

Company Registration No. 02585818 (England and Wales)

**ARAG PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

# ARAG PLC

## COMPANY INFORMATION

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<b>Directors</b>	Mr A J Buss Dr R H Dirksen Mr D M Haynes Mr W Nicoll Mrs K Khelaifla
<b>Secretary</b>	Mr R C Moreton
<b>Company number</b>	02585818
<b>Registered office</b>	9 Whiteladies Road Clifton Bristol BS8 1NN
<b>Auditor</b>	KPMG LLP 3 Assembly Square Britannia Quay Cardiff CF10 4AX

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# ARAG PLC

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# ARAG PLC

## STRATEGIC REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **Fair review of the business**

The directors present the strategic report for the year ended 31 December 2020.

### **Review of Business 2020**

ARAG plc ("ARAG") 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 reduced by 3.7% from £14.1m to £13.6m with lower income attaching to the After the Event (ATE) sector. Delays to the pre-LASPOA premium challenge cases have contributed to this shortfall, as well as court delays during the first Covid lockdown. The justice system has remained open during the pandemic but resulting backlogs have temporarily delayed the resolution of many cases and therefore this is seen as a one-off timing issue affecting 2020 only.

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 is prepared for the various forthcoming motor legal reforms (including the Civil Liability Act) in Great Britain and has already introduced changes to terms and pricing of BTE risks ahead of the implementation date. ATE risks will be considered further as soon as the rules post-reform are known.

ARAG successfully transferred its Republic of Ireland risks ahead of the Brexit deadline to its sister Group company, ARAG Legal Protection Limited (ARAG LPL) based in Dublin. This was achieved in addition to supporting the full transfer of resources, risks and data relating to the acquisition of ARAG LPL and its ongoing back office support from the UK. Other Brexit related outcomes will be finalised within the scope of the Temporary Permissions Regime.

The result for 2020 showed a pre-tax profit of £480k similar to 2019 result of £497k. Furthermore, solvency remains very adequately covered.

In addition, the Company makes a separate and indirect valuable contribution to other ARAG Group business via reinsurance and branch operations arising from its premium under management that increased from £40.1m to £42.8m.

Costs and expenses were substantially below plan, mostly due to recruiting fewer staff than expected, lower travelling and marketing 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 again in 2020 a couple of trade awards. 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.

# ARAG PLC

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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### 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.
- 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 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.

# ARAG PLC

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### Development and performance

#### 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

Premium under Management increased by 7% in 2020 compared to the previous year (2019 increased by 6% vs 2018).  
Earned Commission reduced by 4% in 2020 compared to the previous year (2019 increased by 12% vs 2018).

#### *The Number of Individual Risks Covered*

	2018	2019	2020	2019 v 2018	2020 v 2019
Commercial '000	449	470	458	4.68%	-2.55%
Family '000	466	504	506	8.15%	0.40%
Motor '000	448	455	359	1.56%	-21.10%
Assistance '000	642	597	607	-7.01%	1.68%
ATE	29,430	27,840	19,766	-5.40%	-29.00%

#### *The Number of Legal Advice Calls*

	2018	2019	2020	2019 v 2018	2020 v 2019
Legal Advice Calls	32,285	33,997	34,223	5.30%	0.66%

#### Coronavirus

ARAG has introduced many measures following the development of the Coronavirus. This has included implementing business continuity plans involving the closure of our offices and ensuring that all staff can work from home. The transition to working from home has been successful and there have been no adverse developments arising from these changes.

Some sales have been affected by the Coronavirus, particularly in respect of ATE business. This reduction is regarded as temporary and is expected to be reversed in 2021.

Claims volumes have been generally below expectations although some sectors such as BTE landlord and employment claims do show some increases arising from the Coronavirus. Close monitoring continues to ensure that ARAG maintains a deep understanding of the risks but in the meantime, it is considered that there is no significant detriment to the business to either revenue or claims, particularly as some cost savings are being achieved at the same time.

# **ARAG PLC**

## **STRATEGIC REPORT (CONTINUED)**

***FOR THE YEAR ENDED 31 DECEMBER 2020***

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By order of the board

Mr A J Buss

**Director**

26 March 2021

# **ARAG PLC**

## **DIRECTORS' REPORT**

### ***FOR THE YEAR ENDED 31 DECEMBER 2020***

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The directors present their annual report and financial statements for the year ended 31 December 2020.

#### **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.

#### **Results and dividends**

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

Ordinary dividends were paid accounting to £302,077 (2019: £370,463). The directors do not recommend payment of a further dividend.

#### **Directors**

Mr A J Buss  
Dr R H Dirksen  
Mr D M Haynes  
Mr W Nicoll  
Mrs K Khelaifla

#### **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.

#### **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.



# **ARAG PLC**

## **DIRECTORS' REPORT (CONTINUED)**

***FOR THE YEAR ENDED 31 DECEMBER 2020***

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By order of the board

Mr R C Moreton  
**Secretary**

Mr A J Buss  
**Director**

26 March 2021

# **ARAG PLC**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

***FOR THE YEAR ENDED 31 DECEMBER 2020***

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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.

# ARAG PLC

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARAG PLC

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### Opinion

We have audited the financial statements of ARAG plc ("the Company") for the year ended 31 December 2020 which comprise the Profit and Loss Account and 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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS102 *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.

# ARAG PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF ARAG PLC

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#### **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 directors 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 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 posted to unusual accounts, entries containing key words, transactions with related parties and those 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 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, and 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, data protection legislation, 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.

# ARAG PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF ARAG PLC

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*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 noncompliance 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.

### **Responsibilities of directors**

As explained more fully in their statement set out on page 7, 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.

# ARAG PLC

## INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF ARAG PLC

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### **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 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](http://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  
Date:

26 March 2021

## ARAG PLC

### STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £	2019 £
Turnover	3	13,592,523	14,110,415
Cost of sales		(2,707,809)	(3,481,904)
<b>Gross profit</b>		<b>10,884,714</b>	<b>10,628,511</b>
Administrative expenses		(10,412,798)	(10,148,147)
<b>Operating profit</b>	4	<b>471,916</b>	<b>480,364</b>
Interest receivable and similar income	7	8,567	16,228
<b>Profit before taxation</b>		<b>480,483</b>	<b>496,592</b>
Tax on profit	8	(117,567)	(118,996)
<b>Profit for the financial year</b>		<b>362,916</b>	<b>377,596</b>

There was no other comprehensive income for 2020 (2019: £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 2020

	Notes	2020 £	£	2019 £	£
<b>Fixed assets</b>					
Intangible assets	10	150,688		-	
Tangible assets	11	1,694,569		1,758,818	
		<u>1,845,257</u>		<u>1,758,818</u>	
<b>Current assets</b>					
Debtors falling due after more than one year	13	13,258,494	13,052,056		
Debtors falling due within one year	13	12,214,086	14,441,694		
Cash at bank and in hand		18,121,809	18,457,755		
		<u>43,594,389</u>	<u>45,951,505</u>		
<b>Creditors: amounts falling due within one year</b>	14	(20,972,942)	(23,486,354)		
<b>Net current assets</b>		<u>22,621,447</u>		<u>22,465,151</u>	
<b>Total assets less current liabilities</b>		<u>24,466,704</u>		<u>24,223,969</u>	
<b>Creditors: amounts falling due after more than one year</b>	15	(13,258,494)	(13,052,056)		
<b>Provisions for liabilities</b>					
Deferred tax liability	16	65,668	90,210		
		<u>(65,668)</u>	<u>(90,210)</u>		
<b>Net assets</b>		<u>11,142,542</u>		<u>11,081,703</u>	
<b>Capital and reserves</b>					
Called up share capital	18	8,600,000	8,600,000		
Profit and loss reserves		2,542,542	2,481,703		
<b>Total equity</b>		<u>11,142,542</u>	<u>11,081,703</u>		

The accompanying notes form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 26 March 2021 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 2020

		Share capital	Profit and loss reserves	Total
	Notes	£	£	£
<b>Balance at 1 January 2019</b>		8,600,000	2,474,570	11,074,570
<b>Year ended 31 December 2019:</b>				
Profit and total comprehensive income for the year		-	377,596	377,596
Dividends	9	-	(370,463)	(370,463)
<b>Balance at 31 December 2019</b>		8,600,000	2,481,703	11,081,703
<b>Year ended 31 December 2020:</b>				
Profit and total comprehensive income for the year		-	362,916	362,916
Dividends	9	-	(302,077)	(302,077)
<b>Balance at 31 December 2020</b>		8,600,000	2,542,542	11,142,542

The accompanying notes form part of these financial statements.

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **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 performed stress testing for potential adverse developments, including considering 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 UK lock down. The Company has significant cash reserves and expected future cash generation through existing accrued income on ATE business, in addition to cash that will be generated through future new business. Thus they continue 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 insurances through UK insurers and reinsurance provided 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.

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

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

(Continued)

#### 1.4 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
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#### 1.5 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.

#### 1.6 Impairment of fixed assets

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.

#### 1.8 Financial instruments

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

(Continued)

#### **Basic financial assets**

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 comprise cash in hand and deposits held with banks in call accounts.

#### **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 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 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.

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**

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.

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

(Continued)

#### **Deferred tax**

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 it is 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 probable 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.

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

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### 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.

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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### **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.

##### **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.

When deciding on the amounts to recognise as a contingent liability, the Company's legal team assess the costs and probability of success using past experience as specialists in cost litigation. The prospect of success is based on their experience and knowledge of litigation and discussions with both junior council and the Company's appointed Queens Council. Factors such as costs on past cases and success rates are considered when making this judgement. Success rates are used to calculate the estimated average of these costs.

#### **Key sources of 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.

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3 Turnover and other revenue

	2020	2019
	£	£
<b>Turnover analysed by class of business</b>		
Brokerage and commissions earned	9,365,213	9,263,864
ATE Brokerage and commissions earned	3,752,091	4,355,496
Other income	475,219	491,055
	<u>13,592,523</u>	<u>14,110,415</u>

	2020	2019
	£	£
<b>Other significant revenue</b>		
Interest income	8,567	16,228
	<u>8,567</u>	<u>16,228</u>

	2020	2019
	£	£
<b>Turnover analysed by geographical market</b>		
United Kingdom	13,430,955	13,953,037
Rest of Europe	161,568	157,378
	<u>13,592,523</u>	<u>14,110,415</u>

### 4 Operating profit

	2020	2019
	£	£
Operating profit for the year is stated after charging/(crediting):		
Exchange differences apart from those arising on financial instruments measured at fair value through profit or loss	(13,108)	9,646
Fees payable to the company's auditor for the audit of the company's financial statements	51,660	81,307
Depreciation of owned tangible fixed assets	256,981	170,458
(Profit)/loss on disposal of tangible fixed assets	-	302
Amortisation of intangible assets	36,759	-
Operating lease charges	303,109	385,585
	<u>303,109</u>	<u>385,585</u>



# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 5 Employees

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

	2020 Number	2019 Number
Management	5	5
Admin	127	120
Total	132	125

Their aggregate remuneration comprised:

	2020 £	2019 £
Wages and salaries	6,184,638	6,168,625
Social security costs	690,008	678,517
Pension costs	306,225	358,914
	7,180,871	7,206,056

### 6 Directors' remuneration

	2020 £	2019 £
Remuneration for qualifying services	752,295	803,925

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

	2020 £	2019 £
Remuneration for qualifying services	425,897	455,329

### 7 Interest receivable and similar income

	2020 £	2019 £
Interest income		
Interest on bank deposits	8,567	16,228

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 8 Taxation

	2020 £	2019 £
<b>Current tax</b>		
UK corporation tax on profits for the current period	147,102	25,087
Adjustments in respect of prior periods	(4,993)	25,289
	<u>142,109</u>	<u>50,376</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(24,542)	68,620
	<u>(24,542)</u>	<u>68,620</u>
Total tax charge	<u>117,567</u>	<u>118,996</u>

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:

	2020 £	2019 £
Profit before taxation	<u>480,483</u>	<u>496,592</u>
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	91,292	94,352
Tax effect of expenses that are not deductible in determining taxable profit	55,810	9,954
Adjustments in respect of prior years	(4,993)	25,289
Permanent capital allowances in excess of depreciation	-	(10,599)
Deferred tax adjustments in respect of prior years	(24,542)	-
	<u>117,567</u>	<u>118,996</u>
Taxation charge for the year	<u>117,567</u>	<u>118,996</u>

### 9 Dividends

	2020 £	2019 £
Final paid	<u>302,077</u>	<u>370,463</u>

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

### 10 Intangible fixed assets

	Development costs £
<b>Cost</b>	
At 1 January 2020	-
Additions	75,300
Transfers	118,127
	<hr/>
At 31 December 2020	193,427
	<hr/>
<b>Amortisation and impairment</b>	
At 1 January 2020	-
Amortisation charged for the year	36,759
Transfers	5,980
	<hr/>
At 31 December 2020	42,739
	<hr/>
<b>Carrying amount</b>	
At 31 December 2020	150,688
	<hr/> <hr/>
At 31 December 2019	-
	<hr/> <hr/>

Capitalised development costs have been transferred from tangible fixed assets 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 £
<b>Cost</b>			
At 1 January 2020	1,166,742	1,409,924	2,576,666
Additions	106,666	198,213	304,879
Transfers	-	(118,127)	(118,127)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	1,273,408	1,490,010	2,763,418
	<hr/>	<hr/>	<hr/>
<b>Depreciation and impairment</b>			
At 1 January 2020	39,015	778,833	817,848
Depreciation charged in the year	40,293	216,688	256,981
Transfers	-	(5,980)	(5,980)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	79,308	989,541	1,068,849
	<hr/>	<hr/>	<hr/>
<b>Carrying amount</b>			
At 31 December 2020	1,194,100	500,469	1,694,569
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2019	1,127,727	631,091	1,758,818
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 12 Subsidiaries

Details of the company's subsidiaries at 31 December 2020 are as follows:

Name of undertaking	Registered office	Class of shares held	% Held Direct
Easy2claim Limited	England	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	Capital and Reserves £	Profit/(Loss) £
Easy2claim Limited	1	-

### 13 Debtors

	2020 £	2019 £
<b>Amounts falling due within one year:</b>		
Trade debtors	10,029,084	12,256,641
Corporation tax recoverable	-	100,132
Amounts owed by group undertakings	308,778	-
Other debtors	1,563,322	1,811,889
Prepayments and accrued income	312,902	273,032
	<u>12,214,086</u>	<u>14,441,694</u>
<b>Amounts falling due after more than one year:</b>		
Trade debtors	<u>13,258,494</u>	<u>13,052,056</u>
<b>Total debtors</b>	<u>25,472,580</u>	<u>27,493,750</u>

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 14 Creditors: amounts falling due within one year

	2020 £	2019 £
Trade creditors	10,862,353	12,842,597
Amounts owed to group undertakings	333,841	-
Corporation tax	53,680	-
Other taxation and social security	188,067	184,497
Other creditors	39,307	37,874
Accruals and deferred income	9,495,694	10,421,386
	<u>20,972,942</u>	<u>23,486,354</u>

### 15 Creditors: amounts falling due after more than one year

	Notes	2020 £	2019 £
Deferred income		<u>13,258,494</u>	<u>13,052,056</u>

### 16 Deferred taxation

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

	Liabilities 2020 £	Liabilities 2019 £
<b>Balances:</b>		
Accelerated capital allowances	<u>65,668</u>	<u>90,210</u>
<b>Movements in the year:</b>		2020 £
Liability at 1 January 2020		90,210
Credit to profit or loss		(24,542)
Liability at 31 December 2020		<u>65,668</u>

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.

# ARAG PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 17 Retirement benefit schemes

	2020	2019
	£	£
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	306,225	358,914

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.

### 18 Share capital

	2020	2019	2020	2019
	Number	Number	£	£
Ordinary share capital Issued and fully paid				
Ordinary shares of £1 each	8,600,000	8,600,000	8,600,000	8,600,000

### 19 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 in 2021 and these will determine the level of premiums to be recovered, which will be up to £1,070,000. These assets have not been recognised as the exact amount remains uncertain and successful recovery is not considered virtually certain. Whilst the Company is very confident of recovering the majority of the premiums and also costs, there exists a possibility of being unsuccessful and, alternatively, the Company incurring a liability for costs associated with pursuing the case.

This liability estimation is decided upon by the Company's legal team, who assess the costs and probability of success based on their experience and knowledge of litigation and discussions with both junior council and the Company's appointed barrister. Factors such as costs on past cases and success rates are considered when making this judgement.

In that instance, and following FRS102 guidelines, the Company estimates that it may be liable for approximately £220,000 of further own party and £200,000 of opponent's costs.

### 20 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:

	2020	2019
	£	£
Within one year	305,649	351,211
Between two and five years	518,470	706,337
	824,119	1,057,548

## **ARAG PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

***FOR THE YEAR ENDED 31 DECEMBER 2020***

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#### **21 Ultimate 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.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.