Colonnade Insurance S.A.
Société Anonyme

Audited annual financial statements as at December 31, 2018

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, 2018

Key Financials

For the year ending December 31, 2018 the loss after tax was EUR 978,459 (compared to EUR 15,116,598 in 2017). The financial year of 2018 had earned premiums, net of reinsurance, of EUR 105,323,358 (EUR 46,729,971 in 2017) with gross premiums written of EUR 160,596,242 (EUR 105,991,773 in 2017) and claims incurred, net of reinsurance, of EUR 45,952,776 (EUR 20,223,034 in 2017).

The underwriting result amounted to a profit of EUR 896,887 (compared to a loss of EUR 14,770,729 in 2017) and includes the full economic impact of the AIG Business transfer that created new Branches in Bulgaria, Poland and Romania in 2017 and significantly increased the portfolio in Czech Republic, Hungary and Slovakia.

The Company's net loss ratio was 44%, its net commission ratio was 40%, its net expense ratio was 14% and the combined ratio stands at 98%. These ratios were 43%, 45%, 43% and 131% respectively in 2017.

During the year, the share premium account was increased by EUR 11,000,000 from EUR 73,876,287 to EUR 84,876,287 and total shareholder's equity increased from EUR 57,260,127 to EUR 67,281,668 after considering the above increase in share premium and the result of the year.

As at December 31, 2018 the provision for unearned premiums amounted to EUR 69,716,585 (EUR 54,186,667 in 2017), claims outstanding were at EUR 73,095,600 (EUR 32,028,953 in 2017) and provision for bonuses and rebates was at EUR 631,302 (EUR 354,719 in 2017).

Key Events

The year of 2018 was the first year when the Company has not been impacted by large scale complex projects, so we could focus on stabilization of operational capabilities of Colonnade.

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.

Additionally we have successfully merged the acquired AIG operations in the Czech Republic, Hungary and Slovakia and opened our new branches in Bulgaria, Poland and Romania executing the renewal rights of AIG in all six countries in 2017.

In 2018 the full benefit of the above transactions have crystalized moving to an underwriting profit for the first time for Colonnade.

The Part VII business taken over from QBE in 2017 in Czech Republic, Hungary and Slovakia was 100% ceded to Polish Re (fully owned subsidiary of the Fairfax group) and the business written in 2017 in Slovakia was retroceded by Polish Re to the Slovakian Branch of Colonnade.

The size of the loss reserves and the unearned premium reserve for the business taken over from the legacy QBE business have been significantly reduced as the business has been running off. On December 12, 2018 Colonnade and Polish Re have agreed to commute both Polish Re Quota-share reinsurance and Polish Re Retrocession contracts for underwriting years 2015 to 2017.

Description of Risks Covered

Colonnade is currently authorized to underwrite all classes of non-life insurance business except class 10a (Motor Vehicle Liability) through its branch network in Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia. 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 Solvency Capital Requirement (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.

The business mix of the Company moved towards the Commercial lines of business (63%) in 2018 from an almost balanced split between Commercial and Consumer lines in 2017 (52% and 48% respectively). The increase in Commercial lines' share is explained partially by the higher than average growth of the Multinational commercial business which is 100% reinsured to AIG. The other major driver behind the change in business mix is the technical accounting entry posted as GPW in 2017 relating to the Part VII portfolio transfer which had zero effect in net premiums written. The majority of this technical entry was relating to Guaranteed Auto Protection (GAP) business in Consumer lines. As both items above have an effect on gross premiums only, analyzing the business mix from a net premiums written perspective, Commercial and Consumer lines continue to be well balanced (49%/51% in 2018 and 46%/54% in 2017 respectively). The major products in Consumer lines are 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 the 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 to be 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 controls 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.

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As part of measures to address the Insurance Distribution Directive requirements, the Underwriting Committee has established a sub-committee responsible for product oversight and governance to oversee product development and compliance of existing products as well as the skills, knowledge and expertise of all employees involved in the designing and manufacturing of Colonnade's products.
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 2018 the Company did not pursue any research and development activity. The Company does not face abnormal price, credit, liquidity or treasury risks.

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.

Future plans

Management expects further growth of the Company's portfolio due to organic expansion of the business by maintaining high client retention and acquire new business with innovative product offering in the commercial and the consumer area.
During 2018, we have determined our mid-term strategies to move Colonnade to the next level, becoming a 21st century modern insurance company. The goal is to create an organization that is continuously looking to exceed the expectations of our customers and employees with continuous focus on improving our operating environment. In the next years the Company will standardize its operating processes and the supporting IT platforms across all Branches.
We intend to shape Colonnade to become the company for the future which attracts talent and can deal with challenges of keeping the young generations motivated.

Ronald Schokking Director	**Frederick Gabriel** Director	**Leo de Waal** Director
Jean Cloutier Director	**Marnix Wielenga** Director	**Bijan Khosrowshahi** Director

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 2018, 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.

What we have audited

The Company's annual accounts comprise:

- the balance sheet as at 31 December 2018;
- 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 the EU Regulation No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF 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, if applicable, for the year then ended, 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 73,095,600EUR at year-end include an IBNR reserve of 30,370,587EUR. 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.	Together with our actuarial team, we have assessed Management's controls and procedures in place over actuarial reserving practices as well as data quality. 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 actuaries have assessed the methodologies and the reasonableness of the assumptions and judgements used by the Company's actuaries. We assessed 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.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the directors' report and the Corporate Governance Statement 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 directors' 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" of the Company by the General Meeting of the Shareholders on 16 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 5 years.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 16 April 2019

Claude Jacoby

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Balance sheet as at December 31, 2018

	Notes	December 31, 2018 EUR	December 31, 2017 EUR
ASSETS			
Subscribed capital unpaid	14	-	7,000,000
Intangible assets	4.2; 5	4,819,640	5,662,910
Investments			
Investments in affiliated undertakings and participating interests			
Shares in affiliated undertakings	4.4; 6.1	907,264	909,278
Other financial investments			
Debt securities and other fixed income transferable securities	4.5; 6.2	67,795,516	-
		68,702,780	909,278
Reinsurers' share of technical provisions			
Provision for unearned premiums	4.8.1; 24	16,028,486	16,943,719
Claims outstanding	4.8.2; 24	28,093,979	17,146,340
		44,122,465	34,090,059
Debtors			
Debtors arising out of direct insurance operations			
Policy holders	4.6; 7	25,324,987	15,544,143
Intermediaries	4.6; 7	10,538,651	9,795,842
Debtors arising out of reinsurance operations	4.6; 7	5,553,184	14,558,531
Other debtors	4.6; 7	1,943,367	3,038,560
		43,360,189	42,937,076
Other assets			
Tangible assets and stocks	4.3; 8	1,767,128	1,503,142
Cash at bank and in hand	24	71,529,954	80,186,149
Other assets		15,718	84,437
		73,312,800	81,773,728
Prepayments and accrued income			
Accrued interest and rent		498,991	-
Deferred acquisition costs	4.7	16,303,941	13,009,141
Other prepayments and accrued income	9	1,770,597	1,091,085
		18,573,529	14,100,226
Total Assets		**252,891,403**	**186,473,277**

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

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Balance sheet as at December 31, 2018

	Notes	December 31, 2018 EUR	December 31, 2017 EUR
LIABILITIES			
Capital and reserves			
Subscribed capital	10	9,500,000	9,500,000
Share premium account	11	84,876,287	73,876,287
Reserves			
Legal reserve	12	950,000	950,000
Profit and loss brought forward	13	- 27,066,160	- 11,949,562
Profit or loss for the financial year		- 978,459	- 15,116,598
		67,281,668	57,260,127
Technical provisions			
Provision for unearned premiums	4.8.1; 24	69,716,585	54,186,667
Claims outstanding	4.8.2; 24	73,095,600	32,028,953
Provision for bonuses and rebates	4.8.3	631,302	354,719
		143,443,487	86,570,339
Provisions for other risks and charges			
Provisions for taxation	26	1,469,476	140,821
		1,469,476	140,821
Creditors			
Creditors arising out of direct insurance operations	4.9; 15	13,269,444	8,692,012
Creditors arising out of reinsurance operations	4.9; 15	11,772,875	15,482,771
Other creditors including tax and social security	4.9; 15	5,152,304	6,164,958
		30,194,623	30,339,741
Accruals and deferred income	4.10; 16; 20; 24	10,502,149	12,162,249
Total Liabilities		**252,891,403**	**186,473,277**

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

Profit and loss account for the year ended December 31, 2018

	Notes	2018 EUR	2017 EUR
TECHNICAL ACCOUNT			
NON-LIFE INSURANCE BUSINESS			
Earned premiums, net of reinsurance			
gross premiums written	17; 18	160,596,242	105,991,773
outward reinsurance premiums	24	- 38,827,733	- 29,798,923
change in the provision for unearned premiums	24	- 15,529,918	- 45,656,342
change in the provision for unearned premiums, reinsurers' share	24	- 915,233	16,193,463
		105,323,358	46,729,971
Claims incurred, net of reinsurance			
claims paid:			
gross amount	24	- 27,723,604	6,383,478
reinsurer' share	24	11,889,836	- 13,507,390
		- 15,833,768	- 7,123,912
change in the provision for claims:			
gross amount	24	- 41,066,647	- 30,084,284
reinsurer' share	24	10,947,639	16,985,162
		- 30,119,008	- 13,099,122
Bonuses and rebates, net of reinsurance		- 833,746	- 471,558
Allocated investment return transferred from the non-technical account		- 249,163	-
Net operating expenses			
acquisition costs	4.7; 19	- 53,283,594	- 35,118,658
change in deferred acquisition costs	4.7	3,294,800	11,143,206
administrative expenses	4.12; 21; 22; 23	- 15,474,644	- 19,917,640
reinsurance commissions and profit participation	20; 24	8,072,652	3,086,984
		- 57,390,786	- 40,806,108
Balance on the technical account for non-life insurance business		**896,887**	**- 14,770,729**

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Profit and loss account for the year ended December 31, 2018

	Notes	2018 EUR	2017 EUR
NON-TECHNICAL ACCOUNT			
Investment income			
income from other investments			
income from other investments		170,139	-
value re-adjustments on investments	4.1	2,067,667	-
gains on realisation of investments		35,867	-
		2,273,673	-
Investment charges			
investment management charges, including interest		- 400,499	-
value adjustments on investments	3; 4.1	- 3,166,885	- 405,324
losses on the realisation of investments		- 228,277	-
		- 3,795,661	- 405,324
Allocated investment return transferred to the non-lifetechnical account		249,163	-
Other income	3; 25	4,310,255	1,906,935
Other charges, including value adjustments	3; 4.13; 6.1; 25	- 3,491,615	- 1,289,620
Tax on profit or loss on ordinary activities	26	- 1,416,346	- 2,880
Profit or loss on ordinary activities after tax		- 973,644	- 14,561,618
Other taxes not shown under the preceding items	26	- 4,815	- 554,980
Profit/(loss) for the financial year		**- 978,459**	**- 15,116,598**

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

Notes to the annual accounts as at December 31, 2018

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. to 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 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 is 1, rue Jean Piret, L-2350 Luxembourg.

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 Luxembourg GAAP with fair value option as accounting method for the Company as from January 1, 2016.

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, 2018. Therefore, in conformity with legal provisions, these accounts are 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

To ensure comparability with the figures for the year ended December 31, 2018 the figures for the year ended December 31, 2017 relating to the unrealized foreign exchange gains and losses have been reclassified from Other charges, including value adjustments to Investment charges, value adjustments on investments. Additionally, the claims expenses paid behalf of AIG as part of the Claims runoff service has been reclassified from Other income to Other charges for the year ended December 31, 2017 to be comparable with December 31, 2018 financials.

Notes to the annual accounts as at December 31, 2018

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 unrealized and realized exchange losses / gains resulting from these conversions are accounted for in the profit and loss account in value re-adjustments on investments in the Investment income and in value adjustments on investments in the Investment charges lines.

4.2 Intangible assets

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

The intangible assets are amortized 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 depreciated on a straight-line basis based on the estimated economic life. The depreciation 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 fair value at the balance sheet date. These value adjustments should no longer continue when the reasons for which they were made cease to apply.

Notes to the annual accounts as at December 31, 2018

All amounts are expressed in EUR unless stated otherwise.

4.5 Other financial investments

Debt securities and other fixed income transferable securities are initially recorded at purchase price including the expenses incidental thereto. They are subsequently valued at fair value. The fair value of these financial instruments corresponds to:

- The latest available bid price on the valuation day for transferable securities listed on a stock exchange or traded on another regulated market;
- In cases where no such quote values exist, a fair value is determined by quoted prices for similar financial instruments exchanged in active markets, or quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

The unrealized gains and losses for the year are recorded in the profit and loss.

4.6 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.

4.7 Deferred acquisition costs

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

4.8 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.

4.8.1 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.

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

Notes to the annual accounts as at December 31, 2018

All amounts are expressed in EUR unless stated otherwise.

4.8.3 Provisions for bonuses and rebates

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

4.8.4 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.

4.9 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.

4.10 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.

4.11 Allocated investment return transferred from non-technical account

This income represents the portion of the total net investment return – interest income and charges and realized gains and losses - 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.

4.12 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.

4.13 Value adjustments

The value adjustments are deducted directly from the related asset.

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Notes to the annual accounts as at December 31, 2018

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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, 2018	5,775,792	1,139,950	12,288	6,928,030
Additions during the year	-	491,086	150	491,236
Disposals during the year	- 13,177	- 9,072	-	- 22,249
Gross book value December 31, 2018	5,762,615	1,621,964	12,438	7,397,017
Accumulated depreciation January 1, 2018	- 1,111,580	- 141,475	- 12,065	- 1,265,120
Depreciation during the year	- 1,038,840	- 273,417	-	- 1,312,257
Accumulated depreciation December 31, 2018	- 2,150,420	- 414,892	- 12,065	- 2,577,377
Net book value December 31, 2018	**3,612,195**	**1,207,072**	**373**	**4,819,640**
Net book value December 31, 2017	**4,664,212**	**998,475**	**223**	**5,662,910**

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 to EUR 5,275,792, representing the renewal rights acquired from AIG Europe Limited ("AIG"). These assets are amortized on a straight-line basis over five years. There was an assessment done during 2018 on the AIG related intangible assets. This assessment did not reveal any indicator for impairment, hence there is no change to the amortization pattern determined in 2017.

Notes to the annual accounts as at December 31, 2018

All amounts are expressed in EUR unless stated otherwise.

Note 6 – Investments

Note 6.1 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 December 31, 2017	Book value as at December 31, 2018	Shareholder's equity (including results for the year) as at December 31, 2018	Results of the financial year 2018
		%		EUR	EUR	EUR	EUR
TIG (Bermuda) Ltd.	Canon's Court 22 Victoria Street Hamilton HM EX Bermuda	100	Dec. 31, 2018	909,278	907,264	907,264	- 46,337

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, 2018 being EUR 1 = USD 1.143144.

In 2018 management considered the valuation of the subsidiary and concluded to record an additional impairment of EUR 2,014 on the financial assets in the accounts of the Company. The total value adjustment at December 31, 2018 is EUR 287,214.

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

Note 6.2 Other financial investments

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

	Debt securities and other fixed income transferrable securities
Cost at January 1, 2018	-
Additions during the year	67,463,885
Disposals during the year	-
Cost at December 31, 2018	67,463,885
Accumulated fair value adjustment recognised in the profit and loss account	331,631
Fair value at December 31, 2018	**67,795,516**

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Note 7 – Debtors

The breakdown of the debtors at December 31, 2018 is as follows:

	December 31, 2018	December 31, 2017
Arising out of direct insurance operations	**35,863,638**	**25,339,985**
policyholders - third parties	25,312,903	15,544,143
policyholders - related parties	12,084	-
intermediaries - third parties	10,538,651	9,795,842
Arising out of reinsurance operations	**5,553,184**	**14,558,531**
third parties	4,749,030	13,847,313
related parties	804,154	711,218
Other debtors - third parties	**1,890,172**	**3,038,560**
deposits and guarantees	739,048	-
tax receivable	137,850	105,039
other third parties debtors	1,013,274	2,933,521
Other debtors - related parties	**53,195**	-
Total	**43,360,189**	**42,937,076**

Breakdown of other debtors

	December 31, 2018	December 31, 2017
Deposits and guarantees	739,048	465,543
Receivables from AIG	386,232	1,756,886
Rental related	133,000	-
Receivables from assistance	198,914	-
Tax receivable	239,850	105,039
Other related parties	53,195	
Receivables with QBE	-	437,520
Other	193,128	273,572
Total	**1,943,367**	**3,038,560**

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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
Gross book value January 1, 2018	804,184	581,679	111,951	352,015	1,849,829
Additions during the year	214,322	147,249	-	579,763	941,334
Disposals during the year	- 157,231	- 19,999	- 29,393	-	- 206,623
Gross book value December 31, 2018	861,275	708,929	82,558	931,778	2,584,540
Accumulated depreciation January 1, 2018	- 61,413	- 213,745	- 36,141	- 35,388	- 346,687
Depreciation during the year	- 129,460	- 235,380	- 4,659	- 101,226	- 470,725
Accumulated depreciation December 31, 2018	- 190,873	- 449,125	- 40,800	- 136,614	- 817,412
Net book value December 31, 2018	**670,402**	**259,804**	**41,758**	**795,164**	**1,767,128**
Net book value December 31, 2017	**742,771**	**367,934**	**75,810**	**316,627**	**1,503,142**

Note 9 – Other prepayments and accrued income

This item is composed of prepayments made regarding expenses relating to periods after December 31, 2018.

Note 10 – Subscribed capital

As at December 31, 2018 the subscribed capital amounting to EUR 9,500,000 is paid fully and represented by 9,500,000 of EUR 1 each and fully owned by Fairfax Luxembourg Holdings S.à r.l..

Note 11 – Share premium account

As at December 31, 2018 the share premium amounts to EUR 84,876,287.

The movements in the share premium account during the financial year ended December 31, 2018, are as follows:

Share premium account at the beginning of the financial year	EUR	73,876,287
Movements during the financial year of 2018	EUR	11,000,000
Share premium account at the end of the financial year	**EUR**	**84,876,287**

With shareholder's resolutions on capital contributions dated March 22, 2018 and December 17, 2018 the share premium account was increased by an amount of EUR 3,000,000 and EUR 8,000,000 respectively.

Notes to the annual accounts as at December 31, 2018

All amounts are expressed in EUR unless stated otherwise.

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, 2017, amounting to EUR 15,116,598 has been carried forward to 2018. The total accumulated balance is a loss of EUR 27,066,160.

Note 14 – Subscribed unpaid capital

The Subscribed unpaid capital of EUR 7,000,000 was fully paid on December 17, 2018. by Fairfax Luxembourg Holdings S.à r.l.

Note 15 – Creditors

Creditors arising out of direct insurance operations amounts to EUR 13,269,444 and the total amount is payable to third parties.

Creditors arising out of reinsurance operations are amounting to EUR 11,772,785 of which EUR 11,084,688 is payable to third parties.

The breakdown of the creditors at December 31, 2018 is as follows:

	December 31, 2018	December 31, 2017
Creditors - direct insurance	**13,269,444**	**8,692,012**
third parties	13,269,444	8,626,362
related parties	-	65,650
Creditors - reinsurance	**11,772,875**	**15,482,771**
third parties	11,084,688	11,266,907
related parties	688,187	4,215,864
Other creditors including tax and social security	**5,152,304**	**6,164,958**
third parties	4,934,770	5,710,881
third parties - personal related liability	1,238,771	289,103
third parties - tax liabilities	417,428	232,011
third parties - rent related liability	131,400	457,372
third parties - unallocated cash receipts	2,283,305	1,841,645
third parties - payable to vendors	543,565	2,517,494
third parties - other	320,301	373,256
related parties	217,534	454,077
Total	**30,194,623**	**30,339,741**

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

Notes to the annual accounts as at December 31, 2018

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 3,967,244, accrued insurance charges of EUR 1,291,722 as well as deferred ceded premium acquisition costs with third parties of EUR 2,684,145 and EUR 259,760 is on contracts with related parties, claims handling deferred income relating to the AIG transaction of EUR 2,031,725 and EUR 267,553 of other deferred income.

	December 31, 2018	December 31, 2017
Accruals and deferred income		
accrued charges other - third parties	3,967,244	4,017,212
accrued charges insurance - third parties	1,291,722	-
deferred income - third parties	4,983,423	6,159,396
deferred income - related parties	259,760	1,985,641
Total	**10,502,149**	**12,162,249**

A more detailed breakdown is shown below:

	December 31, 2018	December 31, 2017
Personnel accruals	2,440,084	2,651,891
Accrued insurance charges	1,291,722	-
AIG Claim handling deferral	2,031,725	4,012,491
Reinsurance DAC	2,684,145	2,146,905
Other accruals	1,259,502	1,148,278
Legal/Audit/Tax services accruals	267,658	217,043
Other deferred income	267,553	-
Reinsurance DAC - related parties	259,760	1,985,641
Total	**10,502,149**	**12,162,249**

Notes to the annual accounts as at December 31, 2018

All amounts are expressed in EUR unless stated otherwise.

Note 17 – Results from the non-life insurance operations

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

		General liability (other)	Fire and natural forces (industrial and commercial risks)	Accident	Land vehicles (other than railway rolling stock) / other	Other	Total
Direct business	Gross premiums written	48,489,809	39,189,903	39,274,066	12,738,589	12,948,051	**152,640,418**
	Gross premiums earned	40,646,612	31,152,464	37,252,078	10,404,603	9,888,741	**129,344,498**
	Gross claims incurred	14,209,491	24,635,969	13,647,381	5,978,346	2,949,057	**61,420,244**
	Gross operating expenses	15,984,289	11,682,588	21,939,784	5,771,604	5,216,139	**60,594,404**
	Net reinsurance result	6,951,292	(3,602,433)	555,736	1,173,223	997,840	**6,075,658**
Reinsurance acceptances	Gross premiums written	1,987,679	3,220,532	2,099,233	204,888	443,492	**7,955,824**
	Gross premiums earned	5,409,452	5,135,671	2,691,131	960,565	1,525,007	**15,721,826**
	Gross claims incurred	2,963,557	3,838,828	322,144	215,072	30,406	**7,370,007**
	Gross operating expenses	859,970	1,244,825	2,269,199	76,888	418,152	**4,869,034**
	Net reinsurance result	(652,863)	2,669,275	33,667	366,096	341,006	**2,757,181**
Total	Gross premiums written	50,477,488	42,410,435	41,373,299	12,943,477	13,391,543	**160,596,242**
	Gross premiums earned	46,056,064	36,288,135	39,943,209	11,365,168	11,413,748	**145,066,324**
	Gross claims incurred	17,173,048	28,474,797	13,969,525	6,193,418	2,979,463	**68,790,251**
	Gross operating expenses	16,844,259	12,927,413	24,208,983	5,848,492	5,634,291	**65,463,438**
	Net reinsurance result	6,298,429	(933,158)	589,403	1,539,319	1,338,846	**8,832,839**

Note 18 – Geographic breakdown of premiums written

Gross insurance premiums amounting to EUR 160,596,242 may be broken down into geographic zones according to where the contracts have been concluded:

	December 31, 2018	**December 31, 2017**
Poland	45,411,332	19,609,879
Czech Republic	36,431,279	22,552,797
Hungary	36,320,072	27,873,496
Slovakia	26,318,637	32,517,617
Romania	8,751,891	935,265
Bulgaria	4,332,648	1,897,510
Other EEA	1,596,762	605,209
Outside EEA	1,433,621	-
Total	**160,596,242**	**105,991,773**

Note 19 – Commissions

Commissions paid to insurance intermediaries relating to direct insurance and assumed reinsurance amount to EUR 35,219,983 and are included in Acquisition costs (EUR 24,667,273 in 2017).

Notes to the annual accounts as at December 31, 2018

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Note 20 – Change in ceded deferred acquisition costs

The 'Ceded Deferred acquisition costs' are shown on the Balance Sheet in 'Accruals and deferred income' (EUR 2,943,905 in 2018 and EUR 4,132,546 in 2017). The change of the ceded deferred acquisition costs of EUR 1,188,641 is included in 'reinsurance commissions and profit participation' on the Profit and Loss Account.

Note 21 – Personnel employed during the year

The ending number of staff employed at the financial year of 2018 amounts to 458 and may be broken down into the following categories:

	Bulgaria	Czech Republic	Hungary	Luxembourg	Poland	Romania	Slovakia	Total
2018 Year								
Management	1	1	1	1	1	-	1	6
Salaried employees	16	78	123	7	119	17	92	452
Total	17	79	124	8	120	17	93	458
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

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

	Bulgaria	Czech Republic	Hungary	Luxembourg	Poland	Romania	Slovakia	Total
2018 Year								
Wages and salaries	612,548	2,744,139	3,308,264	1,716,422	3,773,185	442,665	2,650,017	15,247,240
Social security costs	46,034	828,418	903,060	141,675	1,175,980	9,298	897,537	4,002,002
Other employee expenses	28,575	416,696	149,250	248,859	730,167	85,587	65,602	1,724,736
Total	**687,157**	**3,989,253**	**4,360,574**	**2,106,956**	**5,679,332**	**537,550**	**3,613,156**	**20,973,978**
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**

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 64,935 (EUR 66,690 in 2017) and are included in "administrative expenses". There are no commitments in respect of retirement pension for former members of those supervisory bodies.

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Note 23 – Auditors' fees

The audit fees (excluding VAT) for the year ended December 31, 2018 amount to EUR 473,500 (compared to EUR 515,539 in 2017), representing fees for the audit of the annual accounts and the related regulatory reports as well as the branch statutory audits. They are included in "administrative expenses".

Beside the above audit fees, EUR 3,918 (compared to EUR 62,010 in 2017) is included in the "administrative expenses" for tax services.

Note 24 – Commutation with Polish Re

The Part VII Commute transaction - described in the Director's Report - impacted the technical results of the financial statements as follows:

Profit and loss impact	
Outward reinsurance premiums	3,723,922
Change in the provision for unearned premiums	7,690
Change in the provision for unearned premiums, reinsurers' share	-4,393,465
Claims paid	-1,073,761
Claims paid, reinsurers' share	5,028,554
Change in the provision for claims	1,073,761
Change in the provision for claims, reinsurers' share	-5,059,827
Value adjustments on investments - charges	10,528
Profit/(loss) for the financial year	-682,598
Balance sheet impact	
Reinsurers' share of technical provisions	
Provision for unearned premiums	-4,379,519
Claims outstanding	-5,050,167
Technical provisions	
Claims outstanding	-1,073,761
Provision for unearned premiums	-7,690
Cash at bank and in hand	6,387,922
Accruals and deferred income	-1,277,715

Note 25 – Other income and other charges

The income relating to claims expenses paid on behalf of AIG as part of the Claims runoff service agreement is EUR 3,362,632 (EUR 1,289,620 in 2017) in the Other income line. The associated claims expenses are presented as Other charges amounting EUR 3,362,632 (EUR 1,289,620 in 2017).

Notes to the annual accounts as at December 31, 2018

All amounts are expressed in EUR unless stated otherwise.

Note 26 – Tax status

The Company is subject to the applicable general tax regulations in Luxembourg and in all countries of the its branches in Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia.

Note 27 – Commitments

At December 31, 2018 the Company has the following off-balance sheet commitments:

	December 31, 2018	December 31, 2017
Building leases	5,647,226	5,449,510
Vehicle leases	1,439,437	1,391,346
Bank guarantee	219,993	231,032
IT equipment lease	45,444	75,044
Letter of credit	-	25,441
Total	**7,352,100**	**7,172,373**

Note 28 – Subsequent events

There were no subsequent events identified.