserve requirement of € 0.92 million.

The **health insurance actuarial reserve** was calculated according to the actuarial principles defined in the technical calculation principles individually for each insurance policy on the basis of the respective policy data. The transfer values contained in the actuarial reserve were determined pursuant to Art. 13a Calculation Regulation (KalV).

Premium components from the expected non-contributory child accident insurance policies are transferred to the **actuarial reserves for children’s accidents**. Calculation is performed according to mathematic principles as per the underwriting business plan.

22 Provisions for outstanding claims for the self-contracted property and accident insurance business are organized by year of occurrence, separated into those claims reported during the respective fiscal year and those reported after the day of accounting as well as those to be expected. In addition, reserves for claim settlement costs were calculated according to Art. 341g (1) HGB (for domestic subsidiaries according to the "Coordinated Regulations of the Federal States from 2 February 1973"). The provision for outstanding claims of property insurers was reduced by claim reimbursement receivables of € 753,413.36 expected to be realized in future. Provisions for outstanding claims for the assumed reinsurance business are stated according to the information provided by the direct insurer.

The portion of reinsured business was determined in accordance with the provisions of the reinsurance policies.

The provision for life insurance claims and surrenders reported but not yet settled as of the day of accounting was formed on the basis of the expected benefits to be paid. Additional provision was made for claims from the fiscal year under review not yet reported as of the date of accounting (late claims) on the basis of experience. The expenses for settling these insurance benefits expected to be incurred after the date of accounting were also provided for in accordance with tax regulations.

In accordance with the ruling of the German Federal Court respecting fiduciary proceedings issued on 12 October 2005 an additional lump-sum increase in the actuarial reserves was made for the affected non-contributory policies.

The provision for health insurance claims reported but not yet settled as of the date of accounting was determined on the basis of claims disbursements in the fiscal year under review for the previous year under consideration of the increase in volume. Special effects compared to the previous years were taken into account separately. The expenses for settling these insurance benefits expected to be incurred for previous years after the date of accounting were also provided for in accordance with tax regulations pursuant to Art. 341g (1) HGB on the basis of the Coordinated Regulations of the Federal States from 2 February 1973.

23 The fluctuation reserve for domestic subsidiaries was formed in compliance with the provisions of Art. 341h HGB in conjunction with Art. 29 RechVersV.

24 The cancellation reserve for discontinuation or reduction of the underwriting risk stated under the other underwriting reserves as well as the reserve for unused premiums in dormant motorist legal insurance and the reserve for premium exemption are calculated on the basis of anticipated requirements.

25 Pension reserves were calculated according to the internationally customary projected unit cost method in conjunction with Art. 253 (1) sen. 2 HGB on the basis of Dr. Klaus Heubeck's table 2005G, respectively the local mortality tables, which accurately reflect life expectancy. In addition to current facts, future developments with respect to salaries, pensions and fluctuation were also taken into account. Discounting was performed on the basis of the average interest rate of the last

seven years published by the Bundesbank in accordance with the applicable regulation (RückAbzinsV) with an assumed residual term of 15 years pursuant to Art. 253 (2) sen. 2 HGB. For the valuation as of 31 December 2010, the interest rate of 5.16 percent posted on 31 October 2010 was used. A review of the values published as of the day of accounting was performed.

The following actuarial parameters were applied in determining the obligations: pension age: 65, salary dynamic: Germany and Austria 2.5 percent, Netherlands 0.8 percent, Spain 3.0 percent, Slovenia 3.5 percent, pension dynamic: 1.66 percent – 3.50 percent, interest rate: 5.16 percent (exceptions: Spain 2.90 percent, Slovenia 4.90 percent).

The fluctuation taken into account corresponds to the generally observed, age-dependent average of the industry and has only a negligible effect on the settlement amount.

The initial difference resulting from the new valuation requirements of Art. 253 (1) sen. 2 HGB as of 1 January 2010 amounts to € 17,524,490.00. Of this, € 13,080,022.00 was transferred to the pension reserves in the fiscal year, so that in future, € 4,444,468.00 must still be transferred. € 3,746,000.00 of this transfer was offset against other income.

As of 2010, assets that are beyond the reach of all other creditors and serve solely to settle debts from pension obligations are offset with the obligation. This line item is thus calculated as follows as of 30 December 2010:

Net pension reserves

(in euros)	
Settlement amount of vested claims	268,899,298.52
Offset assets (present value)	-61,027,047.52
Not yet transferred pursuant to Art. 67 (1) EGHGB	-4,444,468.00
Balance-sheet statement	**203,427,783.00**

The purchase costs of the assets offset at present values amount to € 76,338,893.16. In the fiscal year under review, € 203,122.42 in interest earnings from the covering fund assets was set off against interest charges from the transfer of the obligation to the Statement of Profit and Loss.

The discretionary right of Art. 28 (1) EGHGB to waive the establishment of pension reserves for prior commitments was not exercised.

26 The reserves for early retirement obligations were formed solely to cover those persons having entitlements under the collective early retirement agreement that expired on 31 December 1997, as well as persons with analogous individual contractual guarantees. Calculation was performed according to actuarial principles. In the fiscal year under review, a reserve was set up in accordance with the senior part-time agreement for the private insurance industry, adopted on 11 June 1997, based on the IDW's (Institute of Auditors) publication dated 18 November 1998, with an interest rate of 5.16 percent for discounting purposes. The reserve concept takes into account the natural staff turnover and the probability that those candidates with whom no specific agreement has yet

been reached will make use of the early retirement provisions. Investment fund shares intended as insolvency security for balances of employees' work hour accounts pursuant to Art. 7e (2) German Social Code IV were offset against the obligation from senior part-time agreements at the market value of € 3,357,412.84. The purchase costs of the investment fund shares amount to € 3,543,141.93. The settlement amount of the offset debts is € 2,582,375.00. The expense from the increase in debt of € 770,962.95 and the expense from the drop in the market value of the investment fund shares of € 92,690.84 had an effect on earnings in the fiscal year under review.

The other reserves are set at the level which is deemed necessary to meet the obligation according to sound business judgment. A reserve for employee anniversary bonuses was formed in the year under review for special payments on the occasion of employee service anniversaries in accordance with the partial value, whereby a term-appropriate discount factor of 5.16 percent was assumed. The anticipated employee fluctuation was taken into account in the form of a general deduction on the cash value.

27 The portfolio liabilities for reinsured insurance business and the other liabilities are stated at their settlement values.

28 Liabilities from the self-contracted insurance business and from reinsurance settlements are stated at the settlement value (par value).

29 Debts to banks essentially derive from the property development business and have a remaining term of less than one year. They are valued at the settlement amount and secured by liens on properties intended for sale in the amount of € 13,624,600.47 (previous year: € 16,404,114.98).

Liabilities with a remaining term of more than five years exist in the amount of € 1,934,937.48 (previous year: € 2,171,532.34) from premium deposits in life insurance.

30 Accrued and deferred items contain differences in accordance with Art. 341c (2) sen. 1 HGB in the amount of € 1,087,217.25 (previous year: € 881,553.27).

31 **Group equity** A detailed representation of the Group's equity is presented on pages 84 and 85. This representation was compiled in compliance with DRS 7. The self-generated Group equity is stated as that portion of the Group's equity that was formed from the Group's net profit for the fiscal year under review and/or previous fiscal years. It comprises revenue reserves, profit carried forward and the net profit and is differentiated for the majorities and the minorities that directly or indirectly hold shares in the subsidiaries included in the Consolidated Financial Statements.

The remaining Group profit includes changes in the Group equity in the fiscal year under review which cannot be stated in the Statement of Profit and Loss due to commercial accounting principles and DRSC regulations and which are not due to received payments or disbursements on the shareholder level.

The equity of the top-level company is divided into 200,000,000 shares of no-par stock (common stock). The shares are registered in the respective names. All shares are fully paid in.

32 II. Source of Insurance Business by Premiums Written

				Self-contracted business		Assumed reinsurance business
Country/origin (in euros)	Legal insurance	Property and accident	Life insurance	Health insurance	Legal insurance	Property and accident
Germany	292,046,677	184,387,801	206,627,896	286,789,180	7,785,884	83,305
Spain	50,189,450	36,777,371			20,546,605	8,696,267
Netherlands	80,802,515				35,854,194	
USA	50,519,824				3,233,639	
Austria	51,173,977					
Italy	33,107,213				54,614,187	
Belgium	20,122,252				349,961	
Greece	3,582,065				629,482	
Slovenia	1,967,334					
Total	**583,511,307**	**221,165,172**	**206,627,896**	**286,789,180**	**123,013,951**	**8,779,572**

Associated companies The total of all goodwill from inclusion of associated companies under application of the equity method amounts to € 1,159,202.70 (previous year: € 2,318,405.41). In the fiscal year under review, a total of € 1,159,202.71 (previous year: € 1,384,274.57) of the goodwill of the associated companies was depreciated in an income-relevant manner.

The financial statements of the significant associated companies present the following picture:

1. HELP Forsikring AS

(in thousand NOK)	2010	2009
A. Capital investments	129,231	91,623
B. Accounts receivable	24,152	16,755
C. Other assets	25,288	16,517
D. Accrued and deferred items	502	151
Balance sheet assets	**179,173**	**125,046**
A. Equity	46,006	47,667
B. Underwriting reserves	116,306	68,883
C. Liabilities	727	424
D. Accrued and deferred items	16,134	8,072
Balance sheet liabilities	**179,173**	**125,046**
I. Underwriting result	-2,656	-13,750
II. Income from capital investments	200	356
III. Other income/expenses	816	833
IV. Tax expenditure	0	0
V. Net loss	**-1,640**	**-12,561**

2. AXA-ARAG Rechtsschutzversicherung

(in thousand CHF)	2010	2009
A. Capital investments	155,753	150,498
B. Accounts receivable	15,437	15,364
C. Other assets	6,793	3,137
D. Accrued and deferred items	4,152	4,313
Balance sheet assets	**182,135**	**173,312**
A. Equity	27,604	27,942
B. Underwriting reserves	135,410	127,505
C. Other provisions	3,981	5,146
D. Liabilities	4,113	3,843
E. Accrued and deferred items	11,027	8,876
Balance sheet liabilities	**182,135**	**173,312**
I. Underwriting result	7,291	6,766
II. Income from capital investments	3,380	5,823
III. Other income/expenses	-49	-88
IV. Tax expenditure	-2,260	-2,644
V. Net income	**8,362**	**9,857**

33 III. Development of Assets B., C. I. through IV. in Fiscal 2010

Development of assets

(in euros)	Balance-sheet values 1 January 2010	Purchases	Added/removed from scope of consolidation	Transfers
B. Intangible assets				
1. Costs for start-up and expansion of business activity				
2. Purchased goodwill	40,144,439.36	1,022,770.13		
3. Other intangible assets	15,275,110.22	5,708,118.70	-235,996.00	
Total B.	**55,419,549.58**	**6,730,888.83**	**-235,996.00**	**0.00**
C. I. Real estate, comparable rights and buildings including those on third-party property	**197,349,906.13**	**28,376,544.35**	**-388,414.00**	**0.00**
C. II. Capital investments in affiliated companies and shareholdings				
1. Shares in affiliated companies	3,703,821.77	236,164.93	3,772,266.39	
2. Lending to affiliated companies	3,257,102.59		-966,102.59	
3. Shareholdings	83,641,582.90	3,935,636.84	-3,716,062.08	
4. Lending to companies with which a shareholding relationship exists	113,325.30			
5. Total C. II.	**90,715,832.56**	**4,171,801.77**	**-909,898.28**	**0.00**
C. III. Other capital investments				
1. Stocks, investment fund shares and other non-fixed interest securities	1,966,387,929.84	396,911,279.15		
2. Bearer bonds and other fixed-interest securities	445,277,359.79	269,636,440.60		
3. Mortgages receivable, other similar rights and fixed-interest debts	217,674,912.60	9,439,893.85		
4. Other lending				
a) Registered debentures	892,150,519.60	46,000,000.00		
b) Promissory notes and loans	974,995,661.78	45,000,685.06	26,211.10	
c) Loans and advance disbursements on insurance policies	78,819,702.70	7,572,898.85		
d) Remaining lending	61,030,901.46	4,589,327.44		
5. Bank deposits	168,263,430.61	111,253,419.60	-585,000.00	
6. Other capital investments	101,807.95	842,157.35		
7. Total C. III.	**4,804,702,226.33**	**891,246,101.90**	**-558,788.90**	**0.00**
Total C. I. through C. III.	**5,092,767,965.02**	**923,794,448.02**	**-1,857,101.18**	**0.00**
C. IV. Portfolio assets from assumed reinsurance business	**4,674,430.72**	**6,399,715.14**		
Total capital investments C. I. through C. IV.	**5,097,442,395.74**	**930,194,163.16**	**-1,857,101.18**	**0.00**

Real estate, comparable rights and buildings including those on third-party property with a balance-sheet value of € 145,769,661.98 (previous year: € 108,613,059.49) were used by the Group's insurance companies for their own operations.

Sales	Currency rate adjustments	Write-ups	Write-downs	Balance-sheet values 31 December 2010	Present values according to German statutory provisions (Art. 54 RechVersV)	Hidden reserves (in k €)
				0.00		
			7,266,176.02	33,901,033.47		
	52,075.07		5,006,589.19	15,792,718.80		
0.00	**52,075.07**	**0.00**	**12,272,765.21**	**49,693,752.27**		
2,368,484.09	**0.00**	**265,385.28**	**5,240,510.52**	**217,994,427.15**	**318,715,679**	**100,721**
5,035,451.54		160,980.74		2,837,782.29	6,770,901	3,933
1,641,000.00				650,000.00	650,000	0
8,909,627.92		217,001.00	945,318.52	74,223,212.22	101,721,375	27,498
902,168.31		901,000.00		112,156.99	112,157	0
16,488,247.77	**0.00**	**1,278,981.74**	**945,318.52**	**77,823,151.50**	**109,254,434**	**31,431**
349,109,933.93	271,328.94	24,867,260.15	10,622,159.55	2,028,705,704.60	2,045,482,340	16,777
177,821,661.69	2,312,025.41	2,148,455.87	7,546,643.89	534,005,976.09	534,325,775	320
22,511,038.12		37,849.06	531,950.47	204,109,666.92	224,629,063	20,519
20,559,470.17				917,591,049.43	961,156,936	43,566
119,786,827.28		81,779.12	12,102.69	900,305,407.09	946,074,513	45,769
13,700,045.71				72,692,555.84	72,692,556	0
17,706,987.36			6,232,590.40	41,680,651.14	41,680,651	0
	151,794.44			279,083,644.65	279,083,645	0
53,937.00	-0.01			890,028.29	890,028	0
721,249,901.26	**2,735,148.78**	**27,135,344.20**	**24,945,447.00**	**4,979,064,684.05**	**5,106,015,508**	**126,951**
740,106,633.12	**2,735,148.78**	**28,679,711.22**	**31,131,276.04**	**5,274,882,262.70**	**5,533,985,621**	**259,103**
				11,074,145.86	**11,074,146**	**0**
740,106,633.12	**2,735,148.78**	**28,679,711.22**	**31,131,276.04**	**5,285,956,408.56**	**5,545,059,767**	**259,103**

Information on investment assets The capital investment portfolio contains the following investment assets of which over 10 percent is held by the Group:

Special investment funds

(in euros)	Book value 31 December 2010	Market value 31 December 2010	Dividend 2010
ADRERENT Rentenfonds	75,850,365.77	75,850,365.77	3,564,339.06
ATRI gemischter Fonds	178,616,337.77	178,616,337.77	5,742,343.45
ARRE-MF gemischter Fonds	191,776,765.94	191,776,765.94	5,244,756.28
ARI 1 Dachfonds	70,406,315.80	70,406,315.80	1,352,865.09
ALLTRIRENT Rentenfonds	60,203,091.03	64,386,333.87	4,727,498.04
ALLTRI gemischter Fonds	120,571,233.13	120,571,233.13	3,262,827.41
SIVE Aktienfonds	49,927,115.00	52,885,283.21	1,016,770.00
EMA Aktienfonds	42,330,000.00	34,181,400.00	0.00
AKR gemischter Fonds	174,309,704.16	174,309,704.16	8,389,695.92
Borgia Rentenfonds	169,920,727.47	169,920,727.47	9,165,399.68
ALP Rentenfonds	95,391,668.41	95,391,668.41	4,926,059.56
ALF 2 Rentenfonds	99,051,320.16	99,051,320.16	5,662,102.16
ALF 1 gemischter Fonds	269,100,288.33	269,100,288.33	6,510,562.04
AAF Aktienfonds	81,899,395.72	81,899,395.72	2,894,360.00
Protect 80 Dachfonds	5,000,000.00	5,593,500.00	0.00
VM Sterntaler gemischter Fonds	4,938,732.00	5,175,900.00	33,641.25

The investment objectives of the funds, which are exchange-tradable with notice, are oriented toward the respective benchmark requirements derived from the strategic asset allocation.
The option of valuation according to the modified lower of cost or market principle in accordance with Art. 341b (2) 2nd clause HGB was exercised for those special investment fund shares that have been designated for permanent use as assets of the Group. The book value of this portfolio amounts to € 1,666,297,434.09, and the exchange price is € 1,669,133,599.73. No extraordinary write-downs were avoided through the assignment to capital investments. Due to the high volatility of the capital markets, the principles for determining the value to be reported within the meaning of Art. 253 (3) sen. 3 HGB were determined through an agreement between the German Federal Financial Supervisory Authority BaFin and the German Insurance Association GDV. These principles were observed in valuation according to the regulations for investment assets. The book value statements may thus exceed the market values of the capital investments valued as investment assets by not more than 20 percent.

34 **Explanation of deferred taxes** The deferred taxes stated in the balance sheet result from differences between the commercial balance sheet and tax valuations and relate to the following line items:

Balance sheet line item

(in thousand euros)	Deferred taxes
Intangible assets	1,469
Capital investments	3,865
Accounts receivable	989
Other assets	2,085
Accrued income	-369
Special reserve item	-1,108
Underwriting reserves	36,948
Other reserves	11,262
Other liabilities	350
Deferred liabilities	0
Losses carried forward	116
	55,607

Of the deferred taxes stated in the balance sheet as of 1 January 2010 pursuant to Art. 274 HGB, € 20,558,391.02 relate to asset-side deferred taxes stated in the balance sheet as of 31 December 2009. € 771,017.51 was charged against revenue reserves in an income-neutral manner as of 1 January 2010 pursuant to Art. 67 (6) EGHGB. The balance as of 31 December 2010 contains deferred taxes in the amount of € 116,146.70 due to losses carried forward in the amount of € 580,733.49.

IV. Additional information

35 **Unrealized gains from capital investments** The figure stated here represents the difference between the present value of capital investments at the beginning, respectively the acquisition values, and end of the fiscal year for the account and risk of life insurance policyholders. A corresponding cost is included in the line item "Change in other net underwriting reserves".

36 **Extraordinary operating result** The extraordinary income and expenses were due mainly to the first-time application of the German Accounting Law Modernization Act (BilMoG) of 25 May 2009 for the valuation of pension and senior part-time obligations. The transition regulation pursuant to Art. 67 (1) EGHGB was exercised in part (see explanation of pensions reserves).

37 **Taxes on income and earnings** The income taxes in the Statement of Profit and Loss are explained as follows:

Income taxes

	(in percent)	(in euros)
Operating result before taxes (commercial balance sheet)		54,451,397.97
Expected income tax expenditure according to tax rate	31.2	**17,002,449.02**
Reconciliation		
Differing foreign tax burden		-2,573,452.07
Share of taxes for:		
Tax-free earnings		-5,182,602.09
Expenditures not tax-deductible		6,163,511.17
Non-taxable write-downs on goodwill from capital consolidation		2,653,512.67
Change in deferred taxes in special funds		-24,420,631.49
Change in value adjustment of deferred taxes on losses carried forward		-564,646.76
Out-of-period income taxes		9,602,133.26
Miscellaneous		1,676,824.25
Stated income tax expenditure		**4,357,097.96**
Effective tax rate	8.0	
Other taxes		108,272.33
Tax expenditure according to Statement of Profit and Loss		**4,465,370.29**

Other financial obligations within the meaning of Art. 285 no. 3 HGB In the real estate development sector, the financial obligations for completed building contracts of current business operations, for buildings under construction as well as for real estate purchase contracts amount to € 8,644,000.00. Warranty obligations from the property development business additionally exist toward customers; a suitable provision has been formed for this.

On the basis of a loan granted to an insurance broker, an obligation to pay out a further partial loan installment of € 4,500,000.00 on 1 January 2012 exists. In the context of renovation measures on an office building not completed in the fiscal year under review, a residual payment obligation from security deductions totaling € 45,361.38 exists which has not yet been stated in the balance sheet.

Rental contracts and leases with varying terms for premises, vehicles, office equipment as well as hardware and software of a computer center which were not contracted within the context of insurance business give rise to total annual obligations within the normal scope for our industry.

The Group is liable for the following outstanding capital contributions:

Outstanding contributions

Name of company	(in euros)
INVESCO Beteiligungsverwaltungs GmbH & Co. KG	243,380.86
RREEF Pan European Infrastructure Feeder GmbH & Co. KG	2,868,909.25

None of these outstanding contributions has been called in. It is anticipated that RREEF Pan-European Infrastructure Feeder GmbH & Co. KG will require pay-in of the capital contribution in the near future. The remaining outstanding contributions are not being called in for the time being.

Liability relationships Pursuant to Art. 124 ff. VAG, the Group is a member of the guarantee fund for life insurers. On the basis of the relevant official regulation (Sicherungsfonds-Finanzierungs-Verordnung (Leben)), the guarantee fund charges annual contributions of no more than 0.2 per mil of the total of net underwriting reserves until a security fund of one per mil of the total net underwriting reserves has been formed. No future obligations based on this exist. The security fund can also levy extraordinary contributions in the amount of a further one per mil of the total net underwriting reserves; this is equivalent to an obligation of € 3,151,262.81. Additionally, the Company has undertaken to provide the security fund or alternatively Protektor Lebensversicherungs-AG with funds should the resources of the security fund prove inadequate in the event of a reorganization. This obligation amounts to one percent of the total net underwriting reserves under offsetting of the contributions already paid into the security fund at this time. When the above contribution obligations from premium payments to the security fund are included, the total obligation as of the day of accounting is € 28,519,826.73.
The Group is also a member of the guarantee fund for health insurers pursuant to Art. 124 ff VAG. The guarantee fund can levy extraordinary contributions in the amount of up to two per mil of the total net underwriting reserves in the health insurance (€ 1,970,758.96).
The risk of availment from these obligations is considered extremely slight, as no insurance insolvencies have occurred in Germany to date.

Auditor's fee The firm of PricewaterhouseCoopers AG, Düsseldorf, acted as the auditor of the Consolidated Financial Statements. The German Group subsidiaries reserved € 717,382.00 (previous year: € 675,000.00) for financial-statement auditing services including expenses and the non-deductable value-added tax. A total of € 950.00 (previous year: € 323,420.61) was expended for other consulting services. The auditor of the Consolidated Financial Statements did not perform any other services.

38 Gross cost of insurance business

(in euros)	2010	2009
Cost of sales of insurance policies	277,732,810.32	233,761,997.20
Cost of administration of insurance policies	212,937,450.78	216,196,645.56
Total costs	**490,670,261.10**	**449,958,642.76**

39 Costs for premium rebates for own account

(in euros)	2010	2009
Costs for profit-linked premium rebates	52,730,675.95	39,159,391.77
Costs for non-profit-linked premium rebates	3,240,441.07	2,026,060.61
Total costs	**55,971,117.02**	**41,185,452.38**

Commissions and other compensation for insurance representatives, employee costs

(in euros)	2010	2009
1. Commissions of all types for insurance representatives within the meaning of Art. 92 HGB for self-contracted insurance business	233,029,186.15	199,311,606.62
2. Other compensation for insurance representatives within the meaning of Art. 92 HGB	8,222,433.74	7,507,190.65
3. Wages and salaries	173,421,629.48	165,762,941.16
4. Social security and support expenses	29,313,264.02	30,099,116.63
5. Expenses for pension plans	20,268,695.50	14,843,766.27
6. Total costs	**464,255,208.89**	**417,524,621.33**

Average employment for year On average over the entire year, the companies completely included in the Consolidated Financial Statements employed 3,447 (previous year: 3,362) persons. As of 31 December 2010, the ARAG Group employed a total of 3,460 persons (31 December 2009: 3,484 persons).
The insurance companies employed 3,109 (previous year: 3,016) persons on average. On average, 338 persons (previous year: 346) were employed in the management and service companies. The German Group subsidiaries additionally employed some 38 (previous year: 23) vocational trainees.

Compensation of the Supervisory Board and Board of Management of ARAG AG Compensation for the Supervisory Board amounted to € 215,107.37.
The compensation for the Board members of the parent company of all Group subsidiaries amounted to € 1,214,438.44. There are no current pensions or vested pension rights for former Board members or their survivors.

Düsseldorf, 12 May 2011

Board of Management

Dr. Paul-Otto Faßbender Dr. Karl-Heinz Strohe

Statement of Consolidated Cash Flow for Fiscal Year 2010

Consolidated cash flow statement

(in euros)	2010	2009
I. Cash flow from current business		
Net income	46,068,022	18,830,376
Change in net underwriting reserves	163,308,884	130,003,014
Change in portfolio assets and liabilities and settlement assets and liabilities	-14,037,721	-3,174,290
Change in other assets and liabilities	2,798,609	1,412,403
Profit/loss from sale of capital investments	-28,161,957	-16,086,304
Change in deferred taxes	-35,048,613	n.a.*
Changes in other assets and liabilities	61,914,718	7,810,793
Depreciation on intangible assets	12,272,765	9,465,398
Write-downs on capital investments	31,132,858	29,785,266
Write-ups on capital investments	-37,297,635	-36,910,241
Effects of currency exchange rates	436,994	389,320
Cash flow from current business	**203,386,924**	**141,525,735**
II. Cash flow from investment activities		
Payments received from sale and maturity of other capital investments	768,268,590	772,482,105
Disbursements for the purchase of other capital investments	-923,794,448	-857,729,843
Payments received from the sale of capital investments of mutual fund-linked life insurance	46,591,099	33,114,880
Disbursements for the sale of capital investments of mutual fund-linked life insurance	-68,152,318	-46,848,066
Other payments received	2,093,097	320,343
Other disbursements	-6,730,889	-17,873,645
Cash flow from investment activities	**-181,724,869**	**-116,534,226**
III. Cash flow from financing activities		
Shareholder contributions	0	0
Dividend payments	-10,000,000	-10,000,000
Payments and disbursements from other financing activities	0	0
Cash flow from financing activities	**-10,000,000**	**-10,000,000**
Effective changes in cash reserves	**11,662,055**	**14,991,509**
Cash reserves at start of fiscal year	69,502,331	54,510,822
Cash reserves at end of fiscal year	81,164,386	69,502,331
Change in cash reserves in fiscal year	**11,662,055**	**14,991,509**

* As of 1 December 2010, deferred taxes are calculated and stated differently.

40 Statement of Equity

Development over the course of the fiscal year

(in euros)	Subscribed capital	Unpaid contributions not yet called in	Self-generated Group equity	Balancing item for currency conversion	Equity according to consolidated balance sheet
I. Parent company					
Status as of 31 December 2009	200,000,000.00	0.00	49,432,605.04	-2,057,188.39	247,375,416.65
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-10,000,000.00		-10,000,000.00
Changes in the scope of consolidation			760,799.66		760,799.66
Other changes			771,017.51	3,062,751.77	3,833,769.28
Group profit/loss for year			46,068,022.07		46,068,022.07
Other Group/profit loss					0.00
Overall Group profit/loss for year			46,068,022.07	0.00	46,068,022.07
Status as of 31 December 2010	**200,000,000.00**	**0.00**	**87,032,444.28**	**1,005,563.38**	**288,038,007.66**
II. Minority shareholders					
Status as of 31 December 2009	0.00	0.00	30,411,887.49	-97,210.50	30,314,676.99
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-835,702.95		-835,702.95
Changes in the scope of consolidation			-1,098,863.85		-1,098,863.85
Other changes			0.00	161,465.73	161,465.73
Group profit/loss for year			4,026,277.94		4,026,277.94
Other Group/profit loss					0.00
Overall Group profit/loss for year			4,026,277.94	0.00	4,026,277.94
Status as of 31 December 2010	**0.00**	**0.00**	**32,503,598.63**	**64,255.23**	**32,567,853.86**
III. Group equity					
Status as of 31 December 2009	200,000,000.00	0.00	79,844,492.53	-2,154,398.89	277,690,093.64
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-10,835,702.95		-10,835,702.95
Changes in the scope of consolidation			-338,064.19		-338,064.19
Other changes			771,017.51	3,224,217.50	3,995,235.01
Group profit/loss for year			50,094,300.01		50,094,300.01
Other Group/profit loss					0.00
Overall Group profit/loss for year			50,094,300.01	0.00	50,094,300.01
Status as of 31 December 2010	**200,000,000.00**	**0.00**	**119,536,042.91**	**1,069,818.61**	**320,605,861.52**

Development in previous year

(in euros)	Subscribed capital	Unpaid contributions not yet called in	Self-generated Group equity	Balancing item for currency conversion	Equity according to consolidated balance sheet
I. Parent company					
Status as of 31 December 2008	200,000,000.00	0.00	38,592,755.56	-1,476,112.65	237,116,642.91
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-10,000,000.00		-10,000,000.00
Changes in the scope of consolidation			0.00		0.00
Other changes			2,009,473.48	-581,075.74	1,428,397.74
Group profit/loss for year			18,830,376.00		18,830,376.00
Other Group/profit loss					0.00
Overall Group profit/loss for year			18,830,376.00	0.00	18,830,376.00
Status as of 31 December 2009	**200,000,000.00**	**0.00**	**49,432,605.04**	**-2,057,188.39**	**247,375,416.65**
II. Minority shareholders					
Status as of 31 December 2008	0.00	0.00	32,306,337.37	-62,489.61	32,243,847.76
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-1,754,207.26		-1,754,207.26
Changes in the scope of consolidation			0.00		0.00
Other changes			-2,342,800.26	-34,720.89	-2,377,521.15
Group profit/loss for year			2,202,557.64		2,202,557.64
Other Group/profit loss					0.00
Overall Group profit/loss for year			2,202,557.64	0.00	2,202,557.64
Status as of 31 December 2009	**0.00**	**0.00**	**30,411,887.49**	**-97,210.50**	**30,314,676.99**
III. Group equity					
Status as of 31 December 2008	200,000,000.00	0.00	70,899,092.93	-1,538,602.26	269,360,490.67
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			-11,754,207.26		-11,754,207.26
Changes in the scope of consolidation					0.00
Other changes			-333,326.78	-615,796.63	-949,123.41
Group profit/loss for year			21,032,933.64		21,032,933.64
Other Group/profit loss					0.00
Overall Group profit/loss for year			21,032,933.64	0.00	21,032,933.64
Status as of 31 December 2009	**200,000,000.00**	**0.00**	**79,844,492.53**	**-2,154,398.89**	**277,690,093.64**

Segment Reporting – Balance Sheet

	Legal insurance		Composite		Life insurance	
(in thousand euros)	2010	2009	2010	2009	2010	2009
A. Intangible assets	**14,145**	**12,127**	**0**	**21**	**202**	**-268**
B. Capital investments	**1,729,224**	**1,622,287**	**524,018**	**515,327**	**2,585,408**	**2,591,952**
I. Real estate and buildings including those on third-party property	85,658	83,037	31,673	32,717	94,586	73,824
II. Capital investments in affiliated companies and shareholdings	436,552	409,014	79,537	80,223	158,103	160,351
III. Other capital investments	1,195,940	1,125,588	412,808	402,360	2,332,719	2,357,778
IV. Portfolio assets from assumed reinsurance business	11,074	4,647	0	27	0	0
C. Capital investments for the account and risk of life insurance policyholders	**0**	**0**	**0**	**0**	**86,368**	**56,191**
D. Other assets by sector	**235,474**	**209,779**	**22,023**	**5,666**	**95,893**	**99,692**
Total segment assets	**1,978,843**	**1,844,192**	**546,041**	**521,013**	**2,767,871**	**2,747,566**
A. Underwriting reserves	**1,124,763**	**1,073,274**	**335,228**	**342,229**	**2,438,487**	**2,430,835**
I. Unearned premiums	171,626	178,686	40,886	35,512	5,857	6,487
II. Actuarial reserves	0	0	2	2	2,321,488	2,314,297
III. Provision for outstanding claims	951,102	888,961	271,175	281,602	18,200	17,510
IV. Provisions for premium rebates	21	8	0	0	156,401	160,150
V. Fluctuation provision	0	3,455	59,212	61,979	0	0
VI. Other underwriting reserves	2,384	2,408	2,215	2,244	95	77
VII. Reinsurers' share of underwriting reserves	-370	-245	-38,262	-39,111	-63,554	-67,686
B. Underwriting reserves in the life insurance segment, insofar as the investment risk is borne by the policyholders	**0**	**0**	**0**	**0**	**86,368**	**56,191**
C. Other liabilities by sector	**294,325**	**318,594**	**48,490**	**44,558**	**141,113**	**140,390**
Total sector liabilities	**1,419,088**	**1,391,867**	**383,718**	**386,787**	**2,665,968**	**2,627,416**
Equity*						
Total liabilities						

* Group equity including shares of other shareholders and difference from capital consolidation

This segment reporting has been largely adapted to conform with applicable German regulatory requirements and accounting standard DRS 3-20 of the German Standardization Council (DSR). The segment figures are represented after consolidation of internal transactions within the respective line of business. Reconciliation with the consolidated value is shown by the information in the column "Consolidation". The definition of segment by strategic lines of business was undertaken according to the internal organization and management structure of the ARAG Group. The chosen segments reflect the risks and opportunities of the Group.

The strategic lines of business are:

– Legal insurance
– Composite insurance
– Life insurance
– Health insurance
– Services and asset management

Health insurance		Services and asset management		Total		Consolidation		Group total	
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
85	37	5,036	4,174	19,467	16,090	30,226	30,464	49,694	55,420
1,000,459	895,731	337,719	344,811	6,176,829	5,970,108	-890,873	-843,234	5,285,956	5,097,442
0	0	7,155	8,850	219,072	198,427	-1,078	-1,078	217,994	197,350
16,972	19,368	276,454	293,348	967,619	962,304	-889,795	-842,157	77,823	90,716
983,487	876,364	54,111	42,613	4,979,065	4,804,702	0	0	4,979,065	4,804,702
0	0	0	0	11,074	4,674	0	0	11,074	4,674
0	0	0	0	86,368	56,191	0	0	86,368	56,191
37,445	22,231	84,118	84,850	474,952	422,218	-4,037	-4,576	470,914	423,748
1,037,988	917,999	426,874	433,835	6,757,617	6,464,606	-864,684	-817,346	5,892,933	5,632,800
985,379	874,212	0	0	4,883,858	4,720,549	0	0	4,883,858	4,720,549
1,481	320	0	0	219,849	221,006	0	0	219,849	221,006
866,290	769,421	0	0	3,187,780	3,083,721	0	0	3,187,780	3,083,721
42,075	39,655	0	0	1,282,553	1,227,728	0	0	1,282,553	1,227,728
74,882	64,488	0	0	231,304	224,646	0	0	231,305	224,646
0	0	0	0	59,212	65,434	0	0	59,212	65,434
652	327	0	0	5,345	5,056	0	0	5,345	5,056
0	0	0	0	-102,186	-107,042	0	0	-102,186	-107,042
0	0	0	0	86,368	56,191	0	0	86,368	56,191
11,381	11,206	62,230	62,966	557,539	577,714	-6,100	-1,161	551,439	577,714
996,761	885,418	62,230	62,966	5,527,765	5,354,454	-6,100	-1,161	5,521,665	5,354,454
								371,267	278,347
								5,892,933	5,632,800

In addition to the top-level parent company and the other asset-managing intermediate holding companies, the service and asset management companies include the residential real estate development companies, property management companies, IT enterprises and insurance support service companies.

The life insurance segment additionally comprises subsidiaries that are active as service providers in the life insurance field but are themselves not insurance companies. Due to the transition to the "temporary concept" method for the amortization of deferred taxes, the Statement of Profit and Loss is only broken down as far as the operating result before taxes.

Segment Reporting – Statement of Profit and Loss by Type of Insurance

	Legal insurance		Composite		Life insurance	
(in thousand euros)	2010	2009	2010	2009	2010	2009
Underwriting result						
Gross premiums written	**706,525**	**685,594**	**229,945**	**228,227**	**206,628**	**200,578**
Self-contracted business	583,511	580,670	221,165	221,301	206,628	200,578
Assumed business	123,014	104,924	8,780	6,926	0	0
Premiums for reinsured business	-1,929	-1,649	-5,757	-5,691	-2,602	-2,044
Change in net unearned premiums	-985	-4,851	-794	664	423	514
Earned premiums for own account	**703,612**	**679,094**	**223,393**	**223,199**	**204,450**	**199,049**
Premiums from gross provisions for premium rebates	0	0	0	0	14,922	15,619
Assigned capital gains from underwriting account	0	0	574	591	132,389	117,567
Unrealized profits from capital investments	0	0	0	0	8,618	12,005
Other underwriting result for own account	2,073	2,049	1,110	1,105	21,022	8,069
Total underwriting result	**705,685**	**681,142**	**225,078**	**224,895**	**381,401**	**352,308**
Underwriting costs						
Cost of claims for own account	-435,733	-414,280	-111,245	-116,643	-221,677	-231,094
Change in other net underwriting reserves	191	270	-137	524	-41,440	-22,181
Costs for premium rebates	-13	10	0	0	-26,487	-27,293
profit-linked portion	0	0	0	0	-26,487	-27,293
non-profit-linked portion	-13	10	0	0	0	0
Unrealized losses from capital investments	0	0	0	0	-2	-1
Cost of insurance business	-307,169	-279,881	-83,375	-85,679	-54,958	-41,015
portion attributable to accounting costs	-169,197	-143,037	-25,646	-23,109	-47,473	-30,043
portion attributable to administrative costs	-137,934	-136,873	-58,529	-63,226	-8,212	-9,029
reinsurance portion	-38	28	801	657	727	-1,943
Assigned capital expenditures from underwriting account	0	0	0	0	-18,610	-16,278
Other underwriting costs for own account	0	11	-1,265	-1,017	-9,902	-5,341
Total underwriting costs	**-742,724**	**-693,870**	**-196,023**	**-202,814**	**-373,075**	**-343,202**
Subtotal	**-37,039**	**-12,728**	**29,055**	**22,081**	**8,326**	**9,106**
Change in fluctuation reserve and similar provisions	3,455	-838	2,767	-6,388	0	0
Underwriting result for own account	**-33,584**	**-13,566**	**31,821**	**15,693**	**8,326**	**9,106**
Income from capital investments	76,125	76,571	29,601	21,893	132,389	117,567
Costs of capital investments	-24,613	-30,039	-3,592	-5,440	-18,610	-16,278
Income from capital investments	**51,512**	**46,532**	**26,008**	**16,454**	**113,779**	**101,289**
Capital investment income assigned to underwriting account	0	0	-574	-591	-113,779	-101,289
Revenues	0	0	0	0	0	0
Production costs	0	0	0	0	0	0
Gross operating result	**0**	**0**	**0**	**0**	**0**	**0**
Other earnings	24,646	13,746	1,164	1,646	1,800	1,800
Other costs	-44,521	-42,120	-8,167	-5,038	-2,903	-2,623
Other income/expenses	**-19,875**	**-28,374**	**-7,004**	**-3,392**	**-1,104**	**-824**
Profit on ordinary activities	**-1,948**	**4,592**	**50,252**	**28,163**	**7,222**	**8,282**
Extraordinary operating result	**-6,369**	**0**	**-1,813**	**0**	**-338**	**0**
Operating result before taxes	**-8,317**	**4,592**	**48,439**	**28,163**	**6,884**	**8,282**
Tax expenditure						
Net income						
External portions						
Group profit/loss for year						

Health insurance		Services and asset management		Total		Consolidation		Group total	
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
286,789	**255,434**	**0**	**0**	**1,429,887**	**1,369,833**	**0**	**0**	**1,429,887**	**1,369,833**
286,789	255,434	0	0	1,298,094	1,257,983	0	0	1,298,094	1,257,983
0	0	0	0	131,794	111,850	0	0	131,794	111,850
-5	-5	0	0	-10,293	-9,389	0	0	-10,293	-9,389
-1,161	8	0	0	-2,516	-3,665	0	0	-2,516	-3,665
285,623	**255,437**	**0**	**0**	**1,417,078**	**1,356,779**	**0**	**0**	**1,417,078**	**1,356,779**
12,944	3,486	0	0	27,866	19,105	0	0	27,866	19,105
45,174	35,162	0	0	178,137	153,320	0	220	178,137	153,540
0	0	0	0	8,618	12,005	0	0	8,618	12,005
1,530	233	0	0	25,736	11,455	0	0	25,736	11,455
345,271	**294,318**	**0**	**0**	**1,657,435**	**1,552,664**	**0**	**220**	**1,657,435**	**1,552,884**
-158,843	-147,548	0	0	-927,498	-909,565	0	0	-927,498	-909,565
-97,194	-79,802	0	0	-138,580	-101,189	0	0	-138,580	-101,189
-29,471	-13,903	0	0	-55,971	-41,185	0	0	-55,971	-41,185
-26,244	-11,867	0	0	-52,731	-39,159	0	0	-52,731	-39,159
-3,227	-2,037	0	0	-3,240	-2,026	0	0	-3,240	-2,026
0	0	0	0	-2	-1	0	0	-2	-1
-43,679	-44,642	0	0	-489,181	-451,216	0	0	-489,181	-451,216
-35,417	-37,573	0	0	-277,733	-233,762	0	0	-277,733	-233,762
-8,262	-7,069	0	0	-212,937	-216,197	0	0	-212,937	-216,197
0	0	0	0	1,490	-1,258	0	0	1,490	-1,258
-4,116	-1,164	0	0	-22,727	-17,442	0	-80	-22,727	-17,522
-2,022	-564	0	0	-13,189	-6,911	0		-13,189	-6,911
-335,325	**-287,622**	**0**	**0**	**-1,647,147**	**-1,527,509**	**0**	**-80**	**-1,647,147**	**-1,527,589**
9,947	**6,695**	**0**	**0**	**10,288**	**25,155**	**0**	**140**	**10,288**	**25,295**
0	0	0	0	6,222	-7,226	0	0	6,222	-7,226
9,947	**6,695**	**0**	**0**	**16,509**	**17,929**	**0**	**140**	**16,509**	**18,069**
45,174	35,162	1,895	3,459	285,183	254,652	-1,781	0	283,402	254,652
-4,116	-1,164	-5,282	-1,299	-56,214	-54,219	0	-80	-56,214	-54,299
41,057	**33,998**	**-3,388**	**2,161**	**228,969**	**200,433**	**-1,781**	**-80**	**227,188**	**200,353**
-41,057	-33,998	0	0	-155,410	-135,878	0	-140	-155,410	-136,018
0	0	96,139	83,991	96,139	83,991	-38,282	-40,964	57,857	43,026
0	0	-96,914	-84,776	-96,914	-84,776	38,282	40,964	-58,632	-43,812
0	**0**	**-775**	**-786**	**-775**	**-786**	**0**	**0**	**-775**	**-786**
495	1,003	9,588	1,678	37,692	19,873	106	7,084	37,798	26,957
-1,923	-1,715	-1,603	-5,299	-59,118	-56,796	-1,943	-5,409	-61,061	-62,205
-1,429	**-712**	**7,985**	**-3,622**	**-21,426**	**-36,923**	**-1,837**	**1,675**	**-23,263**	**-35,249**
8,518	**5,984**	**3,823**	**-2,246**	**67,867**	**44,775**	**-3,618**	**1,595**	**64,250**	**46,369**
-179	**0**	**-991**	**0**	**-9,690**	**0**	**0**	**0**	**-9,690**	**0**
8,339	**5,984**	**2,832**	**-2,246**	**58,177**	**44,775**	**-3,618**	**1,595**	**54,560**	**46,369**
								-4,465	-25,336
								50,094	**21,033**
								-4,026	-2,203
								46,068	**18,830**

Segment Reporting – Statement of Profit and Loss by Domestic and International Business

	Domestic	
(in thousand euros)	2010	2009
Underwriting result		
Gross premiums written	**977,721**	**953,474**
Self-contracted business	969,852	947,570
Assumed business	7,869	5,904
Premiums for reinsured business	-8,471	-7,843
Change in net unearned premiums	634	2,593
Earned premiums for own account	**969,883**	**948,224**
Premiums from gross provisions for premium rebates	27,866	19,105
Assigned capital gains from underwriting account	178,137	153,320
Unrealized profits from capital investments	8,618	12,005
Other underwriting result for own account	25,462	11,182
Total underwriting result	**1,209,966**	**1,143,836**
Underwriting costs		
Cost of claims for own account	-661,322	-673,751
Change in other net underwriting reserves	-138,305	-101,600
Costs for premium rebates	-55,958	-41,196
profit-linked portion	-52,731	-39,159
non-profit-linked portion	-3,227	-2,037
Unrealized losses from capital investments	-2	-1
Cost of insurance business	-285,317	-270,449
portion attributable to accounting costs	-134,102	-119,348
portion attributable to administrative costs	-152,455	-149,604
reinsurance portion	1,240	-1,497
Assigned capital expenditures from underwriting account	-22,727	-17,442
Other underwriting costs for own account	-13,189	-6,922
Total underwriting costs	**-1,176,819**	**-1,111,360**
Subtotal	**33,147**	**32,476**
Change in fluctuation reserve and similar provisions	2,767	-6,388
Underwriting result for own account	**35,914**	**26,088**
Income from capital investments	253,692	222,993
Costs of capital investments	-45,353	-49,087
Income from capital investments	**208,339**	**173,906**
Capital investment income assigned to underwriting account	-155,410	-135,878
Revenues	96,139	83,991
Production costs	-96,914	-84,776
Gross operating result	**-775**	**-786**
Other earnings	28,810	25,707
Other costs	-45,332	-50,707
Other income/expenses	**-16,522**	**-25,000**
Profit on ordinary activities	**71,546**	**38,331**
Extraordinary operating result	**-9,690**	**0**
Operating result before taxes	**61,856**	**38,331**
Tax expenditure	0	0
Net income	**61,856**	**38,331**
External portions	0	0
Group profit/loss for year	**61,856**	**38,331**

International		Total		Consolidation		Group total	
2010	2009	2010	2009	2010	2009	2010	2009
452,166	**416,359**	**1,429,887**	**1,369,833**	**0**	**0**	**1,429,887**	**1,369,833**
328,242	310,413	1,298,094	1,257,983	0	0	1,298,094	1,257,983
123,924	105,946	131,794	111,850	0	0	131,794	111,850
-1,821	-1,546	-10,293	-9,389	0	0	-10,293	-9,389
-3,150	-6,258	-2,516	-3,665	0	0	-2,516	-3,665
447,195	**408,555**	**1,417,078**	**1,356,779**	**0**	**0**	**1,417,078**	**1,356,779**
0	0	27,866	19,105	0	0	27,866	19,105
0	0	178,137	153,320	0	220	178,137	153,540
0	0	8,618	12,005	0	0	8,618	12,005
274	273	25,736	11,455	0	0	25,736	11,455
447,469	**408,828**	**1,657,435**	**1,552,664**	**0**	**220**	**1,657,435**	**1,552,884**
-266,177	-235,813	-927,498	-909,565	0	0	-927,498	-909,565
-275	411	-138,580	-101,189	0	0	-138,580	-101,189
-13	10	-55,971	-41,185	0	0	-55,971	-41,185
0	0	-52,731	-39,159	0	0	-52,731	-39,159
-13	10	-3,240	-2,026	0	0	-3,240	-2,026
0	0	-2	-1	0	0	-2	-1
-203,864	-180,768	-489,181	-451,216	0	0	-489,181	-451,216
-143,631	-114,414	-277,733	-233,762	0	0	-277,733	-233,762
-60,483	-66,593	-212,937	-216,197	0	0	-212,937	-216,197
250	239	1,490	-1,258	0	0	1,490	-1,258
0	0	-22,727	-17,442	0	-80	-22,727	-17,522
0	11	-13,189	-6,911	0	0	-13,189	-6,911
-470,328	**-416,149**	**-1,647,147**	**-1,527,509**	**0**	**-80**	**-1,647,147**	**-1,527,589**
-22,859	**-7,321**	**10,288**	**25,155**	**0**	**140**	**10,288**	**25,295**
3,455	-838	6,222	-7,226	0	0	6,222	-7,226
-19,404	**-8,160**	**16,509**	**17,929**	**0**	**140**	**16,509**	**18,069**
31,491	31,659	285,183	254,652	-1,781	0	283,402	254,652
-10,861	-5,132	-56,214	-54,219	0	-80	-56,214	-54,299
20,630	**26,527**	**228,969**	**200,433**	**-1,781**	**-80**	**227,188**	**200,353**
0	0	-155,410	-135,878	0	-140	-155,410	-136,018
0	0	96,139	83,991	-38,282	-40,964	57,857	43,026
0	0	-96,914	-84,776	38,282	40,964	-58,632	-43,812
0	**0**	**-775**	**-786**	**0**	**0**	**-775**	**-786**
8,882	-5,833	37,692	19,873	106	7,084	37,798	26,957
-13,786	-6,090	-59,118	-56,796	-1,943	-5,409	-61,061	-62,205
-4,904	**-11,923**	**-21,426**	**-36,923**	**-1,837**	**1,675**	**-23,263**	**-35,249**
-3,679	**6,444**	**67,867**	**44,775**	**-3,618**	**1,595**	**64,250**	**46,369**
0	**0**	**-9,690**	**0**	**0**	**0**	**-9,690**	**0**
-3,679	**6,444**	**58,177**	**44,775**	**-3,618**	**1,595**	**54,560**	**46,369**
0	0	0	0	-4,465	-25,336	-4,465	-25,336
-3,679	**6,444**	**58,177**	**44,775**	**-8,083**	**-23,742**	**50,094**	**21,033**
0	0	0	0	-4,026	-2,203	-4,026	-2,203
-3,679	**6,444**	**58,177**	**44,775**	**-12,109**	**-25,944**	**46,068**	**18,830**

Auditor’s Report*

We have examined the Consolidated Financial Statements of ARAG Aktiengesellschaft, Düsseldorf – consisting of the balance sheet and statement of profit and loss, appendix, statement of cash flow and statement of equity as well as reporting by segments – and the Group Management Report for the fiscal year from 1 January to 31 December 2010. The Board of Management of the Company is responsible for preparation of the Consolidated Financial Statements and Group Management Report in compliance with German commercial regulations. Our task is to provide an assessment of the year-end Consolidated Financial Statements and the Group Management Report on the basis of our audit.

We carried out our audit of the year-end Consolidated Financial Statements in accordance with Art. 317 HGB under consideration of the IDW’s (Institute of Auditors) rules on proper auditing of year-end financial statements. These stipulate that the audit must be planned and conducted in such a manner that misstatements and violations that have a significant effect on the understanding of assets, finances and earnings as conveyed by the year-end Consolidated Financial Statements in accordance with the rules on proper accounting, and the Group Management Report, are identified with a sufficient level of certainty. In determining the specific procedure of the audit, knowledge of the nature of the business and the economic and legal background of the Group as well as possible errors to be expected are taken into consideration. The audit assesses the efficiency of the internal account auditing system and the documentation of the data given in the year-end Consolidated Financial Statements and the Group Management Report primarily on the basis of random checks. The audit comprises the evaluation of the year-end financial statements of the companies included in the Consolidated Financial Statements, the scope of consolidation, the applied accounting and consolidation methods and the key estimates of the Board, as well as an evaluation of the overall representation of the Consolidated Financial Statements and the Group Management Report. It is our opinion that our audit provides a sufficiently sound basis for our assessment.

Our audit has not resulted in any objections.

In our assessment on the basis of our understanding gained in the course of the audit, the Consolidated Financial Statements comply with the legal requirements and convey an accurate impression of the assets, finances and earnings situation of the Group. The Group Management Report accords with the Consolidated Financial Statements and conveys an accurate picture overall of the condition of the Company, and accurately represents the opportunities and risks attendant on in its future development.

Düsseldorf, 12 May 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Alfons Koch	Christian Sack
Auditor	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 annual financial statements, is authoritative.

Report of the Supervisory Board

Throughout the fiscal year under review, the Supervisory Board continually monitored and advised the Board of Management. To this end, six meetings of the Supervisory Board were held. Oversight was performed on the basis of the reports and oral information provided by the Board of Management, which informed the Supervisory Board in a timely and complete manner on all relevant issues of planning and business development of the top-level company and the affiliated companies included in the Consolidated Financial Statements, the risk situation and risk management. The Supervisory Board was also kept extensively informed of projects and plans that were of particular importance for the Group or of an urgent nature between meetings. In the meetings, the Board of Management coordinated the strategic orientation of the Group with the Supervisory Board. The Supervisory Board was involved in decisions of fundamental importance to the Group. The progress of strategy implementation was regularly discussed in the meetings. Deliberations in the meetings of the Supervisory Board focused on such issues as: the risk situation of the Group subsidiaries, the results of the Fifth Impact Study on Solvency II as they affect the Group subsidiaries and a concept for corporate responsibility.

The Supervisory Board also studied the project for implementing the minimum standards for risk management of insurance companies (MaRisk VA).

A further issue was consultation on the change of the legal form of the top-level company and the operative top-level Group company ARAG Allgemeine Rechtsschutz-Versicherungs-AG from a joint-stock company under German law into a European company (Societas Europaea, SE).

No special monitoring actions were necessary in the fiscal year under review. The Supervisory Board is of the opinion that the Board of Management conducts the business legally, properly and to appropriate ends. Specifically, the Board of Management is fulfilling its obligation to ensure the sustained existence of the Group and its long-term profitability.

The Supervisory Board has reviewed the Consolidated Financial Statements and the Group Management Report. As part of this review, this body exercised its authority pursuant to Art. 111 (2) AktG, in particular through the inspection of the books and correspondence of the Group subsidiaries. The examination was conducted on the basis of the regular reports of the Board of Management, in which information respecting the business situation and all important events was disclosed both in writing and orally, as well as on the basis of the accounting requirements of commercial law.

The scope of the examination of the Consolidated Financial Statements extended to the discretionary reporting and valuation rights exercised by the Board of Management. This examination led to the following result:

1. The accounting of the Board of Management complies with the legal requirements and the regulations of the Company statute. The Group Management Report is in accord with the Consolidated Financial Statements.
2. Discretionary decisions with respect to accounting policy were taken to the benefit of the Group.

The auditing firm PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the Consolidated Financial Statements as of 31 December 2010 under consideration of our accounting, and the Group Management Report, as authorized by the Supervisory Board and has certified these reports without reservation. The audit report was submitted to the Supervisory Board on time. After reviewing the report on the basis of its own final examination, the Supervisory Board concurs with the opinion of the auditor of the Consolidated Financial Statements. There are no remarks to be made regarding the Auditor's Report. In its final conclusion of its review of the Consolidated Financial Statements, the Group Management Report and the Auditor's Report, the Supervisory Board raises no objections.

Düsseldorf, 31 May 2011

Chairman, Supervisory Board

Gerd Peskes

Governing Bodies of the Company

Supervisory Board

The Supervisory Board is made up of the following persons:

Gerd Peskes	Auditor, Essen, Chairman
Prof. Dr. Dres. h.c. Rolf Dubs	Professor, St. Gallen, Switzerland, Vice-Chairman
Dr. Tobias Bürgers	Attorney, Munich

Board of Management

Dr. Paul-Otto Faßbender	Attorney, Düsseldorf
Dr. Karl-Heinz Strohe	Attorney, Cologne

Information

ARAG provides a broad range of information about the ARAG Group, its insurance products and services in the form of numerous publications as well as extensive Web-based content. And as a legal specialist, ARAG's information offerings would be incomplete without a range of selected tips and guides on legal questions. If you have any questions, desire an insurance quote or are merely seeking sound, accurate information: get in touch with us, or visit us online.

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