2024
Solvency and Financial Condition Report

ARAG LEGAL EXPENSES INSURANCE COMPANY LIMITED (formerly DAS Legal Expenses Insurance Company Limited)

Year ended 31 December 2024

Table of Contents

Summary 3

A. Business and Performance 8
A.1 Business 9
A.2 Underwriting Performance 13
A.3 Investment Performance 14
A.4 Performance of Other Activities 15
A.5 Any other information 16

B. System of Governance 17
B.1 General Information on the System of Governance 18
B.2 Fit and Proper Requirements 25
B.3 Risk Management System including Risk and Solvency Assessment 26
B.4 Internal Control System 30
B.5 Internal Audit function 31
B.6 Actuarial function 32
B.7 Outsourcing 33
B.8 Any other information 35

C. Risk Profile 36
C.1 Underwriting Risk 38
C.2 Market Risk 41
C.3 Credit Risk 42
C.4 Liquidity Risk 44
C.5 Operational Risk 45
C.6 Other Material Risks 47
C.7 Any other information 49

D. Valuation for Solvency Purposes 50
D.1 Assets 52
D.2 Technical Provisions 55
D.3 Other Liabilities 59
D.4 Alternative Valuation Methods 62
D.5 Any other information 63

E. Capital Management 64
E.1 Own Funds 65
E.2 Solvency Capital Requirement und Minimum Capital Requirement 68
E.3 Use of duration-based equity risk sub-module in the calculation of the SCR ... 69
E.4 Differences between the Standard Formula and any Interal Model used 70
E.5 Non-compliance with the MCR and non-compliance with the SCR 71
E.6 Any other information 72

Appendix 73

Further Information 87

Summary

Following Brexit, the UK Government is now able to set its own regulations with the intention to tailor the regulatory framework to the UK insurance sector. Solvency II UK is the new UK regulation ("Solvency UK" or "SII"), which replaces Solvency II by EIOPA, the EU legislative programme, and became effective from 31 December 2024. It was issued at the beginning of 2024 and reviewed throughout the year. This and all future PRA submissions will comply with Solvency UK. Solvency UK applies to ARAG Legal Expenses Insurance Company Limited ("ARAG LEI", "the Company"). In prior years, until the new UK Taxonomy became effective, the framework applicable to the Company was EIOPA's Solvency II.

The main objective of the Solvency framework is to provide an enhanced and more consistent level of protection for policyholders. It improves a firm's understanding and management of its risks, which should result in improved resilience to shocks. The objectives of Solvency UK are achieved through regulatory supervision which includes public disclosure requirements in the form of the Solvency and Financial Condition Report ("SFCR").

As with each year since 2018 year-end, due to meeting the Prudential Regulation Authority's criteria for being a small firm for external audit purposes and thus this SFCR does not need to be audited. This document includes comparisons and reconciliations to the statutory Financial Statements, which are audited as required by Company Law.

This SFCR is based on the results for the year ended 31 December 2024 and is summarised in the section below. The Financial Statements for the year ended 31 December 2024 have been prepared under FRS 102 and FRS 103, same as in the prior reporting period 2023.

Other than the changes mentioned in this document, there were no material changes in the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management during 2024.

Section A – Business and Performance

ARAG Legal Expenses Insurance is the market leader for Legal Expenses Insurance in the UK. The Company's immediate parent company, ARAG UK Holdings Limited (formerly DAS UK Holdings Limited), and all of its subsidiaries (together "ARAG UK" formerly "DAS UK Group") was sold by ERGO Versicherung AG to ARAG SE, that transaction having completed on 2 January 2024. ARAG SE is a leading specialist legal expenses and assistance insurance provider, offering a diverse range of products and services through a broad distribution network that includes insurance intermediaries, brokers, insurers, managed general agents, solicitors and claims management companies. The combination of the complementary businesses of the former DAS UK Group and the ARAG SE Group ("the Group") will bring benefits to all our stakeholders from the shared knowledge; the potential for new ideas, products, and services; and the further digitalisation of our offering.

ARAG LEI is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA.

The year saw an increase in gross written premium to £141,390k (2023: £139,304k) largely because of rate rises and growth, including new business wins. The gross combined operating ratio based on the operational view, which is in line with industry standards increased to 97.1% (2023 restated: 95.6%) driven by one-off integration costs and strategic strengthening of reserves. Overall, the Company made a loss after tax for the financial year of £3,984k (2023: loss after tax £1,108k).

The total comprehensive loss after unrealised gains on a statutory basis for the year was £2,332k (2023: profit £2,283k). Unrealised gains amounted to £1,652k (2023: gains £3,391k). The fair value gains are due to the increase in the valuation of the corporate bonds and UK Government bonds, which comprise the majority of ARAG LEI's invested assets.

ARAG LEI's Solvency UK ratio was impacted by a worsening underlying result as at 31 December 2024 it was 181% (unaudited) (2023: 228% (unaudited)). This has also been impacted by the alignment in the year to ARAG SE Group's Solvency II processes.

The capital management policy follows the requirements of the Solvency UK regulations applicable to UK insurers. The Company's credit rating from Standard and Poor's was 'A-' in 2024, reflecting the long-term commitment of support from ARAG SE.

Section B –System of Governance

The Board of ARAG LEI is ultimately responsible for compliance with the Solvency UK regulations and PRA rules through the use of an Internal Control System ("ICS") framework and is responsible for the running of the business. Changes to the Board members and Senior Management Function ("SMF") holders as noted in section B.1.

ARAG LEI is a subsidiary of ARAG UK Holdings and during the reporting period was managed on a unified basis with its other UK subsidiaries.

ARAG LEI manages its business risks and uncertainties using an Enterprise Risk Management Framework ("ERMF"), which, through the Governance structure of the Company, implements risk identification, assessment, management and Reporting to the Board and its sub-committees. The ERMF includes the following key components:

- Risk Culture;
- Risk Governance (based upon "three lines of defence" principles);
- Risk Strategy;
- Risk Appetites;
- Policy Framework; and
- Risk Cycle (Risk Identification, Risk Assessment and Measurement, Risk Steering, Risk Monitoring and Reporting).

The Company aligns its ERMF with regulatory requirements and strategic goals. A consistent risk appetite framework fosters transparency and action on exposures, while a strong risk culture is promoted through ongoing risk management education and development programs.

The System of Governance includes the Own Risk and Solvency Assessment ("ORSA") process, which is a SII requirement and also an important management tool in the strategic decision-making process with the forward-looking assessment of own risks. This framework is used to ensure that ARAG LEI has financial strength and is adequately capitalised to support business growth and to meet the requirements of the shareholder, regulators, rating agencies and its obligations to policyholders.

Section C – Risk profile

The principal risks and uncertainties in the business have been reviewed and documented as part of the ORSA process. It is possible to identify from the ORSA the principal risks and uncertainties that are particularly relevant to ARAG LEI. These are summarised below:

- Underwriting risk (for further information see section C.1);
- Market risk (for further information see section C.2);
- Credit risk (for further information see section C.3);
- Liquidity risk (for further information see section C.4);
- Operational risk (for further information see section C.5); and
- Other material risks including Regulatory risk; Conduct risk; Reputational risk; Climate Change risk; Concentration risk and Group risk (for further information see section C.6).

Section D – Valuation for Solvency Purposes

ARAG LEI's excess of assets over liabilities on a SII basis is £32,273k (2023: £42,567), whilst on the local statutory reporting basis this excess is £18,256k (2023: £20,588k) as shown in ARAG LEI's statutory Financial Statements.

The difference is due to the differing bases of valuation of assets and liabilities under statutory and SII reporting, particularly in respect of the recognition of future cash flows arising from (re)insurance contracts in the Technical Provisions for solvency reporting. A reconciliation between the Equity shown in the Financial Statements and the Own Funds for solvency purposes are shown in section E.1. Section D sets out the bases, methods and main assumptions used in the valuation of the assets, Technical Provisions and other liabilities.

Section E – Capital Management

The SII coverage ratio, defined as the ratio of Eligible Own Funds ("EOF") to Solvency Capital Requirement ("SCR"), is a key measure of financial strength under SII. Due to the statutory loss after tax for the financial year, the Company's year end solvency position decreased to 181% (unaudited) (2023: 228% (unaudited).

Section E sets out the capital ARAG LEI holds ("Own funds") and the excess of capital above the amount that it is required to hold by the Solvency UK regulations and the PRA rules.

Appendix

1 – Quantitative Reporting Templates

This sets out the Quantitative Reporting Templates ("QRTs") as required by the Solvency UK regulations.

2 – Glossary of abbreviations and terms.

This provides a glossary of abbreviations and terms which may aid the reader.

Statement of Directors' Responsibilities

Directors' Statement of Responsibility in respect of the SFCR for the year ended 31 December 2024

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA rules and the Solvency II UK regulations.

We are satisfied that:

1. Throughout the financial year in question, ARAG LEI has complied in all material respects with the requirements of the PRA rules and the Solvency II UK regulations as applicable to ARAG LEI; and

2. It is reasonable to believe that ARAG LEI has continued so to comply subsequently and will continue so to comply in future.

The SFCR was approved at a meeting of the Board of Directors on the 2 Jun 2025 and signed on its behalf on the 3 Jun 2025 by:

Director David Haynes

A. Business and Performance

A.1 Business

General Information

ARAG LEI's principal activity is the transaction of Legal Expenses Insurance ("LEI") business.

Legal basis
ARAG LEI is registered in England and Wales under company number 00103274 as a private company limited by shares. The registered office is located at:

Unit 4a Greenway Court
Bedwas
Caerphilly
Wales
CF83 8DW

E-Mail: pressoffice@arag.co.uk
Internet: www.arag.co.uk

ARAG LEI is authorised by the PRA and regulated by the FCA and the PRA (Firm Reference Number / FRN: 202106)

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

Internet: www.fca.org.uk

Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA
Internet: bankofengland.co.uk/pra

External Auditor
Contact details of ARAG LEI's external auditor:

Ernst & Young LLP ("E&Y")
1 Colmore Square
Birmingham
B4 6HQ

Internet: www.ey.com/en_uk

ARAG LEI conducts its principal activities in the United Kingdom.

ARAG LEI has been part of ARAG SE Group from 2 January 2024, when the Company's immediate parent company, ARAG UK Holdings Limited, was sold by ERGO Versicherung AG to ARAG SE.

ARAG LEI operates two fundamental classes of business that remain the focus of its strategy for the duration of its planning horizon.

Before the Event ("BTE") policies provide insurance in the traditional sense, where cover is purchased to protect the policyholder in respect of the occurrence of potential future events. This business falls under the "Legal expenses insurance", "Assistance" and "Miscellaneous financial loss" solvency lines of business; and

After the Event ("ATE") insurance is provided after a substantive incident has occurred and therefore the risk insured is the risk of losing the litigation. Cover is provided for defendants' costs, the policyholders' disbursements and premium indemnity. Solicitors have an alignment of interest as their own costs, which are not indemnified under the terms of the policy, are at risk. This business falls under the following solvency lines of business: "Legal expenses insurance" and "Assistance".

ARAG LEI has no related undertakings, investments in joint controlled entities or associates.

Structure of ARAG UK

ARAG LEI is a wholly owned subsidiary, and the principal trading subsidiary of ARAG UK Holdings. ARAG UK Holdings is the holding company of the ARAG UK of companies. ARAG UK Holdings is responsible for overseeing the operations of its subsidiaries including setting the overall strategy and risk appetite, delegating appropriate authority to them and ensuring the long-term success of ARAG UK as a whole as well as the individual subsidiaries.

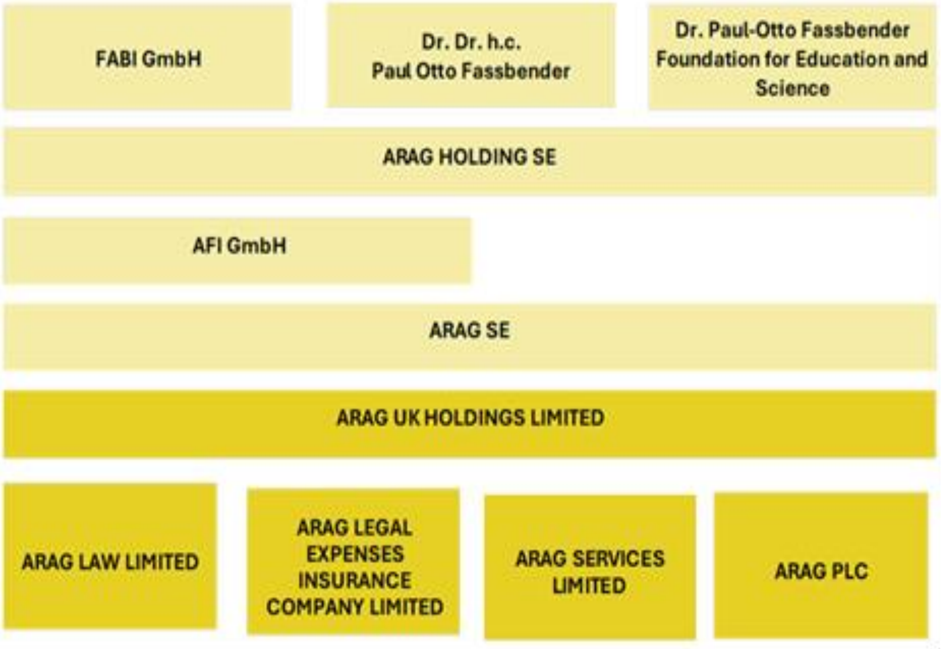
The diagram below shows the structure of the ARAG UK and its position throughout 2024 in the wider ARAG SE Group. It is also included in the ORSA report which was approved by the Board on 16th December 2024. The diagram below is as per revised version following the changes of legal names of former DAS entities at the beginning of 2025. On the 2 January 2025, ARAG PLC has moved to become a wholly owned subsidiary of ARAG UK Holdings Limited.

All ARAG UK companies are incorporated in the United Kingdom.

ARAG SE

ARAG UK Holdings is a wholly-owned subsidiary of ARAG SE as at 31 December 2024. The change in ownership became effective at the beginning of the current reporting period.

Corporate structure of ARAG UK in the wider ARAG SE Group



This diagram shows the corporate structure effective from 26 February 2025. It reflects the changes of legal names of all former DAS entities at the beginning of 2025 and ARAG PLC moving to become a wholly owned subsidiary of ARAG UK Holdings.

Description of main affiliated companies

1. ARAG SE is the operating management company of ARAG Holding SE and the leading legal insurer worldwide. Its business focuses on private customers and on small and medium-sized business customers. It has operational branches all across Europe.

2. ARAG PLC was an ARAG SE subsidiary which became a subsidiary of ARAG UK Holdings on the 2 January 2025. It works as an intermediary by brokering business with end customers and passing it onto primary insurers.

Intragroup Reinsurance arrangments

ARAG LEI has a Quota share reinsurance treaty arrangements with its parent ARAG SE for the reporting period 2024.

Line of Business

ARAG LEI's activities are in three solvency lines of business. These are Legal Insurance Expenses, Assistance and Miscellaneous Financial Loss.

Significant business or other events in the reporting period

Company changes

ARAG LEI's immediate parent ARAG UK Holdings Limited (formerly DAS UK Holdings Limited) was acquired by ARAG SE from ERGO Versicherung AG on the 2 January 2024. ARAG LEI was managed throughout the reporting period by a new Executive Management Committee (EMC).

Throughout the year, ARAG LEI continued to operate under its old brand and legal name DAS LEI. The company applied for a change of name, however as at 31 December 2024, the change had not been processed by Companies House. The name was legally changed on 15 January 2025.

A.2 Underwriting Performance

Underwriting performance – Overview

"Underwriting result" is defined for the purpose of this document as ARAG LEI's profit or loss for the year excluding investment results, foreign exchange gains/losses, other non-technical expenses and the impact of reinsurance.

Underwriting result was mostly driven by one-off integration costs and strategic strengthening of reserves.

Underwriting result – per UK GAAP (gross[1])

(in £'000)	2024	2023
Legal Expenses Insurance	(3,595)	(112)
Assistance	72	1,781
Miscellaneous Financial Loss	(143)	304
Total Gross Underwriting (loss) / profit according to UK GAAP Financial Statements	**(3,666)**	**1,973**

Underwriting result – per Solvency UK (gross[1])

(in £'000)	2024	2023
Premiums Earned	134,084	135,639
Claims Incurred (excl Claims Management costs)	86,246	87,886
Expenses Incurred	13,518	8,839
Other Underwriting Expenses	4,173	4,234
Total Gross Underwriting result (excl Reinsurance) according to IR.05.04.02	**30,146**	**34,680**

[1] The gross amounts are not adjusted for the reinsurer's share, and refers, where applicable, to the individual items.

Underwriting result – by main line of business

The underwriting result (gross of reinsurance) is shown below by SII line of business.

In assessing ARAG LEI's performance for the year, the Investment performance set out in section A.3 and the Performance of other activities (including the reinsurance result) in section A.4 should also be considered, as they are not included in the above analysis.

Main lines of business[1] (gross[2])

	Premiums Earned		Claims Incurred[3]	
(in £'000)	2024	2023	2024	2023
Legal Expenses Insurance	102,624	101,289	66,689	64,167
Assistance	5,377	5,209	4,275	4,888
Miscellaneous Financial Loss	26,083	29,141	15,282	18,831
Total	**134,084**	**135,639**	**86,246**	**87,886**

[1] Presentation of results and lines of business based on IR.05.04.01 in the Appendix.
[2] The gross amounts are not adjusted for the reinsurer's share, and refers, where applicable, to the individual items.
[3] Excluding Claims managements costs.

Underwriting result – by main geographical area

ARAG LEI used to write business within Norway, ceasing to do so in April 2019, and there are no other material geographical areas other than the United Kingdom. The split below is per the Financial Statements.

For solvency purposes Norway's result is included with United Kingdom results due to materiality in Quantitative Reporting Templates ("QRTs") IR.05.04.02 - Premiums, claims and expenses by line of business required to be disclosed in relation to the underwriting performance.

Main geographical areas (net[1])

	Premiums Earned		Claims Incurred[2]	
(in £'000)	2024	2023	2024	2023
United Kingdom	134,079	135,824	86,257	87,482
Norway	4	(185)	-11	404
Total	**134,084**	**135,639**	**86,246**	**87,886**

[1] The gross amounts are not adjusted for the reinsurer's share, and refers, where applicable, to the individual items.
[2] Excluding Claims management costs

A.3 Investment Performance

Investment return comprises all investment income, realised investment gains and losses, net of investment expenses, charges and interest other than unrealised gains and losses on available-for-sale assets (see "Gains and losses recognised in Equity" below). Interest earned whilst holding available-for-sale investments is reported as interest income using the effective interest rate method.

Gains and losses recognised directly in Equity

In addition to the items above, there were gains on re-measurement of available-for-sale financial assets, net of tax of £1,652k (2023: £3,391k). These mainly relate to unrealised gains on corporate bonds, government bonds and guilts, and the difference compared to the prior year mainly reflects market movements. ARAG LEI monitors Investment performance on an on-going basis to ensure that it is in line with its Board-approved risk appetite.

Investments in securitisations

ARAG LEI still has no investments in securitisation during this or the prior financial year.

Gains and losses on investments in ARAG LEI

(in £'000)	**2024**	**2023**
Government Bonds	2,196	1,317
Corporate Bonds	1,866	1,365
Structured Notes	0	201
Losses on the realisation of Government Bonds	(181)	(277)
Losses on the realisation of Corporate Bonds	(825)	(309)
Losses on the realisation of Structured Notes	0	19
Losses on the realisation of Collective Investment Undertakings	0	0
Investment Management Expenses	(204)	(186)
Total Investment return	**2,852**	**2,130**

A.4 Performance of Other Activities

The table below sets out the "Total comprehensive (loss)/profit for the year" as stated in ARAG LEI's **Financial Statements**, and it also includes the underwriting and investment results set out in the previous sections.

Total Comprehensive Profit / (Loss) for the year – per UK GAAP

(in £'000)	2024	2023	Comments
Gross Underwriting performance	(3,666)	1,973	See A.2 section.
Investment performance	2,852	2,130	See A.3 section.
Gains on remeasurement of available-for-sale financial assets	1,652	3,391	See A.3 section.
Other Income per Non-Technical account	788	395	This includes a net recovery of £429k (2023: £126k) where ARAG LEI was involved in a private criminal prosecution against a former CEO and two other former staff members.
Other Expenses per Non-Technical account	(76)	(869)	Immaterial balance this year. In 2023 it included £597k relating to the purchase of a bulk annuity insurance policy in respect of DAS UK's Defined Benefit pension scheme and£202k relating to the sale of ARAG UK by ERGO to ARAG SE.
Tax on loss on ordinary activities per Technical and Non-Technical account	1,360	429	This is tax on the items disclosed in the Profit and Loss Account in the Financial Statements. Comprises: tax credit in relation to loss before tax in the year of £724k and deferred tax movements relating to prior period of £636k.
Items included in the Technical account, other than Gross Underwriting result	(5,242)	(5,166)	This comprises the reinsurance result which was a loss of £5,242k (2023: £(5,166k) ARAG LEI's reinsurance policy helps mitigate risk to policyholders and gross underwriting risk, improving ARAG LEI's SII position.
Total Comprehensive Profit/ (Loss) for the year	**(2,332)**	**2,283**	

Tax income / expenses

Largely as a result of the underlying result and investments, the tax credit amounted to £1.4m (2023: £0.4m).

Leases

The only lease that ARAG LEI is party to is a building lease, which was assessed to determine whether substantially all the benefits and risks of ownership remain with the lessor. As the lease does not transfer all the benefits and risks of ownership to ARAG LEI, it is categorised as an operating lease. Rental charges applicable are recognised in the income statement on a straight-line basis (net of any lease incentives received) over the lease term. Operating lease charges of £135k were recognised in ARAG LEI's 2024 income statement (2023: £135k).

A.5 Any other information

There is no other material information to disclose.

B. System of Governance

B.1 General Information on the System of Governance

ARAG LEI's system of governance is deemed appropriate for the nature, scale and complexity of the risks inherent in its business. The system of governance is set out below.

There have been no material changes in the system of governance other than those noted below. Opportunities to improve the relatively new Consumer Duty Oversight Committee Reporting have been identified and are being prioritised.

ARAG UK Holdings Limited, which owns the ARAG subsidiaries registered in the UK is owned by the German insurer ARAG SE and ultimately by Dr Paul-Otto Fassbender. ARAG LEI is managed on a unified basis with the other ARAG subsidiaries within the UK.

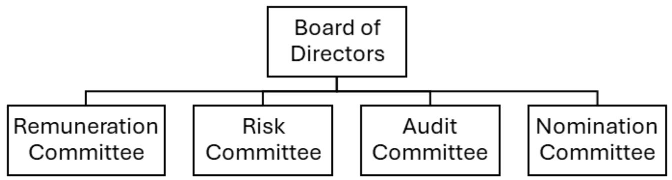
ARAG UK has developed a Corporate Governance Structure that facilitates a clearly-defined decision-making process, business execution system and supervisory system. This structure allows decision-making authority to be delegated throughout ARAG UK to ensure that there is efficiency of decision-making while also maintaining effective oversight.

At the top of ARAG UK's Corporate Governance Structure is the Board of Directors, which has a clearly defined mandate and duties. Below the ARAG UK Holdings Board of Directors, the governance structure consists of the following.

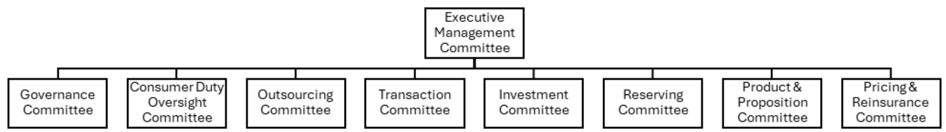
- Board Committees that report and make recommendations to the Board of ARAG UK Holdings;
- An Executive Management Committee ("EMC") that reports to the Board and is responsible for the day-to-day running of ARAG UK;
- Management Committees that are responsible for first line risk management decisions for key areas within ARAG UK. These report into the EMC, and in some cases the Risk Committee; and
- Functional areas that are responsible for the second and third line of defence activities within ARAG UK and report into the Risk Committee or Audit Committee.

The Corporate Governance structure described and illustrated below was effective for the year ended 31 December 2024. Due to changes to Governance, a new structure will be in place in 2025.

Committee Structure – Corporate Governance



Committee Structure – Executive Governance



The duties outlined for the Board, Board Committees and Management Committees refer to ARAG UK as a whole.

Roles, Responsibilities and Purpose

Boards

ARAG UK Holdings Limited Board and ARAG Legal Expenses Insurance Company Limited Board

The Board of Directors of each company is collectively responsible for the long-term success of that company. Further, the Board of Directors of ARAG UK Holdings Limited is responsible for ensuring the long-term success of ARAG UK as a whole, as well as of each of its subsidiaries. The individual Board of each company provides entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed for that company. Each Board is responsible for setting the relevant company's strategic aims, ensuring that the necessary financial and human resources are in place in order to meet objectives and review management performance. The individual Board sets the values and standards of each company and ensures that obligations to shareholders and stakeholders are understood and met.

ARAG UK Holdings Board Committees

ARAG UK Holdings has established Board Committees to carry out activities on behalf of, and make recommendations to, the Board in key areas of responsibility (and, where relevant, the Boards of its subsidiaries). Given the size, complexity and activities carried out by ARAG UK Holdings and its subsidiaries, the Board has deemed appropriate to create the following Board Committees:

Nomination Committee

The Nomination Committee is responsible for making recommendations for maintaining an appropriate balance of skills on the Board with a view to ensuring the continued ability of the organisation to meet its strategy, and for approving appointments to the Board and the EMC.

Remuneration Committee

The Remuneration Committee is responsible for the setting and oversight of the remuneration policy for the Executive Management Committee (EMC), including the appropriate framework and governing principles for fixed and variable pay which includes sales incentives and other performance-based arrangements.

Audit Committee

The purpose of the Audit Committee is to provide oversight and assessment of the integrity and accuracy of the financial reporting, along with the effectiveness of the internal controls of ARAG UK. It is also responsible for the management, coordination and oversight of the internal and external audit functions. Additionally, the Committee has responsibility for the ARAG UK whistle-blowing policy.

Risk Committee

The Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of ARAG UK and future risk strategy, including determination of an appropriate risk appetite and risk tolerance. It also has responsibility for reviewing and approving various formal reporting requirements and promoting a risk awareness culture within ARAG UK.

ARAG UK Holdings Management Committees

Executive Management Committee ("EMC")

The purpose of the EMC is to manage the business of ARAG UK within agreed financial limits set by the Board. Subject to these financial limits, it has primary authority for the day-to-day management of ARAG UK's operations save for those matters which are reserved to the Board or its committees.

Transaction Committee

The Transaction Committee's purpose is to review and approve all major transactions or investments outside of the usual course of business. This could include but is not limited to: Deals; M&A; Underwriting outside of the normal guidelines or strategic accounts; investments; and marketing campaigns.

Consideration is given to market need, competitors, risks, customer outcomes, perceived benefits and appetite of ARAG UK. In some instances, input is received on the financial implications of the transaction from the Pricing and Reinsurance Committee.

Pricing and Reinsurance Committee
The Pricing and Reinsurance Committee is responsible for monitoring the performance and capital requirements of all individual lines of business across BTE, ATE, Insured Assistance and other business lines. Responsibilities include approval of outward reinsurance agreements; review of pricing and financial implications; and review pricing adequacy and recommend changes as necessary.

Product and Proposition Committee
The Product and Proposition Committee's purpose is to oversee and control the product development process for new and existing products and services across ARAG UK, including BTE, ATE, Insured Assistance, Legal Services, Special Risks and other business lines. It is also to ensure that the development of new products and services meet regulatory and company requirements and considers business conduct and fair outcomes for customers at each stage in the process.

Reserving Committee
The purpose of the Reserving Committee is to:

- Review ARAG LEI's claims reserving policy;
- Review and challenge models, assumptions and data used in the most recent claims reserves assessment and the calculation of Technical Provisions for Solvency UK, and local GAAP; and
- Make recommendations in respect of the models and assumptions to be used.

Outsourcing Committee
The purpose of the Outsourcing Committee is the:

- Management and periodic review of outsourcing arrangements and delegated authorities across all business lines, including oversight of partner audits;
- Review of management information;
- Monitoring of outsourcer performance against key metrics;
- Monitoring of outsourcer compliance with regulatory requirements; and
- Oversight of outsourcing risk management arrangements, contractual agreements, and maintenance of an inventory of all material outsourcing arrangements.

Investment Committee
The purpose of the Investment Committee is the oversight and periodic review of investment management arrangements and delegated authorities, including review of management information, monitoring of the Investment Manager's performance against key metrics (risk triggers), monitoring of compliance with regulatory requirements, and oversight of market risk management arrangements and contractual agreements.

Governance Committee (Audit, Risk & Compliance)
The Governance Committee is a unified second, and third, line of defence committee with the purpose of:

- Overseeing the implementation and performance of the Group's Enterprise Risk Management Framework;
- Implementation of the firms' Compliance Frameworks within the Regulatory Risk appetite set by the Board;
- Implementation of the Group's Information Security framework within appetite set by the Board;
- Implementation of the Group's Resilience & Business Continuity Management Frameworks within the Operational Risk appetite set by the Board; and
- Monitoring of outsourcer performance against key metrics;
- Monitoring of outsourcer compliance with regulatory requirements; and
- Reporting to Executive Management on the Internal Audit activity and outcomes, including the Internal Audit function's purpose, authority, responsibility and performance.

Consumer Duty Oversight Committee

The purpose of the Consumer Duty Oversight Committee is to support the Board and Senior Management in determining the extent to which the firm continues to meet with the FCA's Consumer Duty (Principle 12) and the firm's own objectives for the delivery of fair value and good customer outcomes.

Roles and Responsibilities of Board Members and other Key Function Holders

Chair of the Board

The Chair is responsible for the leadership of the Boards of ARAG UK Holdings and ARAG LEI, ensuring their effectiveness in all aspects of their role including regularity and frequency of meetings.

Responsibilities include:

- Setting the Board agenda considering the issues and concerns of all Board members and concentrating on strategic matters;
- Chairing board meetings, general meetings and meetings of the Nomination Committee at which the Chair is present;
- Managing the Board to allow enough time for discussion of complex or contentious issues and where appropriate arranging informal meetings beforehand to enable thorough preparation for the Board discussion; and
  Ensuring that Directors receive accurate, timely and clear information, including that on ARAG UK's current performance, to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success.

Independent Non-Executive Directors

Independent Non-Executive Directors ("INEDs") are required to bring innovation and experience to the Board whilst monitoring executive decisions. They are independent in judgement and have an enquiring mind.

INEDs are responsible for:

- Scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance;
- constructively challenging the Board and for the provision of assistance in developing ARAG UK's strategy;
- The integrity of financial information and the robustness and defensibility of financial controls and systems of risk management;
- Challenging decisions made by the Board, committees of the Board and Directors, ensuring compliance and good governance in line with regulatory and statutory obligations;
- Reporting to the appropriate authorities issues where there are possible breaches of regulations or statutory obligations;
- Determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

Chief Executive Officer

The Chief Executive Officer ("CEO") receives delegated authority from the Board to execute the ARAG UK business strategy, in accordance with the direction and policies established by the Board. Key responsibilities include Board administration and support, programme, product and service delivery, financial and risk management, human resource management and community/public relations.

Chief Financial Officer

The Chief Financial Officer ("CFO") has accountability for the management of the financial resources of ARAG UK and reporting to ARAG SE Group in relation to its financial affairs. The CFO oversees the Finance and Actuarial departments at ARAG UK. They are accountable for the strategic direction and quality of all financial matters, including financial planning and analysis, reporting and tax, accounting and reserving.

Chief People Officer
The Chief People Officer has ultimate accountability for all people and property-based activity from both an operational and strategic perspective. They are accountable for driving the people and property agenda across ARAG UK, in line with the overall corporate strategy, and for setting and embedding the desired company culture and behaviours.

Chief Customer Officer
The Chief Customer Officer is responsible for all legal service and claims management activity. The role's remit of responsibility includes Company Secretariat, In-house Legal, Procurement & Outsourcing, Legal Advice, Claims, Operational Planning, Technical Claims and Customer Experience and Insight functions to ensure high quality customer outcomes and experiences are provided to all policy holders throughout their claim journey with ARAG LEI.

Head of Internal Audit
The Head of Internal Audit helps the Board and senior management to protect the assets, reputation and sustainability of the organisation by providing independent, risk-based and objective assurance to senior management and the Board regarding the effectiveness of governance, risk management and internal controls across ARAG UK.

Chief Risk Officer
The Chief Risk Officer is responsible for identifying risks and defining and owning the overall risk frameworks.

Chief Compliance Officer
The Chief Compliance Officer is responsible for ensuring that all business activities and processes comply with applicable laws, regulations, internal policies and ethical standards. In addition, the role works closely with other departments to identify and minimise risks and conduct training. Furthermore, the role takes over the function as Data Protection Officer.

Chief Actuary
The Chief Actuary directs the Actuarial function, which is responsible for analysis and quantification of financial risks and liabilities. Key responsibility areas include reserving, capital modelling, and pricing support. The Chief Actuary is responsible for complying with SII regulations and the PRA Rulebook in relation to the Actuarial Function Holder, including oversight of the calculation of Technical Provisions, appropriateness of underwriting and pricing policies, and adequacy of reinsurance arrangements.

Changes in roles in the year
During 2024 there were the following changes:

On 2 January, Christine Kaaz, Ilona Mihele and Oliver Willmes stood down as Non-Executive Directors and Renko Dirksen, Matthias Maslaton and Hanno Petersen were appointed as Non-Executive Directors. Renko Dirksen was also appointed as a member of the ARAG UK Group's Nomination Committee and Hanno Peterson appointed as a member of the ARAG UK's Remuneration Committee.

On 2 January, the Chief Risk and Compliance Officer role split. James Sutherland was appointed as Chief Risk Officer and Dave Akrill was appointed as Chief Compliance Officer.

On 1 February, Annie Bernays (Executive Director and Chief Financial Officer) and David Swigciski (Executive Director and Director of Client Services) left the Board. Enrique Gomez (Director of Claims) left ARAG UK.

On 2 April, Anthony Buss was appointed as an Executive Director and replaced Anthony Coram as Chief Executive Officer. Anthony Coram was appointed as Chief Operating Officer. Dirk Hock was appointed as an Executive Director and Chief Financial Officer.

On 1 March, the appointment of Gareth Roberts, Independent Non-Executive Director, was extended for another two years until 1 March 2026. He became Risk Committee Chair in November, having carried out this role on an interim basis.

On 13 August, Louise Coulton was appointed as an Independent Non-Executive Director. She was also appointed as a member of the ARAG UK's Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee. In November, she became Audit Committee Chair, replacing Neil Macmillan.

On 30 September, James Sutherland stood down as Chief Risk Officer, and left ARAG UK.

On 1 October, Brynley Case was appointed as Chief Customer Officer. Anthony Collins, Chief Actuary, was also appointed as Interim Chief Risk Officer.

On 3 December, Anthony Coram stood down as an Executive Board Director and Chief Operating Officer.

On 31 December, the appointment of Neil Macmillan, Chair and Independent Non-Executive Director, was extended for another three years until 31 December 2027.

During 2025, to the date of signing of the SFCR, the following changes occurred:

On 13 January, David Haynes was appointed as an Executive Director.

On 5 February, Tom Vandamme was appointed as Head of Internal Audit, replacing Jennifer Morgan, who left her position as Head of Internal Audit on 23 November 2024. Matthew Allam was appointed as Interim Head of Internal Audit from 18 November 2024 until 4 February.

On 31 March, Anthony Buss retired from his role as Chief Executive Officer and left the Board.

On 1 April, David Haynes succeeded Anthony Buss as Chief Executive Officer and Nathan Holt succeeded David Haynes as Chief Underwriting Officer, both subject to regulatory approval.

Remuneration

Information on the remuneration policy and practices
The Remuneration Committee has overall responsibility for the remuneration decisions for ARAG UK's Directors and Senior Managers. The Committee monitors both fixed and variable remuneration for this group and the total overall spend on variable pay. The remuneration of non-executive directors is determined by the shareholder of ARAG UK Holdings. INEDs are not entitled to performance-related remuneration.

From January 2024 the integration of ARAG LEI and ARAG PLC meant that 2024 is a transitional year during the integration of the two businesses and within the wider ARAG SE Group.

We have 6 grades based on role size, grade A – F (junior to senior), which are used to help determine overall employee remuneration packages.

Grade	Typical roles
F	CEO, Directors
E	Head of Roles
D	Senior Managers or Managers of Managers, Senior Technical Specialists
C	Team Leaders, Technical Specialists
B	Operational or junior technical roles
A	Support or Administration roles

Remuneration for the members of the EMC, effective 1 January 2024 is as follows:

- Executive Board Members: effective 1 January 2024 individuals will participate in a company bonus scheme based on ARAG UK / ARAG SE and Post Merger Integration (PMI) objectives/measures;
- Grade F: As per Executive Board Members.

Some grade E roles were members of the EMC in 2023, but since the start of the year when the integration with ARAG took place, this was no longer the case.

The ARAG UK Remuneration and Compensation Policy governs executive pay and outlines the requirements under Solvency UK.

An outline of our approach to variable pay for non-EMC members is set out below:

- Grade E scheme: Variable bonus award, based on personal performance, plus a fixed allowance in lieu of bonus, which replaces the financial element of bonus; and
- Client Services: although the Client Service business area no longer exists as it has been integrated into different business areas as part of integration, this bonus scheme and roles were still in place throughout this year with the same structure as the grade E scheme.

Remuneration for all employees is managed according to an annual budgeted pay process. The pay award is also subject to negotiation annually with Unite, the recognised Union. Typically, once agreed, all pay increases are effective from April and are distributed by reference to the employee's overall performance rating from the previous year. Pay levels are benchmarked annually using Willis Towers Watson. In addition, employee benefits are provided including market-aligned benefits.

For information on Directors' remuneration, see the Directors' remuneration note in ARAG LEI's Financial Statements for the year ending 31 December 2024.

Supplementary Pension Options and Early retirement scheme

There are no supplementary pension provisions. All executive members of the administrative, management or supervisory body and other key function holders are covered under the standard defined contribution pension plan. There is no provision for non-executive members. Key functions are in accordance with the FCA Handbook and the PRA Rulebook per section B.2.

Material Transactions during the reporting period

Under the quota share arrangement with ARAG SE, which came into effect on 1 January 2024 and remained effective until 31 December 2024, ARAG LEI ceded 90% of its insurance business, net of external reinsurance. This transaction was entered into on an "arm's-length" basis. This agreement will continue to be renewed with ARAG SE on an annual basis.

B.2 Fit and Proper Requirements

Requirements

ARAG UK has a "Fitness and Propriety" policy in place which sets out the framework for assessments of the fitness and propriety of its Board members, Senior Management Function, Certification Function and Key Function holders. The policy is designed to ensure regular, thorough and consistent assessments. It contains a definition of fitness and propriety, and a description of the collective qualification and experience requirements for the positions below.

Members of the ARAG LEI Board
Each member of the ARAG LEI Board must possess appropriate qualifications, knowledge and expertise on insurance, financial markets, actuarial analysis, underwriting, regulatory framework and requirements, business strategy, business model and risk management, to fulfil the specific responsibilities assigned to them within the Board.

All members of the Board are subject to the requirements of the Senior Managers and Certification Regime ("SMCR"). The aim of the SMCR is to reduce harm to consumers and strengthen market integrity by setting new standards of personal conduct for everyone who works in financial services, and by making senior people in firms more responsible and accountable for their conduct, actions and competence. The Board are subject to SMCR requirements including, but not limited to, the Conduct Rules, fit and proper assessments and regulatory referencing.

Executive Senior Management
The remaining senior management members must possess the equivalent qualifications, experience and knowledge as outlined for Members of the Board to the extent relevant for their particular scope of responsibility.

Holders of Key Functions
Holders of key functions must have the qualifications and experience required respective to their position, role and responsibilities as well as general knowledge of the insurance sector and specific knowledge of the firm.

Holders of Certification Functions
Holders of certification functions must have the qualifications and experience required respective to their position, role and responsibilities as well as general knowledge of the insurance sector and specific knowledge of the firm.

Process

The Fitness & Propriety Policy provides guidance on how fitness and propriety are assessed based on the various sources of evidence gathered. It also provides guidance on the management of adverse findings because of assessments.

The fitness and propriety of relevant individuals is assessed prior to commencement of their role and on an ongoing basis thereafter.

New Appointments
New appointments fitness and propriety are assessed by comparing the candidate's profile (knowledge, skills, qualifications, skills and expertise) against the job description and requirements of the role, obtaining regulatory references and verifying the honesty, integrity, reputation and financial soundness of the individual via background screening and pre-employment checks.

Ongoing Assessments
Ongoing assessments are carried out on at least an annual basis to ensure relevant individuals' fitness and propriety after their initial appointment. These assessments include a self-certification, confirmation of ongoing competence through performance management and background checks to confirm continued propriety.

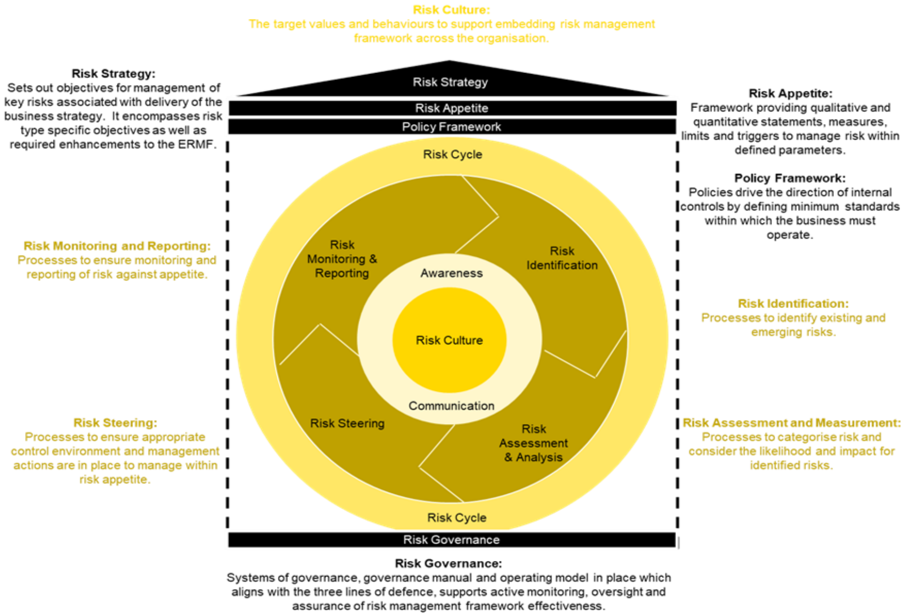
B.3 Risk Management System including Risk and Solvency Assessment

Description of the Risk Management System

ARAG UK manages its business risks and uncertainties using an Enterprise Risk Management Framework ("ERMF") which includes the following key components: Risk Culture; Risk Governance (based upon "three lines of defence" ("LoD") principles); Risk Strategy; Risk Appetites; Policy Framework; and Risk Cycle (Risk Identification, Risk Assessment & Measurement, Risk Steering, Risk Monitoring & Reporting).

ARAG UK Enterprise Risk Management Framework

The diagram below sets out the ARAG UK Enterprise Risk Management Framework and implicitly links the key components of Governance, Board-expressed risk appetite and overarching risk policies with the day-to-day risk management practices of ARAG UK:



Description of how the Risk Management System is implemented

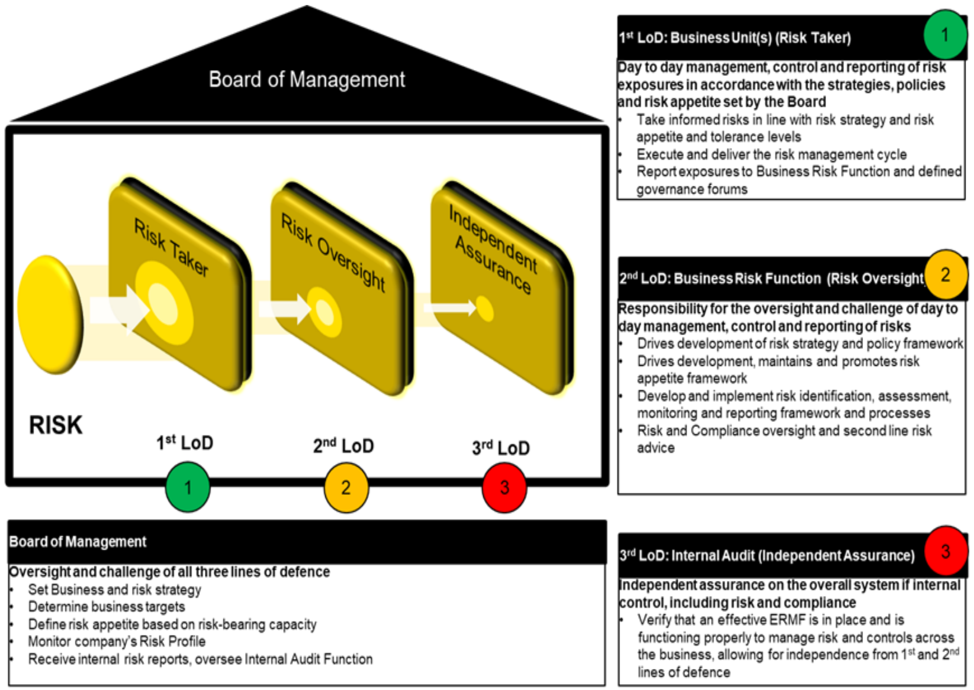
As set out in the diagram below, ARAG LEI's organisational structure reflects the three LoDs principles with key functions operating as essential components of the system of governance.

Three lines of defence

The three lines of defence facilitate clarity of responsibilities based on appropriate segregation of duties. An overview is shown below.

Key Functions

ARAG LEI has four separate key functions: Risk; Compliance; Actuarial and Internal Audit, all of which have documented roles and responsibilities which align to SII and the SMCR requirements.



The ARAG LEI Board is ultimately responsible for risk management within ARAG LEI and is supported with advice provided by the Risk Committee. The system of governance is formally defined within the ARAG UK Holdings Governance Manual

The risk management system elements: described in part B.1 above.

Risk Cycle – Risk Identification

Risk identification processes ensure the complete and consistent identification of relevant risks and controls. These processes include:

- Corporate Risk Profiling - Senior management team assess corporate level risks aligned with Risk Categories and, agree those requiring active monitoring over the following twelve months;
- Departmental Risk Profiling – "Bottom-up" risk identification at a key level;
- Programme and Project Risk Profiling – Facilitated by the project owners and/or sponsors and subject to project management principles. At project close, any relevant risks are transferred to the appropriate business owner for BAU ownership;
- Risk Events - The crystallisation of a control failure or control gap triggers a review to ensure that initial impacts have been mitigated, and that root cause identification allows for new controls to be implemented; and
- Emerging Risk Process - Process to identify emerging risks through the regular monitoring of changes to the internal and/or external business environment which may impact the existing/future risk profile.

As risks can be identified at all levels of the organisation, risk identification processes involve employees throughout ARAG UK across all hierarchy levels (employees, managers and Board).

Risk Cycle – Risk Assessment and Measurement

ARAG LEI uses risk analysis to ensure the consistent measurement of all identified individual risks. The risk analysis scores risks considers the likelihood of materialisation and potential impacts resulting in an overall evaluation.

In addition, there are Board-approved risk appetite statements which in turn are monitored by underlying Key Risk Indicators.

The consolidated risk profile is assessed on a quarterly basis by the defined governance structure, through review and challenge of risk management information.

Stress-testing, scenario analysis and solvency requirements including calculation processes support the assessment and measurement of extreme events through the ORSA, considering the impact upon solvency and the need for contingency planning and management of extreme events.

Risk Cycle – Risk Steering

Risks are steered in accordance with Business and Risk strategy, aiming to keep within approved risk appetites and to take appropriate action on specific risk triggers. Risk steering aims to reduce the probability of the risk occurring and / or the impact should it materialise.

In all cases, any deficiencies identified through risk and control assessment, risk event management or risk assurance processes will result in the identification and progression of appropriate management action. Day to day risk steering and execution of processes in line with defined methodology is the responsibility of senior management.

Risk Cycle – Risk Monitoring and Reporting

Risk monitoring processes ensure continued consideration of risk exposures against appetite, at an individual and consolidated risk level.

Monitoring processes are in place within business functions through risk assurance processes and control testing. These processes are subject to oversight from the Risk Function.

Internal risk reporting is in place to provide a risk informed basis for management decisions. Internal risk reports include information in relation to risk profile, risk appetite, risk events, emerging risks, regulatory liaison, oversight and assurance activity, policy compliance and capital performance.

The 3rd LoD IA function completes a defined programme of independent assurance through delivery of the annual IA plan.

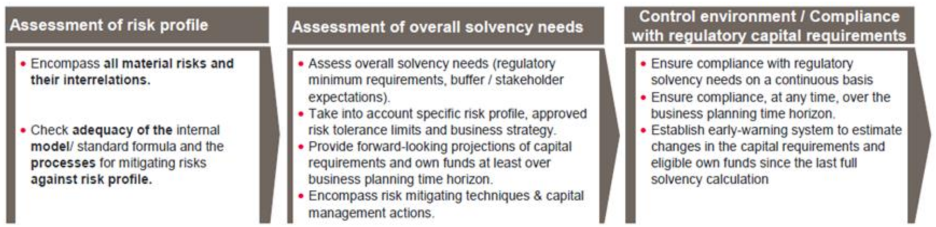
External risk reporting is undertaken in accordance with regulatory requirements.

Process undertaken to conduct the Own Risk Solvency Assessment

The Own Risk and Solvency Assessment is an internal process undertaken to assess the adequacy of:

- Our risk management framework;
- The effective governance of that risk framework; and
- Current and prospective solvency positions under normal and severe stress scenarios.

The ORSA documents in detail this approach and the results of the analysis.



ORSA process

The ORSA process is an integral part of the Company's System of Governance and provides a qualitative and quantitative assessment of the risks faced by ARAG LEI, focused on the most recent year-end with forward-looking elements based upon the mid-term plan. The objectives of the ORSA and the corresponding roles, responsibilities and processes are described in the ORSA Policy.

ORSA Report

The ORSA is the central tool for the Risk Management Function ("RMF") to provide comprehensive ORSA relevant information to ARAG LEI's Board to support risk-aware decision making.

The ORSA represents the annual risk report, documenting the risk strategy and recording the key aspects of internal guidelines on risk and capital management. Individual aspects are documented in more detail in relevant policies, and process documentation.

Once the ORSA has been performed and the results reviewed, challenged and approved by the Board, communication of the results and conclusions must be ensured by the RMF.

Final Board approval signals the end of the annual regular ORSA process. The approval is documented in the minutes of ARAG LEI's Board meeting.

Roles and responsibilities regarding the ORSA process

Board

The Board has the ultimate responsibility for the ORSA process, playing an active role in oversight and challenging the outcome.

In particular, the Board has the following responsibilities regarding the ORSA:

- To challenge and approve the business plan as a basis for the forward-looking perspective. It has to discuss the key assumptions to assess the validity of the business plan and possible sensitivity to risk drivers;
- To discuss and define the material ORSA Report topics and stress tests for the ORSA;
- To challenge and approve the ORSA outcome. This must be adequately documented, e.g. in the minutes of the Board meeting. The ORSA is the central tool for ARAG LEI's Board. It completes the outcome of the underlying processes by summarising all the relevant aspects once a year. The report provides a comprehensive picture of the risks the undertaking is exposed to or those it could face in the future. It enables the Board to understand these risks and the corresponding model and how the risks translate into capital needs;
- To review and challenge the results of the risk profile analysis of the ORSA;
- The RMF proposes possible measures and presents the outcome of the ORSA to the Board; the Board derives the final statement of the ORSA Report;
- To ensure that the results of the ORSA are continually taken into account in capital management, strategic decisions, business planning and product development and design; and
- To receive interim updates on core ORSA elements via the various reporting and decision-making processes (e.g. quarterly risk reporting, ad hoc reporting, submissions to the Board for information and decision making on ORSA Report relevant aspects). It has to discuss the information and decide if actions or further analysis and information are necessary.

Risk Management Function

The Risk Function has responsibility for the design and implementation of the ORSA process supporting ARAG LEI's Board in fulfilling its obligation to prepare the assessment.

Regularity of review

The ORSA Report is the central tool for ARAG LEI's Board. It completes the outcome of underlying processes by summarising all the relevant aspects once a year in line with regulatory requirements.

Determination of Own Solvency needs

Capital Management Strategy

Focused on analysis and monitoring capital adequacy requirements and ratios, ARAG LEI's Capital Management Strategy also aims to maintain an appropriate capital position in the context of ARAG LEI as a UK insurer in consideration of its role within ARAG SE (2023: Munich Re). The capital management activities are considered as part of the ORSA process.

See "Objectives, polices and processes employed in managing own funds" in section E.1 for ARAG LEI's capital management procedures.

B.4 Internal Control System

Internal control system (“ICS”)

ICS forms a key element of ARAG LEI’s overall governance system and is used primarily to ensure that the controls over our critical processes are designed appropriately and operating effectively. ICS systematically links key controls and steering measures with the significant operational risks within business processes. In this context, significant risks are defined as those, which alone, or cumulatively, could jeopardise a critical process (based on a self-assessment of the responsible process owner). A key control is one that is necessary to avoid or significantly reduce an identified risk and which cannot be compensated by other controls; the absence of this control can lead to significant errors in the associated process.

The ICS process includes assessment, analysis, evaluation and steering of the identified controls. Significant risks are managed as necessary. The ICS’s self-assessments are carried out regularly with Risk Management function oversight, appropriate challenge and feedback. Results are reported to the Board on an annual basis.

Compliance function

The primary purpose of the Compliance function is to protect the business against regulatory and reputational risks by assessing and managing such in line with risk appetite. The function owns and provides policies, guidance, advice, training, oversight, challenge to the business and assurance to the Board over compliance controls. The function also supports management in maintaining and promoting a culture of compliance.

The Compliance function has a dedicated Chief Compliance Officer who is responsible for monitoring compliance with the businesses’ regulatory obligations. They are also they key point of liaison and manage the relationship with applicable regulators.

B.5 Internal Audit function

Internal Audit Function

ARAG UK Internal Audit function (“IA”) helps the Board and senior management to protect the assets, reputation and sustainability of the organisation by providing independent, risk-based and objective assurance to senior management and the Board regarding the effectiveness of governance, risk management and internal controls across ARAG LEI.

IA’s mandate and authority is provided by the Board of Directors. IA executes this through:

- Development of a risk-based internal audit plan which is reviewed and adjusted as necessary, in response to changes in ARAG UK’s business, risks, operations, programs, systems, and controls;
- Performance and planned audit engagements in accordance with the Global Internal Audit Standards;
- Reporting the results of assurance and advisory services to the Board Audit Committee and senior management of ARAG UK; and
- Following up on engagement findings and confirming the implementation of recommendations or action plans

Independence and Objectivity

As noted above, IA’s mandate and authority are provided by the Board of Directors of ARAG UK, which also reviews and approves IA’s risk-based internal audit plan. The ARAG UK Head of Internal Audit reports functionally to the Chair of the Board Audit Committee and administratively to the Chief Executive Officer.

In addition, the ARAG UK Head of Internal Audit has a dotted line to the Head of Group Internal Audit at ARAG SE. This positioning establishes the independence of the internal audit function and supports the internal auditors’ ability to maintain objectivity. The Head of Internal Audit is responsible for ensuring that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner. In particular, internal auditors have no direct operational responsibility or authority over any of the activities they review.

Any impairments of independence or objectivity, in fact or appearance, are disclosed to management and the Board.

B.6 Actuarial function

The Actuarial function for ARAG UK is performed by the actuarial team led by the Chief Actuary of ARAG LEI, who reports to the CFO of ARAG UK.

The Actuarial Function Holder is Anthony Collins, a Fellow of the Institute and Faculty of Actuaries (IFoA) in the UK, who has over 20 years of experience in a Non-Life actuarial role. He holds a Practising Certificate as required by the IFoA for PRA-approved Chief Actuaries and is the SMF 20 holder under the PRA's Senior Managers Regime.

The Actuarial function is accountable to the ARAG LEI Board, but in practice reports to the Audit and Risk Committees of ARAG UK Holdings, which are formal subcommittees of the ARAG UK Holdings Board. The Actuarial function is identified in the ARAG UK System of Governance Policy as a "Key Function" and its responsibilities are defined therein.

The Solvency UK Standard Formula processes and results are the overall responsibility of the Risk Management Function, which apportions some of the work to the Chief Actuary's department, mainly validations of the result. All other items that are listed in paragraph 6.1 of the "Conditions Governing Business" Chapter of the PRA Rulebook, are the responsibility of the Actuarial function, and are performed by the Chief Actuary's department with direct support from the Group Risk Management function of ARAG SE.

B.7 Outsourcing

Definition
The PRA Rulebook defines "outsourcing" as "an arrangement of any form between a firm and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be undertaken by the firm itself". This definition derives from Article 2(3) of MODR (Commission Delegated Regulation on organisational requirements and operating conditions) and Article 13(28) of Solvency UK.

SII Article 49 defines 'material outsourcing' as "outsourcing of critical or important operational functions or activities" and prescribes that such arrangements "shall not be undertaken in such a way as to lead to any of the following:

- Materially impairing the quality of the system of governance of the undertaking concerned;
- Unduly increasing the operational risk;
- Impairing the ability of the supervisory authorities to monitor the compliance of the undertaking with its obligations; and
- Undermining continuous and satisfactory service to policy holders.

ARAG UK has systems and controls in place to identify and manage its outsourcing arrangements, including material outsourcing arrangements. Where a material outsourcing arrangement is identified ARAG LEI notifies these arrangements to the FCA and PRA as required by the respective regulators' rules.

ARAG LEI's material outsourcing arrangements, which are primarily UK-registered companies, relate to the below.

Claims Management
Legal services firms and other claims handling specialists are engaged to perform claims management services including decision making on behalf of ARAG LEI.

Policy Servicing
Expert service providers who, depending on the insurance product, provide expertise to assist the policyholder.

Information Technology (IT) Services
Technology services, including cloud service providers, which ARAG LEI relies on to deliver its services to its policyholders in a continuous and satisfactory manner.

Investment Management
Investment Managers are engaged to perform activities in relation to the management of ARAG LEI's investment portfolio.

Outsourcing Committee

The Outsourcing Committee is responsible for oversight of ARAG UK's third-party outsourcing policy. See "Management Committees" section in B.1 for further information on the responsibilities of the Outsourcing Committee.

Processes

Outsourcing decision
The decision to outsource originates from a requirement of individual business departments. It is therefore the responsibility of that department to ensure the arrangement is subjected to the requirements of the Outsourcing Policy and the jurisdiction in which the service providers of such functions or activities are located.

Any outsourcing arrangement must not:

- Materially impair the quality of ARAG UK's System of Governance;
- Prevent oversight of operations or delivery of regulatory obligations to clients and customers;
- Unduly increase ARAG UK's risk profile - in particular Operational and Reputational risks;

- Impair any relevant regulator's ability to monitor ARAG UK's compliance; and
- Be detrimental to continuous and satisfactory service to ARAG LEI's policyholders.

Sourcing strategy

For third parties (excluding Business Partners), the appropriate processes should be followed as outlined in the Procurement Operational Guidance and Outsourcing Operational Guidance. For Business Partners the appropriate department processes and controls should be applied, which may include referral to the Transaction Committee.

Contracting

For all categories of purchasing, contracting must be undertaken in line with the requirements contained in the ARAG UK Procurement Policy and the Contract Procedure. The contract must be signed in line with the ARAG UK financial authority limits in operation in the ARAG UK Governance Manual.

The ARAG UK Contracting Team undertake final negotiation activities. Any amendments to the contract terms that increase risk to ARAG UK must be reapproved.

Contract management and monitoring

The performance of all categories of third-party outsourcing arrangements must be monitored at an appropriate level to ensure they continue to meet their obligations. In addition, performance monitoring and risks must be reviewed periodically to ensure contract terms and monitoring criteria are valid, risks are appropriately mitigated, and issues are escalated.

B.8 Any other information

There is no other material information regarding the system of governance to disclose.

C. Risk Profile

Overview

The following section outlines ARAG LEI's risk profile including techniques and activities used to mitigate the risk exposures within tolerance and appetite are described.

ARAG LEI's key risk exposures as set out in the sections below are:

- Underwriting Risk
- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk
- Other Material Risks - Reputational Risk, Climate Change Risk, Concentration Risk and Group Risk (including Group Pension Risk)

Outside of these risk categories we also monitor overarching risk topics such as risks associated with ARAG Law.

C.1 Underwriting Risk

Definition
Underwriting risk is defined as the risk that the costs of claims and benefits actually paid may deviate from the expected costs owing to error or change of circumstances.

ARAG LEI has set a risk appetite in both Before the Event (“BTE”) and After the Event (“ATE”) business which is agreed by the Board. The appetite supports desired product and proposition development process and growth targets for these books of business. Concentrations are implicitly considered in the calculation of underwriting risk.

Exposure
Risk exposures are identified and assessed by business class, product line and by key business partner, with deep-dive analysis undertaken quarterly. Claim frequency and severity trends are measured against the risk profile and future proofed against forecast changes in the mix of claims, their cost, including inflation and movements in claim frequency. Prices are negotiated with business partners annually, with interim performance reports provided to key business partners each quarter, forewarning them of impending rate strengthening.

Measurement
There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period. There has been no material change in the Underwriting Risk profile over the year, however ARAG LEI became the capacity provider for ARAG PLC for new business mid way through 2024. Only a very limited volume of new business was written. This will change during 2025 to all new and renewing business for both BTE and ATE.

The primary business classes that ARAG LEI operates, and the associated key risks are summarised below.

Before the Event (“BTE”)

The product and proposition development process are effectively managed to ensure that:

- The targeting of business is in line with risk appetite;
- The product is in line with consumer duty and Product Intervention and Product Governance (“PROD”) regulations;
- At portfolio level the return on capital is in line with targeted ratios; and
- The needs of the customer are met and ARAG LEI meets all the regulatory frameworks.

Motor
Sold as an add-on to motor insurance by insurance brokers and insurers, the cover pursues uninsured losses and/or damages against a negligent third party following a non-fault motor accident.

Risks:
- Changes to the legal landscape arising from the Civil Liabilities Bill which was implemented in 2021 and has increased the cost charged by solicitors for handling/supporting claimants with Small Claims Track claims. This has resulted in an increase in premiums and additional risk factors for insurers to consider. This is still fairly immature, so we are continuing to monitor the full impacts however the pricing action we have taken is in line with our expectations and we continue to monitor the impacts;
- The previous volatility in the Hire market has subsided and settled although costs remain higher than pre-Covid. Our models have been adjusted accordingly; and
- Increased fraud risk as a result of a recession.

Commercial Non-Motor

Commercial LEI is sold primarily through schemes to micro/SME businesses as an add-on to commercial package insurance policies. The cover protects businesses against legal costs arising from disputes with employees, contract matters, property, criminal prosecutions and HMRC investigations.

Risks:

- Claim frequency was expected to increase as a result of the economic impacts of the cost-of-living crisis and the impending recession, however they reduced instead;
- Changes in Government legislation could have an impact on frequencies, specifically the employment reforms during 2025;
- Impacts of rising inflation levels across legal services has impacted our indemnity spend;
- Increased fraud risk as a result of a recession; and
- Impacts of changes to Financial Reporting Council ("FRC") in 2023 impacting our legal services providers.

Personal Non-Motor

This is primarily sold as an add-on to buildings and contents insurance, covering disputes with employers, suppliers of goods/services, neighbours and pursues a third party who has caused non-motor bodily injury. Additionally, Landlord legal, protects private landlords against disputes with tenants (including rent default).

Risks:

- Claim frequency stabilised; however, it could still increase as a result of the economic impacts of the cost-of-living crisis and an impending recession;
- Delays in court proceedings still impacting the length and cost of claims;
- Impacts of rising inflation levels across our indemnity spend;
- Increased fraud risk as a result of a recession; and
- Impacts of changes to FRC in 2023.

Insured Assistance

Home Emergency provides immediate assistance following damage to the building, including plumbing/drainage and heating system. Motor breakdown provides roadside assistance, repair and recovery in the UK and Europe. Both products are primarily sold on as an add-on to household and motor insurance.

Risks:

- An increase in severe weather surge events increases claims volumes; motor breakdown, heating and frozen pipes;
- Climate change could impact the historical and seasonal pattern of claims. Warmer conditions could lead to fewer frozen pipes, but more cracked pipes caused by subsidence and warmer surge events as well as winter and we continue to monitor these impacts;
- There are a limited number of nationwide home emergency suppliers capable of servicing ARAG LEI's customer base;
- The changes in sources of heating (e.g. air sourced heat pumps) and finding a network of engineers capably of servicing these modern technologies;
- Consolidation of Motor breakdown and HE service providers;
- Increase fraud risk as a result of a recession; and
- Impacts of rising inflation levels across our indemnity spend.

After the Event ("ATE")

The product and proposition development process are effectively managed to ensure that:

- The targeting of business is in line with risk appetite;
- The product is in line with consumer duty and PROD regulations;
- At portfolio level the return on capital is in line with targeted ratios; and
- The needs of the customer are met.

Civil Litigation
Provides cover to commercial and personal clients for litigation costs. Key areas are contract disputes, professional negligence, debt recovery, insolvency, and contentious probate & property disputes. Since 2019 we have reduced our risk appetite for limit of indemnity (“LOI”) risks to <£1m, thus reducing the volatility.

Risks:
- Civil Litigation produces a book of lower volume but considerably higher premiums, creating volatility in the book in the event of large wins/losses; and

Clinical Negligence
Provides cover to claimants for litigation costs in respect of their death/personal injury resulting from the negligence of a medical professional.

Risks:
- The potential extension of the Fixed Recoverable Costs into Clinical Negligence cases will change the profile of cases insured by ARAG LEI. Whilst other legislative changes are being proposed, including the end to any recovery from the opponent in successful Clinical Negligence claims.

Mitigation

ARAG LEI purchases reinsurance as part of its risk mitigation programme. The material arrangements are set out below:

Quota Share Reinsurance treaty – Legal expenses insurance, Assistance and Miscellaneous financial loss lines of business
During the year, ARAG LEI ceded 90% of its insurance business (after external reinsurance) to ARAG SE, its new owner.

With effect from the 1 January 2025, the Quota Share was amended and split between the BTE and the ATE business. All BTE and ATE business written before 2025 will continue on a 90% QS basis with ARAG SE. For the ATE business written from 1 January 2025, there will be two Quota Share Agreements placed at the same time on an occurrence year basis. A 50% treaty with HDI, and a 40% treaty with ARAG SE.

ARAG LEI will renew the terms of its Quota Share with ARAG SE and HDI annually. The quota share helps maintain the solvency coverage ratio higher than it would otherwise be. The principal purpose of the contract is to reduce risk and the Solvency Capital Requirement (“SCR”) of ARAG LEI. This continues to achieve that purpose and is therefore deemed effective, as evidenced by ARAG LEI’s strong 31 December 2024 Solvency capital position.

C.2 Market Risk

Definition
Market risk is defined as the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from fluctuation in the level and the volatility of market prices of assets, liabilities and financial instruments, including their correlations. Drivers of market risk uncertainty that have been identified include changes in interest rates and the ongoing potential for an economic downturn, which are mitigated by the strategies and controls set out below.

Exposure
ARAG LEI has set an appetite for market risk that has been agreed by the Board of ARAG LEI, which is considered appropriate primarily to safeguard ARAG LEI's robust capital position without unduly limiting its access to returns on investment assets.

ARAG LEI is exposed to market risk due to fluctuations in values or returns on assets, liabilities and financial instruments, influenced by one or more external factors such as interest rates, credit spreads, inflation expectations, currency exchange rates and equity prices.

Exposures are controlled by setting investment limits and managing asset-liability matching in line with the Company's risk appetite.

Measurement
There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period. The market risk profile for ARAG LEI has remained stable over the years and reflects its market risk appetite, investing mainly in high-rated government and corporate bonds.

Mitigation
The Company's investment strategy aligns assets with liabilities in terms of value, maturity and currency.

Investment decisions also consider factors like return, spread risk, diversification, currency risk, creditworthiness, and liquidity, which are detailed further below. The principal objective is to minimise investment risks and volatility while maximising returns within its market risk appetite. This strategy is reflected in the Company's Investment Mandate and managed by the ARAG UK Investment Committee. As required by the Solvency UK Regulation, the Company's investments are made with reference to the "Prudent Person Principle".

No investments in structured products or derivatives have been authorised and hedge accounting is not used for any of the Company's transactions.

Investment Management Governance
An Investment Committee meeting takes place twice a year and its purpose is to provide senior managers and the Board with oversight of investment management arrangements and delegated authorities. The Investment Committee's duties include the review of management information, monitoring of the Investment Manager's performance against key metrics, monitoring of compliance with regulatory requirements and oversight of market risk management arrangements and contractual agreements.

C.3 Credit Risk

Definition
Credit risk is defined as the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties (including reinsurers) and any debtors to which insurance undertakings are exposed, in the form of counterparty default risk, spread risk or market risk concentrations.

Exposure
ARAG LEI has set an appetite for credit risk that has been agreed by its Board. The Company recognises that there is a risk of adverse financial impact from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. Its business model limits the extent to which credit risk can be mitigated and seeks over the longer term to implement procedures to help reduce its exposure.

The credit rating from Standard and Poor's for ARAG LEI is A- in 2024.

Measurement
There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period. There has been no significant change in the credit risk profile over the year.

The principal counterparty (credit) risk exposures in ARAG LEI's assets relate to the following assets:

- Reinsurance balances (including reinsurers' share of Technical Provisions)
- Investments in debt securities
- Balances held with banks
- Insurance debtors
- Subrogation recoveries
- Intercompany balances

Credit Risk is monitored by management on a quarterly basis, the metrics for which are undergoing continuous enhancement.

Mitigation

Mitigation strategies are sought which seek to minimise the Company's exposure to credit risk whilst taking a proportionate account of costs of control.

Reinsurance balances (including reinsurers' share of Technical Provisions)
Balances under proportional reinsurance arrangements are collateralised in excess of 95% by withheld deposits. For receivables under non-proportional reinsurance contracts the counterparty risk is diversified by placing the contracts with a number of highly rated reinsurers. There was a 90% Quota Share Agreement between ARAG LEI and ARAG SE during the year. The terms remained similar to previous years' agreements.

The total reinsurers' share of Technical Provisions as at 31 December 2024 was £131,676k (2023: £137,836k), the full amount relates to the quota share with ARAG SE.

Investments in debt securities
Exposure to credit risk in respect of debt securities is controlled using several targets and limits incorporated in the Investment Mandate, which include target portfolio modified duration, minimum rating allowed for single investments and issuer limits for debt securities.

Balances held with banks
ARAG LEI holds all of its cash with highly rated organisations. Funds can be deposited only with banks and deposit-takers that have been approved by the Board.

Insurance debtors
Detailed aged analyses of debts are maintained for all categories of insurance-related debts by ARAG UK Finance, with any significant anomalies or movements in the ageing profile identified and reported to management by means of a quarterly Credit Risk report for further investigation and action as appropriate.

Subrogation debtors

In most circumstances, the credit risk arising from subrogation debtors is not significant. Such debts are normally recovered from the losing party's insurers. The main credit risk with subrogation debtors is the potential for the courts to alter their interpretation of recoverable costs. To manage the risk, the Company monitors related cases and receivables and, where appropriate, recognises a provision for impairment which reflects the Company's historical experience.

These risks are assessed as appropriate under the Standard Formula approach.

Intercompany balances

Intercompany balances which are part of the counterparty default risk calculation have a credit rating. The rating applied to ARAG LEI's Intercompany receivable balance from ARAG Services is A-. This balance also has been discounted to reflect the expected cashflows.

C.4 Liquidity Risk

Definition
Liquidity risk is defined as the risk that the undertaking may not have liquid assets available to settle its financial obligations as they fall due, despite the fact that it meets its regulatory solvency requirements.

Exposure
ARAG LEI accepts that minor liquidity issues may arise in its day-to-day operations, but has set a risk appetite, agreed by the Board. It seeks to avoid material liquidity issues and to ensure that even under adverse conditions, the Company has access to the funds necessary to cover its claims obligations and other trading liabilities.

The liquidity risk profile remains stable and ARAG LEI remained within appetite for the duration of the year.

Measurement
There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period. There have been no changes to the liquidity risk profile over the year.

ARAG LEI's cash flows can be volatile, as they are dependent on the timing of payments and receipts, which is to a certain extent beyond ARAG LEI's control. Funds are held in very liquid accounts or securities which are greatly in excess of the liabilities expected to fall due in the short term.

Mitigation

ARAG LEI adopts a number of mitigation strategies to minimise exposure. Those focus on forecasting liquidity requirements and maintaining sufficient liquid assets to meet potential short-to medium-term spikes in demand for cash, considering costs control.

These are monitored on a regular basis in accordance with the ARAG UK Liquidity Risk Policy.

Key strategies include the following:

- Daily Cash flow projections;
- A cash 'buffer' is held in bank accounts to accommodate unforeseen cash demands;
- Investments of available funds not required for day-to-day working capital purposes, in very liquid securities such as UK gilts. Such securities may be liquidated and the proceeds channelled to operational bank accounts within a short timeframe should working capital cash demand exceeds operational bank account balances; and
- Per the "Market Risk" section above, the Company's investment strategy aims broadly to match the currency denomination, maturity and value of its assets to its technical liabilities.

C.5 Operational Risk

Definition
Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel, or systems, or from external events.

The ARAG UK Risk Management Policy sets the framework and expectations of the Board for the effective management of risks including operational risks, a review of the inherent material corporate risks was conducted during the year.

Exposure
ARAG LEI is exposed to the risk of losses as a result of failed internal processes, people and systems or from external events. The material operational risk categories to which ARAG LEI is exposed to include:

- Business Continuity (Includes Operational Resilience)
- Data Management
- Fraud & Financial Crime
- Information & Cyber Security
- Information Technology
- Legal
- Outsourcing & Third Party
- People
- Transaction Processing & Execution

ARAG LEI has set risk appetites for operational risks agreed by the ARAG UK Board and makes continuous efforts to strengthen the control environment. This recognises that operational risk should generally be reduced to as low a level as is commercially sensible, on the basis that taking operational risk will rarely provide an upside, and operational failures may adversely impact reputation, impair the ability to attract new business, or possibly lead to poor customer outcomes. However, the risk strategy does not operate to a zero-failure policy and events and losses are inevitable. Consequently, ARAG LEI operates mitigation strategies which seek to minimise the exposure to operational risk whilst taking a proportionate account of costs of control.

Measurement
ARAG LEI is subject to the ARAG UK Risk Management Policy. This establishes minimum operating standards for a robust operational risk framework and provides an appropriate foundation for decision-making. The core objectives that this policy is designed to achieve include:

- Identification of operational risks, with controls in place to assess and mitigate the risk where appropriate;
- Operational risks breaching the defined risk appetite are subject to appropriate and timely action to resolve and escalate as necessary;
- Use of the formal risk acceptance process where appropriate; and
  Understanding of operational risk responsibilities by employees and governance forums.

Mitigation

ARAG LEI adopts several mitigation strategies to address its exposure to operational risk. The Risk Management Policy establishes minimum operating standards that must be in place to ensure a robust risk framework is maintained and provides an appropriate foundation for decision-making. The core outcomes, at a high level, that this policy is designed to achieve for all risks, including operational risks, are that:

- Risks are identified with appropriate processes and controls in place to prevent and mitigate the risk of operating outside of the defined risk appetite;
- Risks are assessed and measured to understand the materiality they present;
- Where risks operate outside of the defined risk appetite, appropriate and timely action is taken to resolve and escalate to senior management and where appropriate to the relevant regulator(s) through the defined regulatory reporting process;
- Where appropriate there is a formal risk acceptance process for operating outside defined appetite;

- ARAG UK employees and governance forums understand the operational risk responsibilities applicable to their role and comply with those requirements or meet the processes and procedures designed to comply with them; and
- Regular monitoring and reporting of the risk profile takes place to relevant committees.

Implementation of the Internal Control System ("ICS") across the critical processes within ARAG LEI further supports the mitigation of this risk.

C.6 Other Material Risks

Reputational Risk

Definition
Reputational risk is the “risk arising from potential damage to the Company's reputation as a result of negative public perception”. The reputation of ARAG LEI is a key pillar of the business model. Risks that could jeopardise reputation are considered material. The strategy is to avoid these risks as far as possible.

Exposure
Operational risks in the Company's processes can lead to an increase in reputational risk in processes and can have a negative impact on the reputation of ARAG LEI, as well as ARAG SE Group. Overall, the reputational risk is therefore assessed as not material. The potential impact ranges from reduced opportunities to additional administrative expense.

Steering
Reputational consequences are considered as part of operational risk assessments conducted within the business. Appetite measures monitor and record exposures with an escalation process in place via the Governance Committee.

Mitigation
Reputational risk is primarily a consequence of the crystallisation of other risks. The management of reputational risk lies with the risk owners (1st LoD) of the control framework.

Climate Change Risk

Definition
ARAG LEI recognises the importance of climate change to society and the future of the planet.

The environmental impact of the Group’s operations, including its investment strategy, is increasingly monitored by the Company along with other aspects of Environmental Social Governance (“ESG”) performance. ARAG UK has set targets for ESG investments, specific risk category and appetite statement.

Exposure
In respect of the business that it writes, it is not believed that climate change represents a significant short-term risk to the business. Risk exposure across transition, physical and liability transmission channels as well as to monitoring the evolution of legal and regulatory requirements are considered.

Measurement
For a fourth year the Company has modelled a scenario that explores the potential impact of climate change on claims and the values of our assets through stress testing. On-going analysis of climate change-related financial risks is embedded into our risk framework. In 2024, two models were run based on different loss ratios.

Concentration Risk

Definition
Concentration risk is defined as any single direct and / or indirect external or group of external exposures (e.g. class actions) with potential to produce losses large enough to threaten ARAG LEI’s solvency or its financial position.

During 2024, ARAG LEI had an open appetite for concentration risk (excluding Group QS reinsurance arrangement), such that ARAG LEI is “Willing to consider all potential options and choose the one most likely to result in successful delivery, while also providing an acceptable level of reward and value for”.

It is acknowledged that the Company faces concentration risk in other risk types (e.g. Credit Risk and Market Risk), these are considered to be well-managed.

Exposure

The overall portfolio size has decreased, pushing us beyond concentration risk appetite. This decline is largely due to the loss of a key business partner, which reduced the portfolio size outside of the top three accounts. As a result, the percentage of business placed with the top three partners has increased. However, the concentration risk profile is gradually improving as the portfolio size grows steadily. Despite this progress, it is not expected the risk profile to return within appetite until Q1 2025, which is when it is planned to merge the books of ARAG LEI with those of ARAG PLC. They are currently running in parallel.

Measurement

The Board has set a risk appetite for concentration risk primarily focused on business partners. The status of this risk appetite is monitored through identified measures and status against risk appetite is reported on a quarterly basis to the Governance Committee and the Board, ensuring robust monitoring and oversight.

Mitigation

Contingency is built into reserving, capital and pricing models for the exposure to class actions. Scenario tests modelled the impact of the loss of strategic partners coming up for tender across two years, on the solvency position of ARAG LEI as part of the Quota Share scenario.

Group risk (including Group Pension risk)

Definition

From 2 January 2024, on which ARAG SE completed its acquisition of all issued share capital of the Company's immediate parent company, ARAG UK Holdings Limited, Group risk is defined as the risks posed to the Company as a result of it being part of ARAG SE, including ARAG UK Holdings and its subsidiaries.

Exposure

The main group risk within ARAG UK arises from the existence of the Group Quota share arrangement, where 90% of ARAG LEI risks written are ceded to ARAG SE.

Additional risks include the exposure to intercompany balances within the ARAG UK group of companies, including amounts owed to/from ARAG Services and ARAG Law. The Quota Share arrangement and intercompany balances are included within the Solvency Capital Requirement calculations of ARAG LEI.

There is a Defined Benefit Pension Scheme ("DBPS"), which is held by ARAG Services Limited, but this risk has been mitigated via a bulk annuity Pension buy-in arrangement.

Measurement

Since the DBPS risk is held by ARAG Services, it is outside the scope of ARAG LEI's solvency calculation.

Mitigation

The ARAG SE Quota Share arrangement is backed by a funds retained balance held by ARAG LEI to cover the ARAG SE share of claims arising. ARAG LEI monitors the solvency position of its parent, and its exposure to ARAG UK, relative to the overall ARAG SE obligations.

The intercompany balances are managed closely, and ARAG UK is looking to settle these balances as soon as it practicable.

Mitigation strategies for Other Material Risks are also consistent with those articulated in section C.5 above.

C.7 Any other information

The stress-testing and sensitivity analysis for material risks and events, as required by Article 295(6) of the Delegated Regulations as transferred to the PRA Rulebook, is documented below. There is no additional voluntary information as permitted by Article 298 of the Delegated Regulations, disclosed in this section.

Stress and Scenario Tests

ARAG UK has identified a number of severe but plausible events that could have an impact on the financial position of the firm. These have been determined through discussions with senior management and subject matter experts from across the business.

The scenarios considered most recently are listed below. For each analysis management has confirmed the adequacy of capital and considered mitigating actions required for impacts identified.

The scenarios that have been analysed on a quantitative basis are as follows:

- Scenario 1 – Impact of climate change on claims (Severe Weather Events)
- Scenario 2 – Ransomware attack
- Scenario 3 – Change to ARAG quota share
- Scenario 4 – Rapid Loss of ARAG Law

Reverse Stress-Testing

In addition to stress-testing, ARAG LEI also performs reverse stress testing. A range of adverse scenarios are identified that could lead to the business plans becoming unviable and working backwards to understand what circumstances could lead to these scenarios crystallising.

For each analysis management consider any mitigating actions required:

- Scenario 1 – Failure of IT Migrations to Resolve Legacy IT Issues (including the loss of historic data)
- Scenario 2 – Failure of ARAG LEI to Anticipate a Persistent and Sizeable Increase in Claims Frequency and / or Claim Value

Prudent Person Principle

According to the Prudent Person Principle ("PPP"), ARAG LEI must ensure that it invest its assets in accordance with the requirements outlined in the “Investments” Part of the PRA Rulebook (sections 2,3, and 5).

In accordance with the PRA Supervisory Statement SS1/20 "Solvency II: Prudent Person Principle" the assets held are considered, taking account of risk concentrations, asset-liability matching, security, quality and with consideration of the whole investment portfolio. The valuation of non-tradeable inter-company balances and reinsurance are assessed taking into account the credit rating of the underlying entity and expected future cashflows.

D. Valuation for Solvency Purposes

In accordance with 2.1 of the “Valuation” Chapter in the PRA Rulebook of the Solvency UK Regulation, all assets and liabilities are valued at fair value. The tables below set out, for each asset and liability shown on ARAG LEI’s SII Balance Sheet, the solvency value and the value of the corresponding asset and liability shown in ARAG LEI’s Financial Statements, which are prepared in accordance with United Kingdom Accounting Standards, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (FRS 102) and “Financial Reporting Standard 103, Insurance Contracts” (FRS 103).

The reconciliation between the equity shown in the Financial Statements and the own funds for Solvency UK purposes is shown in section E.1.

See Appendix 1 for the following QRTs that are required to be disclosed in relation to the Valuation for Solvency Purposes:

- IR.02.01.01 - Balance Sheet
- IR.17.01.02 - Non-Life Technical Provisions
- IR.19.01.21 – Non-Life Insurance Claims

Total Assets, Technical Provisions and Other Liabilities

(in £‘000)	SII 2024	UK GAAP 2024	Valuation Difference	SII 2023	SII Change
Assets	360,081	547,223	(187,142)	354,386	5,695
Technical Provisions	152,581	272,014	(119,433)	146,864	5,717
Other Liabilities	175,228	256,953	(81,725)	164,955	10,273
Excess of Assets over Liabilities	**32,273**	**18,256**	**14,017**	**42,567**	**(10,294)**

Where the categories of Assets and Liabilities in the Financial Statements differ from the solvency categories, they are detailed in section D1 to D3. There is a difference of classification of Accrued interest on bonds in “Any other assets, not shown elsewhere” in the “Financial Statements”, shown in Investments (Bonds) in SII.

D.1 Assets

Assets in Solvency UK vs UK GAAP Balance Sheet

Changes made to the recognition and valuation bases used or to estimations during the reporting period for SII reporting are outlined below.

Assets as of 31. December

(in £'000)	SII 2024	UK GAAP 2024	Valuation Difference	SII 2023	SII change
Goodwill	0	0	0	0	0
Deferred acquisition costs	0	3,493	(3,493)	0	0
Intangible Assets	0	0	0	0	0
Deferred Tax Assets	0	1,821	(1,821)	0	0
Pension Benefits surplus	0	0	0	0	0
Property, Plant and Equipment held for own use	854	0	854	964	(110)
Investments	153,992	152,514	1,478	139,645	14,347
Property (other than for own use)	0	0	0	0	0
Holdings in related undertaking, including participations	0	0	0	0	0
Equities	0	0	0	0	0
Bonds	152,254	150,776	1,478	136,464	15,790
Collective Investment undertakings	1,738	1,738	0	3,180	(1,442)
Derivates	0	0	0	0	0
Deposits other than cash equivalents	0	0	0	0	0
Other investments	0	0	0	0	0
				0	
Assets held for index-linked and unit-linked contracts	0	0	0	0	0
Loans and mortgages	12,261	0	12,261	0	12,261
Reinsurance recoverables	131,676	236,911	(105,235)	137,836	(6,160)
Deposit to cedents	0	0	0	0	0
Insurance and intermediaries receivables	43,931	104,173	(60,242)	39,341	4,590
Reinsurance receivables	0	14,904	(14,904)	0	0
Receivables (trade, not insurance)	1,718	14,802	(13,084)	18,373	(16,655)
Own shares (held directly)	0	0	0	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0	0	0	0
Cash and cash equivalents	15,292	15,292	0	18,203	(2,911)
Any other assets, not elsewhere shown	358	3,312	(2,954)	25	333
Total Assets	**360,081**	**547,223**	**(187,142)**	**354,386**	**5,695**

Deferred acquisition costs

Deferred acquisition costs must be valued at nil according to SII regulations. In the Financial Statements, acquisition costs, which represent commission and other related expenses, are recognised over the period in which the related premiums are earned.

Deferred tax asset

See deferred tax liability in section D.3 below.

Investments (other than Assets held for index-linked and unit-linked contracts)

All of ARAG LEI's bonds are included in the SII Balance Sheet at fair value.

All assets are market to market, as quoted prices in active markets for identical assets are available. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis i.e. on the stock exchange.

ARAG LEI also held a Collective Investment Undertaking which was valued at fair value for SII purposes.

ARAG LEI's Financial Statements also record the value at fair value according to the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), which is allowable under FRS 102.

The only difference between the Financial Statements valuation and the SII valuation shown in the Balance Sheet above is the interest accrued at the balance sheet date. For the SII valuation this is included in the underlying asset class, whereas for the Financial Statements it is disclosed as Accrued income.

Bonds as of 31. December

(in £'000)	SII 2024	UK GAAP 2024	Valuation Difference	SII 2023	SII Change
Government bonds	84,736	84,165	571	76,669	8,067
Corporate bonds	67,518	66,612	906	55,843	11,675
Structured notes	0	0	0	3,952	(3,952)
Collaterilzed securities	0	0	0	0	0
Total	**152,254**	**150,776**	**1,478**	**136,464**	**15,790**

Loans and mortgages

This balance relates to the Intercompany receivables with ARAG Services and is reclassed out of Receivables (trade, not insurance). Those receivables will be paid after 12 months and are therefore treated as a loan (which gets discounted) for solvency purposes.

Reinsurance recoverables

Reinsurance recoverables shown in the SII Balance Sheet are valued at fair value. The calculation of the recoverable amounts from reinsurance contracts for financial statement valuation and SII valuation is based on the same principles as for the Technical Provisions. Therefore, similar to SII Technical Provisions, SII Reinsurance recoverables are lower than the financial statement valuation as there will be significant future reinsurance premium cash flows on ATE business which need to be considered when v The value of this asset on the SII Balance Sheet has been adjusted for the expected level of default risk associated with such assets taking into account the creditworthiness (rating) of the counterparty. The credit ratings of counterparties are also considered within the calculation of the SCR and additional risks considered if appropriate.

Insurance and intermediaries receivables

Insurance and intermediaries receivables represent amounts due or past due but not yet paid by policyholders or intermediaries that are not included in cash inflows of Technical Provisions.

For ARAG LEI's Financial Statements, this balance includes ATE premium written, but not yet earned and includes BTE instalment debtors. These receivables are measured at amortised cost, using the effective interest rate, less allowance for impairment.

Both items are included in the valuation of the Technical Provisions as they relate to future cash inflows.

The fair value of the remaining receivables is deemed to be materially the same as amortised cost given the short-term nature of these assets.

The value of this asset on the SII Balance Sheet now includes ATE IPT as part of receivables due its exclusion this year from Technical Provisions. In SII this asset has not been adjusted for the impact of uncertain events, but the SCR incorporates an allowance for the potential default of counterparties at the 1 in 200 risk level. Please refer to the SCR in section E for further details.

Reinsurance receivables

For ARAG LEI's Financial Statements, this balance as at 31 December 2024 includes an amount owed by ARAG under the Quota Share reinsurance agreement. For SII, in prior years, this balance was considered as part of Reinsurance recoverables being future cash flows associated with the reinsurance contract, valued at fair value, however this adjustment is no longer made. The solvency balance remains as per Financial Statements. These balances and timing of payments, which are expected to be within one year, are certain as they are set out in the reinsurance contracts.

Receivables (trade, not insurance)

These are included in the SII Balance Sheet at fair value. Given the short-term nature of these assets, this is deemed materially the same as amortised cost, which is the valuation used in the Financial Statements.

Cash and cash equivalents

Cash and cash equivalents are included in the SII Balance Sheet at fair value, being nominal value. ARAG LEI's Financial Statements also record the value at fair value according to the provisions of FRS102.

Any other assets, not elsewhere shown

This balance mainly relates to short-term prepayments and deferred income. There was a change in the year to align with classification in the Financial Statements, hence additional balances which used to be removed now remain in this item.

A prepayment to ARAG Law, for which the fair value is difficult to fully support, is removed from this balance and is valued at nil for solvency purposes. This item is valued at amortised cost for the Financial Statements.

The solvency balance excludes the Interest accrued as it gets included in the underlying Investments asset classes. In the Financial Statements these are disclosed under Accrued income. Also see "Investments (other than assets held for index-linked and unit-linked contracts)" above.

The solvency balance also excludes Reinsurance Deferred acquisition costs (reinsurance commission) relating to the ARAG SE Quota share since those costs should be valued at nil for solvency purposes.

D.2 Technical Provisions

Technical Provisions in Solvency UK vs UK GAAP Balance Sheet

Techical Provisions as of 31. December

(in £'000)	SII 2024	UK GAAP 2024	Valuation Difference	SII 2023	SII Change
Technical Provisions – Total	**152,581**	**272,014**	**(119,433)**	**146,864**	**5,717**
Technical Provisions – Non-Life	152,581	272,014	(119,433)	146,864	5,717
Technical Provisions -Life	0	0	0	0	0
Best Estimate – Total	**151,722**	**N/A**	**151,722**	**144,739**	**6,983**
Best Estimate – Non-Life	151,722	N/A	151,722	144,739	6,983
Best Estimate – Life	0	N/A	0	0	0
Risk Margin - Total	**859**	**N/A**	859	**2,125**	(1,266)
Risk Margin – Non-Life	859	N/A	859	2,125	(1,266)
Risk Margin - Life	0	N/A	0	0	0

Insurance undertakings have to establish Technical Provisions with respect to all their (re)insurance obligations towards policyholders and beneficiaries. The value of Technical Provisions corresponds to the current amount (re)insurance undertakings would have to pay if they were to transfer their (re)insurance obligations immediately to another (re)insurance undertaking.

The Technical Provisions have been calculated as a sum of the best estimate and risk margin and include all policies to which ARAG LEI is contractually bound by the balance sheet date. The best estimate liability is made up of the sum of claims provision and the premium provision.

Claims provision

The outstanding claims provision ("CP") represents the estimated cost of claims incurred as at the balance sheet date, together with profit shares and reinsurance settlements relating to incurred risks. The provision includes an allowance for claims management and claims handling expenses. It is calculated using best estimate discounted future cash flows.

The ultimate cost of outstanding claims is estimated using standard accident-period-based actuarial methods based on past claims payment patterns and current case reserves, with appropriate adjustments using expert judgement to ensure that they are applicable to the future.

In ARAG LEI's Financial Statements, claims provisions are not discounted.

Premium provision

The premium provision ("PP") represents the estimated cost of future claims incurred and expenses arising from current and contractually bound insurance contracts net of future premium receipts.

The cost of future claims and expenses is estimated using actuarial projections based on expected loss ratios and appropriate expense/commission factors applied to unearned premiums and new business premiums for contractually bound business. These are based on recent experience, appropriately adjusted for trends and inflation, and checked for consistency with corresponding assumptions in the claims provision. The discount rate applied to the premium and claims provision is the relevant risk-free rate for each currency and duration of liabilities.

In ARAG LEI's financial statements, premium provision is the unearned premium reserve for all incepted business, and Technical Provisions are also subject to a liability adequacy test.

Risk margin

A risk margin is added to the best estimate provisions to represent the additional cost of capital charge that a third party would require to take on and run off the liabilities (as represented by the Technical Provisions). The addition thus allows for the inherent uncertainty of future cash flow projections. This uncertainty generally relates to the risk that past claims trends may not apply in the future, for example, as a result of changes in economic conditions or internal factors, such as, claims management procedures.

The risk margin method is prescribed by the Solvency UK regulations and requires that a 4% cost-of-capital charge is applied to the present value of projected solvency capital for unhedgeable risks. Prior to 2023 and Solvency UK regulations changes, the cost-of-capital charge applied used to be 6% . The risk margin is calculated net of reinsurance.

(in £'000)	SII 2024	UK GAAP 2024	Valuation Difference	SII 2023	SII Change
Gross Technical Provisions	151,722	272,014	(120,292)	144,739	6,983
Risk Margin	859	N/A	859	2,125	(1,266)
Reinsurance recoverables	(131,676)	(236,911)	105,235	(137,836)	6,160
Total Net	**20,905**	**35,103**	**(14,198)**	**9,028**	**11,877**

The Technical Provisions are calculated by the separate classes of product sold and mapped to solvency LOB split by direct or inwards reinsurance.

Direct and Accepted proportional TPs

Technical Provisions: LOB Legal Expenses Insurance

(in £'000)	SII 2024	UK GAAP 2024	Valuation Difference	SII 2023	SII Change
Gross Technical Provisions	129,813	245,561	(115,748)	112,181	17,632
Risk Margin	543	N/A	543	1,814	(1,271)
Reinsurance recoverables	(114,601)	(213,681)	99,080	(111,507)	(3,094)
Total Net	**15,754**	**31,880**	**(16,125)**	**2,488**	**13,266**

Technical Provisions: LOB Assistance

(in £'000)	SII 2024	UK GAAP 2024	Valuation Difference	SII 2023	SII Change
Gross Technical Provisions	4,431	4,206	225	3,680	751
Risk Margin	11	N/A	11	30	(19)
Reinsurance recoverables	(3,329)	(3,750)	421	(2,813)	(516)
Total Net	**1,112**	**456**	**656**	**897**	**215**

Technical Provisions: LOB Miscellaneous Financial Loss

(in £'000)	SII 2024	UK GAAP 2024	Valuation Difference	SII 2023	SII Change
Gross Technical Provisions	17,478	22,247	-4,769	28,878	(11,400)
Risk Margin	306	N/A	306	281	25
Reinsurance recoverables	(13,746)	(19,480)	5,735	(23,516)	9,770
Total Net	**4,038**	**2,767**	**1,272**	**5,643**	**(1,605)**

[1] Total recoverable from reinsurance after the adjustment for expected losses due to counterparty default.

Level of uncertainty associated with the value of the Technical Provisions

Technical Provisions represent a probability-weighted estimate of all future cash flows. They are formulated by making actuarial selections for each component and adjusting the results for events not in data ("ENID"). Any estimation process is subject to uncertainty, but the following are the principal sources of ENID in the Technical Provisions.

ENID CPs is £2,600k (£3,700k at 31 December 2023). The key items justifying the ENID held in CPs are the extent and quality of data, level of sophistication of reserving methods and changes over time in the legal environment.

The calculation of Technical Provisions is also subject to uncertainty because the actual level of claims incurred in the future may differ from current forecasts. The degree of uncertainty can be measured based on the extent to which future cash flows can be predicted. Technical Provisions are determined using a wide range of assumptions relating to future trends in claim payments and reported claims. Wherever possible, these assumptions are based on historical patterns or estimates drawn by expert.

The level of uncertainty in relation to both the PP and the CP is quantified individually for each homogeneous risk group. The assumptions made are regularly reviewed, particularly as part of the validation process, and the uncertainty inherent in Technical Provisions can therefore be considered manageable from an overall perspective.

Explanation of the differences between the valuation for SII and Financial Statements

The gross undiscounted CPs for the BTE business are similar to the valuation of the reserves booked in the Financial Statements. Differences arise from different homogenous risk groups considered in the calculation of the Technical Provisions compared to the financial statement.

The booked reserves include an allowance for potential adverse experience, which is removed and replaced with an identical amount for ENID.

The Technical Provisions of the ATE business are based on a Frequency-Severity Model used for projecting all policy related future cash flows. The results differ from the approach for the Financial Statements.

Gross undiscounted PP is significantly different from the corresponding values in the Financial Statements. These differences arise from the following sources:

- PP reflect the estimated profit/loss from all future cash flows including deferred premium and commission payments and other technical income closely related to the insurance contract, rather than being a simple proportion of the gross premium; and
- PP includes the profit/loss from legally obliged new business within the contract boundary.

Reinsurance

Reinsurance was applied to the claims and premium provision to reflect the treaties in place described in Section C2.

The cash flow patterns of the Deposits from reinsurers are assumed to follow those of the claims and expenses elements of the incepted unearned business. For the ARAG Quota Share treaty, interest payments are also calculated. As the reinsurance commission arising out of the ARAG quota share treaty is payable on an earned basis, this was assumed to follow the same cash flow pattern as the reinsurance deposits, which is a proportionate simplification of the real settlement arrangement.

Discounting and default adjustment

Discounting and default adjustments are made using the basis and method described by EIOPA and the PRA.

Changes in methodologies and assumptions since previous valuation

1. ATE policies are assumed to be earned at the point they are written, resulting in:

    1.1 ATE claims provision including all cash flows and there being no ATE premium provision.

    1.2 IPT no longer considered in the Technical Provisions.

2. ATE is now modelled using a Frequency-Severity Model.

3. Premium indemnity guarantee is no longer considered in the premium risk exposures in the SCR.

4. Profit share commission is no longer considered in the Technical Provisions and instead in other liabilities. This aligns with local UK accounting as the short settlement indicates it is low risk and non-technical.

5. The previous ARAG SE Quota Share remains in force, with a new Quota Share with ARAG SE for BTE from 1 January 2025. The ATE Quota Share percentage has been reduced from 90% to 40% as a result of the additional new quota share arrangement mentioned below.

6. A new Quota Share reinsurance arrangement with HDI has been introduced, in which HDI reinsures 50% of all new ATE business.

7. Interest rate used for calculating the reinsurer deposit for ARAG SE has changed from a fixed 0.3% per quarter to a fixed 2.25% per year.

8. Immaterial reinsurance arrangements are no longer considered.

D.3 Other Liablilities

Other Liabilities in Solvency UK vs UK GAAP Balance Sheet

Changes to the recognition and valuation bases used or to estimations made during the reporting period for solvency reporting are detailed in the sections below.

Other Liabilities in Solvency UK vs UK GAAP Balance Sheet

(in £'000)	SII 2024	UK GAAP 2024	Valuation Difference	SII 2023	SII Change
Contingent Liabilities	0	0	0	0	0
Provisions other than Technical Provisions	0	0	0	0	0
Pension Benefit Obligations	0	0	0	0	0
Deposit from Reinsurers	153,458	204,417	(50,959)	148,193	5,265
Deferred tax liabilities	2,851	0	2,851	5,679	(2,828)
Derivatives	0	0	0	0	0
Debts owed to credit institutions	0	0	0	0	0
Financial liabilities other than debts owed to credit institutions	893	0	893	988	(95)
Insurance and intermediaries payables	349	349	0	3,749	(3,400)
Reinsurance payables	3138	3,187	(49)	438	2700
Payables (trade, not insurance)	5,751	5,771	(20)	5,908	(157)
Subordonated Liabilities	0	0	0	0	0
Any other liabilities, not elsewhere shown	8,787	43,228	(34,441)	0	8,787
Total Liabilities [1]	**327,809**	**528,966**	**(201,157)**	**311,819**	**15,990**

[1] Total Liabilities numbers are as per the Solvency UK Balance sheet / QRT IR.02 R0900 and includes the Technical Provisions detailed in section D.2 above. This row is therefore not the total of all Other Liabilities (excluding Technical Provisions).

Deposits from reinsurers

Deposits from reinsurers include funds withheld by ARAG LEI that will cover the reinsurers' share of future claims and unearned premiums (excluding instalments and ATE premiums not yet due/notified). The deposit is discounted due to the longer-term nature of the balance and hence is valued at fair value for SII purposes.

This balance is in respect of deposits held on behalf of two reinsurers, ARAG SE being almost the entirety. It represents ARAG SE's share of claims provisions and premiums. This has been valued as the present value of expected future cash flows, which includes payment of the deposit interest to ARAG SE under the reinsurance arrangement, allowing for the additional default risk associated with that counterparty. As the liabilities due under this arrangement are a share of the gross liabilities (claims and premiums associated with the core business of ARAG LEI) it is appropriate to use the same risk-free discount rate here as in the Technical Provisions themselves.

Deferred tax liabilities

Under SII, deferred tax assets and liabilities are calculated in compliance with International Accounting Standard ("IAS") 12 "Income Tax". In ARAG LEI's Financial Statements, the same accounting standard is applied, therefore a consistent measurement principle is used.

Deferred tax assets and liabilities are determined by reference to the difference between the value of assets and liabilities for tax purposes and their carrying value in the SII Balance Sheet. Deferred tax assets and liabilities are carried at the value for which it is expected they can be realised in the future, i.e. where sufficient future taxable profits are expected.

Deferred tax assets are recognised if assets are lower in the SII Balance Sheet or liabilities are higher than in the tax Balance Sheet and these differences will be offset in the future with tax effects (temporary differences). Deferred tax assets are also recognised for tax losses carried forward.

(in £'000s)	UK GAAP 2024	SII 2024	Valuation Difference
Insurance and intermediaries receivables	-	18,774	(18,774)
Investments	899	899	0
Other Assets	922	4,344	(3,422)
Deferred Tax Asset	1,821	24,017	(22,196)
Net Technical Provisions incl. Deferred acquisition costs	-	(11,246)	11,246
Investments	-	-	-
Other Liabilities	-	(15,622)	15,622
Deferred Tax Liability	-	(26,868)	26,868
Net Deferred Tax Asset/(Liability)	**1,821**	**(2,851)**	**4,672**

The valuation differences between SII and the Financial Statements Balance Sheet positions generate the additional deferred tax assets and liabilities in accordance with solvency requirements, resulting in an overall net deferred tax liability.

Most of the deferred tax assets are expected to unwind in the long-term rate and have been valued at the rate of 25% (2023: 25%) reflecting the corporation tax rate applicable from 1 April 2023.

Deferred tax assets are recognised to the extent that recovery is probable, following consideration of future activity.

Insurance and intermediaries payables

Insurance and intermediaries payables represent amounts due or past due but not yet settled at the balance sheet date from policyholders, insurers and other business linked to insurance, but that are not Technical Provisions and are valued at their fair value. For ARAG LEI's Financial Statements this balance includes commission in respect of ATE business.

In addition, payables are measured at amortized cost, using the effective interest rate. The ATE commission should be removed for SII reporting as it is considered part of the technical provision. However, the commission is not currently allowed for in the Technical Provisions as a simplification. The fair value is deemed to be materially the same as amortised cost given the short-term nature of these assets. The timing of payments, which are expected to be within one year, and amounts are fairly certain.

Reinsurance payables

For ARAG LEI's Financial Statements this balance includes premiums in respect of reinsured ATE business. For SII valuation this is no longer considered in the Reinsurance recoverables, as in prior years. The solvency balance remains as per Financial Statements. These balances and timing of payments, which are expected to be within one year, are fairly certain as they are set out in the reinsurance contracts.

Payables (trade, not insurance)

Payables, which are primarily intercompany balances, are included in the SII Balance Sheet at fair value, which is materially consistent with the valuation in the Financial Statements due to the short-term nature of these debts. The timing and amounts are fairly certain.

Any other liabilities, not elsewhere shown

These balances represent Accruals and Deferred Income as recognised in the Financial Statements, and from this year onwards due to the alignment with Group's process, it also includes the Profit share (discounted) owed to distribution partners of £7,492k (2023: £8,218k).

The valuation difference represents balance which relates to Reinsurance Deferred acquisition costs in respect of unearned Quota Share Commission of £34,279k (2023: £29,038k). For the SII valuation, this item is considered in the valuation of the Reinsurance recoverables and hence removed for the SII balance.

D.4 Alternative Valuation Methods

ARAG LEI has used “mark-to-market” valuations for all bonds for SII reporting, as quoted prices in active markets for identical assets are available. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis i.e. on the stock exchange.

For all other assets and liabilities, there are no quoted market prices in active markets for those or similar assets and liabilities. These balances are held at fair value for SII reporting and comprise the following:

- Property, plant & equipment held for own use
- Deferred tax assets/liabilities
- Loans and mortages
- Reinsurance receivables
- Insurance and intermediaries receivables
- Receivables (trade, not insurance)
- Any other assets, not elsewhere shown
- Deposits from reinsurers
- Financial liabilities other than debts owed to credit institutions
- Insurance and intermediaries payables
- Reinsurance payables
- Payables (trade, not insurance)
- Any other liabilities, not elsewhere shown

These are deemed the most appropriate valuation methods and are consistent with the approach used in the Financial Statements, which is based on the fair value concept. The nominal amount of the contractually owed asset or liability is used unless specified above. Due to the short-term nature of some of the assets, they are not discounted on grounds of materiality. ARAG LEI regularly compares the valuations against experience.

All other assets and liabilities valuation methods are provided elsewhere in the Delegated Regulations. No material derogation has been used in the valuation of assets or liabilities.

D.5 Any other information

There is no other material information to disclose.

E. Capital Management

E.1 Own Funds

Objectives, policies and processes employed in managing Own Funds

Capital management focuses on analysis and monitoring capital adequacy requirements and ratios from the following key perspectives:

1. Regulatory

2. Rating capital requirements

It also aims to achieve optimal capitalisation from the ARAG SE Group perspective, considering the importance of ARAG LEI to the wider Group.

ARAG LEI applies capital management procedures in accordance with the applicable regulatory and rating requirements. ARAG LEI has set a risk appetite agreed by the Board.

The capital management process is a continuous cycle of monitoring and assessment actions designed to ensure that the business has a thorough understanding of the level of capital solvency needed to maintain the optimal level of capitalisation. The ARAG UK Capital Management Policy establishes a framework detailing systems and controls for capital oversight and management. It seeks to ensure that ARAG LEI adheres to regulatory and business requirements and maintains optimal capitalisation from a regulatory and credit rating perspective.

The Board of ARAG LEI is responsible for overseeing the management of capital in the best long-term interests of the Company and its shareholders by agreeing an appropriate level of capitalisation and challenging the CFO over the effectiveness and appropriateness of the capital management framework and practices.

The CFO has primary executive responsibility for the management of capital adequacy issues and sets the capital management strategy, which the Board approves, in line with ARAG UK's established corporate governance framework. The CFO receives internal capital adequacy reporting from the Reporting Manager.

In 2024 and 2023, ARAG LEI's time horizon for business planning, including solvency planning, was six years.

Structure, amount and quality of Own funds

The Solvency Capital Requirement, Minimum Capital Requirement and eligible own funds of ARAG LEI are presented in the following table:

(in £'000)	SII 2024	Tier-1-Unrestricted	Total 2023	Tier-1-Unrestricted
Basic own funds				
Ordinary share capital	13,000	13,000	**13,000**	13,000
Reconciliation reserve	19,273	19,273	**29,567**	29,567
Total Basic Own Funds after deductions	**32,273**	**32,273**	**42,567**	**42,567**
Total available own funds to meet SCR	32,273	32,273	**42,567**	42,567
Total available own funds to meet MCR	32,273	32,273	**42,567**	42,567
Total eligible own funds to meet SCR	**32,273**	**32,273**	**42,567**	42,567
Total eligible own funds to meet MCR	**32,273**	**32,273**	**42,567**	42,567
SCR	17,810	N/A	**18,672**	N/A
MCR	4,453	N/A	**4,668**	N/A
Ratio of eligible own funds to SCR	181.20%	N/A	**227.98%**	N/A
Ratio of eligible own funds to MCR	**724.80%**	**N/A**	**911.92%**	**N/A**

The decrease in Basic own funds is largely due to a retained loss, and an increase in liabilities as a result of the changes caused by the integration in the Company's new owner ARAG SE this year to align their Technical Provisions models. The changes in the Technical Provisions assumptions are detailed in Section D2.

There are no Ancillary own funds, and there were no own funds issued or redeemed in the year. No transitional rules were applied for and no restrictions to the own funds were required.

The own funds can be further explained as follows:

Basic Own Funds

(in £'000)	SII 2024	Description
Share Capital (Tier 1)	13,000	This is the allotted, issued and fully paid share capital and is included in Tier 1 capital in accordance with Article 69 (a) (i) of the Delegated Regulations. This ranks after all claims in the event of winding-up proceedings, is undated and not redeemable. Dividends are payable at the discretion of the Directors.
Reconciliation Reserve (Tier 1)	19,273	This is included in Tier 1 capital in accordance with Article 69 (a) (vi) of the Delegated Regulations. This is calculated in accordance with Article 70 of the Delegated regulations as follows: i) total excess of assets over liabilities as calculated for solvency purposes, less the following: ii) the share capital, and iii) the net deferred tax asset shown in Tier 3 capital when applicable. This is mainly made up of the following items: Retained profit / loss reserves and other capital reserves adjusted for the differences between the Financial Statements' valuations and the SII valuations, see reconciliation below.
Total Basic Own Funds	32,273	

Material differences between equity in ARAG LEI's Financial Statements and the excess of assets over liabilities as calculated for solvency purposes

The material difference between equity shown in ARAG LEI's statutory Financial Statements and the Excess of Assets over Liabilities as calculated for SII purposes is the differing valuation rules for assets and liabilities under the two regimes. See section D for detailed explanations of the differences between valuations. A reconciliation of SII own funds to equity presented in the Financial Statements is shown below.

See Appendix 1 for IR.23.01.01 – Own funds QRT that is required to be disclosed in relation to Own Funds.

Reconciliation of SII Own Funds with Equity in the Financial Statements

(in £'000)			2024
		Equity in Financial Statements	**18,256**
	Reinsurance recoverables	Reinsurance recoverables adjustment in respect of future reinsurance premiums (see D.1)	(105,235)
	Insurance and intermediaries receivables	ATE premium written but not yet earned and BTE instalment debtors not yet received considered in valuation of Technical Provisions (see D.1)	(75,146)
Assets	Deferred acquisition costs	Removal of Deferred acquisition costs (see D.1)	(3,493)
	Any other assets, not elsewhere shown	Difference in the valuation of prepayments (see D.1)	(1,477)
	Loans and mortgages	Difference in the valuation of Intercompany Receivables with Services due to discounting	(803)
	Deposits from reinsurers	Change in Deposits from reinsurers due to treatment of ATE business not yet earned on the SII basis, considered in the valuation of the Reinsurance recoverables (see D.3)	50,959
	Any other liabilities, not elsewhere shown	Reinsurance Deferred acquisition costs in respect of unearned Quota Share Commission, and amounts that will be repaid to reinsurers as their share of profit on the reinsured business considered in the valuation of the Reinsurance recoverables (see D.3)	34,279
	Any other liabilities, not elsewhere shown	Difference in valuation of Profit share due to discounting	162
Liabilities	Best Estimate	Change in Gross Technical Provisions due to recognition on SII basis, offsetting differences above (see D.2)	120,292
	Risk margin	Risk margin added to Best estimate Technical Provisions (D.2)	(859)
	Deferred tax liabilities	Movement in net Deferred Tax (see D.1)	(4,672)
	PPE for own use / Financial liabilities	Lease adjustment due to the difference in SII lease reporting (IFRS 16) vs statutory reporting (UK GAAP FRS 102)	(39)
	Payables (trade, not insurance)	Other – RI payables reclass in FSs	49
		SII Basic Own Funds	**32,273**

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The SCR is calculated using the basis and method for the Solvency UK Standard Formula described by the regulations. The calculation of the SCR follows a two-step process to determine the SCR without material simplifying assumptions.

The following table shows the elements that contribute to the SCR at the most recent two year-ends.

Components of SCR

(in £'000)	2024	2023
Market Risk	4,814	3,514
Counterparty Default Risk	8,053	8,062
Non-Life Underwriting Risk	8,168	13,337
Diversification	(4,924)	(4,905)
Basic Solvency Capital Requirement [1]	**16,110**	**20,000**
Operational Risk	4,552	4,342
Loss-Absorbing capacity of Deferred Taxes	(2,851)	(5,679)
Net Solvency Capital Requirements calculated using Standard Formula	**17,811**	**18,672**
SII Eligible Own Funds	32,273	42,567
Solvency ratio	181.20%	227.98%

[1] including the loss-absorbing capacity of Technical Provisions, which is zero in this case.

The SCR shown above is subject to supervisory assessment.

The SCR has decreased by 0.9m due to to a decrease in Underwriting risk. This decrease was partially offset by a decrease in LACDT and increase in Market risk.

The reasons for the largest movements are explained below.

1. The decrease in Non-Life Underwriting risk is driven by decreased lapse risk exposure following ATE Technical provision methodology change which assumes that premium is earned when written and therefore is not exposed to lapse risk.

2. The decrease in LACDT is driven by the decreased deferred tax liability because of the reduced difference between the FRS 102 Balance Sheet and the Solvency Economic Balance Sheet. This is mainly because of decreased embedded profit in the Technical Provisions which is not recognised on the FRS 102 Balance Sheet.

3. The increase in Market risk is driven by Intra-company receivable treated as a loan, and therefore exposed to market risks, for year end 2024 following advice from Grant Thornton.

The MCR for 31 December 2024 is 25% of the SCR (the capital "floor" as prescribed in the regulations). The MCR decreased from £4,668k as at 31 December 2023 to £4,453k as at 31 December 2024. This decrease reflects movements in the SCR given that the 25% floor is applicable.

The relevant outputs relating to the MCR are shown in the table below:

(in £'000)	2024	%
Linear MCR	3,694	83.0%
SCR with add-on	17,811	400.0%
MCR cap	8,015	180.0%
MCR floor	4,453	100.0%
Combined MCR	4,453	100.0%
Absolute floor of the MCR	2,278	51.2%
MCR	**4,453**	**100.0**

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

ARAG LEI introduced equities to the assets held during 2021.

Equity risk has been calculated using the Equity risk submodule set out in the Standard Formula regulations. The regulations also provide the definitions used to allocate the assets to the equity risk types.

ARAG do not apply a look-through approach and therefore all equities held are now classed as Type 2 equities.

(in £'000)	2024	2023
Type 1 Equities	0	3,105
Type 2 Equities	1,738	41
Total Market Value of Equities	**1,738**	**3,146**
SCR Equity	**901**	**1,227**

E.4 Differences between the Standard Formula and any Internal Model used

ARAG LEI does not use an internal model. The SCR is determined using the Standard Formula without modification.

E.5 Non-compliance with the MCR and non-compliance with the SCR

There are no instances of non-compliance to report. ARAG LEI produces regular financial plans and forecasts to ensure that the risk of non-compliance with the SCR and MCR is insignificant.

E.6 Any other information

There is no other material information regarding the capital management of the insurance or reinsurance undertaking to be reported.

Appendix

IR.02.01.01
Balance Sheet

Assets		SII	Statutory Accounts value
(in £'000)		C0010	C0020
Goodwill	R0010	0	0
Deferred acquisition costs	R0020	0	3,493
Intangible Assets	R0030	0	0
Deferred Tax Assets	R0040	0	1,821
Pension benefit surplus	R0050	0	0
Property, plant & equipment held for own use	R0060	854	0
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	153,992	152,514
Property (other than for own use)	R0080	0	0
Holdings in related undertakings, including participations	R0090	0	0
Equities	R0100	0	0
Equities - listed	R0110	0	0
Equities - unlisted	R0120	0	0
Bonds	R0130	152,254	150,776
Government Bonds	R0140	84,736	84,165
Corporate Bonds	R0150	67,518	66,612
Structured notes	R0160	0	0
Collateralised securities	R0170	0	0
Collective Investments Undertakings	R0180	1,738	1,738
Derivatives	R0190	0	0
Deposits other than cash equivalents	R0200	0	0
Other investments	R0210	0	0
Assets held for index-linked and unit-linked contracts	R0220	0	0
Loans and mortgages	R0230	12,261	0
Loans on policies	R0240	0	0
Loans and mortgages to individuals	R0250	0	0
Other loans and mortgages	R0260	12,261	0
Reinsurance recoverables from:	R0270	131,676	236,911
Non-life and health similar to non-life	R0280	131,676	236,911
Life and health similar to life, excluding index-linked and unit-linked	R0315	0	0
Life index-linked and unit-linked	R0340	0	0
Deposits to cedants	R0350	0	0
Insurance and intermediaries receivables	R0360	43,931	104,173
Reinsurance receivables	R0370	0	14,904
Receivables (trade, not insurance)	R0380	1,718	14,802
Own shares (held directly)	R0390	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0	0
Cash and cash equivalents	R0410	15,292	15,292
Any other assets, not elsewhere shown	R0420	358	3,312
Total Assets	R0500	**360,081**	**547,223**

IR.02.01.01
Balance Sheet

Liabilities		**SII**	**Statutory Accounts value**
(in £'000)		**C0010**	**C0020**
Technical Provisions – Total	**R0505**	152,581	272,014
Technical Provisions – Non-Life	**R0510**	152,581	272,014
Technical Provisions – Life	**R0515**	0	0
Best estimate – Total	**R0542**	151,722	0
Best estimate – Non-Life	**R0544**	151,722	0
Best estimate – Life	**R0546**	0	0
Risk margin – Total	**R0552**	859	0
Risk margin – Non-Life	**R0554**	859	0
Risk margin – Life	**R0556**	0	0
Transitional (TMTP) – Life	**R0565**	0	0
Other Technical Provisions	**R0730**	0	0
Contingent liabilities	**R0740**	0	0
Provisions other than Technical Provisions	**R0750**	0	0
Pension benefit obligations	**R0760**	0	0
Deposits from reinsurers	**R0770**	153,458	204,417
Deferred tax liabilities	**R0780**	2,851	0
Derivatives	**R0790**	0	0
Debts owed to credit institutions	**R0800**	0	0
Financial liabilities other than debts owed to credit institutions	**R0810**	893	0
Insurance & intermediaries payables	**R0820**	349	349
Reinsurance payables	**R0830**	3,138	3,187
Payables (trade, not insurance)	**R0840**	5,751	5,771
Subordinated liabilities	**R0850**	0	0
Subordinated liabilities not in Basic Own Funds	**R0860**	0	0
Subordinated liabilities in Basic Own Funds	**R0870**	0	0
Any other liabilities, not elsewhere shown	**R0880**	8,787	43,228
Total Liabilities	**R0900**	**327,809**	**528,966**
Excess of Assets over Liabilities	**R1000**	**32,273**	**18,256**

IR.05.04.02
Non-life income, expenditure and business model anaysis

		Total				
		All business (including annuities stemming from accepted non-life insurance and reinsurance contracts)	All non-life business (ie excluding annuities stemming from accepted insurance and reinsurance contracts)	Legal expenses insurance	Assistance	Miscellaneous financial loss
(in £'000)		C0010	C0015	C0240	C0250	C0260
Income						
Premiums written						
Gross written premiums	R0110		141,390	111,861	6,143	23,386
Gross written premiums - insurance (direct)	R0111		99,810	79,324	5,619	14,867
Gross written premiums - accepted reinsurance	R0113		41,580	32,537	524	8,519
Net written premiums	R0160		13,813	10,860	614	2,339
Premiums earned and provision for unearned						
Gross earned premiums	R0210		134,084	102,623	5,378	26,083
Net earned premiums	R0220		13,042	9,896	538	2,608
Expenditure						
Claims incurred						
Gross (undiscounted) claims incurred	R0610		86,246	66,689	4,275	15,282
Gross (undiscounted) claims incurred - insurance (direct)	R0611		60,465	46,839	3,910	9,715
Gross (undiscounted) claims incurred - accepted reinsurance	R0612		25,782	19,850	364	5,567
Net (undiscounted) claims incurred	R0690		9,200	7,245	427	1,528
Net (discounted) claims incurred	R0730	9,200	9,200			
Analysis of expenses incurred						
Technical expenses incurred net of reinsurance ceded	R0910	17,691				
Acquisition costs, commissions, claims management costs	R0985	(20,046)	(20,046)	(14,575)	(1,544)	(3,928)
Other expenses	R1140	79				
Total expenditure	R1310	25,612				

IR.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance			
		Total Non-Life obligation	Legal expenses insurance	Assistance	Miscellaneous financial loss
(in £'000)		C0180	C0110	C0120	C0130
Best estimate					
Premium provisions					
Gross	R0060	33,582	21,427	3,662	8,492
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	21,904	13,385	2,656	5,863
Net Best Estimate of Premium provisions	R0150	11,678	8,042	1,006	2,629
Claims provisions					
Gross	R0160	118,140	108,386	768	8,986
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	109,772	101,217	673	7,883
Net Best Estimate of Claims Provisions	R0250	8,368	7,169	95	1,104
Total Best estimate – gross	R0260	**151,722**	129,813	4,431	17,478
Total Best estimate – net	R0270	20,046	15,212	1,102	3,733
Risk margin	R0280	**859**	543	11	306
Technical Provisions – total (best estimate plus risk margin)					
Technical Provisions – total	R0320	**152,581**	130,356	4,441	17,784
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	131,676	114,601	3,329	13,746
Technical Provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	20,905	15,754	1,112	4,038

IR.19.01.21
Non-life insurance claims

Gross Claims Paid (non-cumulative) - Total Non-Life Business

Year		Development year												
		0	1	2	3	4	5	6	7	8	9	10	In current year	Sum of years (cumulative)
(in £'000)		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior												2,090	2,090	2,090
N-9	R0100	61,486	19,421	6,109	6,323	3,051	3,161	1,791	1,273	1,712	1,056		1,056	105,384
N-8	R0160	54,184	16,677	9,393	5,167	3,890	1,729	1,225	2,038	880			880	95,182
N-7	R0170	47,371	13,928	8,185	6,713	3,436	3,348	2,109	2,077				2,077	87,168
N-6	R0180	38,669	14,380	7,875	5,635	2,924	4,666	2,067					2,067	76,217
N-5	R0190	38,926	13,811	5,860	4,262	3,722	2,874						2,874	69,456
N-4	R0200	32,826	13,216	5,884	5,978	3,602							3,602	61,507
N-3	R0210	40,776	20,160	5,928	4,557								4,557	71,422
N-2	R0220	35,993	14,856	5,190									5,190	56,039
N-1	R0230	45,868	18,505										18,505	64,374
N	R0240	36,235											36,235	36,235
Total	R0250												**79,134**	**725,073**

Gross undiscounted Best Estimate Claims Provisions - Total Non-Life Business

Year		Development year											
		0	1	2	3	4	5	6	7	8	9	10	Year end (discounted)
(in £'000)		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Prior												2,145	1,939
N-9	R0100	0	29,868	16,386	10,322	6,638	6,715	5,062	3,613	2,884	1,126		1,018
N-8	R0160	50,506	28,224	15,306	10,051	8,322	7,326	5,407	3,438	1,762			1,593
N-7	R0170	48,608	28,696	15,829	11,080	9,311	7,205	5,478	2,111				1,908
N-6	R0180	50,451	31,286	16,894	13,041	10,925	7,513	3,685					3,331
N-5	R0190	47,493	27,055	18,183	13,143	10,641	4,819						4,356
N-4	R0200	40,232	28,016	19,352	14,979	7,743							6,998
N-3	R0210	47,570	32,509	21,011	11,791								10,664
N-2	R0220	50,941	31,258	17,766									16,103
N-1	R0230	51,372	27,933										25,359
N	R0240	49,107											44,872
Total	R0250												**118,140**

IR.23.01.01
Own funds

(£'000)		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic Own Funds						
Ordinary share capital (gross of own shares)	R0010	13,000	13,000		0	
Share premium account related to ordinary share capital	R0030	0	0		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	19,273	19,273			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	0				0
Other items approved by the supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
Own funds from the Financial Statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as SII own funds						
Own funds from the Financial Statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as SII own funds	R0220	0				
Total Basic Own Funds	R0290	**32,273**	**32,273**	**0**	**0**	**0**
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions, or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees	R0340	0			0	
Letters of credit and guarantees other	R0350	0			0	0
Supplementary members calls	R0360	0			0	
Supplementary members calls - other	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	**0**			**0**	**0**
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	32,273	32,273	0	0	0
Total available own funds to meet the MCR	R0510	32,273	32,273	0	0	0
Total eligible own funds to meet the SCR	R0540	32,273	32,273	0	0	0
Total eligible own funds to meet the MCR	R0550	32,273	32,273	0	0	0
SCR	R0580	**17,810**				
MCR	R0600	**4,453**				
Ratio of Eligible own funds to SCR	R0620	**1.812**				
Ratio of Eligible own funds to MCR	R0640	**7.248**				

IR.23.01.02
Reconciliation reserve

(£'000)		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	32,273
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	0
Deductions for participations in financial and credit institutions	R0725	0
Other basic own fund items	R0730	13,000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	0
Reconciliation reserve	R0760	**19,273**

IR.25.04.21
Solvency Capital Requirement - for undertakings on Standard Formula

(in £'000)		Net SCR requirement
		C0010
Market risk	R0140	4,813
Interest rate risk	R0070	385
Equity risk	R0080	901
Property risk	R0090	213
Spread risk	R0100	3,473
Concentration risk	R0110	1,527
Currency risk	R0120	103
Other market risk	R0125	0
Diversification within market risk	R0130	(1,791)
Counterparty default risk	R0180	8,053
Type 1 exposures	R0150	1,227
Type 2 exposures	R0160	7,091
Other counterparty risk	R0165	0
Diversification within counterparty default risk	R0170	(266)
Life underwriting risk	R0270	0
Mortality risk	R0190	0
Longevity risk	R0200	0
Disability-Morbidity risk	R0210	0
Life-expense risk	R0220	0
Revision risk	R0230	0
Lapse risk	R0240	0
Life catastrophe risk	R0250	0
Other life underwriting risk	R0255	0
Diversification within life underwriting risk	R0260	0
Total health underwriting risk	R0320	0
Health SLT risk	R0280	0
Health non SLT risk	R0290	0
Health catastrophe risk	R0300	0
Other health underwriting risk	R0305	0
Diversification within health underwriting risk	R0310	0
Non-life underwriting risk	R0370	8,168
Non-life premium and reserve risk (ex catastrophe risk)	R0330	7,770
Non-life catastrophe risk	R0340	1,117
Lapse risk	R0350	865
Other non-life underwriting risk	R0355	0
Diversification within non-life underwriting risk	R0360	(1,585)
Intangible asset risk	R0400	0
Operational and other risks	R0430	4,552
Operational risk	R0422	4,552
Other risks	R0424	0
Total before all diversification	R0432	29,226
Total before diversification between risk modules	R0434	25,585
Diversification between risk modules	R0436	(4,923)
Total after diversification	R0438	20,661

IR.25.04.21 (continued)

Solvency Capital Requirement - for undertakings on Standard Formula

(in £'000)		Net SCR requirement
		C0010
Loss-absorbing capacity of Technical Provisions	**R0440**	0
Loss-absorbing capacity of deferred taxes	**R0450**	(2,851)
Other adjustments	**R0455**	0
Solvency capital requirement including undisclosed capital add-on	**R0460**	17,810
Disclosed capital add-on – excluding residual model limitation	**R0472**	0
Disclosed capital add-on – residual model limitation	**R0474**	0
Solvency capital requirement including capital add-on	**R0480**	**17,810**
Biting interest rate scenario	**R0490**	Decrease
Biting life lapse scenario	**R0495**	0

IR.28.01.01
MCR - Only life or only non-life activity

Linear formula component for non-life insurance and reinsurance obligations

(in £'000)		MCR components
		C0010
MCRNL Result	R0010	3,694

Background information

(in £'000)		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	0	0
Income protection insurance and proportional reinsurance	R0030	0	0
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	0	0
Other motor insurance and proportional reinsurance	R0060	0	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	0	0
General liability insurance and proportional reinsurance	R0090	0	0
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	15,212	11,186
Assistance and proportional reinsurance	R0120	1,102	614
Miscellaneous financial loss insurance and proportional reinsurance	R0130	3,733	2,339
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	0	0
Non-proportional property reinsurance	R0170	0	0

Overall MCR calculation

(in £'000)		Net SCR requirement
		C0010
Linear MCR	R0300	3,694
SCR	R0310	17,810
MCR cap	R0320	8,015
MCR floor	R0330	4,453
Combined MCR	R0340	4,453
Absolute floor of the MCR	R0350	3,500
Minimum Capital Requirement	R0400	4,453

GLOSSARY OF ABBREVIATIONS AND TERMS

Abbreviations/Terms	Definition
AIRMIC	Association of Insurance and Risk Managers in Industry and Commerce.
Alternative valuation method	Valuation methods consistent with Section 2 of the "Valuation" Chapter of the PRA Rulebook, other than those which solely use the quoted market prices for the same or similar assets or liabilities.
ATE	"After the Event", this is the provision of insurance after a substantive incident has occurred and therefore the risk insured is the risk of losing the litigation. Cover is provided for defendants' costs, their own disbursements and premium indemnity. Solicitors have an alignment of interest as their own costs, which are not indemnified under the terms of the policy, are at risk.
BAFIN	Bundesanstalt für Finanzdienstleistungsaufsicht. This is the German regulator, which is responsible for ARAG SE Group supervision. This is the German equivalent of the PRA.
BCM	Business Continuity Management.
Best estimate for non-life insurance obligations	This forms part of the TPs and is made up of the premium provision and the provision for claims outstanding. This is the best estimate of obligations that ARAG LEI have in respect of all of the insurance policies that they have issued.
BTE	"Before the Event", this is the provision of insurance in the traditional sense, where cover is purchased to protect the policyholder in respect of the occurrence of potential future events.
CEO	Chief Executive Officer.
CFO	Chief Financial Officer.
Civil Litigation	Commercial and complex one-off pieces of litigation.
Concentration risk	All risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of insurance and reinsurance undertakings.
CoCON	The FCA's Code of Conduct rules, the FCA regulate ARAG LEI for their conduct.
CP	Claims provision. The outstanding claims provision represents the estimated cost of claims incurred as at the balance sheet date, together with profit shares and reinsurance settlements relating to expired risks. The provision includes an allowance for claims management and claims handling expenses. It is calculated using best estimate discounted future cash flows.
ARAG Law	ARAG Law Limited, a fellow ARAG UK company.
ARAG LEI	ARAG Legal Expenses Insurance Company Limited, the company which is required to prepare this SFCR.
ARAG UK	This comprises of ARAG UK Holdings and all of its subsidiaries. ARAG UK is managed on a unified basis.
ARAG UK Holdings	ARAG UK Holdings Limited, the holding company of the ARAG UK of companies. It is also ARAG LEI's immediate parent company.
Delegated Regulations	"Commission Delegated Regulations (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking up and pursuit of the business of Insurance and Reinsurance (Solvency II)" including subsequent amendments to that Regulation.
Diversification effect	The reduction in the risk exposure of ARAG LEI related to the diversification of their business, resulting from the fact that the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated.
EIOPA	European Insurance and Occupational Pension Authority. The objective of EIOPA is to protect the public interest. Among its tasks is to contribute to the establishment of high-quality common regulatory and supervisory standards and practices in the European Union for insurers. EIOPA's powers include i) issuing guidelines to further clarify the Delegated regulations and the SII Directive, ii) developing templates to be used for public disclosure and in regulatory submissions (i.e. QRTs) and iii) developing draft changes to the SII regulations and the SII Directive, all through public consultations. These draft changes need to be endorsed by the European Commission before being enshrined into European legislation.
Eligible own funds	For ARAG LEI, this means:(1) as to compliance with the SCR, the aggregate of ARAG LEI's: (a) Tier 1 own funds; and (b) eligible Tier 2 own funds; and (c) eligible Tier 3 own funds (2) as to compliance with the MCR, the aggregate of ARAG LEI's and eligible Tier 2 own funds. ARAG LEI does not currently have any Tier 2 or Tier 3 own funds (see section E.1).
EMC	Executive Management Committee. This Committee includes all Senior Managers within ARAG UK and reports up into the Board.
ENID	"Events Not In Data". These are events not captured by the data which need to be separately allowed for within the best estimate calculations to take appropriate account of uncertainty.
ERMF	Enterprise Risk Management Framework. This is the framework that the Governance structure of ARAG LEI, implements risk identification, assessment, management and reporting to the Board and its subcommittees, see section B.3 for more details.

Abbreviations/Terms	Definition
FCA	Financial Conduct Authority, they are responsible for regulating the conduct of ARAG LEI and other UK regulated firms.
FCA Handbook	This is the where the FCA rules are located, ARAG LEI are required to follow the conduct rules relevant to insurers.
FRS 102	"Financial Reporting Standard 102 Disclosure Framework". This is the basis on which ARAG LEI's statutory Financial Statements are prepared.
FRS 103	"Financial Reporting Standard 103, Insurance Contracts Disclosure Framework". This is the basis on which ARAG LEI's statutory Financial Statements are prepared.
Head of	Typically, direct reports of the EMC members.
IA	Internal Audit.
IAS	International Accounting Standards.
IAS 12	An International Accounting Standard on "Income Tax".
IAS 39	An International Accounting Standard on "Financial Instruments: Recognition and Measurement".
ICS	Internal Control System. This is required to ensure ARAG LEI is compliant with applicable laws, regulations and administrative provisions.
IFoA	Institute and Faculty of Actuaries, the UK's only chartered professional body dedicated to educating, developing and regulating actuaries based both in the UK and internationally.
Interest rate risk	See section C.2.
IFRS	Where references to "International Financial Reporting Standards" are made it also includes International Accounting Standards. These are the Accounting Standards that need to be applied for companies adopting International Financial Reporting Standards.
INED	Independent Non-Executive Director
Key Functions	Key functions: (a) the risk-management function; (b) the compliance function; (c) the internal audit function; (d) the actuarial function; (e) the function of effectively running ARAG LEI; and (f) any other function which is of specific importance to the sound and prudent management of ARAG LEI;
Liquidity risk	See section C.4.
LEI	Legal Expenses Insurance.
LoB	Line of business. The SII LoBs are set out in Annex I of the Delegated Regulations.
LOI	Limit of Indemnity.
MCR	Minimum Capital Requirement. The calculation of this number is defined in the SII regulations and is the capital required to ensure that ARAG LEI will be able to meet its obligations over the next 12 months with a probability of at least 85%. ARAG LEI must hold eligible own funds covering the MCR. (2.1 in the "Minimum Capital Requirement" Chapter of the PRA Rulebook). Breach of the MCR is designed, unless remedied quickly, to lead to a loss of the insurer's authorisation.
Operational risk	See section C.5.
ORSA	Own Risk and Solvency Assessment a SII requirements which forms part of ARAG LEI's risk-management system.
PCC	Protected Cell Captive. A PCC is a single legal entity, made up of a core and a number of ring-fenced, protected cells.
Outsourcing	See section B.7.
PP	Premium provision. It represents the estimated cost of future claims incurred and expenses arising from current and contractually bound insurance contracts net of future premium receipts
PRA	Prudential Regulation Authority. They are ARAG LEI's Prudential Regulator, and they have a general objective to promote the safety and soundness of the firms it regulates. ARAG LEI are approved and regulated by the PRA.
Prudential Regulation Authority (or PRA) rules	These are the rules that are written by the PRA which ARAG LEI need to comply with.
PRA Rulebook	This is the where the PRA rules are located, the rules that are applicable to ARAG LEI are the Solvency UK firm rules, see http://www.prarulebook.co.uk

Abbreviations/Terms	Definition
QRTs	Quantitative Reporting Templates. These are templates need to be used for i) public disclosure as set out in Appendix of this document, and in ii) some SII submissions to the PRA.
RMF	Risk Management function.
Scenario analysis	Means the analysis of the impact of a combination of adverse events.
SCR	Solvency Capital Requirement. The calculation of this number is defined in the SII regulations and is the capital required to ensure that ARAG LEI will be able to meet its obligations over the next 12 months with a probability of at least 99.5%.A firm must hold eligible own funds covering its SCR (Article 100 of the SII Directive and hence 2.1 in the "Solvency Capital Requirement - General Provisions" Chapter of the PRA Rulebook). Breach of the SCR results in supervisory intervention designed to restore the SCR level of capital.
SF	Standard Formula. This is used by ARAG LEI for the calculation of the Risk Margin, SCR and MCR.
SFCR	Solvency and Financial Condition Report, i.e. this document.
SII	Solvency II UK / Solvency UK's shorted naming convention. Solvency UK's framework is underpinned by EIOPA's SII Directive.
SII Directive	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking up and pursuit of the business of Insurance and Reinsurance (Solvency II) including subsequent amendments to that Directive.
SII line of business	See LoB above.
Solvency II UK (or Solvency UK) regulations	This comprises various sets of PRA legislation including the Delegated Regulations, Implementation rules, Technical Standards and Guidelines developed by the PRA between 2021 and 2024 and outlined in the updated PRA Rulebook.
SIMF	Senior Insurance Management Function. That aspect of any key function relating to the carrying on of a regulated activity by ARAG LEI, which is specified by the PRA in sections 3 to 10 of the "Insurance – Senior Insurance Management Functions" Chapter in the PRA Rulebook pursuant to section 59 of the Financial Services and Markets Act 2000. See SMF below however.
SIMR	Senior Insurance Management Function. That aspect of any key function relating to the carrying on of a regulated activity by ARAG LEI, which is specified by the PRA in sections 3 to 10 of the "Insurance – Senior Insurance Management Functions" Chapter in the PRA Rulebook pursuant to section 59 of the Financial Services and Markets Act 2000. See SMF below however.
SIMR	Senior Insurance Managers Regime. This regime applied to the most senior executive management and directors who are subject to regulatory approval. Firms must allocate prescribed responsibilities across their Senior Managers setting out their duties. This forms part of the overall firm management and governance map. Under section 59 of the Financial Services and Markets Act 2000, authorised firms are required to ensure that individuals seeking to perform one or more of the PRA–designated Senior Management Functions seek PRA approval prior to taking up their position.
SMF	Senior Management Function, this superseded the SIMFs, see SMCR below. That aspect of any key function relating to the carrying on of a regulated activity by ARAG LEI, which is specified by the PRA in the "Insurance – Senior Management Functions" Chapter in the PRA Rulebook pursuant to section 59 of the Financial Services and Markets Act 2000.
SMCR	Senior Managers and Certification Regime.
Reverse stress-testing	Done by identifying a range of adverse scenarios that could lead to the business plans becoming unviable and working backwards to understand circumstances that will lead to these scenarios crystallising.
Risk margin	Is the amount equal to the cost that a third party would incur in order to hold eligible own funds to cover the SCR necessary to support the insurance and reinsurance obligations over their lifetime.
Tier 1 own funds	The strongest form of Capital which is required to meet certain criteria as set out in the Delegated Regulations and the PRA Rulebook.
TPs	Technical Provisions. For ARAG LEI, this is made up of the Best Estimate for non-life insurance obligations and the Risk Margin.
Underwriting result	See section A.2.

Further Information

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Note
Monetary amounts in this SFCR are shown rounded to the nearest thousand. Calculations are performed on the underlying rather than the rounded amounts, so the rounded results might not always reconcile precisely.

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