DAS Legal Expenses Insurance Company Limited

Solvency and Financial Condition Report

Year ended 31 December 2017

FIRST FOR JUSTICE

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Summary[1]

Solvency II ("SII") is an EU legislative programme that was effective from 1 January 2016, and is applicable to DAS Legal Expenses Insurance Company Limited ("DAS LEI").

The main objective of SII is to modernise the existing insurance regulatory framework, with the objective of providing an enhanced and more consistent level of protection for policyholders across Europe. SII introduces features to improve a firm's understanding and management of its risks, which should result in improved resilience to shocks. The objectives of SII will be achieved through regulatory supervision, and includes public disclosure requirements. The public disclosure requirements are in the form of this document, the Solvency and Financial Condition Report ("SFCR").

This SFCR is based on the results for the year ended 31 December 2017 and is summarised below.

Other than the changes noted below, there were no material changes in the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management during 2017.

The SFCR contains a Statement of Directors' Responsibilities and an Independent Audit Report that sets out their opinion on the sections of the SFCR that are subject to audit according to Prudential Regulation Authority rules and SII regulations.

Section A – Business and Performance

DAS LEI is the market leader for Legal Expenses Insurance ("LEI") in the UK, and part of a large global insurance group, Munich Re. DAS LEI is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA.

In 2017, DAS LEI re-negotiated the terms of its reinsurance quota share agreement with fellow Munich Re Group company, ERGO Versicherung AG ("ERGO"). Under the renewed agreement, the level of business ceded increased to 90% from 70% of in-force business, net of that reinsured to other parties, from 1 October 2017. This arrangement has contributed to DAS LEI's strong capital position as at 31 December 2017, but has had an adverse impact on DAS LEI's reported results for the year.

The performance of DAS LEI improved compared to the prior year. The total comprehensive loss on a statutory basis for the year was £6,520k (2016: £12,960k). The results were in line with DAS LEI's plan and reflect the growth phase of the turnaround of the business. DAS LEI aims to reduce the loss ratio and improve operational efficiency by rationalising operational expenses and by optimising claims handling expense going forward.

Section B –System of Governance

The Board of DAS LEI is ultimately responsible for compliance with the SII regulations and PRA rules through the use of a maturing Internal Control System ("ICS") framework, and is responsible for the running of the business.

DAS LEI is a subsidiary of DAS UK Holdings Limited ("DAS UK Holdings") and is managed on a unified basis with that company's other UK subsidiaries, which together form "DAS UK".

DAS UK manages its business risks and uncertainties using an Enterprise Risk Management Framework ("ERMF"), which includes the following key components:

Risk Culture;
Risk Governance (based upon "three lines of defence" principles);

[1] This section is outside the scope of the audit (see pages 6-9).

Risk Strategy;
Risk Appetites;
Policy Framework; and
Risk Cycle (Risk Identification, Risk Assessment and Measurement, Risk Steering, Risk Monitoring and Reporting).

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

Section C – Risk profile

The principal risks and uncertainties in the business have been reviewed and documented as part of the ORSA process. Whilst this process covers DAS UK, it is possible to identify from the ORSA the principal risks and uncertainties that are particularly relevant to DAS LEI. These are summarised below:

Underwriting risk (for further information see section C.1);
Market risk (for further information see section C.2);
Credit risk (for further information see section C.3);
Liquidity risk (for further information see section C.4);
Operational risk (for further information see section C.5); and
Regulatory risk, Strategic risk (Concentration) and Reputational risk (for further information see section C.6).

Section D – Valuation for Solvency Purposes

DAS LEI's excess of assets over liabilities on a SII basis is £36,518k compared with £38,541k as shown in DAS LEI's statutory financial statements. The difference is due to the differing bases of valuation of assets and liabilities under statutory and SII reporting, particularly in respect of the recognition of future cash flows arising from (re)insurance contracts in the technical provisions for SII reporting. A reconciliation between the equity shown in the financial statements and the own funds for SII purposes is shown in section E.1. Section D also sets out the bases, methods and main assumptions used in the valuation of the assets, technical provisions and other liabilities.

Section E – Capital Management

The SII coverage ratio, defined as the ratio of Eligible Own Funds ("EOF") to Solvency Capital Requirement ("SCR"), is a key measure of financial strength under SII. DAS LEI maintained a ratio of 151% (2016: 151%). This section sets out the capital DAS LEI holds ("Own funds") and the excess of capital above the amount that they should hold as required by the SII regulations and the PRA rules.

Appendix 1 – Quantitative Reporting Templates

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

Appendix 2 – Glossary of abbreviations and terms.

This Appendix provides a glossary of abbreviations and terms which we do hope you will find useful.

Note: Monetary amounts in this SFCR are usually shown rounded to the nearest thousand. Calculations are performed on the underlying amounts rather than the rounded amounts and may therefore sometimes appear not to work.

Statement of Directors' Responsibilities

Directors' Statement of Responsibility in respect of the SFCR for the year ended 31 December 2017

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

We are satisfied that:

a) throughout the financial year in question, DAS LEI has complied in all material respects with the requirements of the PRA rules and the Solvency II regulations as applicable to DAS LEI; and

b) it is reasonable to believe that DAS 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 24 April 2018 and signed on its behalf by:

Director A J Burke

Independent Auditor’s Report

Report of the external independent auditor to the Directors of DAS Legal Expenses Insurance Company Limited (‘the Company’) pursuant to Rule 4.1(2) of the External Audit Chapter 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

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2017:

- The ‘Valuation for Solvency Purposes’ and ‘Capital Management’ sections of the Solvency and Financial Condition Report of the Company as at 31 December 2017, (‘**the Narrative Disclosures subject to audit**’); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21, S.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 the Other Information which comprises:

- The ‘Business and Performance’, ‘System of Governance’ and ‘Risk Profile’ elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01, S.19.01.21;
- 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 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

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 *Auditor’s 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.

Emphasis of Matter – special purpose 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 Solvency II regulations, 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 ('PRA'). 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.

Conclusions relating to going concern

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

- the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the Directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Reports is authorised for issue.

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, accordingly, 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 and Solvency II regulations.

The Directors are also responsible for such internal control as they determine are necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities 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 Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

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 auditor's 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 Relevant Elements of the Solvency and Financial Condition Report.

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

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1(3) of the External Audit Chapter of the PRA Rulebook we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in 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.

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

This report of the external auditor is made solely to the Company's Directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Chapter of the PRA Rulebook and the terms of our engagement. We acknowledge that the Directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the Company's Directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the Company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the Company's Directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company through its governing body, for our audit, for this report, or for the opinions we have formed.

Mark Taylor
for and on behalf of KPMG LLP
66 Queens Square
Bristol
BS1 4BE
Date: 24 April 2018

- The maintenance and integrity of the Company's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.17.01.02
    - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

A. Business and Performance[2]

A.1. Business

DAS LEI is registered in England and Wales under company number 000103274 as a private company limited by shares. DAS LEI's head office and the registered office are located at DAS House, Quay Side, Temple Back, Bristol, BS1 6NH.

DAS LEI's principal activity is the transaction of LEI business, and it conducts business in the UK, in the Republic of Ireland via a branch, and in Norway on a Freedom of Service basis.

DAS LEI operates two fundamental classes of business that remain the focus of its strategy for the duration of this planning horizon:

- Before the Event ("BTE") policies provide insurance in the traditional sense, where cover is purchased to protect the policyholder in respect of the occurrence of potential future events. This business falls under the "Legal expenses insurance", "Assistance" and "Miscellaneous financial loss" SII 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, their own disbursements and premium indemnity. Solicitors have an alignment of interest as their own costs, which are not indemnified under the terms of the policy, are at risk. This business falls under the following SII lines of business: "Legal expenses insurance" and "Assistance".

DAS LEI is authorised by the PRA and regulated by the FCA and the PRA.

The PRA's contact details are: Prudential Regulation Authority, 20 Moorgate, London, EC2R 6DA.

The FCA's contact details are: Financial Conduct Authority, 25 The North Colonnade, London E14 5HS.

DAS LEI's external auditor is KPMG LLP, and their contact details are: 66 Queen Square, Bristol, BS1 4BE.

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

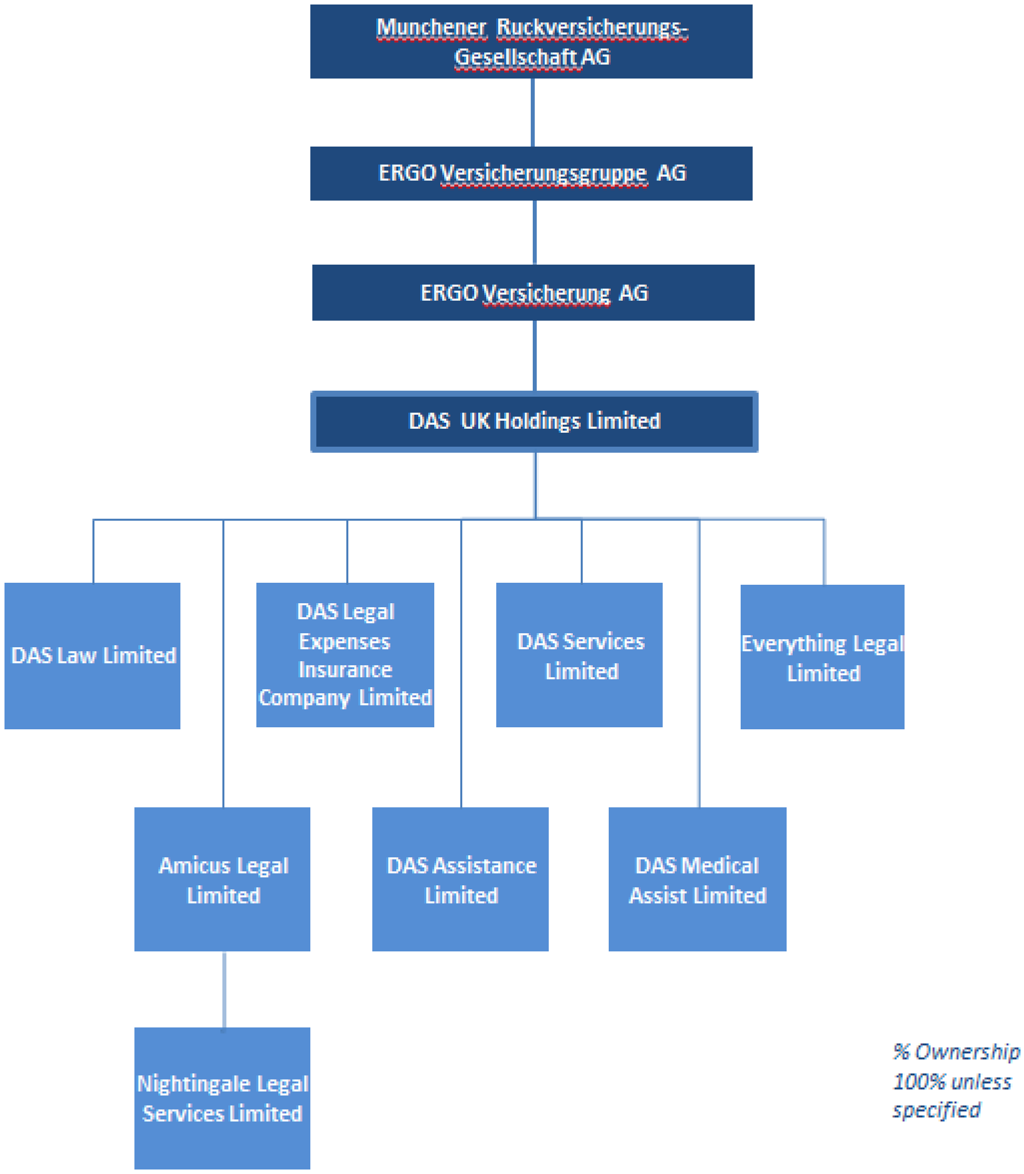
Other than the re-negotiated terms of its reinsurance quota share agreement with ERGO, there has been no significant business or other events that have occurred over the reporting period that have had a material impact on DAS LEI. This arrangement has contributed to DAS LEI's strong capital position as at 31 December 2017, but has had an adverse impact on DAS LEI's reported results for the year.

The UK group

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

[2] This section is outside the scope of the audit (see pages 6-9).

The following diagram shows the structure of the DAS UK group:



All DAS UK companies are incorporated in the United Kingdom.

The European group

DAS UK Holdings is a wholly-owned subsidiary of ERGO.

ERGO is a wholly-owned subsidiary of ERGO Versicherungsgruppe AG ("ERGO Group").

ERGO Group is one of the major insurance groups in Germany and Europe. Worldwide, it is represented in more than 30 countries and concentrates on Europe and Asia.

ERGO Group is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft AG ("Munich Re").

Munich Re is supervised by Bundesanstalt für Finanzdienstleistungsaufsicht ("BAFIN"), Graurheindorfer Straße, 53117 Bonn, Germany.

A.2. Underwriting Performance

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

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

All amounts in £'000s	2017	2016
Legal expenses insurance	2,012	(8,282)
Assistance	(127)	31
Miscellaneous financial loss	(2,181)	(4,628)
Total underwriting loss	**(296)**	**(12,879)**

The underwriting result (gross of reinsurance) by material geographical area is shown below:

All amounts in £'000s	2017	2016
United Kingdom	(1,078)	(14,050)
Republic of Ireland	1,006	847
Norway	(224)	324
Total underwriting loss	**(296)**	**(12,879)**

Note that in assessing DAS LEI's performance for the year, the investment performance in section A.3 and performance of other activities, which includes the reinsurance result, in section A.4 need to be considered as they are not included in the above analysis.

2017 showed an improved underwriting result. This is largely due to the recognition in 2016 of costs associated with of a company-wide transformation programme ("Nexus"), which challenged the operating model of DAS UK. This programme was successfully completed ahead of schedule in 2017, such that Nexus-related costs recognised in 2017 are significantly lower than they were in 2016. Underwriting results were ahead of the original 2017 Plan and in line with the Forecast projections for the year, reflecting the growth phase of the turnaround of the business facilitated by Nexus.

See Appendix 1 for the following Quantitative Reporting Templates ("QRTs") that are required to be disclosed in relation to the underwriting performance:

S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country

A.3. Investment Performance

The following table analyses the investment result for the year:

All amounts in £'000s	2017	2016
Income from Government Bonds	930	1,303
Income from Corporate Bonds	439	688
Income from Structured notes	16	0
Income from Deposits other than cash equivalents	4	15
Gains on the realisation of Government Bonds	488	360
Gains on the realisation of Corporate Bonds	43	44
Investment management expenses	(83)	(170)
Total Investment return	**1,837**	**2,240**

DAS LEI's investment portfolio is managed by Munich ERGO Asset-Management GmbH ("MEAG") which is based in Munich, Germany and is a subsidiary of Munich Re, the ultimate parent company of DAS LEI.

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

The investment return was broadly in line with prior year after considering the turnover of the bonds owned by DAS LEI and the impact of market movement on the interest earned and amortisation. The Investment return is considered consistent with the market performance.

Gains and losses recognised in Equity

In addition to the above items, there were losses on re-measurement of available-for-sale financial assets £1,441k (2016: £838k gains). This relates to unrealised gains/losses on bonds and the difference compared to prior year reflects market movements on bonds and the turnover of the bonds owned by DAS LEI.

Investments in Securitisation

The undertaking has no investments in securitisation during the financial year in question, or the prior financial year.

A.4. Performance of other activities

The below table sets out the “Total comprehensive loss for the year” as stated in DAS LEI’s financial statements, it also includes the underwriting and investment performance which have been included in the previous sections.

Item	2017 £’000	2016 £’000	Comments
Gross underwriting performance	(296)	(12,879)	See A.2 section
Investment performance	1,837	2,240	See A.3 section
(Losses)/Gains on re-measurement of available-for-sale financial assets	(1,441)	838	See A.3 section
Performance of other activities			
Other income per Non-technical account	64	873	Lower interest income on Group loans due to rationalisation of loans provided by DAS LEI.
Other expenses per Non-technical account	(69)	(218)	No material change.
Tax on loss on ordinary activities per Non-technical account	1,026	3,624	This is the tax credit on the items disclosed in the Profit and loss account in the financial statements. The movement in this figure relates to the change in the total comprehensive loss for the year below.
Foreign currency translation differences on foreign operations, net of tax	130	(8)	Not material
Items included in the Technical account, other than gross underwriting result	(7,771)	(7,430)	This balance is consistent with prior year. This balance includes the reinsurance results and non-technical expenses. DAS LEI’s reinsurance policy helps mitigate risk to policyholders and gross underwriting risk, improving DAS LEI’s SII position.
Total comprehensive loss for the year	**(6,520)**	**(12,960)**	

Leases

Operating leases in which DAS LEI is the lessee

DAS LEI has no material operating leases in which it is the lessee.

Other leases

DAS LEI is not party to any finance lease agreements or any operating lease agreements in which it is the lessor.

A.5. Any other information

There is no other material information to disclose.

B. System of Governance[3]

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

There have been no material changes in the system of governance, and it operated satisfactorily, during the reporting period.

B.1. General information on the system of governance

DAS LEI is managed on a unified basis with other companies in DAS UK, including DAS UK Holdings, DAS LEI's immediate parent company.

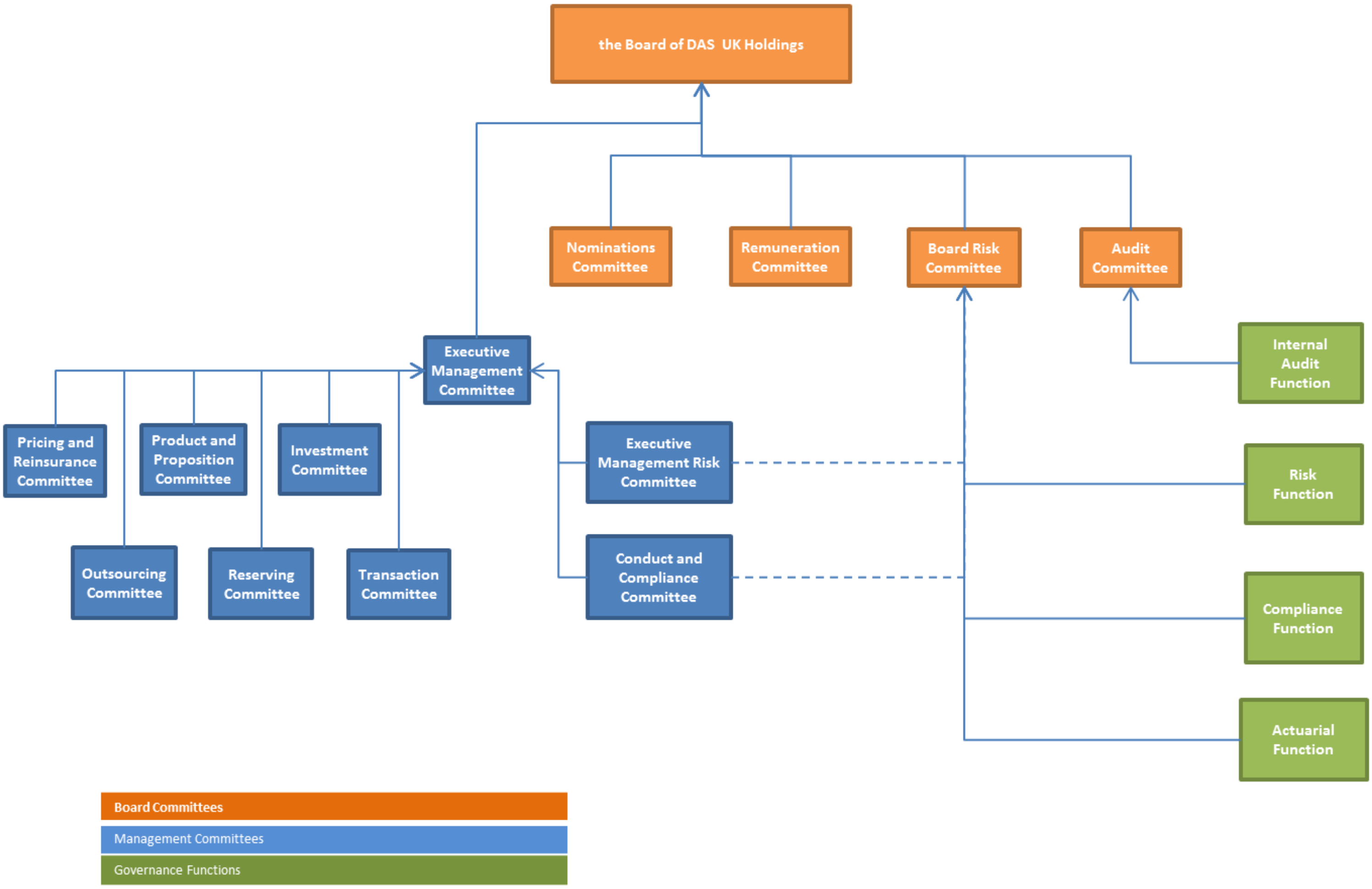
DAS UK has developed a Corporate Governance Structure that facilitates a clearly defined decision-making process, business execution system and supervisory system. This structure allows decision-making authority to be delegated throughout DAS UK to ensure that there is efficiency of decision-making while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

The Corporate Governance Structure consists of the Board of Directors with a clearly defined mandate and duties. Below the Board of Directors the structure consists of:

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

[3] This section is outside the scope of the audit (see pages 6-9).

The Corporate Governance Structure is outlined in the DAS UK Governance Map below:



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

Roles, Responsibilities and Purpose

Boards

DAS UK Holdings Board

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

DAS LEI Board

The Board of Directors of DAS LEI is collectively responsible for the long-term success of the company. DAS LEI's Board provides entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. DAS LEI's Board is responsible for setting the company's strategic aims, ensuring that the necessary financial and human resources are in place for DAS LEI to meet its objectives, and reviewing management performance.

The DAS LEI Board sets the company's values and standards, and ensures that its obligations to its shareholders and others are understood and met.

DAS UK Holdings Board Committees

Nomination Committee

The Nomination Committee is, among other things, responsible for managing the process to advise and make recommendations to the Board on matters relating to the membership of the DAS UK Holdings and DAS LEI Boards, Board Committee membership and related executive appointments.

Remuneration Committee

The Remuneration Committee is responsible for the setting and oversight of the remuneration policy for DAS UK, including the appropriate framework and governing principles for sales incentives and other performance-based arrangements. The Committee is also responsible for considering Executive Team remuneration, including pension rights and any compensation payments, recommending and monitoring the level and structure of remuneration for senior management, and the implementation of share option or other performance-related schemes.

Audit Committee

The purpose of the Audit Committee is to provide oversight and assessment of the integrity and accuracy of the financial reporting, along with the effectiveness of the internal controls of DAS 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 DAS UK group whistle blowing policy.

Risk Committee

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

DAS UK Holdings Management Committees

Executive Management Committee

The purpose of the EMC is to manage the business of DAS 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 DAS UK's operations save for those matters which are reserved to the Board or its committees.

Transaction Committee

The Transaction Committee's purpose is to review and approve all material agreements:

- regarding the sale or renewal of LEI or legal services;
- in respect of corporate transactions, property interest or investments;
- involving new business or product lines not currently undertaken by DAS UK; and
- in addition, review and approve other agreements outside the usual course of business or involving a material or unusual risk profile.

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

Pricing and Reinsurance Committee

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

Product and Proposition Committee

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

Reserving Committee

The purpose of the Reserving Committee is to:

- review DAS LEI's claims reserving policy;
- review and challenge models, assumptions and data used in the most recent claims reserves assessment and the calculation of technical provisions for SII; and
- make recommendations in respect of the models and assumptions to be used.

Executive Management Risk Committee

The Executive Management Risk Committee is responsible for:

- the implementation of DAS UK's risk management strategy from a first line of defence perspective, including monitoring and escalation of risk appetite and any breaches;
- the implementation of DAS UK's Information Security framework within the Operational Risk appetite set by the Board, including escalation and monitoring of information security incidents and compliance with regulatory obligations;
- the implementation of DAS UK's Business Continuity Management ("BCM") and Disaster Recovery frameworks within the Operational Risk appetite set by the Board, including escalation and monitoring of BCM incidents and compliance with regulatory obligations; and
- ensuring it maintains a robust succession plan that recognises current and future business needs and requirements, and addresses the unexpected loss of key individuals.

Conduct and Compliance Committee

The purpose of the Conduct and Compliance Committee is the:

- implementation of DAS UK's compliance framework within the Regulatory Risk Appetite set by the Board, including escalation and monitoring of compliance breaches and compliance with regulatory obligations;
- establishment and oversight of Conduct risk management practices, including identification, monitoring and management of Conduct risks within business models, distribution arrangements and Sales/Marketing activities; and
- maintenance of a robust succession plan that recognises current and future business needs and requirements, and addresses the unexpected loss of key compliance individuals.

Outsourcing Committee

The purpose of the Outsourcing Committee is the:

- management and periodic review of outsourcing arrangements and delegated authorities across all business lines, including oversight of partner audits;
- review of management information;

- monitoring of outsourcer performance against key metrics;
- monitoring of outsourcer compliance with regulatory requirements; and
- oversight of outsourcing risk management arrangements, contractual agreements, and maintenance of an inventory of all material outsourcing arrangements.

Investment Committee

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

Key Functions

For the roles described in this section, details of the allocation of key functions in accordance with the FCA Handbook and the PRA Rulebook can be found in B.2 below.

1. Chair of the Board

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

Responsibilities include:

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

2. Non-Executive Directors

Non-Executive Directors are required to bring innovation and experience to the Board whilst monitoring executive decisions. They should also be independent in judgement and have an enquiring mind. They are responsible for scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. Additionally, they are responsible for constructively challenging the Board and for the provision of assistance in developing DAS UK's strategy.

Specifically Non-Executive Directors must satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for 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.

In addition Independent Non-Executive Directors are responsible for:

- Challenging decisions made by the Board, committees of the Board and Directors, ensuring compliance and good governance in line with regulatory and statutory obligations; and
- Reporting to the appropriate authorities issues where there are possible breaches of regulations or statutory obligations.

Senior Independent Non-Executive Director

The Board shall appoint a Senior Independent Non-Executive Director to provide a sounding board for the Chair and to serve as an intermediary for the other directors when necessary. The Senior Independent Non-Executive Director will be available to shareholders if they have concerns which contact through the normal channels of Chair, CEO or other executive directors has failed to resolve or for which such contact is inappropriate.

In addition the Senior Independent Non-Executive Director is responsible for:

- Chairing the Nomination Committee when it is considering succession to the role of Chair of the Board; and
- Meeting with the Non-Executive Directors without the Chair present at least annually to appraise the Chair's performance and on such other occasions as are deemed appropriate.

3. Chief Executive Officer

The Chief Executive Officer ("CEO") receives delegated authority from the Board to carry out the DAS 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.

4. Chief Finance Officer

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

5. Managing Director of Insurance

The role of the Managing Director of Insurance is:

- to develop and deliver the Insurance business strategy;
- to provide insight, advice and guidance on areas of development, trends and changes, identifying and supporting new business opportunities for DAS LEI; and
- to be accountable for the profit or loss of the Insurance business, driving growth whilst also managing margins and cost.

6. Group Director of Underwriting, Claims and Reinsurance

The Group Director of Underwriting, Claims and Reinsurance is accountable for the development, implementation and maintenance of underwriting and claims policy, strategies and appetite for all insurance activities. This includes the alignment of underwriting and claims activities across the business, providing guidance and authority to the insurance business unit and customer operations.

7. Group Director of Customer Operations and IT

The Group Director of Customer Operations and IT oversees a number of critical operational areas within DAS UK and is accountable for customer administration services (including claims, cases and complaints), cash management, technology, procurement, outsourcing, supply chain, project management and change management.

8. Group Director of Human Resources and Legal Services

The Group Director of Human Resources and Legal Services has ultimate accountability for all people based activity from both an operational and strategic perspective. They are accountable for driving the people agenda across DAS UK, in line with the overall corporate strategy, and for setting and embedding the desired company culture and behaviours. In addition to Human Resources activities, they are accountable for Facilities, Legal Services, Internal Communications, and Corporate Social Responsibility.

9. Head of Internal Audit

The Head of Internal Audit is responsible for the identification and testing of the controls and systems associated with DAS UK and for the provision of assurance to the Board regarding the management of all risks pertinent to DAS UK.

10. Chief Risk and Compliance Officer

The Chief Risk and Compliance Officer provides direction to DAS UK for all enterprise risk management, BCM, conduct risk, data protection, financial crime, information security, compliance and regulatory issues.

The Chief Risk and Compliance Officer role acts as the Chief Risk Officer for DAS UK. The core responsibilities of this role are:

- Develop the DAS UK Holdings Risk Management Strategy to align with the ERGO Group Strategy;
- Act as the independent second line strategic lead for the establishment of an ERMF in DAS UK;
- Ensure that the risk management culture of DAS UK is designed and implemented to support a clear set of risk appetites as articulated by the DAS UK Holdings Board;
- Design, implement and monitor the ERMF and ICS risk assessment framework across DAS UK. This includes the ORSA process and the provision of assurance to the DAS LEI Board;
- Responsibility for the effective design and implementation of a Whistleblowing regime for DAS UK;
    - Act as the Data Protection Officer for DAS UK and oversee the management of second line processes for information assurance, data protection, financial crime, and conduct and regulatory compliance;
- Accountable for the effective design and implementation of DAS LEI's Conduct Risk Management Framework across DAS UK and to advise, support, review and challenge the business' management of all conduct risk (through first line conduct risk identification, measurement (including adherence to board risk appetite), management, monitoring and reporting processes); and
- Design and maintain (in conjunction with Company Secretary) appropriate Approved Persons, Fit and Proper and Senior Insurance Managers Regime ("SIMR") processes.

11. Chief Actuary

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

Remuneration

Information on the remuneration policy and practices

The Remuneration Committee has overall responsibility for the remuneration decisions for DAS UK Directors and Senior Managers, and monitors both fixed and variable remuneration for this group and the total overall spend on variable pay. The remuneration paid to Non-Executive Directors is also determined by the Board of Directors and is reviewed annually. Independent Non-Executive Directors ("INEDs") are not entitled to performance-related remuneration.

The proportion of total reward that is paid in the form of variable pay is required to be at least 45% (+/- 5%) of total reward for Board members according to ERGO policy. For the members of the EMC who are non-board members, the at-target award is set at 40% of base pay and for direct reports to the EMC members the typical at-target award is set at 15%.

Variable pay in the form of annual bonuses is also provided to specific insurance-based roles at DAS UK (whilst quarterly incentives are paid to fee earners in DAS Law Limited ("DAS Law"). Bonus pay-outs are modest (average of 7-8% of base pay) and are paid to ensure that the overall remuneration is competitive and to enable DAS UK to attract, retain and motivate key employees.

Remuneration for all employees is managed according to an annual budgeted pay process under the governance of the Remuneration Committee. The Remuneration Committee is asked to approve the total budgeted spend annually in March which will be effective from April and are informed of the distribution approach. Pay levels are benchmarked using Towers Watson. In addition, employee benefits are provided including market-aligned insured benefits.

Information on the individual and collective performance criteria

For executive members of the Board the remuneration package is governed according to the ERGO remuneration guidelines and as such, and with effect from performance year 2017, all 3 incumbents will have an annual and medium-term incentive opportunity, the value of which varies from role to role. The medium term opportunity is awarded annually and is paid after 3 years subject to strict performance criteria which are set by Munich Re in Germany. For the CEO role there is a further 2 year retention requirement. The proportion of total reward that is paid in the form of variable pay is required to be at least 45% (+/- 5%) of total reward for Board members according to ERGO policy. The remuneration paid to Non-Executive Directors is also determined by the Board of Directors and is reviewed annually. INEDs are not entitled to performance related remuneration.

For members of the EMC performance is measured according to collective and individual performance criteria which include an annual financial, people and risk/compliance objective. For EMC (non-board) members the at-target award of 40% is payable on satisfactory achievement of all objectives. For direct reports to the EMC members (typically those holding "Head of" positions) a new management incentive plan with an at-target award of 15% of annual base salary was approved in principle by the Remuneration Committee in June 2016 and was implemented formally for performance year 2017. Both schemes are based on a balanced scorecard approach. There are no entitlements to share options or shares for any members of the administrative, management or supervisory body and other key function holders (other than the two-year retention requirement for the CEO to convert his mid-term award into Munich Re shares after three years).

In deciding the appropriate level of the awards themselves DAS LEI consider both what employees have delivered and how they have delivered against their goals. DAS LEI's plans are governed by the Remuneration Committee which oversees the workings of the schemes and the specific pay levels of senior management and staff in key functions as part of a broader Group-wide (ERGO) framework.

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.

Also see allocation of key functions in accordance with the FCA Handbook and the PRA Rulebook in section B.2.

Material Transactions during the reporting period

Under the re-negotiated quota share arrangement with fellow group company ERGO, DAS LEI cedes 90% of its insurance business, net of external reinsurance from 1 October 2017. Throughout the rest of 2017 70% was ceded. This transaction was entered into on an arm's length basis.

For information on Directors' emoluments see the Directors' emoluments note in DAS LEI's financial statements for 31 December 2017.

B.2. Fit and proper requirements

In relation to the fit and proper assessment of Approved Persons, DAS UK has a Fit and Proper policy in place which is reviewed annually. All regulatory Approved Person, which includes all members of the Board as well as other key function holders applications are subject to the rigorous assessment against fitness and propriety questions as defined by the FCA and PRA. In addition, DAS UK also undertakes an annual Fitness and Propriety attestation which all Approved Persons are required to complete, and completes criminal bureau checks on a three year cycle for all Approved Persons. All Approved Person responsibilities are outlined within role profiles and annual objectives and are subject to a rigorous governance framework. Other than the Board, DAS UK has identified four key Functions within the operation as follows:

DAS Key Functions	PRA SIMF/FCA CF
Risk Management Function	SIMF4
Actuarial Function	SIMF20
Internal Audit Function	SIMF5
Compliance Function	CF10

On the 7 March 2016 the revised SIMR came into force replacing the previous Statements of Principle and Code of Practice for Approved Persons ("APER") process. The changes seek to ensure individual accountability for key roles within Financial Services both in general insurance and retail banking. All Approved Persons are subject to the new application requirements; and minimum standards specific to the role which they hold.

The revised regime is based on a series of responsibility allocations:

- PRA Senior Insurance Management Function ("SIMF") role;
- FCA Senior Influence Function ("SIF")/Controlled Function ("CF") role;
- PRA Prescribed Responsibilities; and
- Key Functions and Key Function Holders.

PRA SIMF	PRA Controlled Functions	DAS UK Role	SIMF Responsibility
SIMF1	Chief Executive Function	Chief Executive Officer	"The function of having responsibility, under the immediate authority of the governing body, alone or jointly with others, for carrying out the management of the conduct of the whole of the business (or relevant activities) of a firm".
SIMF2	Chief Finance Function	Chief Finance Officer	"The function of having responsibility for the management of the financial resources of a firm and reporting to the governing body of a firm in relation to its financial affairs".
SIMF4	Chief Risk Function	Chief Risk and Compliance Officer	"The function of having responsibility for overall management of the risk management system specified in Conditions Governing Business 3." (Transposition of SII requirements).
SIMF5	Head of Internal Audit Function	Head of Internal Audit	"The function of having responsibility for management of the internal audit function specified in Conditions Governing Business 5." (Transposition of SII requirements).
SIMF7	Group Entity Senior Insurance Manager Function	Managing Director of Insurance	"The function of having a significant influence on the management or conduct of one or more aspects of the affairs of a firm in relation to its regulated activities (other than in the course of the performance of another senior insurance management function) and which is performed by a person employed by, or an officer (other than a non-executive director) of i) a parent undertaking or holding company of a firm; or ii) another undertaking which is a member of the firm's group".
SIMF9	Chair	Chair of the Board	"The function of having responsibility for chairing, and overseeing the performance of the role of, the governing body of a firm".
SIMF10	Chair of the Risk Committee	Independent Non-Exec. Director	The function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the risk management system specified in Conditions Governing Business 3." (Transposition of SII requirements).
SIMF11	Chair of the Audit Committee	Independent Non-Exec. Director	"The function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the internal audit system specified in Conditions Governing Business 5." (Transposition of SII requirements).
SIMF12	Chair of the Remuneration Committee	Independent Non-Exec. Director	"The function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the design or implementation of the remuneration policy of a firm".
SIMF14	Senior Independent Director	Independent Non-Exec. Director	"The function of performing the role of a senior independent director, and having particular responsibility for leading the assessment of performance of the person performing the Chairman function".
SIMF20	Chief Actuary Function	Chief Actuary	"The function of having responsibility for the actuarial function specified in Conditions Governing Business 6." (Transposition of SII requirements).
SIMF22	Chief Underwriting Officer Function	Group Director of Underwriting, Claims and Reinsurance	"The function of having responsibility for the underwriting decisions in respect of material insurance risks that, in relation to managing agents, are borne by members".

FCA SIF/CF role allocations

Where an individual is not allocated a specific SIMF role, Directors and Non-Executive Directors are allocated either a CF1 Director or non-Executive Director role. As per previously, the CF10 Compliance oversight responsibility remains a specific role which is allocated to the Chief Risk and Compliance Officer along with the SIMF 4 Chief Risk Officer responsibility. The current SIF/CF responsibilities for DAS UK as at 31 December 2017 are set out in the table below:

FCA SIF	FCA Responsibility	DAS UK Role	CF Responsibility
CF1	Director	**Group Director of HR and Legal Services**	"The function of acting in the capacity of a director (other than nonexecutive director) of that firm" (will continue to apply to all CF1 roles which are not subject to PRA approval).
CF1	Director	**Group Director of IT and Customer Operations**	"The function of acting in the capacity of a director (other than nonexecutive director) of that firm" (will continue to apply to all CF1 roles which are not subject to PRA approval).
CF10	Compliance Oversight	**Chief Risk and Compliance Officer**	Role Holder holds SIMF 4 and CF10 rather than SIMF 2.

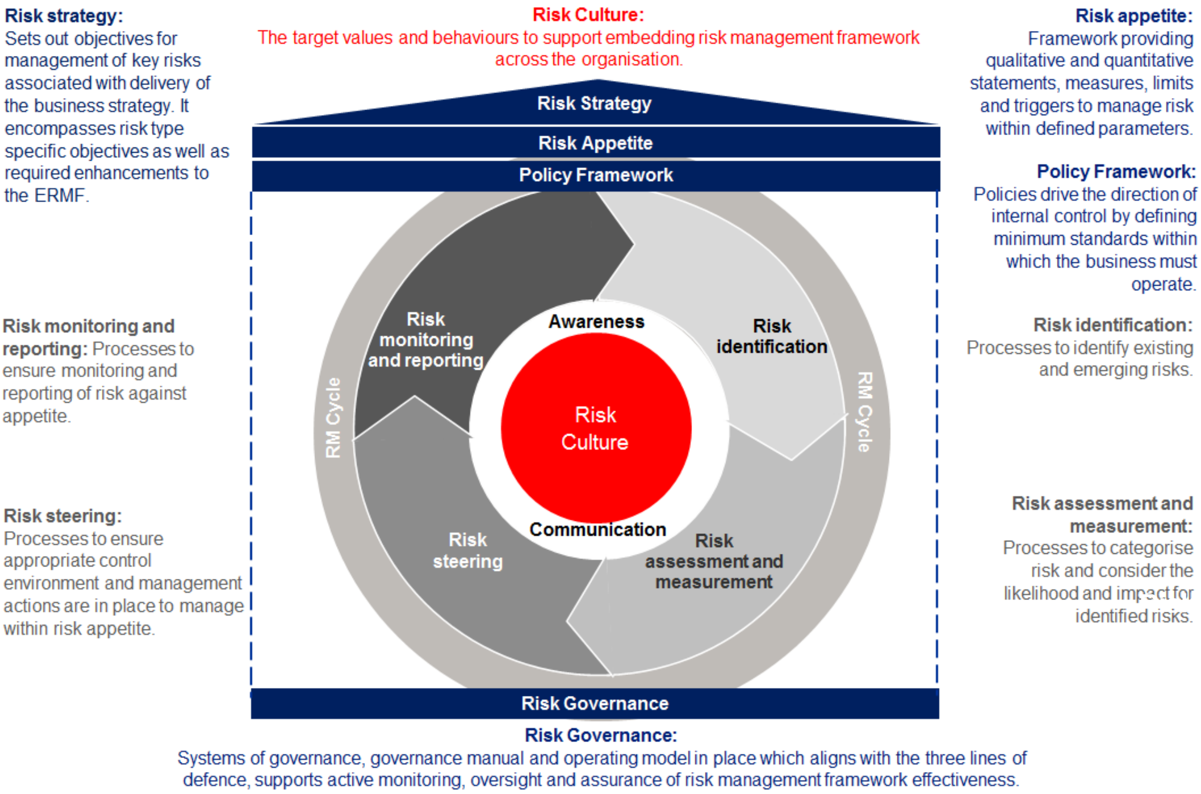
All Key Function Holders are Approved Persons and as such are subject to the rigour and conduct requirements set out as part of the SIMR in support of Article 42 of the Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)" ("SII Directive") and paragraph 2.1 of the "Insurance - Fitness and Propriety" Chapter of the PRA Rulebook.

B.3. Risk management system including the own risk and solvency assessment

Description of the risk management system

DAS UK has implemented an Enterprise Risk Management Framework ("ERMF") which, through the governance structure of DAS LEI, implements risk identification, assessment, management and reporting to the Board and its subcommittees.

DAS UK Enterprise Risk Management Framework

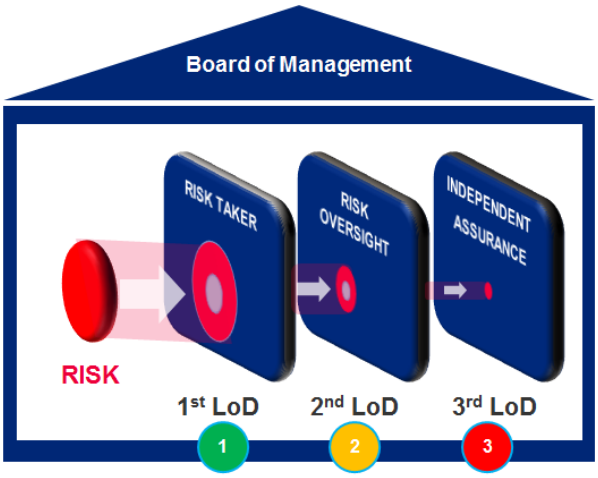


The figure above shows the components of the ERMF in DAS UK and implicitly links the key components of Governance, Board expressed risk appetite and overarching risk policies with the day-to-day risk management practices of DAS UK.

Description of how the risk management system is implemented

DAS LEI's organisational structure reflects the three lines of defence principles with key functions operating as essential components of the system of governance:

- Three lines of defence: facilitates clarity of responsibilities based on appropriate segregation of duties. An overview is shown below.
- Key Functions: The DAS UK structure includes four separate key functions: Risk; Compliance; Actuarial and Internal Audit ("IA"), all of which have documented roles and responsibilities which align to SII and the SIMR requirements.



Board of Management

Oversight and challenge of all three lines of defence
- Set Business and risk strategy
- Determine business targets
- Define risk appetite based on risk-bearing capacity
- Monitor company's Risk Profile
- Receive internal risk reports, oversee Internal Audit Function

1st LoD: Business Unit(s) (Risk Taker) 1

Day to day management, control and reporting of risk exposures in accordance with the strategies, policies and risk appetite set by the Board
- Take informed risks in line with risk strategy and risk appetite and tolerance levels
- Execute and deliver the risk management cycle
- Report exposures to Business Risk Function and defined governance forums

2nd LoD: Business Risk Function (Risk Oversight) 2

Responsibility for the oversight and challenge of day to day management, control and reporting of risks
- Drives development of risk strategy and policy framework
- Drives development, maintains and promotes risk appetite framework
- Develop and implement risk identification, assessment, monitoring and reporting framework and processes
- Risk and Compliance oversight and second line risk advice

3rd LoD: Internal Audit (Independent Assurance) 3

Independent assurance on the overall system of internal control, including risk and compliance
- Verify that an effective ERMF is in place and is functioning properly to manage risk and controls across the business, allowing for independence from 1st and 2nd lines of defence

The DAS UK Holdings Board is ultimately responsible for risk management within DAS UK, and is supported through advice provided by the Risk Committee. The system of governance is formally defined within the DAS UK Holdings Governance Manual with additional information shown below.

This is evidenced and achieved by the following:

i) Chief Risk and Compliance Officer reporting

The Risk and Compliance function is led by the Chief Risk and Compliance Officer, who reports directly to the DAS UK CEO and has dotted line reporting to the ERGO Chief Risk Officer and ERGO Chief Compliance Officer. The Chief Risk and Compliance Officer is also an Approved Person (SIMF4 and CF10) under the FCA and PRA rules. See "Key Functions" section in B.1 for further information on the responsibilities of the Chief Risk and Compliance Officer.

ii) Compliance with the DAS UK Holdings - Governance Manual

The following are key extracts as they relate to risk management:

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

Executive Management Committee ("EMC") - All Senior Managers (direct reports to the CEO), including the Chief Risk and Compliance Officer, are members of the EMC. All DAS UK Holdings' Management Committees directly report into the EMC on matters that they deem appropriate as defined in their Committee Terms of Reference. See "Management Committees" section in B.1 for further information on the responsibilities of the EMC.

Executive Management Risk Committee – Implementation of the group's risk management strategy from a first line of defence perspective including implementation of DAS UK's information security and business continuity management frameworks. See "Management Committees" section in B.1 for further information on the responsibilities of the Executive Management Risk Committee.

Risk cycle – risk identification

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

- Internal Control System ("ICS") - key functional processes are reviewed on an annual basis to ensure that all significant risks and key controls have been identified and captured in line with required data quality standards with appropriate owners assigned;
- Corporate Risk Profiling - Senior management team identify, agree and rank corporate level risks;
- Departmental Risk Profiling – bottom up risk identification primarily with an operational risk focus;
- Programme and Project Risk Profiling – facilitated by the Projects Team and subject to project management principles;
- Risk Events: the crystallisation or potential crystallisation of an operational failure triggers a review to ensure that associated risks and controls have been captured, and that opportunities to prevent re-occurrence have been identified; and
- Emerging risk process: process to identify emerging risks through the regular monitoring of changes to the internal and/or external business environment which may impact the existing/future risk profile.

As risks can be identified at all levels of the organisation, risk identification processes involve staff throughout DAS LEI from all hierarchy levels (employees, managers, Board).

Risk cycle – risk assessment and measurement

DAS LEI utilise risk scales to ensure the consistent measurement of all identified individual risks. The risk scale scores risks considering the likelihood of materialisation and the potential impacts. The consolidated risk profile is also assessed on a quarterly basis by the defined governance structure, through review and challenge of regular risk management information.

In addition, all risk categories have Board approved Risk Appetite statements which in turn are supported by underlying risk metrics and tolerances. The consolidated risk profile is assessed on a quarterly basis by the defined governance structure, through review and challenge of pre-defined risk management information.

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

Risk cycle – risk steering

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

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

Risk cycle – risk monitoring and reporting

Risk monitoring processes ensure continued compliance with risk appetite and strategy, at both an individual and consolidated risk level. Monitoring processes are in place within business functions through quality assurance and control testing.

The Risk Function also undertake a defined risk monitoring programme, where the effectiveness of DAS LEI's risk mitigation techniques are assessed, reviewed and updated where appropriate.

The third line IA function completes a defined programme of independent assurance through delivery of the annual IA plan.

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

External risk reporting is undertaken in accordance with regulatory requirements.

Process undertaken to conduct the Own Risk Solvency Assessment (“ORSA”)

Objectives of DAS LEI’s ORSA

The ORSA is recognised as an important management tool in the strategic decision-making process with the forward-looking assessment of own risks:

- Providing management with a comprehensive view on all material quantifiable and non-quantifiable risks that DAS LEI is currently exposed to or may face in the future, the overall solvency needs that follow from that risk exposure and how these needs can be satisfied in all relevant dimensions;
- Ensuring that economic steering coincides with regulatory requirements in an adequate/reasonable way. DAS LEI cannot simply assume that regulatory capital requirements are adequate for the business and risk profile; and
- Providing insight into the quality of the management's understanding of risk.

The following illustration sets out the three main steps of the ORSA**:**

Assessment of risk profile	Assessment of overall solvency needs	Control environment / Compliance with regulatory capital requirements
• Encompass **all material risks and their interrelations.** • Check **adequacy of the** internal **model**/ standard formula and the **processes** for mitigating risks **against risk profile.**	• Assess overall solvency needs (regulatory minimum requirements, buffer / stakeholder expectations). • Take into account specific risk profile, approved risk tolerance limits and business strategy. • Provide forward-looking projections of capital requirements and own funds at least over business planning time horizon. • Encompass risk mitigating techniques & capital management actions.	• Ensure compliance with regulatory solvency needs on a continuous basis • Ensure compliance, at any time, over the business planning time horizon. • Establish early-warning system to estimate changes in the capital requirements and eligible own funds since the last full solvency calculation

The ORSA process

The ORSA encompasses numerous processes in the area of risk management, business strategy/planning and capital management. The main task of the ORSA itself is to bring these processes together, to collect and assess the outcome of the individual processes and to report these results at regular intervals.

ORSA Report

The ORSA is the central tool for the Risk Management Function ("RMF") to provide comprehensive ORSA relevant information to DAS LEI's Board.

The ORSA contains the results of DAS LEI's own risk and solvency assessment. It represents the annual risk report, documents the risk strategy and records the key aspects of internal guidelines on risk management and capital management. DAS LEI's Board discusses and approves this document. Individual aspects are documented in more detail in relevant policies, hand-books and process documentations.

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

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

Roles and responsibilities regarding the ORSA process

Board

DAS LEI's Board has ultimate responsibility for the ORSA. In particular, the Board has the following responsibilities regarding the ORSA:

- DAS LEI's Board has to challenge and approve the business plan as a basis for the forward-looking perspective. It has to discuss the key assumptions to assess the validity of the business plan and possible sensitivity to risk drivers;
- DAS LEI's Board has to challenge and approve the ORSA outcome. The ORSA is the central tool for DAS LEI's Board. The report provides DAS LEI's Board with a comprehensive picture of the risks the business is exposed to or those it could face in the future. It enables DAS LEI's Board to understand these risks and the corresponding model and how the risks translate into capital needs;
- DAS LEI's Board has to review and challenge the results of the risk profile analysis and the Risk Strategy documented in the ORSA;
- DAS LEI's Board has to ensure that the results of the ORSA are taken into account in terms of capital management, business planning and product development and design; and
- DAS LEI's Board receives interim updates on core ORSA elements via the various reporting and decision-making processes. It has to discuss the information and decide if actions or further analysis and information is required.

Risk Management Function

The RMF supports DAS LEI's Board in fulfilling its obligation to prepare the assessment. The RMF is responsible for compiling the ORSA.

Regularity of review

The ORSA is the central tool for DAS LEI's Board. It completes the outcome of the underlying processes by summarising all the relevant aspects once a year.

Determination of own solvency needs

Capital management strategy

Focused on analysis and monitoring capital adequacy requirements and ratios, it also aims to achieve optimal capitalisation from the Munich Re Group perspective, taking restrictions from single entities into account. The capital management activities are considered as part of the ORSA process.

See “Objectives, polices and processes employed in managing own funds” in section E.1 for DAS LEI’s capital management procedures.

B.4. Internal control system

Description of the ICS

The ICS forms a key element of DAS LEI’s overall governance system. The design of the internal control environment is based on a strong corporate culture with the Board and senior management setting the “tone at the top”.

The ICS covers all levels of the group as well as outsourced areas and processes where appropriate. ICS is used primarily to ensure that business operations run efficiently and effectively and internal policies as well as legal and regulatory requirements are also adhered to. ICS systematically links key controls and steering measures with the significant operational risks within business processes. In this context, significant risks are defined as those, which alone, or cumulatively, could jeopardise a particular process or pose a threat to a business target (based on a self-assessment of the responsible process owner). A key control is seen as a control that is implemented to mitigate this risk.

Key controls and steering measures are identified, analysed and assessed in respect to the effectiveness of business processes, the reliability of financial reporting and compliance with laws, regulatory and internal rules and procedures. To facilitate this, controls are implemented on a company, process and IT level. Criteria have been defined to determine whether a process contains significant operational risks and individual materiality thresholds have been defined.

ICS comprises a process for the assessment, analysis and steering of the identified operational risks and corresponding controls. Net risks (net after control/mitigation) are compared with a predefined limit system (heat maps) and significant risks are managed as necessary through (further) reduction, transfer and/or intensive monitoring. Results are reported up to the board on a quarterly basis.

Description of the Compliance function

DAS LEI has in place a Compliance function which operates as a second line of defence and is identified as one of DAS LEI’s four Key Functions. The Compliance function is independent of the business and provided both technical guidance and oversight of operational compliance matters.

In addition, formal reporting on DAS LEI’s compliance performance is reported quarterly to both DAS LEI’s Conduct and Compliance Committee and to DAS LEI’s Audit Committee on all applicable compliance disciplines. All regulatory incidents are reported through to DAS LEI’s Risk department as per the Risk Event Management Process and highlighted where applicable to DAS LEI’s Compliance function for on-going support and oversight to remediation.

B.5. Internal audit function

The Internal Audit ("IA") function monitors and provides an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance, and reports directly to the chair of the Audit Committee.

How the Internal Audit function is implemented

The IA function within DAS UK is responsible for providing an independent opinion on the processes and controls within DAS UK. This is performed via a risk based annual IA Plan.

The Internal Audit function is governed by an Audit Charter that is reviewed and approved annually by the Audit Committee. The approach to individual audits is governed by the ERGO Group Audit methodology, which is owned and overseen by ERGO Group Audit function. The practices are in accordance with the International Standards from the Institute of Internal Auditors.

Independence and Objectivity

The IA team comprises of qualified accountants who are required by their professional bodies to adhere to expected ethics, which amongst others, includes independence and objectivity. In addition to this, the people who carry out the IA function do not assume any responsibility for any other function.

B.6. Actuarial function

The Actuarial function for DAS UK is performed by the Chief Actuary of DAS LEI, who reports to the CFO of DAS UK.

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

All items that are listed in Article 48 of the SII Directive, and 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 no direct support from any other functions.

The Actuarial Function Holder is a Fellow of the Institute and Faculty of Actuaries ("IFoA") in the UK who has twelve years of experience in a non-life actuarial role. He holds a Practising Certificate as required by the IFoA for PRA-approved Chief Actuaries and is the SIMF20 position holder under the PRA's SIMR.

B.7. Outsourcing

Outsourcing is defined as: "Any 3rd party arrangement including delegated authorities, where DAS UK would otherwise need to employ appropriate personnel in-house."

DAS UK differentiates between outsourcing arrangements based on risk; categorising each arrangement as follows:

- Category 3: Critical Risk
- Category 2: High Risk
- Category 1: Medium Risk
- Category 0: Low Risk

The PRA Rulebook defines ‘material outsourcing’ as, “outsourcing 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”.

SII regulations define ‘critical or important outsourcing’ as “the key functions of an undertaking’s system of governance and all functions within the undertaking that are fundamental to carry out its core business”.

For the purposes of this document and the supporting outsourcing framework, ‘material’ and ‘critical and important’ are deemed to be interchangeable and refer to those arrangements where the outsourced function or activity is fundamental to the operation of DAS LEI such that without it they would be unable to deliver its services to policyholders.

The critical functions outsourced by DAS LEI, which are primarily registered companies in the UK and Ireland, are:

- **Distribution:** DAS LEI policies are distributed to policyholders by a large network of business partners, often as ‘add-ons’ to other policies, in line with DAS LEI’s business model. This provides access to a far larger market than an in-house distribution function would allow.
- **Legal services:** Legal services are provided to DAS LEI policyholders both by DAS Law and by external law firms to provide policyholders with the broadest possible choice of law firms.

Outsourcing Committee

The Outsourcing Committee is responsible for oversight of DAS UK’s third party outsourcing policy. See “Management Committees” section in B.1 for further information on the responsibilities of the Outsourcing Committee.

Processes

Outsourcing decision

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

Any outsourcing arrangement must not:

- Materially impair the quality of DAS UK’s system of governance;
- Prevent oversight of operations or delivery of regulatory obligations to clients and customers;
- Unduly increase DAS UK’s risk profile in particular operational and reputational risks;
- Impair any relevant regulator’s ability to monitor DAS UK’s compliance; and
- Be detrimental to continuous and satisfactory service to DAS LEI’s policyholders.

SII regulations and the PRA Rulebook identify four ‘key functions’ in an insurer, which are by default classed as critical, important or material:

- Risk Management;
- Compliance;
- Actuarial; and
- Internal Audit.

Sourcing strategy

For third parties excluding Business Partners, the requirements outlined in the "Procurement Tendering Process" section of the DAS UK Procurement Processes document must be complied with. For Business Partners the appropriate department processes and controls should be applied, which may include referral to the Transaction Committee.

Contracting

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

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

Contract management and monitoring

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

Termination

Detailed plans for termination of Category 3 (Critical) and Category 2 (High) arrangements must be assessed and approved by the Outsourcing Committee in advance, including review of the risks and impacts of termination. An ad-hoc meeting of the Outsourcing Committee must approve unplanned external terminations or urgent termination requests.

B.8. Any other information

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

C. Risk Profile[4]

DAS LEI is exposed to underwriting risk, market risk, credit risk, liquidity risk, strategic risk, regulatory risk, reputational risk and operational risk as set out in the sections below. The stress-testing and sensitivity analysis for material risks and events, as required by Article 295(6) of the "Commission Delegated Regulations (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)" ("Delegated Regulations"), has been documented in section C.7 of this report to aid the reader. There is no additional voluntary information as permitted by Article 298 of the Delegated Regulations that is disclosed in section C.7. DAS LEI does not use special purpose vehicles to transfer underwriting risk.

C.1. Underwriting risk

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

DAS LEI has a minimal underwriting risk appetite in that it is averse to the risk of writing inappropriate business and/or incorrect prices being charged. There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period. DAS LEI also has a minimal appetite for volatility in its portfolio of underwriting risks. Concentrations are implicitly taken into account in the calculation of underwriting risk.

Risk exposure is assessed at monthly intervals by business class, product line and by key business partner. Claim frequency and severity trends are measured against the risk profile and future proofed against forecast changes in the mix of claims, their cost and movement in claim frequency. Prices are negotiated with business partners annually, with interim performance reports provided to key business partners each quarter, forewarning them of impending rate strengthening.

The below summarises the primary business classes that DAS LEI operates and the associated key risks.

Before the Event ("BTE")

Motor (Class 100)

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

Risk:

- Potential changes to the legal landscape resulting in changes to the claim count and associated claim handling resource.

Commercial Non-Motor (Class 200)

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

Risks:

- Claim frequency could increase such as if the UK economy returns to recession, and
- Employment claims may increase following the Government's decision to withdraw Employment Tribunal fees.

[4] This section is outside the scope of the audit (see pages 6-9).

Personal Non-Motor (Class 300)

Family legal is primarily sold as an add-on to buildings and contents insurance, covering disputes with employers, suppliers of goods/services, neighbours and pursues a third party who has caused bodily injury (non-motor).

Risk:

- Economic downturn / recession could lead to a sudden increase in tenants defaulting on their rent.

Insured Assistance (Class 500)

Home Emergency provides immediate assistance up to £1,000 following damage to the building, including plumbing/drainage and heating system. Motor breakdown provides roadside assistance, repair and recovery in the UK and Europe. Both products are primarily sold on as an add-on to household and motor insurance.

Risks:

- Consecutive bad winters could lead to an unexpected surge in claims; motor breakdown, heating and frozen pipes, and
- There are a limited number of nationwide home emergency suppliers capable of servicing DAS LEI's customer base.

After the Event ("ATE")

Motor and Non-Motor Personal Injury (Class 600)

Provides cover to claimants for litigation costs in respect of a motor accident resulting in their death/personal injury.

Risks:

- There are threats within this sector, with proposed legislative and regulatory changes in the form of an increase to the small claims limit, and
- Cases involving minors require the Court's approval before damages can be agreed and any liabilities can be paid (ATE premium and CFA success fee). We are seeing an emerging trend where Courts refuse to grant the release of the ATE premium.

Civil Litigation (Class 700)

Provides cover to commercial and personal clients for litigation costs. Key areas are contract disputes, professional negligence, debt recovery, insolvency, contentious probate and property disputes.

Risks:

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

Clinical Negligence (Class 800)

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

Risks:

- Adverse judgment in relation to the element of the premium that is still recoverable from the opponent in successful cases, and
- The potential extension of the Fixed Recoverable Costs into Clinical Negligence cases will change the profile of cases insured by DAS LEI. Whilst other legislative changes are being

proposed, including the end to any recovery from the opponent in successful Clinical Negligence claims.

Concentration risk

Concentration risk could arise through Group Litigation Orders or their equivalents. There are occasions where numerous actions are brought due to a single cause, or against a single party for the same reason.

Over the years there have been a small number of groups of claims related to specific events or groups of people where DAS LEI has been the insurer for multiple claimants within that group. These cases have the potential for a higher cost due to the high number of claimants, although the amount per claimant is still low. However, most are run on a test case basis, with a single claim or a small group of claims used to represent the whole, which keeps costs lower. The courts are increasingly mindful of proportionality when looking at the potential costs of running any case or group of cases relative to the likely outcome, which is something that would work in DAS LEI's favour in the event of such a concentration.

DAS LEI’s overall exposure has not changed significantly over the past few years in terms of the spread of risks, so the data from any concentration risks that have been experienced will be included within the overall reserving and capital modelling methodology.

Mitigation

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

Quota share reinsurance treaty – Legal expenses insurance, Assistance and Miscellaneous financial loss lines of business

DAS LEI renegotiated the terms of its reinsurance quota share agreement with ERGO from 1 October 2017. Under the renewed agreement the level of business ceded increased to 90% from 70% of in-force business, net of that reinsured to other parties.

The purpose of the contract was to reduce risk and the Solvency Capital Requirement (“SCR”) of DAS LEI. This has achieved the purpose and therefore is deemed effective, as evidenced by DAS LEI’s strong 31 December 2017 SII capital position.

BTE excess of loss treaty – Legal expenses insurance line of business

From 2006 to 2017 DAS LEI had an Excess of Loss Treaty in place with a panel of different reinsurers. This covered claims in excess of £100k (up to £500k) across its BTE business. The material counterparties remaining are Lloyd’s of London reinsurers.

Quota share arrangements with Protected Cell Company schemes

DAS LEI have arrangements in place with Fiablé Insurance PCC Limited and Avantage Insurance PCC Limited. These relate to a portion of ATE business relating to personal injury, clinical negligence and industrial disease.

C.2. Market risk

Market risk is defined as the risk of loss, or of adverse change in the financial situation, resulting, directly or indirectly, from changes in the market prices of assets, liabilities and financial instruments, including their correlations. Key components of market risk include interest rate risk, spread risk, concentration risk and currency risk, each of which is discussed in further detail below.

DAS LEI has adopted a conservative investment strategy with a minimal risk appetite, in line with ERGO investment guidelines. There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period.

There has been no significant change in the Market Risk Profile in 2017. DAS UK's investment strategy aims to limit volatility in the value of DAS LEI's investment portfolio so that it remains within acceptable parameters. This helps to provide a stable financial platform to allow DAS LEI to achieve its business strategy, e.g. by ensuring that DAS LEI is able to meet its liabilities as they fall due, fund long-term projects and maintain robust capital positions from both a Solvency II and Standard and Poor's perspective. The Investment Mandate ("Mandate") remains risk-averse, with 100% of the portfolio in government and corporate bonds and cash.

Management monitors market risk against the risk appetite on a quarterly basis. Currently, market risk does not contribute a significant amount to the SCR, such that as long as the investment guidelines do not change it is unlikely to be a red or amber issue.

Interest rate risk

DAS LEI defines interest rate risk as the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from 'the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates'.

Spread risk

DAS LEI defines spread risk as the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from 'the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure'.

Concentration risk

DAS LEI recognises and assesses any 'additional risks to an insurance or reinsurance undertaking stemming from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers'. In line with ERGO investment guidelines and DAS UK's own conservative investment strategy, DAS LEI's investment portfolio is well diversified to mitigate this risk.

Currency risk

DAS LEI defines currency risk as the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly from 'the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates'. DAS LEI underwrites business in the United Kingdom, the Republic of Ireland and in Norway. Accordingly its net assets are subject to foreign exchange rate movements. DAS LEI's primary foreign currency exposures are to Euro and Norwegian Krone. If the value of the British Pound strengthens then the value of non-Sterling assets will decline when translated into Sterling.

DAS LEI incurs exposure to currency risk mainly from its operations: i.e. from underwriting premiums and paying claims or other expenses in currencies other than GBP (e.g. in EUR in the Republic of Ireland).

Market risk mitigations

DAS LEI's investment management approach is fully aligned with its minimal risk appetite. DAS LEI adopts a number of mitigation strategies to understand and control its market risk exposures. DAS LEI's strategies are focused on sound policies and procedures, all relevant expertise, and ongoing monitoring of key data. The mitigations in place ensure that the impact of market risk on DAS UK's business is negligible. As a result, DAS UK is able to meet its liabilities as they fall due, fund long-term projects and maintain a robust capital position.

Investment Management Governance

The DAS LEI investment portfolio is managed by Munich ERGO Asset-Management GMBH ('MEAG'), DAS UK's appointed Investment Manager. The Mandate, which is reviewed annually, forms part of the investment management contract between DAS UK and MEAG. The Mandate sets out investment guidelines, specifying permitted asset classes and quality constraints, taking into account any relevant tax, accounting and local supervisory regulations. The Mandate defines key figures and trigger thresholds for monitoring purposes. MEAG is responsible for the implementation of the Mandate, which reflects DAS UK's minimal investment strategy.

The Mandate is substantially based on the maturity structure of DAS UK's insurance liabilities; it also considers return on investment, creditworthiness, currency risk and diversification, as detailed below.

The terms of the 2017 Mandate are summarised as follows:

- Approximately 85% to be invested in Government bonds, the majority with maturity of up to three years;
- Approximately 15% to be invested in Corporate bonds with maturity up to three years;
- Other than deposits, no other investments are permitted; and
- The minimum rating allowed for single investments is BB3 (MEAG Rating); and BBB-rated Investments (BBB1, BBB2, and BBB3) are permitted to comprise up to 13% of total fixed income assets.

The Mandate is subject to approval by the Chief Executive Officer and Investment Officer of the DAS UK Group. The Mandate must comply with the Investment Guidelines ERGO International and the Mandate proposals are subject to agreement by the ERGO Asset Liability Management Committee before the Mandate is finalised.

The DAS UK investment Committee, which acts on authority delegated by the Executive Management Committee, is an interdisciplinary body that aims to secure a comprehensive view on investments such that the investment target is achieved with due consideration to the impact on other aspects of the business. The Investment Committee provides active "oversight and periodic review of investment management arrangements and delegated authorities, including review of management information, monitoring of the Investment Manager's performance against key metrics (risk triggers), monitoring of compliance with regulatory requirements and oversight of market risk management arrangements and contractual agreements." The Investment Committee comprises DAS UK's Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Actuary, Managing Director of Insurance and the Investment Manager (MEAG).

Investment Management Principles

The key considerations underpinning DAS UK's investment strategy are set out below.

Liquidity

In common with all ERGO legal entities, DAS UK pursues an investment strategy that is substantially based on the characteristics of the maturity and currency structure of its liabilities; DAS LEI aims to match the maturity of assets and liabilities. In this way, DAS UK ensures that it retains sufficient liquidity to meet the needs of the business.

Investment Return

A key objective of DAS UK's investment management strategy is to limit market risk and volatility whilst achieving a better return than could be achieved by investing exclusively in risk-free securities.

Creditworthiness

As discussed above, the Mandate reflects DAS UK's cautious market risk appetite by restricting the credit risk inherent in its investment portfolio.

Currency Risk

The Mandate aims to ensure that investments denominated in foreign (non-sterling) currencies are permitted only to the extent that they support liabilities denominated in foreign currencies.

Concentration Risk

DAS UK identifies and assesses any risks to stemming from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers. In line with ERGO investment guidelines and DAS UK's own conservative investment strategy, DAS LEI's investment portfolio is well-diversified to mitigate this risk.

C.3. Credit risk

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

The principal counterparty (credit) risk exposures arising in connection with DAS LEI's assets relates to the following assets:

- Investments in debt securities;
- Balances held with banks and on treasury deposit;
- Insurance debtors; and
- Reinsurance balances (including reinsurers' share of technical provisions).

DAS LEI also has less significant credit risk exposures relating to subrogation recoveries and other non-insurance debtors. DAS LEI assesses these risks as appropriate under the Standard Formula approach. There has been no significant change in the Credit Risk Profile in 2017.

DAS LEI has a minimal appetite for credit risk, such that mitigation strategies are sought which seek to minimise the exposure to credit risk whilst taking a proportionate account of costs of control. DAS LEI's appetite is that with a confidence level of 90%, defaults should be less than 0.5% of income (i.e. only once in 10 years, losses from debtor write-offs should not be larger than 0.5% of technical income).

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

Mitigations

Investments in debt securities

DAS LEI's investment portfolio is well-diversified and is invested principally in high-quality corporate and government debt instruments. The principal types of market risk impacting DAS LEI and the mitigations in place in respect of such are detailed in the Market Risk section.

Balances held with banks and on treasury deposit

DAS LEI holds all of its cash with highly-rated organisations. Funds can only be deposited with banks and deposit-takers approved by DAS UK's Board. The criteria governing deposits with banks and other deposit-takers are set out in the DAS UK Liquidity Risk Policy. A weekly summary of funds held on deposit is produced by the Finance Department and includes the current credit rating of each bank used.

Insurance debtors

Primary responsibility for monitoring premium income levels and recording policy sales for premium income rests with the Underwriting Department. Responsibility for credit control of BTE and other business partner income lies principally with the Cash Management team. Responsibility for the credit control for ATE debtors lies within the ATE department. The Cash Management team works closely with colleagues in the Underwriting and Sales Departments to pursue outstanding insurance debts. Detailed aged analyses of debts are maintained for categories of insurance-related debts. Any significant anomalies or movements in the age profile are identified and investigated.

Reinsurance balances (including reinsurers' share of technical provisions)

DAS LEI is engaged in the following material reinsurance arrangements:

- A quota share arrangement with ERGO Versicherung AG ('ERGO') under which 90% of all business net of external reinsurance is ceded. This was revised from 70% in 2017.
- An Excess of Loss arrangement with a panel of different reinsurers on Products 200 and 300 incepted between 2008 and December 2017. This arrangement was not renewed at the end of 2017 and is therefore in run-off. The material counterparties remaining are Lloyd's of London reinsurers, and
- Two quota-share arrangements with Protected Cell Companies, Avantage Insurance PCC Limited and Fiablé Insurance PCC Limited, covering business introduced by certain solicitors.

Reinsurance assets would grow in the event of the extreme adverse claims experience envisaged within the Standard Formula calculation as part of Underwriting Risk. However, almost all of these larger reinsurance balances would remain receivable from ERGO. Deposits held on reinsurance balances are held in respect of a reinsurer's share of technical provisions. Exposures to non-ERGO Group reinsurers in these circumstances would be claims arising under the commercial legal expenses excess of loss cover.

The total reinsurers' share of technical provisions at 31 December 2017 was £118,551m (2016: £92,438m). The substantial majority of these balances relate to the 90% quota share contract with ERGO, which has a Standard and Poor's ("S&P") credit rating of AA-.

C.4. Liquidity risk

Liquidity risk is defined as the risk that the undertaking is unable to realise investments and other assets in order to settle financial obligations when they fall due.

DAS LEI has an 'averse' risk appetite for failing to meet any policyholder or other financial obligation as they fall due, with mitigation strategies in place which seek to minimise exposure whilst taking a proportionate account of costs of control. These are monitored on a regular basis in accordance with the DAS UK Liquidity Risk Policy ensuring that even under adverse conditions DAS LEI has access to the funds necessary to cover its claims obligations. There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period. DAS LEI ensures that it is in a position of being able to pay claims without delays in a 1-in-200 year scenario. There has been no significant change in the Liquidity Risk Profile over the year.

All of the DAS LEI's treasury positions are in immediate call accounts and highly liquid securities which are always greatly in excess of the liabilities falling due in the short term.

The management strategies and processes described below ensure that sufficient funds are available to meet trading liabilities as they are presented for payment. DAS LEI cash flows can be volatile in the very short term due to the number of unpresented cheques in circulation at any time. Funds are held in very liquid accounts or securities and are always greatly in excess of the liabilities falling due in the short term. DAS LEI liquidity position is strong; consequently no costs are likely to arise from requirements to liquidate investment assets at short notice.

Mitigations

DAS LEI adopts a number of mitigation strategies to address its exposure to liquidity risk. These are focused on forecasting and planning liquidity requirements and maintaining sufficiently liquid assets to meet potential short-term spikes in demand for cash.

Investments are managed by MEAG, Munich Re Group's special purpose asset management company and transactions are carried out by BNP Paribas. DAS UK coordinates with MEAG and BNP to maintain returns while ensuring sufficient cash availability. The Group's investment managers could create short term liabilities by entering into contracts to purchase investments. However, the authorisation of transactions is carried out and controlled by the senior personnel of the DAS UK Finance team. In practice, there is close liaison between MEAG and DAS UK's Finance function and no significant difficulties have arisen in recent years in having funds available to meet investment purchase obligations.

Liquidity is monitored against the risk appetite on a daily basis and is considered green when there are Cash holdings in bank accounts in excess of £3m, and red when the holdings are less than £1m. Liquidations of assets are made when necessary, to manage the liquidity.

Using a capital requirement to mitigate this risk would be ineffective as it relates to cash flow. Accordingly, liquidity risk cannot be quantified in capital terms and is not actually quantified under the Standard Formula. It is actively managed through the risk mitigation strategies detailed above.

Expected profit in future premiums

The expected profit included in future premiums as at 31 December 2017 is £7,537k (2016: £19,922k).

C.5. Operational risk

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

DAS LEI has a minimal appetite for operational risk. This recognises that operational risk should generally be reduced to as low a level as is commercially sensible, on the basis that taking operational risk will rarely provide an upside, and operational failures may adversely impact reputation, impair the ability to attract new business, or possibly lead to poor customer outcomes. Consequently, DAS LEI operates mitigation strategies which seek to minimise the exposure to operational risk whilst taking a proportionate account of costs of control. There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period.

The DAS UK Operational Risk Policy sets the framework and expectations of the Board for the effective management of the risks arising from DAS UK's management of people, process and systems. This utilises the ERMF.

DAS LEI is exposed to the risk of losses as a result of failed internal processes, people and systems or from external events. Operational risk can take many different forms, and as such there is significant scope for losses to occur from a variety of sources. The most material operational risks for DAS LEI are considered to be:

- Failure to ensure the IT infrastructure supports current and future business models;
- Failure to understand Business Performance (Information Management);

- Failure to manage Outsourcing arrangements;
- Failure to deliver Change Projects;
- Failure to manage Operational Processes; and
- Failure to attract, manage and retain talent and/or critical skill sets.

Mitigations

IT solutions:

The IT development strategy has been agreed with a number of core IT development projects scheduled.

Information Management:

Data Governance framework developed and executed against the defined framework (including a monthly Data Governance Steering Group) while a Data Clean process is agreed.

Outsourcing:

Strong outsourcing governance and processes as noted in section B.7

Failure to attract, manage and retain talent and/or critical skill sets:

Improvements to recruitment, reward, remuneration and training have been undertaken to mitigate this risk, including HR MI and exit interviews processes in place to track attrition levels and trends and In house Recruitment Team in place to source external talent and expertise.

The continued effectiveness of the compliance monitoring of these risks are considered through the ERMF as noted in section B.3.

C.6. Other material risks

Regulatory risk

Regulatory risk is defined as the risk that DAS LEI is exposed to fines, censure, legal or enforcement action due to failing to comply with applicable laws, regulations and codes of conduct or legal obligations. There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period.

Regulatory risk management processes are in place and are embedded across the Group, particularly in the regulated entities (DAS Law, DAS LEI and DAS Canada). DAS LEI's strategy with regard to regulatory risk is to identify, assess, manage and control risk appropriately and to ensure fair outcomes within agreed and defined risk appetite.

DAS LEI has a minimal risk appetite for material regulatory breaches. To support this appetite, DAS UK has developed policies, processes and standards which provide the framework for the business and colleagues to operate within, in accordance with the laws, regulations and voluntary codes which apply to DAS UK and its activities.

DAS UK considers that the most effective way of managing regulatory risk is to embed a culture of integrity and high ethical standards, whilst ultimate oversight responsibility remains with DAS LEI's Board of Directors.

DAS LEI's principal exposures to conduct and regulatory risk are set out in the table below:

Risk	Description
Failure to comply with regulatory requirements or failure to implement mandatory regulatory initiatives	Regulatory intervention due to failure to respond robustly to conduct risk agenda.
Regulatory Change **Ensuring the business responds effectively to regulatory changes.** **Ensuring compliance with legislation, regulation and regulatory guidance.**	Highlighted by the FCA Motor LEI and Add-Ons Thematic Reviews and subsequent remedies. Regulatory changes need to be translated in Mandatory projects to effect those changes appropriately for DAS LEI. Compliance monitoring programmes are created with the regulatory risks in mind.
Governance	Regulatory intervention due to failure to robustly respond to corporate governance requirements
Product Development **Ensuring all products are suitable for the end customer** **Communications with Customers** **Ensuring that all communications are clear, fair and not misleading**	New product development processes and Financial Promotion review processes have been reviewed and enhanced as part of the "Customer" work stream in Nexus.
Financial Crime	DAS LEI's fraud risk management systems of control are being strengthened.
Outsourcing	DAS LEI outsources a number of its core product features to external suppliers (legal services, household and motor emergency for example).
Information Assurance	An extensive IT security risk assessment is carried out under ISO 27001 using the ABRISKA IT risk assessment tool. This has highlighted legacy system IT risks.

Mitigation

Failure to comply with regulatory and legislative requirements and failure to implement mandatory regulatory initiatives

The Compliance function has implemented an enhanced set of processes including:

- A robust annual compliance monitoring programme, the continued effectiveness of these risks are considered through the ERMF as noted in section B.3;
- Oversight and engagement by Compliance to ensure regulatory implications are factored into non-compliance discipline policies and procedures i.e. Code of Conduct;
- Proactive management and tracking of regulatory horizon change; and provision of updates and reporting to senior management on applicable change across a variety of regulatory bodies. Implementation of regulatory awareness initiatives, including proactive engagement by compliance on significant business change and project management programmes; attendance at a variety of Governance fora overseeing regulatory considerations and challenging the business on decision-making; enhanced compliance sign-off mandate to include policy wording changes, social media engagement and marketing developments, inclusion in specific decision-making regarding business opportunities, highlighting regulatory implications and potential changes based on regulator publications;

- Proactive management of assurance monitoring actions to mitigate exposure before it crystallises and proactive engagement in governance and control function meeting emerging regulatory standards and requirements coming out of FCA directives and thematic reviews;
- Proactive engagement with third line of defence function to ensure risk management activity and scheduled assurance assessment programmes are in alignment and support the business in the identification of regulatory risk and effective management controls;
- Refined allocation of regulatory responsibilities as part of the firms SIMR application and Organisational redesign, and appropriate approval submissions completed to ensure senior management are aware of their accountabilities; and
- Approval sought from relevant regulatory bodies before performing a regulated activity outside of existing and active permissions.

Failure to respond to market and regulatory needs for customer understanding for new products

The Nexus programme also included a specific work stream designed to ensure regulatory requirements to enhance market awareness and customer understanding of add-on products was achieved. The programme focussed on a series of consumer interventions designed for predominantly delivery pre-sale, to ensure consumers had sufficient information to make an informed decision regarding suitability of a product. The developments were split between business partners and brokers.

In addition to the Nexus programme and as part of DAS LEI's ongoing commitment to improve transparency and consumer awareness of legal expenses insurance products a number of additional initiatives were launched as follows:

- Independent consumer awareness testing of revised intervention materials including website design, pre-sales literature, animations; and
- Customer surveys.

In addition DAS UK also contracted external consultants to perform an independent assessment of developments and provide technical guidance on further enhancements.

In addition to the above, DAS UK Compliance has implemented a revised annual planning process to assess DAS LEI's ongoing regulatory exposure, and ensure assurance monitoring and assessment activity is completed. In addition, it ensures that DAS LEI are aware of future regulatory developments and confirms DAS UK's regulatory risk management approach and controls are effective, with sufficient oversight in place.

Strategic concentration risk

DAS UK is exposed to a concentration of business with a limited number of business partners who generate significant BTE income. However, the fact this this is no longer recognised as a 'Corporate Risk' in its own right reflects an improvement in the risk profile since prior years.

Reputational risk

There were no material changes to the measures used to assess the risk exposure or the material risks over the reporting period.

DAS LEI's reputation with stakeholders, employees, customers and business partners is critical to the continued success of its business. The table below uses the AIRMIC ("Association of Insurance and Risk Managers in Industry and Commerce") categorisation of reputational risk and identifies some of the key controls in place at DAS LEI against each attribute:

Risk Element	Description	Key Controls
Product and Services	Issues that will reduce people's belief that DAS LEI delivers high quality products and services that are good value for money.	New Product introduction process. Mystery shopping. Customer surveys. Complaints management.
Innovation	Issues that will reduce people's belief that DAS LEI is an innovative company that brings new products and services to the market first.	Transaction committee. Strategy and Innovation role. Claims Development dept. Process mapping and management.
Workplace issues	Issues that will reduce people's belief that DAS LEI has the best employees and that DAS LEI treat them well.	Investors in people. Performance management process. Employee forum.
Governance	Issues that will reduce people's belief that DAS LEI is open, honest, and fair in the way DAS LEI conducts its business.	Governance Map. SIMR implementation. Board refresh.
Citizenship	Issues that will reduce people's belief that DAS LEI is a good corporate citizen who cares about local communities and the environment.	Corporate and Social Responsibility Programme. British Standard Environmental certification.
Leadership	Issues that will reduce people's belief that DAS LEI has a clear vision for the future and are a well-organised company.	Strategy workshops. Town Halls with CEO.
Performance	Issues that will reduce people's belief that DAS LEI is a profitable company with strong growth prospects.	Shareholder support. Maintained S&P rating.
Regulatory	Issues that will reduce the perception of DAS LEI by a regulator in the UK.	Management of Regulatory Relationship.

Current Key Risk to Reputation: Loss of one or more major business partners

The loss of a large business partner could be precipitated by one or more of the major risks identified here or through some other event whether within DAS LEI's control or not. Such a loss would, in the short term, create a significant reduction in revenues depending on which business partner is involved. Such a business loss would become public as the new product provider would be keen to advertise a large business win. Whatever the reason for such a business loss, it may lead to other business partners questioning their arrangements with us. This risk has been modelled as a stress test to the Mid-term Plan.

Mitigation

Key mitigations include:

- Account managers in place for major accounts;
- Senior manager engagement with major business partners at senior level;
- Strategic joint steering committees in place with major partners to help manage ongoing relationships;
- Engagement with business partner on customer understanding using internal resource and expertise, often marketing and compliance; and
- All media enquiries directed to the Head of Marketing.

C.7. Any other information

The stress testing and sensitivity analysis for material risks and event as required by Article 295(6) of the Delegated Regulations is documented below to aid the reader. There is no additional voluntary information as permitted by Article 298 of the Delegated Regulations that is disclosed in section C.7.

Stress and Scenario Tests

DAS LEI is managed on a unified basis with other companies in DAS UK. DAS UK identified a number of extreme events that could have on the financial position of DAS LEI. These have been determined following discussions with senior management and subject matter experts from the around the business.

The scenarios considered are listed below. For each of the stress testing and reverse stress testing scenarios considered, management has performed an impact and likelihood analysis and considered possible mitigating actions. None of those scenarios would lead to a Solvency II ratio of 110% or lower in the modelled time horizon from 2018 to 2021.

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

- **Stress 1 – Loss of key business**
- **Stress 2 – Additional large losses within the ATE and BTE books of business**
- **Stress 3 – Change in economic and/or legislative landscape, driving a rise in claims**

Each is presented in more detail in the following sections. The impact tables show revised solvency coverage ratios.

Stress 1 – Loss of key business

Assumption	A key BTE business partner terminates its relationship with DAS UK and there is significantly lower growth than expected in ATE civil litigation business.				
Modelled Impact	**Metric**	**2018**	**2019**	**2020**	**2021**
	Solvency coverage ratio	141%	138%	124%	112%

Stress 2 – Additional large losses within the ATE and BTE books of business

Description	Additional large losses originating from 2019 underwriting and recognised in line with normal earnings patterns during the plan period. BTE: 4 x £0.4m losses; ATE: 3 x £2.5m losses.				
Modelled Impact	**Metric**	**2018**	**2019**	**2020**	**2021**
	Solvency coverage ratio	143%	142%	140%	140%

Stress 3 – Change in economic and/or legislative landscape, driving a rise in claims

Description	Changes in the economic and/or legislative landscape result from Brexit, the underlying global economic cycle and significant trends in the UK legal environment. These lead to a sharp rise in predominantly employment-related claims, resulting in a 30% rise in total claims arising from 2018 underwriting of Class 200 and Class 300 Family and High Net Worth books.				
Modelled Impact	**Metric**	**2018**	**2019**	**2020**	**2021**
	Solvency coverage ratio	135%	130%	129%	133%

Reverse Stress Testing

In addition to stress testing, DAS LEI also performs reverse stress testing of the business plan. This is done by identifying a range of adverse scenarios that could lead to the business plans becoming unviable and working backwards to understand what circumstances could lead to these scenarios crystallising.

The following table summarises the key business failure scenarios and definitions identified:

Scenario Description and Impact	Probability Assessment
Loss of support from ERGO arising from: • Capital scarcity • Brexit (UK seen to be less attractive) • Capital rating (outside of tolerance) Resulting in financial and capital strain.	Low
Arising from 'Historic Governance Failings', the Top 10 Business Partners terminate their relationship with DAS UK.	Low
Arising from an IT 'Cybersecurity' Incident which results in a complete breakdown in IT systems, the Top 10 Business Partners terminate their relationship with DAS UK.	Low
Arising from a significant and high profile data loss incident, the Top 10 Business Partners terminate their relationship with DAS UK (Reputational risk).	Low

Special Consideration of Brexit impacts

DAS LEI's exposure to Brexit is limited, owing to a very small proportion of its business being conducted in, or through, the EU/EEA. None of the Brexit scenarios explored to date are considered to pose any significant risk to DAS LEI.

As a result of our scenario analysis, DAS UK have identified four key business areas with some degree of Brexit exposure. These risks, along with their planned contingencies, have been previously communicated in the DAS UK Group response to the PRA's request for information as to the state of current Brexit preparedness.

DAS LEI's Brexit risk analysis has benefited from access to ERGO Group and Munich Re expertise, as part of a dedicated "Brexit Task Force". DAS UK has independently considered a number of further scenarios; changes to employment law, impact on Defined Benefit Pension Schemes, and any potential impacts to SII regulation, along with potential impacts on the market in which DAS LEI operates (i.e. increased claim volumes). Each scenario benefits from a suitable contingency plan.

In conclusion, DAS UK considers the Brexit impact, to which it could be exposed, to be minimal and believes it has prudent mitigation plans in place for the risks that it does face. DAS UK continues to closely monitor the Brexit situation and will adjust scenario analysis accordingly.

Conclusions

For each of the stress testing and reverse stress testing scenarios considered, management has performed an impact and likelihood analysis and considered possible mitigating actions.

Prudent person principle

As with the stress and scenario tests, and the reverse stress testing the disclosure requirements on the prudent person principle in Articles 295(2)(c) of the Delegated Regulations are documented below to aid the reader.

DAS LEI ensures that its assets are invested in accordance with the prudent person principle as set out in Article 132 of the SII Directive, and hence sections 2, 3 and 5 of the “Investments” Chapter of the PRA Rulebook, through the collective application of its risk management policies. These ensure that DAS LEI invest in assets where the risks can properly identified, measured, monitored, managed, controlled and reported on to appropriately take into account in the assessment of its overall solvency needs. Assets are invested in a manner to ensure the security, quality, liquidity and profitability of the portfolio of assets of DAS LEI as a whole and localised such as to ensure their availability. Assets are invested in a manner appropriate to the nature and duration DAS LEI’s insurance liabilities and in the best interests of all policyholders.

D. Valuation for Solvency Purposes[5]

In accordance with 2.1 of the "Valuation" Chapter in the PRA Rulebook and Article 75 of the SII Directive, all assets and liabilities are valued at fair value.

The below table sets out for each asset and liability shown on DAS LEI's SII balance sheet, the SII value and the value of the corresponding asset and liability shown in DAS LEI's financial statements, which are prepared in accordance with FRS 101 "Financial Reporting Standard 101 Reduced Disclosure Framework". This standard applies the same recognition and measurement principles as International Financial Reporting Standards.

The reconciliation between the equity shown in the financial statements and the own funds for SII purposes is shown in section E.1.

At 31 December 2017 Amounts in £'000s	Financial statements	SII	Difference
Assets			
Deferred acquisition costs	**6,508**	**0**	**6,508**
Deferred tax assets	**0**	**453**	**(453)**
Property, plant & equipment held for own use	**20**	**20**	**0**
Investments **(other than assets held for index-linked and unit-linked contracts)**	**124,720**	**126,138**	**(1,419)**
Bonds	**124,720**	**126,138**	**(1,419)**
Government Bonds	97,046	98,057	(1,012)
Corporate Bonds	26,127	26,500	(374)
Structured notes	1,547	1,580	(33)
Other loans and mortgages	**5,068**	**5,068**	**0**
Reinsurance recoverables from:	**210,493**	**118,551**	**91,942**
Non-life excluding health	210,493	118,551	91,942
Insurance and intermediaries receivables	**130,369**	**41,076**	**89,294**
Reinsurance receivables	**691**	**691**	**0**
Receivables (trade, not insurance)	**9,980**	**8,562**	**1,419**
Cash and cash equivalents	**17,194**	**17,194**	**0**
Any other assets, not elsewhere shown	**1,152**	**167**	**985**
TOTAL ASSETS	**506,196**	**317,920**	**188,276**
Liabilities			
Technical provisions – non-life	**240,022**	**140,747**	**99,276**
Technical provisions – non-life (excluding health)	**240,022**	**140,747**	**99,276**
Best Estimate	n/a	137,486	n/a
Risk margin	n/a	3,261	n/a
Deposits from reinsurers	**184,335**	**127,378**	**56,957**
Deferred tax liabilities	**24**	**0**	**24**
Insurance & intermediaries payables	**2,545**	**2,545**	**0**
Reinsurance payables	**7,602**	**3,155**	**4,448**
Payables (trade, not insurance)	**6,850**	**6,850**	**0**
Any other liabilities, not elsewhere shown	**26,276**	**728**	**25,548**
TOTAL LIABILITIES	**467,655**	**281,403**	**186,253**
EXCESS OF ASSETS OVER LIABILITIES	**38,541**	**36,518**	**2,023**

Where the classification of assets and liabilities in the financial statements differs from the SII classification, the SII classification is followed. Therefore the differences in the table above represent

[5] This section is within the scope of the audit except where indicated otherwise (see pages 6-9).

valuation differences. Included as a valuation difference is the valuation/reclassification of accrued interest on bonds shown in Receivables (trade, not insurance)" for the "Financial statements" column but in Bonds for SII purposes. See Appendix 1 for the following QRTs that are required to be disclosed in relation to the Valuation for Solvency Purposes:

- S.02.01.02 - Balance sheet
- S.17.01.02 - Non-life Technical Provisions
- S.19.01.21 - Non-life insurance claims (unaudited[6])

D.1. Assets

No changes were made to the recognition and valuation bases used or to estimations during the reporting period for SII reporting, with the exception of the Insurance Premium Tax ("IPT") debtor treatment as mentioned in section D.2 and the prepayment treatment being valued at nil as noted below.

Deferred acquisition costs

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

Deferred tax assets

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

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

Deferred tax assets are recognised if assets are lower in the SII balance sheet or liabilities are higher than in the tax balance sheet of DAS LEI 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. As at 31 December 2017, there were no tax losses carried forward or tax credits.

The below table sets out the differences in deferred tax:

Breakdown of deferred tax in: (All amounts are in £'000s)	Financial statements	SII	Difference
Insurance and intermediaries receivable	-	16,973	(16,973)
Other assets/liabilities	13	196	(183)
Deferred tax asset	**13**	**17,169**	**(17,156)**
Net technical provisions incl. deferred acquisition costs	-	(5,048)	5,048
Other liabilities	-	(11,631)	11,631
Investments (Government bonds)	(37)	(37)	-
Deferred tax liability	**(37)**	**(16,716)**	**16,679**
Net deferred tax (liability) / asset	**(24)**	**453**	**(477)**

The valuation differences between the SII and the financial statements balance sheet positions generate the additional deferred tax assets and liabilities in accordance with SII requirements, resulting in an overall net deferred tax asset.

[6] This QRT is outside the scope of the audit (see pages 6-9).

Future tax rate changes, relating to legislation substantially enacted at the balance sheet date, are reflected in the deferred tax valuation to the extent it has a material effect on the accounts. The following tax rates were substantively enacted at 31 December 2017:

Classification	Expecting timing of crystallisation of temporary difference	Deferred tax valuation rate
Short term	Prior to 1 April 2020	19%
Long term	From 1 April 2020	17%

The expected timing of crystallisation of temporary differences as at 31 December 2017 results in the rates applied as follows:

Item generating Temporary difference	Expect unwinding	Basis for unwinding rate	Rate applied
Insurance and intermediaries receivable	Both short-term and long-term	Immaterial effect of post 2020 unwinding	19%
Other assets	Short-term	Pre 2020 unwinding expected	19%
Net technical provisions incl. deferred acquisition costs	Both short-term and long-term	Immaterial effect of post 2020 unwinding	19%
Other liabilities	Short-term	Pre 2020 unwinding expected	19%
Investments (Government bonds)	Short-term	Liquid investments	19%

The effect of the change of rate on the opening balances assuming the current long-term rate applies increases the deferred tax balance by an immaterial amount.

Deferred tax assets are recognised to the extent that recovery is probable, following consideration of future activity. The deferred tax asset recovery does not rely on future profitability. Management expects the deferred tax asset at the year-end to be recovered through offset against the crystallisation of the deferred tax liabilities recognised as at 31 December 2017.

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

All of DAS LEI's bonds are included in the SII balance sheet at fair value.

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

DAS LEI's financial statements also record the value at fair value according to the provisions of "IAS 39 Financial Instruments: Recognition and Measurement" ("IAS 39").

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

Other loans and mortgages

This balance relates to an intercompany loan. For the financial statements this is included at amortised cost, and includes the accrued interest. For SII the valuation basis is fair value, which is deemed materially the same as the valuation in the financial statements, see section D.4 below for more details.

Reinsurance recoverables

Reinsurance recoverables shown in the SII balance sheet are valued at fair value. The calculation of the recoverable amounts from reinsurance contracts for financial statement valuation and SII valuation is based on the same principles as for the technical provisions. Therefore similar to SII technical provisions, SII Reinsurance recoverables are lower than the financial statement valuation as there will be significant future reinsurance premium cash flows on ATE business which need to be considered when valuing these assets.

The value of this asset on the SII balance sheet has been adjusted for the expected level of default risk associated with such assets taking into account the credit-worthiness (rating) of the counterparty. The credit ratings of counterparties are also considered within the calculation of the SCR and additional risks taken into account if appropriate.

Insurance and intermediaries receivables

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

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

Both of these items are included in the valuation of the technical provisions as they relate to future cash inflows.

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

The value of this asset on the SII balance sheet 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.

Receivables (trade, not insurance)

These are included in the SII balance sheet at fair value. Given the short term nature of these assets this is deemed materially the same as amortised cost, which is the valuation used in the financial statements.

The SII valuation shown in the balance sheet above excludes the interest accrued at the balance sheet date, as these are included in the underlying asset classes. For the financial statements these are disclosed as receivables. Also see "Investments (other than assets held for index-linked and unit-linked contracts)" above.

Cash and cash equivalents

Cash and cash equivalents are included in the SII balance sheet at fair value, being nominal value. DAS LEI's financial statements also record the value at fair value according to the provisions of IAS 39.

Any other assets, not elsewhere shown

This balance mainly relates to a prepayment to a fellow Munich Re group undertaking. These items are valued at amortised cost for the financial statements. However for SII reporting, as the fair value is difficult to fully support this is valued at nil.

D.2. Technical provisions

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 DAS LEI is contractually bound by the balance sheet date. The best estimate liability is made up of the sum of claims and premium provisions.

Claims provision

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

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

In DAS LEI's financial statements, claims provisions are not discounted.

Premium provision

The premium provision 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 DAS LEI's financial statements, premium provisions are 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 SII regulations and requires that a 6% 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.

The projected solvency capital is calculated by approximating the run-off pattern for material risks within the underwriting and operational risk modules.

A separate risk margin is not included in DAS LEI's financial statements.

The table below gives an overview of the technical provisions as at 31 December 2017 in both of the SII and financial statements balance sheets:

All amounts in £'000s	SII	Financial statements
Total gross	137,486	240,022
Risk margin	3,261	N/A
Reinsurance recoverable*	(118,551)	(210,493)
Total net	**22,196**	**29,530**

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

The table below gives an overview of the net SII technical provisions, per SII line of business ("LOB").

Net (of reinsurance) technical provisions (£'000s)

Type	LoB	31 December 2017
Direct business and accepted proportional reinsurance	Total	22,234
	Legal expenses insurance	20,049
	Assistance	807
	Miscellaneous financial loss	1,379
Non-proportional reinsurance	Total	(38)
Total		**22,196**

The technical provisions in SII are calculated by each separate class and sub-class of product sold, and mapped to SII LOB split by direct or inwards reinsurance.

A more detailed breakdown of the above figures showing the best estimate and the risk margin separately is given below.

Direct business and accepted proportional reinsurance

Technical provisions: Legal expenses insurance LOB

31 December 2017 (£'000s)	Financial statements	Solvency II	Difference
Total gross	231,444	128,485	102,959
Risk margin	N/A	3,042	(3,042)
Reinsurance recoverable*	(202,903)	(111,478)	(91,425)
Total net	**28,541**	**20,049**	**8,492**

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

Technical provisions: Assistance LOB

31 December 2017 (£'000s)	Financial statements	Solvency II	Difference
Total gross	4,129	3,101	1,027
Risk margin	N/A	82	(82)
Reinsurance recoverable*	(3,682)	(2,377)	(1,304)
Total net	**447**	**807**	**(360)**

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

Technical provisions: Miscellaneous financial loss LOB

31 December 2017 (£'000s)	Financial statements	Solvency II	Difference
Total gross	4,449	5,980	(1,530)
Risk margin	N/A	134	(134)
Reinsurance recoverable*	(3,908)	(4,735)	828
Total net	**542**	**1,379**	**(837)**

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

The explanation for the differences between the SII valuation and the financial statements by SII LoBs are the same for each LoB, these are noted in the "Claims provision", the "Premiums provision" and the "Risk Margin" sections above.

A lower level of detail for non-proportional reinsurance is not shown on grounds of materiality.

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 best estimates of each component and adjusting the results for events not in data (ENID). Any estimation process is subject to uncertainty, but the following are the principal sources of ENID in the technical provisions.

ENID in Claims Provisions (“CPs”) is £3,800k, down from £4,845k at 31 December 2016, reflecting an improvement in confidence in the actuarial selections. The key items justifying the ENID held in CPs are the extent and quality of data, level of sophistication of reserving methods and changes over time in the legal environment.

For BTE and assistance business Premium Provisions (“PPs”), the ENID assumption within the loss ratios was set at 2% of premium net of commission for all BTE classes, reflecting the level held for CPs and the risks underlying that assessment.

When deciding on the additional ENID assumption for ATE PPs, the following factors were taken into account:

- Policies have an indeterminate length of exposure because they are linked to the underlying legal process,
- The legal environment affecting the outcome of cases and recoverability of costs and premiums has changed substantially over the last few years and continues to evolve, and
- Civil litigation cases are small in number and large in size.

For these reasons, the ENID for ATE was set at 15% of projected claims cost for civil litigation and 5% for other ATE classes.

Explanation of the differences between the valuation for SII and financial statements

The gross undiscounted CPs are identical to the valuation in the financial statements booked reserves with the addition of the profit share reserve of £4,251k (2016: £5,319k). The booked reserves include an allowance for potential adverse experience, which is removed and replaced with an identical amount for events not in data (ENID).

Gross undiscounted PPs are significantly different from the corresponding values in the financial statements. These differences arise from the following sources:

- PPs 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
- PPs include the profit/loss from legally obliged new business within the contract boundary.

Reinsurance

Reinsurance was applied to the claims and premium provisions as specified in the following material reinsurance arrangements:

- A 90% quota share arrangement with ERGO encompassing all business net of other reinsurance;
- An excess of loss arrangement with a panel of different reinsurers relating to Class 200 business with high limits of indemnity. This terminated 31 December 2017 and is now in run-off. The material counterparties remaining are Lloyd’s of London reinsurers; and
- Quota share arrangements with Protected Cell Company schemes, Fiablé Insurance PCC Limited and Avantage Insurance PCC Limited. These relate to a portion of ATE business relating to personal injury, clinical negligence and industrial disease.

For simplicity excess of loss relating to a small amount of Class 300 business was not modelled, this was a proportionate approximation.

The cash flow patterns of the deposits for reinsurance were assumed to follow those of the claims and expenses elements of the incepted unearned business. For the ERGO arrangement, interest payments were also calculated.

As the reinsurance commission arising out of the ERGO quota share arrangement is payable on an earned basis, this was assumed to follow the same cash flow pattern as the reinsurance deposits, which is a proportionate simplification of the real settlement arrangement.

Discounting and default adjustment

Discounting and default adjustments were made using the basis and method described by EIOPA. The results were checked to ensure that they were appropriate.

Changes in methodologies and assumptions since previous valuation

For CPs, there were no material changes in assumptions and methodology gross of reinsurance.

There was an increase of £23,846k in ceded CPs (undiscounted), of which the vast majority resulted from the increased ERGO quota share.

The gross PPs reduced by £4,179k (undiscounted) representing an increase for ATE of £4,687k and a reduction for BTE and assistance of £8,865k. The main methodology or assumption changes behind these are:

- Expense allocation assumptions were updated, leading to a £2,104k reduction in BTE PPs partially offsetting an increase in ATE PPs of £2,856k;
- BTE loss ratio improvements, giving an overall reduction of £2,830k:
- The ATE performance models underwent substantial investigations during the year, resulting in a £16,900k reduction in the view of future embedded profit after allowing for the release of £5,484k profit on closed and notified business in 2017, all from pre-2017 business and before expenses, mostly from lower values of future premiums and higher claims estimates; including the addition of the 2017 business, the embedded future profit before expenses actually reduced by only £10,455k; and
- During the year, IPT due to be received on ATE “live” business and BTE instalment business was moved from debtors into the PPs. This resulted in a £9,648k increase in the PPs, although this was offset by a like reduction in the debtors.

The following changes other than methodology and assumptions also contributed to the year-on-year change in PPs:

- A reduction in the BTE unearned premium reserve of £1,287k net of DAC, led to a decrease in expected outgoings; and
- A reduction in projected other technical income, increasing BTE PPs by £662k;

The ceded PPs increased by £2,957k, which was caused by:

- changes to the gross PPs described above;
- changes in the commission rate on the ERGO quota share; and
- increase in the ERGO quota share proportion.

D.3. Other liabilities

For the values of the other liabilities please refer to the balance sheet at the start of section D. No changes were made to the recognition and valuation bases used or to estimations during the reporting period for SII reporting.

Deposits from reinsurers

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

This balance is in respect of deposits held on behalf of two reinsurers, ERGO being almost the entire part of this. It represents their share of claims provisions and premiums due to be paid across to them. Future claims recoveries are made from this deposit along with expected interest earned at an agreed rate. This has been valued as the present value of expected future cash flows, which includes payment of the deposit interest to ERGO under the reinsurance arrangement, allowing for the additional default risk associated with that counterparty. As the liabilities due under this arrangement are exactly the same as the gross liabilities (claims and premiums associated with the core business of DAS LEI) it is appropriate to use the same risk-free discount rate here as in the technical provisions themselves.

Deferred tax liabilities

See Deferred tax assets section under D.1 Assets above.

Insurance and intermediaries payables

Insurance and intermediaries payables represent amounts due or past due but not yet settled at the balance sheet date arising policyholders, insurers and other business linked to insurance, but that are not technical provisions and are valued at their fair value. For DAS LEI's financial statements this balance includes commission in respect of ATE business. In addition, payables are measured at amortised cost, using the effective interest rate. The ATE commission is removed for SII reporting as it is considered part of the technical provision. The fair value is deemed to be materially the same as amortised cost given the short term nature of these assets. The timing of payments, which are expected to be within one year, and amounts are fairly certain.

Reinsurance payables

For DAS LEI's financial statements this balance includes premiums in respect of reinsured ATE business. For SII valuation this is considered in the Reinsurance recoverables. The remaining balance is valued at fair value. These balances and timing of payments, which are expected to be within one year, are fairly certain as they are set out in the reinsurance contracts.

Payables (trade, not insurance)

Payables, which are primarily intercompany balances, are included in the SII balance sheet at fair value, which is materially consistent with the valuation in the financial statements due to the short term nature of these debts. In addition, this includes a Corporation Tax creditor, the timing and amounts are fairly certain.

Any other liabilities, not elsewhere shown

These balances represent accruals and deferred income as recognised in the financial statements. This balance relates to reinsurance deferred acquisition costs ("DAC") in respect of unearned Quota Share Commission (£21,297k), and amounts that will be repaid to reinsurers as their share of profit on the reinsured business (£4,251k). For SII valuation both of these items are considered in the valuation of the reinsurance recoverables and hence are removed for the SII balance sheet.

D.4. Alternative methods for valuation

DAS LEI used market to market valuations for all bonds. All of these assets are marked to market as quoted prices in active markets for identical assets are available. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis i.e. on the stock exchange.

For all other assets and liabilities, see list below, there are no quoted market prices in active markets for those; or similar assets and liabilities.

The following are held at fair value for SII purposes:

Deferred tax assets/liabilities
Other loans and mortgages
Reinsurance recoverables
Insurance and intermediaries receivables
Receivables (trade, not insurance)
Any other assets, not elsewhere shown
Provisions other than technical provisions
Deposits from reinsurers
Insurance and intermediaries payables
Reinsurance payables
Payables (trade, not insurance)

These are deemed the most appropriate valuation methods and are consistent with the fair value approach used in the financial statements, which is based on the fair value concept.

The nominal amount of the contractually owed asset or liability is used unless specified above. Due to the short term nature of some of the assets they are not discounted on grounds of materiality.

DAS LEI regularly compares the valuations against experience.

All other assets and liabilities valuation methods are provided elsewhere in the Delegated Regulations.

No material derogation has been used in the valuation of assets or liabilities.

For the “Other loans and mortgages” asset, which represents an intercompany loan, as there is no quoted market prices in active markets for the same assets or similar assets then an alternative valuation method was used.

This alternative valuation method is cost add cumulative accrued interest which is deemed materially the same as the SII fair value. This loan was issued at arm’s length, without a premium or a discount, its repayment amount is its cost, and because, since its issue the interest rates have not changed significantly this valuation is deemed appropriate. Given the above, it is believed that there is no material uncertainty in the valuation method. The valuation will be considered annually and will be validated on repayment.

D.5. Any other information

There is no other material information to disclose.

E. Capital Management[7]

E.1. Own funds

Objectives, polices and processes employed in managing own funds

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

- Regulatory, and
- Rating capital requirements.

It also aims to achieve optimal capitalisation from the Munich Re Group perspective, taking restrictions from single entities into account.

DAS LEI is required to apply capital management procedures in accordance with the applicable regulatory and rating requirements, and standards defined by the Munich Re Group, in particular, the Munich Re Capital Management Guideline. DAS LEI's risk appetite can be defined as 'minimal' for capital management purposes which means there is a preference for ultra-safe options that are low risk and only have a potential for limited reward.

The capital management process is a continuous cycle of monitoring and assessment actions designed to ensure a thorough understanding of the level of capital solvency needed to obtain and maintain the optimal level of capitalisation. The DAS UK Capital Management policy establishes a framework detailing systems and controls for capital oversight and management. It seeks to ensure that DAS UK and its legal entities adhere to regulatory and business requirements, and to maintain an adequate level of capital in order to achieve and maintain optimal capitalisation from a regulatory and credit rating perspective.

The Board is responsible for overseeing the management of capital in the best long-term interests of DAS LEI 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 sets the capital management strategy, and the Board approves it, in line with business guidelines and has primary executive responsibility for the management of capital adequacy issues. The CFO receives internal capital adequacy reporting from the Capital Reporting Manager.

DAS LEI's time horizon used for business planning is currently four years.

[7] This section is within the scope of the audit except where indicated otherwise (see pages 6-9).

Structure, amount and quality of own funds

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

All amounts in £'000s unless stated	31 December 2017			31 December 2016	
Item	Total	Tier 1 - unrestricted	Tier 3	Total	Tier 1 - unrestricted
Basic own funds					
Ordinary share capital	**13,000**	13,000	0	**13,000**	13,000
Reconciliation reserve	**23,064**	23,064	0	**38,564**	38,564
An amount equal to the value of net deferred tax assets	**453**	**0**	453		
Total basic own funds after deductions	**36,518**	**36,064**	**453**	**51,564**	**51,564**
Total available own funds to meet SCR	**36,518**	36,064	453	**51,564**	51,564
Total available own funds to meet MCR	**36,064**	36,064	0	**51,564**	51,564
Total eligible own funds to meet SCR	**36,518**	36,064	453	**51,564**	51,564
Total eligible own funds to meet MCR	**36,064**	36,064	0	**51,564**	51,564
SCR	**24,220**			**34,047**	
MCR	**6,055**			**8,512**	
Ratio of eligible own funds to SCR	**150.78%**			**151.45%**	
Ratio of eligible own funds to MCR	**595.61%**			**605.79%**	

The fall in Basic own funds is largely due to a fall in the embedded value in respect of future profits from unexposed and legally-obliged ("contract boundary") business. The increase in the Quota Share agreement with ERGO from 70% to 90%, effective from 1 October 2017, has caused this to fall. Whilst the Quota Share has had this adverse impact on profitability in 2017, it has achieved the main objective of improving DAS LEI UK's robust capital position as this reduced SCR and MCR. See section E.2 below for an explanation of the significant movement in those figures.

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

The own funds can be further explained as follows:

Basic own funds	31 December 2017 £'000	Description
Share Capital (Tier 1)	13,000	This is the allotted, issued and fully paid share capital and is included in Tier 1 capital in accordance with Article 69 (a) (i) of the Delegated Regulations. This ranks after all claims in the event of winding-up proceedings, is undated and not redeemable. Dividends are subject to the discretion of the Directors.
Reconciliation Reserve (Tier 1)	23,064	This is included in Tier 1 capital in accordance with Article 69 (a) (vi) of the Delegated Regulations. This is calculated in accordance with Article 70 of the Delegated regulations as follows: i) total excess of assets over liabilities as calculated for solvency purposes, less the following: a) the share capital, and b) the net deferred tax asset shown in Tier 3 capital below. This is mainly made up of the following items: Retained profit and loss reserves and other capital reserves adjusted for the differences between the financial statements valuations and the SII valuations, see reconciliation below.
An amount equal to the value of net deferred tax assets (Tier 3)	453	This is included in Tier 3 capital in accordance with Article 76 (a) (iii) of the Delegated Regulations. In prior year this was in a liability position and hence disclosed in the Reconciliation Reserve.
Total basic own funds	**36,518**	

Material differences between equity in DAS LEI's financial statements and the excess of assets over liabilities as calculated for solvency purposes

The material difference between equity shown in DAS LEI's statutory financial statements and the excess of assets over liabilities as calculated for SII purposes is the differing valuations rules for assets and liabilities under the two regimes. See section D for detailed explanations of the differences between the valuations of the assets and liabilities. Below is a reconciliation to the financial statements.

Reconciliation of SII own funds with equity in the financial statements

31 December 2017	£'000s
Equity in financial statements	38,541
Reinsurance recoverables adjustment in respect of future reinsurance premiums on ATE business (see section D.1)	(91,942)
Insurance and intermediaries receivables in respect of ATE premium written but not yet earned and BTE instalment debtors not yet received considered in valuation of technical provisions (see D.1)	(89,294)
Difference in the valuation of prepayments (see D.1)	(985)
Change in deposits from reinsurers due to treatment of ATE business not yet earned on the SII basis considered in the valuation of the reinsurance recoverables (see D.3)	56,957
Reinsurance payables premiums in respect of reinsured ATE business considered in the valuation of the reinsurance recoverables (see D.3)	4,448
DAC in respect of unearned Quota Share Commission, and amounts that will be repaid to reinsurers as their share of profit on the reinsured business considered in the valuation of the reinsurance recoverables (see D.3)	25,548
Change in technical provisions due to recognition on SII basis largely offsetting differences above (see D.2)	102,536
Risk margin added to best estimate technical provisions (D.2)	(3,261)
Removal of deferred acquisition costs (D.1)	(6,508)
Movement in net deferred tax (D.1)	478
SII basic own funds	**36,518**

See Appendix 1 for the following QRT that is required to be disclosed in relation to the Own Funds: S.23.01.01 – Own funds.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

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

The following table shows the elements that contribute to the SCR.

Components of the SCR (£'000s unless stated)	31 Dec 2017	31 Dec 2016
Market risk	3,281	2,476
Counterparty default risk	7,731	8,907
Non-life underwriting risk	13,822	25,222
Diversification	(4,740)	(5,164)
Basic Solvency Capital Requirement*	20,095	31,440
Operational risk	4,125	4,268
Loss-absorbing capacity of deferred taxes	0	(1,661)
Net Solvency Capital Requirements calculated using Standard Formula	**24,220**	**34,047**
SII eligible own funds	36,518	51,564
Solvency ratio	150.78%	151.45%

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

The final amount of the SCR is still subject to supervisory assessment.

The SCR has decreased mainly due to the fall in the non-life underwriting risk. The decrease in non-life underwriting risk from £25,222k to £13,822k is driven by:

- a significant reduction in reserve risk from £16,826k to £8,353k caused by the increase in the ERGO quota share reinsurance to 90% from 1 October 2017;
- a decrease in premium risk from £10,529k to £7,167k, which was driven by the change in reinsurance arrangements, though partly offset by an adjustment that increased the future earned premium exposure;
- a £4,954k reduction in lapse risk resulting from the reduction in the future profits exposed to lapse risk, and
- the changing levels of all these risks, reducing the related diversification effect.

The MCR for 31 December 2017 is 25% of the SCR (the "floor" as prescribed in the regulations). The difference seen over this reporting period 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.

31 December 2017	£'000s	%
Linear MCR	4,078	67.35%
SCR with add-on	24,220	400.0%
MCR cap	10,899	180.0%
MCR floor	6,055	100.0%
Combined MCR	6,055	100.0%
Absolute floor of the MCR	2,193	36.22%
MCR	**6,055**	**100.0%**

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

DAS LEI has no exposure to equities; therefore the equity risk sub-module is not relevant.

E.4. Differences between the standard formula and any internal model used

DAS LEI does not use an Internal Model. The SCR is determined using the Standard Formula without modification.

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

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

E.6. Any other information

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

Appendix 1: Quantitative Reporting Templates[8]

Appendix 1 also comprises of Appendices 1.1 to 1.8, which contain the QRTs that are required to be disclosed in this document.

All amounts in this appendix are shown in £'000s, unless they are ratios, in accordance with the Commission Implementing Regulation (EU) 2015/2452[9] of 2 December laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

[8] This Appendix is within the scope of the audit except where indicated otherwise (see pages 6-9).

[9] As amended by Commission Implementing Regulation (EU) 2017/2190 of 24 November 2017 amending and correcting Implementing Regulation (EU) 2015/2452 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report according to Directive 2009/138/EC of the European Parliament and of the Council.

Appendix 1.1: S.02.01.02 - Balance sheet

All amounts are in £'000s.

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	453
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	20
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	126,138
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	126,138
Government Bonds	R0140	98,057
Corporate Bonds	R0150	26,500
Structured notes	R0160	1,580
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	0
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	0
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	5,068
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	5,068
Reinsurance recoverables from:	R0270	118,551
Non-life and health similar to non-life	R0280	118,551
Non-life excluding health	R0290	118,551
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	0
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	41,076
Reinsurance receivables	R0370	691
Receivables (trade, not insurance)	R0380	8,562
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	17,194
Any other assets, not elsewhere shown	R0420	167
Total assets	R0500	317,920

Appendix 1.1: S.02.01.02 – Balance sheet (continued)

Liabilities		
Technical provisions – non-life	**R0510**	140,747
Technical provisions – non-life (excluding health)	**R0520**	140,747
Technical provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	137,486
Risk margin	**R0550**	3,261
Technical provisions - health (similar to non-life)	**R0560**	0
Technical provisions calculated as a whole	**R0570**	0
Best Estimate	**R0580**	0
Risk margin	**R0590**	0
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	0
Technical provisions - health (similar to life)	**R0610**	0
Technical provisions calculated as a whole	**R0620**	0
Best Estimate	**R0630**	0
Risk margin	**R0640**	0
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	0
Technical provisions calculated as a whole	**R0660**	0
Best Estimate	**R0670**	0
Risk margin	**R0680**	0
Technical provisions – index-linked and unit-linked	**R0690**	0
Technical provisions calculated as a whole	**R0700**	0
Best Estimate	**R0710**	0
Risk margin	**R0720**	0
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	0
Pension benefit obligations	**R0760**	0
Deposits from reinsurers	**R0770**	127,378
Deferred tax liabilities	**R0780**	0
Derivatives	**R0790**	0
Debts owed to credit institutions	**R0800**	0
Financial liabilities other than debts owed to credit institutions	**R0810**	0
Insurance & intermediaries payables	**R0820**	2,545
Reinsurance payables	**R0830**	3,155
Payables (trade, not insurance)	**R0840**	6,850
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**	728
Total liabilities	**R0900**	281,403
Excess of assets over liabilities	**R1000**	36,518

Appendix 1.2: S.05.01.02 - Premiums, claims and expenses by line of business[10]

All amounts are in £'000s

Note: Columns C0010 to C0090, and Rows R1410 to R2600 are excluded from this QRT as DAS LEI do not write those types of business.

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of business for: accepted non-proportional reinsurance				Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written									
Gross - Direct Business	**R0110**	75,592	5,126	8,212					88,930
Gross - Proportional reinsurance accepted	**R0120**	22,537	0	0					22,537
Gross - Non-proportional reinsurance accepted	**R0130**				0	0	0	0	0
Reinsurers' share	**R0140**	94,265	5,281	7,468	0	0	0	0	107,014
Net	**R0200**	3,865	(155)	743	0	0	0	0	4,453
Premiums earned									
Gross - Direct Business	**R0210**	83,350	4,702	10,350					98,402
Gross - Proportional reinsurance accepted	**R0220**	21,363	0	0					21,363
Gross - Non-proportional reinsurance accepted	**R0230**				0	0	0	0	0
Reinsurers' share	**R0240**	83,021	6,054	3,271	0	0	0	0	92,347
Net	**R0300**	21,691	(1,352)	7,078	0	0	0	0	27,417
Claims incurred									
Gross - Direct Business	**R0310**	51,036	3,733	9,539					64,308
Gross - Proportional reinsurance accepted	**R0320**	15,216	0	0					15,216
Gross - Non-proportional reinsurance accepted	**R0330**				0	0	0	0	0
Reinsurers' share	**R0340**	54,268	1,648	4,679	0	0	0	0	60,595
Net	**R0400**	11,984	2,084	4,860	0	0	0	0	18,928
Changes in other technical provisions									
Gross - Direct Business	**R0410**	0	0	0					0
Gross - Proportional reinsurance accepted	**R0420**	0	0	0					0
Gross - Non-proportional reinsurance accepted	**R0430**				0	0	0	0	0
Reinsurers' share	**R0440**	0	0	0	0	0	0	0	0
Net	**R0500**	0	0	0	0	0	0	0	0
Expenses incurred	**R0550**	16,327	885	1,819	0	0	0	0	19,031
Other expenses	**R1200**								1,498
Total expenses	**R1300**								20,528

[10] QRT S.05.01.02 is outside the scope of the audit (see pages 6-9).

Appendix 1.3: S.05.02.01 - Premiums, claims and expenses by country[11]

All amounts are in £'000s.
Several columns which are on the QRT are excluded from this presentation as those columns contain nil balances.

		Home country	Top 5 countries (by amount of gross written premiums written) – non-life obligations		Total Top 5 and home country (by amount of gross premiums written)
		C0080	C0090	C0100	C0140
Country	R0010		IRELAND	NORWAY	
Premiums written					
Gross - Direct Business	R0110	82,356	5,023	1,551	88,930
Gross - Proportional reinsurance accepted	R0120	22,435	102	0	22,537
Gross - Non-proportional reinsurance accepted	R0130	0	0	0	0
Reinsurers' share	R0140	101,497	4,431	1,086	107,014
Net	R0200	3,294	694	465	4,453
Premiums earned					
Gross - Direct Business	R0210	92,455	4,847	1,100	98,402
Gross - Proportional reinsurance accepted	R0220	21,265	98	0	21,363
Gross - Non-proportional reinsurance accepted	R0230	0	0	0	0
Reinsurers' share	R0240	85,714	4,749	1,884	92,347
Net	R0300	28,005	196	(784)	27,417
Claims incurred					
Gross - Direct Business	R0310	61,168	1,848	1,291	64,308
Gross - Proportional reinsurance accepted	R0320	15,178	38	0	15,216
Gross - Non-proportional reinsurance accepted	R0330	0	0	0	0
Reinsurers' share	R0340	58,026	1,665	904	60,595
Net	R0400	18,321	220	387	18,928
Changes in other technical provisions					
Gross - Direct Business	R0410	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0430	0	0	0	0
Reinsurers' share	R0440	0	0	0	0
Net	R0500	0	0	0	0
Expenses incurred	R0550	17,981	726	323	19,031
Other expenses	R1200				1,498
Total expenses	R1300				20,529

Over 90 % of the total gross written premiums are written in the Home country, but for completeness all premiums are shown above.

[11] QRT S.05.02.01 is outside the scope of the audit (see pages 6-9).

Appendix 1.4: S.17.01.02 - Non-life Technical Provisions

All amounts are in £'000s.

Note: Columns C0020 to C0100 are excluded from this QRT as DAS LEI do not write those SII LoBs.

		Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				
		Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	**Total Non-Life obligation**
		C0110	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0170**	**C0180**
Technical provisions calculated as a whole	**R0010**	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**	0	0	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM									
Best estimate									
Premium provisions									
Gross	**R0060**	2,733	2,444	4,062	0	0	0	(81)	9,158
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	8,629	1,805	3,126	0	0	0	(40)	13,520
Net Best Estimate of Premium Provisions	**R0150**	(5,896)	639	936	0	0	0	(41)	(4,363)
Claims provisions									
Gross	**R0160**	125,752	658	1,918	0	0	0	0	128,328
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	102,849	572	1,609	0	0	0	0	105,031
Net Best Estimate of Claims Provisions	**R0250**	22,903	85	309	0	0	0	0	23,297
Total Best estimate - gross	**R0260**	128,485	3,101	5,980	0	0	0	(81)	137,486
Total Best estimate - net	**R0270**	17,007	724	1,244	0	0	0	(41)	18,935
Risk margin	**R0280**	3,042	82	134	0	0	0	3	3,261
Amount of the transitional on Technical Provisions									
Technical Provisions calculated as a whole	**R0290**	0	0	0	0	0	0	0	0
Best estimate	**R0300**	0	0	0	0	0	0	0	0
Risk margin	**R0310**	0	0	0	0	0	0	0	0
Technical provisions - total									
Technical provisions - total	**R0320**	131,527	3,184	6,114	0	0	0	(78)	140,747
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	111,478	2,377	4,735	0	0	0	(40)	118,551
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	20,049	807	1,379	0	0	0	(38)	22,196

Appendix 1.5: S.19.01.21 - Non-life insurance claims[12]

Total Non-Life Business

Accident year / Underwriting year	**Z0020**	1 - Accident year

All amounts are in £'000s. Gross Claims Paid (non-cumulative)		Development year (absolute amount)											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0170**	**C0180**
Prior	**R0100**											761	761	761
2008	**R0160**	24,516	17,037	10,921	6,100	3,131	2,669	1,447	1,113	695	293		293	67,922
2009	**R0170**	24,820	15,327	9,518	4,644	3,347	1,919	1,773	701	612			612	62,661
2010	**R0180**	27,223	15,000	6,850	4,429	2,316	1,688	1,188	482				482	59,175
2011	**R0190**	31,893	13,851	6,186	3,636	2,260	1,347	825					825	59,998
2012	**R0200**	37,533	12,852	6,686	3,858	1,559	1,503						1,503	63,990
2013	**R0210**	43,633	12,938	6,512	2,993	2,117							2,117	68,193
2014	**R0220**	49,636	13,623	6,766	3,809								3,809	73,834
2015	**R0230**	61,486	19,421	6,109									6,109	87,016
2016	**R0240**	54,184	16,677										16,677	70,861
2017	**R0250**	47,371											47,371	47,371
Total	**R0260**												80,558	661,783

[12] QRT S.19.01.21 is outside the scope of the audit (see pages 6-9).

Appendix 1.5: S.19.01.21 – Non-life insurance claims (continued)

All amounts are in £'000s.
Gross undiscounted Best Estimate Claims Provisions

		Development year (absolute amount)											Current year, sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
		C0200	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0290**	**C0300**	**C0360**
Prior	**R0100**											2,451	2,420
2008	**R0160**	0	0	0	0	0	0	0	0	1,498	1,779		1,757
2009	**R0170**	0	0	0	0	0	0	0	1,992	2,126			2,100
2010	**R0180**	0	0	0	0	0	0	2,904	3,589				3,544
2011	**R0190**	0	0	0	0	0	4,272	3,370					3,328
2012	**R0200**	0	0	0	0	9,319	6,016						5,941
2013	**R0210**	0	0	0	11,032	7,633							7,538
2014	**R0220**	0	0	16,296	9,735								9,614
2015	**R0230**	0	29,868	16,386									16,182
2016	**R0240**	50,506	28,224										27,876
2017	**R0250**	48,608											48,027
Total	**R0260**												128,328

Appendix 1.6: S.23.01.01 – Own funds

All amounts are in £'000s.

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	13,000	13,000		0	
Share premium account related to ordinary share capital	R0030	0	0		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	23,064	23,064			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	453				453
Other own fund 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 Solvency II 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 Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	0
Total basic own funds after deductions	R0290	36,518	36,064	0	0	453

Appendix 1.6: S.23.01.01 – Own funds (continued)

All amounts are in £'000s unless were they are ratios.		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
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 under Article 96(2) of the Directive 2009/138/EC	**R0340**	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**	0			0	0
Other ancillary own funds	**R0390**	0			0	0
Total ancillary own funds	**R0400**	0			0	0
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	36,518	36,064	0	0	453
Total available own funds to meet the MCR	**R0510**	36,064	36,064	0	0	
Total eligible own funds to meet the SCR	**R0540**	36,518	36,064	0	0	453
Total eligible own funds to meet the MCR	**R0550**	36,064	36,064	0	0	
SCR	**R0580**	24,220				
MCR	**R0600**	6,055				
Ratio of Eligible own funds to SCR	**R0620**	1.5078				
Ratio of Eligible own funds to MCR	**R0640**	5.9561				

The Ratio of Eligible own funds to SCR and The Ratio of Eligible own funds to MCR are ratios and are therefore not in £'000s.

Appendix 1.6: S.23.01.01 – Own funds (continued)

All amounts are in £'000s.

		C0060
Reconciliation reserve		
Excess of assets over liabilities	**R0700**	36,518
Own shares (held directly and indirectly)	**R0710**	0
Foreseeable dividends, distributions and charges	**R0720**	0
Other basic own fund items	**R0730**	13,453
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	0
Reconciliation reserve	**R0760**	23,064
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	0
Expected profits included in future premiums (EPIFP) - Non-life business	**R0780**	7,537
Total Expected profits included in future premiums (EPIFP)	**R0790**	7,537

Appendix 1.7: S.25.01.21 - SCR - for undertakings on Standard Formula

All amounts are in £'000s.

Basic Solvency Capital Requirement

		Gross solvency capital requirement	USP	Simplifications
		C0110	**C0090**	**C0120**
Market risk	**R0010**	3,281		
Counterparty default risk	**R0020**	7,731		
Life underwriting risk	**R0030**	0		
Health underwriting risk	**R0040**	0		
Non-life underwriting risk	**R0050**	13,822	None	
Diversification	**R0060**	(4,740)		
Intangible asset risk	**R0070**	0		
Basic Solvency Capital Requirement	**R0100**	20,095		

Calculation of Solvency Capital Requirement

		C0100
Operational risk	**R0130**	4,125
Loss-absorbing capacity of technical provisions	**R0140**	0
Loss-absorbing capacity of deferred taxes	**R0150**	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	0
Solvency capital requirement excluding capital add-on	**R0200**	24,220
Capital add-ons already set	**R0210**	0
Solvency capital requirement	**R0220**	24,220
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	0
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	**R0430**	0
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	0

Appendix 1.8: S.28.01.01 - MCR — Only life/non-life insurance/reinsurance activity

All amounts are in £'000s.

Linear formula component for non-life insurance and reinsurance obligations
Rows R0200 to R0250 are excluded from this QRT as DAS LEI do not write those SII LoBs

		C0010
MCR_{NL} Result	R0010	4,078

		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	17,007	21,887
Assistance and proportional reinsurance	R0120	724	1,325
Miscellaneous financial loss insurance and proportional reinsurance	R0130	1,244	1,897
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	10

Overall MCR calculation		C0070
Linear MCR	R0300	4,078
SCR	R0310	24,220
MCR cap	R0320	10,899
MCR floor	R0330	6,055
Combined MCR	R0340	6,055
Absolute floor of the MCR	R0350	2,193
		C0070
Minimum Capital Requirement	R0400	6,055

Appendix 2: Glossary of abbreviations and terms[13]

Abbreviations/Term	Definition
Airmic	Association of Insurance and Risk Managers in Industry and Commerce.
Alternative valuation method	Valuation methods that are consistent with Article 75 of the SII Directive and hence section 2 of the “Valuation” Chapter of the PRA Rulebook, other than those which solely use the quoted market prices for the same or similar assets or liabilities.
ATE	“After the Event”, this is the provision of insurance after a substantive incident has occurred and therefore the risk insured is the risk of losing the litigation. Cover is provided for defendants’ costs, their own disbursements and premium indemnity. Solicitors have an alignment of interest as their own costs, which are not indemnified under the terms of the policy, are at risk.
BAFIN	Bundesanstalt für Finanzdienstleistungsaufsicht. This is the German regulator who is responsible for Munich Re Group supervision. They are the German equivalent of the PRA.
BCM	Business Continuity Management.
Best estimate for non-life insurance obligations	This forms part of the TPs and is made up of the premium provision and the provision for claims outstanding. This is the best estimate of obligations that DAS LEI have in respect of all of the insurance policies that they have issued.
BTE	“Before the Event”, this is the provision of insurance in the traditional sense, where cover is purchased to protect the policyholder in respect of the occurrence of potential future events.
CEO	Chief Executive Officer.
CF	Controlled Function, which means a function, relating to the carrying on of DAS LEI’s regulated insurance business, which is specified by the PRA, under section 59 of the Financial Services and Markets Act 2000.
CFO	Chief Finance Officer.
Civil Litigation	Commercial and complex one-off pieces of litigation.
Concentration risk	All risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of insurance and reinsurance undertakings.
CPs	Claims provisions. The outstanding claims provision represents the estimated cost of claims incurred as at the balance sheet date, together with profit shares and reinsurance settlements relating to expired risks. The provision includes an allowance for claims management and claims handling expenses. It is calculated using best estimate discounted future cash flows.
Credit risk	See section C.3.
Critical or important outsourcing	See section B.7.
Currency risk	See section C.2.
DAC	Deferred acquisition costs. FRS 101 permits incremental costs incurred in the acquisition of insurance contracts to be deferred and recognised over the life of the insurance contract, however this is not allowed to be recognised under SII reporting.
DAS Law	DAS Law Limited, a fellow DAS UK company.
DAS LEI	DAS Legal Expenses Insurance Company Limited, the company that is required to prepare this SFCR.
DAS UK	This comprises of DAS UK Holdings and all of its subsidiaries with the exception of DAS Legal Protection Insurance Company Limited (Canada) as that company is registered and managed in Canada. DAS UK is managed on a unified basis.
DAS UK Holdings	DAS UK Holdings Limited, the holding company of the DAS UK group of companies and DAS Legal Protection Insurance Company Limited (Canada). It is also DAS LEI’s immediate parent company.
Delegated Regulations	“Commission Delegated Regulations (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)” including subsequent amendments to that Regulation.
Diversification effect	The reduction in the risk exposure of DAS LEI related to the diversification of their business, resulting from the fact that the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated.
EIOPA	European Insurance and Occupational Pension Authority. The objective of EIOPA is to protect the public interest. Among its tasks is to contribute to the establishment of high-quality common regulatory and supervisory standards and practices in the European Union for insurers. EIOPA's powers include i) issuing guidelines to further clarify the Delegated regulations and the SII Directive, ii) developing templates to be used for public disclosure and in regulatory submissions (i.e. QRTs) and iii) developing draft changes to the SII regulations and the SII Directive, all through public consultations. These draft changes need to be endorsed by the European Commission before being enshrined into European legislation.
Eligible own funds	For DAS LEI, this means: (1) as to compliance with the SCR, the aggregate of DAS LEI’s: (a) Tier 1 own funds; and

[13] This Appendix is outside the scope of the audit (see pages 6-9).

Abbreviations/Term	Definition
	(b) eligible Tier 2 own funds; and (c) eligible Tier 3 own funds; and (2) as to compliance with the MCR, the aggregate of DAS LEI's: (a) Tier 1 own funds; and (b) eligible Tier 2 own funds; Please note however, that DAS LEI does not currently have any Tier 2 and the only Tier 3 own funds is the deferred tax asset, (see section E.1 for further details).
EMC	Executive Management Committee. This Committee includes all Senior Managers within DAS UK and reports up into the Board.
ENID	Events Not In Data. These are events not deemed to be captured by the data which need to be separately allowed for within the best estimate calculations to take appropriate account of uncertainty.
ERGO	ERGO Versicherung AG, a fellow Munich Re Group company.
ERGO Group	ERGO Versicherungsgruppe AG, a fellow Munich Re Group company.
ERMF	Enterprise Risk Management Framework. This is the framework that the Governance structure of DAS LEI, implements risk identification, assessment, management and reporting to the Board and its subcommittees, see section B.3 for more details.
FCA	Financial Conduct Authority, they are responsible for regulating the conduct of DAS LEI and other UK regulated firms.
FCA Handbook	This is the where the FCA rules are located, DAS LEI are required to follow the conduct rules relevant to insurers.
FRS 101	"Financial Reporting Standard 101 Reduced Disclosure Framework". This is the basis on which DAS LEI's statutory financial statements are prepared. This applies the recognition and measurement of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and permits various disclosure exemptions.
Head of	Typically direct reports of the EMC members.
IA	Internal Audit.
IAS	International Accounting Standards.
IAS 12	An International Accounting Standard on "Income Tax".
IAS 39	An International Accounting Standard on "Financial Instruments: Recognition and Measurement".
ICS	Internal Control System. This is required to ensure the DAS LEI is compliant with applicable laws, regulations and administrative provisions.
IFoA	Institute and Faculty of Actuaries, the UK's only chartered professional body dedicated to educating, developing and regulating actuaries based both in the UK and internationally.
Interest rate risk	See section C.2.
International Financial Reporting Standards	Where references to "International Financial Reporting Standards" are made it also includes International Accounting Standards. These are the Accounting Standards that need to be applied for companies adopting International Financial Reporting Standards.
INED	Independent Non-Executive Director
Inter Hannover	International Insurance Company of Hannover SE
Key Functions	means each of the following in relation to the carrying on of the insurance business by DAS LEI: (a) the risk-management function; (b) the compliance function; (c) the internal audit function; (d) the actuarial function; (e) the function of effectively running DAS LEI; and (f) any other function which is of specific importance to the sound and prudent management of DAS LEI;
Liquidity risk	See section C.4.
LEI	Legal Expenses Insurance.
LoB	Line of business. The SII LoBs are set out in Annex I of the Delegated Regulations.
LOI	Limit of Indemnity.
Market risk	See section C.2.
Market risk concentrations	See section C.2.
Material outsourcing	See section B.7.
MEAG	Munich ERGO Asset-Management GmbH, a fellow Munich Re Group company.
MCR	Minimum Capital Requirement. The calculation of this number is defined in the SII regulations and is the capital required to ensure that DAS LEI will be able to meet its obligations over the next 12 months with a probability of at least 85%. DAS LEI must hold eligible own funds covering the MCR. (Article 128 of the SII Directive and hence 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.
Munich Re	Münchener Rückversicherungs-Gesellschaft AG, DAS LEI's ultimate parent company.
Nexus	A company-wide transformation programme, which challenged the operating model of DAS

Abbreviations/Term	Definition
	UK.
Operational risk	See section C.5.
ORSA	Own Risk and Solvency Assessment a SII requirements which forms part of DAS LEI's risk-management system.
PCC	Protected Cell Captive. A PCC is a single legal entity, made up of a core and a number of ring-fenced, protected cells.
Outsourcing	See section B.7.
PPs	Premium provisions. The premium provision represents the estimated cost of future claims incurred and expenses arising from current and contractually bound insurance contracts net of future premium receipts
PRA	Prudential Regulation Authority. They are DAS LEI's Prudential Regulator, and they have a general objective to promote the safety and soundness of the firms it regulates. DAS LEI are approved and regulated by the PRA.
Prudential Regulation Authority (or PRA) rules	These are the rules that are written by the PRA which DAS LEI need to comply with.
PRA Rulebook	This is the where the PRA rules are located, the rules that are applicable to DAS LEI are the Solvency II firm rules, see 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 1 of this document, and in ii) some SII submissions to the PRA.
RMF	Risk Management Function.
Scenario analysis	Means the analysis of the impact of a combination of adverse events.
SCR	Solvency Capital Requirement. The calculation of this number is defined in the SII regulations and is the capital required to ensure that DAS LEI will be able to meet its obligations over the next 12 months with a probability of at least 99.5%. A firm must hold eligible own funds covering its SCR (Article 100 of the SII Directive and hence 2.1 in the "Solvency Capital Requirement - General Provisions" Chapter of the PRA Rulebook). Breach of the SCR results in supervisory intervention designed to restore the SCR level of capital.
SF	Standard Formula. This is used by DAS LEI for the calculation of the Risk Margin, SCR and MCR.
SFCR	Solvency and Financial Condition Report, i.e this document.
SII	Solvency II.
SII Directive	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) including subsequent amendments to that Directive.
SII line of business	See LoB above.
Solvency II (or SII) regulations	This comprises various sets of legislation including the Delegated Regulations, Implementation rules, Technical Standards and Guidelines developed by EIOPA. However excluded from this definition are the SII Directive and the PRA Rulebook.
SIMF	Senior Insurance Management Function. That aspect of any key function relating to the carrying on of a regulated activity by the DAS LEI, which is specified by the PRA in sections 3 to 10 of the "Insurance – Senior Insurance Management Functions" Chapter in the PRA Rulebook pursuant to section 59 of the Financial Services and Markets Act 2000.
SIMR	Senior Insurance Managers Regime. This regime applies 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.
Spread risk	See section C.2.
Regulatory risk	See section C.6.
Reverse stress-testing	This is done by identifying a range of adverse scenarios that could lead to the business plans becoming unviable and working backwards to understand what circumstances could lead to these scenarios crystallising.
Risk margin	Is the amount equal to the cost that a third party would incur in order to hold eligible own funds to cover the SCR necessary to support the insurance and reinsurance obligations over their lifetime.
Tier 1 own funds	The strongest form of Capital which is required to meet certain criteria as set out in the Delegated Regulations and the PRA Rulebook.
TP	Technical provisions. For DAS LEI, this is made up of the best estimate for non-life insurance obligations and the risk margin.
Underwriting result	See section A.2.
Underwriting risk	See section C.1.