**[Summary of the Scheme and Independent Expert report – Hungarian version]**

IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION

COMPANIES COURT

IN THE MATTER OF

QBE INSURANCE (EUROPE) LIMITED

and

IN THE MATTER OF

COLONNADE INSURANCE S.A.

and

IN THE MATTER OF

PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

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|  | SUMMARY OF THE SCHEME AND THE REPORT |  |

1. Introduction
	1. QBE Insurance (Europe) Limited (**QBE**) is proposing to transfer all of its general insurance and reinsurance policies written through its Czech, Hungarian and Slovakian branches to Colonnade Insurance S.A. (**Colonnade**) through an insurance business transfer scheme (the **Scheme**). The Scheme will be carried out through the High Court of Justice in England (the **High Court**) in accordance with Part VII of the UK Financial Services and Markets Act 2000. This will transfer all of the business written by QBE through its Czech, Hungarian and Slovakian branches (the **Transferring Business**) to Colonnade.
	2. This document sets out a summary of the effect of the Scheme and of the report prepared by the independent expert (see paragraph 5.1 below) on the Scheme (the **Report**).
	3. This document is only a summary. Full details of the Scheme and the Report can be found in the complete versions which are available free of charge online at both the QBE website (<http://hungary.qbeeurope.com/hungary/> and <http://www.qbeeurope.com/QIE-Colonnade-Part-VII-Information>) and the Colonnade website ([www.colonnade.hu](http://www.colonnade.hu)), or by telephoning the dedicated helpline at +36 1 460 1414, or by writing to Colonnade at Colonnade Insurance S.A. (Part VII Transfer), 1143 Budapest, 51 Stefánia str., Hungary.
2. Background of QBE and Colonnade
	1. QBE is a member of the QBE group of companies whose ultimate parent company is incorporated in Australia and listed on the Australian Securities Exchange. The QBE group is one of the world’s top 20 general insurance and reinsurance groups, with operations in all the key insurance markets. As part of that group, QBE sold general insurance and reinsurance policies to both individuals and corporates, through its branches in the Czech Republic, Hungary and Slovakia.
	2. The Transferring Business includes all business written by QBE through its Hungarian branch.
	3. Colonnade is part of the Fairfax group, the ultimate parent company of which is a Canadian holding company, Fairfax Financial Holdings Limited (**Fairfax Financial**), listed on the Toronto Stock Exchange. Through its subsidiaries, Fairfax Financial writes a wide variety of property and casualty insurance and reinsurance business in a number of territories, including Canada, the US, Europe and Asia. Fairfax Financial is a company of considerable financial strength. As at 31 December 2015, it had excess assets of approximately US$12 billion.
	4. QBE is both authorised and regulated by the UK Prudential Regulation Authority (**PRA**) and it is also regulated by the UK Financial Conduct Authority (**FCA**). Before 1 April 2013 it was authorised and regulated by the FCA and PRA's predecessor, the Financial Services Authority (**FSA**). Colonnade is authorised under a non-life insurance licence granted by Luxembourg’s Minister for Finance and is regulated by the Luxembourg insurance regulator, the Commissariat aux Assurances.
	5. On 16 December 2014, QBE agreed to sell and Colonnade agreed to buy the Transferring Business. Since that date, Colonnade’s sister company, Polish Re, has provided reinsurance to QBE in respect of this business. As the sale is of an insurance book of business written by an insurance company authorised in the UK, the transfer has to be effected by way of the Scheme.
3. Process and timings of the Scheme
	1. The proposed timings for the Scheme are:

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| High Court hearing | 13 July 2017 |
| Proposed "Effective Date" (when the policies will transfer to Colonnade) | 31 July 2017 |

* 1. The Scheme will not go ahead unless the High Court approves it on 13 July 2017.
	2. If the High Court imposes any change or conditions to the proposed Scheme, the Scheme will not take effect unless QBE and Colonnade consent.
1. Summary of the Scheme
	1. The following is a summary of the main points of the Scheme. As noted above, the full version of the scheme document is available free of charge online at both the QBE website (<http://hungary.qbeeurope.com/hungary/> and <http://www.qbeeurope.com/QIE-Colonnade-Part-VII-Information>) and the Colonnade website ([www.colonnade.hu](http://www.colonnade.hu)), or by telephoning the dedicated helpline at +36 1 460 1414, or by writing to Colonnade at Colonnade Insurance S.A. (Part VII Transfer), 1143 Budapest, 51 Stefánia str., Hungary.
	2. In addition, QBE and Colonnade have prepared a series of policyholder communications which are available at both the QBE website (<http://hungary.qbeeurope.com/hungary/> and <http://www.qbeeurope.com/QIE-Colonnade-Part-VII-Information>) and the Colonnade website ([www.colonnade.hu](http://www.colonnade.hu)).

The Effect of the Scheme

* 1. As stated above, the Scheme is intended to transfer all of the Transferring Business from QBE to Colonnade.

Claims paid by Colonnade after the Effective Date

* 1. It is intended that from the Effective Date, all the rights and obligations arising from the Transferring Business will automatically transfer to Colonnade and will no longer rest with QBE. This means that Colonnade will be responsible for paying all claims and meeting all the other obligations which were previously QBE's in relation to the Transferring Business.

Exceptions

* 1. Despite the intention explained in 4.4 above, there may be a small number of policies which fall outside the Scheme. These would be "Excluded Policies" or "Residual Policies", as described in more detail in the full version of the Scheme. We do not expect there to be any Excluded Policies, and any Residual Policies will transfer to Colonnade as soon as possible.

No Changes to Policy Terms and Conditions

* 1. There will be no changes to the terms and conditions of the transferring policies, save that the insurer will be Colonnade and not QBE.

Continuity of proceedings or litigation

* 1. From the Effective Date, any current proceedings or litigation which are brought by or against QBE in connection with the business transferred by the Scheme shall be continued by or against Colonnade, and Colonnade shall be entitled to all defences, claims, counterclaims and rights of set-off that would have been available to QBE.
	2. From the Effective Date, any judgement, settlement, order or award under current or past proceedings obtained by or against QBE in relation to the business transferred by the Scheme shall be enforceable by or against Colonnade in place of QBE.

Costs and Expenses

* 1. None of the costs and expenses relating to the preparation of the Scheme or High Court process will be borne by the policyholders.
1. Summary of the Report About the Scheme
	1. QBE and Colonnade have appointed Mr Gary Wells, of Milliman LLP, as the **Independent Expert** to provide a report to the High Court on the effect of the Scheme on the policyholders of QBE and Colonnade. The appointment of Mr Wells has been approved by the PRA, in consultation with the FCA.
	2. The summary in this section is subject to the same limitations on its use as those set out in the Report. The Report contains the reasoning behind Mr Wells’ conclusions, including his assumptions and some of the detail which has been omitted from this summary. The Report also includes further information regarding QBE and Colonnade which has not been included within this summary. While Mr Wells is satisfied that this summary provides an appropriate synopsis of the Report, reliance on this summary alone may not give you the whole picture. Copies of the full Report and any supplementary Report can be obtained free of charge at both the QBE website (<http://hungary.qbeeurope.com/hungary/> and <http://www.qbeeurope.com/QIE-Colonnade-Part-VII-Information>) and the Colonnade website ([www.colonnade.hu](http://www.colonnade.hu)), or by telephoning the dedicated helpline at +36 1 460 1414, or by writing to Colonnade at Colonnade Insurance S.A. (Part VII Transfer), 1143 Budapest, 51 Stefánia str., Hungary.
	3. The Independent Expert has considered the impact of the Scheme on the security and the levels of service afforded to affected policyholders. He has also considered the impact of the Scheme on other matters pertinent to the affected policyholders, such as complaint procedures.
	4. It is noted that the Fairfax group has entered into an agreement with American International Group, Inc. (**AIG**) to acquire the renewal rights of business AIG currently writes in certain central and eastern European countries (the **AIG Business**). The agreement is subject to regulatory approval but, if it proceeds, it is intended that the acquired renewal rights will be written by Colonnade. It is thought that Colonnade could commence underwriting the business in the second quarter of 2017, potential shortly before the Scheme is sanctioned. Acquiring the AIG Business would lead to a significant increase in the business volumes written by Colonnade and would need to be supported by an increase in capital in Colonnade. Therefore, in considering the impact of the Scheme on affected policyholders, the Independent Expert has accounted for the fact that Colonnade may (or may not) commence writing the AIG Business, and he has considered the plans put forth by Colonnade and the Fairfax group to increase the capital levels in Colonnade if it does.
	5. The Independent Expert has identified three main groups of policyholders affected by the Scheme and he has considered the effect of the Scheme on each of these groups separately. The three groups identified are: policyholders of the Transferring Business; policyholders of QBE whose policies will not be transferred under the Scheme; and the existing policyholders of Colonnade.

Security of Policyholders

* 1. Policyholder security is provided by the amount of assets held by an insurer in excess of its liabilities, as well as specific financial support arrangements, such as parental guarantees. The Independent Expert has assessed the amount of assets held in excess of liabilities by QBE and Colonnade, both currently and as is projected to be the case if the Scheme is sanctioned. In both cases, the Independent Expert has assessed the excess assets of Colonnade on both the basis that it commences writing the AIG Business and receives additional capital from the Fairfax group as scheduled, and also on the basis that Colonnade does not write the AIG Business, in which case it is not due to receive any additional capital. In doing so, the Independent Expert has also reviewed the bases on which QBE and Colonnade have valued their liabilities.
	2. The Independent Expert has also taken into consideration a number of guarantees provided by Fairfax Financial, which either directly or indirectly benefit the policyholders of Colonnade.

*Is there an impact on the security of the policyholders of the Transferring Business?*

* 1. Based on his review of the excess assets of QBE and Colonnade (in the case of the latter, on both the basis that Colonnade commences writing the AIG Business and receives the scheduled capital injections from the Fairfax group, and on the basis that it does not write the AIG Business), and also taking into account the guarantees provided by Fairfax Financial, the Independent Expert has concluded that the policyholders of the Transferring Business will not be materially adversely affected by the Scheme as a result of relative differences in the financial strength of Colonnade after the Scheme is sanctioned as compared to that of QBE prior to the Scheme (i.e. the likelihood that the claims of these policyholders will be paid in full will for all practical purposes be the same before and after the Scheme comes into effect).

*Is there an impact on the security of the policyholders remaining in QBE?*

* 1. The Independent Expert has concluded that the policyholders remaining in QBE will experience very little change in the security of their policies as a result of the Scheme. This is because the Transferring Business represents a very small fraction of the gross liabilities of QBE. As a result, the likelihood that the claims of these policyholders will be paid in full will for all practical purposes be the same before and after the Scheme comes into effect.

*Is there an impact on the security of the existing policyholders of Colonnade?*

* 1. Having reviewed the projected excess assets of Colonnade if the Scheme is sanctioned (on both the basis that it commences writing the AIG Business and receives additional capital, and on the basis that it does not), and taking into account the guarantees provided by Fairfax Financial, the Independent Expert has concluded that the security of the existing policyholders of Colonnade will not be materially adversely affected as a result of the Scheme (i.e. the likelihood that the claims of these policyholders will be paid in full will for all practical purposes be the same before and after the Scheme comes into effect).

Levels of Service

* 1. The administration (including claims handling) of the Transferring Business (and the existing business of Colonnade) is currently undertaken by the Colonnade branches by staff that have transferred from QBE to Colonnade. These staff will continue to administer the business in the same way whether the Scheme is sanctioned or not. The Scheme should therefore not have any effect on the policy administration arrangements for the Transferring Business or the existing business of Colonnade.
	2. The Scheme will have no effect on the administration of the existing (non-transferring) business of QBE.

Other Considerations

*The Financial Services Compensation Scheme (****FSCS****)*

* 1. In the event of the insolvency of QBE, eligible policyholders of the Transferring Business currently have recourse to the FSCS to have their claims paid. If the Scheme is implemented, as policyholders of Colonnade, these policyholders would no longer have recourse to the FSCS in the event of Colonnade’s insolvency, and there is no equivalent compensation scheme in Luxembourg to which they could turn. Nonetheless, as the likelihood of the insolvency of Colonnade appears remote and the security of the Transferring Policyholders will be further strengthened by the guarantees provided by Fairfax Financial, the Independent Expert does not consider that this loss of access to the FSCS will materially adversely affect the security afforded to the Transferring Policyholders.

*Policyholder Complaints*

* 1. As policyholders of Hungarian, Czech and Slovakian branches, the policyholders of the Transferring Business currently have no rights of access to the UK Financial Ombudsman Scheme (**FOS**) for complaints adjudication (save for a very limited number of policyholders who have had their claims or complaints referred to staff based in QBE’s London office and who satisfy the FOS eligibility criteria), but may be able to raise complaints with their local regulator or through a local complaints scheme in the branch host state. The vast majority of policyholders (who have not had their claims or complaints referred to staff based in QBE’s London office) cannot currently bring complaints to the FOS, and this will not change as a result of the Scheme.
	2. The Independent Expert has assessed the situation regarding the policyholders whose claims or complaints may be referred to staff based in QBE’s London office and has concluded that, although they may lose access to the FOS as a result of the Scheme, such policyholders will not be materially adversely affected. His reasons for this conclusion are set out in detail in the Report and include the fact that very few policyholders are, in practice, referred to QBE’s London office and therefore potentially eligible to bring complaints to the FOS, and the fact that no complaints have been made to the FOS historically by policyholders of the Transferring Business.
	3. The Scheme will have no effect on the ability of eligible non-transferring policyholders of QBE to bring complaints to the FOS.

*Effect of the Scheme on Reinsurers*

* 1. The reinsurance arrangements protecting the Transferring Business (including that provided by Polish Re) will transfer by virtue of the Scheme and continue to protect the business once it has transferred to Colonnade. The amount of the liabilities of each external reinsurer of QBE and Colonnade will not change as a result of the Scheme. The Independent Expert is therefore satisfied that the Scheme will not have a materially adverse effect on the reinsurers of QBE whose contracts of reinsurance are to be transferred by the Scheme.
1. Updated Report

Mr Wells’ analysis is based upon the material supplied to him, including balance sheets and other information, based on accounting positions as at 31 December 2015. He has also taken into account updated financial information which has been made available. Since the proposed Effective Date for the Scheme is 31 July 2017, he will revisit the analysis closer to the time to confirm that there have been no material changes to the arrangements that he has reviewed that would affect his overall opinion. He will then prepare and issue an updated report to be made available to the High Court prior to the second High Court hearing. Copies of the updated Report can be obtained at both the QBE website (<http://hungary.qbeeurope.com/hungary/> and <http://www.qbeeurope.com/QIE-Colonnade-Part-VII-Information>) and the Colonnade website ([www.colonnade.hu](http://www.colonnade.hu)), or by telephoning the dedicated helpline at +36 1 460 1414, or by writing to Colonnade at Colonnade Insurance S.A. (Part VII Transfer), 1143 Budapest, 51 Stefánia str., Hungary.

1. Further information

If you have any further questions please:

* go to the QBE website (<http://hungary.qbeeurope.com/hungary/> or <http://www.qbeeurope.com/QIE-Colonnade-Part-VII-Information>) or the Colonnade website ([www.colonnade.hu](http://www.colonnade.hu)); or
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