SUPPLEMENTAL REPORT OF THE INDEPENDENT EXPERT ON THE PROPOSED TRANSFER OF THE CZECH, HUNGARIAN AND SLOVAKIAN BRANCHES OF QBE INSURANCE (EUROPE) LIMITED TO COLONNADE INSURANCE S.A.

1 Introduction

1.1 I, Gary G Wells, prepared a report to the court, dated 9 March 2017, entitled, "Report of the Independent Expert on the proposed transfer of the Czech, Hungarian and Slovakian branches of QBE Insurance (Europe) Limited to Colonnade Insurance S.A." (the **Report**).

1.2 In the Report I stated that, shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I would prepare a Supplemental Report covering any relevant matters which might have arisen since the date of the Report. In particular I stated that I would consider the extent to which the operational plans of QIEL and/or CISA have altered (relative to the position at the date of the Report) and the actual changes in assets and liabilities (relative to the position as at 31 December 2015) and hence whether there have been any changes (including those associated with current economic conditions) that would affect my overall opinion as expressed in the Report.

1.3 I set out below my considerations with regard to changes in operational plans and the changes in assets and liabilities of QIEL and CISA. I also comment on other relevant developments.

1.4 In order to provide this Supplemental Report (the **Supplemental Report**), QIEL and CISA have provided me with additional information, including updated financial information. The additional data provided is set out in Appendix A.

1.5 This Supplemental Report should be read in conjunction with the Report. This Supplemental Report has been produced on the same bases as set out at Section 1 of the Report. In particular, it has the same scope, and is subject to the same reliances and limitations. Terms used in this Supplemental Report have the same meanings as in the Report.

1.6 Reliance has been placed upon, but is not limited to, the data and other information provided to me by QIEL and CISA (as set-out in the Report) and the additional information (detailed in Appendix A). My opinions depend on the substantial accuracy of this data, information and the underlying calculations. QIEL and CISA have both confirmed to me that to the best of their knowledge and belief all data and information they have provided to me is accurate and complete (see Letters of Representation, Appendix B). They have also informed me that there have been no developments since the latest data made available to me which are relevant to the Scheme.

1.7 The conclusions set out in this Supplemental Report are based on audited financial statements as at 31 December 2016 for QIEL and for CISA, and unaudited data provided by QIEL and CISA as at 31 March 2017. I have also referred to audited financial data from Fairfax as at 31 December 2016 and from Polish Re as at 31 December 2016 as well as unaudited accounts as at 31 March 2017. In all cases I have requested the most recent data available.

1.8 The technical actuarial work underlying this Supplemental Report has been undertaken in accordance with the applicable principles of Technical Actuarial Standard ("TAS") 100 and TAS 200, as issued by the Financial Reporting Council ("FRC").

2 Changes in Assets, Liabilities and Solvency up to the Effective Date

QIEL

2.1 QIEL has provided me with a copy of its audited report and accounts for the year ending 31 December 2016.

2.2 Net written premiums in the 12 months to 31 December 2016 for continuing operations totalled £1.1bn, very similar to the premiums written in 2015. In 2016, QIEL continued to write a similar range of business, predominantly in the UK and, to a lesser extent, in Western Europe, as it did in 2015.

2.3 The post-tax result for QIEL in the 12 month period to 31 December 2016, after allowing for currency translation differences, was a profit of circa £106.5 million as compared to a profit of only £8 million in 2015. QIEL declared a dividend of £106m thus leaving shareholder's funds approximately unchanged as compared to 31 December 2015.

2.4 QIEL has also provided me with an actuarial reserve report detailing the analysis undertaken by the QBE actuarial team as at 30 September 2016. A further "bridging" document provides details of how the selected ultimate claims as at 30 September 2016 translate into the booked earned reserves as at 31 December 2016.

2.5 The actuarial report shows that, overall, net ultimate losses were reduced for the 2015 and prior underwriting years, as compared to the position as at 30 September 2015, giving rise to increased profitability. For 2016, the selected loss ratio is broadly similar to recent prior underwriting years and the year is expected to be profitable.

2.6 The bridging document details actual versus expected experience during the last three months of 2016. Movements are analysed separately for attritional, large and catastrophe claims. Movements on attritional and catastrophe losses were less than expected but movements on large losses were significantly more than expected and, overall, reserves were increased by around £18m as a result of the actual versus expected analysis.

2.7 In February 2017 the UK Ministry of Justice announced that the "Ogden" discount rate would be reduced from 2.5% to -0.75%. The effect of this is to increase the value of lump sum settlements that are paid to personal injury claimants in the UK. As a writer of UK liability policies QIEL is affected by this decision. Although this announcement was made after year-end, and this was not factored into the results of the actuarial analysis, the technical provisions in the statutory report and accounts have been adjusted to allow for this development. It is noted in the report and accounts that the pre-tax impact of this adjustment was approximately £60m.

2.8 QIEL has provided me with its 31 December 2016 QRTs which provide details of its Solvency II balance sheet and capital requirements. These figures do not incorporate the impact of the change in the Ogden discount rate, however, QIEL has separately provided me with figures showing the impact of this on QIEL's owns funds and the SCR. The Ogden rate change reduces QIEL's Capital Cover Ratio relative to its SCR by around 5 percentage points from 145% to 140%, but nevertheless the figures provided continue to show that QIEL is a more than sufficiently capitalised company, as per the most recent figures previously provided and commented upon in the Report, and continues to exceed regulatory capital requirements under Solvency II (by a margin of 40% as at 31 December 2016).

2.9 Finally, QIEL has also provided me with an (unaudited) pro-forma balance sheet and income statement for the company as at 31 March 2017. This shows gross a profit being generated in the period of £46m, which leads to a corresponding increase in net assets.

2.10 ***Based on my review of the updated financial information provided by QIEL, I am satisfied that the financial strength of QIEL has not materially changed as compared to the time of the most recent financial information used in preparing the Report. I therefore have no reason to change any of the conclusions set out in the Report in relation to QIEL.***

2.11 Furthermore, at the date of this Supplemental Report, I am informed by the management of QIEL that there have been no significant developments in the assets and liabilities of QIEL since 31 March 2017 (the most recent date at which financial information is available).

CISA

2.12 CISA has provided me with its audited statutory report and accounts as at 31 December 2016, as well as unaudited management accounts (balance sheet and income statement) for the 3 month period to 31 March 2017.

2.13 The report and accounts (prepared on a GAAP basis) show that CISA had gross technical provisions of €10.5m (consisting of €8.5m in unearned premium reserves and €1.9m in outstanding claims reserves) as at 31 December 2016. Net of reinsurance technical provisions totalled €9.6m. The balance sheet shows excess assets of €26.4m as at 31 December 2016. It should be noted that as at 31 December 2016 CISA had written a relatively small amount of business and that the company is expected to expand significantly as a result of the Scheme, and as it writes more business, including the AIG Business.

2.14 The management accounts for the 3 months to the end of March 2017 (denominated in US dollars) show that CISA incurred a loss for the period of $2.6m (approximately €2.4m). This has resulted mainly from operating expenses being greater than expected. Operating expense incurred in the period totalled $3.7m (€3.4m). I am informed that this has resulted largely from increased costs in anticipation of the AIG Business acquisition, both at head office and local branch level. CISA now expects its business (excluding the AIG Business) to generate a loss of approximately €3.6m in 2017. This is about €2m greater than the expected loss in CISA's original financial projections. However, I have been provided with details of the expenses incurred in relation to the transitioning of the AIG Business in to CISA, which show substantial savings have emerged as CISA progresses through the transitioning process (which commenced on 1 May 2017). I have reviewed these expense savings (in particular lower IT costs and AIG shared service centre replacement costs) and am satisfied that the savings more than offset the increase in the aforesaid expected loss in CISA's original financial projections. Accordingly, I am of the view that overall (i.e. including the AIG Business) CISA is expected to see a loss for 2017 that is less than originally expected.

2.15 CISA has provided an updated projection of its balance sheet at the time the Scheme is likely to become effective (now assumed to be 31 July 2017). This is shown in Table 2.1 below, and shows the effect of the Scheme on its balance sheet. As at 31 July 2017, CISA will have commenced underwriting the AIG Business and this is reflected in the figures shown in Table 2.1 below. As at this date, the AIG Business is assumed to have generated a loss of approximately €3.6m. The figures in Table 2.1 below also incorporate the losses generated by CISA as discussed in paragraph 2.14 above. It further allows for €3m of additional capital to be paid into CISA as discussed further in paragraph 2.19 below.

Table 2.1
Projected Balance Sheets for CISA and the Transferring Business at 31 July 2017

EUR '000s	CISA Pre-Scheme	Transferring Business 2016 and Prior	Transferring Business 2017	Adjustment	CISA Post-Scheme
Assets					
Investment in TIG (Bermuda) Ltd	1,109				1,109
Investments and cash deposits	67,934				67,934
Premium and other receivables	34,185				34,185
Deferred acquistion costs	7,599	3,580	432	(432)	11,179
Reinsurer's share of UPR	4,457	12,676	2,358	(2,358)	17,133
Reinsurer's share of claims reserves	517	14,352	958	(958)	14,869
Fixed and Intangible assets	6,627				6,627
Deferred tax assets	1,307				1,307
Total Assets	**123,734**	**30,609**	**3,748**	**(3,748)**	**154,343**
Liabilities					
Shareholder's equity*	59,931				59,931
Trade and other payables	25,313				25,313
Unearned premium reserve	30,804	12,676	2,358	(2,358)	43,480
Ceded deferred acquisition costs	507	3,580	432	(432)	4,087
Gross claims reserves	7,179	14,352	958	(958)	21,532
Total Liabilities	**123,734**	**30,609**	**3,748**	**(3,748)**	**154,343**

*Shareholder's funds excludes €7m of unpaid capital which is available for meeting capital requirements under Solvency II

2.16 Note that the format of Table 2.1 above is equivalent to that of Table 5.1 in the Report, albeit that the figures are shifted by 4 months from the pro-forma position as at 1 April 2017 to that as at 31 July 2017. The differences[1] relate in the main to the AIG Business coming on stream in the second quarter of 2017, and that the CISA only business is also 4 months further developed. As per Table 5.1 in the Report, Table 2.1 shows the Transferring Business split by underwriting year. Business written by CISA in 2017 relates only to business written in the Slovakian branch under a delegated underwriting authority. Like the rest of the Transferring Business, this business is ceded to Polish Re. However, any business written in 2017 will be retroceded from Polish Re to CISA. The element of the Transferring Business underwritten by QIEL in 2017 will therefore already be included within CISA's balance sheet as at the time of the transfer and this is reflected in the figures shown in Table 2.1 above. An adjustment is included such that the "post-Scheme" position is as if the 2017 Slovakian delegated authority business had originally been written in CISA (i.e. the LPTA and retrocession of this business cancel each other out).

2.17 CISA has provided me with updated projections of its SCR and Solvency II balance sheet over the period 2017-19. These have not been updated for the business plan changes described in paragraph 2.14 above, as these are expected to be, overall, neutral, or slightly beneficial to CISA. They do however reflect an update around CISA's catastrophe risk charge and associated counterparty default risk relating to reinsurance (see paragraph 2.18 below).

2.18 As noted in the Report, CISA had intended to maintain the same reinsurance retentions following the acquisition of the AIG Business, but increase the level of reinsurance cover so as to keep the catastrophe risk charge at a similar level. CISA has now finalised its reinsurance cover for 2017 which includes, in particular, an additional layer of property cover of €185m in excess of €65m, thus covering events up to €250m. CISA has also updated its catastrophe risk calculation reflecting its expected exposures having taken on the AIG Business. Whilst the catastrophe risk charge is not significantly impacted as a result of this change, the additional exposures and corresponding additional risk mitigation under the reinsurance programme have

[1] The total liabilities shown in Table 2.1 above are €36.9m greater than those shown in Table 5.1 of the Report as a result of: (1) a reduction of €6.6m in the claim reserves held for the Transferring Business; (2) an overall increase of €46.8m in unearned premiums, claim reserves and payables associated with the AIG Business written in the second quarter of 2017; and (3) a reduction in shareholders' equity of €3.3m in the period arising from trading losses net of additional capital to be paid into CISA (in relation to the latter €43m was included in Table 5.1 presented in the Report, which was subsequently increased to €46m (see paragraph 3.8 below) as included in Table 2.1 above, and so is not a key driver of the differences).

led to an increase in the counterparty default risk charge. This has increased the SCR overall by around 5%. The revised Solvency II balance sheet and SCR projections are shown in Table 2.2 below.

Table 2.2
CISA Projected Solvency II Balance Sheet and SCR at Year-Ends 2017-19 (€000)

	31/12/2017	31/12/2018	31/12/2019
Assets			
Bonds & Cash	91,132	120,371	137,819
Reinsurance share of technical provisions	31,358	38,417	41,827
Insurance recoverables	19,017	32,911	47,412
Total Assets	**141,508**	**191,699**	**227,058**
Liabilities			
Gross technical provisions			
Best Estimate	69,076	98,957	116,651
Risk margin	3,348	4,250	4,493
(Re)insurance accounts payable	20,091	27,802	32,118
Total Liabilities	**92,514**	**131,010**	**153,261**
Excess of Assets over Liabilities	**48,993**	**60,689**	**73,796**
Unpaid Share Capital (Tier 2 Own Funds)	7,000	7,000	7,000
Eligible Own Funds to cover SCR (X)	**55,993**	**67,689**	**80,796**
SCR (Y)	**36,249**	**47,517**	**52,117**
Capital Cover Ratio (X / Y)	**154%**	**142%**	**155%**

2.19 In order to maintain a similar Capital Cover Ratio in CISA as originally expected, Fairfax has decided to increase the additional capital it plans to inject into CISA during 2017 by €3m. Further details on the capital injections are given in Section 3 below. As a result, and as can be seen in Table 2.2 above, CISA is expected to be a more than sufficiently capitalised company (on the boundary of well capitalised) throughout the period 2017-19. This is consistent with my conclusions as detailed in the Report.

2.20 ***Based on my review of the updated financial information provided by CISA and on the basis that all scheduled capital injections (as set out in paragraph 3.8 below) are paid into CISA prior to the sanctioning of the Scheme, I am satisfied that the financial strength of CISA, both currently and as projected over the next 3 years, has not materially changed as compared to the time of the most recent financial information used in preparing the Report. I therefore have no reason to change any of the conclusions set out in the Report in relation to CISA***.

2.21 Furthermore, at the date of this Supplemental Report, I am informed by the management of CISA that there have been no significant developments in the assets and liabilities of CISA since 31 December 2016 (the most recent date at which financial information is available).

Fairfax

2.22 I have reviewed a copy of Fairfax's audited report and accounts for the year ending 31 December 2016. During the year to 31 December 2016, Fairfax generated a net loss of $395m from the group's underwriting and investment activities. Allowing for foreign currency translation losses and other items, a comprehensive loss of $600m was booked. This included a loss on investments of $1.2 billion, which resulted from Fairfax removing its equity hedges following the US presidential election in November 2016.

2.23 As at 31 December 2016, Fairfax reported total assets of $43.4 billion, and total liabilities of $31.6 billion. The excess assets were therefore $11.8 billion (reduced from $12.0 billion as at 31 December 2015). Fairfax thus continued to maintain a strong financial position as at 31 December 2016, despite the loss generated in 2016, including strong liquidity with cash and marketable securities at the holding company of approximately $1.3 billion.

2.24 I have further reviewed a copy of Fairfax's unaudited interim report for the 3 month period to 31 March 2017. This report shows comprehensive income of $198m during the period and an increase in excess assets to $12.2 billion. However, due to a reduction in the amount of cash held in the holding company, cash and marketable securities held at the holding company had fallen to around $0.9 billion.

2.25 On 6 July 2017, Fairfax announced the completion of its acquisition of Allied World, a global specialty insurer with a niche casualty focus and complementary and opportunistic reinsurance strategy. Allied World will be merged into a subsidiary of Fairfax, with the Fairfax subsidiary surviving as a wholly-owned subsidiary of Fairfax. Allied World will continue to operate as a stand-alone operation.

2.26 I am informed by Fairfax management that the combined (post-transaction) Fairfax operation is estimated to have pro-forma excess assets amounting to $16.1 billion (as at 31 March 2017) and it thus continues to have a strong financial position.

2.27 ***Overall therefore, my review of the changes in the assets and liabilities of Fairfax since 31 December 2015 as described above, has not given me reason to change any of the conclusions I set out in the Report in relation to Fairfax.***

Polish Re

2.28 I have been provided with the audited accounts of Polish Re as at 31 December 2016. These show that, as at 31 December 2016, Polish Re had excess assets of PLN 260m (as compared to PLN 260m as at 31 December 2015) and that during 2016 it generated a profit of PLN 3.2m.

2.29 I have further been provided with unaudited management accounts for Polish Re for the 3 month period to 31 March 2017. These show that Polish Re generated a profit during the period and ended the period with excess assets of PLN 264m (as compared to PLN 260m as at 31 December 2015).

2.30 I have also been provided with details of Polish Re's SCR and Own Funds as at 31 December 2016. This shows a significant improvement in the overall Captial Cover Ratio since 31 December 2015, although it remains more than significantly capitalised, as noted previously in the Report.

2.31 ***Overall therefore, my review of the changes in the assets and liabilities of Polish Re since 31 December 2015 as described above, has not given me reason to change any of the conclusions I set out in the Report in relation to Polish Re.***

3 Other Matters

Regulatory Approvals

3.1 I noted in the Report that CISA was awaiting regulatory approval from the EC in relation to its acquisition of the AIG Business. CISA has now provided me with a copy of a signed letter from the EC, dated 27 February 2017, which states that the EC has decided not to oppose the acquisition.

3.2 I further noted in the Report that CISA was awaiting approval from the CAA for the creation of new branches in Bulgaria, Poland and Romania, and for the expansion of its business operations in the Czech Republic, Hungary and Slovakia. CISA has provided me with three letters it has received from the CAA. The first, dated 6 April 2017, confirms that the CAA raised no objections to CISA's request to modify its business plan, following its acquisition of the AIG Business, in Slovakia, Bulgaria, Romania, Poland, the Czech Republic and Hungary. Two letters each dated 7 April 2017 confirm that the CAA has notified the relevant regulatory authorities of the expansion of the existing branches in Hungary, Slovakia and the Czech Republic, and of the creation of new branches in Poland, Romania and Bulgaria.

3.3 In relation to the existing branches in Hungary, Slovakia and the Czech Republic, CISA has also provided me with: (1) a letter that confirms local regulatory approvals and acknowledgements for the Slovakian branch (i.e. extension of licence to include classes 12, 14 and 15) dated 19 April 2017; (2) a screen print from the Czech National Bank (the Czech regulator) website, showing that the existing authorisations for Colonnade's Czech branch have been extended to include class 17 (legal expenses), i.e. the Czech branch is authorised to write all classes of business (other than class 10); and (3) an e-mail dated 22 June 2017 to confirm that the Hungarian branch is already authorised to write all classes of business (with the exception of class 10), and as such no further permissions were required from the Hungarian regulator.

3.4 In relation to the new branches in Poland, Romania and Bulgaria, CISA has also provided me with two letters that confirm local regulatory approvals and acknowledgements for Poland and Bulgaria dated 22 May 2017 and 16 May 2017 respectively. For Romania, CISA is still awaiting written confirmation from the Romanian regulator providing local regulatory approvals and acknowledgements. I am informed by CISA that the company's expectation is that the Romanian branch will be ready to start writing business on or before the Effective Date. I also note that it is not a permission per se that CISA requires from Romanian regulator, but an acknowledgement of CISA's intention to exercise its Freedom of Establishment rights in Romania and confirmation from the Romanian regulator of any "general good" requirements in Romania (similar to those received for the Bulgarian and Polish branches).

3.5 Accordingly, CISA has obtained all regulatory approvals (albeit the company is awaiting receipt of an acknowledgement from the Romania regulator of CISA's intention to exercise its Freedom of Establishment rights in Romania) required to commence writing the AIG Business. However, I am informed by CISA that in practice the policyholder notification and renewal process can only commence after the AIG transaction completion date in each country, a process that is estimated to take approximately 2 – 3 months in part due to the requirement to obtain policyholder consent for the transfer of personal data. Consequently, CISA and AIG have entered into a short term delegated underwriting authority ("DUA") in each country to provide policyholders with continuity of cover during the policy renewal process.

3.6 The DUA mechanism operates for a defined period of time (3 to 6 months depending on line of business) after the closing of the individual country transactions (Hungary, Slovakia and the Czech Republic – 1 May 2017; Bulgaria – 31 May 2017; Poland and Romania projected for 30 June 2017 and 31 July 2017 respectively), whereby renewing (and some new) business will continue to be written by AIG (by the ex-AIG underwriters who transitioned to CISA) and be 100% reinsured from AIG into CISA (with the exception of business that was intended to be fronted by CISA on AIG's behalf which will be retained by AIG). It thus follows that the economic benefits from the business written under the DUA facilities accrue to CISA in the same way as if the business was written directly by CISA, subject to a small arrangement fee payable by CISA to AIG. Given that the aforesaid arrangement fee is small and the operation of the DUA is for a limited period of time (3 to 6 months depending on line of business) I am satisfied that there is no materially adverse financial impact on CISA as a result of operating the DUA mechanism as compared to writing the business directly. Upon expiry of the DUA facilities, all future new and renewing business will be written directly by CISA. Therefore, other than the short-term DUA facilities, the AIG transaction remains the same as described in the Report, and the conclusions set out in the Report are unchanged in this regard.

Capital injections into CISA

3.7 I noted in the Report that Fairfax had informed me that it planned to pay an additional €43m of capital into CISA prior to the court hearing to sanction the Scheme, and that I would report my Supplemental Report on whether that capital has indeed been received by CISA.

3.8 As noted above, in the light of CISA's revised SCR calculations Fairfax determined that it would inject €46m of additional capital into CISA rather than the €43m originally planned. CISA has provided me with extracts from relevant board meeting minutes together with bank account statements confirming that €10m of capital was paid in to CISA on 5 April 2017, €23.5m on 19 April 2017 and €12.5m on 14 June 2017 (i.e. additional capital totalling €46 million).

3.9 I am further informed that it remains Fairfax's intention to inject a further €3m of capital into CISA in 2018.

Policyholder Notification

3.10 I am informed by CISA that the notification policy has been carried out in accordance with the proposals put forward at the directions hearing for the Scheme. CISA has provided me with a document summarising the results of the policyholder notification process as of 12 June 2017. The enquiries as of 12 June 2017 consist of general queries or requests for clarifications about the Scheme, and there have been no objections relating to the Scheme made by policyholders and other relevant parties.

3.11 Based on there being no objections to the Scheme (at the date of this Supplemental Report) and my review of the enquiries and related responses from CISA, I have not identified any matter that would cause me to perform additional analysis or lead me to revise the conclusions set out in the Report and this Supplemental Report.

Commutation Proceeds from Equator Re

3.12 I noted in the Report that QIEL had commuted some intra group reinsurance held with Equator Re and that three (Czech) policies of the Transferring Business have open claims where the future payment of these claims could have potentially been recoverable under the Equator Re reinsurance. I further noted that in compensation for the potential loss of this reinsurance asset, the parties were discussing the transfer of an appropriate allocation of commutation proceeds to CISA upon the sanctioning of the Scheme, and that I would comment on the amount agreed to be transferred in my Supplemental Report.

3.13 I am informed by QIEL that the parties are continuing to discuss this point and are expected to reach an agreement in advance of the court hearing to sanction the Scheme. Nonetheless, I have considered two scenarios: (1) the potential impact on CISA if there is no settlement allocation of the commutation transferred from QIEL to CISA; and (2) the likely impact on QIEL of the settlement allocation of the commutation being transferred from QIEL to CISA. For scenario (1) based on the gross case reserves held by QIEL for the open claims where the future payment of these claims could have potentially been recoverable under the Equator Re reinsurance, the Own Funds of CISA would reduce slightly, but the company's projected solvency position would be such that the company continues to be a more than sufficiently capitalised company (on the boundary of well capitalised) throughout the period 2017-19. For scenario (2) again based on the gross case reserves held by QIEL for the open claims where the future payment of these claims could have potentially been recoverable under the Equator Re reinsurance, the Own Funds of QIEL would reduce slightly, but the company would continue to be a more than sufficiently capitalised company.

3.14 In light of the above, I identify no significant matters which would cause me to change my conclusion on the effect of the Scheme on the levels of security afforded to those transferring policyholders whose policies are impacted by the aforesaid commutation.

Market Developments

3.15 I have considered two relevant market developments since the issue of the Report: the ongoing impact of the Brexit referendum held on 23 June 2016, where 52% of votes cast were in favour of leaving the EU; and the change to the Ogden discount rate from 2.5% to -0.75% per annum, which was announced on 27 February 2017, and became effective as of 20 March 2017.

3.16 As a result of the potential loss of pass-porting rights between the UK and the European Union as a consequence of Brexit, QBE is developing plans to restructure its European insurance operations, at the time of writing, however, it had not reached any definitive position as to how this would be achieved, although operating via a separate legal entity in continental Europe is under consideration. This may impact the policyholders of QIEL, but will do so whether or not the Scheme is sanctioned.

3.17 As the Transferring Policyholders are all located outside of the UK and CISA is located within the EU, it is not expected that Brexit will have any direct impact on the business of CISA either before or after the Scheme is sanctioned.

3.18 While Brexit may lead to general economic uncertainty I do not have reason to believe that CISA would be impacted to any greater extent by such uncertainty than QIEL.

3.19 Accordingly, I do not believe that the sanctioning of the Scheme will have any adverse impacts relating directly from Brexit.

3.20 I also note that the UK Ministry of Justice recently announced the reduction in the Ogden discount rate, which will have the effect of increasing the cost of UK personal injury claims. As discussed above, QIEL noted in its 31 December 2016 report and accounts that the reduction in the Ogden rate reduced its pre-tax profit by approximately £60m. It also led to a reduction in its Captial Cover Ratio relative to its SCR of about 5%.

3.21 The Transferring Business does not have any exposure to UK liability claims, however, and nor does CISA. Accordingly, the reduction in the Ogden discount rate will not have any impact on CISA either before or after the Scheme is sanctioned.

3.22 Accordingly, I do not believe that the sanctioning of the Scheme will have any adverse impacts relating directly from the Ogden rate change.

3.23 In light of the above I identify no significant matters arising from recent market developments which would cause me to change my conclusion on the impact of the Scheme on the levels of security of each affected policyholder group.

Changes in Operational Plans

3.24 I have asked the management of both CISA and QIEL to provide me with details of any changes to their operational plans that I was not aware of at the time of writing the Report.

3.25 The management of CISA has informed me that, other than the purchase of additional reinsurance protections as noted above, there have been no significant business plan changes and management actions that have not already been communicated to me. This has been confirmed to me by CISA in their letter of representation addressed to me as shown in Appendix B.

3.26 The management of QIEL likewise has confirmed that there have been no operational plan developments that I was not aware of at the time of writing the Report which would be relevant to the Scheme.

3.27 There are no developments to the operational plans of QIEL or CISA (of which I have been informed) that would cause me to amend the conclusions I set out in the Report.

Policyholders Reasonable Expectations in relation to Regulatory Oversight

3.28 As set-out in the Report, the administration (including claims handling) of the Transferring Business is currently undertaken by the CISA branches by staff that have transferred to CISA in accordance with the Framework Agreement. These staff will continue to administer the business in the same way if the Scheme is sanctioned.

3.29 I am informed by QIEL that whilst, pre-Scheme, the Transferring Policyholders would typically be aware of a relationship with a UK operating company (i.e. QIEL), all risks would be handled by the local branch, other than, in limited circumstances, where some Transferring Policies could have been referred back to the UK. The latter could occur, for example, where local underwriting authorities were insufficient, in which case such policies would have been signed-off for administrative purposes from London, but underwritten in the normal manner (i.e. with full responsibility) through the local Hungarian, Slovakian or Czech branch. In all circumstances, the Transferring Policyholders would have a local point of contact. Therefore, in practice, the Transferring Policyholders would likely be indifferent to their business being undertaken directly in the Hungarian, Slovakian or Czech branches, or indirectly in the UK (i.e. signed-off for administrative purposes from London, but underwritten through a Hungarian, Slovakian or Czech branch).

3.30 The Hungarian, Slovakian and Czech branches are branches of a UK insurance company (i.e. QIEL), which is subject to regulation by the PRA/FCA, and QIEL's internal policies and standards are based around these regulations. The branches therefore operate to these internal standards, but also take into account any specific local requirements which are additional to QIEL's internal standards. Thus, in the limited circumstances where a Transferring Policy has been written indirectly in the UK (i.e. signed-off for administrative purposes from London, but underwritten through a Hungarian, Slovakian or Czech branch), the writing of that policy would also have taken into account any specific local requirements. Even in such circumstances, the Transferring Policies would have effectively (i.e. in practice) been underwritten by the Hungarian, Slovakian or Czech branches (as appropriate) and so subject to local regulatory requirements.

3.31 ***In light of the above, I identify no significant matters which would cause me to change my conclusion on the effect of the Scheme as a result of some Transferring Policyholders having their policies written indirectly in the UK (i.e. signed-off from London, but written through a Hungarian, Slovakian or Czech branch)***.

4 Expert Opinion

Confirmation of Opinion

4.1 I have further considered the effect of the proposed Scheme on the transferring policyholders of QIEL, the existing policyholders of CISA, and on the existing non-transferring policyholders of QIEL. I confirm that my overall opinion and conclusions as set out in Section 11 of the Report are unchanged.

4.2 In reaching this opinion I have complied in all material respects with the principles of the Transformations TAS.

Duty to the Court

4.3 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court and have complied with that duty.

Statement of Truth

4.4 I confirm that, insofar as the facts stated in my aggregate report are within my own knowledge, I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

Gary Wells

Gary G Wells
Fellow of the Institute and Faculty of Actuaries
Fellow of the Society of Actuaries in Ireland
Independent Expert

Milliman LLP
11 Old Jewry
London
EC2R 8DU

19 July 2017

APPENDIX A KEY SOURCES OF DATA

A.1 I have used the following additional documents, reports, data and other information provided by QIEL and/or CISA:

- Audited accounts for QIEL as at 31 December 2016
- Management accounts for QIEL as at 31/03/2017
- QIEL Solvency II QRTs as at 31 December 2016
- QIEL actuarial report as at 30 September 2016
- Actuarial memo bridging the reserves between 30 September 2016 and 31 December 2016
- Audited accounts for CISA as at 31 December 2016
- Management accounts for CISA as at 31/03/2017
- Actuarial Function report for CISA as at 31/12/2016
- Solvency II QRTs for CISA as at 31 December 2016
- Solvency II ORSA report for CISA as at 31 December 2016
- Audited accounts for Fairfax as at 31/12/2016 and interim financial statements as at 31/03/2017
- Audited accounts for Polish Re as at 31/12/2016
- Management accounts for Polish Re as at 31/03/2017
- An update note on the regulatory (merger) approval for CISA from the EC, and CISA's application to the CAA for the creation of the three new branches (in Bulgaria, Poland and Romania) and the expansion of the company's licences in the Czech Republic, Hungary and Slovakia.
- Letters and other documents provided by the "local" regulators in the Czech Republic, Slovakia, Bulgaria and Poland providing branch approvals and acknowledgements.
- Extracts from relevant board meeting minutes together with bank account statements confirming the capital injections into CISA (during the period April – June 2017 inclusive).
- A copy of document maintained by CISA (dated 12 June 2017), detailing enquiries from policyholders and others about the Scheme.

A.2 Information was also gathered in telephone conversations and e-mail correspondence with staff of CISA and QIEL.

APPENDIX B LETTERS OF REPRESENTATION

COLONNADE
A FAIRFAX COMPANY

Colonnade Insurance S.A.
LU-2453 Luxembourg, Rue Eugene Ruppert 20.

Gary Wells Esq
Milliman LLP
11 Old Jewry
London
EC2R 8DU

19 július 2017

Dear Mr Wells,

Letter of Representation – Part VII transfer of the Czech, Hungarian and Slovakian branches of QBE Insurance (Europe) Limited to Colonnade Insurance S.A.

1. Introduction

We refer to the proposed insurance business transfer (the "Scheme") by which the businesses of the Czech, Hungarian and Slovakian branches of QBE Insurance (Europe) Limited (the "Transferor") will transfer to Colonnade Insurance S.A. (the "Transferee"), pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA").

2. Data Accuracy Statement

We hereby affirm that the data and information provided to Gary Wells of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by the Transferee (and its professional advisors) and, to the best of our knowledge and belief, are accurate and complete in all material respects.

3. Other Statements

1. To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of the Transferee's business and practices (including details of specific contracts and claims) or in any statements attributed to the Transferee (and/or the wider Fairfax Group) in the Independent Expert's Report dated 9 March 2017 and the Independent Expert's Supplemental Report dated 19 July 2017 (together the "Reports") on the proposed Scheme.
2. We have disclosed all the information that in our opinion is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme, including but not limited to discussions or disputes with regulatory authorities and key reinsurance and commercial counterparties.
3. We will keep the Independent Expert apprised up to the date of the Court hearing to sanction the Scheme of all matters and issues, which, in our opinion may be relevant to the Independent Expert in opining on the proposed Scheme.
4. We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final Court (and supporting) documents relating to the Scheme, full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.
5. In particular, the facts stated below are true and accurate to the best of our knowledge and belief:
    - The financial position as stated in the balance sheet(s) of the Transferee as at 31 December 2016 and 31 March 2017 both give a true and fair view of the Transferee's affairs at those dates;
    - The Technical Provisions of the Transferee's business as stated as at 31 December 2016 and 31 March 2017 are both a true and fair view of the liabilities at those dates;
    - Other financial projections relating to the Transferee and provided by us which the Independent Expert has used to prepare the Reports have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions;

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COLONNADE
A FAIRFAX COMPANY

Colonnade Insurance S.A.
LU-2453 Luxembourg, Rue Eugene Ruppert 20.

6. We confirm that the Capital Assessment as at 31 December 2016 and those projected as at 31 December 2017, 2018 and 2019 using the Standard Formula as per the Solvency II Directive 2009/138/EC continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.
7. We confirm that it remains Fairfax's intention to inject a further €3m of capital into the Transferee in 2018.
8. We confirm that the Transferee will work (with the Transferor) to reach a commercial agreement in relation to the Equator Re commutation and will update the Court at the hearing to sanction the Scheme.
9. We confirm that there are currently no plans pursuant to the Scheme to materially change:
   - the reserving basis/approach and strength of reserves carried/booked by the Transferee; and/or
   - the capital basis/approach and capital strength adopted by the Transferee.
10. In respect of the Transferee, we confirm that there is currently no other relevant information concerning the business written, claims procedures and processing situation which could have a material impact on the Independent Expert's assessment of the proposed Scheme. In particular, we confirm that:
    - there were no unusual backlogs of unprocessed claims correspondence at 31 December 2016 and 31 March 2017; and
    - appropriate case estimates were applied to all reported claims which remained open at 31 December 2016 and 31 March 2017.
11. We confirm that, in relation to the Transferee's existing policyholders, the proposed Scheme is not expected to have tax implications that would affect any such policyholders impacted by the transfer under the Scheme.
12. To the best of our knowledge and belief, there have been no material changes since 31 December 2016 to Transferee's operational plans that in our opinion would have a material impact on the Scheme and have not been communicated to the Independent Expert.
13. On 7 April 2017, the Romanian insurance regulatory authority (ASF Romania) was notified of the Transferee's intention to exercise its Freedom of Establishment rights in Romania, via the establishment of a branch. An acknowledgement of the same and notification of any "general good" requirements in Romania has not yet been received from ASF Romania. We confirm that it is expected that the necessary communications will be received from ASF Romania in advance of the Court hearing to sanction the Scheme by the Effective Date.
14. In respect of the Transferee, we confirm that there have been no material events that in our opinion would have a material impact on the Scheme between 31 December 2016 and the date of this letter.

Yours sincerely,

Peter Csakvari
Chief Operating Officer
For and on behalf of Colonnade Insurance S.A.

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QBE Insurance (Europe) Limited
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enquiries@uk.qbe.com
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Gary Wells Esq
Milliman LLP
11 Old Jewry
London
EC2R 8DU

19 July 2017

Dear Mr Wells,

Letter of Representation – Part VII transfer of the Czech, Hungarian and Slovakian branches of QBE Insurance (Europe) Limited to Colonnade Insurance S.A.

1. Introduction

We refer to the proposed insurance business transfer (the "Scheme") by which the businesses of the Czech, Hungarian and Slovakian branches of QBE Insurance (Europe) Limited (the "Transferor") will transfer to Colonnade Insurance S.A. (the "Transferee"), pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA").

2. Data Accuracy Statement

We hereby affirm that the data and information provided to Gary Wells of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by the Transferor (and its professional advisors) and, to the best of our knowledge and belief, are accurate and complete in all material respects.

3. Other Statements

1. To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of the Transferor's business and practices (including details of specific contracts and claims) or in any statements attributed to the QIEL (and/or the wider QBE Group) in the Independent Expert's Report dated 9 March 2017 and the Independent Expert's Supplemental Report dated 19 July 2017 (together the "Reports") on the proposed Scheme.
2. We have disclosed all the information that in our opinion is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme, including but not limited to discussions or disputes with regulatory authorities and key reinsurance and commercial counterparties.
3. We will keep the Independent Expert apprised up to the date of the Court hearing to sanction the Scheme of all matters and issues, which, in our opinion may be relevant to the Independent Expert in opining on the proposed Scheme.
4. We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final Court (and supporting) documents relating to the Scheme, full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.

5. In particular, the facts stated below are true and accurate to the best of our knowledge and belief:
   - The financial position as stated in the balance sheet(s) of the Transferor (i) as at 31 December 2016 gives a true and fair view of the Transferor's affairs and (ii) as at 31 March 2017 reflects the underlying accounting records and is consistent (where relevant) with Q1 Solvency II filings;
   - The Technical Provisions of the Transferor's business(es) to be transferred as stated as at 31 December 2016 and 31 March 2017 both provide a true and fair view in accordance with appropriate actuarial standards at those dates;
   - Other financial projections relating to the Transferor and provided by us which the Independent Expert has used to prepare the Reports have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions;
6. We confirm that the Capital Assessments as at 31 December 2016 using the QBE Group internal model as per the Solvency II Directive 2009/138/EC continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.
7. We confirm that the Transferor will work (with the Transferee) to reach a commercial agreement in relation to the Equator Re commutation and will update the Court at the hearing to sanction the Scheme.
8. We confirm that there are currently no plans pursuant to the Scheme to materially change:
   - the reserving basis/approach and strength of reserves carried/booked by the Transferor; and/or
   - the capital basis/approach and capital strength adopted by the Transferor.
9. In respect of the Transferor, we confirm that there is currently no other relevant information concerning the business written, claims procedures and processing situation which could have a material impact on the Independent Expert's assessment of the proposed Scheme. In particular, we confirm that:
   - there were no unusual backlogs of unprocessed .claims correspondence at 31 December 2016 and 31 March 2017; and
   - appropriate case estimates were applied to all reported claims which remained open at 31 December 2016 and 31 March 2017.
10. We confirm that, in relation to the Transferor's existing and transferring policyholders, the proposed Scheme is not expected to have tax implications that would affect any such policyholders impacted by the transfer under the Scheme.
11. To the best of our knowledge and belief, there have been no material changes since 31 December 2016 to Transferor's operational plans that in our opinion would have a material impact on the Scheme and have not been communicated to the Independent Expert.
12. In respect of the Transferor, we confirm that there have been no material events that in our opinion would have a material impact on the Scheme between 31 December 2016 and the date of this letter.

Yours sincerely,

Simon Hawkins
For and on behalf of QBE Insurance (Europe) Limited

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