

**ACTIVE CAPITAL  
REINSURANCE, LTD.**

**Financial Statements  
For the Year Ended December 31, 2015**

# Active Capital Reinsurance, Ltd.

## Financial Statements

For the Year Ended December 31, 2015

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## INDEPENDENT AUDITOR'S REPORT

**To the Shareholder of  
Active Capital Reinsurance, Ltd.**

We have audited the accompanying financial statements of Active Capital Reinsurance, Ltd. which comprise the statement of financial position as at December 31, 2015 and the statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards for Small and Medium-sized Entities (the IFRS for SMEs) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinion***

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Active Capital Reinsurance, Ltd. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with the IFRS for SMEs.

### **Other Matter**

This report is made solely to the company's shareholder, 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 auditor's report and for no other purpose. To the fullest extent permitted by law and subject to any enactment or rule of law to the contrary, we do not accept or assume responsibility to anyone other than the company and the company's shareholder, for our audit work, for this report, or for the opinion we have formed.

*PricewaterhouseCoopers s.r.l.*

May 24, 2016  
Bridgetown, Barbados

# Active Capital Reinsurance, Ltd.

## Statement of Financial Position

As at December 31, 2015

(Expressed in United States Dollars)

	2015	2014
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 5)	9,996,405	7,538,653
Other cash deposits (Note 5)	3,500,000	6,966,668
Premiums receivable (Note 6)	9,587,179	7,843,765
Receivable from related parties (Note 7)	6,032,225	19,291,260
Prepayments, deferred retrocession premiums and other receivables (Note 8)	4,358,952	280,196
Investments (Note 9)	-	50,000
	<u>33,474,761</u>	<u>41,970,542</u>
<b>Non-Current Assets</b>		
Property, plant and equipment (Note 10)	164,968	84,432
Investments (Note 9)	3,000,000	1,000,000
Other cash deposits (Note 5)	8,000,000	8,500,000
Long term prepayment (Note 7 & 15)	546,834	546,834
	<u>45,186,563</u>	<u>52,101,808</u>
<b>LIABILITIES</b>		
Claims liabilities (Note 4 & 11)	2,880,330	1,784,242
Good experience rebate provision (Note 11)	374,750	263,161
Accounts payable and other liabilities (Note 12)	4,431,148	817,698
Unearned premiums and unearned commission income	3,896,419	5,027,482
Retrocession liabilities	8,419,877	1,655,085
	<u>20,002,524</u>	<u>9,547,668</u>
<b>SHAREHOLDER'S EQUITY</b>		
Share capital (Note 13)	15,000,000	12,000,000
Additional paid in capital (Note 14)	3,000,000	-
Retained earnings	7,184,039	30,554,140
	<u>25,184,039</u>	<u>42,554,140</u>
	<u>45,186,563</u>	<u>52,101,808</u>

Approved for issuance on behalf of the Board of Directors of Active Capital Reinsurance, Ltd. on May 24, 2016

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, 2015

(Expressed in United States Dollars)

	2015	2014
	\$	\$
<b>Income</b>		
Reinsurance premiums	124,559,776	88,602,882
Retrocession premiums	(79,391,761)	(16,095,832)
Commission income (Note 17)	21,382,186	834,427
<b>Net Premium Income</b>	<b>66,550,201</b>	<b>73,341,477</b>
<b>Underwriting Expenses</b>		
Good experience rebate (Note 11)	396,862	367,975
Movement in claims liabilities (Note 11)	1,096,088	(1,973,920)
Claims paid	22,726,256	28,332,029
Reinsurance claims recovered	(15,148,360)	(19,774)
Commissions (Note 7 & 17)	45,619,767	12,235,477
<b>Net Underwriting Expenses</b>	<b>54,690,613</b>	<b>38,941,787</b>
<b>Net Underwriting Income</b>	<b>11,859,588</b>	<b>34,399,690</b>
<b>Operating Expenses</b>		
Professional fees (Note 7)	1,977,846	1,150,523
Depreciation expense (Note 10)	52,937	32,304
General and administrative expenses (Notes 7 & 18)	3,808,403	3,186,004
	<b>5,839,186</b>	<b>4,368,831</b>
<b>Other Income and Expenses</b>		
Referral fees received	512,726	71,467
Interest income	650,911	422,437
Loss on sale of fixed assets	-	(10,379)
	<b>1,163,637</b>	<b>483,525</b>
Other comprehensive income	-	-
<b>NET INCOME AND TOTAL COMPREHENSIVE INCOME</b>	<b>7,184,039</b>	<b>30,514,384</b>

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, 2015

(Expressed in United States Dollars)

	2015 \$	2014 \$
<b>Operating Activities</b>		
Net income for the year	7,184,039	30,514,384
Items not affecting cash:		
Loss on disposal of fixed assets	-	10,379
Depreciation	52,937	32,304
	<u>7,236,976</u>	<u>30,557,067</u>
Changes in working capital other than cash:		
(Increase)/decrease in premiums receivable	(1,743,414)	4,501,643
Increase in prepayments, deferred retrocession premiums and other receivables	(4,078,756)	(169,113)
Increase/(decrease) in claims liabilities	1,096,088	(1,973,920)
(Decrease)/increase in unearned premium and commission income	(1,131,063)	5,027,482
Increase in retrocession liabilities	6,764,792	1,655,085
Increase in good experience rebate provision	111,589	85,723
Increase/(decrease) in accounts payable and other liabilities	3,613,450	(287,620)
Decrease/(increase) in other cash deposits	3,966,668	(4,744,051)
<b>Net Cash from Operating Activities</b>	<u>15,836,330</u>	<u>34,652,296</u>
<b>Investing Activities</b>		
Purchase of property, plant and equipment	(133,473)	(4,030)
Investment in bonds, net of maturities	(1,950,000)	(1,000,000)
Advances to related parties	(7,195,894)	(19,197,297)
Repayments from related parties	20,454,929	12,399,242
<b>Net Cash from/(used) in Investing Activities</b>	<u>11,175,562</u>	<u>(7,802,085)</u>
<b>Financing Activities</b>		
Share capital issued and additional capital contributed	6,000,000	2,000,000
Dividends paid	(30,554,140)	(23,580,756)
<b>Net Cash used in Financing Activities</b>	<u>(24,554,140)</u>	<u>(21,580,756)</u>
<b>Increase in Cash and Cash Equivalents</b>	<u>2,457,752</u>	<u>5,269,455</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>7,538,653</u>	<u>2,269,198</u>
<b>Cash and Cash Equivalents at End of the Year</b>	<u>9,996,405</u>	<u>7,538,653</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, 2015

(Expressed in United States Dollars)

	Share capital \$	Additional paid in capital \$	Retained earnings \$	Total \$
<b>Balance at January 1, 2014</b>	10,000,000	-	23,620,512	33,620,512
<i>Total Comprehensive Income:</i>				
Net income for the year	-	-	30,514,384	30,514,384
<i>Other transactions with shareholder:</i>				
Share capital issued	2,000,000	-	-	2,000,000
Dividends declared	-	-	(23,580,756)	(23,580,756)
<b>Balance at December 31, 2014</b>	12,000,000	-	30,554,140	42,554,140
<i>Total Comprehensive Income:</i>				
Net income for the year	-	-	7,184,039	7,184,039
<i>Other transactions with shareholder:</i>				
Share capital issued	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

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, 2015

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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 business 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, Worthing Corporate Centre, Worthing Main Road, Christ Church, BB15008, Barbados.

The Company is a wholly owned subsidiary of Active Capital Holdings Corp., which is registered in the British Virgin Islands. The ultimate controlling party is Mr. Juan Antonio Niño, a Panamanian citizen.

### 2. Summary of Significant Accounting Policies

The financial statements have been prepared by the Company in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (“IFRS for SMEs”). The Company has considered the recognition and measurement requirements of IFRS 4: Insurance contracts. Management has included disclosures relating to insurance that are considered appropriate but, given the nature of the Company, has not included all disclosures that would be required by that standard. 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. The Company has also included certain risk management disclosures which are not required by IFRS for SMEs.

#### 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.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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

#### 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.

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 retrocessionnaires.

#### 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.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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

#### 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.

##### (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.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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

#### h. 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.

##### *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.

##### *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.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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

#### 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

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.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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### 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.

Two of the important changes the Company made during 2015 were to no longer enter contracts with good experience rebates and to pay reinsurance commissions through the Company instead of through ACH. As a result, the Net Reinsurance Commissions show an increase of \$12,836,531 as detailed in Note 17.

### 4. Insurance Risk and Risk Management

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.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. During the first years of operation, the Company wrote business only in Central America and Ecuador; the latter representing up to 60% of the portfolio. Since it became rated by A.M. Best, the Company was registered as a reinsurer in almost all of the Latin American markets, accomplishing a diversification of its portfolio, which now includes other lines of business such as Property & Casualty, as well as Surety.

Claims arising on the reinsured risks are handled by the primary writers, who investigate and adjust all claims. Management reviews losses passed on to them to ensure these are appropriate and in accordance with the reinsurance agreements in place.

Exposure to insurance risk is limited by applying varying deductibles and annual aggregate limits to the policies written. As a result of the retrocession contracts entered, the risks faced by the Company have also been reduced significantly. Most of the retrocession contracts cede 100% of the risk. In some cases, a higher proportion of the risk has been retained.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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### 4. Insurance Risk and Risk Management (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.

#### i. Credit Risks

Insurance and reinsurance transactions are carried out on a credit basis. The reinsurer grants a determined period in which the insurer or ceding company must pay the premium generated by the contract. The reinsurers agree with their retrocessionaires how the reinsurance premiums are to be paid.

Like any other financial services transaction, there is a risk of non-payment of the premium by the original insured, which would consequently affect the reinsurer if there is reinsurance contracted for the original policy. Besides the risk of non-payment of the premiums owed, the Company also faces the risk of non-payment of negotiable instruments invested in at the maturity date and, most importantly, the

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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### 4. Insurance Risk and Risk Management (continued)

#### Risk Management (continued)

##### i. Credit Risks (continued)

risk of non-payment of claims by the Company's retrocessionaires.

Investment risks are mitigated by the Company by requiring formal approval by the Board of Directors when an investment decision is recommended by the Finance Committee. Another condition is that the instrument must be issued by a recognized and/or rated institution.

Premiums receivable - All reinsurance transactions made by the Company must include terms of payment. The aging of the receivables is regularly reviewed by the Committee, which maintains pressure on the Collection Department to collect the outstanding balances due.

Claims recoverable – The reinsurance contracts follow the conditions of the original insurance policies. The insurer, or ceding company, must comply with the same obligations as the original insured when a claim is filed by the latter. The same obligations apply when the Company retrocedes part of a risk it has reinsured. The reinsurer and retrocessionaire are subject to the same conditions as the insurer or ceding company. If the latter is forced by a Court of law to pay a claim that was originally declined, the reinsurer and retrocessionaire must also pay in accordance with the reinsurance contract. The Company faces the risk of non-payment of a claim by a retrocessionaire. In order to mitigate this risk, the Committee is involved in the Company's underwriting policy, whereby retrocessions are permitted only with rated reinsurers.

Management monitors the credit risk concentration by geographical location. The credit risk concentration at December 31 is as follows:

	Premiums Receivable		Claims Recoverable (Netted in Claims liabilities)	
	2015	2014	2015	2014
Central America & Caribbean	9,587,179	7,295,781	482,694	-
Eastern Europe	-	-	560	-
South America	-	547,984	-	-
	<u>9,587,179</u>	<u>7,843,765</u>	<u>483,254</u>	<u>-</u>

##### ii. Market Risks

Fluctuations in capital markets can influence the Company's investment portfolio positively or negatively, such as changes in interest rates. Insurance/reinsurance market risks are those that can have an impact in different countries or markets, such as inflation rates, currency devaluations, etc. These factors could affect ceding companies resulting in them buying less reinsurance coverage. To mitigate this risk, the Company only transacts reinsurance in US Dollars.



# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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### 4. Insurance Risk and Risk Management (continued)

#### Risk Management (continued)

##### iii. Liquidity Risks

The Company faces liquidity risks in relation to unexpected claims or obligations. Its reputation and good standing is at stake if obligations are not fulfilled in due course when a claim is fully retained by the Company. When business is retroceded to another reinsurer, the Company also faces the risk of non-payment or an unreasonable delay in payment by the retrocessionaire.

In order to mitigate these risks, the Company maintains a significant level of liquidity; preferably with international and regional banks that do business with the Company in Latin America. As mentioned above, the Company retrocedes business to highly rated reinsurers in order to mitigate the risk of non-payment of a reinsured claim.

Another factor that can influence the liquidity of the Company is the risk of a catastrophic event occurring. Despite the increase in the volume of Property business in 2015, which includes coverage for natural catastrophes, the Company retrocedes almost 100% of this business.

The analysis of the maturities of the financial assets and liabilities based on the expected undiscounted cash flows is shown below.

# Active Capital Reinsurance, Ltd.

Notes to the Financial Statements  
For the Year Ended December 31, 2015

## 4. Insurance Risk and Risk Management (continued)

### Risk Management (continued)

#### iii. Liquidity Risks (continued)

	Up to 3 months \$	3 months to 1 year \$	Over 1 year \$	Total \$
<b>As at December 31, 2015</b>				
<b>Financial assets:</b>				
Cash and cash equivalents	10,008,703	-	-	10,008,703
Other cash deposits	118,000	3,816,372	8,883,374	12,817,746
Premiums receivable	8,973,498	613,681	-	9,587,179
Receivable from related parties	-	6,032,225	-	6,032,225
Other receivables	490,825	-	-	490,825
Investments	9,197	163,039	3,718,890	3,891,126
Total Financial Assets	19,600,223	10,625,317	12,602,264	42,827,804
<b>Financial Liabilities:</b>				
Case reserves	2,496,574	11,821	-	2,508,395
Good experience rebate provision	-	374,750	-	374,750
Accounts payable and other liabilities	3,407,511	1,023,637	-	4,431,148
Retrocession liabilities	5,645,339	2,774,538	-	8,419,877
Total Financial Liabilities	11,549,424	4,184,746	-	15,734,170

# Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the Year Ended December 31, 2015

## 4. Insurance Risk and Risk Management (continued)

### Risk Management (continued)

#### iii. Liquidity Risks (continued)

As at December 31, 2014

#### Financial assets:

Cash and cash equivalents	7,547,988	-	-	7,547,988
Other deposits	7,059,762	240,932	9,596,257	16,896,951
Premiums receivable	7,761,524	82,240	-	7,843,764
Receivable from related parties	-	19,291,260	-	19,291,260
Other receivables	146,311	-	-	146,311
Investments	9,197	36,585	1,311,611	1,357,393
Total Financial Assets	22,524,782	19,651,017	10,907,868	53,083,667

#### Financial Liabilities:

Case reserves	1,584,570	-	-	1,584,570
Accounts payable and other liabilities	71,472	746,225	-	817,697
Retrocession liabilities	1,655,085	-	-	1,655,085
Good experience rebate provisions	35,619	227,542	-	263,161
Total Financial Liabilities	3,346,746	973,767	-	4,320,513

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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### 4. Insurance Risk and Risk Management (continued)

#### Risk Management (continued)

#### iv. Solvency Risks

The regulator sets the required solvency margin for the Company, which is based on the prior year premium income which must be exceeded by the admitted assets less liabilities. As at December 31, 2015, the Company's Solvency Margin was 194% of the minimum required by the regulator.

#### v. Business and Operational Risks

These are the risks relating to processes, human resources, stakeholders and non-compliance with underwriting policy or corporate governance. To mitigate these risks, the Company has established a corporate governance manual, an underwriting manual, and created committees to oversee and ensure compliance in areas such as Finance and Risk Management, with the purpose of avoiding or limiting economic or financial loss to the Company.

The primary responsibility to implement the internal controls lies with top management of the Company, which is tasked with managing the operational risks based on global standards applying in the following areas:

- Management functions and authorization levels for all the operational areas of the Company.
- Compliance with regulatory requirements in the Company's jurisdiction, as well as those of the different markets in which it transacts business.
- Documentation of internal controls and periodical evaluation of these controls.
- Requirement to report operational losses and remedial actions or contingency plans.
- Looking after key personnel, and providing the required level of professional training to such personnel.

#### vi. Regulatory Risks

This relates to the continuing expansion of legal frameworks which, in some cases, may lead to further regulation. Companies have to dedicate more resources, with the intention of studying, interpreting and ensuring compliance with the new mandatory standards, and being aware of the responsibilities that would be faced in case of default.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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### 4. Insurance Risk and Risk Management (continued)

#### 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.

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

	2015	2014
	\$	\$
Case reserves	2,508,395	1,784,242
Gross IBNR	855,189	-
Recoveries under retrocessions	(483,254)	-
	<u>2,880,330</u>	<u>1,784,242</u>

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

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

	2015	2014
	\$	\$
Cash and cash equivalents - Up to 3 months	9,996,405	7,538,653
Other cash deposits - Greater than 3 months	<u>11,500,000</u>	<u>15,466,668</u>

At December 31, 2014, the other cash deposits included three Escrow accounts with a total balance of \$3,966,668.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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### 6. Premiums and Claims Recoveries Receivable

	2015	2014
	\$	\$
Premiums receivable	9,587,179	7,843,765

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:

	2014	Advances	Payments received	2015
	\$	\$	\$	\$
Due from a Director	153,963	-	-	153,963
Advances to the shareholder	19,137,297	7,120,563	(20,454,929)	5,802,931
Associate company (under set-up)	-	73,726	-	73,726
Other	-	1,605	-	1,605
	19,291,260	7,195,894	(20,454,929)	6,032,225

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 2016 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, 2015

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

	2015 \$	2014 \$
<b>Key Management Compensation</b>		
Fees and other benefits (included within Professional fees in the Statement of Comprehensive Income)	1,512,044	873,924
Life insurance (included within General & Administrative expenses within the Statement of Comprehensive Income)	30,006	34,680
Commissions (included in Commissions within the Statement of Comprehensive Income)	2,064,655	493,960
	<u>3,606,705</u>	<u>1,402,564</u>

#### *Other transactions*

Long term prepayments of \$546,834 (2014: \$546,834) relate to amounts paid to a close family member of the ultimate controlling party as detailed in Note 15. There is a capital commitment of \$78,166 (2014: \$78,166) to the same party.

Included in prepayments and other receivables is \$16,678 (2014: Nil) which is receivable from a restaurant owned by the ultimate controlling party from a loan provided and \$378,163 (2014: 146,211) which represents advances paid to the ultimate controlling party.

Included within General and administrative expenses is \$30,000 (2014: \$26,250) paid to a close family member of the ultimate controlling party for services provided.

Administrative expenses of \$372,360 (2014: \$267,554) were charged by Active Capital International Inc., a related party by common control.

Dividends paid to Active Capital Holdings Corp of \$30,554,140 (2014: 23,580,756).

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

	2015 \$	2014 \$
Prepayments	383,513	151,561
Deferred retrocession premiums	2,946,587	-
Commissions prepaid	544,797	-
Other receivables	484,055	128,635
	<u>4,358,952</u>	<u>280,196</u>

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

### 9. Investments

	2015 \$	2014 \$
At January 1	1,050,000	50,000
Purchased during the year	2,000,000	1,000,000
Matured during the year	(50,000)	-
At December 31	<u>3,000,000</u>	<u>1,050,000</u>

On February 15, 2014, the Company purchased a bond of \$1,000,000 issued by Grupo Financera Ficohsa S.A. The bond matures on February 15, 2019 and has an interest rate of 6.50% plus LIBOR, with a maximum rate of 8%. On April 30, 2015, the Company purchased a bond of \$2,000,000 issued by Grupo Financera Ficohsa S.A. The bond matures on April 30, 2020 and has an interest rate of 7.50%.

### 10. Plant, Property and Equipment

	Office and Electronic Equipment \$	Motor Vehicles \$	Furniture and Fixtures \$	Total \$
<b>Cost</b>				
Balance January 1, 2015	24,375	119,000	48,487	191,862
Additions	21,335	101,486	10,652	133,473
At December 31, 2015	<u>45,710</u>	<u>220,486</u>	<u>59,139</u>	<u>325,335</u>
<b>Accumulated Depreciation</b>				
Balance January 1, 2015	19,794	65,450	22,186	107,430
Charge for the year	4,296	44,389	4,252	52,937
At December 31, 2015	<u>24,090</u>	<u>109,839</u>	<u>26,438</u>	<u>160,367</u>
<b>Net Book Value</b>				
At December 31, 2015	<u>21,620</u>	<u>110,647</u>	<u>32,701</u>	<u>164,968</u>
At December 31, 2014	<u>4,581</u>	<u>53,550</u>	<u>26,301</u>	<u>84,432</u>



# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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

	2015	2014
	\$	\$
Claims liabilities	2,880,330	1,784,242
Good experience rebate provision	374,750	263,161

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.

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.

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Company's estimate of the ultimate value of total claims outstanding for each financial year has changed at successive year ends. The bottom half of the table reconciles the Company's cumulative claims to the amount appearing in the Statement of Financial Position.

# Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the Year Ended December 31, 2015

## 11. Claims Liabilities and Good experience rebate provision (continued)

Reporting year	2008	2009	2010	2011	2012	2013	2014	2015	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Claims Liabilities									
Estimate of ultimate claims cost:									
as at December 31, 2008	4,090,807								
as at December 31, 2009	4,009,241	8,238,349							
as at December 31, 2010	3,900,810	5,376,384	17,801,177						
as at December 31, 2011	3,900,810	5,376,384	28,518,435	26,808,453					
as at December 31, 2012	3,900,810	5,376,384	28,518,435	7,840,747	33,421,131				
as at December 31, 2013	3,900,810	5,376,384	28,518,435	7,840,747	24,998,375	6,792,089			
as at December 31, 2014	3,900,810	5,376,384	28,518,435	7,840,747	24,998,375	3,783,946	26,827,136		
as at December 31, 2015	3,900,810	5,376,384	28,518,435	7,840,747	24,998,375	3,783,946	26,587,223	24,415,089	
Current estimate of Cumulative Claims	3,900,810	5,376,384	28,518,435	7,840,747	24,998,375	3,783,946	26,587,223	24,415,089	125,421,009
Cumulative payments to Date	(3,900,810)	(5,376,384)	(28,518,435)	(7,840,747)	(24,998,375)	(3,783,946)	(26,587,223)	(21,160,009)	(122,165,929)
Liability recognised in the Statement of Financial Position	-	-	-	-	-	-	-	3,255,080	3,255,080

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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### 12. Accounts payable and other liabilities

Accounts payable and other liabilities comprise:

	2015 \$	2014 \$
Commissions payable	4,187,082	749,241
Interest payable	-	23,112
Other liabilities	244,066	45,345
	<u>4,431,148</u>	<u>817,698</u>

### 13. Share Capital

Share capital comprises:

	2015 \$	2014 \$
Authorized:		
15,000,000 (2014: 15,000,000) ordinary shares	<u>15,000,000</u>	<u>15,000,000</u>
Issued and fully paid:		
15,000,000 (2014: 12,000,000) ordinary shares	<u>15,000,000</u>	<u>12,000,000</u>

On April 30, 2015, a resolution was passed to increase the issued share capital to \$14,000,000. A further resolution was passed on June 30, 2015 to increase the issued share capital to \$15,000,000. In the prior year, issued share capital was increased by \$2,000,000.

### 14. Additional Paid in Capital

During the year, additional paid in capital of \$3,000,000 was injected through cash payments by the parent company (2014: Nil). As detailed in Note 20, the authorized share capital has been increased in 2016 and this amount has been converted to issued and fully paid shares.

### 15. 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, 2015

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### 16. Financial Instruments

	2015	2014
	\$	\$
<i>Financial assets:</i>		
Financial assets measured at amortized cost		
Cash and cash equivalents	9,996,405	7,538,653
Other cash deposits	11,500,000	15,466,668
Premiums receivable	9,587,179	7,843,765
Receivable from related parties	6,032,225	19,291,260
Other receivables	484,055	128,635
Investments	3,000,000	1,050,000
Total	<u>40,599,864</u>	<u>51,318,981</u>
<i>Financial liabilities:</i>		
Financial liabilities measured at amortized cost		
Accounts payable and other liabilities	4,431,148	817,698
Retrocession liabilities	8,419,877	1,655,085
Total	<u>12,851,025</u>	<u>2,472,783</u>

### 17. 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.

	2015	2014
	\$	\$
Commissions paid	45,619,767	12,235,477
Commissions earned	21,382,186	834,427
Net commission expense	<u>24,237,581</u>	<u>11,401,050</u>

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the Year Ended December 31, 2015

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### 18. General and Administrative Expenses

	2015	2014
	\$	\$
Withholding taxes on premiums	2,650,428	2,345,993
Administrative expenses	375,611	267,554
Bonuses	206,942	140,966
Transportation	191,905	127,813
Food and lodging	118,590	81,766
Customer relations	81,375	99,006
Telephone and communications	34,232	13,648
Fuel and lubricants	2,902	5,385
Bank charges	13,930	14,369
Seminars	6,585	-
Dues and subscriptions	16,467	20,370
Miscellaneous	47,750	23,232
Insurance	44,599	34,680
Maintenance	8,587	8,458
Donations	8,500	2,764
	<u>3,808,403</u>	<u>3,186,004</u>

### 19. 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 licence fee is payable. Where a taxable loss occurs, a licence 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.

### 20. Subsequent Events

After the year end, the authorized share capital was increased from 15,000,000 shares to an unlimited number. An additional \$7,600,000 in shares was issued in 2016. This was funded through a cash injection of \$4,600,000 by the parent company and by converting the additional paid in capital of \$3,000,000 at year end to share capital. The above represents subsequent events to the date of the audit opinion.

# Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the Year Ended December 31, 2015

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## 21. 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 \$7,750,705 (2014: \$7,784,892). The Company exceeded this margin at December 31, 2015.

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.