Annual Report 2019
Great Lakes Insurance SE

Key figures

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

		2019	Previous year
Gross premiums written	€'000	4,021,820	3,661,000
Net earned premiums	€'000	224,661	98,072
Loss ratio (gross)	%	93.0	82.1
Loss ratio (net)	%	81.2	102.4
Equity	€'000	396,923	395,840

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

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Report of the Supervisory Board

In the 2019 financial year, the Supervisory Board regularly monitored and advised management in accordance with the tasks and duties incumbent upon it by law and under the Articles of Association. To this end, we held two regular and two extraordinary Supervisory Board meetings and obtained quarterly reports from the Board of Management on the Company's business and its expected progress. We were also involved in all decisions of fundamental importance. In addition, the Board of Management kept us fully informed on all key Company matters, and on events that might have had an appreciable effect on its business. No inspection measures in accordance with Section 111(2) sentence 1 of the German Stock Corporation Act (AktG) were required in the past financial year.

The Supervisory Board was comprehensively informed, in particular at the extraordinary meetings, of the negative performance of one of the sales agencies in the United Kingdom as well as any resulting compliance risks.

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

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

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, duly audited the 2019 annual financial statements and management report prepared by the Board of Management, and issued an unqualified auditor's opinion.

The annual financial statements, the management report and the auditor's report were submitted in due time to every member of the Supervisory Board. After conducting our own review, we discussed these documents at the meeting of the Supervisory Board on 27 April 2020 to adopt the financial statements, which was also attended by the auditors. The responsible actuary also attended that meeting and presented us with the key findings of the report explaining the actuarial certification. Again, we did not have any objections or additional comments in this regard.

The Supervisory Board approved the annual financial statements for the 2019 financial year. The annual financial statements were thus adopted. At the meeting to adopt the financial statements on 27 April 2020, the Supervisory Board furthermore elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, as the Company's auditor for the 2020 financial year.

With effect from 1 January 2019, Ms. Claudia Hasse was appointed to the Supervisory Board to replace Mr. Claus-Ulrich Kroll, who had departed the board, and was elected the Chair of the Supervisory Board. There were no other personnel changes on the Board of Management and Supervisory Board during the financial year.

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

Munich, 27 April 2020

For the Supervisory Board

Management report

Basic information about the Company

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

Great Lakes Insurance SE is included in the consolidated financial statements of Munich Re. The Company's UK branch gives it a presence in the London market. We have, in consultation with the local supervisory authorities, taken precautions in order to maintain business operations after the United Kingdom leaves the European Union (Brexit). We are currently reviewing various options in order to maintain our personal lines insurance business in the United Kingdom after the end of the transition period.

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

Stakeholders

Clients and client relationships

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

Environment

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

Report on economic position

Macroeconomic and industry environment

Global economic growth in 2019 was considerably weaker than in 2018. While the economy in the USA slowed, growth was subdued in the eurozone and Japan. China's high growth rate decreased somewhat, and India's rapidly growing economy cooled markedly. The rates of growth remained low in Brazil and Russia. Inflation rates in developed economies were lower on average than in the previous year. In the eurozone and Japan, inflation was low.

Capital markets

Both the European Central Bank (ECB) and the US Federal Reserve (the Fed) pivoted their monetary policy during 2019. The ECB cut the interest rate for deposits. In addition, the Bank resumed making monthly net purchases as part of its asset purchase programme. The Fed lowered its policy rate corridor three times in 2019, and ended its balance-sheet reduction programme. Yields on government bonds were impacted by monetary policy easing, weaker economic growth, lower inflation, and political risks – particularly the trade war between the United States and China. Yields on ten-year German government bonds dropped to a new all-time low at one point in the year – and remained in negative territory at the end of 2019. There was an even greater decline in yields on ten-year US government bonds.

Yields on ten-year government bonds

%	31.12.2019	Previous year
USA	1.9	2.7
Germany	-0.2	0.2
UK	0.8	1.3

Monetary policy easing boosted stock markets over the course of 2019. Important stock indices such as the US Dow Jones index and the DJ Euro STOXX 50 closed the year with substantial gains. The trade war between the USA and China led to volatility, with prospects of renewed escalation dragging down share prices and news of an impending trade agreement boosting the markets.

Stock markets

	31.12.2019	Previous year
DJ EURO STOXX 50	3,745	3,001
Dow Jones	28,538	23,327

At the end of December, the euro exchange rate was lower than the previous year against the US dollar, the Canadian dollar and the pound sterling. Compared with the previous year, the average value of the euro in 2019 was much lower against the US dollar and the Canadian dollar, and slightly lower against the pound sterling. Because of ongoing uncertainty about Brexit, the pound sterling fluctuated considerably throughout 2019.

Insurance industry

The global growth rate in property-casualty primary insurance was down somewhat in 2019. China's premium growth slowed significantly compared with the previous year, growth in Italy stagnated and premium income in Brazil declined after adjustment for inflation. By contrast, there was robust growth in the USA, Japan, Australia and Germany, which supported global premium development in property-casualty reinsurance. The renewals for property-casualty reinsurance treaties in January 2019 saw average prices remain largely unchanged, owing to persistently high capacity in the market. The renewals in April and July 2019 saw prices rise in regions affected by natural catastrophes. The price level stabilised and trended slightly upwards in the liability markets.

Premiums in the property-casualty business in Germany rose by approximately 3.2% in the 2019 financial year, according to projections by the German Insurance Association (GDV). At the same time, claims expenditures increased by approximately 1.7%. The combined ratio in the 2019 financial year is expected to be around 93%, and thus 1 percentage point below the prior-year figure. 2019 was therefore a satisfactory year overall for property-casualty insurers. The main challenges in 2019 were the digitalisation of business processes and the ongoing, extremely low interest rate environment. The sector expects to see premium growth of approximately 2.5 percentage points in 2020. In addition to the weaker economy, the ongoing, extremely low interest rate environment dampened growth in the insurance business.

In the United Kingdom, average motor premiums again declined, falling by 1% against the previous year. However, the average premiums in Q4 2019 were approximately 3% higher than in Q3 and still 1% above the prior-year figure. Compared to 2016, premiums in Q4 2019 were on average approximately 9% higher. As was the case in 2017, the main driver for this increase compared to 2016 was the legislative changes to the Ogden rates used for discounting in personal injury claims. The increase in Q4 was due mainly to higher repair and theft claims expenditures.

Important tools of corporate management

The aim of our entrepreneurial thinking and activity is to analyse risks from every conceivable angle and to assess and diversify them, creating lasting value for shareholders, clients and staff in relation to the risks assumed. This is the aim of our active capital management and the consistent application of value and risk-based management systems. The framework for any business activity is our risk strategy, from which we derive various limitations and reporting thresholds. A key element is our economic capital resources, which we determine in accordance with the Solvency II supervisory regime. We observe a range of important additional conditions. These include national accounting regulations, tax aspects, liquidity requirements and supervisory parameters.

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

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

- Consequently, business activities are assessed not only according to their earnings potential, but also relative to the extent of the risks assumed. Only the risk-return relationship reveals how beneficial an activity is from the point of view of our shareholders.

- With value-based corporate management tools, we ensure an economic valuation and the comparability of alternative initiatives.

- We clearly assign responsibilities and specify the levers for adding value for both management and staff.

Contrasting aspects have to be evaluated when selecting suitable target figures. On the one hand, the often-complex economic realities should be reflected as closely as possible in order to emphasise added value as the Company’s overriding guiding principle. On the other hand, target figures should be straightforward and understandable for staff and the public.

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

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

Business performance and results of operations

As in previous years, the 2019 calendar year was in particular dominated by high gross insurance claims, due mainly to natural catastrophes such as the typhoons in Japan. There were also individual major losses due to explosions at industrial facilities as well as in aviation and space.

Gross premiums amounted to €4,021,820 thousand (3,661,000 thousand) in the 2019 calendar year, and were thus 9.9% higher than in the previous year despite a one-off effect amounting to approximately €400 million in gross premium income related to the assumption of a reinsurance portfolio in the 2018 financial year. Adjusting the prior-year figure for the one-off effect, the growth is attributable primarily to intra-Group reinsurance contracts. Premiums also increased due to new business relationships with intra-Group agents of the ERGO Group in the United Kingdom and the assumption of facultative reinsurance business from Munich Re's former UK branch in connection with the preparations for Brexit. Foreign currency effects did not have a significant impact on the change in gross premium income. On average over the 2019 calendar year, the pound sterling – the dominant currency for the gross premiums in our portfolio – depreciated by approximately 1% against the euro compared to the 2018 calendar year. The gross premium volume amounted to 62.7% (57.9%) and resulted primarily from premiums in the direct insurance business. Of the gross premium income, 37.3% (42.1%) is attributable to the assumed reinsurance business. The decline in the share attributable to the assumed reinsurance business is due to the one-off effect in the 2018 financial year. The number of insurance policies is given on page 37 of this report.

In the 2019 financial year, Great Lakes Insurance SE's gross premiums earned were primarily attributable to its headquarters at €1,783,693 thousand (1,582,858 thousand) and its London branch at €1,864,483 thousand (1,558,303 thousand). Thus, while the share attributable to headquarters declined slightly to 46.7% (48.2%), the share attributable to the London branch rose slightly to 48.9% (47.5%). The UK branch remained a key strategic location throughout the entire 2019 calendar year. A further €121,801 thousand (79,227 thousand) was attributable to our rapidly growing Italian branch. As in the previous year, this encouraging performance was down to strong growth in the motor insurance segment. The branch in Switzerland reported stable gross earned premium income of €27,802 thousand (29,507 thousand) in the calendar year. Since the majority of its portfolio is being wound down, the Australian branch reported a significant decline in gross premium income to €12,349 thousand (38,540 thousand).

We cede the majority of our premium income to affiliated reinsurance companies within Munich Re. Earned premiums for own account amounted to €224,661 thousand (98,072 thousand) in the 2019 financial year. The increase was due largely to the assumption of reinsurance business from Munich Re's former UK branch. The Company's primary insurance and reinsurance business with major commercial and industrial risks also contributed to the increase in earned premiums for own account.

Claims expenditures before deduction of the ceded share amounted to €3,549,175 thousand (2,693,645 thousand), corresponding to a gross loss ratio of 93.0% (82.1%). Claims expenditures after deduction of the ceded share amounted to €182,537 thousand (100,375 thousand), corresponding to a net loss ratio of 81.2% (102.4%). Our operating expenses for own account amounted to €45,884 thousand (9,770 thousand), corresponding to an expense ratio of 20.4% (10.0%). The increase was due primarily to the assumption of reinsurance business from Munich Re's former UK branch. Compared to the primary insurance business with major risks, the reinsurance business has significantly higher commission and expense ratios. Overall, our net combined ratio thus improved year on year to 101.2% (112.4%). The gross combined ratio amounted to 125.0% (116.5%). As in the previous year, the high gross combined ratio was due primarily to a series of natural catastrophe losses as well as major losses and the associated rise in claims expenditures. The year-on-year increase in the gross claims expenditure is due in particular to major losses.

We recognised the claims equalisation provision and similar provisions as required by law. In compliance with the legal requirements, we used the loss ratios from the annual reports published by BaFin to populate the underlying observation period used to calculate the claims equalisation provision. As at 31 December 2019, claims equalisation provisions amounted to €15,504 thousand (17,929 thousand).

The underwriting result for own account after claims equalisation amounted to -282 thousand (–27,870 thousand) in the 2019 financial year.

The investment result, not including interest on deposits retained, was €14,071 thousand (2,232 thousand). In the 2019 calendar year, the result was marked by higher gains on the disposal of investments. Due to a decrease in interest rates on the capital markets, primarily in US dollars and pounds sterling, the market values of bonds sold were generally higher than the carrying amounts.

Overall, the pre-tax operating result amounted to €9,667 thousand (–35,647 thousand) and the net income for the year €1,083 thousand (0 thousand). As at the date of preparing the management report, Great Lakes Insurance SE's economic position is positive.

Based on the IFRS result, one of our performance indicators, we generated a slightly positive result overall, which was just marginally below our original projections. However, the gross premium assumptions are significantly above the budgeted volume of €3.5 billion.

The classes and types of insurance business transacted in the 2019 financial year – both in direct insurance operations and assumed reinsurance business – are listed on page 37.

Business performance in the classes of business

Direct insurance and assumed reinsurance business

This section details the business performance in the material classes of business and types of insurance transacted in direct insurance operations and assumed reinsurance business. For the sake of clarity, we do not separately report classes of business and types of insurance that account for less than 5% of the overall insurance business on the basis of gross premium. The disclosures relate exclusively to the full 2019 financial year and in accordance with Section 51(4) no. 1 of the Regulation on the Accounting of Insurance Undertakings (RechVersV) are presented separately for the direct insurance and assumed reinsurance business.

Health insurance

In the 2019 calendar year, the Company generated gross premiums amounting to €370,690 thousand (312,332 thousand) in health insurance, representing a considerable year-on-year increase. This is due primarily to the first-time assumption of the intra-Group agency business in the United Kingdom. The majority of the direct health insurance business came from the United Kingdom in 2019, and is ceded in full to our reinsurers. The Company does not underwrite substitutive comprehensive health insurance in Germany pursuant to Section 146 of the German Insurance Supervision Act (VAG). Gross claims expenditures amounted to €208,261 thousand (132,613 thousand) and led to a (gross) loss ratio of 59.8% that was slightly above the previous year's 57.5%. By contrast, the underwriting result for own account after claims equalisation improved to €492 thousand (–1,614 thousand).

Health insurance

		2019	Previous year
Direct insurance and assumed reinsurance business			
Gross premiums written	€'000	370,690	312,333
Loss ratio (gross)	%	59.8	57.5
Underwriting result for own account after claims equalisation	€'000	492	-1,614
Direct insurance business			
Gross premiums written	€'000	166,534	126,169
Loss ratio (gross)	%	45.1	28.7
Underwriting result for own account after claims equalisation	€'000	-24	-1,929
Assumed reinsurance business			
Gross premiums written	€'000	204,156	186,164
Loss ratio (gross)	%	73.0	77.0
Underwriting result for own account after claims equalisation	€'000	517	315

Liability insurance

In the 2019 calendar year, liability insurance (including aviation liability insurance) generated gross premiums of €486,065 thousand (378,262 thousand). This included €117,524 thousand (101,982 thousand) in gross premiums written for aviation liability insurance. Liability insurance recorded a loss ratio (gross) of 64.8% (83.2%) due to gross claims incurred in the amount of €291,754 thousand (294,260 thousand). The reason behind this an improved basic loss distribution compared to the previous year. Expenditures for major losses slightly exceeded expectations for the retained business. Therefore, the underwriting result for own account after claims equalisation totalled –€8,641 thousand (7,356 thousand) in the 2019 calendar year. In total, €8,802 thousand was allocated to the claims equalisation provision in this class.

Liability insurance

		2019	Previous year
Direct insurance and assumed reinsurance business			
Gross premiums written	€'000	486,065	378,263
Loss ratio (gross)	%	64.8	83.2
Underwriting result for own account after claims equalisation	€'000	-8,641	7,356
Direct insurance business			
Gross premiums written	€'000	338,453	281,799
Loss ratio (gross)	%	76.0	92.2
Underwriting result for own account after claims equalisation	€'000	3,208	10,650
Assumed reinsurance business			
Gross premiums written	€'000	147,612	96,464
Loss ratio (gross)	%	37.4	52.8
Underwriting result for own account after claims equalisation	€'000	-11,849	-3,294

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

Motor insurance generated gross premiums amounting to €1,362,881 thousand (1,570,401 thousand) in this calendar year. The decrease is attributable primarily to a one-off effect in 2018 resulting from the intra-Group reinsurance business of Munich Re's Beijing branch. However, at 33.9% (42.9%), motor insurance still made a significant contribution to our total gross premium volume. This business is almost fully ceded to our reinsurers by means of proportional treaties. Gross claims expenditures amounted to €713,552 thousand (916,072 thousand) and led to a (gross) loss ratio of 53.0% (67.2%). The improvement is due mainly to the changes in the Ogden rate for our business in the United Kingdom. Our underwriting result for own account after claims equalisation amounted to €9,405 thousand (6,089 thousand). Due to the very high proportion of ceded reinsurance business in motor insurance, the result for own account primarily comprises commissions from reinsurers.

Motor insurance

		2019	Previous year
Direct insurance and assumed reinsurance business			
Gross premiums written	€'000	1,362,881	1,570,401
Loss ratio (gross)	%	53.0	67.2
Underwriting result for own account after claims equalisation	€'000	9,405	6,089
Direct insurance business			
Gross premiums written	€'000	1,041,977	967,881
Loss ratio (gross)	%	55.8	79.3
Underwriting result for own account after claims equalisation	€'000	8,349	6,215
Assumed reinsurance business			
Gross premiums written	€'000	320,905	602,520
Loss ratio (gross)	%	44.4	39.9
Underwriting result for own account after claims equalisation	€'000	1,056	-126

Fire and property insurance

Fire and property insurance generated gross premiums of €1,019,074 thousand in this calendar year. This represents a significant increase from the previous year (€852,506 thousand), which is attributable to the direct insurance as well as the assumed reinsurance business. In total, the Company reported a (gross) loss ratio of 187.2% on claims expenditures of €1,774,945 thousand (886,552 thousand). The loss ratio was therefore significantly above the prior-year figure of 115.3%. This was due to exceptionally high claims expenditures for natural catastrophes stemming from the assumed intra-Group reinsurance business, which was, however, fully ceded to Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München. The largest loss events in 2019 were Typhoon Hagibis and Typhoon Faxai, which caused considerable damage in Japan. By contrast, the performance of the retained business improved substantially due significantly lower expenditures for major losses compared to the previous year.
Overall, the underwriting result for own account after claims equalisation improved significantly to €689 thousand (-32,597 thousand).

Fire and property insurance

		2019	Previous year
Direct insurance and assumed reinsurance business			
Gross premiums written	€'000	1,019,074	852,506
Loss ratio (gross)	%	187.2	115.3
Underwriting result for own account after claims equalisation	€'000	689	-32,597
Direct insurance business			
Gross premiums written	€'000	310,569	256,970
Loss ratio (gross)	%	43.8	63.0
Underwriting result for own account after claims equalisation	€'000	-18,884	-28,657
Assumed reinsurance business			
Gross premiums written	€'000	708,505	595,535
Loss ratio (gross)	%	248.2	143.3
Underwriting result for own account after claims equalisation	€'000	19,573	-3,940

Other property insurance

In the 2019 calendar year, the Company generated gross premiums of €459,443 thousand (282,699 thousand) in other property insurance. This represents a significant year-on-year increase that is attributable to both the intra-Group and external agency business. Furthermore, the business with major commercial and industrial risks is growing. In this line of business, the Company recorded a loss ratio (gross) of 71.9% on claims expenditures of €296,043 thousand (208,078 thousand). The loss ratio was just slightly above the prior-year figure of 71.6% The underwriting result for own account after claims equalisation amounted to –€7,810 thousand (–8,379 thousand). This was due to higher expenditures for major losses, which were retained after being ceded to the reinsurers.

Other property insurance

		2019	Previous year
Direct insurance and assumed reinsurance business			
Gross premiums written	€'000	459,443	282,699
Loss ratio (gross)	%	71.9	71.6
Underwriting result for own account after claims equalisation	€'000	-7,810	-8,379
Direct insurance business			
Gross premiums written	€'000	399,142	265,171
Loss ratio (gross)	%	76.3	66.6
Underwriting result for own account after claims equalisation	€'000	-2,067	6,222
Assumed reinsurance business			
Gross premiums written	€'000	60,302	17,528
Loss ratio (gross)	%	33.7	150.3
Underwriting result for own account after claims equalisation	€'000	-5,743	-14,601

Net assets

Investment portfolio

As at 31 December 2019, our investment portfolio excluding deposits retained amounted to €819,517 thousand (828,812 thousand).

The majority of investments are in fixed-interest securities issued by entities with good to very good credit ratings. Our risk management activities include closely observing our investments, enabling us to promptly sell assets or take other corrective action where necessary. Our investments fulfil our strict requirements for sustainable investment. These requirements will have a beneficial long-term impact on our risk exposure and earnings. Our asset manager, MUNICH ERGO Kapitalanlagegesellschaft mbH ("MEAG"), also a Munich Re subsidiary, processes our investments in line with our instructions and the legal requirements. Details of the investments and their performance can be found in the notes to the annual financial statements on page 31 of this annual report.

Investments

	31.12.2019	Previous year	Change
	€'000	€'000	%
Other investments			
1. Bearer bonds and other fixed-interest securities	621,853	750,835	-17.2
2. Deposits with banks	197,665	77,977	153.5
Total	819,517	828,812	-1.1

Valuation reserves

The fair values of the investments are reported on page 31 of this annual report. A valuation reserve is the difference between the fair value and the carrying amount of an investment. Fair values are snapshots which reflect the market situation at a given point in time. Rather than develop steadily, they are subject to significant fluctuations. As at 31 December 2019, the valuation reserves amounted to €5,301 thousand (1,116 thousand).

Receivables

Receivables primarily comprise receivables from direct insurance operations. As at 31 December 2019, these amounted to €1,781,534 thousand (1,290,918 thousand) and were mainly attributable to receivables from policyholders for existing insurance policies that had not yet been accounted for with the customers or intermediaries as at the balance sheet date. Accounts receivable on reinsurance business amounted to €478,986 thousand (455,401 thousand).

Financial position

Capital structure

Due to the net income for 2019, which was transferred to the legal reserve in connection with the preparation of the annual financial statements, equity increased by €1,083 thousand (0 thousand). As at 31 December 2019, equity amounted to €396,923 thousand (395,840 thousand). Issued capital remained unchanged at €131,777 thousand, as did the profit brought forward of €264,063 thousand. The profit brought forward includes profits generated prior to the relocation of GLISE's registered office.

Our insurance business has a significant influence on the structure of our balance sheet: coverage of the technical provisions accounted for 17.4% (14.7%) of total equity and liabilities with a duration of approximately three years. Further material items on the equity and liabilities side of the balance sheet are equity at 9.3% (10.7%), and current liabilities (less than 1 year) to intermediaries at 15.1% (12.6%) and to our reinsurers at 33.5% (34.7%).[1] The liabilities are primarily denominated in pounds sterling, US dollars and euros.

Since we are an international (re)insurance undertaking, some of our financial resources are subject to restrictions on disposal. For instance, the supervisory authorities in some countries require local branches or foreign primary insurers to retain certain investments locally to cover insurance obligations, including in special trust accounts. As at 31 December 2019, this applied to investments with a market value totalling €124,023 thousand (214,787 thousand).

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

Material funding activities and operations

Great Lakes Insurance SE did not carry out any material funding activities in the 2019 calendar year, nor are any funding activities currently planned for 2020.

Liquidity

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

[1] The percentages relate to total equity and liabilities in the amount of €4,262,923 thousand.

Overall assessment of the economic position

Great Lakes Insurance SE generated an operating profit before tax of €9,667 thousand (–35,647 thousand) in the 2019 financial year. Net of taxes, the profit amounted to €1,083 thousand (–34,471 thousand). The year-on-year improvement is due primarily to significantly lower claims expenditures for own account resulting from natural catastrophes and major industrial risks. Gross claims expenditures increased significantly year on year, due primarily to the typhoons in Japan. The related almost exclusively to business that is ceded in connection with our comprehensive reinsurance programme. While gross claims expenditures for typhoons in Japan far exceeded the €1 billion mark in the 2019 calendar year, this figure was significantly lower at €82,589 thousand after reinsurance. The claims equalisation provision amounting to €2,425 thousand (–14,173 thousand) was reversed in the 2019 financial year.

In light of the net income for the year of €1,083 thousand, no loss will be absorbed in the 2019 financial year (previous year: –€34,471 thousand) on the basis of the control agreement with MunichFinancialGroup GmbH, Munich.

Overall, Great Lakes Insurance SE has a sound economic foundation and is well prepared to face future challenges in order to continue being able at all times to promptly service its liabilities arising from insurance business. Great Lakes Insurance SE's solvency ratio as at 31 December 2019 was well above the level required by law.

Risk report

Risk management objectives

The objective of risk management at Great Lakes Insurance SE is to ensure that we are able to meet our obligations to our policyholders at all times, whilst creating sustainable value for our shareholders and protecting the Company's reputation and that of Munich Re. For this purpose, risk management employs strategies, methods and processes to identify, analyse, assess, control and monitor short and long-term risks to the Company's ability to operate on a going concern, and to enable mitigation actions to be taken in a timely manner. A particular aim is to safeguard the Company's financial strength in order to meet our obligations to our policyholders and maintaining shareholder values in the long term. Successful implementation of the risk strategy and risk appetite framework plays a key role in our Company's success and is in the interest of all stakeholders.

Organisational structure of risk management

Risk management at Great Lakes Insurance SE follows the three-lines-of-defence model. This ensures an effective separation of duties between the functions that take risks (first line) and the functions that perform independent risk controls (second and third lines). The business units act as the first line of defence and are responsible for identifying, assessing and executing risk decisions within the Company's defined risk appetite and risk tolerances. The independent risk management function, together with the compliance and actuarial functions form the second line of defence. The risk management function in particular is responsible for implementing an effective risk management system that ensures that our operations and risk decisions are undertaken in line with the Company's defined risk strategy, and that the overall risks of the Company are monitored and reported to management and stakeholders. The third line of defence is the internal audit function, which ensures that the processes required to guarantee effective control are functional.

Risk management is a core key function at Great Lakes Insurance SE. In accordance with Solvency II, at the head of the risk management organisation is the risk management key function holder, reporting directly to the Chief Risk Officer (CRO), who is a member of the Board of Management. The compliance and actuarial (since 1 January 2019) key functions holders also report directly to the CRO; these functions are held by different individuals. Prior to 2019, the actuarial key function reported directly to the Chief Financial Officer (CFO), who is also a member of the Board of Management. Therefore, due to this change, the actuarial function retains direct access to the Board of Management and senior management.

The Risk and Capital Committee, which meets quarterly, reports to the risk management function. The Committee includes senior members from the risk management function, the CRO and a representative of risk management from Munich Re as permanent members. Other key function holders, members of the Board of Management and the first-line managers are invited as guests. The primary objective of the committee is to assist the Board of Management in fulfilling its responsibility for the oversight of the Company's risk management system, especially with regard to setting the risk strategy, risk reporting and controls, and capital management.

Risk Strategy

The Company's risk strategy is derived from its business objectives. The Board of Management approves the risk strategy on an annual basis, supported by the independent risk management function. This is also noted at the Supervisory Board level. The risk strategy defines where, how and to what extent the Company is prepared to incur risks. This includes identifying exposed risk areas, prioritising these on the basis of risk criteria and defining appropriate risk appetites and tolerances that align with the Company's strategy and objectives. The risk strategy may be amended during the year, subject to Board of Management approval. The Company's conformance to the risk strategy is monitored by the independent risk management function and reported to the Board of Management and senior management, at least on a quarterly basis.

Implementing the risk strategy

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

Risk reporting

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

Significant risks

Material risks are those that could have a long-term adverse effect on the Company's assets, financial situation, profitability and its ongoing operational structure. Based on the degree to which capital requirements reflect the significance of these risks under the internal model, these primarily comprise underwriting risks as well as credit risks resulting from exposures to our reinsurers. Operational risk, including conduct and outsourcing risks, are identified as a further significant risk for the Company. Market risk, which arises primarily from interest rate and currency fluctuations, represents a relatively minor share of risk for the Company. We differentiate between the following risk categories:

Underwriting risk

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

The Company mitigates a large proportion of its gross underwriting risk by means of its proportional and non-proportional reinsurance programmes, primarily reinsuring within the Munich Re Group entities. This reduces the volatility of the technical result for own account, whilst ensuring that the reinsurers have a good credit rating. Each year the Company carries out a thorough analysis to optimise the structure of these reinsurance programmes and ensure an adequate level of net underwriting risk is retained.

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

Risks from our investments and other assets

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

We define market risk as the risk of financial losses resulting from price changes in the capital markets. This includes equity risk, interest-rate risk, property price risk and currency risk. Interest-rate risk covers both changes in the basic yield curves, and changes in credit risk spreads. Market risk also includes the risk of changes in inflation rates. We use appropriate limit and early-warning systems in our asset-liability management to manage market risks. This enables us to satisfy the liabilities under our insurance policies at all times, irrespective of market conditions such as exchange and interest rates. The Company generally has a low market-risk appetite. As a consequence, we value optimising risk diversification over maximising returns. The Company’s investments currently comprise of fixed-interest and money market securities (government bonds, corporate bonds and cash), and therefore are primarily exposed to foreign-exchange, inflation, and interest-rate risks. The Company’s current investment mandate also permits strategic investment into riskier equities and infrastructure assets, though these are only allowed if these fall within the limits, as defined in the investment mandate. Currently, the Company’s investments does not include these riskier asset classes.

We define credit risk as the financial loss that may arise as a result of a change in the financial situation of a counterparty. In addition to credit risks arising from investments, we assume credit risk through the Company’s significant reinsurance programme, primarily with Munich Re Group entities as the counterparty. Further credit risks arise from debts owed by policyholders and intermediaries. The Company controls its investment credit risk by selecting issuers of suitable quality, and by observing and regularly monitoring counterparty limits. Credit risk is primarily managed via the counterparty limits and early-warning mechanisms (triggers) determined as part of the risk strategy.

The majority of our reinsurance recoveries are from internal entities within Munich Re, which have a credit rating of AA-. Representatives from Munich Re (Group) risk management regularly provide updates via the Company’s Risk and Capital Committee regarding the solvency and financial strength of Munich Re (Group). For Great Lakes Insurance SE, no receivables from reinsurers were past due or impaired as at 31 December 2019. Receivables from policyholders mainly arise from premium receivables from policyholders and intermediaries. We manage this counterparty risk by carefully selecting and verifying our intermediaries, as well as by means of corresponding policies for payment transactions. In addition, for the majority of the Company’s business this counterparty risk is passed onto our internal reinsurer, as per the reinsurance contract.

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

As at 31 December 2019, our investments had a duration of approximately 2–3 years. The corresponding technical provisions for own account had a duration of approximately 3–4 years.

Operational risks

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

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

The Company’s unique facilitation business model relies on significant outsourcings to both entities within Munich Re, and to external third-party service providers, such as Managing General Agents (MGAs) and claims- and policy-related administrators.

For this reason, the Company can be exposed to material outsourcing risk, which are classified as part of operational risk.

Outsourcing risk is defined as the risk of economic loss or other adverse impacts to GLISE resulting from the failure to adequately implement, monitor and control the performance of third-party providers who are delegated to perform one of more of GLISE's functions. The Company manages this risk by applying stringent due diligence processes when selecting external service providers, which it then reviews on a regular basis, including in the context of on-site visits.

The Company's risk management function receives regular reports from the business that assess this risk by means of quantitative thresholds and expert judgement. The individual risk assessments are then aggregated and provided to the Board of Management in the quarterly risk reporting.

Other risks

We define strategic risk as the risk of making incorrect business decisions, implementing decisions poorly, or being unable to adapt to changes in the business operating environment, relative to the Company's defined strategic objectives. Existing and new potential for success creates strategic risks, which we manage by carrying out risk analyses for significant strategic issues and regularly monitoring the implementation of measures deemed necessary. The Company's strategy is regularly reviewed and reported to management using balanced scorecards, and via the Company's Own Risk and Solvency Assessment (ORSA) process.

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

The Company also manages compliance (including regulatory), legal, and tax risks. Regulation has been growing in scale and complexity for some time now, a fact that requires enhanced efforts and is increasingly and permanently tying up resources. The Company's international branches and wide fields of business mean that it is not just exposed to regulations at the European level, but also outside of Europe. Overall, however, the Company considers itself well positioned to face these challenges.

Internal capital model

As part of the overall Group internal model of Munich Re, Great Lakes Insurance SE uses a solo-entity internal model to determine its solvency capital requirements under Solvency II. The use of the internal model was approved by the Company's principal supervisor and college of supervisors in September 2016. The internal model is also a main quantitative tool employed by the risk management function to assess the material risk areas of the Company.

Overview of the risk position

The Company's overall risk position remains controlled in 2019, albeit with heightened operational and compliance risk exposures resulting from internal resource strains as well as control and oversight gaps inherent in some business processes. The countermeasures in 2019 included various projects, particularly those focussed on "process refinement", to address these areas. At the time of writing this report, the project results were – in line with the respective timetables for the projects – not yet available for use in comprehensively managing these risks.

In respect of quantitative risks, the Company has both sufficient coverage of its reserves with assets, and capital in excess of its regulatory solvency requirement. This demonstrates that the Company has sufficient funds to meet all its commitments even after extreme loss events, as defined by the solvency capital requirement (SCR) under Solvency II.

The SCR is the amount of eligible own funds that need to be available, with a given risk appetite, to cover unexpected losses in the following year. The SCR corresponds to the value at risk of the economic profit and loss distribution over a one-year time horizon with a confidence level of 99.5%. This metric thus equates to the economic loss that, given underlying exposures, will be statistically exceeded in no more than one year in every 200. In 2019, the Company has calculated its SCR using its approved internal model and its own funds in accordance with the Solvency II requirements.

As at 31 December 2019, Great Lakes Insurance SE fulfilled all regulatory capital requirements without making use of any of the transitional arrangements permitted under Solvency II.

The further key topics and challenges for the Company’s risk management are currently as follows:

- Brexit – the United Kingdom’s withdrawal from the European Union – will have an impact on our branch and the insurance business in the UK. Great Lakes Insurance SE is currently prepared for any Brexit scenario, and via its UK branch, the Company will play a key role going forward in writing the majority of Munich Re’s non-life business in the UK. In order to take on this prominent role, the Company has already established the necessary legal, regulatory and organisational foundations. These had to be fleshed out further with the current political and regulatory developments in the case of the United Kingdom and the rest of the EU. The political and regulatory risks associated with Brexit, which are systemic to all industries, will inevitably lead to heightened operational risk. Risks are being mitigated with strengthened risk and compliance processes, capabilities and responsibilities.

- Ongoing monitoring of the Company’s operational and compliance risk exposures, with particular focus on strengthening and establishing adequate controls to manage outsourcing, delegated authority underwriting, complaints management and related conduct risks. This would need to be managed together with the implementation of "process-refinement" project outcomes, and systematic optimisation of the Company’s operational structure and resources.

- The Company is committed to support business expansions particularly on digital innovation and related insurance opportunities. This is expected to result in exposure to new risk areas that are not akin to the Company’s traditional business. Ongoing improvements are being made to ensure robust and targeted governance processes are applied, both in terms of new agent/product onboardings and ongoing risk monitoring of existing agents, particularly those that are material from a risk standpoint for the overall Company. This will need to focus on strengthening and also streamlining processes to managing delegated authority underwriting, MGA’s lifecycle management and related conduct risks.

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

Overall, we assess Great Lakes Insurance SE’s risk situation to be manageable and under control.

Opportunities report

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

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

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

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

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

Outlook

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

Although the Company's New Zealand branch is being wound down, our Australian branch was undergoing a strategic repositioning project in 2018 and 2019. The objective for 2020 is to wind down a planned transfer of an existing portfolio, which was about to be legally closed, to an external risk carrier. We are also planning to invest further in the continued and effective administration of the remaining portfolio and on maintaining resources for underwriting profitable and strategically desirable new local business.

We expect the United Kingdom's withdrawal from the European Union to impact our branches and the insurance business in the UK. In connection with Munich Re's Brexit strategy, the Company has already assumed a key role as risk carrier in the United Kingdom, both for reinsurance and primary insurance business in Munich Re's reinsurance and ERGO segments. Consequently, the Company's primary insurance and reinsurance business in the United Kingdom will also continue to grow in 2020. In 2018 and 2019, the Company had already begun to lay the requisite foundations at the legal, regulatory and organisational levels to successfully take on this role. A key step was our application filed as a precaution in March 2018 to license our existing branch as a "third-country branch" in the United Kingdom. Such a licence is required if, following the transition period agreed (currently until 31 December 2020), no agreement obviating the need for it had been achieved with the European Union. The business written in the EEA out of our United Kingdom branch has been reallocated to our head office in Germany or to our Italian branch, thereby ensuring that existing new business and new business affected by Brexit can be continued. We have also already started preparing for the expected additional regulatory requirements for reporting and claims settlement. As was previously the case, in 2020, we will continue to work closely with the supervisory authorities.

We expect stable business volumes in all three fields of business in 2020. Against this background and assuming that exchange rates remain stable as against 31 December 2019, Great Lakes Insurance SE projects that it will again realise gross premiums of approximately €4.0 billion in 2020. We expect an own-account combined ratio of around 91% of net earned premiums before increases in the claims equalisation provision. An accurate forecast is not possible, partly due to the obvious fluctuations in the incidence of major losses and natural catastrophes. The unexpectedly high large-loss and natural-catastrophe costs for own account are also the reason for the forecast loss ratio and technical result not being achieved in the 2019 financial year.

In addition, given the ongoing low-interest-rate environment, Great Lakes Insurance SE's return on investment will likely continue to fall. As things stand at present, we again expect to generate a slightly positive result in accordance with the Commercial Code in 2020, after taxes and allocations to the claims equalisation provision.

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

Due to current and rapid developments surrounding the novel coronavirus (COVID-19), any current projections and assessments are subject to uncertainty.

Classes of business and types of insurance transacted in the 2019 financial year

Direct insurance business

Personal accident insurance (excluding accident insurance with premium refund)
Health insurance
Liability insurance
Motor third-party liability insurance
Other motor insurance
Fire insurance
Householders’ comprehensive insurance
Homeowners’ comprehensive insurance
Other property insurance
Marine insurance
Aviation insurance
Credit insurance
Bond insurance
Legal protection insurance
Assistance insurance
Other classes of business

Assumed reinsurance business

Personal accident insurance (excluding accident insurance with premium refund)
Health insurance
Liability insurance
Motor third-party liability insurance
Other motor insurance
Fire insurance
Householders’ comprehensive insurance
Homeowners’ comprehensive insurance
Other property insurance
Marine insurance
Aviation insurance
Credit insurance
Bond insurance
Legal protection insurance
Assistance insurance
Other classes of business

Annual financial statements as at 31 December 2019

Balance sheet as at 31 December 2019

Assets

				Previous year
	€'000	€'000	€'000	€'000
A. Investments				
I. Other investments				
1. Bearer bonds and other fixed-interest securities	621,853			750,835
2. Deposits with banks	197,665			77,977
		819,517		828,812
II. Deposits retained on assumed reinsurance business		936,556		918,571
			1,756,074	1,747,383
B. Receivables				
I. Receivables from direct insurance operations with:				
1. policyholders	1,331,138			1,048,163
2. intermediaries	450,396			242,755
		1,781,534		1,290,918
II. Accounts receivable on reinsurance business		478,986		455,401
Thereof from - affiliated companies: €268,076 thousand (332,127 thousand)				
III. Other receivables		108,288		100,358
Thereof from - affiliated companies: €65,756 thousand (80,043 thousand)				
			2,368,809	1,846,677
C. Other assets				
I. Cash at banks, cheques and cash in hand		134,377		110,364
II. Other assets		0		1
			134,377	110,365
D. Prepaid expenses and deferred income				
I. Deferred interest and rent		3,664		3,733
			3,664	3,733
Total assets			4,262,923	3,708,158

Equity and liabilities

				Previous year
	€'000	€'000	€'000	€'000
A. Equity				
I. Issued capital		131,777		131,777
II. Revenue reserves		1,083		0
III. Retained profits		264,063		264,063
			396,923	395,840
B. Technical provisions				
I. Unearned premiums				
1. Gross amount	1,318,669			1,083,408
2. Thereof less: ceded reinsurance business	1,116,799			969,792
		201,869		113,617
II. Provisions for claims outstanding				
1. Gross amount	7,746,372			6,683,548
2. Thereof less: ceded reinsurance business	7,226,372			6,273,099
		520,000		410,449
III. Claims equalisation provision and similar provisions		15,504		17,929
IV. Other technical provisions				
1. Gross amount	161,368			50,957
2. Thereof less: ceded reinsurance business	157,516			46,016
		3,851		4,941
			741,225	546,936
C. Other provisions				
I. Pension provisions		65		0
II. Provisions for tax		1,143		1,337
III. Miscellaneous provisions		4,289		2,900
			5,497	4,237
D. Deposits retained on ceded business			938,393	949,306
E. Other liabilities				
I. Liabilities from direct insurance operations to				
1. policyholders	21,731			11,098
2. intermediaries	644,619			456,585
		666,350		467,683
II. Accounts payable on reinsurance business		1,427,315		1,285,235
Thereof to - affiliated companies: €1,356,660 thousand (1,245,826 thousand)				
III. Liabilities to banks		0		3
IV. Miscellaneous liabilities		87,221		58,918
Thereof to - affiliated companies: €2,868 thousand (0 thousand) Thereof from taxes: €13,593 thousand (636 thousand) Thereof for social security: €3 thousand (246 thousand)				
			2,180,886	1,811,839
Total equity and liabilities			4,262,923	3,708,158

Responsible actuary's report

On the basis of the documents relating to the portfolio as presented to me, I have reviewed the calculation of the annuity claims provision as at 31 December 2019.

It is hereby confirmed that the provision for future policy benefits in the amount of €80,610 thousand reported under item B. II on the equity and liabilities side of the balance sheet was calculated with due regard to Section 341f and Section 341g of the German Commercial Code (HGB) and the regulation issued on the basis of Section 88(3) of the Insurance Supervision Act (VAG).

Munich, 27 April 2020

Responsible actuary

Dr. Mariel Lüdecke

Income statement for the 2019 financial year

Item

					Previous year
		€'000	€'000	€'000	€'000
I.	Technical account				
1	Earned premiums for own account				
	a) Gross premiums written	4,021,820			3,661,000
	b) Outward reinsurance premiums	-3,712,805			-3,518,183
			309,015		142,818
	c) Change in gross unearned premiums	-205,376			-378,264
	d) Change in ceded share of gross unearned premiums	121,022			333,518
			-84,354		-44,746
				224,661	98,072
2	Claims incurred for own account				
	a) Claims paid				
	aa) Gross amount	-2,710,392			-1,093,864
	ab) Ceded share	2,618,446			977,931
			-91,946		-115,934
	b) Change in provision for claims outstanding				
	ba) Gross amount	-838,782			-1,599,781
	bb) Ceded share	748,192			1,615,339
			-90,591		15,559
				-182,537	-100,375
3	Change in other technical provisions for own account				
	a) Other net technical provisions		1,029		253
				1,029	253
4	Operating expenses for own account				
	a) Gross operating expenses		-1,222,528		-1,131,561
	b) less: commission received on ceded business		1,176,645		1,121,791
				-45,884	-9,770
5	Other underwriting expenses for own account			23	-1,876
	Thereof: ceded share		1,079		231
6	Subtotal			-2,707	-13,697
7	Change in claims equalisation provision and similar provisions			2,425	-14,173
8	Underwriting result for own account			-282	-27,870

				Previous year
	€'000	€'000	€'000	€'000
II. Non-technical account				
1 Investment income				
a) Income from other investments	27,693			28,778
b) Income from reversals of write-downs	1,004			123
c) Gains on the disposal of investments	9,150			2,721
		37,847		31,622
2 Investment expenses				
a) Expenses for the management of investments, interest paid and other expenses for investments	-1,296			-1,824
b) Write-downs of investments	-1,835			-5,451
c) Losses on the disposal of investments	-2,379			-3,123
		-5,510		-10,398
			32,337	21,224
3 Other income			61,824	81,260
4 Other expenses			-84,212	-110,261
5 Operating result before tax			9,667	-35,647
6 Taxes on income			-8,570	1,217
7 Other taxes			-14	-42
8 Income from loss absorption			0	34,471
9 Net income for the financial year			1,083	0
10 Appropriation to other revenue reserves			-1,083	0
11 Net retained profits			0	0

Notes to the annual financial statements

General information

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

Accounting policies

Basis of preparation

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

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

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

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

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

Investments

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

Receivables

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

Other assets

Deposits with banks are carried at their nominal value.

Deferred taxes

For the calculation of deferred taxes across all tax jurisdictions, temporary differences and carry-forwards are assessed overall. We did not exercise the option provided for in Section 274(1) sentence 2 of the Commercial Code. An excess of deferred tax assets beyond the netting amount is not recognised.
The Company’s deductible temporary differences exceeded taxable temporary differences by €60,349 thousand (57,780 thousand). The deductible temporary differences result from the measurement of intangible assets and technical provisions. The existing taxable temporary differences are of lesser significance.
The rounded deferred tax rate applicable in Germany is 33.0%. It is made up of the corporate tax rate (including solidarity surcharge) of 15.8% and the trade tax rate of 17.2%. The applicable tax rate at the material permanent establishment in the United Kingdom was 19.0%.

Great Lakes Insurance SE has tax loss carryforwards of €0 thousand (528 thousand) attributable to Germany.

There are no tax accounting influences.

Offsetting of assets and liabilities

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

Technical provisions

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

Unearned premiums

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

Provisions for claims outstanding

The provision for claims outstanding includes the following items:

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

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

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

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

The provisions for loss adjustments were calculated separately for internal and external loss adjustment expenses, in accordance with Section 341g(1) sentence 2 of the Commercial Code. We calculate the provisions for internal adjustment expenses as a lump sum as per the circular from the Federal Minister of Finance (BMF) dated 22 February 1973.

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

Claims equalisation provision and similar provisions

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

Other technical provisions

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

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

Other provisions

The provision for anniversaries is calculated pursuant to the projected unit credit method in application of the modified Heubeck 2005 G tables using an actuarial interest rate of 2.0% (2.3%) and salary trend of 3.0% (3.0%). The pension provision is recognised at the fair value of the pension liability claim and is offset against the corresponding plan assets, since these pension liability claims are pledged and thus inaccessible to other creditors.

All other provisions are recognised in accordance with the required settlement amount, based on reasonable and prudent commercial judgement. For discounting, we use maturity-matched discount rates published by the Bundesbank, pursuant to Section 253(2) of the Commercial Code.

Liabilities

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

Foreign currency translation and hedging relationships for currency risks

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

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

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

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

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

Notes to the balance sheet – Assets

A. Investments

Changes in asset items

Asset items

		Carrying amount previous year	Foreign exchange effects	Additions	Disposals	Reversals of write-downs	Write-downs	Carrying amount 31.12.2019
		€'000	€'000	€'000	€'000	€'000	€'000	€'000
A.	I. Other investments							
	1. Bearer bonds and other fixed-interest securities	750,835	7,572	1,362,576	-1,498,299	1,004	-1,835	621,853
	2. Deposits with banks	77,977	-435	131,284	-11,162	0	0	197,664
Total		828,812	7,137	1,493,860	-1,509,461	1,004	-1,835	819,517

The statement of changes in assets and investments is shown at year-end exchange rates (31 December 2019).

Assets with a market value of €124,023 thousand (214,787 thousand) are furnished as collateral for liabilities, primarily under trust fund obligations from insurance business in the United States and Canada.

Fair value of investments

Investments – Valuation reserves

		Carrying amount	Fair value	Valuation reserves
		31.12.2019	31.12.2019	31.12.2019
A.	I. Other investments			
	1. Bearer bonds and other fixed-interest securities	621,853	627,154	5,301
	2. Deposits with banks	197,665	197,665	0
Total		819,517	824,819	5,301

As at 31 December 2019, no investments were committed to permanent assets.

B. III. Other receivables

Other receivables includes income tax assets amounting to €7,347 thousand (7,688 thousand).

C. Other assets

Balances at domestic and foreign banks are reported under this item.

D. Prepaid expenses and deferred income

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

Notes to the balance sheet – Equity and liabilities

A. Equity

I. Issued capital

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

II. Revenue reserves

The revenue reserves amounted to €1,083 thousand and include the net profit for the 2019 financial year, which was fully transferred to the legal reserve.

III. Retained profits

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

B. Technical provisions

€'000	Total gross technical provisions		Thereof: Gross provision for claims outstanding		Thereof: Claims equalisation provision and similar provisions	
	31.12.2019	Previous year	31.12.2019	Previous year	31.12.2019	Previous year
Direct insurance business						
Personal accident and health insurance, of which:	287,509	230,294	94,332	58,950		
Personal accident insurance	50,146	35,023	39,901	26,981		
Health insurance	237,363	195,271	54,431	31,969		
Liability insurance	1,706,003	1,591,250	1,555,505	1,457,870	8,493	15,781
Motor third-party liability insurance	2,436,668	2,363,822	2,079,571	2,067,893		
Other motor insurance	369,790	305,430	268,337	209,514	852	
Fire and property insurance, thereof:	704,142	760,069	615,760	697,952		
Fire insurance	348,567	374,049	295,276	327,795		
Householders' comprehensive insurance	-13,518	42,896	-19,540	38,953		
Other property insurance	333,569	336,186	307,458	328,095		
Marine and aviation insurance	283,815	205,360	255,579	183,412		
Credit and bond insurance	23,514	17,478	21,336	12,017		
Legal protection insurance	82,518	61,528	72,268	50,135		
Assistance insurance	13,884	10,381	7,294	3,739		
Other classes of business	415,607	289,449	306,446	212,938	236	
Total	6,323,448	5,835,061	5,276,428	4,954,421	9,581	15,781
Assumed reinsurance business						
Total	2,918,464	2,000,781	2,469,944	1,729,127	5,922	2,147
Overall insurance business	9,241,912	7,835,842	7,746,372	6,683,548	15,504	17,929

C. III. Miscellaneous provisions

€'000	31.12.2019	Previous year
Other	1,306	1,121
Salary obligations	1,442	764
Invoices outstanding	518	525
Medium-term incentive plans	940	432
Anniversary benefits	83	58
Total	4,289	2,900

D. Liabilities

Due dates

€'000	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
E. Other liabilities			
I. Liabilities from direct insurance operations to:			
1. policyholders	21,731	0	0
2. intermediaries	644,619	0	0
	666,350	0	0
II. Accounts payable on reinsurance business	1,425,091	1,768	456
Thereof: affiliated companies: €1,356,660 thousand (1,245,826 thousand)			
III. Liabilities to banks	0		
IV. Miscellaneous liabilities	87,221	0	0
Thereof to - affiliated companies: €2,868 thousand (0 thousand) Thereof from taxes: €13,593 thousand (636 thousand) Thereof for social security: €3 thousand (246 thousand)			
Total	2,178,662	1,768	456

E. Hedging relationships

Hedging relationship	Hedged items	Hedging instruments	Type of risks	Amount of risks hedged
Portfolio hedge	Foreign currency liabilities	Foreign currency assets	Exchange rate risks	Currency result from hedged foreign-currency liabilities Recognition of effective change in the fair value of hedged items and hedging instruments in the balance sheet and income statement based on gross hedge presentation method
	The following hedging relationships – the largest in terms of volume – were recognised at the balance sheet date: - Pounds sterling: €4,254 million (5,020 million) - US dollars: €2,311 million (2,059 million) - Chinese yuan: €15,586 million (1,993 million)			Recognition of effective change in the fair value of hedged items and hedging instruments in the balance sheet and income statement based on gross hedge presentation method

Notes to the income statement

I. Technical account

I.1 Earned premiums for own account

€'000	Gross premiums written		Gross premiums earned		Net earned premiums	
	2019	Previous year	2019	Previous year	2019	Previous year
Direct insurance business						
Personal accident and health insurance, of which:	201,020	156,147	197,012	120,851	-1,709	1,776
Personal accident insurance	34,486	29,979	31,596	27,667	5	975
Health insurance	166,534	126,169	165,416	93,184	-1,715	801
Liability insurance	338,453	281,799	319,281	272,698	62,473	40,438
Motor third-party liability insurance	804,507	743,853	776,800	709,292	-1,317	-3,357
Other motor insurance	237,470	224,028	239,324	206,400	1,084	1,794
Fire and property insurance, thereof:	310,569	256,970	282,750	267,794	24,445	6,119
Fire insurance	187,835	180,106	178,642	194,015	6,721	3,376
Householders' comprehensive insurance	41,681	41,972	40,081	41,409	149	-247
Other property insurance	79,592	41,278	61,547	39,295	17,692	2,568
Marine and aviation insurance	119,918	83,750	114,132	85,386	-293	953
Credit and bond insurance	53,578	25,970	57,009	24,555	100	-44
Legal protection insurance	43,007	70,316	44,656	67,016	528	-630
Assistance insurance	14,488	10,663	14,027	10,359	-60	-26
Other classes of business	399,142	265,171	369,686	273,031	77,622	30,625
Total	2,522,153	2,118,667	2,414,675	2,037,382	162,872	77,647
Assumed reinsurance business						
Total	1,499,667	1,542,333	1,401,769	1,245,354	61,789	20,425
Overall insurance business	4,021,820	3,661,000	3,816,444	3,282,736	224,661	98,072

Gross premiums written by origin

€'000	2019	Previous year
Direct insurance business		
Germany	23,565	58,964
Other Member States of the European Union and other signatory states to the Agreement on the European Economic Area (EEA)	2,376,951	1,990,151
Third countries	121,637	69,552
Total	2,522,153	2,118,667

I.3. Claims incurred for own account

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

Gross claims incurred

€'000	2019	Previous year
Direct insurance business		
Personal accident and health insurance, of which:	-93,882	-43,515
Personal accident insurance	-19,293	-16,749
Health insurance	-74,589	-26,766
Liability insurance	-242,779	-251,385
Motor third-party liability insurance	-393,860	-947,224
Other motor insurance	-173,364	220,646
Fire and property insurance, thereof:	-123,909	-168,660
Fire insurance	-114,872	-122,182
Householders' comprehensive insurance	34,590	-20,747
Other property insurance	-14,662	-25,500
Marine and aviation insurance	-167,617	-171,537
Credit and bond insurance	-16,117	-11,355
Legal protection insurance	-24,939	-29,949
Assistance insurance	-10,116	-5,876
Other classes of business	-281,870	-181,929
Total	**-1,528,453**	**-1,590,783**
Assumed reinsurance business		
Total	-2,020,722	-1,102,862
Overall insurance business	**-3,549,175**	**-2,693,645**

Gross operating expenses

€'000	2019	Previous year
Direct insurance business		
Personal accident and health insurance, of which:	-99,514	-68,862
Personal accident insurance	-11,178	-13,615
Health insurance	-88,335	-55,247
Liability insurance	-87,061	-56,641
Motor third-party liability insurance	-237,156	-217,628
Other motor insurance	-67,348	-60,060
Fire and property insurance, thereof:	-94,918	-88,603
Fire insurance	-58,386	-56,150
Householders' comprehensive insurance	-19,221	-32,707
Other property insurance	-14,583	-7,298
Marine and aviation insurance	-19,659	-10,867
Credit and bond insurance	-7,818	-7,291
Legal protection insurance	-27,617	-44,621
Assistance insurance	-5,404	-4,996
Other classes of business	-142,662	-75,738
Total	-789,158	-635,306
Assumed reinsurance business		
Total	-433,371	-496,261
Overall insurance business	-1,222,528	-1,131,567

Of the total gross operating expenses, €1,196,917 thousand (1,112,392 thousand) was attributable to acquisition costs and €25,626 thousand (19,175 thousand) to management expenses.

I.8. Underwriting result for own account

€'000	2019	Previous year
Direct insurance business		
Personal accident and health insurance, of which:	553	-2,286
Personal accident insurance	577	-351
Health insurance	-24	-1,935
Liability insurance	3,208	10,650
Motor third-party liability insurance	3,889	1,365
Other motor insurance	4,460	4,850
Fire and property insurance, thereof:	-18,884	-28,657
Fire insurance	-16,683	-13,480
Householders' comprehensive insurance	1,336	389
Other property insurance	-3,426	-15,844
Marine and aviation insurance	1,245	2,155
Credit and bond insurance	1,244	-1,229
Legal protection insurance	1,972	671
Assistance insurance	179	219
Other classes of business	-2,067	6,222
Total	-4,202	-6,039
Assumed reinsurance business		
Total	3,919	-21,832
Overall insurance business	-282	-27,870

Reinsurance balance*

€'000	2019	Previous year
Direct insurance business		
Personal accident and health insurance, of which:	-2,818	-10,753
Personal accident insurance	-547	2,347
Health insurance	-2,271	-13,100
Liability insurance	4,120	62,868
Motor third-party liability insurance	-141,894	456,927
Other motor insurance	6,700	-362,132
Fire and property insurance, thereof:	-81,742	-42,308
Fire insurance	-21,949	-32,454
Householders' comprehensive insurance	-54,115	12,434
Other property insurance	-34,779	-22,170
Marine and aviation insurance	74,389	99,177
Credit and bond insurance	-32,018	-7,313
Legal protection insurance	9,873	8,225
Assistance insurance	1,672	733
Other classes of business	54,060	-9,103
Total	-107,657	196,319
Assumed reinsurance business		
Total	1,060,028	334,087
Overall insurance business	952,371	530,406

* = to the benefit of the reinsurers

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

Non-technical account

Other income and expenses primarily comprise currency translation gains of €39,766 thousand (45,978 thousand) and currency translation losses of €41,024 (€52,908 thousand). Our business model means that a large volume of the technical provisions and of the receivables and payables before reinsurance are denominated in foreign currencies. The corresponding items are reduced to a significantly lower level after reinsurance. This results in high currency translation gains and losses that offset each other. Our branches in the United Kingdom, Australia and Switzerland hold the majority of their assets in the respective local currencies. The material currencies for our portfolio are therefore the pound sterling, the Australian dollar and the US dollar.

In the 2019 financial year, a tax expense of €10,392 thousand (730 thousand) arose in the Germany tax jurisdiction and tax income of –€1,916 thousand (–1,707 thousand) was generated by the UK branch.

Other information

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

Number	2019	Previous year
Direct insurance business		
Personal accident and health insurance, of which:	1,956,435	787,394
Personal accident insurance	1,338,257	201,537
Health insurance	618,178	585,857
Liability insurance	339,066	108,865
Motor third-party liability insurance	5,279,435	4,935,242
Other motor insurance	4,984,324	5,411,596
Fire and property insurance, thereof:	1,636,853	1,195,579
Fire insurance	79,083	66,546
Householders' comprehensive insurance	1,133,075	869,459
Other property insurance	424,695	259,574
Marine and aviation insurance	11,209	12,866
Credit and bond insurance	184,747	49,036
Legal protection insurance	809,103	806,018
Assistance insurance	79,944	53,860
Other classes of business	1,796,356	1,667,830
Total	17,077,472	15,028,286

Contingent liabilities and other financial commitments

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

Off-balance sheet transactions

There are no further off-balance sheet transactions.

Events after the balance sheet date

GLISE is closely monitoring the developments surrounding the novel coronavirus (COVID-19). According to the latest information, any resulting risks or losses would largely be covered by our extensive reinsurance programme. Any net claims expenditures after reinsurance cessions would be in the low tens of millions. We do not currently expect there to be any material drag on earnings from an investment standpoint.
Due to current and rapid developments, any current projections and assessments are subject to uncertainty. There were no other reportable events after the balance sheet date.

Average headcount during the year

In the 2019 financial year, we employed an average of 28 (23) staff at the Company's registered office. All of these employees are office-based staff.

Commissions and other payments to insurance agents, personnel expenses

€'000	31.12.2019	Previous year
Commissions of any type to insurance agents within the meaning of Section 92 of the Commercial Code for direct insurance operations	743,545	599,893
Other payments to insurance agents within the meaning of Section 92 of the Commercial Code	23,718	18,375
Wages and salaries	5,595	3,591
Social security contributions and employee assistance	804	434
Expenses for employees' pensions	63	0
Total	773,725	622,295

Remuneration report

The total remuneration of the Board of Management of Great Lakes Insurance SE amounted to €1,308 thousand (1,090 thousand). No expenses were incurred for the Supervisory Board of Great Lakes Insurance SE in 2019. The members of the Supervisory Board and Board of Management did not receive any cash advances or loans in the year under review.

Please see page 39 for an overview of the members of the Supervisory Board and the Board of Management. This constitutes part of the notes to the annual financial statements.

Since 1 January 2017 Great Lakes Insurance SE has set up medium-term incentive plans, each with a term of three years. The Company's senior management is eligible to participate. The participants receive performance share units (PSUs). In the fourth year after plan commencement, participants are entitled to a bonus payment dependent on the achievement of value-based performance objectives and the increase in the total shareholder return (TSR). There were 1,313 (936) rights in existence as at 31 December 2019. The fair value of the 2019 rights amounted to €750.73, that of the 2018 rights to €730.22 (519.30) and that of the 2017 rights to €708.48 (500.94). A new long-term incentive plan for the members of the Board of Management was launched in the financial year; the provision amounted to €131 thousand as at 31 December 2019.

Due to the work carried out in the United Kingdom by the members of the Board of Management, the Company pre-paid the income tax amounts due in there on a one-off basis free of charge in the 2019 financial year. The members of the Board of Management repaid these immaterial amounts to the Company in the financial year.

Auditors' fees

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

Group affiliation

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

The annual financial statements of our Company are included in the consolidated financial statements of Münchener Rückversicherungs-Gesellschaft AG in München, Munich, prepared in accordance with the International Financial Reporting Standards (IFRSs) as at 31 December 2019. The conditions for exempting the Company from consolidated reporting requirements are therefore fulfilled.

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

List of shareholdings as at 31 December 2018 in accordance with Section 285 no. 11 of the Commercial Code

The information about the Company's equity has been taken from its formation documents. The net income/loss for the year relates to the 2018 financial year, as presented in the most recently available annual financial statements prepared in accordance with local GAAP.

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

Name of company and location of registered office	Shareholding (%)	Equity (€'000)	Net income/loss for the year (€'000)
Great Lakes (Gibraltar) Plc, Gibraltar	100	112	-6

Governing bodies

Supervisory Board

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

Christoph Carus
Deputy Chair of the Supervisory Board, Head of Reinsurance Accounting 1 at Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München

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

Alex Wettemann
Head of Global Clients/North America 4 (MR Facultative & Corporate) at Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München

Board of Management

Dr. Achim Stegner
Chief Executive Officer

Dr. Stefan Pasternak

Dr. Tobias Klauß

Stéphane Deutscher

Drawn up and released for publication, Munich, 20 March 2020.
The Board of Management

Imprint

Great Lakes Insurance SE
Königinstrasse 107
80802 Munich, Germany

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

www.glise.com

Independent auditor’s report

To Great Lakes Insurance SE, Munich

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

Audit opinions

We have audited the annual financial statements of Great Lakes Insurance SE, Munich, which comprise the balance sheet as at 31 December 2019, the income statement for the financial year from 1 January to 31 December 2019, and notes to the annual financial statements, including the accounting policies presented therein. In addition, we have audited the management report of Great Lakes Insurance SE for the financial year from 1 January to 31 December 2019. In compliance with German legal requirements, we did not audit the contents of those parts of the management report mentioned in the “Other information” section of our auditor’s report.

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

– the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to insurance companies and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German generally accepted accounting principles, and

– the accompanying management report as a whole provides an appropriate view of the Company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion of the management report does not cover the contents of those elements of the management report mentioned in the “Other information” section.

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

Basis for the audit opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the annual financial statements and of the management report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10(2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

For information on the accounting policies used, please see the notes to the annual financial statements on page 29. Further information about the line items in the annual financial statements can be found on page 32. Information about risks can be found in the management report on page 16.

THE FINANCIAL STATEMENT RISK

The gross provision for claims outstanding amounted to €7,746 million as at the balance sheet date, corresponding to 1.8 times total assets.

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

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

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

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

OUR AUDIT APPROACH

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

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

- We requested explanations about how key assumptions were derived – including loss ratios and assumptions about run-off patterns – and assessed those assumptions.

- Substantive audit procedures on major losses were mainly made on the basis of selected specific items, whereby we drew conclusions about the appropriateness of key assumptions used on the basis of available claims information.

- We carried out our own reserve calculations for certain segments based on our assessment of risk considerations. We set a point estimate on the basis of best estimates and defined an appropriate range based on statistical probabilities, and compared these with the Company's calculations.

- We assessed the appropriateness of any adjustments to actuarial estimates made by management based on reasonable commercial judgment; we did so by inspecting and critically assessing the documentation of the underlying calculations or qualitative grounds. We also spoke to the Company's actuaries.

– We assessed the actual development of the provision for claims outstanding set for the previous year on the basis of run-off results in order to draw conclusions about the reliability of the estimates.

OUR OBSERVATIONS

The valuation process for the provision for outstanding claims in property-casualty business is appropriate. The valuation assumptions used were derived appropriately.

Other Information

Management and/or the Supervisory Board is responsible for the other information. Other information comprises:

– the other sections of the annual report, with the exception of the audited annual financial statements, the audited management report and our auditor’s report.

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

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

– is materially inconsistent with the annual financial statements, with the management report, or

– or our knowledge obtained in the audit, or

– otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German generally accepted accounting principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

– Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were selected as auditor at the Supervisory Board meeting on 11 April 2019. We were engaged by the Chair of the Supervisory Board on 12 October 2019. We have been the auditor of Great Lakes Insurance SE since the 2017 financial year.

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

We have rendered the following services, which are not mentioned in the annual financial statements or the management report, in addition to auditing the Company:

In addition to the annual financial statements of Great Lakes Insurance SE, we audited the solvency II balance sheet as at 31 December 2019 and issued certificates for agreed upon audit procedures to foreign supervisory authorities.

German public auditor responsible for the engagement

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

Munich, 6 April 2020

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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

Signed by Dirk Hagen Hildebrand on 6 April 2020	Signed by Marion Schmederer on 6 April 2020
Hildebrand Wirtschaftsprüfer (German Public Auditor)	Schmederer Wirtschaftsprüferin (German Public Auditor)