

Financial Statements

**ACTIVE CAPITAL  
REINSURANCE, LTD.**

For the Year Ended December 31, 2016

# Active Capital Reinsurance, Ltd.

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December 31, 2016

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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, 2016, the statement of comprehensive income, statement of changes in 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, 2016, 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.

### 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 IFRSs, 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.

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.

## Independent auditors' report (continued)

To the Shareholder of Active Capital Reinsurance, Ltd.

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.

The financial statements of the Company for the year ended December 31, 2015 were audited by other auditors who in their report on such financial statements dated May 24, 2016, expressed an unqualified opinion.

September 6, 2017

# Active Capital Reinsurance, Ltd.

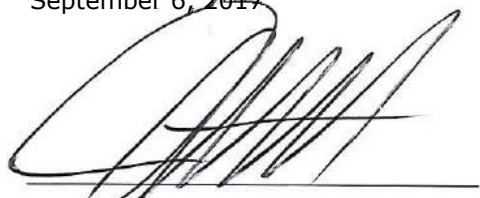
## Statement of financial position

As at December 31, 2016

(expressed in United States dollars)

	2016	2015
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 5)	8,474,212	9,996,405
Other cash deposits (Note 5)	-	3,500,000
Premiums receivable (Note 6)	5,430,351	9,587,179
Receivable from related parties (Note 7)	2,962,655	6,032,225
Prepayments, deferred retrocession premiums and other receivables (Note 8)	7,112,124	4,358,952
	<u>23,979,342</u>	<u>33,474,761</u>
<b>Non-Current Assets</b>		
Property, plant and equipment (Note 10)	128,685	164,968
Investments (Note 9)	3,061,500	3,000,000
Other cash deposits (Note 5)	14,000,000	8,000,000
Long term prepayment (Note 7 & 15)	546,834	546,834
	<u>41,716,361</u>	<u>45,186,563</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Claims liabilities (Note 4 & 11)	2,594,462	2,880,330
Good experience rebate provision (Note 11)	214,545	374,750
Accounts payable and other liabilities (Note 12)	1,540,239	4,431,148
Unearned premiums and unearned commission income	2,196,128	3,896,419
Retrocession premium payable	4,479,877	8,419,877
	<u>11,025,251</u>	<u>20,002,524</u>
<b>SHAREHOLDER'S EQUITY</b>		
Share capital (Note 13)	25,100,000	15,000,000
Additional paid in capital (Note 13)	-	3,000,000
Retained earnings	5,591,110	7,184,039
	<u>30,691,110</u>	<u>25,184,039</u>
<b>Total Liabilities and Shareholder's Equity</b>	<u>41,716,361</u>	<u>45,186,563</u>

Approved for issuance on behalf of the Board of Directors of Active Capital Reinsurance, Ltd. on September 6, 2017



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, 2016

(expressed in United States dollars)

	2016	2015
	\$	\$
<b>Income</b>		
Reinsurance premiums	106,453,496	124,559,776
Retrocession premiums	(73,071,378)	(79,391,761)
Commission income (Note 16)	18,998,464	21,382,186
<b>Net Premium Income</b>	<u>52,380,582</u>	<u>66,550,201</u>
<b>Underwriting Expenses</b>		
Good experience rebate (Note 11)	97,138	396,862
Claims incurred and paid (Note 11)	38,368,230	23,822,344
Reinsurance claims recovered	(28,931,271)	(15,148,360)
Commissions expenses (Note 7 & 16)	33,852,492	45,619,767
<b>Net Underwriting Expenses</b>	<u>43,386,589</u>	<u>54,690,613</u>
<b>Net Underwriting Income</b>	<u>8,993,993</u>	<u>11,859,588</u>
<b>Operating Expenses</b>		
Professional fees	1,706,888	1,977,846
Depreciation expense (Note 10)	60,567	52,937
General and administrative expenses (Notes 7 & 17)	4,026,425	3,808,403
	<u>5,793,880</u>	<u>5,839,186</u>
<b>Other Income and Expenses</b>		
Referral fees received	612,581	512,726
Interest income	897,213	650,911
	<u>1,509,794</u>	<u>1,163,637</u>
<b>NET INCOME AND TOTAL COMPREHENSIVE INCOME</b>	<u><u>4,709,907</u></u>	<u><u>7,184,039</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, 2016

(expressed in United States dollars)

	2016	2015
	\$	\$
<b>Operating Activities</b>		
Net income for the year	4,709,907	7,184,039
Items not affecting cash:		
Depreciation	60,567	52,937
	4,770,474	7,236,976
Changes in working capital other than cash:		
(Increase)/decrease in other cash deposits	(2,500,000)	3,966,668
Decrease/(increase) in premiums receivable	4,156,828	(1,743,414)
(Increase) in prepayments, deferred retrocession premiums and other receivables	(2,753,172)	(4,078,756)
(Decrease)/increase in claims liabilities	(285,868)	1,096,088
(Decrease) in unearned premium and commission income	(1,700,291)	(1,131,063)
(Decrease)/increase in retrocession premium payable	(3,940,000)	6,764,792
(Decrease)/increase in good experience rebate provision	(160,205)	111,589
(Decrease)/increase in accounts payable and other liabilities	(2,890,909)	3,613,450
<b>Net Cash (used in) from Operating Activities</b>	<b>(5,303,143)</b>	<b>15,836,330</b>
<b>Investing Activities</b>		
Purchase of property, plant and equipment	(24,284)	(133,473)
Investment in bonds, net of maturities	-	(1,950,000)
Purchase of investments	(61,500)	-
Advances to related parties	(2,738,361)	(7,195,894)
Repayments from related parties	5,807,931	20,454,929
<b>Net Cash from Investing Activities</b>	<b>2,983,786</b>	<b>11,175,562</b>
<b>Financing Activities</b>		
Share capital issued and additional capital contributed	7,100,000	6,000,000
Dividends paid	(6,302,836)	(30,554,140)
<b>Net Cash from/(used in) Financing Activities</b>	<b>797,164</b>	<b>(24,554,140)</b>
<b>(Decrease)/increase in Cash and Cash Equivalents</b>	<b>(1,522,193)</b>	<b>2,457,752</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>9,996,405</b>	<b>7,538,653</b>
<b>Cash and Cash Equivalents at End of the Year</b>	<b>8,474,212</b>	<b>9,996,405</b>

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, 2016

(expressed in United States dollars)

	Share capital \$	Additional paid in capital \$	Retained earnings \$	Total \$
<b>Balance at January 1, 2015</b>	12,000,000	-	30,554,140	42,554,140
Net income for the year	-	-	7,184,039	7,184,039
Share capital issued (Note 13)	3,000,000	-	-	3,000,000
Additional paid in capital	-	3,000,000	-	3,000,000
Dividends declared	-	-	(30,554,140)	(30,554,140)
<b>Balance at December 31, 2015</b>	15,000,000	3,000,000	7,184,039	25,184,039
Net income for the year	-	-	4,709,907	4,709,907
Share capital issued (Note 13)	10,100,000	-	-	10,100,000
Additional paid in capital (Note 13)	-	(3,000,000)	-	(3,000,000)
Dividends declared	-	-	(6,302,836)	(6,302,836)
<b>Balance at December 31, 2016</b>	<u>25,100,000</u>	<u>-</u>	<u>5,591,110</u>	<u>30,691,110</u>

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, 2016

(expressed in United States dollars)

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### 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.

The Company's main activity is writing facultative reinsurance business generated from insurance companies in the Latin American Region. Where risks exceed the Company's preferred retention levels, be it 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 contracts. Therefore, the retrocession contracts mirror the reinsurance contracts written 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 Active Capital Holdings Corp. ("ACH"), which is registered in the British Virgin Islands. The ultimate controlling party is Mr. Juan Antonio Niño, a Panamanian citizen. Subsequent to the year-end, there was a transfer of shares to Mr Niño from ACH, which replaced them as the direct parent company.

### 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 principle 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 Company (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.

#### b. Insurance and retrocession contracts - classification

All reinsurance activities are on a facultative basis. In some cases, the ceding company may choose to retain a small percentage of the business, but most reinsure 100% with the Company, for which the same percentage of the premiums received are passed on to the retrocessionaires.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2016

(expressed in United States dollars)

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### 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 on the basis of information received from its primary writer, based on their 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 recognised 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 recognised in the Statement of Comprehensive Income.

#### d. Good experience rebate provision

Certain reinsurance contracts entered into initially by the Company in prior years include good experience rebate clauses, whereunder 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 recognised in the Statement of Comprehensive Income in the period they arise.

#### e. Balances and transactions in foreign currencies

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

#### f. Revenue recognition

Revenue comprises the fair value of the consideration 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 recognised 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 recognised 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, 2016

(expressed in United States dollars)

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### 2. Summary of Significant Accounting Policies (continued)

#### f. Revenue recognition

##### (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 recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, 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 recognised when the right to receive payment is established. This is the ex-dividend date for equity securities.

##### (v) Other income

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

#### g. Cash and cash equivalents

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

#### h. Financial instruments

##### *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 recognised as noted below. On subsequent measurement, the Company recognises 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, 2016

(expressed in United States dollars)

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### 2. Summary of Significant Accounting Policies (continued)

#### h. Financial Assets

##### *Recognition and de-recognition*

Financial assets are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised 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 of 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, 2016

(expressed in United States dollars)

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### 2. Summary of Significant Accounting Policies (continued)

#### i. Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised 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 derecognised. 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 recognised within Other income and expenses in the Statement of Comprehensive Income.

#### j. Accounts payable

Accounts payable are recognised 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.

#### ***Reinsurance risk, claims liabilities and good experience rebate provision***

The accounting estimates and assumptions pertaining to the insurance contracts entered into have been detailed in Notes 4 and 11.

### 4. Insurance Risk, Risk Management and Claim Liabilities

#### **Insurance Risk**

Insurance risk under any one 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.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2016

*(expressed in United States dollars)*

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#### 4. Insurance Risk, Risk Management and Claim Liabilities (continued)

##### Risk Management

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

- i. Credit Risks
- ii. Market Risks
- iii. Liquidity Risks
- iv. Solvency Risks
- v. Operational Risks
- vi. 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. In order 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 has a mission to create a general risk management culture within the organization and to administer its effectiveness.

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, mitigation or prevention 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 (Committee of on Sponsoring Organization of the Threadway Commission), and 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 (borderaux).

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.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2016

(expressed in United States dollars)

#### 4. Insurance Risk, Risk Management and Claim Liabilities (continued)

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

	2016	2015
	\$	\$
Case reserves	2,339,471	2,508,395
Gross IBNR	3,564,093	855,189
Recoveries under retrocessions	(3,309,102)	(483,254)
	<u>2,594,462</u>	<u>2,880,330</u>

#### 5. Cash and Cash Equivalents / Other Cash Deposits

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

	2016	2015
	\$	\$
Cash and cash equivalents - Up to 3 months	<u>8,474,212</u>	<u>9,996,405</u>
Other cash deposits - Greater than 3 months	<u>14,000,000</u>	<u>11,500,000</u>

#### 6. Premiums Receivable

	2016	2015
	\$	\$
Premiums receivable	<u>5,430,351</u>	<u>9,587,179</u>

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

#### 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:

	2015	Advances	Payments received	2016
	\$	\$	\$	\$
Due from a Director	153,963	5,000	(5,000)	153,963
Advances to the shareholder	5,802,931	2,634,701	(5,802,931)	2,634,701
Associate company (under set-up)	73,726	97,692	-	171,418
Other	<u>1,605</u>	<u>968</u>	<u>-</u>	<u>2,573</u>
	<u>6,032,225</u>	<u>2,738,361</u>	<u>(5,807,931)</u>	<u>2,962,655</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. It is the intention of the Board to declare dividends in 2017 which will serve as repayment of these advances.

#### 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.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2016

(expressed in United States dollars)

### 7. Related Party Transactions and Balances (continued)

	2016	2015
	\$	\$
<b>Key Management Compensation</b>		
Fees and other benefits (included within Professional fees in the Statement of Comprehensive Income)	954,986	1,512,044
Life insurance (included within General & Administrative expenses within the Statement of Comprehensive Income)	47,320	30,006
Commissions (included in Commissions within the Statement of Comprehensive Income)	391,173	2,064,655
	<u>1,393,479</u>	<u>3,606,705</u>

#### Other transactions

Long term prepayments of \$546,834 (2015: \$546,834) relate to amounts paid to a close family member of the ultimate controlling party as detailed in Note 14. There is a capital commitment of \$78,166 (2015: \$78,166) to the same party.

Included within General and administrative expenses is \$25,816 (2015: \$30,000) paid to a close family member of the ultimate controlling party for services provided.

Dividends paid to Active Capital Holdings Corp of \$6,302,836 (2015:\$30,554,140).

In August 2016, the Company advanced a director loan to Mr Juan Antonio Niño of \$650,000. The loan bears interest at a rate of 1.5% and is repayable in August 2018, two years from commencement. This amount is included in other receivables in Note 8.

In March 2017, the Company advanced a shareholder loan of \$1,400,000 to Mr Niño. The loan has an annual interest rate of 1.5% and is repayable in one lump sum in March 2022.

### 8. Prepayments, deferred retrocession premiums and other receivables

	2016	2015
	\$	\$
Prepayments	276,108	383,513
Deferred retrocession premiums	1,168,716	2,946,587
Commissions prepaid	2,500,716	544,797
Other receivables	3,166,584	484,055
	<u>7,112,124</u>	<u>4,358,952</u>

### 9. Investments

	2016	2015
	\$	\$
At January 1	3,000,000	1,050,000
Purchased during the year	61,500	2,000,000
Matured during the year	-	(50,000)
At December 31	<u>3,061,500</u>	<u>3,000,000</u>

On February 15, 2014, the Company purchased a bond of \$1,000,000 issued by Grupo Financero Ficohsa S.A. The bond matures on February 15, 2019 and has an interest rate of 6.50% plus LIBOR (6 month), with a maximum rate of 8%. On April 30, 2015, the Company purchased a bond of \$2,000,000 issued by Grupo Financero Ficohsa S.A. The bond matures on April 30, 2020 and has an interest rate of 7.50%. On October 20, 2016, the company purchased 10,000 A2 Shares of GBN Ltd an Underwriting Agency based in London.



# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2016

(expressed in United States dollars)

### 10. Plant, Property and Equipment

	Office and Electronic Equipment \$	Motor Vehicles \$	Furniture and Fixtures \$	Total \$
<b>Cost</b>				
Balance January 1, 2015	45,710	220,486	59,139	325,335
Additions	3,784	20,500	-	24,284
At December 31, 2015	49,494	240,986	59,139	349,619
<b>Accumulated Depreciation</b>				
Balance January 1, 2016	24,090	109,839	26,438	160,367
Charge for the year	9,235	47,171	4,161	60,567
At December 31, 2016	33,325	157,010	30,599	220,934
<b>Net Book Value</b>				
At December 31, 2016	16,169	83,976	28,540	128,685
At December 31, 2015	21,620	110,647	32,701	164,968

### 11. Claims Liabilities and Good Experience Rebate Provision

	2016 \$	2015 \$
Claims liabilities	2,594,462	2,880,330
Good experience rebate provision	214,545	374,750

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 good 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 exposures. However, given the uncertainty in establishing claims liabilities, it is likely that the final 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, 2016

(expressed in United States dollars)

### 11. Claims Liabilities and Good 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.

### 12. Accounts payable and other liabilities

Accounts payable and other liabilities comprise:

	2016	2015
	\$	\$
Commissions payable	1,572,888	4,187,082
Other liabilities	(32,649)	244,066
	<u>1,540,239</u>	<u>4,431,148</u>

### 13. 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:

	2016	2015
	\$	\$
Issued and fully paid:		
25,100,000 (2015: 15,000,000) ordinary shares	<u>25,100,000</u>	<u>15,000,000</u>

On January 4, 2016 a resolution was passed to increase the issued share capital to \$18,000,000. On March 1, 2016, a resolution was passed to increase the issued share capital to \$19,000,000. A further resolution was passed on March 28, 2016 to increase the issued share capital to \$22,600,000. On September 21, 2016 a resolution was passed to increase the issued share capital to \$25,100,000 which was effected by a conversion of additional paid in capital. In the prior year, issued share capital was increased by \$3,000,000.

### 14. Commitments

During 2012, the Company entered into an agreement whereby it will purchase office space that will become available in 2017. As referred to in Note 7, an amount of \$546,834 (2014: \$546,834) has been paid as a deposit with a remaining commitment of \$78,166 (2014: \$78,166) outstanding. The balance is to be paid when the space is completed.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2016

(expressed in United States dollars)

### 15. Financial Instruments

	2016	2015
	\$	\$
<i>Financial assets:</i>		
Financial assets measured at amortized cost		
Cash and cash equivalents	8,474,212	9,996,405
Other cash deposits	14,000,000	11,500,000
Premiums receivable	5,430,351	9,587,179
Receivable from related parties	2,962,655	6,032,225
Other receivables	2,516,584	484,055
Investments	3,061,500	3,000,000
Total	<u>36,445,302</u>	<u>40,599,864</u>
<i>Financial liabilities:</i>		
Financial liabilities measured at amortized cost		
Accounts payable and other liabilities	1,540,239	4,431,148
Retrocession premium payable	4,479,877	8,419,877
Total	<u>6,020,116</u>	<u>12,851,025</u>

### 16. 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.

	2016	2015
	\$	\$
Commissions expense	33,852,492	45,619,767
Commissions income	(18,998,464)	(21,382,186)
Net commission expense	<u>14,854,028</u>	<u>24,237,581</u>

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2016

(expressed in United States dollars)

### 17. General and Administrative Expenses

	2016	2015
	\$	\$
Withholding taxes on premiums	2,667,368	2,650,428
Administrative expenses	376,831	375,611
Bonuses	150,562	206,942
Transportation	186,326	191,905
Food and lodging	218,544	118,590
Customer relations	13,619	81,375
Telephone and communications	60,308	34,232
Fuel and lubricants	410	2,902
Bank charges	10,279	13,930
Seminars	12,446	6,585
Dues and subscriptions	28,668	16,467
Miscellaneous	32,062	47,750
Insurance	47,320	44,599
Maintenance	19,103	8,587
Donations	5,549	8,500
Other expenses	622	-
Legal expenses	43,307	-
Rent	508	-
Office supplies	2,348	-
	<u>4,026,425</u>	<u>3,808,403</u>

### 18. 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.

Certain countries apply a withholding tax on money transfers which applies to the premiums earned from insured parties in those countries.

### 19. Capital Management

The Company is incorporated under the Barbados Companies Act and operates under the Insurance (Miscellaneous Provisions) Act (1998-31). Under the Insurance Act the Company must maintain a solvency margin (admitted assets less liabilities) of at least \$16,562,958 (2015: \$7,750,705). The Company exceeded this margin at December 31, 2016.

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 under-pricing 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.