



Annual Report 2017
Great Lakes Insurance SE

The amounts reported under UK GAAP¹ for the 2016 financial year were selected as the prior-year comparative information.

Key figures

Great Lakes Insurance SE (pursuant to the German Commercial Code [HGB])

| | | 2017 | 2016 |
|-----------------------------------|-------|-------------|-------------|
| Gross premiums written | €'000 | 2,194,366 | 2,460,352 |
| Net earned premiums | €'000 | 124,039 | 169,341 |
| Loss ratio (gross) | % | 87.4 | 63.2 |
| Loss ratio (net) | % | 93.5 | 57.5 |
| Net income for the financial year | €'000 | 0 | 6,876 |
| Equity | €'000 | 395,840 | 395,840 |

Our presentation currency is the euro (€). Unless otherwise specified, amounts are rounded to thousands of euros. As a result, there may be minor deviations in totals and percentages. Figures in brackets refer to the previous year. Expenses, outflows and losses are shown using the minus sign; income, inflows and gains are shown without a plus or minus sign.

¹ For comparative purposes, the presentation of reported items and the calculation of changes in unearned premiums was modified for the figures reported under UK GAAP for 2016.

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This document is a translation of the original German version and is intended to be used for informational purposes only. While every effort has been made to ensure the accuracy and completeness of the translation, please note that the German original is binding.

Report of the Supervisory Board

In 2017, the Supervisory Board regularly monitored and advised management in accordance with the tasks and duties incumbent upon it by law and under the Articles of Association. To this end, we obtained reports from the Board of Management on the Company's business development and on all key matters. We were also involved in all decisions of fundamental importance. The Board of Management provided us with comprehensive and regular updates on key topics. In the 2017 financial year, this included in particular the negative impact on earnings caused by the hurricanes in the USA, and strategic business decisions relating to the impending Brexit.

No inspection measures in accordance with Section 111(2) sentence 1 of the German Stock Corporation Act (AktG) were required in the past financial year.

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, duly audited the 2017 annual financial statements and management report prepared by the Board of Management, and issued an unqualified auditor's opinion.

After conducting our own review, we discussed these documents and the auditors' report at the meeting of the Supervisory Board to adopt the financial statements, which was also attended by the auditors. We had no objections. We approve the annual financial statements for 2017, which are thus adopted.

On 25 January 2017, the Company entered into a control agreement with MunichFinancialGroup GmbH (registered office in Munich) as the controlling company. Pursuant to this agreement, MunichFinancialGroup GmbH is required to fully absorb the Company's net loss for the 2017 financial year, in accordance with Section 302 of the Stock Corporation Act. On the basis of an agreement for joint and several assumption of debt, the Company is asserting the claim for loss absorption against Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München as joint and several debtor.

Stéphane Deutscher was appointed as a member of the Board of Management with effect from 1 April 2017.

There were no changes in the composition of the Supervisory Board in the 2017 financial year.

We wish to thank the Board of Management and all employees for their hard work, commitment and achievements in the past financial year.

Munich, 16 April 2018

For the Supervisory Board



Management report

Basic information about the Company

Great Lakes Insurance SE (“GLISE” or “the Company”) is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Re), one of the world’s leading reinsurers and risk carriers. The Company is authorised by the German Federal Financial Supervisory Authority (BaFin) to transact primary insurance and reinsurance business in the Member States of the European Union and the other signatory states to the Agreement on the European Economic Area (EEA Agreement). The authorisation from BaFin is also valid worldwide (subject to any legal requirements imposed by local jurisdictions) and extends to all classes of non-life insurance including non-substitutive health insurance. Great Lakes Insurance SE offers insurance solutions in niche markets and is an integral part of Munich Re’s “primary insurance out of reinsurance” (PIRI) strategy. GLISE primarily operates on the basis of three different business models: The Company writes a significant proportion of its premium volume via managing general agents (MGAs), agents who are authorised signatories (also referred to as underwriting agents). The MGAs are authorised to assess risks, calculate premiums, issue policies and to handle collections, disbursements and claims settlement on behalf of GLISE. The Company itself insures large commercial risks, primarily in the other property and liability insurance classes. Following the relocation of its headquarters from London to Munich, the Company has also entered into a number of intra-Group reinsurance contracts since 2017. The Company cedes significant portions of its business to reinsurers within Munich Re (Group), primarily to Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München. The Company writes primary insurance and reinsurance business at its branches in the United Kingdom (London), Switzerland (Baar), Italy (Milan), Australia (Sydney) and New Zealand (Auckland). It is also authorised to write surplus lines business in 49 US states.

The Company’s registered office and headquarters were relocated from London to Munich, with effect upon entry into the commercial register as at 30 December 2016. Great Lakes Insurance SE is included in the consolidated financial statements of Munich Re. The Company’s UK branch gives it a substantial presence in the London market. Relocating the Company’s headquarters only had a minor impact on the other international branches.

During the course of 2016, the strategic decision was taken to cease renewing large portions of the primary insurance business placed by our local sales partners for the Australia and New Zealand branches. This related in particular to contracts with historically negative technical profitability and poor prospects for future improvement. Based on this decision, a strategic realignment project was launched at our Australian branch in 2017, which now focuses on industrial and large risks underwritten by our Corporate Insurance Partner unit. This project systematically implements the objective of efficiently winding down the existing portfolio and maintaining the resources to write profitable new business.

On 25 January 2017, the Company entered into a control agreement with MunichFinancialGroup GmbH, a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, with its registered office in Munich (Local Court [Amtsgericht] in Munich, HRB 124792), as controlling company. This was approved by resolution of the Annual General Meeting on 24 February 2017. Approval was granted by the supervisory authority. The entry was made in the commercial register on 12 April 2017. Great Lakes Insurance SE is furthermore included in the consolidated value-added tax (USt) group of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft.

Report on economic position

Macroeconomic and industry environment

Global economic growth accelerated significantly in 2017. The economy in the USA, the eurozone and Japan continued to gain momentum. China's growth rate remained high, and Brazil and Russia recovered from their recessions. Inflation rates in the developed economies were higher on average than in the previous year, but remained moderate overall.

Capital markets

Monetary policy divergence across the world increased in 2017. The US Federal Reserve continued its rate-hiking cycle, and also refrained from fully reinvesting expiring bonds in order to gradually reduce its portfolio. By contrast, the European Central Bank (ECB) stuck to its low-interest-rate policy and asset purchase programme. However, it scaled back the volume of its monthly bond purchases and announced a further reduction from January 2018 onwards. The pound sterling has weakened significantly since the Brexit referendum in June 2016, making imports to the UK more expensive and driving up prices. This has weakened consumers' purchasing power and reduced their disposable incomes. In addition, the inflation rate in the UK remains above the target set by the Bank of England, which in early November raised interest rates for the first time in ten years, lifting the official bank rate to 0.5% from its historic low of 0.25%.

Yields on ten-year government bonds

| | 31.12.2017 | Previous year |
|---------|------------|---------------|
| USA | 2.4 | 2.4 |
| Germany | 0.4 | 0.2 |
| UK | 1.2 | 1.3 |

The low-interest-rate environment worldwide continued to pose a significant challenge for insurers' investment activity, particularly in the eurozone. Yields on ten-year German government bonds reached a high of 0.6% in July on speculation of an imminent end to the ECB's expansionary monetary policy, but fell back again to 0.4% by the end of the year. They nevertheless remained double the figure observed at the end of 2016. By contrast, with Brexit looming, yields on ten-year UK government bonds were down some 0.14 percentage points year on year. Yields on government bonds remained at a relatively low level in the United States, too, despite strong economic growth and key interest rate increases. This was partly attributable to persistently weak core inflation.

At the beginning of the year, fears of potential electoral gains by nationalist parties and a renewed crisis in the eurozone led to a widening of the yield differential between German government bonds and those of other eurozone countries. Yet after the French presidential elections and electoral reform in Italy, the yield differential narrowed again over the course of the year.

Stock markets

| | 31.12.2017 | Previous year |
|------------------|------------|---------------|
| DJ EURO STOXX 50 | 3,504 | 3,291 |
| Dow Jones | 24,719 | 19,763 |
| FTSE 100 | 7,688 | 7,143 |

The equity markets saw marked increases in prices and very low volatility in 2017. The EURO STOXX 50 climbed by around 6% in the period under review. Despite Brexit, the UK's FTSE 100 gained 8%. The US Dow Jones Index rose by around 25%, driven by the expectation that many companies would benefit from the Trump administration's tax reform adopted at the end of the year.

Over the course of the year, the euro exchange rate rose significantly against most important currencies. At the end of December 2017, the euro was up around 14% year on year against the US dollar, 6% against the Canadian dollar and 4% against the pound sterling. Compared with 2016, the average annual value of the euro against the US dollar was up by only 2% for 2017. It was roughly the same against the Canadian dollar, but saw an appreciable increase of around 7% against the pound sterling.

Insurance industry

Premium in property-casualty business in Germany rose by approximately 3% in the 2017 financial year. At the same time however, the expectation is of roughly the same growth in claims expenditures. The underwriting result and the combined ratio in the 2017 financial year thus remained at a constant level with the 2016 financial year .

Average motor insurance premiums saw a sharp increase in the United Kingdom, rising by 9% as against 2016. Viewed over three years, the increase is 29%. This is only due to a small extent to the rise in insurance premium tax, with the main driver being legislative changes to the Ogden rates used for discounting in personal injury claims. Average premium in homeowners' and householders' insurance saw a slight year-on-year decline.

The market environment in property-casualty reinsurance changed over the course of 2017. Demand for reinsurance was underpinned by robust growth in the major primary insurance markets in North America and the Asia-Pacific region. By contrast, some major European and Latin American markets experienced weaker premium growth. During the renewals of property-casualty reinsurance policies in the first half of the year, prices fell only slightly. The inflow of alternative capital remained strong and was contributed to the fact that there was more than enough capacity on the reinsurance market. The competitive environment remained difficult overall, not least because of the continuing robust capital base held by reinsurance companies. The second half of the year was marked by extraordinarily large claims, in particular due to the hurricanes in North America and the Caribbean, earthquakes in Mexico and wildfires in California. In 2017, economic losses from natural catastrophes were the second-highest level ever recorded. In the renewals at 1 January 2018, prices saw across-the-board increases, although these were of moderate intensity, also against the background of slightly rising interest-rate levels.

Important tools of corporate management

The aim of our entrepreneurial thinking and activity is to analyse risks from every conceivable angle and to assess and diversify them, creating lasting value for shareholders, clients and staff in relation to the risks assumed. This is the aim of our active capital management and the consistent application of value and risk-based management systems. The framework for any business activity is our risk strategy, from which we derive various limitations and reporting thresholds. A key element is our economic capital resources, which we determine in accordance with the Solvency II supervisory regime that came into force in 2016. We observe a range of important additional conditions. They include national accounting regulations, tax aspects, liquidity requirements, supervisory parameters, and rating agency requirements. To further manage and monitor its strategic objectives, operating initiatives and key figures, the Company uses a balanced scorecard (BSC) that is regularly reviewed and updated where necessary.

Our value-based management is characterised by the following aspects:

- Business activities are assessed not only according to their earnings potential, but also relative to the extent of the risks assumed. Only the risk-return relationship reveals whether an activity is beneficial from the shareholder point of view.
- With value-based corporate management tools, we ensure an economic valuation and the comparability of alternative initiatives.
- We clearly assign responsibilities and specify the levers for adding value for both management and staff.

The return on risk-adjusted capital after tax (RoRaC) is a key management instrument. RoRaC is a mixture of accounting ratios and economic indicators. It relates the customary performance indicator (IFRS result) – which we adjust to eliminate the risk-free return after tax on additional available economic equity – to the necessary capital requirement. The capital requirement corresponds to 1.75 times the solvency capital requirement under Solvency II, as determined on the basis of our certified internal risk model.

Business performance and results of operations

Overall, the 2017 calendar year was dominated by high claims expenditures incurred due to a succession of hurricanes in the third quarter.

Gross premiums amounted to €2,194,366 thousand (2,460,352 thousand) in the 2017 calendar year, down 10.80% year on year. The decline was primarily due to exchange-rate effects, in particular the pound sterling to the euro. On average over the 2017 calendar year, the pound sterling – the dominant currency for the gross premiums in our portfolio – lost approximately 7% of its value against the euro compared to the 2016 calendar year. The decline in premium was also due to sharp drops in business volumes at our branches in Australia, New Zealand and Ireland as compared to 2016. Gross premium volume mainly comprised premium from direct insurance operations. Approximately 9.30% of gross premium income was attributable to assumed reinsurance business. The number of insurance policies is given on page 42 of this report.

Due to Great Lakes Insurance SE's international focus, gross premiums earned were primarily attributable to the branches in the 2017 financial year. In particular, the branch in London continued to occupy a strategically prominent position throughout the 2017 calendar year, generating 73.7% (78.2%) of gross premiums earned of €1,735,735 thousand (1,923,753 thousand). The branch in Australia contributed €242,576 thousand (362,794 thousand) or 10.3% (14.7%) of gross premiums.

Ireland generated €61,678 thousand (104,160 thousand) in the 2017 calendar year, which was equivalent to 2.6% (4.2%) of total gross premiums. The majority of business in Australia and Ireland is being wound down, meaning that premium declined in 2017 as against 2016. In the Company's home country, €215,214 thousand in gross premiums earned was generated for the first time in 2017, bringing the figure to 9.1% in the first year. A further €55,876 thousand (36,211 thousand) was attributable to the branch in Italy and €16,425 thousand (24,722 thousand) to the branch in New Zealand. The encouraging performance in Italy was down to strong growth in the motor insurance segment. The branch in Switzerland reported €27,309 thousand (8,715 thousand) in gross premiums earned in the calendar year. This growth was primarily due to cooperation with a new agent in Switzerland.

We cede the majority of our premium income to affiliated reinsurance companies within Munich Re (Group). Earned premiums for own account amounted to €124,039 thousand (169,341 thousand) in the 2017 financial year. The decrease was largely due to the winding down of large parts of the business at our branches in Australia and New Zealand.

Claims expenses before deduction of the ceded share amounted to €2,058,021 thousand (1,564,600 thousand), corresponding to a gross loss ratio of 87.4% (63.2%). After deducting the ceded share, claims expenses amounted to €115,971 thousand (97,379 thousand), giving a net loss ratio of 93.5% (57.5%). Operating expenses amounted to €19,632 thousand (41,324 thousand) and corresponded to a (net) expense ratio of 23.4%. We consequently recorded a significantly higher net combined ratio of 116.5% (81.9%). The gross combined ratio amounted to 120.6% (97.4%). The increase in the combined ratio was mainly due to a series of natural catastrophe losses and the associated rise in claims expenditures. Having achieved an only slightly positive RoRaC, we consequently fell short of our profit target in the 2017 financial year.

We recognised the claims equalisation provision and similar provisions as required by law. In compliance with the legal requirements, we used the loss ratios from the annual reports published by the German Federal Financial Supervisory Authority (BaFin) to populate the underlying observation period used to calculate the claims equalisation provision. As at 31 December 2017, claims equalisation provisions amounted to €3,756 thousand (0 thousand).

The underwriting result for own account after claims equalisation amounted to €-19,839 thousand in 2017. In the 2016 calendar year, the underwriting result reported as the "technical result" under UK GAAP and adjusted as necessary for the purposes of accounting pursuant to the German Commercial Code (HGB) amounted to €31,083 thousand. The investment result amounted to €2,025 thousand. In the 2017 calendar year, the investment result was primarily marked by a general decrease in capital market interest rates and the fact that parts of the investment portfolio were restructured in the course of relocating the Company's registered office to Germany. Overall, the pre-tax operating result before loss absorption amounted to -€27,601 thousand. In the 2016 calendar year, the operating result before tax had amounted to €13,866 thousand. As at the date of preparing the management report, the economic position of Great Lakes Insurance SE remains positive.

The classes of business and types of insurance transacted in the 2017 financial year – both in direct insurance operations and assumed reinsurance business – are listed on page 23 of this report.

Business performance in the classes of business

Direct insurance operations and assumed reinsurance business² This section details the business performance in the material classes of business and types of insurance transacted in direct insurance operations and assumed reinsurance business. For the sake of clarity, we do not separately report classes of business and types of insurance that account for less than 5% of the overall insurance business on the basis of gross premium. The disclosures relate exclusively to the full 2017 financial year. The amounts reported under UK GAAP for the 2016 financial year were selected as the prior-year comparative information. Due to differences in how the classes of business are defined under UK GAAP and the German Commercial Code (HGB), the figures for some classes of business are only comparable to a limited extent.

Health insurance In the 2017 calendar year, the Company generated gross premium amounting to €131,374 thousand in health insurance. This signifies a significant year-on-year decline, which is due in part to the strategic decision made in 2016 to cease renewing large parts of primary insurance business at the Australia and New Zealand branches. In addition, an agreement with a health insurance business partner in Ireland was not renewed in 2017. The largest share of the health insurance business in 2017 was attributable to travel health insurance policies in Australia, part of which the Company retains for own account. Health insurance business in the United Kingdom, Ireland and New Zealand is fully ceded to our reinsurers. The Company does not underwrite substitutive comprehensive health insurance in Germany pursuant to Section 146 of the German Insurance Supervision Act (VAG). Gross claims incurred amounted to €119,435 thousand and resulted in a loss ratio (gross) of 59.3%. The loss ratio improved due to lower claims expenditures for losses in the current calendar year. The underwriting result for own account after claims equalisation amounted to €5,003 thousand, a slight improvement on the prior-year figure (€3,865 thousand). Due to the high proportion of ceded reinsurance business in health insurance (83%), the result for own account primarily comprises commissions from reinsurers. In addition, the loss ratio net of reinsurance (37.5%) was significantly below the gross loss ratio.

Health insurance

| | | 2017 | Previous year |
|---|-------|---------|---------------|
| Direct insurance and assumed reinsurance business | | | |
| Gross premiums written | €'000 | 131,374 | 301,370 |
| Loss ratio (gross) | % | 59.3 | 67.9 |
| Underwriting result for own account after claims equalisation | €'000 | 5,003 | 3,865 |

² We have exercised the option pursuant to Section 51(4) no. 1 sentence 2 of the German Insurance Accounting Regulation (RechVersV) and the disclosures made do not differentiate between direct insurance operations and assumed reinsurance business.

Liability insurance In the 2017 calendar year, liability insurance (including aviation liability insurance) generated gross premiums of €306,823 thousand. This included €83,658 thousand in gross premiums written for aviation liability insurance. This class of business recorded a loss ratio (gross) of 111.7% due to gross claims incurred in the amount of €381,084 thousand. The high combined ratio (gross) was primarily due to the higher claims expenditure caused by subsequent reserving for various major loss accumulations for previous years. The result for own account in this class of business was boosted by a high positive reinsurance balance. Overall, the underwriting result for own account after claims equalisation amounted to –€11,393 thousand in the 2017 calendar year. Business performance and claims were therefore comparable with the previous year. The prior-year figures do not include the premiums and results of aviation liability insurance.

Liability insurance

| | | 2017 | Previous year |
|---|-------|---------|---------------|
| Direct insurance and assumed reinsurance business | | | |
| Gross premiums written | €'000 | 306,823 | 229,084 |
| Loss ratio (gross) | % | 111.7 | 108.2 |
| Underwriting result for own account after claims equalisation | €'000 | -11,393 | -10,553 |

Motor insurance, comprising motor third-party liability and other motor insurance Motor insurance generated gross premium amounting to €900,925 thousand in this calendar year. This constitutes a slight year-on-year decrease that mainly resulted from a reduction of our share in a major customer account. At 41.1%, motor insurance made a significant contribution to our total gross premium volume. This business is almost fully ceded to our reinsurers by means of proportional treaties. Gross claims incurred amounted to €925,769 thousand, resulting in a loss ratio (gross) of 102.3%. The year-on-year increase in the loss ratio was due in particular to significantly higher expenses relating to claims reserves for losses in the current calendar year. The primary reason for this is the change in the Ogden rate for our business in the United Kingdom. The Ogden rate is used to calculate personal injury compensation awards to cover long-term costs of care or loss of earnings. The UK cut this rate for the first time in 16 years, reducing it from 2.50% to –0.75% at the beginning of the year. The reduced rate means that insurers will have to make higher lump-sum compensation payments to settle claims from accident victims. The underwriting result for own account after claims equalisation amounted to €9,037 thousand. Due to the very high proportion of ceded reinsurance business in motor insurance, the result for own account primarily comprises commissions from reinsurers.

Motor insurance

| | | 2017 | Previous year |
|---|-------|---------|---------------|
| Direct insurance and assumed reinsurance business | | | |
| Gross premiums written | €'000 | 900,925 | 1,013,840 |
| Loss ratio (gross) | % | 102.3 | 64.5 |
| Underwriting result for own account after claims equalisation | €'000 | 9,037 | 10,316 |

Fire and property insurance Fire and gross premium of €350,457 thousand this calendar year, a slight increase of approximately 3% on the previous year (€340,169 thousand). The dominant class of business is fire insurance, with further significant volumes generated by householder's comprehensive insurance, hail insurance and engineering insurance. In total, the Company reported a loss ratio (gross) of 119.0% on claims expenditures of €480,457 thousand. The loss ratio was therefore significantly above the prior-year figure of 31.9%, which was due to exceptionally high claims expenditure for natural catastrophes, particularly in the United States. The major insurance events in the United States in 2017 were hurricanes Harvey, Irma and Marie (approximately 55% share) and the wildfires in California. The reinsurers bear most of the gross claims expenditure as part of our non-proportional reinsurance programme, although we do retain a portion of these losses. Overall, the underwriting result for own account after claims equalisation amounted to –€22,047 thousand.

Fire and property insurance

| | | 2017 | Previous year |
|---|-------|---------|---------------|
| Direct insurance and assumed reinsurance business | | | |
| Gross premiums written | €'000 | 350,457 | 340,169 |
| Loss ratio (gross) | % | 119.0 | 31.9 |
| Underwriting result for own account after claims equalisation | €'000 | -22,047 | -4,085 |

Other classes of business The Company generated gross premiums of €309,307 thousand in other insurance in the 2017 calendar year, slightly down on the prior-year figure of €324,088 thousand. In this line of business, the Company recorded a loss ratio (gross) of 48.5% on claims expenditures of €139,520 thousand. This was significantly below the prior-year figure of 72.4% due to much lower claims expenditure in the current calendar year. Nevertheless, the (gross) expense ratio in the calendar year far exceeded that of the previous year on the back of a year-on-year increase in commissions to our sales partners for new business. The reinsurers bear most (approximately 90%) of the gross claims expenditure as part of our proportional and non-proportional reinsurance programme. Overall, the underwriting result for own account after claims equalisation amounted to €5,805 thousand, significantly below the prior-year figure. This was attributable to higher year-on-year claims expenditure for losses that could not be ceded to the reinsurers. This mainly includes a higher number of large losses with claims expenditure that was slightly above the retentions agreed with the reinsurers.

Other classes of business

| | | 2017 | Previous year |
|---|-------|---------|---------------|
| Direct insurance and assumed reinsurance business | | | |
| Gross premiums written | €'000 | 309,307 | 324,088 |
| Loss ratio (gross) | % | 48.5 | 72.4 |
| Underwriting result for own account after claims equalisation | €'000 | 5,805 | 26,738 |

Net assets

Investment portfolio As at 31 December 2017, our investment portfolio excluding deposits retained amounted to €812,381 thousand (808,238 thousand).

The majority of investments are in fixed-interest securities issued by entities with good to very good credit ratings. Our risk management activities include closely observing our investments, enabling us to promptly sell assets or take other corrective action where necessary. Our investments fulfil our strict requirements for sustainable investment. These requirements will have a beneficial long-term impact on our risk exposure and earnings. Our asset manager, MEAG (also part of Munich Re (Group)) handles the process in line with our specifications and legal requirements. Details of the investments and their performance can be found in the notes to the annual financial statements on page 33 of this annual report.

Investments

| | 31.12.2017 | Previous year | Change |
|---|----------------|----------------|------------|
| | €'000 | €'000 | % |
| Other investments | | | |
| 1. Bearer bonds and other fixed-interest securities | 746,125 | 765,515 | -2.5 |
| 2. Deposits with banks | 66,256 | 42,723 | 55.1 |
| Total | 812,381 | 808,238 | 0.5 |

Valuation reserves The fair values of the investments are reported on page 33 of this annual report. A valuation reserve is the difference between the fair value and the carrying amount of an investment. Fair values are snapshots which reflect the market situation at a given point in time. Rather than develop steadily, they are subject to significant fluctuations. As at 31 December 2017, the valuation reserves amounted to €1,648 thousand (0 thousand).

Receivables Receivables primarily comprise receivables from direct insurance operations. As at 31 December 2017, these amounted to €1,284,116 thousand (1,499,793 thousand) and were mainly attributable to receivables from policyholders for new insurance policies that had not yet been accounted for with the customers or intermediaries as at the balance sheet date. Accounts receivable on reinsurance business amounted to €405,042 thousand (55,571 thousand).

Financial position

Capital structure As at 31 December 2017, equity amounted to €395,840 thousand (395,840 thousand). Issued capital remained unchanged at €131,777 thousand, while the profit brought forward amounted to €264,063 thousand (257,187 thousand).

Our insurance business has a significant influence on the structure of our balance sheet: coverage of the technical provisions accounted for 18% (22%) of the balance sheet total with a duration of approximately three years. Further material items on the equity and liabilities side of the balance sheet are equity at 15% (16%), and current liabilities (less than 1 year) to intermediaries at 22% (19%) and to our reinsurers at 38% (39%).³ The liabilities are primarily denominated in pounds sterling, US dollars and euros.

³ The percentages relate to total equity and liabilities in the amount of €2,723,491 thousand.

Since we are an international (re)insurance undertaking, some of our financial resources are subject to restrictions on disposal. For instance, the supervisory authorities in some countries require local branches or foreign primary insurers to retain certain investments locally to cover insurance obligations, including in special trust accounts. As at the reporting date, this related to investments in the total amount of €153,027 thousand (213,845 thousand).

Great Lakes Insurance SE's financial strength is rated A+ (Superior) by rating agency A.M. Best. Standard & Poor's rates the Company's financial strength as AA- (low default risk).

Material funding activities and operations Great Lakes Insurance SE did not carry out any material funding activities in the 2017 calendar year, nor are any funding activities currently planned for 2018.

Liquidity Detailed liquidity planning ensures that we are able to meet our due payment obligations at all times and without restriction. Great Lakes Insurance SE generates significant liquidity from its premium income, from regular investment income and from investments that mature. We attach great importance to the credit rating and fungibility of our investments. Current liabilities to intermediaries or reinsurers are always maturity matched with premium receivables.

Stakeholders

Clients and client relationships We want to have the best possible understanding of our clients and their risks, and to develop customised insurance solutions for them. Therefore, we need to be close to our clients to understand their needs, give them comprehensive advice and provide optimal solutions. Our objective is to be a competent, reliable and transparent partner, whom clients can trust. Great Lakes Insurance SE serves private, corporate and industrial clients. We offer them products and services in connection with protection of property, health, legal cover and travel insurance. The primary points of contact for our clients are independent cooperation partners. As a preferred partner for intra-Group reinsurance contracts, the Company makes a vital contribution to efficiently managing the risk capital of Munich Re (Group).

Environment As part of Munich Re (Group), we have a defined goal to conserve resources and minimise the environmental impact of our business operations. An environmental management system based on international standard ISO 14001 has been subject to mandatory Group-wide application since 2012. Thus, we are continually improving our environmental performance while at the same time supporting and developing environmentally conscious behaviour. We also take ethical, social and ecological considerations into account in our investment activities.

Overall assessment of the economic position

Great Lakes Insurance SE incurred an operating loss before tax of €27,601 thousand in the 2017 financial year. Net of taxes, the loss amounted to €23,028 thousand. It was primarily the result of a series of natural catastrophe losses and the associated increase in claims expenditure, even after taking into account the comprehensive reinsurance programme. In particular, the three major hurricanes in the United States (Harvey, Irma and Maria) exposed the Company to exceptionally high claims expenditure. The gross claims expenditure for these hurricanes amounted to approximately €300 million, reducing to approximately €11 million in claims expenditure net of reinsurance. Upon relocating the registered office as at 30 December 2016, the Company became subject to the requirements of the German Commercial Code (HGB) and on the Insurance Accounting Regulation (RechVersV) with respect to recognising claims equalisation provisions. Consequently, an addition of €3,619 thousand to the claims equalisation provision was made in the 2017 financial year.

Adverse effects also arose due to fluctuations in items denominated in foreign currencies, primarily the Australian dollar, pound sterling and US dollar. A loss in the amount of €23,028 thousand was absorbed pursuant to Section 302 of the German Stock Corporation Act (AktG) on the basis of the control agreement entered into with MunichFinancialGroup GmbH, Munich. The loss was absorbed by Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München by means of a joint and several assumption of debt.

Overall, Great Lakes Insurance SE has a sound economic foundation and is well prepared to face future challenges in order to continue being able at all times to promptly service its liabilities arising from insurance business. Great Lakes Insurance SE's solvency ratio as at 31 December 2017 was well above the level required by law.

Risk report

Risk management objectives

Risk management is a key part of our corporate governance. Its tasks include the early detection of developments that may adversely affect the Company's ability to continue as a going concern, so as to enable corrective action to be taken.

The objective of risk management at Great Lakes Insurance SE is to ensure that we are able to meet our clients' demands and needs at all times. We also aim to create long-term value for our shareholders and to protect the Company's reputation and that of its related undertakings. For this purpose, risk management employs strategies, methods and processes to identify, analyse, assess, control and monitor short- and long-term risks to the Company's ability to continue as a going concern. A particular aim is to safeguard Great Lakes Insurance SE's exemplary financial strength in order to meet our clients' requirements in the long term. Successful implementation of the risk strategy and risk appetite framework plays a key role in our Company's success and is in the interest of our employees.

Organisational structure of risk management

Risk management at Great Lakes Insurance SE follows the three-lines-of-defence model. This ensures an effective separation of duties between the functions that take risks and the functions that perform risk controls. The business units act as the first line of defence and are responsible for identifying, assessing and selecting risks within the defined risk appetite and risk tolerances. The independent risk management function forms the second line of defence. It ensures that our operations are managed in line with the risk strategy (including the risk appetite, existing capacities and risk criteria, as well as risk tolerances). The third line of defence is internal audit, which ensures that the processes required to guarantee effective control are functional.

Risk management is a core function at our Company. The risk management organisation is headed by the Chief Risk Officer (CRO), who is a member of the Board of Management. Independent risk control and the compliance function are performed by key function holders who report directly to the CRO. The actuarial key function is a core element of the second line of defence and reports directly to the CFO. The Risk Committee includes the key actuarial and independent risk control functions, the CRO, and a representative of risk management from Munich Re (Group).

Risk strategy

The risk strategy is derived from our business strategy. The Board of Management reviews and approves the risk strategy on an annual basis. It is also discussed by the Supervisory Board. The risk strategy includes determining risk limits for a series of risk types in line with our risk appetite, which function as framework conditions for managing our operations. A deviation from the established risk limits can lead to new business being rejected or reduced. In addition, the Board of Management can request that the risk strategy be modified at any time. We regularly monitor compliance with the risk limits by means of fixed thresholds (limits) and early-warning mechanisms (triggers).

Implementing the risk strategy

The risk appetite defined by the Board of Management within the risk limits is reflected in our business planning and integrated into the management of our operations. If capacity shortages or conflicts with the risk tolerances arise, defined escalation and decision-making processes are followed.

The implementation of risk management at the operational level covers identifying, analysing and assessing all material risks. We have implemented processes for these components – for instance, quarterly risk reporting to the Board of Management and the Supervisory Board. The risk management processes ensure that we are able to continually monitor and, where necessary, actively manage all risks.

Risk reporting

Our risk reporting goes beyond just meeting the current legal requirements. It also ensures internal transparency for management and provides public information as part of our published reporting (annual financial statements, solvency and financial condition report).

The quarterly internal risk reporting provides the Board of Management with updates on the risk position, claims, and key events. The Company's Board of Management is promptly notified of any significant change in the risk situation.

Significant risks

Risks are possible future developments or events that could result in a negative deviation from the Company's prognoses or targets. Material risks are those that could have a long-term adverse effect on Great Lakes Insurance SE's assets, financial situation or profitability. Based on the degree to which capital requirements reflect the significance of these risks under the internal model, these primarily comprise underwriting risks as well as credit risks resulting from exposures to our reinsurers. Market risk, which arises primarily from interest rate and currency fluctuations, represents a relatively minor share of risks covered by capital requirements due to a low risk appetite and the investment strategy based on this. Conduct risk is identified as a further significant risk under other risks. We differentiate between the following risk categories:

Underwriting risk

We define underwriting risk as the risk of future claims being higher than expected. The key components of our risk management framework are to monitor risk developments and to constantly review the actuarial assumptions used in calculating the technical provisions.

Furthermore, to ensure that we meet our obligations in the long term we calculate premiums and provisions based on carefully selected actuarial assumptions. We reduce underwriting risk by means of suitable underwriting guidelines and actuarial analyses tailored to the respective risk types. We implement independent monitoring processes to continually review our general guidelines, and when necessary we apply the requisite countermeasures.

We have also entered into proportional and non-proportional reinsurance treaties for the purposes of risk reduction, primarily within Munich Re (Group). This guarantees that our reinsurers generally have a very high credit rating. Each year we carry out a thorough analysis to optimise the structure of these reinsurance programmes and ensure an adequate level of retained risk.

In property-casualty insurance, **premium risk** denotes the risk that premiums collected are insufficient to cover our future contractual obligations. We have stringent guidelines in place for calculating premiums and for underwriting contracts in each class of business.

Reserve risk is the risk that the recognised loss reserves will be insufficient to cover all eligible future claims. In cooperation with the Munich Re Central Reserving division, the Company's Actuarial department conducts regular monitoring and reviews to ensure that sufficient provisions are held to cover our contractual obligations. The provisions are fully and comprehensively analysed and measured at least once per year as part of the process to prepare the annual financial statements. The provisions are calculated using recognised actuarial models and methods. Our calculation process also follows Munich Re (Group) guidance.

The **risk of major losses and accumulation losses** stems from high liability sums for individual events or for accumulation events. We mainly reduce this risk by means of our non-proportional reinsurance programme. This minimises volatility in the underwriting result for own account, reduces the level of capital required and thus improves the ability to budget for results.

Risks from our investments

We pursue a prudent investment strategy and take into consideration returns, reliability and credit ratings. Liquidity and diversity are also monitored and managed. The investment strategy generally coincides with the structure of our insurance obligations, including maturity and currency.

We define **market risk** as the risk of economic losses resulting from price changes in the capital markets. This includes equity risk, general interest-rate risk, specific interest-rate risk, property price risk and currency risk. The general interest-rate risk relates to changes in the basic yield curves, whereas the specific interest-rate risk arises from changes in credit risk spreads – for example, on euro government bonds from various issuers, or on corporate bonds. Market risk also includes the risk of changes in inflation rates. We use appropriate limit and early-warning systems in our asset-liability management to manage market risks. This enables us to satisfy the liabilities under our insurance policies at all times, irrespective of market conditions such as exchange and interest rates.

Great Lakes Insurance SE generally has a low market-risk appetite. As a consequence, we value optimising risk diversification over maximising returns. Our investments comprise fixed-interest and money market securities (government bonds, corporate bonds and cash) and are primarily exposed to foreign-exchange, inflation, and interest-rate risk.

Great Lakes Insurance SE passed all of the stress tests imposed by the supervisory authorities.

We define **credit risk** as the financial loss that may arise as a result of a change in the financial situation of a counterparty. In addition to credit risks arising from investments in securities and payment transactions with clients, we assume credit risk through our comprehensive reinsurance programme. Further credit risks arise from debts owed by policyholders. We control the credit risk in our investments by selecting issuers of suitable quality, and by observing and regularly monitoring counterparty limits. The majority of our reinsurance receivables are from Munich Re (Group) companies. Representatives from Munich Re (Group) risk management regularly update the Company's Risk Committee in detail on the solvency situation of Munich Re (Group). No receivables from reinsurers were past due or impaired as at 31 December 2017. Risk is primarily managed via the counterparty limits and early-warning mechanisms (triggers) determined as part of the risk strategy. Receivables from policyholders mainly arose from premium receivables not yet accounted for with intermediaries. We manage this counterparty risk by carefully selecting and verifying our intermediaries, as well as by means of corresponding policies for payment transactions. In addition, for the majority of our business we pass the counterparty risk on to our reinsurers.

Our objective in managing **liquidity risk** is to ensure that we are in a position to meet our payment obligations at all times. We also invest a substantial share of our portfolio in highly liquid instruments in order to satisfy additional payment obligations. Our asset-liability management arranges cash flows from our investment portfolio and premiums so that they coincide as far as possible with our insurance obligations. Liquidity is forecast and monitored on a regular basis as part of detailed liquidity planning, which includes a safety margin designed to protect us against unexpected liquidity shortfalls.

As at 31 December 2017, our investments had a duration of approximately 2–3 years. The technical provisions for own account had a duration of approximately 2–3 years.

Great Lakes Insurance SE defines **operational risk** as the risk of losses resulting from inadequate or failed internal processes, incidents caused by the actions of personnel or system malfunctions, or external events. This includes criminal acts committed by employees or third parties, insider trading, infringements of antitrust law, business interruptions, inaccurate processing of transactions, non-compliance with reporting obligations, and disagreements with business partners.

The significant operational risks are managed via our internal control system (ICS), complemented by the results of scenario analyses. In addition, we have a framework to define the rules for a standard Group-wide procedure for, in particular, identifying, assessing and managing security risks for people, information and property. Appropriate measures – up to and including larger projects – are used to correct identified weaknesses or mistakes. The sensitivity in the internal model is regularly checked against the most important input parameters. We follow a standardised procedure within Munich Re (Group) and regularly report to the Risk and Capital Committee.

Other risks

We define **strategic risk** as the risk of making incorrect business decisions, implementing decisions poorly, or being unable to adapt to changes in the operating environment. Existing and new potential for success creates strategic risks, which we manage by carrying out risk analyses for significant strategic issues and regularly monitoring the implementation of measures deemed necessary. The Chief Risk Officer is involved in operational business planning. The Company's strategy is regularly reviewed and reported to management using balanced scorecards. The Company defines the sub-category of conduct risk as a separate significant risk. This mainly results from the MGA business model. Conduct risk is defined as the risk of detriment caused to the Company, its agents, policyholders or business partners as a result of inappropriate business practices. We use appropriate internal guidelines and processes to manage this risk. The Company's risk management receives regular reports that enable the risk to be evaluated by means of quantitative data and thresholds, as well as internal analyses and risk assessments. The risk assessments are aggregated and forwarded to the Board of Management in a risk report. The risk management process with respect to conduct risk must subsequently be adapted to new internal and external requirements on an ongoing basis.

The system for early identification of risks also encompasses **emerging risks**. These arise due to changes in areas such as the law, the socio-political environment, or science and technology. These may have effects on our portfolio that have not yet been captured or identified. Within our risk management system, we review potential emerging risks on a quarterly basis with the risk owners in our divisions.

We also take into consideration **legal, regulatory, and tax risks**. Regulation has been growing in scale and complexity for some time now, a fact that requires enhanced efforts and is increasingly and permanently tying up resources. The economic and regulatory perspectives are not aligned in many areas, resulting in differing management requirements that may trigger contradictory corporate management signals. The Company's branches and fields of business mean that it is not just required to observe regulations at European level, but is exposed to further regulations outside Europe. Overall, however, the Company considers itself well positioned to face these challenges. Solvency II entered into force on 1 January 2016, necessitating amendments to the German Insurance Supervision Act (VAG). We are well positioned with regard to its implementation: in particular, value- and risk-based management has been a foundation of our corporate governance for years.

As part of the internal model of Munich Re (Group), Great Lakes Insurance SE uses an internal model to determine its standalone solvency under Solvency II. The use of the internal model was approved by the group supervisor and college of supervisors as part of the Munich Re (Group) internal model in September 2016.

Overview of the risk position

Great Lakes Insurance SE has both sufficient coverage of the reserves with assets, and capital in excess of the minimum solvency requirements. We calculated our own funds in accordance with the supervisory solvency requirements in force in 2017. As part of the Munich Re (Group) model, we have a full internal model that determines the capital needed to ensure that the Company is able to meet its commitments even after extreme loss events. We use the model to calculate the solvency capital requirement (SCR) under Solvency II. The SCR is the amount of eligible own funds that need to be available, with a given risk appetite, to cover unexpected losses in the following year. The SCR corresponds to the value at risk of the economic profit and loss distribution over a one-year time horizon with a confidence level of 99.5%. This metric thus equates to the economic loss that, given unchanged exposures, will be statistically exceeded in no more than one year in every 200. As at 31 December 2017, Great Lakes Insurance SE fulfilled the regulatory capital requirements without making use of any of the transitional arrangements permitted under Solvency II. The further key topics and challenges for the Company's risk management are currently as follows:

- Increased operational risk arising from the Company's ongoing major projects. These include realigning and organising the business processes as part of the relocation from London to Munich, as well as new regulatory and legal requirements at the local and European level, such as the new Insurance Mediation Directive.
- In addition to the relocation, new regulatory risks in the field of conduct risk result in particular from market investigations by the regulator in the United Kingdom. Among others, these concern several of our major business partners.
- Brexit – the United Kingdom's withdrawal from the European Union – is almost certain to have a material impact on our branch and the insurance business in the UK. In 2017, we established a permanent working group in cooperation with other affected Munich Re (Group) companies to analyse the possible effects and requisite alternatives, and to propose courses of action to the governing bodies. Via its branch in London, the Company is expected to play a key role in the Group's Brexit strategy as licensee for the British non-life insurance business. In order to take on this prominent role, the Company must ensure that it lays the necessary legal, regulatory and organisational foundations in due time in 2018.

In conclusion, at no time was there any risk to the ability of Great Lakes Insurance SE to continue as a going concern or to the interests of our policyholders. We are currently not aware of any developments that could jeopardise its ability to continue as a going concern. We are also not aware of any developments that could have a lasting adverse effect on the Company's net assets, financial position and results of operations. Overall, we assess Great Lakes Insurance SE's risk situation to be manageable and under control.

Opportunities report

Great Lakes Insurance SE's business model combines primary insurance and reinsurance under one roof. As part of the reinsurance field of business of Munich Re (Group), our primary insurance activities have opened up profitable growth opportunities. We assume risks from many different areas of private and economic life, and provide financial protection and risk management. However, sudden and unforeseeable events – such as increased claims expenditure due to natural catastrophes, can never fully be ruled out. To protect ourselves against resultant risks, we have established a sophisticated risk management system together with an effective reinsurance programme, which is described in detail in our risk report. Overall, we consider ourselves well prepared to seize emergent opportunities for the benefit of our Company.

Expanded business avenues will open up for Great Lakes Insurance SE if key macroeconomic parameters develop better than expected. Even stronger economic growth in the USA, UK or Germany and a more rapid economic recovery in the eurozone or in major emerging markets would have a positive impact on the demand for insurance cover, and trigger higher premium volume in most classes of business. Such a development – and a less expansive monetary policy pursued by the central banks – could also lead to a normalisation of the bond markets and thus to a gradual increase in yields on our investments in bonds. This would have a negative impact in the short term on our investment result, but it would bring higher returns in the long run – thus benefiting our long-term insurance business.

We are aiming to generate promising business opportunities for our core business by taking account of environmental and social responsibility aspects in the value-added chain of our core business. Constantly evolving markets and changes in client behaviour call for flexibility in terms of coverage and solutions. A direct and transparent dialogue with clients is also very important. Where possible, we integrate realisable options and aspects into our business practices after looking at them closely in context. In cooperation with forward-looking partners, we systematically work to gain a deeper understanding of emerging business sectors with potential client segments.

The ever-increasing shift in communications and data processing spurred on by digitalisation requires a high degree of willingness to change the structure and business organisation. The requisite shift towards new, innovative products, services and processes is supported by our cooperation with young and creative start-ups and significant investments in our IT infrastructure.

Our global investments are handled by MEAG. The prolonged period of low interest rates is challenging our asset management to achieve returns with manageable risks. MEAG only takes advantage of higher-interest bond opportunities if the risks can be kept within reasonable bounds. On this basis, MEAG is continually expanding its competence in the assessment of credit risks, in order to be able to seize opportunities to invest in bonds that are also increasingly being traded in illiquid markets.

Outlook

We assess and outline the Company's expected development to the best of our knowledge, taking into consideration the material risks and opportunities. We also take into account knowledge currently available about the outlook for the industry as well as the economic and political environment. Our assessment includes analysing trends and observing material influencing factors. Nevertheless, the Company's actual development and its earnings may deviate materially from the forecasts.

We relocated our registered office from London to Munich as at 30 December 2016. In 2018, Great Lakes Insurance SE intends to cooperate even more closely with the other PIRI units within Munich Re (Group) and to further expand its primary activities, which we operate out of the reinsurance field of business. At the same time, the Australian branch underwent a strategic realignment in 2017. The goal for 2018 is to efficiently wind down the existing portfolio and to maintain the resources to write profitable new business locally.

We expect the United Kingdom's withdrawal from the European Union to impact our branch and the insurance business in the UK. The Brexit strategy of Munich Re (Group) envisages the Company assuming a key role as risk carrier in the United Kingdom. Consequently, the primary insurance and reinsurance business that the Company transacts in the UK is expected to expand by several hundred million euros. As early as 2018, the Company will lay the requisite foundations at a legal, regulatory and organisational level to successfully take on this role. We continue to expect growth on the back of further expansion in the intra-Group reinsurance business.

Against this background and assuming that exchange rates remain constant as against 31 December 2017, Great Lakes Insurance SE projects that it will realise gross premium of approximately €3.1 billion in 2018. We expect the combined ratio net of reinsurance to be around 95.3% of net earned premium. An accurate forecast is not possible, partly due to the obvious fluctuations in the incidence of major losses. Based on the past calendar year and assuming average claims experience, we expect an underwriting result for own account of approximately €8 million and a positive RoRaC under the profit target of 15% for 2018.

Given the ongoing low-interest-rate environment, Great Lakes Insurance SE's return on investment is likely to continue to fall. As things stand at present, we expect to generate a slightly negative result after taxes in accordance with the German Commercial Code (HGB) in 2018, albeit a significant improvement on the result for the 2017 calendar year.

Classes of business and types of insurance transacted in the 2017 financial year

Direct insurance business

Personal accident insurance (excluding accident insurance with premium refund)

Health insurance

Liability insurance

Motor third-party liability insurance

Other motor insurance

Fire insurance

Householders' comprehensive insurance

Homeowners' comprehensive insurance

Other property insurance

Marine insurance

Aviation insurance

Credit insurance

Bond insurance

Legal protection insurance

Assistance insurance

Other classes of business

Assumed reinsurance business

Personal accident insurance (excluding accident insurance with premium refund)

Health insurance

Liability insurance

Motor third-party liability insurance

Other motor insurance

Fire insurance

Householders' comprehensive insurance

Homeowners' comprehensive insurance

Other property insurance

Marine insurance

Aviation insurance

Credit insurance

Bond insurance

Legal protection insurance

Assistance insurance

Annual financial statements as at 31 December 2017

Balance sheet as at 31 December 2017

Assets

| | | | | Previous year |
|--|-----------|-----------|------------------|------------------|
| | €'000 | €'000 | €'000 | €'000 |
| A. Investments | | | | |
| I. Other investments | | | | |
| 1. Bearer bonds and other fixed-interest securities | 746,125 | | | 765,515 |
| 2. Deposits with banks | 66,256 | | | 42,723 |
| | | 812,381 | | 808,238 |
| | | | 812,381 | 808,238 |
| B. Receivables | | | | |
| I. Receivables from direct insurance operations with: | | | | |
| 1. policyholders | 1,088,566 | | | 1,459,376 |
| 2. intermediaries | 195,550 | | | 40,417 |
| | | 1,284,116 | | 1,499,793 |
| II. Accounts receivable on reinsurance business | | 405,042 | | 55,571 |
| Thereof from | | | | |
| - affiliated companies: €80,962 thousand (15,892 thousand) | | | | |
| III. Other receivables | | 124,569 | | 11,364 |
| Thereof from | | | | |
| - affiliated companies: €23,925 thousand (0 thousand) | | | | |
| | | | 1,813,728 | 1,566,728 |
| C. Other assets | | | | |
| I. Cash at banks, cheques and cash in hand | | 93,885 | | 57,783 |
| | | | 93,885 | 57,783 |
| D. Prepaid expenses and deferred income | | | | |
| I. Deferred interest and rent | | 3,495 | | 2,966 |
| | | | 3,495 | 2,966 |
| Total assets | | | 2,723,491 | 2,435,717 |

Equity and liabilities

| | €'000 | €'000 | €'000 | Previous year €'000 |
|--|-----------|-----------|------------------|------------------------|
| A. Equity | | | | |
| I. Issued capital | | 131,777 | | 131,777 |
| II. Retained profits | | 264,063 | | 257,187 |
| III. Net income for the financial year | | 0 | | 6,876 |
| | | | 395,840 | 395,840 |
| B. Technical provisions | | | | |
| I. Unearned premiums | | | | |
| 1. Gross amount | 711,779 | | | 912,956 |
| 2. Thereof less: ceded reinsurance business | 644,373 | | | 792,239 |
| | | 67,406 | | 120,717 |
| II. Provisions for claims outstanding | | | | |
| 1. Gross amount | 5,094,222 | | | 4,224,105 |
| 2. Thereof less: ceded reinsurance business | 4,682,156 | | | 3,806,410 |
| | | 412,066 | | 417,695 |
| III. Claims equalisation provision and similar provisions | | 3,756 | | 0 |
| IV. Other technical provisions | | | | |
| 1. Gross amount | 125,717 | | | 70,172 |
| 2. Thereof less: ceded reinsurance business | 119,657 | | | 67,552 |
| | | 6,060 | | 2,620 |
| | | | 489,288 | 541,032 |
| C. Other provisions | | | | |
| I. Provisions for tax | | 0 | | 212 |
| II. Miscellaneous provisions | | 1,947 | | 60 |
| | | | 1,947 | 272 |
| D. Deposits retained on ceded business | | | 26,239 | 39,935 |
| E. Other liabilities | | | | |
| I. Liabilities from direct insurance operations to | | | | |
| 1. policyholders | 63,243 | | | 0 |
| 2. intermediaries | 594,670 | | | 459,464 |
| | | 657,913 | | 459,464 |
| II. Accounts payable on reinsurance business | | 1,024,556 | | 944,933 |
| Thereof to | | | | |
| - affiliated companies: €979,492 thousand (782,579 thousand) | | | | |
| III. Miscellaneous liabilities | | 127,708 | | 54,240 |
| Thereof to | | | | |
| - affiliated companies: €22 thousand (25,047 thousand) | | | | |
| Thereof from taxes: €12,948 thousand (29,193 thousand) | | | | |
| Thereof for social security: €2 thousand (0 thousand) | | | | |
| | | | 1,810,177 | 1,458,637 |
| Total equity and liabilities | | | 2,723,491 | 2,435,717 |

Responsible actuary's report

On the basis of the documents relating to the portfolio as presented to me, I have reviewed the calculation of the annuity claims provision as at 31 December 2017.

It is hereby confirmed that the provision for future policy benefits in the amount of €63,868 thousand reported under item B. II on the equity and liabilities side of the balance sheet was calculated with due regard to Section 341f and Section 341g of the German Commercial Code (HGB) and the regulation issued on the basis of Section 88(3) of the German Insurance Supervision Act (VAG).

Munich, 7 February 2018

Responsible actuary

A handwritten signature in black ink, appearing to read 'Lüdecke', written in a cursive style.

Dr. Mariel Lüdecke

Income statement for the period 1 January to 31 December 2017⁴

| Item | | | | Previous year |
|--|------------|----------|----------|---------------|
| | €'000 | €'000 | €'000 | €'000 |
| I. Technical account | | | | |
| 1. Earned premiums for own account | | | | |
| a) Gross premiums written | 2,194,366 | | | 2,460,352 |
| b) Outward reinsurance premiums | -2,116,198 | | | -2,289,622 |
| | | 78,168 | | 170,730 |
| c) Change in gross unearned premiums | 160,447 | | | 15,506 |
| d) Change in ceded share of gross unearned premiums | -114,576 | | | -16,895 |
| | | 45,871 | | -1,389 |
| | | | 124,039 | 169,341 |
| 2. Other underwriting income for own account | | | 607 | 627 |
| 3. Claims incurred for own account | | | | |
| a) Claims paid | | | | |
| aa) Gross amount | -953,995 | | | -1,337,688 |
| ab) Ceded share | 854,117 | | | 1,235,567 |
| | | -99,878 | | -102,122 |
| b) Change in provision for claims outstanding | | | | |
| ba) Gross amount | -1,104,026 | | | -226,912 |
| bb) Ceded share | 1,087,934 | | | 231,654 |
| | | -16,092 | | 4,742 |
| | | | -115,970 | -97,379 |
| 4. Change in other technical provisions for own account | | | | |
| a) Other net technical provisions | | -1,346 | | -176 |
| | | | -1,346 | -176 |
| 5. Operating expenses for own account | | | | |
| a) Gross operating expenses | | -768,767 | | -847,702 |
| b) less: commission received on ceded business | | 749,135 | | 806,378 |
| | | | -19,632 | -41,324 |
| 6. Other underwriting expenses for own account | | | -3,781 | -5 |
| Thereof: ceded share | | | 0 | 0 |
| 7. Subtotal | | | -16,083 | 31,083 |
| 8. Change in claims equalisation provision and similar provisions | | | -3,756 | 0 |
| 9. Underwriting result for own account | | | -19,839 | 31,083 |

⁴ For comparative purposes, the presentation of reported items and the calculation of changes in unearned premiums was modified for the figures reported under UK GAAP.

Item

| | | | | Previous year |
|---|--------|--------|----------|---------------|
| | €'000 | €'000 | €'000 | €'000 |
| II. Non-technical account | | | | |
| 1. Investment income | | | | |
| a) Income from other investments | 8,911 | | | 7,559 |
| b) Gains on the disposal of investments | 2,101 | | | 7,684 |
| | | 11,012 | | 15,243 |
| 2. Investment expenses | | | | |
| a) Expenses for the management of investments, interest paid and other expenses for investments | -1,673 | | | -1,105 |
| b) Write-downs of investments | -5,051 | | | 0 |
| c) Losses on the disposal of investments | -2,263 | | | -6,807 |
| | | -8,987 | | -7,912 |
| | | | 2,025 | 7,331 |
| 3. Other income | | | 467,278 | 6,275 |
| 4. Other expenses | | | -477,066 | -30,823 |
| 5. Operating result before tax | | | -27,601 | 13,866 |
| 6. Taxes on income | | | 4,636 | -6,975 |
| 7. Other taxes | | | -62 | -15 |
| 8. Income from loss absorption | | | 23,028 | 0 |
| 9. Net income for the financial year | | | 0 | 6,876 |

Notes to the annual financial statements

General information

Great Lakes Insurance SE has had its registered office in Munich since 30 December 2016 (entered into the commercial register of the local court [Amtsgericht] in Munich under HRB 230378).

Accounting policies

Basis of preparation The annual financial statements of Great Lakes Insurance SE have been prepared in accordance with the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Insurance Accounting Regulation (RechVersV) and the German Insurance Supervision Act (VAG).

The structure and content of the management report complies with the requirements of the Commercial Code and is based on German Accounting Standard (GAS) 20.

The figures and totals shown are rounded in accordance with standard commercial practice.

To the extent that items in the balance sheet and income statement have not yet been settled as at the closing date, estimates are provided for the relevant items.

No income from technical interest pursuant to Section 38 of the Insurance Accounting Regulation was accrued. The annuity claims provision was calculated without applying discounting based on an actuarial interest rate, since no investments were used to cover the provision. The annuity claims provisions are fully ceded to reinsurers.

Investments Bearer bonds and other fixed-interest securities are carried at the lower of cost or quoted/market value as at the balance sheet date, in accordance with Section 341b(2) in conjunction with Section 253(1), (4) and (5) of the Commercial Code (HGB).

Receivables Receivables are generally carried at their nominal value, less any repayments and specific valuation allowances.

Other assets Deposits with banks are carried at their nominal value.

Deferred taxes

Temporary differences and tax loss carryforwards are taken into overall account across all tax jurisdictions when calculating deferred taxes. We did not exercise the option provided for in Section 274(1) sentence 2 of the Commercial Code. An excess of deferred tax assets beyond the netting amount is not recognised.

Of significance for the Company are the temporary differences existing in Germany, where deductible temporary differences exceed taxable temporary differences by €19,265 thousand. The deductible temporary differences result from the measurement of intangible assets and technical provisions. The existing taxable temporary differences are of lesser significance.

The rounded deferred tax rate applicable in Germany is 33.0%. It is made up of the corporate tax rate (including solidarity surcharge) of 15.8% and the trade tax rate of 17.2%. The applicable tax rate at the material permanent establishment in the United Kingdom was 19.0%.

Great Lakes Insurance SE has tax loss carryforwards of €6,990 thousand attributable to Germany.

There are no tax accounting influences.

Offsetting of assets and liabilities Assets are offset against the corresponding liabilities for pension commitments pursuant to Section 246(2) of the Commercial Code, since pursuant to a pledge agreement these assets are inaccessible to other creditors.

Technical provisions The technical provisions have been calculated in accordance with the requirements of German commercial law. In all cases, we have taken into account the necessity of ensuring that our obligations can always be met.

Unearned premiums In direct insurance business, unearned premiums are generally calculated pro rata temporis based on when the premiums are due. In accordance with tax law, 85% of the agents' commission and other fees is recognised as non-transferable income. In assumed reinsurance business, unearned premiums are generally calculated based on the ceding insurer's statements, including amounts arising from clean-cut agreements or under the fractional system. For parts of assumed reinsurance business based on underwriting years, standard commercial approximation and simplification procedures are applied for a maximum observation period of three years. We determined the ceded share of unearned premiums based on the calculation methods for direct insurance business or assumed reinsurance business. The measurement basis is calculated by deducting 92.5% of reinsurance commission from the reinsurance premiums.

Provision for claims outstanding The provision for claims outstanding includes the following items:

- Provisions for known claims (excluding annuity claims)
- Annuity claims provision
- IBNR reserve
- Provisions for claims settlement expenses

The provision for known claims outstanding (excluding annuity claims) for direct insurance business is essentially calculated on an individual basis for each claim. The provision for assumed reinsurance business generally corresponds to the ceding insurer's statements. Provisions were also recognised for claims that are known, but whose extent has turned out to be greater than originally foreseen. The amount of the provision is adequate to cover future payments under claims incurred during the financial year and prior years. It takes into account claims incurred and known as at the reporting date.

The annuity claims provision was calculated in accordance with recognised actuarial methods in consideration of Sections 341f and 341g of the Commercial Code (HGB).

An IBNR reserve was recognised to likewise take into consideration claims incurred but not reported (IBNR) to the Company as at the balance sheet date. The IBNR reserve was recognised on a flat-rate basis using actuarial methods based on historical data from prior years.

The provisions for loss adjustments were calculated separately for internal and external loss adjustment expenses, in accordance with Section 341g(1) sentence 2 of the Commercial Code.

Receivables from recoveries, salvage and claims-sharing agreements were deducted from the provision for claims outstanding, in accordance with Section 26(2) of the Insurance Accounting Regulation (RechVersV).

Claims equalisation provision and similar provisions To the extent required and permitted by German commercial law, the “Claims equalisation provision and similar provisions” line item includes provisions to mitigate fluctuations in claims experience in future years. The claims equalisation provision and similar provisions are recognised in accordance with Section 341h of the Commercial Code in conjunction with Sections 29 and 30 of the Insurance Accounting Regulation. The claims equalisation provision is recognised in accordance with the annex to Section 29 of the Insurance Accounting Regulation.

Other technical provisions We recognise other technical provisions based on our expected future requirements. This item includes provisions for future performance-based commission payments. A provision for anticipated losses is calculated on the basis of the claims and expenses expected in each class of business and the amount of unearned premiums as at the reporting date. No net investment income is included.

The ceded share of technical provisions is calculated using the calculation methods for direct insurance business and assumed reinsurance business. The ceded share of the IBNR reserve was calculated in line with the percentages set out in the reinsurance treaties.

Other provisions The provision for anniversaries is calculated pursuant to the projected unit credit method in application of the modified Heubeck 2005 G tables using an actuarial interest rate of 2.80% and salary trend of 3.50%. The pension provision is recognised at the fair value of the pension liability claim and is offset against the corresponding plan assets, since these pension liability claims are pledged and thus inaccessible to other creditors. All other provisions are recognised in accordance with the required settlement amount, based on reasonable and prudent commercial judgement. For discounting, we use maturity-matched discount rates published by the Bundesbank, pursuant to Section 253(2) of the Commercial Code.

Liabilities Deposits retained on ceded reinsurance, accounts payable on reinsurance business and other liabilities are carried at their settlement amounts.

Foreign currency translation and hedging relationships for currency risks All business transactions are generally recognised in the original currencies and reported using the applicable day’s exchange rate in euros. The foreign currency amounts are re-translated for the balance sheet at year-end exchange rates.

Foreign currency liabilities are grouped together with the assets matching them per currency in hedging relationships, in accordance with Section 254 of the Commercial Code (portfolio hedges), the items allocated to the hedging relationships being primarily non-current assets, provisions, and non-current liabilities. Translation is generally performed independently of the restrictions of the historical-cost and realisation principle.

If there is an excess of assets over liabilities in a particular currency, this is examined to see whether or not it is long-term. Long-term excesses of assets over liabilities are grouped together with currency forward transactions in separate hedging relationships, pursuant to Section 254 of the Commercial Code, and are also generally translated independently of the restrictions of the historical-cost and realisation principle.

The effective part of the hedging relationships is accounted for using the gross hedge presentation method. Short-term excesses of assets over liabilities and (short-term and long-term) excesses of liabilities over assets are generally translated immediately through profit or loss. The remaining assets and liabilities outside the above-mentioned hedging relationships per currency have a residual term of less than one year and are therefore recognised in accordance with Section 256a of the Commercial Code. The same applies to provisions, whose residual term is, however, immaterial for non-compliance with the historical-cost or realisation principle.

Gains and losses resulting from currency translation are recognised in the income statement under other income or other expenses.

Notes to the balance sheet – Assets

A. Investments

Changes in asset items

Asset items

| | Carrying amount previous year | Foreign exchange effects | Additions | Disposals | Reversals of write-downs | Write-downs | Carrying amount 31 Dec. 2017 |
|---|-------------------------------|--------------------------|----------------|-----------------|--------------------------|---------------|------------------------------|
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| A. I. Other investments | | | | | | | |
| 1. Bearer bonds and other fixed-interest securities | 765,515 | -33,227 | 957,831 | -938,944 | 0 | -5,051 | 746,125 |
| 2. Deposits with banks | 42,723 | -3,262 | 26,795 | 0 | 0 | 0 | 66,256 |
| Total | 808,238 | -36,489 | 984,627 | -938,944 | 0 | -5,051 | 812,381 |

The statement of changes in assets and investments is shown at year-end exchange rates 31 December 2017.

Assets in the amount of €153,027 thousand (213,845 thousand) are furnished as collateral for liabilities, primarily under trust fund obligations from insurance business in the United States and Canada.

Fair value of investments

Investments – Valuation reserves

| | Carrying amount | Fair value | Valuation reserves |
|---|-----------------|----------------|--------------------|
| €'000 | 31.12.2017 | 31.12.2017 | 31.12.2017 |
| A. I. Other investments | | | |
| 1. Bearer bonds and other fixed-interest securities | 746,125 | 747,773 | 1,648 |
| 2. Deposits with banks | 66,256 | 66,256 | 0 |
| Total | 812,381 | 814,029 | 1,648 |

As at 31 December 2017, no investments were committed to permanent assets.

B. III. Other receivables

This item includes a claim for loss absorption in the amount of €23,028 thousand against Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München. The claim for loss absorption pursuant to Section 302 of the German Stock Corporation Act (AktG) is based on a control agreement with MunichFinancialGroup GmbH (MFGG). Pursuant to a collateral promise, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft is joint and several debtor under Great Lakes Insurance SE's loss absorption claim against MFGG. This item also includes income tax assets in the amount of €9,620 thousand.

C. Other assets

Only balances at domestic and foreign banks are reported under this item.

D. Prepaid expenses and deferred income

This item includes deferred interest income from fixed-interest securities, mainly from bearer bonds.

Notes to the balance sheet – Equity and liabilities

A. Equity

I. Issued capital

Share capital amounts to €131,776,704 and is divided into 11,400,000 no-par value shares. Each share represents a notional share of €11.56 of share capital.

II. Retained profits

Retained profits brought forward amounted to €257,187 thousand.

III. Net income for the financial year

Net income for the financial year amounted to zero due to the €23,028 thousand loss absorption by Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft.

B. Technical provisions

| €'000 | Total gross technical provisions | | Thereof: Gross provision for claims outstanding | | Thereof: Claims equalisation provision and similar provisions | |
|---|----------------------------------|------------------|---|------------------|---|---------------|
| | 31.12.2017 | Previous year | 31.12.2017 | Previous year | 31.12.2017 | Previous year |
| Direct insurance operations and assumed reinsurance business | | | | | | |
| Personal accident and health insurance, thereof: | 224,491 | 278,042 | 111,923 | 117,997 | 0 | 0 |
| Personal accident insurance | 25,435 | 24,025 | 18,336 | 12,903 | 0 | 0 |
| Health insurance | 199,056 | 254,017 | 93,587 | 105,094 | 0 | 0 |
| Liability insurance | 1,747,058 | 1,210,419 | 1,619,945 | 1,122,476 | 3,756 | 0 |
| Motor third-party liability insurance | 1,838,111 | 2,112,093 | 1,578,561 | 1,716,253 | 0 | 0 |
| Other motor insurance | 587,668 | | 510,470 | | 0 | 0 |
| Fire and property insurance, thereof: | 1,105,823 | 526,094 | 985,542 | 406,902 | 0 | 0 |
| Fire insurance | 585,131 | | 488,085 | | 0 | 0 |
| Householders' comprehensive insurance | 36,745 | | 33,408 | | 0 | 0 |
| Other property insurance | 483,947 | 526,094 | 464,049 | 406,902 | 0 | 0 |
| Marine and aviation insurance | 119,994 | 469,344 | 94,500 | 392,147 | 0 | 0 |
| Credit and bond insurance | 10,552 | 71,727 | 6,563 | 64,648 | 0 | 0 |
| Legal protection insurance | 47,035 | | 38,799 | | 0 | 0 |
| Other classes of business | 239,032 | 519,572 | 143,013 | 385,361 | 0 | 0 |
| Total | 5,919,763 | 5,187,292 | 5,089,316 | 4,205,784 | 3,756 | 0 |
| Overall insurance business | 5,935,473 | 5,207,233 | 5,094,222 | 4,224,105 | 3,756 | 0 |

C. Other provisions

| €'000 | 31.12.2017 | Previous year |
|-----------------------------|--------------|---------------|
| Salary obligations | 212 | 0 |
| Anniversary benefits | 51 | 0 |
| Medium-term incentive plans | 142 | 0 |
| Other | 1,119 | 0 |
| Invoices outstanding | 424 | 60 |
| Total | 1,948 | 60 |

E. Liabilities

Due dates

| €'000 | Up to 1 year | Over 1 year and up to 5 years | Over 5 years |
|--|------------------|-------------------------------------|--------------|
| E. Other liabilities | | | |
| I. Liabilities from direct insurance operations to: | | | |
| 1. policyholders | 63,242 | 0 | 0 |
| 2. intermediaries | 594,670 | 0 | 0 |
| | 657,913 | 0 | 0 |
| II. Accounts payable on reinsurance business | 1,022,355 | 2,201 | 0 |
| Thereof to: affiliated companies €979,494 thousand (782,579 thousand) € | | | |
| III. Miscellaneous liabilities | 127,708 | 0 | 0 |
| Thereof to | | | |
| - affiliated companies: €22 thousand (25,047 thousand) | | | |
| Thereof from taxes: €12,948 thousand (29,193 thousand) | | | |
| Thereof for social security: €2 thousand (0 thousand) | | | |
| Total | 1,807,976 | 2,201 | 0 |

F. Hedging relationships

| Hedging relationship | Hedged items | Hedging instruments | Type of risks | Amount of risks hedged |
|-------------------------|-------------------|------------------------|------------------------|--|
| Portfolio hedges | Types and volumes | Types and volumes | Exchange rate risks | Currency result from hedged foreign-currency liabilities Recognition of effective change in the fair value of hedged items and hedging instruments in the balance sheet and income statement based on the “gross method” for hedging relationships |

The following hedging relationships – the largest in terms of volume – were recognised at the balance sheet date:

- Pounds sterling: 3,829 million (€4,314 million)
- US dollars: 2,069 million (€1,723 million)
- Australian dollars: 649 million (€422 million)

Notes to the income statement

I. Technical account⁵

I.1. Earned premiums for own account

Earned premiums for own account

| €'000 | Gross premiums written | | Gross premiums earned | | Net premiums earned | |
|---|------------------------|------------------|-----------------------|------------------|---------------------|----------------|
| | 2017 | Previous year | 2017 | Previous year | 2017 | Previous year |
| Direct insurance operations and assumed reinsurance business | | | | | | |
| Personal accident and health insurance, thereof: | 143,477 | 332,279 | 224,243 | 338,491 | 32,427 | 57,002 |
| Personal accident insurance | 12,103 | 30,909 | 22,863 | 31,201 | -1,686 | 2,707 |
| Health insurance | 131,374 | 301,370 | 201,380 | 307,290 | 34,113 | 54,295 |
| Liability insurance | 306,823 | 229,084 | 341,089 | 210,883 | 32,633 | 48,076 |
| Motor third-party liability insurance | 635,235 | 1,013,840 | 708,871 | 953,540 | -17,153 | -294 |
| Other motor insurance | 265,691 | | 196,263 | | -3,000 | |
| Fire and property insurance, thereof: | 351,605 | 332,227 | 405,858 | 360,064 | 41,811 | 35,008 |
| Fire insurance | 244,276 | | 283,524 | | 17,103 | |
| Householders' comprehensive insurance | 36,485 | | 30,382 | | 531 | |
| Other property insurance | 70,844 | 332,227 | 91,953 | 360,064 | 24,177 | 35,008 |
| Marine and aviation insurance | 95,276 | 199,741 | 81,323 | 231,753 | -2,436 | 891 |
| Credit and bond insurance | 17,508 | 24,901 | 20,358 | 23,030 | 612 | -290 |
| Legal protection insurance | 61,812 | | 58,485 | | 194 | |
| Other classes of business | 309,307 | 324,088 | 287,673 | 352,972 | 29,285 | 28,085 |
| Total | 2,186,734 | 2,456,160 | 2,324,164 | 2,470,733 | 114,373 | 168,478 |
| Overall insurance business | 2,194,366 | 2,460,352 | 2,354,813 | 2,475,858 | 124,039 | 169,341 |

⁵ We have exercised the option pursuant to Section 51(4) no. 1 sentence 2 of the German Insurance Accounting Regulation (RechVersV) and the disclosures made do not differentiate between direct insurance operations and assumed reinsurance business.

Gross premiums written by origin

| €'000 | 2017 | Previous year |
|---|------------------|------------------|
| Direct insurance operations | | |
| Germany | 38,799 | 0 |
| Other Member States of the European Union and other signatory states to the Agreement on the European Economic Area (EEA) | 1,679,886 | 2,064,123 |
| Third countries | 270,892 | 396,230 |
| Total | 1,989,577 | 2,460,352 |

1.3. Claims incurred for own account

Claims incurred for own account are reduced by the gain on reversing the provision brought forward from the previous financial year. The gain was within an appropriate range.

Gross claims incurred

| €'000 | 2017 | Previous year |
|---|-------------------|-------------------|
| Direct insurance operations and assumed reinsurance business | | |
| Personal accident and health insurance, thereof: | -132,041 | -201,203 |
| Personal accident insurance | -12,606 | 7,296 |
| Health insurance | -119,435 | -208,499 |
| Liability insurance | -381,084 | -228,119 |
| Motor third-party liability insurance | -399,195 | -614,666 |
| Other motor insurance | -526,575 | |
| Fire and property insurance, thereof: | -480,305 | -106,864 |
| Fire insurance | -300,707 | |
| Householders' comprehensive insurance | -32,918 | |
| Other property insurance | -146,680 | -106,864 |
| Marine and aviation insurance | 27,561 | -148,010 |
| Credit and bond insurance | -375 | -831 |
| Legal protection insurance | -19,914 | |
| Other classes of business | -139,520 | -255,382 |
| Total | -2,051,448 | -1,555,075 |
| Overall insurance business | -2,058,021 | -1,564,600 |

1.5. Gross operating expenses

| €'000 | 2017 | Previous year |
|---|-----------------|-----------------|
| Direct insurance operations and assumed reinsurance business | | |
| Personal accident and health insurance, thereof: | -73,237 | -108,748 |
| Personal accident insurance | -4,238 | -37,032 |
| Health insurance | -68,999 | -71,716 |
| Liability insurance | -70,695 | -121,505 |
| Motor third-party liability insurance | -192,756 | -311,145 |
| Other motor insurance | -101,822 | |
| Fire and property insurance, thereof: | -125,366 | -185,912 |
| Fire insurance | -82,825 | |
| Householders' comprehensive insurance | -19,772 | |
| Other property insurance | -22,769 | -185,912 |
| Marine and aviation insurance | -5,734 | -26,975 |
| Credit and bond insurance | -1,301 | -11,234 |
| Legal protection insurance | -38,522 | |
| Other classes of business | -153,478 | -82,404 |
| Total | -762,910 | -847,925 |
| Overall insurance business | -768,767 | -847,702 |

Of the total gross operating expenses, €751,954 thousand was attributable to acquisition costs and €16,814 thousand to management expenses.

1.9. Underwriting result for own account

| €'000 | 2017 | Previous year |
|---|----------------|---------------|
| Direct insurance operations and assumed reinsurance business | | |
| Personal accident and health insurance, thereof: | 4,158 | 4,370 |
| Personal accident insurance | -845 | 505 |
| Health insurance | 5,003 | 3,865 |
| Liability insurance | -11,393 | -10,553 |
| Motor third-party liability insurance | -11,060 | 10,316 |
| Other motor insurance | 20,097 | |
| Fire and property insurance, thereof: | -22,236 | -4,216 |
| Fire insurance | -12,777 | |
| Householders' comprehensive insurance | 282 | |
| Other property insurance | -9,741 | -4,216 |
| Marine and aviation insurance | 1,298 | 4,070 |
| Credit and bond insurance | 1,152 | 110 |
| Legal protection insurance | -9,952 | |
| Other classes of business | 5,805 | 26,738 |
| Total | -22,131 | 30,835 |
| Overall insurance business | -19,839 | 31,083 |

Reinsurance balance*

| €'000 | 2017 | Previous year |
|---|----------------|----------------|
| Direct insurance operations and assumed reinsurance business | | |
| Personal accident and health insurance, thereof: | -15,195 | -25,117 |
| Personal accident insurance | -6,883 | -997 |
| Health insurance | -8,312 | -24,120 |
| Liability insurance | 102,926 | 126,702 |
| Motor third-party liability insurance | -127,980 | -17,358 |
| Other motor insurance | 452,254 | |
| Fire and property insurance, thereof: | 182,804 | -70,039 |
| Fire insurance | 95,442 | |
| Householders' comprehensive insurance | 22,994 | |
| Other property insurance | 64,368 | -70,039 |
| Marine and aviation insurance | -101,852 | -52,697 |
| Credit and bond insurance | -17,530 | -10,885 |
| Legal protection insurance | -10,001 | |
| Other classes of business | 10,913 | 11,943 |
| Total | 476,340 | -37,422 |
| Overall insurance business | 460,413 | -32,918 |

* - = to the benefit of the reinsurers

The reinsurance balance is calculated on the basis of the reinsurers' earned premiums and the ceded share of gross expenses for claims incurred and gross operating expenses.

II. Non-technical account

Other income and expenses primarily comprise currency translation gains (€452,516 thousand) and currency translation losses (€459,459 thousand). Our business model means that a large volume of the technical provisions and of the receivables and payables before reinsurance are denominated in foreign currencies. The corresponding items are reduced to a significantly lower level after reinsurance. This results in high currency translation gains and losses that offset each other. Our branches in the United Kingdom, Australia, New Zealand and Switzerland hold the majority of their assets in the respective local currencies. Since the branch in the United Kingdom makes up roughly 74% of our portfolio, net foreign currency gains/losses are heavily influenced by the pound sterling. The other material currencies for our portfolio are the Australian dollar and US dollar.

The €4,635 thousand in tax income in the 2017 financial year arose mainly in the UK tax jurisdiction and resulted from the utilisation of tax loss carryforwards as part of taxation on a group basis. The permanent establishment in the United Kingdom generated a loss for tax purposes in 2017. This loss was offset by prior-year income and taxable profits for the current year within the Group.

Our net loss for the financial year of €23,028 thousand was subject to loss absorption by Munich Re.

Other information

Number of insurance policies with terms of at least one year

| Number | 2017 | Previous year |
|---|-------------------|------------------|
| Direct insurance operations and assumed reinsurance business | | |
| Personal accident and health insurance, thereof: | 816,571 | 1,261,489 |
| Personal accident insurance | 299,908 | 37,311 |
| Health insurance | 516,663 | 1,224,178 |
| Liability insurance | 144,050 | 313,113 |
| Motor third-party liability insurance | 4,511,060 | 3,675,242 |
| Other motor insurance | 4,061,858 | 3,337,777 |
| Fire and property insurance, thereof: | 193,035 | 141,486 |
| Fire insurance | 154,782 | 135,570 |
| Householders' comprehensive insurance | 8,333 | 4,396 |
| Other property insurance | 29,919 | 1,520 |
| Marine and aviation insurance | 7,567 | 11,585 |
| Credit and bond insurance | 25,541 | 5,512 |
| Legal protection insurance | 740,880 | 40,301 |
| Other classes of business | 1,053,971 | 1,064,057 |
| Total | 11,554,533 | 9,850,561 |
| Overall insurance business | 12,510,372 | 9,869,834 |

Contingent liabilities and other financial commitments

There are currently no contingent liabilities or other financial commitments.

Off-balance sheet transactions

There are no further off-balance sheet transactions.

Events after the balance sheet date

No transactions of material significance occurred after the end of the financial year.

Average headcount during the year

In the 2017 financial year, we employed an average of 11 staff at the Company's registered office. All of these employees are office-based staff.

Commissions and other payments to insurance agents, personnel expenses

| €'000 | 31.12.2017 |
|---|----------------|
| Commissions of any type to insurance agents within the meaning of Section 92 of the Commercial Code (HGB) for direct insurance operations | 708,142 |
| Other payments to insurance agents within the meaning of Section 92 of the Commercial Code | 13,454 |
| Wages and salaries | 2,356 |
| Social security contributions and employee assistance | 1,241 |
| Expenses for employees' pensions | 0 |
| Total | 725,193 |

Remuneration report

The total remuneration of the Board of Management of Great Lakes Insurance SE amounted to €855 thousand. No expenses were incurred for the Supervisory Board of Great Lakes Insurance SE in 2017. The members of the Supervisory Board and Board of Management did not receive any cash advances or loans in the year under review.

Please see page 44 for an overview of the members of the Supervisory Board and the Board of Management. This constitutes part of the notes to the annual financial statements.

Since 1 January 2017, Great Lakes Insurance SE has set up medium-term incentive plans, each with a term of three years. The Company's senior management is eligible to participate. The participants receive performance share units (PSUs). In the fourth year after plan commencement, participants are entitled to a bonus payment dependent on the achievement of value-based performance objectives and the increase in the total shareholder return (TSR). There were 454 rights in existence as at 31 December 2017. The fair value in 2017 amounted to €487.55.

Auditors' fees

In exercise of the exemption, the disclosures on auditors' fees are made pursuant to Section 285 no. 17 of the German Commercial Code (HGB) in the consolidated financial statements of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München.

Group affiliation

Great Lakes Insurance SE is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Re). The disclosure pursuant to Section 20(4) of the German Stock Corporation Act (AktG) has been made.

The annual financial statements of our Company are included in the consolidated financial statements of Munich Re prepared in accordance with the International Financial Reporting Standards (IFRSs) as at 31 December 2017.

The consolidated financial statements and management report of Munich Re were submitted to the electronic Federal Gazette and published there. They are also available on the website of Munich Re.

Governing bodies

Supervisory Board

Claus-Ulrich Kroll

Chairman of the Supervisory Board

Head of Special/Financial Risks 3 (Aerospace & Special Services) at Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München

Christoph Carus

Deputy Chairman of the Supervisory Board

Head of Reinsurance Accounting 1 at Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München

Dr. Carsten Prussog

Head of Europe and Latin America 1 (UK, Ireland, Netherlands, Nordic, Baltics and Russia) at Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München

Alex Wettemann

Head of Special/Financial Risks 1 (Corporate Insurance Partner) at Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München

Board of Management

Dr. Achim Stegner

Chief Executive Officer

Dr. Stefan Pasternak

Chief Financial Officer

Dr. Tobias Klauß

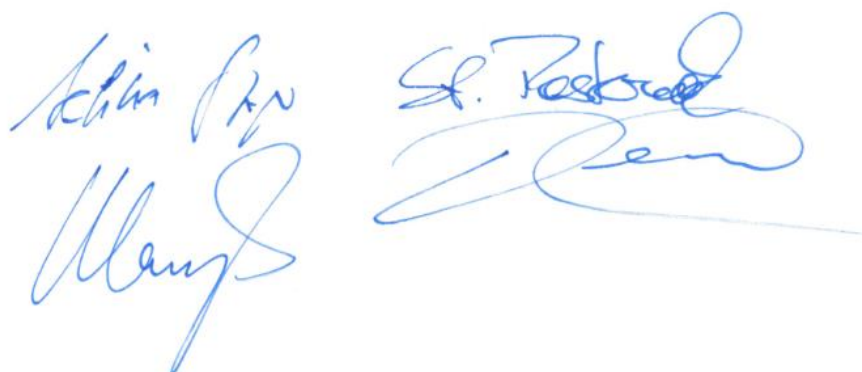
Chief Risk Officer

Stéphane Deutscher

Chief Operating Officer with additional responsibility for underwriting and business development (since 1 April 2017)

Drawn up and released for publication, Munich, 16 March 2018.

The Board of Management



Independent auditor's report

To Great Lakes Insurance SE, Munich

Report on the audit of the annual financial statements and of the management report

Audit opinions

We have audited the annual financial statements of Great Lakes Insurance SE, Munich, which comprise the balance sheet as at 31 December 2017, the income statement for the financial year from 1 January 2017 to 31 December 2017, and notes to the annual financial statements, including the accounting policies presented therein. In addition, we have audited the management report of Great Lakes Insurance SE for the financial year from 1 January 2017 to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and in compliance with German legally required accounting principles give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017, and of its financial performance for the financial year from 1 January 2017 to 31 December 2017, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322(3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 of the Commercial Code and the EU Audit Regulation (No. 537/2014, hereinafter the "EU Audit Regulation") and in compliance with the German Generally Accepted Standards for Financial Statements Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors - IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10(2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5(1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Valuation of the provisions for known and unknown claims included in the gross provision for claims outstanding

For information on the accounting and valuation policies used, please see the notes to the annual financial statements on pages 30-31. Further information about the line items in the financial statements can be found on page 35. Risk information can be found on pages 16-17 of the management report.

THE FINANCIAL STATEMENT RISK

The gross provision for claims outstanding amounted to €5,094 million as at the balance sheet date, corresponding to 1.9 times the balance sheet total.

The provision for claims outstanding is divided into various provisions for claims. The provision for known and unknown claims constitutes a material part of the gross provision for claims outstanding.

Measurement of the provision for known and unknown claims is subject to uncertainty with respect to likely claim amounts, and as a consequence is heavily reliant on discretionary judgement. In accordance with the principles of German commercial law, the estimate may not be made on a risk-neutral basis as an equal weighting of risks and opportunities, but rather must be made in compliance with the principle of prudence under accounting law (Section 341e (1) sentence 1 of the German Commercial Code [HGB]).

The provisions for known claims are estimated based on the likely expenditure for each individual loss. IBNR reserves are recognised for unknown claims. These were mainly calculated based on past experience; recognised actuarial procedures are used.

Claims already known as at the balance sheet date are exposed to the risk that the pending claims payments are not covered by sufficient provisions. Claims incurred but not reported (IBNR) are exposed to the risk that these have not been taken into account.

OUR AUDIT APPROACH

In auditing the provision for known and unknown claims, we engaged our own actuaries as part of the audit team and essentially carried out the following key audit procedures:

- We assessed the process for setting aside provisions, identified key controls, and tested their design and effectiveness. The controls include both the completeness and accuracy of the data used, and the qualitative and quantitative aspects of valuation.

- We asked for explanations on the derivation of key assumptions – including loss ratios and assumptions about run-off patterns – and assessed those assumptions.
- Substantive audit procedures on major losses were mainly made on the basis of selected specific items, whereby we drew conclusions about the appropriateness of key assumptions used on the basis of available external information.
- We carried out our own reserve calculations for certain segments based on our assessment of risk considerations. We determined a best estimate as well as an appropriate range based on statistical probabilities, and compared these with the Company’s calculations.
- For this purpose, we assessed the appropriateness of any adjustments to actuarial estimates made by management based on reasonable commercial judgement; we did so by inspecting and critically assessing the documentation of the underlying calculations or qualitative grounds. We also spoke to the Company’s actuaries.
- We assessed the actual development of the provision for claims outstanding set for the previous year on the basis of run-off results in order to draw conclusions about the reliability of the estimates.

OUR OBSERVATIONS

The methods used and assumptions underlying the valuation of the provision for known and unknown losses are appropriate as a whole.

Other Information

Management is responsible for the other information. The other information comprises the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibility of management and the Supervisory Board for the annual financial statements and the management report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 of the Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors) (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company’s position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were selected as auditor at the Supervisory Board meeting on 26 October 2017. We were engaged by the Chairman of the Supervisory Board on 23 November 2017. We have been the auditor of Great Lakes Insurance SE since the 2017 financial year.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

We have rendered the following services, which are not mentioned in the annual financial statements or the management report, in addition to the audit for the audited company.

Besides the audit of Great Lakes Insurance SE, we have also audited the financial statements for the period of domicile in Germany as at 31 December 2016 and the solvency balance sheet as at 31 December 2017.

German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Dirk Hildebrand.

Munich, 10 April 2018

Signed Hildebrand

Wirtschaftsprüfer
[German Public Auditor]

Signed Donath

Wirtschaftsprüferin
[German Public Auditor]

Munich, 10 April 2018

Hildebrand

Wirtschaftsprüfer
[German Public Auditor]

Donath

Wirtschaftsprüferin
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Imprint

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