

Financial Statements

**ACTIVE CAPITAL
REINSURANCE, LTD.**

For the Year Ended December 31, 2020

Active Capital Reinsurance, Ltd.

Contents

December 31, 2020

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Independent auditors' report

To the Shareholder of Active Capital Reinsurance, Ltd.

Opinion

We have audited the financial statements of Active Capital Reinsurance, Ltd. (the Company), which comprise the statement of financial position as at December 31, 2020, the statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management and those charged with governance are responsible for the other information. The other information comprises the Annual Report for the year ended December 31, 2020.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work we have performed, on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS for SMEs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditors' report (continued)

To the Shareholder of Active Capital Reinsurance, Ltd.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other matters

This report is made solely to the Company's shareholder, as a body, in accordance with Section 147 of the Companies Act of Barbados. Our audit work has been undertaken so that we might state to the Company's shareholder those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder as a body, for our audit work, for this report, or for the opinion we have formed.

June 4, 2021

Active Capital Reinsurance, Ltd.

Statement of financial position

As at December 31, 2020

(Expressed in United States dollars)

	2020	2019
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5 & 18)	35,659,950	26,376,004
Other cash deposits (Note 5)	12,400,000	7,600,000
Premiums receivable (Note 6)	125,904,939	41,480,823
Receivable from related parties (Note 7 & 18)	4,035,299	5,022,515
Prepayments and other receivables (Note 8)	30,155,227	13,510,300
Deferred retrocession premiums (Note 9)	19,738,535	7,777,394
Investments (Note 10 & 18)	2,022,470	3,001,962
	<u>229,916,420</u>	<u>104,768,998</u>
Non-Current Assets		
Property, plant and equipment (Note 11)	695,006	893,818
Investments (Note 10 & 18)	5,260,000	-
Other cash deposits (Note 5)	9,915,497	8,415,497
Long term prepayment (Note 7 & 17)	-	546,834
	<u>245,786,923</u>	<u>114,625,147</u>
Total Assets		
	<u>245,786,923</u>	<u>114,625,147</u>
LIABILITIES		
Current Liabilities		
Claims liabilities (Note 4 & 12)	34,977,529	12,198,184
Experience rebate provision (Note 12)	166,889	467,422
Accounts payable and other liabilities (Note 13 & 18)	17,066,909	8,803,273
Unearned premiums and unearned commission income (Note 14)	49,389,367	24,537,496
Retrocession premium payable (Note 15 & 18)	92,308,775	28,320,775
	<u>193,909,469</u>	<u>74,327,150</u>
Total Liabilities		
	<u>193,909,469</u>	<u>74,327,150</u>
SHAREHOLDER'S EQUITY		
Share capital (Note 16)	40,000,000	31,500,000
Retained earnings	11,877,454	8,797,997
	<u>51,877,454</u>	<u>40,297,997</u>
Total Liabilities and Shareholder's Equity		
	<u>245,786,923</u>	<u>114,625,147</u>

Approved for issuance on behalf of the Board of Directors of Active Capital Reinsurance, Ltd. on June 4, 2021



Director

The accompanying notes form an integral part of these financial statements

Active Capital Reinsurance, Ltd.

Statement of comprehensive income

For the year ended December 31, 2020

(Expressed in United States dollars)

	2020	2019
	\$	\$
Income		
Net Reinsurance premiums	145,897,901	119,418,021
Net ceded premiums	(94,904,099)	(81,061,151)
Commission income (Note 19)	15,796,594	24,133,982
Net Premium and Commission Income	<u>66,790,396</u>	<u>62,490,852</u>
Underwriting Expenses		
Experience rebate	-	303
Claims incurred and paid	50,554,925	40,103,510
Reinsurance claims recovered	(21,492,212)	(25,096,055)
Withholding taxes on Premiums (Note 21)	515,011	504,647
Commission expenses (Note 7 & 19)	22,590,018	34,019,375
Net Underwriting Expenses	<u>52,167,742</u>	<u>49,531,780</u>
Net Underwriting Income	<u>14,622,654</u>	<u>12,959,072</u>
Operating Expenses		
Professional fees	3,440,914	2,618,581
Depreciation expense (Note 11)	290,681	103,993
General and administrative expenses (Notes 7 & 20)	2,646,311	2,827,279
	<u>6,377,906</u>	<u>5,549,853</u>
Other Income		
Referral fees	269,694	129,826
Interest	1,152,104	1,217,074
	<u>1,421,798</u>	<u>1,346,900</u>
NET INCOME AND TOTAL COMPREHENSIVE INCOME	<u><u>9,666,546</u></u>	<u><u>8,756,119</u></u>

The accompanying notes form an integral part of these financial statements

Active Capital Reinsurance, Ltd.

Statement of cash flows

For the year ended December 31, 2020

(Expressed in United States dollars)

	2020	2019
	\$	\$
Operating Activities		
Net income for the year	9,666,546	8,756,119
Items not affecting cash:		
Loss on disposal of fixed assets	-	28,584
Depreciation	290,680	103,993
	9,957,227	8,888,696
Changes in working capital:		
Increase in premiums and claims recoveries receivable	(84,424,116)	(11,762,737)
(Increase) Decrease in prepayments and other receivables	(16,098,092)	7,834,206
Increase in Deferred retrocession premiums	(11,961,141)	-
Increase in claims liabilities	22,779,345	3,023,980
Increase in retrocession liabilities	63,988,000	7,113,999
Increase in unearned premiums and unearned commission income	24,851,871	759,973
(Decrease) Increase in good experience rebate provision	(300,533)	221,290
Increase in accounts payable and other liabilities	8,263,636	3,817,429
Increase in other cash deposits	(6,300,000)	(300,000)
Net Cash from Operating Activities	10,756,196	19,596,836
Investing Activities		
Purchase of fixed assets	(91,869)	(791,015)
Investment	(4,280,508)	93,420
Net Cash used in Investing Activities	(4,372,377)	(697,595)
Financing Activities		
Advances to related parties	987,216	656,226
Share capital issued	8,500,000	1,400,000
Dividends paid	(6,587,089)	(5,149,453)
Net Cash from / (used in) Financing Activities	2,900,127	(3,093,227)
Increase in Cash and Cash Equivalents	9,283,946	15,806,014
Cash and Cash Equivalents at Beginning of Year	26,376,004	10,569,990
Cash and Cash Equivalents at End of the Year	35,659,950	26,376,004

The accompanying notes form an integral part of these financial statements

Active Capital Reinsurance, Ltd.

Statement of changes in shareholder's equity

For the year ended December 31, 2020

(Expressed in United States dollars)

	Share capital \$	Retained earnings \$	Total \$
Balance at January 1, 2019	30,100,000	5,191,330	35,291,330
Net income for the year	-	8,756,119	8,756,119
Share capital issued (Note 16)	1,400,000	-	1,400,000
Dividends declared	-	(5,149,452)	(5,149,452)
Balance at December 31, 2019	31,500,000	8,797,997	40,297,997
Net income for the year	-	9,666,546	9,666,546
Share capital issued (Note 16)	8,500,000	-	8,500,000
Dividends declared	-	(6,587,089)	(6,587,089)
Balance at December 31, 2020	40,000,000	11,877,454	51,877,454

The accompanying notes form an integral part of these financial statements

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

1. Background Information

Active Capital Reinsurance, Ltd. ("the Company") was incorporated in the Turks & Caicos Islands on July 26, 2007. On July 31, 2007, the Company was licensed under the Insurance Ordinance 1989 to write non-domestic reinsurance business, restricted to credit life and credit card fraud risk. On October 31, 2013, the Company was redomiciled to Barbados and licensed under the Exempt Insurance Act Chapter 308A to write non-domestic reinsurance business. In 2018, the Financial Service Commission of Barbados repealed the Insurance Act Chapter 308A and effective January 1, 2019 the Company is licensed under the Insurance Act Chapter 310.

The Company's business activity is to underwrite facultative and treaty reinsurance policies generated from intermediaries such as reinsurance brokers, Managing General Agents (MGA's) and insurance companies covering the Middle East and North of Africa (MENA) region, Asia, Europe and the Latin American region. In 2020, MGA's contracts were responsible for the Company's further growth by virtue of a diversified risk portfolio in reinsurance contracts.

Where risks exceed the Company's preferred retention levels, because of the size or complexity of the risks covered, the Company will retrocede the surplus to the retrocession market. The retrocession contracts are agreed with the retrocessionaires under the same terms and conditions as the facultative and treaty business. Therefore, the retrocession contracts mirror the reinsurance contracts underwritten by the Company.

The Company's registered office is at Caribbean Corporate Services Ltd, One Welches, Ground Floor, Welches, St. James BB22025.

The Company is a wholly owned subsidiary of Pine Holdings Corp., which is registered in Turks and Caicos Islands. The ultimate controlling party is Mr Juan Antonio Niño, a Panamanian citizen.

2. Summary of Significant Accounting Policies

The financial statements have been prepared by the Company in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities ("IFRS for SMEs"). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

The financial statements have been prepared in accordance with IFRS for SMEs and have been prepared under the historical cost convention. The preparation of financial statements in conformity with IFRS for SMEs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

b. Insurance and retrocession contracts - classification

An insurance or reinsurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Such contracts may also transfer financial risk. The Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur. Retrocession contracts are entered with the primary purpose of recovering losses resulting from insured events. However, such contracts do not relieve the Company from its obligations to the insured parties. The amounts to be recovered from retrocessions are recognized by the Company and the financial condition of the retrocession companies, risk concentration and changes in the economic and regulatory environment are reviewed periodically.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

c. Claim liabilities

The Company establishes liabilities for the ultimate settlement cost (including direct expenses expected to be incurred in settling claims, net of the expected subrogation value and other recoveries) of claims reported but not settled based on information received from its primary underwriter, estimates, and reported on the bordereaux. The liabilities for claims incurred but not reported are estimated by management analysis based on the Expected Loss Method. Under this method, the ultimate expected claims are calculated by multiplying the net earned premium by the expected loss ratio for each line of business, from which actual claims to date are deducted. Changes in estimates of unpaid claims resulting from the continuous review process and differences between estimates and payments are recognized in the Statement of Comprehensive Income in the period in which the estimates are changed or the payments are made. The Company does not discount its liabilities for unpaid claims. The Company applies a liability adequacy test which considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs. If the test shows that the liability is inadequate, the entire deficiency is recognized in the Statement of Comprehensive Income.

d. Experience rebate provision

Certain reinsurance contracts underwritten initially by the Company in prior years include experience rebate clauses, where the Company may, at its sole discretion, rebate a portion of the reinsurance premiums ceded under certain circumstances. The Company establishes a provision for these rebates based on reinsurance premiums earned under those contracts and expected loss ratios. Changes in the estimate of these provisions are recognized in the Statement of Comprehensive Income in the period they occur.

e. Balances and transactions in foreign currencies

The functional and presentation currency of the Company is the US dollar. Foreign currency transactions are converted at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the conversion of year end balances denominated in foreign currencies are recognized in the Statement of Comprehensive Income.

f. Revenue recognition

Revenue comprises of the fair value of the remuneration received or receivable for reinsurance cover in the ordinary course of the Company's activities as well as interest income and dividend income.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The Company bases its estimates on historical results, taking into consideration the type of transaction and the specifics of each arrangement.

(i) Reinsurance and retrocession premiums

Reinsurance and retrocession premiums written/expensed are recognized in the Statement of Comprehensive Income proportionally over the period of coverage. Reinsurance and retrocession premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums. Reinsurance and retrocession premium adjustments are recognized in the Statement of Comprehensive Income in the period in which they are determined.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

f. Revenue recognition (continued)

(ii) *Commission income*

Commission income earned on insurance contracts is recognized over the same period as the premiums written, being proportionally over the period of coverage.

(iii) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is uncollectable, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

(iv) *Dividend income*

Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for equity securities.

(v) *Other income*

Other income is recognized when the right to receive payment is established, based on the underlying agreements.

g. Cash and cash equivalents

Cash and cash equivalents include cash and deposits with original maturities of less than three months.

h. Financial instruments

The Company has chosen to apply the recognition and measurement principles under IAS 39: Financial Instruments, Recognition and Measurement and the disclosure requirements prescribed within section 11 and 12 of the IFRS and SMEs

Financial assets

The Company classifies its financial assets as loans and receivables and investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this at every reporting date.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the financial position date. These are classified as non-current assets. The Company's loans and receivables comprise premium and claims recoveries receivable, receivable from related parties, other receivables, cash and cash equivalents and other cash deposits on the Statement of Financial Position.

If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

(ii) *Investments*

On initial recognition, investments are recognized as noted below. On subsequent measurement, the Company recognizes its investments on an amortized cost basis. At each financial position date, the Company assesses whether there is objective evidence that the investment is impaired.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

h. Financial Instruments (continued)

Financial assets (cont'd)

Recognition and de-recognition

Financial assets are initially recorded at fair value plus transaction costs for all financial assets. Financial assets are written off when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortized cost using the effective interest method less any impairment.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Impairment

The Company assesses at each financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If required, impairment, or any reversal thereof, is charged /released to the Statement of Comprehensive Income.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities of the Company consist of accounts payable and other liabilities which are classified as basic financial instruments and are stated at amortized cost.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

i. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Included in Furniture and Fixtures is artwork that is not depreciated. Depreciation on other assets is provided to write off the assets on a straight-line method to reduce their cost to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Office and electronic equipment	3
Improvements	10
Motor Vehicles	5
Furniture and Fixtures	10

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

i. Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recorded as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is written off. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within Other income and expenses in the Statement of Comprehensive Income.

j. Accounts payable

Accounts payable are recorded initially at fair value and subsequently measured at amortized cost using the effective interest method.

k. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity.

l. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to General and Administrative expenses in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

3. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In March 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. The extent and duration of the long-term impact of the COVID-19 pandemic on the specific industries in which the Company operates cannot be determined with certainty at this point. This event has the potential to adversely affect the Company as the core business activity of the company is the reinsurance of Property & Engineering, Surety, Credit and Affinity. The company estimates these possible effects per line of business:

(1) Property & Engineering:

1. Practically no business interruption cover on the book.
2. Performance Delays.

(2) Surety:

1. Potential post pandemic insolvencies.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

3. Critical Accounting Estimates and Judgments (continued)

(3) Credit:

1. Default and insolvencies.

(4) Affinity:

1. Loss increases in group life business due to COVID-19 effect.

The claims liabilities on the statement of financial position include management's judgements regarding the anticipated impact of COVID-19. Management and the directors will continue to monitor the development of COVID-19 and evaluate its impact on the financial position and operating results of the Company in future periods.

Reinsurance risk, claims liabilities and good experience rebate provision.

The accounting estimates and assumptions pertaining to the insurance contracts underwritten have been detailed in Notes 4 and 12.

4. Insurance Risk, Risk Management and Claims Liabilities

Insurance Risk

Insurance risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Risk Management

Since the beginning of 2014, the Board of Directors decided that, to meet the Company's strategic objectives, it had to implement a Risk Management strategy and general guidelines, taking into consideration the following risks.

- ii. Credit Risks
- iii. Market Risks
- iv. Liquidity Risks
- v. Solvency Risks
- vi. Operational Risks
- vii. Regulatory Risks

For each of these risks, the Company has identified the factors that would have the most impact on the Company. The Board of Directors has established several operating Committees to set the risk tolerance levels and the controls required to supervise policy compliance in the organization. To align the strategic objectives in each of the risk management areas indicated above, the Board formed the following committees:

- Executive Committee
- Finance Committee
- Risk Management Committee
- Compliance Committee
- Business and Operational Committee

Each of these committees have a mission to create a general risk management culture within the organization and to administer its effectiveness.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

4. Insurance Risk, Risk Management and Claims Liabilities (continued)

Risk Management (continued)

For each of the risk management areas, the committees must assess the risks identified, and after evaluating each risk, classify them in order of importance, measured by economic impact on the organization. As a third step in the process, prevention and mitigation measures must be set for each of the identified risks. The whole process must be compiled in a risk matrix, which is then communicated within the organization. This practice is based on the COSO II Matrix (Organization of the Treadway Commission), also on the international risk management standard ISO 31000.

Claims Liabilities

Claims Reserves represent the unpaid obligations at the reporting date for both reported claims (Case Reserves) and Incurred But Not Reported claims (IBNR).

The Case Reserves are the reserves for incurred and reported claims. The amount of this reserve is estimated by the claims department of the cedent company for which the cedent company provides the list of claims (bordereaux).

IBNR reserves are the estimated amount expected for claims that have already occurred but have not yet been reported to the Company. The IBNR reserve has been calculated using the Expected Loss Method. Under this method, the ultimate value of the claims (Net Ultimate Loss) is estimated by multiplying the Net Earned Premium by the loss ratio for each line of business. The IBNR is the difference between the expected Net Ultimate Loss and the Net Incurred Loss to Date. The loss ratios used are based on the market data for the lines of business in the countries of origin of the risk or business.

Claims Liabilities

The Claims Reserves are based on an actuarial valuation which concluded that the total reserves required were as follows:

	2020	2019
	\$	\$
Case reserves	19,099,025	5,917,185
Gross IBNR	27,620,997	6,357,559
Recoveries under retrocessions	(11,742,493)	(345,906)
	<u>34,977,529</u>	<u>11,928,838</u>

5. Cash and Cash Equivalents / Other Cash Deposits

Maturity groupings based on the period from original deposit to maturity are as follows:

	2020	2019
	\$	\$
Cash and cash equivalents - Up to 3 months	35,659,950	26,376,004
Other cash deposits - Greater than 3 months but less than 1 year	12,400,000	7,600,000
Other cash deposits - Greater than 1 year	9,915,497	8,415,497

6. Premiums Receivable

	2020	2019
	\$	\$
Premiums receivable	<u>125,904,939</u>	<u>41,480,823</u>

No allowance for bad debts has been provided as the premiums receivable at the year-end are related to policyholders for whom there is no recent history of default.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

7. Related Party Transactions and Balances

The following balances with related parties are included in receivable from related parties on the Statement of Financial Position:

	2019 \$	Advances \$	Payments received \$	2020 \$
Due from a Director	2,013,800	470,999	2,050,087	434,712
Advances to the shareholder	3,000,365	600,222	-	3,600,587
Other	8,350	-	8,350	-
	<u>5,022,515</u>	<u>1,071,221</u>	<u>2,058,437</u>	<u>4,035,299</u>

The advances to a Director of the Company are unsecured, bear no interest and are payable on demand.

The amount advanced to the shareholder is unsecured and bears no interest in 2021 which served as repayment of these advances.

On June 1 the Board declared dividends, out of which US\$1,841,910 served as repayment of 2019 advances.

The balance of the related company refers to organization expenses of a Miami office, which are unsecured, bear no interest and are payable on demand.

Key Management Compensation

Key management includes the Board of Directors and all members of senior management. The compensation paid or payable to key management for services is shown below:

	2020 \$	2019 \$
Key Management Compensation		
Fees and other benefits (included within Professional fees in the Statement of Comprehensive Income)	1,306,100	1,164,575
Life insurance (included within General & Administrative expenses within the Statement of Comprehensive Income)	<u>10,792</u>	<u>22,398</u>
	<u>1,316,892</u>	<u>1,186,973</u>

Other transactions

Included within General and administrative expenses is \$106,100 (2019: \$83,287) paid to close family members of the ultimate controlling party for services provided. In July 2020, the Company reclassified the amount of USD 546,834 (registered in 2017 as advanced payment for a property procurement that went into litigation) from Asset Procurement Advances to Other Accounts Receivables in its accounting books. This reclassification was made based on a court ruling favorable to Active Re in the litigation.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

8. Prepayments and other receivables

	2020	2019
	\$	\$
Prepayments	1,488,499	191,101
Recoveries	19,514,846	1,866,524
Commissions prepaid	3,409,412	6,716,326
Other receivables	5,742,470	4,736,349
	<u>30,155,227</u>	<u>13,510,300</u>

9. Deferred retrocession premiums

	2020	2019
	\$	\$
Deferred retrocession premiums	<u>19,738,535</u>	<u>7,777,394</u>

The deferred retrocession account refers to ceded premiums from policies which have an effective period of coverage that exceeds cutoff date of the fiscal year. These premiums are recognized monthly in accordance with their expiration as established in the original insurance contract.

10. Investments

	2020	2019
	\$	\$
January 1	3,001,962	3,095,382
Purchased during the year	5,280,508	-
Matured during the year	(1,000,000)	(93,420)
December 31	<u>7,282,470</u>	<u>3,001,962</u>

On February 15, 2014, the Company purchased a bond of \$1,000,000 issued by Grupo Financiero Ficohsa S.A. The bond matured on February 15, 2019 and has an interest rate of 6.50% plus LIBOR (6 month), with a maximum rate of 8%. This bond matured on February 2019 and the company did not renew the investment. On April 30, 2015, the Company purchased a bond of \$2,000,000 issued by Grupo Financiero Ficohsa S.A with an interest rate of 7.5%. The bond matured on April 30, 2020 and was renewed by the company. On October 20, 2016, the company purchased 10,000 A2 Shares of GBN Ltd an Underwriting Agency based in London. On August 2018, the company purchased 5,000 A2 Shares of GBN Ltd. In 2019, GBN Ltd. Entered a voluntary liquidation, after a valuation of GBN Ltd, the company received a payment for its share. On November 2019, the company invested in a money market fund (Instacash BNP Paribas). The fund was rolled over and subsequently written off in March 2020. During 2020, three new investments have been added to Active Re investment portfolio. In January, USD 2,260,000 in shares of Truckslogic (Panamanian company) were purchased. In June USD 2,000,000 in corporate bonds were purchased from US companies. In December USD 1,000,000 in shares of Sultecor Investments (mining company) were purchased.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

11. Plant, Property and Equipment

	Office and Electronic Equipment \$	Motor Vehicles \$	Furniture and Fixtures \$	Total \$
Cost				
Balance December 31, 2019	88,388	415,502	840,143	1,344,033
Additions	19,932	-	71,937	91,869
Disposals	-	-	-	-
At December 31, 2020	<u>108,320</u>	<u>415,502</u>	<u>912,080</u>	<u>1,435,902</u>
Accumulated Depreciation				
Balance December 31, 2019	(62,732)	(274,103)	(113,380)	(450,215)
Charge for the year	<u>(15,321)</u>	<u>(59,799)</u>	<u>(215,561)</u>	<u>(290,681)</u>
At December 31, 2020	<u>(78,053)</u>	<u>(333,902)</u>	<u>(328,941)</u>	<u>(740,896)</u>
Net Book Value				
At December 31, 2020	<u>30,267</u>	<u>81,600</u>	<u>583,139</u>	<u>695,006</u>
At December 31, 2019	<u>25,656</u>	<u>141,399</u>	<u>726,763</u>	<u>893,818</u>

12. Claims Liabilities and Experience Rebate Provision

	2020 \$	2019 \$
Claims liabilities	34,977,529	12,198,184
Experience rebate provision	<u>166,889</u>	<u>467,422</u>
	<u>35,144,418</u>	<u>12,665,606</u>

The Company establishes liabilities for both reported claims and the adverse development thereof and claims which have been incurred but not reported and are expected to be reported within the provisions of the reinsurance contract. The Company also establishes provisions for discretionary experience rebates based upon expected underwriting profits. The amounts recorded in respect of the above are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liability may be in excess of or less than the amounts provided. Below is a summary of the techniques used by management to estimate liability amounts in respect of the Company's reinsurance policies, along with a discussion of the uncertainties inherent in the estimation process.

Claims on reinsurance contracts are payable on an occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is reported after the end of the contract term.

The claims paid on the underlying reinsurance agreements are the amount of the loss suffered by the insured party as a result of theft or fraud arising on the relevant credit cards held. The Company is liable for the losses passed on by the primary writer in accordance with the reinsurance agreements.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims' exposure. However, given the uncertainty in establishing claims liabilities, it is likely that the outcome will prove to be different from the original liability established.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

12. Claims Liabilities and Experience Rebate Provision (continued)

The estimation of claims liabilities for claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. The IBNR proportion of the total liability will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating liabilities.

13. Accounts payable and other liabilities

Accounts payable and other liabilities comprise of:

	2020	2019
	\$	\$
Commissions payable (1)	6,154,327	6,209,468
Other liabilities (2)	10,912,582	2,593,805
	<u>17,066,909</u>	<u>8,803,273</u>

(1) Commission Payable refers to the reserve made for the payable variable remuneration to third party Professional Service Consultants for referred business throughout the fiscal year.

(2) Other liabilities include the payments that are going through the source identification process by the Company's operation department.

14. Unearned premiums and unearned commission income

	2020	2019
	\$	\$
Unearned Premiums	48,797,653	24,537,496
Unearned Commission	591,714	-
	<u>49,389,367</u>	<u>24,537,496</u>

The UPR reserves are calculated according to the standard practice considering the remaining time not expired proportional to the premium. The booked reserves are in line with the calculation. The unearned commissions derive from the unearned premiums applying the same calculation principles.

15. Retrocession premium payable

	2020	2019
	\$	\$
Retrocession	92,308,775	28,320,775

The retrocession premium payable account refers to ceded premiums from policies which effect period of coverage exceeds the cutoff date of the fiscal year. These premiums are paid in accordance with the collection of the accepted premiums.

16. Share Capital

The Company is authorized to issue an unlimited number of shares of no-par value. All shares issued are fully paid at the statement of financial position date.

Share capital comprises:

	2020	2019
	\$	\$
Issued and fully paid:		
40,000,000 (2019: 31,500,000) ordinary shares	40,000,000	31,500,000

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

16. Share Capital (continued)

In 2019 a resolution was passed to increase the issued share capital to \$31,500,000. In February 2020, USD 3,500,000 from prior year net income was reinvested to increase the share capital to USD 35,000,000. In October 2020, a shareholder contribution was made for USD 3,000,000.00, increasing the share capital to USD 38,000,000. Finally, in December 2020, through a shareholder contribution of USD 2,000,000 the share capital was raised to USD 40,000,000.

17. Commitments

During 2012, the Company entered into an agreement to purchase office space for availability in 2017. As referred to in Note 7, an amount of 2019: \$546,834 was paid as a deposit with a remaining commitment of 2019: \$78,166 outstanding. The balance would be paid when the space was completed.

During 2017, the Company entered into an arbitration process against the real estate promoter. In 2018, a resolution was passed by the Court allowing the execution of the arbitral award. In 2019, the Court elevated the categorization of the arbitral award to seizure.

This year, the Company obtained a favorable arbitral award on this process and is exercising all the actions and resources to recover the amount. In July 2020, the Company reclassified the entire amount of USD 546,834 from Asset Procurement Advances to Other Accounts Receivables in its accounting books, based on the court ruling.

18. Financial Instruments

	2020	2019
	\$	\$
<i>Financial assets:</i>		
Financial assets measured at amortized cost		
Cash and cash equivalents	35,659,950	26,376,004
Other cash deposits	22,315,497	16,015,497
Premiums receivable	125,904,939	41,480,823
Receivable from related parties	4,035,299	5,022,515
Other receivables	5,742,470	6,603,172
Investments	7,282,470	3,001,962
Total	200,940,625	98,499,973
	2020	2019
	\$	\$
<i>Financial liabilities:</i>		
Financial liabilities measured at amortized cost		
Accounts payable and other liabilities	17,066,909	8,803,273
Retrocession premium payable	92,308,775	28,320,775
Total	109,375,684	37,124,048

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

19. Reinsurance Commissions

All premiums on assumed reinsurance are normally subject to a commission cost, since the ceding company must be compensated for the acquisition cost or commissions paid to direct insurance brokers or intermediaries that produce the business. Besides the acquisition cost, the ceding company requires compensation on their administrative costs.

When a reinsurer seeks capacity in the retrocession market, it must also get compensated for at least part of the reinsurance commissions it has paid to the ceding company, plus some compensation for administrative costs. On facultative reinsurance, commissions on retrocessions are normally lower than the commission paid on the original reinsurance ceded by the insurance company.

	2020	2019
	\$	\$
Commissions expense	22,590,018	34,019,375
Commissions income	(15,796,594)	(24,133,982)
Net commission expense	6,793,424	9,885,393

20. General and Administrative Expenses

	2020	2019
	\$	\$
Administrative expenses	1,080,465	1,090,042
Outsource	260,664	566,546
Transportation	60,349	416,417
Food and lodging	114,732	303,307
Miscellaneous	91,464	169,942
Seminars	259	59,854
Other expenses	414,784	50,293
Insurance	41,365	38,310
Dues and subscriptions	39,115	30,021
Customer relations	12,167	29,192
Bank charges	41,428	14,858
Telephone and communications	11,023	14,387
Maintenance	5,244	13,461
Legal expenses	328,813	11,659
Donations	13,261	7,779
Fuel and lubricants	1,896	5,144
Office supplies	3,172	3,923
Software	126,110	2,144
	2,646,311	2,827,279

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in United States dollars)

21. Taxation

Under the terms of the Barbados Exempt Insurance Act, Cap. 308A, as amended, the Company is liable to income tax at a rate of 0% during its first fifteen financial years of operation. Thereafter, if the Company has taxable income, it is liable for tax at a rate of 8% of \$125,000 and no license fee is payable. Where a taxable loss occurs, a license fee of \$10,000 is due.

Regulatory Changes

Effective January 1, 2019, the Exempt Act was repealed and Insurance Act Cap. 310 amended, and unless grandfathered, the Company will be assigned to Class 2 category licence. Effective January 1, 2019, the tax rate applicable to the Company is zero percent.

The Company elected to be grandfathered in 2019. As such, the rights and benefits conferred upon licensees under the previous Exempt Act are maintained until June 30, 2021. The Company may at any time elect to transition to the new regime.

On November 29, 2019, the Barbados government repealed the Business Companies (Economic Substance) Act, 2018-41, and replaced it with the Companies (Economic Substance) Act, 2019-43 ("the Barbados Act"). Under the Barbados Act, all resident companies (other than those being grandfathered) must comply with the economic substance rules for fiscal periods commencing on or after January 1, 2020. The Barbados Act will require a resident Company which derives income from the carrying on of a relevant activity to satisfy the economic substance test in relation to that relevant activity and will require the Company to file an economic substance declaration annually.

If the Director of International Business determines that a resident Company has failed to meet the economic substance test for a fiscal period, the Director may impose a penalty not exceeding \$150,000 in any subsequent year. The Barbados Act will be applicable for the Company for the year ended December 31, 2021, and management is currently assessing how the substance requirements will apply to the Company. Certain countries apply a withholding tax on money transfers which applies to the premiums earned from insured parties in those countries.

	2020	2019
	\$	\$
Withholding taxes on premiums	515,011	504,647

22. Capital Management

The Company must maintain a minimum solvency requirement under the revised legislation detailed in note 21. The Company has exceeded the minimum solvency as at December 31, 2020.

The Board monitors the capital base of the Company in relation to the solvency requirements of the Barbados legislation and other insurance standards. In addition, the investment guidelines serve to minimize investment risk with a goal of maintaining the capital base.

The Company's capital base is required to help the Company absorb losses due to underpricing of the insurance product; to absorb an unexpected decline in the value of the Company's assets; to provide a buffer for the potential undervaluation of the Company's unpaid claim liabilities and to provide a mechanism for financing the growth of the Company.

23. Subsequent Events

On January 26, 2021, the board authorized payment of USD 5,330,974 in dividends to Pine Holdings, Ltd.