

Annual Press Conference

ARAG Holding SE

Statement by Dr. Dr. h. c. Paul-Otto Faßbender

Düsseldorf, 29 May 2019

(The spoken word is definitive.)

Good morning, ladies and gentlemen,

My colleagues on the Management Board and I wish to welcome you all to the Annual Press Conference presented by the ARAG Group. We are very pleased that you have accepted our invitation.

The Board appears today in a new composition. As we announced in advance late last year, Werner Nicoll, our Board Member, Finance for many years, retired in mid-April. Wolfgang Mathmann is now responsible for Finance and Accounting, and he is with us for the first time today. He has been working for ARAG since 2010 – as a member of the Board of ARAG Allgemeine Versicherungs-AG and as Senior Vice President, Group Risk Management, among other functions. Asset Management has now been reassigned to the department headed by Dr. Renko Dirksen.

But these are not the only personnel matters I wish to talk about today. Since I would prefer not to add more suspense to our meeting today than is absolutely necessary, I'm going to fulfill the promise I made to you during the last background informal press briefing right now. My appointment as Chairman of the Board of ARAG SE ends as planned slightly more than a year from today in July 2020. I have notified the Supervisory Board that I shall not accept a further extension of my term of service as Board Chairman. I turn 74 next year and will then have served as Chairman and CEO of ARAG SE for exactly twenty years. I think that will be just the right moment for me to end my involvement in day-to-day business operations. ARAG SE has enjoyed very good success for a number of years now, and we have set the right course for future success.

Thus as owner, I intend to pass on my responsibility for the operational management of our insurance business so someone else. That job clearly belongs in younger hands. Ensuring the future viability of our organization is one of my most important duties as majority shareholder. I cannot fulfill this obligation by ignoring my advancing age, but rather by making room for a new management

structure. Taking this step has been made much easier for me by the highly successful work of the entire Management Board team. The Group's business development offers impressive proof of this fact, and the key business indicators for 2018 are no exception, as we shall see later on.

However, I plan to remain present within our organization and maintain my close ties with all employees, as majority shareholder and Chairman of the Board of the Group parent company ARAG Holding SE. And lest this announcement to any misinterpretations, this naturally means that ARAG will remain firmly in family hands.

Future responsibility for ensuring the continued successful development of the ARAG Group will be entrusted to the entire Management Board, which has many years of experience as a team. The Supervisory Board has given considerable thought to the question of how this key factor in the success of our organization can be strengthened in the future and has concluded that this can be achieved most effectively through the moderating role of a Speaker of the Management Board. The Supervisory Board is firmly convinced that the high quality and substantial expertise of the entire management team can best be honored in this way. The Supervisory Board has entrusted Dr. Renko Dirksen with this responsibility and appointed him Speaker of the Management Board of ARAG SE effective 4 July 2020. By making this decision deliberately well ahead of time, we are setting the stage for a calm, orderly and smooth change of leadership in the top management of ARAG SE. There is plenty of time left for me to pass on my duties and for Dr. Renko Dirksen to familiarize himself with his new role.

That shouldn't be difficult for him. He knows the Group inside and out, and the Group knows him very well in turn. Dr. Renko Dirksen has been working in various different positions and capacities at ARAG since 2005 – including his service on the Boards of ARAG Life and ARAG Health. He has been a member of the Board of ARAG SE since 2015, and has provided significant impulses for the reorientation of the ARAG Group during this time. In particular, I'd like to mention the sale of our life insurance business, a highly complex undertaking which he initiated and brought to a successful conclusion. He is also largely responsible for the international expansion of the ARAG Group, which he promoted through entries into new markets. In all of his projects, Dr. Renko Dirksen has demonstrated outstanding analytical skills and strategic foresight. He

moderates approaches to controversial issues with typical northern German calm and a focus on solutions. These qualities clearly recommend him for this new position. I am very happy that Dr. Renko has accepted this challenge. He has my full trust. As every single member of the Management Board has my full trust when it comes to keeping our Group on course for success.

I would now like to give Dr. Renko Dirksen an opportunity to express his thoughts about his new role.

(Dr. Faßbender hands over to Dr. Dirksen)

Thank you, Mr. Dirksen,

With that I'd like to conclude our discussion of this topic on our agenda. We shall continue to work with our existing team and address all matters calmly and thoughtfully for the next 12 months and more.

Let us now move on to the actual occasion for our meeting today. The performance of the ARAG Group in 2018 clearly confirms the trend which we presented to you in December. We are now pursuing our path to success with a focus on the property and health insurance business. The Group is progressing dynamically and reporting impressive results in terms of both premium income and earnings.

Allow me to list the most important KPIs for 2018:

- Group premium income rose by 4.3 percent.
- Revenue from business in Germany once again surpassed the market average with growth amounting to 4.1 percent.
- ARAG gained 4.7 percent more revenue internationally.
- The Group's German legal insurance business grew by a significant 7.3 percent.
- ARAG generated revenue in excess of one billion euros in the legal insurance segment for the first time ever.
- We profited from our strong online business once again, with a 14-percent increase in customers.
- As in past years, ARAG posted strong growth as well as very good earnings. The underwriting result rose markedly to the excellent level of € 97.4 million.

The following can be said of our performance in 2018: Our most important strategic policy decisions on behalf of the Group proved to

have been correct and – above all – sustainable. We consistently applied the business principle we had adopted in recent years: acting, performing and delivering. And the successful international expansion of our business now plays an increasingly important role for our organization.

Let us take a closer look at how our business has developed:

I. Business development

The ARAG Group continues to achieve strong growth and earnings in its key markets.

The strong and stable growth trend set by ARAG in recent years continued in 2018. Premium income in the property and health insurance segments grew by a substantial 4.3 percent, from € 1.58 billion to € 1.65 billion.

All in all, the Group proved to be in very good shape in both its national and international markets. We recorded 4.1-percent growth in the German market, with revenues up from € 942.7 million to € 981 million. Thus we performed well ahead of the general market average of +2.6 percent. Our customer base in Germany also grew by 3 percent. Our international units turned in a convincing performance once again with total premium income up by 4.7 percent to € 672.6 million (2017: € 642.2 million). Due to this strong growth in Germany, for the first time in many years the relative contribution of our international units to total insurance revenue did not increase, but fell marginally below the 41 percent recorded in 2017 (2018: 40.6 percent). I assume that this share will increase again in the future. In principle, I am actually quite happy with this little internal competition for growth between our German and international business units.

Underwriting profit up by over 32 percent

You have been aware for many years that I am an uncompromising advocate of good underwriting results. If I fail to generate sufficient earnings with sales of my products and am forced to rely on substantial capital income, I may be a good banker but not a successful insurance entrepreneur. The key technical indicators tell us whether we have our business under control or not.

Measured by this standard, the ARAG Group is in truly excellent shape. Our underwriting result rose by more than one-third from € 73.5 million to € 97.4 million – a new record for the most recent ten-year period. This is attributable to significantly improved results for our property insurance business – most notably the legal insurance segment.

The combined ratio declined once again and improved slightly from 89.9 to 88.6 percent. 2010 was the last year in which one euro of collected premiums produced no earnings (a combined ratio of 100 percent).

Claims costs rose only moderately in spite of our substantial business growth. They rose by 1.9 percent from € 854 million to € 870 million. The claims ratio fell to 53.1 percent. Strong premium income and the continued expansion of our international business are the largest fields of investment for our Group. Thus operating expenses increased from € 558.4 million to € 582.7 million in 2018 (+ 4.4 percent). Thanks to the larger business volume, the Group cost ratio remained virtually unchanged from 2017 at 35.5 percent.

All business segments of the ARAG Group contributed to the gratifying earnings situation. In addition to the previously mentioned legal insurance segment, this also applies to the health and composite segments.

One regrettable development must be mentioned nonetheless. Substantial declines in special funds led to write-offs, especially at year's end. Ordinary capital gains from these funds remained stable. Due to our business policy of implementing write-offs immediately, the capital investment result declined significantly from € 136.1 million to € 81.2 million. The substantial price increases that followed in 2019 could not have been anticipated. Thanks to our conservative depreciation policy, the write-offs scheduled for Business Year 2018 were fully realized and will have no impact on future results.

The Group's substantial underwriting earnings offset these capital investment losses for the most part, although not completely. Profit on ordinary activities amounted to € 70.2 million as compared to € 81.2 million in 2017.

Thanks to lower tax expenditures, Group net income for the year rose by 25 percent from € 27.8 million to € 34.7 million.

The Group SFCR Reports submitted by German insurers will be published on 3 June. We expect to have achieved a further improvement in the overall solvency ratio for the ARAG Group. With eligible own funds totaling € 1.16 billion and a solvency capital requirement of € 444 million, the Group expects to report a solvency ratio of 260 percent. Thus ARAG is more than sufficiently solvent. The Group did not implement any transitional measures in terms of interest or provisions

Ladies and gentlemen,

A clear growth course, sound solvency and strong earnings in the insurance business – these are the key messages we get from the past business year, and they are very good news in the eyes of a majority shareholder. It is also worthwhile to reflect on the fact that the ARAG Group was only in the second year of its comprehensive restructuring process in 2018. The organization has mastered the resulting changes effectively and now finds itself on a sustainable path to success. The return on equity after taxes rose from 6.2 percent in 2017 to 7.5 percent in 2018 – despite an increase in corporate equity. ARAG shares are still the most successful stocks in my personal insurance portfolio.

II. Group business segments

Legal insurance segment surpasses the one-billion mark in premium income.

Underwriting profit improves significantly.

The Group's largest business segment proved to be in truly good shape in 2018 and passed a significant milestone. For the first time ever, premium income from our legal insurance business leaped the one-billion euro hurdle. With a gain in premium income of € 65.4 million, the segment recorded a truly strong year. Revenues rose by 7 percent from € 939 million to € 1.04 billion.

The **German legal insurance segment** delivered a significant growth spurt. Premium income from self-contracted business rose more substantially than in 2017 improving by a solid 7 percent from € 349.2 million to € 379.5 million. It is important to note that we also expanded our customer base and added more than 46,000 new policies to our insurance holdings. The German legal insurance

market grew by roughly 4 percent during the past business year. Under the influence of this positive trend, our market share improved from 8.8 to 9.4 percent.

The successful **international expansion of our legal insurance business** is the central supporting pillar of our business strategy. ARAG's positive and dynamic growth process actually began much sooner outside of Germany. We developed robust, resilient and sustainable business models in our international units, and we are fully capable of effectively managing their diversity and flexibility. Premium income from our international legal insurance business amounted to € 606.6 million as compared to € 568 million in 2017 (+ 6.8 percent). Strong gains were achieved by our teams in the Netherlands (+ 6.0 percent), Italy (+ 5.5 percent) and Austria (+ 6.3 percent). ARAG made even greater progress in the US (+ 13 percent) and Scandinavia (+ 16 percent) on the basis of the respective national currencies. We also successively entered several new markets. After launching business operations in Canada, we are now awaiting the final approvals in Australia. At the beginning of this year we took over the small portfolio of insurance policies valued at € 6 million from DAS in the Republic of Ireland, and are waiting for the final approvals there as well.

Right on time for the 30th birthday of ARAG North America, we completed approval procedures for the launch of operations in the 50 federal states and in the District of Columbia (Washington D.C.). We initiated this complicated and time-consuming process in 2016 in order to ensure that we can conduct our business directly, without fronting partners. We can now issue ARAG policies to all customers in the US without relying on additional fronting support. This represents an important milestone in our efforts to expand our successful business in the US.

All in all, operations in the ARAG legal insurance segment were highly successful in 2018. Underwriting profit from these activities rose significantly from € 43.6 million to € 63.3 million.

Lower revenues in the composite segment due to the restructuring of our international portfolio

ARAG's composite segment failed to match the good growth achieved in previous years in 2018. This was the result of the entrepreneurial decision to discontinue the large-scale contracts for

special service packages issued by the Spanish branch. Consequently, our premium income from the legal-insurance-related special service package business decreased from € 73.6 million to € 65.4 million. Our revenues in this segment fell accordingly by one percent, from € 281 million in 2017 to € 275.7 million in 2018. The German market presented a different picture, however. Thanks to the modern and attractive product portfolio offered in Germany, premium income rose by 1.3 percent in a highly competitive market environment.

Disastrous weather events such as storm Frederike led to an increase in building insurance claims. The resulting claims costs were effectively offset by the reduction in claims payments for international special service packages. The claims ratio of 55.3 percent remained very close to the level of the preceding year (55.9 percent). Underwriting profit in this segment rose from € 12.5 million to € 16.6 million.

Growth in the high-performance health insurance segment fueled by partial-coverage and full-coverage products

The health insurance segment underscored ARAG's outstanding position as one of the best private health insurers in the market once again in 2018. Various external comparative studies confirm the high performance capacity and attractiveness of ARAG health insurance for our customers and brokers. This is also reflected in the growth of our business. Premium income in this segment rose by 2.4 percent – slightly ahead of the market average – and amounted to a total of € 373.7 million (2017: € 365.1 million). As you know our health insurance business is clearly focused on partial-coverage insurance. In 2018 we also bucked the market trend with growth in sales of full-coverage policies – albeit on a relatively small scale.

Our customers benefit directly from our good business growth in the form of stable premiums. We set aside 86 percent of our gross profit of € 52.8 million (2017: € 58.5 million) for provisions for premium refunds. The underwriting result of € 17.6 million remained virtually unchanged at the good level achieved in 2017 (€ 17.4 million).

Employees with new ideas and a willingness to change

In view of these many positive messages, my colleagues on the Board and I agree that it is of essential importance for us to emphasize the

role played by our excellent and highly productive employees on the occasion of this press conference. We are well aware that this outstanding team makes the crucial difference both in Germany and abroad and is a key factor in ARAG's competitive strength. Thus it was perfectly natural for us to invite all of our national and international teams to contribute ideas in a structured process within the context of our ARAG Smart Insurer Program. After all, our own employees are the real experts in these matters and the most critical analysts of their own organization. They also demonstrate a high level of creative drive and innovative spirit. We continue to rely heavily on the expertise of our local employees – especially within the framework of the digital transformation process. The Board wishes to take this opportunity to thank our employees at all corporate levels for their strong commitment and dedication.

The number of ARAG employees rose by roughly 2.5 percent from 4,042 to 4,152 during the past business year. This increase complements the significant expansion of our business operations above all, and the most substantial growth took place in our international units. More than 52 percent of our employees work outside of Germany today.

III. Outlook

ARAG makes a good start in 2019.

+ 5.8 percent in the 1st quarter

The digital agenda will play a dominant role in 2019.

You are accustomed to hearing us present the key business indicators for the first half of the year on this occasion. Because of the successive advancement of our balance sheet date it would make little sense to talk about non-finalized planning figures before 30 June. So we shall report on the actual figures for the first quarter of the year. Compared to the same period in 2017, revenues for the ARAG Group rose by 5.8 percent to € 502 million (Q1 2017: € 474 million). Premium income in the German market increased by 5.5 percent. The German legal insurance segment also experienced a very strong start and recorded a 7-percent increase in revenue. With an 8-percent premium gain, the Group also performed very well in its international legal insurance markets. We also look back at a very

good first quarter marked by figures in excess of planning targets in Italy, Scandinavia and the US. Our expectations for 2019 are optimistic. We expect the Group to remain on its evident growth course and continue to post strong earnings.

The **digital transformation** of the ARAG Group is surely another important part of our plans for the future. We have consistently kept you thoroughly informed with respect to developments in this area in recent years. A look at my personal situation will show you how much effort we are putting into this process. At age 74, I feel fully capable of supporting the digital transformation of our Group, especially when it comes to issues of relevance to corporate policy and our corporate culture. But I no longer need to take the lead when it comes to operational details. I do not underestimate the importance of this aspect. It is simply a question of credibility for the Group as a whole.

We shall continue to work through our clearly defined digital agenda. The Group is moving ahead rapidly in this area, both nationally and internationally. At this point I'm perfectly happy to say once again that I don't find the term "digitization" particularly apt, for the simple reason that it is misleading. The technological changes involved are only part of the whole process. The fact is that we are in the midst of an epochal technological transformation that affects all areas of our economic, political and social life.

Thus our objective should not be to try out every solution technology offers us. What we must do instead is improve our ability to perform and deliver significantly in the interest of our customers. And we need technological change in order to do that. My colleagues on the Board and I are firmly convinced that ARAG has several important advantages from the start that will enable us to meet these challenges successfully. Among these are our mid-sized corporate structures and our international positioning. We can act and deliver faster than our competitors. Size always tends to come at the expense of speed, and that is where we see our best chance. You are familiar with the Board's position in this regard. The digital transformation is a stroke of luck for ARAG, and we intend to approach things with that in mind from now on.

We launched a new phase of development with the **ARAG Smart Insurer Program** in 2018. And just to remind you – with this

initiative, ARAG is combining the many individual digital solutions we have already developed within a single, unified strategic concept. By doing so, we have given direction to the dynamic commitment to development demonstrated by our Group. To that end, all ARAG teams designated 85 concrete measures for implementation within the framework the ARAG Smart Insurer Program during the clearly structured process I described to you in somewhat greater detail last December. The Board recently reviewed, evaluated and prioritized the measures planned by all national and international teams within the context of two workshops. We consolidated all of these measures within seven central fields of action and developed an operational plan through which the Group is to become much more clearly customer-oriented. Ease, convenience, speed and the greatest possible transparency for the customer are the key terms that characterize the program and the entire development process. ARAG plans to invest € 80 million in this program over the next three years.

Yet it is also clear that we are not starting from scratch in this case. We have already produced measurable results. The number of customers who purchase ARAG products online has risen once again by 14 percent. Twenty-five percent of new business in Germany is now transacted online. The share of online customers is at 12 percent, and that figure reflects the pace of ARAG's strong overall growth.

To avoid any misunderstandings, I should point out that we do not regard ARAG as a direct insurer. That is why we are also investing heavily in the digitization of Core Sales. As of this year, ARAG's entire exclusive sales organization uses a fully digitized sales process. Our sales partners handle the complete consulting process for our customers at the local level, from risk assessment to policy sales. The process is iPad-based and free of media breaks. We have also shut down all other online and offline tools formerly made available for exclusive sales in the interest of process clarity and simplicity.

In order to ensure that implementation of the Smart Insurer Program does not suffer from a lack of necessary infrastructure, we provided our German employees with computers from the most recent generation. All employees were given a choice of three types of laptops or tablets, and nearly all employees will be equipped with new devices by the end of May. This significantly

upgraded working environment will enable them to decide much more independently how and where they wish to work for the ARAG Group. Furthermore, we recognize the crucial importance of enabling all employees to experience the positive changes that are taking place in their own workplaces first hand.

Ladies and gentlemen,

please allow me to make one thing clear in conclusion: acting, performing and delivering are the three elements of our guiding business principle. Expressed in concrete terms, this means that the ARAG Group will continue to progress successfully, enlarge its customer base dynamically both in Germany and abroad and achieve good operational results. We have full command of our business and a very precise idea about how we intend to write the next chapters in our success story. We will continue our international expansion and participate fully in the digital transformation – to name only two of the issues I consider most important for the future. With the restructuring of our Management Board, we are sending an important signal for the future viability of the entire Group as a successful family-owned enterprise.

Thank you for your attention. We look forward to answering your questions.