Munich RE

Annual Report 2020
Great Lakes Insurance SE

Key figures

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

		2020	Previous year
Gross written premium	€'000	4,930,994	4,021,820
Net earned premiums	€'000	564,535	224,661
Loss ratio (gross)	%	73.5	93.0
Loss ratio (net)	%	80.2	81.2
Equity	€'000	436,923	396,923

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 2020 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 and two extraordinary 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 informed 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 during the financial year, in particular at the extraordinary meeting on the non-regular ORSA report, on material changes in the risk profile due to the COVID-19 pandemic and on the significant effects on the solvency assessment.

The Board of Management also informed the Supervisory Board of the performance of the insurance business for own account, the effects of major risks in the industry and speciality segment and on the increasing overall risks, which the Supervisory Board therefore monitored closely.

Lastly, business decisions with regard to the impending Brexit were once again reported to and monitored by the Supervisory Board in the past year.

On 30 September 2020, Dr. Achim Stegner left the Board of Management of Great Lakes Insurance SE by mutual consent. The Company's Board of Management consisted of three members thereafter. Dr. Stefan Pasternak, the Deputy Chief Executive Officer, was the acting interim Chief Executive Officer. At its meeting in December, the Supervisory Board appointed Mr. Christoph Carus to the Board member as the new Chief Executive Officer with effect from 1 March 2021. Since then, the Board of Management has been made up of four members.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, duly audited the 2020 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, the proposal for appropriation of the net retained profits 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 at the meeting of the Supervisory Board on 19 April 2021 to adopt the financial statements, which was also attended by the auditors. The responsible actuary also attended that meeting and presented us with the key findings of the report explaining the actuarial certification. Again, we did not have any objections or additional comments in this regard.

The Supervisory Board approved the annual financial statements for the 2020 financial year. The annual financial statements were thus adopted. On 25 January 2017, the Company entered into a control agreement with MunichFinancialGroup GmbH (registered office in Munich) as the controlling company. Pursuant to this agreement, MunichFinancialGroup GmbH is required to absorb the Company's net loss for the 2020 financial year, in accordance with Section 302 of the Stock Corporation Act. On the basis of an agreement for joint and several assumption of debt, the Company is asserting the claim for loss absorption against Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München as joint and several debtor.

At the meeting to adopt the financial statements on 19 April 2021, the Supervisory Board furthermore elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, as the Company's auditor for the 2021 financial year.

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

Munich, 19 April 2021

For the Supervisory Board

Management report

Basic information about the Company

Great Lakes Insurance SE ("GLISE" or "the Company") is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Re), a reinsurer and risk carrier with a global presence. The Company is authorised by the German Federal Financial Supervisory Authority (BaFin) to transact primary insurance and reinsurance business in the Member States of the European Union and the other signatory states to the Agreement on the European Economic Area (EEA Agreement). The authorisation from BaFin is also valid worldwide (subject to any legal requirements imposed by local jurisdictions) and extends to all classes of non-life insurance including non-substitutive health insurance. Great Lakes Insurance SE offers insurance solutions in niche markets and is an integral part of Munich Re's "primary insurance out of reinsurance" (PIRI) strategy. In addition, the Company supports a number of companies in the ERGO Group in selected international primary insurance solutions by providing specialised resources and capacities. 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. In addition, the Company writes a number of intra-Group reinsurance contracts worldwide. The Company cedes significant portions of its business to reinsurers within Munich Re, primarily to Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München. Great Lakes Insurance SE writes primary insurance and reinsurance business at its branches in the United Kingdom (London), Switzerland (Cham), Italy (Milan) and Australia (Sydney). It is also authorised to write surplus lines business in a number of US states.

Great Lakes Insurance SE is included in the consolidated financial statements of Munich Re. The Company's UK branch gives it a presence in the London market. We have, in consultation with the local supervisory authorities, taken precautions in order to maintain business operations after the United Kingdom leaves the European Union (Brexit). A key step was our application filed as a precaution in March 2018 to license our existing branch as a "third-country branch" in the United Kingdom. Preparations are currently underway to form a subsidiary in the United Kingdom.

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

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 sales partners, Great Lakes Insurance SE serves private, corporate and industrial clients. We offer them products and services in connection with protection of property, health, legal cover and travel insurance. The primary points of contact for our clients are independent cooperation partners. As a partner for intra-Group reinsurance contracts, the Company contributes to efficiently managing the risk capital of Munich Re.

Environment

As part of Munich Re, we have a defined goal to conserve resources and minimise the environmental impact of our business operations.

Munich Re has been managing activities at all sites since 2012 using a standardised, mandatory environmental management system (EMS) that meets the requirements of the international standard DIN ISO 14001. The EMS is based on the Group's environmental guidelines and on selected key performance indicators (KPIs) that we use to assess our carbon footprint. It also defines the processes required and organisational responsibilities. Our environmental management system, which is certified in accordance with DIN ISO 14001, in Munich records the impact our actions have on the environment and the climate and helps us to mitigate any adverse effects to the extent possible. All of the relevant processes and procedures for the Munich location are described in our environmental management manual. We also take ethical, social and ecological considerations into account in our investment activities.

Report on economic position

Macroeconomic and industry environment

The coronavirus pandemic and the measures deployed to counteract it in 2020 plunged the global economy into its most severe crisis in decades. Global economic output fell sharply on the previous year. The economies in the United States, the eurozone, Japan and the United Kingdom were in a deep recession. Although the Chinese economy began recovering from its sharp drop as early as the spring, it managed only a low average growth rate in 2020. The rates of inflation in advanced economies were lower on average than in the previous year; in the eurozone and Japan, inflation was very low.

Capital markets

Many central banks took far-reaching measures to cushion the impact of the economic crisis and to stabilise the financial system. Within just two weeks in March, the Federal Reserve in the United States lowered its policy rate corridor by 1.5 percentage points to 0–0.25%. The Fed also resumed its bond-buying programme. The European Central Bank (ECB) increased its monthly net purchases of assets in March and launched a pandemic emergency purchase programme (PEPP), which the ECB then augmented twice during 2020. In addition, the ECB kept its interest rate for main refinancing operations at 0%. Yields on ten-year government bonds in the United States and Germany dropped to record lows in 2020. The very low yields were attributable to the policy rate cut in the USA, the expansion of bond-buying programmes by the Fed and the ECB, and many investors' flight to safe assets. A minor recovery notwithstanding, yields in late December were still down on the start of the year. Yields on ten-year government bonds in Germany remained in negative territory.

Yields on ten-year government bonds

%	31.12.2020	Previous year
USA	0.9	1.9
Germany	-0.6	-0.2
UK	0.2	0.8

Volatility in international financial markets was very high. Equity markets worldwide fell sharply in response to the rapid spread of the coronavirus and an escalation in the oil market's price war. Important equity indices, such as the US Dow Jones and the DJ EURO STOXX 50, were down more than a third in mid-March from their levels at the end of 2019. Following massive intervention by central banks and pledges of extensive fiscal measures, a lot of equity markets proceeded to rebound strongly. The Dow Jones Index closed at a record high at the end of 2020, buoyed by hopes of effective COVID-19 vaccines.

Equity markets

	31.12.2020	Previous year
DJ EURO STOXX 50	3,553	3,745
Dow Jones	30,607	28,538

Currency markets likewise experienced sharp fluctuations. For example, the US dollar ranged between €0.87 and €0.94 in March. At the end of December, the US dollar, the Canadian dollar and the British pound were all much lower against the euro compared with the end of 2019. On average, the year-on-year value of the euro in 2020 was somewhat higher against the US dollar, the Canadian dollar and the pound sterling.

Insurance industry

According to preliminary estimates, global premium income in property-casualty insurance declined slightly in 2020. The renewals for the international property-casualty reinsurance contracts led to mixed results. Overall, however, average prices increased. Whereas the prices for reinsurance protection rose significantly in regions and insurance classes with high loss histories, prices stagnated or increased only slightly in regions and insurance classes with low loss histories.

Premiums in the property-casualty business in Germany rose by approximately 2.1% in the 2020 financial year, according to projections by the German Insurance Association (GDV). The slightly more moderate increase compared to the previous year is due in part to premium adjustments in the motor insurance business on account of the fact that vehicle usage dropped during the COVID-19 pandemic. At the same time, claims expenditures decreased by approximately 2.5%, due primarily to the COVID-19 lockdowns enforced in the spring and winter of financial year 2020. The combined ratio in the 2020 financial year is expected to be around 90%, and thus 2–3 percentage points below the prior-year figure. Overall, 2020 was a good year for German property-casualty insurers, as demonstrated by the significant year-on-year increase in profits. The COVID-19 pandemic and the continuing extremely low interest rate environment presented the biggest challenges in 2020. The sector expects to see premium growth of just above 1% in the property-casualty insurance line of business in 2021. COVID-19 is throttling mobility and premium growth in the motor insurance business. Due to the uncertainty prevalent in the companies, the same also holds true for the property-casualty business. The personal lines property insurance business in Germany is considered a linchpin: the ongoing construction boom will again lead to growth in homeowners' insurance.

In the United Kingdom, average motor premiums again declined, falling by 1% against the previous year and reaching a very low level compared to the past three years. However, the average premiums in Q4 2020 were approximately 2% higher than in Q3 2020, but still 3% below the prior-year figure. Compared to 2016, premiums in Q4 2020 were on average approximately just 1% higher. The decrease in the United Kingdom in 2020 was also due primarily to the effects of and steps taken during the COVID-19 pandemic.

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. These include national accounting regulations, tax aspects, liquidity requirements and supervisory parameters.

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

- Risk capital, i.e. the capital required to cover the risks, is the basis of our value- and risk-based management. The capital requirement corresponds to the solvency capital requirement under Solvency II, as determined on the basis of our certified internal risk model.

- Consequently, 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.

- 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 Company's overriding guiding principle. On the other hand, target figures should be straightforward and understandable for staff and the public.

Great Lakes Insurance SE is included in the IFRS consolidated financial statements of Munich Re. One of the key management instruments is therefore the IFRS result, which is based on the inclusion of GLISE in Munich Re's IFRS consolidated financial statements. The IFRS result is a performance measure derived from the external accounting for the consolidated financial statements. It serves as an important cross-line criterion for investors and the general public to assess the performance the Company in the past financial year. With its standardised measurement basis, the IFRS result can be compared to the results of our competitors and is thus a management tool used in our financial reporting.

Gross premiums written, another performance indicator, includes the total premium income that fell due in the financial year of a given reporting period. Increases in gross premiums written are the prime indicator of corporate growth. However, increases in this performance metric are not an immediate objective for our Company because we do not always target premium growth directly in connection with the profitability of the business we write. Another of our performance indicators is the IFRS technical result. It reflects the immediate contribution primary insurance and reinsurance operations make to the IFRS result and separates the investment result and primary insurance/reinsurance business in particular.

Business performance and results of operations

The 2020 calendar year was marked in particular by the increase in claims expenditures for own account. This was due mainly to natural catastrophes such as tornadoes and wildfires in the United States. Events that were cancelled due to the COVID-19 pandemic led to further expenditures in the high hundreds of millions before reinsurance. After reinsurance, this was in the low tens of millions. Further unexpected high claims expenditures resulted from liability risks written in previous years.

Gross premium increased by 22.6% from €4,021,820 thousand in the previous year to €4,930,994 thousand in calendar year 2020. This increase was due primarily to the intra-Group reinsurance contracts, the sharp rise in the volume of business resulting from the business relationships with intra-Group agents of the ERGO Group in the United Kingdom, the continued strong growth in agents in the United States and Europe as well as the leveraging of business opportunities in the business with industrial risks (Facultative & Corporate). Foreign currency effects did not have a significant impact on the change in gross premium income overall. On average over the 2020 calendar year, the pound sterling – the dominant currency for the gross premiums in our portfolio – depreciated by approximately 1% against the euro compared to the 2019 calendar year. The gross premium volume amounted to 61.1% (62.7%) and resulted primarily from premiums in the direct insurance business. Of the gross premium income, 38.9% (37.3%) is attributable to the assumed reinsurance business. The increase in the share attributable to the assumed reinsurance business is due to the increase in intra-Group reinsurance contracts. The number of insurance policies is given on page 36 of this report.

In the 2020 financial year, Great Lakes Insurance SE's gross premiums earned were primarily attributable to its headquarters at €2,446,750 thousand (1,783,693 thousand) and its London branch at €1,975,302 thousand (1,864,483 thousand). Thus, while the share attributable to headquarters increased to 52.1% (46.7%), the share attributable to the London branch declined to 42.1% (48.9%). The UK branch remained a key strategic location throughout the entire 2020 calendar year. A further €191,500 thousand (121,801 thousand) was attributable to our rapidly growing Italian branch. As in the previous year, this encouraging performance was down to strong growth in the motor insurance segment. In the calendar year, the branch in Switzerland also reported an increase in gross premiums to €38,318 thousand (27,802 thousand) due primarily to the business with local agents. In calendar year 2020, the Australian branch reported a significant increase in gross premium income to €42,316 thousand (12,349 thousand) from the business with local agents in the agricultural environment.

We cede the majority of our premium income to affiliated reinsurance companies within Munich Re. Earned premiums for own account amounted to €564,535 thousand (224,661 thousand) in the 2020 financial year. The increase was due to the growth in the Company's primary insurance and reinsurance business with major commercial and industrial risks as well as a higher share of the reinsurance programme that is retained by headquarters with regard to the business with agents in the United States.

Claims expenditures before deduction of the ceded share amounted to €3,450,616 thousand (3,549,175 thousand), corresponding to a gross loss ratio of 73.5% (93.0%). Claims expenditures after deduction of the ceded share amounted to €452,610 thousand (182,537 thousand), corresponding to a net loss ratio of 80.2% (81.2%). Our operating expenses for own account amounted to €165,536 thousand (45,884 thousand), corresponding to an expense ratio of 29.3% (20.4%). The increase is due primarily to the revised reinsurance structure at the headquarters in Munich. Since the beginning of 2020, a significantly higher share of the business with agents has been retained by the Company. Compared to the business that is normally retained, this business has higher commission ratios.

Overall, our net combined ratio thus decreased year on year to 110.0% (101.2%). The higher net combined ratio is due primarily to the year-on-year increase in the number of major loss events and reserve increases for liability risks. The gross combined ratio amounted to 102.6% (125.0%). The significantly lower gross combined ratio is due mainly to the year-on-year decrease in claims expenditure from natural catastrophes and major losses from intra-Group reinsurance contracts. The high gross loss ratio in the previous year was due primarily to typhoons in Asia.

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 BaFin to populate the underlying observation period used to calculate the claims equalisation provision. Due to the Company's relocation from London to Munich in late 2016, own historical loss ratios could only be used for a few lines of business. As at 31 December 2020, claims equalisation provisions amounted to €23,903 thousand (15,504 thousand).

The underwriting result for own account after claims equalisation amounted to –€64,701 thousand (-282 thousand) in the 2020 financial year.

The investment result, not including interest on deposits retained, was €8,422 thousand (14,071 thousand). In the 2020 calendar year, the result was marked by gains on the disposal of investments, which remained below the prior-year figure, however. Due to another decrease in interest rates on the capital markets, primarily in US dollars and pounds sterling, the market values of bonds sold were generally higher than the carrying amounts.

Overall, the pre-tax operating result amounted to –€67,833 thousand (+9,667 thousand) and the net year before the loss assumption for the year amounted to –€69,235 thousand (+1,083 thousand). As as the date of preparing the management report, Great Lakes Insurance SE's economic position continues to be positive on account of the assumption of losses and the appropriation to the capital reserve.

The gross premium assumptions are significantly above the budgeted volume of €4.0 billion.

The classes and types of insurance business transacted in the 2020 financial year – both in direct insurance operations and assumed reinsurance business – are listed on page 21 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 2020 financial year and in accordance with Section 51(4) no. 1 of the Regulation on the Accounting of Insurance Undertakings (RechVersV) are presented separately for the direct insurance and assumed reinsurance business.

Health insurance

In the 2020 calendar year, the Company generated gross premiums amounting to €388,663 thousand (370,690 thousand) in health insurance, representing a slight year-on-year increase. This is due to the growth in the intra-Group reinsurance business of Munich Re's Beijing branch. By contrast, the direct insurance business declined. The majority of the direct health insurance business came from the United Kingdom in 2020, and is ceded in full 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 €256,054 thousand (208,261 thousand) and led to a (gross) loss ratio of 62.4% that was slightly above the previous year's 59.8%. Our underwriting result for own account after claims equalisation amounted to €2,228 thousand (492 thousand).

Health insurance

		2020	Previous year
Direct insurance and assumed reinsurance business			
Gross written premium	€'000	388,663	370,690
Loss ratio (gross)	%	62.4	59.8
Underwriting result for own account after claims equalisation	€'000	2,228	492
Direct insurance business			
Gross written premium	€'000	120,811	166,534
Loss ratio (gross)	%	37.6	45.1
Underwriting result for own account after claims equalisation	€'000	1,326	-24
Assumed reinsurance business			
Gross written premium	€'000	267,852	204,156
Loss ratio (gross)	%	76.4	73.0
Underwriting result for own account after claims equalisation	€'000	902	517

Liability insurance

In the 2020 calendar year, liability insurance (including aviation liability insurance) generated gross premiums of €720,885 thousand (486,065 thousand). The significant increase is due primarily to business opportunities with industrial risks (Facultative & Corporate) being leveraged and growth in the intra-Group reinsurance business. In 2020, aviation liability insurance generated gross premiums of €192,953 thousand (117,524 thousand). Liability insurance recorded a slightly improved loss ratio (gross) of 63.5% (64.8%) due to gross claims incurred in the amount of €413,109 thousand (291,754 thousand). An unexpectedly high claims expenditure for liability risks written in previous years was reported for the retained business in the reporting period. Therefore, the underwriting result for own account after claims equalisation totalled –€42,512 thousand (8,641 thousand) in the 2020 calendar year. Consequently, the claims equalisation provision amounting to €8,493 thousand was reversed for this line of business.

Liability insurance

		2020	Previous year
Direct insurance and assumed reinsurance business			
Gross written premium	€'000	720,885	486,065
Loss ratio (gross)	%	63.5	64.8
Underwriting result for own account after claims equalisation	€'000	-42,512	-8,641
Direct insurance business			
Gross written premium	€'000	496,640	338,453
Loss ratio (gross)	%	63.7	76.0
Underwriting result for own account after claims equalisation	€'000	-36,490	3,208
Assumed reinsurance business			
Gross written premium	€'000	224,245	147,612
Loss ratio (gross)	%	63.1	37.4
Underwriting result for own account after claims equalisation	€'000	-6,021	-11,849

Motor insurance, comprising motor third-party liability and other motor insurance

Motor insurance generated gross premiums amounting to €1,483,098 thousand (1,362,881 thousand) in this calendar year. This year-on-year increase is due primarily to the growth of the business with agents in Europe and the United States. At 30.0% (33.9%), motor insurance still made a significant contribution to our total gross premium volume. Gross claims expenditures amounted to €915,963 thousand (713,552 thousand) and led to a (gross) loss ratio of 63.5% (53.0%). While this figure was above the prior-year figure due to a positive non-recurring item in the United Kingdom in the previous year ("Ogden Rate"), it was still at a very satisfactory level. The retained business increased significantly year on year. A total of €11,675 thousand was therefore allocated to the claims equalisation provision for this line of business on account of the positive business development. Our underwriting result for own account after claims equalisation amounted to €-786 thousand (9,405 thousand).

Motor insurance

		2020	Previous year
Direct insurance and assumed reinsurance business			
Gross written premium	€'000	1,483,098	1,362,881
Loss ratio (gross)	%	63.5	53.0
Underwriting result for own account after claims equalisation	€'000	-786	9,405
Direct insurance business			
Gross written premium	€'000	1,159,621	1,041,977
Loss ratio (gross)	%	66.3	55.8
Underwriting result for own account after claims equalisation	€'000	-1,913	8,349
Assumed reinsurance business			
Gross written premium	€'000	323,478	320,905
Loss ratio (gross)	%	53.8	44.4
Underwriting result for own account after claims equalisation	€'000	1,127	1,056

Fire and property insurance

Fire and property insurance generated gross premiums of €1,438,866 thousand in this calendar year. This represents another significant increase against the prior-year figure (€1,019,074 thousand), which was attributable to the direct insurance (the agency business in the United States is particularly noteworthy) as well as the intra-Group reinsurance business. In total, the Company reported a (gross) loss ratio of 52.1% on claims expenditures of €695,275 thousand (1,774,945 thousand). The loss ratio was therefore significantly below the prior-year figure of 187.2%. This was due to the significant year-on-year decline in expenditures for major losses from natural catastrophes. The high gross loss ratio in the previous year was due primarily to Typhoons Hagibis and Faxai. By contrast, significantly higher claims expenditure for own account were recorded for the retained business as compared to the previous year. This was due mainly to natural catastrophes such as tornadoes and wildfires in the United States. Therefore, the underwriting result for own account after claims equalisation totalled –€55,881 thousand (689 thousand).

Fire and property insurance

		2020	Previous year
Direct insurance and assumed reinsurance business			
Gross written premium	€'000	1,438,866	1,019,074
Loss ratio (gross)	%	52.1	187.2
Underwriting result for own account after claims equalisation	€'000	-55,881	689
Direct insurance business			
Gross written premium	€'000	498,273	310,569
Loss ratio (gross)	%	89.9	43.8
Underwriting result for own account after claims equalisation	€'000	-57,940	-18,884
Assumed reinsurance business			
Gross written premium	€'000	940,593	708,505
Loss ratio (gross)	%	32.7	248.2
Underwriting result for own account after claims equalisation	€'000	2,059	19,573

Other property insurance

In the 2020 calendar year, the Company generated gross premiums of €549,057 thousand (459,443 thousand) in other property insurance. This once again represents a year-on-year increase that is attributable to both the intra-Group and external agency business. Furthermore, the business with major commercial and industrial risks is growing. In this line of business, the Company recorded a loss ratio (gross) of 173.2% (71.9%) on claims expenditures of €934,162 thousand (296,043 thousand). The extraordinarily high claims expenditure is due primarily to events that were cancelled on account of the COVID-19 pandemic that were, however, nearly all ceded to Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München. The underwriting result for own account after claims equalisation improved to €26,728 thousand (-7,810 thousand). This was due to lower-than-expected expenditures for major losses in the retained business.

Other property insurance

		2020	Previous year
Direct insurance and assumed reinsurance business			
Gross written premium	€'000	549,057	459,443
Loss ratio (gross)	%	173.2	71.9
Underwriting result for own account after claims equalisation	€'000	26,728	-7,810
Direct insurance business			
Gross written premium	€'000	488,309	399,142
Loss ratio (gross)	%	160.4	76.3
Underwriting result for own account after claims equalisation	€'000	33,796	-2,067
Assumed reinsurance business			
Gross written premium	€'000	60,748	60,302
Loss ratio (gross)	%	287.3	33.7
Underwriting result for own account after claims equalisation	€'000	-7,068	-5,743

Net assets

Investment portfolio

As at 31 December 2020, our investment portfolio excluding deposits retained amounted to €1,199,327 thousand (819,517 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 Asset Management GmbH ("MEAG"), also a Munich Re subsidiary, processes our investments together with Munich Re's specialist departments in line with our instructions and the legal requirements. Details of the investments and their performance can be found in the notes to the annual financial statements on page 30 of this annual report.

Investments

	31.12.2020	Previous year	Change
	€'000	€'000	%
Other investments			
1. Bearer bonds and other fixed-interest securities	1,085,926	621,853	74.6%
2. Deposits with banks	113,401	197,665	-42.6%
Total	1,199,327	819,517	46.3%

Valuation reserves

The fair values of the investments are reported on page 30 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 2020, the valuation reserves amounted to €10,901 thousand (5,301 thousand).

Receivables

Receivables primarily comprise receivables from direct insurance operations. As at 31 December 2020, these amounted to €1,772,169 thousand (1,781,534 thousand) and were mainly attributable to receivables from policyholders for existing 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 €593,078 thousand (478,986 thousand).

Financial position
Capital structure

Equity increased compared to the previous year due to an allocation of €40,000 thousand to the capital reserve to further support the growth of the Company. As at 31 December 2020, equity amounted to €436,923 thousand (396,923 thousand). Issued capital remained unchanged at €131,777 thousand. As at 31 December 2020, the profit brought forward amounted to €264,063 thousand and revenue reserves to €1,083 thousand.

Our insurance business has a significant influence on the structure of our balance sheet: the technical provisions accounted for 23.5% (17.4%) of total equity and liabilities with an average duration of approximately three to four years. Further material items on the equity and liabilities side of the balance sheet are equity at 8.8% (9.3%), and current liabilities (less than 1 year) to intermediaries at 13.5% (15.1%) and to our reinsurers at 30.0% (33.5%).[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 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 2020, this applied to investments with a market value totalling €119,873 thousand (124,023 thousand).

Great Lakes Insurance SE'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

The Board of Management discussed the ORSA results in financial year 2020. The results of the capital management and the solvency assessment revealed the solvency ratios that were considerably above 100% during the planning period, but below the target set by the Board of Management. In order to remain an attractive partner for our business partners, the Board of Management has resolved to request the corresponding corporate actions from Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München. This was approved by the requisite bodies at the end of 2020 and a one-time contribution of €40,000 thousand to capital reserves in December 2020 as well as the provision of ancillary own funds were resolved. The ancillary own funds are provided in the form of a guarantee pursuant to Article 74(f) of Commission Delegated Regulation (EU) 2015/35 by the parent company for the benefit of the Company in the amount of €100,000 thousand effective 31 December 2020. As at the balance sheet date, the supervisory authority had not yet approved the classification of this guarantee as Tier 2 equity under Solvency II.

[1] The percentages relate to total equity and liabilities in the amount of €4,956,078 thousand.

Liquidity

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

Overall assessment of the economic position

Great Lakes Insurance SE incurred an operating loss before tax of €67,833 (profit of 9,667 thousand) thousand in the 2020 financial year. Net of taxes, the loss amounted to €69,235 thousand (profit of 1,083 thousand) in financial year 2020. This loss and the decrease in earnings compared to the previous year is attributable primarily to significantly higher claims expenditure for own account due to natural catastrophes, particularly the tornadoes and wildfires in the United States, cancelled events on account of the COVID-19 pandemic and unexpectedly high claims expenditures for liability risks. Our comprehensive reinsurance programme significantly decreased the expenditures for own account compared to the gross claims. By contrast, the gross claims expenditures declined slightly year on year, due primarily to the extremely high claims expenditure in the previous year as a result of typhoons in Japan. In the previous year, the claims expenditure resulting from typhoons related almost exclusively to the business that is ceded in connection with our comprehensive reinsurance programme. The claims equalisation provision amounting to €8,399 thousand (-2,425 thousand) was increased in the 2020 financial year.

Further unexpected expenditures amounting to €6,577 thousand were due to fluctuating foreign currency positions, primarily in pounds sterling.

Due to the control agreement with MunichFinancialGroup GmbH, Munich, a loss of €69,235 thousand was assumed pursuant to Section 302 of the Stock Corporation Act, which was assumed by Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München in connection with the cumulative assumption of debt.

Overall, due in part to the contribution to the capital reserve and the loss assumed by our parent company, Great Lakes Insurance SE has a sound economic foundation and is well prepared to face future challenges in order to continue being able at all times to promptly service its liabilities arising from insurance business. Great Lakes Insurance SE's solvency ratio as at 31 December 2020 remained well above the level required by law, even when not taking the new capital guarantee into account.

Risk report

Risk management objectives

The objective of risk management at Great Lakes Insurance SE is to ensure that the Company is able to meet its obligations to its customers at all times, whilst creating sustainable value for our shareholders and protecting the Company's reputation and that of Munich Re. For this purpose, risk management employs strategies, methods and processes to identify, analyse, assess, control and monitor short and long-term risks to the Company's ability to 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 obligations to our policyholders and business partners 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 (first line) and the functions that perform independent risk controls (second and third lines). 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, and that the overall risks of the Company are monitored and reported to management and stakeholders. 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. In accordance with Solvency II, at the head of the risk management organisation is the risk management key function holder, reporting directly to the Chief Risk Officer (CRO), who is a member of the Board of Management. The compliance and actuarial key functions holders are also direct reports of the CRO but are held by separate individuals.

The Risk and Capital Committee, which meets quarterly, reports to the risk management function. The Committee includes senior members from the risk management function, the CRO and a representative of risk management from Munich Re as permanent members. Other key function holders, members of the 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, especially with regard to setting the risk strategy, risk reporting and 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 on the basis of 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. The Company's conformance to the risk strategy is monitored by the independent risk management function and reported to the Board of Management and senior management, at least on a quarterly basis.

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 monitoring and reporting role on a regular basis. The implementation of risk management at the operational level covers identifying, analysing and assessing all material risks in line with 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 and senior 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 the Company's assets, financial situation, profitability and its ongoing operational structure. 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 and outsourcing risks, are identified as a further significant risk for the Company. Market risk, which arises primarily from interest rate and currency fluctuations, represents a relatively minor share of 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 recognised 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 reinsuring within the Munich Re Group entities. This reduces the volatility of the technical result for own account, whilst ensuring that the reinsurers have a good credit rating. Each year the Company carries out a thorough analysis to optimise the structure of these reinsurance programmes and ensure an adequate level of net underwriting risk is retained.

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

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

We define market risk as the risk of 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. The Company's investments currently comprise of fixed-interest and money market securities (government bonds, corporate bonds and cash), and therefore are primarily exposed to foreign-exchange, inflation, and interest-rate risks. The Company's current investment mandate also permits strategic investment into equities and infrastructure assets, though these are only allowed if these fall within the limits, as defined in the investment mandate. Currently, the Company's investments do not include these asset classes.

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 the Company's significant reinsurance programme, primarily with Munich Re Group entities as the counterparty. Further credit risks arise from debts owed by policyholders and intermediaries. The Company controls its investment credit risk 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 internal entities within Munich Re, which have 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 receivables from reinsurers were past due or impaired as at 31 December 2020. 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 means of corresponding policies for payment transactions. In addition, for the majority of the Company's business this counterparty risk is passed 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 forecast and monitored on a regular basis as part of detailed liquidity planning, which includes a safety margin designed to protect us against unexpected liquidity shortfalls.

As at 31 December 2020, our investments had a duration of 3–4 years. The corresponding technical provisions for own account also had a duration of 3–4 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.

Operational risks are managed via the Company's operational risks control system (ORCS), 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 for identifying and managing business continuity and security risks for people, property and information (cyber risk).

The Company's unique facilitation business model relies on significant outsourcings to both entities within Munich Re, and to external third-party service providers, such as Managing General Agents (MGAs) and claims- and policy-related administrators. For this reason, the Company can be exposed to most material outsourcing and conduct risks.

Outsourcing risk is defined as the risk of economic loss or other adverse impacts to GLISE resulting from the failure to adequately implement, monitor and control the performance of third-party providers who are delegated to perform one of more of GLISE's functions. The Company manages this risk by applying stringent due diligence processes when selecting external service providers, which it then reviews on a regular basis, including in the context of on-site inspections. The Company's risk management function 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. The IT risks in connection with the outsourcing are included in this analysis. The risk management function participates in the Group's VAIT-related projects and issues Group and internal guidelines on IT risks.

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 explained to management using 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 international 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.

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

In 2020, the Company was exposed to higher risk. In the first half of 2020, the operational and compliance risks in particular had increased due to the COVID-19 pandemic and the scarcity of resources brought about by additional expenditures for internal projects related to outsourcing and conduct risks. Several steps had been taken to reduce these operational and compliance risks before the end of 2020: the successful implementation of the business continuity plan at the start of the COVID-19 pandemic, the approval of new hires and the successful on-time completion of the projects. The implementation of these steps in particular improved the control environment for outsourcing and conduct risks. The solvency ratio also declined in the first three quarters of the financial year due to the COVID-19 pandemic and organic growth. The Company took action accordingly, in particular a non-regular ORSA. As a result, in addition to other steps taken, this action included the approval of a capital contribution by the parent company, which once again aligned the solvency ratio with the Company's risk appetite before the end of the year.

In respect of quantitative risks, 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 solvency capital requirement (SCR) is the amount of eligible own funds that need to be available, with a given risk appetite, to cover unexpected losses in the following year. This 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 2020, 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 2020, 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 the insurance business and on our branch in the UK. The Company has established the necessary legal, regulatory and organisational foundations. These had to be fleshed out further with the current political and regulatory developments in the case of the United Kingdom and the rest of the EU. The Company's existing Brexit plan was prepared on the assumption of a hard Brexit and is now proving adequate to meet the further challenges and also opportunities.

- The Company formed a Corona Committee as soon as it was evident that the COVID-19 pandemic would have material consequences for the insurance industry. The Committee addresses any and all issues related to the pandemic, which includes issuing guidelines for agents on communicating with policyholders and regularly updating the management on the latest developments. In light of the impact that COVID-19 has had, GLISE's internal model has proven itself to be appropriate for the purpose of setting the necessary capital adequacy. The Company will continue to monitor and manage subsequent effects of the pandemic in 2021.

- Munich Re has launched a project at the Group level in connection with the Supervisory Requirements for IT in Insurance Undertakings (VAIT) published by BaFin. In 2021, GLISE will be involved in several phases of this project in order to achieve its own ambitions and those of the Group with regard to the maturity and resilience of cyber security.

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 and other business partners. 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 and under control.

Opportunities report

Great Lakes Insurance SE's business model combines primary insurance and reinsurance under one roof. As part of the reinsurance field of business of Munich Re, 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 or pandemics – can never fully be ruled out. To protect ourselves against resultant risks, we have established a risk management system together with an effective reinsurance programme, which is described in detail in our risk report. Overall, we consider ourselves well prepared to seize emergent opportunities for the benefit of our Company.

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

We are aiming to generate promising business opportunities for our core business by taking account of environmental and social responsibility aspects in the value-added chain of our core business. Constantly evolving markets and changes in client behaviour call for flexibility in terms of coverage and solutions. A direct and transparent dialogue with clients, either directly or via our sales partners, 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 (such as new types of cyber insurance coverage) and processes is supported by our cooperation with young and creative start-ups and significant investments in our IT infrastructure.

Our global investments are managed by the experts at Münchener Rückversicherungs-Gesellschaft AG in München and by MEAG. The prolonged period of low interest rates is challenging our asset management to achieve returns with manageable risks. We only leverage higher-yield bonds if the risks can be kept within reasonable bounds. On this basis, our investment colleagues are continually expanding their competence in the assessment of these risks, in order to be able to seize alternative investment opportunities in bonds that are also being increasingly 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. Nevertheless, the Company's actual development and its earnings may deviate materially from the forecasts.

We expect the United Kingdom's withdrawal from the European Union to impact our branches and the insurance business in the UK. In connection with Munich Re's Brexit strategy, the Company has already assumed a key role as risk carrier in the United Kingdom, both for reinsurance and primary insurance business in Munich Re's reinsurance and ERGO segments. Consequently, the Company's primary insurance and reinsurance business in the United Kingdom will also continue to grow in 2021. Over the past two years, the Company had already begun to lay the requisite foundations at the legal, regulatory and organisational levels to successfully take on this role. A key step was our application filed as a precaution in March 2018 to license our existing branch as a "third-country branch" in the United Kingdom. The business written in the EEA out of our United Kingdom branch has been reallocated to our head office in Germany or to our Italian branch, thereby ensuring that existing new business and new business affected by Brexit can be continued. We are also preparing for the expected additional regulatory requirements, including for reporting. Furthermore, preparations are under way to form a subsidiary in the United Kingdom, above all in order to maintain our business with private customers in the long term and to possibly expand this business. As was previously the case, in 2021, we will continue to work closely with the supervisory authorities in the United Kingdom and Germany.

We expect stable business volumes in all three fields of business in 2021. Against this background and assuming that exchange rates remain stable as against 31 December 2020, Great Lakes Insurance SE projects that it will realise gross premiums of approximately €4.8 billion in 2021. We expect an own-account combined ratio of around 95% of net earned premiums after increases in the claims equalisation provision. An accurate forecast is not possible, partly due to the obvious fluctuations in the incidence of major losses and natural catastrophes. The unexpectedly high costs for own account attributable to natural catastrophes, liability risks and events cancelled due to the COVID-19 pandemic are also the reason for the forecast loss ratio and technical result not being achieved in the 2020 financial year.

In addition, given the ongoing low-interest-rate environment, Great Lakes Insurance SE's return on investment will likely continue to fall. As things stand at present, we expect to generate a slightly positive result in accordance with the Commercial Code in 2021, after taxes and allocations to the claims equalisation provision.

Overall, in 2021 we are expecting – given average claims figures – an underwriting result for own account, prior to changes in the claims equalisation provision, of approximately €30 million and an IFRS result after tax of approximately €18 million.

Our reinsurance programme will protect us in 2021 against further material claims expenditure due to COVID-19, which could arise in particular in connection with coverage for cancellation-of-events insurance.

Classes of business and types of insurance transacted in the 2020 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 2020

Balance sheet as at 31 December 2020

Assets

				Previous year
	€'000	€'000	€'000	€'000
A. Investments				
I. Other investments				
1. Bearer bonds and other fixed-interest securities	1,085,926			621,853
2. Deposits with banks	113,401			197,665
		1,199,327		819,517
II. Deposits retained on assumed reinsurance business		1,087,854		936,556
			2,287,180	1,756,074
B. Receivables				
I. Receivables from direct insurance operations with:				
1. policyholders	1,293,881			1,331,138
2. intermediaries	478,288			450,396
		1,772,169		1,781,534
II. Accounts receivable on reinsurance business		593,078		478,986
Therefrom - affiliated companies: €406,750 thousand (268,076 thousand)				
III. Other receivables		102,745		108,288
Therefrom - affiliated companies: €76,809 thousand (65,756 thousand)				
			2,467,992	2,368,809
C. Other assets				
I. Cash at bank, cheques and cash in hand		196,208		134,377
			196,208	134,377
D. Prepaid expenses and deferred income				
I. Deferred interest and rent		4,682		3,664
II. Other prepaid expenses		15		0
			4,697	3,664
Total assets			4,956,078	4,262,923

Equity and liabilities

				Previous year
	€'000	€'000	€'000	€'000
A. Equity				
I. Issued capital		131,777		131,777
II. Capital reserves		40,000		0
III. Revenue reserves				
Legal reserve		1,083		1,083
IV. Retained profits		264,063		264,063
			436,923	396,923
B. Technical provisions				
I. Unearned premiums				
1 Gross amount	1,480,674			1,318,669
2 Thereof less: ceded reinsurance business	1,144,500			1,116,799
		336,173		201,869
II. Provisions for claims outstanding				
1 Gross amount	7,725,755			7,746,372
2 Thereof less: ceded reinsurance business	6,928,565			7,226,372
		797,190		520,000
III. Claims equalisation provision and similar provisions		23,903		15,504
IV. Other technical provisions				
1 Gross amount	143,269			161,368
2 Thereof less: ceded reinsurance business	136,113			157,516
		7,156		3,851
			1,164,422	741,225
C. Other provisions				
I. Pension provisions		83		65
II. Provisions for tax		8,809		1,143
III. Miscellaneous provisions		4,335		4,289
			13,227	5,497
D. Deposits retained on ceded business			1,125,576	938,393
E. Other liabilities				
I. Liabilities from direct insurance operations to				
1 policyholders	25,228			21,731
2 intermediaries	669,000			644,619
		694,228		666,350
II. Accounts payable on reinsurance business Thereof to - affiliated companies: €1,441,424 thousand (1,356,660 thousand)		1,487,680		1,427,315
III. Miscellaneous liabilities Thereof to - affiliated companies: €1 thousand (2,868 thousand) Thereof from taxes: €27,199 thousand (13,593 thousand) Thereof for social security: €3 thousand (3 thousand)		34,022		87,221
			2,215,930	2,180,886
Total equity and liabilities			4,956,078	4,262,923

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 2020.

It is hereby confirmed that the provision for future policy benefits in the amount of €70,612 thousand reported under item B. II on the equity and liabilities side of the balance sheet was calculated with due regard to Section 341f and Section 341g of the German Commercial Code (HGB) and the regulation issued on the basis of Section 88(3) of the Insurance Supervision Act (VAG).

Munich, 19/04/2021

Responsible actuary

Dr. Alexander Itigin

Income statement for the 2020 financial year

Item

							Previous year
				€'000	€'000	€'000	€'000
I.	Technical account						
	1	Earned premiums for own account					
		a)	Gross written premium	4,930,994			4,021,820
		b)	Outward reinsurance premiums	-4,209,384			-3,712,805
					721,610		309,015
		c)	Change in gross unearned premiums	-237,528			-205,376
		d)	Change in ceded share of gross unearned premiums	80,453			121,022
					-157,075		-84,354
						564,535	224,661
	2	Other technical income for own account				41	0
	3	Claims incurred for own account					
		a)	Claims paid				
			a) Gross amount	-3,092,525			-2,710,392
			b) Ceded share	2,954,719			2,618,446
					-137,807		-91,946
		b)	Change in provision for claims outstanding				
			a) Gross amount	-358,091			-838,782
			b) Ceded share	43,288			748,192
					-314,803		-90,591
						-452,610	-182,537
	4	Change in other technical provisions for own account					
		a)	Other net technical provisions		-2,336		1,029
						-2,336	1,029
	5	Operating expenses for own account					
		a)	Gross operating expenses		-1,366,901		-1,222,528
		b)	less: commission received on ceded business		1,201,365		1,176,645
						-165,536	-45,884
	6	Other underwriting expenses for own account				-396	23
		Thereof: ceded share			1,641		1,079
	7	Subtotal				-56,302	-2,707
	8	Change in claims equalisation provision and similar provisions				-8,399	2,425
	9	Underwriting result for own account				-64,701	-282

						Previous year
			€'000	€'000	€'000	€'000
II.	Non-technical account					
	1	Investment income				
		a) Income from other investments	21,386			27,693
		b) Income from reversals of write-downs	74			1,004
		c) Gains on the disposal of investments	8,900			9,150
				30,359		37,847
	2	Investment expenses				
		a) Expenses for the management of investments, interest paid and other expenses for investments	-1,179			-1,296
		b) Write-downs of investments	-3,210			-1,835
		c) Losses on the disposal of investments	-4,693			-2,379
				-9,082		-5,510
					21,277	32,337
	3	Other income			124,971	61,824
	4	Other expenses			-149,380	-84,212
	5	Operating result before tax			-67,833	9,667
	6	Taxes on income			-947	-8,570
	7	Other taxes			-455	-14
	8	Income from loss absorption			69,235	0
	9	Net income for the financial year			0	1,083
	10	Appropriation to other revenue reserves			0	-1,083
	11	Net retained profits			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 jurisdictions, temporary differences and carry-forwards are assessed overall. We exercised 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 €73,204 thousand (60,439 thousand). The deductible temporary differences result from the measurement of intangible assets, investments and technical provisions. The existing taxable temporary differences are of lesser significance.
The rounded deferred tax rate applicable in Germany is 33.0%. It is made up of the corporate tax rate (including solidarity surcharge) of 15.8% and the trade tax rate of 17.2%. The applicable tax rate at the material permanent establishment in the United Kingdom was 19.0%.

Great Lakes Insurance SE has tax loss carryforwards of €80,623 thousand (0 thousand) attributable to Germany. Of this amount, €39,460 thousand and €41,163 thousand were attributable to corporate income tax and trade tax loss carryforwards, respectively. The tax loss carryforwards are expected to be utilised within the next five years.

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.

Provisions 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 data from prior years.

The provisions for loss adjustments were calculated separately for internal and external loss adjustment expenses, in accordance with Section 341g(1) sentence 2 of the Commercial Code. 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 1.6% (2.0%) and salary trend of 3.0% (3.0%). 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 German 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 31.12.2020
	€'000						
A. I. Other investments							
1. Bearer bonds and other fixed-interest securities	621,853	-25,827	1,566,172	-1,073,135	74	-3,210	1,085,926
2. Deposits with banks	197,664	23	894	-85,180	0	0	113,401
Total	819,517	-25,804	1,567,066	-1,158,315	74	-3,210	1,199,327

The statement of changes in assets and investments is shown at year-end exchange rates (31 December 2020).

Assets with a market value of €122,420 thousand (124,023 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	31.12.2020	31.12.2020	31.12.2020
A. I. Other investments			
1. Bearer bonds and other fixed-interest securities	1,085,926	1,096,827	10,901
2. Deposits with banks	113,401	113,401	0
Total	1,199,327	1,210,228	10,901

As at 31 December 2020, no investments were committed to permanent assets.

B. III. Other receivables

Other receivables includes income tax assets amounting to €7,743 thousand (6,574 thousand) and value-added tax assets amounting to €5,304 thousand (773 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. Capital reserves

A sum of €40,000 thousand was contributed to Great Lakes Insurance SE's capital reserves during the financial year.

III. Revenue reserves

The revenue reserves includes the full amount of the legal reserve of €1,083 thousand, which had been allocated for the first time in the previous year.

IV. Retained profits

Retained profits brought forward amounted to €264,063 thousand. The profit brought forward includes profits generated prior to the relocation of GLISE's registered office.

B. Technical provisions

€'000	Total gross technical provisions		Thereof: Gross provision for claims outstanding		Thereof: Claims equalisation provision and similar provisions	
	31.12.2020	Previous year	31.12.2020	Previous year	31.12.2020	Previous year
Direct insurance business						
Personal accident and health insurance, of which:	270,809	287,509	102,943	94,332		
Personal accident insurance	64,722	50,146	51,205	39,901		
Health insurance	206,087	237,363	51,739	54,431		
Liability insurance	1,669,027	1,706,003	1,496,551	1,555,505		8,493
Motor third-party liability insurance	2,430,180	2,436,668	2,043,477	2,079,571		
Other motor insurance	396,860	369,790	289,687	268,337	12,527	852
Fire and property insurance, thereof:	868,830	704,142	738,371	615,760	1,130	
Fire insurance	500,374	348,567	410,080	295,276	748	
Householders' comprehensive insurance	22,456	-13,518	16,782	-19,540		
Other property insurance	319,771	333,569	285,396	307,458	267	
Marine and aviation insurance	112,159	283,815	86,595	255,579		
Credit and bond insurance	117,282	23,514	112,600	21,336	327	
Legal protection insurance	45,587	82,518	41,235	72,268		
Assistance insurance	27,540	13,884	22,074	7,294		
Other classes of business	741,311	415,607	631,545	306,446	2,226	236
Total	6,679,585	6,323,448	5,565,079	5,276,428	16,210	9,581
Assumed reinsurance business						
Total	2,694,016	2,918,464	2,160,676	2,469,944	7,693	5,922
Overall insurance business	9,373,601	9,241,912	7,725,755	7,746,372	23,903	15,504

C. III. Miscellaneous provisions

€'000	31.12.2020	Previous year
Other	2,056	1,306
Salary obligations	1,064	1,442
Invoices outstanding	615	518
Medium-term incentive plans	495	940
Anniversary benefits	105	83
Total	4,335	4,289

D. 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	25,228	0	0
2. intermediaries	669,000	0	0
	694,228	0	0
II. Accounts payable on reinsurance business	1,485,491	2,189	0
Thereof: affiliated companies: €1,441,424 thousand (1,356,660 thousand)			
III. Miscellaneous liabilities	34,022	0	0
Thereof to - affiliated companies: €1 thousand (2,686 thousand) Thereof from taxes: €27,199 thousand (13,593 thousand) Thereof for social security: €3 thousand (3 thousand)			
Total	2,213,741	2,189	0

E. 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 gross hedge presentation method
	The following hedging relationships – the largest in terms of volume – were recognised at the balance sheet date: - Pounds sterling: €4,378 million (4,884 million) - US dollars: €3,083 million (2,519 million) - Chinese yuan: €18,530 million (2,316 million) The gross reserves are essentially covered by the net reserves.			Recognition of effective change in the fair value of hedged items and hedging instruments in the balance sheet and income statement based on gross hedge presentation method

Notes to the income statement

I. Technical account

I.1 Earned premiums for own account

€'000	Gross written premium		Gross premiums earned		Net earned premiums	
	2020	Previous year	2020	Previous year	2020	Previous year
Direct insurance business						
Personal accident and health insurance, of which:	159,739	201,020	183,339	197,012	916	-1,709
Personal accident insurance	38,928	34,486	35,643	31,596	-5	5
Health insurance	120,811	166,534	147,696	165,416	921	-1,715
Liability insurance	496,640	338,453	455,596	319,281	138,249	62,473
Motor third-party liability insurance	884,378	804,507	859,011	776,800	541	-1,317
Other motor insurance	275,243	237,470	263,123	239,324	53,160	1,084
Fire and property insurance, thereof:	498,273	310,569	451,388	282,750	182,146	24,445
Fire insurance	345,534	187,835	301,272	178,642	131,073	6,721
Householders' comprehensive insurance	49,471	41,681	49,508	40,081	82	149
Other property insurance	120,103	79,592	114,577	61,547	50,586	17,692
Marine and aviation insurance	92,589	119,918	90,317	114,132	5,916	-293
Credit and bond insurance	87,977	53,578	85,546	57,009	244	100
Legal protection insurance	13,154	43,007	18,694	44,656	843	528
Assistance insurance*	16,207	14,488	13,739	14,027	-435	-60
Other classes of business	488,309	399,142	485,211	369,686	110,494	77,622
Total	3,012,508	2,522,153	2,905,964	2,414,675	492,073	162,872
Assumed reinsurance business						
Total	1,918,485	1,499,667	1,787,502	1,401,769	72,461	61,789
Overall insurance business	4,930,994	4,021,820	4,693,466	3,816,444	564,535	224,661

* = The negative net earned premiums in the fully ceded assistance insurance class of business are due to difference cost deductions in the calculation of unearned premiums for the own business and assumed business.

Gross premiums written by origin

€'000	2020	Previous year
Direct insurance business		
Germany	93,128	23,565
Other Member States of the European Union and other signatory states to the Agreement on the European Economic Area (EEA)	2,732,331	2,376,951
Third countries	187,050	121,637
Total	3,012,508	2,522,153

I.3. Claims incurred for own account

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

Gross claims incurred

€'000	2020	Previous year
Direct insurance business		
Personal accident and health insurance, of which:	**-78,507**	**-93,882**
Personal accident insurance	-22,971	-19,293
Health insurance	-55,536	-74,589
Liability insurance	-290,397	-242,779
Motor third-party liability insurance	-564,054	-393,860
Other motor insurance	-180,097	-173,364
Fire and property insurance, thereof:	**-405,702**	**-123,909**
Fire insurance	-287,247	-114,872
Householders' comprehensive insurance	-59,785	34,590
Other property insurance	-63,482	-14,662
Marine and aviation insurance	-75,652	-167,617
Credit and bond insurance	-106,637	-16,117
Legal protection insurance	20,411	-24,939
Assistance insurance	-20,070	-10,116
Other classes of business	-778,385	-281,870
Total	**-2,479,092**	**-1,528,453**
Assumed reinsurance business		
Total	-971,525	-2,020,722
Overall insurance business	**-3,450,616**	**-3,549,175**

Gross operating expenses

€'000	2020	Previous year
Direct insurance business		
Personal accident and health insurance, of which:	-107,549	-99,514
Personal accident insurance	-12,285	-11,178
Health insurance	-95,265	-88,335
Liability insurance	-78,544	-87,061
Motor third-party liability insurance	-232,584	-237,156
Other motor insurance	-72,612	-67,348
Fire and property insurance, thereof:	-165,144	-94,918
Fire insurance	-107,989	-58,386
Householders' comprehensive insurance	-39,223	-19,221
Other property insurance	-29,706	-14,583
Marine and aviation insurance	-25,841	-19,659
Credit and bond insurance	-9,293	-7,818
Legal protection insurance	-22,162	-27,617
Assistance insurance	-4,129	-5,404
Other classes of business	-207,377	-142,662
Total	-925,236	-789,158
Assumed reinsurance business		
Total	-441,665	-433,371
Overall insurance business	-1,366,901	-1,222,528

Of the total gross operating expenses, €1,340,763 thousand (1,196,917 thousand) was attributable to acquisition costs and €26,139 thousand (25,626 thousand) to management expenses.

I.8. Underwriting result for own account

€'000	2020	Previous year
Direct insurance business		
Personal accident and health insurance, of which:	1,835	553
Personal accident insurance	510	577
Health insurance	1,326	-24
Liability insurance	-36,490	3,208
Motor third-party liability insurance	9,372	3,889
Other motor insurance	-11,285	4,460
Fire and property insurance, thereof:	-57,311	-18,884
Fire insurance	-62,641	-16,683
Householders' comprehensive insurance	202	1,336
Other property insurance	5,187	-3,426
Marine and aviation insurance	1,102	1,245
Credit and bond insurance	2,870	1,244
Legal protection insurance	461	1,972
Assistance insurance	-187	179
Other classes of business	33,796	-2,067
Total	-55,837	-4,202
Assumed reinsurance business		
Total	-8,864	3,919
Overall insurance business	-64,701	-282

Reinsurance balance*

€'000	2020	Previous year
Direct insurance business		
Personal accident and health insurance, of which:	4,675	-2,818
Personal accident insurance	122	-547
Health insurance	4,553	-2,271
Liability insurance	-130,680	4,120
Motor third-party liability insurance	-53,001	-141,894
Other motor insurance	-10,024	6,700
Fire and property insurance, thereof:	64,618	-81,742
Fire insurance	32,148	-21,949
Householders' comprehensive insurance	49,790	-54,115
Other property insurance	-14,759	-34,779
Marine and aviation insurance	12,384	74,389
Credit and bond insurance	33,637	-32,018
Legal protection insurance	-16,481	9,873
Assistance insurance	10,273	1,672
Other classes of business	538,078	54,060
Total	453,479	-107,657
Assumed reinsurance business		
Total	-381,404	1,060,028
Overall insurance business	72,076	952,371

* = 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.

Non-technical account

Other income and expenses primarily comprise currency translation gains of €70,506 thousand (39,766 thousand) and currency translation losses of €77,084 (€41,024 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 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.

In the 2020 financial year, tax income of –€1,252 thousand (10,392 thousand) arose in the Germany tax jurisdiction, and tax expenses of €1,650 thousand (0 thousand) and €585 thousand (–1,916 thousand) were generated by the Italy and UK branches, respectively.

Other information

Number of primary insurance policies with terms of at least one year

Number	2020	Previous year
Direct insurance business		
Personal accident and health insurance, of which:	1,697,012	1,956,435
Personal accident insurance	1,220,031	1,338,257
Health insurance	476,981	618,178
Liability insurance	453,636	339,066
Motor third-party liability insurance	5,801,033	5,279,435
Other motor insurance	4,542,355	4,984,324
Fire and property insurance, thereof:	1,291,740	1,636,853
Fire insurance	117,138	79,083
Householders' comprehensive insurance	231,440	1,133,075
Other property insurance	943,162	424,695
Marine and aviation insurance	30,488	11,209
Credit and bond insurance	45,203	184,747
Legal protection insurance	146,940	809,103
Assistance insurance	68,629	79,944
Other classes of business	1,112,548	1,796,356
Total	15,189,584	17,077,472

Contingent liabilities and other financial commitments
There were no contingent liabilities. Other financial commitments remained unchanged at €111 thousand.

Off-balance sheet transactions
There are no further off-balance sheet transactions.

Events after the balance sheet date
No transactions of material significance occurred after the end of the financial year.

Average headcount during the year
In the 2020 financial year, we employed an average of 32 (28) 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	31.12.2020	Previous year
Commissions of any type to insurance agents within the meaning of Section 92 of the Commercial Code for direct insurance operations	875,005	743,545
Other payments to insurance agents within the meaning of Section 92 of the Commercial Code	25,864	23,718
Wages and salaries	4,927	5,595
Social security contributions and employee assistance	2,096	804
Expenses for employees' pensions	476	63
Total	908,367	773,725

Remuneration report
The total remuneration of the Board of Management of Great Lakes Insurance SE amounted to €1,527 thousand (1,308 thousand). No expenses were incurred for the Supervisory Board of Great Lakes Insurance SE in 2020. 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 38 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 859 (936) rights in existence as at 31 December 2020. The fair value of the 2019 rights amounted to €732.37 (750.73), that of the 2018 rights to €700.47 (730.22). A new long-term incentive plan for the members of the Board of Management was launched in financial year 2019; the provision amounted to €455 thousand as at 31 December 2020.

Auditors’ fees

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

Group affiliation

Great Lakes Insurance SE is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München. 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 Münchener Rückversicherungs-Gesellschaft AG in München, Munich, prepared in accordance with the International Financial Reporting Standards (IFRSs) as at 31 December 2020. The conditions for exempting 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 the website of Munich Re.

List of shareholdings as at 31 December 2020 in accordance with Section 285 no. 11 of the Commercial Code

The information about the Company’s equity has been taken from its formation documents. The net income/loss for the year relates to the 2019 financial year, as presented in the most recently available annual financial statements prepared in accordance with local GAAP.

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

Name of company and location of registered office	Shareholding (%)	Equity (€’000)	Net income/loss for the year (€’000)
Great Lakes (Gibraltar) Plc, Gibraltar	100	100	-6

Governing bodies

Supervisory Board

Claudia Hasse
Chair of the Supervisory Board, Head of Europe and Latin America 3 (Germany & Special Services) at Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München

Ralph Ronnenberg (since 1 March 2021)
Deputy Chair of the Supervisory Board, Managing Director, Munich Holdings of Australasia Pty Ltd.

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 Global Clients/North America 4 (Facultative & Corporate) at Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München

Christoph Carus (until 28 February 2021)

Board of Management

Christoph Carus (since 1 March 2021)
Chief Executive Officer

Dr. Stefan Pasternak

Dr. Tobias Klauß

Stéphane Deutscher

Dr. Achim Stegner (until 30 September 2020)

Drawn up and released for publication, Munich, 19 March 2021.
The Board of Management

Independent auditor's report

To Great Lakes Insurance SE, Munich

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

Audit opinions

We have audited the annual financial statements of Great Lakes Insurance SE, Munich, which comprise the balance sheet as at 31 December 2020, the income statement for the financial year from 1 January 2020 to 31 December 2020, and notes to the annual financial statements, including the accounting policies presented therein. In addition, we have audited the management report of Great Lakes Insurance SE for the financial year from 1 January 2020 to 31 December 2020.

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 2020 and of its financial performance for the financial year from 1 January 2020 to 31 December 2020 in compliance with German generally accepted accounting principles, and

– the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the audit opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB 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 Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10(2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

Valuation of the gross provision for claims outstanding

Reasons for classification as a key audit matter

Gross provisions for claims outstanding are divided into various provisions for claims.

The valuation of the gross provision for known claims (known losses) is generally carried out individually for each claim and is based on the knowledge and information available on the reporting date as well as the Company's experience from similar claims.

Management determines the gross provision for unknown claims (IBNR losses) on the basis of experience using actuarial and statistical methods. To this end, assumptions must be made regarding premiums, ultimate loss ratios, run-off periods, factors and speed, based on past experience. Management bases the amount of the gross provision for claims outstanding on the results of the actuarial procedures and other information regarding uncertainties associated with the calculations. The valuation of major claims is considered separately for the calculation of gross provision for outstanding claims.

The calculation of the gross provision for claims outstanding is subject to uncertainty and depends on the exercise of judgement, as it is based largely on assumptions, therefore giving rise to the the risk that the gross provision is insufficient. Uncertainties relating to the estimation arise in particular with regard to the occurrence, amount and time taken to settle major claims. For this reason, we have classified the valuation of the gross provision for claims outstanding as a key audit matter.

Audit approach

As a part of our audit, we reviewed the claims handling processes and the calculation of the gross provision for known claims as well as the associated procedures, methods and controls used. By reconstructing individual claims, we reviewed the claims handling and reserving processes from the moment the claim is reported until the point it is reported in the annual financial statements and tested the controls implemented in this regard. Furthermore, using the records for a select sample of known claims, we reviewed whether the provisions recognised in this regard were appropriate on the basis of the information and knowledge available on the balance sheet date. For these samples we furthermore reviewed whether the Company's own guidelines for handling claims had been followed. In addition, by carrying out our own calculations and analyses, we investigated whether the recognised gross provisions for outstanding known claims were sufficient, taking into account the discounts used in the select lines of business.

We methodically assessed the valuation procedures for calculating the gross provision for IBNR losses. In addition, we carried out our own actuarial analyses and calculations and assessed whether the parameters underlying the estimates for the IBNR reserves for the financial year (in particular the number of claims and average claims amount) had been reasonably derived.

We also assessed whether, according to the latest knowledge, the provision for outstanding claims in the previous years was sufficient to fully cover the actual losses that arose. We also assessed the quality of past estimates on the basis of this variance analysis. In this context, we assessed whether the recognised gross provision for claims outstanding was adequate on the basis of the run-off results.

On a test basis, we used mathematical statistical procedures to carry out our own loss projections for classes and types of insurance, which we then used to assess whether the provision for claims outstanding was sufficient overall. Using statistical probabilities, we calculated a best estimate and an appropriate range and compared these against the management's calculation.

We used our own actuarial specialists during our audit.

Our audit procedures did not give rise to any objections as regards the valuation of the gross provision for claims outstanding.

Related disclosures

The disclosures on the accounting policies used for the gross provision for outstanding claims can be found in the section entitled "Accounting policies" of the notes to the financial statements. Disclosures on the composition of the gross provision for claims outstanding for the classes and types of insurance can be found in the section entitled "Notes to the balance sheet – Equity and liabilities/Technical provisions".

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board. Management is responsible for the other information. Other information comprises other sections of the annual report that we received up until the date of this auditor's report, in particular:

- key figures

with the exception of the 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 applicable to insurance companies, 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 generally accepted accounting principles. In addition, management is responsible for such internal control as they, in accordance with German generally accepted accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;

- 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 generally accepted 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 Group auditor by the Supervisory Board on 27 April 2020. We were engaged by the Chair of the Supervisory Board on 23 July 2020. We have been the auditor of Great Lakes Insurance SE without interruption since the 2020 financial year.

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

German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Dr. Thomas Kagermeier.

Munich, 6 April 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Kagermeier	Zander
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Imprint

Great Lakes Insurance SE
Königinstrasse 107
80802 Munich, Germany

Tel.: +49 (0)89 244455270
Fax: +49 (0)89 244455271

www.glise.com