

Consolidated Financial Statements

**ACTIVE CAPITAL
REINSURANCE, LTD.**

For the Year Ended December 31, 2022

Active Capital Reinsurance, Ltd.

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December 31, 2022

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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, 2022, 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, 2022, 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

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.

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, 2022.

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, 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)

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.

July 26, 2023

Active Capital Reinsurance, Ltd.

Statement of financial position

As of December 31, 2022

(Expressed in United States dollars)

	2022	Restated (Note 23)	Restated (Note 23)
	\$	2021	January 1, 2021
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents (Note 5 & 17)	37,621,087	44,150,861	35,659,950
Other cash deposits (Note 5)	26,200,000	8,900,000	12,400,000
Premiums receivable (Note 6)	68,869,079	103,172,932	130,126,124
Receivable from related parties (Note 7)	5,948,362	6,158,830	4,035,299
Prepayments and other receivables (Note 4 & 8)	89,795,093	42,705,230	32,582,669
Deferred retrocession premiums (Note 9)	22,735,345	17,354,684	19,738,535
Investments (Note 10 & 17)	-	-	2,022,470
	<u>251,168,966</u>	<u>222,442,537</u>	<u>236,565,047</u>
Non-Current Assets			
Property, plant and equipment (Note 11)	928,287	863,583	695,006
Investments (Note 10 & 17)	9,847,395	10,348,085	5,260,000
Other cash deposits (Note 5)	15,457,915	16,415,497	9,915,497
	<u>15,457,915</u>	<u>16,415,497</u>	<u>9,915,497</u>
Total Assets	<u>277,402,563</u>	<u>250,069,702</u>	<u>252,435,550</u>
LIABILITIES			
Current Liabilities			
Claims liabilities (Note 4 & 12)	61,791,423	41,070,517	36,804,584
Experience rebate provision (Note 12)	-	-	166,889
Accounts payable and other liabilities (Note 13 & 17)	28,659,332	21,962,808	17,066,909
Profit Sharing Commissions (Note 13)	3,261,226	-	-
Unearned premiums and unearned commission income (Note 14)	38,629,713	27,286,549	49,389,367
Retrocession premium payable (Note 15 & 17)	66,602,382	94,252,138	96,145,298
	<u>198,944,076</u>	<u>184,572,012</u>	<u>199,573,047</u>
Total Liabilities	<u>198,944,076</u>	<u>184,572,012</u>	<u>199,573,047</u>
SHAREHOLDER'S EQUITY			
Share capital (Note 16)	48,000,000	45,000,000	40,000,000
Retained earnings	30,458,487	20,497,690	12,862,503
Total Shareholder's Equity	<u>78,458,487</u>	<u>65,497,690</u>	<u>52,862,503</u>
Total Liabilities and Shareholder's Equity	<u>277,402,563</u>	<u>250,069,702</u>	<u>252,435,550</u>

Approved for issuance on behalf of the Board of Directors of Active Capital Reinsurance, Ltd. on July 25, 2023



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, 2022

(Expressed in United States dollars)

	2022	Restated (Note 23) 2021
	\$	\$
Income		
Net Reinsurance premiums	169,962,276	163,444,344
Net ceded premiums	(72,812,610)	(92,828,321)
Commission income (Note 18)	17,076,425	17,160,974
Net Premium and Commission Income	<u>114,226,091</u>	<u>87,776,997</u>
Underwriting Expenses		
Claims incurred and paid	113,177,982	77,541,623
Reinsurance claims recovered	(65,312,554)	(40,097,616)
Withholding taxes on Premiums	1,252,724	773,268
Commission expenses (18)	23,989,806	27,546,443
Profit Sharing Commission Expense (Note 18)	3,136,133	-
Net Underwriting Expenses	<u>76,244,091</u>	<u>65,763,718</u>
Net Underwriting Income	<u>37,982,000</u>	<u>22,013,279</u>
Operating Expenses		
Professional fees	5,048,004	4,406,525
Depreciation expense (Note 11)	346,982	272,076
General and administrative expenses (Notes 7 & 19)	11,012,920	3,470,208
	<u>16,407,906</u>	<u>8,148,809</u>
Other Income (loss)		
Foreign Currency Exchange Result	(4,247,764)	(1,086,226)
Interest (Note 21)	(336,077)	1,249,499
	<u>(4,583,841)</u>	<u>163,273</u>
Net income and total comprehensive income before income tax	<u>16,990,253</u>	<u>14,027,743</u>
Income tax (Note 20)	<u>482,263</u>	<u>68,400</u>
Net income and total comprehensive income after income tax	<u>16,507,990</u>	<u>13,959,343</u>

The accompanying notes form an integral part of these financial statements

Active Capital Reinsurance, Ltd.

Statement of cash flows

For the year ended December 31, 2022

(Expressed in United States dollars)

	2022	Restated (Note 23) 2021
	\$	\$
Operating Activities		
Net income for the year	16,507,990	13,959,343
Adjustment made to restate Net Income	3,367,158	(985,049)
Items not affecting cash:		
Investment Loss	2,219,252	-
Change in Market Value	8,132	(8,132)
Depreciation	346,982	272,076
	<u>22,449,514</u>	<u>13,238,238</u>
Changes in working capital:		
Decrease in premiums receivable	34,303,853	26,953,192
Increase in prepayments and other receivables	(47,089,863)	(10,122,561)
(Increase) decrease in deferred retrocession premiums	(5,380,661)	2,383,851
Increase in claims liabilities	20,720,906	4,265,933
(Decrease) increase in retrocession liabilities	(27,649,756)	(1,893,160)
Increase (decrease) in unearned premium and commission income	11,343,164	(22,102,818)
Decrease in good experience rebate provision	-	(166,889)
Increase in accounts payable and other liabilities	9,957,750	4,895,899
Increase in other cash deposits	(16,342,418)	(3,000,000)
Net Cash from Operating Activities	<u>2,312,489</u>	<u>14,451,685</u>
Investing Activities		
Purchase of fixed assets	(411,687)	(440,653)
Sales of securities	5,090,047	2,024,431
Acquisition of securities	(6,808,608)	(5,090,046)
Net Cash used in Investing Activities	<u>(2,130,248)</u>	<u>(3,506,268)</u>
Financing Activities		
Receivable from related parties	(3,499,041)	(2,123,531)
Share capital issued	3,000,000	5,000,000
Dividends paid	(6,212,974)	(5,330,975)
Net Cash used in Financing Activities	<u>(6,712,015)</u>	<u>(2,454,506)</u>
(Decrease) Increase in Cash and Cash Equivalents	<u>(6,529,774)</u>	<u>8,490,911</u>
Cash and Cash Equivalents at Beginning of Year	<u>44,150,861</u>	<u>35,659,950</u>
Cash and Cash Equivalents at End of the Year	<u>37,621,087</u>	<u>44,150,861</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, 2022

(Expressed in United States dollars)

	Share Capital	Retained Earnings	Total
	\$	\$	\$
Balance at December 31, 2020	40,000,000	12,862,503	52,862,503
Adjustments made to restate retained earnings (Note 23)	-	(985,049)	(985,049)
Balance at January 1, 2021	40,000,000	11,877,454	51,877,454
2021 Net Income	-	13,959,343	13,959,343
Share Capital Issued	5,000,000	-	5,000,000
Dividends paid	-	(5,330,975)	(5,330,975)
Change in Market Value	-	(8,132)	(8,132)
Balance at December 31, 2021	45,000,000	20,497,690	65,497,690
Adjustments made to restate net income (Note 23)	-	3,367,158	3,367,158
Balance at January 1, 2022	-	23,864,848	68,864,848
2022 Net Income	-	16,507,990	16,507,990
Share Capital Issued	3,000,000	-	3,000,000
Dividends paid	-	(9,922,483)	(9,922,483)
Change in Market Value	-	8,132	8,132
Balance as of December 31, 2022	48,000,000	30,458,487	78,458,487

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, 2022

(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 2021 results, Active Re's activities in FY 2022, produced a 17% growth in overall premium production. This time this growth came as a consequence of a 30% increase in premiums in the Affinity 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.

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.

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, 2022

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

c. Claim liabilities

The Company establishes liabilities for the ultimate settlement cost (including direct expenses expected to be incurred in settling claims, net of the expected subrogation value and other recoveries) of claims reported but not settled 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. 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 2021. 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 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.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2022

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

f. Revenue recognition (continued)

(i) *Reinsurance and retrocession premiums (continued)*

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.

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.

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2022

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

h. Financial instruments (continued)

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.

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.

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, 2022

(Expressed in United States dollars)

2. Summary of Significant Accounting Policies (continued)

i. Property, plant and equipment

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

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

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

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

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.

Administrative measures taken during the pandemic, were successful in preventing the Company from entering the economic down spiral caused by this pandemic. As for FY 2022 there are no effects or sequels from this pandemic which impacted the operation of The Company.

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, 2022

(Expressed in United States dollars)

3. Critical Accounting Estimates and Judgments (continued)

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.

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.

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, 2022

(Expressed in United States dollars)

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

Claims Liabilities

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

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

Claims Liabilities

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.

	2022	Restated (Note 23) 2021
	\$	\$
Case Reserves	18,581,781	19,950,093
Gross IBNR	43,209,642	29,179,525
Recoveries under retrocessions	(24,648,280)	(8,059,101)

5. Cash and Cash Equivalents / Other Cash Deposits

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

	2022	2021
	\$	\$
Cash and Cash equivalents - Up to 3 Months	37,621,087	44,150,861
Other Cash deposits - Greater than 3 months but less than 1 year	26,200,000	8,900,000
Other Cash deposits - Greater than 1 year	15,457,915	16,415,497
	<u>79,279,002</u>	<u>69,466,358</u>

The accompanying notes form an integral part of these financial statements

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements For the year ended December 31, 2022

(Expressed in United States dollars)

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.

	2022	Restated (Note 23) 2021
	\$	\$
Premiums receivable	72,075,082	104,255,712
Provision for uncollectible premium	(3,206,003)	(1,082,780)
Net premiums receivable	<u>68,869,079</u>	<u>103,172,932</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 2022 with an addendum to this policy for writing off all accounts in excess of 545 days from the collection date.

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:

	2021	Advances	Payments received	2022
	\$	\$	\$	\$
Due from a Director	2,257,265	304,015	1,652,324	908,956
Advances to the shareholder	3,600,587	3,500,000	2,358,884	4,741,703
Other Related Parties	300,978	15,327	18,602	297,703
	<u>6,158,830</u>	<u>3,819,342</u>	<u>4,029,810</u>	<u>5,948,362</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 2022 USD 4,029,810 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

	2022	2021
	\$	\$
Fees and other benefits (included withing Professional fees in the Statement of Comprehensive Income)	3,109,849	2,499,660
Life insurance (included within General & Administrative expenses within the Statement of Comprehensive Income)	54,947	21,348
	<u>3,164,796</u>	<u>2,521,008</u>

The accompanying notes form an integral part of these financial statements

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2022

(Expressed in United States dollars)

8. Prepayments and other receivables

	2022	Restated (Note 23) 2021
	\$	\$
Prepayments	1,538,535	1,403,273
Claims Recoveries	70,219,746	31,355,400
Commissions Prepaid	8,223,641	2,835,988
Other Receivables	9,813,171	7,110,569
	<u>89,795,093</u>	<u>42,705,230</u>

9. Deferred retrocession premiums

	2022	2021
	\$	\$
Deferred retrocession premiums	<u>22,735,345</u>	<u>17,354,684</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.

10. Investments

	2022	2021
	\$	\$
January 1	10,348,085	7,282,470
Purchased during the year	6,808,608	5,025,622
Sales during the year	(5,090,047)	(2,024,431)
Net Asset Value Change	40,748	64,424
Impairment	(2,260,000)	-
December 31	<u>9,847,394</u>	<u>10,348,085</u>

During 2022, 4 new investments were added to Active Re investment portfolio in the amount of \$6,865,292. 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 by 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.

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, 2022

(Expressed in United States dollars)

11. Plant, Property and Equipment

	Office and Electronic Equipment	Motor Vehicles	Furniture and Fixtures	Total
	\$	\$	\$	\$
Cost				
Balance Desember 31, 2021	96,948	370,016	1,013,153	1,480,117
Additions	245,455	-	166,232	411,687
Disposals	-	-	(34,875)	(34,875)
At December 31, 2022	<u>342,403</u>	<u>370,016</u>	<u>1,144,510</u>	<u>1,856,929</u>
Accumulated Depreciation				
Balance December 31, 2021	(42,989)	(159,234)	(414,311)	(616,534)
Charge for the Year	(55,264)	(69,903)	(186,941)	(312,108)
At December 31 2022	<u>(98,253)</u>	<u>(229,137)</u>	<u>(601,252)</u>	<u>(928,642)</u>
Net Book Value				
At December 31, 2022	<u>244,150</u>	<u>140,879</u>	<u>543,258</u>	<u>928,287</u>
At December 31, 2021	<u>53,959</u>	<u>210,782</u>	<u>598,842</u>	<u>863,583</u>

12. Claims Liabilities

	2022	Restated (Note 23) 2021
	\$	\$
Claims Liabilities	<u>61,791,423</u>	<u>41,070,517</u>
	<u>61,791,423</u>	<u>41,070,517</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 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, 2022

(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.

13. Accounts payable and other liabilities

Accounts payable and other liabilities comprise of:

	2022	2021
	\$	\$
Commissions payable (1)	881,916	6,857,947
Other Liabilities (2)	27,777,416	15,104,861
Profit Sharing Commissions (3)	3,261,226	-
	<u>31,920,558</u>	<u>21,962,808</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 earned premiums of those contracts which have been set under those considerations.

14. Unearned premiums and unearned commission income

	2022	2021
	\$	\$
Unearned Premiums	34,519,228	27,715,042
Unearned Commissions	4,110,485	(428,493)
	<u>38,629,713</u>	<u>27,286,549</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

	2022	Restated (Note 23) 2021
	\$	\$
Retrocession	66,602,382	94,252,138

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.

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, 2022

(Expressed in United States dollars)

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:

	2022	2021
	\$	\$
Issued and fully paid:		
48,000,000 (2021: 45,000,000) ordinary shares	48,000,000	45,000,000

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 subsequent to the year end. Also at this meeting, the company was authorised and empowered to approve to pay a dividend up to 50% of its accumulated retained earnings as of December 31, 2022.

17. Financial Instruments

	2022	2021
	\$	\$
<i>Financial assets:</i>		
Financial assets measured at amortized cost		
Cash and cash equivalents	37,621,087	44,150,861
Other cash deposits	41,657,915	25,315,497
Premiums receivable	72,075,082	104,255,712
Claims Recoveries	70,219,746	31,355,399
Receivable from related parties	5,948,362	6,158,830
Other receivables	9,813,171	7,110,569
Investments	9,847,394	10,348,085
Total	247,182,757	228,694,953
	2022	2021
	\$	\$
<i>Financial liabilities:</i>		
Financial liabilities measured at amortized cost		
Accounts payable and other liabilities	28,659,332	21,962,808
Retrocession premium payable	66,602,382	94,252,138
Total	95,261,714	116,214,946

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, 2022

(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.

	2022	Restated (Note 23) 2021
	\$	\$
Commissions expense	23,989,807	27,546,443
Commissions income	(17,076,425)	17,160,974
Profit Sharing Commission Expense	3,136,133	-
Net commission expense	<u>10,049,515</u>	<u>10,385,469</u>

19. General and Administrative Expenses

	2022	2021
	\$	\$
Administrative expenses	1,326,700	1,327,996
Outsource	472,188	-
Transportation	91,810	42,806
Food and lodging	116,094	103,199
Other Expenses	-	2,782
Uncollectible Premium Receivable Expense	6,857,736	1,082,780
Miscellaneous	9,431	14,771
Seminars	32,747	22,752
Municipal & National Taxes	136	-
Paid Taxes	298,855	-
Insurance	102,893	57,379
Dues and subscriptions	25,824	140,533
Customer relations	149,630	6,005
Bank charges	133,707	58,825
Telephone and communications	40,202	14,900
Maintenance	222,898	128,318
Legal expenses	908,464	178,175
Donations	10,238	6,480
Fuel and lubricants	21,925	12,181
Office supplies	264	1,063
Marketing	139,496	230,496
Software	51,682	38,767
	<u>11,012,920</u>	<u>3,470,208</u>

The accompanying notes form an integral part of these financial statements

Active Capital Reinsurance, Ltd.

Notes to the Financial Statements

For the year ended December 31, 2022

(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. 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.

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.

	2022	Restated (Note 23) 2021
	\$	\$
Withholding taxes on premiums	1,252,724	773,268
Income Tax	482,263	68,400

21. Interest

	2022	2021
	\$	\$
Interest	(336,077)	1,249,499

The company makes investments using the excess in liquid assets after covering its obligations. During FY 2022 the impact of the interests gain and the impairment losses was USD (336,077).

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, 2022

(Expressed in United States dollars)

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, 2022.

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.

23. Restatement

The financial statements of the Company were restated to correct gross premiums, claims and their associated insurance balances recorded in incorrect periods. These restatements resulted in changes to comprehensive income, cashflows and equity. The previous and restated amounts are shown below:

Restatements impacting the Statement of Financial Position

Line Item	As Previously Reported	January 1, 2021	
		Corrections	As Restated
Premiums receivable	125,904,939	4,221,185	130,126,124
Prepayments and other receivables	30,155,227	2,427,442	32,582,669
Claims liabilities	(34,977,529)	(1,827,055)	(36,804,584)
Retrocession premium payable	(92,308,775)	(3,836,523)	(96,145,298)

Line Item	As Previously Reported	December 31, 2021	
		Corrections	As Restated
Premiums receivable	103,308,710	(135,778)	103,172,932
Prepayments and other receivables	44,288,824	(1,583,595)	42,705,229
Claims liabilities	(36,867,861)	(4,202,656)	(41,070,517)
Retrocession premium payable	(96,807,008)	2,554,870	(94,252,138)

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, 2022

(Expressed in United States dollars)

23. Restatement (continued)

Restatements impacting the Statement of Comprehensive Income

December 31, 2021

Line Item	As Previously Reported	Corrections	As Restated
Net Reinsurance premiums	(164,713,022)	1,268,678	(163,444,344)
Net ceded premiums	96,374,896	(3,546,575)	92,828,321
Commission income	(18,152,679)	991,705	(17,160,974)
Claims incurred and paid	73,338,967	4,202,656	77,541,623
Reinsurance claims recovered	(41,681,211)	1,583,595	(40,097,616)
Withholding taxes on Premiums	746,306	26,962	773,268
Commission expenses	28,706,306	(1,159,863)	27,546,443

Restatements impacting the Statement of Cash Flows

December 31, 2021

Line Item	As Previously Reported	Corrections	As Restated
Net income for the year	17,326,501	(3,367,158)	13,959,343
Adjustment made to restate Net Income	-	(985,049)	(985,049)
Premiums receivable	22,596,229	4,356,963	26,953,192
Prepayments and other receivables	(14,133,597)	4,011,036	(10,122,561)
Claims liabilities	1,890,332	2,375,601	4,265,933
Retrocession premium payable	4,498,233	(6,391,393)	(1,893,160)

The accompanying notes form an integral part of these financial statements