Company Registration No. 02585818 (England and Wales)

ARAG PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

ARAG PLC

COMPANY INFORMATION

Directors	Mr A J Buss	
	Dr R H Dirksen	
	Mr D M Haynes	(Appointed 22 February 2018)
	Mr W Nicoll	
	Ms K Smeja	
Secretary	Mr R C Moreton	
Company number	02585818	
Registered office	9 Whiteladies Road Clifton Bristol BS8 1NN	
Auditor	Booth Ainsworth Audit Services Alpha House 4 Greek Street Stockport Cheshire SK3 8AB	

ARAG PLC

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STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report for the year ended 31 December 2018.

Fair review of the business
Review of Business 2018

ARAG is a leading specialist legal expenses and assistance insurance provider offering a diverse range of products through a broad UK distribution network that includes insurance intermediaries, brokers, insurers, managed general agents, solicitors and claims management companies.

Performance for 2018 was generally satisfactory with earned income matching our plan of increasing from £12.1m to £12.3m. Particular strong growth of 14.2% was achieved in Before the Event (BTE) sales reflecting the recent focus on opportunities in the London and South-East of the UK. Commercial legal expenses and assistance products have been especially successful, partly through organic growth but also because of remedial portfolio hygiene measures being introduced.

By contrast, After the Event (ATE) earned income has reduced by 19.1%, mainly because of the continuing premium challenges being received from paying losing defendants in certain clinical negligence cases. But for this, ATE earned income would have remained unchanged and produced a result that would have exceeded our expectations. Matters are progressing slowly on these long outstanding matters and are expected to be resolved via test cases during 2019 and 2020.

ARAG is well placed to adapt to the ever-changing legal landscape that may see a shift in demand from ATE to BTE following the intended introduction in 2020 of the Civil Liability Act and the Civil Litigation (Expenses and Group Proceedings) (Scotland) Act. In addition, we do not anticipate much change arising from a possible new fixed fee regime for low value clinical negligence claims, though we are closely monitoring the underlying increase in employment tribunal claims that seems to be unconnected to associated fees being recently removed. ARAG remains open to adjusting to these potential reforms along with the general economic and regulatory uncertainty attaching to Brexit.

The result for 2018 showed a pre-tax profit of £0.6m which would have been nearer £1.5m but for the ATE premium challenges. Furthermore, solvency remains very adequately covered.

In addition, the Company makes a valuable contribution to other ARAG Group business via reinsurance and branch operations arising from its premium under management that increased from £34.8m to £37.8m

Costs and expenses were slightly above plan, mostly due to some unforeseen increases from outsourced business partners. However, personnel costs were below budget and contributed to a largely satisfactory outcome.

ARAG has as impressive market reputation, having won numerous trade and general business awards in recent years. This has been achieved through loyal support from our business partners and customers who have been served by dedicated employees both here in the UK and within the wider ARAG Group.

Principal risks and uncertainties

The Company has established a risk management and governance framework that is designed to identify and mitigate risk. Key policies and controls include;

* Regular 3 meetings per annum are supplemented by ad hoc meetings of the Board of Directors Biannual meetings of the Compliance Committee and the Groups General Executive Council at which key aspects of the Company's business are reviewed.
* Underwriting and Claims guidelines and controls are aligned with the Company's binding authorities and embedded in the Company's operating systems and processes. Quarterly meetings of the Underwriting and Claims Committee regularly review performance of BTE and ATE segments (ie: 8 meetings per annum)
* Quarterly reviews are undertaken with all insurers

The Group Reserve Committee reviews biannually the adequacy of claims reserves
* The Company's risk register is reviewed monthly by the Senior Management and reported to the Group quarterly
* Insurers audit underwriting and claims processes annually
* Group internal audit carries out regular audits every year
* Human resources policies and guidelines designed to include that the operations are adequately resourced by sufficiently skilled people
* Financial policies and controls that cover expense management, cash flow and other financial projections, credit risk and debt collection
* Key performance indicators are monitored on a regular basis and form part of the monthly reporting cycle. These include indicators on financial (gross written and net written premium, commission, fee income, EBITDA performance and underwriting loss ratio's) and non-financial (customer outcomes, conduct risk and employee indicators) performance.,

Legal and Regulatory Risk

The Company is exposed to potential claims and litigation arising out of the ordinary course of business relating to errors and omissions, or non-compliance with laws and regulations. The Company is directly regulated by the Financial Conduct Authority.

The directors are satisfied that the Company has in place appropriate arrangements to manage these risks including engaging external consultants, compliance monitoring procedures and reporting to the Board. In addition, the Company ensures that solvency is preserved at all times and carries appropriate insurance cover to meet any claims.

The directors consider the risk and uncertainty arising from the UK intending to leave the EU to be minimal. This risk will continue to be monitored and assessed as the UK exit progresses over the next few years.

Financial Risk

The Company has put in place appropriate financial and cash flow management structures so that it able to anticipate demand for cash and meet obligations as they arise. The controls in place ensure the Company has appropriate cash resource to meet its obligations as they fall due.

The Company places excess funds on deposit and does not hold any investments where market values are impacted by interest rate fluctuations.

The Company monitors its level of exposure to revenues not yet received on a regular basis in order to provide any exposure which will not be collected. The Company regularly monitors its exposure to single and grouped counterparties and ensures that its cash is kept with counterparties with appropriate credit ratings.

Operational Risk

The Company operates a framework of key risks and controls that includes internal controls, internal audit and compliance checks. Other measures such as back-up procedures, disaster recovery and contingency planning supplement this approach.

Market Risk

The key risks affecting the Company are;

* The uncertain legal landscape and economic climate that creates additional pressures on demand for the Company's products, on pricing, claims frequencies and settlements and cash flow

* Regulatory changes that may impact on sales, internal expenses, claims frequencies and claims costs

* Failure to achieve planned income and consequent shortfall of revenue against expenses

* Failure to attract or retain high quality staff on which the Company's high service proposition is founded

Key performance indicators

Turnover

Premium under Management increased by 8.6% in 2018 compared to the previous year (2017 decreased by 15.3% v 2016)

Earned Commission increased by 1.7% in 2018 compared to the previous year (2017 decreased by 0.8% v 2016)

The Number of Individual Risks Covered

	2016	2017	2018	2017 v 2016	2018 v 2017
Commercial '000	316	391	449	23.70%	14.80%
Family '000	448	455	466	1.60%	2.40%
Motor '000	480	720	558	50.00%	-22.50%
Assistance '000	709	621	642	-12.40%	3.40%
ATE	37,795	32,275	29,430	-14.60%	-8.80%

Number of Legal Advice Calls Serviced

Legal Advice Calls	**2016**	**2017**	**2018**	**2017 v 2016**	**2018 v 2017**
Number	21,747	29,831	33,285	37.20%	11.60%

By order of the board on 27 March 2019.

Mr W Nicoll

Director

ARAG PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their annual report and financial statements for the year ended 31 December 2018.

Principal activities

The principal activity of the company in the year under review was that of the provision of a wide range of legal expenses and assistance insurance, legal services and advice to individuals and businesses, sold through a select number of insurance brokers, agents, insurers and solicitors.

The Company underwrites UK insurance under binding and delegated authorities granted by a number of UK authorised insurers. Reinsurance is separately placed between these insurers and ARAG SE based in Germany.

Directors

Mr A J Buss	
Dr R H Dirksen	
Mr D M Haynes	(Appointed 22 February 2018)
Mr W Nicoll	
Ms K Smeja	

Results and dividends

The results for the year are set out on page 8.

Ordinary dividends were paid during the year relating to 2017 amounting to £560,456. Based on 2018 profits it is proposed that a dividend of £370,463 will be paid during 2019.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

By order of the board

Mr R C Moreton

Secretary

27 March 2019

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ARAG PLC

Opinion

We have audited the financial statements of Arag Plc (the 'company') for the year ended 31 December 2018 which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Don Bancroft (Senior Statutory Auditor)
for and on behalf of Booth Ainsworth Audit Services

1 April 2019

Statutory Auditor

Alpha House
4 Greek Street
Stockport
Cheshire
SK3 8AB

ARAG PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Turnover	3	12,281,298	12,060,100
Cost of sales		(2,773,493)	(2,336,171)
Gross profit		9,507,805	9,723,929
Administrative expenses		(8,937,654)	(8,567,225)
Operating profit	4	570,151	1,156,704
Interest receivable and similar income	7	-	67
Profit before taxation		570,151	1,156,771
Tax on profit	8	(107,072)	(222,678)
Profit for the financial year		463,079	934,093

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	£	£
Profit for the year	463,079	934,093
Other comprehensive income	-	-
Total comprehensive income for the year	463,079	934,093

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BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £	2018 £	2017 £	2017 £
Fixed assets					
Tangible assets	**10**		1,322,527		308,820
Current assets					
Debtors falling due after more than one year	**13**	14,678,595		13,432,383	
Debtors falling due within one year	**13**	11,605,652		9,681,283	
Cash at bank and in hand		17,315,799		19,838,167	
		43,600,046		42,951,833	
Creditors: amounts falling due within one year	**14**	(21,111,632)		(17,433,471)	
Net current assets			22,488,414		25,518,362
Total assets less current liabilities			23,810,941		25,827,182
Creditors: amounts falling due after more than one year	**15**		(12,711,325)		(14,613,921)
Provisions for liabilities	**16**		(25,046)		(41,314)
Net assets			11,074,570		11,171,947
Capital and reserves					
Called up share capital	**20**		8,600,000		8,600,000
Profit and loss reserves			2,474,570		2,571,947
Total equity			11,074,570		11,171,947

The financial statements were approved by the board of directors and authorised for issue on 27 March 2019 and are signed on its behalf by:

Mr W Nicoll
Director

Company Registration No. 02585818

ARAG PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Share capital £	Profit and loss reserves £	Total £
Balance at 1 January 2017		8,600,000	2,762,790	11,362,790
Year ended 31 December 2017:				
Profit and total comprehensive income for the year		-	934,093	934,093
Dividends	**9**	-	(1,124,936)	(1,124,936)
Balance at 31 December 2017		8,600,000	2,571,947	11,171,947
Year ended 31 December 2018:				
Profit and total comprehensive income for the year		-	463,079	463,079
Dividends	**9**	-	(560,456)	(560,456)
Balance at 31 December 2018		8,600,000	2,474,570	11,074,570

1 Accounting policies

Company information

Arag Plc is a private company limited by shares incorporated in England and Wales. The registered office is 9 Whiteladies Road, Clifton, Bristol, BS8 1NN.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary a mounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position': Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment': Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the company as an individual entity and not about its group.

Arag Plc is a wholly owned subsidiary of ARAG SE and the results of Arag Plc are included in the consolidated financial statements of ARAG SE which are available from ARAG Platz 1, Düsseldorf, 40472, Germany.

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1 Accounting policies **(Continued)**

1.3 Turnover

Turnover represents brokerage and commissions earned as an insurance intermediary facilitating Legal Expenses insurance services. Commissions are received on the placing of insurances through UK insurers and reinsurance provided by the company's parent - ARAG SE.

Income is earned in full at inception on all risks except for After The Event risks where the premium is contingent upon successful outcome of the case. In such circumstances the income is only earned at the conclusion of a successful case. Unearned commissions are shown on the Balance Sheet as Deferred Income.

1.4 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Freehold land and buildings	
Fixtures and fittings	20% to 33% on cost.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.5 Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the company holds a long-term interest and where the company has significant influence. The company considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate.

Entities in which the company has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities.

1.6 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

1 Accounting policies **(Continued)**

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.7 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

1 Accounting policies **(Continued)**

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.8 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.9 Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

1 Accounting policies **(Continued)**

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.10 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

Clawback provision

The company provides a financial product upon which it receives commission on inception of the contract. If these policies are cancelled, abandoned or the case is not won, some of the commission received is repayable. The company has provided for this potential clawback of commission on the basis of the historical success rate of completed cases is 70% so accordingly 30% of the policies will fail. The policy is under continual review in order to reflect such liabilities as accurately as possible.

Holding provision

Certain introducers receive a fee on the conclusion of a successful case. The Holding provision represents 70% of the advance commission received by the company referred to in the Clawback provision above that may be paid to Introducers.

1.11 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.12 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1 Accounting policies **(Continued)**

1.13 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

1.14 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

3 Turnover and other revenue

	2018	2017
	£	£
Turnover analysed by class of business		
Brokerage and commissions earned	12,281,298	12,060,100

	2018	2017
	£	£
Other significant revenue		
Interest income	-	67

Brokerage and commissions earned primarily arise in the UK market.

4 Operating profit

Operating profit for the year is stated after charging/(crediting):	2018 £	2017 £
Exchange (gains)/losses	(1,800)	4,814
Fees payable to the company's auditor for the audit of the company's financial statements	33,500	33,500
Depreciation of owned tangible fixed assets	190,908	192,307
Profit on disposal of tangible fixed assets	-	(5,838)
Operating lease charges	387,293	375,099

5 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2018 Number	2017 Number
Administration	118	108

Their aggregate remuneration comprised:

	2018 £	2017 £
Wages and salaries	5,236,169	4,981,324
Social security costs	587,613	563,896
Pension costs	353,699	303,748
	6,177,481	5,848,968

6 Directors' remuneration

	2018 £	2017 £
Remuneration for qualifying services	886,006	716,253

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2018 £	2017 £
Remuneration for qualifying services	423,792	405,434

7 Interest receivable and similar income

	2018	2017
	£	£
Interest income		
Interest on bank deposits	-	67

8 Taxation

	2018	2017
	£	£
Current tax		
UK corporation tax on profits for the current period	116,830	244,950
Adjustments in respect of prior periods	6,510	-
Total current tax	123,340	244,950
Deferred tax		
Origination and reversal of timing differences	(16,268)	(22,272)
Total tax charge	107,072	222,678

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2018	2017
	£	£
Profit before taxation	570,151	1,156,771
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	108,329	222,678
Tax effect of expenses that are not deductible in determining taxable profit	9,910	9,306
Permanent capital allowances in excess of depreciation	(12,585)	(11,584)
Deferred tax adjustments in respect of prior years	1,418	2,278
Taxation charge for the year	107,072	222,678

9 Dividends

	2018	2017
	£	£
Final paid	560,456	1,124,936

10 Tangible fixed assets

	Freehold land and buildings	Fixtures and fittings	Total
	£	£	£
Cost			
At 1 January 2018	-	1,382,973	1,382,973
Additions	1,129,121	75,494	1,204,615
At 31 December 2018	1,129,121	1,458,467	2,587,588
Depreciation and impairment			
At 1 January 2018	-	1,074,153	1,074,153
Depreciation charged in the year	10,068	180,840	190,908
At 31 December 2018	10,068	1,254,993	1,265,061
Carrying amount			
At 31 December 2018	1,119,053	203,474	1,322,527
At 31 December 2017	-	308,820	308,820

11 Fixed asset investments

	2018	2017
	£	£
	-	-

Movements in fixed asset investments

	Shares in group undertakings
	£
Cost or valuation	
At 1 January 2018 & 31 December 2018	3,973,745
Impairment	
At 1 January 2018 & 31 December 2018	3,973,745
Carrying amount	
At 31 December 2018	-
At 31 December 2017	-

12 Subsidiaries

Details of the company's subsidiaries at 31 December 2018 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct	% Held Indirect
Easy2claim Limited	England	Dormant	Ordinary	100.00	

The aggregate capital and reserves and the result for the year of the subsidiaries noted above was as follows:

Name of undertaking	Profit/(Loss)	Capital and Reserves
	£	£
Easy2claim Limited	-	1

13 Debtors

	2018	2017
Amounts falling due within one year:	£	£
Trade debtors	9,833,297	7,984,045
Other debtors	1,540,591	1,384,581
Prepayments and accrued income	231,764	312,657
	11,605,652	9,681,283

	2018	2017
Amounts falling due after more than one year:	£	£
Trade debtors	14,678,595	13,432,383
Total debtors	26,284,247	23,113,666

14 Creditors: amounts falling due within one year

	2018	2017
	£	£
Trade creditors	9,749,624	6,221,702
Corporation tax	22,516	136,224
Other taxation and social security	164,186	150,496
Other creditors	168,881	165,359
Accruals and deferred income	11,006,425	10,759,690
	21,111,632	17,433,471

15 Creditors: amounts falling due after more than one year

	Notes	2018 £	2017 £
Deferred income	18	12,711,325	14,613,921

16 Provisions for liabilities

	Notes	2018 £	2017 £
ATE Clawback provision		2,966	2,966
ATE Holding provision		490	490
		3,456	3,456
Deferred tax liabilities	17	21,590	37,858
		25,046	41,314

Movements on provisions apart from retirement benefits and deferred tax liabilities:

	£	£	Total £
At 1 January 2018 and 31 December 2018	2,966	490	3,456

17 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

Balances:	Liabilities 2018 £	Liabilities 2017 £
Accelerated capital allowances	21,590	37,858

Movements in the year:	2018 £
Liability at 1 January 2018	37,858
Credit to profit or loss	(16,268)
Liability at 31 December 2018	21,590

The deferred tax liability set out above is expected to reverse within 12 months and relates to accelerated capital allowances that are expected to mature within the same period.

18 Deferred income

	2018	2017
	£	£
Other deferred income	12,711,325	14,613,921

19 Retirement benefit schemes

	2018	2017
Defined contribution schemes	£	£
Charge to profit or loss in respect of defined contribution schemes	353,699	303,748

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

20 Share capital

	2018	2017
	£	£
Ordinary share capital		
Issued and fully paid		
8,600,000 Ordinary shares of £1 each	8,600,000	8,600,000
	8,600,000	8,600,000

21 Financial commitments, guarantees and contingent liabilities

Contingent liability

The company, in common with other providers of legal expenses insurance, is involved in litigation for the recovery of premiums on cases of Clinical Negligence. Test cases will be presented to the Court of Appeal and these will determine the level of premiums to be recovered. Whilst the company is very confident of recovering the majority of the premiums and also costs, there exists a possibility of being unsuccessful. In that instance, and following FRS102 guidelines, the company estimates that it may be liable for £50,000 of own party costs and £250,000 of opponent's costs

22 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018	2017
	£	£
Within one year	291,802	331,376
Between two and five years	852,284	91,836
	1,144,086	423,212

23 Controlling party

ARAG PLC is a wholly owned subsidiary of ARAG SE and the results of ARAG PLC are included in the consolidated financial statements of ARAG SE which are available from ARAG Platz 1, Düsseldorf, 40472, Germany