DAS Legal Expenses Insurance Company Limited

Solvency and Financial Condition Report

Year ended 31 December 2016

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Some of the sections of this document are audited. Please see the external independent auditor's report for details.

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"). DAS LEI is the market leader for Legal Expenses Insurance ("LEI") in the UK, and part of a large global insurance group, Munich Re.

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 SFCR.

Given that SII was implemented on 1 January 2016, this is the first SFCR required to be published by DAS LEI and is based on the results for the year ended 31 December 2016.

SII has been developing over several years and accordingly a project was undertaken to ensure that DAS LEI's system of governance and capital management policy enable it to maintain complete alignment with the SII regime. This project was supported by the broader Munich Re Group SII implementation programme, which helped ensure that processes and governance were embedded to a high standard.

DAS LEI continues to maintain a solid capital position and maintained its 'A' credit rating from Standard & Poor's. During 2016, the planned execution of a company-wide transformation programme ('Nexus'), which challenged the operating model of DAS LEI, continued. The programme included work streams covering governance, people, customer, data and financial systems.

In 2016, DAS LEI re-negotiated the terms of its reinsurance quota share agreement with fellow Munich Re Group company ERGO Versicherung AG ("ERGO"). Under the renewed agreement, which was in force as of 1 January 2016, the level of business ceded remained at 70% of in-force business, net of that reinsured to other parties. The 70% level has been effective as of 1 October 2015; prior to that 30% was ceded. In addition, commission received by DAS LEI became calculable based on a sliding scale dependent on the overall loss ratio achieved. This arrangement has contributed to DAS LEI's strong capital position as at 31 December 2016, but has had an adverse impact on DAS LEI's reported results for the year which masks underlying profitability.

Directors' Statement of Responsibility in respect of the SFCR for the year ended 31 December 2016

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, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that the insurer 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 10 April 2017 and signed on its behalf by:

19/05/2017

Director A J Burke

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

Except as stated below, we have audited the following documents prepared by DAS Legal Expenses Insurance Company Limited as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of DAS Legal Expenses Insurance Company Limited as at 31 December 2016, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 ('**the Templates subject to audit**').

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- information relating to 1 January 2016 voluntarily disclosed by the Company in the 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

Respective responsibilities of directors and auditor

As explained more fully in the Responsibility Statement, the Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

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

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Relevant Elements of the Solvency and Financial Condition Report

A description of the scope of an audit is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the Relevant Elements of the Solvency and Financial Condition Report

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of DAS Legal Expense Insurance Company Limited as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Emphasis of Matter - Basis of Accounting

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

Matters on which we are required to report by exception

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of DAS Legal Expenses Insurance Company Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

KPMG LLP

KPMG LLP
66 Queens Square
Bristol
BS1 4BE
19 May 2017

- The maintenance and integrity of DAS Legal Expenses Insurance Company Limited's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

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

Solo standard formula

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

- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

A. Business and Performance[1]

A.1. Business

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

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

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

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

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

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

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

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

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

The UK group

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

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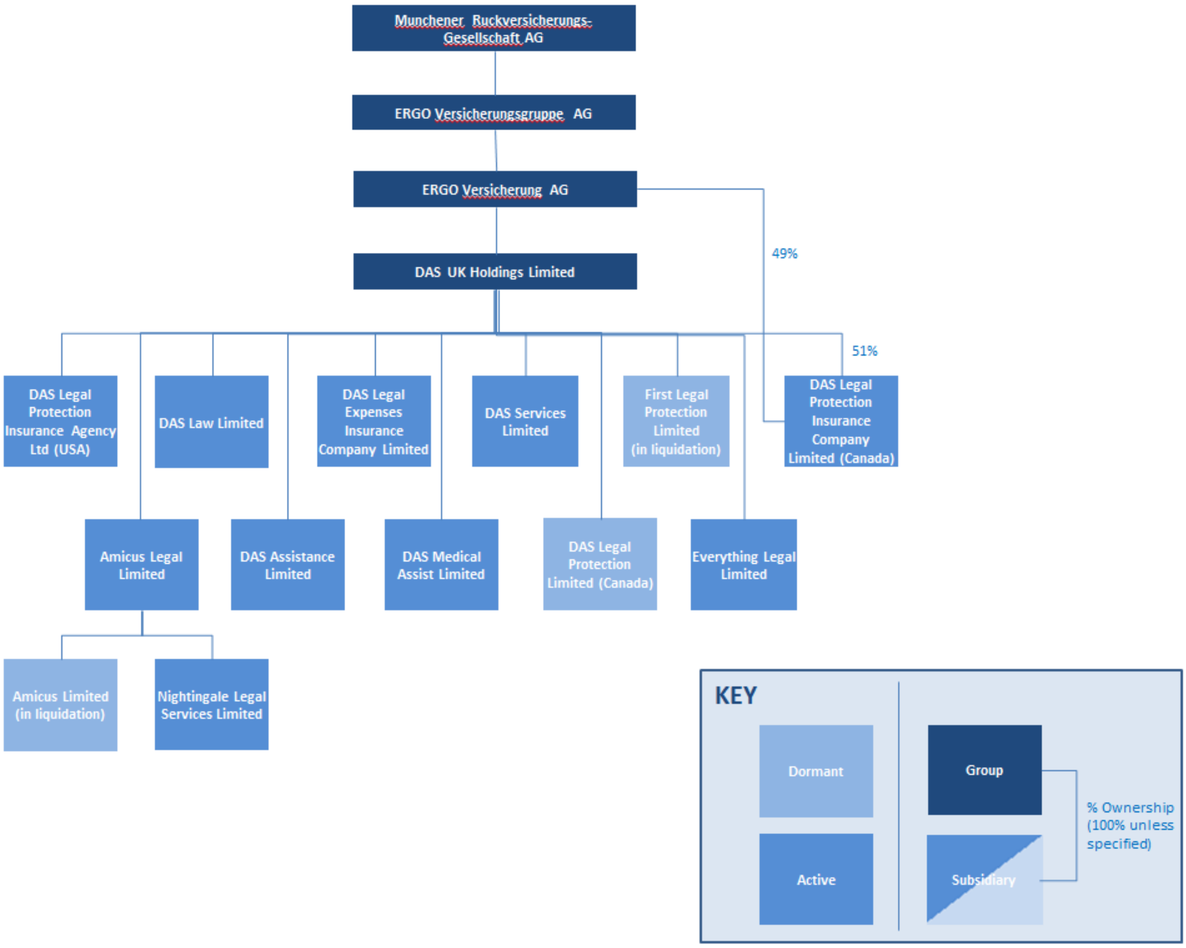
[1] This section is outside the scope of the audit (see page 5).

The diagram below shows the structure of DAS UK:



All DAS UK companies are incorporated in the United Kingdom, unless stated otherwise.

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

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

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

A.2. Underwriting Performance

As SII was implemented on 1 January 2016, the transitional arrangements in the Delegated Regulations do not require prior year figures, or a comparison to those figures for this section.

“Underwriting result” is defined for the purpose of this document and the SFCR as DAS LEI’s profit or loss for the year excluding investment and foreign exchange gains/losses.

The underwriting result (gross of reinsurance) for 2016 is shown below by SII line of business:

SII line of business	Underwriting result (£’000)
Legal expenses insurance	(8,282)
Assistance	31
Miscellaneous financial loss	(4,628)
Total underwriting loss	**(12,879)**

The underwriting result (gross of reinsurance) for 2016 by material geographical area is shown below:

Material geographical areas	Underwriting result (£’000)
United Kingdom	(14,050)
Republic of Ireland	847
Norway	324
Total underwriting loss	**(12,879)**

Note that in assessing DAS LEI’s performance for the year the investment performance in section A.3 and performance of other activities, which includes the reinsurance result, in section A.4 need to be considered.

During 2016, the planned execution of a company-wide transformation programme (“Nexus”), which challenged the operating model of DAS UK, continued. Therefore the underwriting results were in line with the projections for the year.

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

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

A.3. Investment Performance

As SII was implemented on 1 January 2016, the transitional arrangements in the Delegated Regulations do not require prior year figures, or a comparison to those figures for this section.

The following table analyses the investment result for the year ended 31 December 2016:

	£'000
Income from Government Bonds	1,303
Income from Corporate Bonds	688
Income from Deposits other than cash equivalents	15
Gains on the realisation of Government Bonds	360
Gains on the realisation of Corporate Bonds	44
Investment management expenses	(170)
Total Investment return	**2,240**

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

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 below. Interest earned whilst holding call deposits or available-for-sale investments is reported as interest income using the effective interest rate method.

Gains and losses recognised in Equity

In addition to the above items, there were gains on re-measurement of available-for-sale financial assets £838,000. This relates to unrealised gains on bonds.

Investments in Securitisation

The undertaking has no investments in securitisation.

A.4. Performance of other activities

As SII was implemented on 1 January 2016, the transitional arrangements in the Delegated Regulations do not require prior year figures, or a comparison to those figures for this section. The below table sets out the "Total comprehensive loss for the year" as stated in DAS LEI's financial statements, it also includes the underwriting and investment performance which have been included in the previous sections.

Item	£'000	Comments
Underwriting performance	(12,879)	See A.2 section
Investment performance	2,240	See A.3 section
Gains on re-measurement of available-for-sale financial assets	838	See A.3 section
Performance of other activities		
Other income per Non-technical account	873	Not material
Other expenses per Non-technical account	(218)	Not material
Tax on loss on ordinary activities per Non-technical account	3,624	This is the tax credit on the items disclosed in the Income statement in the financial statements.
Foreign currency translation differences on foreign operations, net of tax	(8)	Not material
Items included in the Technical account, other than underwriting result	(7,430)	The majority of this balance is the net reinsurance result. The reinsurance policy at DAS LEI is followed to help manage and mitigate risk to the policyholders.
Total comprehensive loss for the year	**(12,960)**	

Leases

Operating leases in which DAS LEI is the lessee

DAS LEI has entered into commercial operating leases on certain properties. These have an average duration of between 10 and 12 years. The agreements include no contingent rentals or option for renewal. There are no restrictions placed upon the lessee by entering into these leases.

DAS LEI incurred £272k of operating lease charges in the year. DAS LEI's future minimum lease payments under non-cancellable operating leases are immaterial.

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[2]

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

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 parent company.

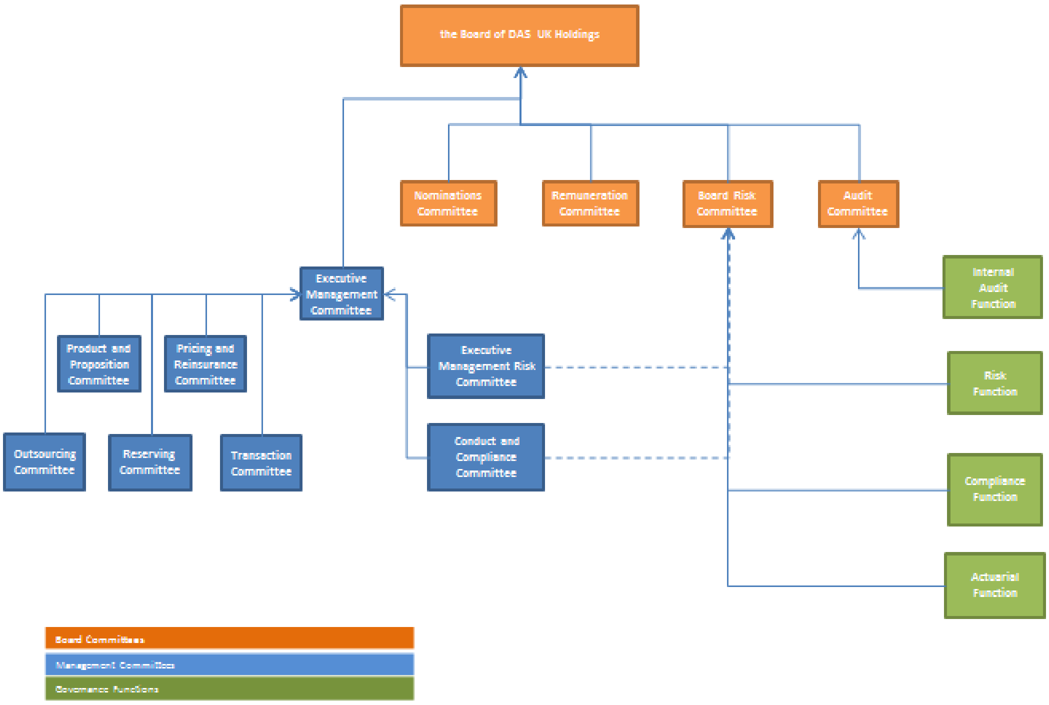
DAS UK has developed a Corporate Governance Structure that facilitates a clearly defined decision-making process, business execution system, and supervisory system. This structure allows decision making authority to be delegated throughout DAS UK to ensure that there is efficiency of decision-making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

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

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

[2] This section is outside the scope of the audit (see page 5).

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.

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 Board's membership, 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 and 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.

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.

Management Committees

EMC

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

Transaction Committee

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

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

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

Pricing and Reinsurance Committee

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

Product and Proposition Committee

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

Reserving Committee

The purpose of the Reserving Committee is to:

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

Executive Management Risk Committee

The Executive Management Risk Committee is responsible for:

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

Conduct and Compliance Committee

The purpose of the Conduct and Compliance Committee is the:

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

Key Functions

For the roles described in this section, details of the allocation of key functions in accordance with Financial Services regulation can be found in B.2 below.

1. Chairman of the Board

The Chairman 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 they are present;
- Managing the Board to allow enough time for discussion of complex or contentious issues and where appropriate arranging informal meetings beforehand to enable thorough preparation for the Board discussion; and
- Ensuring that directors receive accurate, timely and clear information, including that on DAS UK's current performance, to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success of DAS UK.

2. Non-Executive Directors

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

Specifically Non-Executive Directors must satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

In addition Independent Non-Executive Directors are responsible for:

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

Senior Independent Non-Executive Director

The Board shall appoint a Senior Independent Non-Executive Director to provide a sounding board for the chairman 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 chairman, chief executive 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 chairman of the Board; and
- Meeting with the Non-Executive Directors without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate.

3. Chief Executive Officer

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

4. Chief Finance Officer

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

5. Managing Director of Insurance

The role of the Managing Director of Insurance is:

- to develop and deliver the Insurance business strategy;
- to provide insight, advice and guidance on areas of development, trends and changes, identifying and supporting new business opportunities for DAS LEI; and
- to be accountable for the profit or loss of the Insurance business (ATE / BTE), 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: the primary service provider for MD Insurance and MD DAS Law Limited ("DAS Law"); and 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 HR and Legal Services

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

9. Group Director of Internal Audit

The Group Director 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, Conduct risk, Data Protection, Financial Crime, Information Security, Compliance and Regulatory issues.

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

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

11. Chief Actuary

The Chief Actuary directs the actuarial function, which is responsible for analysis and quantification of financial risks and liabilities. Key responsibility areas include reserving, capital modelling, and pricing support. The Chief Actuary is responsible for complying with SII regulations 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). 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 are 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 and a new grading system is being implemented in 2017 to support new job-specific pay ranges. 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 2016, all 3 incumbents will have an annual and medium-term incentive opportunity, the value of which varies from role to role. The medium term opportunity is awarded annually and is paid after 3 years subject to strict performance criteria which are set by Munich Re in Germany. For the CEO role there is a further 2 year retention requirement. The proportion of total reward that is paid in the form of variable pay is required to be at least 45% (+/- 5%) of total reward for Board members according to ERGO policy. The remuneration paid to Non-Executive Directors is also determined by the Board of Directors and is reviewed annually. INEDs are not entitled to performance related remuneration.

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

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

Supplementary Pension Options and Early retirement scheme

There are no supplementary pension provisions. All executive members of the administrative, management or supervisory body and other key function holders are covered under the standard defined contribution pension plan. There is no provision for non-executive members.

Also see allocation of key functions in accordance with Financial Services in section B.2.

Material Changes in the system of Governance which have taken place over the period

There have been no material changes in the system of governance that have taken place over the reporting period.

Material Transactions during the reporting period

Under the quota share arrangement with fellow group company ERGO, DAS LEI cedes 70% of its insurance business, net of external reinsurance. This transaction was entered into on an arm's length basis.

For information on Directors' emoluments see the Directors' emoluments note in DAS LEI's financial statements for 31 December 2016.

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 applications are subject to the rigorous assessment against fitness and propriety questions as defined by the FCA and PRA. In addition DAS LEI also undertakes an annual Fitness and Propriety attestation which all Approved Persons are required to complete, and completes criminal bureau checks on a three year cycle for all Approved Persons. All Approved Person responsibilities are outlined within role profiles and annual objectives and are subject to a rigorous governance framework. DAS UK has identified four key Functions within the operation as follows:

DAS Key Functions	Key Function Holders
Risk Management Function	Mr Paul Eccleson – Senior Insurance Management Function ("SIMF")4 and Controlled Function ("CF")10
Actuarial Function	Mr Richard Percy – SIMF20
Internal Audit Function	Mr Edward Dobinson – SIMF5
Compliance Function	Mr Paul Eccleson – SIMF4 and CF10

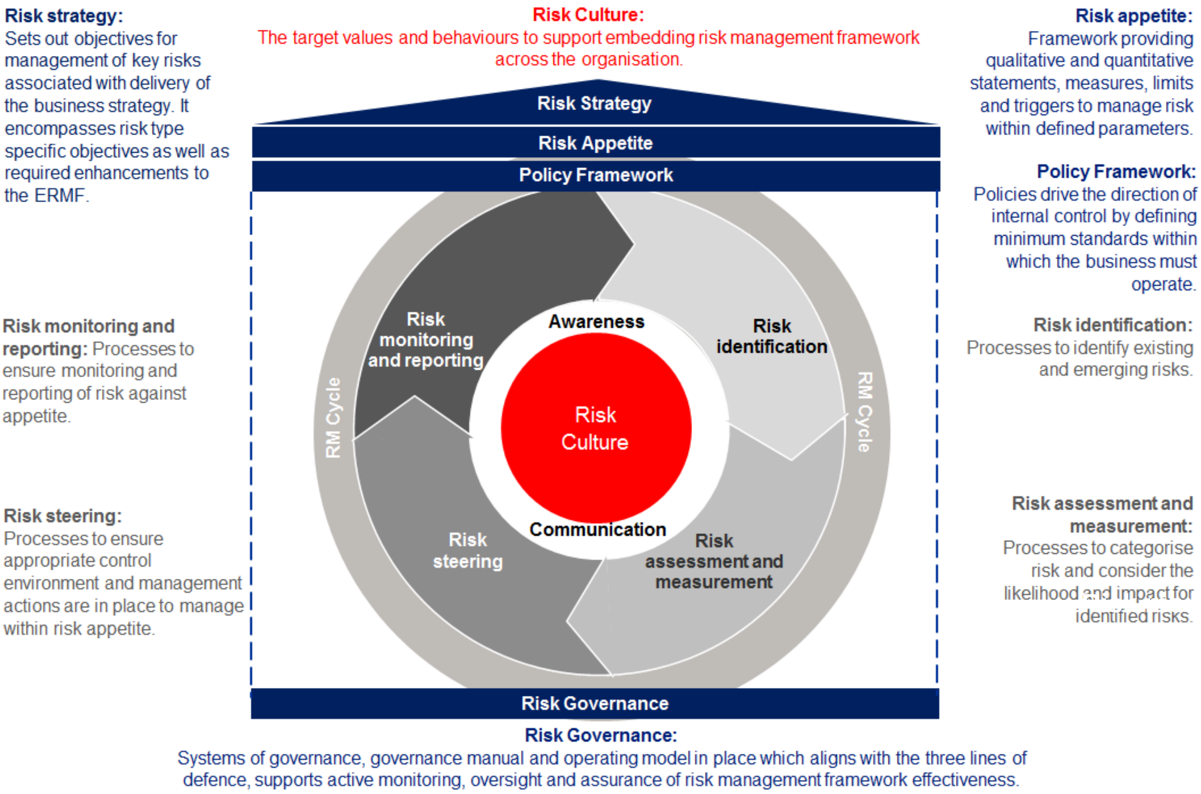
All Key Function Holders are Approved Persons and as such are subject to the rigour and conduct requirements set out as part of the SIMR in support of Article 42 of the Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)" ("SII Directive") and paragraph 2.1 of the "Insurance - Fitness and Propriety" chapter of the PRA's 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 which, through the Governance structure of DAS LEI, implements risk identification, assessment, management and reporting to the Board and its subcommittees.

DAS UK Enterprise Risk Management Framework



The figure above shows the components of the Enterprise Risk Management Framework 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

The design of DAS LEI's organisational structure, including the three lines of defence and key functions are essential components of the system of governance:

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

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

This is evidenced and achieved by the following:

i) Chief Risk and Compliance Officer Reporting

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

ii) Compliance with the DAS UK Holdings - Governance Manual

The following are key extracts as they relate to Risk Management:

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

The 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 are to 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:

- Process, risk and control workshops*:* key functional processes are reviewed on an annual (minimum) basis to ensure that all significant risks and key controls have been identified and captured on the ICS in line with required data quality standards, with appropriate owners assigned;
- Quarterly meetings held with senior management team to review and discuss Corporate level risks;
- Risk Events: the crystallisation or potential crystallisation of an operational failure triggers a review to ensure that associated risks and controls have been captured and that opportunities to prevent re-occurrence have been identified;
- 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; and
- Regulatory horizon scanning: process to identify new or emerging regulatory, legislative and/or statutory developments with potential impact to DAS UK.

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

Risk cycle – risk assessment and measurement

DAS LEI utilise risk scales to ensure the consistent measurement of all identified individual risks. The risk scale scores risks considering the likelihood of materialisation and the potential impacts, and includes scoring on both an inherent and residual basis (i.e. pre and post control). 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.

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

Risk cycle – risk steering

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

Any deficiencies identified through risk control assessment, incidents or validation and assurance processes must 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 Internal Audit function completes a defined programme of independent assurance through delivery of the annual Internal Audit 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.

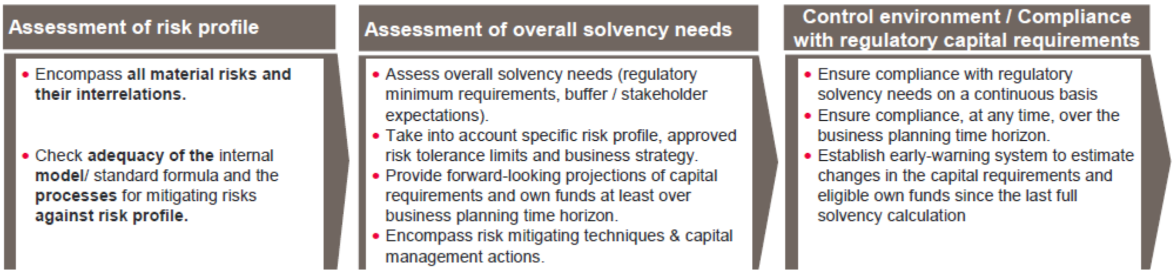
Process undertaken to conduct the Own Risk and Solvency Assessment (ORSA)

Objectives of DAS LEI's ORSA

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

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

The following illustration describes 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 documentations.

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

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

Roles and responsibilities regarding the ORSA process

Board

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

- DAS LEI’s Board has to challenge and approve the business plan as a basis for the forward looking perspective. It has to discuss the key assumptions to assess the validity of the business plan and possible sensitivity to risk drivers;
- DAS LEI’s Board has to challenge and approve the ORSA outcome. The ORSA is the central tool for DAS LEI’s Board. The report provides DAS LEI’s Board with a comprehensive picture of the risks the business is exposed to or those it could face in the future. It enables DAS LEI’s Board to understand these risks and the corresponding model and how the risks translate into capital needs;
- DAS LEI’s Board shall 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.

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

B.4. Internal control system

Description of the ICS

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

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

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

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

Description of the Compliance function

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

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

B.5. Internal audit function

How the Internal Audit function is implemented

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

Audit methodology is governed by the ERGO Group Audit methodology which is owned and overseen by ERGO Group Audit function. The practices are governed by the International Standards from the Institute of Internal Auditors.

Independence and Objectivity

The IA team comprises of qualified accountants who are required by their professional bodies to adhere to expected ethics, which amongst others, includes independence and objectivity. In addition to this, the IA function reports directly to the chair of the Audit Committee.

B.6. Actuarial function

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

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

All items that are listed in Article 48 of the SII Directive, and paragraph 6.1 of the "Conditions Governing Business" chapter of the PRA's rulebook, are the responsibility of the Actuarial function, and are performed by the Chief Actuary's department with no direct support from any other functions.

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

B.7. Outsourcing

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

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

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

The PRA rulebook defines ‘material outsourcing’ as, “outsourcing services of such importance that weakness, or failure, of the services would cast serious doubt upon the firm's continuing satisfaction of the threshold conditions or compliance with the Fundamental Rules”.

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

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

The critical functions outsourced by DAS LEI, which are primarily in the UK, 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 Limited (part of the DAS UK Group) 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 our policyholders.

SII regulations 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[3]

DAS LEI is exposed to underwriting risk, market risk, credit risk, liquidity risk, strategic risk, regulatory, reputational and operational risk as set out in the sections below. A comment on sensitivity analyses for these risks is included in section C.7.

C.1. Underwriting risk

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

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

The tables below summarise the primary business classes that DAS LEI operates:

Before the Event ("BTE")

Business Class	Brief Summary
100 (BTE) Motor	Sold as an add-on to motor insurance by insurance brokers and insurers, the cover pursues uninsured losses and/or damages against a negligent third party following a non-fault motor accident.
200 (BTE) Commercial Non-Motor	Commercial LEI is sold primarily through schemes to micro/SME businesses as an add-on to commercial package insurance policies, although 10% of the income relates to standalone policies purchased by larger SME companies. The cover protects businesses against legal costs arising from disputes with employees, contract matters, property, criminal prosecutions and HMRC investigations.
300 (BTE) Personal Non-Motor	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).
400 Helplines (not insured)	Helpline business, usually in the form of legal and other helpline services, is a low cost add-on to another financial services product such as a bank account. These non-insurance services are provided via a fellow subsidiary, DAS Law.
500 (BTE) Insured Assistance	Almost 70% of the premium under class 500 is Home Emergency, 30% is Motor Breakdown and less than 1% is for Vehicle Hire (following a fault accident). Home Emergency provides immediate assistance up to £1,000 following damage to the building, including plumbing/drainage and heating system. Motor breakdown provides roadside assistance, repair and recovery in the UK and Europe. Both products are primarily sold on as an add-on to household and motor insurance.

[3] This section is outside the scope of the audit (see page 5).

After the Event (“ATE”)

Business Class	Brief Summary
600 (ATE) Motor	Provides cover to claimants for litigation costs in respect of a motor accident resulting in their death/personal injury. Most business is received direct from solicitors. In the last year DAS LEI has seen an increase in Protected Cell Captive (“PCC”) arrangements where solicitors create their own insuring risk cells within PCC insurers in off-shore domiciles. DAS LEI is the fronting insurer and reinsures most of the risk to the PCC as well as providing stop loss cover. Recently, DAS LEI has seen large direct firms move into a PCC therefore reducing our income from these firms.
700 (ATE) Commercial Non-Motor	**Civil Litigation** Provides cover to commercial and personal clients for litigation costs. Key areas being contract disputes, professional negligence, debt recovery, insolvency, contentious probate and property disputes This sector provides DAS LEI with the greatest opportunity for growth. Historically DAS LEI has been unable to participate to any significant extent in the Civil Litigation market because it was unable to offer high enough limits of indemnity. There has been a gradual increase in the Limit Of Indemnity (“LOI”) that DAS LEI has been able to offer. Consequently, the current £3m LOI is deemed sufficient to participate effectively in the market and the market is now recognising that DAS LEI represents a solid and reliable ‘A’ rated option.
800 (ATE) Personal Non-Motor	**Personal Injury Non-Motor** Provides cover to claimants for litigation costs in respect of an accident resulting in death/personal injury for example accidents at work, trip/slips and industrial disease. **Clinical Negligence –** Provides cover to claimants for litigation costs in respect of their death/personal injury resulting from the negligence of a medical professional. Prior to April 2013 case numbers were less than 5% of the overall business and NWP amounted to around 26%. Post April 2013 one element of the premium remains recoverable from the defendants and therefore this is an area of business DAS LEI has targeted for growth. In terms of case numbers these are around 8% of the overall book but NWP amounts to around 68%.

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.

Our 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 as set out below:

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

DAS LEI re-negotiated the terms of its reinsurance quota share agreement with ERGO from 1 January 2016, as a result of which business ceded under the agreement remained at the 70% level in force as of 1 October 2015, however commission received by DAS LEI became calculable based on a sliding scale dependent on the overall loss ratio achieved.

The purpose of the contract was to reduce risk and the Solvency Capital Requirement ("SCR") of DAS LEI. This has achieved the purpose and therefore is deemed effective, as evidenced by DAS LEI's strong 31 December 2016 SII capital position.

ATE quota share – Legal expenses insurance line of business

From 2013 to 2015 DAS LEI entered into a 50% quota share reinsurance treaty with International Insurance Company of Hannover SE ("Inter Hannover") for commercial and complex one-off pieces of litigation ("Civil Litigation").

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

Since 2006 DAS LEI has an Excess of Loss Treaty for large claims from its BTE business.

An annual review of reinsurance arrangements has been carried out by the Actuarial Function and concludes that they are appropriate overall to DAS LEI's underwriting policy and risk profile.

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.

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

The market risk profile for DAS LEI has changed very little year on year. The investment mandate remains risk-averse, with 100% of the portfolio in cash or near cash (gilts and bonds). DAS LEI investments compose mainly of bonds (government and corporate) and cash deposits.

Interest rate risk

DAS LEI defines interest rate risk as 'the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates'.

Spread risk

DAS LEI defines spread risk as 'the 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'.

Market risk concentrations

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

Currency risk

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

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

Market risk mitigations

In overall terms interest rate risk does not represent a significant item. This is due to the fact that DAS LEI has adopted a conservative investment strategy for market risk in line with ERGO/Munich Re investment guidelines and its cautious risk appetite. The key objective is to limit investment risk and volatility while achieving a better return than could be achieved by investing the large majority of the portfolio in fixed interest securities. This conservative investment strategy is expressed and implemented through the investment parameters set out in the investment mandate.

In addition to return, safety and creditworthiness, the investment decision considers liquidity, diversification and the structure of the insurance liabilities. Consequently, DAS LEI has adopted a conservative investment strategy with an agreed cautious risk appetite for market risk.

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, that is, DAS LEI aims to match the maturity of assets and liabilities.

The DAS LEI securities portfolio is managed by Munich ERGO Asset-Management GMBH (“MEAG”); DAS UK’s appointed investment managers. Investment guidelines have been established to provide a framework within which investment decisions can be taken by MEAG. These guidelines are set out in the investment mandate, which forms part of the investment management contract between DAS UK and MEAG. A summary of the terms are:

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

DAS LEI adopts a number of mitigation strategies and actions to understand and control the market risk exposures. DAS LEI’s strategies are focused on sound policies and procedures, sufficient expertise, strong IT systems, obtaining and collection of relevant data, monitoring and reporting.

C.3. Credit risk

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

The principal credit risk exposures arising in connection with DAS LEI's assets is the counterparty risk related to its investments in debt securities, its balances held with banks and on treasury deposit, its insurance debtors, reinsurance balances, subrogation recoveries and other non-insurance debtors.

DAS LEI has a minimal appetite for credit risk, meaning mitigation strategies will be sought which seek to minimise the exposure to credit risk whilst taking a proportionate account of costs of control. The credit risk profile remains stable and there were no material changes to the measures used to assess the risk exposure or the material risks over the accounting period.

Previously DAS LEI assessed these risks individually under the ICA; however, DAS LEI has now adopted the Standard Formula approach. Resultantly, the assessment of stressed risk is simpler but leads to a higher capital requirement as the methodology does not allow for the particular characteristics of the DAS UK business model.

Mitigations

Bank balances and treasury deposits

Funds can only be deposited with banks and deposit takers approved by DAS LEI's Board. The criteria governing deposits with banks and other deposit takers are set out in the DAS UK treasury policy statement. This statement also sets out the maximum permitted level of funds that can be held with each approved bank or deposit taker. In most circumstances, that maximum is limited to 2.5% of DAS LEI's total investments.

A weekly summary of funds held on deposit is produced by the finance department and includes the current credit rating of each bank used. DAS UK treasury policy requires that at least 50% of the total deposits are placed with banks and credit institutions which have an A-1+ short term credit rating.

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 within BTE and other Business Partner income lies principally with the commercial accounts team, who form part of the finance department. Responsibility for the credit control for ATE debtors lies within the ATE department. The commercial accounts 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. The commercial accountant produces a detailed credit risk/control report each month for Senior Managers and all relevant Department Managers including the DAS UK Financial Controller and key finance staff.

Reinsurance balances (including reinsurers' share of technical provisions)

The reinsurers' share of technical provisions at 31 December 2016 amounted to £92.4m. The majority of these balances relate to the 70% quota share contract reinsured by ERGO as the other contracts sum to a small liability. This contract, together with all other balances and trading relationships with Group companies, is considered as part of Group Risk.

Reinsurance assets would grow in the event of the extreme adverse claims experience envisaged as part of Insurance Risk. However, almost all of these larger reinsurance balances would remain due 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.

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 UK has a minimal risk appetite for failing to meet any policyholder or other financial obligation as they fall due, with mitigation strategies in place which seek to minimise exposure whilst taking a proportionate account of costs of control. These are monitored on a regular basis in accordance with the DAS UK Liquidity Risk Policy ensuring that even under adverse conditions DAS LEI has access to the funds necessary to cover its claims obligations. There were no material changes to the measures used to assess the risk exposure or the material risks over the accounting period.

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. The funds are held in very liquid accounts or securities and are always greatly in excess of the liabilities falling due in the short term. DAS LEI liquidity position is strong; consequently no costs are likely to arise from requirements to liquidate investment assets at short notice.

Mitigations

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

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

DAS LEI accepts that liquidity issues may arise in its day-to-day operations, but has a minimal risk appetite to material liquidity issues.

DAS LEI invests most of its available funds in debt securities. However, funds are held in bank accounts or on call deposit.

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

The expected profit included in future premiums as at 31 December 2016 is £19.9m (1 January 2016 was £8.5m).

C.5. Operational risk

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

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

The DAS UK Operational Risk Policy sets the framework and expectations of the board for the effective management of the risks arising from our management of people, process and systems. This utilises the Enterprise Risk Management Framework.

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 below:

- Failure to ensure the IT infrastructure supports current and future business models;
- Failure to understand Business Performance (Data Quality);
- Failure to manage and embed Outsourcing arrangements; and
- Failure to attract, manage and retain employees.

Mitigations

IT solutions

The IT development strategy has been agreed and budgeted. A number of core IT development projects are scheduled as part of Nexus, including enhancements to the finance, business intelligence and financial crime prevention IT support systems.

Data Quality

As part of the DAS UK transformation a function and lead role has been introduced to manage the transition of this maturity. In Q1 2016 the scope of this work was defined and planned. This program is led by the new Head of Business Information and governed under the Nexus Program. Fixes have been identified and are being prioritised, however the improvement required will take until 2017 to deliver.

In addition, the Actuarial and MI departments have undertaken a review of data quality as it affects the calculation of technical provisions, with particular attention to the accuracy, completeness and appropriateness. This review concluded that although there were some minor issues with data relating to ‘Declined’ and ‘Non-policy’ claims, there were no material issues with data that could have adversely affected the calculation of technical provisions. This established a suite of Data Quality reports feeding directly into a quarterly Data Quality Monitor report.

Outsourcing solutions:

The governance workstream in Nexus has delivered particular improvements in the Outsourcing infrastructure, including the following deliverables:

- A register of current outsourcing arrangements;
- Outsourcing Policy and risk appetite;
- Outsourcing framework design; and
- Communication workshop to the business.

Failure to attract, manage and retain employees:

Significant improvements to recruitment, reward, remuneration and training have been undertaken to mitigate this risk.

The continued effectiveness of the compliance monitoring of these risks are considered through the Enterprise Risk Management Framework 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 accounting period.

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

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

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

DAS LEI's exposure to conduct and regulatory risk arises principally from:

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

Mitigation

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

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

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

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

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

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

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

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

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

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

Strategic concentration risk

The key material concentration risk relates to the loss of key Business Partners. This is recognised as a 'Top Corporate Risk'. There is a detailed strategic plan in place which will mitigate this risk substantially through product diversification and marketing improvements.

Reputational risk

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 categorisation of Reputational risk and identifies some of the key controls in place at DAS LEI against each attribute:

Risk Element	Description	Key Controls
Product and Services	Issues that will reduce people's belief that DAS LEI delivers high quality products and services that are good value for money.	New Product introduction process. Mystery shopping. Customer surveys. Complaints management.
Innovation	Issues that will reduce people's belief that DAS LEI is an innovative company that brings new products and services to the market first.	Transaction committee. Strategy and Innovation role. Claims Development dept. Process mapping and management.
Workplace issues	Issues that will reduce people's belief that DAS LEI has the best employees and that DAS LEI treat them well.	Investors in people. Performance management process. Employee forum.
Governance	Issues that will reduce people's belief that DAS LEI is open, honest, and fair in the way DAS LEI conducts its business.	Nexus Governance workstream. Governance Map. SIMR implementation. Board refresh.
Citizenship	Issues that will reduce people's belief that DAS LEI is a good corporate citizen who cares about local communities and the environment.	Corporate and Social Responsibility Programme. British Standard Environmental certification.
Leadership	Issues that will reduce people's belief that DAS LEI has a clear vision for the future and are a well-organised company.	Strategy workshops. Town Halls with CEO. Nexus programme.
Performance	Issues that will reduce people's belief that DAS LEI is a profitable company with strong growth prospects.	Nexus workstream. Shareholder capital injections. Maintained S&P rating.
Regulatory	Issues that will reduce the perception of DAS LEI by a regulator in the UK.	Nexus Workplan. Project 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 our control or not. Such a loss would, in the short term, create a significant reduction in revenues depending on which business partner is involved. Such a business loss would become public as the new product provider would be keen to advertise a large business win. Whatever the reason for such a business loss, it may lead to other business partners questioning their arrangements with us. This risk has been modelled as a stress test to the Mid-term Plan.

Mitigation

Key mitigations include:

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

C.7. Any other information

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 through discussions with senior management and subject matter experts from the around the business.

The scenarios considered include BREXIT, the loss of key business partners, a ban for the sale of add-on products as well as unexpected deterioration of loss ratios and reduced volumes of new business. For each of the stress testing and reverse stress testing scenarios considered, management has performed an impact and likelihood analysis and considered possible mitigating actions. None of those scenarios would lead to a Solvency II ratio of 110% or lower in the modelled time horizon from 2017 to 2020.

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

- **Stress 1 – Loss of key Business Partners**
- **Stress 2 – FCA ban on the sale of add-on products**
- **Stress 3 – ATE – Unexpected uplift in loss ratio**
- **Stress 4 – Implications of proposed Government reforms to PI Litigation**
- **Stress 5 – Motor closure**
- **Stress 6 – Clinical Negligence - Unexpected uplift in loss ratio (ATE)**
- **Stress 7 – Civil Litigation - Variance in growth plans and deterioration in claims history (ATE)**
- **Stress 8 – Civil Litigation – No variance in growth plans but deterioration in claims history (ATE)**

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

Stress 1 – Loss of key Business Partners

Assumption	Key Business Partners terminate their relationship with DAS UK				
Modelled Impact	£m	2017	2018	2019	2020
	Solvency ratio	132%	145%	162%	152%

Stress 2 – FCA ban on the sale of add-on products

Description	The FCA passes a ruling whereby the sale of add-on products, in conjunction with another product is banned, as well as a ban on including the cover within another product.				
Modelled Impact	£m	2017	2018	2019	2020
	Solvency ratio	132%	137%	173%	190%

Stress 3 – Unexpected uplift in loss ratio (ATE)

Description	Changes in the legal environment and /or market conditions increase the loss ratio for ATE business to a 1 in 25-year severity level: Product 600 +13% Product 700 +30% Product 800 +17%				
Modelled Impact	£m	2017	2018	2019	2020
	Solvency ratio	112%	111%	115%	113%

Stress 4 – Implications of proposed Government reforms to PI Litigation

Description	The implications of the proposed Government reforms to Personal Injury Litigation, including an increase in the small claims court limit to £5000 and withdrawal of general damages for soft tissue injuries.
Modelled Impact	

£m	**2017**	**2018**	**2019**	**2020**
Solvency ratio	124%	123%	123%	111%

Stress 5 – Motor closure

Description	Withdrawal from Motor at the end of 2018. (Includes modelling the run-off of the book, stripping out all related expenses and right sizing the support functions).
Modelled Impact	

£m	**2017**	**2018**	**2019**	**2020**
Solvency ratio	**128%**	**125%**	**136%**	**138%**

Stress 6 – Clinical negligence - Unexpected uplift in loss ratio (ATE)

Description	An increase in the loss ratio in ATE Clinical negligence 5ppts higher than currently planned in each of the plan years.
Modelled Impact	

£m	**2017**	**2018**	**2019**	**2020**
Solvency ratio	**124%**	**131%**	**136%**	**129%**

Stress 7 – Civil litigation - Variance in growth plans and deterioration in claims history (ATE)

Description	GWP growth is 50% lower than planned with claims costs £1.5m in excess of plan.
Modelled Impact	

£m	**2017**	**2018**	**2019**	**2020**
Solvency ratio	**126%**	**130%**	**132%**	**121%**

Stress 8 – Civil Litigation: No variance in growth plans but deterioration in claims history (ATE)

Description	GWP growth is in accordance with plan with claims costs £1.5m in excess of plan.
Modelled Impact	

£m	**2017**	**2018**	**2019**	**2020**
Solvency Ratio	**126%**	**132%**	**137%**	**131%**

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. In addition Mitigating management actions have been identified for each case:

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

Special Consideration of Brexit impacts

Due to the decision by the UK to exit the European Union, a risk analysis has been undertaken by DAS UK concerning the implications on DAS LEI. Despite much uncertainty regarding the impacts of the risk, the analysis resulted in the following headline points:

- Prudential regulation and reporting (‘Passporting’);
- Market volatility and foreign exchange exposures;
- Implications on cross-border employment;
- Contractual Terms;
- Claims; and,
- Tax.

It is our conclusion that there are very few specific exposures of DAS UK to Brexit. The current solvency calculations have been performed on a prudent basis and stressed extensively. In particular, stresses concerning a downturn in the market, and our solvency position under those conditions, have already been modelled as part of the ORSA process.

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.

D. Valuation for Solvency Purposes[4]

According to 2.1 of the Valuation Chapter in the PRA's Rulebook and Article 75 of the SII Directive all assets and liabilities are valued at fair value.

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

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

At 31 December 2016 Amounts in £'000s	Financial statements	SII	Difference
Assets			
Deferred acquisition costs	**7,775**	**0**	**7,775**
Deferred tax assets	**49**	**16,231**	**(16,182)**
Property, plant & equipment held for own use	**24**	**24**	**0**
Investments **(other than assets held for index-linked and unit-linked contracts)**	**130,198**	**131,789**	**(1,591)**
Bonds	**130,198**	**131,789**	**(1,591)**
Government Bonds	102,065	103,189	(1,124)
Corporate Bonds	28,133	28,601	(468)
Other loans and mortgages	**4,005**	**4,005**	**0**
Reinsurance recoverables from:	**172,678**	**92,438**	**80,240**
Non-life excluding health	172,678	92,438	80,240
Insurance and intermediaries receivables	**140,442**	**55,607**	**84,835**
Reinsurance receivables	**1,630**	**1,630**	**0**
Receivables (trade, not insurance)	**22,798**	**21,206**	**1,592**
Cash and cash equivalents	**8,567**	**8,567**	**0**
Any other assets, not elsewhere shown	**938**	**938**	**0**
TOTAL ASSETS	**489,104**	**332,435**	**156,669**
Liabilities			
Technical provisions – non-life	**248,017**	**147,319**	**100,698**
Technical provisions – non-life (excluding health)	**248,017**	**147,319**	**100,698**
Best Estimate	n/a	142,255	n/a
Risk margin	n/a	5,064	n/a
Deposits from reinsurers	**137,983**	**98,097**	**39,886**
Deferred tax liabilities	**224**	**17,891**	**(17,667)**
Insurance & intermediaries payables	**5,464**	**3,498**	**1,966**
Reinsurance payables	**7,398**	**1,611**	**5,787**
Payables (trade, not insurance)	**12,039**	**12,039**	**0**
Any other liabilities, not elsewhere shown	**32,915**	**416**	**32,499**
TOTAL LIABILITIES	**444,042**	**280,871**	**163,171**

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

[4] This section is within the scope of the audit except where indicated otherwise (see page 5).

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

- S.02.01.02 - Balance sheet
- S.17.01.02 - Non-life Technical Provisions
- S.19.01.21 - Non-life insurance claims (unaudited[5])

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, however the financial statements acquisition costs, which represent commission and other related expenses, are recognised over the period in which the related premiums are earned.

Deferred tax assets

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

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

Deferred tax assets are recognised if assets are lower in the SII balance sheet or liabilities are higher than in the tax balance sheet of DAS LEI and these differences will be offset in the future with tax effects (temporary differences). Deferred tax assets are also recognised for tax losses carried forward. As at 31 December 2016, there were no tax losses carried forward or tax credits.

The below table sets out the differences in deferred tax:

Breakdown of deferred tax in: (All amounts are in £'000)	Financial statements	SII	Difference
Insurance and intermediaries receivable	-	16,222	(16,222)
Other assets/liabilities	49	9	40
Deferred tax asset	**49**	**16,231**	**(16,182)**
Net technical provisions incl. deferred acquisition costs	-	(9,047)	9,047
Other liabilities	-	(8,620)	8,620
Investments (Government bonds)	(224)	(224)	-
Deferred tax Liability	**(224)**	**(17,891)**	**17,667**
Net Deferred tax Liability	**(175)**	**(1,660)**	**1,485**

[5] This QRT is outside the scope of the audit (see page 5).

The valuation differences between the Solvency II and the financial statements balance sheet positions generate the additional deferred tax assets and liabilities in accordance with Solvency II 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 substantially enacted at 31 December 2016:

Classification	Expecting timing of crystallisation of temporary difference	Deferred tax valuation rate
Short term	Prior to 31 December 2019	19%
Long term	From 1 January 2020	17%

The expected timing of crystallisation of temporary differences as at 31 December 2016 results in the rates applied as follows:

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

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

Deferred tax assets are recognised to the extent that recovery is probable, following consideration of future activity. The deferred tax asset recovery does not rely on future profitability. Management expects the deferred tax asset at the yearend to be recovered through offset against the crystallisation of the deferred tax liabilities recognised as at 31 December 2016.

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, also see "Receivables (trade, not insurance)" below.

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 is 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, however the SCR incorporates a substantial element (c. £6m) to allow for the potential default of counterparties at the 1 in 200 risk level. Please refer to the SCR in section E for further details.

Receivables (trade, not insurance)

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

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

Cash and cash equivalents

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

Any other assets, not elsewhere shown

This balance relates to prepayments. These items are valued at amortised cost for the financial statements. Given the short term nature of these assets, the fair value for SII reporting is deemed to be materially the same.

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 correspond 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. The provision includes an allowance for claims management and claims handling expenses. It is calculated using the discounted future cash flows, where those cash flows represent a weighted average over all possible outcomes.

The ultimate cost of outstanding claims is estimated using actuarial methods based on past claims payment patterns, 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 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 claim 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 in the Delegated Regulations and requires that a 6% cost-of-capital charge is applied to the present value of projected solvency capital for unhedgeable risks. The Solvency Capital Requirement used here represents the capital required to support the transfer of existing insurance contracts to a third party. The risk margin is calculated net of reinsurance.

The projected Solvency Capital Requirement 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 2016 Q4 in both of the SII and financial statements balance sheets:

2016 Q4 (£m)	SII	Financial statements
Total gross	142.3	248.0
Risk margin	5.1	N/A
Reinsurance recoverable*	-92.4	-172.7
Total net	54.9	75.3

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 (£m)

Type	LoB	31 December 2016	1 January 2016[6]	Change[6]
Direct business and accepted proportional reinsurance	Total	**54.9**	**-12.8**	**67.7**
	Legal expenses insurance	**51.0**	**-16.3**	**67.3**
	Assistance	**1.0**	**1.1**	**-0.1**
	Miscellaneous financial loss	**3.0**	**2.4**	**0.6**
Non-pptnl reinsurance	Total	**0.0**	**0.0**	**0.0**
Total		**54.9**	**-12.8**	**67.7**

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.

[6] The information provided for the comparative period is not subject to the reasonable assurance opinion and instead considered as part of 'other information' as explained in the 'Report of the external independent auditor' on page 5.

Direct business and accepted proportional reinsurance

Technical provisions: Legal expenses insurance LOB

	Financial statements	Solvency II		
£m	**31 December 2016**	**31 December 2016**	**1 January 2016[7]**	**Movement in SII figures[7]**
Total Gross	210.0	132.9	116.9	16.0
Risk margin	N/A	4.8	5.3	-0.5
Reinsurance recoverable*	-146.9	-86.7	-138.4	51.7
Total Net	63.1	51.0	-16.2	67.2

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

Technical provisions: Assistance LOB

	Financial statements	Solvency II		
£m	**31 December 2016**	**31 December 2016**	**1 January 2016[7]**	**Movement in SII figures[7]**
Total Gross	8.3	2.2	2.3	-0.1
Risk margin	N/A	0.1	0.1	-0.0
Reinsurance recoverable*	-5.7	-1.3	-1.3	0.0
Total Net	2.6	1.0	1.1	-0.1

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

Technical provisions: Miscellaneous financial loss LOB

	Financial statements	Solvency II		
£m	**31 December 2016**	**31 December 2016**	**1 January 2016[7]**	**Movement in SII figures[7]**
Total Gross	29.7	7.2	6.3	0.9
Risk margin	N/A	0.2	0.4	-0.2
Reinsurance recoverable*	-20.1	-4.4	-4.3	-0.1
Total Net	9.6	3.0	2.4	0.6

***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:

- For ATE business the books are still maturing post-LASPO (April 2013) and so there is a lack of developed data to estimate the technical provisions. This is particularly the case for Class 700, which has few of the more recent larger-value cases in the dataset. This class contains the largest ENID addition for this reason. The total value of ENID adjustments for ATE is £4.0m on gross premium provisions.

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[7] The information provided for the comparative period is not subject to the reasonable assurance opinion and instead considered as part of 'other information' as explained in the 'Report of the external independent auditor' on page 5.

- Classes 200 & 300 are long-tailed and subject to uncertainty from the evolving legal environment and changes in panel supplier arrangements. An ENID addition of £3.4m is held in gross claims provisions to allow for the risk of adverse development. New panel deals were started in late 2016 with a different cost structure from the past, which will affect newer claims. An allowance for this was included in claims provisions and premium provision but there is little data as yet to confirm the assumptions. The size of the addition to premium provisions was just under 5% of base claims costs across these classes, which has a gross value of around £1.4m.
- Also on Classes 200 & 300, £4.0m was included in the gross claims provisions to allow for the possibility of further liabilities on historic claims handling arrangements not already covered in the above, based on a probability-weighted assessment of outcomes, which contains an element of uncertainty.
- On Class 100, the hire car supplier changed from Premier Assist to Hertz during 2016 but the data in the system does not yet reflect this change fully and several extra assumptions were required in the claims and premium provisions. An ENID allowance was made for this but its level is low compared with the above items.
- On Class 500, there was a change in supplier for Home Emergency in late 2016, but the data is yet to mature, so the claims provision is subject to uncertainty. This class is very short-tailed with low claims provisions, so the level of uncertainty is very low compared with the above items.

Explanation of movements

The gross undiscounted claims provisions are identical to the valuation in the financial statements booked reserves with the addition of the profit share reserve of £5.3m for the first time at 31 December 2016. The booked reserves include an allowance for events not in data (ENID). They include a beneficial effect from implementation of a new expense allocation model which has reduced the undiscounted provision for claims handling expenses by £2.1m, nearly all BTE.

The gross premium provision has increased by £11.6m (undiscounted) representing an increase on ATE of £10.8m and an increase in BTE of £0.9m. The main reasons for the changes are:

- Implementation of the new expense allocation model resulted in an increase within premium provisions ("PP's") of £1.3m, ATE increased by £3.2m whilst BTE reduced by £1.9m (all including volume effects);
- Inclusion of Hire Income (Other Technical Income) within Class 100 reduced PP's by £3.6m. This had not been included at all for 2015 year end;
- The allowance for instalment premiums was £0.5m lower than 2015 year end. The fall was reduced by including an adjustment for previously mis-accounted instalment business, which led to an adverse PP movement;
- Changes in plans and assumptions over the year have resulted in £2.0m lower BTE contract boundary premiums and £1.0m lower associated claims, impacting PP's by £1.0m;
- The profit share provision within PP's increased by £0.8m over the year;
- The ATE premium provision methodology was changed over the year. The new models give a better, though much lower view of embedded business and profitability, increasing PP's by £12.7m;
- Inclusion of Protected Cell Company gross-up premium has increased PP's by £5.1m (though this will be offset by an identical increase in ceded PP's to give a nil net effect);
- An explicit allowance for ENID on ATE business was included for the first time, adding £4.1m to PPs;
- It was identified that around 35% of Class 700 premium movements result from LOI increments. These are rated on terms then applying and are re-underwritten so they are outside the contract boundary, and hence these have been removed, increasing PP's by £1.5m;

- During the year some ATE premiums were moved into PPs and out of debtors, resulting in a £6.4m reduction in PP's, though this will be offset by a like reduction in debtors.

The overall level of underwriting profit embedded in the ATE business is now down to £18m gross compared to £34m at 2015 year end (2015 year end adjusted to like-for-like by adding an equivalent PCC gross-up premium). BTE has an embedded loss of £3m gross compared to (like for like) £2m gross profit at 2015 year end (inflated by the £3.6m gross additional other technical income).

Reinsurance

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

- A 70% quota share arrangement with ERGO encompassing all business net of other reinsurance;
- A quota share arrangement with Inter Hannover, affecting Class 700 business (this terminated 31 December 2015 and is now in run-off);
- An excess of loss arrangement with a panel of different insurers relating to Class 200 business with high limits of indemnity;
- Quota share arrangements with Protected Cell Company schemes, Fiablé and Avantage, for a portion of ATE business relating to personal injury, clinical negligence and industrial disease.

The premiums and claims expenses under the separate Fiablé stop-loss agreement are reinsured under the ERGO quota share above.

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

At 2015 year end, ceded premium for both BTE and ATE was omitted from the unearned incepted cohort (except for additional premium) to avoid double-counting of the unearned ceded premium in the reinsurance deposit liability. This was in line with our interpretation of EIOPA rules. Following the changes to the ERGO quota share agreement in Q3 2016 the deposit now only reflects monies actually due so this omission was not needed at 2016 year end, this is the main cause of the substantial movement in net technical provisions ("TP").

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 (based on the six month LIBOR (London Interbank Offered Rate)).

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.

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

Other than the change in treatment of the reinsurance deposit which affected premium provisions, there were no material changes in methodologies used at 2016 year end. Assumptions such as loss ratios and expense assumptions were updated to reflect analyses that had taken place across the year.

D.3. Other liabilities

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

Deposits from reinsurers

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

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

Deferred tax liabilities

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

Insurance and intermediaries payables

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

Reinsurance payables

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

Payables (trade, not insurance)

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

Any other liabilities, not elsewhere shown

These balances represent accruals and deferred income as recognised in the financial statements. This balance relates to reinsurance deferred acquisition costs ("DAC") in respect of unearned Quota Share Commission (£27m), and amounts that will be repaid to reinsurers as their share of profit on the reinsured business (£5m). 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

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

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

D.5. Any other information

There is no other material information to disclose.

E. Capital Management[8]

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,
- Individual capital assessment, and
- Rating capital requirements.

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

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

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

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

The CFO sets the capital management strategy, and the Board approves it, in line with business guidelines and has primary executive responsibility for the management of capital adequacy issues. The CFO receives internal capital adequacy reporting from the Capital Reporting Manager.

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

[8] This section is within the scope of the audit except where indicated otherwise (see page 5).

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:

	31 December 2016		1 January 2016[9]	
	Total	Tier 1 - unrestricted	Total	Tier 1 - unrestricted
	£000s	£000s	£000s	£000s
Basic own funds				
Ordinary share capital	**13,000**	13,000	**13,000**	13,000
Reconciliation reserve	**38,564**	38,564	**50,270**	50,270
Total basic own funds after deductions	**51,564**	**51,564**	**63,270**	**63,270**
Total available own funds to meet SCR	**51,564**	51,564	**63,270**	63,270
Total available own funds to meet MCR	**51,564**	51,564	**63,270**	63,270
Total eligible own funds to meet SCR	**51,564**	51,564	**63,270**	63,270
Total eligible own funds to meet MCR	**51,564**	51,564	**63,270**	63,270
SCR	**34,047**		**48,207**	
MCR	**8,512**		**12,052**	
Ratio of eligible own funds to SCR	**1.51**		**1.31**	
Ratio of eligible own funds to MCR	**6.06**		**5.25**	

The fall in Basic own funds is largely due to the one-off investigation expenses and the planned execution of a company-wide transformation programme ('Nexus'), which challenged the operating model of DAS UK. The programme included work streams covering governance, people, customer, data and financial systems. In terms of the ratio of the eligible own funds to SCR and MCR, this impact has been largely offset by the movement in the SCR and the MCR. See Section E.2 below for an explanation of the significant movement in those figures.

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

[9] The information provided for the comparative period is not subject to the reasonable assurance opinion and instead considered as part of 'other information' as explained in the 'Report of the external independent auditor' on page 5.

The own funds can be further explained as follows:

Basic own funds	31 December 2016	Description
Share Capital (Tier 1)	13,000	This is the allotted, issued and fully paid share capital and is included in Tier 1 capital in accordance with Article 69 (a) (i) of the Delegated Regulations. This ranks after all claims in the event of winding-up proceedings, is undated and not redeemable. Dividends are subject to the discretion of the directors.
Reconciliation Reserve (Tier 1)	38,564	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 (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	**51,564**	

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

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

Reconciliation of SII own funds with equity in the financial statements

31 December 2016	£m	£m
Equity in financial statements		45.1
Reinsurance recoverables adjustment in respect of future reinsurance premiums on ATE business (see section D.1)	(80.2)	
Insurance and intermediaries receivables in respect of ATE premium written but not yet earned and BTE instalment debtors not yet received considered in valuaion of technical provisions (see D.1)	(84.8)	
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)	39.9	
Insurance payables adjustment due to future ATE commission considered in valuation of technical provisions (see D.3)	2.0	
Reinsurance payables premiums in respect of reinsured ATE business considered in the valuation of the reinsurance recoverables (see D.3)	5.8	
DAC in respect of unearned Quota Share Commission, and amounts that will be repaid to reinsurers as their share of profit on the reinsured business considered in the valuation of the reinsurance recoverables (see D.3)	32.5	
Change in technical provisions due to recognition on SII basis largely offsetting differences above (see D.2)	105.8	
Risk margin added to best estimate technical provisions (D.2)	(5.1)	
Removal of deferred acquistion costs (D.1)	(7.8)	
Movement in net deferred tax (D.1)	(1.5)	
SII basic own funds		**51.6**

See the Appendix 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 an Excel-based tool provided by ERGO Group (SOLIT) which uses the basis and method described by the regulations. The calculation of the SCR follows a five step iterative process which uses the Standard Formula approach to determining the SCR without material simplifying assumptions.

The following table shows the elements that contribute to the SCR, as calculated using SOLIT.

Components of the SCR (£m)	31 Dec 2016	1 Jan 2016[10]
Market risk	2.48	4.28
Counterparty default risk	8.91	12.91
Non-life underwriting risk	25.22	35.23
Diversification	-5.16	-7.88
Basic Solvency Capital Requirement*	31.44	44.54
Operational risk	4.27	4.08
Loss-absorbing capacity of deferred taxes	-1.66	-0.42
Net Solvency Capital Requirements calculated using Standard Formula	**34.05**	**48.21**
SII eligible own funds	51.56	63.27
Solvency ratio	151%	131%

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

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

The SCR has decreased mainly due to the falls in the non-life underwriting risk and counterparty default risk.

The decrease in non-life underwriting risk from £35m to £25m is driven by

- a significant reduction in the premium risk from £27m to £11m as i) exposures now fully reflect the earned value of the re-negotiated 70% quota share arrangement (previously 30%), whereas at Q4 15 the effective allowance was closer to 40%, and ii) the future premium exposures, especially for ATE business, are much lower,
- an increase in reserve risk from £13m to £17m due largely to claims handling expenses now not being recoverable under the re-negotiated quota share arrangement, and a £6m increase in lapse risk resulting from the review of the methodology greatly increasing the future profits exposed to lapse risk, and
- the changing levels of all these risks, which are now much closer in size, reducing the related diversification effect.

The decrease in counterparty default risk from £13m to £9m is driven by movements in the underlying debtor balances.

The MCR is also an output from the SOLIT tool. For 2016 Q4 it equates to 25% of the SCR (the “floor” as prescribed in the regulations). The difference seen over this reporting period reflects movements in the SCR given that the 25% floor is applicable.

[10] The information provided for the comparative period is not subject to the reasonable assurance opinion and instead considered as part of ‘other information’ as explained in the ‘Report of the external independent auditor’ on page 5.

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

31 December 2016	£m	%
Linear MCR	8.51	100.0%
SCR with add-on	34.05	400.0%
MCR cap	15.32	180.0%
MCR floor	8.51	100.0%
Combined MCR	8.51	100.0%
Absolute floor of the MCR	2.24	26.3%
MCR	**8.51**	**100.0%**

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

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

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

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

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

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

E.6. Any other information

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

Appendix: Quantitative Reporting Templates[11]

Below are the relevant QRTs that are required to be disclosed in this document:

All amounts in the appendix are shown in £'000 in accordance with the Commission Implementing Regulation (EU) 2015/2452 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.

[11] The Appendix is within the scope of the audit except where indicated otherwise (see page 5).

S.02.01.02 - Balance sheet

All amounts are in £'000s.

		Solvency II value
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	16,231
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	24
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	131,789
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	131,789
Government Bonds	R0140	103,189
Corporate Bonds	R0150	28,601
Structured notes	R0160	0
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	4,005
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	4,005
Reinsurance recoverables from:	R0270	92,438
Non-life and health similar to non-life	R0280	92,438
Non-life excluding health	R0290	92,438
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	55,607
Reinsurance receivables	R0370	1,630
Receivables (trade, not insurance)	R0380	21,206
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	8,567
Any other assets, not elsewhere shown	R0420	938
Total assets	R0500	332,435

S.02.01.02 – Balance sheet (continued)

Liabilities		
Technical provisions – non-life	**R0510**	147,319
Technical provisions – non-life (excluding health)	**R0520**	147,319
Technical provisions calculated as a whole	**R0530**	0
Best Estimate	**R0540**	142,255
Risk margin	**R0550**	5,064
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
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	0
Pension benefit obligations	**R0760**	0
Deposits from reinsurers	**R0770**	98,097
Deferred tax liabilities	**R0780**	17,891
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**	3,498
Reinsurance payables	**R0830**	1,611
Payables (trade, not insurance)	**R0840**	12,039
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**	416
Total liabilities	**R0900**	280,871
Excess of assets over liabilities	**R1000**	51,564

S.05.01.02 - Premiums, claims and expenses by line of business[12]

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 SII LoBs.

		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**	93,322	4,736	12,608					110,665
Gross - Proportional reinsurance accepted	**R0120**	19,308	0	0					19,308
Gross - Non-proportional reinsurance accepted	**R0130**				0	0	0	0	0
Reinsurers' share	**R0140**	82,163	3,200	8,330	0	0	0	0	93,693
Net	**R0200**	30,466	1,536	4,278	0	0	0	0	36,280
Premiums earned									
Gross - Direct Business	**R0210**	96,236	4,270	13,332					113,838
Gross - Proportional reinsurance accepted	**R0220**	18,568	0	0					18,568
Gross - Non-proportional reinsurance accepted	**R0230**				0	0	0	0	0
Reinsurers' share	**R0240**	84,110	2,505	9,446	0	0	0	0	96,060
Net	**R0300**	30,694	1,765	3,886	0	0	0	0	36,346
Claims incurred									
Gross - Direct Business	**R0310**	60,271	2,912	13,930					77,113
Gross - Proportional reinsurance accepted	**R0320**	12,470	0	0					12,470
Gross - Non-proportional reinsurance accepted	**R0330**				0	0	0	0	0
Reinsurers' share	**R0340**	50,075	2,397	10,201	0	0	0	0	62,673
Net	**R0400**	22,666	515	3,728	0	0	0	0	26,910
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**	28,973	1,209	3,603	0	0	0	0	33,784
Other expenses	**R1200**								-264
Total expenses	**R1300**								33,520

[12] QRT S.05.01.02 is outside the scope of the audit (see page 5).

S.05.02.01 - Premiums, claims and expenses by country[13]

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

		Home country	Total for top 5 countries and home country (by amount of gross premiums written)	Country (by amount of gross premiums written)	Country (by amount of gross premiums written)
		C0080	C0140	C0090	C0100
Country	R0010			IRELAND	NORWAY
Premiums written					
Gross - Direct Business	R0110	105,095	110,665	4,371	1,200
Gross - Proportional reinsurance accepted	R0120	19,208	19,308	100	
Gross - Non-proportional reinsurance accepted	R0130	0	0		
Reinsurers' share	R0140	89,707	93,693	3,146	840
Net	R0200	34,596	36,280	1,324	360
Premiums earned					
Gross - Direct Business	R0210	108,049	113,838	4,966	824
Gross - Proportional reinsurance accepted	R0220	18,478	18,568	90	
Gross - Non-proportional reinsurance accepted	R0230	0	0		
Reinsurers' share	R0240	91,881	96,060	3,424	756
Net	R0300	34,646	36,346	1,632	68
Claims incurred					
Gross - Direct Business	R0310	75,595	77,113	658	860
Gross - Proportional reinsurance accepted	R0320	12,455	12,470	15	
Gross - Non-proportional reinsurance accepted	R0330	0	0		
Reinsurers' share	R0340	61,391	62,673	681	602
Net	R0400	26,659	26,910	-7	258
Changes in other technical provisions					
Gross - Direct Business	R0410	0	0		
Gross - Proportional reinsurance accepted	R0420	0	0		
Gross - Non-proportional reinsurance accepted	R0430	0	0		
Reinsurers' share	R0440	0	0		
Net	R0500	0	0		
Expenses incurred	R0550	32,436	33,784	1,022	326
Other expenses	R1200		-264		
Total expenses	R1300	32,436	33,520	1,022	326

[13] QRT S.05.02.01 is outside the scope of the audit (see page 5).

S.17.01.02 - Non-life Technical Provisions

All amounts are in £'000s.

Note: Columns C0010 to C0090 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**	6,374	1,700	4,768	0	0	0	-70	12,772
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	6,034	1,029	2,898	0	0	0	-15	9,945
Net Best Estimate of Premium Provisions	**R0150**	340	671	1,870	0	0	0	-55	2,826
Claims provisions									
Gross	**R0160**	126,495	511	2,477	0	0	0	0	129,483
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	80,655	306	1,531	0	0	0	0	82,492
Net Best Estimate of Claims Provisions	**R0250**	45,840	205	946	0	0	0	0	46,991
Total Best estimate - gross	**R0260**	132,869	2,211	7,245	0	0	0	-70	142,255
Total Best estimate - net	**R0270**	46,180	876	2,816	0	0	0	-55	49,817
Risk margin	**R0280**	4,788	80	193	0	0	0	3	5,064
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**	137,657	2,291	7,438	0	0	0	-68	147,319
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	86,689	1,335	4,429	0	0	0	-15	92,438
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	50,968	956	3,009	0	0	0	-52	54,881

S.19.01.21 - Non-life insurance claims[14]

Total Non-Life Business

Accident year / Underwriting year	Z0010	1 - Accident year

All amounts are in £'000s.
Gross Claims Paid (non-cumulative)

		Development year (absolute amount)											Current year, sum of years (cumulative)	
		0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior	R0100											484	484	484
N-9	R0160	19,446	13,478	9,391	5,228	3,376	2,494	1,627	976	815	494		494	57,326
N-8	R0170	24,516	17,037	10,921	6,100	3,131	2,669	1,447	1,113	695			695	67,629
N-7	R0180	24,820	15,327	9,518	4,644	3,347	1,919	1,773	701				701	62,049
N-6	R0190	27,223	15,000	6,850	4,429	2,316	1,688	1,188					1,188	58,693
N-5	R0200	31,893	13,851	6,186	3,636	2,260	1,347						1,347	59,173
N-4	R0210	37,533	12,852	6,686	3,858	1,559							1,559	62,488
N-3	R0220	43,633	12,938	6,512	2,993								2,993	66,076
N-2	R0230	49,636	13,623	6,766									6,766	70,024
N-1	R0240	61,486	19,421										19,421	80,907
N	R0250	54,184											54,184	54,184
Total	R0260												89,833	639,035

[14] QRT S.19.01.21 is outside the scope of the audit (see page 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											1,616	1,602
N-9	R0160	0	0	0	0	0	0	0	0	0	1,352		1,340
N-8	R0170	0	0	0	0	0	0	0	0	1,498			1,485
N-7	R0180	0	0	0	0	0	0	0	1,992				1,974
N-6	R0190	0	0	0	0	0	0	2,904					2,877
N-5	R0200	0	0	0	0	0	4,272						4,233
N-4	R0210	0	0	0	0	9,319							9,234
N-3	R0220	0	0	0	11,032								10,931
N-2	R0230	0	0	16,296									16,147
N-1	R0240	0	29,868										29,597
N	R0250	50,506											50,064
Total	R0260												129,483

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 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	38,564	38,564			
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	51,564	51,564	0	0	0

S.23.01.01 – Own funds (continued)

All amounts are in £'000s.

		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**	51,564	51,564	0	0	0
Total available own funds to meet the MCR	**R0510**	51,564	51,564	0	0	
Total eligible own funds to meet the SCR	**R0540**	51,564	51,564	0	0	0
Total eligible own funds to meet the MCR	**R0550**	51,564	51,564	0	0	
SCR	**R0580**	34,047				
MCR	**R0600**	8,512				
Ratio of Eligible own funds to SCR	**R0620**	0				
Ratio of Eligible own funds to MCR	**R0640**	0				

S.23.01.01 – Own funds (continued)

All amounts are in £'000s.

		C0060
Reconciliation reserve		
Excess of assets over liabilities	**R0700**	51,564
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**	38,564
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	0
Expected profits included in future premiums (EPIFP) - Non-life business	**R0780**	19,922
Total Expected profits included in future premiums (EPIFP)	**R0790**	19,922

S.25.01.21 - Solvency Capital Requirement — for undertakings on Standard Formula

All amounts are in £’000s.

Basic Solvency Capital Requirement

		Gross solvency capital requirement	USP	Simplifications
		C0110	**C0080**	**C0090**
Market risk	**R0010**	2,476		
Counterparty default risk	**R0020**	8,907		
Life underwriting risk	**R0030**	0		
Health underwriting risk	**R0040**	0		
Non-life underwriting risk	**R0050**	25,222	None	
Diversification	**R0060**	-5,164		
Intangible asset risk	**R0070**	0		
Basic Solvency Capital Requirement	**R0100**	31,440		

Calculation of Solvency Capital Requirement

		Value
		C0100
Operational risk	**R0130**	4,268
Loss-absorbing capacity of technical provisions	**R0140**	0
Loss-absorbing capacity of deferred taxes	**R0150**	-1,661
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**	34,047
Capital add-ons already set	**R0210**	0
Solvency capital requirement	**R0220**	34,047
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

S.28.01.01 - MCR — Only life or only non-life insurance or reinsurance activity

All amounts are in £'000s.

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	8,511

		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	46,180	33,028
Assistance and proportional reinsurance	R0120	876	1,289
Miscellaneous financial loss insurance and proportional reinsurance	R0130	2,816	2,568
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	22

Overall MCR calculation		C0070
Linear MCR	R0300	8,511
SCR	R0310	34,047
MCR cap	R0320	15,321
MCR floor	R0330	8,512
Combined MCR	R0340	8,512
Absolute floor of the MCR	R0350	2,245
		C0070
Minimum Capital Requirement	R0400	8,512