

Financial Statements

**ACTIVE CAPITAL  
REINSURANCE, LTD.**

For the Year Ended December 31, 2021

# Active Capital Reinsurance, Ltd.

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December 31, 2021

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## Independent auditors' report

To the Shareholder of Active Capital Reinsurance, Ltd.

### Qualified opinion

We have audited the financial statements of Active Capital Reinsurance, Ltd. (the Company), which comprise the statement of financial position as at December 31, 2021, the statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, 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 qualified opinion

Due to errors identified, we were unable to verify the accuracy and completeness of the premiums receivable amounts which remained uncollected as of the date of our report. We were unable to determine whether any adjustments might have been necessary in respect of recorded premiums receivable and the associated underwriting elements making up the statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows.

Additionally, we were not provided with sufficient and appropriate audit evidence to perform testing around the accuracy and completeness of the recorded commissions prepaid and commissions payable. We were unable to determine whether any adjustments might have been necessary in respect of these items.

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

### Other information

Management and those charged with governance are responsible for the other information. The other information comprises the Annual Report for the year ended December 31, 2021.

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

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

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

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

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

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

## Independent auditors' report (continued)

To the Shareholder 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.

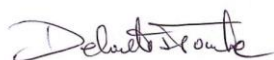
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 matters

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



June 24, 2022

# Active Capital Reinsurance, Ltd.

## Statement of financial position

As of December 31, 2021

(Expressed in United States dollars)

	2021	2020
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 5 & 17)	44,150,861	35,659,950
Other cash deposits (Note 5)	8,900,000	12,400,000
Premiums receivable (Note 6)	104,391,490	125,904,939
Uncollectible Premium Receivable Reserve (Note 6)	(1,082,780)	-
Receivable from related parties (Note 7 & 17)	6,158,830	4,035,299
Prepayments and other receivables (Note 8)	44,288,824	30,155,227
Deferred retrocession premiums (Note 9)	17,354,684	19,738,535
Investments (Note 10 & 17)	-	2,022,470
	224,161,909	229,916,420
<b>Non-Current Assets</b>		
Property, plant and equipment (Note 11)	863,583	695,006
Investments (Note 10 & 17)	10,348,085	5,260,000
Other cash deposits (Note 5)	16,415,497	9,915,497
	251,789,074	245,786,923
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Claims liabilities (Note 4 & 12)	36,867,861	34,977,529
Experience rebate provision (Note 12)	-	166,889
Accounts payable and other liabilities (Note 13 & 17)	21,962,808	17,066,909
Unearned premiums and unearned commission income (Note 14)	27,286,549	49,389,367
Retrocession premium payable (Note 15 & 17)	96,807,008	92,308,775
	182,924,226	193,909,469
<b>SHAREHOLDER'S EQUITY</b>		
Share capital (Note 16)	45,000,000	40,000,000
Retained earnings	23,864,848	11,877,454
Total Shareholder's Equity	68,864,848	51,877,454
<b>Total Liabilities and Shareholder's Equity</b>	<b>251,789,074</b>	<b>245,786,923</b>

Approved for issuance on behalf of the Board of Directors of Active Capital Reinsurance, Ltd. on June 3, 2022



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, 2021

(Expressed in United States dollars)

	2021	2020
	\$	\$
<b>Income</b>		
Net Reinsurance premiums	164,713,022	145,897,901
Net ceded premiums	(96,374,896)	(94,904,099)
Commission income (Note 18)	18,152,679	15,796,594
<b>Net Premium and Commission Income</b>	<b>86,490,805</b>	<b>66,790,396</b>
<b>Underwriting Expenses</b>		
Claims incurred and paid	73,338,967	50,554,925
Reinsurance claims recovered	(41,681,211)	(21,492,212)
Withholding taxes on Premiums	746,306	515,011
Commission expenses (Note 18)	28,706,306	22,590,018
<b>Net Underwriting Expenses</b>	<b>61,110,368</b>	<b>52,167,742</b>
<b>Net Underwriting Income</b>	<b>25,380,437</b>	<b>14,622,654</b>
<b>Operating Expenses</b>		
Professional fees	4,406,525	3,440,914
Depreciation expense (Note 11)	272,076	290,681
Uncollectible Premium Receivable Expense	1,082,780	-
General and administrative expenses (Notes 7 & 19)	3,473,654	2,646,311
	9,235,035	6,377,906
<b>Other Income</b>		
Referral fees	-	269,694
Interest	1,249,499	1,152,104
	1,249,499	1,421,798
<b>Net income and total comprehensive income before income tax</b>	<b>17,394,901</b>	<b>9,666,546</b>
<b>Income tax</b> (Note 20)	<b>68,400</b>	<b>-</b>
<b>Net income and total comprehensive income after income tax</b>	<b>17,326,501</b>	<b>9,666,546</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, 2021

(Expressed in United States dollars)

	2021	2020
	\$	\$
<b>Operating Activities</b>		
Net income for the year	17,326,501	9,666,546
Items not affecting cash:		
Depreciation	272,076	290,680
	17,598,577	9,957,226
<b>Changes in working capital:</b>		
(Decrease) Increase in premiums and claims recoveries receivable	22,596,229	(84,424,116)
Increase in prepayments and other receivables	(14,133,597)	(16,098,092)
(Decrease) Increase in Deferred retrocession premiums	2,383,851	(11,961,141)
Increase in claims liabilities	1,890,332	22,779,345
Increase in retrocession liabilities	4,498,233	63,988,000
(Decrease) Increase in unearned premium and commission income	(22,102,818)	24,851,871
Decrease in good experience rebate provision	(166,889)	(300,533)
Increase in accounts payable and other liabilities	4,895,899	8,263,636
Increase in other cash deposits	(3,000,000)	(6,300,000)
<b>Net Cash from Operating Activities</b>	14,459,817	10,756,196
<b>Investing Activities</b>		
Purchase of fixed assets	(440,653)	(91,869)
Sales of securities	2,024,431	1,000,000
Acquisition of securities	(5,090,046)	(5,280,508)
<b>Net Cash used in Investing Activities</b>	(3,506,268)	(4,372,377)
<b>Financing Activities</b>		
Advances to / from related parties	(2,123,531)	987,216
Share capital issued	5,000,000	8,500,000
Dividends paid	(5,330,975)	(6,587,089)
Change in Market Value	(8,132)	-
<b>Net Cash used in Financing Activities</b>	(2,462,638)	2,900,127
<b>Increase in Cash and Cash Equivalents</b>	8,490,911	9,283,946
<b>Cash and Cash Equivalents at Beginning of Year</b>	35,659,950	26,376,004
<b>Cash and Cash Equivalents at End of the Year</b>	44,150,861	35,659,950

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, 2021

*(Expressed in United States dollars)*

	Share capital \$	Retained earnings \$	Total \$
<b>Balance at January 1, 2020</b>	31,500,000	8,797,997	40,297,997
Net income for the year	-	9,666,546	9,666,546
Share capital issued (Note 13)	8,500,000	-	8,500,000
Dividends declared and paid	-	(6,587,089)	(6,587,089)
<b>Balance at December 31, 2020</b>	40,000,000	11,877,454	51,877,454
Net income for the year	-	17,326,501	17,326,501
Share capital issued (Note 13)	5,000,000	-	5,000,000
Dividends declared	-	(5,330,975)	(5,330,975)
Change in Market Value	-	(8,132)	(8,132)
<b>Balance at December 31, 2021</b>	45,000,000	23,864,848	68,864,848

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, 2021

*(Expressed in United States dollars)*

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### 1. Background Information

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

The Company's business activity is to underwrite facultative and treaty reinsurance policies generated from intermediaries such as reinsurance brokers, Managing General Agents (MGA's) and insurance companies covering the Middle East and North of Africa (MENA) region, Asia, Europe and the Latin American region. In 2020, MGA's contracts were responsible for the Company's further growth by virtue of a diversified risk portfolio in reinsurance contracts. During 2021, company's commercial growth is related to the growth of treaties and MGA's business.

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

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

### 2. Summary of Significant Accounting Policies

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

#### a. Basis of preparation

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

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

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

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

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

#### c. Claim liabilities

The Company establishes liabilities for the ultimate settlement cost (including direct expenses expected to be incurred in settling claims, net of the expected subrogation value and other recoveries) of claims reported but not settled 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.

#### 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. The Company establishes a provision for these rebates based on reinsurance premiums earned under those contracts and expected loss ratios. Changes in the estimate of these provisions are recognized in the Statement of Comprehensive Income in the period they occur.

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

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

#### f. Revenue recognition

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

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

##### (i) Reinsurance and retrocession premiums

Reinsurance and retrocession premiums written/expensed are 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.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

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

#### f. Revenue recognition (continued)

(ii) *Commission income*

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

(iii) *Interest income*

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

(iv) *Dividend income*

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

(v) *Other income*

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

#### g. Cash and cash equivalents

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

#### h. Financial instruments

The Company has chosen to apply the recognition and measurement principles under IAS 39: Financial Instruments, recognition and measurement and 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. The Company recognizes its US portfolio of equity and fixed income investments at fair value from market information provided by the broker.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

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

#### h. Financial Instruments (continued)

##### *Financial assets (cont'd)*

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

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

##### **Effective interest method**

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

##### *Impairment*

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

##### **Financial liabilities and equity instruments**

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

##### *Financial liabilities*

Financial liabilities of the Company consist of accounts payable, 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 Land Based	5
Furniture and Fixtures	10
Motor Vehicle Ocean Based	30

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

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

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

Subsequent costs are included in the asset's carrying amount or 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.

#### l. Leases

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

### 3. Critical Accounting Estimates and Judgments

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

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

In March 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. The extent and duration of the long-term impact of the COVID-19 pandemic on the specific industries in which the Company operates were impossible to determine in 2020. During 2021 preventions made by the company for the pandemic, resulted in a transition through the crisis with no critical impact to the operation.

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

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

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

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### 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.

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).

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

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

#### Claims Liabilities (continued)

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:

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Case Reserves	15,747,437	19,099,025
Gross IBNR	29,179,525	27,620,997
Recoveries under retrocessions	(8,059,101)	(11,742,493)
	<u>36,867,861</u>	<u>34,977,529</u>

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

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

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Cash and Cash equivalents - Up to 3 Months	44,150,861	35,659,950
Other Cash deposits - Greater than 3 months but less than 1 year	8,900,000	12,400,000
Other Cash deposits - Greater than 1 year	16,415,497	9,915,497

### 6. Premiums Receivable

In FY 2021 the Company established an Accounts Receivable Collection Policy. This policy was established based on the Company's portfolio structure and collection periods.

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Premiums receivable	104,391,490	125,904,939
Provision for uncollectible premium	(1,082,780)	-
Net premiums receivable	<u>103,308,710</u>	<u>125,904,939</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, considering the retrocessionaire participation. This rate also considers the company's portfolio profile, process, and controls over of the premiums collection periods.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

### 7. Related Party Transactions and Balances

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

	2020 \$	Advances \$	Payments received \$	2021 \$
Due from a Director	434,712	1,968,786	146,233	2,257,265
Advances to the shareholder	3,600,587	-	-	3,600,587
Related Parties	-	819,097	518,119	300,978
	<u>4,035,299</u>	<u>2,787,833</u>	<u>664,352</u>	<u>6,158,830</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 2021 USD 664,352 were received in payments from Directors and Related Parties.

#### 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:

	2021 \$	2020 \$
Fees and other benefits (included withing Professional fees in the Statement of Comprehensive Income)	2,499,660	1,306,100
Life insurance (included within General & Administrative expenses within the Statement of Comprehensive Income)	21,348	10,792
	<u>2,521,008</u>	<u>1,316,892</u>

### 8. Prepayments and Other Receivables

	2021 \$	2020 \$
Prepayments	1,403,273	1,488,499
Claims Recoveries	32,938,994	19,514,846
Commissions Prepaid	2,835,988	3,409,412
Other Receivables	7,110,569	5,742,470
	<u>44,288,824</u>	<u>30,155,227</u>

### 9. Deferred Retrocession Premiums

	2021 \$	2020 \$
Deferred retrocession premiums	<u>17,354,684</u>	<u>19,738,535</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, 2021

(Expressed in United States dollars)

### 10. Investments

	2021 \$	2020 \$
January 1	7,282,470	3,001,962
Purchased during the year	5,025,622	5,280,508
Sales during the year	(2,024,431)	(1,000,000)
Changes in Value	64,424	20,508
December 31	<u>10,348,085</u>	<u>7,282,470</u>

On April 30, 2015, the Company purchased a bond of \$2,000,000 issued by Grupo Financiero Ficohsa S.A. The bond matured on April 30, 2020 and had an interest rate of 7.50%. This bond was extended. During 2020, three new investments have been added to Active Re investment portfolio. In January, USD 2,260,000 in shares of Truckslogic (Panamanian company) were purchased, in June USD 2,000,000 in corporate bonds were purchased from US companies and in December, USD 1,000,000 in shares of Sultecor Investments (mining company) were purchased. In March 2020, the investment in Instacash BNP Paribas was written off. On March 1, 2021, Fixed Investment and Equity were purchased in the amount of USD 5,025,622 with UBS Bank.

### 11. Plant, Property and Equipment

	Office and Electronic Equipment \$	Motor Vehicles (land based) \$	Furniture and Fixtures \$	Total \$
<b>Cost</b>				
Balance December 31, 2020	108,320	415,502	912,080	1,435,902
Additions	43,152	175,000	222,500	440,652
Disposals	(54,524)	(220,486)	(121,427)	(396,437)
At December 31, 2021	<u>96,948</u>	<u>370,016</u>	<u>1,013,153</u>	<u>1,480,117</u>
<b>Accumulated Depreciation</b>				
Balance December 31, 2020	(78,053)	(333,902)	(328,941)	(740,896)
Charge for the Year	35,064	174,668	85,370	124,362
At December 31 2021	<u>(42,989)</u>	<u>(159,234)</u>	<u>(414,311)</u>	<u>(616,534)</u>
<b>Net Book Value</b>				
At December 31, 2021	<u>53,959</u>	<u>210,782</u>	<u>598,842</u>	<u>863,583</u>
At December 31, 2020	<u>30,267</u>	<u>81,600</u>	<u>583,139</u>	<u>695,006</u>

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

### 12. Claims Liabilities and Experience Rebate Provision

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Claims Liabilities	36,867,861	34,977,529
Experience rebate provision	-	166,889
	<u>36,867,861</u>	<u>35,144,418</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.

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

### 13. Accounts Payable and Other Liabilities

Accounts payable and other liabilities comprise of:

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Commissions payable (1)	6,857,947	6,154,327
Other Liabilities (2)	15,104,861	10,912,582
	<u>21,962,808</u>	<u>17,066,909</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. Also, the payments that are going through the source identification process by the Company's operation department.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

### 14. Unearned Premiums and Unearned Commission Income

	2021	2020
	\$	\$
Unearned Premiums	27,715,043	48,797,653
Unearned Commissions	(428,493)	591,714
	<u>27,286,550</u>	<u>49,389,367</u>

The Unearned Premiums represents the amount deposited by a reinsurer with its reassured representing 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.

### 15. Retrocession Premium Payable

	2021	2020
	\$	\$
Retrocession	<u>96,807,008</u>	<u>92,308,775</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. The USD 5,000,000.00 issued in shares during 2021 are fully paid.

Share capital comprises:

	2021	2020
	\$	\$
Issued and fully paid:		
45,000,000 (2020: 40,000,000) ordinary shares	<u>45,000,000</u>	<u>40,000,000</u>

In 2019 a resolution was passed to increase the issued share capital to \$31,500,000. In February 2020, USD 3,500,000 from prior year net income was reinvested to increase the share capital to USD 35,000,000. In October 2020, a shareholder contribution was made for USD 3,000,000.00, increasing the share capital to USD 38,000,000. In December 2020, through a shareholder contribution of USD 2,000,000 the share capital was raised to USD 40,000,000. The USD 5,000,000.00 issued during FY 2021 to raise the share capital to USD 45,000,000.00 were approved by the Executive Committee and the Board of Directors.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

### 17. Financial Instruments

	2021	2020
	\$	\$
<i>Financial assets:</i>		
Financial assets measured at amortized cost		
Cash and cash equivalents	44,150,861	35,659,950
Other cash deposits	25,315,497	22,315,497
Premiums receivable	103,308,710	125,904,939
Claims Recoveries	32,938,994	19,514,846
Receivable from related parties	6,158,830	4,035,299
Other receivables	7,110,569	5,742,470
Investments	10,348,085	7,282,470
Total	<u>229,331,546</u>	<u>220,455,471</u>
<i>Financial liabilities:</i>		
Financial liabilities measured at amortized cost		
Accounts payable and other liabilities	21,962,080	17,066,909
Retrocession premium payable	96,807,008	92,308,775
Total	<u>118,769,816</u>	<u>109,375,684</u>

### 18. Reinsurance Commissions

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

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

	2021	2020
	\$	\$
Commissions expense	28,706,306	22,590,018
Commissions income	(18,152,679)	(15,796,594)
Net commission expense	<u>10,553,627</u>	<u>6,793,424</u>

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

### 19. General and Administrative Expenses

	2021	2020
	\$	\$
Administrative expenses	1,327,996	1,080,465
Outsource	-	260,664
Transportation	42,806	60,349
Food and lodging	103,198	114,732
Miscellaneous	14,771	91,464
Seminars	22,752	259
Other expenses	1,089,014	414,784
Insurance	57,378	41,365
Dues and subscriptions	140,532	39,115
Customer relations	6,005	12,167
Bank charges	58,825	41,428
Telephone and communications	14,900	11,023
Maintenance	128,317	5,244
Legal expenses	178,175	328,813
Donations	6,480	13,261
Fuel and lubricants	12,181	1,896
Office supplies	1,063	3,172
Marketing	230,495	-
Software	38,766	126,110
	<u>3,473,654</u>	<u>2,646,311</u>

### 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. Based on this same Act, for insurance companies licensed as Class 2. Insurance companies under this license underwrites risks of third parties, their applicable tax rate is 2% of their net income. Starting in July 2021, the Company has included computations of Barbados Income Tax every month closing of the accounting period. We used for these computations the 2% rate allowed for our license. In December, 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.

# Active Capital Reinsurance, Ltd.

## Notes to the Financial Statements

For the year ended December 31, 2021

(Expressed in United States dollars)

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### 20. Taxation (continued)

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 believes that has complied with the requirement. Certain countries apply a withholding tax on money transfers which applies to the premiums earned from insured parties in those countries.

	<b>2021</b>	<b>2020</b>
	\$	\$
Withholding taxes on premiums	746,306	515,011
Income Tax	68,400	-

### 21. 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, 2021.

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

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

### 22. Subsequent Events

On February 24, 2022, an ordinary Board meeting was held. Among the resolutions of the Board in that meeting was to pay dividends equal to 50% of its accumulated retained earnings as of December 31, 2021. This amounted to USD 9,922,483.00. On February 25, 2022, an extraordinary meeting of the Board was held. In this meeting it was resolved to increase the paid-up capital to USD 48,000,000.00. This represented an increase of USD 3,000,000.00.