Colonnade Insurance S.A.
Société Anonyme

Audited annual financial statements as at December 31, 2017

1, rue Jean Piret
L-2350 Luxembourg
R.C.S. Luxembourg: B 61.605

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Directors' report on the annual accounts as at December 31, 2017

Key Financials

For the year ending December 31, 2017 the loss after tax was EUR 15,116,598 (compared to EUR 9,304,204 in 2016). The financial year of 2017 further showed earned premiums, net of reinsurance, of EUR 46,729,971 (2016 EUR 7,515,704) with gross premiums written of EUR 105,991,773 (2016 EUR 16,721,351) and claims incurred, net of reinsurance, of EUR 20,223,034 (2016 EUR 4,039,303).

The underwriting result amounted to a loss of EUR 14,770,729 (compared to EUR 8,883,988 in 2016) and includes the administrative expenses of the newly created branches in Poland, Bulgaria and Romania as well as costs in relation with the Part VII transfer from QBE and the one-off expenses relating to the AIG Business transfer.

The Company's net loss ratio was 43%, its net commission ratio was 45%, its net expense ratio was 43% and the combined ratio stands at 131%. These ratios were 54%, 55%, 109% and 218% respectively in 2016.

During the year, the share premium account was increased by EUR 46,000,000 from EUR 27,876,287 to EUR 73,876,287 and total shareholder's equity increased from EUR 26,376,725 to EUR 57,260,127 after considering the above increase in share premium and the result of the year.

As at December 31, 2017 the provision for unearned premiums amounted to EUR 54,186,667 (EUR 8,530,325 in 2016), claims outstanding were at EUR 32,028,953 (EUR 1,944,669 in 2016) and provision for bonuses and rebates was at EUR 354,719 (EUR 30,481 in 2016).

Key Events

2017 was the most complex year of the Company since the recent start of its Insurance activities. Our operations were set up in 2016 providing us representation in the Czech Republic, Hungary and Slovakia and commenced the transfer of the QBE portfolio to our branches. During the 2017 financial year we have finalized the full transfer of all customers available to us under the QBE agreement and also successfully completed the Part VII transaction, the legal process overseen by the UK regulator to officially take over the legal ownership of the QBE run-off portfolio.

During 2016 the Company has entered into an agreement with AIG to acquire the renewal rights and other operating assets of their operations in Poland, Czech Republic, Hungary, Slovakia, Bulgaria and Romania. The transaction was a strategic move for Colonnade to increase the geographical footprint in 3 additional countries in CEE providing us a significant platform covering most of the EU member countries in the region. We have successfully merged operations in the Czech Republic, Hungary and Slovakia on the 1st of May 2017, opened our new branches in Bulgaria on 1st June 2017, Poland on 1st July 2017 and Romania on 1st November 2017. Through this acquisition we have acquired a well-trained team with unique underwriting experience, including capabilities in writing complementary products to the existing portfolio. This transaction is a significant expansion to our distribution platform both for consumer market and the intermediated segments of these insurance markets.

Description of Risks Covered

Colonnade is currently authorised to underwrite all classes of non-life insurance business except class 10 (Motor Vehicle Liability). However the Slovak Branch does not include classes 12 (Liability for Ships), 14 (Credit) and 15 (Suretyship).

The process for risk acceptance and risk management is set out in the Company's Enterprise Risk Management Framework ("RMF"). The key elements of the RMF are Identification, Monitoring and Management of risk.
The key categories of risk facing the Company include: insurance, market, credit, liquidity and operational risks. Policies and procedures for managing these risks are set out in the RMF.
All key policies are approved by the Board of Directors and the framework is part of the ongoing "Own Risk and Solvency Assessment" ("ORSA") process. An ORSA report is presented to the Board of Directors on an annual basis. The ORSA report sets out the risk profile and key risk indicators of the Company, together with the resulting impact on the SCR, and confirmation that sufficient own and ancillary funds are in place.

The Company's strategy for managing its risks includes:
- Identifying and analyzing risk through a disciplined risk management process;
- Mitigating, transferring or avoiding risks that do not fit our business objectives;
- Retaining risk within an agreed risk appetite with appropriate levels of capital.

With the AIG transaction the business mix of the Company has significantly changed and in 2017 became more balanced between Consumer lines and Commercial lines with a share of 48% and 52% respectively. The major products in Consumer lines were Accident and Health products distributed by our Direct Marketing platform and GAP products. In Commercial lines we observed significant growth on the Casualty and Commercial Property lines.

The Company's reinsurance policy mitigates the exposure of the Company by limiting the risks of accumulations of loss from catastrophic events, and from single risk perspective by a range of quota share and excess of loss contracts covering the different lines of business written by the company.

Corporate Governance

The Company has implemented a system of governance which provides for sound and prudent management. Risk management, compliance, internal audit and actuarial functions which are consistent with the needs of Company's operations have been established. The Company's staff and directors have the skills, knowledge and expertise to fulfil their allocated responsibilities. The system of governance is therefore considered proportionate to the nature, scale and complexity of the Company's business.

The Board of Directors oversees the conduct of the business and its senior management and is responsible for ensuring the maintenance of a sound system of internal control and risk management and for the approval of any changes to the capital, corporate and/or management structure of the Company.

The Company has a Board of Directors and five board committees being the Reserving Committee, Underwriting Committee, Investment & Foreign Exchange Committee, Risk Management Committee and the Audit Committee. The Reserving Committee's role is to oversee the reserving levels, working in close cooperation with the Company's actuarial function. The Underwriting Committee's role is to oversee underwriting including setting the protocols for underwriting authorities, guidelines and rate monitoring. The Investment & Foreign Exchange committee's role is to manage investment credit risk and foreign exchange risk, through prudent investment and asset / liability currency management. The Risk Management Committee's role is to ensure the development and implementation of the Company's Enterprise Risk Management Framework, to ensure that appropriate procedures are in place to identify, assess and manage risk from a strategic and operational perspective and to monitor implementation of risk management procedures. Finally, the Audit Committee supports the Board of Directors in meeting its oversight responsibilities for the Company's financial reporting, internal controls, management of financial risks, audit processes and processes for monitoring legal and regulatory compliance.
The management oversight over the branches is carried out through the Management Committee. The objective of the Management Committee is to take decisions, or to establish the basis on which all decisions

are taken, required to execute the strategy determined by the Board, including all major operational decisions. Its duties are inter alia to direct and monitor operating and financial performance of the Company's branches, businesses and operating regions and to approve and monitor strategic and forecasting processes by setting formats, guidelines and timetables.

Other representations

In 2017 the Company did not pursue any reasearch and development activity.
The Company does not face abnormal price, credit, liquidity or treasury risks. The Company did not invest into any securities in 2017 as the main focus was successful completion of the QBE and AIG transactions. There were no derivative transactions in 2017.
The Company has not repurchased any of its own shares during the year and does not hold any own shares at this time.

At the date of this report no major post balance sheet event occurred that could have an impact on the Company's ability to continue its operations on a going concern basis.

Management expects further growth of the Company's portfolio as the migration activities of the AIG Business continue in 2018. In the next years the Company will standardize its operating processes and the supporting IT platforms across all Branches. This will enable the Company to respond to the rapidly changing market needs and keep high quality service to its customers.

Ronald Schokking
Director

Leo de Waal
Director

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Audit report

To the Shareholder of
Colonnade Insurance S.A.

Report on the audit of the annual accounts

Our opinion

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of Colonnade Insurance S.A. (the Company) as at 31 December 2017, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Company's annual accounts comprise:

- The balance sheet as at 31 December 2017;
- The profit and loss account for the year then ended; and
- The notes to the annual accounts, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts" section of our report.

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

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided to the Company and its controlled undertakings, in the period from 1 January 2017 to 31 December 2017 are disclosed in Note 23 to the annual accounts.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of actuarially determined Incurred but not reported claims reserve ("IBNR reserve")	
Claims outstanding amounting to 32,028,953EUR at year-end include an IBNR reserve of 13,064,932. The Company's valuation of the IBNR reserve is based on a range of actuarial methodologies and models requiring significant judgement relating to certain factors and assumptions for which small changes can result in material impacts to the valuation of the IBNR reserve. The assumptions include, but are not limited to, loss ratios, claim trends, regulatory decisions and historical claims information. Additionally, the Company has completed during the period a "Part VII portfolio" transfer as well as the acquisition of the Central Eastern European business of AIG (see details below). Such transactions led to the integration by the Company of external historical claims data and consequently have been included in the estimations of related IBNR amount at year-end.	Together with our internal actuarial experts, we have assessed Management's controls and procedures in place over actuarial methods, data collection and analysis, regulatory compliance. We have also performed other audit procedures which included namely the following: • Testing the reliability of underlying data used by the Company's actuaries in estimating the IBNR reserve at year-end to source documentation; • Our internal actuarial experts have assessed the methodologies and the reasonableness of the assumptions used by the Company's actuaries. We appraised these elements against recognised actuarial practices and applied our industry knowledge and experience; • Performing independent re-projections on selected line of businesses. For those lines, we compared our re-projected results to those recorded by the Company and investigated any significant differences.

Key audit matter	How our audit addressed the Key audit matter
Insurance portfolio transfer (Part VII transfer) process	
Following a framework agreement dated 2014 between Fairfax Financial Holdings Limited (The Group) and QBE Insurance (Europe) Limited (QBE), the Company has subsequently acquired the former Insurance portfolio of the QBE Slovak, Czech and Hungarian branches. This portfolio transfer transaction has been executed and completed in July 2017 through a so called "Part VII transfer" subject to the Financial Services and Markets Act (FSMA). As such transfer of insurance portfolio is governed by a specific legal framework, the Company is exposed to risks of non-compliance with the legal and regulatory requirements of related transferor and transferee jurisdictions. Additionally, the Company is subject to potential significant misstatements resulting from incomplete or inaccurate policy or related technical data transferred in the Company systems.	Together with our internal actuarial experts, we have assessed Management's controls and procedures in places over the portofolio transfer process. We have also performed other audit procedures which included, but are not limited to : • Compliance checks with the regulatory requirements as validated by the supervisory body as well as the proper reconciliation with the terms and conditions as stipulated in the contractual agreement with the transferor; • Completeness testing of the transaction and its adequate accounting treatment; • Consistency work of the accounting/valuation principles applied at year-end for the transferred portfolio with the other Company's portfolios; • Disclosure adequacy checks of this transfer transaction in the annual accounts of the Company and in particular within the Directors' report and the related notes.

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Key audit matter	How our audit addressed the Key audit matter
Valuation of intangible assets in respect of AIG Central Eastern Europe business acquisition	
Following a framework agreement signed in 2016 between Fairfax Financial Holdings Limited (the Group) and AIG Europe Limited (AIG), the Company has completed during the period the acquisition of AIG Central Eastern European (CEE) business activities (Hungary, Czech Republic, Slovakia, Bulgaria, Romania and Poland) mainly composed of customer base renewal rights and ancillary operating assets. The related renewal rights have been recorded as intangible assets in the Company's books. The valuation of those intangible assets involves significant judgments and estimates, including projections of future net income related to the acquired customer base portfolio, discount rates, lapse rates. These assumptions and estimates can have a material impact on the valuations and any potential impairment decisions reflected in the Company's annual accounts.	Our audit procedures over the acquisition and valuation of those assets included the following : • Assessed the controls and procedures implemented by the Company over this acquisition process; • Analysed the supporting documentation in order to get a proper understanding of the transaction; • Tested the accounting entries of the transaction to ensure the compliance with Luxembourg accounting principles and their conformity with the contractual terms and conditions; • Tested the reasonableness of the methodology and assumptions used by the Company including forecast of future results, inputs of data, and rates to determine the impact of those assumptions and to ensure consistency with market/industry practices; • Engaged our internal valuation experts to assist in the testing of key assumptions and inputs; • Ensured that the transaction has been properly disclosed in the annual accounts at year-end.

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Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Management report but does not include the annual accounts and our audit report thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- obtain an understanding of internal control relevant to the audit 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 Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

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

- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation;

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

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

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

Report on other legal and regulatory requirements

The Management report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" by the General Meeting of the Shareholders since 13 June 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 4 years.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 5 April 2018

Claude Jacoby

Colonnade Insurance S.A.
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Balance sheet as at December 31, 2017

	Notes	December 31, 2017 EUR	December 31, 2016 EUR
ASSETS			
Subscribed capital unpaid	10	7,000,000	7,000,000
Intangible assets	4.2; 5	5,662,910	712,689
Investments			
Investments in affiliated undertakings and participating interests			
Shares in affiliated undertakings	4.4; 6	909,278	995,600
		909,278	995,600
Reinsurers' share of technical provisions			
Provision for unearned premiums	4.7.1; 24	16,943,719	750,256
Claims outstanding	4.7.2; 24	17,146,340	161,178
		34,090,059	911,434
Debtors			
Debtors arising out of direct insurance operations			
Policy-holders	4.5; 7	15,544,143	4,351,550
Intermediaries	4.5; 7	9,795,842	287,491
Debtors arising out of reinsurance operations	4.5; 7	14,558,531	776,417
Other debtors	4.5; 7	3,038,560	1,335,815
		42,937,076	6,751,273
Other assets			
Tangible assets and stocks	4.3; 8	1,503,142	358,629
Cash at bank and in hand		80,186,149	23,115,355
Other assets		84,437	-
		81,773,728	23,473,984
Prepayments and accrued income			
Accrued interest and rent		-	1,346
Deferred acquisition costs	4.6; 24	13,009,141	1,865,935
Other prepayments and accrued income	9	1,091,085	268,121
		14,100,226	2,135,402
Total Assets		**186,473,277**	**41,980,382**

The accompanying notes form an integral part of these annual accounts.

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Balance sheet as at December 31, 2017

	Notes	December 31, 2017 EUR	December 31, 2016 EUR
LIABILITIES			
Capital and reserves			
Subscribed capital	10	9,500,000	9,500,000
Share premium account	11	73,876,287	27,876,287
Reserves			
Legal reserve	12	950,000	950,000
Profit and loss brought forward	13	(11,949,562)	(2,645,358)
Profit or loss for the financial year		(15,116,598)	(9,304,204)
		57,260,127	26,376,725
Technical provisions			
Provision for unearned premiums	4.7.1; 24	54,186,667	8,530,325
Claims outstanding	4.7.2; 24	32,028,953	1,944,669
Provision for bonuses and rebates	4.7.3	354,719	30,481
		86,570,339	10,505,475
Provisions for other risks and charges			
Provisions for taxation	25	140,821	111,778
Other provisions	14	-	1,366,430
		140,821	1,478,208
Creditors			
Creditors arising out of direct insurance operations	4.8; 15	8,692,012	754,191
Creditors arising out of reinsurance operations	4.8; 15	15,482,771	94,550
Other creditors includung tax and social security	4.8; 15	6,164,958	405,879
		30,339,741	1,254,620
Accruals and deferred income	4.9; 16; 20; 24	12,162,249	2,365,354
Total Liabilities		**186,473,277**	**41,980,382**

The accompanying notes form an integral part of these annual accounts.

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Profit and loss account for the year ended December 31, 2017

	Notes	2017 EUR	2016 EUR
TECHNICAL ACCOUNT			
NON-LIFE INSURANCE BUSINESS			
Earned premiums, net of reinsurance			
gross premiums written	17; 18; 24	105,991,773	16,721,351
outward reinsurance premiums	24	(29,798,923)	(1,425,578)
change in the provision for unearned premiums	24	(45,656,342)	(8,530,325)
change in the provision for unearned premiums, reinsurers' share	24	16,193,463	750,256
		46,729,971	7,515,704
Claims incurred, net of reinsurance			
claims paid:			
gross amount	24	6,383,478	(2,258,881)
reinsurer' share	24	(13,507,390)	3,069
		(7,123,912)	(2,255,812)
change in the provision for claims:			
gross amount	24	(30,084,284)	(1,944,669)
reinsurer' share	24	16,985,162	161,178
		(13,099,122)	(1,783,491)
Bonuses and rebates, net of reinsurance		(471,558)	(30,481)
Net operating expenses			
acquisition costs	4.6; 19	(35,118,658)	(5,891,458)
change in deferred acquisition costs	3; 4.6; 24	11,143,206	1,865,935
administrative expenses	4.11;21;22;23	(19,917,640)	(8,164,016)
reinsurance commissions and profit participation	3; 20; 24	3,086,984	(140,369)
		(40,806,108)	(12,329,908)
Balance on the technical account for non-life insurance business		**(14,770,729)**	**(8,883,988)**
NON-TECHNICAL ACCOUNT			
Investment charges			
Value adjustments on investments	4.1; 6	(171,938)	(113,262)
Other income		617,315	8,433
Other charges, including value adjustments	4.1; 4.12	(233,386)	(235,492)
Tax on profit or loss on ordinary activities		(2,880)	-
Profit or loss on ordinary activities after tax		(14,561,618)	(9,224,309)
Other taxes not shown under the preceding items		(554,980)	(79,895)
Profit/(loss) for the financial year		**(15,116,598)**	**(9,304,204)**

The accompanying notes form an integral part of these annual accounts.

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 1 – General

Colonnade Insurance S.A. (the "**Company**") is a Luxembourg insurance company. The Company has been incorporated as a holding company on November 10, 1997 as a "Société Anonyme" for an unlimited period and subject to the general company law.

With notarial deed dated July 22, 2015 the Company changed its name from Stonebridge Re S.A. into Colonnade Insurance S.A. and changed its activity from a reinsurance company into an insurance company subject to regulatory approval. The insurance license was granted to the Company on July 24, 2015. In relation to the transfer of the insurance business from QBE Insurance (Europe) Limited ("**QBE**") the Company set up Hungarian, Czech and Slovakian Branches in 2015. In 2016 an agreement was signed with AIG Europe Limited ("AIG") to acquire the renewal rights and operating assets of its branches in Bulgaria, Czech Republic, Hungary, Romania, Poland and Slovakia. In addition to the Branches established in 2015 new Branches were created in Bulgaria, Romania and Poland in 2017. The accounts of all six Branches are included in the Company's balance sheet and profit and loss accounts.

The principal activity of the Company is the carrying out of all insurance operations in all divisions, in the Grand Duchy of Luxembourg and abroad (excluding any life insurance business), the management of insurance companies, the holding and the financing of direct and indirect participations in all companies or businesses with an identical or similar corporate object and which may further the development of the Company's activities, more generally all transactions regarding movable or real property, commercial, civil or financial operations which are directly related to the Company's corporate object.

The registered office of the Company moved to 1, rue Jean Piret, L-2350 Luxembourg on December 6, 2017.

The Company's financial year starts on January 1 and ends on December 31 of each year.

Note 2 – Presentation of the annual accounts

These annual accounts have been prepared in conformity with the law of December 8, 1994 on annual accounts with respect to insurance and reinsurance undertakings, and with the significant accounting policies generally accepted within the insurance and reinsurance industry in the Grand Duchy of Luxembourg. The accounting policies and valuation rules, apart from those defined by the law or by the Commissariat aux Assurances, are determined and applied by the Board of Directors. During the meeting on June 16, 2016, the Board of Directors decided to adopt LUXGAAP with fair value option as accounting method for the Company as from January 1, 2016. Until the end of the financial year of 2017 there has been no item subject to this accounting method.

The Company is, in accordance with Luxembourg law, exempt from the requirement to prepare consolidated annual accounts and a consolidated Directors' report for the year ended December 31, 2017. Therefore, in conformity with legal provisions, these accounts were presented on a non-consolidated basis for approval by the sole shareholder at the Annual General Meeting.

The Company's accounts are included in the consolidated annual accounts of Fairfax Financial Holdings Limited with registered office at 95, Wellington Street West, Suite 800, Toronto Ontario Canada M5J 2N7.

Note 3 – Presentation of comparative financial data

The figures for the year ended December 31, 2016 relating to the ceded deferred acquisition costs have been reclassified to ensure comparability with the figures for the year ended December 31, 2017.

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Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 4 – Summary of significant accounting policies

The significant accounting policies applied by the Company are as follows:

4.1 Translation of items expressed in foreign currencies

The Company maintains its books and records in EUR.

The assets and liabilities expressed in foreign currencies are translated into EUR at the exchange rates prevailing at the balance sheet date. Transactions during the accounting period, expressed in foreign currencies, are translated to EUR at the exchange rate prevailing at the transaction date.

All unrealised and realised exchange losses / gains resulting from these conversions are accounted for in the profit and loss account.

4.2 Intangible assets

The intangible assets are valued at historical acquisition or production cost.

The intangible assets are amortised on a straight-line basis between a period of two to six years depending on the intangible item.

4.3 Tangible assets

Tangible assets, are valued at historical acquisition cost. The acquisition cost includes expenses incidental to the purchase. The tangible assets with limited useful economic lives are amortised on a straight-line basis based on the estimated economic life. The amortization period for the tangible assets is as follows:

Furniture and fittings	IT Equipment	Cars	Other tangible assets
5-9 years	2-5 years	4-5 years	2-6 years

If a permanent decline in value exists, the fixed assets are valued at the lower of carrying or market value at the balance sheet date. These value adjustments should be reversed when the reasons for which they were made cease to apply.

4.4 Shares in affiliated undertakings and participating interests

Affiliated undertakings are considered to be the undertakings between which the Company exercises a dominant influence either directly or indirectly. Participating interests refer to rights contained in the capital of other undertakings which, when creating a durable link with those undertakings, are intended to contribute to the Company's activities.

Shares in affiliated undertakings and participating interests are valued at historical acquisition cost which includes expenses incidental to the purchase.

If the impairment in value is of a permanent nature, the shares in affiliated undertakings and participating interests are valued at the lower of cost or market at the balance sheet date. These value adjustments should no longer continue when the reasons for which they were made cease to apply.

4.5 Debtors

Debtors are valued at the lower of their nominal and their probable realizable value. Value adjustments shall be made when recoverability is questionable, either in part or entirely. These value adjustments shall no longer be carried when the reasons for which they were made cease to apply.

4.6 Deferred acquisition costs

Acquisition costs related to non-life insurance policies are deferred according to a method compatible with that used for unearned premiums.

4.7 Technical provisions

Sufficient technical provisions are set up in order that the Company can meet, as far as can be reasonably foreseen, any liabilities arising from insurance contracts.

4.7.1 Provision for unearned premiums

Written premiums include all the amounts received or receivable with respect to insurance contracts concluded prior to the end of the accounting period. That part of written premiums which is to be allocated to one or more subsequent financial years is deferred by way of the provision for unearned premiums, computed separately for each contract on a pro rata basis.

4.7.2 Provision for claims outstanding

The provision for claims outstanding corresponds to the total estimated cost (including claims settlement costs) for settling all claims arising from events which have occurred up to the end of the financial year, whether reported or not, less amounts already paid in respect of such claims.

The provisions for claims outstanding shall be computed separately for each claim and may not include any discounts or deductions.

4.7.3 Provisions for bonuses and rebates

This provision consists of amounts intended for policy holders or contract beneficiaries to the extent that such amounts represent an allocation of surplus or profit arising on business, or a partial refund of premium made based on the performance of the contracts.

4.7.4 Provisions for other risks and charges

Provisions for other risks and charges are intended to cover losses or debts whose nature is clearly defined but are, at the balance sheet date, either likely or certain to be incurred but amounts are indeterminable.

4.8 Creditors

Creditors are included in liabilities at settlement value. If the amount payable is greater than the amount received, the difference may be shown as an asset and written off by reasonable annual amortization and completely written off no later than the time of repayment of the debt. If the amount payable is lower than the amount received, the difference is released to income in instalments over the remaining period of the contract.

4.9 Accruals and deferred income

This item consists of both income receivable before balance sheet date but relating to a subsequent financial year and charges that relate to the current financial year but payable in a subsequent financial year.

4.10 Allocated investment return transferred from non-technical account

This income represents the portion of the total net investment return that relates to assets which are held to cover the non-life technical provisions, and which are transferred from the non-technical account in order to better reflect the balance of the technical account of the non-life business.

No net income has been allocated to the technical accounts for the year ended 2017.

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

4.11 Administrative expenses

Administrative expenses specifically consist of costs arising from premium collection, portfolio administration and inward and outward reinsurance. The administrative expenses more specifically include all administrative expenses that cannot be allocated to acquisition costs, claims or investment management charges.

4.12 Value adjustments

The value adjustments are deducted directly from the related asset.

Note 5 – Intangible assets

The movements in intangible assets incurred during the financial year may be summarized as follows:

	Data policy rights	Software	Concessions, patents, licenses, trademarks	Total
Gross book value January 1, 2017	*500,000*	*500,603*	*10,248*	*1,010,851*
Additions during the year	*5,275,792*	*639,347*	*2,040*	*5,917,179*
Disposals during the year	-	-	-	-
Gross book value December 31, 2017	*5,775,792*	*1,139,950*	*12,288*	*6,928,030*
Accumulated depreciation January 1, 2017	*-250,000*	*-39,368*	*-8,794*	*-298,162*
Depreciation during the year	*-861,580*	*-102,107*	*-3,271*	*-966,958*
Accumulated depreciation December 31, 2017	*-1,111,580*	*-141,475*	*-12,065*	*-1,265,120*
Net book value December 31, 2017	**4,664,212**	**998,475**	**223**	*5,662,910*
Net book value December 31, 2016	**250,000**	**461,235**	**1,454**	*712,689*

With date December 14, 2016 Colonnade Finance S.à r.l., a Luxembourg group company, transferred access rights to the policy data, in relation with the acquisition of the business acquired from QBE Insurance (Europe) Limited ("**QBE**"), to the Company for a total amount of EUR 500,000. These rights were amortized equally in 2016 and 2017.
In 2017 the Company recognized intangible assets amounting EUR 5,275,792 representing the renewal rights acquired from AIG Europe Limited ("**AIG**"). These assets are amortized straight-line over five years.

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 6 – Shares in affiliated undertakings and participating interests

The undertakings in which the Company holds at least twenty percent of the capital are the following:

Name of the company	Registered office	Percentage of ownership	Closing date of last financial year	Book value as at Dec. 31, 2016	Book value as at Dec. 31, 2017	Shareholder's equity (including as at Dec. 31, 2017	Results of the financial year
		%		EUR	EUR	EUR	EUR
TIG (Bermuda) Ltd.	Canon's Court 22 Victoria Street Hamilton HM EX Bermuda	100	Dec. 31, 2017	995,600	909,278	909,278	-51,551

The amount mentioned in the Shareholder's equity and the Result of the financial year are based on the last unaudited annual accounts and are converted into EUR using the group exchange rate as at December 31, 2017 being USD 1 = EUR 1.200079.

On November 30, 2017 the capital of this entity was increased by EUR 85,616. In 2017 management considered the valuation of the subsidiary and concluded to record an additional impairment of EUR 171,938 on the financial assets in the accounts of the Company. The total value adjustment at December 31, 2017 is EUR 285,200.

No other movements on those investments shall be noted for the current period.

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 7 – Debtors

	December 31, 2017	December 31, 2016
Debtors		
Arising out of direct insurance operations	**25,339,985**	**4,639,041**
policy-holders 3rd parties	15,544,143	4,351,550
intermediaries 3rd parties	9,795,842	287,491
Arising out of reinsurance operations	**14,558,531**	**776,417**
3rd parties	13,847,313	776,417
Related parties	711,218	-
Other debtors 3rd parties	**3,038,560**	**1,335,815**
TOTAL	**42,937,076**	**6,751,273**

Other debtors 3rd party

	December 31, 2017	December 31, 2016
Receivables with AIG	1,756,886	-
Claims handling fee with PolishRe	-	1,335,815
Receivables with QBE	437,520	-
Deposits and guarantees	465,543	-
Tax receivable	105,039	-
Other	273,572	-
Total	**3,038,560**	**1,335,815**

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 8 – Tangible assets

The movements in tangible assets incurred during the financial year may be summarized as follows:

	Furniture and fittings	IT equipment	Cars	Other tangible assets	Total tangible assets
Gross book value January 1, 2017	*170,718*	*173,719*	*73,824*	*13,327*	*431,588*
Additions during the year	642,172	407,960	59,248	338,688	1,448,068
Disposals during the year	-8,706	-	-21,121	-	-29,827
Gross book value December 31, 2017	*804,184*	*581,679*	*111,951*	*352,015*	*1,849,829*
Accumulated depreciation January 1, 2017	*-8,825*	*-41,183*	*-18,910*	*-4,041*	*-72,959*
Depreciation during the year	-52,588	-172,562	-17,231	-31,347	-273,728
Accumulated depreciation December 31, 2017	*-61,413*	*-213,745*	*-36,141*	*-35,388*	*-346,687*
Net book value December 31, 2017	**742,771**	**367,934**	**75,810**	**316,627**	**1,503,142**
Net book value December 31, 2016	**161,893**	**132,536**	**54,914**	**9,286**	**358,629**

Note 9 – Other prepayments and accrued income

This item is composed of prepayments made regarding expenses relating to periods after December 31, 2017.

Note 10 – Subscribed capital

As at December 31, 2017 the subscribed capital amounting to EUR 9,500,000 is paid up to an amount of EUR 2,500,000 and represented by 9,500,000 of EUR 1 each and fully owned by Fairfax Luxembourg Holdings S.à r.l.

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 11 – Share premium account

As at December 31, 2017 the share premium amounts to EUR 73,876,287.

The movements in the share premium account during the financial year ended December 31, 2017, are as follows:

Share premium account at the beginning of the financial year	EUR	27,876,287
Movements during the financial year 2017	EUR	46,000,000
Share premium account at the end of the financial year	**EUR**	**73,876,287**

With shareholder's resolutions dated April 5, 2017, April 19, 2017 and June 14, 2017 the share premium account was increased by an amount of EUR 10,000,000, EUR 23,500,000 and EUR 12,500,000 respectively.

Note 12 – Legal reserve

In accordance with Luxembourg company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

The legal reserve represents 10% of the issued share capital.

Note 13 – Profit or loss brought forward

The loss for the accounting year ended December 31, 2016, amounting to EUR 9,304,204 has been carried forward to 2017. The total accumulated balance is EUR (11,949,562).

Note 14 – Other provisions

The company has not created any Other provisions for 2017.

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 15 – Creditors

Creditors arising out of direct insurance operations amounting to EUR 8,692,012 of which EUR 8,626,362 is payable to third parties.

Creditors arising out of reinsurance operations are amounting to EUR 15,482,771 of which EUR 11,266,907 is payable to third parties.

	December 31, 2017	December 31, 2016
Creditors		
Creditors - direct insurance	**8,692,012**	**754,191**
3rd parties	8,626,362	754,191
Related parties	65,650	-
Creditors reinsurance	**15,482,771**	**94,550**
3rd parties	11,266,907	94,550
Related parties	4,215,864	-
Other Creditors incl tax and soc.sec.	**6,164,958**	**405,879**
3rd parties	5,710,881	405,879
Related parties	454,077	-
TOTAL	**30,339,741**	**1,254,620**

Other creditors, including tax and social security

Other creditors as at December 31, 2017 amounting to EUR 6,164,958 that can be detailed as follows:

	December 31, 2017	December 31, 2016
Other creditors breakdown		
Personnel related liability	289,103	-
Tax liabilities	232,011	214,106
Rent related liability	457,372	-
Unallocated cash receipts	1,841,645	-
Payables to vendors	2,517,494	191,773
Fairfax Dublin liability - Intercompany	454,077	-
Other	373,256	-
Total	**6,164,958**	**405,879**

There are no creditor balances becoming due and payable after more than five years.

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 16 – Accruals and deferred income

This item is composed of other accrued charges of EUR 4,017,212 as well as deferred ceded premium acquisition costs with third parties of EUR 2,146,906 and EUR 1,985,641 is on contracts with related parties and claims handling deferred income relating to the AIG transaction of EUR 4,012,490.

	December 31, 2017	December 31, 2016
Accruals and deferred income		
accrued charges other 3rd parties	4,017,212	335,293
accrued charges insurance 3rd parties	-	1,723,482
accrued charges reinsurance 3rd parties	-	143,634
deferred income 3rd parties	6,159,396	162,945
deferred income Related parties	1,985,641	-
TOTAL	**12,162,249**	**2,365,354**

Note 17 – Results from the non-life insurance operations

The group classification within direct insurance and reinsurance accepted may be presented as follows:

		Land vehicles (other than railway rolling stock) / other than theft risk	General liability (other)	Fire and natural forces (industrial and commercial risks)	Accident	Other	Total
Direct Business	Gross premiums written	21,301,210	20,474,249	15,044,973	14,838,754	5,558,475	**77,217,661**
	Gross premiums earned	7,596,276	8,522,080	8,861,433	11,192,297	2,749,886	**38,921,972**
	Gross claims incurred	2,307,615	1,356,936	5,112,531	5,716,762	1,340,091	**15,833,935**
	Gross operating expenses	5,105,043	6,095,170	5,869,822	8,648,765	2,483,865	**28,202,665**
	Net reinsurance result	1,646,053	2,113,969	605,433	282,703	342,601	**4,990,759**
Reinsurance acceptances	Gross premiums written	1,531,003	6,675,186	6,903,029	10,285,208	3,379,686	**28,774,112**
	Gross premiums earned	904,187	3,806,002	5,254,045	9,917,816	1,531,409	**21,413,459**
	Gross claims incurred	596,938	1,369,914	3,354,826	2,130,465	414,728	**7,866,871**
	Gross operating expenses	607,655	2,722,132	3,480,285	7,663,919	1,216,436	**15,690,427**
	Net reinsurance result	195,931	944,109	358,968	250,512	300,425	**2,049,945**
Total	Gross premiums written	22,832,213	27,149,435	21,948,002	25,123,962	8,938,161	**105,991,773**
	Gross premiums earned	8,500,463	12,328,082	14,115,478	21,110,113	4,281,295	**60,335,431**
	Gross claims incurred	2,904,553	2,726,850	8,467,357	7,847,227	1,754,819	**23,700,806**
	Gross operating expenses	5,712,698	8,817,302	9,350,107	16,312,684	3,700,301	**43,893,092**
	Net reinsurance result	1,841,984	3,058,078	964,401	533,215	643,026	**7,040,704**

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 18 – Geographic breakdown of premiums written

Gross insurance premiums amounting to EUR 105,991,773 may be broken down into geographic zones according to where the contracts have been concluded:

	December 31, 2017	December 31, 2016
Slovakia	32,517,617	6,567,174
Hungary	27,873,496	8,179,249
Czech Republic	22,552,797	1,877,964
Poland	19,609,879	-
Bulgaria	1,897,510	-
Romania	935,265	-
Other	605,209	96,964
Total	**105,991,773**	**16,721,351**

Note 19 – Commissions

Commissions paid to insurance intermediaries relating to direct insurance and assumed reinsurance amount to EUR 24,667,273 and are included in 'Acquisition costs'.

Note 20 – Change in ceded deferred acquisition costs

This item results from the change in 'Ceded Deferred acquisition costs' shown in 'Accruals and deferred income' (EUR 4,132,546) and the change of the ceded deferred acquisition costs (EUR 3,968,141) included in 'reinsurance commissions and profit participation'.

Note 21 – Personnel employed during the year

Due to the AIG Business transfer 229 employees joined the Company in 2017.

We have also expanded the staff in Luxembourg by adding a Financial Controller and a new CFO.

All amounts are expressed in EUR unless stated otherwise.

Colonnade Insurance S.A.
RCS Luxembourg B 61.605
1, rue Jean Piret
L-2350 Luxembourg

The ending number of staff employed at the financial year of 2017 amount to 430 and may be broken down in the following categories:

	Bulgaria	Czech Republic	Hungary	Luxembourg	Poland	Romania	Slovakia	Total
2017 Year								
Management	1	1	1	1	1	-	1	6
Salaried employees	15	74	116	6	104	17	92	424
Total	16	75	117	7	105	17	93	430
2016 Year								
Management	-	3	1	2	-	-	1	7
Salaried employees	-	13	72	4	-	-	70	159
Total	-	16	73	6	-	-	71	166

The staff costs with respect to the financial year may be broken down as follows:

	Bulgaria	Czech Republic	Hungary	Luxembourg	Poland	Romania	Slovakia	Total
2017 Year								
Wages and salaries	200,403	1,464,764	2,221,704	1,047,682	1,392,794	118,811	2,174,205	8,620,363
Social security costs	32,357	410,547	682,040	209,189	472,312	15,090	750,779	2,572,314
Other employee expenses	96,118	425,161	480,047	1,004,749	544,213	7,035	213,266	2,770,589
Total	**328,878**	**2,300,472**	**3,383,791**	**2,261,620**	**2,409,319**	**140,936**	**3,138,250**	**13,963,266**
2016 Year								
Wages and salaries	-	626,196	1,784,023	837,035	-	-	1,403,494	4,650,748
Social security costs	-	131,413	519,861	172,975	-	-	513,606	1,337,855
Total	-	**757,609**	**2,303,884**	**1,010,010**	-	-	**1,917,100**	**5,988,603**

Note 22 – Remuneration granted to members of supervisory bodies and commitments in respect of retirement pensions for former members of those bodies

Remuneration granted to members of the Board of Directors in relation to their responsibilities amounts to EUR 66,690 (EUR 49,536 in 2016) and are included in "administrative expenses". There are no commitments in respect of retirement pension for former members of those supervisory bodies.

Note 23 – Auditors' fees

The audit fees (including VAT) for the year ended December 31, 2017 are amounting to EUR 476,642 (compared to EUR 214,523 in 2016 excluding EUR 72,125 extra fees), representing fees for the audit of the annual accounts and the related regulatory reports as well as branch statutory audits and are included in "administrative expenses".

Beside above audit fees EUR 62,010 is included in the "administrative expenses" for tax services. This amount is payable to the audit firm at the end of 2017.

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 24 – Part VII transaction

The Part VII transaction recorded during the year impacted the technical results of the financial statements as follows:

	Balance
Profit and loss impact	
Gross premiums written	14,257,859
Outward reinsurance premiums	(14,257,859)
Change in the provision for unearned premiums	(14,257,859)
Change in the provision for unearned premiums, reinsurers' share	14,257,859
Claims paid	15,289,989
Reinsurers' share	(15,289,989)
Change in the provision for claims	(15,289,989)
Reinsurers' share	15,289,989
Acquisition costs	(3,576,383)
Change in deferred acquisition costs	3,576,383
Balance sheet impact	
Reinsurers' share of technical provisions	
Provision for unearned premiums	14,358,695
Claims outstanding	15,398,451
Deferred acquisition costs	3,602,925
Technical provisions	
Provision for unearned premiums	14,358,695
Claims outstanding	15,398,451
Accruals and deferred income	3,602,925

Note 25 – Tax status

The Company is subject in Luxembourg to the applicable general tax regulations.

Notes to the annual accounts as at December 31, 2017

All amounts are expressed in EUR unless stated otherwise.

Note 26 – Commitments

At December 31, 2017 the Company has the following off-balance sheet commitments:

	December 31, 2017	December 31, 2016
Building leases	5,449,510	881,200
Bank guarantee	231,032	69,049
Letter of credit	25,441	-
Vehicle leases	1,391,346	571,100
IT equipment lease	75,044	-
Total	**7,172,373**	**1,521,349**

Note 27 – Subsequent events

There were no subsequent events identified.

Colonnade Insurance S.A.
Société anonyme
Siège sociale : 1, rue Jean Piret, L-2350 Luxembourg
RCS Luxembourg : B 61.605

Conseil d'administration

- Marnix E. Wielenga, Administrateur, avec adresse au 21, Rue Michel Lentz, L-6944 Niederanven

- Leo de Waal, Administrateur, avec adresse au 10, Rue E. Lavandier, L-1924 Luxembourg

- Ronald Schokking, Administrateur, avec adresse au 95, Wellington Street West, M5J 2N7 Toronto, Ontario, Canada

- Jean Cloutier, Administrateur, avec adresse au 60, Roxborough Drive, M4W 1X1, Toronto, Ontario, Canada

- Frederick Gabriel, Administrateur, avec adresse au 1, rue de St Hubert, L-1744 Luxembourg

- Bijan Khosrowshahi, Administrateur, avec adresse au 641, Saint Georges Road, 19119, Philadelphia, Etats Unis d'Amérique

Commissaire

- PricewaterhouseCoopers Société coopérative, réviseur d'entreprises agréé, avec siège social au 2, rue Gerhard Mercator, L-2182 Luxembourg

Affectation du résultat

Lors de l'assemblée générale annuelle tenue en date du 16 avril 2018, l'actionnaire unique a décidé de reporter la perte d'un montant d'**EUR 15.116.598** pour l'exercice social se clôturant au 31 décembre 2017 à l'exercice 2018.