DAS Legal Expenses Insurance Company Limited

Solvency and Financial Condition Report
Year ended 31 December 2018

FIRST FOR JUSTICE

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Summary

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 2018 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 2018.

On the 17 October 2018 the Prudential Regulation Authority ("PRA") published PS25/18 'Solvency II: External audit of the public disclosure requirement', under which an exemption is granted to small firms meeting specified criteria from the PRA's requirement to audit the SFCR. As DAS LEI meets those criteria, this SFCR has not been audited, in contrast to the 2017 report. This document includes comparisons and reconciliations to DAS LEI's statutory financial statements, which are audited as required by the Companies Act.

In June 2016, the UK voted to relinquish its membership of the European Union ('EU'). At the time this SFCR was signed, the UK was expected to leave the EU in 2019; however, there remained a great deal of uncertainty over the level of interaction the UK would have with the EU market after officially leaving. DAS LEI transacts business within the EU through its branch in the Republic of Ireland, and within the European Economic Area ('EEA') on a freedom of service basis in Norway; however the volumes of business are low relative to that of DAS LEI's UK operation.

DAS LEI has made robust preparations to guard against the risks associated with Brexit. Appropriate measures have been taken to ensure that DAS LEI will be able to maintain its ability to provide services to its policyholders in the Republic of Ireland, and DAS LEI has also taken the decision to cease writing new business in Norway.

Whilst the implications of Brexit are unknown, DAS LEI's Brexit risk analysis has benefited from access to ERGO and Munich Re expertise, as part of a dedicated "Brexit Task Force". DAS LEI has independently considered a number of further scenarios relating to the potential impact of Brexit on employment law, Defined Benefit Pension Schemes, SII regulation, and the market in which DAS LEI operates (including the potential impact of increased claim volumes). A suitable contingency plan has been formulated for each scenario considered.

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 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 ERGO Versicherung AG ('ERGO') for 2018. A flat commission rate of 32% replaced the sliding rate in effect under the previous agreement. The quota share arrangement improves the capital position of DAS LEI relative to that which would be achieved without it; however, the quota share had a material adverse impact on the 2018 results, largely driven by the change in the commission rate.

In 2018, DAS LEI re-negotiated the terms of its reinsurance quota share agreement with ERGO for 2019. Under the renewed agreement, the 2019 quota share is largely consistent with the 2018 Treaty: The proportion of business ceded under the agreement remains at 90%, and the flat rate of commission of 32% of ceded earned premium is retained. As there is no change in the commission rate for 2019, the adverse impact on the prior year results of the change in the commission rate effected from 1 January 2018 will not be repeated in 2019. The key change enacted under the 2019 quota share is the introduction of a profit commission receivable by DAS LEI. This will be equal to 65% of the quota share reinsurance result provided that this is a profit to ERGO. The quota share reinsurance result was a profit to ERGO in 2018, which was a key driver of DAS LEI's loss for that year. DAS LEI's solvency position will be further enhanced if the profit commission to DAS LEI is triggered. No loss share applies should the reinsurance result be unprofitable to ERGO.

The total comprehensive loss on a statutory basis for the year was £10,628k (2017: £6,520k). The impact of the quota share with ERGO on DAS LEI's result for 2018 was a loss of £13,215k (2017: £1,221k profit). DAS LEI's gross-of-quota share comprehensive income for 2018 of £1,430k represents a significant improvement on the prior year gross-of-quota share comprehensive loss of £7,741k; and the 2018 results were better than DAS LEI's plan. DAS LEI's 2018 loss ratio, gross of reinsurance, of 69.1% also represents an improvement on the prior year loss ratio of 72.5%. The 2018 results reflect the growth phase of the business transformation plan and the company's projected return to profitability. DAS LEI aims to further reduce the loss ratio and improve operational efficiency by rationalising operational expenses and by optimising claims handling expenses going forward. These measures, together with broader market penetration and new propositions, will enable DAS LEI to retain its position as the UK's leading LEI provider.

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 and its 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);
- 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 concentration risk 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 £32,932k compared with £27,913k 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 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's ratio improved in 2018 to 170% (2017: 151%). The improvement was largely due to changes in the reinsurance quota share agreements with ERGO. Section E sets out the capital DAS LEI holds ("Own funds") and the excess of capital above the amount that it 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 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, so the rounded results might not always reconcile precisely.

Statement of Directors' Responsibilities

Directors' Statement of Responsibility in respect of the SFCR for the year ended 31 December 2018

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 the 29 March 2019 and signed on its behalf by:

Director A J Burke

A. Business and Performance

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 Legal Expenses Insurance ("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 has made robust preparations to guard against the risks associated with Brexit. Appropriate measures have been taken to ensure that DAS LEI will be able to maintain its ability to provide services to its policyholders in the Republic of Ireland, and DAS LEI has also taken the decision to cease writing new business in Norway.

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

- Before the Event ("BTE") policies provide insurance in the traditional sense, where cover is purchased to protect the policyholder in respect of the occurrence of potential future events. This business falls under the "Legal expenses insurance", "Assistance" and "Miscellaneous financial loss" 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 (Firm Reference Number: 202106).

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. KPMG LLP audit DAS LEI's statutory financial statements, the SII data in this document has been reconciled to those financial statements which are audited due to Companies Act requirements.

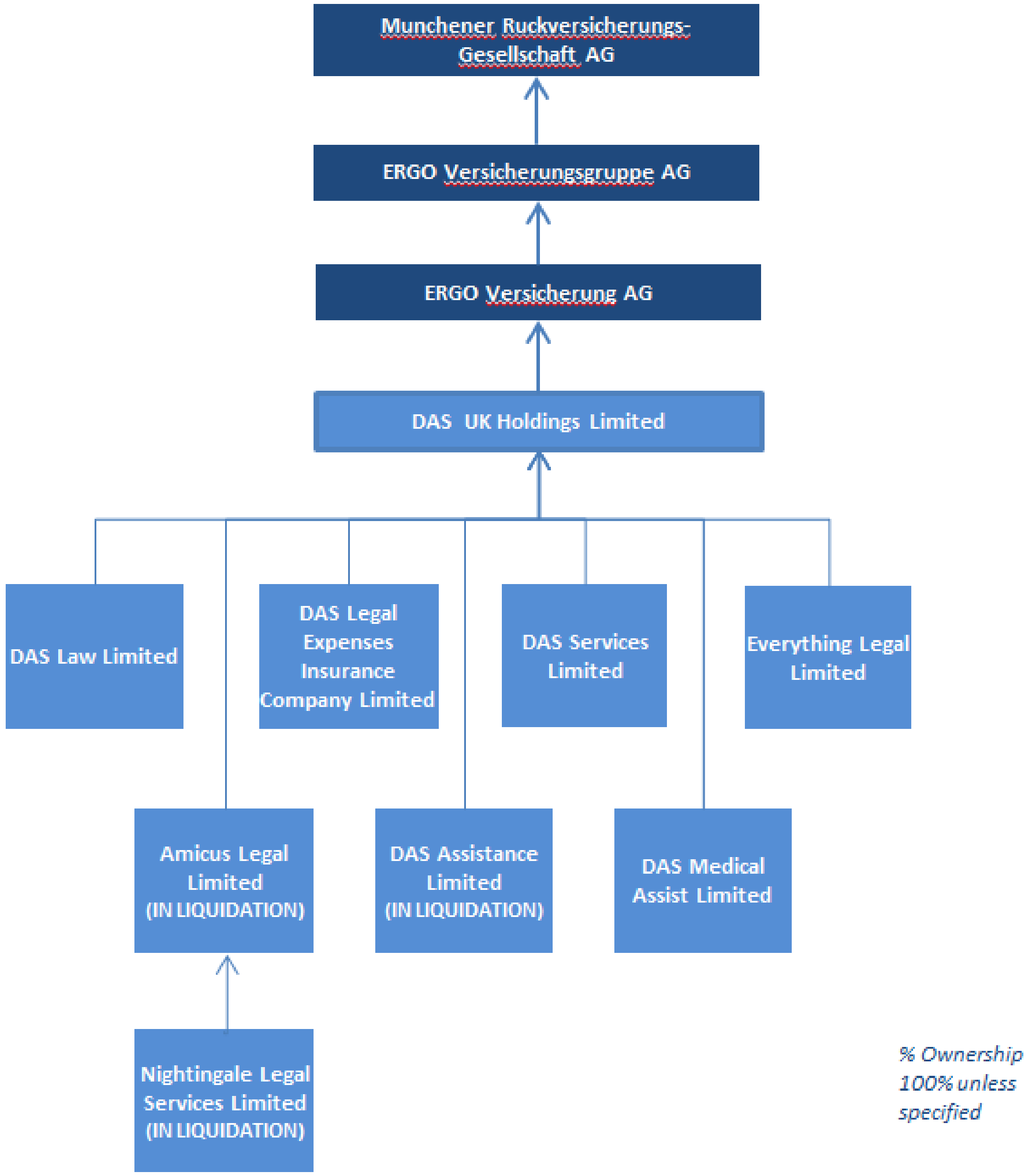
DAS LEI has no related undertakings, investments in joint controlled entities or associates.

There have been no significant business or other events that have occurred over the reporting period and had a material impact on DAS LEI.

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 (all referred to as "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.

The following diagram shows the structure of the DAS UK group and where it sits in the wider 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. It is represented in more than 30 countries worldwide 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 108, 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	2018	2017
Legal expenses insurance	7,812	2,012
Assistance	(193)	(127)
Miscellaneous financial loss	(1,154)	(2,181)
Total underwriting profit/(loss)	**6,465**	**(296)**

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

All amounts in £'000s	2018	2017
United Kingdom	6,638	(1,078)
Republic of Ireland	(188)	1,006
Norway	15	(224)
Total underwriting profit/(loss)	**6,465**	**(296)**

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

2018 showed an improved underwriting result due to portfolio pruning and pricing improvements, resulting in a better loss ratio.

See Appendix 1 for the following Quantitative Reporting Templates ("QRTs") that may be 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	2018	2017
Income from Government Bonds	867	930
Income from Corporate Bonds	420	439
Income from Structured notes	19	16
Income from Deposits other than cash equivalents	14	4
Gains on the realisation of Government Bonds	24	488
Gains on the realisation of Corporate Bonds	9	43
Investment management expenses	(138)	(83)
Total Investment return	**1,215**	**1,837**

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 income for 2018 was broadly in line with the prior year, however there was a reduction in gains on the Government Bonds as a result of recent market movement following the sale of some of these assets. The investment return for 2018 is considered to be consistent with market performance.

Gains and losses recognised in Equity

In addition to the items above, there were losses on re-measurement of available-for-sale financial assets £705k (2017: £1,441k). These relate 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 table below sets out the “Total comprehensive loss for the year” as stated in DAS LEI’s financial statements, and it also includes the underwriting and investment results set out in the previous sections.

Item	2018 £’000	2017 £’000	Comments
Gross underwriting performance	6,465	(296)	See A.2 section
Investment performance	1,215	1,837	See A.3 section
(Losses)/Gains on re-measurement of available-for-sale financial assets	(705)	(1,441)	See A.3 section
Performance of other activities			
Other income per Non-technical account	107	64	This is mainly comprised of interest income on Group loans.
Other expenses per Non-technical account	15	(69)	This comprises foreign currency gains/(losses).
Tax on loss on ordinary activities per Non-technical account	2,085	1,026	This is the tax credit on the items disclosed in the Profit and Loss Account in the financial statements. The movement in this figure largely relates to the change in the total comprehensive loss for the year below.
Foreign currency translation differences on foreign operations, net of tax	31	130	Not material
Items included in the Technical account, other than gross underwriting result	(19,841)	(7,771)	This balance includes the reinsurance result which was a loss of £12,058k (2017: £2,082k) 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	**(10,628)**	**(6,520)**	

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

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

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

B.1. General information on the system of governance

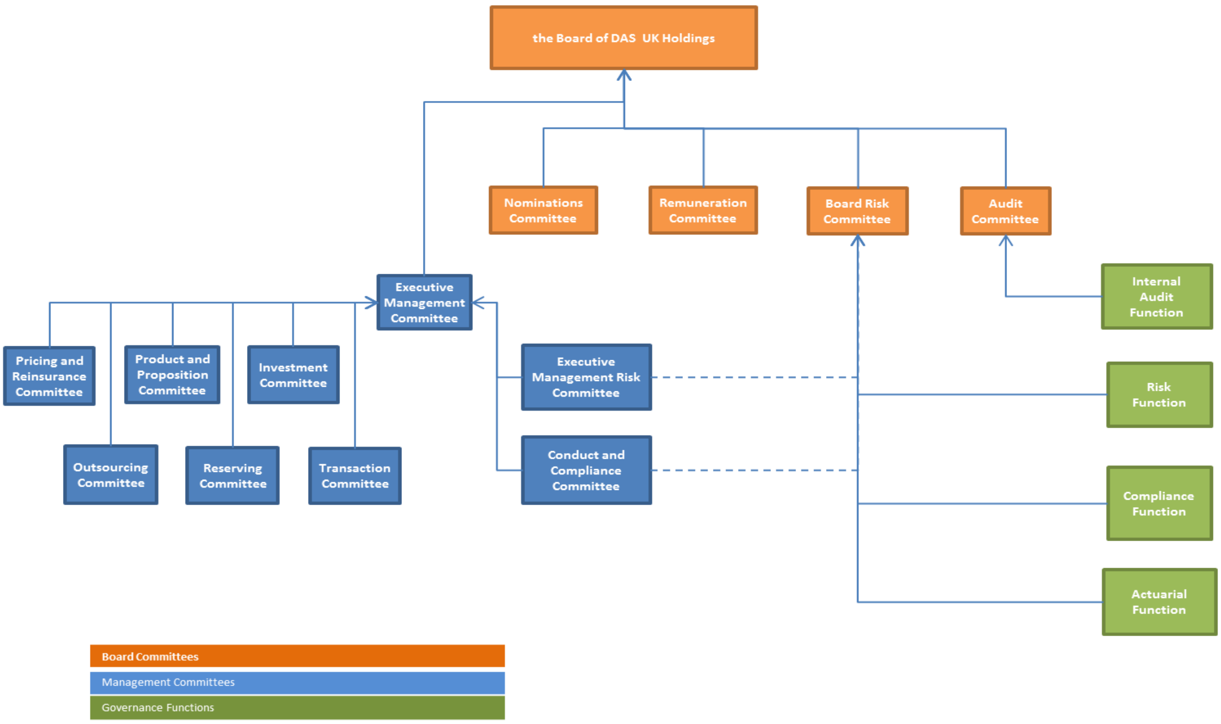
DAS LEI is managed on a unified basis with other companies in DAS UK, including DAS UK Holdings, DAS LEI's immediate parent company.

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 DAS UK Holdings 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 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.

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, it reviews and approves 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 is received on the financial implications of the transaction from the Pricing and Reinsurance Committee.

Pricing and Reinsurance Committee

The Pricing and Reinsurance Committee is responsible for monitoring the performance and capital requirements of all individual lines of business across BTE, ATE, Insured Assistance and other business lines. Responsibilities include approval of outward reinsurance agreements; review of pricing and financial implications; and review 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 (risk triggers), monitoring of compliance with regulatory requirements, and oversight of market risk management arrangements and contractual agreements.

Roles and Responsibilities of Board Members and other Key Function Holders

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 appoints 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. He is 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:

- developing and delivering the Insurance business strategy;
- providing insight, advice and guidance on areas of development, trends and changes, identifying and supporting new business opportunities for DAS LEI; and
- being 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. She is 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, she is 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:

- developing the DAS UK Holdings Risk Management Strategy to align with the ERGO Group Strategy;
- acting as the independent second line strategic lead for the establishment of an ERMF in DAS UK;
- ensuring 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;
- designing, implementing and monitoring 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;
- being responsible for the effective design and implementation of a Whistleblowing regime for DAS UK;

- acting 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;
- being 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 the Board's risk appetite), management, monitoring and reporting processes); and
- designing and maintaining (in conjunction with Company Secretary) appropriate Approved Persons, Fit and Proper and Senior Managers Regime ("SMR") processes.
- maintaining oversight of and ensuring effective implementation of SM&CR (Senior Managers and Certification Regime) which is due to be introduced during 2019. The regulation aims to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence.

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 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. Historically for the CEO role there was a further 2 year retention requirement, however since 2018 this retention period no longer applies. 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 management incentive plan with an at-target award of 15% of annual base salary is in operation. 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 ERGO group-wide 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 quota share arrangement with fellow group company ERGO, DAS LEI cedes 90% of its insurance business, net of external reinsurance. This transaction was entered into on an ‘arm’s-length’ basis.

For information on Directors’ remuneration see the Directors’ remuneration note in DAS LEI’s financial statements for 31 December 2018.

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, Key Function holders and the Head of Risk and Compliance. 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/FCA SMF
Risk Management Function	SMF4
Actuarial Function	SMF20
Internal Audit Function	SMF5
Compliance Function	SMF16

On 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.

On 10 December 2018, the SIMR regime merged with the Banking Senior Manager and Certification Regime, specifically for Approved Persons. Existing roles were migrated to the revised framework in accordance with the requirements set out by the FCA and PRA. 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, which are set out in the table on the following page:

- PRA/FCA Senior Management Function ("SMF") role;
- PRA Prescribed Responsibilities; and
- Key Functions and Key Function Holders.

FCA / PRA SMF	Responsibility	DAS Role	SMF Responsibility
SMF1	CEO	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"
SMF2	CFO	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"
SMF3	Executive Director	Group Director of HR and Legal Services	Executive Director
SMF4	Chief Risk Officer	Chief Risk & 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 into the PRA Rulebook)
SMF5	Head of Internal Audit	Head of Internal Audit	"The function of having responsibility for the management of the internal audit function specified in Conditions Governing Business 5." (Transposition of SII requirements into the PRA Rulebook)
SMF7	Group Entity Senior Manager	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 PRA senior management function) and which is performed by a person employed by, or an officer of i) a parent undertaking or holding company of a firm; or ii) another undertaking which is a member of the firm's group"
SMF9	Chair	Chairman of the Board	"The function of having responsibility for chairing, and overseeing the performance of the governing body of a firm"
SMF10	Chair - 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 into the PRA Rulebook)
SMF11	Chair - Audit Committee	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 function specified in Conditions Governing Business 5." (Transposition of SII requirements into the PRA Rulebook)
SMF12	Chair - 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"
SMF14	Senior INED	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"
SMF16	Compliance Oversight	Chief Risk & Compliance Officer	The function responsible for compliance and reporting to the governing body.
SMF20	Chief Actuary	Chief Actuary	"The function of having responsibility for the actuarial function specified in Conditions Governing Business 6." (Transposition of SII requirements into the PRA Rulebook)
SMF23	Chief Underwriting Officer	Group Director of Underwriting, Claims & Reinsurance	"The function of having responsibility, in respect of the firm's general insurance business, for the underwriting decisions in respect of material insurance risks that: (1) in relation to firms that carry on general insurance business, are borne by the firm; or (2) in relation to managing agents, are borne by members.
SMF24	Chief Operations	Group Director of Customer Operations and IT	"The function of having responsibility for the internal operations and technology of a firm"

PRA Prescribed Responsibilities

In addition to the changes to approved persons the migration of the SIMR regime to the requirements of the Senior Manager and Certification regime, there were additional changes to the PRA prescribed responsibilities. DAS UK has assigned the revised listing to applicable senior managers as detailed below.

Ref	Prescribed Responsibilities	SMF Function	DAS Role
A	Senior Management Regime	SMF16 / SMF4	Chief Risk & Compliance Officer
B	Employee Certification Regime	SMF3	Group Director of HR & Legal Services
C	Responsibilities Map	SMF3	Group Director of HR & Legal Services
F	Induction training and professional development of all members of the firms governing body	SMF3	Group Director of HR & Legal Services
G	Induction training and professional development of all members performing designated senior management functions on behalf of the firm other than the members of the governing body and Key Function Holders	SMF3	Group Director of HR & Legal Services
J-2	Oversight of Internal Audit (IA) at firms that outsource their IA to a Third Party	SMF5	Head of Internal Audit
N	Whistle-blowing	SMF14	Senior INED / Chair of the Audit Committee & Whistle-blowing Champion
B-1	Responsibility for the firms performance of its obligations under the Conduct (C)OCON) (in terms of training and regulatory reporting)	SMF3	Group Director of HR & Legal Services
D	For the firms policies and procedures for countering the risk that the firms may be used to further financial crime	SMF 23	Group Director of Claims Reinsurance and Underwriting
Z	Compliance with CASS	SMF2	Chief Financial Officer
H	Overseeing the adoption of the firms culture	SMF7	Group Entity Senior Manager
I	Leading the development of the firms culture by the governing body as a whole	SMF9	Chair of the Board
M-1	Remunerations policies and practices	SMF3	Group Director of HR and Legal Services
O	Management of the allocation and maintenance of the firms' capital and liquidity	SMF2	Chief Financial Officer
Q	Productions and integrity of the Firms financials and its regulatory reporting	SMF2	Chief Financial Officer
T	Development and maintenance of the firm's business model by the governing body	SMF1	Chief Executive Officer
T-2	Performance of the firms' own risk and solvency assessment (ORSA)	SMF4 / SMF16	Chief Risk and Compliance Officer
U	Insurance Fitness and Propriety	SMF3	Group Director of HR and Legal Services
X	Outsourced operational functions including systems and technology	SMF24	Group Director of Customer Operations and IT

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.

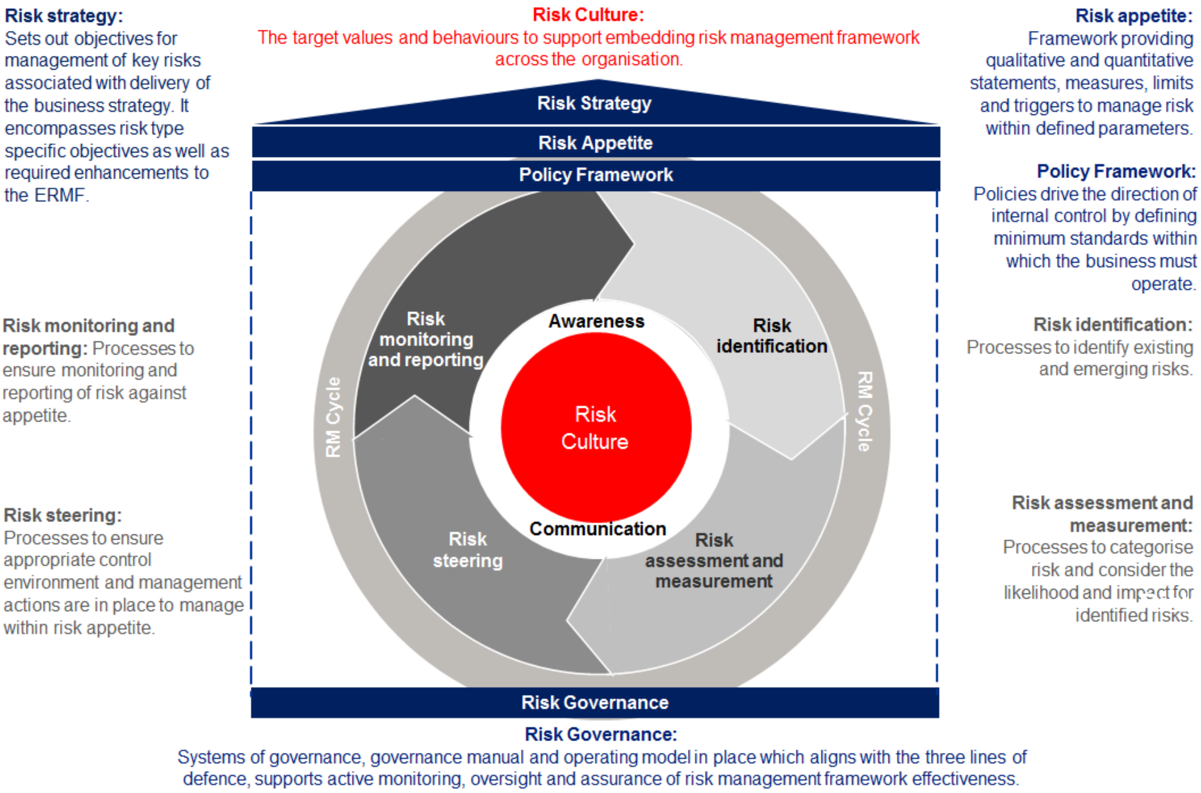
B.3. Risk management system including the own risk and solvency assessment

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 diagram below sets out the DAS UK Enterprise Risk Management Framework:

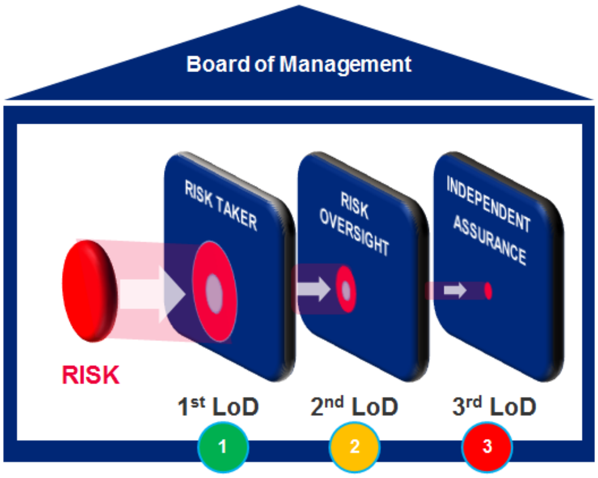


The figure above shows the components of the ERMF in DAS UK and implicitly links the key components of Governance, Board expressed risk appetite and overarching risk policies with the day-to-day risk management practices of DAS UK.

Description of how the risk management system is implemented

As set out in the below diagram, 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: DAS LEI has 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 with advice provided by the Risk Committee. The system of governance is formally defined within the DAS UK Holdings Governance Manual.

The risk management system comprises the following elements:

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 (SMF4 and SMF16) under the FCA/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. 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 a regular 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 project owners and/or sponsors 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 the issue has been resolved and any potential further risks has been suitably considered; 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 UK from all hierarchy levels (employees, managers, Board).

Risk cycle – risk assessment and measurement

DAS LEI uses 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. 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 appetites 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.

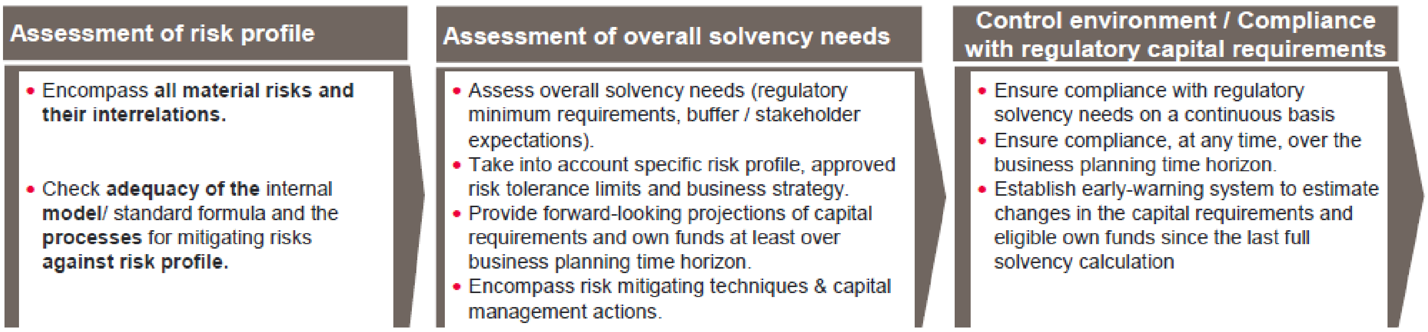
Process undertaken to conduct the Own Risk Solvency Assessment ("ORSA")

Objectives of the ORSA

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

- 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**:**



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 documentation.

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

Final Board approval signals the end of the annual regular ORSA process. The approval is documented in the minutes of 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. The 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.

The 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. The ICS's operational risk self-assessments are carried out periodically throughout the year with the risk management function maintaining oversight. The risk management function provides appropriate challenge and feedback where required. Results are reported up to the Board on an annual 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 provides both technical guidance and oversight of operational compliance matters.

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

B.5. Internal audit function

Internal audit function

The Internal Audit function supports the Audit Committee in carrying out its monitoring tasks. In particular, it is responsible for examining the system of internal governance. These include the risk management system, the internal control system and the three other key functions being compliance, risk management and actuarial.

Organisation

The Internal Audit function is an independent division. However, it operates within the framework of the standards applicable throughout the Munich Re Group. It is legally assigned to DAS UK Holdings Limited. The Head of Internal Audit is directly subordinated to the Head of Munich Re UK Audit Hub and also has a so-called "dotted reporting line" to the Head of ERGO Group Audit.

The audit mandate of Internal Audit covers all units of DAS UK Holdings Limited and its subsidiaries, including DAS LEI.

Core tasks of Internal Audit

The core tasks of Internal Audit include:

Audit Performance: Internal Audit audits the Governance System, consequently the entire business organisation, and in particular the internal control system in terms of appropriateness and effectiveness. The auditing work of Internal Audit must be carried out objectively, impartially and independently at all times. The audit area of Internal Audit covers all activities and processes of the Governance System, and explicitly includes the other Governance Functions. The audit assignment includes the following areas in particular:

- the effectiveness and efficiency of processes and controls,
- the adherence to external and internal standards, guidelines, rules of procedure and regulations,
- the reliability, completeness, consistency and appropriate timing of the external and internal reporting system,
- the reliability of the IT systems, and
- the nature and manner of performance of tasks by the employees.

Reporting tasks: A written report must be submitted promptly following each audit by Internal Audit. At least once per year, Internal Audit will prepare a report comprising the main audit findings for the past financial year. Within the follow-up process, Internal Audit is also responsible for monitoring the rectification of deficiencies.

Consulting tasks: Internal Audit can provide consulting work, for example within projects or project-accompanying audits, and advise other units concerning the implementation or alteration of controls and monitoring processes. The prerequisite is that this does not lead to conflicts of interest and the independence of Internal Audit is ensured.

Independence and Objectivity

The managers and employees of Internal Audit are aware and adhere to the national and international standards for the professional standards of Internal Audit.

This also applies to the principles and rules for safeguarding the independence and objectivity of Internal Audit. Numerous measures (adequate positioning in the organisational structure, consistent segregation of duties, and comprehensive quality assurance during the audit) ensure that the independence and objectivity of the audit function is adequately ensured.

The Head of Internal Audit is directly subordinated administratively to the Head of Munich Re UK Audit Hub. The Head of Internal Audit has direct and unrestricted access to the EMC. As a service provider for DAS LEI, Internal Audit is independent from all other functions of DAS LEI.

In order to ensure independence, the employees of the Internal Audit department do not assume any non-audit related tasks. Employees who are employed in other departments of DAS LEI may not be entrusted with Internal Audit tasks. This does not exclude the possibility for other employees to work for Internal Audit temporarily on the basis of their special knowledge or personnel development measures.

When assigning the auditors, attention is paid to the fact that there are no conflicts of interest and that the auditors can perform their duties impartially. In particular, it is ensured that an auditor does not audit any activities for which they themselves were responsible in the course of the previous twelve months.

Internal Audit is not subject to any instructions during the audit planning, the performance of audits, the evaluation of the audit results and the reporting of the audit results. The right of the Audit Committee to order additional audits does not impair the independence of Internal Audit.

According to the statement of the Head of Internal audit, the department has sufficient resources and conducts the audits on its own responsibility, independent and impartially (objectively). The Head of Internal Audit contributes to the independence and objectivity of the auditing function by their behaviour.

During the reported period the independence and objectivity of the Internal Audit department was not impaired at any time.

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 Committees of DAS UK Holdings, which are formal subcommittees 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.

B.7. Outsourcing

Outsourcing is defined as: “Any third-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

The following section outlines DAS LEI's risk profile, including material risks and any changes to these over the reporting period. Techniques and activity that are used to mitigate the risk exposures within DAS LEI's tolerance and appetite will be described. In addition, the processes used to identify and monitor these risks are set out.

DAS LEI's key risk exposures are to underwriting risk, market risk, credit risk, liquidity risk, operational risk, strategic risk, regulatory risk and reputational 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 an 'open' underwriting risk appetite in both Before the Event ("BTE") and After the Event ("ATE") business. Under DAS UK's Risk Appetite Terminology, having an 'open' appetite means that DAS LEI is "willing to consider all potential options and choose the one most likely to result in successful delivery, whilst also providing an acceptable level of reward and value for money". This approach supports desired product and proposition development process and growth targets for these books of business. Concentrations are implicitly taken into account in the calculation of underwriting risk.

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

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

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

Before the Event ("BTE")

DAS LEI has an 'open' appetite to ensure that the product and proposition development process is effectively managed to ensure that:

- the targeting of business is in line with risk appetite;
- at portfolio level the return on capital is in line with targeted ratios; and,
- the needs of the customer are met.

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:

- Changes to the legal landscape from April 2020 arising from the Civil Liabilities Bill, expected to increase premiums resulting from changes to the Small Claims Court limit and other impacts associated with claim handling.

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 as a result of the UK economy returning to recession,
- Employment claims may increase following the withdrawal of Employment Tribunal fees (to date the impact has been less than anticipated), and
- DAS LEI is exposed to an increase in employment claims and contract disputes from a large number of consumers and businesses as a result of a 'No Deal' Brexit.

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). Additionally, Landlord legal, protects private landlords against disputes with tenants (including rent default).

Risks:

- Claim frequency could increase as a result of the UK economy returning to recession, and
- DAS LEI is exposed to an increase in employment claims and contract disputes from a large number of consumers and businesses as a result of a 'No Deal' Brexit.

Insured Assistance (Class 500)

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

Risks:

- Consecutive bad winters could lead to an unexpected surge in claims; motor breakdown, heating and frozen pipes,
- Climate change could impact the historical and seasonal pattern of claims. Warmer conditions could lead to fewer frozen pipes but more cracked pipes caused by subsidence, and
- There are a limited number of nationwide home emergency suppliers capable of servicing DAS LEI's customer base.

After the Event ("ATE")

DAS LEI has an 'open' appetite, in line with the appetite in the BTE book. However, the ATE book is currently a low-volume and volatile business. The 'open' risk appetite will be managed whilst taking risk reduction steps to address this volatility.

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:

- Since the introduction of LASPO, demand and need for ATE insurance is lower reducing the spread of risk. The Civil Liabilities Bill, with an increase to the small claims limit, will add to the contraction, and
- Cases involving minors require the Court's approval before damages can be agreed and any liabilities can be paid (ATE premium and conditional fee arrangements 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.

Risk:

- 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 and protracted legal challenges 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. Contingency is built into IBNR factors and pricing models for the exposure to Group Litigation Orders.

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

In 2017, DAS LEI re-negotiated the terms of its reinsurance quota share agreement with ERGO Versicherung AG ('ERGO') for 2018. 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, and the commission terms were changed from 1 January 2018 so that a flat commission rate of 32% replaced the previous sliding scale of commission. The quota share arrangement improves the capital position of DAS LEI relative to that which would be achieved without it; however, the quota share had a material adverse impact on the results for the year, largely driven by the change in the commission rate.

In 2018, DAS LEI re-negotiated the terms of its reinsurance quota share ERGO for 2019. Under the renewed agreement, the 2019 quota share is largely consistent with the 2018 Treaty, where 90% of business is ceded and a flat rate of commission of 32% of ceded earned premium applies. As there is no change in the commission rate for 2019, the adverse impact on the prior year results of the change in the commission rate effected from 1 January 2018 will not be repeated in 2019. The key change under the 2019 quota share is the introduction of a profit commission receivable by DAS LEI. This will be equal to 65% of the quota share reinsurance result provided that this is a profit to ERGO. Therefore, the Solvency position will be further enhanced by the quota share arrangement if the quota share reinsurance result is profitable to ERGO and the profit commission to DAS LEI is triggered. No loss share applies should the reinsurance result be unprofitable to ERGO.

The principal 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 2018 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 London Market reinsurers. In consideration of the proportion of the risk ceded under the ERGO quota share, the BTE excess of loss treaty was put into run-off from 1 January 2018.

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. All of the arrangements with Fiablé and Avantage were cancelled and put into run-off (or put on notice of cancellation) during 2018 in consideration to the proportion of the risk ceded under the ERGO quota share.

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 fluctuation in the level and the volatility of 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 'cautious' appetite for Market Risk, such that it has a "preference for safe options that have a low degree of risk and may only have limited potential for reward". This is considered appropriate primarily to safeguard DAS LEI's robust capital position without unduly limiting its access to returns on investment assets.

Consistent with its 'cautious' market risk appetite and ERGO/Munich Re investment guidelines, DAS LEI has adopted a conservative investment strategy.

DAS LEI is exposed to market risk as a consequence of fluctuations in values or returns on assets, liabilities and financial instruments which are influenced by one or more external factors. These include changes and volatility in interest rates, equity prices, credit spreads, inflation expectations and currency exchange rates. See Market Risk mitigations sections for below DAS LEI manage these risks.

The market risk profile for DAS LEI has changed very little year-on-year and reflects DAS UK's 'cautious' market risk appetite, investing mainly in high-rated government and corporate bonds. DAS LEI's market risk policy was reviewed and updated in 2018 to promote the maintenance of a robust approach to the mitigation of market risk going forward in line with appetite.

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. This is not considered a material risk to DAS LEI.

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in the term structure or volatility of market interest rates. Floating rate instruments expose DAS LEI to cash flow interest risk, whereas fixed interest rate instruments expose DAS LEI to fair value interest risk. Interest rate risk arises primarily from DAS LEI's investments in fixed interest securities and their movement relative to the value of insurance liabilities, which are reported on an undiscounted basis. Certain insurance liabilities (e.g. deposits from reinsurers) may also give rise to interest rate risk where their terms and conditions stipulate fixed interest rate of return due to the counterparty.

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.

Currency risk

DAS LEI defines currency risk as the sensitivity of the values of assets and liabilities to changes in the level or in the volatility of currency exchange rates.

DAS LEI currently underwrites business in the United Kingdom, the Republic of Ireland and in Norway.

DAS LEI therefore incurs exposure to currency risk from its operations: i.e. from underwriting premiums and paying claims or other expenses in currencies other than GBP (i.e. in Euros in the Republic of Ireland and Norwegian Krone in Norway). If the value of the British Pound strengthens then the value of non-Sterling assets will decline when translated into Sterling.

Mitigation

DAS LEI's investment management approach is fully aligned with its 'cautious' 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 LEI's business is negligible. As a result, DAS LEI is able to meet its liabilities as they fall due, fund long-term projects and maintain a robust capital position.

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

In common with all ERGO legal entities DAS LEI pursues an investment strategy that is substantially based on the characteristics of the maturity and currency structure of its liabilities. In addition to return, safety and creditworthiness, the investment decision considers liquidity, diversification and above all the structure of the insurance liabilities. DAS LEI has adopted a conservative investment strategy with an agreed cautious risk appetite for market risk. The principal objective is to minimise investment risks and volatility while achieving the highest investment return possible within those parameters. This strategy is set out in DAS LEI's investment mandate, and managed by the Investment Committee which includes risk management representation.

The key objective is to limit investment risk and volatility whilst achieving a reasonable return given the investment climate. This conservative investment strategy is expressed and implemented by means of the Investment Mandate ("Mandate"), which is the agreement with the Investment Manager that sets out investment guidelines and parameters.

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 cautious investment strategy.

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

The terms of the 2018 year end Mandate are summarised as follows:

- Approximately 75% to be invested in UK Government bonds, the majority with maturity of up to three years;
- Approximately 20% to be invested in Corporate bonds with maturity up to three years;
- Approximately 3.5% to be invested in Euro bonds and 1.5% in Norwegian Government bonds;
- Other than deposits, no other investments are permitted; and
- The minimum rating allowed for single investments is BB3 (MEAG Rating); and non-investment grade assets are limited to 5% of total fixed income assets.

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

Investment Management Governance

An Investment Committee, which acts on authority delegated by the Executive Management Committee and takes place quarterly, 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 LEI's investment strategy are set out below.

Interest rate risk

DAS LEI's securities portfolio is managed by MEAG who are DAS LEI's appointed investment managers. The investment mandate is reviewed and revised annually. It is approved by the DAS UK Group Investment Committee, which is chaired by the Chief Financial Officer of the firm. In addition, as required by the SII directive, DAS LEI's investments are made with reference to the 'Prudent Person Principle'.

Exposure to interest rate is monitored through several measures factored into the investment mandates, which include:

- Target portfolio modified duration of 3%;
- Minimum rating allowed for investment (currently Standard and Poor's BBB or equivalent) and a limit of total BBB rated investments (currently 13% of the portfolio);
- Issuer counterparty limit, if not issued or guaranteed by Governments (currently £4m).

Other risk monitoring techniques include economic capital modelling, sensitivity testing and stress and scenario testing.

96% (2017: 96%) of DAS LEI's investments are held in fixed interest instruments denominated in British pounds. DAS LEI has no other significant concentration of interest rate risk.

Spread risk

This is mitigated by tracking DAS LEI's exposure to lower-rated bonds and other lower-quality assets and limiting them according to the defined appetite.

Concentration Risk

DAS LEI 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 LEI's own conservative investment strategy, DAS LEI's investment portfolio is well-diversified to mitigate this risk.

Currency Risk

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

As a consequence of adopting these principles and governance, DAS LEI's exposure to market risk operates within risk appetite.

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.

DAS LEI has a 'minimal' appetite for Credit Risk in 2018, such that it had a "preference for ultra-safe options that are low-risk and only have a minimal potential for reward". The aim is to mitigate credit risk to the extent that the costs of control are balanced with the expected rewards of implementation. DAS LEI accepts that its business model limits the extent to which credit risk can be mitigated but seeks over the longer term to implement procedures and initiatives that help reduce its exposure to credit risk.

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

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

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 2018.

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

Mitigation

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.
- 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 counterparties remaining are London Market 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. All of these arrangements were given notice to terminate in 2018 and should all be in run off from June 2019.

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 2018 was £117,174k (2017: £118,551k). 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-.

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

DAS LEI holds all of its cash with highly-rated organisations. Funds can only be deposited with banks and other deposit-takers approved by the 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.

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, such that "avoidance of risk and uncertainty is a key organisational objective". 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. 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.

Mitigation

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.

Liquidity is monitored against DAS LEI's risk appetite on a daily basis. Operational cash holdings are fully within liquidity appetite so long as they are in excess of £3m in aggregate.

Investments are managed by MEAG, Munich Re Group's special purpose asset management company. Transactions are carried out by HSBC Bank plc ("HSBC"), which succeeded BNP Paribas as DAS LEI's Investment Custodian in 2018. DAS UK coordinates with MEAG and HSBC to maintain returns while ensuring sufficient cash availability. MEAG 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. Liquidations of assets are made when necessary, to manage the liquidity.

As explained in the 'Market Risk' section above, DAS LEI's investment strategy aims broadly to match the currency denomination, maturity and value of its assets to its technical liabilities. This helps ensure that DAS LEI retains sufficient liquidity to meet its policyholder liabilities.

Expected profit in future premiums

The expected profit included in future premiums as at 31 December 2018 is £19,725k (gross of reinsurance).

C.5. Operational risk

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

DAS LEI has a "minimal" appetite for operational risk such that it has a 'preference for ultra-safe options that are low risk and only have a limited potential for reward'. 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 DAS LEI's operational risk exposure 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.

Mitigation

IT solutions

The IT development strategy is subject to regular monitoring and review by the EMC, which ensures that development priorities are appropriately adapted to the changing needs of the business. IT development project priorities are determined and approved by the EMC and a number of core IT development projects have been scheduled.

Information Management

DAS LEI adopts a number of mitigation strategies to address its exposure to Data Governance/Information management risk. The Data Governance team maintain oversight of data management activity via the Data Governance framework and operating model (this includes monitoring of critical data assets), which are both reviewed annually and both focus on the identification, investigation and resolution of data risks across the business.

The responsibility for ensuring that data issues are addressed lies with the Data Owners & Data Stewards, who will be assisted by the Data Governance Team where appropriate.

The Data Governance steering group is an escalation mechanism to consider issues that are more complex and those that cannot be satisfactorily rectified by the data stewards and the data governance team alone.

The Steering Group will meet at least monthly to prioritize the order that outstanding issues and risks will be addressed, and to decide the best course of action.

Outsourcing

DAS LEI has embedded robust outsourcing governance and processes as detailed 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 management information 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.

DAS LEI is exposed to multiple types of regulatory risk, dominated by (but not limited to) the requirements of the PRA and the FCA. As a prudent and well-run company, DAS LEI takes measures to ensure adherence to all regulatory and legislative expectations and will act quickly and proportionately to address any regulatory issues identified.

DAS LEI has a “minimal” risk appetite for material regulatory breaches, such that it has a ‘preference for ultra-safe options that are low risk’. In line with 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.

Regulatory risk management processes are in place and are embedded across the Group, particularly in the regulated entities (DAS Law and DAS LEI). 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 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.

The DAS UK Compliance Function monitors the performance of the business units in complying with all regulatory requirements, advice and guidance. It provides a focal point to co-ordinate and communicate with regulatory authorities, whilst also promoting early and effective engagement of DAS UK in the regulatory consultative process, so as to identify and analyse new risks and opportunities. Regulatory exposure is driven by the significant volume of current legislation and regulation within the UK and overseas, with which DAS UK has to comply, along with new or proposed legislation and regulation which needs to be interpreted, implemented and embedded into day-to-day operational and business practices across the group. Note that the Brexit risk noted in section C.7 below relates to Regulatory Risk.

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	Highlighted by the FCA Motor LEI and Add-Ons Thematic Reviews and subsequent remedies
Ensuring the business responds effectively to regulatory changes.	Regulatory changes need to be translated in Mandatory projects to effect those changes appropriately for DAS LEI.
Ensuring compliance with legislation, regulation and regulatory guidance.	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 in line with PROD requirements set out by the FCA following the implementation of the Insurance Distribution Directive in 2018.
Financial Crime	DAS LEI's Fraud and Sanctions 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, Fitness and Propriety;
- Proactive management and tracking of regulatory horizon change, 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, Dear CEO Letters 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 SMR 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

DAS LEI continues its work to raise consumer awareness and understanding of add-on products following the initial work completed under strategic projects in the past.

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

Concentration risk is defined as any single (direct and/or indirect) exposure or group of exposures with potential to produce losses large enough to threaten DAS LEI's solvency or the financial position.

DAS UK has a 'minimal' appetite for concentration risk, such that it has a 'preference for ultra-safe options that are low risk and only have a limited potential for reward'. DAS LEI is exposed to a concentration of business with a limited number of business partners who generate significant BTE income. DAS UK recognises the importance of key business partners and understands the impact of the loss of one or more of these key business partners would have on solvency or financial position of insurance undertakings. However, mitigations are in place including but not limited to enhanced focus on retention of key corporate partners and increased activity to diversify product distribution across multiple business partners.

Reputational risk

Reputational risk is defined as the risk of failure to meet stakeholder expectations as a result of any event, behaviour or action, either by DAS LEI itself, DAS UK Staff or those with whom DAS LEI are associated, that may cause stakeholders to form a negative view of DAS LEI.

DAS UK has a 'minimal' appetite for threats to its reputation. In particular it will take cost-effective measures to uphold its stakeholder's expectations and its reputation with both partners and policyholders.

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 department. - Process mapping and management.
Workplace issues	Issues that will reduce people's belief that DAS LEI has the best employees and that DAS LEI treats 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. - SMR 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 Plan.

Mitigation

Key mitigations include:

- Account managers in place for major accounts to maintain healthy relationships;
- 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 across the business.

The base positions used in the below scenarios was the 2019-2022 plan SII positions, which had a projected SCR ratio for 2018 of 144%. The year end position was higher at 170%, the improvement was largely due to a fall SCR as a result of a decrease in net reserves, and a reduction in operational risk following the gross earned premiums being different from the planned figures. Therefore this improvement has yet to be reflected in the below figures.

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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 107% or lower in the modelled time horizon from 2019 to 2022.

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**	**2019**	**2020**	**2021**	**2022**
	Solvency coverage ratio	140%	131%	120%	107%

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

Description	Additional large losses originating from 2020 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**	**2019**	**2020**	**2021**	**2022**
	Solvency coverage ratio	145%	142%	143%	145%

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 2019 underwriting of Class 200 and Class 300 Family and High Net Worth books.				
Modelled Impact	**Metric**	**2019**	**2020**	**2021**	**2022**
	Solvency coverage ratio	133%	128%	130%	137%

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	Mitigating Actions	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.	• CEO engagement; • Continued (evidenced) delivery of value to the ERGO Group; • Envisage managed withdrawal from the market.	Low
Arising from 'Historic Governance Failings', the Top 10 Business Partners terminate their relationship with DAS LEI.	• The Executive Management teams of DAS LEI and Top 10 Business Partners engage in regular dialogue to ensure a strong relationship at the highest level; • Implementing an improved corporate proposition ensuring the proposition delivers deeper value outside price and product alone.	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 LEI.	Operating against ISO27001 certified security framework, which includes technical, administrative and physical security controls managed within a recognised risk management framework.	Low
Arising from a significant and high profile data loss incident, the Top 10 Business Partners terminate their relationship with DAS LEI (Reputational risk).	Operating against ISO27001 certified security framework, which includes technical, administrative and physical security controls managed within a recognised risk management framework.	Low

Special Consideration of Brexit Impacts

DAS LEI's exposure to risks resulting from 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.

DAS LEI has made robust preparations to guard against the risks associated with Brexit. Appropriate measures have been taken to ensure that DAS LEI will be able to maintain its ability to provide services to its policyholders in the Republic of Ireland. DAS LEI has also taken the decision to cease writing new business in Norway, but will continue to honour its ongoing obligations to existing policyholders, by agreement with the Norwegian regulator. Each policy runs for five years, such that the back book of existing business is expected to have substantially run off by 2024.

Whilst the implications of Brexit are unknown, DAS LEI's Brexit risk analysis has benefited from access to ERGO and Munich Re expertise, as part of a dedicated "Brexit Task Force". DAS LEI has independently considered a number of further scenarios relating to the potential impact of Brexit on employment law, Defined Benefit Pension Schemes, SII regulation, and the market in which DAS LEI operates (including the potential impact of increased claim volumes). A suitable contingency plan has been formulated for each scenario considered.

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 those risks to which it may be exposed. DAS UK continues to monitor Brexit progress closely and will adjust its scenario analyses and contingency planning 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

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 table below 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 2018 Amounts in £'000s	Financial statements	SII	Difference
Assets			
Deferred acquisition costs	**6,416**	**0**	**6,416**
Deferred tax assets	**85**	**0**	**85**
Property, plant & equipment held for own use	**10**	**10**	**0**
Investments **(other than assets held for index-linked and unit-linked contracts)**	**123,179**	**124,602**	**(1,423)**
Bonds	**123,179**	**124,602**	**(1,423)**
Government Bonds	89,956	*90,883*	*(927)*
Corporate Bonds	*31,810*	*32,265*	*(454)*
Structured notes	*1,413*	*1,454*	*(41)*
Other loans and mortgages	**5,012**	**5,012**	**0**
Reinsurance recoverables from:	**207,388**	**117,174**	**90,214**
Non-life excluding health	*207,388*	*117,174*	*90,214*
Insurance and intermediaries receivables	**130,625**	**39,069**	**91,556**
Reinsurance receivables	**2,305**	**2,076**	**229**
Receivables (trade, not insurance)	**7,425**	**6,126**	**1,300**
Cash and cash equivalents	**6,182**	**6,182**	**0**
Any other assets, not elsewhere shown	**1,407**	**271**	**1,136**
TOTAL ASSETS	**490,035**	**300,521**	**189,513**
Liabilities			
Technical provisions – non-life	**235,015**	**129,890**	**105,125**
Technical provisions – non-life (excluding health)	**235,015**	**129,890**	**105,125**
Best Estimate	n/a	*127,020*	*n/a*
Risk margin	n/a	*2,870*	*n/a*
Deposits from reinsurers	**175,892**	**124,707**	**51,185**
Deferred tax liabilities	**0**	**1,216**	**(1,216)**
Insurance & intermediaries payables	**1,656**	**1,656**	**0**
Reinsurance payables	**6,009**	**1,715**	**4,294**
Payables (trade, not insurance)	**7,684**	**7,684**	**0**
Any other liabilities, not elsewhere shown	**35,866**	**722**	**35,143**
TOTAL LIABILITIES	**462,121**	**267,590**	**194,532**
EXCESS OF ASSETS OVER LIABILITIES	**27,913**	**32,932**	**(5,018)**

Where the categories of assets and liabilities in the financial statements differ from the SII categories, the SII categories are shown in the table above. However included as a difference is the 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

D.1. Assets

No changes were made to the recognition and valuation bases used or to estimations during the reporting period for SII reporting.

Deferred acquisition costs

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

Deferred tax assets

See the “Deferred tax liabilities” section under “D.3. Other liabilities” below.

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.

Reinsurance receivables

For DAS LEI's financial statements, this balance includes an amount owed by ERGO under the quota share reinsurance agreement. For SII, this is considered as part of Reinsurance recoverable as it relates to future cash flows associated with the reinsurance contract. 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.

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 DAS UK 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 2018 in both of the SII and financial statements balance sheets:

All amounts in £'000s	SII	Financial statements
Total gross	127,020	235,015
Risk margin	2,870	N/A
Reinsurance recoverable*	(117,174)	(207,388)
Total net	**12,716**	**27,627**

**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 2018
Direct business and accepted proportional reinsurance	**Total**	**12,766**
	Legal expenses insurance	10,979
	Assistance	599
	Miscellaneous financial loss	1,188
Non-proportional reinsurance	**Total**	**(50)**
Total		**12,716**

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 2018 (£'000s)	Financial statements	Solvency II	Difference
Total gross	228,032	119,807	108,224
Risk margin	N/A	2,759	(2,759)
Reinsurance recoverable*	(201,193)	(111,587)	(89,607)
Total net	**26,838**	**10,979**	**15,859**

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

Technical provisions: Assistance LOB

31 December 2018 (£'000s)	Financial statements	Solvency II	Difference
Total gross	3,065	2,905	160
Risk margin	N/A	33	(33)
Reinsurance recoverable*	(2,728)	(2,340)	(388)
Total net	**338**	**599**	**(261)**

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

Technical provisions: Miscellaneous financial loss LOB

31 December 2018 (£'000s)	Financial statements	Solvency II	Difference
Total gross	3,918	4,388	(470)
Risk margin	N/A	74	(74)
Reinsurance recoverable*	(3,466)	(3,274)	(193)
Total net	**451**	**1,188**	**(737)**

**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, unchanged from the value at 31 December 2017. 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 £4,918k (2017: £4,251k). 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 counterparties remaining are London Market 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. All of these arrangements were given notice to terminate in 2018 and should all be in run-off from June 2019.

For simplicity, excess of loss relating to a small amount of Class 300 business was not modelled, which 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 was one material change in assumptions or methodology gross of reinsurance:

- Expense allocation assumptions were updated, leading to a decrease in CPs of £1,906k, almost all in BTE.

The main methodology and assumption changes in respect of the PPs are:

- A detailed review of the Q3 ATE performance models plus the addition of Q4 business, increased embedded profit before expenses by £4,542k; and
- The updated expense allocation assumptions led to a decrease in ATE PPs of £844k mostly offset by an £819k increase in BTE PPs.

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 entirety. It represents ERGO's share of claims provisions and premiums. This has been valued as the present value of expected future cash flows, which includes payment of the deposit interest to ERGO under the reinsurance arrangement, allowing for the additional default risk associated with that counterparty. As the liabilities due under this arrangement are a share of the gross liabilities (claims and premiums associated with the core business of DAS LEI) it is appropriate to use the same risk-free discount rate here as in the technical provisions themselves.

Deferred tax liabilities

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

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

Deferred tax assets are recognised if assets are lower in the SII balance sheet or liabilities are higher than in the tax balance sheet 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 2018, there were no tax losses carried forward.

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	-	16,812	(16,812)
Investments (Government bonds)	83	83	-
Other assets/liabilities	2	216	(214)
Deferred tax asset	**85**	**17,111**	**(17,026)**
Net technical provisions incl. deferred acquisition costs	-	(7,572)	7,572
Other liabilities	-	(10,755)	10,755
Deferred tax liability	**-**	**(18,327)**	**18,327**
Net deferred tax asset / (liability)	**85**	**(1,216)**	**1,301**

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 liability.

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 2018:

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 2018 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	Long term unwinding portion valued at 17%	19% and 17%
Other assets	Short-term	Pre 2020 unwinding expected	19%
Net technical provisions incl. deferred acquisition costs	Both short-term and long-term	Long term unwinding portion valued at 17%	19% and 17%
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 did not materially affect the deferred tax balances and subsequently all balances in the 2017 balance sheet were valued at the short-term rate.

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 2018.

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. 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 in respect of unearned Quota Share Commission (£30,226k), and amounts that will be repaid to reinsurers as their share of profit on the reinsured business (£4,918k). 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 has used 'mark-to-market' valuations for all bonds for SII reporting, as quoted prices in active markets for identical assets are available. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis i.e. on the stock exchange.

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

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 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 are no market prices quoted in active markets for the same assets or similar assets, an alternative valuation method has been used.

This alternative valuation method is “cost plus 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 since its issue the interest rates have not changed significantly this valuation is deemed appropriate. Given this, it is considered 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

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 has a 'minimal' appetite for capital management risk, such that it has a preference for ultra-safe options that are low risk.

The capital management process is a continuous cycle of monitoring and assessment actions designed to ensure that the business has a thorough understanding of the level of capital solvency needed to maintain the optimal level of capitalisation. The DAS UK Capital Management Policy establishes a framework detailing systems and controls for capital oversight and management. It seeks to ensure that DAS LEI adheres to regulatory and business requirements, and maintains an adequate level of capital to 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 has primary executive responsibility for the management of capital adequacy issues and sets the capital management strategy, which the Board approves in line with DAS UK's established corporate governance framework. The CFO receives internal capital adequacy reporting from the Capital Reporting Manager.

DAS LEI's time horizon for business planning, including solvency planning, is currently four years.

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 2018		31 December 2017		
Item	Total	Tier 1 - unrestricted	Total	Tier 1 - unrestricted	Tier 3
Basic own funds					
Ordinary share capital	**13,000**	13,000	**13,000**	13,000	0
Reconciliation reserve	**19,932**	19,932	**23,064**	23,064	0
An amount equal to the value of net deferred tax assets	**0**	0	**453**	**0**	453
Total basic own funds after deductions	**32,932**	**32,932**	**36,518**	**36,064**	**453**
Total available own funds to meet SCR	**32,932**	32,932	**36,518**	36,064	453
Total available own funds to meet MCR	**32,932**	32,932	**36,064**	36,064	0
Total eligible own funds to meet SCR	**32,932**	32,932	**36,518**	36,064	453
Total eligible own funds to meet MCR	**32,932**	32,932	**36,064**	36,064	0
SCR	**19,329**		**24,220**		
MCR	**4,832**		**6,055**		
Ratio of eligible own funds to SCR	**170.38%**		**150.78%**		
Ratio of eligible own funds to MCR	**681.51%**		**595.61%**		

The fall in basic own funds is largely due to a fall in the underlying results, offset by an improvement in the embedded value in respect of future profits. The Tier 3 capital was a deferred tax asset in 2017, in current year the net deferred tax position is a liability and hence this is included in Tier 1 capital.

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 2018 £'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 payable at the discretion of the Directors.
Reconciliation Reserve (Tier 1)	19,932	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 when applicable. 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.
Total basic own funds	**32,932**	

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. A reconciliation of SII own funds to equity presented in the financial statements is shown below.

Reconciliation of SII own funds with equity in the financial statements

31 December 2018	£'000s
Equity in financial statements	**27,913**
Reinsurance recoverables adjustment in respect of future reinsurance premiums on ATE business (see section D.1)	(90,214)
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)	(90,380)
Difference in the valuation of prepayments (see D.1)	(1,136)
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)	51,185
Amount owed by ERGO under the quota share reinsurance agreement included under Reinsurance receivables for DAS LEI's financial statements but for SII this is considered as part of Reinsurance recoverable as it relates to future cash flows associated with the reinsurance contract (see D.1)	(1,281)
Reinsurance payables premiums in respect of reinsured ATE business considered in the valuation of the reinsurance recoverables (see D.3)	4,294
Reinsurance deferred acquisition costs in respect of unearned Quota Share Commission, and amounts that will be repaid to reinsurers as their share of profit on the reinsured business considered in the valuation of the reinsurance recoverables (see D.3)	35,143
Change in technical provisions due to recognition on SII basis largely offsetting differences above (see D.2)	107,995
Risk margin added to best estimate technical provisions (D.2)	(2,870)
Removal of deferred acquisition costs (D.1)	(6,416)
Movement in net deferred tax (D.1)	(1,301)
SII basic own funds	**32,932**

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 2018	31 Dec 2017
Market risk	2,597	3,281
Counterparty default risk	7,389	7,731
Non-life underwriting risk	10,754	13,822
Diversification	(4,007)	(4,740)
Basic Solvency Capital Requirement*	16,734	20,095
Operational risk	3,811	4,125
Loss-absorbing capacity of deferred taxes	(1,216)	0
Net Solvency Capital Requirements calculated using Standard Formula	**19,329**	**24,220**
SII eligible own funds	32,932	36,518
Solvency ratio	170.38%	150.78%

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

The SCR shown above is subject to supervisory assessment.

The SCR has decreased mainly due to the fall in the non-life underwriting risk. The decrease in non-life underwriting risk from £13,822k to £10,754k is driven by:

- a significant decrease in premium risk from £7,167k to £3,912k, which was driven by the change in reinsurance arrangements;
- a reduction in reserve risk from £8,353k to £7,316k caused by the a reduction in the net reserves;
- a £1,244k increase in lapse risk resulting from the increase in the future profits exposed to lapse risk due to the increase in the ERGO quota share reinsurance commission rate; and
- the changing levels of all these risks reduced the related diversification effect by £50k.

Furthermore, there was a change in the loss-absorbing capacity of deferred taxes which decreased the SCR by £1,216k.

The MCR for 31 December 2018 is 25% of the SCR (the capital "floor" as prescribed in the regulations). The MCR reduced in 2018 from £6,055k at 31 December 2017 to £4,832k at 31 December 2018. This reduction 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 2018	£'000s	%
Linear MCR	2,041	42.2%
SCR with add-on	19,329	400.0%
MCR cap	8,698	180.0%
MCR floor	4,832	100.0%
Combined MCR	4,832	100.0%
Absolute floor of the MCR	2,217	45.9%
MCR	**4,832**	**100.0%**

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

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[1] 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 ("(EU) 2015/2452").

[1] As amended by Commission Implementing Regulation (EU) 2017/2190 of 24 November 2017 and Commission Implementing Regulation (EU) 2018/1843 of 23 November 2018.

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**	0
Pension benefit surplus	**R0050**	0
Property, plant & equipment held for own use	**R0060**	10
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	124,602
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**	124,602
Government Bonds	**R0140**	90,883
Corporate Bonds	**R0150**	32,265
Structured notes	**R0160**	1,454
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**	5,012
Loans on policies	**R0240**	0
Loans and mortgages to individuals	**R0250**	0
Other loans and mortgages	**R0260**	5,012
Reinsurance recoverables from:	**R0270**	117,174
Non-life and health similar to non-life	**R0280**	117,174
Non-life excluding health	**R0290**	117,174
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**	39,069
Reinsurance receivables	**R0370**	2,076
Receivables (trade, not insurance)	**R0380**	6,126
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**	6,182
Any other assets, not elsewhere shown	**R0420**	271
Total assets	**R0500**	300,521

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

Liabilities		
Technical provisions – non-life	**R0510**	129,890
Technical provisions – non-life (excluding health)	**R0520**	129,890
Technical provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	127,020
Risk margin	**R0550**	2,870
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**	124,707
Deferred tax liabilities	**R0780**	1,216
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**	1,656
Reinsurance payables	**R0830**	1,715
Payables (trade, not insurance)	**R0840**	7,684
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**	722
Total liabilities	**R0900**	267,590
Excess of assets over liabilities	**R1000**	32,932

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

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**	79,929	4,640	5,885					90,454
Gross - Proportional reinsurance accepted	**R0120**	27,491	0	0					27,491
Gross - Non-proportional reinsurance accepted	**R0130**				0	0	0	0	0
Reinsurers' share	**R0140**	96,547	3,920	5,809	0	0	0	0	106,276
Net	**R0200**	10,873	721	76	0	0	0	0	11,669
Premiums earned									
Gross - Direct Business	**R0210**	81,839	5,013	7,208					94,061
Gross - Proportional reinsurance accepted	**R0220**	25,146	0	0					25,146
Gross - Non-proportional reinsurance accepted	**R0230**				0	0	0	0	0
Reinsurers' share	**R0240**	98,297	4,088	5,325	0	0	0	0	107,709
Net	**R0300**	8,688	926	1,883	0	0	0	0	11,497
Claims incurred									
Gross - Direct Business	**R0310**	50,364	3,977	5,615					59,956
Gross - Proportional reinsurance accepted	**R0320**	17,704	0	0					17,704
Gross - Non-proportional reinsurance accepted	**R0330**				0	0	0	0	0
Reinsurers' share	**R0340**	61,320	3,670	5,291	0	0	0	0	70,281
Net	**R0400**	6,748	307	324	0	0	0	0	7,378
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**	17,864	860	1,123	0	0	0	0	19,847
Other expenses	**R1200**								2,787
Total expenses	**R1300**								22,634

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

Following changes made to (EU) 2015/2452 by “Commission Implementing Regulation (EU) 2018/1843 of 23 November 2018 amending Implementing Regulation (EU) 2015/2452 as regards the scope of application of the template for disclosing premiums, claims and expenses by country”, and given that the home country represents more than 90% of the total gross written premiums, this template is no longer required.

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**	(1,753)	2,103	2,478	0	0	0	(80)	2,749
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	9,772	1,652	1,972	0	0	0	(27)	13,369
Net Best Estimate of Premium Provisions	**R0150**	(11,525)	452	507	0	0	0	(53)	(10,620)
Claims provisions									
Gross	**R0160**	121,560	802	1,909	0	0	0	0	124,271
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	101,814	688	1,302	0	0	0	0	103,805
Net Best Estimate of Claims Provisions	**R0250**	19,746	113	607	0	0	0	0	20,466
Total Best estimate - gross	**R0260**	119,807	2,905	4,388	0	0	0	(80)	127,020
Total Best estimate - net	**R0270**	8,220	565	1,114	0	0	0	(53)	9,846
Risk margin	**R0280**	2,759	33	74	0	0	0	4	2,870
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**	122,566	2,939	4,462	0	0	0	(77)	129,890
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	111,587	2,340	3,274	0	0	0	(27)	117,174
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	10,979	599	1,188	0	0	0	(50)	12,716

Appendix 1.5: S.19.01.21 - Non-life insurance claims

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**											1,536	1,536	1,536
2009	**R0160**	24,820	15,327	9,518	4,644	3,347	1,919	1,773	701	612	496		496	63,158
2010	**R0170**	27,223	15,000	6,850	4,429	2,316	1,688	1,188	482	866			866	60,041
2011	**R0180**	31,893	13,851	6,186	3,636	2,260	1,347	825	718				718	60,716
2012	**R0190**	37,533	12,852	6,686	3,858	1,559	1,503	2,248					2,248	66,238
2013	**R0200**	43,633	12,938	6,512	2,993	2,117	2,969						2,969	71,163
2014	**R0210**	49,636	13,623	6,766	3,809	3,144							3,144	76,977
2015	**R0220**	61,486	19,421	6,109	6,323								6,323	93,339
2016	**R0230**	54,184	16,677	9,393									9,393	80,254
2017	**R0240**	47,371	13,928										13,928	61,300
2018	**R0250**	38,669											38,669	38,669
Total	**R0260**												80,290	673,391

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**											1,897	1,858
2009	**R0160**	0	0	0	0	0	0	0	1,992	2,126	1,408		1,379
2010	**R0170**	0	0	0	0	0	0	2,904	3,589	1,817			1,780
2011	**R0180**	0	0	0	0	0	4,272	3,370	1,842				1,805
2012	**R0190**	0	0	0	0	9,319	6,016	3,056					2,994
2013	**R0200**	0	0	0	11,032	7,633	5,461						5,350
2014	**R0210**	0	0	16,296	9,735	6,547							6,414
2015	**R0220**	0	29,868	16,386	10,322								10,113
2016	**R0230**	50,506	28,224	15,306									14,997
2017	**R0240**	48,608	28,696										28,123
2018	**R0250**	50,451											49,458
Total	**R0260**												124,271

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	19,932	19,932			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	0				0
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	32,932	32,932	0	0	0

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**	32,932	32,932	0	0	0
Total available own funds to meet the MCR	**R0510**	32,932	32,932	0	0	
Total eligible own funds to meet the SCR	**R0540**	32,932	32,932	0	0	0
Total eligible own funds to meet the MCR	**R0550**	32,932	32,932	0	0	
SCR	**R0580**	19,329				
MCR	**R0600**	4,832				
Ratio of Eligible own funds to SCR	**R0620**	170%				
Ratio of Eligible own funds to MCR	**R0640**	682%				

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**	32,932
Own shares (held directly and indirectly)	**R0710**	0
Foreseeable dividends, distributions and charges	**R0720**	0
Other basic own fund items	**R0730**	13,000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	0
Reconciliation reserve	**R0760**	19,932
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	0
Expected profits included in future premiums (EPIFP) - Non-life business	**R0780**	19,725
Total Expected profits included in future premiums (EPIFP)	**R0790**	19,725

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	2,597		
Counterparty default risk	R0020	7,389		
Life underwriting risk	R0030	0		
Health underwriting risk	R0040	0		
Non-life underwriting risk	R0050	10,754	None	
Diversification	R0060	(4,007)		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	16,734		

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	3,811
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	(1,216)
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	19,329
Capital add-ons already set	R0210	0
Solvency capital requirement	R0220	19,329
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	2,041

		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	8,220	10,478
Assistance and proportional reinsurance	R0120	565	442
Miscellaneous financial loss insurance and proportional reinsurance	R0130	1,114	575
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	2

Overall MCR calculation		C0070
Linear MCR	R0300	2,041
SCR	R0310	19,329
MCR cap	R0320	8,698
MCR floor	R0330	4,832
Combined MCR	R0340	4,832
Absolute floor of the MCR	R0350	2,217
		C0070
Minimum Capital Requirement	R0400	4,832

Appendix 2: Glossary of abbreviations and terms

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, which is responsible for Munich Re Group supervision. It is the German equivalent of the PRA.
BCM	Business Continuity Management.
Best estimate for non-life insurance obligations	This forms part of the TPs and is made up of the premium provision and the provision for claims outstanding. This is the best estimate of obligations that 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.
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.
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. 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. 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 (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 or Tier 3 own funds (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.

Abbreviations/Term	Definition
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 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
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 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.

Abbreviations/Term	Definition
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 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. See SMF below however.
SIMR	Senior Insurance Managers Regime. This regime applied to the most senior executive management and directors who are subject to regulatory approval. Firms must allocate prescribed responsibilities across their Senior Managers setting out their duties. This forms part of the overall firm management and governance map. Under section 59 of the Financial Services and Markets Act 2000, authorised firms are required to ensure that individuals seeking to perform one or more of the PRA–designated Senior Management Functions seek PRA approval prior to taking up their position.
SMF	Senior Management Function, this superseded the SIMFs, see SMCR below. That aspect of any key function relating to the carrying on of a regulated activity by DAS LEI, which is specified by the PRA in the “Insurance – Senior Management Functions” Chapter in the PRA Rulebook pursuant to section 59 of the Financial Services and Markets Act 2000.
SMCR	Senior Manager and Certification Regime. On the 10th December 2018, the SIMR regime merged with the Banking Senior Manager and Certification Regime, specifically for Approved Persons. Existing roles were migrated to the revised framework in accordance with the requirements set out by the FCA and PRA.
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.