

**Colonnade Insurance S.A.**  
**Société Anonyme**

**Audited annual financial statements**  
**as at December 31, 2016**

20, rue Eugène Ruppert  
L-2453 Luxembourg  
**R.C.S. Luxembourg: B 61 605**



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## Directors' report on the annual accounts as at December 31, 2016

### Key Figures

The year ending December 31, 2016 showed a loss after tax of EUR 9,304,204. The financial year 2016 further showed earned premiums, net of reinsurance, of EUR 7,515,704 (2015 EUR 23,949) with gross premiums written of EUR 16,721,351, claims incurred, net of reinsurance of EUR 4,039,303 (2015 EUR 21,492).

As at December 31, 2016 the provision for unearned premiums are amounting to EUR 8,530,325, claims outstanding are at EUR 1,944,669 and provision for bonuses and rebates stand at EUR 30,481.

Taking into account incurred claims, operating and administration expenses which mainly consisted of acquisition, administration and personnel costs, the underwriting result amounted to a loss of EUR 8,883,988 (compared to EUR 2,405,177 in 2015) and further includes the creation and administrative expenses of the newly created branches in Hungary, Czech and Slovakia as well as costs in relation with the Part VII transfer.

The Company's net loss ratio is 53,8%, its net commission ratio is 55,8%, its net expense ratio is 108,6% and the combined ratio stands at 218.2%.

During the year, the share premium account was increased by EUR 14,000,000 from EUR 13,876,287 to EUR 27,876,287 and total shareholder's equity increased from EUR 21,680,929 to EUR 26,376,725 after taking into account the above increase in share premium and the result of the year.

The Company has invested cautiously in 2016 and no derivative products were bought.

### Key Events

As at December 31, 2016 the Company has branches in Hungary, Czech and Slovak Republic. These branches have started their activity as of February 1, 2016, for Hungarian Branch, April 1, 2016 for the Czech Branch and May 2, 2016 for the Slovak Branch. The underwriting business is fully carried out in the branch offices.

The main focus during the year 2016 was the migration of the QBE business into the Hungarian, Czech and Slovakian Branch respectively. There have been several delays in relation with the Part VII transfer which is now most likely to happen during Q3 2017.

In October 2016 Fairfax signed a Framework agreement with AIG in order to take over, beside others, its East European operations.

We are developing our own system platform in Slovakia, which we target to standardise underwriting and administration systems used by branches in the next two years. As a first step, we have migrated certain risks post migration to this platform which will manifest in excess of EUR 400,000 expense saving in 2017.

There are no research and development expenses incurred in 2016.

The Company has not repurchased any of its own shares during the year and does not hold any own shares at this time.

### **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 Czech Branch currently does not include class 17 (Legal Expenses) and Slovak Branch does not include classes 12 (Liability for Ships), 14 (Credit) and 15 (Suretyship).

The predominant risks underwritten in Slovakia and the Czech Republic are Motor GAP and CAR, while in Hungary, the most predominant risk underwritten is Individual Travel followed also by CAR.

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

### **Risk Management**

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 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 and four board committees being the Reserving Committee, Underwriting Committee, Investment & Foreign Exchange Committee and the Risk Management Committee. The reserving committee's role is to oversee the reserving levels, working in close cooperation with the company actuary. The Underwriting Committee's role is to oversee the risk of inappropriate underwriting and inadequate pricing while 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. Finally, 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

The Company does not face abnormal price, credit, liquidity or treasury risks.

### **Future Development and Subsequent Events**

As mentioned above, the Company is in the process of activating the insurance business acquired from AIG into its Hungarian, Czech and Slovak Branch respectively during first semester 2017. The business written in Hungary, Czech Republic and Slovakia will be transferred to the existing branches via the renewal rights. Furthermore, the Company started the necessary processes to have new branches registered in Poland, Bulgaria and Romania.

As of March 16, 2017, the necessary paperwork in relation with the registration of a Polish Branch has been filed with the Polish regulator, and the other two new branches will follow.

The final transfer of the QBE policies is anticipated to be effective during quarter 3 2017 through a Part VII transfer and following this, 100% of the underlying insurance business is remain reinsured through a group company (Polish Re).

In relation with the transfer of the AIG business the Czech and Slovak Branch have applied to extend their license in order to include class 17 - Legal Expenses (for Czech) and classes 12 - Liability for Ships, 14 - Credit and 15 - Suretyship (for Slovak Branch). The three new branches have also applied for the same 17 classes of business.

  
Ronald Schokking  
Director

  
Frederick Gabriel  
Director

  
Leo de Waal  
Director

  
Jean Cloutier  
Director

  
Marnix Wielenga  
Director



## **Audit report**

To the Board of Directors of  
**Colonnade Insurance S.A.**

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### **Report on the annual accounts**

We have audited the accompanying annual accounts of Colonnade Insurance S.A., which comprise the balance sheet as at 31 December 2016, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *Board of Directors' responsibility for the annual accounts*

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation 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.

#### *Responsibility of the "Réviseur d'entreprises agréé"*

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

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



### *Opinion*

In our opinion, the annual accounts give a true and fair view of the financial position of Colonnade Insurance S.A. as of 31 December 2016, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included 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 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 this fact. We have nothing to report in this regard.

### **Report on other legal and regulatory requirements**

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

PricewaterhouseCoopers, Société coopérative  
Represented by

Luxembourg, 13 June 2017

A handwritten signature in dark ink, appearing to read 'Claude Jacoby', with a long horizontal flourish extending to the right.

Claude Jacoby



**Colonnade Insurance S.A.**  
Société anonyme

**Balance sheet as at December 31, 2016**  
**(expressed in EUR)**

	Notes	December 31, 2016 EUR	December 31, 2015 EUR
<b>ASSETS</b>			
<b>Subscribed capital unpaid</b>	9	7 000 000	7 000 000
<b>Intangible assets</b>	3.2, 3.12, 4	712 689	34 845
<b>Investments</b>			
Investments in affiliated undertakings and participating interests			
Shares in affiliated undertakings	3.4, 5	<u>995 600</u>	<u>1 108 862</u>
		<b>995 600</b>	<b>1 108 862</b>
<b>Reinsurer' share of technical provisions</b>			
Provision for unearned premiums	3.7	750 256	-
Claims outstanding		<u>161 178</u>	<u>-</u>
		911 434	-
<b>Debtors</b>			
Debtors arising out of direct insurance operations	3.5, 6		
Policy-holders		4 351 550	-
Intermediaries		287 491	-
Debtors arising out of reinsurance operations		776 417	-
Other debtors		<u>1 335 815</u>	<u>9 381</u>
		6 751 273	9 381
<b>Other assets</b>			
Tangible assets	3.3, 7	358 629	-
Cash at bank and in hand		23 115 355	14 488 739
Other assets		<u>-</u>	<u>20 098</u>
		23 473 984	14 508 837
<b>Prepayments and accrued income</b>			
Accrued interest and rent		1 346	5 323
Deferred acquisition costs	3.6, 19	1 865 935	-
Other prepayments and accrued income	8	<u>268 121</u>	<u>4 401</u>
		<u>2 135 402</u>	<u>9 724</u>
<b>Total Assets</b>		<b><u>41 980 382</u></b>	<b><u>22 671 649</u></b>

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

**Colonnade Insurance S.A.**  
Société anonyme

**Balance sheet as at December 31, 2016**  
**(expressed in EUR)**

	Notes	December 31, 2016 EUR	December 31, 2015 EUR
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Subscribed capital	9	9 500 000	9 500 000
Share premium account	10	27 876 287	13 876 287
Reserves			
Legal reserve	11	950 000	950 000
Profit and loss brought forward	12	(2 645 358)	-
Profit or loss for the financial year		<u>(9 304 204)</u>	<u>(2 645 358)</u>
		26 376 725	21 680 929
<b>Technical provisions</b>			
	3.7		
Provision for unearned premiums	3.7.1	8 530 325	-
Claims outstanding	3.7.2	1 944 669	-
Provision for bonuses and rebates	3.7.3	<u>30 481</u>	<u>-</u>
		10 505 475	-
<b>Provisions for other risks and charges</b>			
	3.7.4		
Provisions for taxation	22	111 778	31 759
Other provisions	13	<u>1 366 430</u>	<u>761 275</u>
		1 478 208	793 034
<b>Creditors</b>			
	3.8, 14		
Creditors arising out of direct insurance operations		754 191	-
Creditors arising out of reinsurance operations		94 550	-
Other creditors, including tax and social security		<u>405 879</u>	<u>197 686</u>
		1 254 620	197 686
<b>Accruals and deferred income</b>			
	3.9, 15, 19	<u>2 365 354</u>	<u>-</u>
<b>Total Liabilities</b>		<b><u>41 980 382</u></b>	<b><u>22 671 649</u></b>

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

**Colonnade Insurance S.A.**  
Société anonyme

**Profit and loss account for the year ended December 31, 2016**  
**(expressed in EUR)**

	Notes	2016 EUR	2015 EUR
<b>TECHNICAL ACCOUNT</b>			
<b>NON-LIFE INSURANCE BUSINESS</b>			
Earned premiums, net of reinsurance			
gross premiums written	16, 17	16 721 351	(2 670)
outward reinsurance premiums		(1 425 578)	1 335
change in the provision for unearned premiums		(8 530 325)	50 569
change in the provision for unearned premiums, reinsurer share		<u>750 256</u>	<u>(25 285)</u>
		7 515 704	23 949
Claims incurred, net of reinsurance			
claims paid:			
gross amount		(2 258 881)	-
reinsurer' share		<u>3 069</u>	-
		(2 255 812)	-
change in the provision for claims:			
gross amount		(1 944 669)	42 983
reinsurer' share		<u>161 178</u>	<u>(21 491)</u>
		(1 783 491)	21 492
Bonuses and rebates, net of reinsurance		(30 481)	-
Net operating expenses			
acquisition costs	3.6	(5 891 458)	267
change in deferred acquisition costs	3.6, 19	1 702 990	(2 529)
administrative expenses	3.11, 20, 21, 22	(8 164 016)	(2 448 223)
reinsurance commissions and profit participation		<u>22 576</u>	<u>(133)</u>
		(12 329 908)	(2 450 618)
<b>Balance on the technical account for non-life insurance business</b>		<b>(8 883 988)</b>	<b>(2 405 177)</b>
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the technical account			
non-life insurance business		(8 883 988)	(2 405 177)
Investment charges			
Value adjustments on investments	3.12, 5	(113 262)	-
Other income		8 433	-
Other charges, including value adjustments	3.1, 3.12	(235 492)	(233 093)
Tax on profit or loss on ordinary activities	23	<u>-</u>	<u>(3 239)</u>
Profit or loss on ordinary activities after tax		(9 224 309)	(2 641 509)
Other taxes not shown under the preceding items	22	<u>(79 895)</u>	<u>(3 849)</u>
<b>Profit/(loss) for the financial year</b>		<b><u>(9 304 204)</u></b>	<b><u>(2 645 358)</u></b>

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

## **Colonnade Insurance S.A.**

Société anonyme

### **Notes to the annual accounts as at December 31, 2016**

#### **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 of time 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 has been 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, whose stand-alone accounts 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 is established at 20, Rue Eugène Ruppert, L-2453 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 LUXGAAP with fair value option as accounting method for the Company as from January 1, 2016. During the financial year 2016 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, 2016. 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.

## **Notes to the annual accounts as at December 31, 2016**

### **Note 3 – Summary of significant accounting policies**

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

#### **3.1 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 assets and liabilities, expressed in currencies other than EUR are translated into EUR at year-end exchange rates.

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

#### **3.2 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.

#### **3.3 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.

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.

#### **3.4 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.

## **Notes to the annual accounts as at December 31, 2016**

### **Note 3 – Summary of significant accounting policies (continued)**

#### **3.5 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.

#### **3.6 Deferred acquisition costs**

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

#### **3.7 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 treaties.

##### **3.7.1 Provision for unearned premiums**

Written premiums include all the amounts received or receivable with respect to insurance treaties 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 treaty on a pro rata basis.

##### **3.7.2 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.

##### **3.7.3 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.

##### **3.7.4 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.

#### **3.8 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.

#### **3.9 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.

**Notes to the annual accounts as at December 31, 2016**

**Note 3 – Summary of significant accounting policies (continued and end)**

**3.10 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 provision and which are transferred from the non-technical account in order to better reflect the balance of the technical account to the non-life business.

No net income has been allocated to the technical accounts for the year ended 2016.

**3.11 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.

**3.12 Value adjustments**

The value adjustments are deducted directly from the related asset.

**Note 4 – Intangible assets**

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

	<b>Data policy rights</b>	<b>Software</b>	<b>Concessions, patents, licenses, trademarks</b>	<b>Total</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
<i>Gross book value January 1, 2016</i>	-	34 845	-	34 845
Additions during the year	500 000	467 258	10 248	977 506
Disposals during the year	-	(1 500)	-	(1 500)
<i>Gross book value December 31, 2016</i>	<i>500 000</i>	<i>500 603</i>	<i>10 248</i>	<i>1 010 851</i>
<i>Accumulated depreciation January 1, 2016</i>	-	-	-	-
Depreciation during the year	(250 000)	(39 368)	(8 794)	(298 162)
<i>Accumulated depreciation December 31, 2016</i>	<i>(250 000)</i>	<i>(39 368)</i>	<i>(8 794)</i>	<i>(298 162)</i>
<b>Net book value December 31, 2016</b>	<b>250 000</b>	<b>461 235</b>	<b>1 454</b>	<b>712 689</b>
<b>Net book value December 31, 2015</b>	-	<b>34 845</b>	-	<b>34 845</b>

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 are amortised equally in 2016 and 2017.

**Notes to the annual accounts as at December 31, 2016**

**Note 5 – 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 EUR	Shareholder's equity (including results for the year) as at Dec. 31, 2016 EUR	Results of the financial year EUR
TIG (Bermuda) Ltd.	Canon's Court 22 Victoria Street Hamilton HM EX Bermuda	100%	Dec. 31, 2016	995 600	995 600	(54 388)

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, 2016 being USD 1 = EUR 0.94809.

The management considered the valuation of the subsidiary and concluded that a value adjustment of EUR 113 262 needs to be recorded on the financial assets in the accounts of the Company.

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

**Note 6 –Debtors**

*Debtors arising out of direct insurance operations:*

Policy-holders third parties	4 351 550
Intermediaries third parties	<u>287 491</u>
	4 639 041

*Debtors arising out of reinsurance operations*

third parties	<u>776 417</u>
	776 417

*Other debtors*

The majority of this item is composed of receivables in relation with claims handling and mainly from Polskie Towarzystwo Reasekuracji Spolka Akcyjna ("**Polish Re**") due to a reimbursement agreement dated May 17, 2016 between the Company and Polish Re with regards to claims paid by the Company on behalf of QBE to QBE clients. These claims are reimbursed by Polish Re to the Company.



**Notes to the annual accounts as at December 31, 2016**

**Note 7 – 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
	EUR	EUR	EUR	EUR	EUR
<i>Gross book value January 1, 2016</i>	-	-	-	-	-
Additions during the year	170 718	173 719	73 824	13 327	431 588
<i>Gross book value December 31, 2016</i>	170 718	173 719	73 824	13 327	431 588
<i>Accumulated depreciation January 1, 2016</i>	-	-	-	-	-
Depreciation during the year	(8 825)	(41 183)	(18 910)	(4 041)	(72 959)
<i>Accumulated depreciation December 31, 2016</i>	(8 825)	(41 183)	(18 910)	(4 041)	(72 959)
<b>Net book value December 31, 2016</b>	<b>161 893</b>	<b>132 536</b>	<b>54 914</b>	<b>9 286</b>	<b>358 629</b>
<b>Net book value December 31, 2015</b>	-	-	-	-	-

**Note 8 – Other prepayments and accrued income**

This item is composed of prepayments made regards expenses relating to periods after December 31, 2016.

**Note 9 – Subscribed capital**

As at December 31, 2016 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..

**Note 10 – Share premium account**

As at December 31, 2016 the share premium amounts to EUR 27 876 287.

The movements in the share premium account during the financial year ended December 31, 2016, are as follows:

Share premium account at the beginning of the financial year	EUR	13 876 287
Movements during the financial year 2016	EUR	<u>14 000 000</u>
<b>Share premium account at the end of the financial year</b>	<b>EUR</b>	<b>27 876 287</b>

With shareholder's resolutions dated September 29, 2016 and December 15, 2016 respectively the share premium account was increased by an amount of EUR 2 000 000 and EUR 12 000 000 respectively.

Out of the total share premium account an amount of EUR 12 500 000 has been paid by the shareholder at the issuance of the shares and together with the payment of EUR 2 500 000.

## Notes to the annual accounts as at December 31, 2016

### Note 11 – 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 12 – Profit or loss brought forward

The loss for the accounting year ended December 31, 2015, amounting to EUR 2 645 358 has been carried forward to 2016.

### Note 13 – Other provisions

This item is mainly composed of provisions regards staff related expenses as well as amounts that have not been invoiced before end of the financial year.

### Note 14 – Creditors

Creditors arising out of direct insurance operations amounting to EUR 754 191 are all payable to third parties.

Creditors arising out of reinsurance operations are amounting to EUR 94 550 and are payable to third parties.

#### *Other creditors, including tax and social security*

Other creditors as at December 31, 2016 amounting to EUR 405 879 can be detailed as follows:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
	<b>EUR</b>	<b>EUR</b>
Value added tax Luxembourg	107 147	25 791
Tax liabilities Hungarian Branch	106 959	35 608
Payables	191 773	107 287
Director fees Luxembourg	<u>-</u>	<u>29 000</u>
	<b>405 879</b>	<b>197 686</b>

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

### Note 15 – Accruals and deferred income

This item is composed of accrued charges relating to insurance EUR 1,723,482, relating to reinsurance EUR 143 634 and other accrued charges of EUR 335 293 as well as deferred ceded premium acquisition costs of EUR 162 945.

**Notes to the annual accounts as at December 31, 2016**

**Note 16 – Results from the non-life insurance operations**

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

	2016 Miscellaneous financial loss	2016 Fire and other damage to property insurance	2016 Medical expense insurance	2016 Other	2016 Total
	EUR	EUR	EUR	EUR	EUR
Gross premiums written	6 761 065	4 486 901	2 868 697	2 604 688	16 721 351
Gross premiums earned	1 887 556	2 286 274	2 665 400	1 351 796	8 191 026
Gross claims incurred	861 114	1 688 247	1 137 873	516 316	4 203 550
Gross operating expenses	3 992 979	3 615 143	3 042 387	1 701 975	12 352 484
Outward reinsurance balances	-	271 625	81 180	135 694	488 499

**Note 17 – Geographic breakdown of premiums written**

Gross direct insurance premiums amounting to EUR 16 721 351 may be broken down into geographic zones according to where the contracts have been concluded:

	Dec. 31, 2016 EUR	Dec. 31, 2015 EUR
Hungary	8 179 249	
Czech Republic	1 877 964	
Slovakia	6 567 174	
Other countries	<u>96 964</u>	<u>(2 670)</u>
	<b>16 721 351</b>	<b>(2 670)</b>

**Note 18 – Commissions**

Commissions paid to insurance intermediaries relating to direct insurance amount to EUR 4 631 895 and are included in 'Acquisition costs'.

**Note 19 – Change in deferred acquisition costs**

This item results from the change in 'Deferred acquisition costs' shown in 'Prepayments and accrued income' (EUR 1 865 935) and the change of the ceded deferred acquisition costs (EUR 162 945) included in 'Accruals and deferred income' (EUR 2 365 354).

**Note 20 – Personnel employed during the year**

In May 2016, a fifth employee was hired in Luxembourg as internal auditor. Following the migration of the Hungarian, Slovakian and Czech Branch in 2016 all QBE employees of the respective branches joined the Company.

As at December 31, 2016 there are five employees engaged in Luxembourg (five employees in 2015) and one (three employees in 2015) employee in Hungary. Two of the employees that were engaged by the Company as at December 31, 2015 have been transferred effective April 1, 2016 to the payroll of the Hungarian Branch after the latter's migration.

**Notes to the annual accounts as at December 31, 2016**

**Note 20 – Personnel employed during the year (continued and end)**

The average number of staff employed during the financial year 2016 amount to 166 and may be broken down in the following categories:

Category	Luxembourg Number of staff	Hungary Number of staff	Czech Number of staff	Slovakia Number of staff
Management	2	1	3	1
Salaried employees	<u>4</u>	<u>72</u>	<u>13</u>	<u>70</u>
	6	73	16	71

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

	Luxembourg EUR	Hungary EUR	Czech EUR	Slovakia EUR	Total EUR
Wages and salaries	837 035	1 784 023	626 196	1 403 494	<b>4 650 748</b>
Social security costs	<u>172 975</u>	<u>519 861</u>	<u>131 413</u>	<u>513 606</u>	<u>1 337 855</u>
	<b>1 010 010</b>	<b>2 303 884</b>	<b>757 609</b>	<b>1 917 100</b>	<b>5 988 603</b>

Out of the total amount of EUR 1 010 010 for staff employed in Luxembourg EUR 486 027 (EUR 298 877 in 2015) are linked to the Luxembourg employees and EUR 523 983 (EUR 475 193 in 2015) have been paid to the Hungarian staff employed in Luxembourg.

**Note 21 – Remuneration granted to members of supervisory bodies and commitments entered into in respect of retirement pensions for former members of those bodies**

Remuneration granted to members of the Board of Directors by reason of their responsibilities amount to EUR 49 536 (EUR 45 700 in 2015) and are included in “administrative expenses”. There are no commitments in respect of retirement pension for former members of those supervisory bodies.

**Note 22 – Auditors’ fees**

The audit fees (including VAT) for the year ended December 31, 2016 are amounting to EUR 214 523 (compared to EUR 75 648 in 2015), 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 46 981 for consultancy in relation with Solvency II, EUR 4 208 for tax services and EUR 137 for a tax training are also included in the “administrative expenses”. These amounts have been paid or are payable to the audit firm.

**Note 23 – Tax status**

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

## **Notes to the annual accounts as at December 31, 2016**

### **Note 24 – Commitments**

In relation with the renting of new premises the Company had to arrange for a bank guarantee with ING Luxembourg S.A. of an amount equivalent to the rent of six months (EUR 69 049) granted by ING Luxembourg S.A. with letter dated December 14, 2016. This guarantee was subject to an issuance fee of 0.10% of the guaranteed amount and is further subject to a quarterly commission of 0.25% of the guaranteed amount. This guarantee has been secured by a general pledge of the assets deposited or to be deposited at any account of the Company with ING Luxembourg S.A..

Beside the aforementioned the Company and its branches are committed in relation with their respective leases which, as at December 31, 2016, can be detailed as follows:

	<b>KEUR</b>
office leases (with remaining period from 11 to 42 months)	881.2
car leases (with remaining period from 5 to 49 months).	571.1

### **Note 25 – Subsequent events**

On October 18, 2016, Fairfax Financial Holdings Limited (“Fairfax”) entered into an agreement to acquire certain assets and renewal rights with respect to the portfolio of local business written by branches of AIG Europe Limited (“AIG”) in Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia (collectively “CEE”). Effective April 30, 2017 AIG’s Czech, Slovakian and Hungarian insurance business has been transferred to the respective branches of the Company. The whole transaction is expected to close during the first semester 2017.

It is intended that Colonnade will underwrite the AIG CEE business going forward via its existing and new branches (to be established) in these territories. Colonnade will also provide claims handling and run-off administration services to AIG in relation to the legacy AIG book. The existing AIG employees in CEE will also transfer to Colonnade as part of the transaction.

During the month of April, the sole shareholder increased the share premium by payments in cash of EUR 10 000 000 and EUR 23 500 000 respectively.

