



Proposed Part VII Insurance Business

Transfers relating to:

QBE Insurance (Europe) Limited

QBE Re (Europe) Limited

and

QBE Europe SA/NV

**Supplemental Report of the Independent
Expert**

14 December 2018

Prepared by: Alex Marcuson MA FIA, Marcuson Consulting Ltd

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Key acronyms and definitions

This Supplemental Report contains various acronyms, shorthand names for companies and technical terms. To aid readability, these are defined in a consolidated glossary in Appendix 9 of my Report dated 17 August 2018. Where used, the first letter has been capitalised. The bold items below are key items from the glossary. Shaded entries below indicate a change from and supersede the definitions contained in the Report.

Companies	QBE Limited	QBE Insurance Group Limited, ultimate owner of all of the companies within the QBE Group ; including QBE EO, QIEL, QBE Re and QBE Europe.
	QBE EO	QBE European Operations plc, a wholly-owned subsidiary of QBE Limited. A UK-regulated insurance holding company. QBE EO and all of its wholly-owned subsidiaries make up the QBE EO Group.
	QBE EO Staff	Employees of QIEL, QBE Re, QMIL and QMSUK acting on behalf of QBE EO.
	QIEL	QBE Insurance (Europe) Limited, a wholly-owned subsidiary of QBE EO. Following the QIEL Transfer , it will be renamed QBE Insurance (UK) Limited. It is a UK-regulated non-life insurance company. Where I am comparing QIEL's position before and after the Transfers, QIEL refers to its state before the QIEL Transfer and QBE UK its state afterwards.
	QBE Re	QBE Re (Europe) Limited, a wholly-owned subsidiary of QBE EO. The QBE Re Transfer will accompany the Cross-Border Merger of QBE Re into QBE Europe. A UK-regulated life and non-life reinsurance company.
	QBE Europe	QBE Europe SA/NV, the Transferee and a wholly-owned subsidiary of QBE EO. A Belgian-domiciled and regulated non-life insurance and life and non-life reinsurance company.
	QBE UK	This abbreviation refers to QIEL post-Transfers.
	QSCC	QBE Strategic Capital Company Pty Limited, the central treasury entity for the QBE Group. An Australian-domiciled company. QBE EO has a £175 million Contingent Capital Facility from QSCC to enable QBE EO to restore its capital and thereby ensure that QIEL, QBE Re and QBE Europe are able to meet the Capital Appetite Framework requirements.
	QMIL	QBE Management (Ireland) Limited, a wholly-owned subsidiary of QBE EO. An Ireland-domiciled service company.
Legal, regulatory and Pt. VII Transfer Terms	Brexit	The departure of the UK from the European Union; or the date of departure.
	Court	The High Court of Justice of England and Wales, which is responsible for approving the Transfers.
	Cross-Border Merger	The cross-border merger by absorption in accordance with the Companies (Cross-Border Mergers) Regulations 2007 (SI 2007/2974) and other laws of QBE Re into QBE Europe.
	European Business	Business currently written by QIEL in EEA States on either a Freedom of Services basis or via an EEA branch operating on a Freedom of Establishment basis.
	FCA and PRA	The two insurance regulators in the UK (the Financial Conduct Authority and the Prudential Regulation Authority). Both are consulted prior to the Transfers going ahead. References to SUP18 and the SoP are references to regulatory guidance that set out respectively the expectations of each regulator for the Report.
	Freedom of Services	In the context of insurance business, the permission for a firm authorised in one EEA state to underwrite insurance business anywhere within the EEA as if they were an authorised firm in the EEA state where the risk is underwritten.
	Freedom of Establishment	In the context of insurance business, the permission for a firm authorised in one EEA state to establish a branch office in any other state within the EEA to underwrite insurance business while remaining supervised by the prudential regulator of its home state.
	FSMA 2000	The UK legislation enabling the Transfers to take place. Its full name is the Financial Services and Markets Act 2000. Part VII of FSMA relates to insurance business transfers, commonly referred to as Part VII Transfers .
	Report and Supplemental Report	The Report of the Independent Expert dated 17 August 2018 prepared for the Court in accordance with FSMA 2000 setting out the effect of the Transfers on policyholders affected by them. This Supplemental Report is prepared for the Court before it is asked to approve the Transfers to update the Court on any significant matters arising since the Report was prepared.

Legal, reg., Pt. VII contd.	Transfers	Together, the QIEL Transfer and the QBE Re Transfer. These are set out in the Scheme submitted to the Court . These will take place on the Transfer Date , expected to be 1 January 2019.
	QIEL Transfer	The transfer of certain assets and liabilities of QIEL into QBE Europe.
	QBE Re Transfer	The transfer of all of the assets and liabilities of QBE Re into QBE Europe.
Policyholder groupings	Affected Policyholders	These comprise the Existing Policyholders , the Remaining Policyholders , the Transferring QIEL Policyholders and the Transferring QBE Re Policyholders .
	Excluded QIEL Policies	Policies of Policyholders that fall within the definition of the Transferring QIEL Policyholders but that QIEL and QBE Europe agree should be excluded from the QIEL Transfer.
	Existing Policyholders	The policyholders of QBE Europe prior to the Transfers.
	Remaining Policyholders	The policyholders of QIEL who will remain with QIEL following the Transfers. It includes policyholders of the Excluded QIEL Policies.
	Residual QIEL Policies	Policies of policyholders that fall within the definition of the Transferring QIEL Policyholders but where additional steps need to be taken before they can be Transferred
	Transferring QIEL Policyholders	The policyholders of QIEL who will transfer to QBE Europe under the QIEL Transfer. Essentially these will be the policyholders whose policy was written by an EEA branch of QIEL.
	Transferring QBE Re Policyholders	The policyholders of QBE Re who will transfer to QBE Europe under the QBE Re Transfer, i.e. all of the policyholders of QBE Re.
Other Insurance Terminology	CAF or Capital Appetite Framework	A statement by the Board of QBE EO setting out the target level and minimum threshold level of capital of all of QBE EO, QIEL, QBE Re and QBE Europe. It guides the Board of QBE EO in determining dividend levels and when steps need to be taken to restore the financial position of each company.
	CCR or Capital Cover Ratio	A quantitative measure of financial strength used in this Report, formally: $\text{Capital cover ratio \%} = \frac{\text{financial resources}}{\text{capital requirements}}$ EOFs are normally used for measuring financial resources; and SCR for capital requirements.
	Coverholder Business	Business written by coverholders of QIEL under delegated underwriting authority agreements.
	EOF or Eligible Own Funds	This is the surplus of assets over liabilities as determined under Solvency II. There are limits on the proportion of the SCR that can be met by certain types of Eligible Own Funds.
	GAAP	Generally Accepted Accounting Principles. Statutory Financial Statements are prepared using GAAP.
	GWP	Gross written premium.
	SCR or Solvency Capital Requirement	The regulatory capital requirement for a firm under Solvency II. Most firms use the prescribed Standard Formula SCR to determine their SCR. QBE EO, QIEL, QBE UK, QBE Re and QBE Europe, use their sophisticated risk modelling capabilities in the QBE EO Internal Model to determine an Indicative Internal Model SCR at a given point in time. At the time of writing, only QBE EO, QIEL and QBE Re have approval from the PRA to use the modelled results to determine their SCR, referred to as an Approved Internal Model SCR .
	Second Witness Statement	The second witness statement of Mr David Winkett, CFO of QIEL, QBE Re and QBE Europe. This will be submitted as evidence for the Sanction Hearing. QBE EO Staff have supplied me with a near-final draft version of this document and told me that they do not expect any material changes to the version I have received at the time of finalising this Supplemental Report
	Technical Provisions	These are essentially the amounts set aside by insurance companies, at a given date, to pay for all potential future cash-flows that would be incurred in meeting liabilities to policyholders from existing insurance and reinsurance contracts. The principles which are followed to calculate these provisions will differ depending on their purpose e.g. regulatory (Solvency II) or annual accounts reporting (GAAP). In this report, used interchangeably with Reserves .
	Comparative terms	I use the term remote to describe terms that I believe are sufficiently unlikely so as to be immaterial to my conclusions. This is discussed in greater detail in Section 6 of my Report.

All amounts in this Supplemental Report have been converted to Sterling at £1 = €1.13

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A. Introduction and Executive Summary

1. Introduction

- 1.1.1. I, Alex Marcuson, prepared a Report for the Court dated 17 August 2018 entitled “Proposed Part VII Insurance Business Transfers relating to: QBE Insurance (Europe) Limited, QBE Re (Europe) Limited and QBE Europe SA/NV – Report of the Independent Expert”. A copy of the Report has been available since 27 September 2018 on this web-site: www.qbeeurope.com/about-us/brexit.
- 1.1.2. This Supplemental Report has been prepared since I completed my Report to update the Court with more recent information surrounding the actual and projected positions of QIEL, QBE UK, QBE Re and QBE Europe. In addition, I highlighted various matters in my Report that I would revisit in this Supplemental Report. I also comment on any other developments that I believe would be of interest to the Court, including my opinion on any issues raised by the Affected Policyholders. This work enables me to confirm that there have not been any changes to the main conclusions set out in my Report.
- 1.1.3. This Supplemental Report should be read together with the Report as its findings relate to the conclusions of the Report. The important reliances, limitations, assumptions and sources of uncertainty in the Report also apply to this Supplemental Report. Appendix 9 of the Report contains definitions of certain terms used throughout this Supplemental Report.
- 1.1.4. Data provided to me for the purposes of compiling my Supplemental Report is set out in Appendix 1. I am satisfied that it is appropriate for me to rely upon it based upon the representations made to the Court in paragraph 33 of the Second Witness Statement.
- 1.1.5. This Supplemental Report, together with the Report dated 17 August 2018, has been prepared in compliance with the Financial Reporting Council’s Framework for FRC Technical Actuarial Standards and relevant Technical Actuarial Standards (TAS 100 and TAS 200) together with the relevant Actuarial Profession Standard of the Institute and Faculty of Actuaries (APS X2: Review of Actuarial Work).
- 1.1.6. This Supplemental Report contains the following sections:

<p>Section A: Introduction and Executive Summary</p> <p>1. Introduction</p> <p>2. Executive Summary</p>
<p>Section B: Updates arising</p> <p>3. Existing Policyholders</p> <p>4. Financial matters</p> <p>5. Non-financial matters</p> <p>6. Communications</p>
<p>Section C: Appendices</p>

2. Executive Summary

2.1. Changes to the Scheme and other developments

- 2.1.1. There have been no material changes to the Scheme since my Report.
- 2.1.2. From 2 October 2018, the UK branch of QBE Europe has commenced quoting for and binding certain Freedom of Services business predominantly involving non-UK EEA risks which will incept on or after 1 January 2019 in place of QIEL. The rationale for deciding to write this business through QBE Europe was prudence in light of the ongoing political uncertainty surrounding Brexit.
- 2.1.3. The Transfers are intended to take place at 1 a.m. GMT on 1 January 2019, while any of the policies referred to in paragraph 2.1.2 incepting on 1 January 2019 will incept no earlier than 12.01 a.m. in the relevant time-zone for the policy. Therefore, while I stated in my Report that there would not be any Existing Policyholders, the decision by QBE Europe to issue quotations and bind such policies on 1 January 2019 will mean that some business may incept before the Transfers take place. I therefore expect that there will be some Existing Policyholders.
- 2.1.4. For simplicity, the business plans underpinning the analysis in my Report had allowed for these policies to incept from 1 January 2019. There is therefore no change to the anticipated financial position of QBE UK and QBE Europe post-Transfers arising from this decision.
- 2.1.5. I am satisfied that the rationale for this decision (for QBE Europe to quote and bind business pre-Transfers) is appropriate.
- 2.1.6. I am also satisfied that:
- The Transfers will have no materially adverse effect on the Existing Policyholders, a conclusion that continues to apply if only one of the Transfers goes ahead;
 - The planned pre- and post-Transfers capital of QBE Europe will be in excess of its SCR and the capital that it is required to hold under its Capital Appetite Framework;
 - The communications material provided to the Existing Policyholders is appropriate; and
 - No additional publicity arrangements are required beyond those already undertaken by QBE EO Staff.

2.1.7. *I have therefore concluded that the decision for QBE Europe to quote for and bind business on a Freedom of Services basis from its UK Branch prior to 1 January 2019 does not change my overall conclusions regarding the Transfers.*

2.2. Changes to financial position of the companies considered in my report

- 2.2.1. I have reviewed the profits and summary financial statements declared by the various insurance companies considered in my Report and the QBE Group as a whole at mid-2018. Based on my discussions with QBE EO Staff, I am satisfied that there have been no developments in any of their financial positions that cause me to change any of my conclusions.
- 2.2.2. I am aware that during 2018 there have been a number of major natural catastrophes that have been widely reported in the media. QBE EO Staff have confirmed to me that none of these has given rise to insured losses that have had a material adverse impact on any of the companies.
- 2.2.3. The amounts set out in this Supplemental Report reflect the position of the companies as at 30 June 2018. The actual amounts of money transferred reflect subsequent changes in business plans and emerging profits but are not, in my view, currently projected to be materially different and do not affect any of my conclusions.

2.2.4. *I have concluded that the financial performance of these companies since the position set out in my Report does not change my overall conclusions regarding the Transfers.*

2.3. Injections and Transfers of Eligible Own Funds

- 2.3.1. As at 1 October 2018, QBE EO has capitalised QBE Europe with approximately £35¹ million of Eligible Own Funds and on 26 November 2018 QBE EO further capitalised QBE Europe with approximately £71² million of debt that will qualify post-Transfers as tier 2 Eligible Own Funds.
- 2.3.2. If both Transfers proceed as intended, £525 million of Eligible Own Funds will move to QBE Europe from QBE Re by means of the QBE Re Transfer and Cross-Border Merger. A further £224 million of Eligible Own Funds will need to be injected into QBE Europe from QBE EO. Of this, £162 million will be funded from expected surplus EOF released by QIEL pre-Transfers with the remaining £62 million already more than covered by the Eligible Own Funds injected on 26 November 2018.
- 2.3.3. If only the QIEL Transfer proceeds, £282 million of Eligible Own Funds will need to have been injected into QBE Europe from QBE EO. Again, £162 million of this will be funded from expected surplus EOF released by QIEL. In addition to the Eligible Own Funds already in QBE Europe that I have described in paragraph 2.3.1, additional Eligible Own Funds of approximately £49 million will need to be injected into QBE Europe by QBE EO (coming to £120 million in total).
- 2.3.4. If only the QBE Re Transfer proceeds, then QBE Europe will need to decide the extent to which it will underwrite new and renewal business previously underwritten by QIEL that was subject to the QIEL Transfer. In the next two paragraphs I have considered the Eligible Own Funds required under the plausible range of options that QBE Europe could in my view consider under this scenario. Owing to the contingent nature of the scenario, and the wide range of possible decisions that QBE Europe might take, QBE EO Staff have not calculated the capital requirements in respect of each option.
- 2.3.5. At one end of the range of options, QBE Europe could decide not to underwrite any business previously carried on by QIEL on a Freedom of Services basis or through its EEA branches. Only the business described in paragraph 2.1.2 would then need adding to the business of the Transferring QBE Re Policyholders. This can be considered to be a *minimal underwriting decision* as the only underwriting to continue from the Transfer Date will relate to business previously underwritten by QBE Re. In this case, approximately £7 million³ of Eligible Own Funds will be injected into QBE Europe from QBE EO over and above the amount injected on 26 November 2018, described in paragraph 2.3.1 (£78 million in total). The remainder of the required Eligible Own Funds will come from QBE Re by means of the QBE Re Transfer and Cross-Border Merger.
- 2.3.6. At the other extreme from the perspective of the financial resources required by QBE Europe, is the scenario where only the QBE Re Transfer proceeds and QBE Europe decides to underwrite all of the business previously carried on by QIEL on a Freedom of Services basis or through its EEA branches from the Transfer Date. This can be considered to be a *maximal underwriting decision* and provides for QBE Europe to underwrite the new and renewal business that it will underwrite if both Transfers proceed. In this case, additional Eligible Own Funds of at most £154 million⁴ will be required to be injected into QBE Europe from QBE EO in addition to the Eligible Own Funds

¹ €39 million.

² €80 million.

³ This approximate calculation is likely to be an over-estimate as it assumes no diversification between the SCR required to support the Existing Policyholders and the SCR required to support the Transferring QBE Re Policyholders.

⁴ This approximate calculation is likely to substantially over-estimate as it provides for QBE Europe to have the Eligible Own Funds of £784 million that it would require in the event that both Transfers proceed. It therefore includes an allowance for the SCR in respect of the Technical Provisions of the QIEL EEA branches.

from QBE Re and those injected on 26 November 2018 and described in paragraph 2.3.1 (£225 million in total).

- 2.3.7. Schematic diagrams of these capital flows covering the cases described in paragraphs 2.3.2 - 2.3.6, and similar to Figures 2 – 4 in my Report are contained in Appendix 2. As indicated in my Report and in these schematic diagrams, some of the Eligible Own Funds injected by QBE EO will arise from dividends by QIEL in respect of its excess Eligible Own Funds. In each case I am satisfied that QBE EO continues to have sufficient capital with which to provide these capital injections.
- 2.3.8. The Eligible Own Funds of QIEL and QBE Re used to determine the source of amounts making up the Eligible Own Funds of QBE Europe are based on the position of each firm at mid-year 2018 allowing for dividends and subordinated debt issuances planned to arise pre-Transfers. While each firm anticipates profitable trading activities over the period, no credit has been taken for these profits. QBE EO Staff have told me that for the purposes of the Transfers, they have assumed that the pre-Transfers Solvency II Technical Provisions will increase by £20 million by year-end. This is to allow for seasonality in the differences between GAAP and Solvency II Technical Provisions.

2.3.9. *I have concluded that an appropriate amount of Eligible Own Funds will be injected into QBE Europe and retained by QBE UK as needed.*

2.4. Other matters revisited for this Supplemental Report

- 2.4.1. *I have reviewed the matters that I indicated in my Report that I would confirm had been carried out and for each I have satisfied myself that they have each been addressed appropriately. None of the matters emerging that I have described here has led me to change my conclusions regarding the Transfers.*
- 2.4.2. *At the time of writing this Supplemental Report, licences for four countries where QBE Europe wishes to carry on reinsurance business are yet to be granted. Legal advice obtained by QBE EO Staff indicates that licences are not required by QBE Europe to carry out the activities required by it for the QBE Re Transfer to proceed, however this advice has not been confirmed in writing yet for Egypt. If both the licence and the written legal advice are still outstanding at the Sanction Hearing, the Court may be asked to make the QBE Re Transfer conditional upon either the reinsurance licence being received in Egypt or appropriate legal advice being obtained in the jurisdiction confirming that QBE Europe can pay claims without a licence.*
- 2.4.3. *Having discussed the circumstances with QBE EO Staff, I am satisfied that the proposed approach is appropriate. As my analysis has considered the scenario of either transfer being delayed or not proceeding, I am satisfied that my conclusions regarding the Transfers are not changed.*
- 2.4.4. *In addition, I understand that, while QBE Europe has applied to become a member of the motor bureaux in Denmark and France, membership has not yet been granted and this is required to conduct Class 10 (Motor) insurance business in these countries. Consequently, Class 10 (Motor) insurance policies in each country⁵ may be treated as Residual QIEL Policies until the memberships have been granted.*
- 2.4.5. *There are also 34 policies in the United States of America and San Marino that will also be treated as Residual QIEL Policies until QBE Europe obtains the required licences in each country.*
- 2.4.6. *QBE EO Staff have confirmed that there have not been any other material new regulatory issues raised by regulators of QIEL, QBE Re and QBE Europe.*

⁵ Including quotations issued pre-Transfers that are subsequently bound.

2.5. Communications

- 2.5.1. *I have reviewed the progress of the policyholder communications work carried out by QBE EO Staff. While I have not carried out a detailed audit of this exercise, I am satisfied that the work has been carried out in line with the descriptions provided to me and that no material issues have arisen to date.*
- 2.5.2. *I am not aware of any objection or material policyholder complaint raised regarding the Transfers.*
- 2.5.3. *I have reviewed the letter sent to policyholders of QBE Europe whose policies will bind before the Sanction Hearing and incept on 1 January 2019 and believe that it is appropriate in the context of the Transfers.*
- 2.5.4. *I am satisfied that QBE EO Staff have addressed other matters arising relating to communications in an appropriate fashion.*

2.6. Expert's declaration

- 2.6.1. I confirm that I fully understand my overriding duty to the Court and that I must help the Court on matters within my expertise. My duty to the Court overrides any obligation to those from whom I have received instructions or by whom I am paid. I believe that I have complied, and will continue to comply, with this duty.
- 2.6.2. I confirm that I am aware of the requirements of Part 35 and Practice Direction 35 of the Civil Procedure Rules, and the Guidance for the Instruction of Experts in Civil Claims 2014.
- 2.6.3. I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

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Alex Marcuson MA FIA

14 December 2018

B. Updates arising

3. Existing Policyholders

3.1. Introduction

- 3.1.1. In my Report, I stated that there were no Existing Policyholders⁶.
- 3.1.2. Business comprising non-UK EEA risks written on a Freedom of Services basis is currently underwritten by QIEL and will not transfer from QIEL to QBE Europe under the QIEL Transfer. From 2 October 2018, the UK branch of QBE Europe has commenced quoting for business of this nature for policies that will incept on or after 1 January 2019. For the avoidance of doubt, this does not represent a change to the business plans of QBE Europe when compared to the business that I had anticipated it would underwrite in my Report.
- 3.1.3. The Transfers are intended to take place at 1 a.m. GMT on 1 January 2019, while any policies as described in paragraph 3.1.2 and incepting on 1 January 2019 will do so no earlier than 12.01 a.m. in the relevant time-zone for the policy on that date. Therefore policyholders with policies as described in paragraph 3.1.2 above and that incept with QBE Europe prior to 1 a.m. GMT on 1 January 2019 will be Existing Policyholders.
- 3.1.4. For the purposes of my consideration of the effect of the Transfers, I have also included those policyholders with policies that will incept with QBE Europe on or after 1 January 2019, but where the contract was entered into pre-Transfers.

3.2. Rationale

- 3.2.1. Under the Scheme, Freedom of Services business written by QIEL will not transfer to QBE Europe. The rationale for quoting and binding the policyholders described in paragraph 3.1.2 with QBE Europe pre-Transfers (as opposed to QIEL) is so that post-Transfers they benefit from policies issued by a firm that in all post-Brexit scenarios is authorised to underwrite business, administer policies and settle claims throughout the EEA. The boards of QIEL and QBE Europe took this decision in light of ongoing political uncertainty surrounding Brexit.
- 3.2.2. While it is for a policyholder to decide whether to enter into a (re-)insurance contract with a particular (re-)insurer, I see this approach as being in these policyholders' interests as it provides them with greater certainty regarding their (re-)insurer's ability to administer their policies and settle their claims throughout the EEA post-Brexit.

3.2.3. *I am satisfied that the rationale for QBE Europe's decision to start quoting and binding new business pre-Transfers which will incept from 1 January 2019 is appropriate.*

3.3. Impact of the Transfers on the Existing Policyholders

- 3.3.1. QBE EO Staff have told me that as at 31 December 2018 QBE Europe will have Eligible Own Funds of £97 million. QBE Europe's Standard Formula SCR has been calculated as £26 million⁷ giving it a Capital Cover Ratio of approximately 380%. This high level of EOF relative to SCR is to ensure that it meets its Capital Appetite Framework target (of 110% of SF SCR in its case) once the Transfers have taken place.

3.3.2. *I have performed a high-level review of the QBE Europe's pre-Transfer SCR and concluded that it will hold capital in excess of both its regulatory capital requirements and as required under its Capital Appetite Framework.*

⁶ By definition, this refers to any policyholders of QBE Europe pre-Transfers.

⁷ €29 million.

- 3.3.3. As described in my Report, QBE Europe will hold Eligible Own Funds post-Transfer in line with its Capital Appetite Framework, being the greater of 110% of its SCR and 130% of its Indicative Internal Model SCR.
- 3.3.4. Although the Existing Policyholders will experience a large reduction in their CCR following the Transfers, in my view this is because additional excess capital has only been placed into QBE Europe to enable the Transfers to take place. I do not believe that it is reasonable for the Existing Policyholders to assume that QBE Europe would continue to maintain such a level of capital in excess of its stated Capital Appetite Framework other than for the purposes of enabling the Transfers.
- 3.3.5. The Existing Policyholders will benefit from the Transfers by being policyholders of a much larger (re-)insurer post-Transfers with a greater diversification of risk within QBE Europe and a greater ability to withstand individual large losses through the increased absolute magnitude of its net assets.

3.3.6. *I have therefore concluded that the Existing Policyholders will not be materially adversely affected by the Transfers.*

- 3.3.7. In the Report I concluded that QBE Europe would be able to meet its regulatory capital requirements and that the chance of its policyholders not having their claims paid in full as they fall due to be very remote.
- 3.3.8. In the Report, the calculation of QBE Europe's SCR and its Indicative Internal Model SCR made the simplifying assumption of assuming a full year of underwriting in 2019 and included allowance for the risks underwritten by QBE Europe's UK branch incepting on or after 1 January 2019. The SCRs therefore already allowed for the Existing Policyholders in the business plans upon which the analysis was performed. Based on this, together with my updated analysis of the financial position of QBE Europe post-Transfers set out in Section 4, I have concluded that the Transfers will not materially adversely affect the Existing Policyholders.

3.3.9. *I have concluded that the Transfers will not have a materially adverse effect on the Existing Policyholders even though they will experience a reduction in the financial strength of QBE Europe due to the excess capital held in QBE Europe pre-Transfers to enable the Transfers to go ahead.*

3.4. Policies and Procedures

- 3.4.1. The Second Witness Statement confirms that QBE Europe had all of its necessary policies and procedures in place to enable it to undertake the business it wished to carry on. It had demonstrated this to the NBB's satisfaction in order that it could commence issuing quotations for new business from 2 October 2018 and incepting risks from 1 January 2019. I consider that in meeting the requirements of the NBB's authorisation processes, it has carried out an appropriate level of preparation.

3.5. Communications material provided to Existing Policyholders

- 3.5.1. QBE EO Staff have prepared a short letter which they have sent (and will continue to send) to all policyholders of policies as they are bound by QBE Europe prior to the Sanction Hearing. This letter explains the QBE Group's Brexit restructuring plans and alerts them to the planned changes to QBE Europe that will arise as a result of the Transfers.
- 3.5.2. The letter also explains the Part VII Transfer process, advises them of the date and location of the Sanction Hearing and the effective date of the Transfers. It confirms that there will be no changes to the policy terms and conditions and describes the means by which recipients of the letter can obtain further information regarding the Transfers.

3.5.3. The date of the Sanction Hearing has been publicly available since 27 September 2018 on the web-site: www.qbeurope.com/about-us/brexit.

3.5.4. *I am satisfied that the letter provides the Existing Policyholders with appropriate information, presented in a suitable fashion, and that reasonable steps have been taken to provide Existing Policyholders with advance notice of the timing and location of the Sanction Hearing.*

3.5.5. Both the PRA and FCA have been provided with a copy of this letter and provided with an opportunity to comment on it before was finalised.

3.6. Publicity arrangements

3.6.1. QBE EO Staff have confirmed to me that QBE Europe is not quoting or binding any risks in EEA states where QIEL does not already underwrite risks. As it has carried out advertising and published notices regarding the Transfers in accordance with FSMA 2000 (Control of Business Transfer) (Requirements on Applicants) Regulations 2001 (S.I. 2001/3625), I am satisfied that no additional publicity arrangements are required beyond those already undertaken by QBE EO Staff.

3.7. Conclusions

3.7.1. *I have therefore concluded that QBE Europe's decision to quote and bind policies that will incept pre-Transfers on 1 January 2019 does not change my overall conclusions regarding the Transfers and the impact on Existing Policyholders.*

4. Financial matters

4.1. Introduction

4.1.1. This section contains:

- Updated QIEL and QBE Re performance.
- Updated Financial performance of QBE Group and QBE EO.
- Internal model updates and model validation.
- Updated Capital Cover Ratios.
- Updated Scenario Testing.
- QIEL intra-branch loans.
- Structure of Eligible Own Funds of QBE Europe post-Transfers.

4.2. Updated QIEL and QBE Re performance

4.2.1. QBE EO Staff have provided me with the following data:

- Pre-Transfers 30 June 2018 Solvency II balance sheets submitted to the PRA.
- Board presentations setting out the performance of QIEL and QBE Re since 2017 year-end.

4.2.2. Table 4.1 sets out the change in GAAP and Solvency II net assets for QIEL and QBE Re as at 30 June 2018. It also shows the adjustments applied to these net assets to determine the Eligible Own Funds used to determine the capital injections required from QBE EO into QBE Europe.

Table 4.1 – QIEL and QBE Re change in Solvency II Net Assets / Eligible Own Funds between 31 December 2017 and 30 June 2018				
Pre-Transfers	GAAP - £m		Solvency II - £m	
	QIEL	QBE Re	QIEL	QBE Re
A. Net assets as at 31 December 2017	1,308	546	1,151	511
B. Profit (Loss) in 2018 H1	(14)	13	10	(1)
C. Net assets as at 30 June 2018 (A+B)	1,294	559	1,161	510
D. Ring-fenced funds			(10)	(12)
E. Dividend declared during 2018 H2			(35)	(80)
F. Subordinated Tier 2 Debt issued during 2018 H2			-	106
G. Seasonality allowance (see paragraph 4.2.10)			(20)	-
H. EOF for Transfer calculations (C+D+E+F+G)			1,097	525

4.2.3. Balance sheets as at 30 June 2018, and a translation of the Technical Provisions between GAAP and Solvency II are shown for each company in Appendix 3.

4.2.4. As can be seen in Table 4.1, both QBE and QIEL experienced very small profits and losses during the first half of 2018 on both GAAP and Solvency II bases.

4.2.5. I have reviewed the changes set out in Table 4.1 and discussed the underlying causes of the movements with QBE EO Staff. I also reviewed at a high-level the mid-year actuarial paper prepared for QBE EO's reserve working group and the calculations to translate the actuarial reserve estimates to a Solvency II basis.

4.2.6. Overall the two firms have not experienced any major loss events during the first half of 2018. At an individual level, none of the developments fell outside the range of movement that I would have expected to arise within portfolios of their size or nature.

4.2.7. The Table 4.1 shows immaterial differences between GAAP and Solvency II profits and losses.

4.2.8. QBE EO Staff have confirmed to me that there have been no material changes in the net assets, business plans (including in respect of the business discussed in Section 3 of this Supplemental Report) or Solvency II Own Funds since 30 June 2018 of each of QIEL, QBE Re, QBE UK and QBE Europe.

- 4.2.9. In the event of a material adverse change for either QIEL or QBE Re causing either to fall outside their CAF or causing the projected position of QBE UK or QBE Europe to fall, then they will arrange for additional EOF to be injected into one or more of the companies as needed from QBE EO to restore their position(s).
- 4.2.10. While it is inevitable that there will be changes in the Eligible Own Funds of each company between 30 June 2018 and the Transfer Date other than those indicated in Table 4.1, given the resources available to QBE EO and QBE Limited, I do not anticipate that these will be large enough to affect my conclusions. QBE EO Staff have told me that for the purposes of the Transfers, they have assumed that the pre-Transfers Solvency II Technical Provisions will increase by £20 million by year-end. This is to allow for seasonality in the differences between GAAP and Solvency II Technical Provisions.

4.3. Updated Financial performance of QBE Group and QBE EO

- 4.3.1. At 30 June 2018, both QBE Group and QBE EO declared profits on their performance for the first half of 2018.
- 4.3.2. QBE EO Staff have confirmed to me that neither firm has suffered losses as a result of the various widely reported natural catastrophe events arising during 2018 (including those arising during the second half of 2018) which have any material impact on their business performance. This is consistent with my understanding of the scale of the insured losses at a market-wide level.
- 4.3.3. Based on this, I am satisfied that the experience of QBE Group and QBE EO since I prepared my Report does not cause me to change my conclusions.

4.4. Internal model updates and model validation

- 4.4.1. During May 2018, QBE EO sought approval from the PRA to extend the scope of the QBE EO Internal Model to include QBE Europe. This application did not extend the use of the QBE EO Internal Model to determine the SCR for QBE Europe. QBE EO Staff have told me that approval for this change to the scope of the QBE EO Internal Model was granted on 28 November 2018.
- 4.4.2. QBE EO updated its internal model during the first half of 2018 and on 3 August 2018 submitted a Major Model Change application (distinct from the model change described in paragraph 4.4.1) to the PRA for approval. This application included seeking permission for QBE Europe to determine its SCR using the QBE EO Internal Model and recognising the effects of the QIEL Transfer on QIEL.
- 4.4.3. I have reviewed at a high-level the model changes and the independent model validation performed on the QBE EO Internal Model prior to the application described in paragraph 4.4.2. This independent model validation has been performed in line with the description of the model governance described in Section 11 of the Report. Based on my review of these documents, I am satisfied that they did not raise any material new issues for me that had not already been appropriately addressed by QBE EO Staff.
- 4.4.4. QBE EO Staff have told me that they have been in detailed discussions with both the PRA and the NBB following submission and anticipate a decision from the PRA regarding approval of the Major Model Change during January or February 2019, after the Transfers, but in line with the normal annual cycle of approval of Major Model Changes. This is consistent with the timetable I had assumed in my Report.
- 4.4.5. This timing means that the SCR for each company post-Transfers will be set using the mechanisms described in my Report, and that any subsequent change in these will be subject to the PRA's approval. Similarly, the target level of capital that each company will hold immediately

post-Transfers will continue to use the approach described in each companies' Capital Appetite Framework.

4.5. Updated Capital Cover Ratios

4.5.1. Table 4.2 sets out the capital requirements using the three approaches used in Section 13 of my Report and Table 4.3 sets out the corresponding CCRs for each company pre- and post-Transfers, assuming both Transfers go ahead as at 30 June 2018. Similar tables under each single-Transfer scenario are contained in Appendix 5.

Table 4.2 – Capital Requirements and Eligible Own Funds on each Comparison Basis as at 30 June 2018 - £m					
		Approved / Indicative Internal Model SCR basis	Standard Formula SCR basis	SCR basis	Eligible Own Funds
Pre-Transfers	QIEL	850	960	850	1,097
	QBE Re	404	555	404	525
Post-Transfers	QBE UK	698	783	850	935
	QBE Europe	523	713	713	784

Table 4.3 - CCR % on each Comparison Basis as at 30 June 2018				
		Approved / Indicative Internal Model SCR basis	Standard Formula SCR basis	SCR basis
Pre-Transfers	QIEL	129%	114%	129%
	QBE Re	130%	95%	130%
Post-Transfers	QBE UK	134%	119%	110%
	QBE Europe	150%	110%	110%

Note: Figures in Tables 4.2 and 4.3 allow for planned changes in 2018 H2. See items E, F and G in Table 4.1

4.5.2. Based on these tables, I am satisfied that my conclusions regarding the Transfers using these measures are unchanged. Similarly, using the summary tables in Appendix 5, my conclusions are unchanged if only one of the Transfers proceeds.

4.6. Updated Scenario Testing

4.6.1. I have updated my sensitivity, scenario and reverse stress testing based on the updated information prepared for me by QBE EO Staff. These do not indicate any change to the conclusions set out in my Report.

4.7. QIEL intra-branch loans

4.7.1. QBE EO Staff have told me that the balances of the intra-branch loans described in Section 13.2 of my Report are approximately £674 million⁸ as at 30 June 2018 and are expected to persist until the Transfer Date. So that these do not become intercompany debtors as a result of the Transfers (which would attract a high capital charge in the Standard Formula SCR calculation), these balances will be converted into a loan agreement between QBE UK and QBE Europe which will take effect on the Transfer Date. QBE EO Staff have told me this loan will be repaid shortly after the Transfers.

4.8. Structure of Eligible Own Funds of QBE Europe post-Transfers

4.8.1. Table 4.1 shows that QBE Re increased its Eligible Own Funds by issuing some subordinated Tier 2 Debt. This was part of an exercise to change the capital structure of QBE Re by reducing its equity and replacing it with debt that could be used as Eligible Own Funds.

⁸ €762 million

4.8.2. Table 4.4 shows the anticipated breakdown of Eligible Own Funds for QBE Europe post-Transfers.

Table 4.4 – QBE Europe Eligible Own Funds post-Transfer, £m	
Tier 1	653
Tier 2	106
Tier 3	25
Total	784

4.9. Conclusions

4.9.1. *Based on this updated analysis, I am satisfied myself that no changes are required to my conclusions regarding the financial position of the Affected Policyholders.*

5. Non-financial matters

5.1. Introduction

5.1.1. In this section, I comment upon the following items:

- QBE Europe branch permissions;
Other regulatory matters; and
- Taxation.

5.2. QBE Europe branch permissions and licences

5.2.1. The following paragraphs in this Section 5.2 set out the status of QBE Europe's branch permissions and reinsurance licences. This information has been provided to me by QBE EO Staff and confirmed in the Second Witness Statement.

COMPLETED REGULATORY ACTIVITY

5.2.2. On 22 May 2018, QBE Europe received permission from the NBB to carry on insurance and reinsurance business in Belgium.

5.2.3. At various dates between 5 June and 4 October 2018, QBE Europe was granted permission to establish branches in Denmark, France, Germany, Ireland Italy, Spain, Sweden and the UK. On 22 May 2018 the NBB confirmed it had no objection to QBE Europe carrying on business on a Freedom of Establishment basis where branches had been established in these countries.

5.2.4. On 22 May 2018 QBE Europe obtained permission from the relevant regulators to carry on (re-)insurance business on a Freedom of Services basis across the EEA (other than the UK); and in the UK on 31 October 2018.

5.2.5. On 5 October 2018, QIEL applied to the PRA and FCA to cancel the authorisation of its Romania Branch on the grounds that its liabilities had entirely run-off. The PRA subsequently cancelled QIEL's permission to write business on a Freedom of Establishment basis in the jurisdiction.

5.2.6. On 15 October 2018, QBE Europe obtained accreditation to write reinsurance business in Peru.

5.2.7. On 11 December 2018, QBE Europe became authorised as a class 4 insurer in Bermuda (effective on 5 December 2018).

5.2.8. On 14 December 2018, QBE Europe was granted a licence to carry on insurance business in Monaco.

QIEL TRANSFER – RESIDUAL POLICYHOLDERS – DENMARK AND FRANCE MOTOR BUSINESS

5.2.9. At the time of completing this Supplemental Report, QBE EO Staff have told me that the writing of Class 10 (motor) business in Denmark and France cannot commence (notwithstanding the fact that regulatory approval has been obtained) until QBE Europe obtains membership of the respective local motor insurance bureaux. QBE Europe will confirm the position for each country to the Court at the Sanction Hearing.

5.2.10. Should the memberships not be in place at the Transfer Date, motor policies written⁹ pre-Transfer Date in Denmark or France will become Residual QIEL Policies. On membership being granted, they will then transfer to QBE Europe. If there were to be a protracted delay, then QIEL and QBE Europe would need to put in place an alternative arrangement prior to Brexit to cater for these policyholders. While I have noted the possible need for further contingency planning, I do not believe it has any effect on my conclusions regarding the Transfers. This is because:

- this set of circumstances is not expected to arise; and

⁹ Including quotations issued pre-Transfers and subsequently bound.

- this results in the same outcome for these policyholders as would be the case were the QIEL Transfer not to proceed.

QIEL TRANSFER – RESIDUAL POLICYHOLDERS – UNITED STATES OF AMERICA AND SAN MARINO

- 5.2.11. QBE Europe has applied to the National Association of Insurance Commissioners in the United States of America to appear in the quarterly listing of alien insurers. This will allow QBE Europe to underwrite surplus lines insurance in every state in the USA.
- 5.2.12. QBE Europe has applied to the San Marino insurance regulator for an insurance licence. For the avoidance of doubt, QBE EO Staff have told me that no pre-Transfers business will be bound by QBE Europe in San Marino.
- 5.2.13. There are 33 policies of Transferring QIEL Policyholders that were written in the United States of America and 1 written in San Marino. All are currently administered by European branches of QIEL.
- 5.2.14. Until the licences in the relevant countries are received, these will be Residual QIEL Policies and continue to be administered by the relevant European branch of QIEL. Should this no longer be possible post-Brexit, administration of any remaining Residual QIEL Policies in the United States of America or San Marino will be undertaken by the UK home office of QIEL.

QBE RE TRANSFER – POSSIBLE CONDITIONAL ORDER

- 5.2.15. QBE EO Staff have told me that the QBE Re Transfer may be amended to be conditional upon completion of one regulatory matter described in the following paragraphs. While outstanding at the time of finalising this Supplemental Report, a conditional order will only be required if it remains outstanding at the Sanction Hearing.
- 5.2.16. QBE EO Staff have told me that if required, the conditional Court order will delay the QBE Re Transfer until the outstanding matter has been completed. It will also contain a description of the conditions under which the QBE Re Transfer will not go ahead. Having reviewed these contingency plans and discussed them with QBE EO Staff, I am satisfied that they are an appropriate course of action to be followed.
- 5.2.17. My analysis and conclusions in both my Report and this Supplemental Report have taken account of the possibility of only one of the Transfers proceeding, or of either of them being delayed. I am therefore satisfied that my conclusions are unchanged by these outstanding regulatory matters.

QBE RE TRANSFER – REINSURANCE LICENCES

- 5.2.18. QBE Europe has received licences to write reinsurance in 11 out of the 15 jurisdictions listed in the Witness Statement and Second Witness Statement on various dates between 13 August 2018 and 7 December 2018. QBE EO Staff have told me that at the time of completing this Supplemental Report, licences in Egypt, El Salvador, Honduras and Venezuela remain outstanding.
- 5.2.19. QBE Europe has obtained written legal advice from local law firms in El Salvador, Honduras and Venezuela that has confirmed that a licence is not required to settle reinsurance claims or undertake policy administration in any of these countries, and a licence is only required for underwriting policies. I therefore do not believe that QBE Europe's failure to obtain a licence by the Transfer Date should present an obstacle to the QBE Re Transfer and Cross Border Merger going ahead.
- 5.2.20. QBE EO Staff have told me that QBE Europe has received legal advice, which is yet to be formalised, from a local law firm in Egypt. The advice is that a licence is required to underwrite reinsurance policies and carry out reinsurance policy administration, but not to settle or administer reinsurance

claims. QBE EO Staff have also confirmed to me that all of the affected Egyptian policies that are moving to QBE Europe under the QBE Re Transfer have expired, and only claim settlement activity will be required of QBE Europe. QBE Europe expects to obtain either the licence or the written legal advice prior to the Sanction Hearing. If neither the licence nor the written legal advice has been received prior to the Sanction Hearing, then QBE EO Staff have told me that the Court order for the QBE Re Transfer will be amended to be conditional upon QBE Europe obtaining either the Egyptian licence or the Egyptian written legal advice.

- 5.2.21. QBE EO Staff have told me that QBE Europe will not write new reinsurance business in those countries for which it does not have a reinsurance licence. I have confirmed that the volume of business affected by this is approximately 1% of the planned net premium income of QBE Europe, and should QIEL be used to underwrite this business instead¹⁰, is a similar proportion of the planned net premium income of QIEL post-Transfers. I therefore do not expect that any such changes will have a material impact on the financial position of either company.
- 5.2.22. QBE EO Staff have told me that the status of outstanding licences and the relevant legal advice will be summarised for the Court at the Sanction Hearing.

OTHER MATTERS

- 5.2.23. QIEL business in Ireland that is subject to the QIEL Transfer will now be carried on by the Irish Branch of QBE Europe and will not be carried out on a Freedom of Services basis by its UK Branch as had been anticipated in the First Witness Statement.

SUMMARY

- 5.2.24. The remaining paragraphs in this Section 5.2 summarise the position regarding the various outstanding regulatory permissions and licences set out above. I am satisfied that the approach proposed to address each of them is appropriate, and that by following this approach my conclusions regarding the Transfers are unchanged.

- 5.2.25. *QIEL's Danish motor policies will be Residual Policies until QBE Europe's Danish branch obtains membership of the Danish motor insurance bureau.*
- 5.2.26. *QIEL's French motor policies will be Residual Policies until QBE Europe's French branch obtains membership of the France motor insurance bureau.*
- 5.2.27. *QIEL's policies in the United States of America which were underwritten and are administered by a European Branch of QIEL will be Residual Policies until QBE Europe is included in the quarterly listing of alien insurers by the National Association of Insurance Commissioners in the United States of America.*
- 5.2.28. *QIEL's policy in San Marino which was underwritten and is administered by a European Branch of QIEL will be a Residual Policy until QBE Europe obtains its insurance licence to carry on business in San Marino.*
- 5.2.29. *If not received by QBE Europe by the Sanction Hearing, the QBE Re Transfer will be amended to be conditional upon receipt by QBE Europe of either:*
- *Written approval of its reinsurance licence in Egypt; or*
 - *Written legal opinion confirming that a licence is not required to settle reinsurance claims in Egypt.*

¹⁰ For the avoidance of doubt, QBE may offer to policyholders another of its reinsurers to underwrite this business.

5.3. Policyholder Protection Scheme

- 5.3.1. In Section 17.4 of my Report I described the protection that some of the Transferring Policyholders currently received from the Policyholder Protection Scheme operated by the FSCS. I also noted that those Transferring Policyholders that met the eligibility requirements of the Policyholder Protection Scheme would lose its benefits in respect of insured events arising after the Transfer Date.
- 5.3.2. Since I issued my Report, the PRA has confirmed to me that, for as long as QBE Europe continues to maintain a UK Branch, it will be considered to be a 'relevant person' for the purposes of the Policyholder Protection Scheme. This means that, setting aside Brexit, Transferring Policyholders that meet the eligibility requirements of the Policyholder Protection Scheme will retain the benefit of its protection post-Transfers for unexpired periods of cover.
- 5.3.3. In October 2018, the PRA published a consultation paper¹¹ setting out its proposed changes to accommodate the effects of Brexit. I note that the consultation concludes in January 2019, after the Sanction Hearing and Transfer Date, and the consultation paper indicates that the proposals will not apply in the event that a transition period is agreed between the UK and EU.
- 5.3.4. The consultation paper states (at paragraph 8.39) that the "PRA proposes to maintain existing FSCS protection for insurance policies issued prior to exit day such that existing FSCS protected policies maintain protection until risks are run off, as long as the insurer remains a 'relevant person' under FSMA".
- 5.3.5. I have interpreted this as meaning that post-Brexit and under these proposals, both Transferring Policyholders and Existing Policyholders of QBE Europe that meet the eligibility requirements of the Policyholder Protection Scheme will retain the benefit of its protection post-Brexit for as long as QBE Europe retains an authorised UK Branch. The PRA has confirmed to me that this understanding is correct in respect of the Transfers and its proposals set out in its consultation paper CP26/18.
- 5.3.6. While QBE EO Staff has told me that it has no plans to cease having an authorised UK Branch, in the event that QBE Europe were to do so, the position would revert to that described in paragraph 17.4 of my Report.

5.3.7. *Based on this analysis, I am satisfied that there are no adverse changes to the conclusions described in my Report regarding the Policyholder Protection Scheme, and the position of certain policyholders may be improved by the PRA's proposals.*

- 5.3.8. QBE EO Staff have told me that the in-house team responsible for policy wording will be updating policy documentation to ensure that it accurately reflects the position of policyholders with respect to their ability to access the Policyholder Protection Scheme.

5.4. Other regulatory matters

- 5.4.1. In my Report I indicated that both the NBB and the BMA had been provided with my contact details should there be any regulatory matters that they wish to discuss with me directly. I can confirm that neither has raised any matters with me in relation to the Transfers.

¹¹ Consultation Paper CP26/18 UK withdrawal from the EU: Changes to PRA Rulebook and onshored Binding Technical Standards. <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2018/cp2618-complete.pdf>

5.5. Taxation

5.5.1. QBE EO Staff have confirmed to me that no material tax liabilities have been identified arising from the Transfers.

5.6. Governing Law

5.6.1. I have been provided with an executed copy of the deed poll made by the board of QBE Europe that I described in Section 17.7 of the Report. The execution and interpretation of this deed poll has been confirmed in the Second Witness Statement.

5.7. Conclusion

5.7.1. *Based on this analysis, I am satisfied that there have been no non-financial matters arising since my Report that have led me to amend my conclusions regarding the Transfers.*

6. Communications

6.1. Update on status of communications

6.1.1. Other than in respect of Existing Policyholders discussed in Section 3, there have been no changes to the notification or publicity arrangements surrounding the Transfers.

6.2. Objections to the Transfers and other Policyholder Issues raised

6.2.1. I have not been advised of any matters raised by policyholders that I consider to represent an objection to either of the Transfers.

6.2.2. QIEL, QBE Re and QBE Europe have established helplines in several EEA jurisdictions where there are Transferring Policyholders. As at 7 December 2018, the number of telephone calls to the helplines has been very low (approximately 418 calls). Based on this volume of calls I am satisfied that there do not appear to be any major areas of policyholder confusion or concerns in response to the Transfers or the policyholder communication material.

6.2.3. I have noted the letter received by QBE Europe from Liverpool Victoria regarding the QBE Re Transfer and the response from QBE Europe that is described in the Second Witness Statement and am satisfied that the issues raised regarding the administration of the policy post-Brexit have been appropriately addressed. As a result, it has not caused me to change my conclusions regarding the Transfers.

6.3. Communications documents

6.3.1. I am satisfied that the communication documents sent to policyholders regarding the Transfers are consistent with my expectations at the time of completing my Report and that the communication material used was appropriate. There were two minor modifications made to communication arrangements for policyholders in Belgium. Policyholders of the Belgium branch of QBE Re received their communications material in English; those of the Belgium branch of QIEL, being administered from France, received their communications material in French. I do not consider that these modifications to the arrangements are material and I have no reason to believe that they will have caused any issues for the policyholders to whom these changes applied.

6.3.2. The Second Witness Statement has confirmed that QBE EO Staff has obtained certificates from Rosetta Translation Limited verifying the accuracy of the communications material translated.

6.4. Publicity

6.4.1. QBE EO Staff have confirmed that notices were placed in publications as planned between 28 September 2018 and 2 November 2018.

6.4.2. I note that on 13 December 2018 QIEL, QBE Re and QBE Europe decided to delay the Sanction Hearing from 19 December 2018 to 21 December 2018 as described in the Second Witness Statement. I am satisfied with the reasons for this deferral and that QBE EO Staff have taken appropriate steps to notify Affected Policyholders of the change of date. This has not led me to change any of my conclusions regarding the Transfers.

6.5. Result of email and postal mailings

6.5.1. QBE EO's initial mailing exercise (either printed documents or emailed) took place between 7 September 2018 and 3 October 2018 and was addressed to recipients (being policyholders of QIEL and QBE Re, claimants, intermediaries, reinsurance brokers and reinsurers of policies transferring to QBE Europe). The Second Witness Statement includes a statement that all documents were correctly posted or emailed and provides an analysis of the performance. The vast majority of communication packs were sent by post rather than email. This was due to the

large amount of broker-placed business where only the postal address was held for Affected Policyholders. Brokers and coverholders also received communication packs, usually via email.

- 6.5.2. I am satisfied that the process followed where there is returned notification material, and the process QBE EO Staff have described to me, are consistent with the proposals previously advised to me. In forming this view I note that in a number of cases QBE EO Staff have in some cases instructed a tracing agent rather than carrying out some of the initial checking procedures they had previously indicated that they would do.
- 6.5.3. QBE EO Staff have provided me with details of the numbers of policyholder mailings that have been returned, both for electronic and postal mail communications, and from follow-up policyholder mailings. The levels of returned communications have not led me to have concerns regarding the effectiveness of the communications exercise.
- 6.5.4. QBE EO Staff have told me that for policyholders where communication was to be handled by a Broker, almost all of the Brokers have confirmed that the mailing has been successfully carried out. Where QBE EO Staff have not received such confirmation from the Broker, QBE EO Staff have contacted the Affected Policyholder directly, to minimise the risk of such a policyholder not receiving the notification material regarding the Transfers.
- 6.5.5. I have noted the difficulties arising in respect of notifying Affected Policyholders in respect of business placed through its coverholders April Partenaires in France and Willis General Agency Srl in Italy. The circumstances in each case have been described in detail in the Second Witness Statement. Based on these descriptions, I am satisfied that QIEL has made reasonable efforts to contact these policyholders.

6.5.6. *Based on the information provided to me by QBE EO Staff and the summary of the position set out in the Second Witness Statement, I am satisfied that the policyholder notification has been carried out appropriately.*

C. Appendices

Appendix 1. List of additional data items received for the Supplemental Report

In writing this Supplemental Report, I relied upon the accuracy of certain documents and information provided by QBE EO Staff. The items that were used to prepare this Supplemental report included but were not limited to the following:

Balance sheet and Reserving

- Unaudited UK GAAP and Solvency II balance sheets for QIEL & QBE Re as at 30 June 2018.
- Pro forma balance sheets (GAAP and Solvency II) for post-Transfer entities 30 June 2018.
- Board presentations for QIEL and QBE Re's financial performance since 2017 year-end.
- QBE EO Reserve Working Group actuarial reserve results pack as at 31 March 2018.
- GAAP to SII technical provisions translations as at 30 June 2018.
- Reconciliation from 31 March 2018 reserving to UK GAAP balance sheets as at 30 June 2018.

Capital

- Information related to QBE EO's Internal Model for major model change submission in August 2018:
 - Internal Model Validation reports.
 - Capital Model Design and Operation documentation.
 - SCR Report.
- Information and testing relating to the QBE EO Internal Model SCR results including updates to additional quantitative tests performed (sensitivity, scenario and reverse stress tests).
- Standard Formula calculations for QBE Europe pre-transfers.

Policyholder communications

- Translation certifications for:
 - Swedish translation of "Transferring to QBE Europe SA/NV"
 - Estonian translation of "Legal Notice", "Summary of the Scheme and the Report", and "Transferring to QBE Europe SA/NV".
 - French translation of "Draft Letter to QIEL and QBE Re Transferring Policyholders"
- Communications dashboard tracking policyholder responses (various dates during 4th quarter of 2018).

Other Non-Financials

- Board paper on indicative fair value of QBE Re and QIEL branches.
- Common draft terms of, and director's explanatory report on, the proposed cross-border merger between QBE Re and QBE Europe.

Other information has been gathered from email correspondence and meetings with staff and representatives of QBE EO.

Appendix 2. Eligible Own Funds flow diagrams

The figures in this Appendix provide schematic diagrams to show the flow of EOF between firms that will accompany the Transfers. These are in the same form as appeared in Section 2 of the Report. Note that:

- All of these amounts are after the dividends declared after mid-2018 results.
- Eligible Own Funds shown as flowing from QIEL to QBE Europe include an element of dividends paid from QIEL to QBE EO and then forming part of the capital injection to QBE Europe.
- The QBE EO Capital Injection is expected to take place prior to 31 December 2018.
- All of these diagrams show the amounts when calculated based upon the mid-2018 position. The actual amounts used will reflect subsequent changes in business plans and business performance and are not, in my view, materially different from those shown here.

Figure 1 – Eligible Own Funds flow (£m) – both Transfers proceed

SII basis, based on 30 June 2018 position

Both Transfers proceed

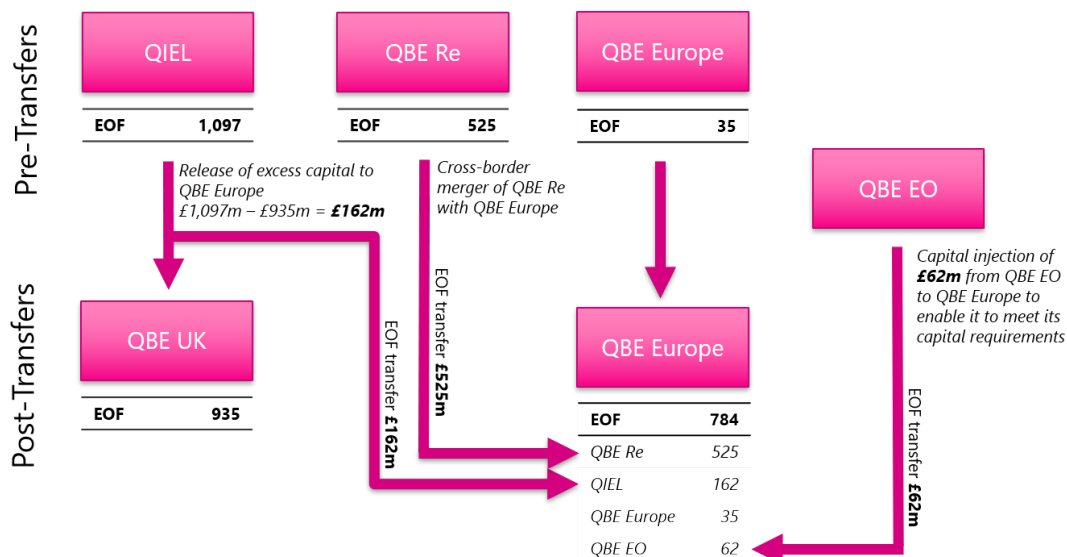


Figure 2 – Eligible Own Funds flow (£m) – Only QIEL Transfer proceeds

SII basis, based on 30 June 2018 position

Only QIEL Transfer proceeds

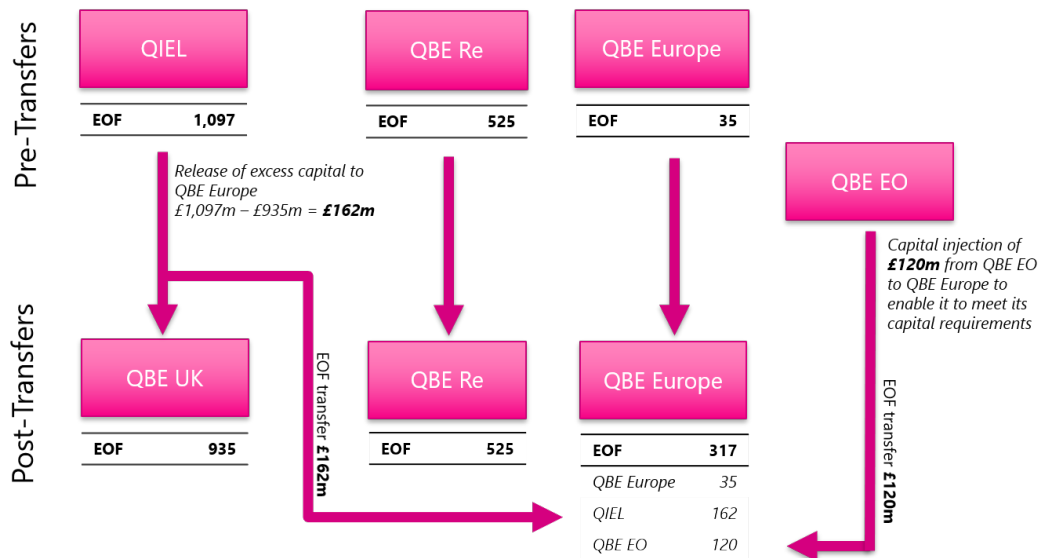


Figure 3 – Eligible Own Funds flow (£m) – Only QBE Re Transfer proceeds (minimal underwriting)

SII basis, based on 30 June 2018 position

Only QBE Re Transfer proceeds

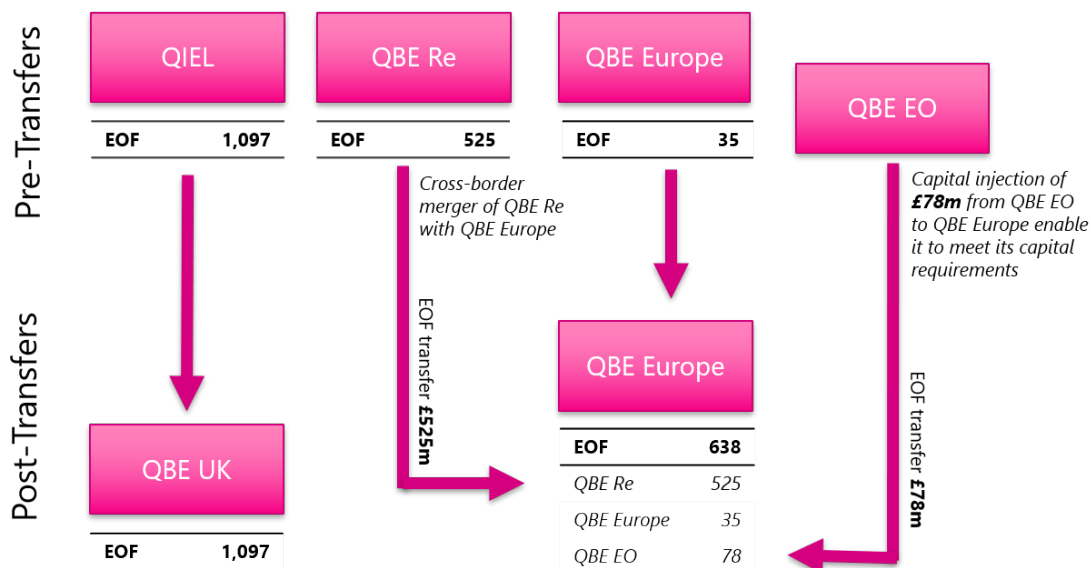
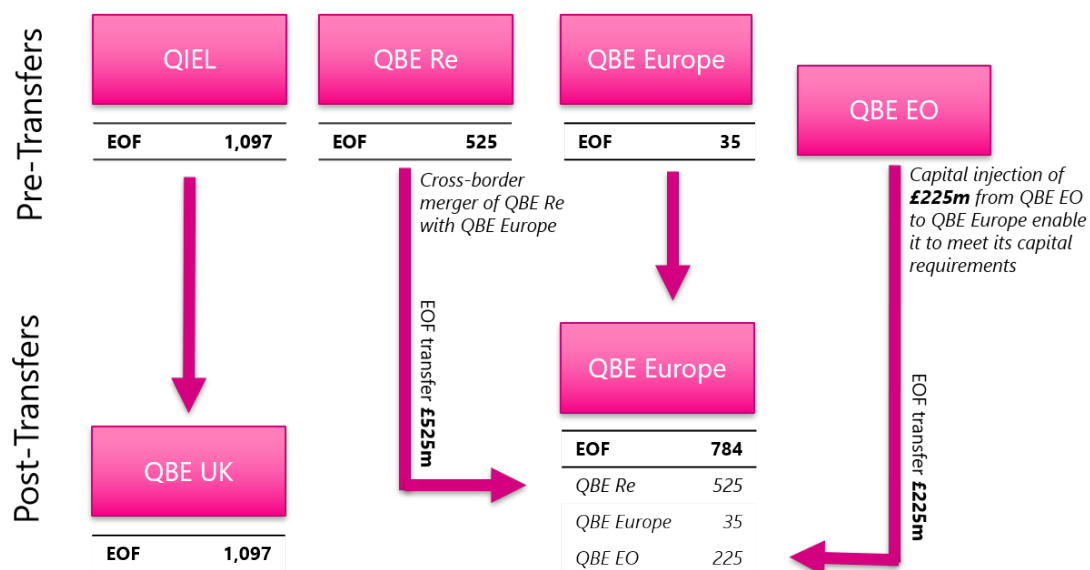


Figure 4 – Eligible Own Funds flow (£m) – Only QBE Re Transfer proceeds (maximal underwriting)

SII basis, based on 30 June 2018 position

Only QBE Re Transfer proceeds



Appendix 3. Consolidated Balance Sheets (current & anticipated positions)

E.3.1 GAAP balance sheets (pre- and post-Transfer)

The following table sets out the pre-Transfer entities before and after declared dividends in 2018 and the "as-if" post-Transfer positions on a GAAP basis, using 30 June 2018 positions.

£ million	Pre-Transfer		Pre-Transfer, Post-Dividend ¹		Post-Transfer	
	QIEL	QBE Re	QIEL	QBE Re	QBE UK	QBE Europe
Assets						
Investments & Cash in hand	3,738	1,545	3,703	1,572	2,935	2,437
Reinsurers' share of Technical Provisions	1,139	152	1,139	152	969	322
Debtors, prepayments & other assets	869	404	869	404	661	621
Total	5,746	2,102	5,711	2,128	4,564	3,380
Liabilities						
Technical Provisions	3,950	1,359	3,950	1,359	3,048	2,261
Creditors & other liabilities	502	184	502	290	433	368
Total liabilities	4,452	1,543	4,452	1,649	3,481	2,628
Net assets	1,294	559	1,259	479	1,083	751
Total	5,746	2,102	5,711	2,128	4,564	3,380
Net TPs	2,811	1,207	2,811	1,207	2,080	1,939

Notes

1. This reduces the net assets for dividends of £35m and €90m (£80m) declared in 2018 from QIEL and QBE Re Pre-Transfers respectively, and allows for the issue of subordinated debt of €120m (£106m) by QBE Re.

E.3.2 Solvency II balance sheets (pre- and post-Transfer)

The following table sets out the pre-Transfer entities before and after declared dividends in 2018 and the "as-if" post-Transfer positions on a Solvency II basis, using 30 June 2018 positions.

£ million	Pre-Transfer		Pre-Transfer, Post-Dividend		Post-Transfer	
	QIEL	QBE Re	QIEL	QBE Re	QBE UK	QBE Europe
Assets						
Investments & Cash in hand	3,756	1,549	3,721	1,575	2,953	2,440
Reinsurers' share of Technical Provisions	898	105	898	105	763	240
Debtors, prepayments & other assets	438	76	438	76	384	124
Total	5,092	1,729	5,057	1,756	4,100	2,805
Liabilities						
Technical Provisions	3,618	1,135	3,618	1,135	2,868	1,877
Creditors & other liabilities	333	84	333	190	288	238
Total liabilities	3,951	1,219	3,951	1,325	3,156	2,115
A: Net assets	1,141	510	1,106	430	944	689
Total	5,092	1,729	5,057	1,756	4,100	2,805
Net TPs	2,720	1,030	2,720	1,030	2,105	1,637
B: Tier 2 EOF: subordinated-debt	-	-	-	106	-	106
C: Ring-fenced funds	(9)	(12)	(9)	(12)	(9)	(12)
D: Eligible Own Funds (A+B+C)	1,152	498	1,097	525	935	784

Appendix 4. Technical Provisions GAAP to Solvency II Translation

E.4.1 Pre-Transfers entities

The following table summarises the GAAP to Solvency II Technical Provision adjustments for pre-Transfer entities.

<u>Pre-Transfer</u>	QIEL, £m			QBE Re, £m			Calculation #
	Gross	RI	Net	Gross	RI	Net	
GAAP Technical Provisions	3,950	1,139	2,811	1,359	152	1,207	1
Future premium receipts on incepted contracts	(166)	(110)	(57)	(238)	(29)	(209)	2
Unearned premium (incepted and unincepted) and associated claims costs	(378)	(62)	(316)	(109)	(8)	(101)	3
Other SII adjustments	15	8	7	(11)	2	(13)	4
Discounting	(162)	(77)	(85)	(71)	(12)	(59)	5
SII Technical Provisions excl. SII Risk Margin	3,259	898	2,361	930	105	825	6 = sum 1 to 5
SII Risk Margin	359	0	359	205	0	205	7
SII Technical Provisions	3,618	898	2,720	1,135	105	1,030	8 = 6+7

E.4.2 Post-Transfers entities

The following table summarises the GAAP to Solvency II Technical Provision adjustments for post-Transfer entities.

<u>Post-Transfer</u>	QBE UK, £m			QBE Europe, £m			Calculation #
	Gross	RI	Net	Gross	RI	Net	
GAAP Technical Provisions	3,048	969	2,080	2,261	322	1,939	1
Future premium receipts on incepted contracts	(121)	(99)	(22)	(283)	(39)	(243)	2
Unearned premium (incepted and unincepted) and associated claims costs	(235)	(54)	(180)	(252)	(16)	(237)	3
Other SII adjustments	28	8	20	(24)	2	(26)	4
Discounting	(133)	(60)	(72)	(100)	(28)	(72)	5
SII Technical Provisions excl. SII Risk Margin	2,587	763	1,824	1,602	240	1,361	6 = sum 1 to 5
SII Risk Margin	281	0	281	275	0	275	7
SII Technical Provisions	2,868	763	2,105	1,877	240	1,637	8 = 6+7

Appendix 5. Capital Requirements, Eligible Own Funds and Capital Cover Ratios under additional scenarios

The tables in this Appendix set out the Capital Requirements, Eligible Own Funds and CCRs for each company pre- and post-Transfers under the various additional scenarios considered. Note that the figures shown in each of these tables allow for planned changes in 2018 H2. See items E, F and G in Table 4.1

Where indicated, the Approved Internal Model SCR is used pre-Transfers; where available and required for me to reach my conclusions, the Indicative Internal Model SCR is used post-Transfers.

Scenario under which only QIEL Transfer proceeds

Capital Requirements and Eligible Own Funds on each Comparison Basis as at 30 June 2018 - £m					
		Approved / Indicative Internal Model SCR basis	Standard Formula SCR basis	SCR basis	Eligible Own Funds
Pre-Transfers	QIEL	850	960	850	1,097
	QBE Re	404	555	404	525
Post-Transfers	QBE UK	698	783	850	935
	QBE Re	368	555	404	525
	QBE Europe	244	230	230	317

CCR % on each Comparison Basis as at 30 June 2018				
		Approved / Indicative Internal Model SCR basis	Standard Formula SCR basis	SCR basis
Pre-Transfers	QIEL	129%	114%	129%
	QBE Re	130%	95%	130%
Post-Transfers	QBE UK	134%	119%	110%
	QBE Re	143%	95%	130%
	QBE Europe	130%	138%	138%

Scenario under which only QBE Re Transfer proceeds – minimal underwriting

Capital Requirements and Eligible Own Funds on each Comparison Basis as at 30 June 2018 - £m					
		Approved / Indicative Internal Model SCR basis	Standard Formula SCR basis	SCR basis	Eligible Own Funds
Pre-Transfers	QIEL	850	960	850	1,097
	QBE Re	404	555	404	525
Post-Transfers	QBE UK	698	960	850	1,097
	QBE Europe	NA	580	580	638

CCR % on each Comparison Basis as at 30 June 2018				
		Approved / Indicative Internal Model SCR basis	Standard Formula SCR basis	SCR basis
Pre-Transfers	QIEL	129%	114%	129%
	QBE Re	130%	95%	130%
Post-Transfers	QBE UK	157%	114%	129%
	QBE Europe	NA	110%	110%

Scenario under which only QBE Re Transfer proceeds – maximal underwriting

Capital Requirements and Eligible Own Funds on each Comparison Basis as at 30 June 2018 - £m					
		Approved / Indicative Internal Model SCR basis	Standard Formula SCR basis	SCR basis	Eligible Own Funds
Pre-Transfers	QIEL	850	960	850	1,097
	QBE Re	404	555	404	525
Post-Transfers	QBE UK	698	960	850	1,097
	QBE Europe	NA	713	713	784

CCR % on each Comparison Basis as at 30 June 2018				
		Approved / Indicative Internal Model SCR basis	Standard Formula SCR basis	SCR basis
Pre-Transfers	QIEL	129%	114%	129%
	QBE Re	130%	95%	130%
Post-Transfers	QBE UK	157%	114%	129%
	QBE Europe	NA	110%	110%