

Great Lakes Reinsurance (UK) PLC
New Zealand Branch
(Overseas company registered in New Zealand under the
Companies Act 1993)
Annual Financial Report
31 December 2012

Principal place of business

PWC Tower, Level 15, 188 Quay Street, Auckland

Great Lakes Reinsurance (UK) PLC – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Statement of Comprehensive Income for the year ended 31 December 2012

	Note	2012 \$	2011 \$
Revenue from operating activities	4	32,659,283	52,253,326
Expenses from operating activities	5	32,455,329	52,067,873
Profit before tax		203,954	185,453
Tax expense	6	48,049	47,093
Profit for the year		155,905	138,360
Total comprehensive income for the year		155,905	138,360

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Balance Sheet as at 31 December 2012

	Note	2012 \$	2011 \$
Current assets			
Cash	9	1,364,200	1,700,379
Accounts receivable on insurance business		3,240,395	3,812,216
Deferred acquisition costs	11	3,279,408	4,608,392
Reinsurance recoveries		4,351,133	6,798,941
Sundry debtors		83,662	679,293
Prepaid reinsurance		5,331,508	7,092,635
Profit commission recoverable		419,291	215,560
Total current assets		18,069,597	24,907,416
Non-current assets			
Financial assets	10	537,545	551,345
Reinsurance recoveries		3,157,210	55,051
Deferred tax assets	12	40,805	21,243
Profit commission recoverable		285,199	-
Total non-current assets		4,020,759	627,639
Total assets		22,090,356	25,535,055
Current liabilities			
Payables	13	3,389,571	4,011,842
Outstanding claims	14	4,425,359	6,889,842
Unearned premiums	15	5,331,508	7,092,635
Reinsurance deferred acquisition costs		3,279,408	4,608,392
Profit commission payable		419,291	215,560
Current tax liabilities	6	136,188	68,577
Total current liabilities		16,981,325	22,886,848
Non-current liabilities			
Outstanding claims	14	3,211,384	55,705
Profit commission payable		285,199	-
Total non-current liabilities		3,496,583	55,705
Total liabilities		20,477,908	22,942,553
Net assets		1,612,448	2,592,502
Head Office account			
Accumulated surplus – Head Office		1,612,448	2,592,502
Total Head Office account		1,612,448	2,592,502

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Statement of Changes in Equity for the year ended 31 December 2012

	Head Office Account \$
Balance at 1 January 2011	2,919,954
Movement in Head Office account	(465,812)
Total comprehensive income	<u>138,360</u>
Balance at 31 December 2011	<u>2,592,502</u>
Balance at 1 January 2012	2,592,502
Movement in Head Office account	(1,135,959)
Total comprehensive income	<u>155,905</u>
Balance at 31 December 2012	<u>1,612,448</u>

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch
(Overseas company registered in New Zealand under the Companies Act 1993)
Statement of Cash Flows for the year ended 31 December 2012

	Note	2012 \$	2011 \$
Cash flows from operating activities			
Premium received		7,576,236	7,300,354
Claims paid		(6,682,811)	(6,331,726)
Net reinsurance paid		(700,843)	(135,673)
Management and administration expenses paid		(580,637)	(761,930)
Net cash from operating activities	17	(388,055)	71,025
Cash flows from investing activities			
Proceeds from maturity of bond		-	500,000
Purchase of bond		-	(527,448)
Interest received		51,876	54,792
Net cash from investing activities		51,876	27,344
Cash flows from financing activities		-	-
Net (decrease)/increase in cash		(336,179)	98,369
Cash at 1 January		1,700,379	1,602,010
Cash at 31 December		1,364,200	1,700,379

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

1. Summary of significant accounting policies

Great Lakes Reinsurance (UK) PLC – New Zealand branch (the "Branch") is registered to carry on business in New Zealand for a foreign company, Great Lakes Reinsurance (UK) PLC, which is domiciled and incorporated in the United Kingdom. The Branch's principal activity is general insurance.

The financial report was authorised for issue by the directors on 26 March 2013.

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards. The Branch is a profit-oriented entity. The Branch is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

(b) Basis of preparation

The financial statements are presented in New Zealand Dollars.

The financial statements are prepared in accordance with the fair value basis of accounting unless otherwise stated below.

The accounting policies set out below have been applied consistently by the Branch to all periods presented in the financial statements.

Certain comparative amounts in the notes to the financial statements have been reclassified to conform with the current year's presentation (see Note 4). The change in comparatives is immaterial.

(c) Use of estimates and judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas where critical accounting estimates and judgements are applied are included in Note 2.

(d) Revenue

Premium revenue

Premiums have been brought to account as income from the date of attachment of risk. The earned portion of premiums received and receivable including unclosed business is recognised as revenue.

The pattern of recognition of premium revenue over the policy or indemnity periods is based on the pattern of risk underwritten. Previous claims experience has been used to derive the pattern of risk for the main class of business underwritten. Other classes of business are recognised based on time.

Interest income

Interest income is recognised on an accruals basis.

Reinsurance exchange commission

Reinsurance exchange commission is calculated as a percentage of reinsurance premium.

The pattern of recognition of reinsurance exchange commission follows the reinsurance premium earning pattern.

Administration commission income

Administration commission income is received from the reinsurer based on the Branch's annual budgeted expenses plus a margin of 10%. This is recognised on a straight line basis over the financial year.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(e) Unexpired risk liability

At each reporting date the Branch performs a liability adequacy test and immediately recognises any deficiencies if the carrying amount of unearned premium less any related deferred acquisition costs does not meet estimated future cash flows relating to future claims covered by current insurance contracts.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred acquisition costs then the unearned premium liability is deemed to be deficient.

The entire deficiency, if any, net of reinsurance, is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down the related deferred acquisition costs with any excess being recorded in the Balance Sheet as unexpired risk liability.

(f) Outwards reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

(g) Claims

Claims incurred expense and a liability for outstanding claims are recognised in respect of all insurance business. The liability covers claims incurred but not yet paid, incurred but not reported ("IBNR"), incurred but not enough reported ("IBNER") and the anticipated direct and indirect costs of settling those claims.

Claims outstanding are assessed by review of individual claim files and estimating the ultimate cost of settling claims which includes IBNRs, IBNERs and settlement costs using statistics based on past experience and trends. The outstanding claims reserve is estimated using internal management models.

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all claims do not have to be paid out in the immediate future.

The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future payments are then discounted to a present value at the balance date using a risk-free discount rate. A risk margin is added to the outstanding recoveries provision to increase the probability that the liability is adequate at an adequacy level deemed appropriate by the management and set at a confidence level of 75%.

(h) Reinsurance recoveries

Reinsurance recoveries are assessed regularly and expected future recoveries are estimated on the same basis as the liability for outstanding claims, on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future recoveries are then discounted to a present value at the balance date using a discount rate. A risk margin is added to the outstanding recoveries provision to increase the probability that the asset is adequate at an adequacy level deemed appropriate by the management and set at a confidence level of 75%.

(i) Acquisition costs

A portion of direct acquisition costs relating to unearned premium revenue is deferred where it represents future benefits to the Branch and can be reliably measured. Deferred acquisition costs are stated at the lower of cost and recoverable amount. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure.

(j) Foreign currency translation

The financial statements are presented in New Zealand Dollars, which is the Branch's presentation and functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Income.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(j) Foreign currency translation (continued)

Assets and liabilities expressed in other currencies are translated to the functional currency using the closing exchange rate at the reporting date and income and expenses are translated using the average exchange rate for the year. Realised and unrealised foreign exchange gains and losses resulting from this translation are recognised in the Statement of Comprehensive Income.

(k) Income tax

Prior to July 2010, Great Lakes Reinsurance (UK) PLC did not have a permanent establishment for tax purposes in New Zealand. The portfolio incepting prior to July 2010 was underwritten by Great Lakes Reinsurance (UK) PLC directly. As a result, such portfolio is not attributed to New Zealand for income tax purposes. The portfolio incepting from July 2010 was, and remains to be, underwritten by Great Lakes Reinsurance (UK) PLC – New Zealand Branch, a permanent establishment in New Zealand for income tax purposes. On this basis the Branch is required to attribute profits from the business to New Zealand for income tax purposes from July 2010.

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences.

(l) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest dollar.

(m) Financial assets backing insurance contract liabilities

The Branch has determined that all financial assets are deemed to back insurance contract liabilities and are measured at fair value through profit or loss at each balance date as they meet the criteria under NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Unrealised profits and losses on subsequent measurement to fair value are recognised in the Statement of Comprehensive Income.

Fair value is measured as follows:

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value. Cash includes cash on hand, deposits held at call with banks and investments in money market instruments, such as Bills of Exchange.
- Fixed interest securities is taken as the bid price of the instrument.
- Receivables are initially recognised and subsequently measured at book value less provision for doubtful debts, which is the best estimate of fair value as they are settled within a short period.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Branch commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Branch has transferred substantially all the risks and rewards of ownership.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

1. Summary of significant accounting policies (continued)

(n) Impairment of assets

All assets other than those which are set outside the scope of NZ IAS 36 *Impairment of Assets* are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(o) Receivables

Receivables are initially recognised and subsequently measured at book value less provision for doubtful debts, which is the best estimate of fair value. The collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Branch will not be able to collect all amounts that are due in accordance with the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate.

(p) Payables

Payables are carried at book value, which approximates fair value and represents liabilities for goods and services provided to the Branch prior to the end of the financial year that were unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Cash

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(r) Goods and Services Tax

As highlighted in note 1(k), prior to July 2010, Great Lakes Reinsurance (UK) PLC did not have a permanent establishment for tax purposes in New Zealand, therefore deemed to have no requirement to register for GST in New Zealand. The Branch portfolio from July 2010 is registered for GST in New Zealand. All amounts are shown exclusive of GST except for receivables and payables that are stated inclusive of GST.

(s) Non resident withholding tax

The non-resident portfolio of the Branch is subject to a premium withholding tax of 2.8% on the gross premiums received in respect of non-life insurance business. However, no premium withholding tax applies to the closed warranty, bond and surety businesses as these businesses do not constitute insurance for the purposes of the premium withholding tax.

(t) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have significant effect on the financial statements of the Branch.

2. Summary of significant actuarial methods and assumptions

The effective date of the actuarial valuation on outstanding claims liability is 31 December 2012. The liability valuation was prepared by the Actuarial team and reviewed by the Appointed Actuary, Mr. Kaise Stephan FIAA, FNZSA. The report indicates that the Appointed Actuary is satisfied with the nature, sufficiency and accuracy of the data provided upon which the outstanding claims liabilities have been determined. Methods utilised and assumptions made in determining the outstanding claims liability are in accordance with the requirements of NZ IFRS 4 *Insurance Contracts* and consistent with the New Zealand Society of Actuaries Professional Standard 4.1, "Valuation of General Insurance Claims".

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

2. Summary of significant actuarial methods and assumptions (continued)

(a) Key actuarial valuation methods and assumptions

(i) Outstanding claims liabilities

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at balance date. These reserves include estimates for claims that have been reported, IBNR, and IBNER, and include estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgements. These estimates and judgements are based on numerous factors, and may be revised as additional experience and other data become available or as regulations change.

Outstanding claims liability is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs.

To determine outstanding claims provision for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and the results are used to select a single point estimate. These methods may include, but are not necessarily limited to, extrapolations of historical reported and paid loss data, application of industry loss development patterns to the reported or paid losses, expected loss ratios developed by management, and historical industry loss ratios. Underlying judgements and assumptions that may be incorporated into these actuarial methods include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes and the effect of recent or pending litigation on future claims settlements.

(ii) Key actuarial assumptions

The following key assumptions have been made in determining the outstanding claims liabilities:

	2012	2011
Weighted average term to settlement (years)	1.18	0.8
Inflation rate	N/A	N/A
Discount rate	2.6%-4.4%	2.3%-5.1%
Claims handling expense ratio	2.0%	1.5%
Risk margin	19.4%	23.4%

(iii) Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

• **Weighted average term to settlement**

The weighted average term to settlement relates to the number of years until the payments are made on average (inflated and discounted). The payment pattern is selected based on historical settlement patterns. The weighted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

• **Inflation rate**

Insurance costs are subject to inflationary pressures. Due to the very short tail nature of the businesses and the advanced run-off stage of the non-resident portfolio, no explicit inflation allowance has been made.

• **Discount rate**

In order to determine the interest rates used to discount the liabilities, an analysis of the term structure of risk-free interest rates was prepared. The yield structure of New Zealand government bonds as at 31 December 2012 is used to derive the future effective annual interest rates.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

2. Summary of significant actuarial methods and assumptions (continued)

(a) Key actuarial valuation methods and assumptions (continued)

(iii) Process used to determine assumptions (continued)

- **Claims handling expense ratio**

New Zealand and International Financial Reporting Standards require insurers to establish a provision for outstanding claims, which includes an allowance for claims handling expenses (CHE). The claims handling expense ratio is determined by conducting an expense analysis on the running costs related to claims personnel.

- **Risk margin**

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate for each class of business and the diversification between classes. The uncertainty margins have been set to the theoretical maximum to allow for high volatility due to the small size of the total portfolio. For the same reason, diversification benefits have not been allowed for. The overall position is intended to approximate 75% probability of adequacy.

(b) The effect of changes in key actuarial assumptions

Sensitivity analyses are conducted to quantify the impact of changes in the key underlying variables. The variations included in the reported results are calculated using certain assumptions about the variables as disclosed below. The movement in any key variable will impact the financial position and performance for a period. The following information describes how a change in each assumption will affect claims liabilities and provides an analysis of the sensitivity of the outstanding claims liabilities to changes in these assumptions.

- **Weighted average term to settlement**

A decrease in average term to settlement implies that claims are being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the weighted average term would have an opposite effect on outstanding claims liabilities.

- **Risk margin**

The outstanding claims liability includes a risk margin to allow for the inherent uncertainty in the estimates of future claims cost. An increase or decrease in the percentage risk margin will have a corresponding change in the overall outstanding claims liabilities.

- **Discount rate**

The outstanding claims liability is calculated with reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposite impact on the overall outstanding claims liabilities.

- **Claims handling expense ratio**

An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding change on outstanding claims liabilities.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

2. Summary of significant actuarial methods and assumptions (continued)

(c) Sensitivity analysis of changes in key actuarial assumptions

The impact of changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes.

The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base risk margin assumption was 19.4%, a 1% increase would mean a 20.4% risk margin. The movements in the net outstanding claims liability would have an opposing net impact on the profit before tax for a year.

Variable	Movement in variable	Change in discounted outstanding claim liabilities
		\$'000
Weighted average term to settlement	+10%	(26)
	-10%	26
Risk margin	+1%	64
	-1%	(64)
Discount rate	+1%	(54)
	-1%	55
Claims handling expense ratio	+1%	64
	-1%	(64)

3. Risk management policies and procedures

The Branch carries on insurance business in New Zealand in the non-life insurance segment.

The financial condition and operating results of the Branch are affected by a number of key financial and non-financial risks. Risk management is the process of identifying, analysing, controlling, monitoring, and reporting risks that could have a material impact on the operations of the Branch. Insurance risk involves the consideration of the market, product design, pricing, underwriting, claims management and valuation risk. The Branch's disclosed objectives and policies in respect of managing these risks are set out in the remainder of this note.

(a) Risk management objectives and policies for mitigating financial risks

Objectives

Through its insurance operations the Branch is exposed to financial risks such as credit risk, liquidity risk and market risk. The Branch's risk management framework seeks to minimise the potential adverse effects of these risks on its financial performance.

The key objective of the Branch's financial management strategy is to ensure sufficient liquidity is available at all times to meet its financial obligations, including settlement of insurance liabilities, and to optimise the Branch's investment returns.

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Branch's exposure to credit risks and concentration:

- A mandate is in place that limits all New Zealand dollar investments to be in New Zealand government bonds.
- The credit risk in respect of client balances: Premium paid by managing general agents are paid net of commission so that no commission liability exists until a premium is paid.
- Reinsurance is held with highly rated group entities only.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch**(Overseas company registered in New Zealand under the Companies Act 1993)****Notes to the financial statements for the year ended 31 December 2012****3. Risk management policies and procedures (continued)****(a) Risk management objectives and policies for mitigating financial risks (continued)****(i) Credit risk (continued)**

The carrying amounts of financial assets represent the maximum credit exposure. The table below provides information regarding the maximum exposure to credit risk for the components of the Balance Sheet.

	Note	Carrying amount	
		2012 \$	2011 \$
Cash	9	1,364,200	1,700,379
Financial assets at fair value through profit or loss			
- Debt securities	10	537,545	551,345
Accounts receivable from insurance business		3,240,395	3,812,216
Reinsurance recoveries		7,508,343	6,853,992
Sundry debtors		83,662	679,293
Profit commission recoverable		704,490	215,560
Total		13,438,635	13,812,785
No financial assets are either past due or impaired			
Standard & Poor's A- to AAA		10,120,959	9,105,716
Unrated		3,317,676	4,707,069
Total		13,438,635	13,812,785

All financial assets carried at fair value through profit or loss are categorised as level 1 of the fair value measurement hierarchy. The fair value of level 1 financial assets are based on quoted prices in active markets for identical instruments at the Balance Sheet date.

The Branch has a significant credit exposure to its reinsurer and ultimate parent entity Münchener Rückversicherungs-Gesellschaft. Münchener Rückversicherungs-Gesellschaft has a Standard and Poor's credit rating of AA-.

(ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the Branch's exposure to liquidity risk:

- The Branch maintains a sufficient portfolio of liquid financial assets that are readily converted to cash to meet the needs of the business, without incurring unacceptable losses or risking damage to the Branch's reputation.
- The Branch maintains financial assets with similar duration as the underlying reinsurance contract liabilities of the business in order to ensure sufficient funding is available to meet reinsurance contract obligations.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch**(Overseas company registered in New Zealand under the Companies Act 1993)****Notes to the financial statements for the year ended 31 December 2012****3. Risk management policies and procedures (continued)****(a) Risk management objectives and policies for mitigating financial risks (continued)****(ii) Liquidity risk (continued)**

The table below summarises the maturity profile of the financial liabilities of the Branch at carrying value, except for outstanding claims, when maturity profiles are determined on the discounted estimated timing of cash outflows.

	Note	Total	Up to 1 year \$	1-5 years \$	Over 5 years \$
2012					
Payables	13	3,389,571	3,389,571	-	-
Reinsurance profit commission payable		704,490	419,291	285,199	-
Outstanding claims	14	7,636,743	4,425,359	3,211,384	-
Total		11,730,804	8,234,221	3,496,583	-
2011					
Payables	13	4,011,842	4,011,842	-	-
Reinsurance profit commission payable		215,560	215,560	-	-
Outstanding claims	14	6,945,547	6,889,842	55,705	-
Total		11,172,949	11,117,244	55,705	-

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The following policies are in place to mitigate the Branch's exposure to market risk:

- The Branch manages its risk within an Asset and Liability Management (ALM) framework. The ALM framework forms an integral part of the insurance risk management policy and ensures the Branch maintains financial assets with similar duration and cash flow characteristics as the underlying insurance contract liabilities of the business. This minimises the risk of interest rate movements resulting in a mis-match between the value of the assets and the liabilities.
- The Branch does not trade in derivatives or use derivatives to manage exposures to interest rate risk, foreign currency risk and other price risk.

Interest rate risk

The Branch has determined that all financial assets held are assets backing insurance contract liabilities. The investment income of the Branch will decrease as interest rates decrease. Interest rate risk is relatively low as the only assets exposed is the government bond with a face value of \$500,000. The insurance liabilities are fully matched to reinsurance recoveries.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch**(Overseas company registered in New Zealand under the Companies Act 1993)****Notes to the financial statements for the year ended 31 December 2012****3. Risk management policies and procedures (continued)****(a) Risk management objectives and policies for mitigating financial risks (continued)****(iii) Market risk (continued)**

The Branch's exposure to interest rate risk and the effective weighted average interest rate for each significant class of interest bearing financial asset are set out below:

	Note	Weighted average interest rate	Floating interest rate \$	---- Fixed interest maturing in:----			Total \$
				Up to 1 year \$	1 to 5 years \$	Over 5 years \$	
2012							
Cash	9	1.58%	1,364,200	-	-	-	1,364,200
Investments							
Government bonds	10	6.00%	-	-	537,545	-	537,545
Total			1,364,200	-	537,545	-	1,901,745
2011							
Cash	9	2.00%	1,700,379	-	-	-	1,700,379
Investments							
Government bonds	10	6.00%	-	-	551,345	-	551,345
Total			1,700,379	-	551,345	-	2,251,724

A +/- 1% movement in the Government Bonds interest rate would have an impact of \$5,000 (2011: \$5,000) on the Statement of Comprehensive Income. A +/- 1% movement in the bank interest rate would have an impact of \$13,642 (2011: \$17,004) on the Statement of Comprehensive Income.

Currency risk

The Branch operates in New Zealand. Assets are maintained in the local currency to match the expected liabilities. Hence the Branch's currency risk is not considered to be of a material nature.

Other price risk

The Branch does not trade derivatives or hold equity securities in another entity, therefore there is no material exposure to other price risk.

(b) Risk management objectives and policies for mitigating insurance risks**(i) Objectives**

The Branch's objectives and policies in respect of managing insurance risks are:

- Understanding insurance risk as the risk of loss, of inadequate claims handling, or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
- Measuring the frequency and severity of possible insurance risk loss events.
- Treating insurance risk with controls designed to assure:
 - Adherence to competency based underwriting guidelines and limits.
 - Improving underwriting platform and pricing tools.
 - Sufficient business pricing peer-reviews.
 - Competency based peer reviewing of all business.
 - Rigorous analysis of: Contemporaneous & Periodic Renewal Monitoring Reports.
- Monitoring insurance risk by reporting and responding to incidents.
- Protecting the Branch by 100% reinsurance with highly rated group entities.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

3. Risk management policies and procedures (continued)

(b) Risk management objectives and policies for mitigating insurance risks (continued)

(ii) Concentrations of insurance risk

The Branch's exposure to concentrations of insurance risk is removed through reinsurance. The Branch conducts significant analysis of single-event exposures on an ongoing basis and continues to be well within the limits mandated by its head office.

(iii) Exposure to risk

The Branch actively manages its exposure to risks by applying prudent underwriting controls to renewals and new business and in managing claims in order to enhance its financial performance. The key policies in place to mitigate insurance risk include:

Management reporting

The Branch utilises comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims. It reports financial and operational results quarterly and undertakes regular experience analyses to monitor emerging trends.

Underwriting and claims management procedures

Underwriting procedures are documented and include limits to delegated authorities and signing powers. Internal auditors from the parent entity review the underwriting and claims management processes to ensure adequate controls are in place and that they are effective. Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

(c) Capital management

(i) Regulatory capital

The goal of the current capital management plan for the Branch is to keep positive net assets at all times.

The Branch received its draft provisional license from the Reserve Bank of New Zealand in February 2012 on behalf of Great Lakes Reinsurance (UK) PLC. The Branch received in its draft provisional license an exemption from compliance with the solvency standard under section 59 of the Insurance (Prudential Supervision) Act 2010 because the licensed entity is Great Lakes Reinsurance (UK) PLC. It is the licensed entity that needs to comply with the solvency standard.

(ii) Ratings capital

Great Lakes Reinsurance (UK) PLC maintains the capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of Great Lakes Reinsurance (UK) PLC and demonstrate to the stakeholders the ability to pay claims for the long term. Rating agencies assess the financial strength of the Great Lakes Reinsurance (UK) PLC. The Branch is classified as a branch of Great Lakes Reinsurance UK PLC. Therefore the Branch obtained the same rating as Great Lakes Reinsurance UK PLC based on ratings published by Standard & Poor's Ratings services as 31 December 2012. Great Lakes Reinsurance (UK) PLC manages its capital rating by performing periodical analysis using Standard & Poor's Capital model.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

3. Risk management policies and procedures (continued)

(d) Development of claims

Information about actual claims compared with previous estimates is provided below for claims for business for which uncertainty about the amount and timing of claim payments is not typically resolved within one year.

	2008 and prior \$	2009 \$	2010 \$	2011 \$	2012 \$	Total \$
Estimate of gross ultimate claims cost						
At end of underwriting year	5,006,121	1,329,171	2,674,422	5,862,067	5,855,735	N/A
One year later	2,995,559	6,916,281	3,470,392	8,765,977		N/A
Two years later	2,943,733	7,087,990	3,365,555			N/A
Three years later	2,471,901	6,563,437				N/A
Four years later	1,960,924					N/A
	2008 and prior \$	2009 \$	2010 \$	2011 \$	2012 \$	Total \$
Current estimate of ultimate claims cost	1,960,924	6,563,437	3,365,555	8,765,977	5,855,735	26,511,628
Cumulative gross payments	1,632,538	6,560,059	3,084,427	7,112,413	1,573,775	19,963,212
Undiscounted outstanding claims for the five most recent underwriting years	328,386	3,378	281,128	1,653,564	4,281,960	6,548,416

The Branch is fully reinsured through a quota share and facultative obligatory reinsurance contract with Münchener Rückversicherungs-Gesellschaft, therefore the net ultimate claims cost is nil.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

4. Revenue from operating activities

	Note	2012	2011
		\$	\$
Insurance revenue			
Premium revenue		15,670,791	25,578,814
Reinsurance recoveries revenue	7	7,337,159	6,471,632
Reinsurance exchange commissions		8,928,384	19,423,587
Administration commission income		685,814	733,136
Total insurance revenue		<u>32,622,148</u>	<u>52,207,169</u>
Investment revenue			
Interest		51,876	43,748
Unrealised investment (losses)/gains		(13,800)	25,650
Total investment revenue		<u>38,076</u>	<u>69,398</u>
Other revenue			
Management fees		990	1,667
Foreign currency losses on settlements		(1,931)	(24,908)
Total other revenue		<u>(941)</u>	<u>(23,242)</u>
Total revenue from operating activities		<u>32,659,283</u>	<u>52,253,326</u>

5. Expenses from operating activities

Insurance expense			
Outwards reinsurance expense		15,670,791	25,578,814
Claims expense	7	7,374,005	6,480,788
Acquisition expense		8,928,384	19,423,587
Total insurance expense		<u>31,973,180</u>	<u>51,483,189</u>
Total other expenses		<u>482,149</u>	<u>584,684</u>
Total expenses from operating activities		<u>32,455,329</u>	<u>52,067,873</u>

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

6. Taxes

(a) Income tax expense

	2012 \$	2011 \$
Current tax	67,611	58,518
Deferred tax	(19,562)	(11,425)
Tax expense	48,049	47,093

(b) Reconciliation of prima facie tax payable to income tax expense

Profit before tax	203,954	185,453
Prima facie income tax payable at the New Zealand Tax rate of 28% (2011: 28%)	57,107	51,927
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-assessable income	(7,416)	(4,834)
Over provision prior year	(1,642)	-
Tax expense	48,049	47,093

(c) Income tax (payable)/receivable

Opening balance at 1 January	(68,577)	36,302
Additional provisions recognised	(67,611)	(104,879)
Closing Balance at 31 December	(136,188)	(68,577)

7. Net claims incurred

	Current year \$	2012 Prior year \$	Total \$	Current year \$	2011 Prior year \$	Total \$
Gross claims expenses/(recoveries)						
Gross claims incurred - undiscounted	6,127,611	1,306,836	7,434,447	6,572,838	(103,223)	6,469,615
Discount movement	(79,431)	18,989	(60,442)	(23,071)	34,244	11,173
Discounted gross claims expenses	6,048,180	1,325,825	7,374,005	6,549,767	(68,979)	6,480,788
Reinsurance and other recoveries revenue/(expense)						
Reinsurance and other recoveries revenue - undiscounted	6,043,304	1,354,297	7,397,601	6,512,993	(52,534)	6,460,459
Discount movement	(79,431)	18,989	(60,442)	(23,071)	34,244	11,173
Discounted reinsurance and other recoveries revenue	5,963,873	1,373,286	7,337,159	6,489,922	(18,290)	6,471,632
Net claims incurred	84,307	(47,461)	36,846	59,845	(50,689)	9,156

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

8. Underwriting result

	2012	2011
	\$	\$
Premiums revenue	15,670,791	25,578,814
Outwards reinsurance	<u>(15,670,791)</u>	<u>(25,578,814)</u>
Net premium	<u>-</u>	<u>-</u>
Claims expense	(7,374,005)	(6,480,788)
Reinsurance recoveries	7,337,159	6,471,632
Acquisition expense	(8,928,384)	(19,423,587)
Reinsurance exchange commission	8,928,384	19,423,587
Administration commission income	<u>685,814</u>	<u>733,136</u>
Underwriting result	<u>648,968</u>	<u>723,980</u>

Note that the Branch only has general insurance contracts.

9. Cash

Cash at bank	<u>1,364,200</u>	<u>1,700,379</u>
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Cash at bank bears average interest of 1.58% (2011: 2.0%).

10. Financial assets

Debt securities – New Zealand government bond	<u>537,545</u>	<u>551,345</u>
Total financial assets – fair value through profit or loss	<u>537,545</u>	<u>551,345</u>
Current financial assets	-	-
Non-current financial assets	<u>537,545</u>	<u>551,345</u>
Total financial assets – fair value through profit or loss	<u>537,545</u>	<u>551,345</u>

Changes in the fair value of financial assets through profit or loss are recorded as revenue/expense in the statement of comprehensive income.

11. Deferred acquisition costs

Deferred acquisition costs	3,279,408	4,608,392
Reconciliation of movement in deferred acquisition costs		
Balance at 1 January	4,608,392	4,875,715
Costs deferred in current financial year	3,279,408	4,608,392
Amortisation of costs deferred in previous financial years *	<u>(4,608,392)</u>	<u>(4,875,715)</u>
Balance at 31 December	<u>3,279,408</u>	<u>4,608,392</u>

* Due to the short tail nature of the business, all commissions are fully amortised within 12 months.

12. Deferred tax assets

Deferred tax assets

Deferred tax assets relate to timing differences and comprises the tax effect of the following amounts recognised in the Statement of Comprehensive Income:

Loss Adjusted Expense	39,670	21,268
Debtors	<u>1,135</u>	<u>(25)</u>
Total deferred tax assets	<u>40,805</u>	<u>21,243</u>

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

13. Payables

	2012	2011
	\$	\$
Amount due to related party	1,176	-
Amount due to reinsurer	3,378,261	4,001,505
Amount due to others	10,134	10,337
Total payables	3,389,571	4,011,842

14. Outstanding claims liability

(a) Outstanding claims liability

Central estimate	6,548,416	5,611,948
Risk margin	1,239,528	1,424,358
Total outstanding claims liability – undiscounted	7,787,944	7,036,306
Discount to present value	(151,201)	(90,759)
Total outstanding claims liability - discounted	7,636,743	6,945,547
Current	4,425,359	6,889,842
Non-current	3,211,384	55,705
Total outstanding claims liability - discounted	7,636,743	6,945,547
Reconciliation of movement in discounted outstanding claims liability		
Balance at 1 January	6,945,547	6,796,486
Additional provisions recognised	7,374,004	4,156,343
Liabilities paid	(6,682,808)	(4,007,282)
Balance at 31 December	7,636,743	6,945,547

(b) Inflation and discount rates

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future payments are then discounted to a present value at the balance date using a discount rate.

15. Unearned premium liability

Unearned premium liability-current	5,331,508	7,092,635
Reconciliation of movement in unearned premium		
Balance at 1 January	7,092,635	7,538,808
Deferral of premium on contracts written in the period	5,331,508	7,092,635
Earning of premium written in previous periods *	(7,092,635)	(7,538,808)
Balance at 31 December	5,331,508	7,092,635

* Due to the short tail nature of the business, all premiums are fully earned within 12 months.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

16. Remuneration of auditors

	2012 \$	2011 \$
KPMG-Audit fees	10,071	10,337

17. Reconciliation of profit after income tax to net cash flows from operating activities

Profit for the year	155,905	138,360
Adjustments for investment revenue	(38,076)	(67,645)
Net cash from operating activities before change in assets and liabilities	117,829	70,715
Change in assets and liabilities during the financial year		
Decrease in receivables	2,045,932	1,532,938
Decrease in other creditors and accruals	(2,532,254)	(1,521,203)
Increase in net deferred tax asset	(19,562)	(11,425)
Net cash from operating activities	(388,055)	71,025

18. Related party transactions

(a) Parent entities

The ultimate parent entity is Münchener Rückversicherungs-Gesellschaft, a company incorporated in Germany with limited liability.

(b) Directors

Disclosures relating to directors are set out in Note 19.

(c) Guarantees

No guarantees have been given to or received from any related parties that are outside the normal trading arrangements.

(d) Transactions with related parties

	Transaction description		
Munich Reinsurance Company (New Zealand Branch)	Reinsurance	607,328	(328,311)
Europäische Reiseversicherung	Reinsurance	(67,669)	(56,150)
Münchener Rückversicherungs-Gesellschaft	Reinsurance	29,675	1,405,630
Munich Holdings of Australasia Pty Limited	Management expenses	(297,002)	(381,852)
Munich Re New Zealand Service Limited	Management expenses	(66,878)	(90,642)
Corion Pty Limited	Management expenses	(26,017)	(125,993)
Great Lakes Marine Insurance Agency - New Zealand	Underwriting activity	-	(585,120)
Rural Affinity Insurance Agency Pty Limited	Underwriting activity	816,380	1,761,355
Great Lakes Reinsurance (UK) PLC	Home office expenses	(84,400)	(121,550)
Total		911,417	1,477,367

Great Lakes Reinsurance (UK) PLC – New Zealand Branch**(Overseas company registered in New Zealand under the Companies Act 1993)****Notes to the financial statements for the year ended 31 December 2012****18. Related party transactions (continued)****(e) Outstanding balances**

Current account balances (payable)/receivable with related parties at the balance date were:

		2012	2011
	Transaction description	\$	\$
Munich Reinsurance Company (New Zealand Branch)	Reinsurance	(3,373,293)	(3,927,776)
Europäische Reiseversicherung	Reinsurance	(4,968)	(21,979)
Great Lakes Marine Insurance Agency - New Zealand	Underwriting activity	-	(200,915)
Rural Affinity Insurance Agency Pty Limited	Underwriting activity	119,497	(180,093)
Great Lakes Reinsurance (UK) PLC	Underwriting activity	(664)	478,111
Total		(3,259,428)	(3,852,652)

No provision for doubtful debts has been raised by either the Branch or the parent entity in relation to any outstanding related party balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

(f) Terms and conditions

All related party transactions were made on normal commercial terms and conditions and at market rates (including market rental rates). Outstanding balances are unsecured and are payable in cash.

(g) Outwards reinsurance

The non-resident portfolio of the Branch is protected by a Facultative Obligatory reinsurance contract with the parent entity, Münchener Rückversicherungs-Gesellschaft, a company incorporated in Germany with limited liability. The resident portfolio of the Branch is protected by 100% quota share with Munich Reinsurance Company (New Zealand Branch).

(h) Key management personnel and director transactions

The key management personnel also provide services to the immediate parent and a number of fellow subsidiary undertakings for which payment is made by the immediate parent undertaking. It is not practical to apportion these emoluments received and therefore are not disclosed in respect of any key management personnel in these Financial Statements.

19. Directors' disclosure

The following persons were directors of the Branch during the financial year and up to the date of this report:

G Funke

G Guelfand

P Göschl

A Medniuk

A Pröbstl

N Smith

T Carroll (appointed 3 January 2013)

20. Contingencies

The Branch has no known contingent liabilities or contingent assets at the reporting date or the prior year reporting date.

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Notes to the financial statements for the year ended 31 December 2012

21. Commitments

(a) Capital commitments

There have been no capital commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

(b) Lease commitments

There have been no lease commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

22. Subsequent events

No significant events have occurred subsequent to the end of the reporting date.

23. Credit rating

At the date of this report, Great Lakes Reinsurance (UK) Plc has a credit rating of AA- from Standard & Poor's (2011: AA-) and a credit rating of A+ from AM Best (2011: A+).

Great Lakes Reinsurance (UK) PLC – New Zealand Branch

(Overseas company registered in New Zealand under the Companies Act 1993)

Directors' Declaration

The Board of Directors is pleased to present the Financial Statements of Great Lakes Reinsurance (UK) PLC (overseas Branch registered in New Zealand under the Companies Act 1993) for the year ended 31 December 2012, and the auditors' report thereon.

In the Directors' opinion, the Financial Statements and notes set out on pages 1 to 23:

- (a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2012 and the results of operations for the year ended on that date.
- (b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Reporting Act 1993 and the Companies Act 1993. There are reasonable grounds to believe that, as at the time this statement is made, the Branch will be able to pay all debts or claims as and when they are due.

The shareholders of the Branch have exercised their right under Section 211 (2) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of paragraphs (a) and (e) to (j) of Section 211 (1) of the Act.

Signed in London on 26 March 2013 in accordance with a resolution of the Directors.



Director



Director



Independent Auditor's Report

To the Shareholders of Great Lakes Reinsurance (UK) PLC – New Zealand Branch

Report on the Financial Statements

We have audited the accompanying financial statements of Great Lakes Reinsurance (UK) PLC - New Zealand Branch ("the branch") on pages 1 to 23. The financial statements comprise the statement of financial position as at 31 December 2012 and statements of comprehensive income, changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the branch's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

Other than in our capacity as auditors we have no relationship with, or interests in, the branch.



Opinion

In our opinion the financial statements of Great Lakes Reinsurance (UK) PLC - New Zealand Branch on pages 1 to 23:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the branch as at 31 December 2012 and of its financial performance for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section 16(1)(d) and section 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Great Lakes Reinsurance (UK) PLC - New Zealand Branch as far as appears from our examination of those records.

KPMG

Sydney

10 April 2013

Great Lakes Reinsurance (UK) PLC New Zealand Branch (GLNZ) Appointed Actuary's Report

1. This report is prepared in compliance with Section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act), and with the exemption issued to Great Lakes Reinsurance (UK) PLC (GLUK) by the Reserve Bank of New Zealand under Section 59 of the Act, dated 18 October 2012.
2. This report has been prepared by Susan Ley, the appointed actuary of GLNZ. I am a Fellow of the Society of Actuaries of New Zealand and a Fellow of the Institute of Actuaries of Australia.
3. I am employed by Munich Holdings of Australasia Pty Ltd (MHA) in my capacity as appointed actuary of Great Lakes Reinsurance (UK) PLC Australian branch and GLNZ. MHA and GLUK are subsidiaries of Munich Reinsurance Company. GLUK has appointed Corion Pty Ltd (Corion), a subsidiary of MHA, to oversee the operations of the Australia and New Zealand Branches. Corion engaged MHA to provide management services to GLNZ in accordance with its Outsourcing Policy. I have no other relationship with Munich Re or any of its associated companies.
4. This is the first such report produced in respect of GLNZ.
5. The report refers to a review carried out by me into the actuarial information included in the 2012 financial statements of GLNZ.
6. I have received all information and explanations I have required during the course of my work described above.
7. Section 4.1.1 of the attachment to the Section 59 exemption defines actuarial information as:
 - a. The unearned premium liability and liability adequacy test
 - b. The Net Outstanding Claims Liability
 - c. The reinsurance and other recovery assets
 - d. Any deferred acquisition cost (DAC) or deferred fee revenue
 - e. Any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting. I consider certain notes to the branch financial accounts to fall into this category.
8. It is GLNZ's policy to seek my advice in respect of (a) (b) and (c) above (noting that there are currently no other recovery assets). I have documented my valuation of the insurance liabilities for GLNZ including estimates of these amounts in my Insurance Liability Valuation Report (ILVR) dated 9 May 2013.

In respect of item (d), I have been provided with details of how the DAC is calculated and the checks carried out on the amounts derived. I have reviewed the methodology used to calculate the DAC and have reviewed the checks carried out on the DAC used to complete



these financial statements and am satisfied that they are reasonable. I note that there was no deficiency in the LAT that required an adjustment to the level of DAC and that there is no deferred fee revenue.

I have reviewed the notes to the accounts that I consider to contain actuarial information, specifically notes 2, 3(d), 7, and 14, and have confirmed that they match the information that I provided to GLNZ.

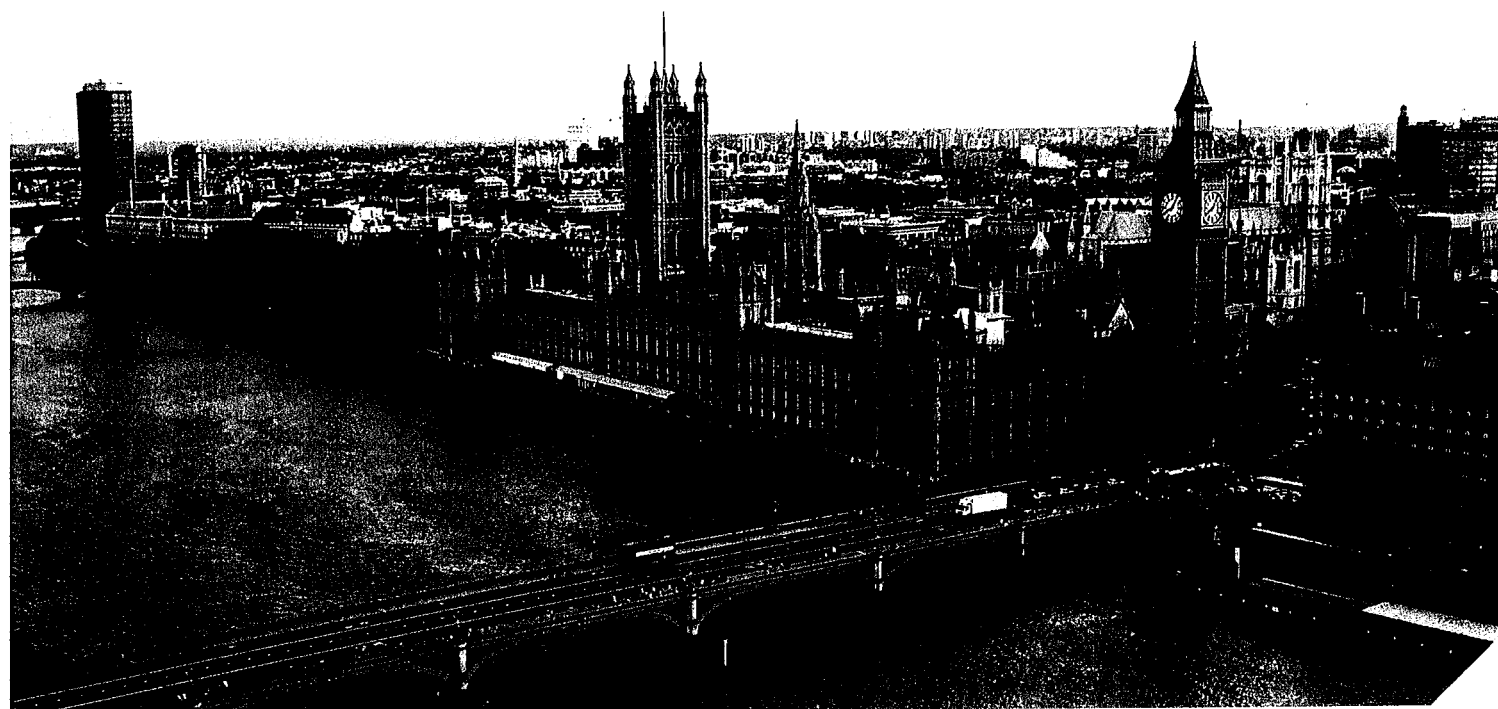
9. In my opinion the actuarial information contained in and used in the preparation of the 2012 financial statements of GLNZ have been included and used appropriately in the preparation of those statements.
10. I have not reviewed the actuarial information included in the 2012 financial statements of GLUK and have relied on GLUK's chief actuary in relation to this information as it relates to matters other than insurance business carried out in New Zealand. This is in accordance with paragraph 4.1.3 of the attachment to the Section 59 exemption.
11. The GLUK 2012 annual report states that the solvency margin is 209.8% of the minimum capital requirements.

Susan Ley

Fellow of the New Zealand Society of Actuaries

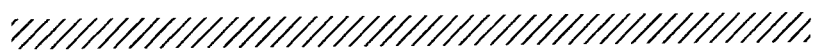
Fellow of the Institute of Actuaries of Australia

9 May 2013



ANNUAL REPORT 2012

Great Lakes Reinsurance (UK) PLC



Risk Solutions



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DIRECTORY

Directors

A. J. Medniuk (Chairman)
P. Göschl (Chief Executive Officer)
G. Guelfand (Chief Financial Officer)
G. Funke
A. A. Pröbstl
N. H. H. Smith
T. J. Carroll (appointed 3 January 2013)

Secretary

S. G. Pendlebury

Registered Office

Munich Re Group
Plantation Place
30 Fenchurch Street
London EC3M 3AJ

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Email: correspondence@greatlakes.co.uk

Auditors

KPMG Audit Plc
15 Canada Square, London, E14 5GL

Bankers

Barclays Bank PLC
The Bank of New York Mellon
HSBC Bank PLC
ANZ Banking Group Limited
Aargauische Kantonalbank
Zürcher Kantonalbank
CACEIS Bank Deutschland GmbH

Registered Number

02189462

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited financial statements of Great Lakes Reinsurance (UK) PLC ("the Company") for the year ended 31 December 2012 and the auditor's report thereon.

Principal Activities and Business Review

Principal Activities

The Company is authorised by the Financial Services Authority to transact all classes of non-life insurance and reinsurance in the United Kingdom and throughout the European Union via the Freedom of Services directive. The Company also conducts business via branches in Australia, New Zealand, Switzerland, Italy, and Ireland and is authorised to write surplus lines business in the USA. The Company is registered in England under registration number 02189462.

The Company is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft AG ("Munich Re"), a limited liability company incorporated in Germany and is therefore part of the Munich Re group. The Company acts as a specialist provider of insurance business for the group by using its licenses and relationship with other group members to develop insurance solutions for their customers.

High Level Strategy

The Company's principal mission is to add value to the Munich Re group by being a leading provider of insurance solutions. This is done in collaboration with Munich Re to develop business opportunities, using our combined technical expertise and knowledge in insurance markets worldwide.

Strategy is formulated during the annual planning process when a business plan is developed and approved, and subsequent implementation is controlled and measured via regular monitoring. The necessary challenge and approval is provided by a quarterly Board review process. The strategy and resulting initiatives are communicated to staff and aligned with individual performance objectives. The Company is committed to empowering staff to make decisions in line with an appropriate level of authority.

While 1 January 2014 is still the official implementation date for Solvency II, during 2012 it became clear that due to the need for agreement on measures to address the Solvency II implications of products with long term guarantees, it is most unlikely that the Directive will be in place by that date. The revised implementation date remains unclear, but a one or two year delay is widely anticipated. Nevertheless the Company intends to maintain the momentum gained on its Solvency II project to date, and will use the additional time to further embed its models, enhance its risk management, governance framework and reporting processes and functionality.

Business Review and Key Performance Indicators (KPIs)

The Company uses two distinct models for accessing insurance business – delegated acceptances via agency agreements and individual acceptances of large single risks. Overall, gross written premium in 2012 was 8.6% higher than in 2011, with positive gross underwriting performance. Agency sourced business continues to provide the dominant share of the Company's gross written premium, at approximately 82% and remained stable as a percentage of the total premium. The agency book is constantly monitored through a suite of quarterly KPIs to ensure the quality of the underlying business is not sacrificed for increased growth. The key focus remains on profitable underwriting and cycle management. Gross loss and combined ratios have decreased year on year, largely impacted by positive developments in Liability, Aviation and Marine lines of business. The 2012 year was largely benign in the way of large losses in comparison to 2011. The Company retains the business it underwrites through the Corporate Insurance Partner (CIP) division based in London. CIP offers a highly respected underwriting service to the world's 5000 largest companies and leading players in their industries as well as their captives. Standard and bespoke solutions in the classes of Property, Engineering, Energy, and Casualty, are developed through close cooperation with clients.

KPIs	2012	2011	
Gross Written Premium £m	2,077.4	1,913.7	Gross premium written before outwards reinsurance
Gross Loss Ratio	53.5%	60.0%	Ratio of gross claims incurred to gross earned premiums
Gross Combined Ratio	81.5%	90.8%	Ratio of gross claims incurred, commissions and expenses to gross premium earned
Administrative Expense Ratio	1.6%	1.6%	Ratio of administrative expenses to gross premium earned
Profit Before Tax £m	37.6	57.6	Operating profit from ordinary activities before tax
Shareholder's Funds £m	373.7	346.1	Excess of assets over liabilities supporting business model
Solvency Margin	209.8%	210.5%	Ratio of the adjusted capital to minimum capital requirements

Profit before tax of £37.6m for the year ended 31 December 2012 is £20.0m lower compared to the 2011 result. The main drivers of this lower result were the cost of reinsurance protections on the CIP London portfolio and the decrease in the investment result for 2012. The decrease in the investment return was primarily due to an increase in bond yields resulting in a reduction in unrealized gains. The Company invests in a conservative portfolio of fixed interest instruments. 90% of the total investment portfolio is invested in government bonds with approximate exposures by country as follows; United Kingdom 56%, United States 23%, Germany 5%, France 4%, Australia 5% and Others 7%. The Company's investment portfolio stands at £518.3m as at 31 December 2012 compared to £605.2m in 2011.

Shareholder's funds as at 31 December 2012 total £373.7m (2011 £346.1m). The Company's solvency margin remains very strong. The Company continually monitors its solvency adequacy and maintains a very satisfactory margin to ensure compliance with regulatory requirements and promote efficient capital management. The Company is rated A+ Superior by A M Best and AA- Strong by Standard and Poor's.

Proposed Dividend

The directors have proposed a dividend of 184.2p per share equalling £21.0m in respect of the 2012 financial year. This dividend is subject to approval at the Board meeting on 26 March 2013.

Management and Employees

The Company has a management agreement with Munich Re UK Services Limited, a wholly owned subsidiary of Munich Re. Munich Re UK Services Limited employs all the Company's UK personnel providing full administration management services. Accordingly the Company has no employees of its own.

Risk Management

Risk management is a key part of the Company's corporate Management and company culture. Its purpose is not only to safeguard the Company's financial strength, enabling the Company to meet its obligations to clients and create sustained value, but also to protect the Company's reputation. This is achieved through risk management practices encompassing all areas of operation. The overall risk appetite of the Company is determined by the Board with support from Munich Re. The risk appetite laid down ensures an appropriate balance is maintained between business opportunities and risks taken against capital deployed. The risk appetite for each risk is reflected in business planning and integrated into the management of operations. The Board is accountable for risk topics for the Company as a whole and these are managed operationally through senior management and governed by the Audit, Risk and Capital and Investment Committees. The Remuneration Committee of the Board of Directors is responsible for ensuring that the structure of the remuneration arrangements for employees is aligned with the achievement of the Company's objectives and integrated with the application of its risk management principles.

Principal Risks and Uncertainties

The Company's business involves the acceptance and management of risk. The Company has in place a risk management process, which is undertaken in accordance with both the Munich Re Group Risk Management framework and the Company's solvency capital calculations. This is used to manage capital requirements and to ensure the appropriate financial strength and capital adequacy support business growth, and meet the requirements of the shareholder, regulators, rating agencies, and the obligations to policyholders. A number of risk factors affect the Company's operating results and financial

health. The financial risk factors affecting the Company include the effects of market risk, credit risk and liquidity risk on the financial instruments of the Company. The Company has a very low risk appetite for these risks, and manages them accordingly.

Underwriting Risk Management

The Company has a medium appetite for insurance underwriting risk. Underwriting risk is defined as the risk of insured losses being higher than our expectations. Premium risk is the risk of future claims payments relating to insured losses that have not yet occurred being higher than expected. The reserve risk is the risk of technical provisions raised to cover losses that have already been incurred being insufficient. These risks are managed through underwriting authority management, reserve calculation assumptions/methods and a range of other internal processes/controls.

Market Risk Management

Market risk is the risk that future changes in market prices may make a financial instrument less valuable. The primary market risks that the Company faces are interest rate and currency risk. Most of its assets are investments that are fixed interest securities and short term cash deposits, the value of which are subject to interest rate and currency risk. The Company maintains financial assets with similar duration, cash flow and currency characteristics as the underlying insurance liabilities in order to minimise these risks. Projected payment patterns of insurance liabilities are used to create a proposed benchmark investment portfolio in terms of asset liability matching. This benchmark investment portfolio is part of the mandate of the Company's investment manager, who reports on the comparison of the actual investment portfolio against the benchmark. The monitoring and performance of the investment portfolio is the responsibility of the Investment Committee, the results are reported to the Audit Committee and are monitored by the Board.

Credit Risk Management

Credit risk is the risk that a counterparty or an issuer of securities, which the Company holds in its asset portfolio, defaults or another party fails to perform according to the terms of the contract. A mandate is in place that governs investment exposure to a very low risk in accordance with the Company risk appetite. The Company's investment manager reports on compliance with the mandate in respect of credit risk exposure in the investment portfolio. The results of this compliance are reported to the Audit and Investment Committees, and are monitored by the Board.

Liquidity Risk Management

Liquidity risk is the risk that the Company may be unable to meet its payment obligations in a timely manner at a reasonable cost. Liquidity management in the Company seeks to ensure that, even under adverse conditions, the Company has access to the funds necessary to cover its claims obligations. Most of the Company's assets are highly marketable securities, which reduces the liquidity risk.

Operational Risk Management

The Company has a very low appetite for operational risks with the exception of business obtained via delegated binding authorities where, subject to appropriate mitigation strategies, the Company has a medium risk appetite. The Company subscribes to Munich Re best practice standards for the operation of agency programme arrangements, and collectively these measures help to de-risk the operational aspects of the business to acceptable levels. The Company is committed to minimising risk for all transactions and has developed a risk based system for monitoring agency business, which includes a programme of regular on site reviews.

Group Risk

Significant benefits are derived from being part of Munich Re group and group risk is primarily managed at the executive level through building strong relationships. We are exposed to group risk in a number of areas, as we utilise group resources for asset management, systems, reinsurance and capital support. The activities of the wider group could affect our strategy and reputation, in particular our regulatory, social and ethical standing and client perception. Business objectives are aligned to the Munich Re group strategy and, where appropriate, the Board adheres to the relevant group policies, guidelines and reporting requirements.

Risk Monitoring and Control

The Company identifies, records and assesses all relevant risks and controls using the Internal Control System ("ICS") that is part of a Munich Re group-wide harmonised control and monitoring system. This provides a uniform system for managing risks across all risk dimensions that both meets Group management needs and satisfies local legal and regulatory requirements. Risk owners at the operational level are charged with keeping the ICS current and relevant. A key risk report is produced quarterly and is provided to the Audit Committee who then report the key points to the Board. The report provides, for all risk categories, an updated view of the current risk position (including key events and quantitative changes) and compares the position with the Company risk appetite. In December 2012 the Risk and Capital Committee became a sub-committee of the Board and responsible for risk monitoring and control.

Environment

The Company does not have a major direct environmental impact as it is essentially service based and operates in a nonmanufacturing industry. However, it is aware of its environmental responsibilities and actively strives to reduce its carbon footprint.

Directors & Directors' Interests

The directors of the Company at the date of this report are set out on page 2. Changes in directors during 2012 and up to the date of this report are as follows:

	Date of appointment
T.J. Carroll	03 January 2013

None of the directors had a beneficial interest in the shares of the Company. Under the provisions of the Companies Disclosure of Directors' Interests (Exceptions) Regulations 2006, the directors of the Company are exempt from disclosing any interests in the shares of the ultimate holding company.

Major Shareholdings

The Company is a wholly owned subsidiary of Munich Re, a company incorporated in Germany. Copies of the Munich Re group accounts are available from Königinstrasse 107, 80802, Munich, Germany.

Creditors Payment Policy

All suppliers are paid via the Company's service company, Munich Re UK Services Limited. Creditors for the supply of goods and services not including insurance had an average payment period of 7 days (2011: 7 days).

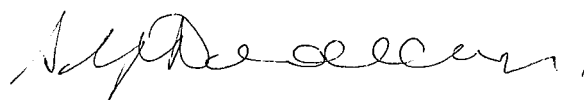
Disclosure of information to Auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant information of which the Company's auditors are unaware; and that each director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information, and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the Board



S. G. Pendlebury
Company Secretary,
26 March 2013



STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the United Kingdom governing the presentation and dissemination of financial statements may differ from the legislation in other jurisdictions.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GREAT LAKES REINSURANCE (UK) PLC

We have audited the financial statements of Great Lakes Reinsurance (UK) PLC for the year ended 31 December 2012 set out on pages 8 to 27. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

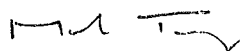
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Mark Taylor (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

26 March 2013

PROFIT AND LOSS ACCOUNT

Technical Account - General Business
for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Gross premiums written	3	2,077,422	1,913,734
Outwards reinsurance premiums		1,920,446	1,789,544
Net premiums written		156,976	124,190
Change in the gross provision for unearned premiums	14	(84,794)	(47,325)
Change in the provision for unearned premiums - reinsurers' share	14	(56,494)	(43,318)
Change in the net provision for unearned premiums		(28,300)	(4,007)
Earned premiums, net of reinsurance		128,676	120,183
Investment return allocated from the non-technical account		12,433	24,360
Other technical income, net of reinsurance		30,064	29,085
TECHNICAL INCOME		171,173	173,628

PROFIT AND LOSS ACCOUNT

Technical Account - General Business
for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Gross claims paid		900,888	978,385
Reinsurers' share		861,568	946,112
Claims paid - net		39,320	32,273
Change in the gross provision for claims	14	165,518	142,152
Reinsurers' share	14	145,201	135,938
Change in the provision for claims - net		20,317	6,214
Claims incurred net of reinsurance		59,637	38,487
Net operating expenses	5	70,575	77,717
TECHNICAL EXPENSES		130,212	116,204
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		40,961	57,424

PROFIT AND LOSS ACCOUNT

Non-Technical Account
for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		40,961	57,424
INVESTMENT RETURN			
Investment income	4	15,392	15,510
Unrealised (losses) gains on investments		(2,070)	9,659
Investment expenses and charges		(889)	(809)
Total investment return		12,433	24,360
Investment return allocated to the technical account		(12,433)	(24,360)
		40,961	57,424
Exchange (losses) gains		(3,331)	143
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	3, 6	37,630	57,567
Tax on profit on ordinary activities	8	8,997	16,255
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		28,633	41,312

All profits for the year and prior year relate to continuing activities. The notes on pages 14 to 27 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
PROFIT FOR THE YEAR		28,633	41,312
Currency translation losses on foreign currency net investments	13	983	75
TOTAL RECOGNISED GAINS FOR THE YEAR		27,650	41,237

In accordance with the amendment to FRS 3 no note of historical cost profits has been prepared as the Company's only material gains and losses on assets relate to the holding and disposal of investments.

The notes on pages 14 to 27 form part of these financial statements.

BALANCE SHEET

Assets
as at 31 December 2012

	Notes	2012 £'000	2011 £'000
INVESTMENTS			
Financial investments	9	518,327	605,213
Deposit assets		77,334	95,112
		595,661	700,325
Investment in subsidiary	18	-	50
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Unearned premium	14	889,286	844,761
Claims outstanding	14	2,194,678	2,092,067
		3,083,964	2,936,828
DEBTORS			
Arising out of direct insurance operations	10	488,818	413,326
Deferred tax	8	9	1,152
Other debtors		28,854	57,524
		517,681	472,002
OTHER ASSETS			
Cash at bank	11	133,667	45,263
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		5,018	5,888
Deferred acquisition costs	15	234,346	212,424
		239,364	218,312
TOTAL ASSETS		4,570,337	4,372,780

BALANCE SHEET

Liabilities

as at 31 December 2012

	Notes	2012 £'000	2011 £'000
CAPITAL AND RESERVES			
Called up share capital	12	114,000	114,000
Profit and loss account	13	259,735	232,085
Shareholder's funds	3, 13	373,735	346,085
TECHNICAL PROVISIONS - GROSS			
Unearned premium	14	990,863	920,211
Claims outstanding	14	2,468,355	2,351,688
		3,459,218	3,271,899
PROVISIONS FOR OTHER RISKS AND CHARGES	16	343	399
CREDITORS			
Arising out of direct insurance operations	17	389,303	369,545
Deposit liabilities		112,003	130,464
Taxation		6,148	12,355
Deferred tax	8	-	1,139
Other creditors		16,365	43,604
		523,819	557,107
ACCRUALS AND DEFERRED INCOME			
Deferred reinsurance commissions	15	213,222	197,290
TOTAL LIABILITIES		4,570,337	4,372,780

The notes on pages 14 to 27 form part of these financial statements.

Approved by the board on 26 March 2013.


P. Göschl - Chief Executive Officer


G. Guelfand - Chief Financial Officer

NOTES TO THE ACCOUNTS

1. Basis of preparation of the Financial Statements

The financial statements of Great Lakes Reinsurance (UK) PLC ("the Company") have been prepared in accordance with the provisions of Sections 396 of the Companies Act 2006 including applying the requirements set out in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies. The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules as modified to include the revaluation of investments and comply with the revised Statement of Recommended Practice (SORP) issued by the Association of British Insurers in December 2005 (as amended in December 2006).

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft AG ("Munich Re"), which includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Munich Re the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Munich Re, within which this Company is included, can be obtained from the Company's registered office at the address provided in the Report of the Directors on page 5.

Under section 400 of the Companies Act 2006 an exemption from preparing consolidated accounts is available, subject to certain conditions. Following an assessment of these conditions it is appropriate for the Company to take advantage of the exemption to prepare consolidated accounts and therefore these financial statements are for the Company only. Great Lakes Services Limited, a wholly owned subsidiary of the Company, has therefore not been consolidated in these accounts.

An overview of the Company's key sources of business, key performance indicators and high level strategy are set out in the Directors' Report. The Company has significant financial resources together with prudent investment policies, high quality of assets, robust underwriting procedures controls and mitigating processes including, but not limited to, reinsurance. Consequently the Directors believe that the Company is well placed to manage its business risks despite the current uncertain economic outlook. The Directors are confident that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

2. Accounting Policies

The following accounting policies have been applied consistently within the accounts and from one financial year to another, in dealing with items which are considered material in relation to the financial statements.

Premiums

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

Premiums are earned over the term of the insurance policies to which they relate, in accordance with the risk coverage provided by the underlying insurance policies.

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

Unearned premiums

Premiums that relate to the unexpired terms of insurance policies in force at the balance sheet date are deferred as unearned premiums. These unearned premiums are taken to the Profit and Loss account so that premiums are recognised over the period of risk coverage provided by the underlying insurance policies.

Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance and reinsurance contracts. The proportion of acquisition costs incurred in respect of unearned premiums is deferred at the balance sheet date and recognised in later periods when the related premium is earned.

Claims incurred

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

Claims outstanding

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the

cost of claims incurred but not yet reported ("IBNR") to the Company. The estimate of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries.

The Company takes all reasonable steps to ensure that it has all appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, the final outcome may be different from the original liability established. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not emerge until many years after the underlying event has happened. Classes of business where the IBNR proportion of the total reserve is high, such as liability business, will typically display greater variations between initial estimates and final outcomes because of the greater degree of uncertainty involved.

Classes of business where claims are typically reported relatively quickly after the claim event, such as property business, tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, management uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to vary when compared with the cost of previously settled claims. This includes:

- changes in processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business (including the effect of currency fluctuations);
- the impact of large losses; and
- movements in industry benchmarks.

Specific information on individual claims are also taken into account, based for example on reports of loss adjusters. Furthermore, large claims are generally assessed separately, being measured on a case by case basis or projected separately in order to prevent distortions of the general claims development pattern.

A range of techniques are used to estimate the required level of provisions. This generates a deeper understanding of the trends inherent in the data and also assists in providing a range of possible outcomes. The most appropriate estimation technique is

selected, taking into account the characteristics of the class of business and the extent of the development of each underwriting year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the reinsurers' share of provisions for claims based on calculated amounts for outstanding claims and projections for IBNR, net of estimated uncollectible amounts. Again, a range of statistical techniques are used in making these estimates.

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made.

Unexpired risk provisions

Provision is made for claims emanating from unexpired risks in respect of the contracts concluded before the end of the financial year which continue in force after that date and where claims are expected to exceed the unearned premiums under these policies, after deduction of deferred acquisition costs. In calculating such a provision all business segments are considered individually and are stated after taking into account future investment income.

Other technical income

Other technical income comprises overriding commissions receivable and is reflected in the technical account on the same basis as the underlying business to which it relates.

Investments

Listed investments are stated at bid - value at the close of business on the balance sheet date or the last Stock Exchange dealing day before the balance sheet date. Investments in Group undertakings recorded in the Company's own balance sheet are stated at cost less provisions for any impairment.

Investment return

Investment income comprises interest, dividends, and realised and unrealised investment gains and losses.

Realised gains and losses represent the difference between net sales proceeds and purchase price or market value at the previous year end. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price, adjusted for previously recognised unrealised gains and losses on investments disposed of in the accounting period.

All investment income and gains and losses, are initially accounted for in the non-technical account. An allocation is then made from the non-technical account to the general business technical account to reflect the return of those assets supporting underwriting activities.

Taxation

The charge for taxation on general business is based on the profit for the year, and takes into account taxation deferred because of timing differences between certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise in the foreseeable future. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

Deferred taxation is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 "Deferred tax". No provision is made for taxation of permanent differences.

Leases and hire purchase contracts

Payments made under operating leases are charged to the profit and loss account in the period in which they become payable.

Foreign currencies

Foreign currency transactions are translated at the rates of exchange ruling at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

The results and balance sheets of overseas controlled entities ("branches") that have a functional currency different from sterling (the presentation currency) are translated into sterling (the presentation currency) as follows:

- assets and liabilities are translated into sterling at the rate ruling at the balance sheet date;
- income and expenses are translated at cumulative average rates of exchange; and
- all resulting exchange differences are recognised in the Statement of Recognised Gains and Losses.

Exchange adjustments arising from the translation of foreign currency net investments in the overseas branches are dealt with in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the non-technical account.

3. Segmental Information

(a) Analysis of gross premiums, profit before tax and net assets

	Gross premiums written 2012 £'000	Profit/(Loss) before tax 2012 £'000	Net assets 2012 £'000	Gross premiums written 2011 £'000	Profit/(Loss) before tax 2011 £'000	Net assets 2011 £'000
BY GEOGRAPHICAL SEGMENT						
United Kingdom	1,769,636	30,602	339,129	1,622,898	59,111	321,030
Switzerland	23,957	886	3,583	39,750	600	2,918
Italy	12,760	(29)	77	17,684	182	704
Australia	257,851	6,041	30,512	220,951	(2,405)	21,113
New Zealand	7,159	91	394	12,451	79	320
Ireland	6,059	39	40	-	-	-
	2,077,422	37,630	373,735	1,913,734	57,567	346,085

The directors consider the Company to be involved in only one type of business, that is general insurance business.

(b) Analysis of gross written premiums

	2012 £'000	2011 £'000
Resulting from contracts concluded by the Company:		
In the EU member state of its head office	1,788,455	1,640,582
Outside EU member states	288,967	273,152
	2,077,422	1,913,734

(c) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expense and the reinsurance balance

	Direct marine & aviation	Direct property	Direct general liability & other	Direct motor	Total direct	Re- insurance accepted	Total
2012	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	290,131	450,546	585,682	745,077	2,071,436	5,986	2,077,422
Gross premiums earned	281,979	424,484	547,515	732,664	1,986,642	5,986	1,992,628
Gross claims incurred	104,369	227,669	198,166	536,289	1,066,493	(87)	1,066,406
Gross operating expenses	39,483	99,888	231,290	187,428	558,089	-	558,089
Gross technical result	138,127	96,927	118,059	8,947	362,060	6,073	368,133
Reinsurance balance	138,305	92,458	94,355	8,639	333,757	5,848	339,605
Net technical result	(178)	4,469	23,704	308	28,303	225	28,528
Net technical provisions	6,144	98,658	270,449	-	375,251	3	375,254

	Direct marine & aviation	Direct property	Direct general liability & other	Direct motor	Total direct	Re- insurance accepted	Total
2011	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	254,623	377,494	518,622	760,625	1,911,364	2,370	1,913,734
Gross premiums earned	264,575	399,658	520,294	676,722	1,861,249	5,160	1,866,409
Gross claims incurred	154,223	246,618	232,236	491,443	1,124,520	(3,983)	1,120,537
Gross operating expenses	46,691	119,849	243,589	162,301	572,430	812	573,242
Gross technical result	63,661	33,191	44,469	22,978	164,299	8,331	172,630
Reinsurance balance	65,059	25,521	19,643	21,243	131,466	8,100	139,566
Net technical result	(1,398)	7,670	24,826	1,735	32,833	231	33,064
Net technical provisions	737	74,520	259,723	-	334,980	91	335,071

4. Investment Income

	2012 £'000	2011 £'000
Investment Income	10,559	11,151
Realised gains	4,833	4,359
	15,392	15,510

5. Net Operating Expenses

	2012 £'000	2011 £'000
Acquisition costs	551,541	533,352
Change in gross operating expense provision	(56)	(137)
Change in gross deferred acquisition costs (note 15)	(25,180)	10,611
	526,305	543,826
Administrative expenses	31,784	29,416
Gross operating expenses	558,089	573,242
Reinsurance commissions and profit participation	(506,175)	(486,312)
Change in ceded operating expense provision	56	137
Change in deferred reinsurance commission (note 15)	18,605	(9,350)
	70,575	77,717

6. Profit on Ordinary Activities before Tax

Profit on ordinary activities before tax is stated after charging:

	2012 £'000	2011 £'000
AUDITORS' REMUNERATION		
Audit of these financial statements	181	159
Audit of subsidiary's financial statements	-	18
Other services pursuant to legislation	99	102
Other services relating to taxation	65	118
All other services	25	30

The Company has no employees and does not pay any remuneration other than fees to its Directors. Any pension contributions to the multi employer pension scheme are disclosed in the accounts of the service company.

7. Remuneration of Directors

	2012 £'000	2011 £'000
Directors' emoluments	943	579
Pension contributions	18	17
	961	596

The directors' remuneration consists of the emoluments paid to the directors by the Company and Munich Re UK Services Limited. The emoluments of the highest paid director for the year were £552,427 (2011: £331,530) and pension contributions of £Nil (2011: £Nil). There was one director for whom retirement benefits are accruing in respect of qualifying services under a money purchase plan.

8. Taxation

	2012 £'000	2011 £'000
UK Corporation tax at 24.5% (2011: 26.5%)	8,960	14,991
Change in prior year current tax	33	1,260
Total Current Tax	8,993	16,251
Change in current year net deferred tax	3	3
Impact of change in UK Tax rate	1	1
Total Deferred Tax	4	4
	8,997	16,255

The 2012 current tax charge for the year is lower (2011: higher) than the standard rate of corporation tax in the UK at 24.5% (2011: 26.5%). The differences are explained below:

Profit before tax	37,630	57,567
Corporation tax at 24.5% (2011: 26.5%)	9,219	15,255
Excess capital allowances over depreciation	(3)	(3)
Tax effect of franked investment income	(291)	(265)
Tax effect of other permanent differences	35	4
Under provision relating to prior periods	33	1,260
	8,993	16,251

Deferred Tax Asset

Under FRS 19 deferred tax is provided in full on certain timing differences.

Balance at start of year	1,152	17
Change in deferred tax	(1,142)	1,136
Impact of change in UK Tax rate	(1)	(1)
	9	1,152

The deferred tax liability of £1,139,416 for 2011 related to the expected reduction in double tax relief available in the UK resulting from the utilisation of Australian branch losses to reduce the Australian tax paid. An equivalent amount of £1,139,416 is recognised as a deferred tax asset for available tax losses in the Australian branch. This deferred tax asset and corresponding deferred tax liability reversed in 2012.

The Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. With the 2013 Budget Statement on 20 March 2013 it was announced that an additional 1% reduction to 20% is expected by 2015. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

9. Investments

	Current Value		Historical Value	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Financial Investments				
Government fixed interest securities	465,452	536,669	456,280	517,856
Other listed fixed interest securities	52,844	44,245	52,874	43,315
Deposits with credit institutions	31	24,299	31	24,299
	518,327	605,213	509,185	585,470

Government fixed interest securities included gilts, treasury notes and other government backed securities. The Company has fully funded a US\$100.0m United States Trust Fund obligation; a US\$35.6m Swiss tied assets obligation; and a CAD\$5.1m Canadian Trust Fund obligation. These comprise of investments in government fixed interest securities.

10. Debtors arising out of direct insurance operations

	2012	2011
	£'000	£'000
Amounts owed by intermediaries	476,175	404,343
Amounts owed by group companies	12,643	8,983
Total	488,818	413,326

Amounts receivable by the Company for intermediaries and group companies are due within one year.

11. Cash at Bank

The cash at bank balance of £133.7m (2011: £45.3m) includes accounts totalling £18.1m (2011: £10.5m) which have been set aside to secure letters of credit and guarantees issued in the normal course of business, and in respect of other statutory requirements. As such these balances are restricted from general use.

12. Share Capital

	2012 £'000	2011 £'000
Allotted, called up and fully paid 11,400,000 (2011 - 11,400,000) Ordinary Shares of £10 each	114,000	114,000

13. Reconciliation of movements in Shareholder's Funds

	Ordinary Share Capital £'000	Profit and Loss Account £'000	Total £'000
At 1 January 2012	114,000	232,085	346,085
Profit for the year	-	28,633	28,633
Currency translation differences on foreign currency net investments	-	(983)	(983)
At 31 December 2012	114,000	259,735	373,735

14. Technical Provisions

	Unearned premiums 2012 £'000	Claims outstanding 2012 £'000	Total 2012 £'000	Unearned premiums 2011 £'000	Claims outstanding 2011 £'000	Total 2011 £'000
GROSS AMOUNT						
At beginning of the year	920,211	2,351,688	3,271,899	871,592	2,210,648	3,082,240
Currency translation differences	(14,142)	(48,851)	(62,993)	1,294	(1,112)	182
Movement in the provision	84,794	165,518	250,312	47,325	142,152	189,477
At end of the year	990,863	2,468,355	3,459,218	920,211	2,351,688	3,271,899
REINSURANCE AMOUNT						
At beginning of the year	(844,761)	(2,092,067)	(2,936,828)	(800,496)	(1,957,249)	(2,757,745)
Currency translation differences	11,969	42,590	54,559	(947)	1,120	173
Movement in the provision	(56,494)	(145,201)	(201,695)	(43,318)	(135,938)	(179,256)
At end of the year	(889,286)	(2,194,678)	(3,083,964)	(844,761)	(2,092,067)	(2,936,828)
NET TECHNICAL PROVISIONS						
At beginning of the year	75,450	259,621	335,071	71,096	253,399	324,495
At end of the year	101,577	273,677	375,254	75,450	259,621	335,071

Provisions for net claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior underwriting years' liabilities amounted to an overprovision in 2012 of £34.7m (2011 of £65.2m overprovision).

The overprovision was in respect of direct general liability of £29.6m (2011: of £52.6m) and direct property and other of £5.1m (2011: of £12.6m).

15. Deferred Acquisition Costs

	2012 £'000	2011 £'000
GROSS AMOUNT		
At beginning of the year	212,424	222,753
Currency translation differences	(3,258)	282
Movement in the provision	25,180	(10,611)
At end of the year	234,346	212,424
REINSURANCE AMOUNT		
At beginning of the year	(197,290)	(206,481)
Currency translation differences	2,673	(159)
Movement in the provision	(18,605)	9,350
At end of the year	(213,222)	(197,290)
NET DEFERRED ACQUISITION COSTS		
At beginning of the year	15,134	16,272
At end of the year	21,124	15,134

16. Provisions for other risks and charges

	Expense provision 2012 £'000	Expense provision 2011 £'000
At beginning of the year	399	536
Movement in the year	(56)	(137)
At end of the year	343	399

The provision for risks and other charges is for an expense provision in relation to the assumption of liabilities under a Part VII transfer that took place in 2008.

17. Creditors arising out of Direct Insurance Operations

	2012 £'000	2011 £'000
Amounts owed to intermediaries	28,867	161,789
Amounts owed to group companies	360,436	207,756
	389,303	369,545

Amounts due to intermediaries and group companies are payable within one year.

18. Group Companies

a) Parent Company

The Company is a wholly owned subsidiary of Munich Re which is the immediate and ultimate parent company, incorporated in Germany. The largest group in which the results of the Company are consolidated is that headed by Munich Re and no other group financial statements include the results of the Company.

b) Subsidiary Company

The 'Investment in subsidiary' is a 100% shareholding in Great Lakes Services Limited, an unlisted service company incorporated in the United Kingdom. As of 31 December 2011 all the liabilities and obligations of Great Lakes Services Limited and an equivalent portion of assets were transferred to Munich Re UK Services Limited, a wholly owned subsidiary of Munich Re incorporated in the United Kingdom. Effective 7 November 2012, Great Lakes Services Limited reduced its share capital to £1 by cancelling 49,999 ordinary shares of £1 each. Great Lakes Services Limited was liquidated on 5 March 2013.

19. Leases

	Land and Buildings	
	2012 £'000	2011 £'000
Annual commitments under non-cancellable operating leases are as follows:		
Operating lease which expires in under five years	170	170
Operating lease payments made during the financial year	170	170

20. Contingent Liabilities and Guarantees

During 2009 the Company entered into an agreement to guarantee payments to be made by Great Lakes Services Limited in respect of a pension scheme of which certain employees are members. Payments of £368,500 are to be made annually up to 2015. As of 31 December 2011 the liabilities and obligations of Great Lakes Services Limited were transferred to Munich Re UK Services Limited. Consequently, from 31 December 2011 the Company's guarantee is for the payments of Munich Re UK Services Limited instead of Great Lakes Services Limited.

Cash flow statement: Great Lakes Reinsurance UK PLC

	2012 (£000)	2011 (£000)
Net cash receipts from insurance activities	35,503	77,410
Net operating expenses paid	(35,574)	(24,497)
Interest received from AFS Investments	16,936	16,916
Net other operating cashflows	(163)	87
I. Operating Activities	16,702	69,916
Cash flow from financing activities	0	0
II. Interest Paid (Financing)	0	0
Net cash flow from taxation	(11,342)	(9,028)
III. Taxation	(11,342)	(9,028)
Capital expenditure	0	0
IV. Capital Expenditure	0	0
Net acquisitions & disposals	0	0
V. Acquisitions & Disposals	0	0
Dividend payments	0	0
VI. Equity Dividends Paid	0	0
Net sale / (purchase) of AFS investments	83,043	(56,114)
VII. Portfolio Investments	83,043	(56,114)
Other financing cash flows	0	0
VIII. Financing	0	0
Cash flows for the business year (I.+II.+III.+IV.+V+VI.+VII.+VIII.)	88,404	4,774
Cash at the beginning of the business year	45,263	40,489
Cash at the end of the business year	133,667	45,263