

**Statement by**  
**Dr. Paul-Otto Faßbender**  
**on the occasion of the presentation**  
**of the consolidated financial statement**  
**of ARAG Aktiengesellschaft**  
**Düsseldorf, 17 June 2009**  
(The spoken version of the text is definitive.)

Ladies and gentlemen,

I am pleased to welcome you to the press conference on the Annual Financial Statements of the ARAG Group for fiscal year 2008.

The Board of Management presents a slightly altered face today. New to our team is Dr. Joerg Schwarze. As Chief Risk Officer, he now heads the newly created Group Risk Management and Group Controlling Unit.

Dr. Schwarze has been with us for two and a half months and is still learning the ropes in his new position. Dr. Jan-Peter Horst resigned from the Management Board by amicable mutual agreement in early June. I wish to take this opportunity to thank him for his service to our company. His duties will be assumed by Hanno Petersen from now on.

I would like to say this much at the outset: The ARAG shareholders have not experienced a crisis of the present magnitude in global financial markets for the past 75 years. Yet the enduring worldwide financial crisis does not pose a threat to our organization and will not do so in the future. Our Company enjoys the strong and reliable support of its shareholders.

More than ten years ago, during a truly difficult phase in the history of our Company, there were plans on the table to sell half interest in ARAG to the American AIG. Maurice Greenberg, then Chairman and CEO of AIG, expressed strong personal interest in the proposed plans. I finally found a solution that enabled us to avert the merger and keep ARAG completely in family hands. At that time, no one was very optimistic about the future prospects of this model of a family enterprise in the insurance industry. But times have changed. Today, AIG is struggling to survive despite having received 180 billion dollars in bailout money from the U.S. government. In

contrast, our small but strong ARAG Group is still in excellent shape. I don't think there is a better way of describing the position of ARAG in the midst of this global crisis. Naturally, the recession of the century has affected us as well, yet our company has demonstrated its ability to weather the crisis. We can continue to focus fully on our strengths.

A look at our key fiscal figures clearly shows that the financial crisis did not catch the ARAG Group unprepared. We have been strengthening our business operations in the insurance sector systematically since 2003. We did our homework early on and made tough decisions in the process. As a direct result, the ARAG Group can rely on its excellent insurance business today. And that is true at both the national and international levels. It remains a strong pillar of support in turbulent times.

What are the most outstanding points expressed in the Annual Financial Statements of the ARAG Group?

- Despite the global economic crisis, ARAG achieved a 1.4 percent increase in premium income.
- Our international business exhibited continued robust growth and recorded a gain of 5.7 percent.
- We have acquired additional interest in a Scandinavian company.
- Our health insurance business continued to develop dynamically and recorded an above-average growth rate of 7.3 percent.
- The rigorous cost-cutting programs implemented over the past several years have continued to yield sustainable benefits. Underwriting earnings leaped by 30 percent.
- The claims ratio decreased by nearly two percentage points. The combined ratio improved once again to 97.1 percent.
- Very good earnings from ordinary business operations enabled the ARAG Group to set aside substantial risk reserves. Write-offs amounting to € 90.8 million were taken on securities. The share quota was 1.94 percent in 2008.
- Our German core sales organization has now been stabilized following several difficult years. The number of sales partners has increased in net terms.

- Following ARAG Rechtschutz (ARAG Legal Insurance) of Germany, a second ARAG company, the composite insurer ARAG Allgemeine (ARAG General) has received its service certification from the TÜV (Technical Inspection Board) and a rating of “very good.” Thus the only two insurers in the German market to have received such high ratings are subsidiaries of the ARAG Group.

## **I. Business development**

### **• Continued good growth**

Despite the worldwide recession, the ARAG Group has continued to achieve consistent growth. Premium income from insurance policies rose by 1.4 percent to € 1.36 billion, up from € 1.34 billion in 2007. Including non-insurance revenues, total Group income increased from € 1.39 billion to € 1.40 billion.

### **• Capital investments increase by 1.4 percent**

As of the balance sheet date, total capital investments amounted to almost exactly € 5.0 billion – 1.4 percent higher than in 2007 (€ 4.93 billion). The market value of these investments as of the balance sheet date was € 5.09 billion). The Group wrote off € 90.8 million on securities. Valuation reserves amounted to € 87.0 million.

### **• Strong earnings from normal business operations**

How does ARAG look today in terms of earnings? ARAG has benefited from the fact that problematic financial transactions were avoided in past years. Our portfolio contains no structured securities. Furthermore, we reduced our open share quota to 1.94 percent at the beginning of the reporting year. This reduces the risks associated with capital investments to a minimum.

A significant indicator of our success is the underwriting account. We are proud to note the excellent operational performance. Viewed in retrospect, we could not have planned such a perfect landing in the midst of a financial crisis if we had tried. Underwriting earnings leaped by 30.1 percent from € 48.5 to € 63.1 million. This gain is largely attributable to the

significant increase in underwriting earnings in the legal insurance segment, which rose to € 29.5 million following a loss of € 2.5 million in 2007. These gratifying results are the fruits of our persistent optimization efforts, which have paid off to an increasing extent.

The costs of insurance claims decreased slightly from € 867.8 million to € 860.1 million. The claims ratio fell from 66.1 percent to 64.2 percent. This improvement is attributable to efficient claims management within the Group, most notably in the telephone service. ARAG maintained a stable cost ratio of 32.9 percent, practically matching the previous year's figure (32.8 percent). The combined ratio improved once gain due to the reduction in claims costs, declining by 1.8 percentage points from 98.9 to 97.1 percent.

Our excellent operating results enabled us to offset the effects of write-offs to a significant extent. Return on capital investments decreased from € 192.4 million to € 103.6 million in 2008. This decline is largely the result of write-offs on securities. Due to the lower return on capital investments, earnings from ordinary business operations decrease from € 60.2 million to € 22.0 million.

Viewed from the standpoint of taxes, ARAG earned too much in 2008. The tax rate rose to a new high of 82 percent. This was due largely to the tax burden borne by more profitable domestic and foreign Group subsidiaries, which impacted with full effect as it was not possible to balance taxable earnings across national borders. Added to this was the fact that a portion of value adjustments for capital investments was not deductible. Perhaps it is worth noting at this point that there are companies which do not appeal to the government for help but instead pay taxes at a rate of 82 percent because they have managed their business affairs properly during the crisis. Under the influence of this high tax rate, net Group income before external portions fell from € 21.1 million in 2007 to € 3.8 million.

We traditionally place strong emphasis on a very conservative policy with respect to provisions. Policy underwriting provisions were increased once again and rose by 1.6 percent to € 4.59 billion (2007: € 4.52 billion).

Consequently, technical provisions cover 342.6 percent of the value of premiums earned by ARAG.

Despite the effects of the financial crisis, guarantee funds maintained by the Group, consisting of equity reserves and provisions, rose slightly from € 4.85 billion to € 4.91 billion.

Group solvability of ARAG Aktiengesellschaft as the top-level company equates to approximately 125\* percent of liabilities. For an insurer of private policyholders which is not exposed to major losses or cumulative risks, this coverage surplus is more than sufficient and can be regarded as a good value in view of the collapse of financial markets.

With respect to the extraordinary negative factors that influenced our business performance in 2008, the family shareholders regard ARAG's earnings situation as acceptable. The "hits" taken during the crisis have all been quite manageable. Thanks in large part to our excellent underwriting earnings, the Group can continue to act in the interest of its policyholders with confidence even during this period of crisis. This is the point at which the fundamentally sound substance of our company becomes evident. Thanks not only to the unique ownership situation but also to our very good operating results, we are less susceptible to the changing moods of capital markets. This degree of stability is important to our policyholders and our employees alike.

## **II. Group business segments**

### **• Stable growth in the legal insurance segment**

ARAG's legal insurance business remained robust despite the effects of the global recession and grew at a rate of 1.5 percent from € 674.6 million to € 684.6 million. The major growth driver was our international legal insurance business, which increased its lead as the Group's largest business field. In spite of this growth, the costs of claims in the legal insurance segment decreased from € 392.2 million to € 364.4 million. The claims ratio of 53.9 percent can be regarded as very good (2007: 59.0

\*The final value is 120,98%.

percent). As mentioned above, underwriting income in this segment rose substantially to € 29.5 million following a loss of € 2.5 million in 2007.

The contributions of our **international legal insurance providers** increased significantly by 5.7 percent to € 367.2 million (2007: 347.6 million). This means that 54 percent of revenues in this segment came from international business.

ARAG holds its strongest market positions in Spain, Italy, the Netherlands and the U.S. The crisis had a direct impact on business in the U.S., but in a very different way than might have been expected. ARAG recorded the strongest growth in years in the **United States**, where premium income rose by 15.5 percent. Thanks to its business model, ARAG North America has been the big winner in the crisis. The severe mood of uncertainty generated among people in the U.S. by the financial crisis has resulted in a rise in the demand for legal insurance – and we have benefited from that in the U.S. **ARAG Spain** also achieved strong growth, with premium income up by 6.2 percent.

This strong growth is flanked by good profitability. The combined ratio was 95.6 percent. The solvency level of our international subsidiaries, which ranges from good to very good, has also been maintained during the financial crisis. The solvability of our individual subsidiaries is 307 percent in the U.S., 367 percent in Spain and 173 percent in the Netherlands, to name only three examples. On the whole, it is evident that the ARAG Group has a firm grip on its international business and has managed to avoid unreasonable risks in foreign markets.

As predicted, premium income accrued by ARAG in the German **legal insurance segment** decreased by 3.0 percent. The value of gross premiums written declined from € 327.0 million to € 317.3 million. The main reasons for this downturn were the absence of premium adjustments and our persistently selective underwriting policy in the German market. These factors were accompanied during the reporting year by full impact of the structural effects of changes in our exclusive sales organization. Our sales management team was downsized significantly. The original 24 district sales offices were replaced by 15 regional offices. At the same time, our sales partners were granted additional freedom and incentives for their sales activities. All of these changes have now been completed

and are already showing positive effects. Our core sales organization has clearly reached a good level of stability following a period of flux. It has become more attractive for our sales partners, and the number of sales partners has increased as a result. As in previous years, ARAG has continued to solidify its position as a legal insurance provider in the German insurance brokerage market. Sales in this channel exceeded production targets by 30 percent in 2008. Brokered sales accounted for 37 percent of total legal insurance production during the reporting year.

The new legal insurance policy for self-employed people was successfully introduced in 2008. Sales expectations were exceeded by a wide margin. The TÜV (Technical Inspection Board) attested to the unusually high quality of the ARAG initial telephone legal advisory service. ARAG was the first German insurer to be certified with a rating of “very good” for service and has established its position as the benchmark leader in this area. In Germany, ARAG Rechtschutz (ARAG Legal Insurance) achieved a high standard of quality while reducing its cost ratio significantly from 38.1 percent to 36.8 percent. The individual solvability of ARAG Rechtschutz, the Group’s operational holding company, was computed at an excellent 504 percent as of the balance sheet date.

- **Markedly improved earnings in the composite segment**  
ARAG has consolidated its property and accident insurance operations along with the attractive sports insurance business outside the legal insurance segment within the composite insurance segment. Operations in this segment are managed by ARAG Allgemeine (ARAG General). Premium income in this segment was stabilized during the past business year. ARAG’s consistent focus on profitability had cost the company premium income in past years. In 2008, premium revenues remained steady at €236.5 million, nearly matching the results of the previous year (€237.1 million). In the field of sports insurance, the addition of new risks to policy coverage for regional sports associations and the expansion of supplementary insurance options for sports associations resulted in a slight increase in premium income.  
ARAG benefited in this segment from an excellent claims ratio of just under 52 percent. Hurricane “Emma” and several other regional storms had no significant impact on total claims costs. The underwriting account

showed a very good balance. Underwriting earnings rose substantially from € 17.5 million to € 28.9 million. ARAG Allgemeine recorded an individual solvability of 217 percent.

- **Strong, dynamic growth in the health insurance segment**

With highly dynamic growth in the health insurance segment, ARAG actually surpassed the growth rates achieved in the international business. Premium revenues rose significantly once again, from € 218.0 million to € 233.9 million. The growth rate of 7.3 percent clearly exceeded the segment average for private health insurers again in 2008. ARAG Kranken (ARAG Health Insurance) benefited for the first time from the effects of the new full-coverage premium rates introduced to the market in late 2007. Monthly premiums for new policies were up 100 percent as compared to those of the preceding year. Once again, this strong revenue growth was accompanied by excellent earnings, as the company achieved an underwriting earnings ratio of 10.7 percent in spite of a 12.6 percent increase in paid insurance benefits. The solid status of this segment was confirmed in 2008 by a follow-up rating of “A” (good) awarded by Assekurata. Assekurata expressed special praise for the high level of customer satisfaction and the “excellent security features” offered by ARAG Krankenversicherung. The individual solvability of ARAG Kranken was 223 percent.

- **ARAG Leben (ARAG Life Insurance) offers a completely new product portfolio**

ARAG now offers a completely revamped product program in the life assurance segment. The most recent addition to the portfolio is a product designed specifically to respond to problematic financial market constellations. ARAG Forte 3D is a variation of a dynamic hybrid product that emphasizes the security of paid customer premiums. In a comparison of benefits carried out by analysts Morgen & Morgen, the new product was ranked first at all three levels of old-age security coverage. The high quality of the entire family of ARAG fund-linked policies had a vitalizing effect on the brokerage business in particular. Production in the brokerage segment rose substantially and exceeded our planning targets by 27 percent.

Regular maturity benefits continued to impact on premium growth in the segment at a consistent rate in the past reporting year. Premium revenues decreased from €212.5 million to €206.0 million. Of prime importance to our customers is the fact that gross earnings accrued by ARAG Leben rose slightly from €17.5 million to €18.5 million in 2008. Of that amount, 94.6 percent were paid out in profit-dependent premium rebates. The individual solvability of ARAG Leben was computed at 178 percent.

- **Customers appreciate the outstanding expertise of our employees**

One specific aspect has become practically a matter of routine within the context of our regular market research surveys. Every time we conduct a customer survey, our policyholders emphasize how much they appreciate the competence and friendliness of our employees. We are proud of that, and we know that we can rely on our well-qualified, highly committed team. In order to ensure that we can say that in the future as well, we have created a comprehensive online qualification program called "ARAG IQ." The program is available to all ARAG employees worldwide in support of individual personnel development. Committed employees appreciate excellent leadership, which is not the least of the reasons why we introduced a new set of leadership principles for the ARAG Group during the reporting year. The ARAG Leadership Standards translate the contents of the Group policy guidelines, the ARAG Essentials, into standards for leadership behavior. The Leadership Standards articulate expectations relating to exemplary management within the Group. In this way, we have created a framework that provides clear guidelines for all ARAG employees, both in Germany and abroad.

Our staff contributes significantly to the progressive improvement of our Group. The number of employees decreased from 3,427 to 3,384. The share of employees outside Germany continued to increase from 40.4 percent (2007) to 43.4 percent of total staff.

### **III. Scoring points with our strengths**

Ladies and gentlemen,

Consumers must be able to rely on the German insurance industry to remain strong even during periods of turbulence. But that should not tempt us to succumb to the illusion that the financial crisis is of no concern to insurers. I feel compelled to express an urgent warning against that, for we cannot afford to gamble with our credibility. Regardless of how one assesses the investment behavior of insurance companies, consumer coordinate systems are currently undergoing major, long-term changes. Consumers are now re-evaluating the relationship between policyholders and insurers – and we should prepare ourselves accordingly. People's attitudes are now shifting in favor of conservative values and down-to-earth pragmatism. We are dealing with a kind of "mental currency reform" that will have profound consequences. That offers a great opportunity for the insurance industry, provided insurers focus on their true fields of expertise. We are not financial advisors to our policyholders. We are their risk managers, and consumers are more concerned with that aspect than ever before. It is here that we need to sharpen our profile and avoid watering it down with competencies that appropriately belong to the banking industry.

So what does that mean for our Group? Late last year, I conveyed to you my impression that this mental currency reform within the consumer community suits us quite well as a family enterprise. We have since studied this matter and analyzed the situation on the basis of market research.

The results are astoundingly clear and gratifying. The family enterprise model plays an important role in the minds of consumers in the insurance market as well. It presents an appealing alternative to the large-scale corporation, and that reflects a shift of attitudes in favor of traditional value systems:

- strong roots nurtured by tradition,
- sensible growth accompanied by stability,
- a solid foundation in core expertise
- and close attention to the needs of customers and employees

This impact of this positive attitude is evident in the fact that the model of the family enterprise yields a sales-enhancing bonus among consumers, especially in the insurance market, provided performance and quality are in line with prevailing standards. Protection is a function of the family and is thus more closely associated with a family enterprise at the emotional level. Herein lies a tremendous potential, which ARAG has the opportunity to tap exclusively due to its distinctive character as a family enterprise. There is only one small weakness in this analysis. Consumers are not aware that ARAG is a family enterprise. And we bear at least some of the blame for that. We have evidently failed in the past to emphasize strongly enough that ARAG is a sound and reliable insurer for the very reason that it is a family enterprise. The results of our research encourage us to step up our efforts to convey a clearer sense of the unique character of our company to our customers and partners. As a family enterprise, ARAG stands for such values as dependability, stability, predictability and entrepreneurial spirit. These values are the embodiments of our company's entrepreneurial continuity. To an increasing extent, they must be regarded as prerequisites for sustainable business success. Business statistics do not tell the whole story – and certainly not in an industry that depends so heavily on consumer trust.

#### **IV. Outlook**

Ladies and gentlemen,

You are surely interested in hearing how our business has developed during the first six months of this year. We have started the year with moderate growth. Premium revenues have risen by 0.4 percent from € 695.3 million to € 698.4 million. Particularly noteworthy in this regard is the substantial 8.8 percent gain achieved by ARAG Krankenversicherung. On the whole, production exhibits no symptoms of crisis. It has improved markedly and is up 10 percent as compared to the same period last year. We have acquired 25 percent more new policyholders than during the first several months of 2008.

Based on these early results, we anticipate stable growth of between 1.5 and 2 percent in business year 2009. And we expect that Group earnings will also improve again this year.

Quite in keeping with this positive assessment, we have just recently acquired an important new key account for our still young commitment in Norway. Beginning in the fall of 2009, we will be insuring all 55,000 members of the Norwegian Industri Energi labor union. This organization representing employees in Norway's heavy and energy industries is the largest single union in the Norwegian federation of labor unions. Our legal insurance coverage will be part of the mandatory benefits package provided by the union to its members. This new key account provides us a strategically important reference that will be very helpful in our efforts to establish ourselves in the Scandinavian market.

The ARAG Group remains a healthy, robust enterprise in 2009. That is our incentive and the motivating force that encourages us to do everything in our power to ensure that we can make the same claim in the future as well. We shall continue to invest in the quality of the benefits our company offers. Having received a top rating of "very good" for our initial attorney telephone consultation service from the TÜV (Technical Inspection Board) in 2008, we have continued to improve the quality of our services this year. In early June, the TÜV reviewed our claims management performance in the property and accident insurance segment on the basis of a survey of over 1,000 policyholders. Those surveyed were asked to rate the accessibility and friendliness of our service personnel as well as the speed with which claims were settled. We succeeded in surprising the TÜV inspectors and surpassing our already excellent rating in the legal insurance segment. With a rating of 1.40, we received the best mark ever awarded by the TÜV in this segment. ARAG had previously set the old record of 1.45 with its initial attorney telephone consultation service.

Ladies and gentlemen,

ARAG will remain true to its conservative business principles in 2009. We have remained consistently aware of our responsibility in every business decision we have made for the past 75 years. No one outside of our Group will come to our aid if we make mistakes. And this knowledge has been a

decisive disciplining factor in every decision made by our Company. Consequently, we assume only those risks we are able to bear as a family enterprise.

And thus we are well prepared to cope with the economic recession even if it lasts into the year 2010. That said, we would prefer not to rule out the possibility of a gradual recovery beginning as early as the end of this year.

We look to the future with confidence, regardless of how quickly the economy recovers. Our business model has been tested and proven capable of weathering the crisis. Our financial standing is fundamentally sound. We see no need for further staff reductions. We are privileged to have excellent employees who have continued to perform calmly and reasonably even during these turbulent months. The Group has done its homework on time and has a very precise picture of the benefits it offers its policyholders. We shall continue to invest in our company's strength on behalf of our customers. The Group will continue to pursue its growth course and take advantage of attractive international opportunities to enter new markets. We shall remain interested in opportunities for further acquisitions provided they make sense from a business perspective.

Thank you for your attention. I look forward to your questions.