

Great Lakes Insurance SE

Swiss Branch

Financial Condition Report 2018

Local GAAP format
(Swiss Code of obligations)

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Business activities

Overview

Great Lakes Insurance SE (formerly Great Lakes Reinsurance (UK) SE) was established under its original name of Great Lakes Reinsurance (UK) Plc in London on 5th November 1987. The company's importance to the Munich Re Group as a special purpose vehicle for developing new business opportunities in primary insurance arising out of the reinsurance portfolio developed over the next twenty years culminating in the renaming of the company into Great Lakes Insurance SE and the move of the Headquarters from London to Munich on 29th December 2016.

The Swiss Branch of Great Lakes was authorised in Switzerland on 13th December 2007 for a portfolio of property, casualty, jewellers block and aviation business through large single risk placements and delegated authorities located in the United Kingdom and the European Union.

Great Lakes and its branches combine the financial strength of the Munich Re Group through shared ratings with flexibility in offering appropriate bespoke innovation solutions to the Group's clients.

Great Lakes enhances the value of the Group through four pillars: acting as a competent partner to develop primary insurance business; maximising the profitability of the business through transparent and efficient administrative and capital costs; providing operational excellence in expertise and innovation; conducting our business in a legal and ethical manner that meets the expectations of our regulators and satisfies the requirements of our policyholders.

Business segments

Property & Casualty Insurance

Property and casualty insurances for multinational clients located in Switzerland via their head offices or local presences are written on a subscription market basis. These are placed as a coinsurance by the international broker houses. We maintain an appetite for such business as a following insurer. Lines of business that build upon the underwriting strength of our Group may include property, specialist liabilities (PI), engineering and energy risks. Through an agents distribution channel, we write gadget insurance.

Aviation

Aviation is written either via brokers or through agents. The business may include larger airlines as well as general aviation within the portfolio. This business has been written since the inception of the branch.

Contingency

A book of cancellation insurance is written by the branch via broker placement. This book includes the largest risk in the branch's portfolio but is a small proportion of the overall business.

Management summary

General Overview

The year 2018 was marked by the continuing challenges in the market in pricing for larger clients in the property, casualty and aviation insurance markets as technical rates were still considered in general as being technically poor. GLISE in Switzerland further developed its agency business in Switzerland by writing mobile phone insurances.

The 2018 result for the year was CHF 1.35m compared to CHF -1.43m in 2017, which was mainly driven by the exposure increase in 2018 and the related increase in net technical profits.

Market conditions, competition, supply and demand

The non-life insurance market continued to face pressure in terms of price competition within the aviation, property and casualty sectors. Furthermore where pricing discipline could not be maintained, rejection of the risk or acceptance at market rates takes place whilst resisting market pressure as much as possible to reduce the price or broaden the terms and conditions offered. As in previous years the continued driver of these market conditions is the high supply of insurance and reinsurance capacity across international markets and our licensed lines of business.

Innovation and development

During 2018, supported by New Reinsurance Company AG (NewRe) as the Group's reinsurer located in Switzerland, Great Lakes further developed its relationships with its Swiss intermediaries, to support their target markets of business including gadget and online motor insurance. These opportunities focused on retail non-life insurance products which are distributed through online and offline sales channels linked to efficient flexible IT operations ensuring lean processes and competitive costs while upholding strong levels of consumer protection. Great Lakes holds licences from FINMA for most of the Non-Life Insurance classes. New opportunities to expand sale channels and partners for gadget insurance, as well as new markets such as travel insurance and hearing aids, will continue to be explored. This will enhance the beneficial marriage of high profitability, and flexible processes and products.

Extraordinary events

No significant extraordinary events had a material impact on the Swiss Branch of Great Lakes in 2018.

Risk management

Great Lakes risk management for the Swiss Branch is integrated into the overall Great Lakes risk framework. It is also consistent with the requirements and approach taken by the overall Munich Re Group.

Outlook

In the light of the competitive market environment no major changes are expected in the market conditions or claims patterns for the existing portfolio of Great Lakes Swiss Branch. Results will continue to depend on losses incurred. The portfolio will further develop from low volume business concentrated on medium and large clients towards an increased premium based upon higher volumes and retail policyholders through the entry to the Swiss motor insurance markets. Necessary adjustments to processes, controls, authorities and operations have been or will be further implemented in line with the growth expectations and in close collaboration and dialogue with all relevant stakeholders in a timely fashion. Where appropriate, Great Lakes has continued to deepen its knowledge of the appropriate local markets to ensure that we understand developing conditions and can monitor conduct risk.

In addition to winning new customers, we care about our existing customers. Our goal is to offer all customers current and modern state of the art insurance cover and to place innovative products and services.

Additional information

Supervisory Board of Great Lakes Insurance SE

Claus-Ulrich Kroll, Chairman (until 31.12.2018)

Claudia Hasse, Chairman (from 01.01.2019)

Christoph Carus

Dr. Carsten Prussog

Alex Wettemann

Board of Management Great Lakes Insurance SE

Dr. Achim Stegner, Chief Executive Officer

Dr. Stefan Pasternak, Chief Financial Officer

Dr. Tobias Klauß, Chief Risk Officer

Stéphane Deutscher, Chief Operations Officer

Legal Representative Great Lakes Insurance SE Swiss Branch

Gerald König, PRS Prime Re Services AG, Baar

Shareholder

100% Munich Reinsurance Company, Munich

Rating

AA- by Standard & Poor's

A+ by A.M. Best

Auditors

KPMG AG, Zurich

Performance

Income statement for the year

Technical Accounts

<i>in CHF</i>	2018		2017
Gross premiums	26,977,596		23,167,838
Premiums ceded	(24,401,758)		(15,785,377)
Premiums for own account	2,575,838		7,382,461
Change in unearned premiums gross	8,159,681		8,420,047
Change in unearned premiums ceded	(7,552,757)		(7,660,773)
Change in unearned premiums for own account	606,923		759,274
Net earned premiums for own account		3,182,761	8,141,735
Other technical income, net of RI		-	-
Total technical income for own account		3,182,761	8,141,735
Claims payment gross	(6,569,027)		(5,980,216)
Claims payment ceded	4,933,063		4,694,474
Claims payment for own account	(1,635,963)		(1,285,742)
Change in provision gross	9,926,813		(8,455,327)
Change in provision ceded	(8,292,421)		1,262,632
Change in provision for own account	1,634,393		(7,192,695)
Expenditure for incurred claims for own account		(1,571)	(8,478,437)
Commissions expenses gross	(12,761,113)		(8,335,724)
Commissions expenses ceded	10,730,751		6,855,963
Administration expenses	(186,700)		(73,584)
Acquisition costs and administrative expenses for own account		(2,217,062)	(1,553,345)
Total technical expenses for own account		(2,218,632)	(10,031,782)
Overall technical result		964,129	(1,890,047)

General Accounts

<i>in CHF</i>	2018	2017
Investment income	943,944	766,866
Investment expenses	(912,469)	(239,629)
Investment result	31,475	527,237
Operating result	995,604	(1,362,810)
Other income	493,086	71,705
Other expenses	(143,096)	(122,154)
Profit before taxes	1,345,595	(1,413,259)
Direct taxes	(3,899)	(15,919)
Result for the year	1,341,696	(1,429,178)

Qualitative information performance

Premiums

Written premiums comprise the amount receivable including an estimate of pipeline premiums during the financial year for the whole period the Company is on risk in respect of contracts of insurance entered into and incepting during that period, together with any further adjustments to premiums receivable for prior accounting periods that had not been fully recognised in previous financial statements. Pipeline premiums are those collected by intermediaries but not yet notified to Great Lakes, and are assessed based on estimates from underwriting or past experience. Premiums are stated before deduction of commissions but net of taxes and duties levied on premiums. Premiums are earned over the term of the insurance policies to which they relate, in accordance with the risk coverage provided by the underlying insurance policies.

Outward reinsurance and retrocession premiums are accounted for in the same accounting period as the premiums for the underlying direct insurance or inwards reinsurance business.

Claims incurred

Claims incurred comprise claims and claim settlement expenses (both internal and external) paid in the year and the movement in the provision for outstanding claims and settlement expenses, including an allowance for the costs of claims incurred by the balance sheet date but not reported until after the year end.

Acquisition costs and administrative expenses

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance and reinsurance contracts.

Investment result

Investment income comprises amortization, interests, realised investment gains and losses, investment management expenses and other investment expenses. Realised gains and losses represent the difference between net sales proceeds and amortized acquisition costs in the accounting period.

Foreign Currencies

Foreign currency transactions are translated at the rates of exchange ruling at the dates of the transaction.

Other Income and expenses

The main component of other income and expenses were foreign exchange gains and losses.

Profits and Losses recognised directly in equity

There are no profits and losses recognised directly in equity.

Quantitative information performance

Performance Solo NL Direct

Financial situation report: quantitative template "Performance Solo NL"

Currency: CHF or annual report currency
Amounts stated in millions

	Total		Accident		Dress		Motor vehicle		Transport		Fire, natural hazards, property damage		General third-party liability		Other branches		
	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	
Gross premium	23	27	-	-	-	-	-	-	0	0	2	15	15	4	-	1	5
Reinsurers' share of gross premiums	(15)	(24)	-	-	-	-	-	-	(1)	(5)	(1)	(13)	(15)	(3)	(2)	1	(4)
Premiums for own account (1 + 2)	7	3	-	-	-	-	-	-	(1)	(5)	3	4	2	(2)	2	2	
Change in unearned premium reserves	4	4	-	-	-	-	-	-	(2)	(2)	1	(5)	1	0	7	9	
Reinsurers' share of change in unearned premium reserves	(3)	(3)	-	-	-	-	-	-	0	0	(1)	(5)	(1)	(2)	(7)	(8)	
Premiums earned for own account (3 + 4 + 5)	8	3	-	-	-	-	-	-	(1)	(3)	3	3	2	(2)	2	3	
Other income from insurance business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total income from underwriting business (6 + 7)	8	3	-	-	-	-	-	-	(1)	(3)	3	3	2	(2)	2	3	
Payments for insurance claims (gross)	(5)	(7)	-	-	-	-	-	-	(2)	(1)	(2)	(5)	2	(3)	(2)	3	
Reinsurers' share of payments for insurance claims	3	5	-	-	-	-	-	-	1	0	2	4	0	0	2	0	
Change in technical provisions	(1)	(5)	-	-	-	-	-	-	(2)	0	(1)	4	13	(2)	(7)	5	
Reinsurers' share of change in technical provisions	1	(5)	-	-	-	-	-	-	0	(1)	8	(4)	(12)	(5)	4	(4)	
Change in technical provisions for unlinked life insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Expenses for insurance claims for own account (8 + 10 + 11 + 12 + 13)	(5)	(12)	-	-	-	-	-	-	0	(1)	(5)	(5)	(1)	(2)	(3)	1	
Acquisition and administration expenses	(5)	(13)	-	-	-	-	-	-	(2)	(2)	(2)	(1)	(1)	0	(5)	(1)	
Reinsurers' share of acquisition and administration expenses	7	(1)	-	-	-	-	-	-	0	(2)	7	9	(5)	0	(5)	(6)	
Acquisition and administration expenses for own account (15 + 16)	(2)	(12)	-	-	-	-	-	-	(2)	(2)	(2)	(2)	0	(5)	(6)		
Other underwriting expenses for own account	(2)	(2)	-	-	-	-	-	-	(2)	(2)	(2)	(2)	0	(5)	(6)		
Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)	(2)	(12)	-	-	-	-	-	-	(2)	(2)	(2)	(2)	0	(5)	(6)		
Investment income	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Investment expenses	(2)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net investment income (20 + 21)	1	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Capital and interest income from unlinked life insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other financial income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other financial expenses	(1)	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Operating result (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 17 + 18 + 19 + 20 + 21 + 22)	(1)	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Interest expenses for interest-bearing liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other income	0	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other expenses	(2)	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Extraordinary income/expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Profit / loss before taxes (25 + 27 + 28 + 29 + 30)	(2)	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Direct taxes	(2)	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Profit / loss (31 + 32)	(4)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

Performance Solo NL Direct non-Swiss & Indirect

Financial situation report: quantitative template "Performance Solo NL"

	Direct non-Swiss business				Indirect business											
	Total		Personal accident		Health		Motor		Marine, aviation, transport		Property		Casualty		Miscellaneous	
	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year
Gross premiums	-	-	-	-	-	-	-	-	0	0	1	(1)	-	-	-	-
Reinsurers' share of gross premiums	-	-	-	-	-	-	-	-	(1)	(1)	0	(1)	-	-	-	-
Reinsurers' share of own account (1 + 2)	-	-	-	-	-	-	-	-	(1)	(1)	0	(1)	-	-	-	-
Change in unearned premium reserves	-	-	-	-	-	-	-	-	(1)	(1)	(1)	0	-	-	-	-
Reinsurers' share of change in unearned premium reserves	-	-	-	-	-	-	-	-	0	0	0	0	-	-	-	-
Reinsurers' share of own account (3 + 4 + 5)	-	-	-	-	-	-	-	-	(1)	(1)	1	(1)	-	-	-	-
Other income from insurance business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) from (indirect) business (6 + 7)	-	-	-	-	-	-	-	-	-	-	-	(1)	(1)	(1)	(1)	-
Payments for insurance claims (gross)	-	-	-	-	-	-	-	-	(1)	(1)	0	1	(1)	(1)	-	-
Reinsurers' share of payments for insurance claims	-	-	-	-	-	-	-	-	0	0	-	(1)	-	-	(1)	-
Change in technical provisions	-	-	-	-	-	-	-	-	(1)	(1)	0	0	(1)	(1)	2	-
Reinsurers' share of change in technical provisions	-	-	-	-	-	-	-	-	0	0	0	0	(1)	(1)	0	-
Change in technical provisions for unlinked life insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses for insurance claims for own account (8 + 10 + 11 + 12 + 13)	-	-	-	-	-	-	-	-	(1)	(1)	0	(1)	(1)	-	-	-
Acquisition and administration expenses	-	-	-	-	-	-	-	-	(1)	(1)	0	(1)	0	-	-	-
Reinsurers' share of acquisition and administration expenses	-	-	-	-	-	-	-	-	0	0	-	-	-	-	-	-
Acquisition and administration expenses for own account (14 + 15)	-	-	-	-	-	-	-	-	(1)	(1)	0	0	0	-	-	-
Other underwriting expenses for own account	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)	-	-	-	-	-	-	-	-	(1)	(1)	0	(1)	0	-	-	-
Investment income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net investment income (19 + 21)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital and interest income from unlinked life insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expenses for interest-bearing liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Extraordinary income/expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit / loss before taxes (26 + 27 + 28 + 29 + 30)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Direct taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit / loss (31 + 32)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Comments on “Performance Solo NL” template

Premium income

The net premium income from direct business reduced from CHF 7.4m to CHF 2.6m.

The reduction in net premium income during 2018 was primarily driven by the direct business lines of business engineering and third party liability insurance. This was due to premium adjustments for old contract years and an improved approach for the premium split for the GLISE Group Retro Cover.

Expenses for insurance claims

Total net expenses for insurance claims decreased from CHF 8.5m to CHF 0.0m.

This significant decrease was mainly driven by a favourable loss development with no material outlier burden in 2018.

Expenses from underwriting business

Total net expenses from underwriting business increased from CHF 1.6m to CHF 2.2m.

This increase in expenses is due to higher administration expenses and commission adjustments for prior years.

Net investment income

The net investment income (after management expenses for investments) amounted to CHF 31k, after CHF 527k in the previous year. The decrease was mainly driven by the negative interest rate which was earned for the overnight investments.

Profit/Loss

At CHF 1.34m, GLISE's 2018 result increased from CHF -1.43m by CHF 2.77m.

Key driver of this result improvement was the increase in net technical profits strongly driven by a favourable loss development in 2018 compared to previous year.

Baar, 26 April 2019

Legal Representative



Gerald König

Appendices

Great Lakes Insurance SE, Munich, Baar Branch

Independent auditor's report
on the financial statements

Financial year 2018



Independent auditor's report to the General Manager of:

Great Lakes Insurance SE, Munich, Baar Branch, Baar

As a federally-supervised audit firm, we have audited the accompanying financial statements of the Great Lakes Insurance SE, Munich, Baar Branch, which comprise the balance sheet as at December 31, 2018, and the income statement and notes for the year then ended, in line with Article 28 para. 2 of the Insurance Supervision Act (ISA) and with reference to the FINMA guidelines "Preparation and audit of the financial statements of branch offices of foreign insurance companies (WNL)".

The financial statements have been prepared by the General Manager on the basis of the financial reporting provisions of the Swiss Code of Obligations and the requirements of the supervisory law.

General Manager's Responsibility for the Financial Statements

The General Manager is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of the Swiss Code of Obligations and the requirements of the supervisory law – in particular the Financial Market Supervision Act (FINMASA), the Insurance Supervision Act (ISA), the Insurance Supervision Ordinance (ISO) and the FINMA Insurance Supervision Ordinance (ISO-FINMA) as well as with the FINMA guidelines "Preparation and audit of the financial statements of branch offices of foreign insurance companies (WNL)" –, and for such internal controls as the General Manager determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the regulatory requirements set out in Article 28 para. 2 ISA, the WNL and Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the branch office's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the branch office's internal control system.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the General Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements of Great Lakes Insurance SE, Munich, Baar Branch as of and for the year ended December 31, 2018 are prepared, in all material respects, in accordance with the financial reporting provisions of the Swiss Code of Obligations, the requirements of supervision law (in particular FINMASA, ISA, ISO and ISO-FINMA) and with the WNL.

Basis of Accounting

Without modifying our opinion, we note that the financial statements of the Great Lakes Insurance SE, Munich, Baar Branch are prepared on the basis of the accounting principles specified above. The financial statements are prepared to comply with the requirements of Article 25 para. 4 ISA. As a result, the financial statements may not be suitable for another purpose.

KPMG AG

Bill Schiller
Licensed audit expert
Auditor in charge

Patrick Scholz
Licensed audit expert

Zurich, 26 April 2019

Enclosure:

- Financial statements (balance sheet as at December 31, 2018, income statement, and notes)

Great Lakes Insurance SE

Swiss Branch

Annual Report 2018
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(Swiss Code of obligations)

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Overview

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Great Lakes enhances the value of the Group through four pillars: acting as a competent partner to develop primary insurance business; maximising the profitability of the business through transparent and efficient administrative and capital costs; providing operational excellence in expertise and innovation; conducting our business in a legal and ethical manner that meets the expectations of our regulators and satisfies the requirements of our policyholders.

Supervisory Board Great Lakes Insurance SE

Claus-Ulrich Kroll, Chairman (until 31.12.2018)

Claudia Hasse, Chairman (from 01.01.2019)

Christoph Carus

Dr. Carsten Prussog

Alex Wettemann

Board of Management Great Lakes Insurance SE

Dr. Achim Stegner, Chief Executive Officer

Dr. Stefan Pasternak, Chief Financial Officer

Dr. Tobias Klauß, Chief Risk Officer

Stéphane Deutscher, Chief Operations Officer

Appointed Actuary Great Lakes Insurance SE Swiss Branch

Dr. Mariel Lüdecke, Chief Actuary

Legal Representative Great Lakes Insurance SE Swiss Branch

Gerald König, PRS Prime Re Services AG, Baar

Shareholder

100% Munich Reinsurance Company, Munich

Rating

AA- by Standard & Poor's

A+ by A.M. Best

Auditors

KPMG AG, Zurich

Management Report

General overview

The year 2018 was marked by the continuing challenges in the market in pricing for larger clients in the property, casualty and aviation insurance markets as technical rates were still considered in general as being technically poor. GLISE in Switzerland further developed its agency business in Switzerland by writing mobile phone insurances.

The 2018 result for the year was CHF 1.35m compared to CHF -1.43m in 2017, which was mainly driven by the exposure increase in 2018 and the related increase in net technical profits.

Staff

Great Lakes does not directly employ any individuals in Switzerland. The Branch is on the one hand administered locally by the legal representative with support services from PRS Prime Re Services AG and on the other hand fully integrated alongside Great Lakes' other operations as well as within the Munich Re Group.

The Company's conduct of a risk assessment

Great Lakes risk management for the Swiss Branch is integrated into the overall Great Lakes risk framework. It is also consistent with the requirements and approach taken by the overall Munich Re Group.

Governance and responsibilities

Great Lakes follows a three lines of defence model. This ensures an effective separation of duties between the first line of defence risk takers, who execute risk decisions, and the risk management function that forms part of the second line of defence and performs independent risk controls. The risk management function, together with the compliance and actuarial functions, forms the second line of defence. The third line of defence is the internal audit function, which ensures that the processes required to guarantee effective control are functional.

The Great Lakes Board of Management is responsible for Great Lakes' overall governance including the Swiss Branch. The Risk and Capital Committee, which is hosted by risk management, has the primary objective to assist the Board of Management in fulfilling its responsibility for the oversight of the risk management system with particular reference to risk strategy setting, reporting and capital management. The Internal Control System further promotes and enhances the risk and control culture at Great Lakes in all areas and at all levels including the Swiss Branch.

Risk management objectives and methodology

The objective of risk management at Great Lakes is to ensure that we are able to meet our policyholders' obligations at all times by safeguarding Great Lakes' financial strength, whilst creating sustainable value for our shareholders and protecting the Company's reputation and that of the Munich Re Group. For this purpose, risk management employs strategies, methodologies and processes to identify, analyse, assess, control and monitor short and long-term risks to Great Lakes' ability to operate as a going concern, and to enable mitigation actions to be taken in a timely manner. The careful selection of (re)insurance risks is at the core of Great Lakes business model. The company deploys a variety of risk management tools, processes and functions to manage its risks, and seeks to optimise the balance between risks taken and earnings opportunities.

Great Lakes risk management strategy is aimed at

Great Lakes' risk strategy is derived from its business objectives. The Board of Management approves the risk strategy on an annual basis, supported by risk management. The risk strategy defines where, how and to what extent the Company is prepared to incur risks. This includes identifying exposed risk areas, prioritising these into risk criteria and defining appropriate risk appetites and tolerances, which include limits and early-warning mechanisms (triggers) with corresponding escalations, which align with Great Lakes' strategy and objectives.

Risk identification, evaluation and measurement

Risks are identified and classified according to their potential exposure to one or a combination of the following material risk types: underwriting, market, credit, operational, compliance, liquidity, reputational and strategic risks.

The primary tool for measuring and assessing all quantifiable risks, including those associated with the Swiss Branch, is based on Great Lakes' regulatory-approved Solvency II internal capital model. The internal model applied is at the overall entity level to determine Great Lakes' regulatory solvency capital requirement, measured at the 99.5% value at risk of the economic profit and loss distribution over a one-year time horizon. This equates to the economic loss, given underlying exposures, which will be statistically exceeded in no more than one year in every 200 and is consistent with Solvency II directives. Operational risks are evaluated and managed using our Internal Control System complemented by scenario analyses reflected in our capital model. Delegated underwriting authority and related conduct risk are further assessed and mitigated using new agent/product due diligence and ongoing risk monitoring.

The evaluation and quantitative measurement of the risks, as well the Swiss Branch's overall risk position, is documented in the Internal Risk Report and communicated to the Great Lakes Board of Management, on a quarterly basis. The Board of Management also approves the Own Risk and Solvency Assessment report (ORSA), at least on an annual basis, which covers the forward-looking assessment of the risks Great Lakes, including its Swiss Branch, is exposed to or may become exposed to in the future, in accordance with the proposed business strategy.

Competition, supply and demand

The non-life insurance market continued to face pressure in terms of price competition within the aviation, property and casualty sectors. Furthermore where pricing discipline could not be maintained, rejection of the risk or acceptance at market rates takes place whilst resisting market pressure as much as possible to reduce the price or broaden the terms and conditions offered. As in previous years the continued driver of these market conditions is the high supply of insurance and reinsurance capacity across international markets and our licensed lines of business.

Innovation and development

During 2018, supported by New Reinsurance Company AG (NewRe) as the Group's reinsurer located in Switzerland, Great Lakes further developed its relationships with its Swiss intermediaries, to support their target markets of business including gadget and online motor insurance. These opportunities focused on retail non-life insurance products which are distributed through online and offline sales channels linked to efficient flexible IT operations ensuring lean processes and competitive costs while upholding strong levels of consumer protection. Great Lakes holds licences from FINMA for most of the Non-Life Insurance classes. New opportunities to expand sale channels and partners for gadget insurance, as well as new markets such as travel insurance and hearing aids, will continue to be explored. This will enhance the beneficial marriage of high profitability, and flexible processes and products.

Extraordinary events

No significant extraordinary events had a material impact on the Swiss Branch of Great Lakes in 2018.

Outlook

In the light of the competitive market environment no major changes are expected in the market conditions or claims patterns for the existing portfolio of Great Lakes Swiss Branch. Results will continue to depend on losses incurred. The portfolio will further develop from low volume business concentrated on medium and large clients towards an increased premium based upon higher volumes and retail policyholders through the entry to the Swiss motor insurance markets. Necessary adjustments to processes, controls, authorities and operations have been or will be further implemented in line with the growth expectations and in close collaboration and dialogue with all relevant stakeholders in a timely fashion. Where appropriate, Great Lakes has continued to deepen its knowledge of the appropriate local markets to ensure that we understand developing conditions and can monitor conduct risk.

In addition to winning new customers, we care about our existing customers. Our goal is to offer all customers current and modern state of the art insurance cover and to place innovative products and services.

Financial Statements

Balance Sheet

<i>in CHF</i>	31 December 2018	31 December 2017
Investments	24,281,455	47,983,725
Fixed interest securities		
Cash and Cash equivalent	25,502,605	24,830,996
Underwriting provisions ceded	20,612,982	37,227,056
Accounts receivable from insurance business	17,769,954	20,962,479
Other accounts receivable	105,036	209,502
Total assets	88,272,032	131,213,758
Technical provisions	37,860,205	56,661,204
Accounts payable from insurance business	11,904,561	21,758,458
Other liabilities	4,185,523	9,145,975
Head office account	34,321,743	43,648,121
Total liabilities	88,272,032	131,213,758
Balance	-	-

Technical Accounts

<i>in CHF</i>	2018	2017
Gross premiums	26,977,596	23,167,838
Premiums ceded	(24,401,758)	(15,785,377)
Premiums for own account	2,575,838	7,382,461
Change in unearned premiums gross	8,159,681	8,420,047
Change in unearned premiums ceded	(7,552,757)	(7,660,773)
Change in unearned premiums for own account	606,923	759,274
Net earned premiums for own account	3,182,761	8,141,735
Other technical income, net of RI	-	-
Total technical income for own account	3,182,761	8,141,735
Claims payment gross	(6,569,027)	(5,980,216)
Claims payment ceded	4,933,063	4,694,474
Claims payment for own account	(1,635,963)	(1,285,742)
Change in provision gross	9,926,813	(8,455,327)
Change in provision ceded	(8,292,421)	1,262,632
Change in provision for own account	1,634,393	(7,192,695)
Expenditure for incurred claims for own account	(1,571)	(8,478,437)
Commissions expenses gross	(12,761,113)	(8,335,724)
Commissions expenses ceded	10,730,751	6,855,963
Administration expenses	(186,700)	(73,584)
Acquisition costs and administrative expenses for own account	(2,217,062)	(1,553,345)
Total technical expenses for own account	(2,218,632)	(10,031,782)
Overall technical result	964,129	(1,890,047)

General Accounts

<i>in CHF</i>	2018	2017
Investment income	943,944	766,866
Investment expenses	(912,469)	(239,629)
Investment result	31,475	527,237
Operating result	995,604	(1,362,810)
Other income	493,086	71,705
Other expenses	(143,096)	(122,154)
Profit before taxes	1,345,595	(1,413,259)
Direct taxes	(3,899)	(15,919)
Result for the year	1,341,696	(1,429,178)

Notes to the financial statements

The annual financial statements have been prepared in accordance with the provisions on commercial accounting of the Swiss Code of Obligations (CO) (Art. 957-963b OR). Apart from the Swiss Code of Obligations, the provisions of the Swiss Ordinance on the Supervision of Private Insurance Companies (Art. 5a ISO-FINMA including Appendix) have been applied.

Accounting principles

The main accounting and valuation principles used, which are not already specified by the Code of Obligations, are described as follows.

Investments

Fixed-interest securities are valued at amortised cost less required impairments. The annual amortisation amount is recognised as current income.

Cash and cash equivalents

The cash and cash equivalents includes cash holdings. These are recorded at their nominal value.

Technical reserves

The statutory reserves are the higher of the best estimate and the market consistent reserves.

To obtain the technical reserves the best estimate reserves are supplemented with safety & equalization reserves.

The best estimate reserves consist of different components, which are:

- Unearned Premiums: Premiums that relate to the unexpired terms of insurance policies in force at the balance sheet date are deferred as unearned premiums. These unearned premiums are taken to the Profit and Loss account so that premiums are recognised over the period of risk coverage provided by the underlying insurance policies.
- Case reserves represent the best estimate of the ultimate payment for claims reported and open as of the balance sheet date.
- Incurred But Not Reported (IBNR) reserves are estimates of the amounts required to settle claims that have been incurred but not yet reported. They are estimated with standard actuarial techniques.
- Allocated loss adjustment expenses are part of the case reserves. Unallocated loss adjustment expenses reserves are determined as a percentage of the case reserve and IBNR
- Other technical reserves which include expected future result dependent commission payments.

No discounting takes place as long as no annuities are concerned.

The safety and equalisation reserves serve as a buffer to absorb the volatility of the claims. They are considered via a prudence margin, which is calculated using an internal stochastic model.

The market consistent value of reserves is calculated as the sum of the discounted best estimate reserves plus a risk margin, based on GLUK's internal model for Solvency II purpose. The Great Lakes appointed Actuary for the Swiss Branch reviews the results of the reserving exercise.

Premiums

Written premiums comprise the amount receivable including an estimate of pipeline premiums during the financial year for the whole period the Company is on risk in respect of contracts of insurance entered into and incepting during that period, together with any further adjustments to premiums receivable for prior accounting periods that had not been fully recognised in previous financial statements. Pipeline premiums are those collected by intermediaries but not yet notified to Great Lakes, and are assessed based on estimates from underwriting or past experience. Premiums are stated before deduction of commissions but net of taxes and duties levied on premiums. Premiums are earned over the term of the insurance policies to which they relate, in accordance with the risk coverage provided by the underlying insurance policies.

Outward reinsurance and retrocession premiums are accounted for in the same accounting period as the premiums for the underlying direct insurance or inwards reinsurance business.

Foreign currency items and translation for presentation purposes:

All balance sheet items are translated from their original currency into CHF using the year-end exchange rate. Transactions of the income statement, where not carried out in Swiss francs, are converted at the rate of exchange ruling at the date of the transaction. The company books a provision for net unrealised foreign exchange gains.

The principal exchange rates for 2018 are:

Currency	Balance Sheet as at	Income Statement for the year
1 CHF = x FW	31 December 2018	2018
EUR	0.887390	0.865763
GBP	0.796477	0.765932
USD	1.014420	1.022458

Other information according to the Swiss Code of Obligations (OR) and Insurance Supervisory Ordinance-FINMA (AVO-FINMA)

Auditors' fees

The fees for the audit of the 2018 financial statements, as well as the regulatory audit, amount to CHF 68,775. Fees exclude outlays and VAT.

Receivables from Insurance business

All balances have been allocated to receivables from policyholders.

Affiliated companies

At the balance sheet date there were receivables and liabilities in respect of other affiliated companies belonging to the Munich Re (Group), as follows:

<i>in CHF</i>	31 December 2018	31 December 2017
Accounts receivable from group companies for insurance business	3,014,056	2,170,330
Accounts payable to group companies for insurance business	(2,767,161)	(6,561,412)
Total	246,894	(4,391,082)

Technical provisions

<i>in CHF</i>	31 December 2018			31 December 2017		
	Gross	Ceded	Net	Gross	Ceded	Net
Unearned premiums	3,155,098	938,332	2,216,766	11,456,463	8,619,494	2,836,969
Loss reserves	27,694,354	19,190,202	8,504,152	36,289,629	28,355,424	7,934,205
Equalisation reserve	6,464,997	-	6,464,997	8,578,928	-	8,578,928
Other underwriting provisions	545,756	484,448	61,308	336,184	252,138	84,046
Total	37,860,205	20,612,982	17,247,223	56,661,204	37,227,056	19,434,148

<i>in CHF</i>	2018			2017		
Changes of the technical provisions	Gross	Ceded	Net	Gross	Ceded	Net
Changes in unearned premiums	8,159,681	(7,552,757)	606,923	8,420,047	(7,660,773)	759,274
Changes in loss reserves	9,926,813	(8,292,421)	1,634,393	(8,455,327)	1,262,632	(7,192,695)
Total			2,241,316			(6,433,421)

Head office account movement schedule

<i>in CHF</i>	31 December 2018	31 December 2017
Opening Balance	(43,648,121)	(7,951,763)
Capital from Head Office	-	(37,125,536)
Capital to Head Office	10,668,073	-
Result for the year	(1,341,696)	1,429,178
Closing Balance	(34,321,743)	(43,648,121)

Capital from Head Office includes prior year balances that had been booked under long term liabilities. Negative amounts represent asset positions / increases, while positive amounts represent liability positions / decreases in the table above. In 2018 Great Lakes repatriated CHF 10.7m of excess capital back to the Head Office.

Investment result*in CHF*

				2018			2018
	Current income	Amortization	Realised gains	Total investment income	Investment management expenses, other investment expenses	Realised losses	Total investment expenses
Fixed interest securities	787,143	156,757	44	943,944	(153,833)	(733,389)	(887,222)
Other investments					(25,247)		(25,247)
Total				943,944			(912,469)

in CHF

				2017			2017
	Current income	Amortization	Realised gains	Total investment income	Investment management expenses, other investment expenses	Realised losses	Total investment expenses
Fixed interest securities	827,470	(60,604)	-	766,866	(88,445)	(126,973)	(215,419)
Other investments					(24,210)		(24,210)
Total				766,866			(239,629)

The investment result of Great Lakes's Swiss branch was showing a lower net result in comparison to 2017 due to higher realised losses.

Shareholder

The 100% shareholder of Great Lakes Insurance SE is Munich Reinsurance Company (Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München).

Baar, 25 April 2019

Legal Representative



Gerald König