Risk Solutions

# Annual Report 2018
# Great Lakes Insurance SE

# Key figures

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

| | | 2018 | Previous year |
|---|---|---|---|
| Gross premiums written | €'000 | 3,661,000 | 2,194,366 |
| Net earned premiums | €'000 | 98,072 | 124,039 |
| Loss ratio (gross) | % | 82.1 | 87.4 |
| Loss ratio (net) | % | 102.4 | 93.5 |
| 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.

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# Report of the Supervisory Board

In the 2018 financial year, 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 held two regular Supervisory Board meetings and obtained quarterly reports from the Board of Management on the Company's business and its expected progress. We were also involved in all decisions of fundamental importance. In addition, the Board of Management kept us fully updated on all key Company matters, and on events that might have had an appreciable effect on its business. 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.

The Supervisory Board was comprehensively informed, in particular, of the negative performance of the insurance business on own account – due mainly to the wildfires in the USA and typhoons in Asia – and it monitored these situations closely.

Moreover, strategic business decisions given the impending Brexit were the subject of reports to and ensuing monitoring by the Supervisory Board.

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, duly audited the 2018 annual financial statements and management report prepared by the Board of Management, and issued an unqualified auditor's opinion.

The annual financial statements, the management report and the auditor's report were submitted in due time to every member of the Supervisory Board. After conducting our own review, we discussed these documents and the auditors' report at the Supervisory Board meeting, together with the auditors, on 11 April 2019, and had no objections to it. The Supervisory Board approved the annual financial statements for the 2018 financial year. The financial statements have thus been adopted.

The designated actuary also attended the said meeting and presented us with the key findings of her report explaining the actuarial certification. We had neither objections or additional comments in this regard either.

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 2018 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 ("Munich Re") as joint and several debtor.

Mr. Claus-Ulrich Kroll's term on the Supervisory Board ended by mutual agreement at the end of the day on 31 December 2018. Mr. Kroll held the position of Chairman of the Supervisory Board for several years; we hereby thank him for his dedication. His place on the Supervisory Board was taken up by Ms. Claudia Hasse effective 1 January 2019. Ms. Hasse will also become Chair of the Supervisory Board as of that date.

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

Munich, 11 April 2019

For the Supervisory Board

Hasse

# Management report

## Basic information about the Company

Great Lakes Insurance SE (“GLISE” or “the Company”) is a wholly owned subsidiary of 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. GLISE offers insurance solutions in niche markets and, as a preferred insurance partner to the Munich Re (Group), is an integral part of their “primary insurance out of reinsurance” (PIRI) strategy. In addition, the Company supports several ERGO Group companies by providing special resources and capacity on selected international primary-insurance solutions. 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. Furthermore, the Company itself underwrites, as either a primary insurer or reinsurer, large commercial and industrial risks primarily in the general liability, other property, and engineering classes. Following the relocation of its headquarters from London to Munich, the Company has also entered into a number of intra-Group reinsurance contracts worldwide since 2017. The Company cedes significant portions of its business to reinsurers within Munich Re (Group), primarily to Munich Re itself. 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 is included in the consolidated financial statements of Munich Re. The Company’s UK branch gives it a substantial presence in the London market. In order to maintain business operations even if the United Kingdom leaves the European Union, we have, in consultation with the supervisory authorities, taken the necessary precautions where possible.

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 was maintained in 2018 and systematically implements the objective of effectively winding down the existing portfolio and maintaining the resources to write profitable new business. Our New Zealand branch, on the other hand, is currently being wound down altogether and no longer writes new business.

On 25 January 2017, the Company entered into a control agreement with MunichFinancialGroup GmbH, a wholly owned subsidiary of Munich Re 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. The Company is furthermore included in Munich Re’s consolidated value-added tax (USt) group.

## Report on economic position

### *Macroeconomic and industry environment*

Worldwide economic growth continued to be strong in 2018, though performance varied among the major economies. Though the USA saw increased momentum, growth in the eurozone and Japan began to slow. Growth rates were high in China and India, but remained low in Brazil and Russia. Inflation rates in the developed economies were slightly higher on average than last year's, but remained moderate overall.

### *Capital markets*

The US Federal Reserve maintained its restrictive monetary policy by raising interest rates four times in 2018. By the end of December, the US federal fund rate was ranging from 2.2% to 2.5%. The Fed also refrained from fully reinvesting expiring bonds. By contrast, the European Central Bank (ECB) stuck to its expansive monetary policy. The ECB maintained its base rate at 0%. However, it reduced its monthly bond purchases in two steps during the year, and ceased net purchases in December. However, the proceeds from the securities acquired during the asset purchase programme will continue to be reinvested upon maturity for some time.

Driven by strong economic growth, higher inflation and a restrictive monetary policy, yields on ten-year US government bonds rose to more than 3.2% over the course of the year. However, they sank again towards the year-end due to as the global capital markets became more risk-averse. In Europe, low interest rates continued to pose a considerable challenge for investors: although yields on ten-year German government bonds rose above 0.7% in January, they repeatedly fell back to very low levels throughout the year. One reason behind the increased demand for German government bonds was their perceived security given concerns over the new Italian government's fiscal policy. The yield differential between Italian and German government bonds widened significantly. Other reasons for German government bonds' decreasing yields included uncertainties about Brexit, the escalating trade wars between the US and its trading partners (particularly China), and the financial crisis in Turkey.

Yields on ten-year government bonds

| % | 31.12.2018 | Previous year |
|---|---|---|
| USA | 2.7 | 2.4 |
| Germany | 0.2 | 0.4 |
| UK | 1.3 | 1.2 |

These issues and developments led to continued volatility on the international stock markets as well. Global stock prices dropped already in February, when US bond yields began to rise significantly. Although the markets stabilised in phases through the second and third quarters, the fourth quarter was again marked by volatility due to recession fears, and the situation persisted until the end of the year. Important indices such as the US Dow Jones and the DJ Eurostoxx 50 ended the year with significant losses.

Stock markets

| | 31.12.2018 | Previous year |
|---|---|---|
| DJ EURO STOXX 50 | 3,001 | 3,504 |
| Dow Jones | 23,327 | 24,719 |
| FTSE 100 | 6,728 | 7,688 |

The euro fluctuated significantly against the US dollar in 2018: though it began the year at US$ 1.25, it then began to drop, reaching a low of US$ 1.12 in November. At the end of December, the euro was down 5% year-on-year against the US dollar, yet up against the Canadian dollar and pound sterling (4% and 1% respectively). The euro's annual average rose almost 5% against the US dollar in 2018, more than 4% against the Canadian dollar, and around 1% against the pound sterling.

***Insurance industry***

Premiums in property-casualty business in Germany rose by approximately 3.3 % in the 2018 financial year, according to projections by the German Insurance Association (GDV). At the same time, however, the expectation is that claims expenditures will disproportionately rise by around 6.8%. The combined ratio in the 2018 financial year is thus expected to be around 96%, and thus 3% above the previous year. 2018 therefore remained a satisfactory year overall for property-casualty insurers. The challenges in 2018 mainly consisted of positioning cyber insurance on the market, the ongoing digitalisation of business processes, and up-and-coming new suppliers such as InsurTechs.

In the United Kingdom, average motor premiums fell by 1% against the previous year for the first time since 2014, though they still remained 8% higher on average than in 2016. The main driver for this increase was the legislative changes in 2017 to the Ogden rates used for discounting in personal injury claims. Average premium in homeowners' insurance fell by 8% compared to 2017. Premiums in combined homeowners' and householders' insurance only rose by 1% compared to last year.

Global demand for reinsurance was supported by robust growth in major primary insurance markets in both industrialised and emerging countries. During the renewals of property-casualty reinsurance policies in January, April and July 2018, prices rose in the markets affected by natural disasters. Otherwise, prices remained stable, with more than enough capacity remaining on the market.

***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. We observe a range of important additional conditions. They include national accounting regulations, tax aspects, liquidity requirements and supervisory parameters.

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 how beneficial an activity is from the point of view of our shareholders.

- 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.

Contrasting aspects have to be evaluated when selecting suitable target figures. On the one hand, the often complex economic realities should be reflected as closely as possible in order to emphasise added value as the Group's overriding guiding principle, on the other hand target figures should be simple and easy to understand for staff and the public.

Return on risk-adjusted capital after tax (RORAC) is one of our management instruments and constitutes a mixture of accounting ratios and economic indicators. It relates our key management 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

The 2018 calendar year was, like the year before, dominated by high claims expenditures, mainly due to natural disasters such as wildfires in the southern USA and typhoons in Asia. Several large industrial fires also occurred.

Gross premiums amounted to €3,661,000 thousand (€2,194,366 thousand) in the 2018 calendar year, and were thus 66.8% higher than the previous year. The increase resulted mainly from new intra-Group reinsurance agreements with Munich Re branches in Asia. Exchange-rate effects were only of secondary importance. On average over the 2018 calendar year , the pound sterling – the dominant currency for the gross premiums in our portfolio in 2017 – lost only approximately 1% of its value against the euro compared to the 2017 calendar year. The increase in premiums from the intra-Group reinsurance agreements concluded at GLISE's headquarters compensated for the continued loss of premiums due to the sharp drop in business at our Australian branch. 57.9% of our gross premium volume came from direct insurance operations (90.7% the previous year), and 42.1% (9.3%) was attributable to assumed reinsurance business. The number of insurance policies is given on page 26 of this report.

GLISE's gross earned premiums in the 2018 calendar year came mainly from headquarters, at €1,582,858 thousand (€215,214 thousand). Its share thus increased to 48.2% (15.8%). Our London branch continued to be a key strategic location, with 47.5% (73.7%) of gross premiums earned, or €1,558,303 thousand (€1,735,735 thousand) in the entire 2018 calendar year. Another €79,227 thousand (€55,876 thousand) came from our Italian branch. The encouraging performance in Italy was, again this year, down to strong growth in the motor insurance segment. The branch in Switzerland reported €29,507 thousand (€27,309 thousand) in gross premiums earned in the calendar year.

We cede the majority of our premium income to affiliated reinsurance companies within Munich Re (Group). Earned premiums for own account amounted to €98,072 thousand (€124,039 thousand) in the 2018 financial year. The decrease was largely due to the winding down of large parts of the business at our branch in Australia.

Claims expenses before deduction of the ceded share amounted to €2,693,645 thousand (€2,058,021 thousand), corresponding to a gross loss ratio of 82.1% (87.4%). After deducting the ceded share, claims expenses amounted to €100,375 thousand (€115,971 thousand), giving a net loss ratio of 102.4% (93.5%). Our operating expenses for own account amounted to €9,770 thousand (€19,632 thousand) and corresponded to an expense ratio of 10.0% (23.4%). The reduction again resulted from the repositioning of our Australian branch. Overall, we therefore achieved a slightly lower net combined ratio of 112.4% (116.5%) than the previous year. The gross combined ratio amounted to 116.5% (120.6). The high combined ratio was mainly due, like the year before, 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 2018 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 BaFin to populate the underlying observation period used to calculate the claims equalisation provision. As at 31 December 2018, claims equalisation provisions amounted to €17,929 thousand (€3,756 thousand).

The underwriting result for own account after claims equalisation amounted to –€27,870 (–€19,839 thousand) in 2018.

The investment result, not including interest on deposits retained, was €2,232 thousand, similar to the previous year's value of €2,025 thousand. The result in the 2018 calendar year was, like in the previous year, primarily marked by write-downs due to an increase in interest rates on the capital markets, particularly in US dollars and pounds sterling. The slightly higher result compared to last year was mainly due to higher regular income.

Overall, the pre-tax operating result before loss absorption amounted to –€35,647 thousand (–€27,601 thousand). As at the date of preparing the management report, the Company's economic position remains positive, despite two financial years with negative results. The losses in both years were completely absorbed under the control agreement, and at the same time allocations were made to the claims equalisation provision.

The classes and types of insurance business transacted in the 2018 financial year – both in direct insurance operations and assumed reinsurance business – are listed on page 26 of this report.

## Business performance in the classes of business

***Direct insurance and assumed reinsurance business***

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 2018 financial year.

For the first time in the 2018 financial year, the information required under Section 51(4)(1) of the Regulation on the Accounting of Insurance Undertakings ("RechVersV") will be separated between direct insurance operations and assumed reinsured business. This separation was able to be waived with reference to Section 51(4)(1), sentence 2 of the RechVersV in the 2017 financial year, due to the negligible amount of assumed reinsured business. Consistent with the practice from the 2017 Annual Report, we will continue to forgo a separation, due to the negligible amount of assumed reinsurance business in the 2017 financial year. Assumed reinsurance business is therefore included with direct insurance operations in the figures for the previous year.

***Health insurance*** In the 2018 calendar year, the Company generated gross premium amounting to €312,332 thousand (€131,374 thousand) in health insurance. This constitutes a significant increase from last year. The main reason behind this is our taking over the retrocession of part of Munich Re Beijing branch's ("Munich Re Beijing") reinsurance business, which was 100% transferred within Munich Re (Group). The majority of the direct health insurance business came from the United Kingdom in 2018, and was 100% 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 expenditures amounted to €132,613 thousand (€119,435 thousand) and led to a (gross) loss ratio of 57.5% that was slightly below the previous year's 59.3%. The underwriting result for own account after claims equalisation amounted to –€1,614 thousand and was thus lower than the previous year (€5,003 thousand).

### Health insurance

| | | 2018 | Previous year |
|---|---|---|---|
| **Direct insurance and assumed reinsurance business** | | | |
| Gross premiums written | €'000 | 312,333 | 131,374 |
| Loss ratio (gross) | % | 57.5 | 59.3 |
| Underwriting result for own account after claims equalisation | €'000 | –1,614 | 5,003 |
| **Direct insurance business** | | | |
| Gross premiums written | €'000 | 126,169 | 131,374 |
| Loss ratio (gross) | % | 28.7 | 59.3 |
| Underwriting result for own account after claims equalisation | €'000 | –1,929 | 5,003 |
| **Assumed reinsurance business** | | | |
| Gross premiums written | €'000 | 186,164 | |
| Loss ratio (gross) | % | 77.0 | |
| Underwriting result for own account after claims equalisation | €'000 | 315 | |

***Liability insurance*** In the 2018 calendar year, liability insurance (including aviation liability insurance) generated gross premiums of €378,262 thousand (€306,823 thousand). This included €101,982 thousand (€83,658 thousand) in gross premiums written for aviation liability insurance. This class of business recorded a loss ratio (gross) of 83.2% (111.7%) due to gross claims incurred in the amount of €294,260 thousand (€381,084 thousand). The reason behind this was better basic loss distribution than in the previous year. Loss reserves from previous years for the retained business were also able to be reduced. Overall, the underwriting result for own account after claims equalisation amounted to €7,356 thousand (–€11,393 thousand) in the 2018 calendar year. Overall, €13,539 thousand was allocated to the claims equalisation provision in this class.

### Liability insurance

| | | 2018 | Previous year |
|---|---|---|---|
| **Direct insurance and assumed reinsurance business** | | | |
| Gross premiums written | €'000 | 378,263 | 306,823 |
| Loss ratio (gross) | % | 83.2 | 111.7 |
| Underwriting result for own account after claims equalisation | €'000 | 7,356 | –11,393 |
| **Direct insurance business** | | | |
| Gross premiums written | €'000 | 281,799 | 306,823 |

| | | | |
|---|---|---|---|
| Loss ratio (gross) | % | 92.2 | 111.7 |
| Underwriting result for own account after claims equalisation | €'000 | 10,650 | –11,393 |
| **Assumed reinsurance business** | | | |
| Gross premiums written | €'000 | 96,464 | |
| Loss ratio (gross) | % | 52.8 | |
| Underwriting result for own account after claims equalisation | €'000 | –3,294 | |

***Motor insurance, comprising motor third-party liability and other motor insurance*** Motor insurance generated gross premium amounting to €1,570,401 thousand (€900,925 thousand) in the 2018 calendar year. This constitutes a significant increase over last year, and is also mainly due to taking over Munich Re Beijing's reinsurance business. At 42.9% (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 expenditures amounted to €916,072 thousand (€925,769 thousand) and led to a (gross) loss ratio of 67.2% (102.3%). The loss ratio was therefore significantly lower than last year's figure, which reflected a significant one-time burden from our UK business due to changes in the Ogden rate. The underwriting result for own account after claims equalisation amounted to €6,089 thousand (€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

| | | 2018 | Previous year |
|---|---|---|---|
| **Direct insurance and assumed reinsurance business** | | | |
| Gross premiums written | €'000 | 1,570,401 | 900,925 |
| Loss ratio (gross) | % | 67.2 | 102.3 |
| Underwriting result for own account after claims equalisation | €'000 | 6,089 | 9,037 |
| **Direct insurance business** | | | |
| Gross premiums written | €'000 | 967,881 | 900,925 |
| Loss ratio (gross) | % | 79.3 | 102.3 |
| Underwriting result for own account after claims equalisation | €'000 | 6,215 | 9,037 |
| **Assumed reinsurance business** | | | |
| Gross premiums written | €'000 | 602,520 | |
| Loss ratio (gross) | % | 39.9 | |
| Underwriting result for own account after claims equalisation | €'000 | –126 | |

***Fire and property insurance*** Fire and property insurance generated gross premium of €852,506 thousand in the 2018 calendar year. This constitutes a significant increase from last year (€350,457 thousand), and is almost exclusively due to assumed reinsurance business from Munich Re branches in China, India and Japan. The dominant class of business was fire insurance in this respect, with further significant volumes generated by householder's comprehensive insurance, hail insurance and engineering insurance. In total, the Company reported a (gross) loss ratio of 115.3% on claims expenditures of €886,552 thousand (€480,457 thousand). The loss ratio was thus slightly below last year's value of 119%. Heavy natural catastrophe losses were an issue again this year, particularly in the assumed reinsurance business. The single largest loss event in 2018 was typhoon Jebi, which caused considerable damage in Japan. The reinsurers bore most of the gross claims expenditure as part of our non-proportional reinsurance programme, although we did retain a portion of these losses. The retained business in direct insurance was particularly burdened by large losses such as the California wildfires, which were not able to be completely passed on. Overall, the underwriting result for own account after claims equalisation amounted to –€32,597 thousand (–€22,047 thousand).

Fire and property insurance

| | | 2018 | Previous year |
|---|---|---|---|
| **Direct insurance and assumed reinsurance business** | | | |
| Gross premiums written | €'000 | 852,506 | 350,457 |
| Loss ratio (gross) | % | 115.3 | 119.0 |
| Underwriting result for own account after claims equalisation | €'000 | –32,597 | –22,047 |
| **Direct insurance business** | | | |
| Gross premiums written | €'000 | 256,970 | 350,457 |
| Loss ratio (gross) | % | 63.0 | 119.0 |
| Underwriting result for own account after claims equalisation | €'000 | –28,657 | –22,047 |
| **Assumed reinsurance business** | | | |
| Gross premiums written | €'000 | 595,535 | |
| Loss ratio (gross) | % | 143.3 | |
| Underwriting result for own account after claims equalisation | €'000 | –3,940 | |

**Other classes of business** In the 2018 calendar year, the Company generated gross premium amounting to €282,699 thousand (€309,307 thousand) in other insurance, slightly down from the previous year. The Company reported a loss ratio (gross) of 71.6% on claims expenditures of €208,078 thousand (€139,520 thousand). Claims expenditures were therefore higher than last year (48.5%), due to a much higher volume of losses in the current calendar year. The reinsurers bear most (approximately 83%) 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 –€8,379 thousand (5,805 thousand), which result was mainly due to the assumed reinsurance business. Essentially, the cause was one large loss which was unable to be completely ceded to the reinsurers, because the claim expenditure was only slightly above the retention agreed with them.

## Other insurance

| | | 2018 | Previous year |
|---|---|---|---|
| **Direct insurance and assumed reinsurance business** | | | |
| Gross premiums written | €'000 | 282,699 | 309,307 |
| Loss ratio (gross) | % | 71.6 | 48.5 |
| Underwriting result for own account after claims equalisation | €'000 | –8,379 | 5,805 |
| **Direct insurance business** | | | |
| Gross premiums written | €'000 | 265,171 | 309,307 |
| Loss ratio (gross) | % | 66.6 | 48.5 |
| Underwriting result for own account after claims equalisation | €'000 | 6,222 | 5,805 |
| **Assumed reinsurance business** | | | |
| Gross premiums written | €'000 | 17,528 | |
| Loss ratio (gross) | % | 150.3 | |
| Underwriting result for own account after claims equalisation | €'000 | –14,601 | |

## Net assets

***Investment portfolio*** As at 31 December 2018, our investment portfolio excluding deposits retained amounted to €828,812 thousand (€812,381 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 MUNICH ERGO AssetManagement GmbH ("MEAG"), which is 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 36 of this annual report.

## Investments

| | 31.12.2018 | Previous year | Change |
|---|---|---|---|
| | €'000 | €'000 | % |
| Other investments | | | |
| 1. Bearer bonds and other fixed-interest securities | 750,835 | 746,125 | 0.6 |
| 2. Deposits with banks | 77,977 | 66,256 | 17.7 |
| **Total** | **828,812** | **812.381** | **2.0** |

***Valuation reserves*** The fair values of the investments are reported on page 36 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 2018, the valuation reserves amounted to €1,116 thousand (€1,648 thousand).

***Receivables*** Receivables primarily comprise receivables from direct insurance operations. As at 31 December 2018, these amounted to €1,290,918 thousand (€1,284,116 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 €455,401 thousand (€405,042 thousand).

## Financial position

***Capital structure*** The capital structure remained unchanged from last year. Equity remained at €395,840 thousand as at 31 December 2018. Issued capital remained unchanged at €131,777 thousand, as did the profit brought forward of €264,063 thousand.

Our insurance business has a significant influence on the structure of our balance sheet: coverage of the technical provisions accounted for 15% (18%) of total equity and liabilities with a duration of approximately 3 years. Further material items on the equity and liabilities side of the balance sheet are equity at 11% (15%), and current liabilities (less than 1 year) to intermediaries at 12% (22%) and to our reinsurers at 35% (38%).[1] The liabilities are primarily denominated in pounds sterling, US dollars and euros.

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

[1] The percentages relate to total equity and liabilities in the amount of €3,708,158 thousand.

require local branches or foreign primary insurers to retain certain investments locally to cover insurance obligations, including in special trust accounts. As at 31 December 2018, this applied to investments with a market value totalling €214,787 thousand (€153,027 thousand).

GLISE's financial strength is rated A+ (Superior) by the rating agency A.M. Best. Standard & Poor's has given the Company's financial strength the second-highest rating of AA- (low default risk).

***Material funding activities and operations*** GLISE did not carry out any material funding activities in the 2018 calendar year, nor are any funding activities currently planned for 2019.

***Liquidity*** Detailed liquidity planning ensures that we are able to meet our due payment obligations at all times and without restriction. GLISE generates significant liquidity from its premium income, 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. Together with many business and distribution partners, the Company 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 an essential 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

GLISE incurred an operating loss before tax of €35,647 thousand (€27,601 thousand) in the 2018 financial year. Net of taxes, the loss amounted to €34,471 thousand (€23,028 thousand). The loss was primarily the result of natural catastrophe losses and the associated increase in claims expenditure, even after taking into account the comprehensive reinsurance programme. The wildfires in the USA and the Asian typhoons, in particular, constituted unusually high claims expenditures for the Company. Gross claims expenditure for the US wildfires were around €100m in the 2018 calendar year; the value was significantly lower after reinsurance. Consequently, a €14,173 thousand (€3,619 thousand) addition to the claims equalisation provision was made in the 2018 financial year.

Adverse effects also arose due to fluctuations in items denominated in foreign currencies, primarily the Australian dollar and pound sterling. A loss in the amount of €34,471 thousand (€23,028 thousand) was absorbed pursuant to Section 302 of the Stock Corporation Act on the basis of the control agreement entered into with MunichFinancialGroup GmbH, Munich. The loss was absorbed by Munich Re by means of a joint and several assumption of debt.

Overall, GLISE 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. The Company's solvency ratio as at 31 December 2018 was well above the level required by law.

## Risk report

### Risk management objectives

The objective of risk management at Great Lakes Insurance SE is to ensure that we are able to meet our policyholders' obligations at all times, whilst creating sustainable value for our shareholders and protecting the Company's reputation and that of 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 the Company's ability to operate as a going concern, and to enable mitigation actions to be taken in a timely manner. A particular aim is to safeguard the Company's financial strength in order to meet our policyholder's obligations and to maintain shareholder values 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 all stakeholders.

### 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 independent risk controls. The business units act as the first line of defence and are responsible for identifying, assessing and executing risk decisions within the Company's defined risk appetite and risk tolerances. The independent risk management function, together with the compliance and actuarial functions form the second line of defence. The risk management function in particular is responsible for implementing an effective risk management system that ensures that our operations and risk decisions are undertaken in line with the Company's defined risk strategy. The third line of defence is the internal audit function, which ensures that the processes required to guarantee effective control are functional.

Risk management is a core key function at Great Lakes Insurance SE. The risk management organisation is headed by the Chief Risk Officer (CRO), who is a member of the Board of Management. Independent risk management and compliance functions are headed by key function holders who report directly to the CRO. The actuarial key function reports directly to the CFO. The Risk and Capital Committee is hosted by the risk management function, with its senior members, the CRO and a representative of risk management from Munich Re (Group) being permanent members. Other key function holders, Board of Management and the first line managers are invited as guests. The primary objective of the committee is to assist the Board of Management in fulfilling its responsibility for the oversight of the Company's risk management system with particular reference for risk strategy setting, risk reporting, controls and capital management.

### Risk strategy

The Company's risk strategy is derived from its business objectives. The Board of Management approves the risk strategy on an annual basis, supported by the independent risk management function. This is also noted at the Supervisory Board level. 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 that align with the Company's strategy and objectives. The risk strategy may be amended during the year, subject to Board of Management approval

### Implementing the risk strategy

The risk strategy is implemented and integrated across all of the Company's business operations, with the independent risk management function undertaking a regular monitoring and reporting role. The implementation of risk management at the operational level covers identifying, analysing and assessing all material risks, against the defined risk strategy. If risk capacity shortages or conflicts with the defined risk tolerances arise, escalation and decision-making processes are followed and reported via the risk management process. These processes ensure that the interests of the business are reconciled, monitored, and where necessary actively managed with risk based considerations.

### Risk reporting

The Company's risk reporting goes beyond just meeting regulatory requirements. It also ensures internal transparency for management (internal risk report, ORSA) and provides public information as part of our publications (annual financial statements, solvency and financial condition report). The quarterly internal risk reporting provides the Board of Management with updates on the overall risk position of the Company covering evaluations on material risk areas and events. The Board of Management can also be promptly notified of any significant change in the risk situation on an ad-hoc basis.

### Significant risks

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. Operational risk, including conduct risk, is identified as a further significant risk. Market risk, which arises primarily from interest rate and currency fluctuations, represents a relatively minor share of the risk for the Company. We differentiate between the following risk categories:

### Underwriting risk

We define underwriting risk as the risk of insurance profitability being lower than expected. Premium, reserve and accumulation risks are significant components of underwriting risk. **Premium risk** denotes the risk that premiums collected are insufficient to cover our future contractual obligations. **Reserve risk** is the risk that the current loss reserves will be insufficient to cover all eligible future claims. The **risk of accumulation losses** stems from an accumulation of individual losses resulting via a single risk event. These can be natural catastrophes or man-made events.

The Company mitigates a large proportion of its gross underwriting risk, by means of its proportional and non-proportional reinsurance programmes, primarily within Munich Re (Group). This minimises volatility in the net underwriting result for the Company, and guarantees that reinsurance is placed generally with counterparties with good credit ratings. Each year the Company carries out a thorough analysis to optimise the structure of these reinsurance programmes and ensure an adequate level of retained risk.

We further manage underwriting risk, to ensure that we meet our obligations in the long term, by means of suitable underwriting and reserving guidelines supported by regular risk analyses and risk reporting tailored to the respective risk types. We implement independent monitoring processes to continually review underwriting performance, and when necessary apply mitigation measures.

## Risks from our investments and other assets

We pursue a prudent investment strategy and take into consideration returns, reliability and credit ratings. Liquidity and diversification 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 financial losses resulting from price changes in the capital markets. This includes equity risk, interest-rate risk, property price risk and currency risk. Interest-rate risk covers both changes in the basic yield curves, and changes in credit risk spreads. 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. The Company 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 risks.

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, we assume credit risk through our significant reinsurance programme, primarily with Munich Re (Group) as the counterparty. Further credit risks arise from debts owed by policyholders and intermediaries. We control the credit risk in our investments by selecting issuers of suitable quality, and by observing and regularly monitoring counterparty limits. Credit risk is primarily managed via the counterparty limits and early-warning mechanisms (triggers) determined as part of the risk strategy.

The majority of our reinsurance recoveries are from Munich Re (Group), which has a credit rating of AA-. Representatives from Munich Re (Group) risk management regularly provide updates via the Company's Risk and Capital Committee regarding the solvency and financial strength of Munich Re (Group). For Great Lakes Insurance SE, no recoveries from reinsurers were past due or impaired as at 31 December 2018. Receivables from policyholders mainly arise from premium receivables from policyholders and intermediaries. We manage this counterparty risk by carefully selecting and verifying our intermediaries, as well as by having meaningful rules for payment transactions. In addition, for the majority of our business we pass this counterparty risk onto our reinsurers, as per the reinsurance contract.

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 forecasted 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 2018, our investments had a duration of approximately 2–3 years. The corresponding technical provisions for own account had a duration of approximately 3 years.

## Operational risks

The Company 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, infringements of antitrust law, business interruptions, inaccurate processing of transactions, non-compliance with reporting obligations, and disagreements with business partners.

The Company's unique facilitation business model relies on significant outsourcings to other entities, both internally within Munich Re (Group), externally to third-party Managing General Agents (MGA) and related claims- and policy-administrators. For this reason, the Company can be exposed to material conduct risk, which is classified as part of operational risk.

**Conduct risk** is defined as the risk of detriment caused to the policyholders or business partners, as a result of inappropriate business practices by the Company and its third-party providers who are delegated to perform one or more of its core functions (e.g. underwriting, claims). We use stringent due diligence processes in selecting external service providers, ongoing regular reviews, on-site visits and independent audits to manage this risk. The Company's risk management receives regular reports from the business that assess this risk by means of quantitative thresholds and expert judgement. The individual risk assessments are then aggregated and provided to the Board of Management in the quarterly risk reporting.

Operational risks are managed via our internal control system (ICS), complemented by the results of scenario analyses. These scenario analyses, used to quantify operational risks, are also reflected in
the Company's internal capital model. Appropriate measures, up to and including larger projects are also used to correct identified process weaknesses or errors. In addition, we have a framework that generally follows the standardised procedure within Munich Re (Group) for identifying and managing business continuity and security risks for people, property and information (cyber risk).

### 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 business operating environment, relative to the Company's defined strategic objectives. 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 Company's strategy is regularly reviewed and reported to management using balanced scorecards, and via the Company's Own Risk and Solvency Assessment (ORSA) process.

The system for early identification of risks also encompasses **emerging risks**. These new or developing risks arise due to changes in areas such as regulation, the socio-political environment, the natural environment, 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 annually with the risk owners.

The Company also manages **compliance** (including regulatory), **legal**, 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 Company's global branches and wide fields of business mean that it is not just exposed to regulations at the European level, but also outside of 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.

### Internal capital model

As part of the overall Group internal model of Munich Re, Great Lakes Insurance SE uses a solo-entity internal model to determine its solvency capital requirements under Solvency II. The use of the internal model was approved by the Company's principal supervisor and

college of supervisors in September 2016.
The internal model is also a main quantitative tool employed by the risk management function to assess the material risk areas of the Company.

### Overview of the risk position

Great Lakes Insurance SE's risk position remains stable and controlled in 2018. The Company has both sufficient coverage of its reserves with assets, and capital in excess of its regulatory solvency requirement. This demonstrates that the Company has sufficient funds to meet all its commitments even after extreme loss events, as defined by the solvency capital requirement (SCR) under Solvency II.

The SCR is the amount of eligible own funds that must 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 underlying exposures, will be statistically exceeded in no more than one year in every 200. In 2018, the Company has calculated its SCR using its approved internal model and its own funds in accordance with the Solvency II requirements.

As at 31 December 2018, Great Lakes Insurance SE fulfilled all 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:

- Brexit – the United Kingdom's withdrawal from the European Union – will have an impact on our branch and the insurance business in the UK. Great Lakes Insurance SE is currently prepared for any Brexit scenario, and via its UK branch, the Company will play a key role going forward in writing the majority of Munich Re (Group)'s non-life business in the UK. In order to take on this prominent role, the Company has established the necessary legal, regulatory and organisational foundations in 2018. The political and regulatory risks associated with Brexit, which are systemic to all industries, will inevitably lead to heightened operational risk. Risks are being mitigated with strengthened risk and compliance capability and accountability.

- The Company is committed to support new MGA business expansions particularly on digital innovation, retail insurance opportunities and in support of Munich Re (Group)'s Brexit strategy. This is expected to result in exposure to new risk areas that are not akin to Great Lakes Insurance SE 's traditional well established MGA business. Ongoing improvements are being made to ensure robust and targeted governance processes are applied, both in terms of new agent/product due diligence and ongoing risk monitoring. This will focus on strengthening and also streamlining processes to managing outsourcing, delegated authority underwriting and related conduct risks.

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 solvency position and results of operations. Overall, we assess Great Lakes Insurance SE's risk situation to be manageable, stable and controlled.

## Opportunities report

GLISE'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 the Company 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 parts of 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.

Although the Company’s New Zealand branch is being wound down, our Australian branch was undergoing a strategic repositioning project in 2018. The goal for 2019 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 affect our branch and the insurance business in the UK. Munich Re (Group)'s Brexit strategy envisages the Company assuming a key role as risk carrier in the United Kingdom, both for reinsurance and primary insurance business in Munich Re (Group)'s reinsurance and ERGO segments. Consequently, the primary insurance and reinsurance business that the Company transacts in the UK will expand by several hundred million euros. In 2018, the Company already began to lay the requisite foundations at the legal, regulatory and organisational levels to successfully take on this role. A key factor in this respect was our application, filed as a precaution in March 2018, to have our existing branch approved as a "foreign branch" in the United Kingdom. This approval would become necessary in the event that Brexit occurs, but the UK and EU do not come to a corresponding agreement by the end of the transitional period (currently 31 December 2020). In addition, we have reallocated all the business written in the EEA by our UK branch either to our head office in Germany or to our branch in Italy, which guarantees that we can maintain the existing business and any new business potentially affected by Brexit. Moreover, we have already begun preparing for the expected increase in regulatory reporting and claims-settlement standards. In 2019 we will continue to work closely together with the supervisory authorities to prepare for the various possible outcomes and consequences of the United Kingdom's leaving the European Union.

In 2019 we expect more stable business from the intra-Group reinsurance business, though without the one-off effect of approximately €400m in gross premium income from a portfolio taken over in China in 2018.

Against this background – and assuming that exchange rates remain constant as of 31 December 2018 – GLISE projects that it will realise gross premium of approximately €3.5bn in 2019. Excluding the one-off effect from the Chinese portfolio, this would constitute an increase of approximately €0.3bn over 2018, mainly due to the aforementioned new business following Brexit. We expect the combined ratio net of reinsurance on own account, before allocation to the claims equalisation provision, to be around 88% of net earned premium. An accurate forecast is not possible, partly due to the obvious fluctuations in the incidence of major losses and natural catastrophes. The unexpectedly high expenditure from large losses and natural catastrophes was also the reason for our not reaching our projected loss ratio and the underwriting result for the 2018 financial year.

Overall, we are expecting – given average claims figures – an underwriting result for own account of approximately €23m in 2019.

In addition, given the ongoing low-interest-rate environment, the Company's return on investment is likely to continue to fall. As things stand at present, we expect to generate a positive result in accordance with the German Commercial Code (HGB) in 2019, after taxes and allocations to the claims equalisation provision, which would constitute a significant improvement on the result for the 2018 calendar year.

## Classes of business and types of insurance transacted in the 2018 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
Other classes of business

# Annual financial statements as at 31 December 2018

## Balance sheet as at 31 December 2018

### Assets

| | | | | Previous year |
|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 |
| **A. Investments** | | | | |
| I. Other investments | | | | |
| 1. Bearer bonds and other fixed-interest securities | 750,835 | | | 746,125 |
| 2. Deposits with banks | 77,977 | | | 66,256 |
| | | 828,812 | | 812,381 |
| II. Deposits retained on assumed reinsurance business | | 918,571 | | 0 |
| | | | | |
| | | | **1,747,383** | **812,381** |
| **B. Receivables** | | | | |
| I. Receivables from direct insurance operations with: | | | | |
| 1. policyholders | 1,048,163 | | | 1,088,566 |
| 2. intermediaries | 242,755 | | | 195,550 |
| | | 1,290,918 | | 1,284,116 |
| II. Accounts receivable on reinsurance business | | 455,401 | | 405,042 |
| Thereof from<br>- affiliated companies: €332,127 thousand (€80,962 thousand) | | | | |
| III. Other receivables | | 100,358 | | 124,569 |
| Thereof from<br>- affiliated companies: €80,043 thousand (€23,925 thousand) | | | | |
| | | | **1,846,677** | **1,813,728** |
| **C. Other assets** | | | | |
| I. Cash at banks, cheques and cash in hand | | 110,364 | | 93,885 |
| II. Other assets | | 1 | | 0 |
| | | | **110,365** | **93,885** |
| **D. Prepaid expenses and deferred income** | | | | |
| I. Deferred interest and rent | | 3,733 | | 3,495 |
| | | | **3,733** | **3,495** |
| **Total assets** | | | **3,708,158** | **2,723,491** |

## Equity and liabilities

| | | | | Previous year |
|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 |
| **A. Equity** | | | | |
| I. Issued capital | | 131,777 | | 131,777 |
| II. Retained profits | | 264,063 | | 264,063 |
| III. Net income for the financial year | | 0 | | 0 |
| | | | **395,840** | **395,840** |
| **B. Technical provisions** | | | | |
| I. Unearned premiums | | | | |
| 1. Gross amount | 1,083,408 | | | 711,779 |
| 2. Thereof less: ceded reinsurance business | 969,792 | | | 644,373 |
| | | 113,617 | | 67,406 |
| II. Provisions for claims outstanding | | | | |
| 1. Gross amount | 6,683,548 | | | 5,094,222 |
| 2. Thereof less: ceded reinsurance business | 6,273,099 | | | 4,682,156 |
| | | 410,449 | | 412,066 |
| III. Claims equalisation provision and similar provisions | | 17,929 | | 3,756 |
| IV. Other technical provisions | | | | |
| 1. Gross amount | 50,957 | | | 125,717 |
| 2. Thereof less: ceded reinsurance business | 46,016 | | | 119,657 |
| | | 4,941 | | 6,060 |
| | | | **546,936** | **489,288** |
| **C. Other provisions** | | | | |
| I. Provisions for tax | | 1,337 | | 0 |
| II. Miscellaneous provisions | | 2,900 | | 1,947 |
| | | | **4,237** | **1,947** |
| **D. Deposits retained on ceded business** | | | **949,306** | **26,239** |
| | | | | |
| **E. Other liabilities** | | | | |
| I. Liabilities from direct insurance operations to | | | | |
| 1. policyholders | 11,098 | | | 63,243 |
| 2. intermediaries | 456,585 | | | 594,670 |
| | | 467,683 | | 657,913 |
| II. Accounts payable on reinsurance business | | 1,285,235 | | 1,024,556 |
| Thereof to<br>- affiliated companies: €1,245,826 thousand (€979,492 thousand) | | | | |
| III. Bank loans and borrowings | | 3 | | 0 |
| IV. Miscellaneous liabilities | | 58,918 | | 127,708 |
| Thereof to<br>- affiliated companies: 0 (€22 thousand)<br>Thereof from taxes: €636 thousand (€12.948 thousand)<br>Thereof for social security: €246 thousand (€2 thousand) | | | | |
| | | | **1,811,839** | **1,810,177** |
| **Total equity and liabilities** | | | **3,708,158** | **2,723,491** |

**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 2018.

It is hereby confirmed that the provision for future policy benefits in the amount of €63,327 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 HGB and the regulation issued on the basis of Section 88(3) of the VAG.

Munich, 24 January 2019

Responsible actuary

Dr. Mariel Lüdecke

Income statement for the period 1 January to 31 December 2018

| Item | | | | Previous year |
|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 |
| **I. Technical account** | | | | |
| **1. Earned premiums for own account** | | | | |
| a) Gross premiums written | 3,661,000 | | | 2,194,366 |
| b) Outward reinsurance premiums | –3,518,183 | | | –2,116,198 |
| | | 142,818 | | 78,168 |
| c) Change in gross unearned premiums | –378,264 | | | 160,447 |
| d) Change in ceded share of gross unearned premiums | 333,518 | | | –114,576 |
| | | –44,746 | | 45,871 |
| | | | **98,072** | **124,039** |
| **2. Other underwriting income for own account** | | | **0** | **607** |
| **3. Claims incurred for own account** | | | | |
| a) Claims paid | | | | |
| aa) Gross amount | –1,093,864 | | | –953,995 |
| ab) Ceded share | 977,931 | | | 854,117 |
| | | –115,934 | | –99,878 |
| b) Change in provision for claims outstanding | | | | |
| ba) Gross amount | –1,599,781 | | | –1,104,026 |
| bb) Ceded share | 1,615,339 | | | 1,087,934 |
| | | 15,559 | | –16,092 |
| | | | **–100,375** | **–115,970** |
| **4. Change in other technical provisions for own account** | | | | |
| a) Other net technical provisions | | 253 | | –1,346 |
| | | | **253** | **–1,346** |
| **5. Operating expenses for own account** | | | | |
| a) Gross operating expenses | | –1,131,561 | | –768,767 |
| b) less: commission received on ceded business | | 1,121,791 | | 749,135 |
| | | | **–9,770** | **–19,632** |
| **6. Other underwriting expenses for own account** | | | **–1,876** | **–3,781** |
| Thereof: ceded share | | | 231 | 0 |
| **7. Subtotal** | | | **–13,697** | **–16,083** |
| **8. Change in claims equalisation provision and similar provisions** | | | **–14,173** | **–3,756** |
| **9. Underwriting result for own account** | | | **–27,870** | **–19,839** |

Item

| | | | | Previous year |
|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 |
| **II.Non-technical account** | | | | |
| **1. Investment income** | | | | |
| a) Income from other investments | 28,778 | | | 8,911 |
| b) Income from write-ups | 123 | | | 0 |
| c) Gains on the disposal of investments | 2,721 | | | 2,101 |
| | | 31,622 | | 11,012 |
| **2. Investment expenses** | | | | |
| a) Expenses for the management of investments, interest paid and other expenses for investments | –1,824 | | | –1,673 |
| b) Write-downs of investments | –5,451 | | | –5,051 |
| c) Losses on the disposal of investments | –3,123 | | | –2,263 |
| | | –10,398 | | –8,987 |
| | | | **21,224** | **2,025** |
| **3. Other income** | | | **81,260** | **467,278** |
| **4. Other expenses** | | | **–110,261** | **–477,066** |
| **5. Operating result before tax** | | | **–35,647** | **–27,601** |
| **6. Taxes on income** | | | **1,217** | **4,636** |
| **7. Other taxes** | | | **–42** | **–62** |
| **8. Income from loss absorption** | | | **34,471** | **23,028** |
| **9. Net income for the financial year** | | | **0** | **0** |

## 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.

***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*** For the calculation of deferred taxes across all tax spheres, temporary differences and carry-forwards are assessed overall. 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.

The Company's deductible temporary differences exceeded taxable temporary differences by €57,780 thousand. The deductible temporary differences result from the valuation of intangible asset and the technical provisions. The existing taxable temporary differences are of lesser significance.

The rounded deferred tax rate applicable for the German tax sphere is 33%. 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%.

Great Lakes Insurance SE has tax loss carry-forwards of €528 thousand (€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.

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 datafrom 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. We calculate the provisions for internal adjustment expenses as a lump sum as per the circular from the Federal Minister of Finance (BMF) dated 22 February 1973.

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.

*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 2.3% (2.8%) and salary trend of 3.0% (3.5%). 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 31.12. 2018 |
|---|---|---|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **A. I. Other investments** | | | | | | | |
| 1. Bearer bonds and other fixed-interest securities | 746,125 | 6,702 | 1,441,460 | –1,438,124 | 123 | –5,451 | 750,835 |
| 2. Deposits with banks | 66,256 | 1,208 | 22,118 | –11,605 | 0 | 0 | 77,977 |
| **Total** | **812,381** | **7,910** | 1,463,579 | –1,449,729 | 123 | –5,451 | 828,812 |

The statement of changes in assets and investments is shown at year-end exchange rates (31 December 2018).

Assets in the amount of €214,787 thousand (€153,027 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 | 31.12.2018 | 31.12.2018 | 31.12.2018 |
| **A. I. Other investments** | | | |
| 1. Bearer bonds and other fixed-interest securities | 750,835 | 751,951 | 1,116 |
| 2. Deposits with banks | 77,977 | 77,977 | 0 |
| **Total** | **828,812** | **829,928** | **1,116** |

As at 31 December 2018, no investments were committed to permanent assets.

### *B. III. Other receivables*

This item includes a claim for loss absorption in the amount of €34,471 thousand (€23,028 thousand) against Munich Re. The claim for loss absorption pursuant to Section 302 of the Stock Corporation Act is based on a control agreement with MunichFinancialGroup GmbH (“MFGG”). Pursuant to a collateral promise, Munich Re 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 €7,688 thousand (€9,620 thousand).

### *C. Other assets*

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 €264,063 thousand.

*III. Net income for the financial year*

Net income for the financial year amounted to zero due to the €34,471 thousand (€23,028 thousand) loss absorption by Munich Re.

### *B. Technical provisions*

For the first time in the 2018 financial year, the information required under Section 51(4)(1) of the Regulation on the Accounting of Insurance Undertakings (RechVersV) will be separated between direct insurance operations and assumed reinsured business. This separation was able to be waived with reference to Section 51(4)(1), sentence 2 of the RechVersV in the 2017 financial year, due to the negligible amount of assumed reinsured business.

Consistent with the practice from the 2017 Annual Report, we will continue to forgo a separation, due to the negligible amount of assumed reinsurance business in the 2017 financial year. Assumed reinsurance business is therefore included with direct insurance operations in the figures for the previous year.

| €'000 | Total gross technical provisions | | Thereof: Gross provision for claims outstanding | | Thereof: Claims equalisation provision and similar provisions | |
|---|---|---|---|---|---|---|
| | 31.12.2018 | Previous year | 31.12.2018 | Previous year | 31.12.2018 | Previous year |
| **Direct insurance business** | | | | | | |
| Personal accident and health insurance, of which: | 230,294 | 224,491 | 58,950 | 111,923 | 0 | 0 |
| Personal accident insurance | 35,023 | 25,435 | 26,981 | 18,336 | 0 | 0 |
| Health insurance | 195,271 | 199,056 | 31,969 | 93,587 | 0 | 0 |
| Liability insurance | 1,591,250 | 1,747,058 | 1,457,870 | 1,619,945 | 15,781 | 3,756 |
| Motor third-party liability insurance | 2,363,822 | 1,838,111 | 2,067,893 | 1,578,561 | 0 | 0 |
| Other motor insurance | 305,430 | 587,668 | 209,514 | 510,470 | 0 | 0 |
| Fire and property insurance, thereof: | 760,069 | 1,105,823 | 697,952 | 985,542 | 0 | 0 |
| Fire insurance | 374,049 | 585,131 | 327,795 | 488,085 | 0 | 0 |
| Householders' comprehensive insurance | 42,896 | 36,745 | 38,953 | 33,408 | 0 | 0 |
| Other property insurance | 336,186 | 483,947 | 328,095 | 464,049 | 0 | 0 |
| Marine and aviation insurance | 205,360 | 119,994 | 183,412 | 94,500 | 0 | 0 |
| Credit and bond insurance | 17,478 | 10,552 | 12,017 | 6,563 | 0 | 0 |
| Legal protection insurance | 61,528 | 47,035 | 50,135 | 38,799 | 0 | 0 |
| Assistance insurance | 10,381 | 9,441 | 3,739 | 1,963 | 0 | 0 |
| Other classes of business | 289,449 | 239,032 | 212,938 | 143,013 | 0 | 0 |
| **Total** | **5,835,061** | **5,935,473** | **4,954,421** | **5,094,222** | **15,781** | **3,756** |
| **Assumed reinsurance business** | | | | | | |
| **Total** | **2,000,781** | | **1,729,127** | | **2,147** | |
| **Overall insurance business** | **7,835,842** | **5,935,473** | **6,683,548** | **5,094,222** | **17,929** | **3,756** |

### *C. Other provisions*

| €'000 | 31.12.2018 | Previous year |
|---|---|---|
| Other | 1,121 | 1,119 |
| Salary obligations | 764 | 212 |
| Invoices outstanding | 525 | 424 |
| Medium-term incentive plans | 432 | 142 |
| Anniversary benefits | 58 | 51 |
| **Total** | **2,900** | **1,948** |

***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 | 11,098 | 0 | 0 |
| 2. intermediaries | 456,585 | 0 | 0 |
| | 467,683 | 0 | 0 |
| II. Accounts payable on reinsurance business | 1,280,763 | 4,473 | 0 |
| Thereof to: affiliated companies €1,245,826 thousand (€979.492 thousand) | | | |
| III. Bank loans and borrowings | 3 | | |
| IV. Miscellaneous liabilities | 58,921 | 0 | 0 |
| Thereof to<br>- affiliated companies: 0 (€22 thousand)<br>Thereof from taxes: €636 thousand (€12.948 thousand)<br>Thereof for social security: €246 thousand (€2 thousand) | | | |
| **Total** | **1,807,370** | **4,473** | **0** |

## *F. Hedging relationships*

| Hedging relationship | Hedged items | Hedging instruments | Type of Risks | Amount of risks hedged |
|---|---|---|---|---|
| Portfolio Hedge | Foreign currency liabilities | Foreign currency assets | 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:<br>- Pounds sterling: 4,126m (€4,597m)<br>- US dollars: 2,136m (€1,867m)<br>- Chinese yuan: 15,289m (€1,948m) | | | |

# Notes to the income statement

## *I. Technical account*

For the first time in the 2018 financial year, the information required under Section 51(4)(1) of the Regulation on the Accounting of Insurance Undertakings will be separated between direct insurance operations and assumed reinsured business. This separation was able to be waived with reference to Section 51(4)(1), sentence 2 of the Regulation on the Accounting of Insurance Undertakings in the 2017 financial year, due to the negligible amount of assumed reinsured business.

Consistent with the practice from the 2017 Annual Report, we will continue to forgo a separation, due to the negligible amount of assumed reinsurance business in the 2017 financial year. Assumed reinsurance business is therefore included with direct insurance operations in the figures for the previous year.

*I.1. Earned premiums for own account*

Earned premiums for own account

| €'000 | Gross premiums written | | Gross premiums earned | | Net premiums earned | |
|---|---|---|---|---|---|---|
| | 2018 | Previous year | 2018 | Previous year | 2018 | Previous year |
| **Direct insurance business** | | | | | | |
| Personal accident and health insurance, of which: | 156,147 | 143,477 | 120,851 | 224,243 | 1,776 | 32,427 |
| Personal accident insurance | 29,979 | 12,103 | 27,667 | 22,863 | 975 | –1,686 |
| Health insurance | 126,169 | 131,374 | 93,184 | 201,380 | 801 | 34,113 |
| Liability insurance | 281,799 | 306,823 | 272,698 | 341,089 | 40,438 | 32,633 |
| Motor third-party liability insurance | 743,853 | 635,235 | 709,292 | 708,871 | –3,357 | –17,153 |
| Other motor insurance | 224,028 | 265,691 | 206,400 | 196,263 | 1,794 | –3,000 |
| Fire and property insurance, thereof: | 256,970 | 351,605 | 267,794 | 405,858 | 6,119 | 41,811 |
| Fire insurance | 180,106 | 244,276 | 194,015 | 283,524 | 3,376 | 17,103 |
| Householders' comprehensive insurance | 41,972 | 36,485 | 41,409 | 30,382 | -247 | 531 |
| Other property insurance | 41,278 | 70,844 | 39,295 | 91,953 | 2,568 | 24,177 |
| Marine and aviation insurance | 83,750 | 95,276 | 85,386 | 81,323 | 953 | –2,436 |
| Credit and bond insurance | 25,970 | 17,508 | 24,555 | 20,358 | –44 | 612 |
| Legal protection insurance | 70,316 | 61,812 | 67,016 | 58,485 | -630 | 194 |
| Assistance insurance | 10,663 | 8,779 | 10,359 | 31,398 | –26 | 9,906 |
| Other classes of business | 265,171 | 309,307 | 273,031 | 287,673 | 30,625 | 29,285 |
| **Total** | **2,118,667** | **2,194,366** | **2,037,382** | **2,354,813** | **77,647** | **114,373** |
| **Assumed reinsurance business** | | | | | | |
| **Total** | **1,542,333** | | **1,245,354** | | **20,425** | |
| **Overall insurance business** | **3,661,000** | **2,194,366** | **3,282,736** | **2,354,813** | **98,072** | **124,039** |

*Gross premiums written by origin*

| €'000 | 2018 | Previous year |
|---|---|---|
| **Direct insurance business** | | |
| Germany | 58,964 | 38,799 |
| Other Member States of the European Union and other signatory states to the Agreement on the European Economic Area (EEA) | 1,990,151 | 1,679,886 |
| Third countries | 69,552 | 270,892 |
| **Total** | **2,118,667** | **1,989,577** |

*I.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 | 2018 | Previous year |
|---|---|---|
| **Direct insurance business** | | |
| Personal accident and health insurance, of which: | -43,515 | -132,041 |
| Personal accident insurance | -16,749 | -12,606 |
| Health insurance | -26,766 | -119,435 |
| Liability insurance | -251,385 | -381,084 |
| Motor third-party liability insurance | -947,224 | -399,195 |
| Other motor insurance | 220,646 | -526,575 |
| Fire and property insurance, thereof: | -168,660 | -480,305 |
| Fire insurance | -122,182 | -300,707 |
| Householders' comprehensive insurance | -20,747 | -32,918 |
| Other property insurance | -25,500 | -146,680 |
| Marine and aviation insurance | -171,537 | 27,561 |
| Credit and bond insurance | -11,355 | -375 |
| Legal protection insurance | -29,949 | -19,914 |
| Assistance insurance | -5,876 | -6,421 |
| Other classes of business | -181,929 | -139,520 |
| **Total** | **-1,590,783** | **-2,058,021** |
| **Assumed reinsurance business** | | |
| **Total** | **-1,102,862** | |
| **Overall insurance business** | **-2,693,645** | **-2,058,021** |

*I.5. Gross operating expenses*

| €'000 | 2018 | Previous year |
|---|---|---|
| **Direct insurance business** | | |
| Personal accident and health insurance, of which: | -68,862 | -73,237 |
| Personal accident insurance | -13,615 | -4,238 |
| Health insurance | -55,247 | -68,999 |
| Liability insurance | -56,641 | -70,695 |
| Motor third-party liability insurance | -217,628 | -192,756 |
| Other motor insurance | -60,060 | -101,822 |
| Fire and property insurance, thereof: | -88,603 | -125,366 |
| Fire insurance | -56,150 | -82,825 |
| Householders' comprehensive insurance | -32,707 | -19,772 |
| Other property insurance | -7,298 | -22,769 |
| Marine and aviation insurance | -10,867 | -5,734 |
| Credit and bond insurance | -7,291 | -1,301 |
| Legal protection insurance | -44,621 | -38,522 |
| Assistance insurance | -4,996 | -7,272 |

| | | |
|---|---|---|
| Other classes of business | -75,738 | -153,478 |
| **Total** | **-635,300** | **-768,767** |
| **Assumed reinsurance business** | | |
| **Total** | **-496,261** | |
| **Overall insurance business** | **-1,131,561** | **-768,767** |

Of the total gross operating expenses, €1,112,386 thousand (€751,954 thousand) was attributable to acquisition costs and €19,175 thousand (€16,814 thousand) to management expenses.

*I.9. Underwriting result for own account*

| €'000 | 2018 | Previous year |
|---|---|---|
| **Direct insurance business** | | |
| Personal accident and health insurance, of which: | -2,286 | 4,158 |
| Personal accident insurance | -351 | -845 |
| Health insurance | -1,935 | 5,003 |
| Liability insurance | 10,650 | -11,393 |
| Motor third-party liability insurance | 1,365 | -11,060 |
| Other motor insurance | 4,850 | 20,097 |
| Fire and property insurance, thereof: | -28,657 | -22,236 |
| Fire insurance | -13,480 | -12,777 |
| Householders' comprehensive insurance | 389 | 282 |
| Other property insurance | -15,844 | -9,741 |
| Marine and aviation insurance | 2,155 | 1,298 |
| Credit and bond insurance | -1,229 | 1,152 |
| Legal protection insurance | 671 | -9,952 |
| Assistance insurance | 219 | 2,103 |
| Other classes of business | 6,222 | 5,805 |
| **Total** | **-6,039** | **-19,839** |
| **Assumed reinsurance business** | | |
| **Total** | **-21,832** | |
| **Overall insurance business** | **-27,870** | **-19,839** |

*Reinsurance balance**

| €'000 | 2018 | Previous year |
|---|---|---|
| **Direct insurance business** | | |
| Personal accident and health insurance, of which: | -10,753 | -15,195 |
| Personal accident insurance | 2,347 | -6,883 |
| Health insurance | -13,100 | -8,312 |
| Liability insurance | 62,868 | 102,926 |
| Motor third-party liability insurance | 456,927 | -127,980 |
| Other motor insurance | -362,132 | 452,254 |
| Fire and property insurance, thereof: | -42,308 | 182,480 |
| Fire insurance | -32,454 | 95,442 |
| Householders' comprehensive insurance | 12,434 | 22,994 |
| Other property insurance | -22,170 | 64,368 |
| Marine and aviation insurance | 99,177 | -101,852 |
| Credit and bond insurance | -7,313 | -17,530 |
| Legal protection insurance | 8,225 | -10,001 |
| Assistance insurance | 733 | -15,603 |
| Other classes of business | -9,103 | 10,913 |
| **Total** | **196,319** | **460,413** |
| **Assumed reinsurance business** | | |
| **Total** | **334,087** | |
| **Overall insurance business** | **530,406** | **460,413** |

* = 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 of €45,978 thousand (€452,516 thousand) and currency translation losses of €52,908 (€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. The material currencies for our portfolio are therefore the pound sterling, the Australian dollar and the US dollar.

The €1,271 thousand (€4,635 thousand) in tax income in the 2018 financial year arose mainly in the UK tax jurisdiction and mostly the result of the reimbursement from 2016.

Our net loss for the financial year of €34,471 thousand (€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 | 2018 | Previous year |
|---|---|---|
| **Direct insurance business** | | |
| Personal accident and health insurance, of which: | 787,394 | 816,571 |
| Personal accident insurance | 201,537 | 299,908 |
| Health insurance | 585,857 | 516,663 |
| Liability insurance | 108,865 | 144,050 |
| Motor third-party liability insurance | 4,935,242 | 4,511,060 |
| Other motor insurance | 5,411,596 | 4,061,858 |
| Fire and property insurance, thereof: | 1,195,579 | 193,035 |
| Fire insurance | 66,546 | 154,782 |
| Householders' comprehensive insurance | 869,459 | 8,333 |
| Other property insurance | 259,574 | 29,919 |
| Marine and aviation insurance | 12,866 | 7,567 |
| Credit and bond insurance | 49,036 | 25,541 |
| Legal protection insurance | 806,018 | 740,880 |
| Assistance insurance | 53,860 | 538,515 |
| Other classes of business | 1,667,830 | 1,053,971 |
| **Total** | **15,028,286** | **12,510,372** |

### *Contingent liabilities and other financial commitments*

There were no contingent liabilities; €111 thousand (0) in other financial commitments were reported.

### *Off-balance sheet transactions*

There were 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 2018 financial year, we employed an average of 23 (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 | 31.12.2018 | Previous year |
|---|---|---|
| Commissions of any type to insurance agents within the meaning of Section 92 of the Commercial Code for direct insurance operations | 599,893 | 708,142 |
| Other payments to insurance agents within the meaning of Section 92 of the Commercial Code | 18,375 | 13,454 |
| Wages and salaries | 3,591 | 2,356 |
| Social security contributions and employee assistance | 434 | 1,241 |
| Expenses for employees' pensions | 0 | 0 |
| **Total** | **622,295** | **725,193** |

### *Remuneration report*

The total remuneration of the Board of Management of Great Lakes Insurance SE amounted to €1,090 thousand (€855 thousand). No expenses were incurred for the Company's Supervisory Board in 2018. 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 48 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 936 (454) rights in existence as at 31 December 2018. The fair value of the 2018 rights amounted to €519.30, and that of the 2017 rights €500.94 (€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 in Munich Re's consolidated financial statements.

### *Group affiliation*

Great Lakes Insurance SE is a wholly owned subsidiary of Munich Re. The disclosure pursuant to Section 20(4) of the Stock Corporation Act 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 2018. The conditions for releasing the Company from consolidated reporting requirements are therefore fulfilled.

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 Munich Re's website.

***List of shareholdings as at 31 December 2018 in accordance with Section 285 item 11 of the Commercial Code***

The equity capital figures are taken from the organisational documents. The 2018 balance sheet result had not yet been calculated at the time this report was published.

Great Lakes Insurance SE (pursuant to the Commercial Code)

| Name of company and location of registered office | **% share of capital** | **Equity (€'000)** | **Annual result (€'000)** |
|---|---|---|---|
| Great Lakes (Gibraltar) Plc, Gibraltar | **100** | 111 | - |

## Governing bodies

### *Supervisory Board*

Claus-Ulrich Kroll (term ended on 31 December 2018)
*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

Dr. Tobias Klauß

Stéphane Deutscher

Drawn up and released for publication, Munich, 15 March 2019.
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

**Opinions**

We have audited the annual financial statements of Great Lakes Insurance SE, Munich, which comprise the balance sheet as at 31 December 2018, and the statement of profit and loss for the financial year from 1 January to 31 December 2018 and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Great Lakes Insurance SE, Munich, for the financial year from 1 January to 31 December 2018.

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 applicable to insurance companies and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 in compliance with German Legally Required Accounting Principles, and

- the accompanying management report as a whole provides an appropriate view of 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 (*Handelsgesetzbuch* [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 opinions**

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 of the Commecial Code and the EU Audit Regulation No. 537/2014 (referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer* [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 evidence we have obtained is sufficient and appropriate to provide a basis for our 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 judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Valuation of the partial loss provisions for known and unknown claims contained 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 33-34. Further information about the line items in the financial statements can be found on pages 38-39. Information about risks can be found in the management report on page 19.

THE FINANCIAL STATEMENT RISK

The gross provision for claims outstanding amounted to €6,684m as at the balance sheet date, corresponding to 1.8 times total assets.

The gross 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 judgment. 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 Commercial Code).

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 also exposed to the risk of not being taken into account, or not to a sufficient degree.

*OUR AUDIT APPROACH*

In auditing the provisions for known and unknown claims, we had our own actuaries on the audit team and generally undertook the following audit activities:

- We assessed the process for setting aside provisions, identified key controls, and tested their design and operating 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 used – 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 set a point estimate on the basis of best estimates and defined an appropriate range based on statistical probabilities, and compared these with the Company’s calculations.
- We assessed the appropriateness of any adjustments to actuarial estimates made by management based on reasonable commercial judgment; 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 outstanding claims 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 valuation process for the provision for outstanding claims in property-casualty business is appropriate. The valuation assumptions are adequate and balanced.

**Other information**

Management is responsible for the other information. The other information comprises the annual report with the exception of the audited annual financial statements, the audited 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**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 controls 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 the 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 and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the 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 judgment 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 16 April 2018. We were engaged by the Chair of the Supervisory Board on 14 November 2018. 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 provided the following services, which were not indicated in the annual financial statements or the management report, in addition to auditing the Company:

In addition to the annual financial statements of Great Lakes Insurance SE, we audited the solvency II balance sheet as at 31 December 2018 and issued certificates for agreed upon procedures to foreign supervisory authorities.

## German public auditor responsible for the engagement

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

Munich, 5 April 2019

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

KPMG BAYERISCHE TREUHANDGESELLSCHAFT AKTIENGESELLSCHAFT
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT STEUERBERATUNGSGESELLSCHAFT
WIRTSCHAFTS-PRÜFUNGS-GESELLSCHAFT
SIEGEL
* MÜNCHEN *

| | |
|---|---|
| Hildebrand | Schmederer |
| *Wirtschaftsprüfer* | *Wirtschaftsprüferin* |
| (public auditor) | (public auditor) |

# Imprint

Risk Solutions

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