Barents Re Reinsurance Company

2016 ANNUAL REPORT

RESILIENT | RESPONSIVE | REINSURANCE

Financial Strength Rating
AM BEST
A Excellent


RESPONSIVE
RESILIENT
REINSURANCE

Barents Re at a Glance

Message from the CEO & Board of Directors

Timeline

Key Financial Ratios

Global Network

Global Strategy

Consolidated Financial Statements

Disclaimer

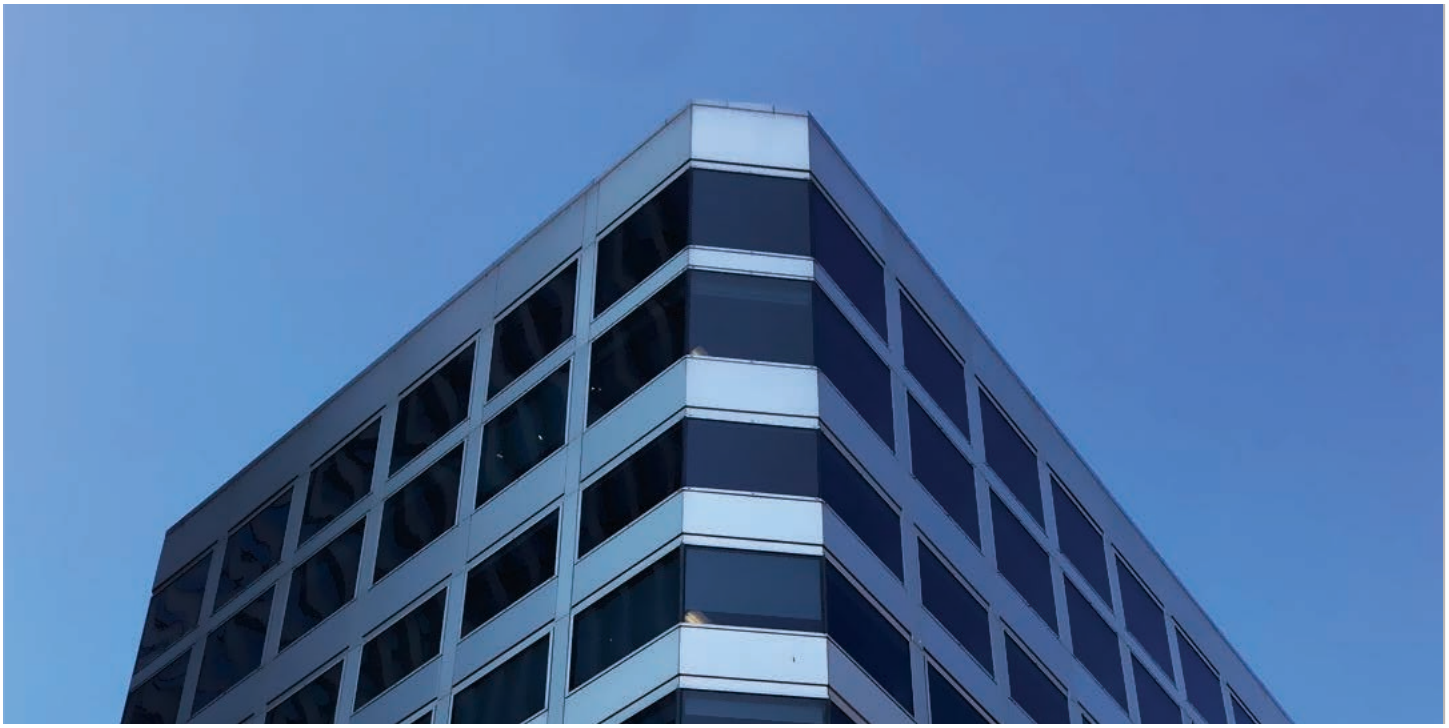
This document contains certain forward looking statements which are subject to assumptions, risks and uncertainties; actual future results may differ materially from those expressed in or implied in such statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond Barents Re's ability to control or estimate precisely. The forward looking statements reflect the knowledge and information available at the date of preparation of the Annual Report, and will not be updated during the year. Nothing in this Annual Report should be construed as a profit forecast.

BARENTS RE

BARENTS RE AT A GLANCE

RESPONSIVE
RESILIENT
REINSURANCE

BARENTS RE AT A GLANCE



Barents Re is a leading independent reinsurance group. Established in 1996, Barents Re has a well-established presence in Europe, Latin America, the Middle East and Asia. This translates into more than 600 reinsurance connections in 70 countries.

The company provides a wide range of niche and specialty reinsurance products to property and casualty insurers. Our vision is for Barents Re to become an integral part of the insurance value chain. The expertise of our specialty underwriting teams and their knowledge of our markets and products enables us to offer innovative solutions to our clients.

Barents Re does not participate in every type of business because underwriting discipline is fundamental to its success. On the commercial side, Barents Re is especially strong in Bonds, Energy, Financial Lines, Renewable Energy, Property, Liability, Marine Cargo, Life and Accident & Health. The company selectively provides treaty support in key business areas. Barents Re is also a growing presence in the Consumer arena with participation in a number of Affinity programs. The Barents Re portfolio is exemplified by low severity risk.

Barents Re seeks to create value for shareholders by generating an underwriting profit. To achieve this, the company allocates capital in line with risk exposure and potential underwriting returns. This is crucial to maintaining its strong financial position and supporting its business expansion. Barents Re's investment strategy is focused on high grade bonds tailored to underlying insurance liabilities, with an allocation to alternative investments.

Barents Re is committed to providing the highest level of service to its clients and brokers, which it believes is critical to its ability to build and maintain long-term relationships and ensure its continued success.

MESSAGE FROM THE CEO

RESPONSIVE
RESILIENT
REINSURANCE

MESSAGE FROM THE CEO

Barents Re celebrated its 20th anniversary in 2016 and I am delighted to announce a solid set of financial results to commemorate this auspicious occasion. We generated a net profit of USD19.3 million which equates to a very healthy 31.5% net profit margin. Our total assets increased to USD515 million (2015: USD453 million) and Shareholders' Equity rose to USD430 million (2015: USD382 million). We are very satisfied with our 2016 results as, once again, we achieved our primary financial objective of retaining a strong balance sheet with excellent capitalisation.

As has been the case for many years, the combination of slow economic growth, low interest rates and intense competition were the prevalent drivers of financial performance in the reinsurance sector in 2016. As evidenced across the reinsurance sector, financial performance in 2016 was in part driven by a higher loss burden and a reduced contribution from prior year development.

Despite these challenges, Barents Re maintained its strategic course to deliver superior client service and shareholder value. One of the constant features of our business is the focus on managing severity and remaining outside of high frequency business. Furthermore, we withdraw from inadequately priced accounts as we will not compromise on underwriting discipline.

This consistency of approach coupled with the experience gained from managing the peaks and troughs of the cycle, punctuated by financial crises and catastrophe events, means we have been able to steer a steady course through the prolonged soft market. Whilst others may have fallen by the wayside, Barents Re remains a resilient partner for our clients.

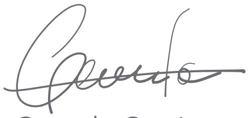
The strength of our relationships with clients and business partners instils huge confidence in our continued ability to deliver on our strategic objectives. Our track record allows us to obtain superior quality retro cover and the fact that we have worked with most of our retro partners for over 10 years is testament to the belief that they have in our business model and our ability to deliver on our strategy.

We were able to celebrate a number of achievements in our twentieth year. Foremost amongst them were the announcements from A.M. Best in November which affirmed our Financial Strength Rating of A (Excellent) Stable Outlook for Barents Re Reinsurance Company, Inc. and assigned the A (Excellent) Stable Outlook Financial Strength Rating to Barents Reinsurance S.A., our recently established Luxembourg subsidiary company. Barents Reinsurance S.A. is the vehicle to manage our international development and is now underwriting international new and renewal business. To achieve the A (Excellent) rating at the first time of asking is an outstanding achievement which is testament to the company's financial management and our ability to provide substantial capacity for our clients' benefit over the long term.

As well as reflecting on the achievements of the past year, this is also an opportune moment to look to our future. In 2017, we will bring on board experienced and highly regarded underwriters to expand into those business lines where we can build a niche-product strategy that is focused on profitability and not on market share. In keeping with this strategy, we will expand into Marine Cargo and Renewable Energy. Renewable Energy will complement our highly-regarded Energy business, notably for hydrocarbon exploration and production companies, which has gone from strength to strength in recent years. Our reputation means that we continue to attract top quality personnel from around the world.

I would like to close by stating my gratitude to our excellent staff without whom we would not be the success story that we are today. We have a clear and proven strategy of being a niche player that is responsive to the needs of its clients. Our people make the achievement of this strategy possible. I am enormously proud of the company we have built together over the past two decades and I am very confident about our future.

We look forward to working with our clients and business partners throughout the coming year.



Gerardo Garcia
President & CEO

BOARD OF DIRECTORS

GERARDO GARCIA

Chairman

Gerardo Garcia has over 20 years' experience in insurance and reinsurance. Prior to joining Barents Re, he was an advisor to insurance companies and reinsurance brokerage firms throughout Latin America. He has an actuarial background.

KLAUS BULTMANN

Director

Klaus Bultmann has more than 40 years' experience. Previously, he was a member of the board of Gerling Global Reinsurance and Frankona Re.

DIRK BORMANN

Director

Dirk Bormann has wide experience in the construction sector and has served on the board of directors of Philipp Holzmann AG, Hochtief AG and Wayss & Freytag. He is Chief Executive Officer of the German Federal Association for Economic Development and Foreign Trade.

ROBERTO ALFARO

Director

Roberto Alfaro's career encompasses finance, politics and diplomacy. Previously, he was President of Union Group and Compañia de Seguros. Mr. Alfaro has also served as Panama's Minister of Commerce and Ambassador to the United Nations, Italy and the Vatican. Currently, he is associated with Interglobal Consulting.

BOARD OF DIRECTORS

JUAN M. DE LA SIERRA URQUIJO

Director

Juan Manuel Urquijo is an international businessman and company director. He served on the boards of Urquijo Leasing S.A. and Banvivienda Bank for many years. He was also a director of Mundial Insurance Group in Central America for 20 years, until it was sold to Mapfre Central America.

ROBERT KOFFLER

Director

Mr. Koffler has 30 years of experience in global capital markets, and since 1999 has been the Chairman and Chief Executive of BiscayneAmericas Advisers LLC in Miami, Florida. Prior to joining BiscayneAmericas, he was the President and Director of Americas Trust Bank, Director and Executive Vice President of Vestrust Securities Inc.

ROBERTO BRENES

Secretary

With more than 30 years of experience in the financial market, Mr. Brenes has an extended career in the capital market in Panama, combining business and regulatory experience. He was the first President of the National Securities Commission, President of the Panama National Bank and Founder of the Panama Stock Exchange.

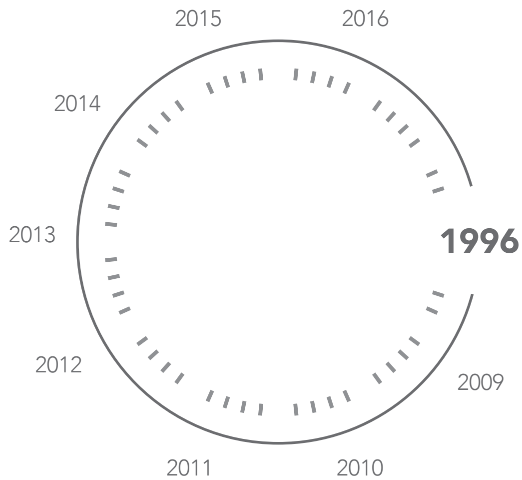
RICARDO CAZORLA

Treasurer

Ricardo Cazorla is a banker whose prior experience in the international banking arena includes the positions of Vice President at the Chase Manhattan Bank NA in Panama, Vice President at Bladex, the Foreign Trade Bank of Latin America, and Vice President at Credicorp Bank.

TIMELINE

TIMELINE



1996 Barents Re starts operating

2009

Creation of a joint venture underwriting and risk analysis office in Miami, Florida

2010

Rated by A.M. Best for Financial Strength A- (Excellent) Stable Outlook

Latin America and European expansion begins

2011

New offices in Miami, Paris and Beirut

Property line of business introduced

2012

Continued expansion throughout Latin America, Europe and MENA

Rome office opens

A.M. Best upgrades rating Outlook to Positive: A- (Excellent)

2013

New offices in Madrid and London

Energy business introduced

Best Reinsurance Company awarded by Reactions Magazine

US$100 million capital infusion to support international expansion

2014

Moscow office opens as regional hub for Eastern Europe

Reinsurer of the Year awarded by The European Magazine

World Finance 100 Award

2015

A.M. Best upgrades rating to: A (Excellent) Stable Outlook

Granted licence to create Luxembourg based subsidiary company

Best Independent Reinsurance Group & Leader in Corporate Governance awarded by Wealth & Finance International

Best Reinsurance Company: European CEO Awards

Reinsurance Company of the Year: European Global Banking & Finance Awards

CEO of the Year: Gerardo Garcia European Global Banking & Finance Awards

2016

We celebrate our 20th anniversary

A.M. Best affirms A (Excellent) Stable Outlook for Barents Re Reinsurance Company, Inc. and assigns A (Excellent) Stable Outlook for Barents Reinsurance S.A.

Best Reinsurance Company awarded by European CEO Awards

Reinsurance Company of the Year: LATAM Global Banking & Finance Awards

Bonds Reinsurer of the Year: European Global Banking & Finance Awards

Sustainable Reinsurance Partner of the Year – Americas awarded by CEO Insight Magazine

Most Outstanding Independent Reinsurance Group - LATAM Acquisition International Excellence Awards

BARENTS RE

KEY FINANCIAL RATIOS

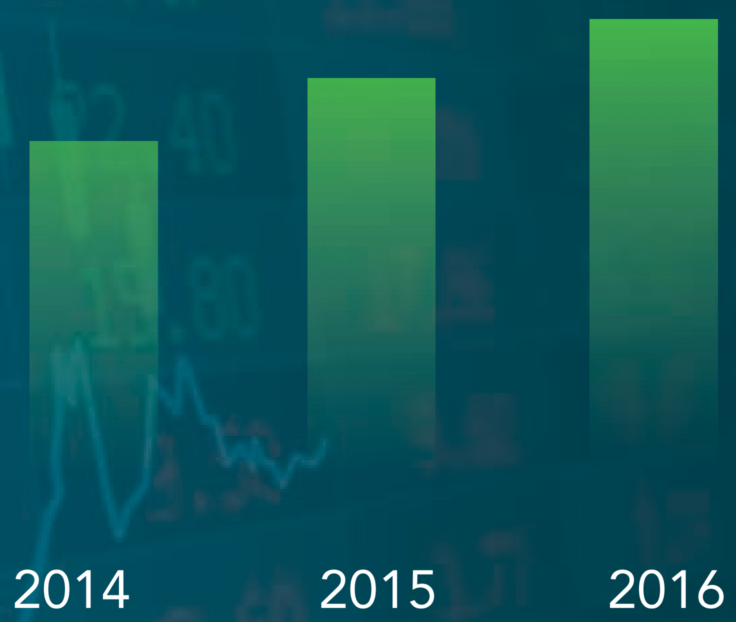
RESPONSIVE
RESILIENT
REINSURANCE

GROWTH IN SHAREHOLDERS' EQUITY

2016 **USD** 429,883,822

2015 **USD** 382,180,815

2014 **USD** 349,571,474

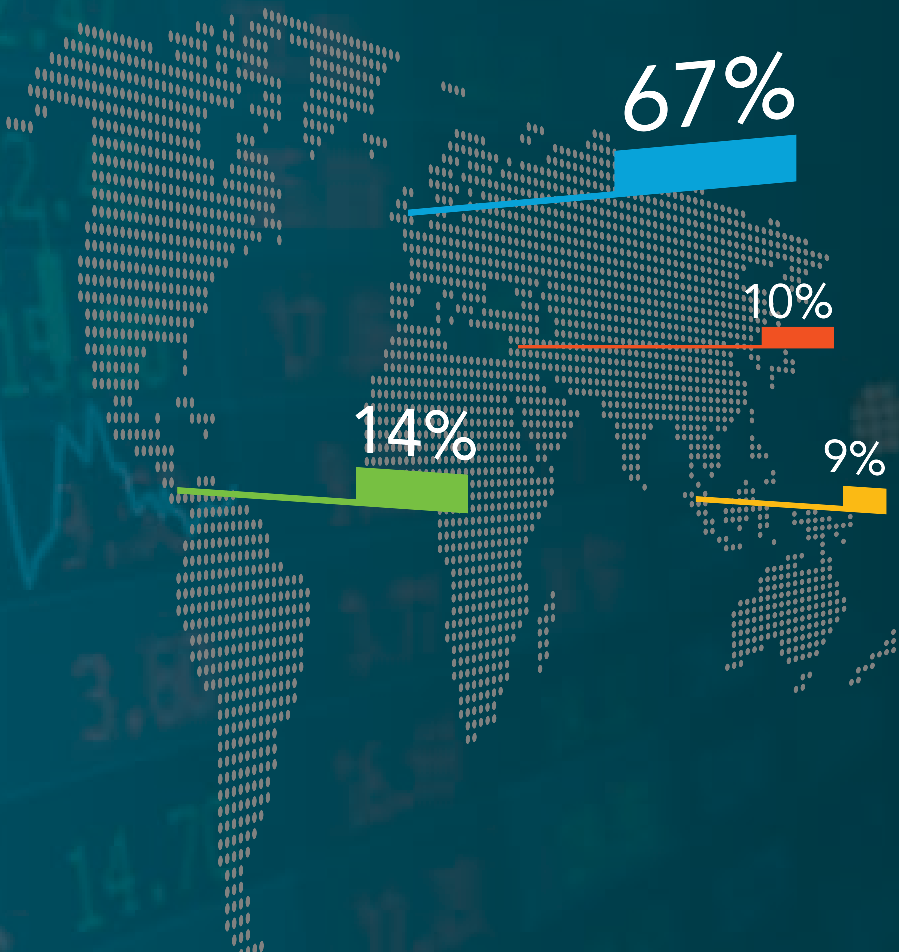


FINANCIAL HIGHLIGHTS

	2016	2015	2014
Total Equity	83.5%	84.4%	81.0%
Net Profit Margin	31.5%	52.8%	43.4%
ROI	2.4%	1.0%	2.4%
Shareholders Capitalization	14.3%	15.0%	19.0%
Net Loss Ratio	64.8%	63.6%	42.3%
Expense Ratio	7.4%	5.1%	5.0%
Combined Loss/Expense Ratio	72.2%	68.7%	47.3%
EBIT MARGIN	21.0%	52.0%	38.4%

PREMIUM BY REGION

- EUROPE 67%
- LATAM 14%
- MIDDLE EAST 10%
- ASIA 9%



GLOBAL NETWORK

GLOBAL NETWORK

LONDON (**)
1st Floor, 10 Fenchurch Street
London
EC3M 3BE
United Kingdom
T +44 203 445 1058

PARIS (*) (**)
80 Avenue d'Iena
75116 Paris
France
T +33 (1) 5367-7000

LUXEMBOURG (***)
6 Rue du Fort Bourbon
L-1249 Luxembourg
Tel. +352 27 86 33 40

ROME (**)
Largo Fontanella Borghese, 19
00186, Rome
Italy
T +39 (6) 4550-665

MADRID (**)
Paseo de la Castellana 60,
2da Planta
28046 Madrid
Spain
T +34 (9) 1123-9770

MIAMI (**)
1111 Brickell Avenue
Suite 2600
Miami, FL 33131
United States of America
T +1 (786) 691-1671

MILAN (**)
Largo Augusto, 3
20122 Milano (MI)
T +39 (2) 7779 9337

PANAMA
La Rotonda Avenue
Costa Del Este
Prime Time Tower, 23rd Floor
Panama
T +507 301-0578

MOSCOW (*)
121151, Moscow, Russia
Mozhayskiy Val Str. 8B
T +7 (495) 287-3430

BEIRUT (*) (**)
Martyrs Square
Beirut Central District
Lebanon
T +961 (1) 998-772/3/4

*Representative office/branch
** Barents Risk Management network
*** Subsidiary

GLOBAL STRATEGY

GLOBAL STRATEGY

Organic premium growth & geographic diversification; focus on uncorrelated low exposure catastrophe territories & specialty products.

Recruitment of top quality personnel internationally; people are our key advantage.

Stable capacity, offering tailor made products and solutions in each of its territories.

Underwriting discipline & controls, reinforced by pricing & risk modeling tools.

BARENTS RE

CONSOLIDATED
FINANCIAL STATEMENTS

RESPONSIVE
RESILIENT
REINSURANCE

Deloitte.

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

Barents Re Reinsurance Company, Inc. and Subsidiary

Consolidated Financial Statements for the year ended December 31, 2016 and Independent Auditors' Report of September 14, 2017

Deloitte LATCO
Firma miembro de
Deloitte Touche Tohmatsu Limited

Barents Re Reinsurance Company, Inc. and Subsidiary

Independent Auditors' Report and 2016 Consolidated Financial Statements

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Deloitte.

Deloitte, Inc.
Contadores Públicos Autorizados
RUC 16292-152-155203 D.V. 65
Torre Banco Panamá, piso 12
Avenida Boulevard y la Rotonda
Costa del Este, Panamá
Apartado 0816-01558
Panamá, Rep. de Panamá

Teléfono: (507) 303-4100
Fax: (507) 269-2386
infopanama@deloitte.com
www.deloitte.com/pa

(Free English Language Translation of Spanish Version)

INDEPENDENT AUDITORS' REPORT

Messrs.
Shareholders and Board of Directors
Barents Re Reinsurance Company, Inc. and Subsidiary
Panama, Rep. of Panama

Opinion

We have audited the accompanying consolidated financial statements of **Barents Re Reinsurance Company, Inc. and Subsidiary** (the Company) which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended, and a summary of significant accounting policies applied and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Barents Re Reinsurance Company, Inc. and Subsidiary at December 31, 2016, and the results of its operations and cash flows for the year ended, in accordance with accounting requirements of the Superintendency of Insurance and Reinsurance of Panama for supervisory purposes of these consolidated financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with other ethical requirements that are relevant to our audit of the consolidated financial statements in Panama, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Administration and Those Charged with Governance Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accounting requirements of the insurance industry in the Republic of Panama and modified by prudential regulations issued by the Superintendency of Insurance and Reinsurance of Panama for supervisory purposes, 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 consolidated financial statements, Management is responsible for assessing the Company ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- We identify and assess the risks of material misstatement of the consolidated 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.
- We 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 internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- We 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 consolidated 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 obtain sufficient and adequate audit evidence related to the financial information of the entities or business activities that make up the Group to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and execution of the Group's audit. We remain solely responsible for our audit opinion.

Deloitte (signed)

September 14, 2017
Panama, Republic of Panama

Barents Re Reinsurance Company, Inc. and Subsidiary

Consolidated statement of financial position
December 31, 2016
(In United States of America dollars)

	Notes	2016	2015
Assets			
Deposits in banks	7	50,753,247	26,324,405
Securities available for sale	9	418,921,072	372,439,768
Investment in associate	6,11	6,625,533	6,625,533
Notes and accounts receivable - related parties	6,8	24,509,905	35,351,346
Interest receivable		138,969	531,726
Other accounts receivable	15	5,208,669	1,590,820
Property, furniture, equipment and improvements, net	10	4,245,953	4,465,881
Other assets	12	4,151,576	5,314,329
Total assets		514,554,924	452,643,808
Liabilities and equity			
Liabilities			
Technical reserve for premiums	13	22,370,084	23,109,932
Reserve for claims	14	49,488,814	44,501,307
Loans payable	16	817,297	907,776
Repurchase agreement	17	1,021,500	1,254,277
Accounts payable - related companies	6	174,343	19,583
Accounts payable and accrued expenses	19	10,799,064	670,118
Total liabilities		84,671,102	70,462,993
Equity			
Common shares	21	301,893,501	288,772,429
Net changes in securities available for sale		85,590	(2,237,297)
Legal reserve		155,827	155,827
Retained earnings		114,836,179	95,489,856
Equity attributable to owners of the Group		416,971,097	382,180,815
Non-conrolling interest	20	12,912,725	-
Total equity		429,883,822	382,180,815
Total liability and equity		514,554,924	452,643,808

The accompanying notes are an integral part of these consolidated financial statements.

Barents Re Reinsurance Company, Inc. and Subsidiary

Consolidated statement of profit or loss
For the year ended December 31, 2016
(In United States of America dollars)

	Notes	2016	2015
Net income from premiums:			
Suscribed premiums		190,372,497	220,502,471
Ceded premiums		(128,770,613)	(154,474,093)
Total net retained premium		61,601,884	66,028,378
Decrease in technical reserve on premiums	13	(739,848)	(4,796,279)
Increase (decrease) for cliams reserve	14	4,817,330	(6,955,000)
Net claims paid		39,906,934	42,002,007
Total earned premium		17,617,468	35,777,650
Other income (expenses):			
Interests income	6	1,728,159	1,808,346
Interests paid		(187,127)	(60,470)
Commisions paid		(4,400,179)	(795,981)
Risk analysis cost		(299,205)	(585,580)
Net gain in securities available for sale	9	8,372,235	1,922,103
Other income		1,108,859	184,933
Total income, net		23,940,210	38,251,001
General and administrative expenses:			
Salaries and other employee benefits	6	885,600	703,141
Professional fees		2,324,926	1,128,280
Depreciation and amortization	10	271,497	261,098
Taxes		93,308	112,874
Travel expenses		74,517	601,983
Rentals		71,398	3,843
Telecommunications		58,946	38,490
Maintenance and repairs		48,107	54,840
Electrical energy		43,977	60,019
Insurances		23,344	14,234
Bank charges		33,955	73,696
Legal and notarial charges		28,377	9,393
Dues and subscriptions		14,637	1,580
Customer services		968	2,197
Donations		-	18,168
Others	18	572,240	281,919
Total general and administrative expenses		4,545,797	3,365,755
Profit before income tax		19,394,413	34,885,246
Income tax	22	7,218	1,662
Net profit		19,387,195	34,883,584
Net profit attributable to:			
Owners of the Group		19,300,794	34,883,584
Non-controlling interests	20	86,401	-
Net profit		19,387,195	34,883,584

The accompanying notes are an integral part of these consolidated financial statements.

Barents Re Reinsurance Company, Inc. and Subsidiary

Consolidated statement of comprehensive income
For the year ended December 31, 2016
(In United States of America dollars)

	Notes	2016	2015
Net profit		19,387,195	34,883,584
Other comprehensive income (losses):			
Gain realized transferred to income	9	(8,372,235)	(1,922,103)
Net changes in securities availabe for sale	9	10,695,122	(352,140)
Total of other comprehensive income (loss)		2,322,887	(2,274,243)
Total net comprehensive income of the year		21,710,082	32,609,341
Comprehensive income attributable to:			
Owners of the Group		21,623,681	32,609,341
Non-controlling interests	20	86,401	-
Total comprehensive income for the year		21,710,082	32,609,341

The accompanying notes are an integral part of these consolidated financial statements.

Barents Re Reinsurance Company, Inc. and Subsidiary

Consolidated statement of changes in equity
For the year ended December 31, 2016
(In United States of America dollars)

		Attributable to owners of the Group						
	Notes	Common shares	Net changes in securities available for sale	Legal reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of December 31, 2014		288,772,429	36,946	155,827	60,606,272	349,571,474	-	349,571,474
Other comprehensive income comprised of:								
Net profit		-	-	-	34,883,584	34,883,584	-	34,883,584
Realized gain transferred to income	9	-	(1,922,103)	-	-	(1,922,103)	-	(1,922,103)
Net changes in fair value of securities available for sale	9	-	(352,140)	-	-	(352,140)	-	(352,140)
Total net comprehensive income for the year		-	(2,274,243)	-	34,883,584	32,609,341	-	32,609,341
Balance as of December 31, 2015		288,772,429	(2,237,297)	155,827	95,489,856	382,180,815	-	382,180,815
Other comprehensive income comprised of:								
Net profit	20	-	-	-	19,300,794	19,300,794	86,401	19,387,195
Realized gain transferred to income	9	-	(8,372,235)	-	-	(8,372,235)	-	(8,372,235)
Net changes in fair value of securities available for sale	9	-	10,695,122	-	-	10,695,122	-	10,695,122
Total net comprehensive income for the year		-	2,322,887	-	19,300,794	21,623,681	86,401	21,710,082
Transactions attributable to shareholders:								
Capital contribution	21	13,439,775	-	-	-	13,439,775	-	13,439,775
Excluded affiliate from consolidation	5	(318,703)	-	-	135,457	(183,246)	-	(183,246)
		13,121,072	-	-	135,457	13,256,529	-	13,256,529
Subsidiaries changes in ownership interest that do not result in a loss of control								
Non-controlling interest	20	-	-	-	(89,928)	(89,928)	12,826,324	12,736,396
Total shareholder's transactions		13,121,072	-	-	45,529	13,166,601	12,826,324	25,992,925
Balance as of December 31, 2016		301,893,501	85,590	155,827	114,836,179	416,971,097	12,912,725	429,883,822

The accompanying notes are an integral part of these consolidated financial statements.

Barents Re Reinsurance Company, Inc. and Subsidiary

Consolidated statement of cash flows
For the year ended December 31, 2016
(In United States of America dollars)

	Notes	2016	2015
Cash flows from operating activities:			
Net income		19,387,195	34,883,584
Adjustment by:			
Gain on sale of securities available for sale	9	(8,372,235)	(1,922,103)
Technical reserve on premiums	13	(739,848)	(4,796,279)
Reserve for claims	14	4,987,507	(6,955,000)
Depreciation and amortization	10	271,497	261,098
Income interests		(1,728,159)	(215,767)
Interest expenses	19	187,127	60,470
Net changes in operating assets and liabilities:			
(Increase) decrease in deposits with maturities greater than 90 days	7	(2,000,000)	160,000
(Increase) decrease in other accounts receivable		(3,617,849)	602,814
Interests paid		2,120,916	55,243
Decrease (increase) in other assets		1,162,753	(613,892)
Increase in accounts payable and accrued expenses	19	9,941,815	138,048
Income tax expenses		(5,546)	-
Net cash provided by operating activities		21,595,173	21,658,216
Cash flows from investing activities:			
Adcquisition of securities available for sale	9	(470,704,446)	(380,609,722)
Sale on securities available for sale	9	434,918,265	348,557,819
Cash and cash equivalents from ceded subsidiary		(183,246)	-
Adquisition of furniture and office equipment	10	(51,569)	(38,945)
Net cash used in investing activities		(36,020,996)	(32,090,848)
Cash flows from financing activities:			
Capital contribution	21	13,439,775	-
Net adjustment for subsidiary deconsolidation	5	(84,379)	-
Notes and accounts receivable - related parties	6	10,996,201	(15,492,433)
Loans payable	16	(90,479)	(85,090)
Repurchase agreements	17	(232,777)	1,254,276
Capital contribution - owners of the Group	20	12,826,324	-
Net cash provided by (used in) financing activities		36,854,665	(14,323,247)
Increase (decrease) in net cash		22,428,842	(24,755,879)
Cash at the beginning of the year	7	26,324,405	51,080,284
Cash at end of the year	7	48,753,247	26,324,405

The accompanying notes are an integral part of these consolidated financial statements.

1. General information

Barents Re Reinsurance Company, Inc. (the “Company”) was incorporated in accordance with the laws of the Republic of Panama in 1996 and started operations in April 1996. This Company was acquired as of December 1999. Its main activity is to provide reinsurance services according to the International Reinsurance License granted by the Superintendency of Insurance and Reinsurance through Resolution CNR-03 of August 13, 1996 and according to the General Reinsurance License granted by the Superintendency of Insurance and Reinsurance of Panama through Resolution No.005 of December 16, 2011.

The reinsurance operations in Panama are regulated by the Superintendency of Insurance and Reinsurance of Panama, through Insurance Law No.63 of September 19, 1996. The main office is located at la Rotonda Street, Costa del Este, Prime Time Tower, floor 23.

Barents Re Reinsurance Company, Inc. (Panamá) is a subsidiary of Standard Capital Shareholdings, Inc., (B.V.I.).

On December 28, 2009, the shareholders of Barents Re Reinsurance Company, Inc. (Belize) transferred the 100% of its shares to Barents Re Reinsurance Company, Inc. (Panama), becoming Barents Re Reinsurance Company, Inc. (Panama) the holder of all the shares issued and outstanding of Barents Re Reinsurance Company, Inc. (Belize).

Barents Re Reinsurance Company, Inc. (Belize) was incorporated in accordance with the laws of the Republic of Belize in January 2000 and started operations on March 2006. It has an International Reinsurance License granted by the Republic of Belize and is authorized to carry out reinsurance operations by regulators in the Latin American region.

On August 11, 2016, Barents Reinsurance Company, Inc. (Panama) shareholders acquired 51% of Barents Reinsurance S.A. (Luxembourg) shares, together with the minority shareholders who own 49% of the shares, of all the issued and outstanding shares of Barents Reinsurance S.A. (Luxembourg).

As disclosed in Note 5, dated February 15, 2016, it was decided the cession of the subsidiary Barents Re Reinsurance Company Inc. (Barbados),

Based on the above, as of December 31, 2016, this report presents the accounts of Barents Re Reinsurance Company, Inc. Group without including the accounts of Barents Re Reinsurance Company, Inc. (Barbados), as it was ceded, control was lost the Company now has significant influence.

2. Significant accounting policies

The significant accounting principles and practices applied in the recording of transactions and preparation of the accompanying consolidated financial statements are as follows:

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the accounting requirements of the insurance industry in the Republic of Panama and modified by prudential regulations issued by the Superintendency of Insurance and Reinsurance of Panama for supervisory purposes.

2.2 Regulatory matters

The Company applies accounting practices specific to the reinsurance industry which emphasize the liquidity and solvency of the Company to fulfill its obligations. Under these practices, the Company records the gained or incurred income or expenses of the year, the commissions earned on ceded reinsurance, the fees paid to brokers on premiums.

Technical reserve for premiums

According to legal requirements, the Company defers 35% of net retained premiums in the twelve months preceding the date of the consolidated statements of financial position, except for the maritime industry in which 10% is deferred. Reinsurance premiums assumed each year are deferred by 35%. These reserve premiums are accrued the following year.

Contingency reserve

Reinsurance contracts are based on the expected cost of claims reported at the date of the consolidated statement of financial position and the estimated costs of claims incurred but not reported to the Company. It may take a significant period of time before it is established with certainty the ultimate cost of claims.

Adjustments to reserves are recorded each year in the consolidated statement of profit or loss. The reserve is adjusted to recognize the participation of the reinsurers.

2.3 Principle of consolidation

The consolidated financial statements comprises the financial statements of Barents Re Reinsurance Company, Inc. and subsidiaries controlled by the Company. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if the facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee has power over it when voting rights are sufficient to give the practical ability to direct their relevant activities unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Income and each component of other comprehensive income are attributed to the controlling and non-controlling interests. Comprehensive income is attributed to the controlling and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All balances and transactions between the Company and its subsidiaries have been eliminated on consolidation.

In preparing the consolidated financial statements, management is responsible for combining the consolidated financial statements of the parent company line by line, adding the items representing assets, liabilities, equity, income and expenses of similar content. In order for the consolidated financial statements to present financial information of the Group, as if it were a single economic entity, proceed as follows:

- The carrying amount of the parent's investment in each of the subsidiaries, together with the portion of the equity belonging to the parent company in each of the subsidiaries, are eliminated;
- Non-controlling participants are identified in the results of the consolidated subsidiaries, which refer to the reporting period; and
- Non-controlling interests in the net assets of the consolidated subsidiaries are identified separately from those of the parent company.

2.4 Balances and transactions in foreign currency

Functional and presentation currency

The items included in the consolidated financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in dollars (US$), the functional and presentation currency of the Company.

Balances and transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation at year end of assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.5 Financial assets

Financial assets are classified into the following specific categories: securities available for sale, premiums receivable, and notes receivable. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Premiums receivable

Premiums receivable generally have collectable terms of 30 to 45 days, and they are recognized at the amount of the respective insurance contracts, and are measured at cost. The book value of premiums receivable is reviewed for impairment when events and circumstances indicate that they will not be recoverable, with an impairment loss recognized in the profit or loss.

The Company recorded as accounts receivable uncollected premiums at maturity of the agreed form of payment. These premiums receivable are held for a period of 90 days, whether or not they have accrued redemption values except when it comes to premiums receivable with related parties.

Securities available for sale

They consist of securities purchased with the intention of holding them for a period of indefinite duration, which can be sold in response to the needs for liquidity or changes in interest rates or prices of equity instruments. After initial recognition, investments available for sale are measured at fair value. For those cases where fair value estimates are not reliable, investments are held at cost or amortized cost.

Gains or losses arising from changes in the fair value of securities available for sale are recognized directly in equity until are discharged the financial assets or impairment is determined. At this time, the cumulative gain or loss, previously recognized in equity is recognized in the results. Dividends on equity instruments available for sale are recognized in the consolidated statement of profit or loss when the entity's right to receive payment is established.

The fair value of an investment in securities is generally determined based on quoted market price at the date of the consolidated statement of financial position. If the quoted market price is not available, the fair value of the instrument is estimated using pricing models or technical calculations of discounted cash flows.

Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 *Impairment of financial assets*

Premiums receivable

Premiums receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

At the end of each reported period, the premium receivable balance is reviewed to determine if there is an objective evidence of non-recoverable. If so, the loss impairment is recognized immediately in the statement of profit and loss and other comprehensive income. The impairment loss is carried out on 100% credit risk. In measuring the impairment loss the Administration calculates the credit risk exposure taking into account the accounts receivable net of reinsurer participation, acquisition costs, unearned premiums and related taxes.

Assets classified as available for sale

At the date of the consolidated statement of financial position, the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the financial asset is decreased below its cost is taken into account in determining whether the assets are impaired. If such evidence exists for financial assets available for sale, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on financial assets previously recognized in the profit or loss, are removed from equity and recognized in the consolidated profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss but the amount is recognized in the equity account. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the loss impairment be reversed through the consolidated statement of profit or loss.

2.7 Impairment of non-financial assets

On the date of each consolidated statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss in value, if any. Where the asset does not generate cash flows that are themselves independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is subjected to an impairment test once a year.

If it is estimated that the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Immediately an impairment loss is recognized in the results of operations.

2.8 Fair value measurement and valuation process

The Company measures fair value using hierarchy levels that reflect the meaning of the input used to make the measurements. The Company has established a documented process and policy to determine the fair value in which the responsibilities and segregation of functions between the different responsible areas that intervene in this process are defined and approved by the Board of Directors.

IFRS 13 sets a hierarchy of the valuation techniques based on whether the information included in those valuation techniques are observable or unobservable. The observable information reflects market data from independent sources; the unobservable input reflects the Company's market assumptions. These two types of information have set the following fair value hierarchy:

- Level 1- Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 - Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 - Inputs are unobservable inputs for the asset or liability.

Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique and inputs used).

	Fair value					
Financial assets	**2016**	**2015**	**Favir value hierarchy**	**Valuation techniques (s) and key inputs**	**Significant unobservable inputs no observables significativos**	**Relationship of unobservable inputs to fair value**
Securities available for sale	415,721,072	372,238,321	Level 1	Quoted prices in active markets	N/A	N/A
Total	415,721,072	372,238,321				

Fair value of the Company's financial assets and liabilities that are not measured at fair value (but fair value disclosures are required)

Management believes that the carrying values of the financial assets and financial liabilities recognized at amortized cost in the consolidated financial statements approximate their fair value.

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Demand deposits	48,753,247	48,753,247	24,524,405	24,524,405
Time deposits	2,000,000	2,000,000	1,800,000	1,800,000
Securities available for sale	3,200,000	3,200,000	201,447	201,447
Premium receivable -related company	13,209,631	13,209,631	20,059,631	20,059,631
Acounts receivable	5,208,669	5,208,669	1,590,820	1,590,820
	72,371,547	72,371,547	48,176,303	48,176,303
Liabilities				
Loan payable	817,297	739,228	907,776	832,819
Repurchase agreement	1,021,500	1,018,910	1,254,277	1,254,277
Accounts payable	10,799,064	10,799,064	670,119	670,119
	12,637,861	12,557,202	2,832,172	2,757,215

		Fair value hierarchy		
	Total	Level 1	Level 2	Level 3
2016				
Financial assets:				
Demand deposits	48,753,247	-	48,753,247	-
Time deposits	2,000,000	-	-	2,000,000
Premium receivable - related company	13,209,631	-	-	13,209,631
	63,962,878	-	48,753,247	15,209,631
Financial liabilities:				
Loan payable	739,228	-	-	739,228
Repurchase agreement	1,018,910	-	-	1,018,910
	1,758,138	-	-	1,758,138

		Fair value hierarchy		
	Total	Level 1	Level 2	Level 3
2015				
Financial assets:				
Demand deposits	24,524,405	-	24,524,405	-
Time deposits	1,800,000	-	-	1,800,000
Premium receivable - related company	20,059,631	-	-	20,059,631
	46,384,036	-	24,524,405	21,859,631
Financial liabilities:				
Loan payable	832,819	-	-	832,819
Repurchase agreement	1,254,277	-	-	1,254,277
	2,087,096	-	-	2,087,096

In the case of demand deposits and time deposits the carrying value approximates fair value due to their short-term nature. In the case of premiums receivable, book value is the best estimate of fair value due to the nature of the business relationship with the customer.

2.9 Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as financial liabilities or as equity in accordance to the contractual arrangements.

Equity instruments

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

Barents Re Reinsurance Company, Inc. has an internal capitalization and dividend policy aimed at providing the units in a rational and objective manner the necessary capital to cover the risks assumed.

Financial liabilities

Financial liabilities are classified as financial liabilities with changes in profit or loss and other financial liabilities.

Derecognition of financial liabilities

The Company writes off financial liabilities when, and only when, the obligations of the Company are settled, canceled or expired.

2.10 Premium income

Income is presented at fair value of the consideration received or receivable, taking into account the amount of any commercial discounts, bonuses or rebates granted by the entity.

Income from subscribed premiums and related production costs (commissions paid, ceded reinsurance, and commissions earned from reinsurance) are recognized when the reinsurance contracts come into force and the amount of the premiums is received.

2.11 Reinsurance contracts

In the normal course of business, the Company has signed reinsurance agreements with insurance and reinsurance companies.

Retrocession or reinsurance ceded is hired with the primary purpose of obtaining a recovery of direct losses that could be generated by events or disasters. However, reinsurance contracts do not relieve the Company from its contractual obligations to policyholders or beneficiaries.

The amounts expected to be recovered from reinsurers are recognized in accordance with the clauses in the contracts signed by both parties. To ensure consistency of this policy, the reinsurance company evaluates, on a periodic basis, the financial condition of its retrocession, risk concentration, as well as changes in economic and regulatory environment.

Gains and losses on reinsurance contracts are recognized in the consolidated statement of profit or loss immediately at the time of hiring and are not amortized. Premiums and claims are presented on a gross basis for both ceded and assumed premiums.

2.12 Property, furniture, equipment and improvements

The property, furniture, equipment and improvements are stated at cost of acquisition, net of accumulated depreciation and amortization. Significant improvements are capitalized, while minor repairs and maintenance that do not extend the life or improve the asset are charged to expenses as incurred.

The depreciation and amortization are charged to current operations on a straight-line method, based on the estimated useful life of the assets:

Furniture and office equipment	3 - 10 years
Computer equipment	3 - 7 years
Building and improvements	30 years

Assets subject to amortization are reviewed for impairment as long as changes in the circumstances indicate that the carrying value is not recoverable. The carrying value of the assets is immediately reduced to the recoverable amount, which is the higher between fair value less cost and used value.

An item of property, furniture, equipment and improvement is written off its eventual disposal or when no future economic benefit arising from the continued use of the asset is expected.

Any gain or loss arising on the disposal or retirement of an item of furniture, equipment and improvement are determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in the consolidated statement of profit or loss.

2.13 Legal reserve

The legal reserve of reinsurers is established based on 1/4% of the increase in premiums signed each year compared to previous years.

2.14 *Cash*

For the purposes of presenting the consolidated statement of cash flows, cash includes balances with banks and interest-bearing deposits with original maturities of three months or less from the date the deposit was placed.

3. Financial risk management

3.1 Financial risk management objectives

The Company's activities are exposed to a variety of financial risks and such activities include the analysis, assessment, acceptance and management of a certain degree of risk or a combination of risks. Taking risks is basic in the financial business, and operational risks are unavoidable risks when being in the business. Therefore, the Management's objective is to achieve an adequate balance between the risks and return and minimize possible adverse effects on the financial execution of the entity.

The activities of the entity are primarily related to the use of financial instruments and, as such, the consolidated statement of financial position consists mainly of financial instruments. Being exposed to the following risks when using them:

- Insurance risk
- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Company's Management is responsible for establishing and supervising the risk management policies on financial instruments. To that effect, it has appointed committees to take care of periodic administration and supervision of the risks to which the entity is exposed.

Additionally, the Company is subject to the regulations of the Superintendency of Insurance and Reinsurance in the jurisdictions of the Republic of Belize, Republic of Barbados and Republic of Panama, in the areas concerning the concentration of risks, liquidity and capitalization, among others.

The main risks identified by the entity are credit, liquidity, market and operational risks which are described as follows:

3.2 Insurance risk

The risk covered under a contract, in any of its various forms, is the possibility that the insured event occurs and therefore the uncertainty is realized in the amount of the claim. By the nature of the insurance contract, this risk is random and therefore unpredictable.

Regarding a portfolio of contracts where the theory of large numbers and probabilities for pricing and dispose provisions are applied, the main risk the Company faces is that the claims and/or payments of benefits covered by the policies exceed the carrying amount of insurance liabilities. This could happen as the frequency and/or severity of claims and benefits are greater than estimated. The factors that are considered to make the assessment of insurance risks are:

- Frequency and severity of claims
- Sources of uncertainty in the calculation of future claims

The Company has contracted automated reinsurance coverage that protect against loss frequency and severity. Negotiations of reinsurance coverage include exceed loss, stop loss and catastrophe. The aim of these negotiations is that the net insurance losses do not affect the total net assets and liquidity of the Company in any year. Besides of the total reinsurance program of the Company, additional reinsurance protection can be purchased by facultative contract in each opportunity that the risk assessment so warrants.

The Company has developed an insurance underwriting strategy to diversify the types of insurance risks accepted. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, and geographic location. The underwriting strategy attempts to ensure that underwriting risks are well diversified in terms of type and amount of risk. Subscription limits function to execute the selection criteria of appropriate risk.

3.3 Credit risk

Is the risk of a financial loss for the entity, which occurs when a counterpart of a financial instrument fails to comply with its contractual obligations, and arises mainly from investment in securities.

For risk management purposes, Management considers all elements of credit risk exposure: issuer risk, country risk, and sector or industry risk. Credit risk arising from holding securities is considered as a component of credit risk exposure.

Management continuously monitors the financial condition of the issuers of securities involving a credit risk to the entity. Management is responsible for developing changes to the credit policies and presenting the same to the Board of Directors which has the responsibility for the final approval.

The Company has established certain procedures to manage credit risk, as summarized below:

Preparation of Credit Policies:

Credit policies are issued or revised per recommendation of any member of Senior Management and Board of Directors, considering the following factors:

- Changes in market conditions.
- Risk factors.
- Changes in laws and regulations.
- Changes in financial conditions and credit availability.
- Other factors relevant at the time.

Every change in policies or preparation of new policies must be approved by the Board of Directors, which in turn issues a memorandum of instructions for its subsequent disclosure and implementation.

Similarly, the entity has limited its exposure in various places through the country risk policy, where countries have been defined to have exposure based on Management's strategic plan; in turn, exposure limits for investment have been implemented in these countries, based on the credit rating of each of them.

Maximum Limits per Counterparty:

Regarding the exposures by counterparties, there are limits based on risk rating of the counterparty, as a proportion of the capital of the Company.

Policy Compliance Review:

Management is responsible for the quality and performance of loans in their portfolios, as well as for control and monitoring of their risks.

The table below analyzes the Company's portfolio of securities available for sale which are exposed to credit risk, and its corresponding assessment based on its rating:

	2016	**2015**
Investment graded	415,721,072	372,238,321
Ungraded investment	3,200,000	201,447
	418,921,072	372,439,768

In the previous table, the factors of greatest risk exposure of the investment portfolio have been detailed.

To manage financial risk exposures of the investment portfolio, the entity uses external investment ratings as detailed below:

Investment rating	**International qualifications**
Investment grade	AAA, AA, AA+, AA-, A+, A-, BBB+, BBB, BBB-
Standard monitoring	BB+, BB, BB-, B+, B, B-
Special monitoring	CCC to C
Ungraded	-

Management monitors the credit risk concentration by sector and geographical location. The credit risk concentration analysis of the consolidated financial statements at December 31 is as follows:

	Premiums receivable		Securities available for sale	
	2016	**2015**	**2016**	**2015**
Concentration by sector:				
Corporate	13,209,631	20,059,631	85,733,603	49,513,818
Government	-	-	333,187,469	322,925,950
Carrying amount	13,209,631	20,059,631	418,921,072	372,439,768
Geographic concentration:				
South America and Caribbean	13,209,631	20,059,631	-	-
United States of America	-	-	418,921,072	372,439,768
Carrying amount	13,209,631	20,059,631	418,921,072	372,439,768

The geographical concentration for investments is measured based on the issuer's location of the investment.

3.4 Liquidity or financing risk

Liquidity risk is defined as the risk that the entity may have difficulties to obtain the funds to meet timely its commitments or obligations.

Management has established minimum liquidity levels to meet its operating needs and commitments.

The Liquidity Risk caused by the mismatch of terms between assets and liabilities is measured by using the Liquidity Gap or Term Matching. In this analysis, simulations and stress tests are done based on the difficulties caused by the lack of liquidity, such as, unexpected withdrawals of funds contributed by creditors or clients, impairment in the quality of the loan portfolio, volatility of resources obtained, etc.

The analysis of the maturities of the determined financial assets and financial liabilities based on the remaining period at the date of the consolidated statement of financial position or up to the contractual maturity date is detailed below:

	No maturity	Up to 3 months	3 months 1 year	Over a year	Total
2016					
Financial assets:					
Deposits in banks	48,753,247	-	2,000,000	-	50,753,247
Securities available for sale	-	-	418,921,072	-	418,921,072
Investment in associates	-	-	-	6,625,533	6,625,533
Premium receivable - related	-	-	-	13,209,631	13,209,631
Accounts and notes receivable - related	-	-	-	11,300,274	11,300,274
Total financial assets	48,753,247	-	420,921,072	31,135,438	500,809,757
Financial liabilities:					
Loans payable	-	-	-	817,297	817,297
Repurchase agreement	-	-	-	1,021,500	1,021,500
Accounts payable - related companies	-	-	-	174,343	174,343
Accounts payable	-	-	8,264,661	2,534,403	10,799,064
Total financial liabilities	-	-	8,264,661	4,547,543	12,812,204

	No maturity	Up to 3 months	3 months 1 year	Over a year	Total
2015					
Financial assets:					
Deposits in banks	24,524,405	1,800,000	-	-	26,324,405
Securities available for sale	-	-	372,439,768	-	372,439,768
Investment in associates	-	-	-	6,625,533	6,625,533
Premium receivable - related	-	-	16,765,550	3,294,081	20,059,631
Accounts and notes receivable - related	-	-	-	15,291,715	15,291,715
Total financial assets	24,524,405	1,800,000	389,205,318	25,211,329	440,741,052
Financial liabilities:					
Loan payable	-	-	-	907,776	907,776
Repurchase agreement	-	-	-	1,254,277	1,254,277
Accounts payable - related companies	-	-	-	19,583	19,583
Accounts payable	-	-	-	670,119	670,119
Total financial liabilities	-	-	-	2,851,755	2,851,755

3.5 Market risk

Is the risk that the value of a financial asset may be reduced because of changes in interest rates, currency exchange rates, stock prices, and other financial variables, as well as the reaction of market participants to political and economic events, whether by latent losses or potential profits. Market risk management's objective is to manage and monitor the risk exposures and at the same time to make sure that they are maintained within acceptable parameters optimizing the risk returns.

The risk management policies provide the compliance with limits for each financial instrument; limits regarding the maximum amount of loss that require the closing of positions that caused such losses; and the requirement that, unless approved by the Board of Directors, substantially all assets and liabilities are denominated in United States Dollars or in Balboas.

As part of the market risk, the entity is mainly exposed to interest rate risk.

Interest rate risk of cash flow and fair value - The cash flow and interest rate risks of fair value are the risks that the future cash flows and the value of financial instruments may fluctuate due to changes in market interest rates.

The table below summarizes the Company´s exposure to interest rate risks. The Company´s financial assets and financial liabilities are included in the table at its carrying amount, categorized by the earlier between the reprecing and the maturity dates:

	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No interest rate	Total
2016						
Financial assets:						
Deposits in banks	-	2,000,000	-	-	48,753,247	50,753,247
Securities available for sale	-	418,921,072	-	-	-	418,921,072
Investment in associate	-	-	6,625,533	-	-	6,625,533
Premiums receivable - related	-	-	13,209,631	-	-	13,209,631
Accounts and notes receivable - related	-	-	-	-	11,300,274	11,300,274
Total financial assets	-	420,921,072	19,835,164	-	60,053,521	500,809,757
Financial liabilities:						
Loan payable	-	-	817,297	-	-	817,297
Repurchase agreement	-	-	1,021,500	-	-	1,021,500
Acounts payable - related companies	-	-	-	-	174,343	174,343
Acounts payable	-	-	-	-	10,799,064	10,799,064
Total financial liabilities	-	-	1,838,797	-	10,973,407	12,812,204
Net liquidity margin	-	420,921,072	17,996,367	-	49,080,114	487,997,553
2015						
Financial assets:						
Deposits in banks	1,800,000	-	-	-	24,524,405	26,324,405
Securities available for sale	-	372,439,768	-	-	-	372,439,768
Investment in associate	-	-	6,625,533	-	-	6,625,533
Premiums receivable - related	-	16,765,550	3,294,081	-	-	20,059,631
Accounts and notes receivable - related	-	-		-	15,291,715	15,291,715
Total financial assets	1,800,000	389,205,318	9,919,614	-	39,816,120	440,741,052
Financial liabilities:						
Loan payable	-	-	907,776	-	-	907,776
Repurchase agreement	-	-	1,254,277	-	-	1,254,277
Acounts payable - related companies	-	-	-	-	19,583	19,583
Acounts payable	-	-	-	-	670,119	670,119
Total financial liabilities	-	-	2,162,053	-	689,702	2,851,755
Net liquidity margin	1,800,000	389,205,318	7,757,561	-	39,126,418	437,889,297

3.6 Operational risk

Is the risk of potential losses, direct or indirect, related to the entity's process, human resources, technology, infrastructure and other external factors that are not related to credit, market or liquidity risks, such as those arising from legal and regulatory requirements and from the behavior of generally accepted corporate standards.

Management's objective is to manage operational risk in other to avoid financial losses and damages to the entity's reputation.

3.7 Capital risk management

The main objectives of the Company when managing capital is to maintain its ability to continue as an ongoing business to generate returns to the shareholders and to maintain an optimal capital structure to reduce the costs of raising capital. To maintain an optimal capital structure, factors such as: amount of dividends payable, return of capital to shareholders or issuance of shares, are taken into consideration. In addition, compliance with the minimum capital established by the Superintendency of Insurance and Reinsurance of Panama is assured, which sets a minimum of US$1,000,000 for insurance and reinsurance companies. Regarding regulations of the International Insurance Act of the Republic of Belize is set at a minimum of US$50,000 for insurance and reinsurance companies, as well as for the Financial Service Commission of Barbados, which set a minimum of US$250,000 for companies with reinsurance license.

3.8 *Currency risk*

The Company is exposed to the effects of fluctuating changes in currency rates. The Company has exposure limits for currency rates, which are reviewed on a daily basis. Below are details of the currency positions:

	EURO	USD	Total
2016			
Assets			
Deposits in banks	65,373	50,687,874	50,753,247
Securities available for sale	-	418,921,072	418,921,072
Investment in associate	-	6,625,533	6,625,533
Premiums receivable - related	-	13,209,631	13,209,631
Accounts and notes receivable - related	-	11,300,274	11,300,274
Total financial assets	65,373	500,744,384	500,809,757
Liabilities			
Loan payable	-	817,297	817,297
Repurchase agreement	-	1,021,500	1,021,500
Accounts payable - related companies	-	174,343	174,343
Accounts payable	-	10,799,064	10,799,064
Total financial liabilities	-	12,812,204	12,812,204

	EURO	USD	Total
2015			
Assets			
Deposits in banks	75,774	26,248,631	26,324,405
Securities available for sale	-	372,439,768	372,439,768
Investment in associate	-	6,625,533	6,625,533
Premiums receivable - related	-	20,059,631	20,059,631
Accounts and notes receivable - related	-	15,291,715	15,291,715
Total financial liabilities	75,774	440,665,278	440,741,052
Liabilities			
Loan payable	-	907,776	907,776
Repurchase agreement	-	1,254,277	1,254,277
Accounts payable - related companies	-	19,583	19,583
Accounts payable	-	670,119	670,119
Total financial liabilities	-	2,851,755	2,851,755

4. Accounting estimates and critical judgments

The Company makes estimates and judgments that affect the reported amounts of the assets and liabilities within the following fiscal year. Estimates and judgments are continually evaluated based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. These estimates are subjective by nature, involve uncertainty and critical elements and therefore, cannot be determined with exactitude. The changes in the assumptions or criteria can significantly affect the estimations.

- *Demand and time deposits* - For these financial instruments, the carrying value approximates the fair value, due to its short-term nature.

- *Premiums receivable* - Premiums receivable are recorded at their outstanding recoverable value.

- *Securities available for sale* - For these securities, the fair value is based on market price quoted or quotes from brokers and dealers. If a reliable quoted market price is not available, the fair value of the instrument is estimated using pricing models or techniques of discounted cash flows.

- These estimates were made with the information available as at December 31, 2016 on annualized events and it is possible that future events may require modifying them (increase or decrease) in the coming years.

5. Subsidiary assigned to other entity

As of February 15, 2016, Barents Re Reinsurance Company, Inc., according to the minutes of Shareholders' Meeting, decides to cede 100% of the shares of its subsidiary Barents Re Reinsurance Company, Inc., (Barbados). No cash received from this assignment, however, a write-off of related receivables was made.

As a result of this cession, the assets, liabilities and capital as follows:

Accounts receivable eliminations	51,076
Assets analysis for subsidiary cession	
Assets	
Deposits in banks	183,246
Accounts receivable	51,076
Total net assets	234,322

Net effect on assignment of subsidiary

Accounts receivable waiver	(51,076)
Net assets	234,322
Investment in associate	(318,703)
Retainded earnings	135,457
Net effect in subsidiary cession	-

6. Balances and transactions with related parties

Balances and transactions with related parties included in the consolidated statement of financial position and consolidated statement of profit or loss are summarized below:

	2016	2015
Balances with related parties		
Assets		
Securities available for sale	3,200,000	201,447
Investment in associate	6,625,533	6,625,533
Premiums receivable	13,209,631	20,059,631
Notes receivable	2,733,846	9,408,000
Accounts receivable	8,566,428	5,883,715
Liabilities		
Accounts payable - related companies	174,343	19,583
Transactions with related parties		
Interest income	141,152	204,351
Key executives salaries	368,736	192,892

At December 31, 2016, the Company acquired US$2,733,846 (2015: US$9,408,000) relating to certificates of investment issued by the related Company Standard Capital, which accrued interest at an annual rate of 2.5% (2015: 2.5%) with a maturity of one year.

The Company is part of a group of related companies which have significant transactions among them.

Accounts receivable and payable with related companies do not have a schedule repayment date, maturity date nor do they accrue interests.

7. Deposits in banks

Deposits in banks are detailed below:

	2016	2015
Demand deposits - domestic	2,717,049	2,732,585
Time deposits - domestic	2,000,000	1,800,000
Demand deposits - foreign	46,036,198	21,791,820
Total	50,753,247	26,324,405
Less:		
Time deposits at original maturity greater than 90 days	2,000,000	-
Cash and cash equivalents for consolidated cash flow purpose	48,753,247	26,324,405

As of December 31, 2016, time deposits accrued an interest rate of 4.5%, at maturity on December 2017 was not renewed (2015: 1.15%, maturing in January 2016 not renewed).

8. Premiums receivable

Premiums receivable are summarized as follows:

	2016	2015
Montgomery Moore Re, Ltd.	13,209,631	20,059,631

<u>Aging of accounts receivable matured but not uncollectible</u>

	2016	2015
Current	-	8,700,000
61-90 days	-	8,065,550
More than 90 days	13,209,631	3,294,081
Total	13,209,631	20,059,631

In January and June 2017, the Company received from Montgomery Moore Re, Ltd., cash payment of US$560,047 and US$550,000 respectively.

Management considers that it is not necessary to establish a provision for premiums receivable since there is no objective evidence of their impairment.

9. Securities available for sale

Securities available for sale are summarized as follows:

	2016	2015
Listed securities (at fair value):		
Governments bonds - foreign	333,187,469	322,925,950
Corporates	82,533,603	49,312,371
	415,721,072	372,238,321
Unlisted securities (at cost):		
Corporates	3,200,000	201,447
	418,921,072	372,439,768

The annual interest rate earned by securities available for sale ranged from 0.813% to 12.74% with one year maturity (2015: 0.576% to 5.10% with maturities between December 2016).

The movement of securities available for sale is summarized below:

	2016	2015
Balance at beginning of year	372,439,768	340,740,005
Additions	470,704,446	380,609,722
Sales	(426,546,030)	(346,635,716)
Gain transferred to income	(8,372,235)	(1,922,103)
Changes in fair value	10,695,122	(352,140)
Balance at end of year	418,921,071	372,439,768

During 2016, the Company sold securities available for sale for a total of US$426,546,030 (2015: US$346,635,716), during 2016, these sales generated a net profit of US$8,372,235 (2015: US$1,922,103).

As disclosed in Note 17, as of December 31, 2016, the Company has REPO agreements of US$1,021,500 (2015: US$1,254,277) guaranteed by securities, interest rate of 4.80% with a maturity date at the end of the securities available for sale portfolio.

10. Property, furniture, equipment and improvements

Property, furniture, equipment and improvements are summarized below:

2016	Improvements	Building	Office equpment	Computer equipment	Balance
Cost					
Balance at the beginning of the year	1,924,030	2,200,433	745,627	214,036	5,084,126
Additions	-	-	32,204	19,365	51,569
Balance at end of the year	1,924,030	2,200,433	777,831	233,401	5,135,695
Accumulated depreciation and amortization					
Balance at the beginning of the year	144,646	161,784	213,946	97,869	618,245
Expense for the year	64,134	73,348	79,346	54,669	271,497
Balance at end of the year	208,780	235,132	293,292	152,538	889,742
Net balance	1,715,250	1,965,301	484,539	80,863	4,245,953
2015					
Cost	1,924,030	2,200,433	745,627	214,036	5,084,126
Accumulated depreciation and amortization	144,646	161,784	213,946	97,869	618,245
Net balance	1,779,384	2,038,649	531,681	116,167	4,465,881

During 2013, the Company signed a purchase agreement for the acquisition of new headquarters offices. The agreed sale price was US$1,800,000 for offices and US$12,000 for the deposit. The Company maintains a loan with a bank for the amount of US$817,297 maturing in October 2018 and annual interest rate of 6.25%.

11. Investment in associate

On February 28, 2014, the Company acquired 2,041,723,822 shares from Nacional de Seguros, S.A. an organized and existing corporation under the laws of the Republic of Colombia, for the amount of US$6,625,533, representing 77% of the outstanding shares at that date. A summary of the statement of financial position and the statement of profit or loss as of December 31, 2016 is detailed as follows:

Statement of financial position:

	2016
Asset	32,991,178
Liability	23,740,243
Equity	9,250,935
Total liability and equity	32,991,178
Statement of profit or loss:	
Income from premiums:	
Total earned premium	464,391
Liquidated and recovered claims	691,635
Earned commissions	4,643,729
Net cost	(3,739,730)
General and administrative expenses	(2,838,712)
Technical result	(778,687)
Total other income, net	874,656
Income before income tax	95,969
Income tax	(159,168)
Deferred tax	288,023
Net income	224,824

According to the Minutes of the Shareholders Assembly dated December 19, 2014, the sale of the totality of share capital in Nacional de Seguros, S.A. was approved, a corporation organized and existing under the laws of the Republic of Colombia. At the date of the consolidated financial statements, we are in the process of obtaining sale authorization from the Financial Superintendency of Colombia. The Company has no control over Nacional de Seguros, S.A.

12. Other assets

The account of other assets is as follows:

	2016	**2015**
Warehouse and offices	2,795,817	3,758,687
Unrealized commissions	530,133	-
Pending claims	170,176	-
Prepaid tax	158,824	145,575
Prepaid expenses	37,806	40,051
Construction in progress	13,500	7,000
Land	-	917,896
Other assets	445,320	445,120
	4,151,576	5,314,329

As of December 31, 2016, other assets of US$445,120 (2015: US$445,120) include advances for licensing expenses for an insurance company in Mexico is in process of being acquired.

As of December 31, 2016, the Company invested US$1,095,000 (2015: US$365,000) in offices located in Costa del Este.

13. Technical premiums reserve

Premiums reserve are accrued on a basis of 35% on the net premium subscribed or retained, in the twelve months preceding the date of the consolidated statement of financial position in all coverages except the transport of goods and collective life. Adjustments to the reserve are recorded in the consolidated statement of profit or loss, at each reporting date of the consolidated financial statements.

The technical reserves for premiums are based on an actuarial valuation dated June 10, 2017, that concluded that the total reserve for the Company is US$21,304,824 (2015: US$23,109,932).

The movement of the technical premiums reserve is presented below:

	2016	2015
Balance at beginning of year	23,109,932	27,906,211
Decrease	(1,805,108)	(4,796,279)
Technical premiums reserve	21,304,824	23,109,932
Unearned premiums reserve	672,501	-
Statistical reserve allowance	392,759	-
Balance at end of year	22,370,084	23,109,932

14. Reserve for claims

The reserve for claims is based on an actuarial valuation, concluding that the total reserves amount to US$70,607,715 (2015: US$67,611,239) based on the contingency rate assumed by the Company. As established by the Panamanian Law on Insurance and Reinsurance, 35% of the net premium withheld was determined as technical reserve on premiums. The remaining of US$49,302,891 (2015: US$44,501,307), was accrued as reserve for claims for possible contingencies.

The movement of the reserve is summarized below:

	2016	2015
Balance at beginning of the year	44,501,307	51,456,307
Increase (decrease)	4,801,584	(6,955,000)
Contingencies reserve	49,302,891	44,501,307
Outstanding claim reserves	185,923	-
Balance at end of the year	49,488,814	44,501,307

15. Other accounts receivable

Other accounts receivable are as follows:

	2016	2015
Accounts receivable	3,403,836	1,590,820
Accounts receivable from retrocessions	1,804,833	-
	5,208,669	1,590,820

16. Loans payable

The Company maintains loans with a bank for US$817,297 (2015: US$907,775) with maturity on October 2018 and an annual interest rate of 6.25%.

The short and long-term obligations are as follow:

	2016	**2015**
Short term loans	145,560	145,560
Long term loans	671,737	762,216
	817,297	907,776

The Company maintains a collateral trust agreement established on property to secure the payment of this obligation to the bank.

17. Repurchase agreement

As of December 31, 2016, the Company maintained a repurchase agreement with a bank for US$1,021,500 (2015: US$1,254,277) guaranteed by investments, at an average interest rate of 4.80% with a maturity date at the end of portfolio of investments available for sale that guarantees this credit.

The following is a short-term obligation:

	2016	**2015**
Short term obligation	1,021,500	1,254,277

18. Other expenses

The other expenses account is summarized below:

	2016	2015
Expenditure abroad	184,837	-
Promotion and advertising announcement	106,483	171,566
Transportation and courriers	14,776	8,655
Others	266,144	101,698
	572,240	281,919

19. Accounts payable and accrued expenses

The accumulated accounts and expenses payable are as follows:

	2016	2015
Reinsurers accounts payable	9,150,323	-
Suppliers accounts payable	35,962	13,332
Other accounts payable	1,600,956	644,120
Withholdings payable	11,823	12,666
	10,799,064	670,118

20. Non - controlling participation

Non-controlling interest represents the participation of other shareholders in the following subsidiary:

	% of non - controlling participation		2016	2015
	2016	2015		
Barents Re Reinsurance S.A. (Luxembourg)	49%	--	12,912,725	-

Movement of non-controlling interest is detailed as follows:

	2016	**2015**
Issue of shares	12,826,324	-
Profit participation	86,401	-
	12,912,725	-

21. Common shares

The Shareholders meeting dated November 12, 2013 approved a change in the par value of shares from US$1,000 to 100,000 at no par value. As of December 31, 2016 the capital of the Company is US$301,893,501 to US$3,018.94 per share (2015: US$288,772,429 to US$2,887.72 per share).

As stated in Minute dated August 11, 2016, Barents Re Reinsurance Company, Inc. (Panama) shareholders, acquired 51% of the shares of Barents Re Reinsurance S.A. (Luxembourg), where they made a capital contribution in the amount of US$13,439,775.

22. Income tax

Income tax returns of the companies incorporated in the Republic of Panama are subject to revision by the local tax authorities for the last three years, including the year ended December 31, 2015, according to current fiscal regulations.

According to current Panamanian tax Legislation, companies are exempt from payment of income tax on profits derived from foreign operations, interest earned on time deposits placed in local banks, interest earned on Panamanian Government securities and securities issued through the Superintendency of Securities Exchange of Panama.

The Subsidiary Barents Re Reinsurance Company, Ltd. (Belize) are not subject to pay income tax in their respective jurisdictions, due to the nature of its foreign operations. However, the income tax caused on operations that generate taxable income in other jurisdictions is classified within income tax expense.

Retroactively from January 1, 2011, the effective date of Law No.8 of 15 March 2010, Article 699 of the Fiscal Code of Panama indicates that corporates must pay income tax calculated on the greater of: (1) net taxable income calculated by the traditional method set out in Title I of Book IV of the Fiscal Code, or (2) the net taxable income resulting from applying to total taxable income four point sixty-seven percent (4.67%).

For the year ended December 31, 2016, the companies, Barents Re Reinsurance Company, Inc. (Panama), generated income tax for US$317 (2015: US$1,662) and Barents Reinsurance S.A. (Luxembourg) generated income tax for US$6,901.

23. Approval of financial statements

The consolidated financial statements for the year ended December 31, 2016 were approved and issuance was authorized by the Board of Directors on September 14, 2017.

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DISCLAIMER

DISCLAIMER

This document contains certain forward looking statements which are subject to assumptions, risks and uncertainties; actual future results may differ materially from those expressed in or implied in such statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond Barents Re's ability to control or estimate precisely. The forward looking statements reflect the knowledge and information available at the date of preparation of the Annual Report, and will not be updated during the year. Nothing in this Annual Report should be construed as a profit forecast.

Europe Latin America Middle East Asia

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