

Financial Statements

**ACTIVE CAPITAL
REINSURANCE, LTD.**

For the Year Ended December 31, 2018

Active Capital Reinsurance, Ltd.

Contents

December 31, 2018

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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, 2018, 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, 2018, 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 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.

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.

May 27, 2019

Active Capital Reinsurance, Ltd.

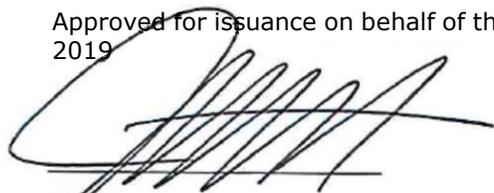
Statement of financial position

As at December 31, 2018

(Expressed in United States dollars)

	2018	2017
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	10,569,990	7,424,931
Premiums receivable (Note 6)	29,718,085	7,991,593
Receivable from related parties (Note 7)	5,678,741	3,230,294
Prepayments, deferred retrocession premiums and other receivables (Note 8)	29,121,900	12,052,299
Investments (Note 9)	1,000,000	-
	<u>76,088,716</u>	<u>30,699,117</u>
Non-Current Assets		
Property, plant and equipment (Note 10)	235,380	169,523
Investments (Note 9)	2,095,382	3,095,382
Other cash deposits (Note 5)	15,715,497	13,415,497
Long term prepayment (Note 7 & 16)	546,834	546,834
	<u>94,681,809</u>	<u>47,926,353</u>
Total Assets		
	<u><u>94,681,809</u></u>	<u><u>47,926,353</u></u>
LIABILITIES		
Current Liabilities		
Claims liabilities (Note 4 & 11)	9,174,204	5,554,458
Experience rebate provision (Note 11)	246,132	456,045
Accounts payable and other liabilities (Note 12)	4,985,844	865,455
Unearned premiums and unearned commission income (Note 13)	23,777,523	8,295,460
Retrocession premium payable (Note 14)	21,206,776	2,022,666
	<u>59,390,479</u>	<u>17,194,084</u>
Total Liabilities		
	<u>59,390,479</u>	<u>17,194,084</u>
SHAREHOLDER'S EQUITY		
Share capital (Note 15)	30,100,000	25,100,000
Retained earnings	5,191,330	5,632,269
	<u>35,291,330</u>	<u>30,732,269</u>
Total Shareholder's Equity		
	<u>35,291,330</u>	<u>30,732,269</u>
Total Liabilities and Shareholder's Equity		
	<u><u>94,681,809</u></u>	<u><u>47,926,353</u></u>

Approved for issuance on behalf of the Board of Directors of Active Capital Reinsurance, Ltd. on May 24, 2019



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, 2018

(Expressed in United States dollars)

	2018	2017
	\$	\$
Income		
Net Reinsurance premiums	99,023,346	92,213,253
Net ceded premiums	(69,849,968)	(58,650,396)
Commission income (Note 18)	20,186,967	13,441,946
Net Premium and Commission Income	<u>49,360,345</u>	<u>47,004,803</u>
Underwriting Expenses		
Experience rebate (Note 11)	(3,169)	24,322
Claims incurred and paid	46,057,319	38,644,056
Reinsurance claims recovered	(39,382,463)	(24,961,959)
Retro Capacities	57,049	-
Withholding taxes on Premiums (Note 20)	498,147	960,517
Commissions expenses (Note 7 & 18)	34,027,743	25,261,700
Net Underwriting Expenses	<u>41,254,626</u>	<u>39,928,636</u>
Net Underwriting Income	<u>8,105,719</u>	<u>7,076,167</u>
Operating Expenses		
Professional fees	1,491,955	1,245,026
Depreciation expense (Note 10)	59,465	65,820
General and administrative expenses (Notes 7 & 19)	1,919,910	1,943,707
	<u>3,471,330</u>	<u>3,254,553</u>
Other Income		
Referral fees	79,130	260,718
Interest	1,068,367	1,098,306
	<u>1,147,497</u>	<u>1,359,024</u>
NET INCOME AND TOTAL COMPREHENSIVE INCOME	<u><u>5,781,886</u></u>	<u><u>5,180,638</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, 2018

(Expressed in United States dollars)

	2018	2017
	\$	\$
Operating Activities		
Net income for the year	5,781,886	5,180,638
Items not affecting cash:		
Depreciation (Note 10)	59,466	65,820
	<u>5,841,352</u>	<u>5,246,458</u>
Changes in working capital other than cash:		
(Increase) in premiums and claims recoveries receivable	(21,865,613)	(2,561,242)
(Increase) in prepayments and other receivables	(16,930,480)	(4,940,175)
Increase in claims liabilities	3,619,745	2,959,996
Increase in (decrease) retrocession liabilities	19,184,110	(2,457,211)
Increase in unearned premium and commission income	15,482,063	6,099,332
(Decrease)/increase in good experience rebate provision	(209,913)	241,500
Increase/(decrease) in accounts payable and other liabilities	4,120,389	(674,784)
(Increase)/decrease in other cash deposits	(2,300,000)	584,503
	<u>6,941,653</u>	<u>4,498,377</u>
Net Cash from Operating Activities		
Investing Activities		
Purchase of property, plant and equipment (Note 10)	(125,323)	(106,658)
Purchase of investments	-	(33,882)
	<u>(125,323)</u>	<u>(140,540)</u>
Net Cash used in Investing Activities		
Financing Activities		
Advances to related parties	(2,448,447)	(267,639)
Share capital issued	5,000,000	-
Dividends paid	(6,222,824)	(5,139,479)
	<u>(3,671,271)</u>	<u>(5,407,118)</u>
Net Cash used in Financing Activities		
Increase/(decrease) in Cash and Cash Equivalents	3,145,059	(1,049,281)
Cash and Cash Equivalents at Beginning of Year	7,424,931	8,474,212
Cash and Cash Equivalents at End of the Year	<u>10,569,980</u>	<u>7,424,931</u>

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, 2018

(Expressed in United States dollars)

	Share capital \$	Retained earnings \$	Total \$
Balance at January 1, 2017	25,100,000	5,591,110	30,691,110
Net income for the year	-	5,180,638	5,180,638
Dividends declared	-	(5,139,479)	(5,139,479)
Balance at December 31, 2017	25,100,000	5,632,269	30,732,269
Net income for the year	-	5,781,886	5,781,886
Share capital issued (Note 15)	5,000,000	-	5,000,000
Dividends declared	-	(6,222,825)	(6,222,825)
Balance at December 31, 2018	<u>30,100,000</u>	<u>5,191,330</u>	<u>35,291,330</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, 2018

(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.

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, Barbados 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. During 2017, there was a transfer of shares to Pine Holdings Corp. from Mr. Niño, which replaced him as the direct shareholder of the 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 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, 2018

(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 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. Experience rebate provision

Certain reinsurance contracts entered into 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 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, 2018

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

f. Revenue recognition (cont'd)

(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, 2018

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

h. Financial Instruments (cont'd)

Financial assets (cont'd)

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, 2018

(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 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 Claims 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, 2018

(Expressed in United States dollars)

4. Insurance Risk, Risk Management and Claims 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, 2018

(Expressed in United States dollars)

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

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

	2018	2017
	\$	\$
Case reserves	4,303,067	5,201,052
Gross IBNR	4,871,137	353,406
Recoveries under retrocessions	(3,571,976)	-
	<u>5,602,228</u>	<u>5,554,458</u>

5. Cash and Cash Equivalents / Other Cash Deposits

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

	2018	2017
	\$	\$
Cash and cash equivalents - Up to 3 months	<u>10,569,990</u>	<u>7,424,931</u>
Other cash deposits - Greater than 3 months	<u>15,715,497</u>	<u>13,415,497</u>

6. Premiums Receivable

	2018	2017
	\$	\$
Premiums receivable	<u>29,718,085</u>	<u>7,991,593</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:

	2017	Advances	Payments received	2018
	\$	\$	\$	\$
Due from a Director	2,063,963	5,000	(43,500)	2,025,463
Advances to the shareholder	1,119,268	2,450,272	-	3,569,540
Associate company (under set-up)	44,392	27,500	-	71,892
Other	2,671	9,175	-	11,846
	<u>3,230,294</u>	<u>2,491,947</u>	<u>(43,500)</u>	<u>5,678,741</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 2019 which will serve as repayment of these advances.

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

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2018

(Expressed in United States dollars)

7. Related Party Transactions and Balances (continued)

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.

	2018	2017
	\$	\$
Key Management Compensation		
Fees and other benefits (included within Professional fees in the Statement of Comprehensive Income)	654,300	768,000
Life insurance (included within General & Administrative expenses within the Statement of Comprehensive Income)	21,919	29,816
Commissions (included in Commissions within the Statement of Comprehensive Income)	13,272	519,092
	<u>689,491</u>	<u>1,316,908</u>

Other transactions

Long term prepayments of \$546,834 (2017: \$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 (2017: \$78,166) to the same party.

Included within General and administrative expenses is \$54,300 (2017: \$53,795.10) paid to close family members of the ultimate controlling party for services provided.

8. Prepayments, deferred retrocession premiums and other receivables

	2018	2017
	\$	\$
Prepayments	496,767	416,287
Deferred retrocession premiums	6,774,182	1,914
Recoveries	9,130,410	-
Commissions prepaid	6,070,360	4,883,208
Other receivables	6,650,181	6,750,890
	<u>29,121,900</u>	<u>12,052,299</u>

9. Investments

	2018	2017
	\$	\$
At January 1	3,095,382	3,061,500
Purchased during the year	-	33,882
Matured during the year	-	-
At December 31	<u>3,095,382</u>	<u>3,095,382</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. On August 2017 the company purchased 5,000 A2 Shares of GBN Ltd.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2018

(Expressed in United States dollars)

10. Plant, Property and Equipment

	Office and Electronic Equipment \$	Motor Vehicles \$	Furniture and Fixtures \$	Total \$
Cost				
Balance January 1, 2018	54,074	240,986	161,217	456,277
Additions	10,803	113,269	1,251	125,323
At December 31, 2018	64,877	354,255	162,468	581,600
Accumulated Depreciation				
Balance January 1, 2018	(42,801)	(209,308)	(34,645)	(286,754)
Charge for the year	(12,082)	(10,205)	(37,179)	(59,466)
At December 31, 2018	(54,883)	(219,513)	(71,824)	(346,220)
Net Book Value				
At December 31, 2018	9,994	134,742	90,644	235,380
At December 31, 2017	11,273	31,678	126,572	169,523

11. Claims Liabilities and Experience Rebate Provision

	2018 \$	2017 \$
Claims liabilities	9,174,204	5,554,458
Experience rebate provision	246,132	456,045

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 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, 2018

(Expressed in United States dollars)

11. 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.

12. Accounts payable and other liabilities

Accounts payable and other liabilities comprise:

	2018	2017
	\$	\$
Commissions payable	3,996,200	857,526
Other liabilities	989,644	7,929
	<u>4,985,844</u>	<u>865,455</u>

13. Unearned premiums and unearned commission income

	2018	2017
	\$	\$
Unearned Premium	16,377,138	99,317
Prepaid Premium	7,393,324	8,189,082
Unearned Commission	7,061	7,061
	<u>23,777,523</u>	<u>8,295,460</u>

14. Retrocession premium payable

	2018	2017
	\$	\$
Retrocession	14,231,418	2,022,666
Long Term Liabilities	6,975,358	-
	<u>21,206,776</u>	<u>2,022,666</u>

15. 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:

	2018	2019
	\$	\$
Issued and fully paid:		
30,100,000 (2017: 25,100,000) ordinary shares	<u>30,100,000</u>	<u>25,100,000</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. On June 2018 a resolution was passed to increase the issued share capital to \$30,100,000.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2018

(Expressed in United States dollars)

16. Commitments

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

However, during 2017 the company entered into an arbitration process against the real estate promoter, and obtained a favorable arbitral award on this process and is exercising all the actions and resources to recover the amount.

17. Financial Instruments

	2018	2017
	\$	\$
<i>Financial assets:</i>		
Financial assets measured at amortized cost		
Cash and cash equivalents	10,569,990	7,424,931
Other cash deposits	15,715,497	13,415,497
Premiums receivable	15,186,888	4,169,593
Receivable from related parties	5,678,741	3,230,294
Other receivables	15,641,470	6,750,891
Investments	3,095,382	3,095,382
Total	<u>65,887,978</u>	<u>38,086,588</u>
<i>Financial liabilities:</i>		
Financial liabilities measured at amortized cost		
Accounts payable and other liabilities	4,985,844	865,455
Retrocession premium payable	21,206,776	2,022,666
Total	<u>26,192,620</u>	<u>2,888,121</u>

18. 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.

	2018	2017
	\$	\$
Commissions expense	34,027,743	25,261,700
Commissions income	<u>(20,186,967)</u>	<u>(13,441,946)</u>
Net commission expense	<u>13,840,776</u>	<u>11,819,754</u>

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2018

(Expressed in United States dollars)

19. General and Administrative Expenses

	2018	2017
	\$	\$
Administrative expenses	611,882	570,852
Outsource	370,147	518,493
Transportation	384,382	219,574
Food and lodging	282,684	230,450
Customer relations	12,115	15,497
Telephone and communications	17,294	74,515
Fuel and lubricants	5,201	5,931
Bank charges	11,817	13,034
Seminars	55,871	103,947
Dues and subscriptions	21,288	23,705
Software	6,705	-
Miscellaneous	27,718	64,886
Insurance	21,919	54,587
Maintenance	22,154	11,497
Donations	6,405	8,449
Other expenses	39,104	10,061
Legal expenses	11,482	14,186
Rent	-	-
Office supplies	11,742	4,035
	<u>1,919,910</u>	<u>1,943,707</u>

20. 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.

	2018	2017
	\$	\$
Withholding taxes on premiums	<u>498,147</u>	<u>960,517</u>

21. Capital Management

The Company is licensed as an Exempt Insurance Company and therefore must maintain a minimum solvency requirement. The Company has exceeded the minimum solvency as at December 31, 2018 and 2017.

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.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2018

(Expressed in United States dollars)

22. Subsequent Events

a. Legislation

Effective January 1, 2019 the Barbados Exempt Insurance Act was repealed and all insurance companies will now be licensed under the Barbados Insurance Act. The Insurance (Amendment) Act, 2018 creates the following classes of insurance licences:

- Class 1 license for insurance companies insuring or reinsuring related party business, are to be taxed at 0% of net earnings;
- Class 2 license for insurance companies insuring or reinsuring third party business, are to be taxed at 2% of net earnings;
- Class 3 license for companies such as Insurance Brokers and Insurance Managers, are to be taxed at 2% of net earnings.

The Company has applied to the Financial Services Commission to be grandfathered under the current arrangements until June 30, 2021 and has applied to be licensed as a Class 2 Insurer.

b. Dividend Declaration

On February 4, 2019, the Board of Directors declared \$444,444 of dividends payable to parent company Pine Holdings Corp.