

2025 Solvency and Financial Condition Report

ARAG LEGAL EXPENSES INSURANCE COMPANY LIMITED

Year ended 31 December 2025

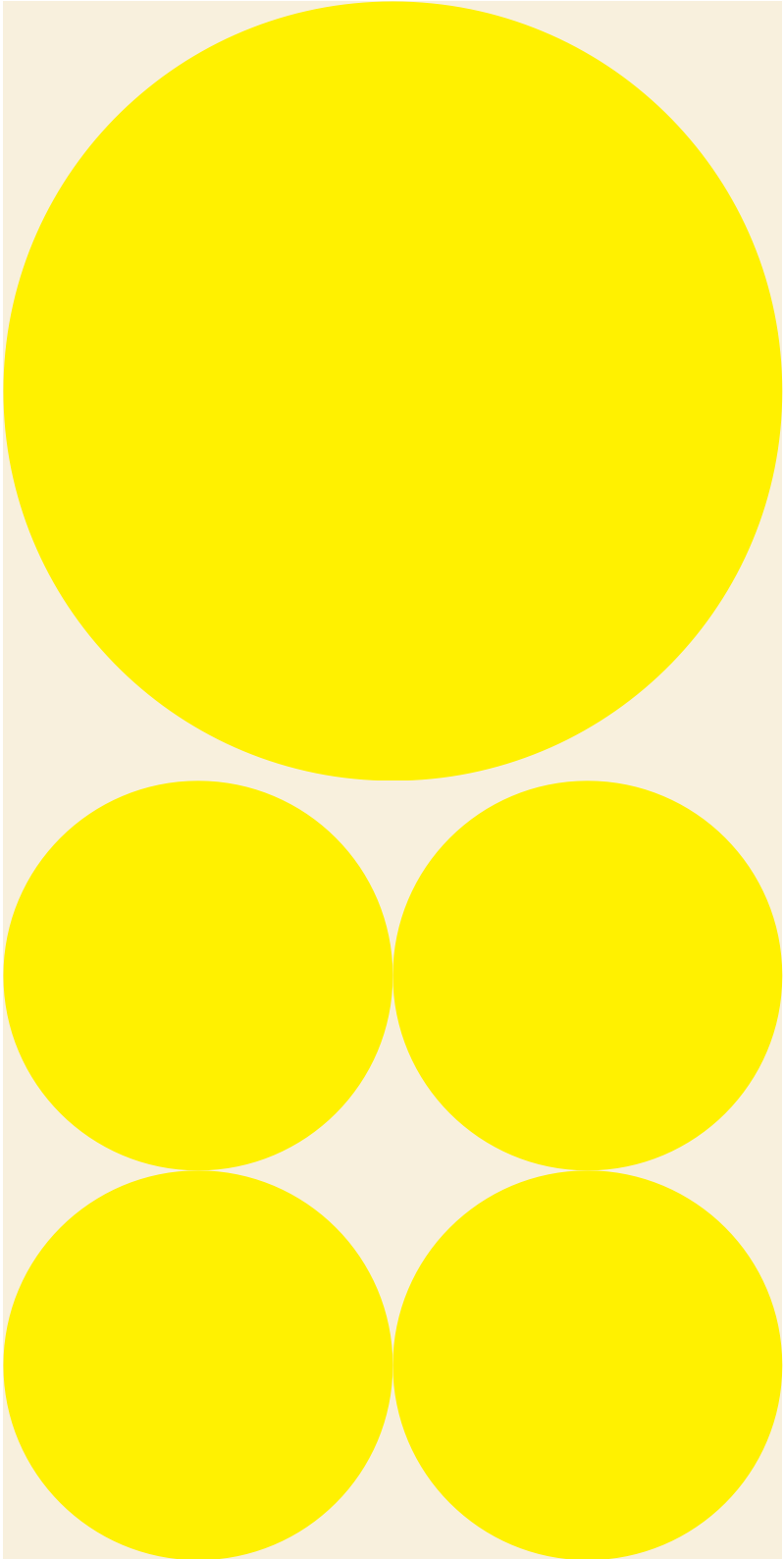


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Summary



Solvency UK (“SUK”) applies to ARAG Legal Expenses Insurance Company Limited (“ARAG LEI”, “the Company”) for all PRA submissions since 31 December 2024. Prior to 2024, 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 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”).

This SFCR has been audited, more specifically the “relevant elements” required to be audited per the PRA Rulebook chapter “External audit” 2.2 (2024: unaudited). In addition, the SFCR includes comparisons and reconciliations to the statutory Financial Statements prepared under FRS 102 and FRS 103, which are audited as required by company law.

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

Apart from the changes mentioned in this document, there were no other material changes during the reporting period in the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management.

Section A – Business and Performance

ARAG LEI is the market leader for Legal Expenses Insurance in the UK. The Company’s immediate parent company, ARAG UK Holdings Limited, and all of its subsidiaries (together “ARAG UK”) have been part of the ARAG SE Group (“ARAG SE”, “the Group”) since 2 January 2024. The combination of the complementary businesses brings benefits to all ARAG LEI stakeholders from the shared knowledge; the potential for new ideas, products, and services; and the further digitalisation of the Company’s offering.

ARAG SE is the world’s largest legal expenses insurer, operating throughout Europe, as well as US and Canada.

ARAG LEI has benefited in 2025 from being a core member of ARAG SE that led to an upgraded rating from Standard and Poor’s Global (S&P) to “A” based on this core Group status, combined with an outlook of “Stable”, reflecting the long-term commitment of support from ARAG SE.

The year saw an increase in gross written premium to £216,665k (2024: £141,390k) largely as a result of underwriting new business sourced from ARAG PLC (formerly part of ARAG SE, ref sec A1). The gross combined operating ratio based on the operational view, which is in line with industry standards increased to 100.9% (2024: 97.1%) driven by reserves growth and increased profit share costs. Overall, the Company made a loss after tax for the financial year of £3,039k (2024: loss after tax £3,984k).

The total comprehensive gain after unrealised gains on a statutory basis for the year was £18k (2024: loss £2,332k). Unrealised gains amounted to £3,057k (2024: gains £1,652k).

ARAG LEI’s audited SUK SCR ratio as at 31 December 2025 was 251% (2024: 181% (unaudited)). This was impacted by the increase in own funds from the capital injection of £15,000k received from ARAG SE and the growth in the business due to ARAG LEI starting to underwrite business on behalf of ARAG PLC since the beginning of 2025.

The capital management policy follows the requirements of the Solvency UK regulations applicable to UK insurers.

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 are 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 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 SUK 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 resilience 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.

The two main risks as part of SCR affecting ARAG LEI’s risk profile during the year were underwriting risk and credit (counterparty default) risk. The Solvency Capital Requirement related to underwriting risk was £10,812k (2024: £8,168k) and to credit (counterparty default) risk was £12,758k (2024: £8,053k). Additionally, operational risk is expected to increase in line with the future growth of the company and general operational risks are also more elevated during a period of integration between companies within the UK group.

Section D – Valuation for Solvency Purposes

Section D sets out the bases, methods and main assumptions used in the valuation of the assets, technical provisions and other liabilities. ARAG LEI’s excess of assets over liabilities on a SUK basis is £54,886k (2024: £32,273k), whilst on the local statutory reporting basis excess is £33,274k (2024: £18,256k) 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 SUK reporting, particularly in respect of the recognition of future cash flows arising from (re)insurance contracts in the technical provisions for SUK 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 E – Capital Management

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.

The Solvency coverage ratio, defined as the ratio of Eligible Own Funds (“EOF”) to Solvency Capital Requirement (“SCR”), is a key measure of financial strength under SUK. Following to the £15,000k capital injection during for the financial year, the Company’s year-end solvency position increased to 251% (audited) (2024: 181% (unaudited)).

During the reporting period, additional Tier 1 capital of £15,000k was added to the Company’s share capital, materially increasing the Excess of Assets over Liabilities and Own Funds.



Report of the external independent auditors to the Directors of ARAG Legal Expenses Insurance Company Limited

External audit's opinion on ARAG LEI 2025 SFCR and the relevant templates.

Appendix

Quantitative Reporting Templates

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

Note

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

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 2025

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA rules and the Solvency 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 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 27 March 2026 and signed on the 1 April 2026 on its behalf by:

[David Haynes \(Apr 1, 2026 12:39:55 GMT+1\)](#)

Executive Director & CEO

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

Email: pressoffice@arag.co.uk

Website: 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

Website: www.fca.org.uk

Prudential Regulation Authority

20 Moorgate
London
EC2R 6DA

Email: PRA.firmenquiries@bankofengland.co.uk

Website: bankofengland.co.uk/pr

Group Supervisor

German Federal Financial Supervisory Authority (BaFin)
Postfach 1253
53002 Bonn, Germany

Email: poststelle@bafin.de

Website: www.bafin.de

BaFin supervises ARAG SE Group.

External Auditor

Contact details of the appointed independent auditors:

PricewaterhouseCoopers LLP ("PwC")
2 Glass Wharf
Temple Quay
Bristol
BS2 0FR

Website: www.pwc.co.uk

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

ARAG LEI is one of the leading legal expenses insurers in the UK, providing non-life insurance to private and commercial customers.

ARAG LEI has no related undertakings, subsidiaries, investments in joint controlled entities or associate companies with significant minority stakes.

Lines of Business

ARAG LEI conducts its principal activities in the United Kingdom. The activities cover three Solvency lines of business ("LOB"): Legal Expenses Insurance ("LEI"), Assistance and Miscellaneous Financial Loss ("MFL"). The Company operates under two classes of business which 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 all three 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 Legal Expenses Insurance solvency line of business.

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 group of companies. As such, it 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. All ARAG UK companies are incorporated in the United Kingdom.

The diagram below shows ARAG LEI within the structure of ARAG UK and its position throughout 2025 within the wider ARAG SE Group as approved by the Board on 25th November 2025. ARAG UK Holdings is a wholly owned subsidiary of ARAG SE since 2 January 2024.

ARAG UK has been granted a PRA waiver exempting the group from the submissions of a consolidated SFCR and consolidated solvency quantitative templates because of consolidation at ARAG SE Group level. Therefore, only ARAG LEI is required to prepare and submit a solo SFCR.

The Company's S&P's credit rating was upgraded to 'A' in 2025, with a stable outlook, reflecting the long-term commitment of support from ARAG SE.

Description of main affiliated companies

1. **ARAG SE** is the operating management company of ARAG Holding SE and the leading legal insurer worldwide in terms of gross written premium. 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 part of ARAG SE and became a wholly owned subsidiary of ARAG UK Holdings on 2 January 2025. It is a Managing General Agent and is regulated by the FCA. It's a sister company to ARAG LEI and provides business to it.
3. **ARAG Holding SE** – ultimate parent company of ARAG SE and ARAG LEI. It does not exercise influence or act as a Group management entity.

Intragroup reinsurance arrangements

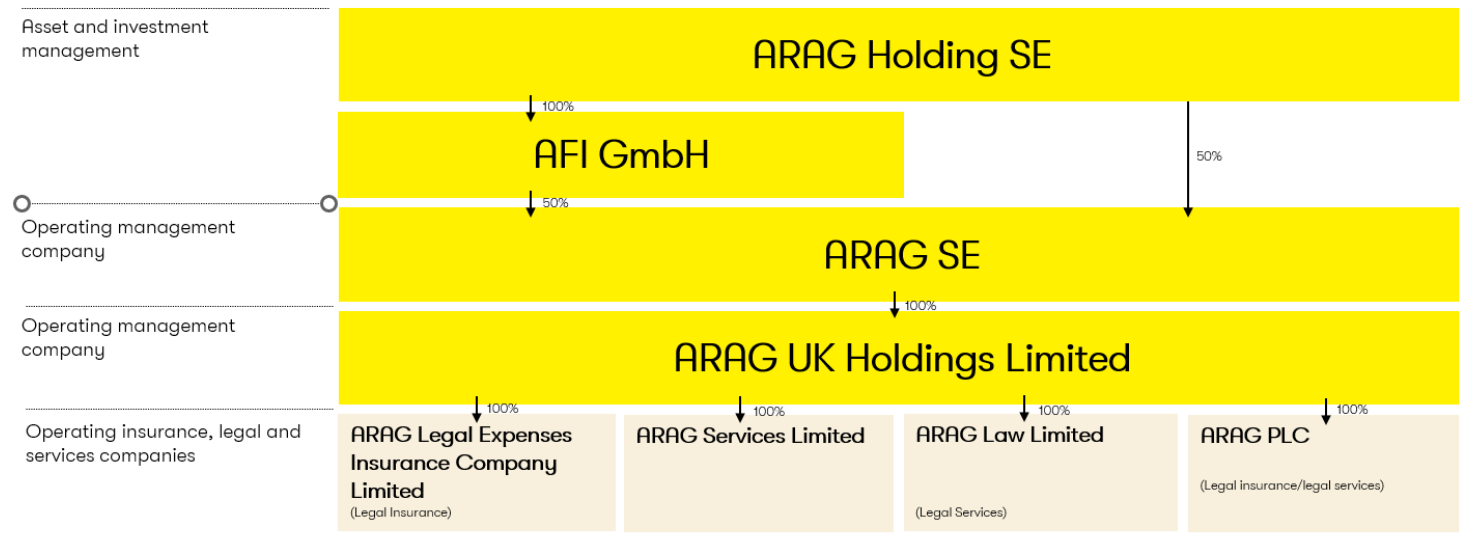
ARAG LEI has Quota share reinsurance treaty arrangements with its parent ARAG SE for the reporting period 2025.



Corporate structure of ARAG LEI in the wider ARAG SE Group



Group Structure (Simplified)



This diagram shows the corporate structure effective from 26 February 2025 and was approved by the Board on 25th November 2025. It is per the submitted ORSA report and reflects the changes of legal names of all former DAS entities during 2024 and the beginning of 2025, as well as ARAG PLC moving to become a wholly owned subsidiary of ARAG UK Holdings.

Significant business or other events in the reporting period

Company changes

Since the start of the year, the Company operated under the ARAG brand and legally changed its name from DAS LEI to ARAG LEI, effective 15 January 2025.

A new governance structure for the ARAG LEI and the integrated businesses was agreed by ARAG UK Holdings Board on 31 March 2025 as described in section B1.

A.2 Underwriting Performance

Underwriting performance – overview

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

The increase in the underwriting loss was mostly driven by increased profit share costs, whilst growing reserves for new business.

Underwriting result – per UK GAAP (gross)

(in £'000)	2025	2024
Legal Expenses Insurance	(27,727)	(3,595)
Assistance	391	72
Miscellaneous Financial Loss	19,664	(143)
Total Gross Underwriting (loss) / profit according to UK GAAP Financial Statements	(7,672)	(3,666)

Opening reserves were adjusted in 2025 between MFL and LEI, as reflected in the figures above, with no impact at total level. Gross amounts presented are not adjusted for the reinsurer’s share.

Underwriting result – per Solvency UK (gross)

(in £'000)	2025	2024
Premiums Earned	151,859	134,084
Claims Incurred (excl. Claims Management costs)	104,223	86,246
Expenses Incurred	11,470	13,518
Other Underwriting Expenses	5,401	4,173
Total Gross Underwriting result (excl. Reinsurance)	30,766	30,146

Gross amounts presented are not adjusted for the reinsurer’s share.

Underwriting result – by main line of business

The underwriting result (gross of reinsurance) is shown below by SUK 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 business¹ (gross)

(in £'000)	Premiums Earned		Claims Incurred	
	2025	2024	2025	2024
Legal Expenses Insurance	110,920	102,623	93,403	66,689
Assistance	9,541	5,378	6,811	4,275
Miscellaneous Financial Loss	31,398	26,083	4,009	15,282
Total	151,859	134,084	104,223	86,246

This table by lines of business is based on IR.05.04.02 per the Appendix. Gross amounts presented are not adjusted for the reinsurer’s share. Claims incurred excludes Claims managements expenses.

Underwriting result – by main geographical area

There are no other material geographical areas other than the United Kingdom. There is a minimal activity for Norway as per the Financial Statements, due to having been in run off for several years. Due to materiality, for solvency purposes Norway’s result is considered in the UK’s result in all Quantitative Reporting Templates (“QRTs”), in specific IR.05.04.02 - Premiums, claims and expenses by line of business, required to be disclosed in relation to the underwriting performance.

The Net COR calculated on the IR.05.04 basis (as per Appendix) is 184% (2024: 206%). This is due to an increase in the net earned premium, without the relative increase in expenses, as much of this business transferred from business partners.



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. 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 £3,057k (2024: £1,652k) in the Financial Statements. Fair value unrealised gains relate mostly to the increase in the valuation of UK Government bonds, and Corporate bonds which comprise the majority of ARAG LEI's invested assets.

The difference compared to the prior year mainly reflects market factors, in particular changes in interest rates, credit spreads and market prices. ARAG LEI monitors investment performance on an on-going basis to ensure that it is in line with its Board-approved risk appetite.

Gains and losses on investments in ARAG LEI

(in £'000)	2025	2024
Government Bonds	2,440	2,196
Corporate Bonds	2,664	1,866
Deposits	107	0
Losses on the realisation of Government Bonds	(2)	(181)
Losses on the realisation of Corporate Bonds	65	(825)
Losses on the realisation of Structured Notes	0	0
Losses on the realisation of Collective Investment Undertakings	0	0
Investment Management Expenses	(115)	(204)
Total Investment return	5,159	2,852

Following the integration into the Group, the asset allocation was rebalanced in the prior year to align the portfolio with Group investment and risk management standards. This repositioning resulted in material realised disposal losses in the prior period, as legacy assets were exited. At the same time, reinvestments were made at significantly higher coupon levels, leading to a structural increase in the average portfolio coupon and a positive, sustainable impact on the ongoing yield, which is reflected in the current period's regular investment income.

In addition, also in the current reporting period, bonds reaching maturity were systematically replaced by higher-yielding instruments, particularly government bonds. This continued reinvestment at elevated coupon levels further supported the improvement in the ongoing yield and underpins the sustainability of the current level of regular investment income.

Investments in securitisations

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

A.4 Performance of Other Activities

The table below sets out the "Total comprehensive profit/(loss) 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)	2025	2024	Comments
Gross underwriting performance	(7,672)	(3,666)	See sec A.2
Investment performance	5,159	2,852	See sec A.3
Gains on remeasurement of available-for-sale financial assets	3,057	1,652	See sec A.3
Other income per Non-Technical account	646	788	Mainly relates to interest income of £623k (2024: £360k. 2024 also includes a net recovery of £429k from a private criminal prosecution against a former CEO and two other former staff members.
Other charges per Non-Technical account	2	(76)	Immaterial.
Tax on loss per Technical and Non-Technical account	1,013	1,360	Tax per P&L in the Financial Statements. Comprises: tax credit of £587k (2024: £724k) for loss before tax in the year, and deferred tax movements for prior period of £426k (2024: £626k).
Items included in the Technical account, other than Gross underwriting result	(2,187)	(5,242)	Reinsurance helped mitigate risk to policyholders. The movement in the result reflects the inclusion of a full years PLC business.
Total comprehensive profit/ (loss) for the year	18	(2,332)	

any lease incentives received) over the lease term. Operating lease charges of £135k were recognised in ARAG LEI's 2025 Profit and Loss Account (2024: £135k).

A.5 Any other information

There is no other material information to disclose.

Tax income / expenses

Largely as a result of the underlying result and investments, the tax credit amounted to £1,013k (2024: £1.360k).

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 in the Financial Statements. Rental charges applicable are recognised in the Profit and Loss Account on a straight-line basis (net of



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.

A new governance structure for the ARAG UK integrated businesses was agreed by the ARAG UK Holdings Board on 31 March 2025 and adopted by its subsidiaries. The main changes are outlined below.

Significant changes to the system of governance

1. A reduction in the number of Board Committees to three committees by merging the Board Nomination Committee with the Board Remuneration Committee.
2. A reduction in the number of formal Management Committees to four committees to provide a vehicle for advising the CEO and to exercise oversight of the business.
3. Day-to-day running of ARAG UK:
 - Discharged through individual accountability, consistent with the SMCR regime as defined in section B.2, and cultural expectations of ARAG SE.
 - Each SMF/EMC Member considers how best to establish Forums/Groups to allow them to effectively manage and control the aspects of ARAG UK for which they are responsible.
 - The CEO has authority to create "Task & Finish" sub-Committees of the Executive Management Committee (e.g. Project Steering Groups). These should only exist to the extent they are required and are likely to align to specific material subjects and activities. This forms part of formal governance.
4. The CEO (SMF1) of ARAG UK changed in April 2025.

Corporate Governance Structure

ARAG UK Holdings Limited, which owns the ARAG subsidiaries registered in the UK, is owned by the German insurer ARAG SE and ultimately by ARAG Holding SE.

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.

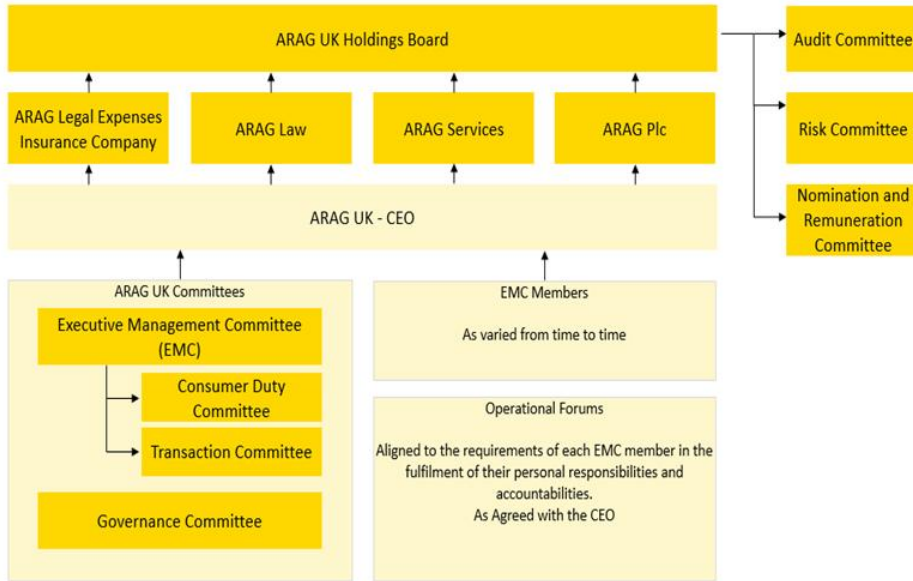
At the top of ARAG UK's Corporate Governance Structure is the Board of Directors, which has a clearly defined mandate and duties. Below the ARAG UK Holdings Board of Directors, the governance structure consists of the following:

- Board Committees that report and make recommendations to the Board of ARAG UK Holdings and its subsidiary companies as appropriate;
- 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 from 31 March 2025 to the end of 2025.

ARAG UK Corporate Governance

UK Group Governance Structure



The duties outlined for the Board Committees and Management Committees refer to ARAG UK as a whole. Both sets of committees act and carry out activities on behalf of ARAG LEI.

Roles, Responsibilities and Purpose

Board of ARAG LEI

The Board of Directors of ARAG LEI is collectively responsible for the long-term success of the Company. The Board provides entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. It is responsible for setting the relevant strategic aims, ensuring that the necessary financial and human resources are in place in order to meet objectives and review management

performance. The Board sets the values and standards and ensures that obligations to shareholders and stakeholders are understood and met.

Board Committees for ARAG UK Holdings

ARAG UK Holdings has established Board Committees to carry out activities on behalf of its subsidiaries which includes ARAG LEI. The Committees make recommendations in key areas of responsibility to the Board and the subsidiaries Boards. 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 and Remuneration Committee

The Nomination and Remuneration Committee is, among other things, responsible for managing the process to advise and make recommendations to the Board of Directors on matters relating to the Board or the Directors' membership, Board Committee memberships and related executive appointments, as well as being responsible for the setting and oversight of the ARAG UK remuneration policy, including the appropriate framework and governing principles for sales incentives and other performance-based arrangements. The Committee is also responsible for considering EMC remuneration, including benefits and any compensation payments, recommending and monitoring the level and structure of remuneration for senior management.

Audit Committee

The purpose of the Audit Committee is to provide oversight and assessment of the integrity and accuracy of the financial reporting, and 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. The Committee also has responsibility for the ARAG UK whistle-blowing policy.

Risk Committee

The Risk Committee is responsible for providing oversight and advice to the Board of Directors in relation to current and potential future risk exposures, future risk strategy, including determination of an appropriate risk appetite, and risk tolerance of ARAG UK

and all subsidiary companies. It also has responsibility for reviewing and approving various formal reporting requirements and promoting a risk awareness culture.

Management Committees for ARAG LEI

ARAG UK Holdings' Management Committees carries out activities on behalf of its subsidiaries which includes ARAG LEI.

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.

Consumer Duty Oversight Committee

Supports the Board and senior management in determining the extent to which ARAG LEI continues to meet with the FCA's 'Consumer Duty' (Principle 12) and the firm's own objectives for the delivery of good customer outcomes. Per regulatory requirement, the Board reviews and approves the Consumer Duty board report annually.

Transaction Committee

The Transaction Committee's purpose is to review and approve all major transactions or investments outside of the usual course of business. These include all material agreements relating to the sale or renewal of legal expenses insurance or services; corporate transaction matters such as supplier rate changes or new providers; and concerning new business or product lines for ARAG UK. Additionally, this includes underwriting or investments agreements that fall outside normal business practices and strategic accounts, or pose significant or unusual risks, with consideration given to market demand, competition, risk, benefits, and organisational appetite.

Governance Committee (Audit, Risk & Compliance)

The Governance Committee is a unified second, and third, line of defence committee with the purpose of:

- Oversight of 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;
- Monitoring of outsourcers' performance against key metrics and compliance with regulatory requirements; and
- Reporting to Executive Management on Internal Audit activity and outcomes.

SMF holders establish forums to support discharge of legal, regulatory, or prescribed responsibilities of the EMC. These are the Pricing and Reinsurance; Product and Proposition; Outsourcing; Reserving and the Investment forums. The latter two are established by the CFO.

Reserving Forum

The purpose of the Reserving Forum is to review, challenge and make recommendations on ARAG LEI's claims reserving policies models, assumptions and data used in the most recent claims reserves assessment. It is responsible for delivering the calculations for the technical provisions for Solvency UK, as well as local GAAP.

Investment Forum

The purpose of the Investment Forum is to approve the investment strategy, to oversee and periodically review the investment management arrangements, contractual agreements and delegated authorities. This includes review of management information; monitoring of investments performance against key metrics and risk appetite frameworks such as Strategic Asset Allocation; review of risk triggers and market risk, and monitoring compliance with regulatory requirements. The forum meets twice a year and constitutes Executive Directors, Executive Management, Investment Managers and the Finance function. It reports to the Board significant changes.

Supervisory Board

Chair of the Board

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

Key responsibilities include:

- Setting the Board agenda considering the issues and concerns of all Board members and prioritising strategic matters;
- Chairing board meetings, and meetings of the Nomination & Remuneration Committee at which the Chair is present;
- Managing the Board to allow enough time for discussion of complex issues and arranging preparatory meetings when needed; and
- Ensuring Directors receive accurate, timely and clear information to support effective decision-making and monitoring.

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; and
- 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.

Executive Management

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 in relation to its financial affairs. The CFO oversees Finance, Actuarial, Risk, Strategic Change and Digital Services 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 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.

Key Functions

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 and assessing risks to the business strategy and objectives, ensuring risk controls are effective, establishing risk appetite and exposure limits, reporting to the governing body on the status of risk management, defining and owning the overall risk frameworks, and ensuring the firm's risk framework complies with relevant regulatory requirements.

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 SUK 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

At the date of signing the report, key functions holders appointed were as below:

Key Functions Holders

PRA Key Function	SMF	Role	Function Holder
Internal Audit Function	SMF5	Head of Internal Audit	Tom Vandamme (appointed Feb 2025)
Actuarial Function	SMF20	Chief Actuary	Anthony Collins (left Mar 2026)
Compliance Function	SMF16	Chief Compliance Officer	Dave Akroll
Risk Management Function	SMF4	Chief Risk Officer	Adam Lea (appointed Jun 2025)

Executive Management

PRA Key Function	SMF	Role	Function Holder
Executive Function	SMF1	Chief Executive Officer	David Haynes (appointed Apr 2025)
Finance Function	SMF2	Chief Financial Officer	Dirk Hock
Operations Function	SMF24	Chief Customer Officer	Brynley Case

Board of Directors

Oversight Function	SMF	Committee	Holder
Non-Executive Director		Board	Renko Dirksen; Hanno Peterson; Matthias Maslaton
Independent Non-Executive Director	SMF10	Risk Committee – Chair Audit; Nomination and Remuneration Committee; Board	Gareth Roberts
Independent Non-Executive Director	SMF11	Audit Committee – Chair Risk; Nomination and Remuneration Committee; Board	Louise Coulton
Independent Non-Executive Director	SMF 9 SMF12 SMF13	Chair of the Board Nomination and Remuneration Committee – Chair Risk; Board	Neil Macmillan
Executive Director	SMF1 SMF3	Executive Management Committee – Chair Board	David Haynes (appointed Apr 2025)
Executive Director	SMF2 SMF3	Executive Management Committee; Board	Dirk Hock
Executive Director	SMF24 SMF3	Executive Management Committee; Board	Brynley Case

During 2026, to the date of signing of the SFCR, the following changes occurred:

SMF 20 Chief Actuary left at the end of March 2026. An individual has been identified as the interim replacement for the departing SMF20 who will be appointed subject to regulatory approval.

Adequacy of the system of governance

The Company has an appropriate organisational structure and an effective information system with clear lines of reporting.

Remuneration

Information on the remuneration policy and practices

The Nominations and 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.

The integration initiative to harmonise ARAG LEI and ARAG PLC's remuneration policies, processes and benefits has been continuous since the Company's change of ownership and continued through the reporting period with most policies now brought in line.

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

Remuneration for EMC members, effective 1 January 2025 is as follows:

- Executive Board Members: effective 1 January 2025 individuals now participate in a company bonus scheme based on ARAG SE (10%), ARAG UK (70%) and individually agreed objectives and measures (20%); and

- Grade F: As per Executive Board Members.

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

An outline of the Company's approach to variable pay for non-EMC members is set out below:

- All employees: effective 1 January 2025 all employees now participate in the ARAG UK discretionary bonus scheme which is based on the UK performance measures from the EMC scheme. The potential award varies by grade (target 1.5% - 10%; maximum 2.25% - 15%). To receive a full bonus, individual performance should be at least "Achieving" as determined by the annual performance management process which reflects an "on target" performance.
- Sales roles: For employees in front line sales roles there is a discretionary Sales Bonus Scheme. For 2025, the ARAG LEI scheme is determined by individual end of year performance ratings, while the ARAG PLC scheme is based on financial amounts linked to growth targets. The scheme has been harmonised effective 1 January 2026. The new harmonised scheme, approved by the Nominations and Remunerations Committee, will be based on business growth measures. For transparency on expectations on conduct and alignment with regulations especially around FCA's 'Consumer Duty', included are a range of qualitative measures. In the event of any breaches they would allow for appropriate adjustments and reductions to payments.

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 aligned to market practice.



For information on Directors' remuneration, see the Directors' remuneration note in ARAG LEI's Financial Statements for the year ending 31 December 2025.

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

In the current reporting period, no material transactions were conducted with shareholders, with persons able to exercise significant influence and control over the Company, or with members of the administrative, management or governing bodies.

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 of the individuals in those roles. It contains a definition of fitness and propriety, and a description of the collective qualification and experience requirements for the positions as per 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 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 biannual background checks to confirm continued propriety.

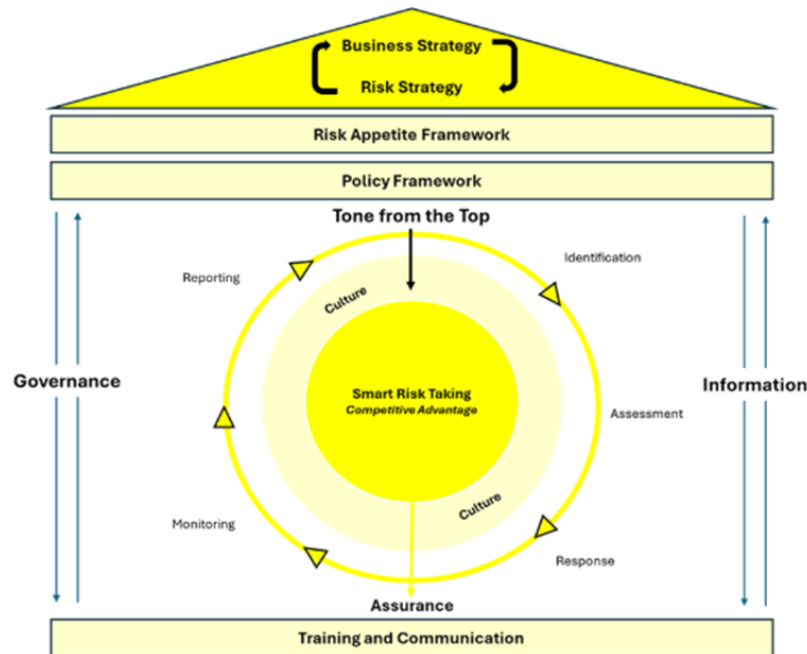
B.3 Risk Management System including Risk and Solvency Assessment

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 Strategy and Risk Appetites;
- Risk Governance (based on “three lines of defence” (“3LoD”) principles);
- Risk Cycle (Risk Identification, Risk Assessment and Measurement, Risk Steering, Risk Monitoring and Reporting).

The diagram below sets out the ARAG UK ERMF 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 the Company:



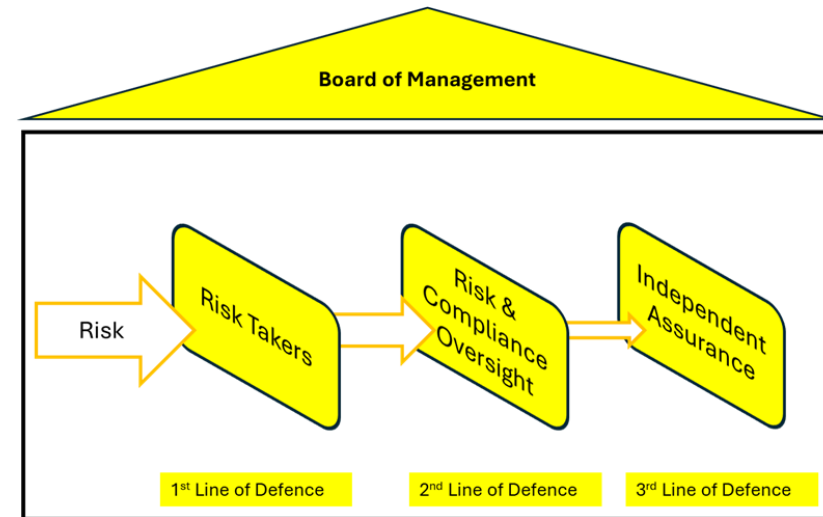
Implementation of Risk Management System

Three lines of defence

Per 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. The three LoDs facilitate clarity of responsibilities for employees across all levels and is based on appropriate segregation of duties.

Key Functions

ARAG LEI has four separate key functions: Risk; Compliance; Actuarial (2nd LoD) and Internal Audit (3rd LoD) as described in sec B1. The roles and responsibilities align to SUK 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 and documented within the ARAG UK Holdings Governance Manual.

Risk Cycle – Risk Identification

ARAG LEI employs a comprehensive approach to risk identification, involving all levels of the organisation. Key processes include:

- **Strategic Risk Profile** - Senior management team assesses strategic-level risks for active monitoring over the following reporting period;
- **Functional Risk Profile** – Bottom-up risk identification at the functional level;
- **Strategic Change Risk Profile** – 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** - Control failure triggers a review to mitigate initial impacts, root cause analysis to allow for implementation of new controls; and
- **Emerging Risks** - Ongoing monitoring of internal and external changes in the business environment to identify emerging risks.

Risk identification at ARAG LEI is a company-wide process, engaging employees at all levels, including Executive Management.

Risk Cycle – Risk Assessment and Measurement

ARAG LEI applies structured risk analysis to consistently evaluate identified risks. The risk analysis scores consider both likelihood of materialisation and potential impacts.

Board-approved risk appetite statements are monitored using Key Risk Indicators (KRIs). The consolidated risk profile is reviewed quarterly by the defined governance structure, through regular challenge and oversight.

Stress-testing, scenario analysis and solvency requirements calculations are conducted through the ORSA via the assessment and measurement of extreme events. Those consider the impact on the solvency position of the Company and support effective contingency planning and management of such adverse events.

Risk Cycle – Risk Response

Risk responses aim to reduce the probability of the risk occurring and/or the impact should it materialise. Equally, the risk response may require further action to turn the risk into an opportunity. Risks are managed in line with the business and risk strategies, with the objective to remain within approved risk appetites and to respond promptly to specific risk triggers and take appropriate actions.

Any deficiencies identified through risk and control assessment, risk event management or risk assurance processes are addressed through appropriate targeted management action. Senior management is responsible for the day-to-day execution of risk steering in accordance with established methodologies.

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 provides management with timely information on the risk profile, risk appetite, risk events, emerging risks, regulatory matters, assurance activities and capital performance to support risk informed decision making.

The Internal Audit function (3rd LoD) delivers independent assurance through an annual audit plan.

External risk reporting is undertaken and performed in line with regulatory requirements.

Own Risk and Solvency Assessment (ORSA) Process

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

- The Company's 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 this approach and the results of the analysis:

Assessment of the risk profile

- Encompass all identified material risks and their interactions across the risk profile;
- Check the adequacy of the Internal Model / Standard Formula; and
- Check the process(es) for mitigating risks that could impact business strategy and operations.

Assessment of overall solvency needs

- Assess overall solvency needs - MCR, SCR, Coverage ratio, 'buffer';
- Compare against individual risk profiles, Board-approved tolerance levels and business strategy and operations;
- Provide forward looking projections of capital requirements and own funds at least over business planning horizon; and
- Encompass risk mitigations and capital management strategy.

Control environment (inc. compliance with regulatory capital requirements)

- Ensure compliance with regulatory solvency needs on a continuous basis; and
- Establish early warning systems to estimate changes in the capital requirements and Eligible Own Funds (since last full Solvency calculation).

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 primary tool used by the Risk Management Function ("RMF") to provide the Board with comprehensive risk and capital management insights, supporting informed and 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.

Upon completion, the ORSA is reviewed, challenged, and formally approved by the Board, with the approval recorded in the Board meeting minutes. Communication of the results and conclusions is coordinated by the RMF.

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:

- Approve the business plan as a basis for the forward-looking perspective and assess its validity as well as the key assumptions such as sensitivity to risk drivers;
- Define material topics and stress tests for the ORSA Report;
- Evaluate and challenge the risk profile analysis presented in the ORSA;
- Consider measures proposed by the RMF and issue the final statement of the ORSA Report;
- Review and formally approve the ORSA outcome, ensuring that it's appropriately documented. The ORSA provides a comprehensive overview of current and potential risks, enabling the Board to understand risks exposures and the corresponding capital requirements;

- Continually integrate ORSA results into capital management, strategic decisions, business planning and product development; and
- Receive interim updates on ORSA elements through regular reporting and decision-making processes and determine if further analysis or actions are required.

Risk Management Function

The Risk Function has responsibility for the design and implementation of the ORSA process supporting ARAG LEI's Board in an overall assessment across the business strategic planning horizon, reviewing business resiliency under stressed conditions, building a risk-aware culture, and fulfilling its regulatory obligations.

Regularity of Review

As a central tool for ARAG LEI's Board, the ORSA completes the outcome of underlying processes. It should be a continuous review of business and capital resiliency under stressed circumstances, and assessment completed for any material events and/or decisions. The annual report summarises all the relevant aspects once a year in line with regulatory requirements. The process of completing the ORSA results in the annual report to the regulator.

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. The capital management activities are considered as part of the ORSA process.

See "Objectives, policies 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 part of ARAG LEI's overall governance system and is in line with the 3LoD model. ICS, or ISCS (Internal Steering and Control System), is the framework that ensures the implementation of significant internal (management) and external (e.g. regulatory) requirements within the company and includes processes and controls to support achievement of objectives. The system also serves to safeguard the Company's assets and to ensure that ARAG LEI is compliant with applicable laws and internal administrative provisions.

ICS links in a systematic way the key controls and measures with the significant operational risks within the business processes. Significant risks are defined as those which alone or cumulatively, could jeopardise a critical process. This assumption is based on a self-assessment by the process owner. Key controls are defined as those necessary to avoid or significantly reduce an identified risk from materialising and which cannot be compensated by other controls. Absence of those controls can lead to significant errors in the associated process.

The ICS process includes assessment, analysis, evaluation and steering of the identified key controls. Self-assessments by process owners are carried out regularly and with RMF oversight, appropriate challenge and feedback. Results are reported to the Board on an annual basis. The Board has delegated the day-to-day running of the ICS to Executive Management.

Compliance function

Given the nature of the business, which provides intangible insurance products, customers place significant trust in ARAG LEI to meet all relevant contractual agreements and regulatory obligations. The introduction of the FCA's 'Consumer Duty' reinforces this responsibility, and the Compliance function is central to ensuring those expectations are met.

The Compliance function's primary role is to safeguard the business against regulatory and reputational risks by assessing and managing these in line with agreed risk appetite. It achieves this by owning and delivering policies, guidance, advice, training and oversight, as well as providing challenge to the business and assurance to the Board on the effectiveness of compliance controls. This assurance is provided in a number of ways, including quarterly reporting. In carrying out its activities, the Compliance function has unrestricted access to all business areas and records necessary to complete its work. Additionally, the function supports management in fostering and maintaining a strong culture of compliance across the organisation.

The function is led by a dedicated Chief Compliance Officer who is responsible for monitoring adherence to regulatory requirements, and acts as the principal liaison with relevant regulators and managing these relationships on behalf of the business.

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, advice, insight and foresight 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 LEI's business, risks, operations, programmes, systems, and controls;
- Performance of 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. 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 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. To avoid conflict of interest, 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

ARAG LEI's Actuarial function is led by the Chief Actuary who reports to the CFO and holds a Practising Certificate as required by the Institute and Faculty of Actuaries ("IFoA") for PRA-approved Chief Actuaries.

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 ARAG Group Risk Management Function, which apportions some of the work to the Chief Actuary's department, mainly validations of the results. 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".

Material outsourcing is considered as the "outsourcing of critical or important operational functions or activities", and of "services of such importance that weakness, or failure, of the services would cast serious doubt upon the firm's continuing satisfaction of the threshold

conditions or compliance with the Fundamental Rules". The PRA Rulebook 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 are set out below:

Claims Management

Claims handling specialists engaged to perform claims management services including decision making on behalf of ARAG LEI. This includes claims handling services for Home Emergency, Motor Breakdown and certain Legal Expenses product lines.

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.

Whilst the majority are UK registered companies, the Company have contracts with third parties situated outside of the UK including investment management services. Investment activities are directed, performed and controlled by ARAG SE. ARAG SE is registered and functions under German regulatory principles.

Outsourcing Policy

The Outsourcing policy provides an overview of the Company's key outsourcing principles and requirements, roles and responsibilities and high-level processes and controls. It is supported by an Operational Guidance document providing more detailed information on key processes. The Outsourcing policy is reviewed annually.

Outsourcing Forum

The Outsourcing Forum is responsible for oversight of ARAG UK's third-party outsourcing policy. Its responsibilities include:

- Decision making in respect of any deviations from policy and process relating to outsourcing arrangements;
- Review of supplier selection of material outsourcing arrangements;
- Defining strategic direction in respect of material outsourcing arrangements; and
- Oversight of third-party supplier performance.

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, Outsourcing Operational Guidance and considering 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 is monitored at an appropriate level to ensure they continue to meet their obligations. Risk assessments are carried out for new suppliers and new outsourcing partners. In addition, performance monitoring and risks are reviewed periodically to ensure contract terms and monitoring criteria are valid, risks are appropriately mitigated, and issues are promptly 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 which is influenced by the risks associated with the business strategy and business activities. The section also describes techniques and activities used to mitigate the risk exposures within tolerance and appetite. Current assessments indicate no significant changes in the risk profile during the reporting period, and adequate capacity to assume risk continues to be maintained.

ARAG LEI's key risk exposures are considered to be within underwriting risk, credit (counterparty default) risk and other material risks (concentration risk and group risk).

C.1 Underwriting Risk

Risk exposure

Underwriting risk refers to the possibility that the costs of actual claims and benefits may differ from the costs of expected and provided for claims due to changes in circumstances, errors in the pricing of policies or incorrect provisioning. Key risks arising from each class of business are as follows:

BTE

Motor, Personal and Commercial Non-Motor, Insured Assistance (Home & Motor)

- Premium / Reserve risk - Impacts of rising inflation levels on claims costs; Changes in customer circumstances and risks aligned with social economic changes; Changes to the legal landscape; Delays in court proceedings;
- Non-Life Catastrophe risk - Climate change and severe weather surge events; and
- Lapse risk - Economic impacts of the cost-of-living crisis and employment reforms such as higher lapse rates from reduced overall spend on insurance products; Consolidation of Motor breakdown and HE service providers.

ATE

Civil Litigation, Clinical Negligence, Motor and Non-Motor Personal Injury

- Premium / Reserve risk - Volatility of large wins/losses in "high premium – low volume" books, as well as in complex one-off pieces of litigation; Legislative changes such as end to recoveries from opponent in successful claims and potential extension of the Fixed Recoverable Costs in Clinical Negligence cases; Changes to the legal landscape;
- Non-Life Catastrophe risk – large commercial cases from climate change causes; and
- Lapse risk - financial instability of UK law firms.

The underwriting risk profile remained stable, though ARAG LEI became the capacity provider for ARAG PLC during 2025. The Solvency capital requirement for underwriting risk increased to £10,812k (2024: £8,168k). The increase was attributable to increased premium risk and lapse risk exposures following increased premiums, mainly from PLC business.

While ARAG SE's ownership provides financial stability and expertise to ARAG LEI, interdependency risks remain, particularly due to reliance on the Quota Share reinsurance treaty with ARAG SE and the strategic importance of ARAG LEI. The importance of the Quota Share arrangement is illustrated through two stress-test ORSA scenarios where the Company stress a reduction to 70% BTE / 20% ATE and then 50% BTE / 0% ATE. Details of these scenarios can be seen in the Risk Sensitivity section below. ARAG SE has made it clear that they intend to support ARAG LEI, and that ARAG LEI is strategically important to them, along with their desire to retain a strong Solvency coverage ratio.

Risk measurement

Risk is assessed using the Standard formula method. The underwriting risk arises from the aggregation of the individual risk components and takes diversification into account. Risk concentrations are implicitly factored into the underwriting risk calculations.

Risk exposures are regularly assessed by business class, product line and key partners. Quarterly deep-dive analysis tracks claim frequency and severity against the risk profile, factoring in inflation and forecast changes in the claims mix and costs. Pricing is typically negotiated annually with partners, supported by quarterly performance updates to signal potential rate increases.

There were no significant changes to the risk assessment methods or the material risks during the reporting period.

Risk concentration

ARAG LEI has a varied portfolio of ATE and BTE - insured private individuals, micro and small business and large commercial clients where cases could be complex. ATE's Civil Litigation product causes the largest concentration of risk. To reduce that concentration and associated volatility, the risk appetite for limit of indemnity ("LOI") risks has been set to <£500k (2024: £1,000k). During 2025, the business underwrote less ATE's Civil Litigation policies, however some exposure within the portfolio remains due to several live policies with LOI of up to <£1,000k.

At portfolio level the return on capital is in line with targeted ratios set by the senior management.

Risk mitigation

Risk is managed by setting a defined risk appetite for both BTE and ATE insurance products. The appetite is approved by the Board and aligns with the Company goals for product development and business growth.

The product development process ensures that product is in line with 'Consumer Duty' and Product Intervention and Product Governance ("PROD") regulations.

ARAG LEI purchases outward reinsurance as part of its risk mitigation programme. This takes the form of quota share treaty arrangements. These transactions are entered into on an "arm's-length" basis.

Quota Share Reinsurance treaty – Legal expenses insurance, Assistance and Miscellaneous financial loss lines of business

The Quota Share helps maintain ARAG LEI's Solvency coverage ratio higher than it would otherwise be. The principal purpose of the contract is to reduce underwriting risk and risks for the Company's SCR. This continues to achieve that purpose and is therefore deemed effective, as evidenced by ARAG LEI's strong 31 December 2025 Solvency capital position.

All ATE and BTE business written before 2025 is subject to a 90% Quota Share with ARAG SE, net of external reinsurance. This reinsurance agreement has been renewed for 2026.

For business written from 1 January 2025 onwards, the Quota Share was amended to split between the ATE and the BTE business per below.

- The BTE agreement continues as a 90% Quota Share treaty with ARAG SE and has been renewed for 2026.
- For the ATE business there are two Quota Share agreements in place a 50% treaty with HDI and a 40% treaty with ARAG SE. These are both stated and settled against closed policies. For lost cases settlements exclude the premium and the element of claims paid relating to Premium Indemnification. The agreement with ARAG SE has been renewed for 2026, and the current agreement with HDI remains in place, it's renewed every three years.

Risk sensitivity

In the reporting period, various sensitivity analyses were carried out as part of the 2025 ORSA process. A baseline scenario, which reflected best estimates for actuarial parameters, was produced first.

Then the impact of a rapid increase in claims was examined. This scenario considered over-success of the ARAG UK strategy to increase awareness in products which results in rapid growth in claims frequency. The ARAG UK Strategy is predicated on increases in product utility driving an increase in premium and therefore improved business

profitability. Claims frequencies were modelled to double in 2026 and again in 2027, and claims costs increase by a further 15% in each year. Loss ratios move above 100% as a result. These changes caused the coverage ratio, compared with the baseline scenario, to decrease by no more than 68 percentage points to 138% in the calculations for 2025-2029.

The main group risk within ARAG UK arises from the existence on the Group Quota Share arrangement. Therefore, the impact of a reduction in the quota share reinsurance arrangement was examined under two scenarios; a reduction of 20 percentage points, and a reduction of 40 percentage points. These changes caused the coverage ratio, compared with the baseline scenario, to decrease considerably. Management actions were considered to reduce the impact if this scenario were to materialise (details of which can be found in the ORSA) but these scenarios are considered very severe because ARAG SE has explicitly stated their intention to support ARAG LEI, considering the Company's strategic importance to the Group.

C.2 Market Risk

Risk exposure

Market risk refers to the potential for financial loss, or negative changes in the financial position due to fluctuation in the market prices of assets and liabilities, and their correlations. Key contributors to market risk uncertainty and the exposure of the Company include:

- Interest-rate risk – changes in the term structure or volatility of interest rates; risk of economic downturn and increase in inflation;
- Equity risk – changes of market prices of equity prices;
- Credit risk – changes in credit spreads and investments in default; and
- Currency risk – changes or volatility of exchange rates.

Those risks are managed through specific strategies and controls set out below.

ARAG LEI's market risk appetite, approved by its Board, aims to protect its strong capital position without unduly limiting its access to investment returns.

The Solvency capital requirement for market risk increased to £5,526k (2024: £4,813k). The increase was largely attributable to increases spread risk following more investment in lower rated bonds. This was partially offset by a decrease in concentration risk from the reduction in the intercompany receivable.

Risk measurement

ARAG LEI's market risk profile has remained stable over time, with no significant changes in how exposure is assessed or in the material risks themselves. The Company's investments are primarily in high-rated government and corporate bonds, aligning with its market risk appetite.

Equity risk is calculated using the equity risk submodule as set out in the Standard Formula regulations, which also provide the definitions used to allocate the assets to the equity risk types. ARAG LEI apply a look-through approach and therefore almost all equities held are classed as Type 1 equities.

Risk mitigation

To manage this risk, ARAG LEI uses investment limits and asset-liability matching aligned with its risk appetite.

The Company's investment strategy aligns assets with liabilities in terms of value, maturity and currency, aiming to minimise risks and volatility while maximising returns within its market risk appetite.

Risk concentration

In line with SUK, the Company follows the "Prudent Person Principle" in its investments activities to alleviate risk via appropriate diversification of the investment portfolio. Investment decisions consider factors like return, spread risk, diversification, currency

risk, creditworthiness, and liquidity. The Company does not invest in structured products or derivatives, and hedge accounting is not used.

This strategy is reflected in the Company's Investment Mandate and managed by the ARAG UK Investment Forum.

Investment management governance

ARAG SE provides the Company's investment management arrangements. Investments performance is also monitored centrally by Group, ensuring regulatory compliance and overseeing market risk management and related contracts.

Risk sensitivity

A stress scenario was examined as part of the ORSA process considering a worsening economic environment. A baseline scenario, which reflected best estimates for actuarial parameters, was produced first. Then the impact of a deterioration in the economic environment was examined, in the form of a recession, impacting policy volumes. This included a reduction of GWP by 10% across 2026 and 2027, mainly in Commercial and Family books as businesses and individuals have lower appetite for costs. An increase in the usage of the products, raising loss ratios, was also modelled. These changes caused the coverage ratio, compared with the baseline scenario, to decrease by no more than 36 percentage points to 169% in the calculations for the period 2025-2029.

C.3 Credit Risk

Risk exposure

Credit risk is the potential for financial loss or deterioration due to changes in the creditworthiness of security issuers, counterparties (including reinsurers) or debtors. It includes risks such as counterparty default risk, spread risk and market risk concentrations.

ARAG LEI's credit risk appetite, approved by the Board, acknowledges financial impact from changes in the credit quality of third parties including default, rating changes and credit spread movements. Its business model limits the extent to which credit risk can be mitigated, the Company aims to reduce exposure over time through improved procedures.

In 2025, ARAG LEI's credit rating from Standard and Poor's Global was upgraded to 'A', with a stable outlook.

The Solvency capital requirement for credit risk increased to £12,758k (2024: £8,053k). The increase was attributable to an increase in cash held following a capital injection from ARAG SE along with an increase in BTE FRS debtors, which both incur a capital charge in the SCR.

Risk measurement

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;
- Cash balances held with banks;
- Insurance debtors;
- Subrogation recoveries; and
- Intercompany balances.

Risk is measured through applying the standard formula factors to fair value on the SUK Economic Balance Sheet ("EBS") assets.

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

There were no significant changes in the measures used to assess credit risk or in the credit risk profile over the reporting period.

Risk concentration

There was no material concentration risk.

Risk 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.

1. Reinsurance balances (including reinsurers' share of technical provisions)

BTE balances under proportional reinsurance arrangements are collateralised in excess of 95% by withheld deposits. For receivables under non-proportional reinsurance contracts the counterparty risk the contracts is placed with a highly rated reinsurer. For details of the Quota Share Agreement please refer to section C.1.

The total reinsurers' share of technical provisions as at 31 December 2025 was £156,889k (2024: £131,676k), the full amount relates to the quota share with ARAG SE and HDI.

2. 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 credit ratings for single investments and issuer limits for debt securities.

3. Cash 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. This reduces the credit risk exposure to a minimum.

4. Insurance debtors

Detailed aged analyses of debts are maintained for all categories of insurance-related debts by 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.

5. Subrogation debtors

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.

6. 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.

Risk sensitivity

Separate stress tests are carried out within the ORSA process. A specific stress test for credit risk was not carried out.

C.4 Liquidity Risk

Risk exposure

Liquidity risk is defined as the risk that the undertaking may not be able to realise investments and other assets for available liquid assets to settle its financial obligations as they fall due, despite continuously meeting its regulatory solvency requirements. Therefore, it's a derived risk: a type of investments risk (assets are not liquid) and a type of underwriting risk (insurance payments exceed available liquid assets).

ARAG LEI accepts that minor liquidity issues may arise in its daily operations but maintains a Board-approved risk appetite to avoid significant problems. It seeks to ensure that even under adverse conditions, the Company has access to the funds necessary to cover its claims obligations and other trading liabilities.

Throughout the year the Company's liquidity risk remained stable and within the set appetite.

Liquidity risk is not covered within the Solvency capital requirement standard formula. In any event, it is not a material risk to the Company because of the holding of a significant cash balance and investments in short-term liquid government and corporate bonds.

Risk measurement

ARAG LEI's cash flows can be volatile, as they are dependent on the timing of payments and receipts. Funds are held in very liquid assets which are greatly in excess of short-term liabilities to manage the risk.

There were no material changes in risk assessment methods or liquidity risk profile during the reporting period.

Risk concentration

The concentration of liquidity risk is unlikely due to strict limits imposed on counterparties.

Risk mitigation

ARAG LEI uses mitigation strategies focused 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 regularly monitored in accordance with the ARAG UK Liquidity Risk Policy.

Key strategies include the following:

- Regular cash flow projections;
- A cash 'buffer' is held in bank accounts to accommodate unforeseen cash demands;
- Surplus cash over and above the 'buffer' are held in interest bearing deposit accounts pending future investment decisions;

- Investments of available funds not required for day-to-day working capital purposes, in very liquid securities such as UK Government Bonds. 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.

Risk sensitivity

Sensitivity analysis is carried out as part of business planning, working with the Investment Forum as required. Liquidity is assessed as part of the ORSA process and was found not to be a key driver of risk.

C.5 Operational Risk

Risk exposure

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel, systems, or from unexpected external events which disrupt normal business activity, including cyber risk. 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; and
- Transaction Processing & Execution.

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

Due to the ongoing change within the business from integration with ARAG SE, the operational risk has escalated, and the capital requirement associated with it has increased by 14% in the reporting period as a result of this.

The increase in ARAG LEI's Solvency Capital Requirement (SCR) for operational risk to £5,192k in 2025 (2024: £4,552k) is primarily attributable to business growth, reflected in higher premiums and technical provisions. ARAG LEI's operational risk strategy, approved by the ARAG UK Board, aims to keep operational risks as low as commercially sensible. The Company acknowledges that operational risks rarely offer benefits and can harm reputation, customer outcomes, or business growth. While it does not enforce

a zero-failure policy—accepting that some losses are inevitable—it actively strengthens its control environment and applies proportionate mitigation strategies to manage risks effectively without incurring excessive control costs.

Risk measurement

The Company uses the standard formula to determine the Solvency capital requirement. Measurement for operational purposes is carried out through the ARAG UK Risk Management Policy, to which ARAG LEI is subject to. It 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.

There were no significant changes in the measures used to assess operational risk or in the operational risk profile over the reporting period.

Risk concentration

The Company is not exposed to operational risk which would lead to an unsustainable loss, and there are appropriate contingency plans in place to ensure business continuity.

Risk mitigation

ARAG LEI adopts several mitigation strategies to manage operational risk. The Risk Management Policy sets minimum standards to maintain a strong risk framework and support 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 and controlled to ensure operations remain the defined risk appetite;
- Risks are assessed and measured for materiality;
- If risks exceed the risk appetite, prompt escalation to senior management and resolution are undertaken. Escalation to relevant regulators if required is through the defined regulatory reporting process;
- Formal risk acceptance process for operating outside the defined risk appetite;
- Employees and governance forums are aware of their operational risk responsibilities and operate appropriate processes to comply with those requirements;
- Ongoing monitoring and reporting of the risk profile is provided to relevant committees.

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

Risk sensitivity

ORSA stress and reverse stress testing processes include operational risk categories alongside others. There is not a specific operational risk requirement however the Company consider PRA risk themes and topics as part of the scenario identification process.

C.6 Other Material Risks

Reputational Risk

Risk exposure

Reputational risk refers to potential harm from negative public perception. As ARAG LEI’s reputation is central to its business model, such risks are treated as material and are actively avoided wherever possible, with potential impacts including fewer business opportunities and higher additional administrative expense.

Risks from all risk categories within the Company’s processes can increase reputational risk, potentially affecting both ARAG LEI and ARAG SE. However, reputational risk is currently assessed and being managed within appetite.

Risk measurement

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.

Risk mitigation

Reputational risk is primarily a consequence of the crystallisation of other risks, most notably operational. The management of reputational risk is therefore largely managed through business controls and the 1st LoD risk owners of the ERMF.

Climate Change Risk

Risk Exposure

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 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.

While climate change does not currently present a significant short-term risk to the business, ongoing analysis and stress testing are embedded in the risk framework. The underwritten portfolio has limited direct exposure, with main risks arising indirectly, such as infrastructure deterioration or weather-related home emergencies. On the investment side, responsible investing remains a focus, with criteria based on implied temperature rise and environmental scores.

Risk measurement

For a fifth year the Company has modelled a scenario that explores the potential impact of climate change on claims and the values of ARAG LEI’s assets through stress testing. On-going analysis of climate change-related financial risks is embedded into the Company’s risk framework.

Risk Sensitivity

A scenario considering the impact of climate change was considered as part of the ORSA process. This scenario is not considered as a material risk as it caused the coverage ratio to decrease by no more than 9 percentage points in the calculations for 2025-2029.

Concentration Risk

Risk exposure

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 2025, 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.

- **Business partner concentration risk:**

Overall, the concentration risk profile is improving as the portfolio grows, with the BTE portfolio now back within risk appetite compared to the prior reporting period, due to the integration of two businesses of ARAG LEI and ARAG PLC. A temporary backlog with one ATE business partner has increased concentration above key thresholds, though this is expected to improve in 2026. Reliance is projected to normalise across five key partners during 2026/27, supporting the view that this is a short-term issue rather than a persistent trend.

- **Financial concentration risk:**

Concentration risk is explicitly modelled within the standard formula’s market risk module and is also factored into reserving projections and capital modelling. ARAG LEI’s exposure to catastrophes and accumulations is considered low. Financial concentrations are additionally monitored through risk appetite KRIs. Notably, BTE arrears improved during 2025, and all other metrics remained within tolerance.

Risk 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.

Risk 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, and on the solvency position of ARAG LEI as part of the Quota Share scenarios.

Group risk

Risk exposure

Group risk is defined as the risks posed to the Company as a result of it being part of ARAG SE, including being part of ARAG UK Holdings and its subsidiaries.

The main group risk within ARAG UK arises from the existence of the Group Quota share arrangement. Details of the arrangement are in sec C.1. There are two stress-tests scenarios due to the importance and potential high impact from the interdependency risks. ARAG SE is in a strong and stable financial position, and there are mitigation clauses outlined in the contracts. In the event of the reinsurer's default, ARAG LEI is able to keep the deposit associated with the agreement (per D.3) in order to meet obligations.

Additional risks include the exposure to intercompany balances within the ARAG UK group of companies, including amounts owed from ARAG Services and ARAG Law. The cumulative amount of these balances has reduced during 2025. The Quota Share arrangement and intercompany balances are included within the Solvency Capital Requirement calculations of ARAG LEI.

Risk 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 PRA Rulebook's chapter "Reporting" 3.3C (5) is documented below. There is no additional voluntary information as permitted by the PRA Rulebook, 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 – Ransomware attack
- Scenario 2 – Impact of climate change on claims (Severe Weather Events)
- Scenario 3 – Change to ARAG SE Quota share
- Scenario 3a – Extreme change to ARAG SE Quota share
- Scenario 4 – Worsening Economic Conditions
- Scenario 5 – Rapid increase in claims

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 – Actuarial Reserving Data Unavailable
- Scenario 2 – Failure of IT Migrations to Resolve Legacy IT Issues (including the loss of historic data)
- Scenario 3 – Sustained Power Outage

Prudent Person Principle

According to the Prudent Person Principle ("PPP"), ARAG LEI ensures that its investment strategy, as challenged and approved by the Investment Forum, considers appropriately its risk profile, and invests its assets in accordance with the requirements outlined in PRA Rulebook chapter "Investments" (sec 2, 3 ,5).

In accordance with the PRA Supervisory Statement SS1/20 "Solvency II: Prudent Person Principle", remained unchanged under SUK as per November 2024 update, the assets held are considered in terms 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 considering 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 the amounts in “an arm’s length transaction” exchanges or transfers therefore using a market-based approach. The tables below set out for each asset and liability on ARAG LEI’s SUK Balance Sheet, the solvency value and the value of the corresponding asset and liability shown in ARAG LEI’s Financial Statements. Those 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.02.01.02 - 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)	SUK 2025	UK GAAP 2025	Valuation Difference	SUK 2024	SUK Change
Assets	445,247	712,274	(267,027)	360,081	85,166
Technical provisions	174,429	354,640	(180,211)	152,581	21,848
Other Liabilities	215,932	324,360	(108,428)	175,228	40,704
Excess of Assets over Liabilities	54,886	33,274	21,612	32,273	22,613

Where the categories of Assets and Liabilities in the Financial Statements differ from the Solvency categories, these are detailed in sec D1 to D3. Financial assets and liabilities in SUK are reported using quoted market values in active markets and per the valuation hierarchy as defined in the PRA Rulebook.

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 SUK reporting are outlined below.

Assets as of 31. December

(in £'000)	SUK 2025	UK GAAP 2025	Valuation Difference	SUK 2024	SUK change
Deferred acquisition costs	0	3,528	(3,528)	0	0
Deferred tax assets	0	1,228	(1,228)	0	0
Property, plant and equipment held for own use	743	0	743	854	(111)
Investments	177,205	175,282	1,923	153,992	23,213
Bonds	159,912	158,042	1,870	152,254	7,658
Collective investment undertakings	2,186	2,186	0	1,738	448
Deposits other than cash equivalents	15,107	15,054	53	0	15,107
Loans and mortgages	9,656	0	9,656	12,261	(2,605)
Reinsurance recoverables	156,889	291,227	(134,338)	131,676	25,213
Insurance and intermediaries receivables	65,010	191,236	(126,226)	43,931	21,079
Reinsurance receivables	3,167	3,170	(3)	0	3,167
Receivables (trade, not insurance)	2,936	13,142	(10,206)	1,718	1,218
Cash and cash equivalents	27,576	27,576	0	15,292	12,284
Any other assets, not elsewhere shown	2,066	5,886	(3,820)	358	1,708
Total Assets	445,247	712,274	(267,027)	360,081	85,166

Deferred acquisition costs

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

Deferred tax asset

SUK allows deferred tax assets to be net-off against deferred tax liabilities on recognition of temporary differences from differing valuations between the Financial Statements tax base and the Solvency balance sheet. The Financial Statements show a deferred tax asset, while the SUK amount after netting is a deferred tax liability per sec D.3 below.

Property, plant and equipment held for own use

This is the discounted right-of-use asset for a long-term lease of a property. SUK lease reporting follows IFRS 16 and therefore requires that it is included on the SUK balance sheet. Statutory reporting currently does not require recognition of this lease but the two will align in the following reporting period due to changes in UK GAAP.

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

All of ARAG LEI's Bonds and Collective Investment undertakings are included in the SUK Balance Sheet at fair value.

All investments assets are shown at market value as quoted prices in active markets for identical assets are available. They are all classified at level 1 of the fair value hierarchy. 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, for example on the stock exchange. Therefore, investments are not discounted.

The Company's Financial Statements record the value of all investment classes at fair value according to the provisions of International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement", which is allowable under UK GAAP.

The only difference between the Financial Statements valuation and the valuation shown in the SUK Balance Sheet is the interest accrued at the reporting end date. For SUK this is included in the underlying asset class, whereas for the Financial Statements it is disclosed under Accrued income.

Investments as of 31 December 2025

(in £'000)	SUK 2025	UK GAAP 2025	Valuation Difference	SUK 2024	SUK Change
Government bonds	97,645	96,799	846	84,736	12,909
Corporate bonds	62,268	61,243	1,025	67,518	(5,250)
Collective investments undertakings	2,186	2,186	0	1,738	448
Deposits other than cash equivalents	15,107	15,054	53	0	15,107
Total	177,205	175,282	1,923	153,992	23,214

Loans and mortgages

This balance relates to the intercompany receivables with ARAG Services (part of ARAG UK) and is reclassified out of Receivables (trade, not insurance). These receivables are expected to be settled after more than 12 months and are therefore treated as a loan for solvency purposes. The loan gets discounted and assumes a short repayment pattern.

Reinsurance recoverables

Reinsurance recoverables shown in the SUK Balance Sheet are valued at fair value and are discounted. The calculation of the recoverable amounts from reinsurance contracts for both the Financial Statements and the SUK valuations is based on the same principles as for the technical provisions. Therefore, similar to the total technical provisions, SUK Reinsurance recoverables are lower than the Financial Statement valuation as there will be significant future reinsurance premium cash flows on ATE business which are considered. The value of this asset on the SUK 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 from direct insurance and accepted reinsurance (reinsurance business underwritten by ARAG LEI) but not yet paid by intermediaries that are not included in the technical provisions cash inflows.

For ARAG LEI's Financial Statements, this balance includes ATE premium written but not yet earned and BTE instalment debtors. These receivables are measured at amortised cost, using the effective interest rate, less allowance for impairment. For the SUK Balance Sheet, 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. Due to the receivables being valued at market values and the duration and cashflows of less than 12 months, the balance is not subject to discounting.

The value of this asset in SUK includes ATE IPT as part of receivables due to its exclusion from technical provisions. In SUK 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, the balance represents due and not due receivables from accepted reinsurance and receivables under QS agreements, including a reinsurance deposit owed under an agreement in run off.

The balance in SUK mainly consists of the above reinsurance deposit and other immaterial balances per the Financial Statements, all owed by reinsurance partners under agreements in run off. Discounting is not applied due to its low materiality.

In SUK the reinsurance accepted receivables are considered part of the Insurance and intermediaries receivables according to PRA instructions. This is a change in classification from the prior reporting period to align with regulatory instructions.

SUK also includes future cash flows associated with the HDI QS (for ATE), valued at fair value. These balances are certain, being set out in the reinsurance contracts, and the timing of payments are expected to be within one year. Therefore, they are not considered in the Reinsurance recoverables and are not discounted.

Receivables (trade, not insurance)

For SUK these are included 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. The balance mostly relates to tax and since it will be settled within a year, it is not discounted.

Cash and cash equivalents

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

Any other assets, not elsewhere shown

This balance relates to short-term prepayments and accrued income. These have cashflows of less than 12 months and are therefore not subject to discounting.

The solvency balance excludes:

- Deferred acquisition costs relating to direct commissions and internal sales costs which should be valued at nil for SUK purposes.



- Interest accrued on investments - 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.
- Prepayment to ARAG Law - recognising a value for this asset in SUK as Accrued income is not justifiable. Assets must be valued at fair value – the amount for which they could be exchanged between knowledgeable, willing parties in an arm’s length transaction per the PRA’s market-consistent valuation approach. It is unlikely that a market or a mark-to-market value for this asset would exist, and it should therefore be assigned a nil value.

D.2 Technical Provisions

Technical Provisions in Solvency UK vs UK GAAP Balance Sheet

Technical Provisions as of 31. December

(in £'000)	SUK 2025	UK GAAP 2025	Valuation Difference	SUK 2024	SUK Change
Technical Provisions – Total	174,429	354,640	(180,211)	152,581	21,848
Technical Provisions – Non-Life	174,429	354,640	(180,211)	152,581	21,848
Best Estimate – Total	173,078	N/A	N/A	151,722	21,356
Best Estimate – Non-Life	173,078	N/A	N/A	151,722	21,356
Risk Margin – Total	1,351	N/A	N/A	859	492
Risk Margin – Non-Life	1,351	N/A	N/A	859	492

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, which are both discounted.

As of the reporting date, the technical provisions in accordance with UK GAAP amounted to £354,640k, which includes unearned premiums of £186,036k. The SUK technical provisions include a net claims and future premiums provisions for ATE, which has a different valuation basis under SUK. The SUK technical provisions also include a gross premium provision of £42,537k.

Claims provision

The outstanding claims provision (“CP”) represents the estimated cost of claims incurred as at the balance sheet date, together with 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 for BTE business 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. The ultimate claims for ATE business are estimated using a frequency / severity modelling approach calculated at a policy level.

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, the equivalent of 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. The risk margin is calculated net of reinsurance.

(in £'000)	SUK 2025	UK GAAP 2025	Valuation Difference	SUK 2024	SUK Change
Best Estimate	173,078	354,640	(181,562)	151,722	21,356
Risk Margin	1,351	N/A	1,351	859	492
Reinsurance recoverables	(156,889)	(291,227)	134,338	(131,676)	(25,213)
Total Net	17,540	63,413	(45,873)	20,905	(3,365)

The technical provisions are calculated by the separate classes of product sold and mapped to the Solvency LOB.

Direct and Accepted proportional TPs

Technical Provisions: LOB Legal Expenses Insurance

(in £'000)	SUK 2025	UK GAAP 2025	Valuation Difference	SUK 2024	SUK Change
Best Estimate	145,101	322,195	(177,093)	129,813	15,288
Risk Margin	1,156	N/A	1,156	543	613
Reinsurance recoverables ¹	(133,809)	(263,088)	129,280	(114,601)	(19,207)
Total Net	12,449	59,106	(46,657)	15,754	(3,305)

Technical Provisions: LOB Assistance

(in £'000)	SUK 2025	UK GAAP 2025	Valuation Difference	SUK 2024	SUK Change
Best Estimate	8,040	8,768	(728)	4,431	3,609
Risk Margin	56	N/A	56	11	45
Reinsurance recoverables ¹	(6,260)	(7,823)	1,562	(3,329)	(2,931)
Total Net	1,835	945	890	1,112	723

Technical Provisions: LOB Miscellaneous Financial Loss

(in £'000)	SUK 2025	UK GAAP 2025	Valuation Difference	SUK 2024	SUK Change
Best Estimate	19,937	23,678	(3,741)	17,478	2,459
Risk Margin	139	N/A	139	306	(167)
Reinsurance recoverables ¹	(16,820)	(20,316)	3,497	(13,746)	(3,074)
Total Net	3,256	3,362	(106)	4,038	(782)

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

The most material valuation difference is on LOB Legal Expenses Insurance due to the ATE segment considered as having Future Premiums in excess of future claims within the claims provision calculation as compared to UK GAAP.

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”) to take appropriate account of uncertainty. Any estimation process is subject to uncertainty, but the following are the principal sources of ENID in ARAG LEI’s technical provisions.

ENID CPs, undiscounted for the time-value of money are £8,923k (2024: £2,600k). The key items justifying the ENID held in CPs are the extent and quality of data, potential latent claims, the level of sophistication of reserving methods and changes over time in the legal environment.

The calculation of technical provisions is subject to uncertainty because the actual level of claims incurred in the future may differ from current projections. 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 experts.

Since the calculations are performed on a best estimate basis, there is intended to be an approximately equal chance that the technical provisions are too high as too low.

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

The LEI book of business is not predominantly long-tailed, and initial expected loss ratios do not form a major area of risk as part of the reserving exercise since they closely match recent experience, and the loss ratios are reasonably predictable for the lines of business written.

Differences between the valuation for SUK 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 Statements.

The booked reserves include an allowance for potential adverse experience, which is removed and replaced with an identical amount for ENID, plus an amount to true up to the UK GAAP reserve valuation on an undiscounted cashflow basis.

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 is applied to the claims and premium provision to reflect the treaties in place described in sec 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 SE Quota Share treaty, interest payments are also calculated. As the reinsurance commission arising out of the ARAG SE QS treaty is payable on an earned basis, this is 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. The previous ARAG SE Quota Share contracts remain in force, with new Quota Share contracts with ARAG SE for ATE and BTE from 1 January 2026.
2. The interest rate used for calculating the reinsurer deposit interest for ARAG SE has changed from a fixed 2.25% per year to a fixed 2.00% per year per the contract agreement.
3. The ENID on a Solvency UK Basis is based upon the reserve margin assessed using a range of scenarios, plus an additional "true-up" added at the 2025 year-end to align the BTE undiscounted cashflows from the UK GAAP reserve valuation with the Solvency UK valuation.

D.3 Other Liabilities

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)	SUK 2025	UK GAAP 2025	Valuation Difference	SUK 2024	SUK Change
Deposit from Reinsurers	178,160	225,527	(47,367)	153,458	24,702
Deferred tax liabilities	5,976	0	5,976	2,851	3,125
Financial liabilities other than debts owed to credit institutions	794	0	794	893	(99)
Insurance and intermediaries payables	1,941	1,941	0	349	1,592
Reinsurance payables	2,724	23,298	(20,574)	3,138	(414)
Payables (trade, not insurance)	10,404	10,404	0	5,751	4,653
Any other liabilities, not elsewhere shown	15,932	63,190	(47,258)	8,787	7,145
Total Liabilities¹	390,361	679,000	(288,639)	327,809	62,552

¹ Total Liabilities 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 liabilities presented in the table above.

Deposits from reinsurers

Deposits from reinsurers include funds withheld by ARAG LEI that will cover the reinsurers' share of future claims and unearned premiums for BTE policies (excluding BTE instalments and entirely excluding ATE policies). The deposit is discounted due to the longer-term nature of the balance and is valued at fair value for SUK purposes. The deposit in the Financial Statements includes ATE, is based on statutory reserves and is not discounted.

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.

There were no changes to the deposit model during the reporting period apart from the change in the interest rate used for the deposit interest for ARAG SE to align with the renewed reinsurance arrangements for 2026.

Deferred tax liabilities

Under SUK, deferred tax assets and liabilities are calculated in compliance with 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 SUK 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 SUK 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 2025	SUK 2025	Valuation Difference
Insurance and intermediaries receivables	0	31,556	(31,556)
Investments	(120)	(120)	0
Other Assets	1,348	4,188	(2,840)
Deferred Tax Asset	1,228	35,625	(34,397)
Net Technical Provisions incl. Deferred acquisition costs	0	(22,336)	22,336
Other Liabilities	0	(19,265)	19,265
Deferred Tax Liability	0	(41,601)	41,601
Net Deferred Tax Asset/ (Liability)	1,228	(5,976)	7,204

The valuation differences between SUK 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.

Deferred tax assets have been valued at the rate of 25% (2024: 25%) reflecting the corporation tax rate applicable since 1 April 2023.

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

Financial liabilities other than debts owed to credit institutions

This is the discounted lease liability related to the long-term lease of a property. SUK lease reporting follows IFRS 16 and therefore requires that it is included on the SUK balance sheet. Statutory reporting currently does not require recognition of this lease.

Insurance and intermediaries payables

Insurance and intermediaries payables represent amounts due or past due but not yet settled at the balance sheet date to policyholders (claims authorised but not paid), insurers and other business linked to insurance. Those are not considered in the technical provisions and are valued at their fair value.

For ARAG LEI’s Financial Statements payables are measured at amortised cost, using the effective interest rate. The fair value is deemed to be materially the same as amortised cost given the short-term nature of these assets. Amounts are fairly certain and the timing of payments are expected to be within one year. Therefore no discounting is applied.

Reinsurance payables

For ARAG LEI’s Financial Statements this balance represents both the due reinsurance payables to ARAG SE (BTE and ATE related) for unearned premiums and deferred commission, and the not due reinsurance payables to ARAG SE and HDI for the ATE business reinsured by the new ARAG SE and HDI QS treaties.

For the SUK valuation the due reinsurance payables are not considered in Reinsurance recoverables due to the certainty of the value and timing of payments which are expected to be within one year, both set out in the reinsurance contracts. Due to the short-term nature of the balance discounting is not applied. The due payables represent the entirety of the SUK balance and remain at the Financial Statements value.

The not due balances, which constitute the majority of the Financial Statements balance, however, are required to be valued at nil for SUK and are therefore removed.

Payables (trade, not insurance)

Payables relate to IPT, intercompany balances and other business activities, and are included in the SUK Balance Sheet at fair value. This valuation is materially consistent with that used in the Financial Statements due to the short-term nature of these debts. The timing and amounts are fairly certain and are expected to be within one year, therefore no discounting has been applied.

Any other liabilities, not elsewhere shown

The Financial Statements balance represents Reinsurance Deferred acquisition costs in respect of unearned Quota Share commission of £46,999k (2024: £34,279k) and Accruals and Deferred Income with the majority relating to Profit share owed to distribution partners of £14,743k (2024: £7,492k).

The SUK balance represents Accruals and Deferred Income as recognised in the Financial Statements with the Profit share being discounted. The valuation difference relates to the removal of the unearned QS commission of £46,999, due to solvency requirements to value this item at nil. The balance is considered in the valuation of the Reinsurance recoverables.

D.4 Alternative Valuation Methods

Alternative valuation methods for assets and liabilities are required if there are no active markets in which prices can be obtained. Active markets where similar items could be exchanged between knowledgeable, willing parties at publicly quoted prices, are essential for sourcing market prices. Active markets are also where transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis i.e. on the stock exchange.

If the criteria for an active market for the purpose of defining an economic value are not satisfied, and mark-to-market approach (Level 1) or the marking-to-market approach (Level 2) cannot be used, alternative valuation methods (Level 3) per the valuation hierarchy are used.

For SUK reporting ARAG LEI has used mark-to-market (Level 1) for all Investments (bonds, deposits and equity) as quoted prices in active markets for identical assets are available. Details are described in sec D1.

For all other assets and liabilities, there are no quoted market prices in active markets for similar assets and liabilities. Therefore, they are shown at fair value in the SUK Balance Sheet. Discounting is applied in SUK where appropriate, considerations include materiality and the short-term nature of some of the balances.

This is deemed the most appropriate valuation method and is consistent with the approach used in the Financial Statements based on the fair value concept in UK GAAP. The contractually owed asset or liability are at nominal amount, unless stated otherwise, which is agreed with the external auditors and is reviewed regularly against experience.

No material derogation has been used in the valuation of assets or liabilities. Assumptions stemming from major sources of uncertainty are not reflected in the valuations.



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 – all regulatory capital requirements should be met at all times, with a buffer held above the regulatory minimum as agreed in the ARAG UK Capital Management policy.
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 and which is in line with ARAG UK's established corporate governance framework. The CFO receives internal capital adequacy reporting from the Reporting Manager.

ARAG LEI's time horizon for business planning, including solvency planning, is 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)	SUK 2025	Tier-1- Unrestricted	Total 2024	Tier-1- Unrestricted
Basic own funds				
Ordinary share capital	13,000	13,000	13,000	13,000
Share Premium related to Ordinary share capital	15,000	15,000	0	0
Reconciliation reserve	26,886	26,886	19,273	19,273
Total Basic Own Funds after deductions	54,886	54,886	32,273	32,273
Total available own funds to meet SCR	54,886	54,886	32,273	32,273
Total available own funds to meet MCR	54,886	54,886	32,273	32,273
Total eligible own funds to meet SCR	54,886	54,886	32,273	32,273
Total eligible own funds to meet MCR	54,886	54,886	32,273	32,273
SCR	21,871	N/A	17,810	N/A
MCR	5,468	N/A	4,453	N/A
Ratio of eligible own funds to SCR	250.95%	N/A	181.20%	N/A
Ratio of eligible own funds to MCR	1003.80%	N/A	724.80%	N/A

The increase in Tier 1 Basic Own Funds in the reporting period is largely due to an increase in Share Premium related to Ordinary share capital of £15,000k. In September 2025 this additional capital was paid in cash into ARAG LEI by ARAG SE and reflects the Group's commitment to the Company in strengthening its solvency coverage as well as providing additional support for anticipated growth in the future.

The increase in Share capital comprised an issue of one fully paid ordinary share allotted to the Share Premium above. Both the ordinary share and the Share Premium are unrestricted own funds and are available to meet the SCR.

There were no Ancillary own funds, there were no own funds redeemed in the year and no deductions. No transitional arrangements (outlined in PRA Rulebook chapter "Transitional Measures" (sec 4.1 and 4.2) were applied to any basic own funds items.

There were no restrictions in the availability or the capital transferability of own funds. No regulatory restrictions relating to net deferred tax assets were required.

The own funds can be further explained as follows:

Basic Own Funds

(in £'000)	SUK 2025	Description
Share Capital (Tier 1)	13,000	Allotted, issued and fully paid share capital and is included in Tier 1 capital per PRA Rulebook 'Own Funds' 3A.1 (a) and 3B. This ranks after all claims in the event of winding-up proceedings, undated and not redeemable. Dividends payable at discretion of the Directors.
Share Premium (Tier 1)	15,000	Tier 1 capital per PRA Rulebook 'Own Funds' 3A.1 (a) and 3B.
Reconciliation Reserve (Tier 1)	26,886	Tier 1 capital per PRA Rulebook 'Own Funds' 3A.1 (f). Calculated per PRA Rulebook 'Own Funds' 3C: i) total excess of assets over liabilities as calculated for SUK (Retained profit / loss reserves and other capital reserves adjusted for UK GAAP vs SUK valuation differences) <i>reduced by the following:</i> ii) share capital and share premium, and iii) foreseeable dividends, distributions and charges
Total Basic Own Funds	54,886	

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 SUK purposes is the differing valuation rules for assets and liabilities under the two regimes. Refer to section D for detailed explanations of the differences between valuations. A reconciliation of SUK Own Funds to Equity presented in the Financial Statements is shown in the reconciliation table below.

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

Information on Deferred taxes

ARAG LEI netted off deferred taxes as allowed by SUK and as described in sec D.1 and sec D.3, therefore it only recognised net deferred tax liabilities, which are not discounted. The calculation of deferred taxes considers applicable tax legislation and tax rates.

The analysis on the recoverability of the deferred tax assets was based on the timing of the reversal effects. Reversals of deferred tax expenses are shorter in timing than reversals of deferred tax benefit, thus materialising earlier than the benefit.

Due to the net deferred taxes being a deferred tax liability in SUK, there is no detailed analysis on the assessment of recoverability or the probable future utilisation.

Deferred tax liabilities totalled £5,976k (2024: £2,851k). Therefore, due to the net being a deferred tax liability, there are no deferred tax assets that would have been recognised under Tier 3 Own Funds.

Reconciliation of SUK Own Funds with Equity in the Financial Statements

(in £'000)			2025
	Equity in Financial Statements		33,274
Assets	Reinsurance recoverables	D.1 Reinsurance recoverables adjustment in respect of future reinsurance premiums	(134,338)
	Insurance and intermediaries receivables	D.1 ATE premium written but not yet earned and BTE instalment debtors not yet received considered in valuation of technical provisions	(126,226)
	Deferred acquisition costs	D.1 Removal of Deferred acquisition costs	(3,528)
	Any other assets, not elsewhere shown	D.1 Difference in the valuation of prepayments	(1,898)
	Loans and mortgages	D.1 Difference in the valuation of Intercompany Receivables (Loan) with Services due to discounting	(550)
	Reinsurance receivables	D.1 Reclassification in UK GAAP of a reinsurance creditor balance to Liabilities	(3)
	Best Estimate	D.2 Change in Gross Technical Provisions due to recognition on SUK basis, offsetting differences above	181,562
	Deposits from reinsurers	D.3 Change in Deposits from reinsurers due to exclusion of ATE business in SUK basis, considered in the valuation of the Reinsurance recoverables, discounting and deposit interest accrued	47,367
Liabilities	Any other liabilities, not elsewhere shown	D.3 Reinsurance Deferred acquisition costs for unearned Quota Share Commission, and amounts that will be repaid to reinsurers as their share of profit on the reinsured business is considered in the valuation of the Reinsurance recoverables	46,999
	Reinsurance Payables	D.3 Removal from SUK balance of Not due reinsurance payables on ATE QS	20,574
	Deferred tax liabilities	D.3 Movement in net Deferred Tax	(7,204)
	Risk margin	D.2 Risk margin added to Best estimate Technical Provisions	(1,351)
	Any other liabilities, not elsewhere shown	D.3 Difference in valuation of Profit share due to discounting	259
	PPE for own use / Financial liabilities	D.3 Lease adjustment due to the difference in SUK lease reporting (IFRS 16) vs none in statutory reporting (UK GAAP)	(51)
	SUK Basic Own Funds		54,886

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The SCR is calculated using the basis and method for the Solvency UK Standard Formula (“SF”) described by the PRA regulations. The calculation of the SCR is performed by ARAG SE and validated by ARAG LEI to determine the SCR without material simplifying assumptions.

Changes in the SCR calculation methodology during 2025 include implementation of a look-through approach for assets in the equity portfolio and update to the risk mitigation calculation for allocation based on reinsurers recoverable exposures. The changes from the previous reporting period did not cause significant impacts on the SCR.

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

Components of SCR

(in £'000)	2025	2024
Market Risk	5,526	4,813
Counterparty Default Risk	12,758	8,053
Non-Life Underwriting Risk	10,812	8,168
Diversification	(6,440)	(4,923)
Basic Solvency Capital Requirement ¹	22,655	16,110
Operational Risk	5,192	4,552
Loss-Absorbing capacity of Deferred Taxes	(5,976)	(2,851)
Net Solvency Capital Requirements calculated using Standard Formula	21,871	17,811
SUK Eligible Own Funds	54,886	32,273
Solvency ratio	250.95%	181.20%

¹ including the loss-absorbing capacity of technical provisions, which is zero in this case.

The SCR shown above is subject to external audit and supervisory assessment.

The SCR increased by £4,061k due to increases in counterparty default risk and underwriting risk. This increase was partially offset by an increase in LACDT.

The reasons for the largest movements are explained below.

1. The increase in counterparty default risk is mainly due to an increase in cash held following a capital injection from ARAG SE along with an increase in BTE FRS debtors, which both incur a capital charge in the SCR.
2. The increase in non-life underwriting risk is driven by increased premium and lapse risk exposure following increased premiums, mainly from PLC business.
3. The increase in LACDT is driven by the increased deferred tax liability because of the increased difference between the UK GAAP Balance Sheet and the Solvency Economic Balance Sheet. For analysis of the 2025 LACDT please refer to section D.3 Other Liabilities.

The MCR for 31 December 2025 is 25% of the SCR (the capital “floor” as prescribed in SUK regulations). The MCR increased during the reporting period to £5,468k (2024: £4,453k). This increase 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)	2025	%
Linear MCR	5,316	97.2%
SCR with add-on	21,871	400.0%
MCR cap	9,842	180.0%
MCR floor	5,468	100.0%
Combined MCR	5,468	100.0%
Absolute floor of the MCR	3,500	64.0%
MCR	5,468	100.0%

Standard Formula Appropriateness

An independent standard formula review carried out in 2025 concluded that the SCR calculated using the SF methodology is well suited to ARAG UK LEI's risk profile. The following key reasons support the ongoing appropriateness of the SF:

- **Alignment with Risk profile** - The SF method closely mirrors ARAG UK LEI's exposures, especially in premium and reserve risk, which are the principal risks due to the Company's focus on legal expenses business;
- **Business mix** focuses on premium and reserve risk. These risks are significant and predictable with capped exposures and strong claims controls. Marginal exposure to Assistance and Miscellaneous classes is adequately covered by the SF without need for bespoke modelling;
- **Underwriting risk** - SF calibration remains appropriate if regularly reviewed to reflect sector risk profiles;
- **Reinsurance** - mitigates volatility but SF has limitations. Quota share agreements cede up to 90% risk to parent ARAG SE, enhancing capital efficiency. SF may not fully reflect residual risks outside net exposures, such as expenses and profit shares not covered by reinsurance. Quota Share agreements have been updated for 2026;
- **Catastrophe and lapse risk** - Legal expenses insurance has inherently low catastrophe exposure, with SF shocks conservatively capturing liability risks. The SF may overstate capital but remains suitable given limited impact;
- **Market Risk** - ARAG LEI's asset portfolio (short-duration gilts and corporate bonds) results in minimal interest rate, spread, concentration, equity, property and FX risks, all appropriately captured by the SF and would not be drastically different under an Internal Model;
- **Credit Risk** - Majority of exposures are type 1, with SF applying higher capital charges to more uncertain type 2 exposures. SF may be conservative but adequately captures counterparty risks;
- **Operational Risk** - Despite the SF's approach, the capital requirement remains stable and sufficient for ARAG UK LEI over the past four years, although the Company must ensure the emerging risks are monitored and managed within its risk framework;

- **No Need for Bespoke Modelling** - The absence of complex or unusual risks means the SF provides a proportionate and reliable regulatory benchmark without requiring a more granular internal model. Although this will be monitored against the ARAG SE's Internal Model once it is parameterised in 2026/2027.

Overall, the SF remains an appropriate, prudent, and proportionate basis for SCR calculation, supporting regulatory compliance and business resilience.



E.3 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.4 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.5 Any other information

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

Report of the external independent auditors to the Directors of ARAG Legal Expenses Insurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2025:

- The 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2025, (**the Narrative Disclosures subject to audit**); and
- Company templates IR.02.01.02, IR.17.01.02, IR.23.01.01, IR.25.04.21 and IR.28.01.01 (**the Templates subject to audit**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as **the 'relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on:

- **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates IR.02.01.01, IR.05.04.02 and IR.19.01.21; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2025 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Validating management's going concern assessment and challenging the rationale for the downside scenarios adopted and material assumptions made using our knowledge of the Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- Considering the Company's capital, solvency and liquidity positions; and

- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA Rules.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the PRA rules, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as the PRA Rulebook applicable to Solvency II firms. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to inappropriate adjustments to derive the Solvency II Balance Sheet, including those that increase Own Funds, management bias in estimates and judgemental areas of the Solvency II Balance Sheet and Solvency Capital Requirement such as the valuation of Technical Provisions.

Audit procedures performed included:

- discussions with senior management, including those in the risk and compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- reviewing relevant meeting minutes including those of the board, the Audit Committee, the Reserving Committee and the Risk Oversight Committee;
- reviewing key correspondence with the PRA and FCA including those in relation to compliance with laws and regulations;
- testing and assessing the appropriateness of the significant assumptions and judgements made by management, including in relation to the valuation of Technical Provisions;
- testing material adjustments made between the statutory financial statements and then assessing these for completeness and indicators of material non-compliance with the relevant regulations;
- identifying and testing journal entries that meet our fraud risk criteria; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the relevant elements of the Solvency and Financial Condition Report and (where applicable) the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.



PricewaterhouseCoopers LLP
Chartered Accountants
2 Glass Wharf
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Bristol
BS2 0FR
1 April 2026



Appendix

IR.02.01.01
Balance Sheet

Assets (in £'000)		SUK		Statutory Accounts value
		C0010		C0020
Goodwill	R0010	0		0
Deferred acquisition costs	R0020	0		3,528
Intangible assets	R0030	0		0
Deferred tax assets	R0040	0		1,228
Pension benefit surplus	R0050	0		0
Property, plant & equipment held for own use	R0060	743		0
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	177,205		175,282
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	159,912		158,042
Government Bonds	R0140	97,645		96,799
Corporate Bonds	R0150	62,268		61,243
Structured notes	R0160	0		0
Collateralised securities	R0170	0		0
Collective Investments undertakings	R0180	2,186		2,186
Derivatives	R0190	0		0
Deposits other than cash equivalents	R0200	15,107		15,054
Other investments	R0210	0		0
Assets held for index-linked and unit-linked contracts	R0220	0		0
Loans and mortgages	R0230	9,656		0
Loans on policies	R0240	0		0
Loans and mortgages to individuals	R0250	0		0
Other loans and mortgages	R0260	9,656		0
Reinsurance recoverables from:	R0270	156,889		291,227
Non-life and health similar to non-life	R0280	156,889		291,227
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	65,010		191,236
Reinsurance receivables	R0370	3,167		3,170
Receivables (trade, not insurance)	R0380	2,936		13,142
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	27,576		27,576
Any other assets, not elsewhere shown	R0420	2,066		5,886
Total Assets	R0500	445,247		712,274

IR.02.01.01 (continued)

Balance Sheet

Liabilities (in £'000)		SUK	
		C0010	Statutory Accounts value C0020
Technical provisions – Total	R0505	174,429	354,640
Technical provisions – Non-Life	R0510	174,429	354,640
Technical provisions – Life	R0515	0	0
Best estimate – Total	R0542	173,078	0
Best estimate – Non-Life	R0544	173,078	0
Best estimate – Life	R0546	0	0
Risk margin – Total	R0552	1,351	0
Risk margin – Non-Life	R0554	1,351	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	178,160	225,527
Deferred tax liabilities	R0780	5,976	0
Derivatives	R0790	0	0
Debts owed to credit institutions	R0800	0	0
Financial liabilities other than debts owed to credit institutions	R0810	794	0
Insurance & intermediaries payables	R0820	1,941	1,941
Reinsurance payables	R0830	2,724	23,298
Payables (trade, not insurance)	R0840	10,404	10,404
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	15,932	63,190
Total Liabilities	R0900	390,361	679,000
Excess of Assets over Liabilities	R1000	54,886	33,274

Voluntary disclosure of the full annual QRT which also presents the statutory accounts values.

IR.02.01.02
Balance Sheet

Assets		SUK
(in £'000)		C0010
Goodwill	R0010	0
Deferred acquisition costs	R0020	0
Intangible assets	R0030	0
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	743
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	177,205
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	0
Equities	R0100	0
Equities – listed	R0110	0
Equities – unlisted	R0120	0
Bonds	R0130	159,912
Government Bonds	R0140	97,645
Corporate Bonds	R0150	62,268
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments undertakings	R0180	2,186
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	15,107
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	9,656
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	9,656
Reinsurance recoverables from:	R0270	156,889
Non-life and health similar to non-life	R0280	156,889
Life and health similar to life, excluding index-linked and unit-linked	R0315	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	65,010
Reinsurance receivables	R0370	3,167
Receivables (trade, not insurance)	R0380	2,936
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	27,576
Any other assets, not elsewhere shown	R0420	2,066
Total Assets	R0500	445,247

IR.02.01.02 (continued)

Balance Sheet

Liabilities (in £'000)		SUK	
			C0010
Technical provisions – Total	R0505		174,429
Technical provisions – Non-Life	R0510		174,429
Technical provisions – Life	R0515		0
Best estimate – Total	R0542		173,078
Best estimate – Non-Life	R0544		173,078
Best estimate – Life	R0546		0
Risk margin – Total	R0552		1,351
Risk margin – Non-Life	R0554		1,351
Risk margin – Life	R0556		0
Transitional (TMTP) – Life	R0565		0
Other Technical Provisions	R0730		0
Contingent liabilities	R0740		0
Provisions other than Technical provisions	R0750		0
Pension benefit obligations	R0760		0
Deposits from reinsurers	R0770		178,160
Deferred tax liabilities	R0780		5,976
Derivatives	R0790		0
Debts owed to credit institutions	R0800		0
Financial liabilities other than debts owed to credit institutions	R0810		794
Insurance & intermediaries payables	R0820		1,941
Reinsurance payables	R0830		2,724
Payables (trade, not insurance)	R0840		10,404
Subordinated liabilities	R0850		0
Subordinated liabilities not in Basic Own Funds	R0860		0
Subordinated liabilities in Basic Own Funds	R0870		0
Any other liabilities, not elsewhere shown	R0880		15,932
Total Liabilities	R0900		390,361
Excess of Assets over Liabilities	R1000		54,886

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

		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
		C0010	C0015	C0240	C0250	C0260
(in £'000)						
Income						
Premiums written						
Gross written premiums	R0110		216,665	173,350	13,587	29,728
Gross written premiums – insurance (direct)	R0111		177,931	142,097	12,985	22,849
Gross written premiums – accepted reinsurance	R0113		38,734	31,253	602	6,879
Net written premiums	R0160		44,440	40,043	1,359	3,039
Premiums earned and provision for unearned						
Gross earned premiums	R0210		151,859	110,920	9,541	31,398
Net earned premiums	R0220		17,083	12,932	954	3,197
Expenditure						
Claims incurred						
Gross (undiscounted) claims incurred	R0610		104,223	93,403	6,811	4,009
Gross (undiscounted) claims incurred – insurance (direct)	R0611		93,525	78,247	6,374	8,904
Gross (undiscounted) claims incurred – accepted reinsurance	R0612		10,698	15,156	437	(4,895)
Net (undiscounted) claims incurred	R0690		14,546	13,526	283	736
Net (discounted) claims incurred	R0730	14,546	14,546			
Analysis of expenses incurred						
Technical expenses incurred net of reinsurance ceded	R0910	16,871				
Acquisition costs, commissions, claims management costs	R0985	(22,660)	(22,660)	(13,689)	(1,762)	(7,209)
Other expenses	R1140	2				
Total expenditure	R1310	30,405				

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	42,537	27,266	6,737	8,534
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	31,252	19,352	5,122	6,778
Net Best Estimate of Premium provisions	R0150	11,285	7,914	1,614	1,756
Claims provisions					
Gross	R0160	130,541	117,836	1,303	11,402
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	125,637	114,457	1,138	10,041
Net Best Estimate of Claims Provisions	R0250	4,905	3,378	165	1,361
Total Best estimate – gross	R0260	173,078	145,101	8,040	19,937
Total Best estimate – net	R0270	16,189	11,293	1,779	3,117
Risk margin	R0280	1,351	1,156	56	139
Technical Provisions – total (best estimate plus risk margin)					
Technical Provisions – total	R0320	174,429	146,258	8,096	20,076
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330	156,889	133,809	6,260	16,820
Technical Provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340	17,540	12,449	1,835	3,256

IR.19.01.21
Non-life insurance claims
Gross Claims Paid (non-cumulative) - Total Non-Life Business

Year		Development year										In current year	Sum of years (cumulative)	
		0	1	2	3	4	5	6	7	8	9			10
(in £'000)		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior	R0100											0	0	0
N-9	R0160	54,184	16,677	9,393	5,167	3,890	1,729	1,225	2,038	880	847		847	96,029
N-8	R0170	47,371	13,928	8,185	6,713	3,436	3,348	2,109	2,077	852			852	88,020
N-7	R0180	38,669	14,380	7,875	5,635	2,924	4,666	2,067	1,629				1,629	77,847
N-6	R0190	38,926	13,811	5,860	4,262	3,722	2,874	1,914					1,914	71,370
N-5	R0200	32,826	13,216	5,884	5,978	3,602	3,032						3,032	64,538
N-4	R0210	40,776	20,160	5,928	4,557	4,114							4,114	75,536
N-3	R0220	35,993	14,856	5,190	5,433								5,433	61,472
N-2	R0230	45,868	18,505	9,029									9,029	73,403
N-1	R0240	36,235	16,356										16,356	52,592
N	R0250	37,696											37,696	37,696
Total	R0260												80,903	698,502

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

Year		Development year										Year end (discounted)	
		0	1	2	3	4	5	6	7	8	9		10
(in £'000)		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Prior	R0100											8,150	1,194
N-9	R0160	50,506	28,224	15,306	10,051	8,322	7,326	5,407	3,438	1,762	894		815
N-8	R0170	48,608	28,696	15,829	11,080	9,311	7,205	5,478	2,111	1,190			1,085
N-7	R0180	50,451	31,286	16,894	13,041	10,925	7,513	3,685	2,336				2,131
N-6	R0190	47,493	27,055	18,183	13,143	10,641	4,819	2,679					2,445
N-5	R0200	40,232	28,016	19,352	14,979	7,743	4,954						4,522
N-4	R0210	47,570	32,509	21,011	11,791	8,877							8,106
N-3	R0220	50,941	31,258	17,766	12,445								11,371
N-2	R0230	51,372	27,933	18,372									16,812
N-1	R0240	49,107	27,461										25,157
N	R0250	61,804											56,903
Total	R0260												130,541



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	15,000	15,000		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	26,886	26,886			
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 SUK 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 SUK own funds	R0220	0				
Total Basic Own Funds	R0290	54,886	54,886	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	0	0
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	54,886	54,886	0	0	0
Total available own funds to meet the MCR	R0510	54,886	54,886	0	0	0
Total eligible own funds to meet the SCR	R0540	54,886	54,886	0	0	0
Total eligible own funds to meet the MCR	R0550	54,886	54,886	0	0	0
SCR	R0580	21,871				
MCR	R0600	5,468				
Ratio of Eligible own funds to SCR	R0620	2.509				
Ratio of Eligible own funds to MCR	R0640	10.038				

**IR.23.01.01** (continued)**Reconciliation reserve**

(£'000)

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	54,886
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	28,000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	0
Reconciliation reserve	R0760	26,886

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

(in £'000)		Net SCR requirement
		C0010
Market risk	R0140	5,526
Interest rate risk	R0070	1,008
Equity risk	R0080	1,014
Property risk	R0090	186
Spread risk	R0100	3,925
Concentration risk	R0110	941
Currency risk	R0120	4
Other market risk	R0125	0
Diversification within market risk	R0130	(1,553)
Counterparty default risk	R0180	12,758
Type 1 exposures	R0150	3,187
Type 2 exposures	R0160	10,192
Other counterparty risk	R0165	0
Diversification within counterparty default risk	R0170	(621)
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	10,812
Non-life premium and reserve risk (ex-catastrophe risk)	R0330	10,277
Non-life catastrophe risk	R0340	1,074
Lapse risk	R0350	2,146
Other non-life underwriting risk	R0355	0
Diversification within non-life underwriting risk	R0360	(2,685)
Intangible asset risk	R0400	0
Operational and other risks	R0430	5,192
Operational risk	R0422	5,192
Other risks	R0424	0
Total before all diversification	R0432	39,147
Total before diversification between risk modules	R0434	34,287
Diversification between risk modules	R0436	(6,440)
Total after diversification	R0438	27,847

**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	(5,976)
Other adjustments	R0455	0
Solvency capital requirement including undisclosed capital add-on	R0460	21,871
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	21,871
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
MCRNL Result	R0010	C0010 5,316

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	11,293	40,043
Assistance and proportional reinsurance	R0120	1,779	1,359
Miscellaneous financial loss insurance and proportional reinsurance	R0130	3,117	3,039
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	5,316
SCR	R0310	21,871
MCR cap	R0320	9,842
MCR floor	R0330	5,468
Combined MCR	R0340	5,468
Absolute floor of the MCR	R0350	3,500
Minimum Capital Requirement	R0400	5,468

GLOSSARY OF ABBREVIATIONS AND TERMS

Abbreviation/Term	Definition
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.
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.
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).
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 issues SII regulations and the SII Directive.
FCA	Financial Conduct Authority, they are responsible for regulating the conduct of ARAG LEI and all regulated firms within the UK.
FCA Handbook	FCA rules applicable to ARAG LEI which is required to follow the Code of 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.
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.
MCR	Minimum Capital Requirement. The calculation of this number is defined in the SUK 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.
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.
PRA rules	The rules that are written by the PRA which ARAG LEI need to comply with, including subsequent amendments to the regulation. Current Taxonomy is 2.0.2.
PRA Rulebook	These are the PRA rules for the Solvency UK firms, and are applicable to ARAG LEI (Ref http://www.prarulebook.co.uk)
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) SUK submissions to the PRA.
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 SUK 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 (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.
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. Solvency UK’s framework is underpinned by EIOPA’s SII Directive.
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 SMCR (Senior Managers and Certification Regime). 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 Management Functions” Chapter in the PRA Rulebook pursuant to section 59 of the Financial Services and Markets Act 2000.
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.
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.



Further Information

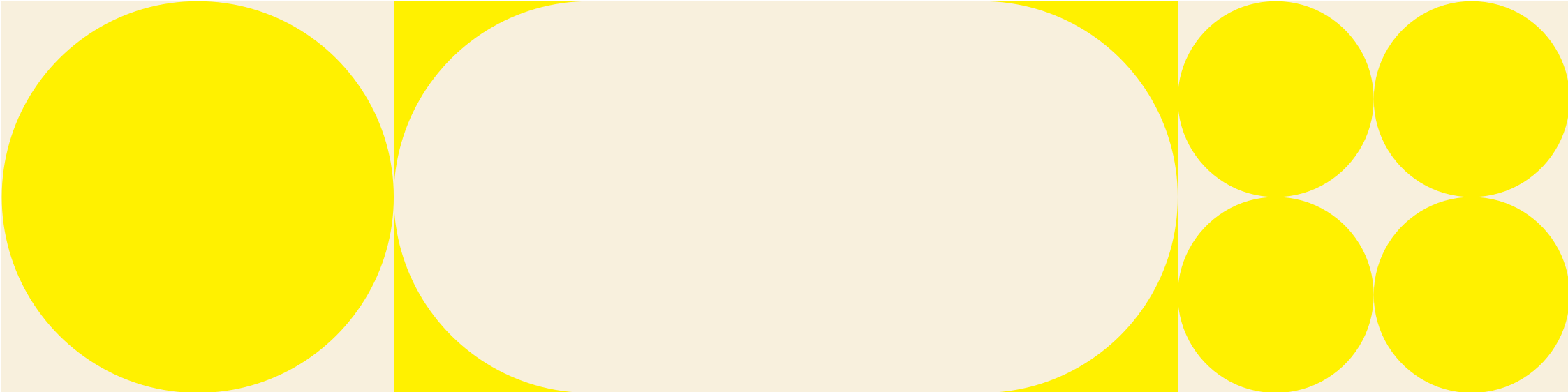
Thanks

ARAG LEI would like to thank colleagues and senior management for their invaluable support in the preparation of this report.

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 precisely reconcile.

You can find the latest information about ARAG UK and its products on the Company's website www.ARAG.co.uk.



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