

**Annual Press Conference**  
**ARAG Holding SE**  
**Statement Dr. Dr. h. c. Paul-Otto Faßbender**  
**Düsseldorf, den 14 June 2017**  
(The spoken word is definitive.)

Good morning, ladies and gentlemen,

I am pleased that you have accepted our invitation to ARAG SE's Annual Press Conference and welcome you on behalf of my colleagues on the Board of Management.

You have surely noticed that our Executive Management Team has changed. In April, Dr. Kathan asked the Supervisory Board to relieve him of his duties on the Board of Management for personal reasons. The Supervisory Board granted his wish in the spirit of amicable mutual agreement. During his 17 years of service to ARAG, Dr. Kathan contributed significantly to the growth and development of our organization. He gave new meaning above all to our international business, both within and outside of the Group. He also put our German sales teams back on track for success. And for that we wish to express our heartfelt thanks at this time.

In view of Dr. Kathan's accomplishments it was essential for us to entrust his portfolio of important duties to new and competent hands as quickly as possible. Dr. Maslaton has assumed this responsibility and now heads the newly established "Group Sales, Products and Innovation" Department. I consider this new structure both modern and forward-looking. We can now offer innovative product design, guidance and support from a single source through the sales channels our customers choose for themselves.

But let us move on to the matters that have brought us here today. Over the past five years, ARAG has evolved in a very positive direction – and we wrote another chapter in this success story in 2016. ARAG achieved dynamic growth once again, as reflected by our business figures, many of which surpass even the good results of last year.

What evidence do we have in support of this assessment?

- The ARAG Group achieved stronger growth in the insurance business than in the preceding year with a 4.4 percent gain in premium income.

- Our German insurance business clearly outpaced the overall market again in 2016 with a growth rate of 2.9 percent.
- The number of newly issued policies increased by 6 percent in both the German and international markets.
- The number of our online customers rose once again (+ 17 percent).
- Our international business grew significantly once again, with a 7.6 percent gain in revenues.
- Growth and profit went hand in hand again in 2016. Profit from ordinary activities rose by one-third to 87 million euros.
- The combined ratio improved once again to 91.5 percent.

In short, ARAG presented itself in very good shape again in 2016. Procedures and processes are well coordinated. Our sales, products and services meet the needs of our customers. As our key business figures show, we are highly motivated, success-oriented and working like a finely tuned machine at all levels. That is exactly the formula we need in order to continue building our business successfully.

Let us take a closer look at our business figures for 2016:

## **I. Business development**

### **Continued strong growth in Germany and abroad**

The ARAG Group achieved a significant gain in premium income in fiscal year 2016, thereby sustaining the growth trend of the past several years. As in 2015, above-average premium revenues in the German market played a key role. While the industry as a whole recorded 0.2 percent growth, ARAG grew its revenues by 2.9 percent to 1.13 billion euros under difficult market conditions, surpassing the mark of 1.10 billion euros set in 2015.

ARAG had recorded good business results in its international markets in past years, and that did not change in 2016. Revenue from all international business rose substantially once again, with a gain of 7.6 percent. Income from straight legal insurance in our international markets increased by 6 percent.

Total Group premium income rose to 1.73 billion euros, as compared to 1.65 billion euros in 2015. The ARAG Group reported total revenues of 1.78 billion euros.

The relative contribution of international business to total revenue

remained very high: 35 percent of our income was generated in international markets.

We succeeded once again in enlarging our customer base in 2016. Our Group now serves a total of 7.1 million policies, as compared to 6.6 million in 2015. That figure does not reflect the large number of insured risks covered by group sports insurance policies.

### **Capital investment portfolio benefits from stable market development.**

#### **Equalization reserve increased significantly**

Thanks to the comparatively robust growth in the capital markets, the value of ARAG Group's capital investment portfolio rose by 5.9 percent from 6.1 billion euros to 6.4 billion euros. Our equalization reserve remained high and grew to 776 million euros, as compared to 691 million euros in 2015.

### **More business and more profit:**

#### **Profit on ordinary business activities up by 30 percent**

The ARAG Group succeeded in combining strong premium growth with a substantial increase in profits again in 2016. At first glance, the underwriting result of 66.7 million euros appears just slightly higher than the previous year's value of 66.1 million euros. However, it is actually the best underwriting result achieved in the past ten years. This is all the more gratifying in view of the fact that the Group was faced with higher claims costs and expenditures as a by-product of its strong growth. In addition, we paid 12.7 million euros into our equalization reserves.

On the whole, the substantially higher premium revenues contributed to a further decline in our combined ratio, which fell from 92.3 to 91.5 percent. Here as well, we are talking about the best value posted in the past ten years. As you may remember, the Group claims ratio was still at 100 percent in 2010.

Although ARAG was spared the burden of major losses in 2016, claims costs rose nevertheless in both the property and health insurance segments due primarily to the significant expansion of our business. The Group paid a total of 1.01 billion euros in benefits to its policyholders

last year, as compared to 974.6 million euros in 2015. However, the claims ratio remained stable at a very acceptable level of 59.5 thanks to the higher premium volume.

Expenditures for insurance operations increased as anticipated under the influence of business growth, rising by 3 percent from 530.7 million euros (2015) to 546.5 million euros. A major contributing factor was the increase in the number of people employed abroad, which was necessary in order to provide qualitative support for the strong growth in our international business. The Group's cost ratio decreased slightly from 32.5 to 32.0 percent.

We continued to improve our underwriting result. In spite of our good growth, we are still right on course in this context. The Group definitely benefits from the focus on its property and health insurance business.

The largest source of earnings is the legal insurance segment, which reported an underwriting result of 63.4 million euros and profit on ordinary activities amounting to more than 103 million euros. Our composite and health insurance segments also continue to contribute good earnings results. Thus the ARAG Group holds a stable and robust position in both its German and international insurance markets.

The generally calm capital markets provided for interest-based write-ups on securities. Investment income improved accordingly by 13.7 percent from 211 million euros to 240 million euros.

Group profit on ordinary business activities clearly reflects ARAG's excellent business growth, with a gain of more than 30 percent. The Group earned profits amounting to 87 million euros, as compared to 66.7 million euros in 2015.

After deduction of taxes and external components, ARAG reported a nearly 48-percent gain in net profit totaling 43.1 million euros for the year, as compared to 29.2 million euros in 2015.

In line with our standard business policy, we kept the lion's share of our annual net profits within the Group in order to enhance our financial strength. We used them this year – as in the past – to augment our equity capital, which rose accordingly by 8 percent to 461.7 million euros. This policy will enable us to ensure our long-term independence.

In past years we have reported at this point on the development of the Group's own and guarantee funds. In the future, these reports will be replaced by the solvency capital requirements of Solvency II. At this time

we are hard at work preparing calculations for the SFCR Group report, which is to be published by 1 July. So much is clear at the moment: at well above 200 percent, the ARAG Group's solvency ratio will clearly exceed the level specified by the supervisory authority and represent what we think is a very high risk buffer. Transitional measures have been taken into account in the Group ratio through the inclusion of life insurance in the SFCR Group report. We expect a ratio of more than 150 percent without volatility adjustments and transitional measures for technical provisions. That is an indication that the realignment of our Group through the sale of the life insurance business will definitely increase the financial power of the ARAG Group. We currently assume that ARAG Life will no longer be included in the SFCR Group report for the current fiscal year.

Please allow me to shift perspectives for a moment. From the vantage point of the majority shareholder, the key business figures reported for the ARAG Group represent what people generally regard as a good investment. The Group is growing steadily, increasing its equity capital and reporting a solid 10 percent return on equity after taxes. Thus ARAG is one of the best insurance shares in my portfolio (and by a significant margin).

## **II. Group business segments**

### **Stable growth and significantly higher earnings in the legal insurance segment**

As briefly outlined at the outset, ARAG's legal insurance segment remains on track for success. Premium income rose by 51.3 million euros, or 6.1 percent, from 841.7 million to 893 million euros. As in previous years, this growth is attributable to very positive developments in both our German and international markets.

Once again, business in Germany grew at a faster pace than in the previous year. Premium income from self-contracted business rose by 6.6 percent to 329.3 million euros, as compared to 308.9 million euros in 2015. Thus premium growth exceeded the market average of 5.5 percent. Our market share remained practically stable at 8.6 percent (2015: 8.5 percent).

We are particularly pleased to note that, with its growth rate, our German legal insurance business has advanced for the first time into regions ordinarily reserved for the international legal insurance

business, which has been posting consistent premium gains for over 15 years. At 6.0 percent, growth in the international legal insurance business fell slightly short of that achieved in the German legal insurance market. Premium income from legal insurance policies outside of Germany rose from 511.2 million euros to 541.6 million euros. Especially strong growth was recorded in Spain (+ 15 percent) and Italy (+ 11 percent). These have been our core European markets, in which we have done very well in the face of difficult business environments for many years. We are also on track for success in the US, where premium income increased by 10 percent in 2016. Last year, we reported that we planned to expand our business in the US substantially and were seeking full approval to conduct business in all 50 states in the US. We have now obtained approval for all but three states. We still see strong market potential for our business in North America and plan to step up our activities there as well.

All told, claims expenditures in the Group's legal insurance segment rose from 426.8 million euros to 440.0 million euros as a result of our strong business growth. Under the influence of the higher premium volume, the claims ratio declined from 51.4 percent to 49.5 percent. The cost ratio also fell from 44.2 percent to 43.2 percent. The underwriting result in the legal insurance segment improved significantly from 27.2 million euros in 2015 to 63.5 million euros in the past fiscal year. With capital investment income virtually unchanged at 74.9 million euros (2015: 74.6 million euros), profit on ordinary activities in the legal insurance segment rose to 103.7 million euros (2015: 69.7 million euros).

### **Significant premium gains in the composite segment as well**

Our Group's property insurance segment comprises composite and legal insurance. While the composite segment experienced hard times and premium losses in the past, it confirmed a persistently positive growth trend in 2016. Premium income rose substantially by nearly 8 percent from 246.6 million euros to 266.1 million euros. This gain is largely attributable to our thoroughly modernized product portfolio. Closely related to legal insurance, the special service package business, which also falls within this segment, recorded a noticeable increase in premium income.

Our composite insurance business was spared the burden of major losses during the reporting year. The number of claims filed during the fiscal year declined by more than 4 percent. In view of the strong

premium gains achieved in recent years and in keeping with our conservative business policy, we also readjusted our claims reserves for previously unreported late claims. Consequently, the gross claims ratio rose from 52.5 percent to 54.8 percent, which is still a very good figure. Increased claims expenditures resulted in somewhat lower underwriting profit (before equalization reserve) of 12.4 million euros, as compared to 16.8 million euros in 2015. The addition to the equalization reserve amounted to 9.9 million euros. Consequently, underwriting profit fell from 12.5 million euros to 2.5 million euros.

### **Showing improved growth, the health insurance segment continues to perform above the market average**

Health insurance, which accounts for the highest premium volume of any ARAG business segment in the German market, posted improved growth rates again in 2016. Premium income rose by 2.8 percent, from 347.5 million euros to 356.9 million euros. It should be noted in this context that we implemented only very moderate premium adjustments averaging about 1 percent in 2016. Group revenues in the especially important strategic sub-segment of partial-cost insurance increased by 4 percent, as compared to a 1.5-percent gain in the full-coverage sub-segment. With this solid growth, the segment exceeded the market average of 1.8 percent. On the basis of these results, ARAG continued to strengthen its role as a very attractive health insurer while clearly avoiding the effects of partially unfavorable market trends.

Furthermore, ARAG Health Insurance was honored as one of the three best private health insurers in late 2016. It is also rated by brokers as one of the most popular supplemental health insurers – and has been for many years.

Therefore, we are very intent upon ensuring that we continue to invest consistently in the strength and quality of our business. We diverted 91 percent of the significantly improved gross profit of 75.6 million euros (2015: 61.5 million euros) to provisions for premium refunds. Due in part to increased expenditures for benefits, the underwriting result in this segment declined from 14.5 million euros to 8.5 million euros.

### **Life insurance runoff in progress as closing approaches**

We have released a great deal of information regarding the future of ARAG Life Insurance in recent months. Under the influence of the sustained low-interest phase, we decided to focus the activities of our

Group on the property and health insurance business and to sell the shares in ARAG Life Insurance held by ARAG SE. Over the course of the past six months we have been engaged in intensive efforts to organize the transfer of operations as effectively as possible in collaboration with the buyer. This statement conveys only a rough general impression of the extremely extensive and detailed work involved in the process, however. The measures and processes are progressing according to plan, so that we are confident that we will be able to finalize the sale of ARAG Leben quickly once the BaFin has issued its approval. Following the announcement of our clearly strategic decision to sell and the subsequent runoff, sales of new policies fell appreciably in 2016. The total value of premiums on new policies declined from 461.0 million euros (2015) to 338.8 million euros. Gross written premium income decreased accordingly from 220.3 million euros to 213.7 million euros.

### **Our productive and highly motivated staff is an essential competitive factor**

Our hard-working, highly motivated employees are our biggest competitive advantage. They know their business, and they know how to give our customers the best possible service. The strong commitment of all ARAG employees is visibly reflected in our business growth. And for that I wish to express my heartfelt thanks and those of my colleagues on the Board. Only this dedication and commitment on the part of the entire ARAG team will enable us to maintain the level of independence we have achieved in recent years. We have also invested heavily in our organization in the past – in order to offer an attractive working environment, among other reasons. Within the context of our strong business growth, the number of people employed by the Group has risen from 3,870 to 4,053. This increase is largely the product of new hirings by our international branches and subsidiaries. Today, one out of every two ARAG employees works outside of Germany.

### **III. Outlook for 2017**

**Life insurance weakens premium growth in the first six months.**

**Persistently strong growth in legal insurance**

The impact of the largely strategic decisions we made on behalf of our Group last year has become evident during the first half of the current

year. As of the first of this year, ARAG Leben is in runoff. Consequently, premium revenues from life insurance policies have declined by 10 percent. However, this planned premium income reduction has been more than offset by sustained, excellent premium gains in other Group segments. Total Group revenues for the first six months will have risen by 3 percent, from 907.0 million EUR to 937.5 million EUR. Without its life insurance business, the Group would have grown by slightly less than 5 percent. Thus ARAG has made an excellent start in fiscal year 2017.

The most dynamic growth has been generated by our international business, where we expect to report a significant gain of 7.8 percent. Premium revenues will have risen from 320.7 million euros to 345.7 million euros. ARAG has achieved particularly strong growth in the US, Spain and the Netherlands during the first six months of this year.

We are still growing in the German market – although at much slower pace due to the effects of the decision to sell the life insurance business. Thus revenues increased only slightly, from 574.8 million euros to 577.8 million euros. Adjusted to account for lost premiums from ARAG Life, ARAG can report a 3-percent gain in its German market. The German legal insurance segment made a very good start this year with a 5.1-percent increase in premium income. The composite business also continues to grow, with a gain of 2.6 percent. We have also achieved good results in the health insurance business during the first half of the year, with a 2.3-percent increase in premium revenue and expect to grow ahead of the market average again.

Assuming that we will be able to finalize the sale of ARAG Life at some point during the next few weeks, the figures for the ARAG Group for the current year will change significantly. Due to our clear focus on property and health insurance, premium income for the realigned Group will decline initially to just over 1.5 billion euros. We will also be giving up capital investments valued at 2.8 billion euros. A total of 120 employees will be leaving the ARAG Group and moving over to Frankfurter Lebensversicherung AG.

Our targets will naturally change as a result, and we have readjusted them for the period between now and 2020. Under the old Group structure, we had previously projected that premium income would reach two billion euros by then. That is surely unrealistic under the new circumstances. But we now plan to have compensated fully for the loss

of premiums resulting from the sale of ARAG Lebensversicherung by 2020.

The insurance industry is clearly focused on premium gains and growth. Thus it is certainly rather unusual to describe a recognizable loss of premium income as an important and appropriate entrepreneurial decision designed to ensure the future success of a business enterprise. Yet the world has changed for the insurance industry, and the benchmarks used to measure success during the past thirty years are no longer adequate. After all, profitability and risk-bearing capacity are becoming increasingly important on both sides of the balance sheet under the conditions imposed by Solvency II. We have done our homework and come up with a good, viable solution, the effects of which will already begin to strengthen our Group in the medium term. By selling the life insurance business, we are shifting our focus to the segments that are of strategic importance to ARAG and have generated the greatest value in the past. We are also significantly reducing the risk positions on our books and our exposure to financial market developments. The sale of ARAG Life is clear evidence of entrepreneurial good sense and was ultimately without alternative during a low-interest phase. Having divested ourselves of the motor insurance business more than ten years ago and supplied our sales organization with products through cooperative partners since then, ARAG now maintains a very viable, solid, modern portfolio. That applies to life insurance as well, which we are brokering for our customers in cooperation with our partner, Alte Leipziger. This means we are no longer the sole underwriter; we require less vertical integration and can focus on our strategic priorities. Mainstream markets are not for us.

Let us turn our attention now to the other major issue of relevance to the insurance industry of the future: digitization. I have explained during the past several years that we have a very precise grasp of the advantages of digitization for our organization. We want to do more than simply go along with these changes. We want to make active, strategic use of them, as we believe that they offer us a great opportunity for growth and development. The essential elements of our digitization strategy can be described as follows:

- As a mid-sized insurer, we can compensate for structural competitive disadvantages vis-à-vis large corporate groups with our agility. What counts here are not lavish budgets, but rather professionalism, speed and innovative drive. And that definitely favors us.

- We do not aim to be as digital as possible, but rather to act with intelligence and agility in the interest of our customers. Our goal must be to open additional sales, service and communication channels for consumers.
- We act in a decentralized mode. Digitization affects every business unit and every corporate department. Instead of outsourcing digital innovations, we want to develop them from within our own organization. And we are doing that already with good, clearly evident success.

What evidence do we have for that? The number of our online customers has increased significantly. From 2016 to the present, the number of customers who have bought our policies online has risen by 17 percent. We now count a total of 217,000 online customers. That equates to 11 percent of our entire customer base in Germany. The vast majority of these online customers are property insurance policyholders. We have not even begun to mobilize the huge potential that lies in wait in the health insurance segment, especially when it comes to partial-cost coverage.

Consequently, we have stepped up our digital activities in the health insurance segment considerably. We began offering medical consultation via video chats in March. And we introduced a very powerful health app for our customers in late May. This may well be the best app of its kind currently available in the German market. With the app, our policyholders can obtain a comprehensive overview of their treatment histories in the form of downloadable invoices. They can also turn their apps into personal electronic medical files by adding notes and other information.

Another milestone in the digitization process is our chatbot. ARAG is the first insurer in Germany to offer the chatbot within the context of product consulting in the field of travel insurance. We are now testing consumer reactions to this feature. The chatbot is a very good example of what we mean by agility. From the initial idea to going online, the process took exactly 14 days – and we implemented the service entirely on our own.

We established our first legal tech service unit in Cologne this spring. Justix GmbH will be concerned with the process of digitizing legal services. We are familiar with similar services, most notably in the US, and we are firmly convinced that we can do a better job. The currently existing legal techs are primarily attorney-finders with affiliated

document centers, we want to offer more genuine legal services. We are currently using an existing unit in Maastricht, which we plan to merge with Justix. For legal reasons we will be offering Justix outside of Germany only, and we are now focusing on the markets in France and the Benelux countries.

A less obvious but essential prerequisite for successful digitization, is our computer center. We bade farewell to the world of large-scale computers in late May. That old technology is expensive and no longer compatible with our modern standards. We are now working with Linux, which enables us to operate much more flexibly. Last year, we migrated our entire property insurance portfolio to a Java-based portfolio and claims-management system developed by our own experts. With our extensively modernized IT system we are now a step ahead of many of our major competitors.

I should not fail to mention that ARAG is submitting a sustainability report certified in accordance with the standards set by the Global Reporting Initiative (GRI) for the first time this year. You will find the report along with your other materials today. All insurance firms will be required to submit sustainability reports beginning next year. As a family enterprise, we are more than happy to meet this requirement, as this reporting form enables us to provide a much clearer description of our business policy, which is focused on long-term success. In keeping with the principle of sustainability, we plan to conserve resources starting next year by publishing this report online only.

Ladies and gentlemen,

The results achieved in fiscal year 2016 and the first half of 2017 prove in many different ways that the ARAG Group is a very well structured and carefully calibrated business enterprise. We decide, we perform and we deliver. Yet we definitely do not act opportunistically, but instead focus resolutely on our own priorities. That is clearly illustrated by the example of the realignment of our Group during the low-interest phase.

It is becoming increasingly clear that our strengths in the property and health insurance segments give us a definite competitive edge. And I should not fail to emphasize the major contribution of our international business to ARAG's success. With its new structure, the Group has aligned its policies precisely in keeping with the strengths of its business

model, and we are clearly focused on the goal of achieving success with our new positioning. That is by no means a given, but rather a challenging and exciting process which we intend to move ahead with all the energy we can muster.

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