

Great Lakes Insurance SE

Solvency and Financial Condition Report

31 December 2016

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Executive Summary

Business and Performance

In accordance with its business strategy, Great Lakes Insurance SE (“Great Lakes”, “the Company”, or “GLISE”) re-located its head office to Munich Germany on 30 December 2016. The Company maintains a strong branch presence in the United Kingdom, and expects that the re-location to Germany will allow it to work even more effectively with its parent Company, Munich Re, in developing insurance solutions for its customers. The Company continues to operate throughout the European Union via the Freedom of Services Directive. The Company also conducts business through branches in Australia, New Zealand, Switzerland, Italy and Ireland.

The underwriting result of the Company in 2016 improved compared to 2015 due to the large losses experienced in 2015 not being repeated in 2016. The 2016 investment result was lower than 2015 and operating expenses in 2016 increased compared to 2015, mainly as a result of additional costs and the write off of some trading balances resulting from the re-location to Munich. Overall the Company made a profit after tax in 2016 of £8.1 million, compared to a loss of £10.9 million in 2015.

Systems of Governance

The Systems of Governance in place during 2016 have been the same as those that were in place for 2015. There will be changes made to the Systems of Governance in 2017, so that the Company complies with the requirements of German company legislation. The 2017 Solvency and Financial Condition Report will set out the new Systems of Governance structure.

Risk Profile

The business model of the Company has not changed compared to 2015, and the overall risk profile of the Company remains consistent. The Company’s business model means that it reinsures over 90% of its gross written premium to its parent and other companies within the Munich Re Group. It fully retains underwriting risk on a specific portfolio, and partially retains underwriting risk on the business it writes in Australia and Switzerland.

Market risk arises from interest rate risk and foreign exchange risk. These risks are mitigated by a strategy of investing only in fixed interest and money market investments and matching the cash flows arising from its liability portfolio with the cash flows arising from its assets.

The Company’s credit risk arises from investments, reinsurance recoverables, and receivables. Investment credit risk is mitigated by investing only in government and corporate bonds with limits placed the percentage of corporate bonds per issuer. The assumption of reinsurance credit risk is an essential part of the Company’s business model, and the biggest exposure is to the Munich Re Group. Munich Re is rated A+ by A.M. Best and recoveries are paid when due. Nevertheless, specific key risk indicators and action plans have been put in place to manage this risk.

The management of liquidity and operational risk is a key part of the Company’s risk management system.

Valuation for Solvency Purposes

The Company is compliant with the valuation requirements set out in Article 75 of Directive 2009/138/EC in all material respects. The section on Valuation for Solvency Purposes sets out the valuation approach for each material balance sheet item.

Capital Management

Capitalisation is maintained at an appropriate level commensurate with the Company's business strategy, economic risk profile, appetite and steering philosophy. The Company's available financial resources must always be sufficient to cover the capital requirements determined by the ruling requirements of supervisory authorities, rating agencies and the risk appetite and buffer set by the Board. The Company's approach to measure and assess potential capital management decisions is defined by the Whole Portfolio Risk Criteria, which exists to safeguard the Company's financial strength, regulatory solvency and target rating to provide a risk based view for pursuing capital management decisions.

The Company's Own Funds at 31 December 2016 stand at £401.7 million, all, of which are classified as Tier 1. The Company's Solvency Capital Requirement (SCR) at 31 December 2016 was £168.7 million resulting in a capital ratio of 238%. The Company's Minimum Capital Requirement at 31 December 2016 was £50.6 million.

The Company uses a full Internal Model to calculate its SCR because the Standard Formula for the calculation of SCR does not adequately reflect the Company's business model or risk profile.

A. Business & Performance

A. Business and Performance (unaudited)

A.1. Business

A.1.1. Legal Status and Registered Office

Until 30 December 2016 Great Lakes Reinsurance (UK) SE was a Societas Europaea (“SE”) incorporated in the United Kingdom and was authorised by the Prudential Regulation Authority. Its registered office was 30 Fenchurch Street, London EC3M 3AJ. On 30 December 2016 the head office of the Company re-located from the United Kingdom to Germany and as a result was de-registered in the United Kingdom and registered in Germany as a Societas Europaea. In conjunction with the relocation, the name of the Company was changed to Great Lakes Insurance SE, and is now authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (“BaFin”). The Company’s registered office is now Königinstrasse 107, 80802, Munich, Germany.

A.1.2. Ownership

The Company is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (“Munich Re”), whose registered office is Königinstrasse 107, 80802, Munich, Germany, and therefore part of the Munich Re Group (“the Group”).

A.1.3. Material business segments

The Company is authorised to transact all classes of non-life insurance and reinsurance business in Germany, and throughout the European Union via the Freedom of Services directive. The Company operates branches in the United Kingdom, Australia, New Zealand, Switzerland, Ireland and Italy, and is authorised to write surplus lines business in the United States of America. The Company acts as a specialist provider of insurance services for the group by using its licenses and relationship with other Group members to develop insurance solutions for their customers. Great Lakes is an integral part of Munich Re’s “Primary Insurance out of Reinsurance” strategy (“PIRI”) and therefore core to the Group. The business the Company writes for Munich Re group members and their customers is known as “facilitated business”. The Company retains the business it underwrites through its Corporate Insurance Partner (“CIP”) division based in London as well as a proportion of the Australian and Swiss facilitated business. This business is known and referred to as “retained” and “partially retained”, respectively. CIP offers a highly respected underwriting service to the world’s 5,000 largest companies and leading players in their industries as well as their captives.

The table below shows the geographical distribution of gross written premium and gross written premium by material line of business.

Premiums by Geographical Segment

	2016 £000's	2015 £000's
United Kingdom	1,576,169	1,434,481
Australia	297,244	245,356
Ireland	85,340	74,693
Italy	29,668	18,926
New Zealand	20,255	17,534
Switzerland	7,140	4,292
	2,015,816	1,795,282

Premiums by Material Line of Business

	2016 £000's	2015 £000's
Motor	830,659	676,609
Liability and other	729,065	540,494
Property	292,440	352,795
Marine and aviation	163,652	225,384
	2,015,816	1,795,282

A.1.4. Significant business or external events

The Company's principle mission is to add value to the Munich Re Group by being a leading insurance solutions provider to the Group. To further support Group growth objectives, in 2015 the Company announced its intention to re-locate its head office operations to Munich. This relocation took place late in 2016, and the legal status of the Company changed as described above. The Company maintains a strong branch presence in the United Kingdom, and the re-location has no impact on its UK business or the business written by Company's other branches. During the year, the decision was taken to cease writing new business for a number of agencies in Australia due to the negative technical profitability of the underlying business. The Company is studying the options under which the remaining book of business shall be conducted in the future.

On 23 June 2016 the UK voted to leave the European Union. The impact of the exit cannot be fully understood until agreements between the UK and the European Union have been finalised. The Company has conducted analyses to assess its position under various possible outcomes that could arise and has concluded that, as a European company with a strong branch presence in the UK, and the support of its parent, the Company is well positioned among its peers for the mid-term and long outlook.

A.1.5. Factors contributing to performance and position since last year end

Factors contributing to the performance of the Company are described in sections A.2 – Underwriting performance, A.3. Investment performance, and A.4 Operating/Other income and expenses.

A.1.6. Material related party transactions

The Company's principle mission of being a specialist provider of insurance services for the Munich Re Group is fulfilled by way of intra-group reinsurance arrangements. This results in over 90% of its gross written premium being reinsured to other members of the Munich Re Group, with the vast majority of the reinsurance to Munich Re itself. The Company has reinsurance recoverable balances of £4,170,844,000, and Amounts payable to reinsurers of £644,520,000 on its UK GAAP balance sheet, the vast majority of which arise from these intra-group reinsurance arrangements.

A.1.7. Material transactions with shareholders and members of the administrative, management or supervisory boards

The Company did not pay a dividend in 2016 in respect of the 2015 financial year, and will not pay a dividend in 2017 in respect of its 2016 financial year. There have been no transactions with members of the Company's boards, except for the normal contracted remuneration.

A.2. Performance from Underwriting Activities

A.2.1. Underwriting Income and expenses by material line of business and geographic region

2016	Motor £000's	Liability and other £000's	Property £000's	Marine and aviation £000's	Total £000's
Gross					
Premiums written	830,659	729,065	292,440	163,652	2,015,816
Premiums earned	761,268	727,276	314,466	195,632	1,998,642
Claims incurred	503,608	438,622	218,411	121,267	1,281,908
Unexpired risks reserve	-	(234)	-	-	(234)
Operating expenses	234,504	335,604	72,537	31,506	674,151
	23,156	(46,716)	23,518	42,859	42,817
Reinsurance	21,135	(31,804)	5,033	41,714	36,078
Net technical result	2,021	(14,912)	18,485	1,145	6,739

2015	Motor £000's	Liability and other £000's	Property £000's	Marine and aviation £000's	Total £000's
Gross					
Premiums written	676,609	540,494	352,795	225,384	1,795,282
Premiums earned	670,981	575,835	350,212	212,320	1,809,348
Claims incurred	443,894	365,668	208,520	175,095	1,193,177
Unexpired risks reserve	-	3,455	-	-	3,455
Operating expenses	168,056	236,430	105,454	29,414	539,354
	59,031	(29,718)	36,238	7,811	73,362
Reinsurance	61,535	(26,908)	46,284	20,997	101,908
Net technical result	(2,504)	(2,810)	(10,046)	(13,186)	(28,546)

In 2015 large loss activity on the Australian branch and CIP retained portfolio business resulted in high loss and combined ratios. In contrast CIP experienced a very benign year in regard to losses in 2016 despite the liability book suffering of adverse loss development of older underwriting years.

A.3. Performance from Investment Activities

A.3.1. Investment income

All asset of the Company are managed by the Group's internal asset management company, Munich Ergo Asset Management ("MEAG"). The Company's Investment Mandate only allows investment in a conservative portfolio of fixed interest investments. The Company's bond portfolio is further described in the Risk Profile section of this document. Investments in real estate and equities is not permitted. The following table provides an analysis of the investment return for 2016 and 2015.

Investment result

	2016 £000's	2015 £000's
Interest and amortization of premiums and discounts	6,368	7,294
Realised gains on the sale of bonds	5,343	5,341
Realised losses on the sale of bonds	(5,577)	(1,245)
Investment expenses	(907)	(769)
	<u>5,227</u>	<u>10,621</u>

A.3.2. Gains or Losses recognised directly in equity

The Company accounts for its bond portfolio in accordance with FRS 102. The Company's bonds are classified as available-for-sale and unrealised gains and losses are recognised in other comprehensive income.

Gains or Losses Recognised directly in Equity

	2016 £000's	2015 £000's
Unrealised gains on bonds	8,025	4,647
Unrealised losses on bonds	(1,552)	(1,774)
	<u>6,473</u>	<u>2,873</u>

A.3.3. Transactions with shareholders or members of the Administrative, Management, or Supervisory Boards

There have been no investment transactions with the Company's parent, or with members of the board.

A.3.4. The impact of amortisation and impairment

Depending on market conditions, the Company pays a premium to, or receives a discount from, par value when a bond is purchased. These premiums and discounts are amortised to income over the life of the bond. The amount of amortisation of these premiums and discounts is set out below.

	2016 £000's	2015 £000's
Amortisation of Premiums and discounts	6,310	7,232

A.3.5. Investment expenses

The level of investment expenses is shown in the table presented in section A.3.1. There is no significant movement in investment expenses compared to the previous year.

A.4. Operating/other income and expenses

A.4.1. Non underwriting income and expenses by type and function

The Company has no significant non-underwriting income. The Company has a management agreement with Munich Re UK Services Limited, a wholly owned subsidiary of Munich Re. Munich Re UK Services Limited employs all the Company's UK personnel and provides full administration management services. Munich Re UK Services Limited charges the Company with an administration fee on a quarterly basis. Accordingly the Company has no employees of its own. The same arrangement is in place for the Company's operations in Australia, where a related party management services organisation employs all the Company's Australian and New Zealand based personnel.

The Company's non-underwriting expenses are presented in the following table.

	2016 £000's	2015 £000's
Administration expenses	43,450	34,142

The main reason for the increase in these expenses over 2015 is additional expenses and the write off of some trading balances recognised by the Company resulting from its re-location to Munich. These are one-off costs, and it is expected that the amount of administration expenses will return to 2015 levels in the future.

A.5. Any other disclosures

Following relocation to Germany, the Company entered into a control agreement with Munich Financial Group GmbH, which was approved by BaFin and enacted on the 7th April 2017.

B. System of Governance

B. System of governance (unaudited)

B.1. General governance arrangements

How we view corporate governance

Corporate governance is the system by which companies are directed and controlled. Corporate governance stands for a form of responsible company management and control geared to long-term creation of value. One of the Company's aims in this context is to foster the confidence of clients, employees and policyholders. Also of great significance are efficient practices of the Board of Directors and Senior Management, good collaboration between these bodies and with the company's staff, and open and transparent corporate communications.

Good corporate governance practice is an important principle underlying the Company's business activities.

Applicable Laws and Regulations

Until 30 December 2016 Great Lakes Reinsurance (UK) SE was a company registered in England and Wales and was required to comply with the provisions of the Companies Acts 1985 and 2006, which form the primary source of UK company law. Great Lakes was regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA") and authorized by the PRA to transact all classes of non-life insurance and reinsurance in the United Kingdom and throughout the European Union on a Freedom of Services basis.

On 30 December 2016, the Company relocated from the United Kingdom to Germany, and as a result was de-registered in the United Kingdom and registered in Germany. Upon registration in Germany, the Company changed its name to Great Lakes Insurance SE, and became regulated by BaFin. The Company's operations in the United Kingdom became a branch of the German company, regulated by the FCA. Great Lakes also writes business via branches in Australia, New Zealand, Switzerland, Italy, and Ireland and is authorised to write surplus lines business in the USA. The re-location had no effect on the local operations of these branches.

Great Lakes branches in Ireland, Italy and Switzerland are managed through the key departments of Great Lakes in Germany. Representatives are appointed in the country of each branch and some reporting functions are outsourced to them in the interests of efficiency and effectiveness.

Great Lakes Australia (GLA) is authorised to carry on insurance business by the Australian Prudential Regulation Authority and licensed to provide general advice and deal in general insurance products to retail and wholesale clients in Australia by Australian Securities and Investments Commission.

Great Lakes New Zealand (GLNZ) is authorised by the Reserve Bank of New Zealand to conduct non-life insurance business in New Zealand.

These two branches of the Company are subject to local regulatory and legal requirements, and organisational and operational structures and procedures have been put in place to:

- a) ensure best practice corporate governance;
- b) adopt appropriate risk management systems, internal control and reporting systems and compliance frameworks and monitor their operation;
- c) review financial performance;
- d) review decisions concerning the capital position;
- e) monitor compliance with requirements of applicable legislation; and
- f) review the preparation of branch financial reports and statements.

Local management responsible for these activities report to the Senior Officer Outside Australia, who is the Chief Executive Officer of Great Lakes in Germany. This ensures that activities carried out to meet local requirements also satisfy the Company's requirements as a whole.

This section of the System of Governance will describe the governance of of the Company that was in place during the year up until the re-location of the Company to Germany on 30 December 2016. The System of Governance will change as a result of the relocation, and those changes will be described in the Solvency and Financial Condition Report for 2017.

B.1.1. Structure of the Management or Supervisory Bodies

B.1.2. Board of Directors

The Board is collectively responsible for the success of the Company in that it:

- Provides entrepreneurial leadership for the Company within a framework of prudent and effective controls which enable risk to be assessed and managed;
- Sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives, and reviews Senior management performance;
- Sets the Company's values and standards and ensures that its obligations to its stakeholders and others are understood and met; and
- Supports and monitors the Company's initiatives to ensure regulatory compliance, including the implementation and embedding of specific regulatory requirements.

The Board of Directors is responsible for managing the Company, setting objectives and determining strategy. In doing so, its objective is to safeguard Company interests and endeavour to achieve a long-term increase in the Company's value.

The Board of Directors ensures compliance with statutory requirements and internal company directives, and is responsible for effecting adequate risk management and risk control in the Company.

The Board is responsible for oversight of the management of the Company and its operations.

Board Structure

The Articles of Association of the Company require the number of directors to be two or more without maximum, but the Company normally operates with no more than 7 and no fewer than 5 directors, including the Chairman and two other non-executive Directors. Meetings of the Board of Directors take place as required, but at least quarterly.

The quorum necessary for the transaction of business is two Directors. A duly convened meeting of the Board, at which a quorum is present, is competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Board.

The Board has established four sub-committees, namely the Audit Committee, the Investment Committee, the Risk and Capital Committee, and the Remuneration Committee. Each Board committee has its own terms of reference agreed by the Board, which are reviewed annually.

In accordance with the Articles of Association, the proceedings of any committee to which the Board has delegated powers will be reported to the directors at the next meeting of the Board following each committee meeting. A description of the main roles, responsibilities and key functions of each board committee is set out below.

Audit Committee

The Audit Committee is established to consider and provide advice to the Board on financial reporting, and internal and external audit. The Great Lakes internal audit activity is supervised by the Audit Committee and performed by Munich Re Internal Audit Hub for its London operations and the Group Audit department of Munich Re. Where appropriate, internal audit activity may be supplemented by access to, and use of, external consultants.

The Board will delegate to the Audit committee to set and review the internal audit programme and ensure that adequate resources are allocated and that the Internal Audit Function has an adequate standing within the company.

The committee will monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system.

In addition the Audit Committee will monitor the independence, objectivity and effectiveness of the Company's External Auditors and approve their appointment.

Risk and Capital Committee

The primary objective of the Risk and Capital Committee is to assist the Board in fulfilling its responsibility for the oversight of Great Lakes' strategy with particular reference for managing risk, controls and capital.

The role of the committee is to review, challenge and advise the Board on:

- Risk exposures and risk strategy
- Risk management framework
- Internal model and capital management

Investment Committee

The Investment Committee was established to review aspects of the company's investment operations including, the investment mandate, investment risk parameters, strategic asset allocation, asset-liability matching, investment return, performance of the investment manager and investment management fees.

Remuneration Committee

The purpose of the Committee is to provide oversight on matters concerning remuneration, paying specific attention to the prevention of incentives which encourage excessive risk taking or that create conflicts of interest between the employees and the Company.

The Committee pays particular attention to ensure the robust application of the Remuneration Policy in respect of "Senior Executives" and other significant risk takers.

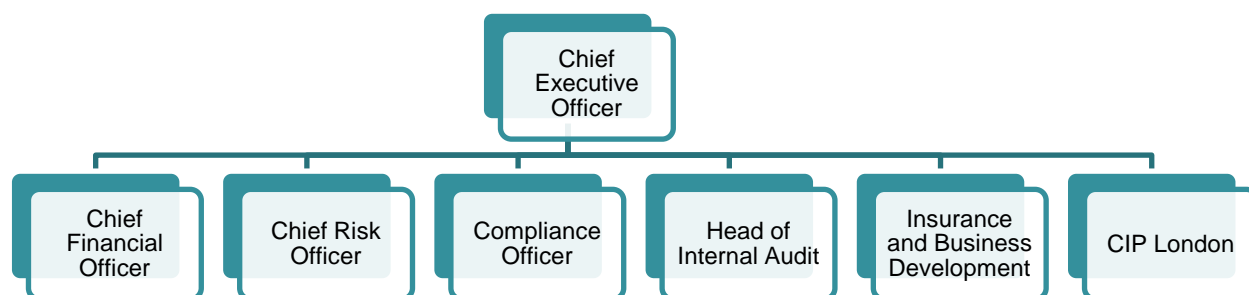
The Remuneration Committee shall agree with the Board, the broad policy for the remuneration of the Company's CEO, the executive directors and other members of the executive management as it is designated to consider.

The members of the Board of Directors, their key roles, and the committees in which they participate are provided in the table below.

Board Member	Position Held	Key Roles	Other Committees
A.J. Medniuk	Chairman of the Board of Directors	Independent Non-Executive Director	Member of the Audit Committee Member of the Risk and Capital Committee Member of the Investment Committee Member of the Remuneration Committee
N.H.H. Smith	Chairman of the Audit Committee	Independent Non-Executive Director	Member of the Board of Directors Member of the Risk and Capital Committee Member of the Investment Committee
T.J. Carroll	Chairman of the Risk and Capital Committee	Independent Non-Executive Director	Member of the Board of Directors Member of the Audit Committee
C-U. Kroll	Member of the Board of Directors	Non-Executive Director	Chairman of the Remuneration Committee Member of the Audit Committee Member of the Risk and Capital Committee
A. Stegner	Member of the Board of Directors	Chief Executive Officer	Member of the Audit Committee Member of the Risk and Capital Committee Member of the Remuneration Committee
S. Pasternak	Member of the Board of Directors	Chief Financial Officer	Chairman of the Investment Committee Member of the Audit Committee Member of the Risk and Capital Committee

Management Structure

The management structure of the Company is set out in the chart below.



An Executive Committee consisting of the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Senior Insurance Manager, (the Head of Insurance and Business Development), the Compliance Officer, the Senior Claims Manager and the Speciality Underwriting Manager CIP London meets weekly to receive reports and issue direction to the business where necessary. It has its own terms of reference, which are reviewed annually. Recurring and topic related guests participate in the meetings of the Committee.

Whilst the Executive Committee is not a Board Committee, its proceedings and decisions are reported to the Board by way of the Chief Executive Officer's, Chief Financial Officer's, Compliance Officer's, Senior Insurance Manager's, Senior Claims Manager's and Chief Risk Officer's regular reports to the Board. The Executive committee may at its discretion commission its own sub committees to control important aspects of the Company's operations. There are currently three sub committees responsible for oversight of various activities. A description of the main roles, responsibilities and key functions of the sub committees is set out below.

Underwriting Committee

This committee is chaired by the Chief Executive Officer and advises the Board and senior management about the company's underwriting policies and guidelines and reviews the company's underwriting mandate and strategy, as well as carrying out other activities regarding underwriting governance.

Solvency II Steering Committee

This Committee is chaired by the Chief Risk Officer and its purpose is to assist Great Lakes in the effective discharge of its responsibilities for delivering the changes needed to satisfy the requirements of the Solvency II Directive by monitoring, observing and reporting on qualitative and quantitative management issues.

New Business Committee

The purpose of the Committee is to evaluate, accept or reject applications for new business proposals as defined in its Terms of Reference, with an upwards reporting responsibility to the Executive Committee.

Key Functions

Each of the Heads of Key Functions attends at least one of the Board Committees as follows:

Key Function Attendance	Board of Directors	Audit Committee	Risk & Capital Committee	Investment Committee
Compliance Officer	X*	X	X	
Head of Internal Audit		X		
Chief Actuary	X	X	X	X
Chief Risk Officer*	X*	X	X	X

**The Chief Risk Officer attends meetings of the Board as a Guest Member and not as a full Board Member. The Compliance Officer attends meetings of the Board in the capacity of Company Secretary.*

In this way the Board is able to demonstrate that it has regular and robust interaction with both the Board Committees and the Key Functions with an opportunity to challenge reporting and outcomes. This demonstrates that the Board and Executive cooperate closely to the benefit of the Company.

The Board has delegated certain of its powers and established a framework of internal control procedures that are recorded in the following documents:

- Powers not delegated to the Chief Executive and other management by the Board are recorded in the “Schedule of Matters reserved for the Board”
- The Company’s approach to risk and its control are recorded in its Risk Management Manual
- It is clearly documented which matters the Executive Committee has authority to approve and which matters require ratification by the Board or Audit Committee

Annual General Meeting

Prior to the re-location of the Company to Germany, the Company held an Annual General Meeting within 6 months of the filing date of Accounts each year...

B.1.3. Appropriateness of the organizational and operational structure

The organisational and operational structure of Great Lakes is considered by the Board and Executive Committee to be appropriate for the complexity and size of the Company’s operations and for the Company’s business strategy.

The system of governance includes an adequate transparent organisational structure with a clear allocation of functions and responsibilities:

- The structure of the company and the organisation of the business is documented in regularly updated organisation charts, which are published on the intranet,
- Responsibilities for each Department are documented in Departmental Procedure Guides and Manuals,
- Individual responsibilities are documented within Role Profiles which are provided to each individual upon joining the company.

Responsibilities are appropriately segregated in order to ensure the effective working of the system of governance:

- The governance functions of risk management, compliance and internal audit are established in separate organisational units
- The head of internal audit and internal audit staff perform no additional functions
- The heads of risk management, compliance, actuarial and internal audit report directly to a member of the Executive Committee, who are also members of the Board.
- A concept of internal risk controls has been implemented, ensuring that there is no undue influence, control or constraint exercised on the risk control functions with respect to the performance of their duties by other operational functions

An effective system for ensuring the transmission of information is in place, in that clear reporting lines ensure the prompt transfer of information to all persons who need it.

The organisational and operational structure is subject to regular internal review. It is reviewed by Internal Audit and as part of the Internal Control System process within Risk Management. This ensures that organisational structures support the strategic objectives of the Company and that they are adapted to changes in the strategic orientation.

The Company has written policies in relation to the risk management function, the internal control system, the compliance function, the actuarial function and the internal audit function, all of which were approved by the board or its committees.

The Company has an outsourcing policy which has been approved at a level considered by the Executive Committee and Board to be appropriate.

Compliance with such policies is considered by the internal audit function in its audits.

B.1.4. Remuneration system

The Remuneration Policy

Munich Re UK Services Limited's remuneration policy is designed to provide its employees with a competitive overall level of compensation relative to market benchmarks and reflective of the degree to which the objectives of the Company have been achieved. The remuneration policy sets out the required composition and responsibilities of the Remuneration Committee, and also sets out;

- The principles of compensation
- Benchmarking
- Salary reviews
- Bonuses
- Levels of authority

Variable and non-variable compensation

Salaries are determined based on a grading for each job profile and benchmarking against the market in which the Company operates. All employees are eligible to participate in a bonus scheme which comprises elements determined by the performance of the individual and the performance of the Company. All employees have an On Target Bonus which is the percentage of basic salary which may be received by an employee based on their achievement of individual objectives and competencies.

Share options, shares, other variable components of remuneration, supplementary pensions, early retirement schemes for members of the AMSB.

There are no share options, shares, other variable components of remuneration, supplementary pensions or early retirement schemes in place other than what has already been described above.

B.2. Fit and proper

B.2.1. Processes for assessing the fitness and propriety of persons effectively running the organization, and those responsible for other key functions

Article 42 of the Solvency II Directive 2009/138/EC requires that insurance undertakings shall ensure that all those who effectively run the undertaking or have other key functions at all times fulfill the following requirements;

- a) Their professional qualifications, knowledge and experience enable sound and prudent management (fit), and,
- b) They are of good repute and integrity (proper).

Persons who effectively run the business at Great Lakes are;

- a) Members of the board of directors of Great Lakes,
- b) Management/general representatives of branches of Great Lakes who manage business affairs and represent Great Lakes,
- c) All Great Lakes Approved Persons

All directors and senior managers, including other key function holders need to be PRA/FCA approved persons as these roles carry out activities which are considered by the regulator to be controlled functions.

The following positions at Great Lakes must be filled by approved persons;

- Chairman of the Board
- Non-Executive Directors
- Chief Executive Officer
- Chief Financial Officer

- Insurance and Business Development Manager
- Compliance Officer
- Chief Risk Officer
- Head of Internal Audit UK

Persons who are responsible for “other key functions” at Great Lakes are;

- Head of the compliance function
- Head of the risk management function
- Head of the internal audit function
- Head of the actuarial function

Great Lakes has in place a Fit and Proper Policy (including an Approved Persons Procedure) which sets out the requirements for Directors, Key Function holders and all staff to be and remain fit and proper for the duration of their role. This policy ensures the required persons are fit and proper in the following ways.

The following steps are completed before the person takes up their role.

- Directors of the Company receive formal induction on joining the company or becoming a director.
- All directors and approved persons complete formal training on commencement and on an ongoing basis on the following topics;
 - Anti-bribery and anti-corruption
 - Anti-Money Laundering
 - Fraud Awareness
 - Sanctions in insurance
- Executive directors also complete training on
 - Data protection
 - Code of conduct
- Executive directors complete a bespoke induction program, tailored to their experience, skill and knowledge
- Other key function holders are required to have the theoretical and practical knowledge required for the respective key function
- The assessment of whether a person is fit includes an assessment of the person’s
 - Professional and formal qualifications,
 - Knowledge and relevant experience
- The assessment of whether a person is proper includes an assessment of that person’s;
 - Honesty
 - Financial soundness
 - Character

- Personal behavior
- Business conduct

Once appointed, individuals must continue to meet the fit and proper requirements for the duration of their appointment. This is achieved in the following ways;

- Approved persons must annually declare they meet the fitness and propriety requirements to the standards required in the policy.
- Approved persons are required to undertake a minimum level of training throughout the year.
- Existing approved persons are required to notify Compliance should they cease to be, or become unsure of their fitness and propriety

B.3. Risk management system

B.3.1. Introduction

Risk management includes all the strategies, methods and processes to identify, analyse, assess, control and monitor the short and long term risks the Company faces or may face in the future. This is also referred to as the risk management system.

B.3.2. Implementing the Risk Management System

At Great Lakes, risk management is implemented using the three lines of defence model. This structure forms the basis for the effective separation of duties between business segments that take risks and risk management functions that perform independent risk controls.

The business areas themselves act as the first line of defence. They are responsible for identifying, assessing and accepting risks within the defined risk appetite and risk tolerances. The independent risk management function provides the second line of defence, checking that the proposed business complies with our risk strategy (including risk appetite, risk-bearing capacity and risk criteria, such as limits and triggers, and the associated risk tolerances). The actuarial and compliance functions are also part of the second line of defence. The third line of defence is internal audit, which has the task of ensuring that the processes needed to guarantee effective control are in place. This procedure ensures that there is a clear separation of the business and risk management functions.

B.3.3. Implementing the Risk Management Function

Risk management is a key function at Great Lakes. The Great Lakes Chief Risk Officer (CRO) reports directly to the Chief Executive Officer, is a member of the Executive Committee, and is a permanent guest member of the Audit and Risk and Capital Committees. At his discretion, the Chief Risk Officer has the mandate to escalate risk issues to the Risk and Capital Committee, the Great Lakes Board, and ultimately to the Munich Re Group Integrated Risk Management function and Munich Re Group Chief Risk Officer.

B.3.4. Risk strategy

The Company has developed a comprehensive risk strategy and risk appetite framework, the main objectives of which are to:

- Ensure the highest degree of confidence in meeting policyholder claims,
- Enable the Company to protect and generate sustainable shareholder value,
- Protect the reputation of the Company and the Munich Re group,

B.3.5. Development of the Risk Strategy, Appetites and Tolerances in the Planning Process

As part of business planning, the Company assesses whether the planned results are in line with the risk strategy. The risk strategy is determined by defining risk appetites and tolerances for a series of risk types which are grouped into risk criteria. These risk appetites and

tolerances are a target for the business plans. A deviation from the risk appetite/risk tolerances can lead to a rejection of the business plan or a proposal to change the risk appetite/tolerance and therefore the risk strategy. Such a change requires board approval. In this way the risk strategy is interlinked with the business planning process and this allows the Board to take informed risk based decisions.

The Company's risk strategy encompasses three types of risk criteria, into which risk types are grouped.

Risk Criteria	Risk Type
Whole portfolio	Financial strength
	Avoiding the need for capital injections
Supplementary	Reinsurance credit risk
Other	Insurance risk
	Credit risk
	Market risk
	Operational risk
	Pension risk
	Liquidity risk
	Expense risk

Each risk type has a defined risk appetite/tolerance with limits designed not to be breached, and triggers designed as early warning signals. These limits and triggers are known as Key Risk Indicators (KRI's) and are monitored on a regular basis.

Whole Portfolio Criteria

Communication and mitigation protocols are well defined for breaches of limits and the trigger of red and amber alerts. Limits and trigger points are based on capital calculations under the Solvency II Internal Model.

Supplementary Risk Criteria

The assumption of reinsurance credit risk, the vast majority of which is with the Munich Re group, is an essential part of the Company's business model. This results in a high credit risk exposure for which the Company has a low appetite. Consequently, an upper exposure limit has been set and a risk mitigation scheme based on a system of triggers has been put in place.

Other Risk Criteria

Value at risk (VaR) measures have been put in place for each of the risk types within the Other Risk Criteria. Insurance, credit, market, operational and pension risk are modeled using the internal model. The respective limits and triggers for each risk type are derived from the avoiding capital injections risk type (based on the internal model capital requirements calculations). For these risk types, VaR exceeding the limits results is regarded as an early warning indicator resulting in closer monitoring and further investigations, rather than being regarded as a breach. Operational risks are managed through the Internal Control System, which is further described at section A.4 of this document. Also, other risk criteria such as rating capital requirements to uphold the Company's AA- rating by Standard and Poors are monitored on a regular basis.

B.3.6. Risk Identification, Monitoring and Reporting

Risk identification is managed through a combination of the work and reporting performed by the Risk Management function, Risk Owners, the Risk Committee, the Audit Committee and Internal Audit. The risk identification process is used to identify risk at all levels of materiality.

The Chief Risk Officer is either a member or a guest of a significant number of the Board committees and other meetings which ensures the flow of risk information and provides opportunity to discuss risk topics with key staff.

Each quarter, prior to the scheduled meeting of the Risk Committee, the Risk Management function meets with each Risk Owner to review their risks, assess whether risk assessments are accurate, discuss key developments or concerns within the risk are in question and consider emerging risks.

The Risk Management function may also be sent information on an ad hoc basis outside of the standard reporting process. The information is reviewed by risk management and assessed for impact to GLISE. Risk management will generally meet with the business area from which the matter has arisen to more fully understand the issue at hand and discuss and advise as to the resolution of the matter. Where necessary measures will be allocated to the Risk Owner in order to mitigate the effects, as far as is reasonably practicable.

The Risk Owner has responsibility for monitoring their risks but is assisted and challenged by the Risk Management function. The ongoing and formal risk assessment process explained below ensures that the risk profile of GLISE is monitored against the accepted risk appetite or risk tolerance levels.

The Risk Event Monitoring process is a reporting process used by the Risk Management function to record risk events (including fraud events), losses and control failures. Events which occur but result in no known loss to GLISE are recorded as 'near misses'. Responsibility for the corrective action for issues or control weaknesses that arise are allocated to an employee in order to ensure that appropriate improvement plans are implemented to GLISE's satisfaction. Following the identification of this there is an analysis of the controls in place to prevent the event from re-occurring. It is then possible to determine if the control environment is still fit for purpose, if additional controls need to be added, or existing controls need strengthened to prevent re-occurrence. A quarterly summary of all risk events are reported to the RCC.

The Risk Management function produces a risk report each quarter. The report provides, for all risk categories, an updated view of the current risk position, including key events and quantitative changes, and compares the position with the Company's risk appetite. This report is provided to the Risk Committee.

B.4. ORSA

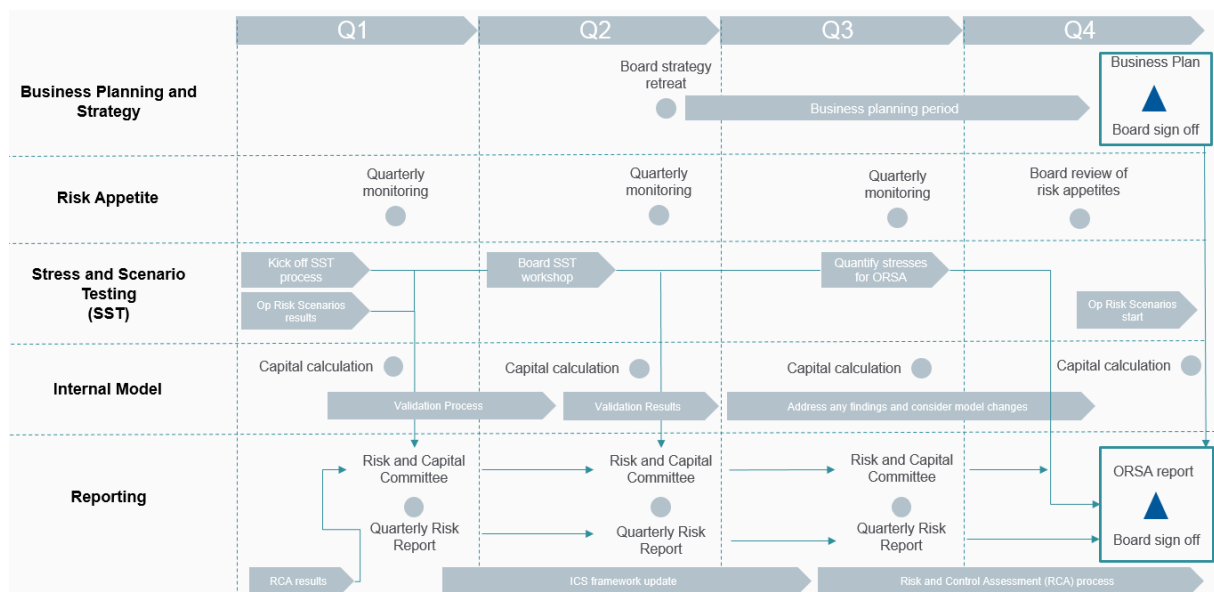
B.4.1. Integration of the ORSA process into the risk management and decision making framework

The ORSA process within the Company is a risk assessment as part of the risk management system and is defined as an interlinked series of processes used to:

- Identify, assess, monitor, manage and report the short and long term risks that the Company faces or may face, and
- Determine the funds necessary and ensure its solvency needs are met on an ongoing basis.

The results of the assessment form the basis of the annual ORSA report, which is seamlessly integrated into the annual planning and forecasting process.

A summary of the main components of the ORSA process are shown in the diagram below. This diagram illustrates how the ORSA is embedded into the management process and decision making framework of the Company.



B.4.2. Review and approval of the ORSA Report

The ORSA report is formally approved by the Board annually, but the report is compiled with reference to the work undertaken internally and with consideration to the comments and challenges provided by the Company's Risk and Capital Committee, Board workshops and Munich Re. The formal annual approval by the Board is therefore the final step in a continuous process of risk assessment and management.

B.4.3. Determination of solvency needs given the risk profile

There are a number of risk categories which are assessed in determining the Company's solvency needs. The Company uses an approved internal model to assess and quantify the capital required for several of the significant risks the Company faces. These are;

- Insurance risk
- Market risk
- Credit risk
- Pension risk
- Operational risk

The Internal Model is designed to calculate the Company's solvency requirements given its business model and the risks it faces. The risk profile of the Company is further described in section C of this document. The Solvency Capital Requirement calculated using the Internal Model and the Capital Management objectives of the Company are described in section E of this document, and the operation of the Internal Model is described in section F of this document.

Some risks are not intended to be captured in the internal model because they are inherently difficult to quantify or due to their nature, capital is not considered to be the right mitigation option. These risks are part of the Company's risk register and risk management system which contains robust procedures to effectively identify, assess, monitor and report risks. These risks are known as "Out of the Model" risks and they also form part of the risk assessment contained in the ORSA report. These risks are.

- Liquidity risk
- Reputational risk
- Strategic risk
- Expense risk
- Delegated authority risk
- Concentration risk
- Regulatory risk
- Emerging risk

Overall, the ORSA process confirmed that

- the Company's overall risks, under both a current and forward looking basis, are stable and controlled,
- the level of risk assumed by the Company is commensurate with its capital resources. This means that the Company has sufficient capital resources to enable it to meet its current and future capital needs in line with its strategic objectives and risk profile, and to withstand the impact of foreseeable adverse events within the Company's risk tolerance.

B.4.4. Evidence, documentation and review

The formal documentation of the ORSA process is found in the annual ORSA report, which is approved by the Board. The ORSA report bears the evidence of the review and approval

process in the control page of the inside cover of the report. The minutes of the Board record the Directors discussion and assessment of the ORSA report.

B.5. Internal control system

B.5.1. Description of the internal control system

The Company's internal control system (ICS) is a group-wide system for managing operational risks and is used in all business areas. It meets Group and local operational risk management needs and complies with local regulations. The Board of Directors is responsible for the ICS, which falls structurally under the responsibility of the Chief Risk Officer. Each business area has a designated Risk Owner and a Process Risk Manager who, in their role as the first line of defence, are responsible for identifying risks and putting in place controls designed to mitigate them; for performing risk and control assessments, and for the documentation of those risks and controls in the ICS. The risk management function is responsible for implementing the ICS, monitoring the work of the RO and PRM, and reporting on operational risks and controls to the Risk and Capital Committee. For each of business area, the ICS delivers a risk map, which systematically links the significant risks and processes and shows all relevant risk control points. By making our risk situation transparent in this way, we can focus on and react rapidly to possible weaknesses. This means that we are able to identify risks at an early stage, address control shortcomings immediately and take effective remedial action.

B.5.2. Key procedures of ICS process

The core ICS processes are described in the ICS Policy. The ICS methodology and ongoing maintenance and operation are laid down in the Method Manual and the ICS operating guidelines.

ICS embraces a process which, taking account of our risk strategy and risk-bearing capacity and using the Group-wide control environment, is designed to identify and assess operational risks and controls at entity, information technology and process levels. Operational risks that affect more than one business area, or the assessment of which is not consistent with a process driven approach are subject to entity level control assessments.

Operational risks that are reduced by automated information technology application controls or general information technology controls are also identified monitored and managed in the context of ICS.

All significant operational risks and controls are documented to ensure that the key controls are always performed and recorded in accordance with the relevant control guidelines and work instructions and that necessary improvements are implemented.

Processes involving significant operational risks are subject to a risk and control assessment performed by the Process Risk Manager. All risks are categorised based on the effectiveness of processes (operations), the reliability of financial reporting and compliance with laws, regulatory and internal rules and principles. For all significant operational risks, a formal risk identification and description together with identification and description of the associated key controls is performed for each process/area. If residual risk amounts are above defined

thresholds or the controls are assessed as inadequate, appropriate action is initiated to reduce, transfer and/or closely monitor the risk. Mitigating actions are documented in the ICS and the Risk Owner and Process Risk Manager have the responsibility of implementing the mitigation measures by agreed deadlines.

The ICS process ultimately leads to risk-based reporting to the responsible committees. Ad-hoc assessments and reports are prepared on any significant changes in business activity or strategy or on occurrence of any important event. Internal Audit examines the effectiveness of the controls at regular intervals.

There is a link between the ICS and the operational risk charge in the internal model, in that the scenarios used to calculate the operational risk charge are validated for consistency with the ICS results.

B.5.3. Procedures for the timely delivery of financial reports, including data quality

The timeliness and quality of financial reporting is a key function of the Company. As such the assessment of the procedures and controls concerning this function are part of the ICS. There is a designated Process Risk Manager and the general internal control procedures are subject to a risk and control assessment, as described above. Specific controls in place include;

- detailed accounting manuals mandating the treatment of all significant financial reporting elements
- step by step and day by day closing calendars
- automated and manual reconciliation controls
- independent review and sign off
- independent timeliness and quality assessments

B.5.4. Description of the compliance function

Great Lakes has a well embedded Compliance Function, with the Compliance Officer as Head of Department and in attendance at the Executive Committee, the Audit Committee, the Risk and Capital Committee and the Underwriting Committee (as secretary).

The Compliance Officer acts as the Company Secretary and attends Board Meetings in this capacity; and also as the Anti-Money Laundering Reporting Officer and Data Protection Officer for Great Lakes.

The Compliance Officer reports directly to the CEO and to the Group Compliance Officer of Munich Re and is guaranteed unfettered access to all company documents and employees in carrying out his duties.

Reporting

A formal reporting procedure exists and the Compliance Officer produces a Compliance Officer's Report for the Board and Audit Committee on a quarterly basis.

The Compliance Officer also reports weekly to the Executive Committee (ExCom) on a verbal basis and these meetings are minuted.

Through the above channel of communication the Compliance Officer has direct access to both Senior Management and the Board.

Purpose

The objective of compliance is to support the business in obtaining and maintaining compliant business.

This is achieved by:

- Identifying all material regulatory risks arising from Great Lakes' business model
- Implementing and monitoring proportionate controls for the management and control of these risks
- Undertaking compliance oversight and monitoring activities on Great Lakes' key risks areas
- Reporting on assurance activities to Great Lakes' stakeholders, in particular Munich Re Group
- Developing and maintaining positive relationships with regulatory organizations
- Promoting a positive compliance culture within Great Lakes

The Compliance Function is responsible for the identification, assessment, monitoring and reporting of compliance risk exposure and assessing the appropriateness of Great Lakes' compliance procedures, including conduct risk.

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss or loss to reputation an undertaking may suffer as a result of not complying with laws, regulations and administrative provisions as applicable to its activities.

The Compliance Function has its own Risk and Control Assessment as part of the Internal Control System and is responsible for identifying, assessing and reporting on compliance and regulatory risk.

The objectives, scope and responsibilities of the Compliance Department are set out in the Compliance Regulatory Guide, which is updated at least annually or as necessary. This document is available to all staff on the Compliance Shared Services Intranet page.

The annual compliance activities are set out in an annual Compliance Plan that is discussed, approved and signed off by the Executive Committee prior to implementation each year.

The plan is risk based so that there is appropriate focus on the key risks within the business ensuring that those areas that are particularly vulnerable to compliance risk are addressed.

Progress against the plan is monitored quarterly and reported on in the Compliance Officer's Report to both the Board and Audit Committee. Deviations from or additions to the plan and the reasons for such are set out in this report against progress.

B.6. Internal audit

B.6.1. How the internal audit function operates

Internal Audit supports the Board of Directors in fulfilling their monitoring tasks and is responsible in particular for checking the internal governance system, including the risk management system, internal control system and the three other control functions (compliance, risk management and actuarial).

B.6.2. Independence and objectivity

In carrying out their duties, the management and staff of Internal Audit are aware of and observe the national and international professional standards for internal audit, including the principles and rules governing independence and objectivity.

Internal Audit is an independent division reporting to the Audit Committee of the Company. During 2016, the Audit Committee was chaired by a non-executive Director and therefore Internal Audit had unrestricted access to independent governance functions of the Company. Internal Audit has no tasks other than internal audit and does not accept any instructions or projects (either audit or advisory) that could compromise its independence. Internal Audit is not subject to any instructions in planning and performing audits or in evaluating and reporting the audit results.

As a matter of principle, Internal Audit staff are not entrusted with non-audit work or perform tasks that are incompatible with the audit function. Staff employed in other departments of the Company are not entrusted with Internal Audit tasks.

When assigning audit staff to audits, care is taken to ensure that no conflicts of interest arise, that auditors are able to perform their tasks impartially and without prejudice, and in particular that an auditor does not audit any area for which they were responsible or shared responsibility in the preceding 12 months. Auditors do not manage or work on projects outside Internal Audit.

B.7. Actuarial function

B.7.1. How the actuarial function is implemented, and its key responsibilities

The Actuarial Function lies within the responsibility of the Chief Actuary. The Chief Actuary is also the head of the Actuarial Services team which supports the Chief Actuary in performing the Actuarial Function.

The responsibility of the Actuarial Function incorporates the following activities.

- coordination of the calculation of the technical provisions;
- ensuring the appropriateness of the methodology, the underlying models and the assumptions made in the calculation of technical provisions in accordance with Solvency II as well as Munich Re internal guidance;
- assessment of the appropriateness and completeness of the data used for the calculation of the technical provisions;
- ensuring consistency of the methods used for calculating technical provisions in areas of substantive overlap between the valuation standards of Solvency II, IFRS and local standards and to consider the impact of the valuation of technical provisions on other positions of the balance sheet;
- advice on reinsurance protection which is adequate for the Company's risk profile, underwriting policy and risk appetite;
- provide an opinion on general underwriting and acceptance policy, as well as pricing oversight;
- contribution to the effective implementation of the risk-management system;
- information of the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions

B.7.2. How the Actuarial Function is objective and free from the influence of other functions or the AMSB

The Chief Actuary reports to the Chief Financial Officer, who is a member of the Board of Directors. Therefore the role is sufficiently independent from other departments in the Company to exercise its function. The independence of the Actuarial Function is further ensured as the Chief Actuary has a dotted line reporting responsibility to Central Reserving and the Actuarial Function at Munich Re, both of which are independent of the Company.

The work of the Actuarial Services team is carried out under the direct supervision of a Senior Reserving Actuary and a Senior Pricing Actuary. The Chief Actuary co-ordinates, provides quality assurance and signs off the work of the Actuarial Services team and is therefore sufficiently independent of it to exercise the responsibilities of the function.

Regular audits by the Internal Audit function and annual reviews of year-end reserving by Munich Re's Central Reserving department and external auditors gives further independent views of the work performed by the Actuarial Function and its outcomes.

B.8. Outsourcing

B.8.1. Outsourced operational functions/activities

The Company outsources the following operational functions/activities.

Investment management

The Company has outsourced the management of, and back office functions for, its bond portfolio to its affiliate MEAG. MEAG was founded in 1999 and now is one of Europe's leading asset management companies. It provides asset management services to Munich Re itself and many other Munich Re group entities. MEAG is based in Munich, Germany.

Administrative services

The Company has outsourced administrative services to an affiliated company based in London, Munich Re UK Services Limited. This company employs all the Company's UK personnel and provides full administration management services for all Munich Re operations based in the same location in London. The same arrangement is in place for the Company's branch operations in Australia.

As part of the administrative services it provides to the Company, Munich Re UK Services Limited has outsourced the following functions/activities;

- Business and Information Technology Continuity - SunGard provides support for the business continuity plan managed by Munich Re UK Services Limited. SunGard is an American multinational company, a leading provider of software and IT services to the insurance industry. The affiliated company deals with SunGard in the United Kingdom. SunGard is not part of the Munich Re Group.
- Information Technology and Software Development – Munich Re UK Services Limited outsources selected information technology and software development activities to ATOS. ATOS is a European based IT services corporation, with offices worldwide. Munich Re UK Services Limited deals with ATOS in the United Kingdom. ATOS is not part of the Munich Re Group.
- Document Storage – Munich Re UK Services Limited uses Iron Mountain for off-site document storage. Iron Mountain is based in America, and is a worldwide provider of information management services. Munich Re UK Services Limited deals with Iron Mountain in the United Kingdom. Iron Mountain is not part of the Munich Re Group.

Delegated authorities

The Company uses two distinct models for accessing insurance business – delegated authorities via agency agreements and individual acceptances of large single risks. Agency sourced business provides the dominant share of the Company's gross written premium. While some agencies with whom the Company has agreements are part of the Munich Re Group, most are independent. All agents who do business with the Company's UK based

operations are themselves UK based. A large part of the business written by the Company's Australian branch also comes from delegated underwriting authorities via agency agreements. All agents who do business with the Australian branch are based in Australia. The Italian and Swiss branches of the Company also write business via agents who are based in the same country in which the branch is established.

B.9. Any other information

There is no other information that requires disclosure.

C. Risk Profile

C. Risk Profile (unaudited)

C.1.1. Underwriting risk

The Company's role is to act as a specialist provider of insurance solutions for Munich RE Group members and their customers. In fulfilling this role, the Company does not retain underwriting risk from the business it writes in providing these insurance solutions. This business is ceded to Munich Re Group members through proportional facultative obligatory reinsurance treaties, and the underwriting risk for this business resides with the Munich Re Group member for whom the business is written.

The Company does however retain underwriting risk for the business it writes through its CIP division based in London, and a proportion of the business it writes in Australia and in Switzerland.

This section on underwriting risk deals with this retained underwriting risk.

Material risk exposures, concentrations, mitigation techniques and sensitivities

The CIP London unit writes large single risk business in public and products liability, intellectual property rights, directors and officers liability, professional indemnity, financial institutions liability, property, engineering, and energy classes of business. The contracts written are either insurances of medium to large sized corporations or alternatively re-insurances of captive insurance companies which in turn are insuring such corporations. The portfolio largely consists of non-proportional high excess layers, with a low frequency and high severity profile. The Company's Swiss branch writes a mixture of business under the CIP London brand and business ceded to Munich Re Group members as described in the introduction to this section. The Swiss branch retains 25% of the business ceded to Munich Re Group members. These portfolios are protected by various non-proportional reinsurance covers, which are placed with the Company's parent, Munich Re. The reinsurance covers are on a per risk basis, with an attachment point of £5 million for accident year 2016. There is also an aggregate excess of loss reinsurance cover in place with Munich Re which covers the whole portfolio against aggregate losses of over £80 million. For accident years 2009 – 2015 the attachment point was £3 million, and prior to 2009 it was £10 million.

The Company's branch in Australia writes mainly travel, liability, engineering and property business. 60% of the travel business and 90% of the other business is reinsured to Munich Re Australia branch via quota share reinsurance treaties.

Liabilities incurred on the travel business are also limited by a financial year stop loss reinsurance cover, which covers losses between 102.5% and 142.5% of net premium.

Other lines of business are also further protected by non-proportional excess of loss treaties placed with Munich Re Australia branch, which covers losses AUD\$ 4.5 million in excess of AUD\$ 0.5 million. Cover is also in place for catastrophe losses, PML error, and exposures caused by clash of covers.

As at 31 December 2016, the net risk exposures are as follows.

	£000's		
	CIP London and Swiss	Australia	Total
Liability	244,349	11,396	255,746
Property and engineering	66,475	5,238	71,713
Travel	-	14,940	14,940
Energy	10,487	-	10,487
Other Lines	-	1,624	1,624
	<u>321,311</u>	<u>33,198</u>	<u>354,509</u>

As part of the year end reserving process for CIP London business, the Chief Actuary considers sensitivities for the key parameters in the final selected ultimate loss ratios. These are the initial expected loss ratios (IELR) and the incurred development patterns.

Two sensitivity tests were performed in relation to the IELR, and the gross reserves would have been £22.3 million and £19.7 million less respectively under these two tests.

A 1% change in the loss ratios for the net retained business results in a change of £1,429,000 in incurred losses.

C.2. Market risk

Market risk is defined as the financial loss resulting from rate and price changes in the capital markets. For the Company, this essentially means interest-rate risk and currency risk.

It is the Company's strategy to take on very limited Market Risk and this is reflected in the investment benchmark pursued. This strategy stems from a desire for optimising asset diversification rather than maximizing investment income potential. Given the Company's low market risk appetite, the investment portfolio consists of fixed income and money market securities (government bonds, corporate bonds and cash) and is exposed mainly to foreign exchange and interest rate risk. This Market risk is mitigated to the extent that the Company's liability cash flows can be estimated and matched by asset cash flows. The matching allows for liabilities to be met regardless of the state of market drivers such as interest or exchange rates, and therefore it is the mismatch in the characteristics of assets and liabilities that drives market risk. This concept underlies both the asset-liability management (ALM) and Market Risk measurement and involves:

- development of an economic Replicating Portfolio (RP) representing the characteristics of the best estimate liabilities in terms of currency, interest rate and inflation sensitivity.
- development of the Economic Neutral Position (ENP) which adds to the RP a preference for the risk structure of the surplus in terms of duration, currency, interest rate and inflation sensitivity, while also reflecting fungibility constraints.
- development of a Target Risk Return Profile (Benchmark Portfolio BMP) which takes into account the risk preference of the Board for strategic asset-liability mismatch risk (Market Risk relative to the ENP and Credit Risk) as well as statutory and other restrictions.

There were no material changes in the methodology in the last year.

C.2.1. Material risk exposures, concentrations, and sensitivities

Interest rate risk

The following table shows the Company's sensitivity to changes in interest rates on investment assets.

Shift in yield (basis points) as at 31 December 2016

	AUD \$ £'000	CAD \$ £'000	CHF £'000	EUR € £'000	USD \$ £'000	GBP £ £'000	Total £'000
50 basis point increase	355	221	679	3,346	1,884	2,235	8,720
50 basis point decrease	(362)	(224)	(695)	(3,457)	(1,977)	(2,300)	(9,015)

Currency risk

The following table shows the currency risk to which the Company is exposed, and the sensitivity of the exposure to change in currency exchange rates

Balance sheet by currency 31 December 2016

	AUD \$ £'000	CAD \$ £'000	EUR € £'000	USD \$ £'000	GBP £ £'000	Other £'000	Total £'000
Total assets	529,364	40,966	859,038	1,258,383	3,352,722	24,577	6,065,050
Total liabilities	486,988	36,286	602,347	1,206,516	3,354,402	24,744	5,711,283
	42,376	4,680	256,691	51,867	(1,680)	(167)	353,767

Sensitivity to changes in foreign currency rates

	AUD \$ £'000	CAD \$ £'000	EUR € £'000	USD \$ £'000	GBP £ £'000	Other £'000	Total £'000
1% increase in original currency	424	47	2,567	519	-	(2)	3,555
5% increase in original currency	2,119	234	12,835	2,593	-	(8)	17,773
10% increase in original currency	4,238	468	25,669	5,187	-	(17)	35,545
1% decrease in original currency	(424)	(47)	(2,567)	(519)	-	2	(3,555)
5% decrease in original currency	(2,119)	(234)	(12,835)	(2,593)	-	8	(17,773)
10% decrease in original currency	(4,238)	(468)	(25,669)	(5,187)	-	17	(35,545)

C.2.2. Prudent person principle

A range of guidelines and internal processes ensure that we observe the principles of a "prudent person" in all matters relating to investments.

- We invest only if defined safety, profitability and liquidity criteria are met. Our mandatory General Investment Guidelines (GIG) lay down minimum qualitative requirements for our investments. In addition, we ensure that we receive early warning if we are in danger of not meeting our liquidity requirements.
- We invest in products only if we understand completely the risks they involve. To ensure compliance with this principle, every single new investment product is subject to the new-product process for investments.
- We invest for the purpose of covering our underwriting liabilities, replicating significant characteristics of those liabilities on the assets side of our balance sheet and applying our own risk criteria to define a maximum deviation between underwriting and investment cash flows.
- We use derivative financial instruments to reduce our risks and manage our investment portfolio efficiently. The new-product process for investments is applied to any new type of financial derivative before it is used (see above). All financial derivatives are recorded in our systems and fully taken into account in our risk measurement.
- We do not invest significant amounts in any paper/instrument that is not approved for trading in a regulated market. Furthermore, the investment mandates we give to our asset manager prescribe indices representing the permissible investment universe. Investments are made outside the prescribed indices only to a limited extent.

- We invest in such a way that we are exposed to risk concentrations only to an acceptable degree, using various risk criteria and early-warning indicators to avoid unwanted concentrations of risk on individual counterparties or sectors.

C.3. Credit risk

Credit risk is defined as the economic loss which could be incurred as a result of changes in the financial profile of a counterparty, issuer of securities or other debtor with a liability to the Company. Credit risk arises out of investments, deposits and other amounts receivable.

C.3.1. Material risk exposures, concentrations, and mitigation techniques

Reinsurance credit risk

The assumption of reinsurance credit risk, being the deterioration of a counterparty's creditworthiness, is an essential part of the Company's business model. The vast majority of reinsurance placed is within the Munich Re Group, which has been rated by A.M. Best as A+ (Superior) with a stable outlook and by Standard and Poor's as AA- (very strong) with a stable outlook. Recoveries are paid when due and there are no overdue or impaired balances. A maximum exposure has been set for the resulting credit risk exposure, and a risk mitigation scheme based on a system of triggers has been put in place. Key risk indicators are;

- the balance of ceded reserves recoverable from Munich Re,
- credit ratings of Munich Re as assessed by the 5 main rating agencies,
- credit default swap rates of Munich Re, and,
- the Munich Re Solvency ratio.

Investment counterparty credit risk

Credit risk can occur through the deterioration of the creditworthiness of a counterparty or a financial instrument. For investment credit risk, limits have been put in place by assets class, sector, and counterparty and compliance with these limits is monitored regularly and the results of the monitoring are reported upon at least quarterly. The table below provides the distribution of the Company's bond investments by credit rating.

Rating of bonds at 31 December 2016

	AAA £'000	AA £'000	A £'000	BBB £'000	Total £'000
Bonds	292,885	237,282	48,288	77,518	655,973

Government bonds comprise approximately 80% of the Company's bond portfolio and there is no limit per issuer for Government bonds with a rating of AA3 or better. Otherwise, the limit per issuer is 5% of the portfolio. There is a limit of 5% per issuer for corporate bonds.

Credit risk arising from other receivables

The Company's remaining insurance receivables arise mainly from agents, and are mostly non-rated. Insurance receivables that arise from business that is reinsured to the Company's parent bear no credit risk for the Company, as the reinsurance agreement in respect of this business contains a clause the effect of which is to transfer credit risk on business written under the contract from the Company to its parent.

C.4. Liquidity risk

C.4.1. Introduction and material exposures

Liquidity risk is the risk of potential loss as a result of insufficient liquidity to pay liabilities as they become due.

A substantial part of the Company's shareholders funds is invested in highly liquid assets, which are available to cover temporary liquidity shortages. Investments are arranged in such a way that they co-incide with the expected pay out pattern of the Company's liabilities. Required liquidity is forecasted and monitored on a regular basis, and a short term margin is held in case actual cash flows deviate from planned cash flows. The Company can call on funds from the Munich Re cash pool on short notice.

As at 31 December 2016, the average duration of the Company's investments is approximately 2 years, and the average duration of its net technical provision liabilities is approximately 3 years.

C.4.2. Liquidity risk criterion

Meeting known and expected cash flows

Liquidity planning ensures that investments are arranged in such a way that no need arises for unplanned or forced asset sales or emergency liquidity arrangements as a result of known foreseeable or anticipated outflows. The Liquidity Officer collects data on known and expected cash flows from relevant stakeholders. Cash flow data includes premium inflows, expected levels of claims and levels of investment income.

Wherever appropriate and of material impact, the risk of cash-flow timing mismatches (e.g. between direct payments and reinsurance recoveries) is to be considered explicitly by holding sufficient liquid resources to bridge such timing mismatches.

Insurance Claims Shock

The magnitude of the claim shock considered under this heading is larger than the expected claims described above, but usually not large enough to cause either financial distress or solvency problems for the Company. Sufficient liquid assets (and/or pre-negotiated liquidity) must be held to cover the additional cash outflows payable within six months pursuant to the shock. Furthermore, at the very minimum, a liquidity generation plan must be maintained to realize the assumed increased liquidity requirements for the period 7 to 24 months following the claims shock.

Run on the Bank Scenario

Sufficient unencumbered liquid funds (and/or pre-negotiated liquidity) must be held to cope with a surge in outflow of funds as a result of surrenders, treaty recaptures, collateral calls, changes in new business (where this exacerbates the liquidity shortage) etc., in the three months following a rapid downgrade to credit rating grade BBB (or loss of ERC3, if greater). GLISE would normally rely on meeting the minimum requirements associated with this criterion through internal funds/self-funding and/or pre-negotiated liquidity only. Only assets that are likely to remain liquid in a liquidity crisis (e.g. government bonds, equities) are counted. Owing to the subjectivity of the assessment, upon receipt of each reassessment the Investment Committee shall decide about the adherence or otherwise of any breach of this sub-criterion.

C.5. Operational risk

C.5.1. Introduction

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

The Company manages operational risk through the ICS, described in an earlier section of this document. Using this approach material risks and the related key controls across all processes are identified, analysed and assessed via the Risk and Control Assessment (RCA) process where improvements and control procedures are also defined. The ICS approach systematically links risks and processes to create a 'risk map' highlighting all relevant risk control points for the Company. This approach is standardised across the Munich Re Group.

C.5.2. Current and anticipated risk exposures

The Company has identified twenty operational risks with a worst case potential financial loss of £3 million, and considered the strength of the control environment for each. The strength of the control environment can be rated as either good, satisfactory, poor, or very poor. Fifteen of the twenty controls have been assessed as having a good control environment, five have been assessed as having a satisfactory control environment. The operational risks with the potential to harm the Company the most relate to regulatory and legal non-compliance.

C.6. Stress and scenario testing and other material risks

Stress and scenario testing is carried out as part of the ORSA process. It includes scenarios which are used to assess the Company's continued financial viability under stressed conditions and also reverse stress testing which is used to better understand specific events or circumstances which could render the Company's business model unviable. The following table summarises the outcome of the calculation in the internal model of the SCR for three different scenarios for the most recent cycle of scenario testing.

	Loss Scenario		
	1 in 50 Years	1 in 200 years	1 in 500 Years
Insurance risk	46.0	66.8	87.8
Credit risk	20.9	36.3	61.6
Market risk	9.7	12.9	15.4
Longevity risk	0.1	0.3	0.3
Operational risk	4.5	9.3	13.1
	81.2	125.6	178.2

Other scenarios that have been considered are;

- Accumulation risk from man-made extreme loss events
- Two 1 in 200 natural catastrophe scenarios
- Eurozone scenarios – Eurozone breakdown, exit of one or more Eurozone countries, British exit from the European Union
- Foreign exchange rate shocks

The re-location of the Company to Germany. In addition, there are other risks that are considered in the Company's risk assessment process. These other risks are described in the section of this document that discusses the ORSA.

The assessment has shown that the Company is unlikely to face any scenario or specific stress test that will have a material impact on solvency.

D. Valuation for Solvency Purposes

D. Valuation for Solvency Purposes

Article 75 of Directive 2009/138/EC sets out the basic valuation approach for assets and liabilities. According to this, assets shall be valued at the amount for which these items could be exchanged between knowledgeable willing parties in an arm's length transaction. As a general principle, liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction, with no adjustment for movement in the issuers own credit standing. The use of quoted market prices in active markets for the same assets shall be the default valuation approach. Where the use of quoted market prices for the same assets is not possible, quoted market prices in active markets for similar assets with adjustments to reflect differences shall be used.

The use of quoted market prices shall be based on the criteria for active markets, as defined in International Accounting Standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002. IFRS 13 "Fair Value Measurement" defines an active market as a market in which transactions for an asset or a liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where market prices are not available, or where market prices come from inactive markets rather than active markets, alternative valuation methods are to be used, provided that those approaches are consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC. That means the use of alternative valuation methods shall make maximum use of relevant market inputs and rely as little as possible on undertaking-specific inputs.

As a general principle, IFRS 13 states that valuation techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Therefore, the requirements of IFRS 13 in regard to valuation techniques that shall be used when no prices on active markets are available are in accordance with the specifications of Solvency II and can be adopted.

Undertakings shall use valuation techniques that are consistent with one or more of the following approaches when using alternative valuation methods:

- (a) market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques consistent with the market approach include matrix pricing.
- (b) income approach, which converts future amounts, such as cash flows or income or expenses, to a single current amount. The fair value shall reflect current market expectations about those future amounts. Valuation techniques consistent with the income approach include present value techniques, option pricing models and the multi-period excess earnings method;
- (c) cost approach or current replacement cost approach reflects the amount that would be required currently to replace the service capacity of an asset. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable quality adjusted for obsolescence.

If for reasons of simplification another basis for the measurement of assets and liabilities other than technical provisions is used, such differences are described in the section on the relevant item.

Financial statements prepared under UK GAAP have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland as issued in August 2014 ("FRS102"). In conjunction with FRS 102 the Company has applied IAS 39 Financial Instruments: Recognition and Measurement. As a result of FRS 102 the financial statements prepared under UK GAAP were also prepared in accordance with Financial Reporting Standard 103 applicable to entities in the UK and the Republic of Ireland with general insurance business or long term insurance business ("FRS 103") as issued in March 2014. The basis for these accounting standards is the historical cost convention, except for financial assets held as available-for-sale which are measured at fair value. That means some assets are measured at fair value, while others are measured at amortized cost or at face value. The valuation method for each asset and liability under UK GAAP is described in each following section.

In addition to the different valuation methods used for individual items, the structure of the solvency balance sheet also differs from that of the UK GAAP balance sheet. Not all balance sheet items are therefore directly comparable. There are differences in the classification of receivables and other assets, which are described under the individual items.

Where valuation has to be based on models because no market prices are available for the calculation of the fair values required, discretion must be exercised and estimates and assumptions used, and these affect both the assets and the other liabilities shown in the solvency balance sheet.

Our internal processes are geared to determining amounts as accurately as possible, taking into account all the relevant information. The basis for determining amounts is management's best knowledge regarding the items concerned at the reporting date. Nevertheless, it is in the nature of these items that estimates may have to be adjusted in the course of time to take account of new knowledge.

D.1. Assets

The following table provides an extract from the quantitative reporting template S.02.01.02, the Solvency II Economic Balance Sheet. This section of the narrative report will address the valuation bases of the assets in the table, with the exception of reinsurance recoverables, which will be considered in the section on technical provisions.

Assets	£000's GBP	
	Solvency II	UK GAAP
Deferred acquisition costs	-	278,351
Deferred tax assets	2	365
Investments (other than assets held for index-linked and unit-linked contracts)	692,444	689,912
Bonds	655,972	653,484
Deposits other than cash equivalents	36,472	36,428
Reinsurance recoverables from:	3,363,820	4,171,638
Non-life and health similar to non-life	3,321,246	4,129,059
Non-life excluding health	3,160,123	3,928,785
Health similar to non-life	161,123	200,274
Life and health similar to life, excluding health and index-linked and unit-linked	42,574	42,579
Deposits to cedants	23,241	23,252
Insurance and intermediaries receivables	352,007	838,435
Reinsurance receivables	209	550
Receivables (trade, not insurance)	9,342	13,234
Cash and cash equivalents	49,324	49,324
Total assets	4,490,389	6,065,060

D.1.1. Deferred Acquisition Costs

Under UK GAAP financial reporting the proportion of acquisition costs incurred in respect of unearned premiums is deferred at the balance sheet date and recognized in the Statement of Profit or Loss in later periods when the related premium is earned.

Acquisition costs represent a past cash flow, and are not recognised as an asset in the solvency balance sheet.

D.1.2. Deferred taxes

For UK GAAP financial reporting, deferred taxes are calculated by comparing the Company's balance sheet for tax purposes with the Company's balance sheet for financial reporting purposes. This gives rise to very small temporary differences because the balance sheet for tax purposes and the balance sheet for financial reporting purposes are essentially the same.

The approach to the calculation of deferred taxes described above for financial reporting is applied to the calculation of deferred taxes in the Solvency II balance sheet, except that the Company's balance sheet for tax purposes is compared with the Company's Solvency II balance sheet. This gives rise to significant temporary differences because of the differences in the valuation bases for the calculation of items in the Solvency II balance sheet compared with the Company's balance sheet for tax purposes.

These methodological differences give rise to a net deferred tax liability of £7,743,000. This net deferred tax liability is presented in the solvency balance sheet as a deferred tax asset of £2,000, and a deferred tax liability of £7,745,000.

The deferred tax asset arises in respect of deductible timing differences and the deferred tax liability arises in respect of taxable timing differences. Under the conditions specified for the recognition of deferred taxes for both financial reporting and for solvency reporting, a deferred tax asset arising from timing differences can be recognized if it can be offset against a deferred tax liability arising from timing differences to the extent the timing differences related to the deferred tax liability are expected to reverse in the same period as the deferred tax asset, or forward projections demonstrate that future taxable profits will be earned, against which the DTA can be set in the future.

D.1.3. Investments

	£000's	
	Solvency II	UK GAAP
Bonds	655,972	653,484
Bonds - Government and Corporate	653,444	653,444
Puerto Rico licensing deposit	-	40
Accrued interest on bonds	2,529	-
	655,972	653,484

The Company's investments comprise holdings in Government and listed Corporate Bonds all of which are traded on the open market. Under UK GAAP these investments are stated at the bid value at the close of business on the balance sheet date, or at the last stock exchange dealing day before the balance sheet date. This valuation basis meets the requirements for solvency purposes described above. Accrued interest receivable at the balance sheet date is presented with the related investment in the Solvency II balance sheet, but is presented separately in the UK GAAP balance sheet.

	£000's	
	Solvency II	UK GAAP
Deposits other than cash equivalents	36,472	36,428
Deposits with banks	36,468	36,468
Reclassifications		
Puerto Rico licensing deposit reclassified to investments	-	(40)
Accrued interest on deposits	4	-
	36,472	36,428

The Company's investments also include amounts on deposits with banks that cannot be used to make payments until a specific maturity date has passed. This includes call money that cannot be called until a day has passed, which is the case with the majority of the balances reported here. Under UK GAAP, these balances are reported at nominal value. Under Solvency II, there are no specific requirements for the valuation of such balances, so the general principles described above apply. We considered that the nominal value, as used for UK GAAP, is a sufficient proxy for fair value under Solvency II. We considered the impact of

applying discounting and counterparty default adjustments. The maturity date for these balances is relatively short, and therefore the impact of discounting would be insignificant, and the quality of the counterparty is high, resulting in an immaterial valuation difference from the nominal value reported. Accrued interest receivable at the balance sheet date is presented with the related investment in the Solvency II balance sheet, but is presented separately in the UK GAAP balance sheet.

D.1.4. Deposits to cedants

The balance reported under this caption represents specific assets, the main component of which is cash, held in trust for the Company by a third party. This serves directly as collateral for technical provisions on the insurance policies business written by the Company via the third party.

This deposit asset arises from business that is reinsured 100% to the Company's parent under the terms of the Facultative Obligatory Reinsurance agreement. As a result the Company also has a deposit liability in the equal and opposite amount, which is part of the balance shown in the "Deposits from reinsurers" sub-section of this section.

Under UK GAAP this balance is the nominal amount of the assets held in trust by the third party.

For solvency purposes, this balance is to be measured at fair value, which consists not only of the nominal value of the deposit, but also should take into account the time value of future interest payments that are contractually agreed. Under the terms of the agreement between Great Lakes and the third party, there are no contractually agreed future interest payments and so the solvency balance does not reflect any such amounts.

The calculation of fair value would also require the calculation of discounting and a counterparty default adjustment.

Discounting has not been applied to this balance because any such adjustment would have to be reflected in equal and opposite amount in the deposit liability, resulting in no impact on the amount by which assets exceed liabilities.

No counterparty default adjustment has been applied because the Facultative Obligatory Reinsurance agreement between the Company and its parent contains a clause the effect of which is to transfer credit risk on business written under the contract from the Company to its parent.

D.1.5. Reinsurance recoverables

These balances are considered in the sub-section on technical provisions.

D.1.6. (Re) Insurance and intermediaries receivables

	£000's	
	Solvency II	UK GAAP
Insurance and intermediary receivables	352,007	838,435
Reinsurance receivables	209	550
	352,215	838,985
Balance prior to adjustments	838,759	838,759
Reclassifications and adjustments for Solvency II		
Reclassify not yet due cash flows to Technical Provisions (a)	(465,066)	-
Reclassify not yet due cash flows to Technical Provisions (b)	(21,589)	-
Other adjustments		-
Counterparty default adjustments	111	-
	352,215	838,759
Adjustments for UK GAAP reporting		226
	352,215	838,985

The balances reported here represent mainly amounts receivable from policyholders and intermediaries. Under UK GAAP these balances are presented at nominal value, and include all amounts receivable in respect of the underlying insurance contracts. Under Solvency II accounts receivable arising from (re) insurance contracts that are not yet due are classified as future cash inflows arising from the underlying insurance contracts and are recognized as reductions of technical provisions.

The remaining (re)insurance receivables should be measured at fair value in the Solvency II balance sheet. These are short term balances where the nominal value for UK GAAP, adjusted for counterparty default, is deemed to be fair value. The methodology for counterparty default adjustment is described within the section of this document that describes the valuation bases for technical provisions. Because these balances have a duration of less than one year, as a simplification, they have not been discounted.

D.1.7. Receivables (trade, not insurance)

	£000's	
	Solvency II	UK GAAP
Receivables (trade, not insurance)	9,342	13,234
Balance prior to adjustments	11,874	11,874
Reclassifications for Solvency II		
Accrued interest reclassified to Deposit other than cash equivalents	(4)	-
Accrued interest reclassified to Bonds	(2,529)	-
Adjustments for UK GAAP reporting		1,360
	9,342	13,234

The balances reported here represent amounts receivable that did not arise directly from a (re) insurance contract. Under UK GAAP, these amounts are recognized at nominal value. Under solvency, these amounts are to be recognized at fair value. These are short term balances where the nominal value for UK GAAP, adjusted for counterparty default is deemed to be fair value. However, because these receivables have a duration of less than one year and are immaterial to the balance sheet as a whole, as a simplification, these balances have not been discounted.

D.1.8. Cash and cash equivalents

Under Solvency II the fair value of cash and cash equivalents is the amount of cash held, which is the same for UK GAAP.

D.2. Liabilities

The following table provides an extract from quantitative reporting template S.02.01.02, the Solvency II Economic Balance Sheet. This section of the narrative report will address the valuation bases of the technical provisions, including reinsurance recoverable, and Other Liabilities.

Liabilities	£000's GBP	
	Solvency II	UK GAAP
Technical provisions – non-life	3,680,501	4,580,547
Technical provisions – non-life (excluding health)	3,495,603	4,350,532
Best Estimate	3,468,965	-
Risk margin (unaudited)	26,638	-
Technical provisions - health (similar to non-life)	184,899	230,014
Technical provisions calculated as a whole	-	-
Best Estimate	184,299	-
Risk margin (unaudited)	600	-
Technical provisions - life (excluding index-linked and unit-linked)	42,705	42,705
Technical provisions – life (excluding health and index-linked and unit-linked)	42,705	42,705
Technical provisions calculated as a whole	-	-
Best Estimate	42,579	42,705
Risk margin (unaudited)	127	-
Other technical provisions	-	267,237
Deposits from reinsurers	33,284	33,291
Deferred tax liabilities	7,745	1,158
Insurance & intermediaries payables	38,702	94,178
Reinsurance payables	238,833	644,520
Payables (trade, not insurance)	46,916	47,647
Total liabilities	4,088,687	5,711,283

D.3. Technical provisions

	£000's	
	Solvency II	UK GAAP
Gross technical provisions (excl. risk margin)		
Premium provisions (Unearned premium in UK GAAP)	639,377	1,018,792
Claims provisions (Case reserves and IBNR in UK GAAP)	3,056,465	3,605,686
	3,695,842	4,624,478

D.3.1. Description of the methodologies used for SII purposes

Overall requirements for technical provisions

Since there is no market for insurance contracts, the calculation of the technical provisions is performed on a 'mark-to-model' approach. Great Lakes calculate the technical provisions as a sum of best estimate and risk margin.

According to Solvency II Directive 2009/138/EC (L 1), Art 77 (2) the best estimate is the probability-weighted average of future cash-flows, taking into account the time value of money using the relevant risk-free interest rate term structure and taking into account all the cash in- and out-flows required to settle the insurance obligations over the lifetime thereof. The risk margin shall ensure that the value of technical provisions is equivalent to the amount that another insurance undertaking would require to take over the obligation.

The starting point for the valuation of technical provisions for Solvency II is the valuation basis underlying the UK GAAP financial statements included in the Company's annual report.

The bases, methods and main assumptions used in the valuation of technical provisions for solvency purposes are as follows. These bases, methods and assumptions apply equally to each line of business. See the attached quantitative reporting templates S.12.01.02 and S.17.01.02 for the technical provisions by line of business.

Segmentation

Article 80 of the Level 1 text requires segmentation of the business into homogeneous risk groups. The minimum segmentation is by Solvency II lines of business. The Company performs such segmentation.

The basis of segmentation used for the calculation of technical provisions for UK GAAP reporting is more detailed than required for the calculation of technical provisions for Solvency II reporting. Appropriate segmentation for Solvency II reporting is arrived at by accumulating the segments used for UK GAAP reporting in a unique way to arrive at the segmentation required for Solvency reporting.

Furthermore, segmentation by currency and territory is performed for reporting purposes.

Contract boundaries

For the calculation of best estimate liabilities Great Lakes recognizes an obligation arising under an insurance or reinsurance contract at the earliest of:

- The date of we become party to the insurance contract,
- The date the coverage under the insurance contract begins.
- The obligation is recognized within the boundary of the contract, and is de-recognized only when it is extinguished, discharged, cancelled or expires.

The contract boundary is triggered by the unilateral right of Great Lakes, at a future date, to;

- terminate the contract
- reject premiums payable under the contract, or
- amend the premiums or the benefits payable under the contract in such a way that the premiums fully reflect the risks.

Where Great Lakes has a unilateral right above that only relates to part of the contract, the principles above apply to that part. In most cases the inception and expiry date of the contract provide the contract boundary.

Best Estimate

In line with the Solvency II Directive, Great Lakes defines the best estimate as the probability-weighted average of future cash-flows, taking into account the time value of money by applying the relevant risk-free interest rate term structure. The best estimate provides the economic view of liabilities, as it is derived on a cash flow basis. The key cash flows that are captured relate to claims benefits, expenses and premiums.

The best estimate is first determined on a gross basis, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles. These are valued and allied separately in the process of determining Technical Provisions.

Claims Provisions

	£000's	
	Solvency II	UK GAAP
Gross claims provisions (excl. risk margin)		
Balance prior to adjustments	3,605,686	3,605,686
Reclassifications for Solvency II		
Provision for profit commissions	58,263	-
Deposit accounted contracts	794	-
Reclassifications and adjustments for Solvency II valuation purposes		
Reclassify Not Yet Due balances from accounts receivable (a)	(465,066)	-
Reclassify Not Yet Due balances from accounts receivable (b)	(6,448)	-
Release prudence margin	(58,322)	-
Late Adjustment	(2,513)	-
Discounting	(76,413)	-
Other	484	-
	<u>3,056,465</u>	<u>3,605,686</u>

The best estimate of provisions for claims outstanding is the expected present value of all future claim payments, expenses and premiums arising from claims events that have occurred before or at the valuation date, regardless of whether the claims arising from those events have been reported or not.

The calculation of the claims provisions is based upon up-to-date and credible information and is performed using adequate and applicable actuarial and statistical methods.

Currently prudence margins are held within some parts of technical provisions calculated for UK GAAP reporting. Holding these prudence margins for UK GAAP reporting is appropriate due to the high frequency low severity nature of the underlying business. These prudence margins are removed to arrive at a best estimate that is compliant with the requirements of Solvency II reporting.

Otherwise no explicit prudence margins are held, and the technical provisions held for financial reporting also comply with the Solvency II requirements for calculating best estimate.

Claims provisions reflect the re-classification of not yet due cash flows from (Re) insurance receivables.

Premium Provisions

	£000's	
	Solvency II	UK GAAP
Gross premium provisions (excl. risk margin)	639,377	1,018,792
Balance prior to adjustments (Unearned premium for UK GAAP)	1,015,572	1,015,572
Unexpired risk reserve		3,221
Difference between UPR and cash outflows recognised for SII	(362,347)	-
Discounting	(13,848)	-
	639,377	1,018,792

Premium provisions relate to future claim events covered by insurance and reinsurance obligations falling within the contract boundaries. Cash flow projections include claims benefits, expenses and premiums relating to these events.

For Great Lakes the premium provision consists of three components:

- In force business, where the risk period of the contract has already inceptioned and where the related premium payments have already been posted as written premium or due cash flow
- In force business, where the risk period of the contract has already inceptioned and where either the related premium payments have been posted as written premium, but the payments are not yet due (mainly relevant for primary business), or the related premium payments have not yet been posted as written premium and are not yet due, although the premium might be expected to become due as part of the ultimate premium expectation (mainly relevant for assumed reinsurance business)
- Business signed at the evaluation date, but not yet inceptioned, including tacit renewals. The component is also referred to as newly written business

For cases a) and b) of the listing above the calculation of the company is dependent on the recognition of premium as written premium in IFRS or UK GAAP accounting. If the premium is recognized as written premium, then the premium provision for this part is calculated by applying expected ultimate loss and expense ratios to the unearned premium in order to come up with the undiscounted premium provision. If the premium has not yet been recognized as written premium, then the undiscounted cash-out flow of the premium provision is calculated as the product of future premium and the ultimate loss, cost and commission ratio.

The evaluation of the Premium Provisions for business where premiums relate to bound but not inceptioned business (case c) of the listing above) is based on the assumption that cash inflows equal cash outflows, which results in a best estimate of zero. No credit is taken on for expected profit on this business, as an analysis has shown that a combined ratio of 100% on a total basis is not unreasonable and can be justified for Great Lakes' business. It should be noted that most of the Company's book of business has a policy length of one year only.

In addition to the insurance contracts, Great Lakes has substantial agency agreements which extend past the valuation date. However, in the evaluation of premium provisions, the Company takes a look through approach and evaluates the insurance contracts according to the underlying contract boundaries.

Events Not in Data

Events Not In Data are included in the valuation of Technical Provisions, and no additional reserves need to be set up for such events.

Given the high severity - low frequency nature of the claims in the Great Lakes retained portfolio, a prudent reserving approach is applied, which allows for Events Not In Data. The conservatism is built into the main assumptions (Initial Expected Loss Ratio and Reported Pattern) of the applied reserving methodology. For the assumption of Initial Expected Loss Ratios the allowance for Events Not In Data can be explicitly stated, while the allowance implied by the pattern is only implicit.

For the facilitated business of Great Lakes, in addition Events Not In Data are considered within the premium provision by allowing for Segment Outlier Loss Expectation (SOLE). SOLE covers losses exceeding the total expected loss per event of EUR 10m and USD 15m, respectively, for the entire Group.

Discounting

The time value of money needs to be taken into account when calculating the best estimate.

For discounting purposes the cash flow pattern are derived as a part of the actuarial projection process. All cash flows arising from claims benefits and allocated loss adjustment expenses (ALAE) are included in the actuarial projections. The future expected cash flows belonging to these items are assessed using patterns.

Discounting is performed using the currency and the relating yield curve of the respective posting. The risk free rates term structure used for the discounting is currently based on risk free yield curves provided by EIOPA.

Expenses

In determining the best estimate, account must be taken of all cash-flows arising from expenses that will be incurred in servicing all liabilities related to existing insurance and reinsurance contracts over their lifetime. The type of expenses which need to be considered are laid out in Article 78 of Directive 2009/138/EC.

Allocated Loss Adjustment Expense (ALAE) form part of the paid and reported data used for actuarial projections and is consequently included in the actuarial best estimates. Unallocated Loss Adjustment Expenses (ULAE) are determined separately. The ULAE calculation is based on expected future cost of handling claims from business written up to the balance sheet date. For facilitated business, on a net basis the ULAE is non-material due to the fact

that the proportional reinsurance to MRAG covers the run-off costs. On a gross basis ULAE is also included.

Further analysis of other expense components according to L1, Art 78 have been completed during 2016. In comparison to prior evaluations the only additional expense amount considered is related to investment management expenses. For year end 2016 it consequently can be concluded that the technical provisions contain all necessary expenses components.

Risk Margin (unaudited)

The risk margin is defined as the cost of risk, i.e. it is estimated by the present value of the cost of future capital requirements for those liabilities. The cost of capital rate used should be equal to the additional rate, above the relevant risk-free interest rate, that an insurance or reinsurance undertaking would incur holding an amount of capital that is equal to the Solvency Capital Requirement necessary to support the insurance obligations over their lifetime.

In our calculation of risk margin we consider the following risk sources, which are the sources according to the current Level 2 Implementing Measures:

- Insurance risk
- Reinsurance credit risk
- Operational risk

We calculate the risk margin in line with the formula stated in DDA, Art 37. Currently, the cost-of-capital rate set by the regulator for use by the entire industry is 6% (DDA, Art 39).

Uncertainty Associated with the Amount of Technical Provisions

The estimation of technical provisions is subject to uncertainty due to the fact that the settlement of claims that have arisen before the balance sheet date is dependent on future events and developments. Unforeseen loss trends resulting from court rulings, changes in the law, differences in loss adjustment practice, medical and long-term care, and economic factors such as inflation can have a considerable impact on run-off results.

We calculate the technical provisions for losses and claims settlement costs in accordance with actuarial practice based on substantiated assumptions, methods and assessments. The assumptions are regularly reviewed and updated.

Application of Group-wide reserving rules guarantees a substantially reliable and consistent procedure. In addition, internal audits are carried out Group-wide to verify compliance with these rules and the appropriateness of the technical provisions. The uncertainty in technical provisions is further analysed by stressing certain assumptions and parameters in the calculations. For the business not reinsured to the Company parent, the main assumptions of the reserve model are updated once per year for year end reserving. Impact assessments are performed in order to understand the sensitivity of assumptions selected. For the business

reinsured to the Company's parent, the ultimate estimation is updated once per year including discussions with all the relevant departments (claims and underwriting) in order to understand the potential uncertainties in the provisions.

In addition, we define and monitor scenarios that have the potential to impact the level of technical provisions significantly. Our technical provisions reflect the outcome of these analyses.

General Principles for the Calculation of Reinsurance Recoverables Under Solvency II

The calculation of amounts recoverable from reinsurance contracts and special purpose vehicles by insurance and reinsurance undertakings comply with the rules relating to technical provisions. The amounts recoverable from reinsurance contracts and special purpose vehicles are calculated consistently with the boundaries of the underlying insurance or reinsurance contracts to which they relate.

Separate calculations shall be carried out for

- the amounts recoverable from special purpose vehicles,
- the amounts recoverable from finite reinsurance contracts and
- the amounts recoverable from other reinsurance contracts.

A separate calculation is carried out for the amounts recoverable from reinsurance contracts and special purpose vehicles for non-life insurance obligations regarding premium provisions and provisions for claims outstanding.

When calculating amounts recoverable from reinsurance contracts and special purpose vehicles, insurance and reinsurance undertakings shall take account of the time difference between recoveries and direct payments.

If cash-flows from the special purpose vehicles to the insurance or reinsurance undertaking do not directly depend on the claims against the insurance or reinsurance undertaking ceding risks, the amounts recoverable from these special purpose vehicles for future claims shall only be taken into account to the extent it can be verified in a prudent, reliable and objective manner that the structural mismatch between claims and amounts recoverable is not material.

For the purpose of calculating the amounts recoverable from reinsurance contracts and special purpose vehicles, the cash-flows shall only include payments in relation to compensation of insurance events and unsettled insurance claims. Payments in relation to other events or settled insurance claims shall be accounted for outside the amounts recoverable from reinsurance contracts and special purpose vehicles and other elements of the technical provisions. Where a deposit has been made for the cash-flows, the amounts recoverable shall be adjusted accordingly to avoid a double counting of the assets and liabilities relating to the deposit.

The cash-flows relating to provisions for claims outstanding shall include the compensation payments relating to the claims accounted for in the gross provisions for claims outstanding

of the insurance or reinsurance undertaking ceding risks. The cash-flows relating to premium provisions shall include all other payments.

For the facilitated part of our business and as the cession to Munich Re is on a 100% quota share basis, the gross best estimate liability and reinsurance recoverable are identical. Allowances for future reinsurance purchases are not required as the existing reinsurance arrangements cover the entire facilitated book of business.

For the retained part of the business the ceded claims provision of financial reporting translates into the (undiscounted) Solvency II reinsurance recoverable. For the ceded premium provision Great Lakes has to consider the current wording of our reinsurance contract to allow for the use of future risk mitigation. Especially, the current wording foresees:

- a) The minimum premium terms are removed - allowing reinsurance premiums to be in line with gross premiums and ceded premium provision to be in line with gross premium provision (especially for unbound business)
- b) Adding a “Non-renewal” clause in the contracts which states that if the reinsurance contract is not renewed then it may be extended to cover the run-off of business already written

The non-renewal clause gives the company contractual certainty that all future unearned business is protected by reinsurance and therefore the corresponding ceded cash flows can be created. As a consequence, in order to calculate the ceded premium provision, Great Lakes applies expected recovery ratios to the gross premium provision.

Counterparty default adjustment

Reinsurance recoverables are calculated on a best estimate basis assuming no counterparty default. The result from the calculation of the best estimate shall be adjusted to take account of expected losses due to default of the counterparty. That adjustment shall be based on an assessment of the probability of default of the counterparty and the average loss resulting therefrom (loss-given-default).

The adjustment to take account of expected losses due to default of the counterparty shall be calculated as the expected present value of the change in cash-flows underlying the amounts recoverable from that counterparty, resulting from a possible default of the counterparty, including insolvency or dispute, at a certain point in time. For this purpose, the change in cash-flows shall not take into account the effect of any risk mitigating technique that mitigates the credit risk of the counterparty. These risk mitigating techniques shall be separately recognised as an asset, without increasing the amount recoverable from reinsurance contracts and special purpose vehicles.

The calculation shall take into account possible default events over the lifetime of the reinsurance contract or arrangement with the special purpose vehicle and the dependence on time of the probability of default. It shall be carried out separately by each counterparty and each line of business, and in non-life insurance also separately for premium provisions and provisions for claims outstanding.

We have assumed a loss given default of 50%, in accordance with EIOPA requirements, and used the default probabilities suggested by EIOPA depending on the credit quality step, which in turn depends on the rating of the counterparty.

	£000's	
	Solvency II	UK GAAP
Reinsurance recoverable		
Premium provisions (Ceded UPR in UK GAAP)	568,931	920,507
Claims provisions (Ceded case reserves and IBNR in UK GAAP)	2,794,888	3,250,337
	<u>3,363,820</u>	<u>4,170,843</u>

	£000's	
	Solvency II	UK GAAP
Reinsurance recoverable - premium provisions	568,931	920,507
Balance prior to adjustments (Ceded unearned premium for UK GAAP)	920,507	920,507
Difference between Ceded UPR and cash inflows recognised for SII	(339,305)	-
Discounting	(11,934)	-
Counterparty default adjustment	(336)	-
	<u>568,931</u>	<u>920,507</u>

	£000's	
	Solvency II	UK GAAP
Reinsurance recoverable - claims provisions		
Gross ceded unearned premiums	3,249,137	3,249,137
Other ceded underwriting provisions		1,200
Reclassifications for Solvency II		
Ceded provision for profit commissions	57,662	-
Deposit accounted contracts	794	-
Adjustments for Solvency II valuation purposes		
Reclassify Not Yet Due balances from accounts payable (a)	(439,192)	-
Reclassify Not Yet Due balances from accounts payable (b)	(6,448)	-
Late adjustment	(2,513)	-
Discounting	(62,070)	-
Counterparty default adjustment	(2,675)	-
Other	193	-
	<u>2,794,888</u>	<u>3,250,337</u>

D.4. Other technical provisions

This balance in the UK GAAP balance sheet represents deferred reinsurance commissions and an unexpired risk reserve.

Under UK GAAP financial reporting the proportion of reinsurance commissions received in respect of unearned premiums recoverable is deferred at the balance sheet date and recognized in the Statement of Profit or Loss in later periods when the related reinsured premium is earned.

Reinsurance commissions received represent a past cash flow, and are not recognised as a liability in the solvency balance sheet.

The unexpired risk reserve recognised in the UK GAAP balance sheet is an estimation at the balance sheet date of additional future cash outflows for certain contracts on which a liability adequacy test has been performed. In Solvency II, these cash outflows form part of the valuation of the Solvency II technical provisions, and are therefore already taken into account

D.5. Other liabilities

D.5.1. Deposits from reinsurers

The balance of Deposits from Reinsurers arises as a result of business written by Great Lakes under the Facultative Obligatory reinsurance treaties with its parent, Munich Re, and as a result of deposits provided by reinsurers that are recorded in Cash and Cash Equivalents.

Because these liability balances arise as a result of the 100% reinsurance arrangement between Great Lakes and its parent, the valuation rules applied to the asset positions are also applied to the liability positions.

D.5.2. Insurance & intermediaries payables, Reinsurance payables

	£000's	
	Solvency II	UK GAAP
Insurance & intermediaries payables	38,702	94,178
Reinsurance payables	238,833	644,520
	277,535	738,698
Balance prior to adjustments	738,316	738,316
Reclassifications and adjustments for Solvency II		
Reclassify not yet due cash flows to reinsurance recoverable (a)	(439,192)	-
Reclassify not yet due to reinsurance recoverable (b)	(21,589)	-
Discounting		-
	277,535	738,316
Adjustments for UK GAAP reporting	-	382
	277,535	738,698

The balances reported here represent amounts payable to policyholders and intermediaries and amounts payable to reinsurers. Under UK GAAP these balances are presented at nominal value. Under Solvency II accounts payable arising from (re) insurance contracts that are not yet due are classified as future cash outflows arising from the underlying insurance contracts and are recognized as a reduction of reinsurance recoverable. The remaining (re)insurance payables should be measured at fair value in the Solvency II balance sheet. These are short term balances where the nominal value for UK GAAP is deemed to be fair value. Because these balances have a duration of less than one year, as a simplification, they have not been discounted.

D.5.3. Payables (trade, not insurance)

	£000's	
	Solvency II	UK GAAP
Payables (trade, not insurance)	46,916	47,647
Balance prior to adjustments	46,916	46,916
Adjustments for UK GAAP reporting	-	731
	46,916	47,647

The balances reported here represent amounts payable that did not arise directly from a (re) insurance contract. Included in this classification are amounts payable to a related party service company, insurance premium tax liabilities and miscellaneous other liabilities. Under UK GAAP, these balances are reported at their nominal value. Under solvency, these amounts are to be recognized at fair value. These are short term balances where the nominal value for UK GAAP is deemed to be fair value. Because these balances have a duration of less than one year, as a simplification, they have not been discounted.

D.6. Alternative Valuation Methods, Any Other Information

All valuation methods used have been described in the section pertaining to each balance sheet item. There are no other valuation methods that have been used in the preparation of the Solvency II Economic Balance Sheet, and there is no other information to report regarding the valuation of other assets and liabilities.

E. Capital Management

E. Capital Management

E.1.1. Objectives, policies and processes for managing own funds

The overall aim of GLISE's capital management is to optimise the capital usage of the Company. Through active capital management, capitalisation is maintained at an appropriate level commensurate with the Company's business strategy, economic risk profile, appetite and steering philosophy. The Company's available financial resources must always be sufficient to cover the capital requirements determined by the ruling requirements of supervisory authorities, rating agencies and the risk appetite and buffer set by the Board. . The Company's approach to measure and assess potential capital management decisions is defined by the Whole Portfolio Risk Criteria, which exists to safeguard the Company's financial strength, regulatory solvency and target rating to provide a risk based view for pursuing capital management decisions.

The processes, responsibilities, requirements and reporting procedures for capital management are defined within the Capital Management Policy, which is owned by the Board and implemented at operational levels.

The Company has a three year planning cycle.

The Company uses a full internal model to calculate its regulatory capital requirements under Solvency II.

E.1.2. Structure, amount, and quality of own funds

The Own funds of the Company at 31 December 2016 are £401,701,857. Own funds are composed of 11,400,000 ordinary shares with a fully paid up value of £114,000,000, and a reconciliation reserve of £287,701,857. All the Own funds qualify as Tier 1.

E.1.3. Ancillary Own Funds

The Company has no ancillary Own funds.

E.1.4. Changes in Own funds over the reporting period.

Own funds have increased from £366,167,604 at 31 December 2015 to £401,701,857 at 31 December 2016. As share capital has remained unchanged, so this increase is all reflected in the reconciliation reserve. Please see the attached quantitative reporting template S.23.01.02 for the full analysis of the composition of Own Funds.

E.1.5. Quantitative and qualitative explanation of differences in equity shown in the undertakings financial statements and the excess of assets over liabilities as calculated for solvency purposes.

The table below provides the reconciliation between equity in the Company's UK GAAP financial statements and the excess of assets over liabilities in the Solvency II Economic Balance Sheet.

	31 December 2016 £000's
Equity per UK GAAP financial statements	353,766
Release of prudence margin	58,322
Future profits in unearned premium	10,340
Net discounting effect	16,256
Counterparty default adjustments	(3,997)
Other items	1,328
Risk margin (unaudited)	(27,364)
Deferred tax	(6,950)
Excess of assets over liabilities per Economic Balance Sheet	401,701

As described in the Valuation of Solvency Purposes section of this document, the Company holds prudence margins within some sections of its technical provisions calculated for UK GAAP reporting. These prudence margins are released in determining the best estimate of technical provisions for solvency purposes. The calculation of premium provisions for solvency purposes is described in the Valuation for Solvency Purposes section of this document. Applying the methodology described therein, and writing off deferred acquisition costs, deferred reinsurance commissions and deferred override commissions for solvency purposes results in an increase in excess of assets over liabilities of the amount shown under the caption, "Future profits in unearned premium". The methodology for discounting, counterparty default adjustment risk margin and deferred tax are also described in the Valuation for Solvency Purposes section of this document. Other items is an accumulation of small other valuation differences between the valuation bases used in the preparation of the UK GAAP financial statements and the valuation bases used in the preparation of the solvency economic balance sheet.

E.1.6. Internal Model Governance and Risk Management (unaudited)

Personnel, Committees, Roles and Responsibilities

The Chief Risk Officer ("CRO") is responsible for the design, build, testing and operation of the Internal Model. At the operational level, the Internal Model is managed by the Risk and Capital team, which reports directly to the CRO. The CRO reports directly to the Chief Executive Officer, and is a member of the Executive Committee, the operation of which is further described in the Systems of Governance section of this document. The Risk and Capital Committee of the Board of Directors assists the Board in fulfilling its responsibility for the oversight of the Company's strategy with particular reference for managing risk, controls, and capital. In fulfilling that role, the RCC receives, reviews and challenges the work of the CRO in regard to the operation of the internal model and its outcomes. The RCC also receives reviews and challenges the outcomes of the validation of the internal model, which is carried out as described below.

Risk Governance process for each material risk category and defined risk tolerance

As described in the Risk Management section of this documents, VaR measures, risk appetite statements, and KRI's have been put in place for each risk type covered by the Internal Model and also types that are not directly covered. Delegation of risk tolerances and the monitoring of actual risk against risk tolerance is also described in the Risk Management section of this document.

Ensuring the ongoing appropriateness of the internal model

The Systems of Governance section of this document describes the Board and its sub-committees and the management structure, and their roles and responsibilities. The Risk Management section of this document describes the way in which risks are identified, monitored, and reported. A later part of this section of the document sets out the processes for validating the Internal Model. All of these aspects of the Company's structures and processes allow the CRO, who is responsible for the operation of the Internal Model to ensure its continuing appropriateness for the Company's business model and risk profile.

Changes to the internal model

Changes to the internal model are classified by degree of significance, with classification levels defined being "minor-insignificant" or "minor-significant" or "major". The specific quantitative and qualitative classification thresholds, including governance procedures for conducting model changes are defined in the Company's Model Change policy, which is approved by the Board of Directors.

E.1.7. Use of the Internal Model (unaudited)

The Company uses its regulatory approved Internal Model to calculate its regulatory capital requirements (SCR) under Solvency II. In addition, the Company's holistic risk management framework risk assessment phase is also driven largely by the use of the Internal Model and supplemented by risk analytics tools, which assesses material changes to the Company's risk profile. The Internal Model provides quantitative risk measurement of all material risks where the most efficient method of mitigation is to hold capital. These quantitative risk assessments are underpinned by qualitative reviews, for example via Stress and Scenario Testing. ICS also plays a major part in the assessment of all operational risks and mitigating controls.

The Company also makes regular use of the Internal Model for business steering and risk-based decision making purposes. This is often termed as a use test of the Internal Model, and is performed depending on the time frame and materiality of the underlying business case. The CRO is a member of all the first line committees, and so has oversight of relevant business activities that may trigger the risk assessment using the internal model.

E.1.8. Scope, coverage, risk measure, confidence level, time horizon of the Internal Model (unaudited)

The Company's Internal Model is an extension of the Munich Re Group Internal Model applied at the solo entity level. It is a bespoke stochastic model designed to reflect the Company's risk profile, and covers all material quantifiable risks. The Company's Internal Model

generates loss distributions for each individual modelled risk area, and also at the aggregated level, covering all existing business and new business expected to be written over the next twelve months. The Company's SCR, as prescribed under the Solvency II Regulations, is then calculated based on the 1 in 200 year return period unexpected loss from the aggregated loss distribution. The risk measure, confidence level and time horizon used in the Internal Model are therefore the same as prescribed for the Standard Formula.

Key risk areas, and sub risk areas modelled in the Company's Internal Model are as follows;

- Insurance risk
 - Basic insurance risk- CIP
 - Basic insurance risk – branches
 - Event risk - natural catastrophes
 - Event risk – accumulations
- Credit risk
 - Investment credit risk
 - Reinsurance credit risk
 - Receivables credit risk
 - Pension credit risk
- Market risk
 - Interest rate risk
 - FX mismatch risk
 - Pension market risk
- Operational risk
- Longevity risk

These risks cover all of the Company's significant quantifiable risk categories that can be mitigated and appropriately backed by capital. There are other risk areas (e.g. reputation, strategic, delegated authority risks) that are not intended to be directly captured by the Internal Model, either they are inherently difficult to quantify, or due to the nature of the risks where capital is not the most appropriate mitigation option. These risks are part of the Company's overall risk management process, which contains robust procedures to effectively identify, assess, monitor and report these risks.

E.1.9. Internal Model Methodologies, assumptions, aggregation, risk mitigation (unaudited)

Insurance risk

The key structural assumption is to split the modelling of basic and event losses. Basic losses represent attritional types of individual single claim losses. These are modelled separately for the retained portfolio and the partially retained portfolio, so that the different risk profiles underlying each portfolio can be appropriately reflected in the modelling process.

Event risk represents large losses arising from events that impact multiple policies. These are modelled separately for natural catastrophes and accumulations (man-made catastrophes). Natural catastrophe losses are modelled for both the fully retained and partially retained portfolios. Only the fully retained portfolio is modelled for accumulation losses because it is the only portfolio that exhibits material accumulation characteristics.

Natural catastrophe losses are modelled using the Group wide approach. Distributions for more than 30 natural catastrophe scenarios are supplied by the relevant departments at Munich Re, and are adapted to fit by using the Company's own catastrophe budgets and the expected premium growth for the coming year. The modelling of natural catastrophe scenarios at Munich Re is very advanced, incorporating extensive internal and external data and expertise from a wide range of geoscientists and insurance specialists.

Accumulation risk is modelled using the Company's own tailored scenarios together with relevant group scenarios, including;

- General liability accumulations: long term latent
- General liability scenarios: pharmaceuticals
- Prospective accumulation event
- Terrorism scenarios

The overall accumulation scenario set is designed to better reflect the Company's risk profile and exposures. Where group scenarios are used, the underlying severity distributions are scaled to reflect the Company's own exposures.

Aggregation of insurance risk

Modelled loss distributions for the retained portfolio and partially retained branch portfolio are aggregated using assumed correlation factors to give the overall basic risk distribution. Natural catastrophe and accumulation risk are aggregated assuming independence of risk, to give the overall Event Risk distribution. This is appropriate as a natural catastrophe event is not likely to cause an accumulation loss, and vice versa. Finally, basic and event distributions are aggregated to give the overall insurance risk loss distribution, again assuming independence.

Reinsurance recoveries

Reinsurance exists separately for the retained business and the partially retained branch portfolio. For the retained business, the Risk XL reinsurance recoveries on basic losses are calculated directly within the retained basic risk model. As the simulation is undertaken at an individual policy level, the Risk XL reinsurance recoveries is calculated simply by applying the relevant reinsurance structure to the modelled gross losses.

For the partially retained branch portfolio, the loss and premium data used are net of proportional RI recoveries. Hence the modelled basic risk distributions are already implicit of proportional RI recoveries. There are also Risk XL reinsurance protections for the partially retained business, which further reduces the net retained risks. These non-proportional reinsurance covers are not modelled for prudence and materiality reasons.

For Event Risks, the Risk XL reinsurance recoveries are modelled by applying a distribution of recoveries generated from the retained basic risk model to the estimated gross event losses. For GLA Nat Cat Risk, the Cat XL reinsurance is also applied for the modelled scenarios.

Basic and event risk for the retained business are then aggregated and the Aggregate XL reinsurance recoveries are then further modelled.

Credit risk

Credit Risk is modelled following the Munich Re Group-wide approach. The modelling method uses CreditMetric analytics, which is an analytical framework in which portfolio Credit Risks caused by changes in obligor's credit quality can be assessed and simulated. CreditManager is the software implementation of this methodology. The Company's own credit exposure inputs (i.e. ceded reserves exposures and patterns, and receivables) are entered to CreditManager and the Credit Risk loss distribution is generated via CreditManager.

The Company's Credit Risk also has a loading to reflect the Credit Risk arising on the Company's pension scheme assets. This is modelled using the same capital to exposure ratio for the non-Pension related Credit Risk.

Market risk

Market Risk is also modelled using an asset-liability matching approach, where both sides of the balance sheet are stressed using real world economic scenarios. This is also consistent with the Munich Re Group wide approach. The calibration of the economic risk drivers and the overall simulations are performed at the Group level, using the software tool Algorithmics (Algo). Within the Algo architecture, the Company's investment (asset) and ENP (liability) data are imported via automatic interfaces. The impact of capital market changes on the Company's asset-liability positions are modelled using 600 economic risk drivers covering:

- Interest rates
- Credit spreads
- Inflation expectation rates
- Implied equity, commodity and interest rate volatility
- FX rates
- Equities and Alternative Investments
- Real estate

The most relevant factors for the Company are interest rates (and associated volatility), credit spreads and FX rates. These economic risk drivers are simulated and changes in the value of the Company's asset-liability positions are modelled.

Operational risk

The modelling of Operational Risk follows the Group-wide principle, but the scenarios chosen are Company specific and the underlying calibrations are also performed locally. Operational

Risk workshops are conducted annually, where internal business unit experts discuss and assess the estimated 1-in-10 and 1-in-50 year losses for each scenario. The quantification is based on references to the Company's own and external examples. When using publically available information the experts tailor their assessment to reflect the Company's business model and overall risk profile. The workshops are documented and the outputs are reported to the Executive Committee, where the results are reviewed, challenged and ultimately approved. Using the outputs, the frequency and severity distributions for each scenario are parameterised. From this the 1-in-200 year losses are modelled and aggregated using an assumed linear dependency structure.

Longevity risk

Longevity Risk is associated with the volatility in the value of Company's pension liabilities. This is modelled by applying a 1 in 200 year shock to the mortality rates used to calculate the Company's pension liabilities. The modelling assumes the Company's pension liabilities will increase proportionally due to changes to life expectancy assumptions.

Top level aggregation

The top-level Aggregation methodology follows a modified version of the Group-wide approach. A Gumbel copula is used to aggregate Insurance, Market, Credit and Longevity Risk, with modified parameters to better reflect the Company's business model. This involves increasing the correlation between Insurance and Credit Risks to better reflect the Company's business model and high exposure to RI Credit Risk. The calibration of the Group Gumbel copula is performed using a set of scenarios and benchmark dependency structures (e.g. the SII standard formula) as well as expert judgement.

E.1.10. Internal Model Data (unaudited)

The Internal Model including the calibration of the underlying parameters, utilises data predominately from various internal sources. Overall data sourced internally are signed off by the data owner and subsequent change analysis is performed and material movements are investigated. All data provided by the central Munich Re Group departments are subject to their internal quality assurance and sign-off processes.

A summary of the data used, split by modelled risk, is provided below.

Basic (Insurance) Risk – Retained

Data used is provided by the Company's Actuarial Function. This consists of individual policy and claims data, reinsurance details, and underlying assumptions adopted from the annual reserving process (e.g. loss ratios, IELRs, patterns, IBNERs). The Company's senior reserving actuary signs off these inputs, and any material movements are discussed together with the Risk Analytics team. The full calibration of the FGU severity distribution for the retained portfolio was undertaken during YE 2014 using historical claims experience and internally available benchmark data. An update for annual claims inflation was made at YE 2016, using inflation parameters sourced from the actuarial pricing team. Due to the low frequency and high severity nature of claims in the retained book of business, a full recalibration of the FGU severity distributions is feasible every 3-5 years, unless there have been material changes to the underlying portfolio. The Internal Model validation process however, annually assesses the reasonableness and appropriateness of the FGU severity distribution.

Basic (Insurance) Risk – partially retained portfolio

For GLA, historical and forecasted premiums, and claims triangle data are provided by GLA reserving actuary. For GLS, premiums and proxy claims data triangle based on the facilitated aviation portfolio are sourced from the Company's reserving team.

Event (Insurance) Risk

The frequency and severity parameters for each Nat Cat and Group accumulation scenarios are provided by the centralised team from the Munich Re Group. These parameters are updated annually using a combination of Munich Re internal data and use of external vendor models. These are produced in collaboration with the Corporate Underwriting team in Munich, and undergo an extensive quality assurance process. The Company's actual utilised scenario budgets information are provided by the relevant internal underwriting teams.

Credit Risk

Exposure information is sourced via the Company's balance sheet data provided by the Financial Reporting function. These are compiled into an input file from which the exposures can be used to generate the Credit Risk distributions provided by the central Munich Re Group departments. These distributions use market data, along with the Company's own exposure and counterparty information to produce company specific distributions for Credit Risk.

Market Risk

Investment asset data are directly accessible by MEAG, and together with market data simulates a set of 10,000 economic scenarios to revalue the Company's assets and liabilities. MEAG themselves have extensive validation procedures, with data being signed-off internally within MEAG.

Operational Risk

The data is in the form of 1-in-10 and 1-in-50 year losses, along with a list of pairwise linear correlation factors between the scenarios, which are the outputs of the operational scenario workshops run by the Company's Risk Management Function. The results are validated and reviewed by the Company's senior management including any major movements.

Longevity Risk

Calculation is performed by the independent actuary appointed for IAS19 triennial valuation purposes. External data in the form of life tables produced annually by the Office for National Statistics is used within the calculation of Longevity Risk associated with the defined benefits pension scheme.

E.1.11. Validation of the Internal Model (unaudited)

The Company has a Validation Policy in place which sets out the components of the validation process, which is designed to meet the tests and standards with regards to validation of the Internal Model that are set out in the Solvency II Directive.

Validation process – scope, frequency, governance

The validation process is triggered in the following circumstances.

- Recurrent validation – validation conducted annually that results in the annual validation reports,
- Ad-hoc validation – a non-regular exercise that may be triggered by internal or external factors that lead to a material change in the risk profile/own funds of the Company,
- Validation initiated by the introduction of new model components – validation appropriate to the significance of the introduced changes to the internal model must be considered and reported according to the model change policy.

The recurrent annual validation process begins in the first quarter of each year. The year-end figures of the previous year are reported and the SCR output is prepared. This is used by the Risk and Capital Committee (RCC) and the Board to inform the validation scoping exercise to assess the materiality of various risk areas and determine the scope of the next validation cycle. The validation process is then triggered and the exercise is concluded by the second quarter. There are two validation reports produced, the Technical Internal Model Validation Report (TIMVR) and the Executive Internal Model Validation Report (EIMVR). The TIMVR acts as a supporting document for the EIMVR for the technical reader. The EIMVR summarises the detailed report and draws out the important results and themes. The EIMVR is approved by the CRO and presented to the RCC and ultimately approved by the Board.

Validation process - independence

Article 124 (2) of Directive 2009/138/EC requires independence of the parties involved in producing this Validation Report from those involved in building, parameterising and operating the Internal Model. This independence has been achieved as follows.

The CRO is ultimately responsible for the design, build and testing of the Company's Internal Model. On the operational level, the design, build and operation of the Internal Model is performed by the risk and capital modelling team, which reports to the CRO. The Senior Validation Actuary also reports to the CRO but is not involved in the design, build and operation of the Internal Model, only its validation.

The results of the validation are provided to the central risk team at Munich Re Group, and they provide a further layer of independent review.

The CEO and CFO exercise an independent oversight function of the Solvency II outcomes.

Validation process- overview of work performed, limits, triggers, escalation

Risk areas considered in the validation are the modules within the top level aggregation process and sub modules. Risk mitigation, appropriateness of overall SCR, aggregation and tax effect are also validated. Separate to the components of each risk area, there are three other areas that are validated on an overall level: documentation, Use Test, and Governance. Within each risk area, the following components are validated using a range of quantitative and qualitative tools;

- data

- model design
- model parameterisation
- model outputs
- expert judgements used
- IT systems

Validation findings are produced for each component and risk area in the Internal Model by way of assigning the following ratings.

Pass/Fail	Rating		Misstatement of SCR of	Escalation
PASS	OK	no limitations	0% to 3%	None required
	Minor	minor limitations	3% to 8%	Report in EIMVR. Log findings and monitor in future validation cycles.
	Major	major limitations	8% to 15%	Highlight in EIMVR, with action plan and timeframe for resolution. Updates provided at subsequent RCC meetings. Log findings and monitor in future validation cycles.
FAIL	Critical	Critical limitations	Over 15%	Agree action plan, report failing to RCC members ahead of the EIMVR. Report in EIMVR with action plan and timeframe for resolution. Update provided at subsequent RCC meetings. Log findings and monitor in future validation cycles. Findings leading to an underestimation of SCR must be reported to supervisor.

The results of the most recent validation exercise, which was conducted for YE 2015 Internal Model results, are presented below.

Validation risk area	Rating
Insurance - basic - retained	Pass - minor limitations
Insurance - basic - partially retained	OK - no limitations
Insurance - event	OK - no limitations
Credit	Pass - minor limitations
Market	OK - no limitations
Operational	OK - no limitations
Longevity	OK - no limitations

For the 2016 validation exercise, it has been identified that Insurance (Basic) Risk for the CIP retained portfolio, Insurance Event risk and Top Level Aggregation are the most material areas of the Internal Model that can influence the overall SCR figure

The amount of fully diversified capital for market risk, split by stand alone sub-risk categories

Market Risk by Sub Category (£000's)		
	December 2016	January 1, 2017
Interest rate risk - base curve	8.4	9.9
Interest rate risk - spread	6.1	7.1
Currency risk	69.3	27.2
Pension market risk	0.4	0.4
Diversification effect	(15.2)	(15.7)
	69.0	28.9

E.2. SCR and MCR (unaudited)

E.2.1. SCR and MCR in Total and by Risk Module

SCR by Risk Module (unaudited)				
	December 2015	December 2016	January 1, 2017	Change Dec 15 to Dec 16
Insurance risk	73.2	78.0	78.1	4.8
Credit risk	48.6	53.0	53.0	4.4
Market risk	16.2	69.0	28.9	52.8
Longevity risk	0.9	1.2	1.2	0.3
Operational risk	16.7	17.4	17.4	0.7
Undiversified SCR	155.6	218.6	178.6	63.0
Diversification effect	(30)	(40)	(34)	(10)
Loss absorbing effect of taxes	(9)	(10)	(10)	(1)
Diversified after tax SCR	116.5	168.7	135.0	52.2
MCR	48.9	50.6		1.8

On a diversified after-tax basis the SCR at 31 December 2016 amounts to £168.7 million, £52.2m higher than 2015. The increase is largely attributable to the increase in market risk that existed prior to the Company's re-location to Germany. This is further described below.

Insurance risk – increase of £4.8m

This increase is caused mainly by the change in the terms and conditions of the reinsurance cover on the Company's CIP London retained portfolio. This change is described in the Underwriting risk section of this document. Excluding the effect of this, the insurance risk SCR has increased by only £0.5m since 2015.

Credit risk – increase of £4.4m

This increase reflects exposure increases for all three elements of credit risk – reinsurance recoverables, credit risk on receivables, and credit risk on invested assets. In addition to these increased exposures, the depreciation of GBP during 2016 also increased the Company's foreign currency denominated credit exposures when converted to GBP.

Market risk – increase of £52.8m

The majority of this increase occurred as a result of the re-domiciliation of the Company to Germany, further described in the Business and Performance section of this document. This occurred because in preparing for the re-domiciliation, certain of the Company's GBP denominated investments were divested and reinvested in EUR denominated investments. This resulted in increased currency mismatches between the Company's assets and its liabilities, which is replicated in the Economic Neutral Position where the free surplus is held in GBP. After the re-domiciliation, effective 1 January 2017, the Company's home currency will be EUR, and the currency mismatch between assets and liabilities falls and the SCR for market risk will reduce to £28.9m. The post re-domiciliation market risk SCR represents an increase of £12.6m over the SCR for market risk at December 2015. This increase reflects increases in the Company's net asset FX mismatch exposures, particularly for USD over the 2016 year.

The Minimum Capital Requirement is calculated using the net best estimate technical provision from S.02.01, the net written premium over the last twelve months, sourced from the Company's general ledger, and the SCR calculated by the Internal Model. SCR is used to set the lower (25% of the SCR) and the upper 45% of the SCR) bounds for the MCR. The overall MCR is also subject to an absolute lower bound of EUR3.7 million.

E.3. Equity risk

The Company has no investments in equities, so this section is not applicable.

E.4. Differences between the SCR per the Standard Formula and the SCR per the Internal Model (unaudited)

Comparison with Internal Model shows that the Standard Formula can lead to consistently higher Solvency II SCR results for the Company. We note the Standard Formula and the underlying capital factors are designed to fit an 'average' European insurer and therefore are not appropriate to adequately reflect the Company's unique business and risk profiles. The key areas of difference between the Company and an 'average' European insurer are:

- As Munich Re Group's preferred facilitator and PIRI enabler, the majority of the Company's business, in particular the facilitated portfolio, is largely ceded back to the Group. The Standard Formula does not appropriately reflect the risks for an insurer with above average Reinsurance Credit Risk, offset by relatively lower proportion of net insurance risks.

- the underlying Standard Formula capital factors applied to primary insurers does not appropriately reflect the type of business written by the Company which are more akin to facultative reinsurance business.
- Health Underwriting Risks are treated separately to the Non-Life Underwriting Risk. This in our view leads to an overstatement of Insurance Risks under the Standard Formula.
- The Company's overall net Insurance Risk is protected by a low Risk XL retention of £3m (£5m for 2016 onwards) further protected by an aggregate XL. The low RI retention is not adequately reflected in the underlying capital factors of the Standard Formula.

As a result of above, we do not believe that the Standard Formula is appropriate to adequately measure the risks and therefore Solvency II capital requirements for the Company. However the Internal Model is tailored and calibrated more closely reflect the Company's business and risk, and therefore is our preferred approach for calculating the SCR.

E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement (unaudited)

The Company currently sees no reasonable foreseeable risks of non-compliance with the Solvency Capital Requirement or Minimum Capital Requirement.

E.6. Any other information

There is no other information concerning Capital Management that requires disclosure.

Appendices

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

Reasonable assurance report of the external independent auditor to the Directors of Great Lakes Insurance SE ('the Company')

Except as stated below, we have been engaged by the Company to audit, and express an opinion on the following documents prepared by Great Lakes Insurance SE as at 31 December 2016 :

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Great Lakes Insurance SE as at 31 December 2016, (**'the Narrative Disclosures subject to audit'**); and
- Company templates S02.01.02, S12.01.02, S17.01.02, S23.01.01, S28.01.01 (**'the Templates subject to audit'**).

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

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

- information contained within the Relevant Elements of the Solvency and Financial Condition Report set out above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- the 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- information relating to 31 December 2015 voluntarily disclosed by the Company in the 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21, S.25.03.21;
- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the solvency and financial condition report (**'the Responsibility Statement'**).

To the extent the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

Respective responsibilities of directors and auditor

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Matter

The Company has calculated its Solvency Capital Requirement using an internal model ("the Model") approved by BaFin. In forming our opinion, we have not audited the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Matters on which we are required to report by exception

We have read the Other Information contained in the Solvency and Financial Condition Report and considered whether it is materially inconsistent with our knowledge obtained in the audit of Great Lakes Insurance SE's financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the terms of our engagement, and to assist the Company in meeting the request from the PRA asking the Company to submit the Solvency and Financial Condition Report along with this report of the external auditor.

Our audit has been undertaken so that we might state to the Company's directors those matters we are required to state to them in an auditor's report issued pursuant to the terms of our engagement and for no other purpose. To the fullest extent permitted by law, we do not

accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

KPMG LLP

KPMG LLP

Chartered Accountants

15 Canada Square

London E14 5GL

2 June 2017

- The maintenance and integrity of Great Lakes Insurance SE's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

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

Solo internal model

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

- The following elements of template S.02.01.02:
 - Row R0550: Technical provisions - non-life (excluding health) - risk margin
 - Row R0590: Technical provisions - health (similar to non-life) - risk margin
 - Row R0640: Technical provisions - health (similar to life) - risk margin
 - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
 - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin
- The following elements of template S.12.01.02
 - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
 - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
 - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
 - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.23.01.01
 - Row R0580: SCR
 - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of template S.28.01.01
 - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

S.02.01.02

Balance sheet

S.02.01.02.01

Balance sheet

(GBP in thousands)

		Solvency II value
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	2
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	0
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	692,444
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	0
Equities	R0100	0
Equities - listed	R0110	0
Equities - unlisted	R0120	0
Bonds	R0130	655,972
Government Bonds	R0140	483,852
Corporate Bonds	R0150	172,120
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	0
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	36,472
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	R0230	0
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	0
Reinsurance recoverables from:	R0270	3,363,820
Non-life and health similar to non-life	R0280	3,321,246
Non-life excluding health	R0290	3,160,123
Health similar to non-life	R0300	161,123
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	42,574
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	42,574
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	23,241
Insurance and intermediaries receivables	R0360	352,007
Reinsurance receivables	R0370	209
Receivables (trade, not insurance)	R0380	9,342
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	49,324
Any other assets, not elsewhere shown	R0420	0
Total assets	R0500	4,490,389
Liabilities		
Technical provisions – non-life	R0510	3,680,501
Technical provisions – non-life (excluding health)	R0520	3,495,603
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	3,468,965
Risk margin	R0550	26,638
Technical provisions - health (similar to non-life)	R0560	184,899
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	184,299
Risk margin	R0590	600
Technical provisions - life (excluding index-linked and unit-linked)	R0600	42,705
Technical provisions - health (similar to life)	R0610	0
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	0
Risk margin	R0640	0
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	42,705
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	42,579
Risk margin	R0680	127
Technical provisions – index-linked and unit-linked	R0690	0
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	0
Risk margin	R0720	0
Other technical provisions	R0730	
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	0
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	33,284
Deferred tax liabilities	R0780	7,745
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	38,702
Reinsurance payables	R0830	238,833
Payables (trade, not insurance)	R0840	46,916
Subordinated liabilities	R0850	0
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	0
Any other liabilities, not elsewhere shown	R0880	0
Total liabilities	R0900	4,088,687
Excess of assets over liabilities	R1000	401,702

Information	
Consolidation Group	10001S
Company	22001
Fiscal year	2016
Fiscal year variant	K4
Posting period	12
Version	112
Solo / Group evaluation	SOLO
SII currency type (input)	LC
Reporting Currency	GBP

S.05.01.02

Premiums, claims and expenses by line of business

S.05.01.02.01

Non-Life & Accepted non-proportional reinsurance

(GBP in thousands)

Information					
Consolidation Group	10001S	Fiscal year variant	K4	Solo / Group evaluation	SOLO
Company	22001	Posting period	12	SII currency type (input)	LC
Fiscal year	2016	Version	112	Reporting Currency	GBP

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)							
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
Premiums written									
Gross - Direct Business	R0110	246,919	31,508	0	590,209	233,854	161,916	395,020	162,306
Gross - Proportional reinsurance accepted	R0120	0	386	0	0	0	2,276	16,548	9,994
Gross - Non-proportional reinsurance accepted	R0130								
Reinsurers' share	R0140	202,169	29,637	0	590,209	232,476	163,992	390,692	147,128
Net	R0200	44,750	2,257	0	0	1,378	199	20,876	25,172
Premiums earned									
Gross - Direct Business	R0210	250,370	30,817	0	539,109	216,188	193,964	401,016	141,143
Gross - Proportional reinsurance accepted	R0220	0	386	0	0	0	2,269	17,203	10,075
Gross - Non-proportional reinsurance accepted	R0230								
Reinsurers' share	R0240	205,794	28,956	0	539,109	215,016	196,006	394,413	127,658
Net	R0300	44,575	2,246	0	0	1,173	227	23,806	23,560
Claims incurred									
Gross - Direct Business	R0310	170,556	-5,717	0	349,522	152,824	119,026	247,107	178,677
Gross - Proportional reinsurance accepted	R0320	0	0	0	0	0	-823	2,482	3,818
Gross - Non-proportional reinsurance accepted	R0330								
Reinsurers' share	R0340	153,946	-6,586	0	349,522	152,100	118,035	242,678	160,748
Net	R0400	16,610	869	0	0	724	168	6,911	21,747
Changes in other technical provisions									
Gross - Direct Business	R0410	11,910	461	0	-1,319	-4,172	955	-10,583	657
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0430								
Reinsurers' share	R0440	12,343	475	0	-1,319	-4,217	955	-12,603	53
Net	R0500	-433	-15	0	0	45	1	2,020	604
Expenses incurred	R0550	27,959	1,384	0	393	-542	-291	1,601	-979
Other expenses	R1200								
Total expenses	R1300								

claims and expenses by line of business

Accepted non-proportional reinsurance

 $ds)$ [illegible]

S.05.02.01

Premiums, claims and expenses by country

Non-life obligations

(0 in thousands)

Information	Consolidation Group	10001S	Fiscal year variant	K4	Solo / Group evaluation
	Company	22001	Posting period	12	SII currency type (input)
	Fiscal year	2016	Version	112	Reporting Currency

		S.05.02.01.01	S.05.02.01.03	S.05.02.01.02	S.05.02.01.02	S.05.02.01.02	S.05.02.01.02
		Home country	Total for top 5 countries and home country (by amount of gross premiums written)	Country (by amount of gross premiums written)	Country (by amount of gross premiums written)	Country (by amount of gross premiums written)	Country (by amount of gross premiums written)
		C0080	C0140	C0090	C0100	C0110	C0120
Country	R0010			AUSTRALIA	UNITED STATES	IRELAND	ITALY
Premiums written							
Gross - Direct Business	R0110	1,284,785	1,948,471	305,879	211,438	85,849	39,327
Gross - Proportional reinsurance accepted	R0120	35,695	35,695				
Gross - Non-proportional reinsurance accepted	R0130	10,362	10,362				
Reinsurers' share	R0140	1,300,536	1,867,230	221,318	200,221	85,648	39,251
Net	R0200	30,306	127,298	84,561	11,217	200	76
Premiums earned							
Gross - Direct Business	R0210	1,213,330	1,886,042	309,256	234,866	77,462	29,828
Gross - Proportional reinsurance accepted	R0220	36,686	36,686				
Gross - Non-proportional reinsurance accepted	R0230	10,626	10,626				
Reinsurers' share	R0240	1,228,875	1,803,881	225,381	222,247	77,262	29,817
Net	R0300	31,767	129,473	83,875	12,619	200	11
Claims incurred							
Gross - Direct Business	R0310	798,393	1,186,287	179,058	129,714	52,266	19,410
Gross - Proportional reinsurance accepted	R0320	10,469	10,469				
Gross - Non-proportional reinsurance accepted	R0330	27,289	27,289				
Reinsurers' share	R0340	805,822	1,155,305	142,711	127,708	52,293	19,460
Net	R0400	30,329	68,740	36,347	2,006	-27	-50
Changes in other technical provisions							
Gross - Direct Business	R0410	6,997	-5,818	-3,112	-9,263	846	-1,327
Gross - Proportional reinsurance accepted	R0420	0	0				
Gross - Non-proportional reinsurance accepted	R0430	0	0				
Reinsurers' share	R0440	5,103	-7,783	-3,183	-9,263	846	-1,327
Net	R0500	1,895	1,965	71	0	0	0
Expenses incurred	R0550	2,359	47,560	46,053	363	-1,417	40
Other expenses	R1200		0				
Total expenses	R1300	2,359	47,560	46,053	363	-1,417	40

s, claims and expenses by country

bligations
nds)

SOLO
LC
0

S.05.02.01.02
Country (by amount of gross premiums written)

Country	R0010	C0130
		NEW ZEALAND
Premiums written		
Gross - Direct Business	R0110	21,193
Gross - Proportional reinsurance accepted	R0120	
Gross - Non-proportional reinsurance accepted	R0130	
Reinsurers' share	R0140	20,255
Net	R0200	938
Premiums earned		
Gross - Direct Business	R0210	21,299
Gross - Proportional reinsurance accepted	R0220	
Gross - Non-proportional reinsurance accepted	R0230	
Reinsurers' share	R0240	20,299
Net	R0300	1,000
Claims incurred		
Gross - Direct Business	R0310	7,447
Gross - Proportional reinsurance accepted	R0320	
Gross - Non-proportional reinsurance accepted	R0330	
Reinsurers' share	R0340	7,311
Net	R0400	136
Changes in other technical provisions		
Gross - Direct Business	R0410	41
Gross - Proportional reinsurance accepted	R0420	
Gross - Non-proportional reinsurance accepted	R0430	
Reinsurers' share	R0440	41
Net	R0500	0
Expenses incurred	R0550	162
Other expenses	R1200	
Total expenses	R1300	162

S.12.01.02
Life and Health SLT Technical Provisions

S.12.01.02.01
Life and Health SLT Technical Provisions
(GBP in thousands)

Information					
Consolidation Group	10001S	Fiscal year variant	K4	Solo / Group evaluation	SOLO
Company	22001	Posting period	12	SLI currency type (input)	LC
Fiscal year	2016	Version	112	Reporting Currency	GBP

		Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)		
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees					Contracts with options or guarantees
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160
Technical provisions calculated as a whole		R0010	0	0		0			0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		R0020	0	0		0			0	0	0	0
Technical provisions calculated as a sum of BE and RM												
Best Estimate												
Gross Best Estimate		R0030	0		0	0		0	42,579	0	42,579	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		R0080	0		0	0		0	42,574	0	42,574	
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total		R0090	0		0	0		0	5	0	5	
Risk Margin		R0100	0	0			0		127	0	127	0
Amount of the transitional on Technical Provisions												
Technical Provisions calculated as a whole		R0110	0	0		0			0	0	0	0
Best estimate		R0120	0		0	0		0	0	0	0	
Risk margin		R0130	0	0			0		0	0	0	0
Technical provisions - total		R0200	0	0		0			42,705	0	42,705	0

Health SLT Technical Provisions

Health SLT Technical Provisions
ands)

		Health insurance (direct business)		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		Contracts without options and guarantees	Contracts with options or guarantees			
		C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010			0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020			0	0	0
Technical provisions calculated as a sum of BE and RM						
Best Estimate						
Gross Best Estimate	R0030	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	0	0	0	0	0
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	0	0	0	0	0
Risk Margin	R0100			0	0	0
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	R0110			0	0	0
Best estimate	R0120	0	0	0	0	0
Risk margin	R0130			0	0	0
Technical provisions - total	R0200			0	0	0

Information					
Consolidation Group	10001S	Fiscal year variant	K4	Solo / Group evaluation	SOLO
Company	22001	Posting period	12	SLI currency type (input)	LC
Fiscal year	2016	Version	112	Reporting Currency	GBP

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060	63,707	4,795	0	253,130	55,386	45,810	131,860	60,977	1,312	2,570	0	17,395	0	1,334	0	1,101	639,377
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	56,529	4,424	0	253,098	54,739	44,901	102,940	35,169	1,312	2,569	0	13,359	0	-83	0	-26	568,931
Net Best Estimate of Premium Provisions	R0150	7,177	371	0	31	647	910	28,920	25,808	0	1	0	4,035	0	1,416	0	1,127	70,445
Claims provisions																		
Gross	R0160	103,818	11,682	297	839,234	223,998	317,091	578,555	811,610	-550	24,423	0	24,944	0	46,335	0	32,449	3,013,887
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	89,003	10,871	297	841,882	221,324	316,267	541,420	651,949	-381	24,479	0	16,708	0	23,422	0	15,073	2,752,315
Net Best Estimate of Claims Provisions	R0250	14,816	811	0	-2,648	2,674	824	37,134	159,661	-169	-56	0	8,236	0	22,913	0	17,376	261,572
Total Best estimate - gross	R0260	167,525	16,477	297	1,092,364	279,384	362,901	710,415	872,588	762	26,993	0	42,339	0	47,669	0	33,550	3,653,264
Total Best estimate - net	R0270	21,993	1,183	0	-2,616	3,321	1,733	66,055	185,469	-169	-55	0	12,272	0	24,329	0	18,503	332,017
Risk margin	R0280	552	47	1	4,151	918	1,086	5,638	11,856	6	108	0	193	0	1,555	0	1,127	27,238
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Best estimate	R0300	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Risk margin	R0310	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Technical provisions - total																		
Technical provisions - total	R0320	168,077	16,524	298	1,096,514	280,303	363,987	716,053	884,444	769	27,100	0	42,532	0	49,224	0	34,677	3,680,501
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	145,532	15,294	297	1,094,980	276,063	361,168	644,360	687,119	931	27,048	0	30,067	0	23,339	0	15,047	3,321,246
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	22,545	1,230	1	1,534	4,240	2,819	71,693	197,325	-163	53	0	12,465	0	25,884	0	19,630	359,255

S.23.01.01

Own funds

S.23.01.01.01

Own funds

(GBP in thousands)

Information					
Consolidation Group	10001S	Fiscal year variant	K4	Solo / Group evaluation	SOLO
Company	22001	Posting period	12	SII currency type (input)	LC
Fiscal year	2016	Version	112	Reporting Currency	GBP

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	114,000	114,000		0	
Share premium account related to ordinary share capital	R0030	0	0		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0	0	0
Surplus funds	R0070	0	0			
Preference shares	R0090	0		0	0	0
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	287,702	287,702			
Subordinated liabilities	R0140	0		0	0	0
An amount equal to the value of net deferred tax assets	R0160	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	0
Total basic own funds after deductions	R0290	401,702	401,702	0		0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	0			0	0
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	401,702	401,702	0	0	0
Total available own funds to meet the MCR	R0510	401,702	401,702	0	0	
Total eligible own funds to meet the SCR	R0540	401,702	401,702	0	0	0
Total eligible own funds to meet the MCR	R0550	401,702	401,702	0	0	
SCR	R0580	168,706				
MCR	R0600	50,630				
Ratio of Eligible own funds to SCR	R0620	2.381				
Ratio of Eligible own funds to MCR	R0640	7.934				

S.23.01.01.02

Reconciliation reserve

(GBP in thousands)

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	401,702
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	0
Other basic own fund items	R0730	114,000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0
Reconciliation reserve	R0760	287,702
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	0
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	649
Total Expected profits included in future premiums (EPIFP)	R0790	649

S.25.03.21

Solvency Capital Requirement - for groups on Full Internal Models

Information					
Consolidation Group	10001S	Fiscal year variant	K4	Solo / Group evaluation	SOLO
Company	22001	Posting period	12	SI currency type (input)	LC
Fiscal year	2016	Version	112	Reporting Currency	GBP

S.25.03.21.02

Calculation of Solvency Capital Requirement

(GBP in thousands)

		C0100
Total undiversified components	R0110	208,291
Diversification	R0060	-39,586
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	168,706
Capital add-ons already set	R0210	0
Solvency capital requirement	R0220	168,706
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	0
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirement for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

S.25.03.21.01

Component-specific information

(GBP in thousands)

Unique number of component	Component Description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
201	Component 1 - Property-casualty	78,053
202	Component 2 - Life and health	1,170
203	Component 3 - Market	68,972
204	Component 4 - Credit	53,003
205	Component 5 - Operational Risk	17,387
207	Component 7 - Loss abs. cap. of deferred taxes (neg. sign)	-10,295

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity
(in thousands)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR _{RL} Result	R0010	50,630

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	21,993	47,657
Income protection insurance and proportional reinsurance	R0030	1,183	2,412
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	0	1,289
Other motor insurance and proportional reinsurance	R0060	3,321	0
Marine, aviation and transport insurance and proportional reinsurance	R0070	1,733	220
Fire and other damage to property insurance and proportional reinsurance	R0080	66,055	45,033
General liability insurance and proportional reinsurance	R0090	185,469	36,773
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	0	0
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	12,272	45
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	24,329	4,689
Non-proportional marine, aviation and transport reinsurance	R0160	0	0
Non-proportional property reinsurance	R0170	18,503	12,010

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR _L Result	R0200	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210	0	
Obligations with profit participation - future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	0	
Other life (re)insurance and health (re)insurance obligations	R0240	0	
Total capital at risk for all life (re)insurance obligations	R0250		0

Overall MCR calculation

		C0070
Linear MCR	R0300	50,630
SCR	R0310	168,706
MCR cap	R0320	75,917
MCR floor	R0330	42,176
Combined MCR	R0340	50,630
Absolute floor of the MCR	R0350	3,158
		C0070
Minimum Capital Requirement	R0400	50,630

Information	
Consolidation Group	100015
Company	22001
Fiscal year	2016
Fiscal year variant	K4
Posting period	12
Version	112
Solo / Group evaluation	SOLO
SII currency type (input)	LC
Reporting Currency	