

**Statement by**  
**Dr. Paul-Otto Faßbender**  
**on the occasion of the presentation**  
**of the consolidated financial statement**  
**of ARAG Aktiengesellschaft**  
**Düsseldorf, 16 June 2010**  
(The spoken version of the text is definitive.)

Ladies and gentlemen,

I'm pleased that you have taken the time to come to us at the end of the reporting season; let me warmly welcome you to our press conference to present the 2009 fiscal year balance sheet. Looking at the calendar, I realized that this is the tenth time it has been my privilege to present the ARAG business figures. It is also my pleasure to do so, which brings us right to the point: 2009 was a year for the history books. It was a year of economic extremes. At the beginning of last year, no company anywhere in the world could be certain of surviving the free fall into global recession. The only certainty was that the gathering storm would pitilessly lay bare any and all entrepreneurial weaknesses.

In this challenging scenario, the main highlights for the ARAG Group were as follows:

- In spite of the crisis, income from normal business activity doubled.
- The Group's growth slowed slightly, but remained solid.
- Our international business remained on a growth trajectory.
- The Group increased its funds available for coverage in the recession. Both equity and guarantee funds were increased.
- The direct effects of the economic crisis for consumers caused ARAG's cost of claims to increase significantly.
- ARAG increased the number of employees while at the same time reducing administrative costs.

- In Germany, we deliberately doubled the number of trainees, underscoring our entrepreneurial responsibility.
- We invested in a completely new product family in German legal insurance, which was launched extremely successfully at the start of 2010.
- Our health insurance business continues its above-average growth.
- Counter to the market trend, new regular premium policy business increased in the life insurance segment.
- The still-young ARAG UK was named “after the Event”-Insurer (ATE Insurer) of the Year in London.
- In the US, ARAG received the American Business Award for the best customer service team in the category “banks, financial service and insurance”.
- ARAG’s television advertising in the German market was voted the most effective commercial of 2009 by viewers.

So as you can see, the ARAG Group has no need to be bashful about its performance in the last fiscal year; now let us turn to the figures.

## **I. Business development**

### **• Continuing solid growth**

Ladies and gentlemen,

In 2009, a year of extremes, the ARAG Group posted moderate and solid growth. Premium revenues in its insurance business increased by 0.7 percent, from € 1.36 billion to € 1.37 billion. The proven growth drivers were international legal insurance and the health insurance business. We pursued absolutely no short-term, bank-like life insurance business with one-time premiums. The total revenue of the ARAG Group including service companies increased from € 1.40 billion to € 1.41 billion.

- **Capital investment portfolio increased by 1.9 percent**

As of the date of accounting, the Group's portfolio of capital investments came to over € 5.09 billion, 1.9 percent more than the previous year's value (€ 5.02 billion). Sovereign debt of the PIIGS countries represents a minor proportion of just 3.4 percent of the Company's total capital investments. The Group took write-downs totaling € 29.7 million. The valuation reserves amounted to € 203.5 million.

- **Earnings before taxes more than doubled**

ARAG continued to be a strong earner in the year under review. In this area, our enterprise has profited from our good international diversification and our balanced product and segment mix. The earnings components have changed compared to the previous year. Due to the direct effects of the recession, our customers both in Germany and abroad have been turning to ARAG much more for support. Claims relating to employment legal insurance rose considerably in German and European legal insurance business. Due to this direct recession effect, the underwriting earnings slipped from the previous year's very strong level of € 63.1 million to € 18.1 million. Legal insurance represented true "crisis aid" for European consumers last year. We are bound to honor our performance promise here. Consequently, the decline in underwriting earnings is a part of our business. This development documents the high relevance of legal insurance as a fundamental insurance benefit for European consumers. The low operating earnings were more than compensated in the Group by greatly enhanced income from capital investments. Income from normal business activity increased significantly from € 22.0 million to € 46.4 million, or 110 percent.

Due to the high cost of claims in the legal insurance segment, the cost of insurance claims increased in the fiscal year under review from € 860.1 million to € 909.6 million. In addition to legal insurance, the vigorously growing health insurance business also posted a significantly

increased cost of claims. The Group's claims ratio increased accordingly, from 64.2 percent to 67.0 percent.

With respect to the costs of insurance operations, ARAG continues to post good figures. This ratio changed only slightly, from 32.9 to 33.3 percent. This change is due to the increased commission expenditures in our German business resulting from a 10 percent increase in production. In the area of administrative costs, expenditures decreased by about 3.3 percent, even though we took on additional staff. Overall, the Group's performance reflected the sustained effect of the consistent improvement of cost structures.

Earnings from capital investments grew significantly by more than 90 percent last year, from € 103.6 million to € 200.4 million. This is a consequence of the general recovery of the financial markets and the write-ups which this entailed.

At the end of the day, earnings from normal business activity, as I mentioned, increased from € 22.0 million to € 46.4 million.

The Group has a tax ratio of just under 55 percent. However, after deduction of taxes, there remains a significantly increased Group net income of € 21.0 million, following the previous year's figure of € 3.8 million.

ARAG continued to pursue its consistently conservative reserves policy throughout the year under review. The underwriting reserves were raised by 2.9 percent to € 4.72 billion (previous year: € 4.59 billion). The Group's earned premiums are thus secured with technical reserves equivalent to 347.9 percent. Under consideration of all funds available for coverage, the guarantee funds of the ARAG Group increased from € 4.91 billion to € 5.05 billion.

Ladies and gentlemen,

From the shareholders' perspective, the earnings situation of ARAG is more than satisfactory – particularly in view of the general economic conditions. The return on equity (before taxes) climbed from 8.2 percent to a respectable 17.9 percent.

The recession was an important milestone for our enterprise. We were able to demonstrate that our internationally oriented business model is not a fragile, fair-weather construction, but one that has been a proven success over decades. This is the achievement of the 3,500 men and women whose competence and discretion have brought the Group safely through a record recession.

## II. Segments of the Group

- **Legal insurance in demand as crisis helper**

As I mentioned previously, the cost of claims in the ARAG Group's legal insurance segment increased significantly. Both in Germany and abroad, our customers seek our support for employment-related legal disputes in particular. But our assistance was also in demand for capital investment law – here the focus lies abroad. In the **German market**, we recorded 52,000 employment law disputes in the fiscal year under review. That was 16.2 percent more than in the previous year. The picture is more mixed outside of Germany. In the **Netherlands**, employment law disputes increased by over 50 percent with the collapse of the so-called "Polder model". We had to increase staffing significantly there in order to be able to rapidly assist our customers. In **Spain** we saw an increase of 26 percent in employment law cases in peak phases. In the **US**, lawsuits in the event of job loss are not usual. Consequently, we were unable to see any corresponding product demand. Overall, the claims ratio of ARAG's legal insurance segment increased from 53.9 percent to 61.0 percent.

At the end of 2009, we could already see that the number of employment-law problems in Germany was declining significantly: in the first four months of 2010, the number of employment-law cases declined by more than 15 percent. We expect this downward trend to continue. According to our many years of experience, the decreasing number of employment-law cases is a reliable indicator for the stability of the German employment market. A lot fewer people need to fight for their jobs than was the case one year ago. Particularly the strong export orientation of the German economy and the weaker Euro are sustainably reviving the German economy. The situation is also becoming less critical in other European markets. The Netherlands are the only exception. The number of employment-law problems reported to us there remains at a high level.

In a generally extremely challenging environment, premium revenues in the legal insurance segment remained stable, growing by 0.2 percent. Premium revenues totaled € 685.6 million (previous year: € 684.6 million). ARAG thus strengthened its position as the number two in the world legal insurance market. 55 percent of premium revenues in the legal insurance segment are generated in **international business**. The business outside Germany proved to be very strong in the fiscal year under review. The gross premium revenues of the Group's largest line of business grew by 3.1 percent, totaling € 378.5 million, following € 367.2 million in the previous year. Including the Special Service Package business of ARAG Spain amounting to close to € 38 million, the Group generated € 416.3 million in this line of business. 30.2 percent of premium revenues in the Group were thus earned outside of Germany.

At the end of the fiscal year under review, ARAG arrived at a reinsurance solution with Italian insurer UGF Assicurazioni to cover the entire legal insurance business of UGF: we are anticipating a premium volume of € 25 million here. This cooperation took effect in May 2010.

On the **German legal insurance market**, premium revenues declined by 3.2 percent, from €317.3 million to €307.1 million. This is mainly due to a further attrition of the existing portfolio. The trend in premium revenues distracts from the significantly improved production performance in our German legal insurance business. New business increased by 20 percent across all sales channels. The performance of ARAG core sales shows an ascending curve. The number of sales partners in this area increased by a net total of 14.2 percent to almost 1,300. ARAG's reputation among brokers also improved: in the latest survey by AssCompact Trends, ARAG ranks third among the most preferred legal insurers.

In spite of the revitalized new business and associated premium expenditures, the cost ratio in our domestic legal insurance business once again improved slightly, from 36.8 to 36.6 percent. Due to the increased cost of claims, the combined ratio in German legal insurance increased to 101 percent, which was still better than the market average (103 percent).

- **Composite business remains a strong earner**

Ladies and gentlemen,

In the composite and sport insurance business managed by ARAG Allgemeine, the Group profits from this segment's excellent combined ratio. At just under 91 percent, this figure was extremely good. The main reason for this was the absence of large loss events, so that the claims ratio in the fiscal year under review came to 52 percent.

Accordingly, the composite business showed strong earning power and in 2009 was the Group's largest profit generator, with earnings from normal business activity of €28.1 million.

In the predatory competition environment, the consistent focus on profit in ARAG's composite business meant that premium revenues declined from €236.5 million to €228.2 million. Last year, ARAG Allgemeine successfully launched a comprehensive product portfolio modernization program. For example, the new liability coverage placed among the ten

best offerings in a performance comparison of 200 rates in the specialist consumer affairs magazine Finanztest.

- **Health insurance posts strongest growth**

ARAG Krankenversicherung is and remains a growth phenomenon: in fiscal 2009 as well, this segment once more posted an above-average increase in premium revenues of 9.2 percent, while the market as a whole grew by 3.8 percent. Premium revenues expanded from € 233.9 million to € 255.4 million. The monthly target premium volume increased by 6 percent for full-coverage insurance. In the supplementary insurance area, the monthly target premium volume increased by 17 percent. The health insurance segment thus drew sustained benefit from its excellent product work in past years. ARAG Kranken was just recently named the most popular provider of supplementary insurance by the broker survey AssCompact Trends. Additionally, the excellent economic situation of ARAG Kranken was affirmed by the Assekurata follow-up rating with its assessment of "A" (good). The analysts praised the high customer satisfaction and in particular the excellent security situation of ARAG Kranken

- **Life insurance with solid new business**

In the life insurance segment, the premium trend is showing an ever clearer turnaround. Certainly, premium revenues declined by 2.6 percent on account of the regular course of business, slipping from € 206 million to € 200.6 million. However, new regular premium policy business increased, clearly bucking the market trend. Whereas the market, adjusted for the previous year's Riester effect, posted a drop of 7 percent, new business at ARAG Leben gained by 14.6 percent in the regular premium policy business. The main reason for this was a marked resurgence in broker sales. Brokers are becoming increasingly enthusiastic about the superior quality of our fund-linked products. At this point, I wish to emphasize that we wrote no short-term bank-like business with one-time premiums. This may have caused ARAG Leben to miss out an even stronger growth momentum. With an eye toward a

sustainably solid portfolio culture, we offer our customers long-term business with one-time premiums on an annuity basis. We are convinced that this product is a much better fit to the character of a life insurer.

The gross profit of ARAG Leben improved significantly, increasing from € 18.5 million to € 32.3 million.

- **Employees make ARAG successful**

All through the economic crisis, I have consistently emphasized to you the exceptional quality and willingness to perform of our employees. With their competence and discretion, they have brought the Group through a difficult period. The Board of Management is extremely proud to have the privilege of leading such a high-quality team. In return, ARAG offers the dependability of a sound employer. An employee survey which we conducted at the end of 2009 revealed that 74 percent of our employees consider working for a family company to be both attractive and advantageous. Our organization thus has a positive underlying morale compared to other insurers, and we invest in this directly. For example, we have launched a comprehensive health maintenance program that benefits all employees. Additionally, we will pay greater attention to the situation of employees who have to care for children or ailing family members.

In the fiscal year under review, the number of employees increased by 3 percent, from 3,384 to 3,484. This increase is due exclusively to new hiring in our international subsidiaries. Last year, around 43 percent of ARAG's employees worked outside of Germany.

### **III. 75 years of expertise in legal matters and protection**

Ladies and gentlemen,  
the look at our key figures shows that ARAG is in good shape. The Company does not at all look like it is about to celebrate its 75th birthday. 75 years of entrepreneurial independence in the financial

services industry is a remarkable achievement. I am proud of the entrepreneurial skill of my grandfather, my father and my uncle. They created the basis for making ARAG the internationally successful company it is today. Particularly my grandfather as the founder of ARAG would certainly be thrilled today to see that his business idea had given birth to a multi-segment provider that has also become the world's second-largest legal insurer. To achieve this, he assumed enormous risks in the founding phase of our Company. As a centrist politician and publisher, my father was persona non grata during the National Socialism period. He was forced to sell his publishing businesses to the Nazi publisher Eher. At that time, the family was also ordered to sell ARAG. Heinrich Faßbender refused and left the Rhineland with his family. The family refused to let persecution discourage them, and successfully rebuilt our insurance business in Germany and Europe after the war under the leadership of Walter Faßbender. After my father's early death, the expansion of the Company was consistently continued by his brother and then the latter's son.

The history of ARAG illustrates one fact very clearly: our focus is not on the past, but on being open to change – in the interest of consumers. Every decision in our corporate history has always been intended to actively shape the future of the Company. The great utility of our products for our customers – whether legal insurance, health insurance or sport insurance – has always been the primary object of our entrepreneurial development.

It is also our ambition to make proven successes even better, so that we can act even more strongly in our customers' interest. In the history of our organization, we have always fought for ARAG's success with passion and conviction. The special character and the unmistakable identity of ARAG are the products of a long and successful company history. We will continue this history, and ARAG will consistently pursue its international development path further. The global recession put the

stress capacity of our international business model to a test from which we emerged with flying colors. This gives us the courage to continue our internationalization course with determination and a sense of proportion. Entrepreneurially speaking, there are very few alternatives to this. Our capital will be deployed where it can achieve the most success – and this is particularly the case on the international markets. This is where we have a clear advantage over the vast majority of our direct competitors.

#### **IV. Outlook**

Ladies and gentlemen,

This brings us to our expectations for the current fiscal year. Let us first look at the developments of the first half of 2010.

For this period, we expect the Group to grow by 2.0 percent. The revenues for the first six months will increase from € 707 million to € 717 million. In the legal insurance segment, premium revenues will reach € 357.8 million, slightly exceeding the previous year's value. However, that does not yet include the additional revenues from our new cooperation with UGF Assicurazioni in Italy. This will generate a significant growth impulse for the legal insurance business.

ARAG Kranken will show the largest growth spurt, with 12.5 percent. As you can see, the Group is off to a good start in the first half-year. At present, we anticipate that this trend will gain momentum, so that by the end of the year the Group will be growing more strongly than in 2009. Under consideration of the declining charges from employment legal insurance, we expect another good earning situation for 2010.

In all, we are looking at the current fiscal year with much greater optimism than was the case when we last have seen each other. This is primarily due to four factors:

- We can rely on excellent employees. They understand their business and work professionally for the benefit of our customers and our organization.

- ARAG has an extremely modern, high-performance product portfolio in which we will continue to invest.
- We offer an unmistakable identity based on 75 years of company history. ARAG acts on the basis of unshakeable Group principles and values. This gives our customers and employees the dependability of a successful family company.
- For the coming years, the international markets offer ARAG many different opportunities, which we intend to take advantage of for the benefit of the Company.

Thank you for your attention. I'll be happy to take your questions now.