ARAG SE

2015 ANNUAL REPORT SINGLE-ENTITY FINANCIAL STATEMENTS

Flexible, connected, agile

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

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ARAG SE Key Figures

(€'000)	2015	Change	2014	2013
Sales revenue				
Gross premiums written	**766,127**	**5.30 %**	727,541	705,461
Premiums earned for own account	**756,133**	**4.53 %**	723,339	704,972
Expenses				
Claims incurred net of reinsurance	**400,070**	**– 0.73 %**	403,026	411,037
Claims ratio (basis: premiums earned)	**52.9 %**	**– 2.8 % pts.**	55.7 %	58.30 %
Own account insurance business operating expenses	**344,781**	**7.35 %**	321,160	302,995
Cost ratio (basis: premiums earned)	**45.6 %**	**1.2 % pts.**	44.4 %	43.00 %
Net income overview				
Underwriting result for own account	**11,267**	**2,695.78 %**	403	– 10,276
Gains and losses on investments	**71,620**	**– 7.32 %**	77,279	79,762
Other net income/expense	**– 39,291**	**– 9.74 %**	– 35,805	– 26,035
Profit/loss from ordinary activities	**43,596**	**4.11 %**	41,876	43,452
Net extraordinary income/expense	**0**	**n.a.**	0	0
Net income for the year	**22,963**	**– 16.51 %**	27,503	33,699
Key ratios				
Technical provisions/ net premiums earned	**166.2 %**	**– 4.3 % pts.**	170.5 %	170.40 %
Equity/premiums earned	**53.7 %**	**– 1.3 % pts.**	55.0 %	54.60 %

Profile of the ARAG Group

Overview

The ARAG Group is the largest family enterprise in the German insurance industry and is one of the world's three leading providers of legal insurance. ARAG was established 80 years ago exclusively as a legal insurance company, but has now positioned itself as an international insurer of considerable renown offering innovative, high-quality insurance products. The Company aims to generate growth across all insurance segments in Germany as well as exploit the potential for expansion in the international legal insurance business. Today, the ARAG Group operates in a total of 16 countries (Germany, 14 other European countries, and the US) through branches, subsidiaries, and equity investments. It generates sales revenue and premiums of approximately €1.7 billion and employs more than 3,800 people.

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

Legal insurance

In its core legal insurance segment, ARAG plays a major role in shaping its markets both in Germany and abroad with innovative products and services. For some years now, the international legal insurance business has been the Group's most significant area of activity. The international ARAG units involved in this business are a valuable source of impetus for growth, helping to ensure the successful performance of the Group as a whole. In September 2015, the Group commenced operations in Denmark, a new market with very good prospects. At the same time, ARAG SE is also back on course to perform well in its German domestic market where it is generating rising legal insurance premiums.

Casualty and property insurance

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

Personal insurance

In the private health insurance market, ARAG Kranken (ARAG Health) offers a broad range of highly efficient products, emphasizing its appeal as a provider of full-coverage and supplementary health insurance. Back in 2006, ARAG Leben (ARAG Life) converted its range of products from traditional life insurance policies to the successful fund-linked 'ARAG FoRte 3D' family of products.

Management Report of ARAG SE

I. Company Fundamentals

Business model

ARAG SE is the largest family-managed insurance company in Germany and is one of the world's three leading providers of legal insurance. It focuses on state-of-the-art product concepts aimed at both private and small business customers. The modular structure of these concepts means that insurance can be precisely tailored to the requirements of each customer.

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

ARAG SE is the provider of legal insurance for private customers and small businesses. It is not involved in diversified corporate business with individual risks. Outside Germany, it also operates travel insurance business in connection with its provision of legal insurance.

ARAG began to operate outside Germany for the first time more than 50 years ago. The main purpose was to set up separate international companies in the Group that could provide support for the German legal insurance customers in the event of a claim. It became clear that this model in itself was not sustainable. However, there was a demand for legal insurance within each of the countries themselves, as a result of which it was possible to develop new business models in line with the various circumstances and tap into new markets. ARAG is now a successful player in a total of 15 European markets (including Germany) and in the US.

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

ARAG SE is one of the most internationalized insurers in Germany with 57 percent of its total gross premiums written accounted for by international business.

Scope of operations

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

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

Legal insurance is also provided in the US, Norway, Sweden and, since 2015, Denmark. In each case the business is operated through legally independent affiliated companies, which are all managed uniformly by ARAG SE as the parent company.

In addition, ARAG SE operates in Switzerland via equity investments in legal insurance associates. In the United Kingdom, a Group company acts as a broker for legal insurance business and legal-insurance-related special service package business, passing this business to four British primary insurers. Some of this insurance is then ceded to ARAG SE under quota-share reinsurance treaties.

ARAG SE also holds an equity investment in a legal insurance company in Luxembourg.

Insurance portfolio

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

Insurance portfolio

(No.)	Dec. 31, 2015	Dec. 31, 2014
Germany	1,423,702	1,388,765
Other countries	2,339,667	2,191,524
Total	**3,763,369**	**3,580,289**

Types of insurance in the insurance business

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

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

II. Report on Economic Position

Economic and sector conditions

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

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

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

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

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

Following the sharp rise in the capital market rate (yield on listed German government securities with a residual maturity of nine to ten years) during the summer of 2015, this rate fell back again to an average for the year of around 0.5 percent as a result of the further drop in the rate of inflation in the last few months of the year. This trend pushed up share prices to a new all-time high. The German DAX index saw a gain of approximately 9.6 percent, with the Euro Stoxx 50 also rising by almost 4 percent.

The most recent GDV forecasts for the German insurance industry as a whole predicted that premium income would remain stable and therefore unchanged compared with 2014. However, gross premiums written in direct casualty and property insurance business rose by 2.6 percent (projected). The reasons included increases in the sums insured and some extension of the cover in property insurance. In legal insurance, there was even stronger growth in premiums at around 3.5 percent, although premium growth in health insurance was only 1.5 percent. Life insurance continued to operate in tough conditions. This segment faces the difficult challenge of continuing to generate a guaranteed rate of return despite the persistently low interest rates. According to the GDV, the life insurance segment was likely to post a decline in premiums of 1.9 percent.

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

Business performance

ARAG SE significantly expanded its volume of business in the year under review. Gross premium income rose by 5.3 percent from €727.5 million to €766.1 million. The reasons behind the premium growth were the lasting upturn in German legal insurance business, which resulted in a substantial rise in premiums, and a further significant increase in premium income from international business. In the case of the latter, ARAG performed very well, especially in Spain, Italy, Greece, and the Netherlands. In Belgium, premiums remained unchanged with the Company managing to maintain its position in a flatlining market.

Of the total premium income, €594.4 million (2014: €567.7 million) was derived from direct business. After deducting casualty and property insurance business of €41.7 million (2014: €39.0 million) generated by two branches, the portion attributable to direct legal insurance business amounted to €552.7 million (2014: €528.7 million). The gross premiums written in the German market rose substantially from €291.4 million to €308.9 million, up by 6.0 percent year on year. The upswing in the German legal insurance market was thus consolidated. Since 2013, ARAG has seen constant growth in premiums in this market. After reinsurance premiums and unearned premiums, the remaining net premiums earned for all business amounted to €756.1 million compared with €723.3 million in 2014.

Despite the expansion in the volume of business, claim payments fell to 52.2 percent of premiums earned (2014: 52.4 percent). The overall claims ratio declined from 55.7 percent in 2014 to 52.9 percent in the year under review because of the favorable trend in claims in both Germany and the other markets. Claims incurred amounted to €400.1 million compared with €403.0 million in 2014.

Insurance business operating expenses rose from 44.4 percent in 2014 to 45.6 percent in the reporting year. This increase was largely attributable to the greater volume of business and the associated commissions together with a rise in the headcount. There was also a substantial impact from the rise in pension and other post-employment benefit expenses as the low level of interest rates resulted in a sharp drop in the discount rate applied to the defined benefit obligations. After taking into account the other underwriting income and expenses (net income of €1.4 million), the underwriting result for own account before equalization provision showed a very significant year-on-year improvement to a profit of €12.8 million compared with just a small profit of €0.6 million in 2014. A total of €1.6 million was added to the equalization provision in respect of the travel insurance business in Spain and Italy and the inward legal reinsurance business in a number of countries.

After the addition to the equalization provision, the underwriting result amounted to a profit of €11.3 million following a profit of €0.4 million in 2014. The net gains generated from investments (after deducting the corresponding expenses) contributed €71.6 million (2014: €77.3 million) and were therefore in line with forecasts. The year-on-year decline was mainly attributable to gains on disposals in 2014 when the portfolio of investments was restructured and to write-downs of institutional funds combined with a fall in investment income in the year under review.

As a consequence of the rise in the pension and other post-employment benefit expenses, other net income/expense amounted to a net expense of €39.3 million, which was higher than the equivalent figure of €35.8 million in 2014, as expected. Overall, ARAG SE improved its profit before taxes from €41.9 million to €43.6 million.

After deduction of the tax expense, net income for the year amounted to €23.0 million compared with €27.5 million in 2014.

Financial performance by source country

Performance in Germany

Direct insurance business In the German legal insurance market, gross premiums written in direct business grew by 6.0 percent year on year. Gross premiums amounted to €308.9 million compared with €291.4 million in 2014. After deduction of reinsurance premiums and the change in unearned premiums, net premiums earned came to €305.1 million (2014: €291.2 million).

Claim payments in the year under review rose by 4.8 percent from €178.8 million to €187.4 million, mainly as a result of the growth in business volume and higher attorney and court fees, these fee increases having come into effect on August 1, 2013. Claims incurred rose by 3.0 percent to €203.6 million in the reporting year. A significant factor in addition to the greater volume of claims arising because of the growth in the insurance portfolio was also the provision for losses that could arise in connection with the emissions issue affecting VW diesel vehicles. Nevertheless, the claims ratio for 2015 (gross) at 66.7 percent was below the equivalent 2014 figure of 67.9 percent. A total of 419,003 claims (2014: 407,936 claims) were reported in the year under review, a year-on-year rise of 2.7 percent.

Reinsurer's shares amounting to €0.1 million (2014: income of €0.2 million) were recognized in 2015. The remaining recognized claims incurred came to €187.4 million as against €183.6 million in 2014. The claims ratio based on the recognized claims incurred was 61.4 percent compared with 63.1 percent in 2014.

Gross insurance business operating expenses rose from €127.2 million in 2014 to €139.7 million in the reporting year. As expected, commissions went up by 5.6 percent in 2015 from €70.2 million to €74.1 million in line with the increase in premiums. Other primary administrative expenses (before cost allocations) increased in the year under review from €157.7 million to €170.9 million. The main contributing factors behind this increase were rises of €4.1 million in wages and salaries and €5.0 million in pension and other post-employment benefit expenses. The latter was caused by the fall in the discount rate applied to the defined benefit obligations, a consequence of the period of persistently low interest rates. As a result of the trends described above, the cost ratio rose from 43.7 percent in 2014 to 45.9 percent in the year under review.

Given the increase in the claims incurred and the greater acquisition and administrative expenses, the underwriting result before equalization provision in the direct insurance business deteriorated from a loss of €18.4 million in 2014 to a loss of €20.7 million in 2015.

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

Inward reinsurance business In Germany, the Company takes on inward reinsurance business from its subsidiary in the US and from third parties in the United Kingdom under five reinsurance treaties. Net premiums amounted to €21.9 million compared with €21.3 million in 2014. After taking into account claims incurred of €22.2 million (2014: €21.6 million) and administrative expenses of €1.1 million (2014: €1.0 million), this led to an underwriting loss before equalization provision of €1.4 million (2014: €1.4 million).

A sum of €0.2 million was added to the equalization provision. The underwriting result for the inward reinsurance business amounted to a loss of €1.6 million (2014: €1.4 million).

Non-underwriting result

The sustained expansionary monetary policy pursued by the European Central Bank (ECB) and the Japanese Central Bank, together with the rather hesitant upward shift in interest rates by the US Federal Reserve, affected current income from securities because interest rates on low-risk investments persisted at a low level. Nevertheless, ordinary income from investment fund shares/units climbed from €14.7 million in 2014 to €20.8 million in the year under review. Interest-related income from reversals of write-downs amounting to €8.6 million that had been recognized in 2014 was not present in 2015. Instead, the Company recognized price- and interest-related write-downs on institutional fund shares/units of €9.4 million. Current income of €2.7 million was generated from property. This represented an increase compared with 2014 (€2.3 million), attributable to the fact that the direct real estate portfolio was expanded as a result of a merger with a subsidiary.

Dividend income in the year under review was up by €5.4 million year on year on the back of the sound performance of equity investments in the US, UK, and Switzerland. The profit transferred from ARAG Allgemeine Versicherungs-AG amounted to €15.0 million, which was below the equivalent prior-year figure of €23.9 million. The decline was caused by the adverse impact of the persistently low interest rates on gains and losses on investments at ARAG Allgemeine Versicherungs-AG, which nonetheless made a considerable contribution to earnings and was able to maintain its position as an attractive and growing provider of casualty and property insurance in a competitive market.

In addition to the write-downs of institutional fund shares/units described above, write-downs of €0.3 million were recognized on shares in affiliated companies, whereas in 2014 write-downs of €18.9 million had been recognized in respect of equity investments and loans. In 2015, losses totaling €0.8 million arose on the disposal of property and on the sale of fixed-income securities. Net gains on investments came to €54.3 million, which was higher than the prior-year net gains of €48.9 million despite the unfavorable conditions in capital markets.

Ordinary gains and losses on investments – after deduction of the expenses for the management of the investments – amounted to a net gain of €60.8 million and led to an average overall yield of 5.8 percent (2014: 5.5 percent).

Other net income/expense came to a net expense of €37.4 million, higher than the net expense of €34.6 million reported in 2014.

The other net income/expense figure includes the offset income and expense from the provision of services to Group companies and expenses to which income cannot be directly assigned, such as the addition of interest to the pension provision, Supervisory Board and Advisory Council remuneration, year-end costs, and the interest expense on subordinated liabilities.

Net extraordinary income/expense

No extraordinary income or expense was recognized in 2015.

Taxes

Income taxes also include the impact on net income from deferred taxes in accordance with section 274 of the German Commercial Code (HGB) as amended by the German Accounting Law Modernization Act (BilMoG). The net income in 2015 reflected not only the tax expense arising on the profit before taxes generated by ARAG SE – including the profit on the tax base from ARAG Allgemeine Versicherungs-AG and Interlloyd Versicherungs-AG transferred under profit transfer agreements – but also the expense arising from the change in deferred taxes amounting to €4.6 million (2014: €4.1 million). Current taxes amounted to an expense of €6.2 million and were attributable in full to prior years. Taking into account other taxes, the total tax expense came to €11.9 million compared with €6.6 million in 2014.

Net income/loss for the year, Germany

The net loss for the year generated by the German business of ARAG SE amounted to €17.3 million (2014: €12.0 million).

Branch performance

Together with the operating corporate management, the eight European branches form an integral part of ARAG SE. The branches generated gross premium income of €435.3 million (2014: €414.8 million). The branches accounting for the highest level of premiums written were ARAG Netherlands with premiums written of €133.6 million (2014: €131.0 million), ARAG Spain with €107.9 million (2014: €99.1 million), and ARAG Italy with €106.4 million (2014: €98.7 million). The premiums earned for own account amounted to €429.1 million (2014: €410.9 million). The growth in gross premiums was 4.9 percent, achieved as a result of the transfer of a portfolio in Spain, inward reinsurance business in Italy, and the focused refinement of insurance policies, services, and sales channels. With claims incurred at €190.4 million (2014: €197.8 million) and insurance business operating expenses at €204.0 million (2014: €192.9 million), the claims ratio was 44.4 percent (2014: 48.1 percent) and the cost ratio 47.5 percent (2014: 46.9 percent). Including other underwriting income and expenses of €0.1 million, the underwriting result before equalization provision generated by the international legal insurance business amounted to a significantly improved profit of €35.0 million (2014: €20.4 million). After an addition to the equalization provision of €1.4 million (2014: €0.2 million), the remaining underwriting result for own account also came to a substantially higher profit of €33.6 million compared with the equivalent figure in 2014 of €20.2 million.

The investments assigned to the branches generated a total net gain on investments of €17.3 million (2014: €28.3 million). The prior-year figure had included gains on disposals amounting to €13.3 million arising from the reorganization of investments. Other net income/expense amounted to an expense of €1.9 million (2014: expense of €1.2 million). The ordinary activities of the branches therefore once again generated a significant surplus of €49.0 million (2014: €47.3 million). Including deferred taxes, the tax expense came to €8.7 million (2014: €7.8 million). The net income for the year of €40.2 million (2014: €39.5 million) generated by the European branches made an important contribution to the overall net income of ARAG SE.

Net income for the year

In the year under review, the financial performance of ARAG SE continued to be adversely affected by the impact of higher attorney and court fees in Germany, which had come into effect on August 1, 2013. Insurance business operating expenses in Germany, Spain, and Austria also increased as a result of the fall in the discount rate applied to the liabilities for pensions and other post-employment benefits, caused in turn by the persistently low interest rates. Investment in the headquarters and in the individual branches was reflected in higher staff expenses. The significant expansion in the volume of business coupled with the favorable trend in claims in international markets meant that the underwriting result once again improved considerably in the reporting year, amounting to a profit of €11.3 million (2014: €0.4 million) after the addition to the equalization provision, for which €1.6 million (2014: €0.2 million) was recognized in 2015.

The net gains on investments (after deducting the corresponding expenses) came to €71.6 million (2014: €77.3 million). The year-on-year decline arose because the prior-year figure had included disposal gains arising from restructuring in the portfolio of investments and reversals of write-downs on institutional fund shares/units and because income from equity investments declined in the year under review. The net expense reported under other net income/expense was also higher than the equivalent net expense reported in 2014. This figure reflected the increase in expenses for pensions and other post-employment benefits as described above and a falling margin in the insurance brokerage business. The profit before tax amounted to a total of €43.6 million, exceeding the 2014 figure of €41.9 million by 4.1 percent.

After deduction of the tax expense, net income for the year amounted to €23.0 million (2014: €27.5 million). The tax expense rose largely as a consequence of the change in deferred taxes and adjustments in line with the findings of tax audits in Germany.

After taking into account the profit carried forward from 2014, the net retained profit to be presented to the Annual General Meeting for a decision on appropriation is €23.0 million.

Financial position

The objective of the management of financial resources is to ensure that the Company holds adequate capital resources and manages its liquidity such that it is able to satisfy its obligations arising from the insurance business at all times and to exceed, rather than simply satisfy, the regulatory requirements concerning the capital adequacy of insurance entities. The subordinated liabilities reported on the balance sheet were eligible as own funds in accordance with section 91 of the German Insurance Supervision Act (VAG) in the version prior to its most recent amendment. These subordinated liabilities comprise a registered bond with a value of €30.0 million and maturing July 29, 2024.

The changes in own funds and technical provisions in 2015 compared with 2014 were as follows:

Own funds and technical provisions

(€ million)	**Dec. 31, 2015**	**Dec. 31, 2014**
Subscribed capital	100	100
Capital reserves and revenue reserves	283	270
Net retained profit not appropriated for dividends	8	13
Equity	**391**	**383**
Subordinated bond	30	80
Own funds	**421**	**463**
Technical provisions	**1,257**	**1,234**
Own funds and technical provisions	**1,678**	**1,697**

Cash flow statement

(€)	2015	2014
Cash flows from operating activities		
Profit for the period	22,963,455	27,502,677
Increase (+)/decrease (–) in technical provisions, net	23,251,307	32,784,031
Increase (–)/decrease (+) in deposits with ceding insurers and in receivables from reinsurance business	–17,328,353	–10,868,835
Increase (+)/decrease (–) in deposits from reinsurers and liabilities from reinsurance business	–1,652,946	1,563,928
Increase (–)/decrease (+) in receivables from direct insurance business	914,254	–298,144
Increase (+)/decrease (–) in liabilities from direct insurance business	–324,480	–2,651,848
Increase (–)/decrease (+) in other receivables	7,374,752	5,673,503
Increase (+)/decrease (–) in other liabilities	6,005,930	–906,700
Change in other balance sheet items not related to investing or financing activities	30,017,821	–52,755,145
Other non-cash income and expenses, and adjustment of the profit for the period	17,983,055	19,306,935
Gain (–)/loss (+) on the disposal of investments, property and equipment, and intangible fixed assets	–2,697,168	–14,934,029
Expenses for/income from extraordinary items	0	0
Income tax expense/income	19,101,082	13,739,005
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Income taxes paid	–18,896,762	–13,119,107
Cash flows from operating activities	**86,711,948**	**5,036,271**
Cash flows from investing activities		
Proceeds from disposal of property and equipment	1,078,070	7,054,443
Proceeds from disposal of intangible fixed assets	745,993	33,304
Payments to acquire property and equipment	–4,702,910	–7,476,108
Payments to acquire intangible fixed assets	–7,078,074	–3,392,753
Proceeds from disposal of investments related to fund-linked life insurance	0	0
Payments to acquire investments related to fund-linked life insurance	0	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Cash flows from investing activities	**–9,956,921**	**–3,781,114**
Cash flows from financing activities		
Proceeds from capital contributions by shareholders	0	0
Cash payments to shareholders from the redemption of shares	0	0
Cash receipts from extraordinary items	0	0
Cash payments for extraordinary items	0	0
Dividends paid	–15,000,000	–15,000,000
Proceeds (+)/cash payments (–) related to other financing activities	–50,000,000	30,000,000
Cash flows from financing activities	**–65,000,000**	**15,000,000**
Net change in cash funds	11,755,026	16,255,157
Effect on cash funds of exchange rate movements and remeasurements		
Cash funds at beginning of period	73,262,824	57,007,667
Cash funds at end of period	**85,017,850**	**73,262,824**

Net assets

Investments The breakdown of investments, which contracted by €23.1 million or 1.4 percent to €1,685.9 million in the year under review, was as follows:

Investments breakdown

(€ million)	Dec. 31, 2015		Dec. 31, 2014	
Land and buildings	101.2	6.0 %	96.6	5.7 %
Affiliated companies and equity investments	236.1	14.0 %	232.3	13.6 %
Lending to affiliated companies	2.5	0.1 %	3.2	0.2 %
Equities and investment fund shares/units	614.6	36.5 %	590.2	34.5 %
Bearer bonds	300.1	17.8 %	332.1	19.4 %
Loans secured by mortgages or land charges and fixed-income receivables	4.8	0.3 %	5.4	0.3 %
Registered bonds	149.5	8.9 %	120.5	7.1 %
Promissory notes, loans	218.0	12.9 %	205.0	12.0 %
Other lending	0.1	0.0 %	0.1	0.0 %
Bank deposits	17.7	1.1 %	86.2	5.0 %
Other investments	5.2	0.3 %	7.1	0.4 %
Deposits with ceding insurers	36.1	2.1 %	30.3	1.8 %
Total	**1,685.9**	**100.0 %**	**1,709.0**	**100.0 %**

Pursuant to section 341b HGB, equities and investment fund shares/units with a carrying amount of €582.2 million (December 31, 2014: €549.0 million) had been classified as fixed assets as of the balance sheet date. Bearer bonds with a value of €15.1 million (carrying amounts) were treated as fixed assets, as had also been the case in 2014.

The fair value of investments as of December 31, 2015 amounted to a total of €2,143.9 million compared with €2,097.3 million as of December 31, 2014. After taking into account the premium and discount amounts recognized under prepaid expenses and accrued income and under deferred income and accrued expenses in connection with the securities recognized at nominal value in accordance with section 341c HGB, the valuation reserves therefore amounted to €457.9 million as of the balance sheet date (December 31, 2014: €388.4 million).

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

Non-financial performance indicators

The ARAG Group has set out its self-image very clearly in its corporate guidelines: ARAG is the internationally successful, innovative quality insurer – independent and family-owned. For more than 80 years, the business concept has been based on the aim of establishing equality of opportunity. Accordingly the ARAG Group helps its customers create scope to make personal choices – at all stages of their lives. Based on innovative insurance products and beneficial services, ARAG minimizes the risks faced by its customers, so that customers can concentrate entirely on the opportunities available to them, leading an active, independent life. This is also clearly reflected in the brand tagline 'ARAG. Dive into Life'. The new section with the same title on the website at www.ARAG.de and the advertisements launched in 2015 on the Internet and in movie theaters therefore highlight people who are pursuing their ideas and convictions. The approach focuses on individuals achieving independence and self-fulfillment with carefree enjoyment. This communications campaign has been a big success and for the first time has enabled ARAG to use a measurable method to reach mainly younger target groups effectively.

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

Innovation Over 80 years, the ARAG Group has developed into a successful international provider of high-quality insurance. Today, ARAG is not only the largest family enterprise in the German insurance industry but also one of the world's three leading providers of legal insurance. With operating activities in a total of 15 European countries and in the US, the Group is a leader in many international markets based on its legal insurance and legal services. For these reasons, the continuous refinement of the product portfolio and the creation of innovative, beneficial legal insurance products and services for customers are of critical importance, both in Germany and in the international business. Once again in 2015, ARAG was able to take the lead in significant areas of the market.

The most obvious example of this in the year under review was the newly launched Internet policy ARAG web@ktiv Plus. Thanks to the creative and unique benefit modules of this policy, the product was chosen as the winner in the 'Insurance' category of Deutscher Kunden-Innovationspreis 2015, a German award for creative, customer-oriented product and service solutions. ARAG successfully launched ARAG web@ktiv back in 2012, becoming the first legal insurer to establish special insurance cover for Internet users in the German market. This product also received an innovation award. ARAG web@ktiv Plus is an enhanced variant but its features are not simply limited to improved legal insurance benefits. Cyber protection also provides compensation in the event of criminal activity on the Internet. This benefit is offered in collaboration with ARAG Allgemeine, the provider of casualty and property insurance in the Group, and covers losses of up to €3,000 per event subject to a maximum of €10,000 per year of insurance, for example if goods are purchased online, paid for in advance but never delivered. Innovations in the new policy also include emergency psychological assistance by telephone in the event of cyberbullying.

During the course of 2015, ARAG's tried-and-tested full legal insurance product, ARAG Aktiv-Rechtsschutz, was enhanced to include further attractive product components. One of the main features in the premium version is inheritance legal insurance. ARAG's inheritance legal insurance can be called upon, for example, in the event of disputes with joint heirs or if a will is to be challenged in an inheritance case. The multi-featured insurance product had already benefited from further enhancements in

2014 when home-builder risk was included in the premium version – a first in Germany. This innovative benefit earned the ARAG Aktiv-Rechtsschutz Immobilie Premium product a Golden Bull award from German financial publisher Finanzen-Verlag. The ARAG product was ranked second in the 'Insurance innovation of the year' category. TÜV Saarland awarded ratings to the basic, superior, and premium versions of the Aktiv-Rechtsschutz product, with the basic version being classified as 'good', and the superior and premium versions as 'very good'.

In the year under review, ARAG developed its new unemployment protection product, which was then launched on the market at the beginning of 2016. Private customers are now able to add this optional benefit component, which is provided by ARAG Allgemeine, to their ARAG Aktiv-Rechtsschutz policies and enjoy cover for loss of income suffered through no fault of their own. The cover protects customers against financial loss in the event of unemployment as a result of compulsory redundancy.

ARAG is a forward-looking, customer-oriented insurer and in the year under review also developed and implemented a number of new digitalization-related service innovations. Following favorable experience in the German market, ARAG began to develop and expand online sales in its international markets in 2015. The first activities in this regard were launched in Spain and Italy.

ARAG continued to expand its online services in the German market. These services include online claims tracking for legal insurance customers and customers of casualty and property insurer ARAG Allgemeine. This service has also been available to attorneys since September 2015. This practical tool – which is new to the insurance industry – allows customers and attorneys one-click access to information on the status of a claim. Since October 2015, ARAG customers have also been able to request a cellphone text message containing the claim number and an appropriate link to the claim tracking tool.

At the beginning of 2015, a customer advice app was launched as part of the Core Sales activities in Germany. This app markedly improves the quality of advice provided during the interaction with the customer. For both customers and sales partners, the app offers an ideal way of drawing up a precisely tailored overview of each customer's needs. The ARAG advice app has been very well received by a broad cross-section of users in Core Sales activities.

Tele-underwriting via video chat is another digital innovation. Previously an underwriter had to make a special visit to the customer before writing particular types of insurance, such as very high-value contents insurance. Now the underwriter can use video chat to receive the images needed for an assessment from the iPad of the relevant ARAG sales employee. The customer is thus provided with the service quickly and with minimum fuss. The response to this new service has been good, as has that for LiveChat at www.ARAG.de. In the latter service, the customer communicates online with a 'real' employee rather than, as is normally the case elsewhere, a machine. The number of users is high and rising steadily.

In 2015, further development work was also carried out on a number of new digital solutions, products, and services in the Group. These included the alternative payment system via credit card or PayPal, which was then introduced in 2016, ARAG once again pointing the way forward as one of the trailblazers in the German insurance industry.

Products As an innovative provider of high-quality insurance, ARAG focuses on both the creation of completely new products and services and the systematic, continuous expansion of the existing portfolio.

Following this approach, ARAG has completely revised its legal insurance for motorists and addressed the issue of mobility from an entirely new perspective. ARAG customers therefore not only have insurance for their cars and as pedestrians, but now also when they use the latest means of conveyance such as Segways or electric bikes. The policy has been available since the beginning of 2015 in three versions (basic, superior, and premium) and can be extended to include a special service package from ARAG Allgemeine. Private customers can choose between the classic Top Special Service Package and the new special service package for vehicles. For the self-employed, a new vehicle special service package has been made available. German consumer organization Stiftung Warentest has rated the Aktiv-Rechtsschutz Verkehr premium product as 'very good' (1.5), and the superior product as 'good' (1.6).

Further products and services were developed during the year under review and then launched on the market at the beginning of 2016. These included the new employment legal insurance for pensioners and retirees. This new component, available in superior and premium versions, provides insurance in respect of employment contracts that supplement a pension. The ARAG Aktiv-Rechtsschutz premium product for the self-employed was also enhanced in a meaningful way. Customers can now benefit from the advantages of limited business agreement legal insurance in the form of Receivables Management Plus. Under this extension, disputed receivables are now also covered: in connection with receivables management, ARAG will insure costs of up to €3,500 per agreement term, subject to a minimum disputed value of €1,000.

ARAG SE also performed impressively in international markets in 2015 via its branches, subsidiaries, and equity investments thanks to numerous innovative, beneficial product and service ideas. Together with its largest partner, ABN Amro, ARAG's Netherlands Branch designed and launched a new legal insurance product for private customers. This product achieved the top score in a test of products and services carried out by the Dutch Consumers' Association. Since 2015, ARAG Netherlands has also gradually been adapting its range of products. The reason for this was a judgment issued by the European Court of Justice relating to the free choice of attorney. As a consequence, ARAG legal insurance customers can now choose between an external attorney and an internal ARAG attorney in connection with a claim. Customers can also choose from three different limits when taking out a policy. Work on switching over the entire portfolio was started in 2015, beginning with legal insurance for private and commercial customers.

ARAG Italy, which celebrated its 50th anniversary in 2015 together with ARAG Belgium, developed a new version of its Small and Medium Enterprises (SME) legal insurance product in the year under review. The product was scheduled to be launched in May 2016. In addition, ARAG SE's Italy Branch introduced its special 'Quadri e Dirigenti' legal insurance for managers in November 2015. The product had previously been available in two different versions, but now comes in one version with new benefits and cover. Developments at ARAG Austria in the year under review included a revision of its legal insurance product for private customers and the addition of a new scale of charges.

At the beginning of 2015, the Norwegian ARAG subsidiary HELP Forsikring AS also launched a new SME legal insurance product. In addition, it developed and introduced an Internet protection product in the form of 'WebHelp'. This product concept is similar to the successful ARAG web@ktiv product in Germany. ARAG SE commenced its operations in Denmark on October 1, 2015 through its Norwegian subsidiary. To this end, HELP Forsikring is working in collaboration with Skandia Group Denmark, through which suitable legal insurance products are offered.

Employees, employee skills and qualifications ARAG SE relies on a skilled and highly motivated workforce in Germany and in its international markets to ensure that it delivers on its value proposition. At the end of 2015, ARAG SE had a total of 1,058 (December 31, 2014: 1,022) employees in Germany. The branches in other European countries employed a further 1,335 (December 31, 2014: 1,286) people. Alongside vocational training, ARAG attaches huge importance to the skills, qualifications, and professional development of its workforce. ARAG intends to remain one of the best insurers in the market. ARAG operates a web-based skills and qualifications platform known as ARAG IQ enabling all employees to keep their knowledge and capabilities up to date. The platform has recently been completely revamped from both technical and content perspectives to provide even better access to the various services and enable all professional development needs and implemented activities to be recorded centrally. This includes classroom-based seminars and training sessions as well as e-learning. The content is wide-ranging and includes executive programs, courses on personal and social skills, project management training, coaching, and foreign languages.

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

A fundamental factor in the successful performance of the entire ARAG Group is the targeted internationalization of the business. The growing cross-border integration of corporate units is also playing a key role in this development. An international professional development program referred to as ARAG INTandem was launched in February 2015 with a view to systematically expanding this integration and embedding it in the Group. This strategy also impressed the judges of the InnoWard training award presented by BWV, the German insurance industry's vocational training organization. ARAG INTandem was awarded third prize.

The ARAG Sales Training unit ensures that continuous, high-quality skills development is provided for ARAG partners in the field sales force. This unit offers a broad range of needs-based seminars covering the entire spectrum of knowledge related to sales and the performance of ARAG products.

ARAG Essentials The revision of the ARAG Essentials in 2014 included the development of a multifaceted communications concept for these new groupwide corporate guidelines. This strategy included the ARAG Essentials online tool at www.ARAG.com and meetings throughout the Group to communicate these guidelines. In these meetings covering self-image, corporate mission, and values, the units came up with many suggestions for everyday use, some of which could be implemented immediately. The ARAG Essentials online tool enables users to explore the world of ARAG Essentials in a virtual environment and find out more about the various ARAG locations. The tool is accessible to both the employees and external users on the Group's website at www.ARAG.com, and is available in all the languages used in the Group. The mandatory ARAG Leadership Guidelines, which are derived from the ARAG Essentials, are currently set to be revised.

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

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

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

Codes of conduct for sales With effect from July 1, 2013, all the German companies in the ARAG Group signed up to the new GDV code of conduct for insurance sales. This code represents a clear industry commitment to more consumer protection, better quality of advice, development of skills and qualifications for agents, and transparent, mandatory rules for dealing with customers. It thereby establishes the foundations for strengthening trust and confidence throughout the entire area of insurance broking. It is now mandatory for ARAG companies to impose a requirement on the agents in the Core Sales and Partner Sales operations to comply with the code. Long before any of the companies signed up to the code, a number of basic steps had already been implemented as part of the ARAG 'Red Thread' advisory approach in Core Sales; furthermore, the promise that customers will receive high-quality products and services is in any case an essential component of ARAG's positioning as a high-quality insurer. In ARAG Partner Sales, very close attention is paid to ensuring that, in the collaboration with brokers, the fundamental rules laid down by the broker associations also correspond to the provisions in the GDV code of conduct.

The GDV code of conduct provides for an appropriateness test to be carried out by an independent auditor. All five ARAG companies successfully underwent this test and published the following on the GDV website by the required deadline in the first half of 2015: a description of the compliance management system that served as the basis for the test and the positive audit report from the independent auditors, PricewaterhouseCoopers. The appropriateness test is carried out every two years and examines whether internal corporate rules reflect the regulations in the code. This approach ensures a high degree of commitment and self-monitoring.

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

ARAGcare is aimed at supporting the personal health of employees. The tried-and-tested components include health checks, diverse company sports activities, regular preventive medical services, and health courses. One of the main features of these expanded services is a reorganized return-to-work and disability management system, which is now run by an external partner. In the year under review, greater emphasis was also given to the second pillar of ARAGcare: work/life balance. To this end, ARAG underwent a comprehensive third-party audit with the aim of developing and embedding a sustainable HR policy that takes into account family requirements and stage of life. Targets were drawn up and set during the course of this project and the 'audit berufundfamilie' certification is accompanied by an obligation on the Company to achieve these targets by 2017. In the reporting year, numerous topics and action plans arising from the gender diversity project, which had been completed on schedule in 2014, were continued as part of the work/life balance project. Initial action plans from the projects are already being implemented. Examples include action in connection with part-time management and the expansion of teleworking and working from home.

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

The Management Board has set a target for the proportion of women at the first management level below the Management Board of 11 percent and a target at the second management level of 25 percent, in both cases to be achieved by June 30, 2017. Both targets represent an increase compared with the current position. The Supervisory Board has set the following targets for June 30, 2017 in respect of the proportion of women: 11 percent on the Supervisory Board and 0 percent on the Management Board. These two targets are the same as the current percentages for these governing bodies.

Corporate social responsibility ARAG is a family enterprise. As a consequence, ARAG attaches a huge amount of importance to the interconnection between corporate and social responsibility. The independence that ARAG enjoys as a family enterprise means that the assumption of responsibility becomes even more significant because it is incumbent on the ARAG Group to use this independence responsibly.

Since March 2014, ARAG has therefore been successfully offering its innovative development project known as Conflict Management in Schools. Supported by the North Rhine-Westphalia Ministry for Education and Schools, this program is offered to all high schools in the German state of North Rhine-Westphalia. The pilot project, in which the first training cycle was completed in February 2015, involved a total of 76 teachers, specialists in educational social work, and parents from 21 general education schools and vocational colleges in different school districts of North Rhine-Westphalia. At a presentation ceremony attended by Sylvia Löhrmann, the Minister for Education and Schools in North Rhine-Westphalia, the program graduates received their certificates, confirming that they had reached the standards specified by the German Federal Mediation Association. In the second training cycle, which ended in late summer 2015, a total of 69 school mediators received their certificates. The project will be carried out annually at up to 30 additional schools, initially until mid-2017. The project focuses on the introduction of universal quality standards for conflict management structures, preventive measures, and intervention techniques. Teachers, parents, specialists in educational social work, and educational psychologists are trained as school mediators, who then later train school students as conflict controllers. The project has received certification under the name 'ARAG Mediators' from the Clinton Global Initiative (CGI) as a 'Commitment to Action'.

Another key area of activity is the Internet. It is changing and affecting the lives of people around the globe – including to a large degree the lives of children and young people – but is also bringing risks. Suitable prevention is important to avert these risks. ARAG SE has a comprehensive range of prevention experience and believes that important areas of prevention lie in the long-term development of media skills and in the provision of information and education, as well as the raising of awareness, about the consequences of bullying. Two studies have been carried out jointly with the German Anti-Cyberbullying Alliance. In the 'Cyberlife' study in 2013, around 10,000 school students, teachers, and parents were questioned about cyberbullying and violence on the Internet; the new findings were processed and made available to the general public. The second study, 'Bullying and cyberbullying among adults', in 2014 underlined how important this issue is for adults too. Since October 2015, ARAG and the Institute for Cyberpsychology and Media Ethics in Cologne have been carrying out an empirical survey of academics and experts in the field of cyberpsychology and media ethics in Italy, the Netherlands, Norway, Poland, Spain, the UK, and the US. The aim of this international study is to investigate how the phenomenon of cyberbullying is handled in the individual countries. It is planned to publish the results early in the summer of 2016.

Corporate social responsibility at ARAG also extends to the provision of specific support for the German Children and Youth Foundation (DKJS). For 20 years, this charity has been operating projects and programs throughout Germany, helping children and young people have the courage to take control of their lives and play a role in society. This approach is a perfect match for ARAG's definition of corporate responsibility – and also fits in well with its current commitments. Since 2014, ARAG has been supporting the DKJS as a program partner, helping to raise awareness among children and young people about the challenges presented by cyberlife and the risks from cyberbullying. The partnership has been set up initially for three years.

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

ARAG SE thanks its customers for the trust they have placed in the Company. ARAG SE is also grateful to the employees in sales administration and field sales for their commitment and the motivated implementation of the new requirements. Thanks are also due to the Works Council for the constructive and collaborative relationship that we enjoy.

Solvency

Under the provisions in section 53c (1) VAG applicable up to December 31, 2015, all insurance companies had to maintain uncommitted own funds in an amount not less than the solvency margin to ensure that their liabilities under insurance contracts could be met at all times. The Solvency II rules came into force on January 1, 2016. In accordance with section 40 of the VAG applicable from January 1, 2016, a solvency and financial report will have to be published in the future no later than 14 weeks after the end of the financial year. This report must explain the solvency position in a manner that is understandable to the general reader. Insurance groups must also ensure at group level that the solvency margin is covered by eligible own funds and that these funds are appropriately allocated in the group. Evidence of compliance with the solvency requirements is submitted as a minimum once a year on the balance sheet date to the German Federal Financial Supervisory Authority (BaFin).

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

As of December 31, 2015, ARAG SE's coverage of the statutory requirement for the solvency margin in accordance with the solvency regulations previously in force declined from 343 percent to 311 percent.

III. Report on Post-Balance Sheet Events

There were no events of particular importance after the end of the financial year.

IV. Dependent Company Report

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

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

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

"In accordance with the circumstances known to us at the time the legal transactions were undertaken or the activities were carried out or omitted, our Company received an appropriate consideration for each legal transaction. Other than the activities listed, the Company did not carry out or omit any other reportable activities. Our Company did not incur any disadvantage from the activities carried out at the instigation of or in the interests of the controlling entity or its affiliated companies."

V. Outlook, Opportunity and Risk Reports

Outlook

ARAG SE operates in Germany, 14 other European countries, and in the US. Given the strong international focus of the Company, economic trends in Europe and North America in particular have an impact on the business performance of ARAG SE.

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

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

The upswing in the German economy will continue to be sustained over the coming year by the rise in consumer spending. Although the positive effects on real income from the drop in energy prices will probably evaporate at the start of 2016, the sustained strength of the labor market is likely to lead to a marked increase in employment and to significant pay rises. Stronger growth in the German economy over the coming year will be hampered by the economic downturn in emerging markets. A persistent slowdown in these markets, particularly in China and commodity-exporting countries, represents a risk to German growth. On top of this, the export stimulus derived from the sharp fall in the value of the euro will probably diminish over the coming year. Overall, it would be reasonable to expect inflation-adjusted growth in German gross domestic product (GDP) to be around 1.6 percent in 2016. However, inflation-adjusted GDP growth per inhabitant is likely to be considerably lower at 1.1 percent as a consequence of the high level of net inward migration. The balance of trade will not provide any appreciable impetus for economic growth. Consumer spending will be the greatest contributor to the rise in GDP. In view of the substantial expansion in production, there is likely to be further improvement in the labor market. The number of people in employment is predicted to rise by more than 300,000 in 2016; average unemployment figures over the year are likely to be around 2.89 million. The rate of inflation is forecast to rise again in 2016 because there will be no further fall in energy prices. However, the rate is expected to remain well under 2 percent.

The insurance industry will not remain unaffected by the above trends. The latest GDV forecasts take into account the fact that one of the major features of the current macroeconomic conditions is heightened uncertainty, caused, for example, by necessary adjustments following the global financial crisis and by geopolitical risks. Any change in the projected economic growth could therefore also have an impact on business trends in the insurance industry.

Insurers continue to be faced by challenges caused by an unmistakable trend toward fiercer competition. The growing integration between domestic and international insurance markets is also intensifying competition in the German insurance market.

As in prior years, other action priorities include the increasing differentiation between customer groups and the need to respond to demographic change. In addition, continuous shifts in insurance markets are being brought about by changes in the product landscape, some of which (such as unisex rates or the pluralization of sales structures) are far-reaching.

One transformation that is clearly becoming increasingly important is the digital revolution. The digitalization of the financial sector has already reached the rather conservative insurance industry. Increasing numbers of insurers are using social networks. Many businesses are also focusing on apps to simplify interaction with their customers. Another popular move is to equip field sales staff with mobile devices. Other technologies such as telematics are beginning – at least in selected European markets – to have an impact on the realignment of product and pricing policy. What is missing however is the integration of these developments into one overarching, cross-functional approach. The developments are frequently a reaction rather than being based on an analysis of customer needs. Furthermore, only seldom do they cut across the traditional boundaries between the individual sales and communication channels. Such an overarching approach is, however, critical to being able to address the fundamental changes in customer behavior in the digital age. Online business models will therefore no longer simply be a vehicle for accessing particularly price-sensitive customers but will become an integral component – configured for maximum ease of use – in the range of services provided by each and every insurance company.

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

Overall, ARAG SE is on a steady, profitable growth trajectory. The sound business performance will also be sustained over the coming years. ARAG SE will be able to generate growth, both in Germany and abroad, while maintaining its excellent operating results from the underwriting business. The advance of digitalization is also likely to lead to further business growth via online channels. The Company believes that digitalization offers a huge opportunity for robust expansion of contact with existing and new generations of customers. With a view to achieving its growth targets, ARAG will attach greater importance to the process of digitalization. When online channels are used, the Company can effectively level out the structural advantages of the insurance groups that dominate the market by virtue of their size. On the Internet, agility and innovative capability count for much more than size alone. ARAG will improve its positioning from this perspective in the future. The successful growth of the online business demonstrates that the Company is on the right path in this regard.

In terms of claims, additional expenses are projected in connection with the emissions issue affecting VW diesel vehicles; currently some 1,000 cases are pending. However, the settlement of these claims will not lead to a significant rise in the claims ratio. The continuing expansion in the volume of business will probably lead to a further rise in the absolute amount of insurance business operating expenses, but the increase in the cost ratio is only likely to be modest.

Another significantly positive underwriting result is predicted overall.

The continuing uncertainty in financial markets is making it difficult to arrive at a specific forecast for gains and losses on investments. It is reasonable to expect that the low interest rates will be maintained, resulting in a slight fall in the net gains on investments in the future.

In accordance with the amendments to the German Regulation on the Principles Underlying the Calculation of the Actuarial Reserve (DeckRV) of 2011, an additional actuarial reserve will be recognized in the subsidiary ARAG Lebensversicherungs-AG as a supplementary change-in-discount-rate reserve. This reserve has recently grown to €126.6 million. It can be assumed that further significant additions to the supplementary change-in-discount-rate reserve will also be recognized in the next few years. Long-term additions to the supplementary change-in-discount-rate reserve will lead to a substantial additional adverse impact on the ARAG life insurance business. The senior management of ARAG Lebensversicherungs-AG has therefore initiated action that will have a positive effect on the financial performance of the segment over the forecast period. However, this action will not be able to offset the impact from persistently low interest rates over the long term. In the scenarios specified by the insurance supervisor and calculated by ARAG Lebensversicherungs-AG, there is no risk to the continued existence of the business as a going concern over the prescribed planning period covering the next few years.

After taking into account the opportunities and risks, the profit before tax for 2016 is expected to be unchanged year on year or slightly higher than the figure achieved in 2015.

Opportunity report

The opportunities and risks in relation to the future development of ARAG SE have already been addressed at various points in the management report. Because of the strong international focus of the business, the Company's positioning in different markets outside Germany is well diversified. This positioning gives rise to opportunities and risks for ARAG SE.

ARAG SE benefits from its international diversification, which is embedded in the overall strategy of the ARAG Group. This structure enables the Company to be more independent from trends in individual national markets.

The cross-border structure of ARAG SE is the logical business consequence of the advanced maturity of the German market and the highly varied economic trends within Europe. The legal insurance markets outside Germany still offer substantial growth potential and the Company will continue to focus considerable effort on exploiting this potential with a view to achieving further growth. In this regard, ARAG attaches great importance to taking into account the particular features of the market in each country.

Responsibilities are distributed throughout the ARAG Group so that the position enjoyed by the ARAG brand in the German market will be further consolidated and improved by the strengthening of the non-legal-insurance segments. This two-dimensional diversification strategy in the Group is also enabling ARAG SE to move away from its original tightly focused positioning as a niche provider in Germany. A specialist insurer concentrating solely on one line of business is considerably more susceptible to risk. The strategic approach at ARAG is therefore to actively reduce risk and is based on spreading risk evenly across all markets and segments.

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

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

Risk report

Risk management system

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

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

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

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

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

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

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

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

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

Group Risk Management bears process responsibility for the risk management system and, by means of quarterly risk reports to the Management Board, ensures that there is comprehensive transparency with regard to the risk position and any changes. Group Risk Management is also responsible for refining the risk management system and for drawing up proposals for uniform standards to be applied throughout the Group. The remit of Group Risk Management also includes developing models for determining risk-bearing capacity and risk capital, and for allocating risk capital.

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

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

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

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

The core components of the ARAG risk management system consist of the processes for risk identification, risk assessment, risk capital allocation, risk management, risk monitoring, and risk reporting.

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

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

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

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

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

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

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

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

Focus issue

Solvency II project

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

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

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

Risks

Underwriting risk in legal insurance

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

- Premium risk: defined as a loss that arises if the premium income for a period is insufficient to settle all claims incurred in the same period.
- Reserve risk: defined as a loss that arises if the provisions recognized for claims incurred in the past turn out to be inadequate.
- Accumulation risk: defined as a loss from events that, if they materialize, simultaneously affect a large number of policyholders.

To **assess** the premium and reserve risk, specified criteria are used to aggregate historical losses into groups of risks sharing similar characteristics. On this basis, the risk capital requirement is then determined for each identified risk. Given the product and customer structure of the Company, the existing policy portfolio is not subject to any exceptional risk in terms of major risk that could materialize and jeopardize the continued existence of the Company as a going concern. Claims are much more likely to be affected by changes in statutory, economic or social conditions.

ARAG SE makes use of a variety of measures to **monitor and manage** underwriting risk. Insurance rates as well as terms and conditions are adjusted where necessary and sufficient safety margins are included in the claims provisions. In addition, relevant statutory and social trends are continuously monitored and their impact on the insurance portfolio analyzed.

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

The consistency of the insurance business and the adequacy of the claims provisions at all times can be seen in the following disclosures on the changes in the claims ratio for the entire direct insurance business over the last ten financial years.

Changes in claims ratio

Financial year		Claims ratio, gross, total	Settlements
	FY ratio	*Financial statements*	*% of initial reserve*
2015	61.0	52.5	5.6
2014	61.7	55.8	3.7
2013	63.8	58.6	3.3
2012	60.0	55.4	3.0
2011	63.3	56.1	3.9
2010	68.6	63.6	2.8
2009	71.7	64.8	3.8
2008	66.5	58.3	4.6
2007	66.0	63.0	1.8
2006	69.3	64.6	2.8

Risk of defaults on insurance receivables Defaults on insurance receivables are minimized by the use of an efficient, systematic dunning procedure. An addition to the general allowance in respect of receivables from policyholders amounting to €3.8 million (2014: €3.0 million) was recognized in the financial statements in 2015 to account for the residual default risk.

As of the balance sheet date, receivables from policyholders more than 90 days past due amounted to €3.5 million (December 31, 2014: €5.4 million).

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

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

Interest-rate risk affects the portfolio of fixed-income securities and the underwriting liabilities. It is caused largely by changes in interest rates and premiums for default risk and illiquidity. These changes are countered by asset liability management. An assumed increase or decrease of 1 percent in the general level of interest rates would decrease or increase the fair value of ARAG SE's fixed-income securities by €62.6 million.

Equity risk arises from unfavorable changes in the value of equities held in the portfolio. Some 7.2 percent of the Company's investments are subject to equity risk. This risk is diversified by specifically spreading the risk across different industries and regions. A hypothetical fall in equities markets of 20 percent would cause a loss in fair value of €30.6 million.

Currency risk arises from fluctuations in exchange rates, particularly if the currencies in which underwriting liabilities and investments are denominated are different. In the case of fixed-income securities, open currency exposures are hedged to minimize the risk. Currency risk in respect of fixed-income securities in institutional funds is limited to a maximum of 5 percent of the fund value. The Company does not hold any bonds denominated in foreign currency as part of its direct investments.

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

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

Rating class

(Proportion (%) by fair value)	
AAA	18.6
AA	19.3
A	29.2
BBB	27.8
BB	3.7
B	1.2
CCC	0.0
CC	0.0
C	0.0
D	0.0
Not rated	0.2

The breakdown of fixed-income securities is as follows (fair values): of the fixed-income securities – including securities held indirectly through institutional funds – approximately 45.3 percent are accounted for by financial services entities, 23.4 percent by public-sector bonds, and 31.3 percent by corporate bonds.

The Company holds a very low volume of government bonds issued by GIIPS states (Greece, Ireland, Italy, Portugal, and Spain) including securities held through institutional funds (1.7 percent in terms of fair value in relation to all the Company's investments). This is not considered to be an intolerable risk given the European support mechanisms and the de facto joint liability of all European countries.

Public-sector bonds issued by GIIPS states

(Fair values (€ million) of volume held)	
Portugal	1.0
Italy	30.9
Ireland	2.3
Greece	0.0
Spain	2.6

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

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

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

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

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

Risks to the Company's survival as a going concern There are no internal or external risks that could have a permanent adverse impact on the net assets, financial position, or results of operations of the Company. The overall risk position does not currently point to any trends in 2016 that could jeopardize the continued existence of the Company as a going concern or cause a significant negative impact on net assets, financial position, or results of operations.

Risk position The regulatory solvency requirement in accordance with section 53c VAG (version prior to the most recent amendment) and the German Regulation on the Capital Resources of Insurance Companies (KapAusstV) in the version as amended in the Regulation of August 16, 2013 (German Federal Law Gazette I p. 3275) amounted to €122.6 million (December 31, 2014: €116.5 million). The own funds available to cover this requirement amounted to €381.8 million (December 31, 2014: €399.0 million). Valuation reserves are not included in these own funds. The excess cover as of December 31, 2015 thus amounted to €259.2 million (December 31, 2014: €282.5 million) and equated to a solvency excess of 211.4 percent (December 31, 2014: 242.6 percent).

Current calculations show that, under the new capital requirements in accordance with Solvency II applicable from January 1, 2016, ARAG SE has an appropriate level of capital resources and satisfies the future requirements.

Proposed Appropriation of Profit

Net retained profit

The breakdown of net retained profit is as follows:

(€)	
Net income for the year	22,963,455.07
Appropriation to other revenue reserves	0.00
Profit brought forward from 2014	75,028.08
Net retained profit	**23,038,483.15**

Proposal for the appropriation of profit

The Management Board proposes the following appropriation of profit:

(€)	
15.0 percent dividend on the share capital of € 100,000,000.00	15,000,000.00
Appropriation to other revenue reserves	8,000,000.00
Profit carried forward to 2016	38,483.15
Net retained profit	**23,038,483.15**

Financial Statements

Balance Sheet as of December 31, 2015

Assets

(€)
A. Intangible assets
B. Investments
I. Land, land rights and buildings, including buildings on third-party land
II. Investments in affiliated companies and equity investments
1. Shares in affiliated companies
2. Lending to affiliated companies
3. Equity investments
III. Other investments
1. Equities, investment fund shares/units, and other variable-yield securities
2. Bearer bonds and other fixed-income securities
3. Loans secured by mortgages or land charges and fixed-income receivables of which in respect of affiliated companies: € 4,775,000.00 (Dec. 31, 2014: € 5,400,000.00)
4. Other lending
a) Registered bonds
b) Promissory notes and loans
c) Other lending
5. Bank deposits
6. Other investments
IV. Deposits with ceding insurers
C. Receivables
I. Receivables from direct insurance business
1. from policyholders
2. from insurance brokers of which from affiliated companies: € 70,942.75 (Dec. 31, 2014: € 32,285.61)
II. Receivables from reinsurance business of which from affiliated companies: € 272,092.38 (Dec. 31, 2014: € 223,604.03)
III. Other receivables of which from affiliated companies: € 13,544,003.52 (Dec. 31, 2014: € 21,337,113.61)
D. Other assets
I. Property and equipment and inventories
II. Current bank balances, checks and cash on hand
III. Other assets
E. Prepaid expenses and accrued income
I. Accrued interest and rent
II. Other prepaid expenses and accrued income
F. Deferred tax assets
G. Excess of plan assets over pension liabilities
Total assets

				Dec. 31, 2015	Dec. 31, 2014
				9,178,904.51	**6,482,464.23**
			101,146,850.37		96,548,089.45
		215,619,877.65			215,392,728.59
		2,455,291.73			3,235,352.09
		20,478,979.37			16,887,569.37
			238,554,148.75		235,515,650.05
		614,560,037.24			590,186,985.54
		300,140,063.78			332,090,016.11
		4,775,000.00			5,400,000.00
	149,511,291.88				120,511,291.88
	217,995,110.85				204,992,560.12
	130,287.44				143,651.17
		367,636,690.17			325,647,503.17
		17,711,494.25			86,154,649.79
		5,222,234.20			7,082,668.30
			1,310,045,519.64		1,346,561,822.91
			36,148,718.55		30,348,840.21
				1,685,895,237.31	**1,708,974,402.62**
		23,962,536.11			25,600,238.82
		19,340,902.18			18,617,453.05
			43,303,438.29		44,217,691.87
			42,887,401.63		31,358,926.65
			17,294,218.23		24,668,969.76
				103,485,058.15	**100,245,588.28**
			17,105,717.00		18,644,985.32
			85,017,850.17		73,262,824.35
			54,484,152.93		61,511,612.36
				156,607,720.10	**153,419,422.03**
			8,072,690.94		9,544,347.68
			2,035,074.70		1,848,795.21
				10,107,765.64	**11,393,142.89**
				29,736,274.83	**35,479,182.95**
				0.00	**0.00**
				1,995,010,960.54	**2,015,994,203.00**

Balance Sheet as of December 31, 2015

Equity and liabilities

(€)
A. Equity
I. Subscribed capital
II. Capital reserve
III. Revenue reserves
1. Statutory reserves
2. Other revenue reserves
IV. Net retained profit
B. Subordinated liabilities
C. Special tax-allowable reserve
D. Technical provisions
I. Unearned premiums
1. Gross amount
2. less: portion for outward reinsurance business
II. Provision for outstanding claims
1. Gross amount
2. less: portion for outward reinsurance business
III. Equalization provision and similar provisions
IV. Other technical provisions
E. Other provisions
I. Provisions for pensions and other post-employment benefits
II. Provisions for taxes
III. Other provisions
F. Deposits received from reinsurers
G. Other liabilities
I. Liabilities from direct insurance business
1. to policyholders
2. to insurance brokers of which to affiliated companies: €86,663.19 (Dec. 31, 2014: €100,512.29) of which to other long-term investees and investors: €37.49 (Dec. 31, 2014: €327.52)
II. Liabilities from reinsurance business of which to affiliated companies: €47,887.66 (Dec. 31, 2014: €0.00)
III. Liabilities to banks
IV. Other liabilities of which tax liabilities: €13,371,222.07 (Dec. 31, 2014: €20,052,765.50) of which social security liabilities: €1,962,040.76 (Dec. 31, 2014: €1,490,806.46) of which to affiliated companies: €11,668,375.46 (Dec. 31, 2014: €4,503,890.50) of which to other long-term investees and investors: €0.00 (Dec. 31, 2014: €0.00)
H. Deferred income and accrued expenses
I. Deferred tax liabilities
Total equity and liabilities

			Dec. 31, 2015	Dec. 31, 2014
		100,000,000.00		100,000,000.00
		81,772,569.19		81,772,569.19
	10,000,000.00			10,000,000.00
	190,900,000.00			178,400,000.00
		200,900,000.00		188,400,000.00
		23,038,483.15		27,575,028.08
			405,711,052.34	**397,747,597.27**
			30,000,000.00	**80,000,000.00**
			0.00	**0.00**
	194,606,195.08			181,037,095.22
	1,199,110.00			809,234.29
		193,407,085.08		180,227,860.93
	1,055,511,862.80			1,047,073,633.10
	1,150,612.61			1,315,378.82
		1,054,361,250.19		1,045,758,254.28
		8,237,880.00		6,679,793.00
		876,000.00		965,000.00
			1,256,882,215.27	**1,233,630,908.21**
		170,638,993.00		156,462,064.77
		3,754,028.23		15,450,382.91
		52,562,079.71		53,895,959.28
			226,955,100.94	**225,808,406.96**
			1,215,522.85	**978,781.52**
	9,408,001.37			10,123,192.85
	24,102,857.32			23,712,146.44
		33,510,858.69		33,835,339.29
		2,476,040.21		4,365,726.61
		0.00		0.00
		38,065,501.97		39,278,430.90
			74,052,400.87	**77,479,496.80**
			194,668.27	**349,012.24**
			0.00	**0.00**
			1,995,010,960.54	**2,015,994,203.00**

Income Statement
for the Period from January 1 to December 31, 2015

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

			2015	2014
766,127,218.71				727,540,610.90
–4,680,121.65				–4,041,912.70
	761,447,097.06			723,498,698.20
–5,704,141.11				–279,723.99
389,875.71				120,270.59
	–5,314,265.40			–159,453.40
			756,132,831.66	**723,339,244.80**
			1,465,953.12	**1,438,316.60**
395,477,330.08				379,826,521.11
–749,119.95				–745,554.66
	394,728,210.13			379,080,966.45
–5,177,229.70				–23,865,311.00
–164,766.21				–80,155.83
	–5,341,995.91			–23,945,466.83
			400,070,206.04	**403,026,433.28**
			89,000.00	**18,000.00**
	346,480,654.07			322,271,788.15
	–1,699,254.61			–1,111,484.52
			344,781,399.46	**321,160,303.63**
			10,966.80	**10,542.79**
			12,825,212.48	**598,281.70**
			–1,558,087.00	**–195,494.00**
			11,267,125.48	**402,787.70**
			11,267,125.48	**402,787.70**

Income Statement
for the Period from January 1 to December 31, 2015

(€)
Carryover:
II. Non-underwriting account
1. Income from investments
a) Income from equity investments of which from affiliated companies: € 17,515,921.49 (2014: € 12,959,974.44)
b) Income from other investments of which from affiliated companies: € 1,860,747.14 (2014: € 2,111,733.00)
aa) Income from land, land rights and buildings, including buildings on third-party land
bb) Income from other investments
c) Income from reversals of write-downs
d) Gains on the disposal of investments
e) Income from profit-pooling, profit-transfer and partial profit-transfer agreements
f) Income from reversal of the special tax-allowable reserve
2. Expenses for investments
a) Expenses for the management of investments, interest expense and similar charges and other expenses for investments
b) Depreciation, amortization and write-downs of investments of which write-downs: € 12,501,567.72 (2014: € 21,752,708.28)
c) Losses on the disposal of investments
3. Other income
4. Other expenses
Non-underwriting result
5. Profit/loss from ordinary activities
6. Extraordinary income
7. Extraordinary expenses
8. Net extraordinary income/expense
9. Income taxes
10. Other taxes
11. Net income for the year
12. Profit brought forward from 2014
13. Appropriation to revenue reserves
a) To statutory reserve
b) To other revenue reserves
14. Net retained profit

				2015	2014
				11,267,125.48	**402,787.70**
		20,704,691.47			15,383,025.62
	6,332,989.30				6,023,472.93
	42,924,692.23				35,961,858.71
		49,257,681.53			41,985,331.64
		4,164,650.67			10,143,184.20
		4,004,151.51			15,412,561.72
		15,014,825.58			23,889,095.88
		0.00			9,383.28
			93,146,000.76		106,822,582.34
		6,688,449.29			6,298,768.82
		13,546,615.07			22,766,691.45
		1,291,065.02			478,412.75
			21,526,129.38		29,543,873.02
				71,619,871.38	**77,278,709.32**
			93,320,898.86		94,541,136.67
			132,611,998.32		130,346,525.05
				–39,291,099.46	**–35,805,388.38**
				32,328,771.92	**41,473,320.94**
				43,595,897.40	**41,876,108.64**
			0.00		0.00
			0.00		0.00
				0.00	**0.00**
			19,101,082.13		13,739,004.93
			1,531,360.20		634,426.54
				20,632,442.33	**14,373,431.47**
				22,963,455.07	**27,502,677.17**
				75,028.08	**72,350.91**
				0.00	**0.00**
				0.00	**0.00**
				23,038,483.15	**27,575,028.08**

Notes to the Financial Statements

I. Disclosures on Accounting Policies

Financial reporting standards

ARAG SE prepared these financial statements for 2015 in accordance with the requirements of the German Commercial Code (HGB), including but not limited to sections 341 et seq., and the German Regulation on the Accounting of Insurance Undertakings (RechVersV) dated November 8, 1994.

Accounting policies

The bookkeeping system has been maintained, and the financial statements prepared, in accordance with the accounting policies specified in Book Three of the German Commercial Code taking into account the provisions applicable to large corporations. The specific provisions applicable to insurance companies in section 341 et seq. HGB have also been observed, as have the additional requirements in the RechVersV of November 8, 1994.

Purchased **intangible assets** are carried at cost and reduced by straight-line amortization according to their estimated useful life. One purchased industrial property right with a value of €50,000.00 is treated as an exception and is not amortized. Internally generated intangible assets are not capitalized.

Property is valued at cost less depreciation. Write-downs pursuant to section 253 (3) sentence 3 HGB were recognized in an amount of €86,469.00 in relation to a 2016 disposal that had already been negotiated. Reversals of write-downs pursuant to section 253 (5) HGB were not recognized in 2015. The proportions relating to own use are calculated on the basis of the carrying amounts.

Investments in affiliated companies and equity investments are valued at cost, in some cases written down in accordance with section 253 (3) sentence 3 HGB. Write-downs amounting to €320,000.00 were recognized in the reporting year. Reversals of write-downs pursuant to section 253 (5) HGB were recognized in an amount of €3,591,410.00 in 2015.

Shares in affiliated companies and equity investments equivalent to a shareholding of more than 20 percent were held in the following companies as of the balance sheet date:

Shares in affiliated companies and equity investments

Name and registered office of company	Shareholding	Equity	Profit/loss
	(%)	(€)	(€)
1. Affiliated companies			
a) Insurance companies			
ARAG Allgemeine Versicherungs-AG*, Düsseldorf	100.00	55,322,905.72	15,014,825.58
ARAG Lebensversicherungs-AG, Munich	91.00	43,742,227.68	0.00
ARAG Krankenversicherungs-AG, Munich	25.10	50,152,897.92	8,000,000.00
Help Forsikring AS, Oslo	100.00	15,598,175.21	3,865,360.33
b) Other companies – limited companies			
ARAG International Holding GmbH, Düsseldorf	100.00	41,147,566.01	14,428,251.60
ARAG Liegenschaftsverwaltungs- und Beratungsgesellschaft mbH, Düsseldorf	100.00	969,467.48	– 59,373.33
ARAG Service Center GmbH, Düsseldorf	80.00	359,518.13	– 17,362.90
ARAG IT GmbH, Düsseldorf	100.00	8,519,538.14	264,922.56
CURA Versicherungsvermittlung GmbH, Düsseldorf	100.00	669,660.78	– 592,808.16
TERRA Gesellschaft für Finanzdienstleistungen und Beratung mbH, Düsseldorf	100.00	917,657.48	– 450,096.95
Solfin GmbH, Düsseldorf	75.10	724,234.30	267,625.01
ALIN 1 Verwaltungs-GmbH, Düsseldorf	100.00	20,297.39	– 1,177.56
ARAG plc., Bristol	100.00	14,671,035.55	3,009,860.47
ARAG-France S.A.R.L. Assistance et Reglement de Sinistres Automobiles et Generaux, Versailles	100.00	18,988.00	0.00
ARAG Legal Services B.V., Leusden	100.00	336,347.60	– 190,461.80
Agencia de Seguros ARAG SA, Barcelona**	100.00	178,692.37	108,588.22
ARAG Services Spain & Portugal S.L., Barcelona**	100.00	343,126.81	5,562.33
c) Other companies – partnerships			
ARAG Liegenschaftsverwaltungs- und Beratungs-GmbH & Co. Immobilien KG, Düsseldorf	50.00	6,076,554.58	49,556.14
ARCAP Beteiligungsverwaltungs- und Beratungs-Columbus Fonds VI 'Berlin, neue Grünstraße' KG**	26.59	4,405,500.97	123,488.29
ALIN 1 GmbH & Co. KG, Düsseldorf	100.00	2,443,438.61	38,918.05
2. Associates			
AXA ARAG Rechtsschutz AG, Zurich	29.17	43,407,324.66	11,726,304.16
Janolaw AG, Sulzbach**	25.10	676,350.91	11,219.68

* Profit before profit transfer

** Figures from last financial statements for the year ended December 31, 2014

Equities, investment fund shares/units and other fixed-income and variable-yield securities that have not been classified as permanent fixed assets are valued at the lower of cost or quoted market price/market value as of the reporting date in accordance with section 341b (2) HGB in conjunction with section 253 (1), (4) and (5) HGB. In application of the strict principle of lower of cost or market value, the following write-downs were recognized in 2015: €300,534.14 (2014: €364,464.52) in respect of equities and investment fund shares/units and €1,915,330.41 (2014: €1,116,919.49) in respect of bonds. Write-downs amounting to €9,879,234.17 (2014: €1,163,281.77) were recognized in respect of investment fund shares/units in application of the discretionary principle of lower of cost or market value. Reversals of write-downs pursuant to section 253 (5) HGB were recognized in the year under review as follows: €513,833.04 (2014: €9,117,920.12) in relation to investment fund shares/units and €14,895.00 (2014: €1,025,264.08) in relation to bonds. As of the reporting date, hidden liabilities of €2,075,614.42 (December 31, 2014: €0.00) were not netted as a result of the application of the discretionary principle of lower of cost or market value.

ARAG SE made use of the option to select the discretionary principle of lower of cost or market value in accordance with section 341b (2) second half-sentence HGB for those institutional investment fund shares/units and bearer bonds that the Management Board intends to use permanently as part of the working capital of the insurance business. Subsequent valuation of the investment fund shares/units classified as fixed assets is based on the long-term market value determined in a fund review. As of December 31, 2015, the long-term market value was assumed to be the quoted market price.

As in 2014, additions to investment fund shares/units, but not additions to bearer bonds, were recognized under fixed assets. Write-downs were not avoided by the classification of these additions as fixed assets.

Registered bonds are accounted for at face value or at their redemption amount. Discounts are deferred using the straight-line method. Premiums are capitalized and recognized in income using the straight-line method over the term to maturity. **Promissory notes, loans and receivables secured by mortgages or land charges, and other lending items** are recognized at cost unless permanently impaired. No write-downs to a lower fair value were necessary in the year under review (2014: €1,054,535.50).

Bank deposits as well as deposits with and deposits received from ceding insurers are recognized at their nominal amount. Increases and decreases in bank deposits are only netted where the credit balances are held by the same business unit.

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

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

Receivables from reinsurance business comprise amounts derived from both inward and outward reinsurance business. The balance of €42,887,401.63 as of December 31, 2015 arose for the most part from inward reinsurance business at the branches in Spain, Italy, and the Netherlands. The amounts recognized are the outstanding balances. The breakdown by primary insurer or reinsurer was as follows:

Insurance companies

(Balance in €'000)	Dec. 31, 2015	Dec. 31, 2014
UNIPOL Assicurazioni, Italy, BBB– rating	24,438.5	14,608.7
ABN-AMRO Verzekeren, Netherlands, no rating	4,592.4	4,683.1
Noordhollandsche van 1816, Netherlands, no rating	2,645.7	2,471.3
REALE, Spain and Italy, BBB+ rating	2,469.0	2,110.2
Italiana Assicurazioni, Italy, no rating	990.5	0.0
BRIT Syndicate 2987 at Lloyd's, United Kingdom, no rating	632.5	0.0
Other balances	7,118.8	7,485.6
	42,887.4	**31,358.9**

In accordance with section 253 (1) sentence 1 HGB, **property and equipment** is recognized at cost and depreciated on a straight-line basis over the standard operating useful life.

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

Other assets are recognized at their nominal amount, which equates to their cost. Long-term tax assets are discounted to present value using a discount rate appropriate to the maturity involved.

Prepaid expenses and accrued income mainly consist of accrued rights to interest not yet due in the income period before the balance sheet date. As of December 31, 2015, this item also included premiums in connection with registered bonds amounting to €59,373.43 (December 31, 2014: €83,553.90).

If differences arise between the carrying amounts in the HGB financial statements and those in the tax base and these differences are expected to reverse in subsequent years, **deferred taxes** are recognized in respect of these differences using separate entity-specific tax rates determined according to the country in which the registered office of the permanent establishment concerned is situated. This also includes differences for which the timing of the reversal is not yet precisely known or depends on action by the entity concerned, and differences that would only reverse in the event of any liquidation. This planning uncertainty is taken into account in the valuation of the deferred taxes depending on the expected timing of the reversal of the differences. A simplified tax planning process on the basis of the strategic planning is used to review recoverability. Deferred tax assets have not been recognized for tax loss carryforwards or reversal effects that solely increase existing loss carryforwards.

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

Subordinated liabilities have been issued by way of private placement to improve the own funds used to determine the solvency ratio. A bond with a value of €50 million was repaid by ARAG SE on August 5, 2015. The registered bond with a value of €30 million has a fixed maturity of ten years and will be redeemed on July 29, 2024. The subordinated registered bond has been recognized at its settlement amount. These bonds were not, and are not, negotiable in Germany on a regulated market within the meaning of section 2 (5) of the German Securities Trading Act (WpHG).

Gross unearned premiums for direct insurance business are calculated pro rata temporis for each individual policy on the basis of the premiums and cancellations posted, less the installment surcharges. The calculated unearned premiums are reduced by the income components intended to cover the acquisition costs. An individually determined proportion (branches) or a flat rate of 85 percent (Group headquarters) of the commissions and other remuneration for agents is recognized as a non-transferable income component. The gross unearned premiums for inward reinsurance business are recognized in accordance with the information provided by the primary insurer. The reinsurers' share of the unearned premiums is determined in accordance with the contractual agreements.

The **provision for outstanding claims** in relation to direct insurance business is recognized separately by event year for claims reported in the financial year concerned and for claims that have occurred up to the balance sheet date but have not yet been reported. A provision for claim settlement expenses is also recognized. These provisions are valued in accordance with prudent business practice taking into account the ongoing need to satisfy the obligations under insurance contracts. Valuation is based on values as of the balance sheet date. The provisions are not discounted. The results from the group-based and individual valuations are reviewed on a portfolio basis using actuarial methods.

In the reporting year, the settlements in direct business for all classes of insurance amounted to 5.6 percent of the initial reserve (2014: 3.7 percent).

The provision for outstanding claims in the inward reinsurance business is recognized in accordance with the information provided by the primary insurer. The provision for outstanding claims in connection with the inward reinsurance business from the United Kingdom is determined on the basis of past experience and statistics produced by the Group's own claims settlement company. The proportions relating to outward reinsurance business are calculated in accordance with the stipulations in the reinsurance treaties.

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

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

In accordance with standard international practice, **the provisions for pensions and other post-employment benefits** are calculated using the projected unit credit (PUC) method and applying section 253 (2) sentence 2 HGB on the basis of the 2005G mortality tables published by Professor Klaus Heubeck. In addition to current circumstances, future trends in salaries, pensions, and staff turnover are taken into account. In accordance with section 253 (2) sentence 2 HGB, the discount rate used is the average interest rate for the past seven years published by Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (RückAbzinsV) for an assumed residual maturity of 15 years. A discount rate of 3.89 percent was applied for the valuation as of December 31, 2015 (December 31, 2014: 4.54 percent).

The following actuarial parameters were used to calculate the obligations: pension age of 65 years, annual increase in salaries of 2.5 percent, annual increase in pension benefits of 1.75 percent (for Spain, 2.5 percent), discount rate of 3.89 percent. The level of staff turnover taken into account reflects the generally observable age-dependent average for the industry and has only a minor impact on the settlement value.

In accordance with section 246 (2) sentence 2 HGB, assets from insurance policies are offset against the defined benefit obligation. As of December 31, 2015, the fair value of these assets amounted to €1,268,798.00. The settlement value of the offset liabilities amounted to €1,268,798.00. In 2015, an expense of €129,951.92 arising on the increase in the liability was offset in the income statement against interest income of €129,951.92 on the assets. In addition, securities with a fair value of €2,752,882.00 in accordance with section 253 (1) sentence 4 HGB were offset against the present value of the obligation. The valuation at fair value gave rise to an amount of €284,852.00 that was not allowed to be distributed as a dividend pursuant to section 268 (8) sentence 3 HGB. The option pursuant to section 28 (1) of the Introductory Act to the German Commercial Code (EGHGB), which permits provisions for pensions and other post-employment benefits not to be recognized for legacy entitlements, and the option to make use of the transitional provision under section 67 (1) EGHGB have not been exercised.

Provisions for early retirement obligations are recognized for those persons with whom individual contractual agreements have been reached. The provisions are calculated using actuarial principles.

In 2015, a provision in accordance with the **pre-retirement part-time employment agreement** for the private insurance industry dated June 11, 1997 and the AcP HFA 3 pronouncement of the Institute of Public Auditors in Germany (IDW) dated November 18, 1998 was recognized on the basis of a discount rate of 3.89 percent for matching maturities. In the case of deferred beneficiaries with whom a specific agreement has not yet been reached, the probability of their making use of the early retirement arrangements and natural employee attrition were taken into account. Credit balances on employee working hours accounts models are protected against insolvency in accordance with section 8a of the German Pre-Retirement Part-Time Employment Act (AltTZG) by means of a fixed liability guarantee from a German commercial bank.

The **other provisions** are recognized in the amount that is necessary according to prudent business practice. A **long-service provision** was recognized in the year under review for long-service awards to be paid to employees. The provision was calculated using the projected unit credit method taking into account death rates in accordance with the 2005G mortality tables published by Professor Klaus Heubeck and applying a discount rate of 3.89 percent. The calculation also included staff turnover at an average rate of 1.5 percent and salary increases at a rate of 2.5 percent. The earliest possible pension age under the German Pension Age Reform Act (RVAGAnpG) was selected as the final age.

Interest income of €5,425.00 (2014: €1,100.62) and interest expenses of €180,797.98 (2014: €76,828.24) arose on the discounting of non-current provisions with a maturity of more than one year.

Other liabilities are recognized at their settlement value.

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

The **deferred income and accrued expenses** item includes as yet unbilled ancillary cost advances in connection with leased out real estate. As of December 31, 2015, it also included discounts on registered bonds amounting to €23,896.57 (December 31, 2014: €164,711.44).

Currency translation

The cost of investments is calculated using the exchange rate on the date of acquisition. To determine the quoted market price or market value, foreign shares in affiliated companies and equity investments are valued by using an exchange rate achievable over the medium term; all other assets are valued at the lower of the exchange rate on the date of payment or the exchange rate on the balance sheet date. Other assets and liabilities are translated using the exchange rate on the balance sheet date, whereas income and expenses are translated at the exchange rate on the date of the associated cash inflow or outflow. In the year under review, currency translation gave rise to income of €89,055.82 (2014: €61,987.78) and expenses of €86,374.91 (2014: €38,786.61).

Fair value disclosures pursuant to section 54 RechVersV

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

Valuation reports have been prepared internally and by third parties to determine these fair values. These reports satisfy the requirements of section 55 (3) RechVersV.

Fair values for investments in affiliated companies and equity investments

The shares and equity investments have generally been valued using the income capitalization approach. In the case of companies that predominantly perform services for the ARAG Group and in the case of intermediate holding companies, the pro-rata net asset value has been used as the fair value. For equity investments and shares acquired recently, the carrying amount was used as the fair value.

Fair values of other investments

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

The fair values are shown in the **'Changes in investments in 2015'** table.

II. Insurance Disclosures

(€'000)	Direct insurance business				
	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2015	Total 2014
Gross premiums written	552,749	31,690	10,012	594,451	567,703
Gross premiums earned	549,142	31,738	10,324	591,204	567,940
Net premiums earned					
Claims incurred	290,187	18,566	1,361	310,114	317,078
of which payments for claims	299,312	17,318	2,186	318,816	311,282
Insurance business operating expenses	249,862	14,282	5,678	269,822	251,953
of which front-end fees	75,712	12,414	585	88,711	91,575
of which administrative expenses	174,150	1,868	5,093	181,111	160,378
Change in equalization provision	0	1,095	–1,167	–72	–771
Other underwriting income and expenses	1,544	0	0	1,544	1,445
Underwriting result	10,637	–15	2,118	12,740	–417
Technical provisions:					
Provision for unearned premiums	139,202	2,271	4,816	146,289	141,647
Provision for outstanding claims	881,642	4,927	4,164	890,733	896,174
Equalization provision and similar provisions	0	4,141	2,611	6,752	6,680
Other technical provisions	876	0	0	876	965

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

Direct insurance business	2015	2014
(No.)		
Germany	1,423,702	1,388,765
Other countries	2,339,667	2,191,524
Total	**3,763,369**	**3,580,289**

Inward reinsurance business					Outward reinsurance business		Total insurance business	
Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Total 2015	Total 2014	2015	2014	2015	2014
164,520	7,244	-88	171,676	159,838			766,127	727,541
162,388	6,476	355	169,219	159,321			760,423	727,261
					4,290	3,922	756,133	723,339
81,804	8,648	89	90,541	86,614	585	666	400,070	403,026
68,053	8,464	144	76,661	68,545	749	746	394,728	379,081
76,503	282	-126	76,659	70,318	1,699	1,111	344,782	321,160
3,658	218	7	3,883	52,426				
72,845	64	-133	72,776	17,892				
-1,486	0	0	-1,486	576	0	0	-1,558	-195
0	0	0	0	0	0	0	1,544	1,445
2,595	-2,454	392	533	2,965	2,006	2,145	11,267	403
45,242	3,163	-88	48,317	39,390	1,199	809	193,407	180,228
163,238	1,020	522	164,780	150,899	1,151	1,315	1,054,362	1,045,758
1,486	0	0	1,486	0	0	0	8,238	6,680
0	0	0	0	0	0	0	876	965

Source of insurance business by premiums written

Country/source	Direct insurance business			Inward reinsurance business			Total business
(€'000)	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	Legal insurance	Emergency assistance insurance	Other (misc. financial losses)	
Germany	308,945	0	0	0	0	0	308,945
Spain	46,244	31,601	5,440	17,196	7,244	211	107,936
Netherlands	86,167	0	0	47,393	0	0	133,560
Italy	24,984	0	4,572	77,170	0	-300	106,426
Belgium	22,842	0	0	484	0	0	23,326
Austria	56,575	0	0	0	0	0	56,575
Slovenia	2,013	0	0	0	0	0	2,013
Greece	4,578	0	0	422	0	0	5,000
USA	0	0	0	256	0	0	256
UK	0	0	0	21,598	0	0	21,598
Portugal	401	89	0	2	0	0	492
Total	**552,749**	**31,690**	**10,012**	**164,521**	**7,244**	**-89**	**766,127**

III. Non-insurance Disclosures

Change in investments in 2015:
Change in asset items A., B. I. to IV. from January 1 to December 31, 2015

Type of investment (€)		Balance Jan. 1, 2015	Currency differences	Additions	Disposals
A.	**Intangible assets**				
	1. Other intangible assets	6,482,464.23	0.00	7,078,073.99	745,992.64
	Total	**6,482,464.23**	**0.00**	**7,078,073.99**	**745,992.64**
B. I.	**Land, land rights and buildings, including buildings on third-party land**	**96,548,089.45**	**0.00**	**6,597,315.17**	**867,037.90**
B. II.	**Investments in affiliated companies and equity investments**				
	1. Shares in affiliated companies	215,392,728.59	0.00	4,603,438.61	4,056,289.55
	2. Lending to affiliated companies	3,235,352.09	0.00	0.00	780,060.36
	3. Equity investments	16,887,569.37	0.00	0.00	0.00
	Total investments in affiliated companies and equity investments	**235,515,650.05**	**0.00**	**4,603,438.61**	**4,836,349.91**
B. III.	**Other investments**				
	1. Equities, investment fund shares/units, and other variable-yield securities	590,186,985.54	0.00	42,591,228.16	8,596,753.82
	2. Bearer bonds and other fixed-income securities	332,090,016.11	0.00	93,738,750.00	123,788,266.92
	3. Loans secured by mortgages or land charges and fixed-income receivables	5,400,000.00	0.00	0.00	625,000.00
	4. Other lending				
	a) Registered bonds	120,511,291.88	0.00	39,000,000.00	10,000,000.00
	b) Promissory notes and loans	204,992,560.12	0.00	30,993,000.00	17,990,449.27
	c) Other lending	143,651.17	0.00	27,518.96	40,882.69
	5. Bank deposits	86,154,649.79	0.00	6,700,938.00	75,144,093.54
	6. Other investments	7,082,668.30	0.00	626,844.37	2,487,278.47
	Total other investments	**1,346,561,822.91**	**0.00**	**213,678,279.49**	**238,672,724.71**
B. IV.	**Deposits with ceding insurers**	**30,348,840.21**	**0.00**	**23,681,177.76**	**17,881,299.42**
Total investments		**1,708,974,402.62**	**0.00**	**248,560,211.03**	**262,257,411.94**
Total including intangible assets		**1,715,456,866.85**	**0.00**	**255,638,285.02**	**263,003,404.58**

Land, land rights and buildings, including buildings on third-party land, with a carrying amount of €32,477,635.42 (December 31, 2014: €32,768,081.37) are used for the Company’s own business operations.

Reversals of write-downs	Depreciation/ amortization	Write-downs	Balance Dec. 31, .2015	Cost / nominal amount	Fair value as of Dec. 31, 2015	Hidden reserves
0.00	3,635,641.07	0.00	9,178,904.51	46,002,759.57	9,178,904.51	0.00
0.00	**3,635,641.07**	**0.00**	**9,178,904.51**	**46,002,759.57**	**9,178,904.51**	**0.00**
0.00	**1,045,047.35**	**86,469.00**	**101,146,850.37**	**105,574,795.92**	**149,196,000.00**	**48,049,149.63**
0.00	0.00	320,000.00	215,619,877.65	315,848,627.56	542,653,280.90	327,033,403.25
0.00	0.00	0.00	2,455,291.73	2,455,291.73	2,455,291.73	0.00
3,591,410.00	0.00	0.00	20,478,979.37	29,843,421.62	42,542,000.00	22,063,020.63
3,591,410.00	**0.00**	**320,000.00**	**238,554,148.75**	**348,147,340.91**	**587,650,572.63**	**349,096,423.88**
558,345.67	0.00	10,179,768.31	614,560,037.24	634,501,288.99	634,837,421.98	20,277,384.74
14,895.00	0.00	1,915,330.41	300,140,063.78	302,671,049.56	323,027,665.12	22,887,601.34
0.00	0.00	0.00	4,775,000.00	4,775,000.00	4,775,000.00	0.00
0.00	0.00	0.00	149,511,291.88	149,511,291.88	155,071,664.61	5,560,372.73
0.00	0.00	0.00	217,995,110.85	217,995,066.32	228,363,435.66	10,368,324.81
0.00	0.00	0.00	130,287.44	130,287.44	130,287.44	0.00
0.00	0.00	0.00	17,711,494.25	17,711,494.25	17,711,494.25	0.00
0.00	0.00	0.00	5,222,234.20	5,831,223.20	6,979,001.63	1,756,767.43
573,240.67	**0.00**	**12,095,098.72**	**1,310,045,519.64**	**1,333,126,701.64**	**1,370,895,970.69**	**60,850,451.05**
0.00	**0.00**	**0.00**	**36,148,718.55**	**36,148,718.55**	**36,148,718.55**	**0.00**
4,164,650.67	**1,045,047.35**	**12,501,567.72**	**1,685,895,237.31**	**1,822,997,557.02**	**2,143,891,261.87**	**457,996,024.56**
4,164,650.67	**4,680,688.42**	**12,501,567.72**	**1,695,074,141.82**	**1,869,000,316.59**	**2,153,070,166.38**	**457,996,024.56**

In addition, there is an equity investment in a property-managing entity in the form of a partnership under the German Civil Code (GbR). The sole purpose of this entity is to operate an administrative building. The equity investment is reported under land and buildings. As of December 31, 2015, the carrying amount of the equity investment was €42,398,336.35 (December 31, 2014: €40,823,336.35). Some 97.9 percent of the property managed by the entity (headquarters of the ARAG Group in Düsseldorf) is used for the Company's own business operations. The remaining proportion (2.1 percent) is used by affiliated companies for their operations.

Investment fund disclosures

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

Institutional funds

Institutional fund	Type of fund	Investment objective	Carrying amount Dec. 31, 2015	Market value Dec. 31, 2015	Difference	Dividend in 2015	Redemption
			(€)	(€)	(€)	(€)	
ADRERENT	Fixed-income fund	Increased income	73,719,524.67	76,415,900.25	2,696,375.58	1,268,547.30	Anytime
ATRI	Fixed-income fund	Increased income	147,148,496.02	146,040,987.68	–1,107,508.34	2,885,027.14	Anytime
ARRE	Mixed fund	Increased income	237,652,522.91	249,346,082.37	11,693,559.46	10,565,153.51	Anytime
ARI 1	Fixed-income fund	Increased income	62,871,103.67	61,902,997.59	–968,106.08	2,129,050.47	Anytime
AAF	Equity fund	Increased income	20,604,396.05	21,212,127.01	607,730.96	1,936,993.24	Anytime
EMA	Equity fund	Increased income	19,560,034.01	19,560,034.01	0.00	568,882.50	Anytime
SIVE Fonds INKA	Equity fund	Increased income	20,648,864.56	23,352,775.36	2,703,910.80	752,732.14	Anytime
			582,204,941.89	**597,830,904.27**	**15,625,962.38**	**20,106,386.30**	

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

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

Other assets

(€)	Dec 31, 2015	Dec. 31, 2014
Claim under section 37 (5) of the German Corporation Tax Act (KStG)	9,019,132.60	13,236,323.35
Income tax refund claim under current income tax assessment and on the basis of tax audit findings	40,648,463.14	38,992,799.50
Italian income tax refund claim	1,159,036.28	7,130,782.76
Italian insurance tax refund claim	2,011,604.75	0.00
Spanish income tax refund claim	1,144,467.20	726,009.44
Claims for interest not yet due on tax refunds	296,304.00	1,190,478.00
Other items	205,144.96	235,219.31
Total	**54,484,152.93**	**61,511,612.36**

Deferred taxes disclosures

The recognized deferred taxes arise from the following differences between the HGB financial statements and the tax base:

Change in deferred taxes

Balance sheet item (€'000)	Jan. 1, 2015	Change in 2015	Dec. 31, 2015
Intangible assets	560	270	830
Investments	–11,879	8,316	–3,563
Loans and receivables	7,837	–1,694	6,143
Other assets	1,391	1,274	2,665
Prepaid expenses and accrued income	0	0	0
Technical provisions	58,860	–3,167	55,693
Other provisions	33,948	11,637	45,585
Other liabilities	4	–243	–239
Deferred income and accrued expenses	0	0	0
Off-balance-sheet additions	–3,692	–2,205	–5,897
Assessment basis from tax group members (see below)			
– ARAG Allgemeine Versicherungs-AG	67,011	–6,877	60,134
– Interlloyd Versicherungs-AG	3,529	718	4,247
Assessment basis for deferred taxes	157,569	7,852	165,421
Deferred taxes	**47,297**	**3,774**	**51,071**
Reduction in accordance with impact analysis on the basis of the simplified tax planning process (Germany) and individual mark-downs (other countries)	–11,818	–9,517	–21,335
Recognized deferred tax assets	**35,479**	**–5,743**	**29,736**

Assessment basis from tax group members

(€'000)	Jan. 1, 2015	Change in 2015	Dec. 31, 2015
Investments	962	1,656	2,618
Other assets	313	6	319
Technical provisions	63,547	–7,686	55,861
Other provisions	5,718	2,802	8,520
Assessment basis for deferred taxes	**70,540**	**–17,493**	**70,540**

Deferred taxes are calculated using the current income tax rate of the country that will have the right to levy tax on the assessment basis concerned at the time that the differences reverse in accordance with the relevant double taxation convention. In Germany, the assessment bases from the reversal of the differences between the HGB financial statements and the tax base are reviewed in terms of their impact on the basis of tax assessment. Differences that would not be accompanied by sufficient taxable income at the time of reversal or would not be offset by countervailing effects in deferred taxes are not recognized in the event of a resulting net asset. A simplified tax planning process on the basis of the multi-year planning is used for the evaluation. Loss carryforwards are not included when determining deferred taxes. Deferred tax asset balances from branches outside Germany are subject to an individual markdown to factor in the uncertainty regarding the impact on current taxes when the differences reverse.

Disclosures on amounts prohibited from being distributed as a dividend

The netting of deferred tax assets and deferred tax liabilities resulted in the recognition of a net asset.

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

Amounts prohibited from being distributed

(€)	
Net asset balance of deferred tax assets and deferred tax liabilities	29,736,274.83
Amount by which the carrying amount of assets exceeds the cost (plan assets – valued at fair value – covering personnel liabilities)	284,852.00
Total amount prohibited from being distributed	**30,021,126.83**

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

Equity

(€)		Dec. 31, 2015
Total		**405,711,052.34**
I. Subscribed capital		
The share capital amounts to		**100,000,000.00**
The share capital is divided into 62,500 no-par-value registered shares. All the shares are fully paid up. AFI Verwaltungs-Gesellschaft mbH, Düsseldorf, and ARAG Holding SE, Düsseldorf, each own more than one quarter of the shares in the Company. ARAG Holding SE indirectly owns the majority of the shares in the Company.		
II. Capital reserves in accordance with section 272 (2) no. 4 HGB		
Brought forward as of January 1, 2015	81,772,569.19	
Changes in the reporting year	0.00	
Balance as of December 31, 2015		**81,772,569.19**
III. Revenue reserves		
1. Statutory reserves		
Brought forward as of January 1, 2015	10,000,000.00	
Appropriation from profit	0.00	
Balance as of December 31, 2015		10,000,000.00
The full amount of the reserve has been recognized pursuant to section 150 (2) of the German Stock Corporation Act (AktG).		
2. Other revenue reserves		
Brought forward as of January 1, 2015	178,400,000.00	
Additions approved by the Annual General Meeting	12,500,000.00	
Appropriation from profit	0.00	
Balance as of December 31, 2015		190,900,000.00
		200,900,000.00
IV. Net retained profit		
Net retained profit as of December 31, 2014		27,575,028.08
Appropriation of profits: dividend		–15,000,000.00
Appropriation of profits: appropriation to other revenue reserves		–12,500,000.00
Profit brought forward from 2014		75,028.08
Net income for 2015		22,963,455.07
Appropriation to statutory reserves (section 150 (2) AktG)		0.00
Appropriation to other revenue reserves		0.00
Net retained profit as of December 31, 2015		**23,038,483.15**

Provisions for pensions and other post-employment benefits

Since 2010, this item has also included the offsetting of pension benefit entitlements under insurance policies in accordance with section 246 (2) sentence 2 HGB. The breakdown of the item as of December 31, 2015 was therefore as follows:

Defined benefit obligations

(€)	Dec. 31, 2015	Dec. 31, 2014
Amount required to settle the vested entitlements	174,660,673	160,810,941
of which offsetable against pension insurance assets	– 1,268,798	– 1,528,771
of which offsetable against securities	– 2,752,882	– 2,820,106
Remaining amount	**170,638,993**	**156,462,064**

The initial difference pursuant to section 253 (2) sentence 2 HGB was added in full in the 2010 transitional year.

Other provisions

(€)	Dec. 31, 2015	Dec. 31, 2014
Outstanding employee remuneration	12,381,332.82	12,133,026.76
Outstanding commission payments	10,528,978.06	9,043,090.47
Provision for outstanding invoices	8,109,337.46	7,655,102.14
Subsequent performance obligations related to services	2,747,634.23	3,750,820.00
Long-service provision	3,069,402.00	2,509,150.00
Compensation claims for agents leaving the Company	2,466,947.86	2,470,599.89
Early retirement and pre-retirement part-time working obligations	2,146,189.03	2,453,102.22
Severance payments (Austria and Slovenia)	2,549,105.81	1,855,813.81
Costs for financial statements and tax audit	1,272,071.00	1,444,193.00
Performance-related and business-plan remuneration for agents	1,377,000.00	1,276,000.00
Pension provision for agents	0.00	1,050,000.00
Current litigation costs	898,173.72	828,889.12
Sales competition awards	799,468.00	722,500.00
Supervisory Board and Advisory Council remuneration	604,219.00	603,584.00
Vacancy costs/outstanding ancillary costs bills	97,000.00	220,000.00
Redundancy scheme and restructuring obligations	45,272.61	101,832.23
Sundry other provisions	3,469,948.11	5,778,255.64
Total	**52,562,079.71**	**53,895,959.28**

Prepaid expenses and accrued income, deferred income and accrued expenses

Prepaid expenses and accrued income includes premiums of €59,373.43 (December 31, 2014: €83,553.90), and deferred income and accrued expenses discounts of €23,896.57 (December 31, 2014: €44,621.82) pursuant to section 341c (2) HGB. These amounts are reclassified to income over the maturity of the investments concerned.

Net extraordinary income/expense

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

Tax expense

The breakdown of income taxes in the income statement is as follows:

Income taxes

(€)	2015	2014
Profit before tax (HGB financial statements)	43,595,897.40	41,876,108.64
less: profit attributable to foreign branches	–48,989,364.44	–47,323,398.17
Loss subject to German tax	–5,393,467.04	–5,447,289.53
Expected income tax expense based on tax rate	31.2 % **–1,684,110.00**	31.2 % **–1,700,910.00**
Reconciliation		
Different foreign tax expense	0.00	0.00
Proportion of tax relating to:		
Tax-exempt income	–13,673,310.00	–5,706,670.00
Expenses not deductible for tax purposes	5,759,320.00	2,394,500.00
Changes in temporary differences and losses	4,572,531.00	4,057,894.00
Temporary differences and losses for which no deferred taxes have been recognized	0.00	0.00
Tax credits	0.00	0.00
Current taxes related to prior periods	6,162,961.57	2,167,302.52
Effects from tax rate changes	0.00	0.00
Other tax effects	9,598,110.00	5,040,270.00
Rounding effects	–10.00	–190.00
Reported German income tax expense	**10,735,492.57**	**6,252,196.52**
Effective tax rate	24.6 %	14.9 %
Income taxes related to the foreign branches	8,365,589.56	7,486,808.41
Other taxes	1,531,360.20	634,426.54
Tax expense reported in the income statement	**20,632,442.33**	**14,373,431.47**

IV. Other Disclosures

Commissions and other remuneration for insurance agents, staff costs

(€)	2015	2014
1. Commissions of all types for insurance agents within the meaning of section 92 HGB for direct insurance business	156,746,636.46	143,529,613.44
2. Other remuneration for insurance agents within the meaning of section 92 HGB	13,950,377.06	14,647,396.25
3. Wages and salaries	139,947,245.67	132,980,658.55
4. Social security and other employee benefit expenses	24,570,447.98	22,587,581.68
5. Pension and other post-employment benefit expenses	22,070,535.13	16,610,506.52
6. Total expenses	**357,285,242.30**	**330,355,756.44**

Contingent liabilities and other financial commitments (section 251 and section 285 HGB)
There were no **other financial obligations** arising outside the insurance business that were significant to the assessment of the Company's financial position.
ARAG SE is a partner in ARAG 2000 Grundstücksgesellschaft bR and is jointly and severally liable for the obligations of this partnership without limitation on the basis of its entire assets.
There are **unpaid contributions** in respect of the following entities:

Unpaid contributions

(€)	
ARAG IT GmbH, Düsseldorf	1,495,000.00
ARAG Legal Services B.V., Leusden	6,977,311.00
Foyer-ARAG S.A.	24,788.00
RREEF Pan-European Infrastructure Feeder GmbH & Co. KG	233,525.73
ACF V Growth Buy-out Europe GmbH & Co. KG	621,500.00
AXA LBO Fund V Core	48,384.00
AXA LBO Fund V Supplementary	272,636.00

None of the unpaid contributions have been called up. It would be reasonable to expect contributions to be called up by RREEF Pan-European Infrastructure Feeder GmbH & Co. KG, ACF V Growth Buy-out Europe GmbH & Co. KG, and AXA LBO Fund V in the near future. The other unpaid contributions will not be called up for the time being.
Investment agreements with a total volume of €7,000,000.00 have been concluded through the affiliated company ALIN 1 GmbH & Co. KG with various private equity funds. Calls from the funds result in cash being paid into ALIN 1 GmbH & Co. KG immediately before payment is due in order to provide the required liquidity. Calls at short notice of €5,508,347.60 are expected on the basis of open-ended investment agreements.

Auditor's fees

The Company's Supervisory Board agreed with the auditor's fees of €190,000.00 (2014: €187,000.00) for the audit of the 2015 financial statements plus fees of €280,000.00 (2014: €280,000.00) for the audit of the branches. These amounts were recognized as an expense in 2015. The income statement also included fees for tax consultancy services amounting to €32,582.82 (2014: €40,663.25). Fees amounting to €258,088.92 (2014: €19,140.00) were incurred for other services. The usual amounts of out-of-pocket expenses were reimbursed. As there was no entitlement to offset input VAT, the VAT on all the amounts was included in the recognized expense.

Employees

ARAG SE employed an average of 2,354 (2014: 2,295) people in 2015. As of December 31, 2015, the company had 2,393 (December 31, 2014: 2,308) employees.

Workforce breakdown

Unit	As of December 31, 2015	As of December 31, 2014
Central Group Functions	78	86
Accounting, Asset Management, Taxes, Central Services	187	182
Sales	195	181
Customer and Claims Service, IT Management	396	407
Product Development/Underwriting/Partnerships	80	70
Risk Management/Controlling	44	43
Group Development, Business Organization	18	0
Netherlands Branch	561	539
Belgium Branch	70	72
Italy Branch	137	138
Spain Branch	355	332
Portugal Branch	5	6
Austria Branch	103	106
Slovenia Branch	9	10
Greece Branch	23	22
Non-active employees (works council, parental leave, pre-retirement part-time employment)	132	114
Total	**2,393**	**2,308**
Plus: trainees	0	0
Plus: interns and volunteers	0	0

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

The total expense for Supervisory Board remuneration amounted to €517,650.00, and for the Advisory Council €87,202.44. The Management Board's remuneration came to €4,964,635.54, with that for the former members of the Management Board and their surviving dependants totaling €2,310,710.34. A provision of €31,890,221.00 was recognized for current pensions and vested pension entitlements of former members of the Management Board and their surviving dependants.

The members of the Supervisory Board, Advisory Council, and Management Board are listed on pages 76 to 78 of this report.

Group affiliation

The Company and its subsidiaries were included in the consolidated financial statements of ARAG Holding SE for the period ended December 31, 2015. The consolidated financial statements of ARAG Holding SE are published in the electronic Federal Gazette and in the company register of the German Federal Ministry of Justice and Consumer Protection.

Düsseldorf, March 24, 2016

The Management Board

Dr. Dr. h. c. Paul-Otto Faßbender

Dr. Renko Dirksen

Dr. Johannes Kathan

Dr. Matthias Maslaton

Werner Nicoll

Hanno Petersen

Dr. Joerg Schwarze

Auditor's Report*

We have audited the financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system and the management report of ARAG SE, Düsseldorf, for the financial year from January 1, 2015 to December 31, 2015. The maintenance of the books and records and the preparation of the financial statements and management report in accordance with German commercial law and the supplementary provisions of the Company's articles of incorporation are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Düsseldorf, April 1, 2016

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Christian Sack	Sven Capousek
Wirtschaftsprüfer (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)

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

Report of the Supervisory Board

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

Last year, the full Supervisory Board held five meetings, at which it was able to satisfy itself that the Management Board was running the Company properly and appropriately. Outside the meetings, the chairman of the Supervisory Board was also in regular contact with the Management Board and was kept informed about the current business situation and major business transactions.

Key matters discussed in the Supervisory Board meetings in 2015 were the challenges presented by the period of low interest rates for the investee company ARAG Lebensversicherungs-AG, the international expansion in Canada and Denmark, and the progress made in the project to obtain certification for the partial internal model in accordance with Solvency II. The Supervisory Board also addressed the new regulatory regime under Solvency II from 2016 and the internal implementation within the Group of the changes to the law from 2016 following the amendments to the German Insurance Supervision Act (VAG). To obtain more detailed information on the regulatory changes and requirements, the Supervisory Board took part in a joint conference covering this topic. The statutory requirements aimed at increasing the proportion of female managers were also discussed. In addition, the Supervisory Board received reports on the business performance of the Company and its affiliated companies. The Group risk strategy, the risk report, and the strategic planning for the next three years formed part of these reports.

Following preparation by the Human Resources Committee, the full Supervisory Board reached a decision to appoint a further member of the Management Board. It also discussed the appropriateness of the Management Board's remuneration together with the remuneration system used by the Company for its employees and came to appropriate decisions.

The Supervisory Board has created three committees.

The Finance Committee held a total of four meetings in 2015. One of the issues discussed in the meetings was the second stage of the expansion of the private equity investment project. In preparation for meetings of the full Supervisory Board, the Finance Committee also received explanations of the capital investment taking place as part of the expansion into Canada and Denmark. In addition, the Finance Committee discussed and approved the launch of the business model for expanding digitalization in the Group. IT security was another topic of discussion in the committee. In accordance with its responsibilities, the Finance Committee used seven written procedures to approve HR decisions in subsidiaries, disposals of real estate, and the engagement of consultants.

The Audit Committee met on four occasions in the year under review. Its deliberations covered the forecasts for the financial statements in 2015 and the strategic planning for the years 2016 to 2018, which was then recommended to the Supervisory Board for approval. Quarterly financial statements were also approved.

The Human Resources Committee met five times in 2015, including one extraordinary meeting. Four decisions were also made using a written procedure. Topics discussed in the meetings included the preparation of the resolution to appoint a further member of the Management Board, target agreements, the pension scheme, and the appropriateness of the Management Board's remuneration. In addition, the Human Resources Committee discussed and approved the necessary adjustments to the remuneration system in accordance with the new statutory requirements. Discussions also focused on the implementation of the statutory requirements related to increasing the proportion of women in management positions. Matters decided by means of a written procedure included the consents pursuant to section 114 AktG, responsibility for which is assigned to the Human Resources Committee in the rules of procedure.

Detailed reports on the committees' meetings and work were delivered at the Supervisory Board meetings. The financial statements, which were prepared by the Management Board in accordance with the commercial-law accounting regulations for insurance companies, and the management report for 2015 were, together with the bookkeeping system, audited by PwC PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were selected and engaged by the Supervisory Board on May 22, 2015 to carry out the audit and who issued an unqualified opinion.

All the members of the Audit Committee of the Supervisory Board received the above-mentioned documents, the annual report, the proposal for the appropriation of profit, and the auditor's report in good time before the Supervisory Board meeting on May 10, 2016. At the meeting, the Management Board also provided additional oral explanations of the documents. The auditors who had signed the auditors' report participated in the discussion of the documents by the Supervisory Board and the Audit Committee, reported on the key findings of the audit, and were available to provide additional information.

The Audit Committee had discussed these documents in detail prior to the meeting of the Supervisory Board and had recommended to the Supervisory Board that the financial statements and the management report be approved.

The Supervisory Board reviewed the financial statements, management report, and proposal for the appropriation of profit. There were no objections to be raised on the basis of the concluding findings of its review. Having carried out its own review and having taken into account the report of the Audit Committee, the Supervisory Board agreed with the findings of the audit of the financial statements and management report by the auditors. The Supervisory Board approved the financial statements and management report and thereby adopted them. It also agreed with the Management Board's proposed appropriation of profit. The Supervisory Board proposes to the Annual General Meeting that it formally approve the acts of the Management Board members.

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

The independent auditors also audited the report submitted by the Management Board pursuant to section 312 AktG and issued the following audit opinion:

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

1. the factual disclosures in the report are accurate,
2. the consideration paid by the Company for the transactions listed in the report was not inappropriately high or disadvantages were compensated,
3. as regards the activities listed in the report, there are no circumstances that would support an assessment materially different from that arrived at by the Management Board."

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

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

Düsseldorf, May 10, 2016

The chairman of the Supervisory Board

Gerd Peskes

Governing Bodies of the Company

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

Supervisory Board

Shareholder representatives:

Gerd Peskes	Wirtschaftsprüfer (German Public Auditor), Essen, Chairman
Professor Dr. Walter Ackermann	University professor, St. Gallen, Switzerland
Dr. Tobias Bürgers	Attorney, Munich
Dr. Michael Pielorz	Attorney, Düsseldorf
Dr. Karl-Heinz Strohe	Attorney, Cologne
Professor Dr. Fred Wagner	University professor, Leipzig

Employee representatives:

Margit Schuler	Chair of the Works Council of ARAG SE, Mettmann, Deputy Chairwoman
Marco Hoogendam	Staff attorney, Amersfoort, Netherlands
Richard Wenhart	Employee in Production Management/ IT System Monitoring, Buch a. Erlbach

Advisory Council

Christoph Buchbender	Member of the Management Board, Neuss, Chairman
Rainer Gebhart	Member of the Management Board, Rosenheim, Deputy Chairman
Burkhard Balz	Member of the European Parliament, Stadthagen
Professor Dr. Dres. h. c. Rolf Dubs	University professor, St. Gallen, Switzerland
Werner Gremmelmaier	Member of the Management Board, Neukeferloh
Dr. Volker Himmelseher	Graduate in Business Administration, Pulheim
Dr. Dr. h. c. Burkhard Hirsch	Attorney, Düsseldorf
Dr. h. c. Horst Klosterkemper	Graduate in Engineering/ Graduate in Engineering Management, Düsseldorf
Friedrich-Wilhelm Metzeler	Attorney/ Graduate in Business Administration, Düsseldorf
Hans Schwarz	CEO of Stadtsparkasse Düsseldorf (ret.), Düsseldorf
André Wüstner	Federal Chairman of the German Army Association (DBwV), Montabaur

Management Board	**Dr. Dr. h. c. Paul-Otto Faßbender**	Düsseldorf, CEO
	Dr. Renko Dirksen	Düsseldorf (since July 1, 2015)
	Dr. Johannes Kathan	Düsseldorf
	Dr. Matthias Maslaton	Moers
	Werner Nicoll	Herzogenrath
	Hanno Petersen	Ratingen
	Dr. Joerg Schwarze	Düsseldorf

Information

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

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Credits

Editors	ARAG Corporate Communications/Marketing
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