Company Registration No. 02585818 (England and Wales)

ARAG PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

ARAG PLC
COMPANY INFORMATION

Directors	Mr A J Buss Dr R H Dirksen Mr D M Haynes Mr W Nicoll Mrs K Khelaifia
Secretary	Mr D A Akrill *(appointed 11 May 2021)* Mr R C Moreton *(resigned 11 May 2021)*
Company number	02585818
Registered office	9 Whiteladies Road Clifton Bristol BS8 1NN
Auditor	KPMG LLP 3 Assembly Square Britannia Quay Cardiff CF10 4AX

ARAG PLC
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ARAG PLC
STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present the strategic report for the year ended 31 December 2021.

Review of Business 2021

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

Overall income increased by 15% from £13.6m to £15.6m with increased income attaching to both the After the Event (ATE) and Before the Event (BTE) sectors. After delays to the pre-LASPOA premium challenge cases in previous years, these cases were finally settled during 2021 and the successful outcomes contributed to ARAG's 27% increase in ATE income. The justice system has remained open during the pandemic but resulting backlogs have continued to delay the resolution of many cases beyond earlier expectations and suppressed the volume of new ATE policies taken out during Covid.

Meanwhile, Before the Event (BTE) business grew positively by 7% despite the non-renewal of a key account mid-term in 2020. Underlying growth remains strong and is expected to continue even though there are some uncertainties arising from the prevailing general economic situation.

ARAG responded pro-actively to the recent motor legal reforms (including the Civil Liability Act) in Great Britain by introducing changes to terms and pricing of BTE and ATE risks ahead of the implementation in May 2021. Subsequent business is performing in accordance with expectations.

ARAG in the UK continues to provide administrative and other support services to its sister company, ARAG Legal Protection Limited based in Dublin, Ireland and has also commenced providing IT support to ARAG Legal Solution Inc. based in Toronto, Canada following its recent acquisition. The Company remains open to supporting ARAG Group operations.

The result for 2021 showed a pre-tax profit of £1,914k, compared to the 2020 result of £480k, due to some positive developments relating to ATE premium challenge cases and commission recognition and expenses being below expectations. Furthermore, solvency remains very adequately covered.

In addition, the Company makes a separate and indirect valuable contribution to other ARAG Group business via Group reinsurance and Group branch operations arising from its premium under management that increased from £42.8m to £51.4m.

Costs and expenses were below plan, mostly due to lower travelling and marketing costs, lower distribution and claims handling costs and the recovery of some litigation costs relating to earlier ATE premium recovery challenges.

ARAG continues to have an impressive market reputation, having won the Managing General Agent of the Year prize at the British Claims Awards. It extended its accreditation under ISO standards by adding 22301:2019 Business Continuity management System to its certifications. This has been achieved through loyal support from our customers and business partners, who have been served by devoted and committed employees both here in the UK and within the wider ARAG Group, as recognized by achieving "outstanding" Best Companies to work for status in the UK.

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.

Principal Risks and Uncertainties *(continued)*

- 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 (i.e. 8 meetings per annum).
- Quarterly reviews are undertaken with all insurers.
- Insurers audit underwriting and claims processes annually.
- The Company's risk register is reviewed monthly by the Senior Management and reported to the Group quarterly.
- Group internal audit carries out regular audits every year to ensure every aspect of the business is periodically monitored.
- 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 and carries appropriate insurance cover to meet any claims.

Financial Risk

The Company has put in place appropriate financial and cash flow management structures so that it is 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 bank deposit and does not hold any investments.

The Company monitors its level of exposure to revenues not yet received on a regular basis in order to provide for 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 and claims handling costs.
- Additional controls over sales methods have been introduced to ensure that customers receive value from all products and services and that such customers are fully informed at the point of sale.
- 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

KPI's are monitored as an insurance provider (agent) and also on behalf of the ARAG Group, who either through reinsurance of authorised UK insurance carriers, or directly through the ARAG Allgemeine (UK) Branch, provide insurance capacity.

Premium under Management increased by 20% in 2021 compared to the previous year (2020 increased by 7% vs 2019).

Earned Commission and other income increased by 15% in 2021 compared to the previous year (2020 reduced by 4% vs 2019).

The Number of Individual Risks Covered

	2019	2020	2021	2020 v 2019	2021 v 2020
Commercial '000	470	458	577	-2.55%	25.98%
Family '000	504	506	581	0.40%	14.82%
Motor '000	455	359	412	-21.10%	14.76%
Assistance '000	597	607	481	1.68%	-20.76%
ATE	27,840	19,766	18,806	-29.00%	-4.86%

The Number of Legal Advice Calls

	2019	2020	2021	2020 v 2019	2021 v 2020
Legal Advice Calls	33,997	34,223	31,018	0.66%	-9.37%

Coronavirus

ARAG has continued to operate a policy of working from home since the outbreak of Covid-19 and at the same time kept the office open to those staff who are unable to work from home during the various lockdown periods. Several safe working practices have been adopted to protect staff and other parties.

Some sales have been affected by the Coronavirus, particularly in respect of ATE business, but there are indications that this will recover in the short term. The justice system continues to operate but there are signs that there are delays causing cases to remain open longer than before the pandemic, impacting on the average settlement and cost of cases going forward. These developments are being monitored closely and do not materially impact on the operations of ARAG.

By order of the board

Mr A J Buss
Director
Date: 23/3/2022

ARAG PLC
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their annual report and financial statements for the year ended 31 December 2021.

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 and legal services 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
Mr W Nicoll
Mrs K Khelaifia

Financial instruments
The Company only enters into basic financial instruments that result in the recognition of financial assets and liabilities. The policy for accounting for Financial Instruments is set out in Notes, paragraph 1.8.

Going concern
After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation and meet its liabilities as they fall due for the foreseeable future. For this reason they have adopted the going concern basis in preparing the accounts.

Results and dividends
The results for the year are set out on page 11.

Ordinary dividends were paid accounting to £290,333 (2020: £302,077). The directors do not recommend payment of a further dividend.

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 A J Buss	Mr D A Akrill
Director	**Secretary**
Date: 23/3/2022	Date: 23.3.22

ARAG PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT AND THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

The directors are responsible for preparing the Strategic 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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;
- assess the Company's *ability to continue as a going concern, disclosing, as applicable, matters related* to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 *responsible for such internal control as they determine is necessary to enable the preparation of financial* statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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 2021 which comprise the Statement of Comprehensive Income, Balance Sheet, and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud;

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of management and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.

- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition due to the nature of the Company's income, being principally commissions earned on facilitating insurance policies, and the reliance on external data to confirm the recognition point. For 'Before The Event' income, commissions are earned at the inception of the underlying policy cover, and for 'After The Event' income, commissions are earned once case outcomes are known, in both cases there is limited judgement in determining the appropriate recognition point.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included entries containing key words, transactions with related parties, or posted on weekends.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations;

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: employment law, GDPR / Data Protection Act 2018, and regulatory capital and liquidity recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Shaun Gealy (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff, CF10 4AX

25 March 2022

ARAG PLC
PROFIT AND LOSS ACCOUNT AND STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £	2020 £
Turnover	3	15,636,784	13,592,523
Cost of sales		(2,041,542)	(2,707,809)
Gross profit		13,595,242	10,884,714
Administrative expenses		(11,681,570)	(10,412,798)
Operating profit	4	1,913,672	471,916
Interest receivable and similar income	7	-	8,567
Profit before taxation		1,913,672	480,483
Tax on profit	8	(347,758)	(117,567)
Profit for the financial year		1,565,914	362,916

There was no other comprehensive income for 2021 (2020: £Nil).

The profit and loss account has been prepared on the basis that all operations are continuing operations.

The accompanying notes form part of these financial statements.

ARAG PLC
BALANCE SHEET
AS AT 31 DECEMBER 2021

	Notes	2021 £	2021 £	2020 £	2020 £
Fixed assets					
Intangible assets	10		126,412		150,688
Tangible assets	11		1,575,527		1,694,569
			1,701,939		1,845,257
Current assets					
Debtors falling due after more than one year	13	13,376,341		13,258,494	
Debtors falling due within one year	13	15,884,636		12,214,086	
Cash at bank and in hand	14	17,748,338		18,121,809	
		47,009,315		43,594,389	
Creditors: amounts falling due within one year	15	(22,832,706)		(20,972,942)	
Net current assets			24,176,609		22,621,447
Total assets less current liabilities			25,878,548		24,466,704
Creditors: amounts falling due after more than one year	16		(13,376,341)		(13,258,494)
Provisions for liabilities	17		(84,084)		(65,668)
Net assets			12,418,123		11,142,542
Capital and reserves					
Called up share capital	20		8,600,000		8,600,000
Profit and loss reserves			3,818,123		2,542,542
Total equity			12,418,123		11,142,542

The accompanying notes form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 23/3/2022 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 2021

	Notes	Share capital £	Profit and loss reserves £	Total £
Balance at 1 January 2020		8,600,000	2,481,703	11,081,703
Year ended 31 December 2020				
Profit and total comprehensive income for the year		-	362,916	362,916
Dividends	9	-	(302,077)	(302,077)
Balance at 31 December 2020		8,600,000	2,542,542	11,142,542
Year ended 31 December 2021				
Profit and total comprehensive income for the year		-	1,565,914	1,565,914
Dividends	9	-	(290,333)	(290,333)
Balance at 31 December 2021		8,600,000	3,818,123	12,418,123

The accompanying notes form part of these financial statements.

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 were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is pounds sterling. All amounts in the financial statements have been rounded to the nearest £.

The Company's ultimate parent undertaking, ARAG SE includes the Company in its consolidated financial statements. The consolidated financial statements of ARAG SE are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from ARAG Platz 1, Düsseldorf, 40472, Germany. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of ARAG SE include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share-based Payment*; and
- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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, being at least 12 months from the approval of these financial statements. In reaching this conclusion the Directors have considered business forecasts and assessed potential adverse developments including the impact of Covid, against the adequacy of the Company's financial resources. The Company can transact business remotely and has continued to operate through the current and historic UK lock downs. The Company has significant cash reserves and expected future cash generation through existing deferred income on ATE business, in addition to cash that will be generated through future new business. Thus the Company continues to adopt the going concern basis of accounting in preparing the annual financial statements.

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 insurance through UK insurers which are reinsured by the Company's parent - ARAG SE.

Before The Event income relates to commissions earned on a range of insurance products, such as commercial legal expenses and assistance products. Income for BTE is earned in full at inception on all risks.

After The Event income is contingent upon the successful outcome of the case. Therefore, the income is only earned at the conclusion of a successful case. Consequently, for commissions relating to ATE business where the outcome of the case is not yet known at the balance sheet date, the Company holds trade receivables and an offsetting deferred income provision.

1 Accounting policies *(continued)*

1.3 Turnover *(continued)*

Other income is made up of management charges for services provided to other Group companies and other miscellaneous.

1.4 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

- Freehold land and buildings 50 years
- Fixtures and fittings 2-5 years

Per FRS 102.17.16 Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

The gain or loss arising on 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 the profit or loss.

1.5 Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The Company assesses at each reporting date whether intangible fixed assets are impaired.

Amortisation is charged to the profit and loss on a straight-line basis over the estimated useful lives of intangible assets. *Intangible assets are amortised from the date they are available for use.* The estimated useful lives are as follows:

- Capitalised development costs 5 years

1.6 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.

1.7 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand and deposits held with banks in call accounts.

1 Accounting policies *(continued)*

1.8 Financial instruments

Basic financial instruments
Trade and other debtors are recognised initially at transaction price plus attributable transaction costs. Trade and other creditors are recognised initially at transaction price less attributable transaction costs.

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.

Cash and cash equivalents are valued at their cash value and amount held on deposit within banks in call accounts.

Impairment of financial instruments
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 the profit or loss account.

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 the profit or loss account.

Derecognition of financial instruments
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.

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

1.9 Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

1 Accounting policies *(continued)*

1.9 Taxation *(continued)*

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.10 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.11 Employee benefits

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably.

1.12 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss 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 leases asset are consumed.

1 Accounting policies *(continued)*

1.13 Interest receivable and Interest payable

Interest payable and similar expenses include interest payable, finance expenses on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the Company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.14 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

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.

Critical judgements

Depreciation rates

Tangible fixed assets are depreciated over their useful lives. Depreciation methods, useful lives and residual values are reviewed annually for any indication of significant change. Factors such as technological innovation, product life cycles and future market conditions are taken into account when making such assessment.

2 Judgements and key sources of estimation uncertainty *(continued)*

Critical judgements *(continued)*

ATE Income Recognition
ATE commission is only recognised upon conclusion of the case where the outcome is known. At this point the Company is contractually entitled to the commission. This is therefore deemed the point at which it is probable that the income is due and will be collected. In determining the policy the Company has made a judgement to apply the recognition test for ATE commission on a policy by policy basis, rather than assessing the ATE portfolio as a whole, as the policies are subject to individual case outcomes.

The Company, in common with other managing general agents in both the wider insurance market and more specifically with other providers of legal expenses insurance, is a party to agreements which can lead to potential future income for the Company, which could be material, by way of profit share arrangements based on the underwriting performance of the polices placed ('profit commission').

Future profit commission payable to the Company, if any, will be determined principally by, and is contingent on, the claims experience of these policies, which for ATE business is only known once the case has settled. The Company has determined such income does not pass the 'virtually certain' test to permit recognition as an asset at the balance sheet date and therefore, in accordance with FRS 102 Section 21, has instead disclosed a contingent asset in relation to future profit commission.

Agent Commission
The Company entered into a number of written and verbal contracts that led to the recognition of liabilities for payments of agent commissions on historic business. During the year the Company has re-assessed such contracts, many of which are time barred and / or the counterparty has been dissolved, and continues to recognise a liability only where there is considered to be an enforceable contractual obligation. This determination undertaken on an account-by-account basis was a key judgement.

Estimation uncertainty

Impairment of fixed assets
The Company determines whether there are indicators of impairment of tangible or intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.

Provisional premium
The Company recognises provisional premium, based on an estimate using the past 3 month's actual bordereaux's received and premiums recognised. Factors such as policy start and end date are considered when reaching this estimate.

3 Turnover and other revenue

	2021	2020
	£	£
Turnover analysed by class of business		
BTE Brokerage and commissions earned	9,741,015	9,365,213
ATE Brokerage and commissions earned	4,777,845	3,752,091
Other income	1,117,924	475,219
	15,636,784	13,592,523
Turnover analysed by region		
United Kingdom	14,848,934	13,430,955
Rest of Europe	422,100	161,568
Rest of the World	365,750	-
	15,636,784	13,592,523

4 Operating profit

	2021	2020
Operating profit for the year is stated after charging/(crediting):	£	£
Exchange losses/(gains)	34,059	(13,108)
Fees payable to the Company's auditor for the audit of the company's financial statements	72,000	51,660
Depreciation of owned tangible fixed assets	247,921	256,981
Amortisation of owned intangible assets	41,394	36,759
Loss on disposal of tangible fixed assets	-	-
Operating lease charges	268,957	303,109

5 Employees

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

	2021	2020
Management	5	5
Administration	129	127
Total	134	132

	2021	2020
The aggregate payroll costs of these persons were as follows:	£	£
Wages and salaries	6,956,213	6,184,638
Social security costs	777,307	690,008
Pension costs	319,742	306,225
	8,053,262	7,180,871

6 Directors' remuneration

	2021 £	2020 £
Remuneration for qualifying services	844,465	752,295

Remuneration disclosed above includes the following amounts paid to the highest paid director

	2021 £	2020 £
Remuneration for qualifying services	478,091	425,897

7 Interest receivable and similar income

	2021 £	2020 £
Interest income		
Interest on bank deposits	-	8,567

8 Taxation

	2021 £	2020 £
Current tax		
UK corporation tax on profits for the current period	418,568	147,102
Adjustments in respect of prior periods	(89,226)	(4,993)
Total current tax	329,342	142,109
Deferred tax		
Origination and reversal of timing differences	18,416	(24,542)
Total tax charge	347,758	117,567

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:

	2021 £	2020 £
Profit before taxation	1,913,672	480,483
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	363,598	91,292
Tax effect of expenses that are not deductible in determining taxable profit	54,970	55,810
Adjustments in respect of prior years	(89,226)	(4,993)
Deferred tax adjustments in respect of prior years	18,416	(24,542)
Taxation charge for the year	347,758	117,567

9 Dividends

	2021 £	2020 £
Final paid	290,333	302,077

10 Intangible assets

	Development costs £	Total £
Cost		
Balance at 1 January 2021	193,427	193,427
Additions	17,118	17,118
Balance at 31 December 2021	210,545	210,545
Amortisation		
Balance at 1 January 2021	42,739	42,739
Amortisation for the year	41,394	41,394
Balance at 31 December 2021	84,133	84,133
Net book value		
At 1 January 2021	150,688	150,688
At 31 December 2021	**126,412**	**126,412**

Development costs have been capitalised as the costs meet the conditions requiring them to be treated as an asset in accordance with FRS 102 Section 18.

11 Tangible fixed assets

	Freehold land and buildings £	Fixtures and fittings £	Total £
Cost			
Balance at 1 January 2021	1,273,408	1,490,010	2,763,418
Additions	-	128,879	128,879
Balance at 31 December 2021	1,273,408	1,618,889	2,892,297
Depreciation			
Balance at 1 January 2021	79,308	989,541	1,068,849
Depreciation for the year	41,035	206,886	247,921
Balance at 31 December 2021	120,343	1,196,427	1,316,770
Net book value			
At 1 January 2021	1,194,100	500,469	1,694,569
At 31 December 2021	**1,153,065**	**422,462**	**1,575,527**

12 Fixed asset investments

	2021	2020
	£	£
	-	-

The Company has the following investments in subsidiaries:

Name	Principal activity	Registered office	Class of shares	Holding
Easy2claim Limited	Dormant	England	Ordinary	100%

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

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

13 Debtors

Amounts falling due within one year:	2021 £	2020 £
Trade debtors	12,079,842	10,029,084
Amounts owed by group undertakings	809,659	308,778
Other debtors	2,323,965	1,563,322
Prepayments and accrued income	671,170	312,902
	15,884,636	12,214,086

Amounts falling due after more than one year:	2021 £	2020 £
Trade debtors	13,376,341	13,258,494
	13,376,341	13,258,494

	2021 £	2020 £
Total debtors	29,260,977	25,472,580

14 Cash at bank in hand

	2021 £	2020 £
Cash at bank in hand	17,748,338	18,121,809
	17,748,338	18,121,809

15 Creditors: amounts falling due within one year

	2021	2020
	£	£
Trade creditors	8,300,943	10,862,353
Amounts owed to group undertakings	3,560,118	333,841
Corporation tax payable	38,075	53,680
Other taxation and social security	399,234	188,067
Advanced receipts	41,090	-
Other creditors	41,230	39,307
Accruals and deferred income	10,452,016	9,495,694
	22,832,706	20,972,942

16 Creditors: amounts falling due after more than one year

	2021	2020
	£	£
Accruals and deferred income	13,376,341	13,258,494
	13,376,341	13,258,494

17 Provisions for liabilities

	Notes	2021	2020
		£	£
Deferred tax liabilities	18	84,084	65,668
		84,084	65,668

18 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Liabilities 2021	Liabilities 2020
	£	£
Balances		
Accelerated capital allowances	84,084	65,668
	84,084	65,668

Movements in the year:	2021
	£
Liability at 1 January 2021	65,668
Charge to the profit or loss	18,416
Liability at 31 December 2021	84,084

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.

19 Retirement benefit schemes

Defined contribution schemes	**2021** **£**	**2020** **£**
Charge to the profit or loss in respect of defined contribution schemes	319,742	306,225
	319,742	306,225

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

	2021 **£**	**2020** **£**
Allotted, called up and fully paid		
8,600,000 ordinary shares of £1 each	8,600,000	8,600,000
	8,600,000	8,600,000

21 Contingent assets

The Company, in common with other managing general agents in both the wider insurance market and more specifically with other providers of legal expenses insurance, is a party to agreements which can lead to potential future income for the Company, which could be material, by way of profit share arrangements based on the underwriting performance of the polices placed. The financial effect of such commission, were it to be recognised, would be to increase income and trade debtors (or cash, once paid). The Company estimates future profit commission, which may be recognised over several years, could be in the range of £nil to greater than £1m.

22 Operating lease commitments

Leases as 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:

	2021 **£**	**2020** **£**
Within one year	328,838	305,649
Between two and five years	277,052	518,470
	605,890	824,119

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.