

ACTIVE CAPITAL REINSURANCE, LTD.

Financial Statements

For the Year Ended December 31, 2023

Active Capital Reinsurance, Ltd.

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December 31, 2023

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Independent auditors' report

To the Shareholders 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 31 December 2023 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023 and 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 ethical requirements that are relevant to our audit of the financial statements in Barbados and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management and those charged with governance are responsible for the other information. The other information comprises of the Annual Report for the year ended 31 December 2023.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS for SMEs Accounting Standards, 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.

Independent auditors' report (continued)

To the Shareholders of Active Capital Reinsurance Ltd

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

Other matter

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.

8 August 2024

Active Capital Reinsurance, Ltd.


Statement of financial position

As of December 31, 2023

(Expressed in United States dollars)

	2023 \$	Restated (Note 23) 2022 \$	Restated (Note 23) January 1, 2022 \$
ASSETS			
Current Assets			
Cash and cash equivalents (Note 5 & 17)	34,411,260	37,621,087	44,150,861
Other cash deposits (Note 5)	18,300,000	26,200,000	8,900,000
Premiums receivable (Note 6)	89,764,242	61,307,134	103,172,932
Receivable from related parties (Note 7)	4,559,029	5,948,362	6,158,830
Prepayments and other receivables (Note 8)	176,769,081	89,795,093	42,705,230
Deferred retrocession premiums (Note 9)	38,021,374	22,735,345	17,354,684
Investments (Note 10 & 17)	1,405,342	-	-
	<u>363,230,328</u>	<u>243,607,021</u>	<u>222,442,537</u>
Non-Current Assets			
Property, plant and equipment (Note 11)	1,158,556	928,287	863,583
Premiums Receivable (Note 6)	870,910	8,791,372	-
Investments (Note 10 & 17)	13,933,180	9,847,394	10,348,085
Other cash deposits (Note 5)	20,474,905	15,457,915	16,415,497
	<u>26,437,551</u>	<u>24,985,978</u>	<u>27,627,165</u>
Total Assets	<u>399,667,879</u>	<u>278,631,989</u>	<u>250,069,702</u>
LIABILITIES			
Current Liabilities			
Claims liabilities (Note 4 & 12)	171,473,615	61,888,683	41,070,517
Accounts payable and other liabilities (Note 13 & 17)	11,234,609	28,659,332	21,962,808
Profit Sharing Commissions (Note 13)	337,728	3,261,226	-
Unearned premiums and unearned commission income (Note 14)	71,329,571	38,629,713	27,286,549
Retrocession premium payable (Note 15 & 17)	57,736,240	66,407,691	94,252,138
	<u>312,111,763</u>	<u>198,846,645</u>	<u>184,572,012</u>
Total Liabilities	<u>312,111,763</u>	<u>198,846,645</u>	<u>184,572,012</u>
SHAREHOLDER'S EQUITY			
Share capital (Note 16)	50,000,000	48,000,000	45,000,000
Retained earnings	37,556,116	31,785,344	20,497,690
	<u>87,556,116</u>	<u>79,785,344</u>	<u>65,497,690</u>
Total Liabilities and Shareholder's Equity	<u>399,667,879</u>	<u>278,631,989</u>	<u>250,069,702</u>

Approved for issuance on behalf of the Board of Directors of Active Capital Reinsurance, Ltd.
on August 6th, 2024.



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, 2023
(Expressed in United States dollars)

	2023	Restated (Note 23) 2022
	\$	\$
Income		
Net Reinsurance premiums	193,599,925	171,668,426
Net ceded premiums	(66,556,143)	(72,474,885)
Commission income (Note 18)	18,163,533	16,933,392
Net Premium and Commission Income	145,207,315	116,126,933
Underwriting Expenses		
Claims incurred and paid	201,667,534	113,275,242
Reinsurance claims recovered	(116,469,492)	(65,312,555)
Withholding taxes on Premiums (Note 20)	846,135	1,263,176
Commission expenses (Note 18)	38,327,726	24,456,078
Profit Sharing Commission (Recovery) Expense (Note 18)	(2,958,227)	3,136,133
Net Underwriting Expenses	121,413,676	76,818,074
Net Underwriting Income	23,793,639	39,308,859
Operating Expenses		
Professional fees	5,905,838	5,048,004
Depreciation expense (Note 11)	311,702	346,982
General and administrative expenses (Note 19)	10,618,481	11,012,920
	16,836,021	16,407,906
Other Income (loss)		
Foreign Currency Exchange Result	576,656	(4,247,764)
Other Income	6,236,029	-
Interest (Note 21)	2,339,995	(336,077)
	9,152,680	(4,583,841)
Net income and total comprehensive income before income tax	16,110,298	18,317,112
Income tax (Note 20)	339,526	482,263
Net income and total comprehensive income after income tax	15,770,772	17,834,849

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, 2023

(Expressed in United States dollars)

	2023	Restated (Note 23) 2022
	\$	\$
Operating Activities		
Net income for the year	15,770,772	17,834,849
Adjustment made to restate Net Income	-	3,367,158
Items not affecting cash:		
Investment Loss	-	2,219,252
Change in Market Value	121,985	8,130
Depreciation	311,702	346,982
	<u>16,204,459</u>	<u>23,776,371</u>
Changes in working capital:		
(Increase) Decrease in premiums receivable	(20,536,646)	33,074,426
Increase in prepayments and other receivables	(86,973,988)	(47,089,863)
Increase in deferred retrocession premiums	(15,286,029)	(5,380,661)
Increase in claims liabilities	109,584,932	20,818,166
(Decrease) in retrocession liabilities	(8,671,451)	(27,844,447)
Increase in unearned premium and commission income	32,699,858	11,343,164
(Decrease) Increase in accounts payable and other liabilities	(20,348,221)	9,957,751
Increase (Decrease) in other cash deposits	2,883,010	(16,342,418)
	<u>9,555,924</u>	<u>2,312,489</u>
Net Cash from Operating Activities		
Investing Activities		
Purchase of fixed assets	(541,971)	(411,687)
Sales of securities	2,540,000	5,090,047
Acquisition of securities	(8,153,113)	(6,808,608)
	<u>(6,155,084)</u>	<u>(2,130,248)</u>
Net Cash used in Investing Activities		
Financing Activities		
Advances to related parties	1,389,333	210,468
Share capital issued	2,000,000	3,000,000
Dividends paid	(10,000,000)	(9,922,483)
	<u>(6,610,667)</u>	<u>(6,712,015)</u>
Net Cash used in Financing Activities		
Decrease in Cash and Cash Equivalents	(3,209,827)	(6,529,774)
Cash and Cash Equivalents at Beginning of Year	37,621,087	44,150,861
Cash and Cash Equivalents at End of the Year	<u>34,411,260</u>	<u>37,621,087</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, 2023

(Expressed in United States dollars)

	Share Capital	Retained Earnings	Total
	\$	\$	\$
Balance as of January 1, 2022	45,000,000	20,497,690	65,497,690
Adjustments made to restate retained earnings (Note 23)	-	3,367,158	3,367,158
Net Income of the Year	-	17,834,849	17,834,849
Share Capital Issued	3,000,000	-	3,000,000
Dividends paid	-	(9,922,483)	(9,922,483)
Change in Market Value	-	8,130	8,130
Balance as of December 31, 2022	48,000,000	31,785,344	79,785,344
Net Income	-	15,770,772	15,770,772
Share Capital Issued	2,000,000	-	2,000,000
Dividends paid	-	(10,000,000)	(10,000,000)
Change in Market Value	-	-	-
Balance as of December 31, 2023	50,000,000	37,556,116	87,556,116

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, 2023

(Expressed in United States dollars)

1. Background Information

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

The Company's business activity is to underwrite facultative and treaty reinsurance policies generated from intermediaries such as reinsurance brokers, Managing General Agents (MGA's) and insurance companies covering the Middle East and North of Africa (MENA) region, Asia, Europe and the Latin American region. Starting in 2020, MGA's contracts were responsible for the Company's further growth by virtue of a diversified risk portfolio in reinsurance contracts. This upward push from MGA's contracts continued in FY 2021. Compared to 2022 results, Active Re's activities in FY 2023, produced a 13% growth in overall premium production. This growth came as a consequence of a 43% increase in premiums in the Property & Casualty line of business.

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

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

The Company is a wholly owned subsidiary of Pine Holdings Corp., which is registered in Turks and Caicos Islands. The ultimate controlling company is MARJANA Holdings, Inc. a company incorporated in Panama.

2. Summary of Significant Accounting Policies

The financial statements have been prepared by the Company in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities ("IFRS for SMEs"). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. For FY 2022 the Financial Statements of the company were restated to correct gross premiums, claims and their associated insurance balances recorded in the incorrect period.

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. The financial statements of the Company for FY 2022 were restated to correct gross premiums, claims and their associated insurance balances recorded in incorrect periods, found when preparing the 2023 financial statements.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

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.

c. Claim liabilities

The Company establishes liabilities for the ultimate settlement cost (including direct expenses expected to be incurred in settling claims, net of the expected subrogation value and other recoveries) of claims reported but not settled based on information received from its primary underwriter, estimates, and reported on the bordereaux. The liabilities for claims incurred but not reported are estimated by management analysis based on the Expected Loss Method. Under this method, the ultimate expected claims are calculated by multiplying the net earned premium by the expected loss ratio for each line of business, from which actual claims to date are deducted. Changes in estimates of unpaid claims resulting from the continuous review process and differences between estimates and payments are recognized in the Statement of Comprehensive Income in the period in which the estimates are changed or the payments are made. The Company does not discount its liabilities for unpaid claims. As of December 31st, 2023, the company adopted the Chain Ladder Actuarial Method and certified the calculations with an external actuarial consulting firm. The IBNR Reserve was estimated using the Chain Ladder Method, which considers the development of claims by origin year from Active Re historical data.

d. Experience rebate provision

Certain reinsurance contracts underwritten by the Company in prior years include experience rebate clauses, where the Company may, rebate a portion of the reinsurance premiums ceded under certain circumstances. Industry tendencies in our markets have steered Active Re away from these contracts to the point that the company did not participate in any of these contracts in FY 2022 nor FY 2023. The tendency has been to participate in profit sharing contracts. In these contracts, profits from the contract's performance is shared by the parties involved, by the percentage negotiated at the contract's conception.

e. Balances and transactions in foreign currencies

The functional and presentation currency of the Company is the US dollar. Foreign currency transactions are converted at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions were recognized quarterly during FY 2023 in the statement of comprehensive Income.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

f. Revenue recognition

Revenue comprises of the fair value of the remuneration received or receivable for reinsurance coverage in the ordinary course of the Company's activities as well as interest income, commission 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 generally recognized in the Statement of Comprehensive Income proportionally over the period of coverage. Reinsurance and retrocession premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums. Reinsurance and retrocession premium adjustments are recognized in the statement of comprehensive income in the period in which they are determined.

In the case of the proportional treaties and affinity business, revenue cannot be reliably determined at the moment the business is accepted. However, periodic account statement presentations are established among the conditions of the agreement. The underwritten risks from the reporting period is revealed in these presentations. The revenue reported is recorded in the accounting system then. This revenue recognition method is based on Section 2.30 and 2.31, Recognition of Assets, Liabilities, Income and Expenses, from IFRS for SME's. In this section, "Reliability of Measurement" the standard states: "When a reasonable estimate cannot be made, the item is not recognized in the financial statements. An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events." The Company bases its estimates on historical results, taking into consideration the type of transaction and the specifics of each arrangement.

(ii) *Commission income*

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

(iii) *Interest income*

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

(iv) *Dividend income*

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

(v) *Other income*

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

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

g. Cash and cash equivalents

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

h. Financial instruments

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

Financial assets

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

(i) Loans and receivables

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

(ii) Investments

On initial recognition, investments are recognized as noted below. Company recognizes its investments at fair value from market information provided by the broker.

Recognition and de-recognition

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

Effective interest method

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

Impairment

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

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

h. Financial instruments (continued)

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, retrocession premium payable and other liabilities which are classified as basic financial instruments and are stated at amortized cost.

Equity instruments

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

i. Property, plant and equipment

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

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

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

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

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

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

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

j. Accounts payable

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

k. Share capital

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

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

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

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

4. Insurance Risk, Risk Management and Claims Liabilities

Insurance Risk

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

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

Risk Management

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

- 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. To align the strategic objectives in each of the risk management areas indicated above, the Board formed the following committees:

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

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

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

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

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

Claims Liabilities

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

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

IBNR reserve is the estimated amount expected for claims that may 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. As of December 31st, 2023, the company adopted the Chain Ladder Actuarial Method and certified the calculations with an external actuarial consulting firm. The IBNR Reserve was estimated using the Chain Ladder Method, which takes into account the development of claims by origin year from Active Re historical data.

Claims Liabilities

In FY 2023 as instituted in FY 2022, claim liabilities include the computation of the IBNR retroceded. The net IBNR is the result from subtracting the gross IBNR from the IBNR of retro share.

For FY 2022 the Case Reserves and Recoveries under retrocessions were restated due to transactions recorded in an incorrect period.

	2023	Restated (Note 23) 2022
	\$	\$
Case Reserves	43,275,083	18,679,041
Gross IBNR	<u>128,198,532</u>	<u>43,209,642</u>
TOTAL Claims Liabilities	<u>171,473,615</u>	<u>61,888,683</u>

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

5. Cash and Cash Equivalents / Other Cash Deposits

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

	<u>2023</u>	<u>2022</u>
	\$	\$
Cash and Cash equivalents - Up to 3 Months	34,411,260	37,621,087
Other Cash deposits - Greater than 3 months but less than 1 year	18,300,000	26,200,000
Other Cash deposits - Greater than 1 year	<u>20,474,905</u>	<u>15,457,915</u>
	<u>73,186,165</u>	<u>79,279,002</u>

6. Premiums Receivable

In FY 2022 the Company established an Accounts Receivable Collection Policy. This policy was established based on the Company's portfolio structure and collection periods.

	<u>2023</u>	<u>Restated (Note 23) 2022</u>
	\$	\$
Premiums receivable (Current)	92,099,216	63,550,303
Provision for uncollectible premium	<u>(2,334,974)</u>	<u>(2,243,169)</u>
Total Premium Receivable (Current)	89,764,242	61,307,134
Premiums receivable (Non-Current)	<u>870,910</u>	<u>8,791,372</u>
Net Premium Receivable	<u>90,635,152</u>	<u>70,098,506</u>

Included in this policy is a provision for uncollectible premiums as shown above. The amount of the reserve comes from applying a percentage rate to the premium receivable balance. This rate also considers the company's portfolio profile, process, and controls over of the premiums collection periods. This policy remained in effect during FY 2023 with an addendum to this policy for writing off all accounts exceeding 455 days from the collection date, reduced from the 545 days used as bases for write offs during FY 2022.

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:

	<u>2022</u>	<u>Advances</u>	<u>Payments received</u>	<u>2023</u>
	\$	\$	\$	\$
Due from a Director	908,956	-	(2,315)	906,641
Advances to the shareholder	4,741,703	-	(1,700,000)	3,041,703
Other Related Parties	<u>297,703</u>	<u>313,548</u>	<u>(566)</u>	<u>610,685</u>
	<u>5,948,362</u>	<u>313,548</u>	<u>(1,702,881)</u>	<u>4,559,029</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. During FY 2023 USD 1,702,881 were received in payments from Directors and Related Parties compared to USD 4,029,810 received during FY 2022.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(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:

	<u>2023</u>	<u>2022</u>
	\$	\$
Fees and other benefits (included withing Professional fees in the Statement of Comprehensive Income)	4,667,908	3,109,849
Life insurance (included within General & Administrative expenses within the Statement of Comprehensive Income)	<u>73,866</u>	<u>54,947</u>
	<u>4,741,774</u>	<u>3,164,796</u>

8. Prepayments and other receivables

	<u>2023</u>	<u>Restated (Note 23) 2022</u>
	\$	\$
Prepayments	1,940,007	1,538,536
Claims Recoveries	150,144,921	70,219,745
Commissions Prepaid	14,240,565	8,223,641
Other Receivables	<u>10,443,588</u>	<u>9,813,171</u>
	<u>176,769,081</u>	<u>89,795,093</u>

9. Deferred retrocession premiums

	<u>2023</u>	<u>2022</u>
	\$	\$
Deferred retrocession premiums	<u>38,021,374</u>	<u>22,735,345</u>

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

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

10. Investments

	Current		Non Current	
	2023	2022	2023	2022
	\$	\$	\$	\$
January 1	-	-	9,847,394	10,348,085
Purchased during the year	3,876,454	-	4,276,659	6,808,608
Sales & Maturities during the Year	(2,540,000)	-	-	(5,090,047)
Net Asset Value Change	68,888	-	(190,873)	40,748
Investment Loss	-	-	-	(2,260,000)
December 31, 2023	<u>1,405,342</u>	<u>-</u>	<u>13,933,180</u>	<u>9,847,394</u>

During 2022, 4 new investments were added to Active Re investment portfolio in the amount of \$6,808,608. On July 31, 2022, the company purchased 52,631 shares in the amount of \$1,999,978 issued by Supermercados Xtra, S.A. On March 31, 2022, the company purchased \$2,000,000 of shares from an investment fund managed by IDC Ventures Capital with a commitment of \$2,000,000, from which the company paid during 2022 \$1,000,000, with a net asset value change of \$40,748. On May 10, 2022, the company purchased 600 shares in the amount of \$3,558,630 issued by Porta Norte Developers Corp. On December 13, 2022, the company purchased 250,000 shares from an investment fund managed by IDC Ventures Capital in the amount of \$250,000. On January 30, 2022, the company sold its investment portfolio held in UBS BANK in the amount of \$5,090,047. On August 22, 2022, the company recognized an impairment of the share investment in Truckslogic, a company of the logistic sector, by the amount of \$2,260,000. During 2023, 9 new investments were added to Active Re's investment portfolio totalling \$8,153,113. Most of the capital invested, \$6,236,709, was in USA Treasury Bonds and investment-grade corporate bonds, of which \$2,540,000 matured during the year. The remainder of the capital invested was in private equity and venture capital funds. No investments carried over from 2022 nor new investments made during 2023 were impaired.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

11. Plant, Property and Equipment

	Office and Electronic Equipment	Motor Vehicles	Furniture and Fixtures	Total
	\$	\$	\$	\$
Cost				
Balance December 31, 2022	342,403	370,016	1,144,510	1,856,929
Additions	74,934	-	467,037	541,971
Disposals	(52,968)	(20,500)	(3,500)	(76,968)
As of December 31, 2023	<u>364,369</u>	<u>349,516</u>	<u>1,608,047</u>	<u>2,321,932</u>
Accumulated Depreciation				
Balance December 31, 2022	(98,253)	(229,137)	(601,252)	(928,642)
Charge for the Year	(101,468)	(70,401)	(139,833)	(311,702)
Disposals	52,968	20,500	3,500	76,968
As of December 31, 2023	<u>(146,753)</u>	<u>(279,038)</u>	<u>(737,585)</u>	<u>(1,163,376)</u>
Net Book Value				
As of December 31, 2023	<u>217,616</u>	<u>70,478</u>	<u>870,462</u>	<u>1,158,556</u>
As of December 31, 2022	<u>244,150</u>	<u>140,879</u>	<u>543,258</u>	<u>928,287</u>

12. Claims Liabilities

	2023	Restated (Note 23) 2022
	\$	\$
Claims Liabilities	<u>171,473,615</u>	<u>61,888,683</u>

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

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

The claims paid on the underlying reinsurance agreements are the amount of the loss suffered by the insured party from Affinity, Surety and Property & Engineering. The Company is liable for the losses passed on by the primary writer in accordance with the reinsurance agreements.

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

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

12. Claims Liabilities (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. Related to the business growth in FY 2023 and to timely recognition of case reserves, the Company has experienced an increase in claim liabilities from FY 2022.

13. Accounts payable and other liabilities

Accounts payable and other liabilities comprise of:

	<u>2023</u>	<u>2022</u>
	\$	\$
Commissions payable (1)	166,064	881,916
Other Liabilities (2)	<u>11,068,545</u>	<u>27,777,416</u>
Total Accounts payable and other liabilities	<u>11,234,609</u>	<u>28,659,332</u>
Profit Sharing Commissions (3)	<u>337,728</u>	<u>3,261,226</u>

- (1) Commission Payable refers to the reserve made for the payable variable remuneration to Professional Service Consultants for referred business throughout the fiscal year.
- (2) Other liabilities include the reserve constituted for the cost of retrocession of the risk's surplus exceeding the company retention levels, to the retrocession market. It also includes claim payables and the payments that are going through the source identification process by the Company's operation department.
- (3) Profit Sharing Commission liability refers to commissions payable from the Technical Revenue of those contracts which have been set under those considerations.

14. Unearned premiums and unearned commission income

	<u>2023</u>	<u>2022</u>
	\$	\$
Unearned Premiums	62,086,276	34,519,228
Unearned Commissions	<u>9,243,295</u>	<u>4,110,485</u>
	<u>71,329,571</u>	<u>38,629,713</u>

The Unearned Premiums represents the amount deposited by a reinsurer which is reassured and represents the unearned premiums at the close of a year, adopting earning procedure according to the way of risk distribution in time. The unearned commissions derive from the unearned premiums applying the same calculation principles.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

15. Retrocession premium payable

	<u>2023</u>	<u>2022</u>
	\$	\$
Retrocession	<u>57,736,240</u>	<u>66,407,691</u>

The retrocession premium payable account refers to ceded premiums from policies which grace period for payment has not expired. These premiums are paid in accordance the collection of the accepted premiums.

16. Share Capital

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

Share capital comprises:

	<u>2023</u>	<u>2022</u>
	\$	\$
Issued and fully paid:		
50,000,000 (2022: 48,000,000) ordinary shares	<u>50,000,000</u>	<u>48,000,000</u>

On a board of directors meeting held on February 24, 2022, it was approved the issue of USD 3,000,000 in Common Shares to the existing Shareholder raising the share capital to USD 48,000,000.

On a board of directors meeting held on March 23, 2023, it was approved the issue of USD 2,000,000 in Common Shares to the existing Shareholder raising the share capital to USD 50,000,000. Also at this meeting, the company was authorized and empowered to approve to pay a dividend up to 50% of its accumulated retained earnings as of December 31, 2022.

17. Financial Instruments

	<u>2023</u>	<u>2022</u>
	\$	\$
<i>Financial assets:</i>		
Financial assets measured at amortized cost		
Cash and cash equivalents	34,411,260	37,621,087
Other cash deposits	38,774,905	41,657,915
Premiums receivable	90,635,152	70,098,506
Claims Recoveries (excluding IBNR Recoveries)	70,554,974	46,121,005
Receivable from related parties	4,559,029	5,948,362
Other receivables	10,443,588	9,813,171
Investments (Short Term)	1,405,342	-
Investments (Long Term)	<u>13,933,180</u>	<u>9,847,394</u>
Total	<u>264,717,430</u>	<u>221,107,440</u>
<i>Financial liabilities:</i>		
Financial liabilities measured at amortized cost		
Accounts payable and other liabilities	11,234,609	28,659,332
Claims Liabilities (Excluding IBNR)	43,273,642	18,679,040
Retrocession premium payable	<u>57,736,240</u>	<u>66,407,691</u>
Total	<u>112,244,491</u>	<u>113,746,063</u>

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

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.

	2023	Restated (Note 23) 2022
	\$	\$
Commissions expense	38,327,726	24,456,078
Commissions income	(18,163,533)	(16,933,392)
Profit Sharing Commission Expense	(2,958,227)	3,136,133
Net commission expense	<u>17,205,966</u>	<u>10,658,819</u>

19. General and Administrative Expenses

	2023	2022
	\$	\$
Uncollectible Premiums Reserve Expense	6,588,293	6,857,736
Administrative Expenses	1,292,882	1,326,700
Outsource	532,870	472,188
Transportation	496,975	91,810
Legal expenses	439,251	908,464
Food and lodging	220,275	116,094
Marketing	190,584	139,496
Software	187,948	26,681
Bank charges	139,681	133,707
Insurance	120,022	102,893
Maintenance	84,674	222,898
Municipal & National Taxes	72,365	136
Dues and subscriptions	66,691	25,824
Customer relations	65,891	149,630
Seminars	37,538	32,747
Reinsurance License	26,484	25,001
Telephone and communications	25,668	40,202
Miscellaneous	24,930	9,431
Donations	3,855	10,238
Office supplies	1,347	264
Fuel and lubricants	257	21,925
Paid Taxes	-	298,855
	<u>10,618,481</u>	<u>11,012,920</u>

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2023

(Expressed in United States dollars)

20. Taxation

In Accordance with Barbados Income Tax Legislation, specifically the Insurance Act Cap 310, the grandfathering period for insurance companies which adopted it, expired on June 30, 2021. This same Act applies for insurance companies licensed as Class 2. Insurance companies under this license underwriting risks for third parties, have an applicable tax rate of 2% of their net income. Starting in July 2021, the Company has included computations of Barbados Income Tax in every monthly closing of the accounting period. We used for these computations the 2% rate allowed for our license. Since December 2021, the company added the Barbados Income Tax amount on the Statement of Comprehensive Income.

Regulatory Changes

Effective January 1, 2019, the Exempt Act was repealed and Insurance Act Cap. 310 amended, and The Company elected to be grandfathered until June 30, 2021. The tax rate applicable for this period was zero percent.

In June 30, 2021 the grandfathered rights and benefits ended. At this point the company was categorized as a license Class 2 company.

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

If the Director of International Business determines that a resident Company has failed to meet the economic substance test for a fiscal period, the Director may impose a penalty not exceeding \$150,000 in any subsequent year. The Barbados Act is applicable for the Company for the year ended December 31, 2021. Management has complied with the requirement as of December 31, 2023.

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

	<u>2023</u>	<u>2022</u>
	\$	\$
Withholding taxes on premiums	846,135	1,263,176
Income Tax	339,526	482,263

21. Interest

	<u>2023</u>	<u>2022</u>
	\$	\$
Interest	<u>2,339,995</u>	<u>(336,077)</u>

The company makes investments using the excess in liquid assets after covering its obligations. During FY 2023 the impact of the interests gain and the impairment losses was USD 2,339,995.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

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22. Capital Management

The Company must maintain a minimum solvency requirement under the revised legislation detailed in note 20. The Company has exceeded the minimum solvency as of December 31, 2023.

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.

23. Restatement

The financial statements of the Company for FY 2022 were restated to correct gross premiums, claims and their associated insurance balances recorded in incorrect periods, found when preparing the 2023 financial statements. These restatements resulted in changes to financial position and comprehensive income. The previous and restated amounts are shown below:

Restatements impacting the Statement of Financial Position

Line Item	December 31, 2022		
	As Previously Reported \$	Corrections \$	As Restated \$
Premiums receivable	68,869,079	1,229,427	70,098,506
Claims liabilities (Case reserves)	(18,581,781)	(97,260)	(18,679,041)
Retrocession premium payable	(66,602,382)	194,691	(66,407,691)

Restatements impacting the Statement of Comprehensive Income

Line Item	December 31, 2022		
	As Previously Reported \$	Corrections \$	As Restated \$
Net Reinsurance premiums	(169,962,276)	(1,706,150)	(171,668,426)
Net ceded premiums	72,812,610	(337,725)	72,474,885
Commission income	(17,076,425)	143,033	(16,933,392)
Claims incurred and paid	113,177,982	97,260	113,275,242
Commission expenses	23,989,806	466,272	24,456,078
Withholding Taxes on Premiums	1,252,724	10,452	1,263,176