Dive into Life

Key figures of the ARAG Group

Premium revenues/sales:

€ 1.5 billion

Underwriting result for own account:

€ 64 million

Profit on ordinary business:

€ 92 million

Equity (tier 1):

€ 361 million

Employees:

3,564

Dive into Life

ARAG looks back on a successful fiscal 2012. Our latest key figures prove that we remain masters of our business model in constantly changing markets. In developing the right insurance solutions, we utilize our broad and varied experience gained in our over 75 years of enterprise history. This enables us to ideally support our customers in leading self-determined lives. For us, that's the greatest success of all.

The ARAG Group at a glance

The ARAG Group

ARAG Holding SE — Asset and Shareholding Management

ARAG SE — Operative Group Holding Company

- Central Group Functions
- Group Sales
- Group IT/ Business Organization/ Operations
- Group Finance
- Products and Innovation
- Group Risk Management/ Controlling

Operative Insurance Companies

- ARAG Allgemeine Versicherungs-AG (Composite Insurance)
- ARAG Lebensversicherungs-AG (Life Insurance)
- ARAG Krankenversicherungs-AG (Health Insurance)
- Interlloyd Versicherungs-AG (Specialized in Broker Sales)
- International subsidiaries (Legal Insurance/ Legal Services)

Service Companies

- ARAG IT GmbH (IT Services for the ARAG Group)
- Cura Versicherungsvermittlung GmbH (Brokerage Firm)
- ARAG Service Center GmbH (Emergency Telephone Service)

Insurance segments of the ARAG Group and its managing companies

Legal insurance
ARAG SE

- Legal insurance for motorists, employment, personal and home-related issues, for businesses, trades, self-employed professionals and associations

€ 720 million*

Composite insurance
ARAG Allgemeine Versicherungs-AG

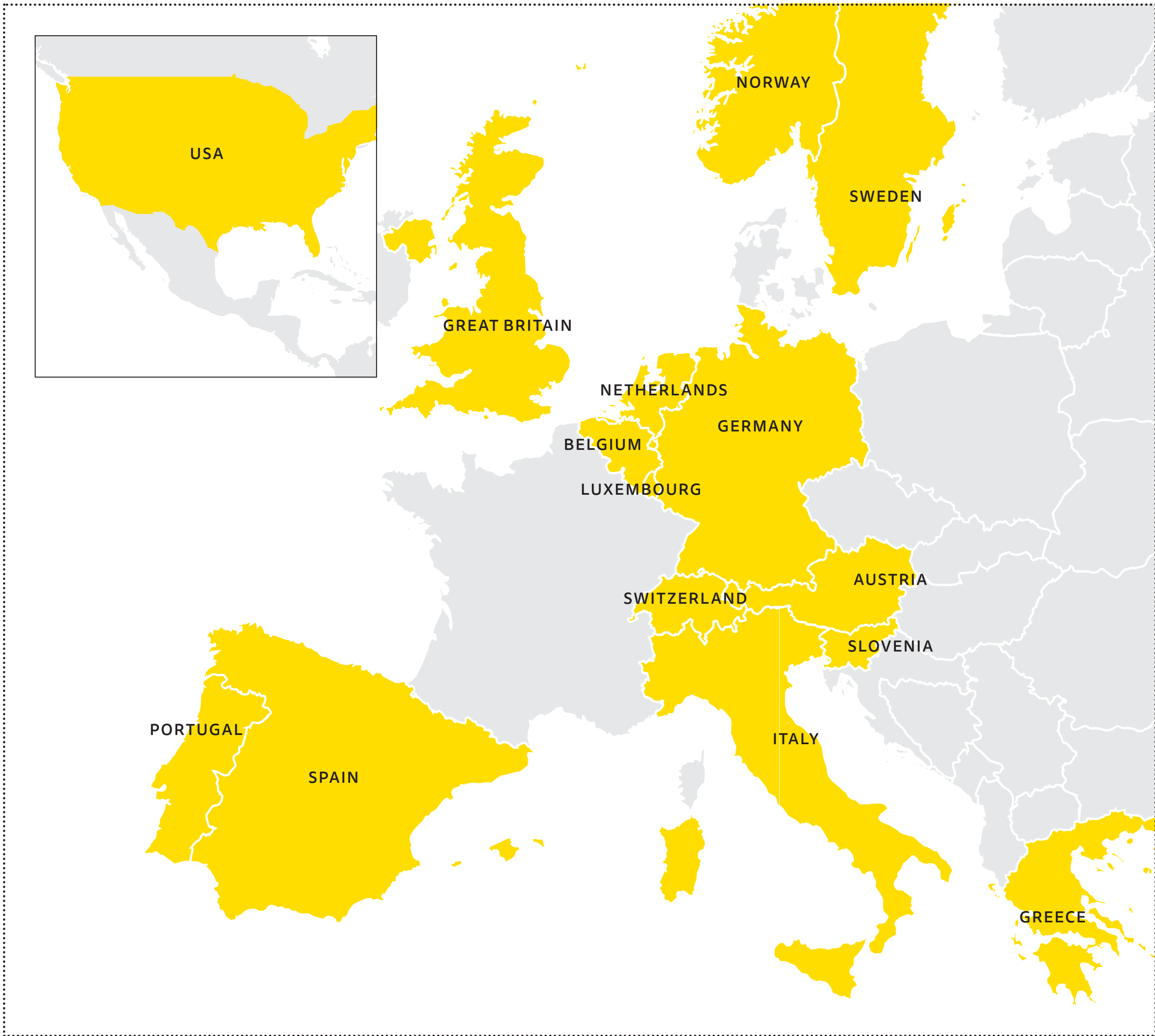
- Liability insurance
- Home effects insurance
- Accident insurance
- Accident disability pension
- TOP Special service package
- Building insurance
- Business insurance
- Sport insurance

€ 228 million*

Health insurance
ARAG Krankenversicherungs-AG

- Private full-coverage health insurance
- Supplementary health insurance
- Long-term care insurance
- Supplementary care insurance
- Foreign-travel health insurance

€ 331 million*



Life insurance
ARAG Lebensversicherungs-AG

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

€ 230 million*

* Gross premium revenues

Selected Awards Won by the ARAG Group

"Insurance innovation of the year":
At the start of 2013, the new internet legal insurance ARAG web@ktiv was awarded third place by a jury of the financial magazine Euro/Euro am Sonntag.

"Favorite supplementary health insurer":
At the end of 2012, ARAG Krankenversicherung once again took first place in the quarterly broker survey of trade magazine AssCompact – for the 20th time in a row.

"Insurance Provider of the Year":
British subsidiary ARAG plc received this recognition as part of the Personal Injury Awards 2012 – for the second time since 2009. The awards are organized by Claims Magazine.

"Best Places to Work in Insurance":
The trade publication Business Insurance awarded ARAG North America this accolade for the fourth year in a row. And BenchmarkPortal recognized the customer service of ARAG North America as a **"Center of Excellence"** for the sixth year running.

ADECOSE:
In the annual insurers ranking of the Spanish brokers association, ARAG Spain placed first in the Special Travel Package category and second in the Legal Insurance category in 2012.

Contents

Overview

Key Figures ARAG Holding SE – Consolidated Financial Statements

(in million euros)	2012	Change	2011	2010
Sales				
Gross premiums written	**1,508.9**	**2.7 %**	1,469.4	1,429.9
Earned premiums for own account	**1,496.5**	**3.2 %**	1,450.0	1,417.1
Sales revenues of non-insurance subsidiaries	**40.9**	**– 2.2 %**	41.8	57.9
Other expenses				
Cost of claims for own account	**892.9**	**– 1.1 %**	902.5	927.5
Claims ratio (basis: earned premiums)	**59.7 %**	**– 2.8 % pts.**	62.2 %	65.5 %
Cost of insurance business for own account	**505.1**	**– 2.7 %**	519.0	489.2
Cost ratio (basis: earned premiums)	**33.8 %**	**– 2.0 % pts.**	35.8 %	34.5 %
Overview of profit and loss				
Underwriting result for own account	**64.2**	**59.3 %**	40.3	16.5
Income from capital investments	**238.8**	**26.7 %**	188.5	227.2
portion included in the underwriting result	**166.9**	**14.9 %**	145.3	155.4
Other income/expenses	**– 46.6**	**– 29.8 %**	– 35.9	– 23.3
Profit on ordinary business	**92.0**	**84.4 %**	49.9	64.2
Net income before external components	**39.2**	**64.0 %**	23.9	50.1
Underwriting reserves/earned premiums (net)	**344.3 %**	**– 1.7 % pts.**	346.0 %	344.6 %

Profile of the ARAG Group

An overview

The ARAG Group is the largest family company in the German insurance industry, and is one of the leading providers of legal insurance world-wide. In its over 75-year history, ARAG has developed from a German legal insurance specialist into a versatile quality insurer. Customers receive not only modern legal insurance but also needs-based products and services of our subsidiaries in the composite, health and legal insurance business – from a single source. The international insurance business in 13 European countries and the US is focused on legal insurance. Many of these branches, subsidiaries and shareholdings hold leading market positions. With its 3,500 employees, the Group generates sales and premiums totaling over € 1.5 billion.

ARAG SE is responsible for strategic Group management and the operational legal insurance business in Germany and abroad. The other ARAG insurance and service subsidiaries are responsible for the operational management of their respective lines of business. The asset-management company ARAG Holding SE forms the corporate umbrella of the Group with its direct and indirect subsidiaries.

Legal insurance

In its core legal insurance segment, ARAG is playing a major role in shaping its markets both in Germany and abroad with innovative products and services. The international legal insurance business has been the Group's largest field of business for some years now. Consequently, the operational Group holding company in Düsseldorf was transformed into a European joint stock company, ARAG SE, at the end of 2011. In 2012, six foreign subsidiaries were folded into ARAG SE as branches. These steps enhance ARAG's effectiveness even further.

Composite insurance

In a highly competitive market, our composite insurer ARAG Allgemeine is proving itself to be an attractive provider of property, liability and accident insurance that achieves many top rankings in independent performance comparisons. In addition, this subsidiary 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. With their modern, customer-oriented portfolio of offerings, the two subsidiaries are growing above the market average and continually rank at the top in product ratings.

Dr. Paul-Otto Faßbender

Foreword

The 2012 fiscal year saw important changes in the ARAG Group. In this year, we succeeded in laying a fundamental course in several respects. The largest family company in the German insurance industry has systematically developed itself in terms of its structure, business model and brand.

The company implemented the merger of six European subsidiaries under the Group umbrella and the establishment of branches in the corresponding countries according to plan. One key aspect here is that customers should benefit directly from these changes. Thanks to our new organization, we are reducing structural complexity and can now manage ARAG's European business more directly. As a consequence, we can better manage market risks.

The new ARAG order is a key component of our diversification strategy. We are diversifying our legal insurance business internationally and becoming more independent of individual national markets, particularly the slow-growing German legal insurance market. Outside of this segment, we are strengthening the various Group segments and thus improving ARAG's segment mix.

This strategic approach is essential for an internationally oriented insurance enterprise. It is a part of our business policy to keep risks appropriately limited. Additionally, overspecialized insurers are much more crisis-prone due to their monoculture. Our enterprise strategy is based on multiple pillars: that is our strength.

The business development in 2012 shows impressively that we are on the right track. The ARAG Group continued its growth course both in Germany and abroad, and achieved record earnings in the fiscal year under review: at € 92 million, profit on ordinary business almost doubled over the previous year. This considerable improvement is due to the good operational profitability of our business: the combined ratio once again dropped significantly – from 98.0 percent to 93.4 percent.

The owners are extremely satisfied with the development of business. This shows that the entrepreneurial structuring process is adding noticeable momentum to the Group. For the Board of Management, employees and owners, it is not enough for ARAG to simply weather hard times. That would not do justice to the great potential of this family enterprise. We want to successfully develop further in the interests of our customers in Europe and the US.

Paul-Otto Faßbender

Dr. Paul-Otto Faßbender

GROWTH OF PREMIUM REVENUES IN GERMANY

in the ARAG Group in legal insurance, composite and personal insurance in 2012 (in percent)

Premium growth of German insurance market (average)

+1.5 %

In Germany, ARAG grew its premiums faster than the industry average. All Group segments contributed to this development.

+3.3 %

Premium growth

of the ARAG Group on the German market

UNDERWRITING RESULT OF THE ARAG GROUP

compared to previous year's result (in € millions)

The ARAG Group continues to successfully advance its business model. The underwriting result increased 59 percent over the previous year.

€ 40.3 million

ARAG Group underwriting result 2011

€ 64.2 million

ARAG Group

underwriting result 2012

COMBINED RATIO OF THE ARAG GROUP

compared to previous year's ratio (in percent)

Combined ratio 2011

98.0 %

ARAG's claims cost ratio fell significantly over the previous year. The reasons for this were stringent cost discipline and a good claims development.

93.4 %

Combined ratio 2012

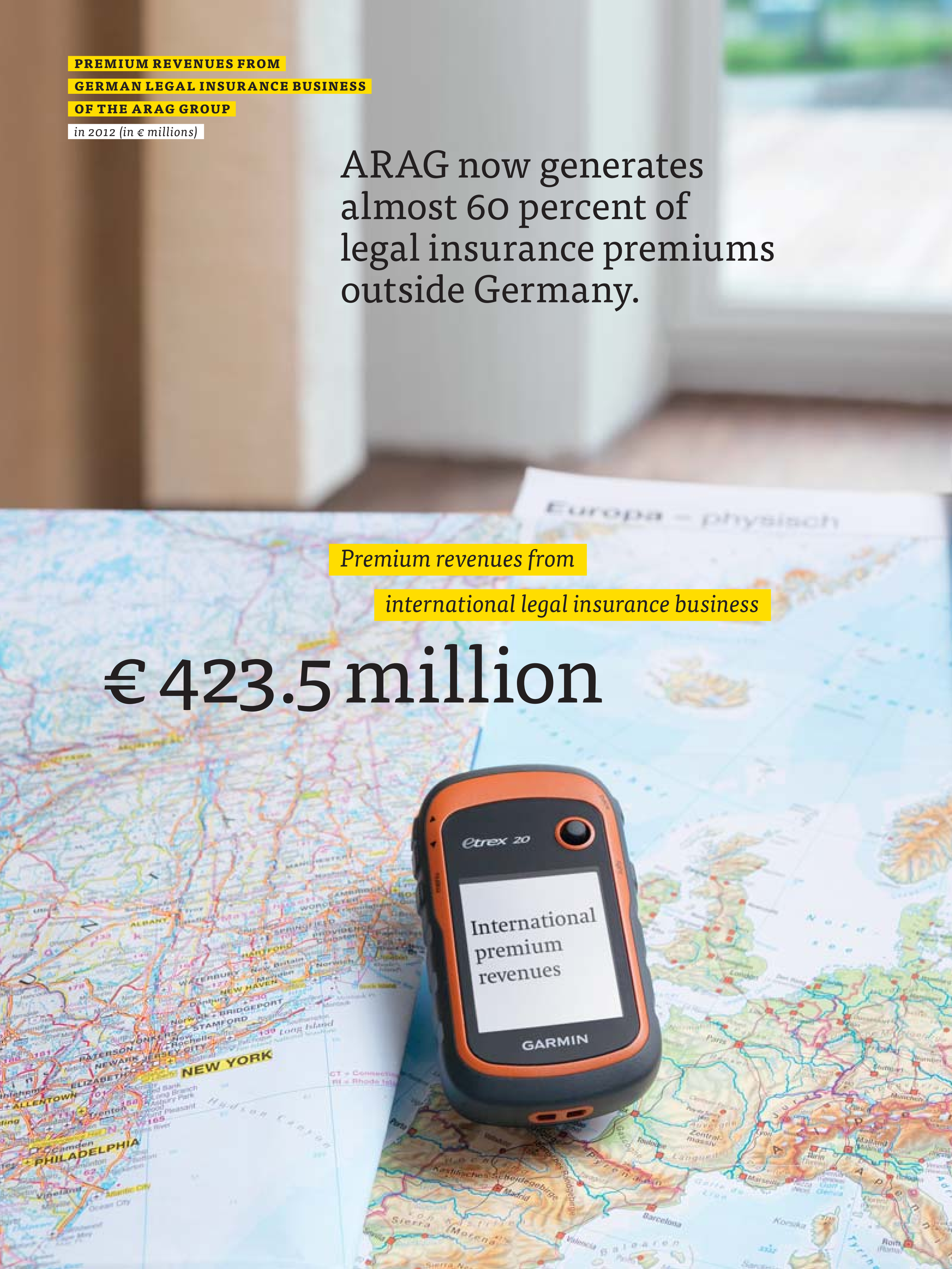
PREMIUM REVENUES FROM GERMAN LEGAL INSURANCE BUSINESS OF THE ARAG GROUP

in 2012 (in € millions)

ARAG now generates almost 60 percent of legal insurance premiums outside Germany.

Premium revenues from international legal insurance business

€ 423.5 million



€ 720.4 million

Premium revenues from all legal insurance business

Group Management Report

Development of premium income and sales

(in million euros)	2012	2011	2010
Legal insurance	**720.4**	**713.9**	**706.5**
share Germany	296.9	296.9	299.8
share international	423.5	417.0	406.7
Composite insurance	**227.6**	228.0	229.9
share Germany	181.1	181.1	184.5
share international	46.5	46.9	45.4
Life insurance	**229.6**	218.1	206.6
Health insurance	**331.3**	309.4	286.8
Service companies	**40.9**	41.8	57.9
Total	**1,549.8**	1,511.2	1,487.7

- ARAG Group grew by 2.7 percent
- Above-average growth in the German market
- Record pre-tax operating result
- International legal insurance largest earnings generator

Group Management Report

I. Principles of the Group

The ARAG Group is the largest family company in Germany, and is one of the three leading providers of legal insurance world-wide. The focus is on modern product concepts for private and business customers. Their modular structure means that customers can obtain coverage that precisely fits their individual needs.

Additionally, custom legal insurance products for special target groups play an important role. The most recent example is the ARAG web@ktiv legal insurance, which debuted in October 2012. Unique in its scope of benefits, this product offers digital natives comprehensive coverage of legal risks when surfing the internet – including taking down of reputation-damaging content and consultation legal insurance for copyright disputes, such as accusations of illegally downloading music.

Over 50 years ago, ARAG began to explore new markets outside of Germany and developed corresponding business models for neighboring European markets. Today, ARAG is successfully active in Germany and 13 other European markets as well as in the US – and often in a leadership position in the market. With an international business share of 32 percent of total revenues, ARAG today is one of Germany's three most internationalized insurers.

Thanks not least to our sustained success in our international business in particular, ARAG is increasingly growing beyond the parameters of a medium-sized enterprise. Group management systematically exploited the great opportunities that resulted for the continuing development of the entire Group. The Group's management and structure have been correspondingly adapted over the past three years. In 2011, the operational Group holding company ARAG Allgemeine Rechtsschutz-Versicherungs-AG was transformed into a European joint stock company (Societas Europaea) under the name ARAG SE.

As the next logical step, ARAG's six European subsidiaries in Belgium, Italy, the Netherlands, Austria, Slovenia and Spain were transformed into branches within ARAG SE in the 2012 fiscal year. This "star-shaped" merger was concluded on schedule at the beginning of 2013. The international branches continue to conduct their operational business in their national markets independently, just as before – under consideration of the specific features of each nation.

With this step, the ARAG Group is adapting its enterprise structure to meet future challenges while at the same time responding to its continuing internationalization.

II. Business Report

Overall economic and industry conditions

The sovereign debt crisis in the eurozone continued to exercise a strong effect on the overall economic conditions in the fiscal year under review. The announcement of the European Central Bank (ECB) that it would intervene in the market for government bonds of the euro nations under special circumstances went some way to calm the financial markets. However, this step failed to overcome the real-economic crisis of trust in the eurozone as a whole. Additionally, the necessary consolidation actions continue to weigh on the eurozone economy. The real gross domestic product in the eurozone shrank by 0.4 percent in the fiscal year under review.

Still, the German economy has proved to be largely immune to these negative conditions. Competitiveness remains high and economic growth is holding strong in spite of the increasing burdens and risks domestically and abroad. Both employment and prosperity have consistently increased in Germany over the past years. The economic development also continues positive in the current 2013 fiscal year. In other European countries, particularly Spain, Italy and Greece, however, this remains difficult to forecast.

Strong economic indicators in Germany are the drop in the unemployment rate to 6.8 percent and record tax revenues. In the fiscal year under review, the economic performance was generated by 41.6 million working persons (average for the year). This was 1.1 percent more than in the previous year. This significantly exceeded previous year's employment record. The inflation-adjusted gross domestic product also grew over the previous year, by 0.7 percent. Private consumption, which makes up over half of gross domestic product, was 2.4 percent higher than in 2011, proving itself once again a pillar of the German economy.

On the capital markets, the expansive monetary policy of the ECB, along with other factors, produced a significant calming and a visible positive development in the stock markets. The German DAX index closed out 2012 with a strong gain of almost 30 percent. The Euro Stoxx 50, on the other hand, posted a gain of around 15 percent.

Overall, the German insurance industry benefited from the strong economic situation in the home market. According to the German Insurance Association GDV, premium revenues for the industry as a whole increased by 1.5 percent over the previous year. The private health insurance segment once again proved a growth driver: for 2012, premium gains of 3.4 percent are expected, following the previous year's premium growth of 4.2 percent.

Property and accident insurance will also continue to grow over the previous year. The anticipated 3.7 percent increase in premiums will be significantly above the previous year's gain of 2.5 percent. However, the intensive price competition characteristic of large portions of the composite business persists unabated. At the same time, growth is restricted by the high market saturation already attained in many segments.

Development of business

Development of premium income and sales

(in million euros)	**2012**	**2011**	**2010**
Legal insurance	720.4	713.9	706.5
share Germany	296.9	296.9	299.8
share international	423.5	417.0	406.7
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Health insurance	331.3	309.4	286.8
Service companies	40.9	41.8	57.9
Total	**1,549.8**	**1,511.2**	**1,487.7**

In the fiscal year under review, ARAG SE, the operational Group holding company of the ARAG Group, completely altered its structure and orientation in its entire European business – as described in detail in the chapter on the principles of the Group. This relates to the merger of the company's subsidiaries into ARAG SE as well as the concurrent realignment of management structures and the governance of ARAG SE in line with the European market. The aim here is to manage the European business much more directly. In spite of the difficult European economic parameters in fiscal 2012, the ARAG Group continued to increase its revenues – both in the German market and in its international business. The underwriting result was also improved by 59 percent, following the doubling achieved in the previous year. In conjunction with an upward trend in the capital markets, the Group increased its profit on ordinary activities significantly, to € 92.0 million. ARAG thus achieved its best pre-tax result in ten years.

Premium revenues in the Group's insurance business grew by 2.7 percent overall (previous year: 2.8 percent) to € 1,508.9 million. In the German market, ARAG's premium revenues expanded by 3.3 percent. The personal insurers were the main driver for this growth during the accounting period. After a temporary slump in the difficult economic environment of the euro crisis, premiums in international legal insurance business also increased by 1.6 percent.

On the claims side, a decline of 1.1 percent in the cost of claims in legal insurance business represented a relief for the Group. This relief is the result of better claims management in German legal insurance and altered parameters in the Austrian market for possibly faulty investment consultations by financial service companies. In the previous year, the exceptional growth in the life insurance business resulted in increased commission expenditures. This growth normalized in the fiscal year under review, so that administrative costs fell by 13.6 percent in the life insurance segment alone. However, the implementation of the European solvability regulation Solvency II and the restructuring entailed in the transformation of ARAG SE impacted costs. In spite of these investments, the net cost ratio of the ARAG Group fell significantly in the fiscal year under review by 5.6 percent, from 35.8 percent to 33.8 percent.

Thanks to the positive development on the capital markets, income from capital investments increased to € 238.8 million (previous year: € 188.5 million). In the previous year, this was influenced exceptionally by unscheduled write-downs resulting from the sovereign debt and euro crises, which in some cases led to write-ups (€ 25.8 million) in the fiscal year under review.

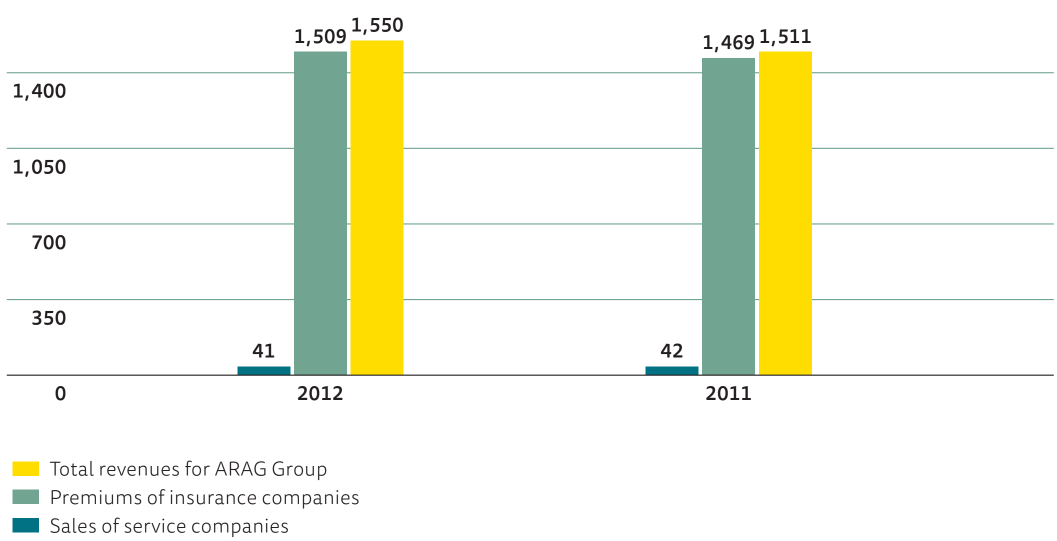
The extraordinary operating result relates to the application of the transitional regulations in the Introductory Law to the German Commercial Code (EGHGB) with respect to accounting for pension obligations as well as costs for restructuring the sales organization in the Spanish branch.

The ARAG Group will continue to pursue its conservative business principles so that it can fulfill the expectations of its customers and owners now and in future.

Premiums/sales The premium revenues of the insurance companies of the ARAG Group in the fiscal year under review again grew in the face of the strongly varying parameters in Europe and continuing high competitive pressure in Germany by 2.7 percent, from € 1.47 billion to € 1.51 billion. In the highly competitive German market, the Company once again posted above-average growth of 3.3 percent, achieving premium revenues of € 1.04 billion. The greatest growth was achieved in health insurance, with additional premium revenues of € 21.9 million. This was followed by the life insurance business, where premiums increased by € 11.5 million. In spite of the high unemployment and the recession in southern nations of the European Union, the international legal insurance business increased by € 6.5 million. At € 40.9 million, the sales of the Group's service subsidiaries remained virtually unchanged over the previous year (previous year: € 41.8 million). In all, premiums and sales revenues of the ARAG Group totaled € 1.55 billion, following € 1.51 billion in the previous year.

Overall performance

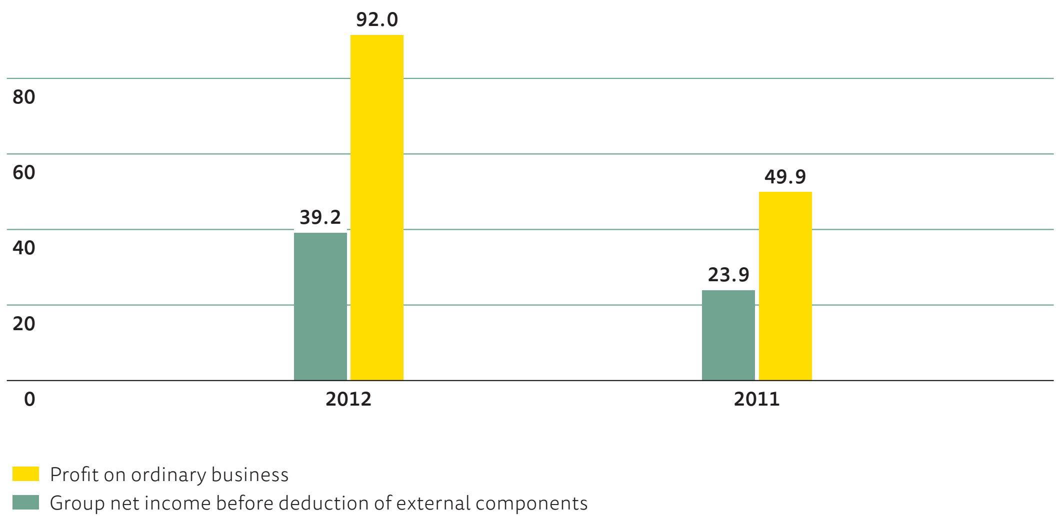
(in million euros)



The Group's portfolios comprise 19.3 million policies. Our international business accounts for 16.0 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 group policies with 15 state sport associations.

Group performance

(in million euros)



Earnings situation

The ARAG Group achieved record earnings in the fiscal year under review. One major earnings driver was a renewed, significant improvement in the underwriting result, from € 40.3 million in the previous year to € 64.2 million. The Company also benefited from the developments on the capital markets. There, the stagnating interest rates led to share price gains, which in turn raised the stock indexes. Together, these factors caused the profit on ordinary business to almost double, to € 92.0 million (previous year: € 49.9 million).

The cost of claims declined over the previous year from € 902.5 million to € 892.9 million. In the previous year, the international legal insurance business posted high claims figures in Austria. The decline in the cost of claims and the increase in premiums in the fiscal year under review caused the Group's claims ratio to fall from 62.2 percent to 59.7 percent.

The cost of insurance business also declined. In the previous year, the exceptional production performance, particularly in life insurance, resulted in increased commission expenditures. Overall, the cost ratio for fiscal 2012 declined noticeably, from 35.8 percent to 33.8 percent. The Group's combined ratio consequently improved significantly from 98.0 percent to 93.4 percent.

Due to write-ups on account of recovery in value, the income from capital investments increased significantly to € 238.8 million (previous year: € 188.5 million).

Other income and expenses are affected largely by the additional expenses for the restructuring of the ARAG Group legally concluded in the fiscal year under review. This fell correspondingly from € –35.9 million in the previous year to € –46.6 million.

In the previous year, extraordinary expenses of € 0.8 million were incurred on account of the revaluation of pension reserves and old-age part-time obligations due to application of the transitional regulation of the German Accounting Law Modernization Act (BilMoG). The restructuring of satellite offices of the Spanish branch additionally impacted this line item with a € 2.5 million expense.

Overall, earnings before taxes and external components increased significantly over the previous year, from € 48.9 million to € 88.7 million. The tax expenditure in the fiscal year under review increased over the previous year from € 25.1 million to € 49.5 million. Thus, after deduction of taxes and external components, Group net income increased to € 37.3 million (previous year: € 22.3 million).

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 (2005).

The conservative reserves policy of the ARAG Group was consistently pursued throughout the year under review. The underwriting reserves were increased once more by 2.7 percent, from € 5.02 billion to € 5.15 billion. However, the ratio of underwriting reserves to earned premiums declined over the previous year by 1.8 percentage points, from 346.0 percent to 344.2 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)	2012	2011
Subscribed capital – paid in	200.0	200.0
Reserves	90.3	79.1
Capital shares of minority shareholders	33.8	33.2
Group net profit after external components	37.3	22.3
Total equity	**361.4**	**334.6**
Lower-ranking bond	50.0	50.0
Own funds	411.4	384.6
Underwriting reserves	5,151.7	5,016.4
Guarantee funds	**5,563.1**	**5,401.0**

The guarantee funds are covered by capital investments in the amount of € 5,503.6 million (previous year: € 5,332.9 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 € 104.9 million (previous year: € 72.2 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.

Asset situation

The capital investment portfolio of the Group grew in fiscal 2012 by 3.2 percent, from € 5,332.9 million to € 5,503.6 million. The present values of these capital investments amounted to € 6,034.9 million (previous year: € 5,624.4 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)		2012		2011	
I.	Real estate and buildings	223.6	4.1 %	207.4	3.9 %
II.	Shares in affiliated companies and holdings	58.6	1.1 %	64.9	1.2 %
III.	Lending to affiliated companies and holdings	0.1	0.0 %	0.1	0.0 %
IV.	Stocks and investment fund shares	2,317.7	42.1 %	2,192.0	41.1 %
V.	Bearer bonds	865.5	15.7 %	705.4	13.2 %
VI.	Mortgages receivable and other similar rights	174.2	3.2 %	194.1	3.6 %
VII.	Registered debentures, promissory notes	1,430.2	26.0 %	1,562.4	29.3 %
VIII.	Bank deposits	313.1	5.6 %	296.3	5.6 %
IX.	Other lending	32.0	0.6 %	25.2	0.5 %
X.	Other capital investments	66.5	1.2 %	68.8	1.3 %
XI.	Portfolio receivables	22.1	0.4 %	16.3	0.3 %
Total		**5,503.6**	**100.0 %**	**5,332.9**	**100.0 %**

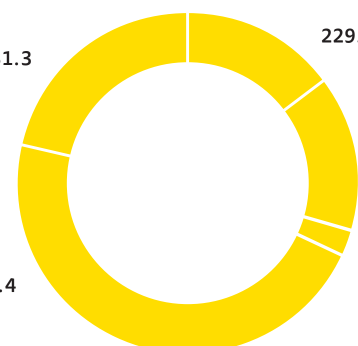
Segment reporting

The Group comprises the operational segments

- Legal insurance business
- Composite insurance business
- Health insurance business
- Life insurance business
- Services and asset management

Premiums and revenues by segment 2012

(in million euros)



Gross premium revenues

(in million euros)	2012	2011
Legal insurance	720	714

Legal insurance business

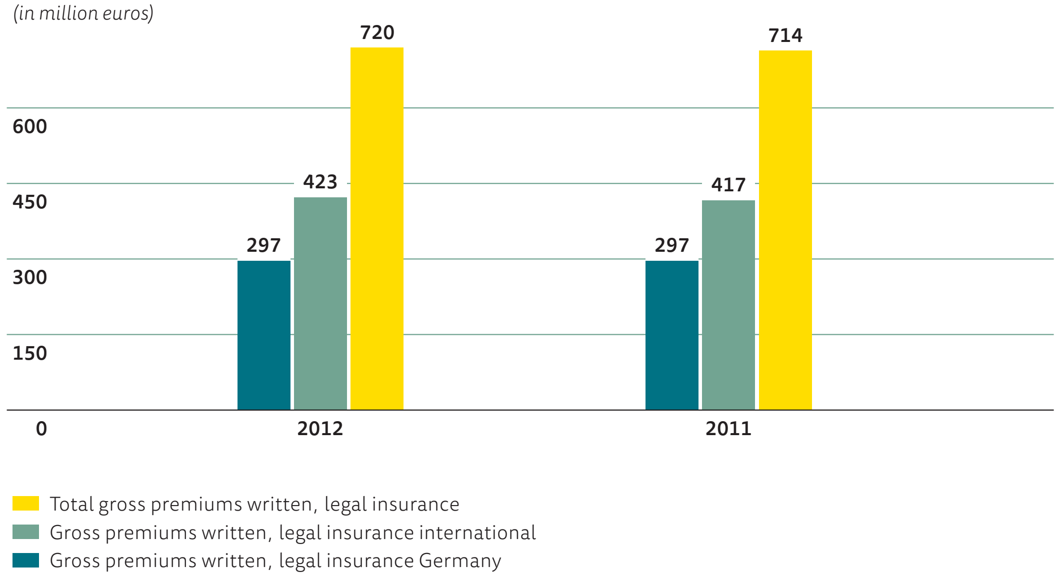
The legal insurance segment continued on its growth track in the fiscal year under review. Gross premiums written increased by 0.9 percent, from € 713.9 million to € 720.4 million. The share of premiums attributable to international legal insurance business grew slightly in comparison with German legal insurance, and now constitutes 58.8 percent (previous year: 58.4 percent) of all legal insurance business.

The cost of insurance claims in the entire legal insurance segment fell, from € 399.6 million to € 384.8 million. The claims ratio was reduced from 56.0 percent to 53.6 percent. The cost ratio also fell, from 44.9 percent to 43.5 percent. After an underwriting loss of € 9.3 million in the previous year, a clear profit of € 21.6 million was posted in the fiscal year under review.

The income from capital investments for the entire legal insurance segment totaled € 55.4 million, following € 28.0 million in the previous year. Under consideration of the € 7.5 million greater negative net expenses in the balance of € 24.2 million in other income and expenses, profit on ordinary business increased considerably from a profit of € 2.1 million in the previous year to € 52.9 million. After deduction of extraordinary expenses, pre-tax profit totals € 50.4 million.

Uninterrupted growth in international legal insurance business

(in million euros)



The **international legal insurance business** continued to develop positively in spite of the extremely difficult conditions in southern Europe in particular. The gross premiums written in this area, today the Group's largest line of business, grew by 1.6 percent in the fiscal year under review, from € 417.0 million in the previous year to € 423.5 million. The greatest growth came from Austria and the Netherlands. Additional premium revenues of € 46.5 million were generated by the comparable special service package business, which is pursued in the Spain and Italy branches. These are stated in the composite segment. Including this figure, total revenues achieved in the international legal insurance business amounted to € 470.0 million. The largest branches are active in Spain, the Netherlands and Italy. In the first half of 2012, the Norwegian HELP Forsikring AS, in which ARAG SE holds a share, opened a branch in Sweden. The ARAG Group is thus actively serving customers in Germany and 13 other European nations as well as in the US.

In the fiscal year under review, the cost of claims in the international legal insurance business fell from € 228.0 million to € 209.8 million. The high claims disbursements at ARAG Austria impacted this figure in the previous year. The combined ratio in international legal insurance business dropped noticeably from 104.5 percent to 95.2 percent. In the fiscal year under review, the international legal insurance business posted a clear profit on ordinary business of € 46.3 million following a loss of € 5.1 million in the previous year. International legal insurance is thus the largest single profit engine within the Group.

The **German legal insurance business** of the ARAG Group continues to be characterized by a sharply competitive market. The cancellation prevention actions implemented were reflected in a further reduction in premium attrition. Due to the additional expansion of assumed business, gross premiums written remained at the previous year's level of € 296.9 million.

The claims ratio increased from 57.1 percent in the previous year to 59.0 percent in the fiscal year under review. This increase is due in part to the structural changes within the ARAG Group as part of the SE transformation and the consolidation of the former international subsidiaries within ARAG SE. Also, earned premiums declined due to the increase in the required provisions for premium carryovers. Increased new business with the correspondingly greater commission expenses also impacted the cost ratio of German legal insurance business. The net cost ratio in the fiscal year under review increased to 40.8 percent (previous year: 39.0 percent). The fluctuation reserve was increased by € 0.5 million in the fiscal year under review. Overall, the German legal insurance business achieved an underwriting profit of € 1.6 million, following € 13.5 million in the previous year. Due to the increase of 94.6 percent in the income from capital investments, profit from ordinary business came to € 6.6 million (previous year: € 7.2 million).

Composite insurance business

Gross premium revenues

(in million euros)	2012	2011
Composite insurance	228	228

The premium revenues in the composite segment came to € 227.6 million in the fiscal year under review (previous year: € 228.0 million). This slight decline is due to the difficult market situation in Spain. There, sales of assistance products fell due to declining vehicle registrations. By contrast, revenues in this segment remained stable in Germany.

Once again, no major or disaster losses occurred in the fiscal year under review. The cost of claims remained at the extremely satisfactory level of the previous year, which resulted in an excellent claims ratio of 45.6 percent. The cost ratio increased from 37.5 percent to 40.4 percent. This was primarily due to structural changes in the branches in Spain and Italy. The underwriting result before fluctuation reserve thus fell from € 37.8 million in the previous year to € 31.0 million. After adjustment of the fluctuation reserve by € 2.0 million, the underwriting result came to € 29.1 million (previous year: € 34.3 million). Under consideration of the 15.6 percent greater income from capital investments and the virtually unchanged other income and expenses, the composite business achieved a profit on ordinary business of € 38.0 million (previous year: € 41.3 million), making it the Group's second-strongest earner after the legal insurance segment.

Health insurance business

Gross premium revenues

(in million euros)	2012	2011
Health insurance	331	309

The health insurance business of the ARAG Group underscored its role as the Group's strongest-growing segment in the accounting period. In the fiscal year under review as well, gross premium revenues showed a marked gain of 7.1 percent, to € 331.3 million. Premium growth in the health insurance segment has thus outpaced the market average for more than a decade and a half. On the benefits side, the costs for insurance claims and transfers to the actuarial reserves increased by 7.4 percent in all to € 290.2 million. Income from capital investment grew by € 4.2 million, from € 42.9 million to € 47.1 million. Under consideration of the other expense and income items and transfer to provisions for premium rebates, earnings before taxes improved over the previous year from € 7.8 million to € 10.7 million.

Life insurance business

Gross premium revenues

(in million euros)	2012	2011
Life insurance	230	218

Once again, the life insurance segment turned in strong growth in the fiscal year under review. This is due to the great success of the mutual fund-linked ARAG FoRte 3D pension policies. Gross premiums written rose by € 11.5 million or 5.3 percent, from € 218.1 million to € 229.6 million. This subsidiary continued to refrain from the sale of policies on the basis of so-called short-term single premiums. On the benefits side, the cost of insurance claims as well as the change in the underwriting reserve over the previous year resulted in an increase of € 30.1 million to € 283.6 million. Commissions and administrative expenses declined over the previous year by 13.6 percent to € 59.7 million. Income from capital investments grew by € 17.5 million, from € 101.7 million to € 119.2 million. Under consideration of other expense and income items and the tax charge, this segment generated a gross profit of € 22.9 million. This enabled € 22.9 million (previous year: € 15.3 million) to be transferred to the reserve for premium rebates. A pre-tax loss in the amount of € 3.3 million remained for the Group net profit, as following on € 1.3 million profit in the previous year.

Services and asset management

Revenues

(in million euros)	2012	2011
Service companies	41	42

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 Holding SE is one. The agency subsidiary of the Group, Cura Versicherungsvermittlung GmbH (until September 2012 Cura GmbH & Co. KG), and the property development business are included in this segment as well. Sales revenues of the non-insurance subsidiaries with external third parties and other Group segments, at € 81.5 million, remained virtually unchanged from the previous year's mark of € 80.0 million. After adjusting for intra-Group revenues of the service companies, external sales amounted to € 40.9 million as opposed to € 41.8 million in 2011. Earnings before taxes totaled € 4.4 million (previous year: € 2.1 million).

Non-financial performance indicators

Product development and other performance factors The ARAG Group has been implementing its new brand strategy since mid-2011. The focus is on safeguarding the independence of our customers. This is also reflected in the products and services of the Group subsidiaries.

In October 2012, the Company launched the first comprehensive insurance coverage for losses in the internet ever in Germany, ARAG web@ktiv. The reputation saver it includes supports e.g. victims of cyber-bullying in having content damaging to their reputation removed and holding the perpetrators responsible. The copyright legal protection extends attorney consultation to the customer e.g. when accused of illegally downloading content.

The largest product launch in the company's history is further clear evidence of customer-oriented innovative power in the area of legal insurance. In the fiscal year under review, over 20 legal insurance products were significantly revised or completely reconceived as part of the project "Rechtsschutz 2013". The products were brought to market in January 2013. Highlights include ARAG web@ktiv for self-employed persons, which was adapted to the needs of business customers on the basis of the successful private-customer product. The demand underscores the fact that, with the target group product web@ktiv, ARAG has an accurate understanding of what customers need: from October 2012 to the end of the first quarter of 2013, over 5,000 policies were concluded with private and the first business customers. As of January 2013, another innovation on the German market is ARAG JuraCheck, for private and business customers. This product leverages one of ARAG's special strengths: legal prevention. With ARAG JuraCheck, customers can have an attorney review contractual clauses online or via telephone – customers can even have their own websites checked.

With ARAG Aktiv Premium legal insurance – for private and business customers – the default legal insurance product consisting of ARAG Aktiv Basis and Komfort legal insurance was expanded. The benefits of the existing variants Basis and Komfort were also expanded as part of the 2013 product offensive. The new Premium line now additionally offers exclusive benefits, such as cost coverage for legal disputes involving university places or false consultation concerning stocks or pensions.

ARAG Premium legal insurance is also a part of the revised hybrid product ARAG Recht&Heim, which bundles the best ARAG benefits from legal insurance, private liability coverage, household effects and optional homeowners insurance. In the business sector, we are also offering customers the revised ARAG manager and company contract legal insurance as of the beginning of 2013.

The ARAG Group also set numerous accents in its international markets in the fiscal year under review through its subsidiaries, branches and shareholdings. For example, the Norwegian legal insurer HELP Forsikring AS, in which ARAG holds a share, commenced business in Sweden. The business focus of the branch in Stockholm is on group policies with unions and their members – the success model of the Norwegian parent. With this entry into the Swedish market, the ARAG Group is now actively serving customers outside of Germany in 13 other European countries and the US.

In the United States, ARAG North America launched the Ultimate Defender, a legal insurance product for affinity groups such as professional associations, cooperatives and other member organizations, in 2012. Previously, the focus was on group contracts as part of company fringe benefits which employers extend to their employees in addition to salaries.

ARAG Slovenia concluded an important group policy in 2012. Under this policy, 5,000 members of the Slovenian police union are now covered by ARAG legal insurance. ARAG is also going new roads in Italy with the legal insurance product Tutela Legale per la Vita. For the first time, holders of risk life insurance policies can protect the beneficiary capital or beneficiary benefit from this policy more effectively against third-party claims. ARAG Austria also launched an innovation. Concurrently with the product launch of ARAG web@ktiv in Germany, they developed a policy that for the first time offers comprehensive internet legal insurance for private customers. The Austrian target group product also offers support in the event of bullying and slander, identity abuse and the abuse of payment methods on the internet.

In the fiscal year under review, independent sources also confirmed that ARAG offers a high-quality portfolio of legal insurance products. For example, in its 1/2012 issue, the German consumer affairs magazine Finanztest awarded the legal insurance product ARAG Aktiv-Rechtsschutz Komfort the very high mark of "good" (2.0) – in a field in which the performance ranged from 1.8 to 3.7. The quality of the legal insurance products ARAG Aktiv Komfort and ARAG Aktiv Premium, which were revised respectively reconceived in 2012, was underscored by the insurance rating of TÜV Saarland. Both products earned the seal "very good".

At the start of the 2012 fiscal year, ARAG also achieved an IT milestone: as of 1 January, 185 million legal insurance data records were transferred from diverse systems to the self-developed portfolio and claims system B&S. Since then, all policy and claims information of all German legal insurance customers is available in a single system.

2012 also saw the rollout of an important technical aid for all ARAG core sales partners. Here, a new technical selling process is ensuring even greater professionalism in customer appointments. The heart is the "U-Pad", on which customers can immediately sign their applications electronically. Beyond that, establishing the comprehensive "Red Thread" consultation process was a key focus in ARAG core sales. As of the end of the fiscal year under review, this was expanded to include a consultation thread specifically for trade and business customers, who represent an important growth sector for the Group.

At ARAG and its subsidiaries, a high standard of product and service quality is a central priority. Since July 2011, the ARAG Group has been pursuing a new brand strategy. Through this strategy, ARAG is positioning itself as a versatile quality insurer with its main emphasis on legal insurance, complemented by the health, life and composite segments. ARAG is thus growing out of its old role as a German niche provider. This imparts new meaning not only to the company, but to the ARAG brand as well.

In this context, the Group is pursuing a long-term plan to transform itself from a tightly circumscribed product brand to an attractive customer brand. The focus of the new positioning is on what holds ARAG together in its core as a family enterprise: independence. This connects the Group with consumers' striving for independence and self-realization. The advertising campaign with the slogan, "Your plans. Your life. Your insurance." strongly highlighted and illustrated how ARAG helps customers to preserve their independence at major turning points in their lives in the fiscal year under review.

With the transformation of the operational holding company of the ARAG Group, ARAG Allgemeine Rechtsschutz-Versicherungs-AG, into ARAG SE (Societas Europaea) in 2011, ARAG was responding to its continuing internationalization. One of the main objectives of this change in legal form is to facilitate access to new markets in Europe, thus securing opportunities for the Group's further development.

Closely connected with this transformation, the Board of Management successively folded in the six existing European subsidiaries in the Netherlands, Belgium, Austria, Slovenia, Italy and Spain as branches under the umbrella of ARAG SE in 2012. As the management of six different stock companies in different jurisdictions is expensive and thus ties up enormous resources, the aim of this step is to reduce complexity within the Company. The so-called star-shaped merger of the six international subsidiaries into ARAG SE was completed on schedule as of the beginning of 2013. No other comparable project of this magnitude has been carried out in the European insurance industry.

On account of the structural changes, a new management structure was also implemented in the Group as of 1 January 2012. The tasks of the former Group Board function "Group International" were reallocated within the Board. These functions will be assumed by the line functions in the six new Board-level areas – including the new function "Product and Innovation". Additionally a Board-level "Group Sales" function has been established, which is responsible for managing sales activities both in Germany and abroad.

The Group's composite segment is managed by ARAG Allgemeine Versicherungs-AG. In the fiscal year under review, this subsidiary successfully concluded the revitalization of its product portfolio begun in 2008: with the introduction of the new accident insurance product Unfall-Schutz 2012 in the first quarter, one of the most important components in the portfolio became significantly more attractive. Through the addition of a premium line with additional assistance, for example for the initial diagnosis of certain types of cancer, consumers can now obtain a high-performance product that also includes legal insurance coverage for victims of violent crime and coverage for asserting claims for damages as an accident victim. The high-performance special accident service package, which can also be obtained separately from accident insurance coverage, is also a new market innovation. The independent rating agency Franke und Bornberg also affirmed the quality of the new accident coverage and rated all three performance packages "FFF" (excellent). But other products of ARAG Allgemeine also once again earned plaudits from independent analysis firms and consumer publications for their quality in the fiscal year under review.

In the health insurance segment, ARAG Krankenversicherungs-AG concluded a cooperation agreement with the company health insurer SBK Siemens-Betriebskrankenkasse effective 1 April 2012. SBK is a strong partner from the statutory health insurance segment with a portfolio of over one million customers and a sterling reputation. With their consistent orientation toward customer needs, SBK and ARAG Krankenversicherungs-AG are an excellent match. Together, the two companies have created a portfolio of high-performance, low-cost supplementary insurance rates with which SBK customers can optimally round out their statutory health insurance coverage. The positive perception of ARAG Krankenversicherungs-AG by customers was once more enhanced by excellent assessments from reputable rating agencies and specialist media – such as Stiftung Warentest: the Z90Bonus rate earned the overall mark of 1.4 (very good), while rate 262 was assessed with 0.9 (very good) in a comparison of rates for women. One of the main challenges in the fiscal year under review was the gender-neutral calculation of products to conform with the ruling of the European Court of Justice of 1 March 2011. ARAG Krankenversicherungs-AG presented its customers with an offering of unisex rates punctually as of the deadline of 21 December 2012. ARAG is also proving to be excellently positioned in private health insurance in the unisex world with respect to both benefits and the price component.

In the life insurance business, the product family of mutual fund-linked pension insurance plans continues to enjoy consistently high demand, with a growth rate of 16 percent. Thus, ARAG FoRte 3D already accounts for two thirds of total gross production. The strong interest of customers and consumers in the products of ARAG Lebensversicherungs-AG is supported by excellent ratings from specialist publications and noted rating agencies such as Franke und Bornberg. Not least thanks to the reduced cancellation and the increase in the average premium amounts per policy, the increased business could be handled without appreciably adding capacity. With regard to customer needs, the focus of ARAG Lebensversicherungs-AG in 2012 was on securing retirement incomes and providing coverage in the event of disability. Additionally, the product portfolio which was completely switched over to unisex punctually as of 21 December 2012 deadline was further optimized in many respects. Among other aspects, this includes the reformulation of numerous insurance terms to make them more understandable. Additionally, in the new rate generation of ARAG FoRte 3D privat, direkt and basis, all portfolio commissions received from mutual fund operators are credited to the policyholders in full. This additionally increases cost transparency for customers. On the sales side, the mix of sales channels was expanded at the end of 2012 to include fee-based consultants. For this purpose, the range of mutual-fund linked pension insurance products in the product family was expanded to include a fee rate. This provides fee-based consultants with a product for their target groups that is commission-free and thus adapted on the rate level.

Employees and employee qualification As of the end of fiscal 2012, the ARAG Group employed a total of 1,923 persons (previous year: 1,880) in Germany. A further 1,636 (previous year: 1,623) persons were employed abroad. ARAG additionally provides vocational education as certified professionals for insurance and finance. In addition to vocational training, continuing employee education also enjoys a high priority at ARAG. ARAG should remain one of the best insurers on the market. To enable this, all employees must be able to keep their knowledge and skills up to date. The internet-based qualification platform ARAG IQ was created for this purpose. Conventional in-person seminars and sessions are supplemented and enhanced through e-learning. ARAG employees around the world can take advantage of this qualification portal. The subjects of the qualification program cover a full range including executive programs, Office courses, project management training, coaching offerings and foreign languages.

A further key component for retaining qualified employees in the Group is the internal talent management program ARAG myCareer. Launched in 2011, this offers an expanded qualification toolset for human resources selection, development and qualification. It thus supports employees in their development and career planning and at the same time serves to retain professional and generalist knowledge in the Group.

The ARAG sales training program assures continual, high-quality qualification actions for the ARAG sales partners. This unit covers the entire spectrum of knowledge relating to the sale and the superior performance of ARAG products with a broad spectrum of specially tailored seminars.

In the fiscal year under review, the ARAG Essentials – our enterprise vision for the ARAG Group – and the ARAG Leadership Standards derived from them were further embedded in our day-to-day operations. The ARAG AWARD was first presented in January 2012. The award honors independently conducted employee team projects that implement the ARAG Essentials in day-to-day work in an exemplary manner, in three categories: Germany, International and (German) Sales. The ARAG AWARD is presented annually. The current winners were honored at the ARAG Management Conference in January 2013.

The ARAG Group is considered a challenging employer with high performance expectations of its employees. In return, the Company invests in an extensive range of benefits. One key element is the Company health management program ARAGcare. This focuses on the personal health of employees and on greater reconcilability of career and family. In the 2012 Corporate Health Award, ARAGcare was accorded the Seal of Excellence for the third year in a row. ARAG thus continues to place at the forefront of the industry.

As a responsible employer, ARAG is expanding the broad offerings of ARAGcare. In addition to regular newsletters, ARAG also offers a wide range of company sports opportunities, regular medical care and “anti-stress courses”, such as yoga. A fully equipped parent-child office is available for employees and their children in the event of unplanned child care bottlenecks. Since the end of 2012, an extensive online health check is available to all German employees. This allows employees to analyze their personal health status as well as stress factors relating to their job in strict anonymity. It also suggests helpful hints and offerings on the basis of the individual results.

ARAG would like to thank its customers for the trust they have placed in us. We are also grateful to our sales and administrative employees for their exceptional dedication and their highly motivated implementation of the new requirements. Our gratitude extends to the Works Council as well for its loyal and constructive cooperation.

Employees

In the fiscal year under review, the number of employees increased in the Group as a whole compared to the previous year. Including companies outside the scope of consolidation, 3,564 persons were employed as of 31 December 2012 (previous year: 3,506). As of 31 December 2012, a total of 3,559 persons were employed in the consolidated companies on a permanent basis (previous year: 3,503). During the reporting period, 45.9 percent of all ARAG Group employees worked outside of Germany (previous year: 46.3 percent).

Employees

(permanent employment contracts)	**2012**	**2011**
Consolidated companies	3,559	3,503
Entire Group	3,564	3,506

III. Supplementary Report

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

IV. Outlook, Opportunity and Risk Report

Outlook

The economic development in the business sector of ARAG Holding SE is characterized by differing forecasts for the German market and the rest of Europe. The economies of southern Europe in particular are in the midst of coping with the sovereign debt crisis. The picture is dominated by correspondingly recessionary market forecasts. Still, there are increasing signs for a noticeable slowing of the economic downturn. In this respect, the expansive monetary policy of the ECB is ensuring a measure of calm. However, the necessary austerity measures in the overly indebted nations are resulting in a sustained dampening.

This is also impacting the German export economy. The German economy itself will remain solid thanks to strong domestic demand. During the forecasting period, it will benefit from the fact that the reduction in social insurance contributions creates scope for wage and salary increases of around four percent. Thus, unlike other European countries, Germany will not suffer a recession. The OECD expects German gross domestic product to expand by 0.5 percent in 2013. Still, the business climate and the business expectations are rather subdued. The debt crisis still presents a great risk for the development of European economies.

For the German insurance industry, a minimal growth of around one percent is anticipated in the forecasting period. The life insurers in particular are confronted by an increasingly difficult market environment. In property and accident insurance, the increase in the incomes of private households, which make up two thirds of the demand in this segment, is noticeable. The German Insurance Association GDV is anticipating a 3.7 percent increase in sales here. However, the German insurance market in the property and accident insurance segments continues to be characterized above all by intensive seller competition and a high level of market saturation.

Due to its transnational positioning, the ARAG Group intensively tracks the parameters of its business in Europe. ARAG responded rapidly and consistently to the dramatic developments in the European economic region. The Group restructured and reoriented its European insurance business. The entire European business is being restructured under the umbrella of ARAG Holding SE. To this end, six European subsidiaries were folded into ARAG SE, which manages the operational insurance business. Under the new structure, the respective national markets will be served by branches. The corresponding processes were launched at the end of 2010. The associated so-called star-shaped merger was completed in the first quarter of 2013. The comprehensive restructuring of the Group will thus develop its full effect for the first time during the forecasting period.

Thanks to this complete reorganization, the Group can conduct its entire European business more directly and efficiently. This is an important milestone in the development of the Company. In the crisis mode of the European markets, it is becoming ever more important to get close to the risks in order to monitor them closely. In future, this will eliminate the cumbersome maintenance and oversight of independent subsidiaries as joint stock companies with corresponding management bodies in six different jurisdictions. This makes the ARAG Group more responsive and agile in its European core markets.

Additionally, valuable local resources can be deployed much more directly to serve customers. This is essential for the successful further development of ARAG. With an international business share of 32 percent of total revenues, ARAG is one of Germany's three most internationalized insurers.

With the extensive restructuring of its European business, ARAG Holding SE is facing the challenges of the market proactively and decisively. With respect to the unequal economic development within the EU, it is not enough to simply weather difficult times. There are only a few German insurers that have restructured and reoriented themselves as thoroughly as ARAG SE has since the end of 2010. Brand, structure and business model have little left in common with the ARAG of three years ago. An independent family company has convincing advantages in the insurance market. That is the entrepreneurial mission that we are performing with total dedication in the interests of our customers in Europe and the US. This will characterize our work during the forecasting period and beyond.

In the forecasting period, ARAG Holding SE will structure its fiscal year on the basis of its new European management structure. In the process, the Group will remain true to its conservative, earnings-oriented business policy. Thanks to the good international diversification of its core business and the successful multi-segment strategy on the German market, the Company anticipates that growth will continue. The expectations for each Group segment vary.

In the legal insurance segment, the Company expects some slight growth in gross premium revenues in spite of the continuing difficult market conditions in many European countries.

On the German market, ARAG SE will succeed in further slowing premium attrition in its legal insurance business. A long-term successful cancellation prevention and continued good production are gradually showing results. Still, it will not be possible to halt the decline in premiums completely in 2013. The planning calls for this to be achieved in fiscal 2014. The international branches will continue to grow in the forecasting period. The demanding market environments are taken into account here. In view of the particularly severe recession in Spain, ARAG is anticipating a slight decline in premiums there. In the other European branches, the actions to revitalize the legal insurance business will take effect sooner. In 2013, the Group is seeking to acquire the majority of shares in the existing holding in Norway. Following conclusion of this acquisition, die HELP Forsikring AS, Scandinavia's only legal insurer to date, will be integrated in the ARAG Group. The Group aims to further expand its business in northern Europe under the HELP name. ARAG continues to systematically pursue its internationalization course with this strengthening of its northern European business.

In Germany, a statutory increase in attorney fees is planned for the forecasting year. This will clearly entail increased costs for the legal insurance segment in the German market. In view of the tense situation in several of ARAG's core European markets, the Company will invest in its local sales activities and products. Thus, the underwriting result for 2013 will be burdened by this investment activity and the increased cost of claims in the German insurance market.

The composite segment bundles ARAG's property insurance business outside of the legal insurance segment. A smaller portion is the legal insurance-like special service package in the Spanish market, which is stated here. This business is currently very difficult in Spain and will weigh on the premium revenues of this segment in the forecast. On the German market, by contrast, the ongoing actions to increase portfolio stability and new business continue to be effective. The Group expects a stable premium development in this segment. The highly specialized sport insurance business, which acts as a stabilizer due to the long-term contractual nature, will also contribute to this. Due to the clear focus on private customers and efficient claims management, the composite segment is among the most profitable units in the ARAG Group. The associated business policy will be continued in 2013. Assuming that no relevant major losses occur, this segment can achieve an excellent claims ratio of under 50 percent. Accordingly, this segment is once again forecast to achieve good earnings in the double-digit millions.

ARAG's health insurance business is well positioned with respect to the extremely open political discussion regarding the future of private health insurance in Germany. This is due to the excellent portfolio in the health insurance segment with a traditionally high share of partial-cost coverage insurance. The Group expects the growth trend in supplementary and full coverage insurance to continue. Additionally, ARAG will invest in new products, such as long-term care insurance. A government subsidy of private long-term care insurance was enacted and took effect in Germany in 2013. Under consideration of the continual increase in the cost of medical care, ARAG will slow the above-average growth it has enjoyed in this segment over many years in order to strengthen the profitability of this business. In the interest of further securing customer entitlements, plans call for an increase in the reserve for premium reimbursement in the forecasting period, as in the previous year.

ARAG's life insurance business recently showed strong growth, counter to the market trend. Unlike our competitors, the Group depended solely on life insurance business with ongoing premiums and refrained from short-term single premium business. ARAG will continue to pursue this strategy. In spite of this clear focus, ARAG is aiming for a further significant increase in premiums in life insurance. In the context of the increasing importance of fee-based rates, ARAG sees additional growth potential in this still insignificant sales channel. The product family of ARAG FoRte 3D mutual fund-linked pension insurance was expanded to include a straight fee-based rate. This provides fee-based consultants with a commission-free net rate for their pension savings offering. ARAG is thus opening up a new sales channel. In the forecasting period, the Group is anticipating a further increase in portfolio and premiums, which will more than compensate for a slight increase in administrative costs, so that further declining cost ratios may be expected. At a net return of, most recently, 4.9 percent, the life insurance segment turned in a good value compared to the market as a whole. In view of long-term low interest rates, however, an increase in the interest supplement reserve must still be anticipated. Accordingly, a decline in gross profit must be assumed for 2013.

With over € 90 million profit from ordinary business, the ARAG Group achieved its best result in ten years. The earnings expectation for 2013 will not reach this record mark. Still, ARAG will turn in good earnings on a lower level. The basis for this is the operational insurance business, which will remain as profitable as before. The largest family company in the German insurance industry traditionally concentrates on strengthening its underwriting performance capability so as to remain more independent of fluctuations on the capital markets. Thus, the Group is operating in a decidedly profit-oriented manner.

It remains virtually impossible to reliably forecast the development on the capital markets. The interactions between the depth and duration of the financial crisis in the eurozone, the effects of austerity measures on interest rates and purchases of bonds of overindebted nations by the ECB cannot be realistically estimated for the forecasting period. The ARAG Group is thus assuming unchanged parameters and a continuation of the low-interest phase. Given these assumptions, the Company expects income from capital investment to be slightly below the level of the fiscal year under review.

Under consideration of the identifiable opportunities and risks, a solid and stable business development is anticipated for 2013. The Group is assuming lower overall growth. On the earnings side, profit on ordinary business is expected to reach about half the level of the record value of the fiscal year under review.

Opportunity report

The opportunities and risks for the future development of ARAG Holding SE have already been addressed at various points in the Management Report. 32 percent of the Company's premium revenues are generated in international business. The ARAG Group is thus one of Germany's most highly internationalized insurers. The opportunities and risks for the Company derive from this orientation.

The broad international position of ARAG Holding SE makes it more independent of the developments of national marketplaces. This is particularly true for the extremely mature German legal insurance market, which offers very few true growth perspectives – although its prime significance for ARAG as its original home market remains unchanged. The strategy of the ARAG Group is based on the international diversification of this Group segment.

This international diversification is the logical entrepreneurial consequence of the high saturation of the German market. Outside of Germany, the legal insurance markets offer incomparably greater growth potential. ARAG is exploiting this with great dedication in order to further the Company's development. The Company places a high priority on taking the respective national market features into account. The division of labor within the entire ARAG Group is such that the position of the ARAG brand on the German market is strengthened through reinforcement of the insurance segments besides legal insurance. This two-dimensional diversification strategy makes the Group more independent of its original, tightly focused position as a purely German niche provider. A pure specialist insurer is much more crisis-prone on account of its monoculture. ARAG's strategic approach is thus one of active risk reduction, and is based on distributing risks more evenly across markets and segments. The Group will systematically pursue its diversification strategy.

The continuing, unbroken succession of financial crises over the past years additionally presented ARAG Holding AG the great opportunity to realign its European business structure toward the future. A corresponding process was launched in 2011, and has already been described in detail in this Management Report.

The new European management structure reduces complexity in the European business. Within the ARAG Group, it is no longer necessary to supervise six national joint stock companies in their respective jurisdictions. This means that the Company can manage its European business more rapidly and directly. ARAG is thus exercising forward thinking, as the financial crisis has shown how fast national market risks can become cascading. The new European business structure now enables us to get much closer to market risks so that we can manage them more effectively.

Altogether, the new European management structure will enable ARAG Holding SE to better take advantage of the many and varied opportunities in Germany and abroad. At the same time, the market risks for enterprise management become more transparent across all management levels.

For an internationally positioned insurance enterprise like ARAG Holding SE, these successfully implemented changes are essential. The Company is responding to the challenges of the markets consistently and with full commitment. ARAG Holding SE is creating scope for the further successful development of its business in a challenging and heterogeneous market environment. In this process, the emphasis is on organic business expansion. The Group will examine external growth opportunities that arise for their strategic potential and utilize them where the conditions are right.

Risk report

Risk management system

Objectives of risk management Risk management is a core competence of ARAG and thus an important component of business controlling. As a part of this controlling, risk management aims to secure the existence and future success of the Group. By means of effective, integrated risk management, the Group fulfills the demands of its customers at a maximum level of security and creates sustained enterprise value for its 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 ARAG 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.
- Internal and external concerned parties receive regular reports on the risk situation.

Organizational structure of risk management The risk governance of ARAG 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.

The Group Board establishes the business-policy objectives, the risk strategy as well as the capital requirements and limits of the Company. The Supervisory Board deliberates on this and regularly receives reports respecting compliance with the risk strategy and limits.

Within the Group, the Chief Risk Officer of ARAG SE is responsible for the central communication of risk-relevant issues by reporting to the Board of Management and Supervisory Board of ARAG on a regular basis, at least quarterly. This officer is also responsible for inter-divisional planning, controlling and monitoring of the entire risk architecture.

The Board-level function Group Risk Management and Group Controlling is responsible for identifying, analyzing and assessing, controlling, monitoring and reporting on risks on the Group level, in cooperation with the unit that bears the respective operational risk. Group Risk Management and Group Controlling is a separate entity up to the level of the Group Board, and thus fulfills the tasks of an independent risk controlling function.

The decisions as to exploitation of opportunities and the assumption of risks rest with the operational units.

The tasks and responsibilities of all persons active in risk-relevant roles, such as the members of the Board of Management, executives, decentralized and central risk controllers and managers, are clearly defined and documented in the Risk Management Manual of the ARAG Group.

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 in collaboration with the operational units.

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 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 quantifying risks from asset-liability management, as well as other tasks. 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 has the function of avoiding actions or decisions that lie outside the constraints formulated in the Risk Management Manual and the risk strategy. The risk management system is audited regularly by Group Auditing. In conjunction with the integrated risk management, the Company is able to identify new risks 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 assessment, risk capital allocation, risk controlling as well as 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, assessed and submitted to the Board of Management for a decision in a corresponding cross-sectional new-product process. Analogous processes are implemented for new capital investment products, reinsurance instruments, etc. They are also integrated in existing limit and monitoring processes.

Risk 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 unfavorable developments 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 capital allocation The risk-bearing capacity of the Company is determined based on the aggregated risk capital allocation and the available cover assets. This takes into account regulatory and internal minimum cover requirements. The free risk capital is allocated through the use of a limit system, by means of which the overall limit defined in the risk strategy is allocated to the types of risks identified.

Risk controlling The risk management functions on the Group and segment levels define suitable strategies and concepts for overseeing both the informed 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-bearing capacity, at all times.

Risk monitoring and risk report 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 broader 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.

Internal control system The internal control system ensures that the Company-internal and external requirements of ARAG are observed. The controls relate to operational processes, the business and central areas and the governance system. The internal controls are continually reviewed for their effectiveness. The aim is to ensure the continuing adaptation of the controls to the changing parameters, internal processes and risk profile of the Company.

Focus issue
Project Solvency II

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 a partial internal model enables the special characteristics of ARAG's business model to be risk-appropriately reflected and the capital requirement calculated accordingly.

Consequently, on the Group level the Solvency II project to develop the existing partial internal model was pursued further in 2012. This resulted in the creation of the IT and methodological foundations and the documentation for the partial internal model. The certification process for the partial internal model was additionally initiated. As part of this pre-application process, the ARAG Group is in regular communication with the German Federal Financial Supervisory Authority (BaFin).

Risks

Underwriting risks in property, liability and accident insurance

The main underwriting risks in ARAG property, liability and accident insurance are:

- Premium risk: understood to mean the loss that occurs when the premium revenues of the coming fiscal year are not sufficient to cover all claims of this year.
- Reserve risk: understood to mean the loss that occurs when the provisions formed for losses occurring in the past are not sufficient.

To assess the premium and reserve risks, the historical claims are compiled into homogeneous risk groups according to fixed criteria. On this basis, the risk capital requirement is determined for each identified risk. The risks are stated as both gross and net values (i.e. after reinsurance).

Due to the product and client structure, our insurance portfolio holds no extraordinary risks regarding possible major claims that would endanger the Company's continued existence. The claims situation is actually influenced more by the effects of changing legal, economic, social and climate 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.

ARAG applies various measures to control and monitor the underwriting risks. Insurance rates and terms are adapted where necessary and the claims reserves provide for sufficient safety margins. Additionally, relevant legal and social developments are constantly monitored and their effects on the insurance portfolio are analyzed.

The actuarial department ensures that sufficient provisions are formed for the obligations arising from the claims according to actuarial principles so as to ensure that future obligations are met.

Additionally, reinsurance contracts exist for major risks and facultative contributions are made to various reinsurance companies, so that only a reasonable own portion remains which does not endanger the Company's existence. Settlement claims from reinsurance business exist in the amount of € 27.3 million (previous year: € 3.3 million). All German reinsurers who assume insurance business from ARAG have a Standard & Poor's rating of at least A–.

The table below illustrates the stability of our insurance business and the consistently adequate allocation of claims reserves by summarizing the claim development trend of self-contracted business over the last ten fiscal years.

Development of claims

Fiscal year		Gross claims ratio, total	Settlement result
	Ratio for fy	*Balance*	*in % of initial reserves*
2012	62.6	50.9	7.0
2011	60.3	54.5	4.1
2010	66.7	61.3	4.2
2009	66.4	58.0	6.5
2008	65.2	55.4	7.7
2007	66.8	62.6	3.5
2006	65.2	59.2	5.0
2005	65.6	59.9	4.8
2004	64.4	60.1	3.9
2003	65.6	54.3	9.4

The tasks of the actuarial function enumerated in Article 48 of the Solvency II Directive are performed primarily by Group Risk Management. The functional separation of sales-related areas up to the level of the Board of Management ensures the independence of the actuarial function in performing the tasks pursuant to Article 48 of the Solvency II Directive.

Underwriting risks in life insurance and health insurance

The main underwriting risks in life and health insurance at ARAG are

- Biometric risks: understood to mean the loss incurred when the mathematical bases used for premium calculation deviate from the subsequently observed parameters.
- Cost risk: understood to mean the loss incurred when the actual costs deviate from the calculated costs.
- Interest guarantee risk: understood to mean the loss incurred when the actuarial interest rate used for calculation of the actuarial reserves cannot be earned through capital investments.

Biometric risks For the biometric calculation basis in life insurance, the Company uses both its own tables and those recommended by the German Association of Actuaries (DAV). These are submitted to the Federal Financial Supervisory Authority as legally required under Sec. 13 d of the applicable statute (VAG). 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. For the biometric calculation basis for health insurance, the actually required benefits are compared with the originally calculated benefits and death probabilities at least annually in line with legal requirements. Should the deviations exceed a threshold defined in advance, all calculation bases are reviewed for their appropriateness. Additionally, the calculation bases established with security are verified by an independent trustee in accordance with the applicable calculation regulation KalV.

Interest guarantee risk The benefits guaranteed to customers from their life insurance are compared with the returns actually attainable in the capital markets. In order to achieve the guaranteed minimum return, ARAG pursues a differentiated allocation of its capital investments with respect to term and debtor structure. The current portfolio of fixed-interest capital investments is earning a return above the current interest-rate level. Additionally, further funds are set aside for the legally required provision in order to ensure that the guarantees can be fulfilled. This is achieved via the interest supplement reserve in the actuarial reserves. Aging provisions are formed for health insurance benefits. The necessary provisions are determined using an actuarial rate of interest for discounting. The appropriateness of the actuarial rate of interest is verified by means of internal audits. Additionally, an actuarial corporate interest rate is determined that reflects the future minimum return on capital investments. For negative deviations of the corporate interest rate from the actuarial interest rate, the actuarial rate must be reduced in the course of the next premium adjustment.

Cost risk The cost risk is taken into account through the cautious choice of cost assumptions in calculating the premiums. Additionally, the costs actually incurred are compared with the calculated costs on an annual basis. This enables unfavorable developments to be identified early on.

For the **controlling and monitoring** of underwriting risks in life insurance, comprehensive underwriting guidelines and limits have been implemented. Additionally, reinsurance contracts have been concluded to reduce risk. In health insurance, the responsible actuary is responsible for controlling and monitoring. Additionally, an independent trustee participates in the new product and premium adjustment processes. All controlling and monitoring actions are subject to continual review by Internal Auditing.

The responsible actuary ensures that sufficient provisions are formed for the payment obligations of life and health insurance according to actuarial principles so as to ensure that future obligations are met.

The tasks of the actuarial function enumerated in Article 48 of the Solvency II Directive are performed primarily by Group Risk Management. The functional separation of sales-related areas up to the level of the Board of Management ensures the independence of the actuarial function in performing the tasks pursuant to Article 48 of the Solvency II Directive.

Risks 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.

Risks from capital investments Within the capital investment area, ARAG concentrates on assuring a market-appropriate level of return and a balance between the opportunity to achieve capital gains and the risk of write-downs.

ARAG's capital investments are subject to the risk of possible loss due to unfavorable market price developments. In addition to market price risks, the creditworthiness risk and liquidity risk are also significant.

Market price risks Market price risks comprise primarily the change in the level of interest rates, stock prices and exchange rates. Risks from real estate investments are relevant as well.

The **interest change risk** relates to the portfolio of fixed-interest securities and underwriting obligations. It is primarily caused by the changes in the interest rate level and premiums for the risk of default and illiquidity. These changes can be countered by asset-liability controlling. An assumed rise or fall of one percent in the general level of interest rates would reduce, respectively increase, the current value of fixed-interest securities (bearer bonds, registered debentures and promissory notes) by € 271.0 million.

Share price risks result from unfavorable changes in value in shares held in the portfolio. 6.3 percent of capital investments is subject to a share price risk. This risk is spread through systematic diversification in various industries and regions. A hypothetical drop of the stock market by 20 percent would result in a loss in current value of € 70.4 million.

Currency risks are caused by fluctuations in exchange rates, particularly for different currencies of underwriting liabilities and capital investments. For fixed-interest securities, open currency positions are hedged to reduce the risk. The currency risk from fixed-interest securities is limited to a maximum of 5 percent of the investment volume. The 5 percent limit applies also on the special fund level and only for those special funds that are authorized to assume foreign-currency risks.

The focus in **controlling and monitoring** market price risks is on compliance with the regulatory investment regulations according to Sec. 54 ff. of the German insurance oversight law (VAG) and the investment regulations issued pursuant to these. This achieves a high level of risk limitation with respect to the mixture and diversification of capital investment. 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 Company has also implemented investment rules which limit capital investment risks further. Derivative financial instruments are used solely to secure the price or interest change risks in funds. A further element is 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 was in place until the end of 2012 that safeguarded the stock portfolios against further exchange losses when certain price indices are reached. This security mechanism was dissolved at the end of 2012 and the stock portfolio correspondingly reduced. 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 stress tests of 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:

Stress test scenario

	R 10	A 18	RA 18	AI 23
Bonds	– 10 %	–	– 5 %	–
Stocks	–	– 18 %	– 13 %	– 13 %
Real estate	–	–	–	– 10 %

As a result of these analyses it may be stated that as of the accounting date, ARAG has passed all stress tests mandated by the regulatory authority without reservation.

Credit risk The credit risk is greatly reduced through strict requirements respecting the financial strength of the debtors. The restriction of fixed-interest securities almost exclusively to investment-grade instruments is the logical consequence of this principle.

The credit risk is as follows: Of the fixed-interest securities – including those held indirectly through investment funds – approximately 44.5 percent are attributable to banks, 30.3 percent to sovereign bonds and 25.2 percent to corporate bonds. Around 75 percent of the individual risks show a minimum rating of "A" according to Standard & Poor's or a comparable rating. The company 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	25.5
AA	27.1
A	22.5
BBB	20.0
BB	2.8
B	1.3
CCC	0.1
CC	0.0
C	0.0
NR	0.7

The Group holds sovereign debt of the GIIPS countries (Greece, Ireland, Italy, Portugal and Spain) including portfolios in special funds in the amount of € 159.1 million (2.5 percent in relation to all capital investments). Of these, € 15.2 million is attributable to Portugal, € 68.0 million to Italy, € 18.3 million to Ireland, € 0.0 million to Greece and € 57.7 million to Spain (by market values). The portfolio contains no participation certificates or high-risk ABS items.

Liquidity 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.

Operational risks The operational risks include all risks that pertain to staff, processes, organization, administration, IT, natural disasters, technology and external circumstances. Legal risks are also a part of operational risks. The portfolio of operational risks is updated on a quarterly basis.

Operational risks are managed on the basis of subjective estimation in connection with a quantifiable warning system. The individual risks in the operational departments are identified and assessed. A central software tool is used to register and administer these as well as for the corresponding reporting. The reports also contain detailed actions for fending off, avoiding or reducing the identified risks. Compliance with the controlling actions is regularly verified and is a part of the risk report.

We guard 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.

Risks endangering the existence of the company No internal or external risks that can inflict long-term damage on the financial, asset or earnings situation of the Company exist. However, changes in the capital market environment and political decisions could affect specific industries in which the ARAG Group operates. At present, the overall risk situation does not indicate any trends for 2013 that could endanger the existence of the company or severely impair its financial, asset and earnings situation.

Risk situation The Group had at its disposal sufficient own funds of the regulatory solvability requirements as set forth in the applicable statute (Art. 104 g VAG). The calculation of the Group's solvability as of 31 December 2012 shows a sufficient coverage with own funds, whereby these come to around 140 percent of requirements in spite of the difficult overall conditions.

Consolidated Financial Statements

Consolidated Balance Sheet as of 31 December 2012

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 receivables 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. Policyholders
a) Claims due
b) Claims not yet due
2. Insurance agents portion from affiliated companies: € 296.28 (previous year: € 0.00)
II. Settlement receivables from reinsurance business
III. Other accounts receivable portion from affiliated companies: € 1,187,624.47 (previous year: € 1,363,803.65) portion from companies with which a shareholding relationship exists: € 3,050,001.31 (previous year: € 3,000,181.50)
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. Total asset-side deferred taxes
H. Asset-side difference from offsetting of assets
Total assets

Appendix				2012	2011
2 p. 72			14,964,793.52		26,776,037.70
3 p. 73			15,367,213.99		18,012,609.09
				30,332,007.51	**44,788,646.79**
35 p. 84					
4 p. 73			223,640,412.69		207,406,998.78
5 p. 73					
		1,898,499.99			2,134,262.13
		0.00			0.00
		13,768,365.56			10,736,990.38
		42,905,306.36			52,021,205.90
		110,988.69			110,988.69
			58,683,160.60		65,003,447.10
6 p. 73		2,317,683,233.96			2,191,966,527.67
7 p. 74		865,478,829.87			705,532,752.93
10 p. 74		174,195,500.18			194,116,425.25
9 p. 74					
	807,056,459.40				895,713,787.83
	623,113,521.43				666,661,576.81
	64,544,794.60				68,477,595.63
8 p. 74	32,034,555.32				25,181,657.80
		1,526,749,330.75			1,656,034,618.07
12 p. 74		313,088,724.48			296,253,787.79
		1,987,128.94			314,870.94
			5,199,182,748.18		5,044,218,982.65
			22,087,746.90		16,293,808.00
				5,503,594,068.37	**5,332,923,236.53**
11 p. 74				**150,544,464.30**	**98,513,726.44**
13 p. 74					
	46,070,384.56				47,128,163.10
	61,969,809.43				57,391,585.60
		108,040,193.99			104,519,748.70
		21,873,465.00			31,391,371.03
			129,913,658.99		135,911,119.73
			32,890,125.14		35,640,732.73
			49,688,213.54		28,368,175.80
				212,491,997.67	**199,920,028.26**
			32,195,486.76		22,618,685.12
14 p. 74 15 p. 74			31,065,300.54		28,232,400.66
			104,938,532.27		72,162,494.88
16 p. 75			65,370,798.20		79,042,591.28
				233,570,117.77	**202,056,171.94**
17 p. 75					
			53,326,891.85		57,012,307.89
			15,879,904.65		19,376,241.36
				69,206,796.50	**76,388,549.25**
18 p. 75 36 p. 87				**52,209,291.06**	**63,808,835.77**
19 p. 75				**33,774.03**	**238,520.39**
				6,251,982,517.21	**6,018,637,715.37**

Consolidated Balance Sheet as of 31 December 2012

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 earnings
1. Group net income
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			2012	2011
	33 p. 81 42 p. 94				
			200,000,000.00		200,000,000.00
		7,636,471.00			6,945,794.00
		116,554,630.16			106,089,572.93
		2,138,146.61			2,060,835.37
		–35,999,890.82			–35,999,890.81
			90,329,356.95		79,096,311.49
		37,299,773.84			22,313,758.54
			37,299,773.84		22,313,758.54
			33,792,532.03		33,194,467.00
				361,421,662.82	**334,604,537.03**
	1 p. 71			**656,541.97**	**656,541.96**
	20 p. 75			**50,000,000.00**	**50,000,000.00**
	21 p. 75			**0.00**	**4,957.87**
	22 p. 76				
		223,350,516.24			224,054,586.18
		–2,621,482.60			–1,942,124.49
			220,729,033.64		222,112,461.69
	23 p. 76				
		3,400,242,173.36			3,289,085,691.04
		–48,815,636.00			–52,731,736.00
			3,351,426,537.36		3,236,353,955.04
	24 p. 77				
		1,293,675,109.19			1,295,782,397.60
		–34,188,675.01			–34,362,736.19
			1,259,486,434.18		1,261,419,661.41
			245,407,210.92		224,462,349.83
	25 p. 78		65,269,177.80		62,738,068.00
	26 p. 78				
		9,430,487.06			9,327,887.35
		0.00			0.00
			9,430,487.06		9,327,887.35
				5,151,748,880.96	**5,016,414,383.32**
			113,472,648.22		66,505,219.32
			37,071,816.08		32,008,507.12
				150,544,464.30	**98,513,726.44**
				5,714,371,550.05	**5,500,194,146.62**

Consolidated Balance Sheet as of 31 December 2012

Liabilities

(in euros)
Carryover:
G. Other provisions
I. Reserve for pensions and similar obligations
II. Reserve for taxes
III. 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 attributable to affiliated companies: € 13.21 (previous year: € 969.35)
II. Settlement liabilities from reinsurance business
III. Debts to banks
IV. Other liabilities portion attributable to taxes: € 22,303,842.35 (previous year: € 18,006,949.20) portion attributable to social security: € 1,627,005.83 (previous year: € 1,200,578.56) portion attributable to affiliated companies: € 342,277.24 (previous year: € 37,227.14) portion attributable to companies with which a shareholding relationship exists: € 161,050.58 (previous year: € 91,162.61) portion secured by property lien: € 0.00 (previous year: € 0.00)
J. Accrued and deferred items
K. Liability-side deferred taxes
Total liabilities

	Appendix			2012	2011
				5,714,371,550.05	**5,500,194,146.62**
	27 p. 78		205,119,891.07		207,592,110.53
			18,670,803.49		20,434,151.76
	28 p. 79		68,260,131.65		50,003,190.20
				292,050,826.21	**278,029,452.49**
	29 p. 80			**52,461,579.72**	**56,172,274.89**
	30 p. 80				
		46,882,710.24			50,007,300.59
		35,258,573.12			41,487,409.49
			82,141,283.36		91,494,710.08
	30 p. 80		1,881,280.56		4,885,146.66
	31 p. 80		20,998,188.70		8,905,926.41
			79,219,720.64		72,719,611.09
				184,240,473.26	**178,005,394.24**
	32 p. 80			**8,858,087.97**	**6,236,447.13**
				0.00	**0.00**
				6,251,982,517.21	**6,018,637,715.37**

Consolidated Profit and Loss Statement for the Period 1 January to 31 December 2012

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			2012	2011
	34 p. 83	947,995,853.76			941,876,222.15
		–9,548,767.22			–9,449,085.21
			938,447,086.54		932,427,136.94
		1,487,118.45			991,546.24
		297,447.58			1,272,808.43
			1,784,566.03		2,264,354.67
				940,231,652.57	**934,691,491.61**
				548,189.00	**606,659.00**
				2,715,394.98	**3,403,076.72**
		487,077,315.84			498,259,407.42
		–4,490,258.50			–8,922,812.15
			482,587,057.34		489,336,595.27
		1,829,737.55			5,066,037.86
		1,659,679.64			6,372,888.32
			3,489,417.19		11,438,926.18
				486,076,474.53	**500,775,521.45**
			0.00		0.00
			–102,781.29		805,153.09
				–102,781.29	**805,153.09**
	41 p. 91			**0.00**	**–21,432.45**
	40 p. 91				
			403,669,570.13		404,540,898.59
			–1,271,888.80		–901,278.39
				402,397,681.33	**403,639,620.20**
				1,718,669.12	**6,545,063.27**
				53,199,630.28	**28,567,607.95**
				–2,528,907.31	**–3,525,606.00**
				50,670,722.97	**25,042,001.95**

Consolidated Profit and Loss Statement for the Period 1 January to 31 December 2012

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: € 6,713,161.39 (previous year: € 6,690,979.33)
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
4. Unrealized profits 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 costs
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: € 8,232,354.81 (previous year: € 29,918,017.46)
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			2012	2011
	34 p. 83	560,872,051.02			527,496,374.37
		–3,151,888.95			–3,015,357.55
			557,720,162.07		524,481,016.82
		–1,287,817.02			–8,848,287.63
		–97,603.72			–350,917.38
			–1,385,420.74		–9,199,205.01
				556,334,741.33	**515,281,811.81**
				19,904,034.41	**22,214,437.28**
			347,463.70		975,941.39
			0.00		0.00
		10,376,415.03			9,636,340.70
		143,298,033.69			132,285,911.32
			153,674,448.72		141,922,252.02
			16,324,236.66		5,367,335.40
			14,997,689.08		36,545,453.15
				185,343,838.16	**184,810,981.96**
	37 p. 88			**12,139,855.59**	**324,591.78**
				18,464,032.71	**30,620,949.30**
		410,522,654.71			410,482,405.25
		–7,238,070.19			–12,701,587.33
			403,284,584.52		397,780,817.92
		–2,918,888.90			–5,186,815.08
		–572,714.04			1,291,053.98
			–3,491,602.94		–3,895,761.10
				406,776,187.46	**401,676,579.02**
		–158,124,365.22			–114,512,813.56
		–3,916,100.00			–8,615,212.00
			–162,040,465.22		–123,128,025.56
			–4,975,486.96		973,524.71
				–167,015,952.18	**–122,154,500.85**
	41 p. 91			**62,488,676.53**	**38,914,141.93**
	40 p. 91				
		90,337,025.09			104,377,311.07
		17,619,923.44			17,249,195.56
			107,956,948.53		121,626,506.63
			–5,222,934.45		–6,240,228.83
				102,734,014.08	**115,386,277.80**
			7,524,957.11		7,143,693.21
			10,317,554.55		31,805,957.62
			1,193,715.16		1,183,639.65
				19,036,226.82	**40,133,290.48**
				366,541.46	**10,302,588.50**
				20,254,954.13	**9,383,347.72**
				13,513,949.54	**15,302,045.83**

Consolidated Profit and Loss Statement for the Period 1 January to 31 December 2012

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: € 109,000.00 (previous year: € 209,000.00)
b) Earnings from associated companies
c) Income from other capital investments portion from affiliated companies: € 221,227.58 (previous year: € 96,962.73)
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: € 4,441,260.85 (previous year: € 13,599,720.17)
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: € 11,986,370.33 (previous year: € 6,956,811.51)
9. Non-underwriting result
10. Profit on ordinary business
11. Extraordinary earnings
12. Extraordinary expenses
13. Operating result before taxes
14. Taxes on income and earnings portion from change in accounting of deferred taxes: € 11,599,544.71 expense (previous year: € 8,201,832.16 gain)
15. Other taxes
16. Profit/loss for year before external components
17. Profit attributable to other shareholders
18. Loss attributable to other shareholders
19. Net income

Appendix				2012	2011
			50,670,722.97		25,042,001.95
			13,513,949.54		15,302,045.83
				64,184,672.51	**40,344,047.78**
		705,935.33			789,955.84
		3,730,711.84			1,599,480.64
	15,340,453.91				13,725,459.26
	54,652,358.39				54,014,307.66
		69,992,812.30			67,739,766.92
		9,508,606.76			3,711,784.57
		10,730,401.18			4,783,360.49
			94,668,467.41		78,624,348.46
		11,042,369.20			12,973,172.02
		7,876,878.25			17,236,619.74
		3,813,079.05			4,554,363.74
		0.00			0.00
			22,732,326.50		34,764,155.50
				71,936,140.91	**43,860,192.96**
				–548,189.00	**–606,659.00**
				40,906,282.73	**41,796,884.79**
				37,888,265.82	**39,567,575.57**
			19,284,934.07		17,792,460.72
			65,916,601.85		53,718,248.29
				–46,631,667.78	**–35,925,787.57**
				27,774,301.04	**9,557,055.61**
				91,958,973.55	**49,901,103.39**
38 p. 88			0.00		0.00
38 p. 88			3,285,099.34		994,474.00
				–3,285,099.34	**–994,474.00**
				88,673,874.21	**48,906,629.39**
39 p. 88			47,447,586.23		23,885,713.36
			2,039,296.75		1,166,112.30
				49,486,882.98	**25,051,825.66**
				39,186,991.23	**23,854,803.73**
			–4,276,837.39		–2,927,782.95
			2,389,620.00		1,386,737.76
				–1,887,217.39	**–1,541,045.19**
				37,299,773.84	**22,313,758.54**

Group Appendix

I. Information on the Scope of Consolidation and the Accounting, Valuation and Consolidation Methods

Legal basis for preparation of the Consolidated Financial Statements

The year-end Consolidated Financial Statements of ARAG Holding SE for fiscal 2012 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 Art. 67 of the Introductory Law to the German Commercial Code (EGHGB) were applied to some Group subsidiaries. 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 their annual financial statements according to the Norwegian accounting statute, the Kredittilsynet. A further holding located in Switzerland prepared their annual financial statements 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 31 (previous year: 37) subsidiaries in accordance with Art. 301 (1) HGB as of 31 December 2012. Two companies within the scope of consolidation were included as associated companies within the meaning of Art. 311 HGB.

As of 31 December 2012, the scope of consolidation including associated companies comprises six insurance companies (previous year: 14), 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: 15) and five holding and asset management companies (including the top-level company, previous year: five).

The Consolidated Financial Statements omit 24 Group subsidiaries (previous year: 25), 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	94.93
2 AFI Verwaltungs-Gesellschaft mbH, Düsseldorf	89.86
3 ALV Vermögens- und Beteiligungs-Verwaltungs AG, Munich	86.39
4 ARAG 2000 Beteiligungs-Gesellschaft mbH & Co. KG, Munich	86.39
5 ARAG 2000 Grundstücksgesellschaft bR, Düsseldorf	93.31
6 ARAG Holding SE, Düsseldorf, **Group Parent company**	100.00
7 ARAG SE, Düsseldorf	94.93
8 ARAG Allgemeine Versicherungs-AG, Düsseldorf	94.93
9 ARAG Association LLC, Des Moines, Iowa, USA	94.93
10 ARAG Insurance Company Inc., Des Moines, Iowa, USA	91.23
11 ARAG International Holding GmbH, Düsseldorf	94.93
12 ARAG IT GmbH, Düsseldorf	94.93
13 ARAG Krankenversicherungs-AG, Munich	88.53
14 ARAG Lebensversicherungs-AG, Munich	86.39
15 ARAG Liegenschaftsverwaltungs- und Beratungs-Gesellschaft mbH, Düsseldorf	94.93
16 ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	94.93
17 ARAG LLC, Des Moines, Iowa, USA	94.93
18 ARAG North America Inc., Des Moines, Iowa, USA	94.93
19 ARAG Plc., Bristol, UK	94.93
20 ARAG Service Center GmbH, Düsseldorf	94.93
21 ARAG Services LLC, Des Moines, Iowa, USA	94.93
22 ATE Limited, Bristol, UK	94.93
23 CUR Versicherungsmakler GmbH, Düsseldorf	94.93
24 Cura Gesellschaft für Vermögensverwaltung und für Vermittlung mbH, Düsseldorf	94.93
25 Cura Versicherungsvermittlung GmbH, Düsseldorf	94.93
26 IGD Immobilien GmbH & Co. Dresden KG, Düsseldorf	90.09
27 IGD Immobilien GmbH, Düsseldorf	94.93
28 Interlloyd Versicherungs-AG, Düsseldorf	94.93
29 Rechtswijzer B.V., Leusden, Netherlands	94.93
30 SolFin GmbH, Düsseldorf	71.29
31 TERRA Gesellschaft für Finanzdienstleistungen und Beratung mbH, Düsseldorf	94.93
32 WOWOBAU Wohnungsbaugesellschaft mbH, Munich	86.39

The following companies were included as associated companies:

Name of company	Share held
	(in percent)
1 AXA-ARAG Rechtsschutzversicherungsgesellschaft, Zurich, Switzerland	29.17
2 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	86.39	152,797.19	1,001.81
2 Agencia de Seguros Cap. ARAG S.A., Barcelona, Spain	94.93	166,249.06	77,218.67
3 ALVA Aktiengesellschaft, Munich	86.39	215,604.37	– 22,235.58
4 ARAG Financial Services B.V., Leusden, Netherlands	94.93	– 107,518.00	– 225,920.00
5 ARAG Services Spain & Portugal S.L., Barcelona, Spain	94.93	232,513.89	– 182,328.72
6 ARAG-France S.A.R.L. Assistance et Règlement de Sinistres Automobiles et Généraux, Versailles, France	94.93	18,988.00	0.00
7 ARCA-A GmbH, Munich	86.39	20,497.37	– 2,679.13
8 ARCA-B GmbH, Munich	86.39	20,453.92	– 2,712.37
9 ARCA-C GmbH, Munich	86.39	19,354.64	– 3,811.80
10 ARCA-D GmbH, Munich	86.39	20,515.60	– 1,823.20
11 ARCA-F GmbH, Munich	86.39	20,504.68	– 2,661.61
12 ARCA-G GmbH, Munich	86.39	20,503.49	– 2,673.31
13 ARCA-H GmbH, Munich	86.39	20,510.17	– 2,656.12
14 ARCA-I GmbH, Munich	86.39	20,427.57	– 2,738.72
15 ARCA-J GmbH, Munich	86.39	20,183.46	– 2,961.45
16 ARCANSA Beteiligungsverwaltung GmbH, Munich	86.39	– 205,294.39	95,449.50
17 ATE Group Services Limited, Bristol, UK	94.93	– 75,314.18	– 1,033.39
18 BuZ Vermittlungsgesellschaft mbH i. L., Münster*	86.39	– 75,314.18	– 1,682.11
19 Columbus Capital Service GmbH, Munich*	86.39	76,591.38	– 97,494.45
20 Easy2claim Limited, Bristol, UK	94.93	1.23	0.00
21 GWV-AVUS Beteiligungsmanagement GmbH, Munich	86.39	760,453.53	22,734.70
22 ITS-Haus GmbH Wohn- und Gewerbebau i. L., Munich	86.39	– 48,837.99	– 51,052.09
23 Prinzregent Vermögensverwaltungs-GmbH, Munich	86.39	33,007.58	267.53
24 VIF Gesellschaft für Versicherungsvermittlung mit beschränkter Haftung, Düsseldorf	94.93	143,121.54	112,806.50

* Figures from 2011

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 2012 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 included 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. Differences are now no longer offset against revenue reserves for first-time consolidations, as this is no longer permitted under Art. 301 (3) HGB and DRS 4.28.

1 **Liabilities-side differences from capital consolidation** occurred in 2009 for technical reasons, as an extraordinary write-down on a subsidiary was required between the time of first inclusion of acquired shares and the time of acquisition of these shares. The difference will be maintained until the divestment of the subsidiary as such.

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 statements following acquisition, were used for the first-time application of the equity method, insofar as no interim financial statements were 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 the insurance companies included in the scope of consolidation are performed at standard market terms comparable to external transactions. 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 € 77,311.24 was transferred to the revenue reserves in an income-neutral manner.

Appropriation, valuation and statement methods

The Group Balance Sheet and the Group Statement of Profit and Loss were structured in principle according to the forms required by the applicable accounting regulation RechVersV. Forms 1 and 2 according to Art. 2 RechVersV, modified pursuant to Art. 266 and 275 HGB, were used for organizing the annual accounts (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 supplies 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.
2 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 2012, goodwill values with a residual period of use of over five years exists in the amount of € 13.2 million (six years). The period of use was originally set at 15 years, as the goodwill value was booked as an insurance portfolio. According to experience, these fluctuate by around 6 to 7 percent per year.
In the fiscal year under review, the goodwill of a life insurance portfolio was corrected completely in the amount of € 7,423,581.88 due to permanent loss of value.

3 **Other intangible assets** are stated at their acquisition costs, depreciated linearly. The book value of € 15,367,213.99 breaks down as € 12,000,937.81 for software, € 447,712.15 attributable to goodwill from the acquisition of a company in the US, € 166,559.00 for goodwill from the acquisition of shareholdings in the Netherlands, € 2,700,475.03 from tenant improvements to business premises in Italy and Slovenia, € 50,000.00 for two industrial property rights and € 1,530.00 for a right of use. IT software is primarily depreciated linearly over five years. The goodwill value resulting from the acquisition has a residual period of use of four years, and is an insurance portfolio. Tenant improvements are linearly depreciated over the remaining terms of the leases. No depreciation was taken against the industrial property rights. No unplanned write-downs were taken in the fiscal year under review.

4 **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 right-downs on real estate in the amount of € 1,234,405.00 were necessary in the fiscal year under review (previous year: € 0.00) on account of anticipated permanent impairment. No property is burdened with land charges as security for bank debts.

5 **Shares of affiliated companies not included in the Consolidated Financial Statements** and of **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, write-downs were taken on affiliated companies not included in the scope of consolidation in the amount of € 235,761.60 (previous year: € 54,555.03). **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 amounted to € 137,191.66 as of 31 December 2012.

Lending to affiliated companies not included in the scope of consolidation is stated at par value.

6 **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 assigned to capital investments in previous years, 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. Accordingly, write-ups are only taken to insofar as the recovery in value is of a long-term nature. In the fiscal year under review, write-downs in the amount of € 1,736,792.58 (previous year: € 29,319,182.04) 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 € 20,807,699.48 (previous year: € 4,978,183.28).

No hidden liabilities (previous year: € 40.9 million) were created through the waiver of write-downs due to the designation of special fund shares with a book value of € 1,787.6 million for permanent use in business operations. As of 31 December 2012, the current value was not below the book value (previous year: € 35.4 million).
In accordance with Art. 8a of the law governing senior part-time employment, investment-fund shares in the amount of € 806,086.44 (previous year: € 1,781,024.00) have been pledged to employees as security for performance arrears in accordance with the block model.

7 **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) 2nd clause, HGB, a partial portfolio was dedicated to permanent use in business operations. No hidden liabilities (previous year: € 14.4 million) against this partial portfolio were created, as no write-down was taken on account of the merely temporary nature of the reduction in value. Additionally, bearer bonds totaling € 1,086,000.00 (previous year: € 1,086,000.00) are pledged as security for bank sureties.

8 The **remaining lending** consists of registered participation certificates, other loans and prepayments against insurance certificates. These are valued at the acquisition cost minus redemption payments.

9 **Other lending** is stated at the nominal value. Discounts are distributed straight-line using the accrual method of income recognition. Premiums are carried as assets and released as scheduled over the duration.

10 **Mortgages receivable, other similar rights, fixed-interest debts and other capital investments** are stated at their acquisition costs or redemption values, respectively. Write-downs according to Art. 253 (3) sen. 3 HGB in the amount of € 1,130,745.55 (previous year: € 141,759.89) were taken.

11 **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.

12 **Bank deposits** are stated at par value.

13 **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.

14 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.

15 **Supplies** are determined by taking a physical inventory. These are valued at their procurement costs. The supplies of the property development 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 € 31,065,631.29 (previous year: € 15,331,974.84) of the Group's property development companies are encumbered with land charges or assignment of rights from sale in favor of the financing banks.

16 **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.

17 **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 € 7,559,698.32 (previous year: € 8,248,842.10) from the difference determined according to Art. 341c (2) sen. 2 HGB.

18 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 Group 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. Differences not expected to be compensated after five years are appropriately adjusted in a resulting asset-side deferred tax balance in order to take into account future uncertainties beyond the scope of individual enterprise planning.

19 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**.

20 **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 (WpHG).

21 **Special reserve item** The special reserve item was formed entirely from Austrian sale proceeds which will be set off against acquisitions in future. This line item was dissolved in the fiscal year under review.

22 **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.

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

23 The **actuarial reserves for individual endowment insurance policies** (24.7 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), 2.25 percent (rate structures 2007 and 2008) and 1.75 percent (rate structure 2012), 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 1998, 2000, 2004, 2007, 2008 and 2012), respectively and mortality rates in accordance with mortality table DAV 1994 T, separately for men and women.

For individual pension insurance policies (22.4 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 guideline 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 2012 and a positive difference of € 10.1 million between the old and new actuarial reserves was retroactively 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 basis with actuarial interest rates of 2.75 percent (rate structure 2004), 2.25 percent (rate structures 2007 and 2008) and 1.75 percent (rate structure 2012), respectively. In accordance with the change in the regulations governing the actuarial reserve dated 1 March 2011, an additional actuarial reserve (interest supplement reserve) was created for the first time for rates whose guaranteed actuarial interest rate exceeded the reference interest rate of 3.64 percent applicable for fiscal 2012.

For pension portfolios in which the actuarial reserves were already adjusted in previous years due to biometric reserve correction, capital settlement probabilities and cancellation probabilities were factored into the calculation of the interest correction requirement. The total amount of this interest supplement reserve amounts to € 24.2 million; the increase in the fiscal year under review is € 18.7 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.

24 **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 expected to be realized in future.

Provisions for outstanding claims for the assumed reinsurance business are stated according to the information provided by the primary insurer.

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

The provisions for **life insurance claims and surrenders reported but not yet settled** as of the day of accounting were 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 German Federal Court rulings of 12 October 2005 and 29 July 2012, an additional lump-sum increase to the actuarial reserve of € 3.2 million was made for the affected non-contributory policies. Also, a further provision in the amount of € 0.6 million was formed for surrenders that are affected and already cancelled but not yet expired.

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 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. Receivables from regress were subtracted from the reserve.

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

26 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 motor vehicle legal insurance are calculated on the basis of anticipated requirements.

27 **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 Prof. 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.

The following actuarial parameters were applied in determining the obligations: pension age: age 65; salary dynamic: Germany, Spain and Austria 2.5 percent, pension dynamic: Germany and Austria 1.75 percent, Spain 2.5 percent, interest rate: 5.06 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 and (2) HGB as of 1 January 2010 amounts to € 17,524,490.00. Of this, € 13,080,022.00 was transferred to the pension reserve in fiscal 2010, € 994,479.00 in fiscal 2011 and € 786,038.00 in fiscal 2012, so that € 2,663,951.00 (previous year: € 3,449,989.00) remains to be transferred in future.

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 31 December 2012:

Net pension reserves

(in euros)	**2012**	**2011**
Settlement amount of vested claims	213,148,588.31	262,688,148.92
Offset assets (present value)	– 5,364,746.24	– 51,646,049.39
Not yet transferred pursuant to Art. 67 (1) EGHGB	– 2,663,951.00	– 3,449,989.00
Balance-sheet statement	**205,119,891.07**	**207,592,110.53**

In the fiscal year under review, € 226,902.43 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.

28 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 a term-appropriate interest rate of 5.06 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. 8a of the German law governing senior part-time employment were offset against the obligation from senior part-time agreements at the market value of € 1,434,156.29. The purchase costs of the investment fund shares amount to € 1,367,795.96. The settlement amount of the offset debts is € 1,746,673.00. The expense from the increase in debt of € 670,621.83 was offset against the gain from the increase in the market value of the investment fund shares of € 25,383.79 in the fiscal year under review.

The **other reserves** are set at the level which is deemed necessary to meet the obligations 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 5.06 percent was assumed. The anticipated employee fluctuation was taken into account in the form of a general deduction on the cash value.

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

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

31 **Liabilities toward lending institutions** 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 € 20,997,910.59 (previous year: € 8,903,170.81).

Liabilities with a remaining term of more than five years exist in the amount of € 1,484,762.60 (previous year: € 1,689,190.06) from premium deposits in life insurance.

32 **Accrued and deferred items** contain differences in accordance with Art. 341c (2) sen. 1 HGB in the amount of € 454,557.36 (previous year: € 541,341.22).

33 Group equity

A detailed representation of the Group's equity is presented on pages 94 and 95. 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 up.

Associated companies

The total of all goodwill from inclusion of associated companies under application of the equity method as of 31 December 2012 amounts to € 137,191.66 (previous year: € 0.00). In the fiscal year under review, a total of € 9,146.11 (previous year: € 1,159,202.70) 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 NOK thousands)	2012	2011
A. Capital investments	238,198	173,919
B. Accounts receivable	31,387	29,862
C. Other assets	26,854	33,892
D. Accrued and deferred items	3,074	760
Balance sheet assets	**299,513**	**238,433**
A. Equity	84,302	60,115
B. Underwriting reserves	183,572	153,343
C. Liabilities	1,874	1,605
D. Accrued and deferred items	29,765	23,370
Balance sheet liabilities	**299,513**	**238,433**
I. Underwriting result	12,095	11,033
II. Income from capital investments	7,770	2,243
III. Other income/expenses	493	340
IV. Tax expenditure	0	0
V. Net income	**20,358**	**13,616**

2. AXA-ARAG Rechtsschutzversicherung

(in CHF thousands)	2012	2011
A. Capital investments	189,047	166,631
B. Accounts receivable	5,003	5,509
C. Other assets	7,819	18,477
D. Accrued and deferred items	4,328	4,623
Balance sheet assets	**206,197**	**195,240**
A. Equity	36,529	31,236
B. Underwriting reserves	148,279	141,231
C. Other provisions	2,990	3,734
D. Liabilities	5,846	6,226
E. Accrued and deferred items	12,553	12,813
Balance sheet liabilities	**206,197**	**195,240**
I. Underwriting result	8,871	7,849
II. Income from capital investments	4,833	3,136
III. Other income/expenses	– 10	– 30
IV. Tax expenditure	– 2,900	– 2,323
V. Net income	**10,794**	**8,632**

34 II. Source of Insurance Business by Premiums Written

Country/origin			Self-contracted business		Assumed reinsurance business		Total business
(in thousand euros)	Legal insurance	Property and accident insurance	Health insurance	Life insurance	Legal insurance	Property and accident insurance	
Germany	282,940	180,848	331,290	229,582		255	1,024,915
Netherlands	86,326				40,678		127,004
Austria	57,569						57,569
USA	55,487				4,145		59,632
Spain	47,160	32,878			17,227	8,451	105,716
Italy	26,305	4,920			62,128	227	93,580
Belgium	20,124				421		20,545
Greece	2,892				490		3,382
Slovenia	1,725						1,725
Portugal	360	10			462		832
UK					13,968		13,968
Total	**580,888**	**218,656**	**331,290**	**229,582**	**139,519**	**8,933**	**1,508,868**

35 III. Development of Assets B., C. I. through IV. in Fiscal 2012

Development of assets

(in thousand euros)		Balance-sheet values 1 January 2012	Purchases	Added/removed from scope of consolidation	Transfers
B.	**Intangible assets**				
	1. Purchased goodwill	26,776			560
	2. Other intangible assets	18,013	5,030		– 560
	Total B.	**44,789**	**5,030**		
C. I.	**Real estate, comparable rights and buildings including those on third-party property**	**207,407**	**23,889**		
C. II.	**Capital investments in affiliated companies and shareholdings**				
	1. Shares in affiliated companies	2,134			
	2. Lending to affiliated companies				
	3. Shareholdings	62,758	8,091		
	4. Lending to companies with which a shareholding relationship exists	111			
	5. Total C. II.	**65,003**	**8,091**		
C. III.	**Other capital investments**				
	1. Stocks, investment fund shares and other non-fixed interest securities	2,191,967	400,813		– 1,602
	2. Bearer bonds and other fixed-interest securities	705,533	343,702		1,157
	3. Mortgages receivable, other similar rights and fixed-interest debts	194,116	4,025		– 36
	4. Other lending				
	a) Registered debentures	895,714	5,000		– 1,157
	b) Promissory notes and loans	666,662	42,094		
	c) Loans and advance disbursements on insurance policies	68,478	6,323		
	d) Remaining lending	25,182	13,744		
	5. Bank deposits	296,254	16,614		
	6. Other capital investments	315	116		1,638
	7. Total C. III.	**5,044,219**	**832,430**		
	Total C. I. through C. III.	**5,316,629**	**864,410**		
C. IV.	**Portfolio receivables from assumed reinsurance business**	**16,294**	**5,906**		
Total capital investments C. I. through C. IV.		**5,332,923**	**870,317**		

Real estate, comparable rights and buildings including those on third-party property with a balance-sheet value of € 111,994,101.28 (previous year: € 119,062,052.00) were used by the Group's insurance companies for their own operations.

Of the bearer bonds, other fixed-interest securities and bank deposits, a total of € 7.7 million (previous year: € 6.5 million) are pledged as security.

Sales	Exchange rate adjustments	Write-ups	Write-downs	Balance-sheet values 31 December 2012	Present values according to German statutory provisions (Art. 54 RechVersV)	Hidden reserves
			12,371	14,965		
567	–10		6,538	15,367		
567	**–10**		**18,909**	**30,332**		
900			**6,755**	**223,640**	**305,588**	**81,948**
			236	1,898	2,844	946
						0
8,809			5,366	56,674	99,276	42,602
				111	111	0
8,809			**5,602**	**58,683**	**102,231**	**43,548**
292,452	–112	20,808	1,737	2,317,683	2,383,103	65,420
186,345	–698	4,822	2,691	865,479	931,582	66,103
22,784		5	1,131	174,196	193,354	19,158
92,500				807,056	978,393	171,336
85,642				623,114	706,857	83,744
10,256				64,545	64,545	0
6,891				32,035	32,035	0
	221			313,089	313,089	0
2		198	278	1,987	1,987	0
696,873	**–590**	**25,833**	**5,837**	**5,199,183**	**5,604,944**	**405,761**
706,582	**–590**	**25,833**	**18,194**	**5,481,506**	**6,012,764**	**531,257**
113				**22,088**	**22,088**	**0**
706,695	**–590**	**25,833**	**18,194**	**5,503,594**	**6,034,851**	**531,257**

IV. Additional Information

Information on capital investments

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

Special investment funds

Name	Type of fund	Investment objective	Book value 31 Dec. 2012	Market value 31 Dec. 2012	Difference	Dividend 2012	Redemption
			(in euros)	*(in euros)*	*(in euros)*	*(in euros)*	
ADRERENT	Bond fund	Increased earnings	69,205,460.17	71,631,984.86	2,426,524.69	2,474,080.96	On demand
ATRI	Bond fund	Increased earnings	158,061,458.94	161,375,706.74	3,314,247.80	5,424,935.94	On demand
ARRE-MF	Mixed fund	Increased earnings	203,544,201.67	205,833,768.43	2,289,566.76	5,921,073.37	On demand
ARI 1	Umbrella fund	Increased earnings	119,236,894.98	128,267,342.66	9,030,447.68	6,675,929.12	On demand
ALLTRIRENT	Bond fund	Increased earnings	61,904,371.03	68,686,351.75	6,781,980.72	2,307,177.60	On demand
ALLTRI	Mixed fund	Increased earnings	118,510,933.47	121,515,067.43	3,004,133.96	3,847,514.16	On demand
ADZ	Mixed fund	Increased earnings	120,213,768.00	123,716,121.68	3,502,353.68	2,979,430.40	On demand
EMA	Stock fund	Increased earnings	49,664,069.23	49,679,343.94	15,274.71	1,282,100.50	On demand
AKR	Mixed fund	Increased earnings	200,554,224.16	202,966,367.86	2,412,143.70	8,438,186.20	On demand
BORGIA	Mixed fund	Increased earnings	187,852,845.22	194,178,546.43	6,325,701.21	12,070,247.33	On demand
ALP	Bond fund	Increased earnings	103,672,274.05	106,969,349.33	3,297,075.28	2,637,665.62	On demand
ALF 2	Bond fund	Increased earnings	108,373,857.35	112,544,487.96	4,170,630.61	3,294,820.63	On demand
ALF 1	Mixed fund	Increased earnings	297,488,990.16	298,281,361.14	792,370.98	7,267,436.82	On demand
ALM	Mixed fund	Increased earnings	185,374,892.58	193,081,500.72	7,706,608.14	11,814,832.84	On demand
AAF	Mixed fund	Increased earnings	85,757,359.37	85,757,359.37	0.00	2,872,839.86	On demand
Protect 80	Mixed fund	Increased earnings	5,000,000.00	5,020,000.00	20,000.00	0.00	On demand
VM Sterntaler	Mixed fund	Increased earnings	4,938,732.00	5,439,798.00	501,066.00	53,460.00	On demand
MUZINICH-AMERICAYLD. EQ I	High-yield fund	Increased earnings	2,580,310.04	2,833,864.06	253,554.02	170,174.28	On demand
SIVE Fonds INKA	Stock fund	Increased earnings	45,615,343.65	46,160,844.84	545,501.19	1,841,599.64	On demand
AS1 Erste Sparinvest	Mixed fund	Increased earnings	57,239,149.47	59,583,299.75	2,344,150.28	1,310,442.25	On demand

The investment objectives of the funds, which are exchange-tradable with notice, are oriented toward the respective benchmark requirements derived from the strategic capital investment structure.

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 in the working capital of the insurance company. The book value of this portfolio amounts to € 1,806,595,555.06, and the market value is € 1,842,529,851.43. No hidden liabilities were created through the transfer to investment assets (previous year: € 40,956,465.99).

No write-downs were taken in the previous year, as according to the assessment of experts the exchange values represent an exaggeration of the economic parameters, so that a recovery in value was to be anticipated in the medium term. Write-ups in accordance with Art. 253 (5) HGB were carried out on this portfolio in the fiscal year under review in the amount of € 18,116,096.00 (previous year: € 0.00). Here as well, an exaggeration of the market values was assumed, and the write-up was only taken to the extent that the book values would not exceed the resulting market values after an assumed interest stress of 80 basis points.

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 established 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.

36 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 31 Dec. 2012**	**Deferred taxes 31 Dec. 2011**
Intangible assets	– 33	1,175
Capital investments	6,915	6,289
Accounts receivable	7	1,276
Other assets	1,502	1,089
Accrued income	– 623	– 14
Special reserve item	– 1,242	– 1,231
Underwriting reserves	36,573	43,714
Other reserves	11,280	11,299
Other liabilities	– 2,170	85
Deferred liabilities	0	0
Losses carried forward	0	127
	52,209	**63,809**

The balance of the previous year contains deferred taxes in the amount of € 127,178.00 due to losses carried forward in the amount of € 635,892.31.

37 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".

38 Extraordinary operating result

The extraordinary income and expenses were due mainly to the application of the transitional provisions of the German Accounting Law Modernization Act (BilMoG) of 25 May 2009 for the valuation of pension and senior part-time obligations. In the sales sector, a restructuring was initiated which will lead to a reduction in the number of field offices in Spain. In this connection, € 2.5 million was set aside for severance settlements.

39 Taxes on income and earnings

The income tax charges in the Statement of Profit and Loss are arrived at as follows:

Income taxes

		2012		2011
	(in percent)	*(in euros)*	*(in percent)*	*(in euros)*
Operating result before taxes (commercial balance sheet)		88,673,874.21		48,906,629.39
Expected income tax expenditure according to tax rate	31.2	**27,688,417.22**	31.2	**15,271,095.03**
Actual taxes		35,848,041.52		32,087,545.52
Deferred taxes		11,599,544.71		-8,201,832.16
Stated income tax expenditure		**47,447,586.23**		**23,885,713.36**
Effective tax rate	53.51		48.84	
Other taxes		2,039,296.75		1,166,112.30
Tax expenditure according to Statement of Profit and Loss		**49,486,882.98**		**25,051,825.66**

The difference between the anticipated and the effective tax expenditure results mainly from tax-free income and non-deductible expenses, the net losses with no tax effect at some Group subsidiaries and the change in temporary differences in the capital investments and reserves. In the fiscal year under review, additional security discounts were taken on capitalized deferred taxes in the amount of € 13.7 million.

Other financial obligations within the meaning of Art. 285 (3) HGB

In the real estate development sector, the financial obligations from valid construction contracts of ongoing business operations for buildings under construction and from land purchase contracts amount to € 4,780,780.69 (previous year: € 8,445,050.27). Warranty obligations from the property development business additionally exist toward customers; a suitable provision has been formed for this.

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	1,606,791.94
ACF V Growth Buy-out Europe GmbH & Co. KG	7,888,004.56
FOYER-ARAG S.A., Luxembourg	24,788.00

None of these outstanding contributions has been called in. It is expected that RREEF Pan-European Infrastructure Feeder GmbH & Co. KG and ACF V Growth Buy-out Europe GmbH & Co. KG will call in contributions in the near future. The remaining outstanding contributions are not being called in for the time being.

Liability relationships

Pursuant to Art. 124 ff. of the German Insurance Supervisory Act 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 1 per mil of the total net underwriting reserves; this is equivalent to an obligation of € 3,354,145.47. Additionally, the Group 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 € 30,187,309.23.
Pursuant to Art. 124 ff. VAG, the Group is also a member of the guarantee fund for health insurers. The guarantee fund can levy contributions in the amount of up to 2 per mil of the total net underwriting reserves in the health insurance (€ 2,479,220.73).
The risk of availment from these obligations is considered extremely slight, as no insurance insolvencies have occurred in Germany to date.

Auditor's fees

This Consolidated Financial Statements were audited by PricewaterhouseCoopers AG, Düsseldorf. The German Group subsidiaries reserved € 846,181.20 (previous year: € 730,178.07) for financial-statement auditing services including expenses and the non-deductable value-added tax. A total of € 55,995.00 (previous year: € 10,000.00) was expended for other consulting services. The auditor of the Consolidated Financial Statements did not perform any other services.

40 Gross cost of insurance business

(in euros)	2012	2011
Cost of sales of insurance policies	236,745,103.57	311,096,736.87
Cost of administration of insurance policies	274,881,415.09	215,070,668.35
Total costs	**511,626,518.66**	**526,167,405.22**

41 Costs for premium rebates for own account

(in euros)	2012	2011
Costs for profit-linked premium rebates	61,695,076.10	37,272,455.03
Costs for non-profit-linked premium rebates	793,600.43	1,663,119.35
Total costs	**62,488,676.53**	**38,935,574.38**

Commissions and other compensation for insurance representatives, employee costs

(in euros)	2012	2011
1. Commissions of all types for insurance representatives within the meaning of Art. 92 HGB for self-contracted insurance business	281,203,691.77	259,033,222.29
2. Other compensation for insurance representatives within the meaning of Art. 92 HGB	13,806,258.02	10,948,424.43
3. Wages and salaries	190,986,451.35	185,278,175.79
4. Social security and support expenses	31,463,465.04	29,969,661.06
5. Expenses for pension plans	16,890,655.84	12,850,035.73
6. Total costs	**534,350,522.02**	**498,079,519.30**

Average employment per year

On average over the entire year, the companies completely included in the Consolidated Financial Statements employed 3,544 (previous year: 3,482) persons. As of 31 December 2012, the ARAG Group employed a total of 3,564 persons (previous year: 3,506 persons).
The insurance companies employed 3,210 (previous year: 3,150) persons on average. On average, 339 persons (previous year: 332) were employed in the management and service companies. The German Group subsidiaries additionally employed some 22 (previous year: 29) vocational trainees.

Compensation for the Supervisory Board and Board of Management of ARAG Holding SE

The costs for compensation of the Supervisory Board totaled € 253,151.18 (previous year: € 221,057.37).
The compensation for the Board members of the parent company of all Group subsidiaries amounted to € 1,495,806.88 (previous year: € 1,491,742.32). There are no current pensions or vested pension rights for former Board members or their survivors.

Düsseldorf, 7 May 2013

Board of Management

Dr. Paul-Otto Faßbender

Dr. Karl-Heinz Strohe

Consolidated Cash Flow Statement for Fiscal Year 2012

Consolidated cash flow statement

(in euros)	2012	2011
I. Cash flow from current business		
Net income	39,186,991	23,854,804
Change in net underwriting reserves	135,334,498	132,556,223
Change in portfolio receivables and liabilities and settlement assets and liabilities	–9,757,893	–29,402,288
Change in other assets and liabilities	–6,083,632	–27,491,739
Profit/loss from sale of capital investments	–22,721,296	–35,590,810
Change in deferred taxes	11,599,545	–8,201,832
Changes in other assets and liabilities	74,880,404	–42,429,100
Depreciation on intangible assets	18,909,281	13,022,173
Write-downs on capital investments	18,560,974	59,345,166
Write-ups on capital investments	–37,972,699	–9,403,712
Effects of currency exchange rates	666,809	–393,065
Cash flow from current business	**222,602,982**	**75,865,820**
II. Cash flow from investment activities		
Payments received from sale and maturity of other capital investments	729,303,462	914,445,453
Disbursements for the purchase of other capital investments	–864,410,280	–959,093,252
Payments received from the sale of capital investments of mutual fund-linked life insurance	65,621,344	4,028,718
Disbursements for the sale of capital investments of mutual fund-linked life insurance	–105,878,767	–26,152,329
Other payments received	567,125	0
Other disbursements	–5,029,829	–8,096,301
Cash flow from investment activities	**–179,826,945**	**–74,867,711**
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	**32,776,037**	**–9,001,891**
Cash reserves at start of fiscal year	72,162,495	81,164,386
Cash reserves at end of fiscal year	104,938,532	72,162,495
Change in cash reserves in fiscal year	**32,776,037**	**–9,001,891**

42 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 2011	200,000,000.00	0.00	99,349,234.66	2,060,835.37	301,410,070.03
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			– 1,158,024.32	77,311.24	– 1,080,713.08
Group profit/loss for year			37,299,773.84		37,299,773.84
Other Group profit/loss					0.00
Overall Group profit/loss for year			37,299,773.84	0.00	37,299,773.84
Status as of 31 December 2012	**200,000,000.00**	**0.00**	**125,490,984.18**	**2,138,146.61**	**327,629,130.79**
II. Minority shareholders					
Status as of 31 December 2011	0.00	0.00	33,085,768.28	108,698.72	33,194,467.00
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			– 889,412.27		– 889,412.27
Changes in the scope of consolidation			0.00		0.00
Other changes			– 389,544.44	– 10,195.65	– 399,740.09
Group profit/loss for year			1,887,217.39		1,887,217.39
Other Group profit/loss					0.00
Overall Group profit/loss for year			1,887,217.39	0.00	1,887,217.39
Status as of 31 December 2012	**0.00**	**0.00**	**33,694,028.96**	**98,503.07**	**33,792,532.03**
III. Group equity					
Status as of 31 December 2011	200,000,000.00	0.00	132,435,002.94	2,169,534.09	334,604,537.03
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			– 10,889,412.27		– 10,889,412.27
Changes in the scope of consolidation			0.00		0.00
Other changes			– 1,547,568.76	67,115.59	– 1,480,453.17
Group profit/loss for year			39,186,991.23		39,186,991.23
Other Group profit/loss					0.00
Overall Group profit/loss for year			39,186,991.23	0.00	39,186,991.23
Status as of 31 December 2012	**200,000,000.00**	**0.00**	**159,185,013.14**	**2,236,649.68**	**361,421,662.82**

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 2010	200,000,000.00	0.00	87,032,444.28	1,005,563.38	288,038,007.66
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			3,031.84	1,055,271.99	1,058,303.83
Group profit/loss for year			22,313,758.54		22,313,758.54
Other Group profit/ loss					0.00
Overall Group profit/loss for year			22,313,758.54	0.00	22,313,758.54
Status as of 31 December 2011	**200,000,000.00**	**0.00**	**99,349,234.66**	**2,060,835.37**	**301,410,070.03**
II. Minority shareholders					
Status as of 31 December 2010	0.00	0.00	32,503,598.63	64,255.23	32,567,853.86
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			– 867,818.85		– 867,818.85
Changes in the scope of consolidation			0.00		0.00
Other changes			– 91,056.69	44,443.49	– 46,613.20
Group profit/loss for year			1,541,045.19		1,541,045.19
Other Group profit/loss					0.00
Overall Group profit/loss for year			1,541,045.19	0.00	1,541,045.19
Status as of 31 December 2011	**0.00**	**0.00**	**33,085,768.28**	**108,698.72**	**33,194,467.00**
III. Group equity					
Status as of 31 December 2010	200,000,000.00	0.00	119,536,042.91	1,069,818.61	320,605,861.52
Issue of shares					0.00
Purchase/retirement of own shares					0.00
Dividends paid			– 10,867,818.85		– 10,867,818.85
Changes in the scope of consolidation			0.00		0.00
Other changes			– 88,024.85	1,099,715.48	1,011,690.63
Group profit/loss for year			23,854,803.73		23,854,803.73
Other Group profit/loss					0.00
Overall Group profit/loss for year			23,854,803.73	0.00	23,854,803.73
Status as of 31 December 2011	**200,000,000.00**	**0.00**	**132,435,002.94**	**2,169,534.09**	**334,604,537.03**

Segment Reporting – Balance Sheet

(in thousand euros)	Legal insurance		Composite insurance		Health insurance	
	2012	2011	2012	2011	2012	2011
A. Intangible assets	**13,246**	**15,989**	**0**	**0**	**140**	**185**
B. Capital investments	**1,719,962**	**1,729,367**	**430,483**	**471,451**	**1,256,935**	**1,118,196**
I. Real estate and buildings including those on third-party property	81,231	82,764	29,492	30,337	7,427	0
II. Capital investments in affiliated companies and shareholdings	356,351	460,926	39,479	40,336	11,403	14,996
III. Other capital investments	1,260,292	1,169,384	361,511	400,778	1,238,105	1,103,200
IV. Portfolio receivables from assumed reinsurance business	22,088	16,294	0	0	0	0
C. Capital investments for the account and risk of life insurance policyholders	**0**	**0**	**0**	**0**	**0**	**0**
D. Other assets by sector	**244,295**	**284,554**	**14,715**	**21,113**	**41,783**	**41,464**
Total segment assets	**1,977,503**	**2,029,911**	**445,197**	**492,564**	**1,298,857**	**1,159,845**
A. Underwriting reserves	**1,158,012**	**1,152,687**	**312,781**	**323,578**	**1,239,610**	**1,105,038**
I. Unearned premiums	163,221	167,055	42,655	40,813	12,343	10,756
II. Actuarial reserves	0	0	1	1	1,074,494	966,391
III. Provision for outstanding claims	988,191	978,375	237,103	251,945	48,836	43,952
IV. Provisions for premium rebates	0	0	0	0	103,320	83,224
V. Fluctuation provision	2,931	0	62,338	62,738	0	0
VI. Other underwriting reserves	5,827	6,449	2,858	2,046	616	715
VII. Reinsurers' share of underwriting reserves	– 2,159	808	– 32,174	– 33,965	0	0
B. Underwriting reserves in the life insurance segment, insofar as the investment risk is borne by the policyholders	**0**	**0**	**0**	**0**	**0**	**0**
C. Other liabilities by sector	**331,719**	**333,535**	**38,924**	**42,030**	**15,198**	**12,749**
Total sector liabilities	**1,489,731**	**1,486,222**	**351,705**	**365,607**	**1,254,808**	**1,117,787**
Equity*						
Total liabilities						

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

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

Life insurance		Services and asset management		Total		Consolidation		Group total	
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
155	179	2,440	5,062	15,981	21,415	14,351	23,374	30,332	44,789
2,544,268	2,549,443	316,598	338,661	6,268,245	6,207,118	– 764,651	– 874,195	5,503,594	5,332,923
99,593	88,071	6,974	7,313	224,718	208,485	– 1,078	– 1,078	223,640	207,407
138,613	145,527	276,411	276,336	822,257	938,121	– 763,573	– 873,118	58,683	65,003
2,306,062	2,315,846	33,213	55,012	5,199,183	5,044,219	0	0	5,199,183	5,044,219
0	0	0	0	22,088	16,294	0	0	22,088	16,294
150,544	98,514	0	0	150,544	98,514	0	0	150,544	98,514
124,078	122,699	133,027	74,485	557,897	544,315	9,615	– 1,903	567,512	542,412
2,819,046	2,770,835	452,065	418,207	6,992,669	6,871,362	– 740,686	– 852,724	6,251,983	6,018,638
2,441,346	2,435,112	0	0	5,151,749	5,016,414	0	0	5,151,749	5,016,414
5,131	5,431	0	0	223,351	224,055	0	0	223,351	224,055
2,325,747	2,322,694	0	0	3,400,242	3,289,086	0	0	3,400,242	3,289,086
19,544	21,510	0	0	1,293,675	1,295,782	0	0	1,293,675	1,295,782
142,087	141,238	0	0	245,407	224,462	0	0	245,407	224,462
0	0	0	0	65,269	62,738	0	0	65,269	62,738
129	119	0	0	9,430	9,328	0	0	9,430	9,328
– 51,293	– 55,879	0	0	– 85,626	– 89,037	0	0	– 85,626	– 89,037
150,544	98,514	0	0	150,544	98,514	0	0	150,544	98,514
124,231	133,354	81,238	52,655	591,311	574,323	– 3,700	– 5,874	587,611	568,449
2,716,122	2,666,980	81,238	52,655	5,893,604	5,689,251	– 3,700	– 5,874	5,889,904	5,683,377
								362,078	335,261
								6,251,983	6,018,638

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 also includes those companies active as service providers in the life insurance sector without themselves being insurers.

Due to the application of the "temporary concept" method for the amortization of deferred taxes, the Statement of Profit and Loss is only broken down by segments as far as the operating result before taxes.

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

(in thousand euros)	Legal insurance		Composite insurance		Health insurance	
	2012	2011	2012	2011	2012	2011
Underwriting result						
Gross premiums written	**720,408**	**713,885**	**227,588**	**227,991**	**331,290**	**309,397**
Self-contracted business	580,889	587,390	218,656	218,067	331,290	309,397
Assumed business	139,519	126,495	8,933	9,924	0	0
Premiums for reinsured business	–2,850	–3,338	–6,699	–6,111	–8	–8
Change in net unearned premiums	550	2,673	1,235	–408	–1,588	–9,275
Earned premiums for own account	**718,108**	**713,221**	**222,124**	**221,471**	**329,694**	**300,114**
Premiums from gross provisions for premium rebates	0	0	0	0	10,996	8,002
Assigned capital gains from underwriting account	0	0	548	607	51,952	51,529
Unrealized profits from capital investments	0	0	0	0	0	0
Other underwriting result for own account	1,818	2,517	898	886	1,886	1,178
Total underwriting result	**719,926**	**715,738**	**223,570**	**222,963**	**394,527**	**360,823**
Underwriting costs						
Cost of claims for own account	–384,769	–399,603	–101,307	–101,173	–182,153	–170,172
Change in other net underwriting reserves	–399	22	297	783	–108,005	–100,163
Costs for premium rebates	0	21	0	0	–39,612	–23,632
profit-linked portion	0	0	0	0	–38,818	–21,990
non-profit-linked portion	0	21	0	0	–794	–1,642
Unrealized losses from capital investments	0	0	0	0	0	0
Cost of insurance business	–312,586	–320,519	–89,811	–83,121	–43,064	–46,355
portion attributable to accounting costs	–113,913	–181,231	–32,495	–25,489	–33,401	–37,386
portion attributable to administrative costs	–199,296	–139,635	–57,965	–58,186	–9,666	–8,972
reinsurance portion	623	347	649	554	3	3
Assigned capital expenditures from underwriting account	0	0	0	0	–4,881	–8,650
Other underwriting costs for own account	0	–4,923	–1,719	–1,622	–3,358	–2,097
Total underwriting costs	**–697,755**	**–725,001**	**–192,541**	**–185,132**	**–381,072**	**–351,069**
Subtotal	**22,171**	**–9,263**	**31,029**	**37,831**	**13,455**	**9,754**
Change in fluctuation reserve and similar provisions	–560	0	–1,969	–3,526	0	0
Underwriting result for own account	**21,611**	**–9,263**	**29,060**	**34,306**	**13,455**	**9,754**
Income from capital investments	74,873	56,679	18,428	19,076	51,952	51,529
Costs of capital investments	–19,423	–28,644	–2,917	–5,661	–4,881	–8,650
Income from capital investments	**55,449**	**28,036**	**15,511**	**13,415**	**47,071**	**42,879**
Capital investment income assigned to underwriting account	0	0	–548	–607	–47,071	–42,879
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	19,381	22,149	2,245	1,015	359	900
Other costs	–43,561	–38,863	–8,228	–6,823	–2,620	–2,786
Other income/expenses	**–24,180**	**–16,714**	**–5,983**	**–5,808**	**–2,261**	**–1,886**
Profit on ordinary business	**52,881**	**2,059**	**38,039**	**41,306**	**11,194**	**7,868**
Extraordinary operating result	**–2,499**	**0**	**0**	**0**	**–519**	**–40**
Operating result before taxes	**50,381**	**2,059**	**38,039**	**41,306**	**10,674**	**7,828**
Tax expenditure						
Net income						
External portions						
Group profit/loss for year						

	Life insurance		Services and asset management		Total		Consolidation		Group total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	229,582	**218,099**	**0**	**0**	**1,508,868**	**1,469,373**	**0**	**0**	**1,508,868**	**1,469,373**
	229,582	218,099	0	0	1,360,416	1,332,954	0	0	1,360,416	1,332,954
	0	0	0	0	148,451	136,419	0	0	148,451	136,419
	-3,144	-3,007	0	0	-12,701	-12,464	0	0	-12,701	-12,464
	202	76	0	0	399	-6,935	0	0	399	-6,935
	226,641	**215,167**	**0**	**0**	**1,496,566**	**1,449,973**	**0**	**0**	**1,496,566**	**1,449,973**
	8,908	14,212	0	0	19,904	22,214	0	0	19,904	22,214
	133,392	133,282	0	0	185,892	185,418	0	0	185,892	185,418
	12,140	325	0	0	12,140	325	0	0	12,140	325
	16,579	29,443	0	0	21,179	34,024	0	0	21,179	34,024
	397,659	**392,430**	**0**	**0**	**1,735,682**	**1,691,954**	**0**	**0**	**1,735,682**	**1,691,954**
	-224,623	-231,504	0	0	-892,853	-902,452	0	0	-892,853	-902,452
	-59,011	-21,991	0	0	-167,119	-121,349	0	0	-167,119	-121,349
	-22,877	-15,282	0	0	-62,489	-38,893	0	0	-62,489	-38,893
	-22,877	-15,282	0	0	-61,695	-37,272	0	0	-61,695	-37,272
	0	0	0	0	-794	-1,620	0	0	-794	-1,620
	-367	-10,303	0	0	-367	-10,303	0	0	-367	-10,303
	-59,670	-69,031	0	0	-505,132	-519,026	0	0	-505,132	-519,026
	-56,936	-66,992	0	0	-236,745	-311,097	0	0	-236,745	-311,097
	-7,954	-8,277	0	0	-274,881	-215,071	0	0	-274,881	-215,071
	5,220	6,237	0	0	6,495	7,142	0	0	6,495	7,142
	-14,156	-31,483	0	0	-19,036	-40,133	0	0	-19,036	-40,133
	-16,897	-7,286	0	0	-21,974	-15,928	0	0	-21,974	-15,928
	-397,600	**-386,882**	**0**	**0**	**-1,668,968**	**-1,648,084**	**0**	**0**	**-1,668,968**	**-1,648,084**
	59	**5,548**	**0**	**0**	**66,714**	**43,870**	**0**	**0**	**66,714**	**43,870**
	0	0	0	0	-2,529	-3,526	0	0	-2,529	-3,526
	59	**5,548**	**0**	**0**	**64,185**	**40,344**	**0**	**0**	**64,185**	**40,344**
	133,392	133,282	1,916	1,877	280,560	262,444	-548	991	280,012	263,435
	-14,156	-31,609	-392	-333	-41,769	-74,897	0	0	-41,769	-74,897
	119,236	**101,673**	**1,524**	**1,544**	**238,792**	**187,546**	**-548**	**991**	**238,244**	**188,538**
	-119,236	-101,799	0	0	-166,856	-145,284	0	0	-166,856	-145,284
	0	0	79,967	81,522	79,967	81,522	-39,061	-39,725	40,906	41,797
	0	0	-76,949	-79,293	-76,949	-79,293	39,061	39,725	-37,888	-39,568
	0	**0**	**3,018**	**2,229**	**3,018**	**2,229**	**0**	**0**	**3,018**	**2,229**
	1,323	1,604	3,302	3,091	26,610	28,759	-7,325	-10,966	19,285	17,792
	-4,460	-5,536	-3,327	-3,958	-62,196	-57,966	-3,720	4,247	-65,917	-53,718
	-3,137	**-3,932**	**-25**	**-867**	**-35,586**	**-29,207**	**-11,045**	**-6,719**	**-46,632**	**-35,926**
	-3,078	**1,490**	**4,517**	**2,906**	**103,553**	**55,629**	**-11,594**	**-5,728**	**91,959**	**49,901**
	-197	**-197**	**-70**	**-758**	**-3,285**	**-994**	**0**	**0**	**-3,285**	**-994**
	-3,275	**1,293**	**4,447**	**2,149**	**100,267**	**54,634**	**-11,594**	**-5,728**	**88,674**	**48,907**
									-49,487	-25,052
									39,187	**23,855**
									-1,887	-1,541
									37,300	**22,314**

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

(in thousand euros)	Domestic	
	2012	2011
Underwriting result		
Gross premiums written	**1,038,882**	**1,005,430**
Self-contracted business	1,024,659	994,705
Assumed business	14,223	10,725
Premiums for reinsured business	–9,959	–9,232
Change in net unearned premiums	–2,159	–5,510
Earned premiums for own account	**1,026,765**	**990,688**
Premiums from gross provisions for premium rebates	19,904	22,214
Assigned capital gains from underwriting account	185,892	185,418
Unrealized profits from capital investments	12,140	325
Other underwriting result for own account	21,024	33,327
Total underwriting result	**1,265,724**	**1,231,971**
Underwriting costs		
Cost of claims for own account	–658,597	–648,403
Change in other net underwriting reserves	–166,972	–121,970
Costs for premium rebates	–62,489	–38,914
profit-linked portion	–61,695	–37,272
non-profit-linked portion	–794	–1,642
Unrealized losses from capital investments	–367	–10,303
Cost of insurance business	–295,442	–302,788
portion attributable to accounting costs	–146,955	–159,609
portion attributable to administrative costs	–154,358	–149,975
reinsurance portion	5,872	6,795
Assigned capital expenditures from underwriting account	–19,036	–40,133
Other underwriting costs for own account	–21,974	–10,716
Total underwriting costs	**–1,224,875**	**–1,173,227**
Subtotal	**40,849**	**58,745**
Change in fluctuation reserve and similar provisions	–128	–3,526
Underwriting result for own account	**40,720**	**55,219**
Income from capital investments	246,774	235,296
Costs of capital investments	–33,457	–62,886
Income from capital investments	**213,317**	**172,411**
Capital investment income assigned to underwriting account	–166,856	–145,284
Revenues	79,967	81,522
Production costs	–76,949	–79,293
Gross operating result	**3,018**	**2,229**
Other earnings	20,499	19,817
Other costs	–56,893	–54,043
Other income/expenses	**–36,393**	**–34,226**
Profit on ordinary business	**53,807**	**50,349**
Extraordinary operating result	**–786**	**–994**
Operating result before taxes	**53,020**	**49,354**
Tax expenditure		
Net income		
External portions		
Group profit/loss for year		

International		Total		Consolidation		Group total	
2012	2011	2012	2011	2012	2011	2012	2011
469,986	463,942	1,508,868	1,469,373	0	0	1,508,868	1,469,373
335,757	338,249	1,360,416	1,332,954	0	0	1,360,416	1,332,954
134,228	125,694	148,451	136,419	0	0	148,451	136,419
–2,742	–3,232	–12,701	–12,464	0	0	–12,701	–12,464
2,558	–1,424	399	–6,935	0	0	399	–6,935
469,802	459,285	1,496,566	1,449,973	0	0	1,496,566	1,449,973
0	0	19,904	22,214	0	0	19,904	22,214
0	0	185,892	185,418	0	0	185,892	185,418
0	0	12,140	325	0	0	12,140	325
156	697	21,179	34,024	0	0	21,179	34,024
469,958	459,983	1,735,682	1,691,954	0	0	1,735,682	1,691,954
–234,256	–254,049	–892,853	–902,452	0	0	–892,853	–902,452
–147	620	–167,119	–121,349	0	0	–167,119	–121,349
0	21	–62,489	–38,893	0	0	–62,489	–38,893
0	0	–61,695	–37,272	0	0	–61,695	–37,272
0	21	–794	–1,620	0	0	–794	–1,620
0	0	–367	–10,303	0	0	–367	–10,303
–209,690	–216,238	–505,132	–519,026	0	0	–505,132	–519,026
–89,790	–151,488	–236,745	–311,097	0	0	–236,745	–311,097
–120,523	–65,096	–274,881	–215,071	0	0	–274,881	–215,071
623	346	6,495	7,142	0	0	6,495	7,142
0	0	–19,036	–40,133	0	0	–19,036	–40,133
0	–5,213	–21,974	–15,928	0	0	–21,974	–15,928
–444,093	–474,857	–1,668,968	–1,648,084	0	0	–1,668,968	–1,648,084
25,865	–14,875	66,714	43,870	0	0	66,714	43,870
–2,401	0	–2,529	–3,526	0	0	–2,529	–3,526
23,464	–14,875	64,185	40,344	0	0	64,185	40,344
33,786	27,147	280,560	262,444	–548	991	280,012	263,435
–8,312	–12,012	–41,769	–74,897	0	0	–41,769	–74,897
25,475	15,136	238,792	187,546	–548	991	238,244	188,538
0	0	–166,856	–145,284	0	0	–166,856	–145,284
0	0	79,967	81,522	–39,061	–39,725	40,906	41,797
0	0	–76,949	–79,293	39,061	39,725	–37,888	–39,568
0	0	3,018	2,229	0	0	3,018	2,229
6,111	8,942	26,610	28,759	–7,325	–10,966	19,285	17,792
–5,304	–3,923	–62,196	–57,966	–3,720	4,247	–65,917	–53,718
807	5,019	–35,586	–29,207	–11,045	–6,719	–46,632	–35,926
49,746	5,280	103,553	55,629	–11,594	–5,728	91,959	49,901
–2,499	0	–3,285	–994	0	0	–3,285	–994
47,247	5,280	100,267	54,634	–11,594	–5,728	88,674	48,907
						–49,487	–25,052
						39,187	23,855
						–1,887	–1,541
						37,300	22,314

Auditor's Report*

We have examined the Consolidated Financial Statements of ARAG Holding SE, 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 2012. The Board of Management of the Group 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 (German Commercial Code) 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 Group, and accurately represents the opportunities and risks attendant on in its future development.

Düsseldorf, 22 May 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Christian Sack	per pro Guido Conrads
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.

The core topic of the deliberations of the Supervisory Board was the implementation of the project to merge the six European subsidiaries in Italy, the Netherlands, Spain, Belgium, Austria and Slovenia into ARAG SE. In its meetings, the Supervisory Board received ongoing reports in particular on the current status of the merger, and also examined the regulatory approval processes. The Supervisory Board additionally sought reports on how the management structure was applied to the new branch organization. Further topics of deliberation of the Supervisory Board included the earnings situation of the main subsidiaries of the ARAG Group, the earnings situation of the ARAG Group in fiscal 2012, the investment strategy for using the tax reserves for real estate properties and the compensation system of the ARAG Group and the appropriateness of Board of Management compensation.

The Supervisory Board also discussed the Company's risk strategy.

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 Group 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 Financial Statement as of 31 December 2012 under consideration of our accounting, and the 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 auditors' report, the Supervisory Board raises no objections.

Düsseldorf, 22 May 2013

Chairman, Supervisory Board

Gerd Peskes

Governing Bodies of the Group

Supervisory Board	The **Supervisory Board** is made up of the following persons:	
	Gerd Peskes	Auditor, Essen Chair
	Prof. Dr. Dres. h. c. Rolf Dubs	Professor, St. Gallen, Switzerland Vice-Chair
	Dr. Tobias Bürgers	Attorney, Munich
Board of Management	**Dr. Paul-Otto Faßbender**	Chairman of the Board of Management of ARAG SE, 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 in view of its core competence in legal insurance, ARAG's information offerings would of course 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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