



## **Barents Re Reinsurance Company, Inc. and Subsidiary**

Consolidated Financial Statements for the year ended  
December 31, 2020 and Independent Auditors' Report  
of June 29, 2021

# **Barents Re Reinsurance Company, Inc. and Subsidiary**

## **Independent Auditors' Report and 2020 Consolidated Financial Statements**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
**Barents Re Reinsurance Company, Inc. and Subsidiary**

### ***Opinion***

We have audited the 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, 2020, 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 then ended (all expressed in United States dollars), and notes to the consolidated financial statements, including a summary of significant accounting policies.

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, 2020, and their financial performance and cash flows for the year ended, in accordance with International Financial Reporting Standards (IFRSs).

### ***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 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 opinion.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated 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'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.

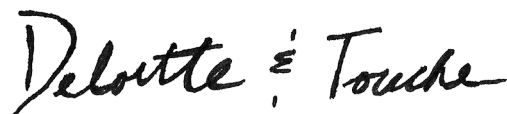
## ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

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:

- 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.
- 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.
- 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 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.
- Obtain sufficient and adequate audit evidence related to the financial information of the entities or business activities that make up the Company to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and execution of the Company's audit. We remain solely responsible for our audit opinion.

We communicate with the 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.

The logo for Deloitte & Touche, featuring the company name in a stylized, cursive script font. The ampersand is a small, decorative symbol.

June 29, 2021

## Barents Re Reinsurance Company, Inc. and subsidiary

### Consolidated statement of financial position

At December 31, 2020

(In United States of America dollars)

	Notes	2020	2019
<b>Assets</b>			
Cash and bank deposits	6,7	34,981,612	56,773,436
Premiums receivable, net	8	60,314,580	37,420,645
Deposits in ceding companies	9	48,919,338	31,143,536
Securities available for sale	6, 10	477,333,300	460,949,184
Investment in associate	6, 14	7,720,337	6,484,644
Trust agreement	6, 13	15,545,562	-
Notes and accounts receivable - related parties	6	27,160,360	5,633,563
Accounts receivable	12	84,149,141	78,453,472
Ceded share of technical provisions	19	350,473,823	307,983,811
Deferred acquisition costs	18	11,450,644	9,199,665
Property, furniture, equipment and improvements, net	11	759,103	498,422
Right-of-use asset	15	2,018,475	2,530,637
Other assets	16	5,281,634	3,755,254
Total assets		<u>1,126,107,909</u>	<u>1,000,826,269</u>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Unearned premium reserve	17	127,906,920	101,149,081
Claims outstanding reserve	18	126,655,948	166,421,215
IBNR reserves	18	301,757,042	170,758,316
Commissions payable		5,541,920	6,324,893
Loans payable	20	388,205	2,505,123
Repurchase agreement	21	18,000,000	-
Lease liability	15	1,970,125	2,466,356
Reinsurers accounts payable		21,008,188	26,300,262
Deposits received from reinsurance companies	22	184,315	25,774,110
Accounts payable and accrued expenses	23	6,850,780	5,810,964
Total liabilities		<u>610,263,443</u>	<u>507,510,320</u>
<b>Equity</b>			
Common shares	27	404,988,405	311,858,180
Net changes in securities available for sale		97,814	7,960,914
Change in foreign currency translation		(774,114)	(2,403,885)
Legal reserve		169,771	155,827
Retained earnings		89,032,773	155,206,558
Equity attributable to owners of the Company		<u>493,514,649</u>	<u>472,777,594</u>
Non-controlling interest	26	22,329,817	20,538,355
Total equity		<u>515,844,466</u>	<u>493,315,949</u>
<b>Total liabilities and equity</b>		<u>1,126,107,909</u>	<u>1,000,826,269</u>

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, 2020 (In United States of America dollars)

	Notes	2020	2019
Gross written premiums		386,270,033	232,315,396
Retroceded premiums		(122,265,163)	(76,812,250)
Change in unearned premium	17	(15,605,488)	(49,772,194)
Change in unearned retro premium (URP)	17	86,017	22,681,463
<b>Premium earned</b>		<b>248,485,399</b>	<b>128,412,415</b>
Gross claims paid	18	(263,149,873)	(221,123,431)
Retroscore of claims paid	18	84,988,850	140,621,678
Claims paid, net		(178,161,023)	(80,501,753)
Commissions paid, net	24	(36,381,019)	(23,845,327)
Other technical costs	24	3,526,924	5,546,900
<b>Net earned premium</b>		<b>37,470,281</b>	<b>29,612,235</b>
Realized gain in securities available for sale	10	9,371,571	7,635,596
Interests income, net	6	1,196,183	594,661
Share of results of associates	14	1,235,693	-
Other income		390,882	929,829
General and administrative expenses:			
Salaries and other employee benefits	6	(7,125,513)	(6,200,087)
Professional fees		(4,668,860)	(4,609,640)
Provision expense for uncollectible premiums	8	(1,944,035)	(2,533,348)
Depreciation expense	11,15	(837,106)	(590,573)
Other expenses	25	(5,549,738)	(5,537,632)
Total general and administrative expenses		(20,125,252)	(19,471,280)
Profit before income tax		29,539,358	19,301,041
Income tax	28	(900,051)	(1,416,395)
Net profit		<b>28,639,307</b>	<b>17,884,646</b>
Net profit attributable to:			
Owners of the Company		26,847,845	15,594,512
Non-controlling interests	26	1,791,462	2,290,134
Net profit		<b>28,639,307</b>	<b>17,884,646</b>

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, 2020

(In United States of America dollars)

	Notes	2020	2019
Net profit		<u>28,639,307</u>	<u>17,884,646</u>
Other comprehensive income:			
Realized gain transferred to profit or loss	10	(9,371,571)	(7,635,596)
Net changes in securities available for sale	10	<u>1,508,471</u>	<u>12,494,683</u>
Total other comprehensive income		<u>(7,863,100)</u>	<u>4,859,087</u>
Total net comprehensive income of the year		<u>20,776,207</u>	<u>22,743,733</u>
Comprehensive income attributable to:			
Owners of the Company		18,984,745	20,453,599
Non-controlling interests	26	<u>1,791,462</u>	<u>2,290,134</u>
Total comprehensive income for the year		<u>20,776,207</u>	<u>22,743,733</u>

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, 2020**  
(In United States of America dollars)

Notes	Attributable to owners of the Company						Non- controlling interest	Total equity
	Common shares	Net changes in securities available for sale	Foreign currency translation	Legal reserve	Retained earnings	Total		
<b>Balance as of January 1, 2019</b>	311,858,180	3,101,827	(1,701,085)	155,827	139,612,046	453,026,795	18,248,221	471,275,016
Other comprehensive income comprised of:								
Net profit	26	-	-	-	15,594,512	15,594,512	2,290,134	17,884,646
Realized gain transferred to income	10	-	(7,635,596)	-	-	(7,635,596)	-	(7,635,596)
Net changes in fair value of securities available for sale	10	-	12,494,683	-	-	12,494,683	-	12,494,683
Total net comprehensive income for the year		-	4,859,087	-	15,594,512	20,453,599	2,290,134	22,743,733
<b>Transactions attributable to shareholders:</b>								
Change in foreign currency translation		-	(702,800)	-	-	(702,800)	-	(702,800)
<b>Balance at December 31, 2019</b>	311,858,180	7,960,914	(2,403,885)	155,827	155,206,558	472,777,594	20,538,355	493,315,949
Other comprehensive income comprised of:								
Net profit	26	-	-	-	26,847,845	26,847,845	1,791,462	28,639,307
Realized gain transferred to income	10	-	(9,371,571)	-	-	(9,371,571)	-	(9,371,571)
Net changes in fair value of securities available for sale	10	-	1,508,471	-	-	1,508,471	-	1,508,471
Total net comprehensive income for the year		-	(7,863,100)	-	26,847,845	18,984,745	1,791,462	20,776,207
<b>Transactions attributable to shareholders:</b>								
Profits capitalization	27	93,130,225	-	-	(93,130,225)	-	-	-
Exclusion of affiliate from consolidation		-	-	-	108,595	108,595	-	108,595
Legal reserve		-	-	13,944	-	13,944	-	13,944
Change in foreign currency translation		-	-	1,629,771	-	1,629,771	-	1,629,771
<b>Balance at December 31, 2020</b>	404,988,405	97,814	(774,114)	169,771	89,032,773	493,514,649	22,329,817	515,844,466

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, 2020

(In United States of America dollars)

	Notes	2020	2019
<b>Cash flows from operating activities:</b>			
Net income		28,639,307	17,884,646
Adjustment for:			
Share of results of associates	14	(1,235,693)	-
Gain on sale of securities available for sale	10	(9,371,571)	(7,635,596)
Reserve for premiums receivable	8	1,944,035	2,533,348
Provision outstanding claims reserve	18	(39,765,267)	44,945,935
Retrocession outstanding claims	18	39,168,887	(31,063,584)
Provision of unrealized premium (UPR)	17	26,757,839	49,772,194
Retrocession of unrealized premium (UPR) reserve	17	(10,441,269)	(22,681,463)
Provision of IBNR	18	130,998,726	67,443,073
Legal reserve		13,944	-
Retrocession of IBNR reserve	18	(70,794,623)	(70,850,292)
Unearned retroceded commission		(423,007)	(795,727)
Deferred acquisition cost		(2,250,979)	(4,139,743)
Commissions payables		(782,974)	790,330
Depreciation	11	160,034	253,068
Disposal and adjustments of property, furniture, equipment and improvements		-	3,305,505
Income interest		(1,689,820)	(1,227,312)
Income tax		900,051	1,416,395
Interest expenses		493,637	632,651
Depreciation from right of use asset	15	677,072	337,505
Net changes in operating assets and liabilities:			
Increase in deposits with maturities greater than 90 days		(1,291,597)	(2,062)
Increase in premiums receivable		(24,837,970)	(16,646,718)
(Increase) decrease in deposits in ceding companies		(17,775,802)	3,025,398
Increase in accounts receivable retrocessions		(12,986,923)	(2,352,662)
Decrease (increase) in other accounts receivable		11,971,961	(9,308,645)
(Increase) decrease in accounts receivable		(4,680,707)	346,354
Increase in other assets		(61,518)	(2,760,815)
Decrease in reinsurers account payable		(5,292,074)	(3,787,847)
Decrease in deposits received from reinsurance companies		(25,589,795)	(2,933,484)
Increase in accounts payable and accrued expenses		1,039,816	2,988,047
Interests earned		1,196,183	594,661
Income tax expense	28	(900,051)	(1,416,395)
Net cash provided by operating activities		<u>13,789,852</u>	<u>18,666,765</u>
<b>Cash flows from investing activities:</b>			
Acquisition of securities available for sale	10	(477,235,486)	(369,420,904)
Sale of securities available for sale	10	459,159,841	374,615,794
Acquisition of investment in associate	13	108,595	(2,092)
Acquisition of furniture and office equipment	11	(420,715)	(491,984)
Net cash (used in) provided by investing activities		<u>(18,387,765)</u>	<u>4,700,814</u>
<b>Cash flows from financing activities:</b>			
Notes and accounts receivable related parties		(21,872,359)	3,010,937
Payments to loans	20	(2,116,918)	(5,609,669)
Repurchase agreements	21	18,000,000	-
Payments on lease liability		(496,231)	(401,786)
Net cash used in financing activities		<u>(6,485,508)</u>	<u>(3,000,518)</u>
Net (decrease) increase in cash		(11,083,421)	20,367,061
Cash at the beginning of the year	7	<u>45,614,534</u>	<u>25,247,473</u>
Cash at end of the year	7	<u>34,531,113</u>	<u>45,614,534</u>
<b>Non- monetary transactions:</b>			
Trust agreement	13	<u>(15,545,562)</u>	<u>-</u>
Redemption of securities available for sale	6	<u>3,200,000</u>	<u>-</u>
Decrease in deposits with maturities greater than 90 days	13	<u>12,000,000</u>	<u>-</u>
Notes and accounts receivable related parties		<u>345,562</u>	<u>-</u>
Right of use asset	15	<u>2,018,475</u>	<u>2,530,637</u>
Lease liability	15	<u>1,970,125</u>	<u>2,466,356</u>
Profits capitalization	27	<u>93,130,225</u>	<u>-</u>

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

# **Barents Re Reinsurance Company, Inc. and Subsidiary**

## **Notes to the consolidated financial statements for the year ended December 31, 2020** (In United States of America dollars)

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### **1. General information**

Barents Re Reinsurance Company, Inc. (the "Company") was initially incorporated in accordance with the laws of the Republic of Panama in 1996 and started operations as a Reinsurance Company, duly authorized by the Superintendency of Insurance and Reinsurance of Panama.

In March 2018, by Resolution of the shareholders of the Company it was resolved to redomicile the Company by way of continuation to The Cayman Islands. Consequently, on June 8, 2018, the Company completed the process of registration by way of continuation of the Company from the jurisdiction of Panama to The Cayman Islands obtaining a Class D (Reinsurance) License, granted and supervised by The Cayman Islands Monetary Authority (CIMA).

A Class D License authorizes the Company to carry out reinsurance business and is the highest regulated reinsurance license issued in accordance with Cayman Islands Laws. A Class D Licensee is required to maintain a Minimum Capital Requirement ("MCR") of US\$50,000,000, as well as sufficient economic substance within The Cayman Islands. The reinsurance operations in The Cayman Islands are regulated by the Cayman Islands Insurance Law of 2010, its amendments and other supplementary and accessory regulations. The main office of the Company is located at 978 South Church Street, Block 7D, Parcel #41, Georgetown, Grand Cayman, Cayman Islands.

Standard Capital Shareholdings, Inc. (B.V.I.) is the owner of all the issued and outstanding shares of the Company.

The Company is the owner of all the issued and outstanding shares 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 began operations on March 2006. Barents Re Reinsurance Company, Inc. (Belize) remained dormant for a number of years; for this reason, it requested the cancellation of its International Reinsurance License granted and supervised by the Office of the Supervisor of Insurance & Private Pension of Belize (OSIPP), which was cancelled in September 2020. Consequently, it closed business operations.

On August 11, 2016, the shareholders of the Company acquired 51% of the issued and outstanding shares of Barents Reinsurance S.A. (Luxembourg), a company duly incorporated and existing in accordance with the laws of the Principality of Luxembourg, possesses a Reinsurance License, granted and supervised by the Commissariat Aux Assurances of Luxembourg (Insurance Commissioner of Luxembourg) and operates under Solvency II.

### **2. Basis of presentation and adoption of International Financial Reporting Standards (IFRSs)**

#### **2.1 *Modifications to the IFRSs and the application of new standards that are mandatory for the present year***

There were no IFRS or IFRIC interpretations, effective for the year beginning on January 1, 2020, which had a significant effect on the consolidated financial statements.

## **Barents Re Reinsurance Company, Inc. and Subsidiary**

### **Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)**

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#### **2.2 *New standards and new interpretations and / or revised, but not yet effective***

New standards, interpretations and amendments to accounting standards have been published, but are not mandatory for the year ended on December 31st, 2020 and have not been adopted in advanced. The main changes in these standards are presented below:

##### IFRS 17 – Insurance contracts

- The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 - Insurance contracts.
- The standard outlines a General Model, which is modified for insurance contracts with discrete participation characteristics, described as the variable fee approach. The General Model is simplified if certain criteria are met, by measuring the liability for remaining coverage using the premium allocation approach.
- The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and will explicitly measure the cost of that uncertainty; takes into account market interest rates and the impact of policyholders' options and guarantees.
- Profit from the sale of insurance policies is deferred in a separate liability component on day 1 and added in groups of insurance contracts; then it is systematically reported through profit or loss during the period in which the insurers provide coverage after making adjustments derived from changes in the assumptions related to future coverage.
- The standard is effective for annual periods beginning on or after January 1, 2023 with early application allowed; it is applied retrospectively unless it is impracticable, in which case the modified retrospective approach or the fair value approach is applied.

Management is in the process of assessing the impact of these amendments in the Group's consolidated financial statements.

##### IFRS 9 - Financial Instruments

###### Classification and Measurement

In July of 2014, the IASB completed the amendment and issued the IFRS 9 – Financial Instruments (2014 revised edition) that replaces the IAS 39 – Financial Instruments: Recognition and Measurement, after its expiration date.

In comparison with its IFRS 9 in its 2013 revised edition, the 2014 edition includes modifications that are limited to the requirements of classification and measurement by adding a measurement category “at a reasonable value with changes in other integral result”, for certain simple debt instruments. It also adds requirements of deterioration inherent to the accounting of credit losses expected of an entity with financial assets and commitments to extend the credit.

The finalized IFRS 9 (2014 revised edition) contains requirements to: a) Classification and Measurements of financial assets and liabilities, b) Deterioration methodology, and c) General Accounting Coverage.

# Barents Re Reinsurance Company, Inc. and Subsidiary

## Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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### Phase 1: Classification and Measurement of Financial Assets and Liabilities

In respect of the classification and measurement of the compliance with the IFRS, all recognized financial assets that are included in the IAS 39 will be subsequently measured at an amortized cost or reasonable value, Specifically:

- A debt instrument that: (i) is maintained within the business model whose objective is to obtain contractual cash flows, (ii) has contractual cash flows that only constitute capital payments and shares over the amount of outstanding capital that must be measured at amortized cost (net of any impairment loss), unless the asset is designated at fair value through profit or loss, in compliance with this option;
- A debt instrument that: (i) is maintained within a business model whose objective is met by obtaining contractual cash flows and selling financial assets and (ii) possessing contractual terms for the financial asset producing, on specific dates, cash flows that only constitute capital and interest payments on the principal amount outstanding, and which must be measured at fair value with changes in other comprehensive income, unless the asset is designated at fair value with changes in the results, in compliance with this option;
- All other debt instruments must be measured at fair value through profit or loss; and
- All equity investments will be measured in the statement of financial position at fair value, with gains and losses recognized in the statement of profit or loss and other comprehensive income, unless the equity investment is maintained to negotiate, in which case, an irrevocable decision can be made in the initial recognition to measure the investment with a dividend income that is recognized in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and requirements for derecognition. An important change in IAS 39 is linked to the presentation of changes in the fair value of a financial liability designated at fair value with changes in the results, which are attributed to changes in the credit risk of that liability. In accordance with IFRS 9, these changes are present in other comprehensive income, unless the presentation of the effect of the change in the credit risk of the financial liability in other comprehensive income creates or produces a large accounting inconsistency in the gain or loss. In accordance with IAS 39, the total amount of the change in the designated fair value is presented as profit or loss.

### Phase 2: Deterioration Methodology

The impairment model in accordance with IFRS 9 reflects expected credit losses, as opposed to credit losses incurred under IAS 39. In the event of impairment in IFRS 9, it is no longer necessary for a credit event to occur before credit losses are recognized. Instead, an entity always accounts for both expected credit losses and their changes. The amount of expected credit losses must be updated on each date of the report to reflect changes in credit risk since initial recognition.

### Phase 3: Coverage Accounting

The general hedge accounting requirements of IFRS 9 maintain the three types of hedge accounting mechanisms included in IAS 39. However, the types of transactions ideal for hedge accounting are now much more flexible, especially when expanding the types of instruments that are classified as hedging instruments and the types of risk components of non-financial elements ideal for hedge accounting. In addition, the effectiveness test has been reviewed and replaced by the principle of “economic relationship”. A retrospective evaluation is no longer required to measure the effectiveness of coverage. Many more disclosure requirements about the entity's risk management activities have been added.

# Barents Re Reinsurance Company, Inc. and Subsidiary

## Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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### Deferral of IFRS 9 adoption

The Company has applied the temporary exception, as permitted by IFRS 4 – Insurance Contracts, that allows the Company to apply IAS 39 - Financial Instruments: Recognition and Measurement rather than IFRS 9, until 2023. Due to the close interlinking of underwriting liabilities and investments of insurance companies, it is essential to have an aligned measurement of these line items in the consolidated statement of financial position in order to prevent consolidated statement of financial position distortions. The IASB therefore published an amendment standard to IFRS 4, Insurance Contracts, that gives the possibility of postponing the first-time application of IFRS 9 until 2023, but requires evidence based on the financial statements as at December 31, 2015 that most of the Group's activity is in insurance. Insurance business is considered "predominant" if at the time of measurement more than 90% of total liabilities were related to insurance business. Besides liabilities that fall within the scope of IFRS 4, these also include liabilities from investment contracts measured at fair value and other liabilities resulting from insurance business. At Barents Re Reinsurance Company, Inc. and Subsidiary, liabilities related to insurance business accounted for a share of 95% of total liabilities as at December 31, 2017, date in which IFRS were completely adopted. Meanwhile, no changes have been made to our business activities that would need a reassessment.

As of December 31, 2020, all government and corporate bonds currently classified as securities available for sale are financial assets with contractual cash flows that meet SPPI criteria of IFRS 9. The fair value and change in fair value of these financial assets are disclosed in Note 10. The carrying amount of these financial assets by credit risk grade is disclosed in Note 4.3.

### **3. 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:

#### **3.1 Basis of preparation**

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the Accounting Standards Board. The consolidated financial statements have been prepared on a historical cost basis, except for the securities available for sale which are presented at their fair value.

#### **3.2 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.

#### Reserve for claims outstanding

Losses are recognized in the profit or loss statement based on an estimate of the liabilities once they are reported and are expected to be settled.

Losses arising from the reinsurance business and loss expenses paid during the year together with the movement in the provision for claims in process. The claims in process are made up of the accumulation of the final costs to settle all the reported and incurred losses at the date of the consolidated statement of financial position.

# Barents Re Reinsurance Company, Inc. and Subsidiary

## Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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### Retroscore of claims outstanding

This asset provision accumulated the retro share portion of outstanding claims based on an estimate of the liabilities once they are reported and are expected to be settled.

### Reserve for unrealized premium

The unrealized premium reserve in progress is calculated using the daily pro rata method, in which the subscribed premium is considered proportional to the validity indicated on the invoice, so the amount of the liability is calculated taking into account the proportion of the risk not incurred on each invoice to the valuation date.

### Unrealised retroceded premium

This asset provision accumulated the retro share portion of unrealised premium is calculated taking into account the proportion of the risk not incurred on each invoice to the valuation date.

### Reserve for claims incurred but not reported (IBNR)

The reserve for claims incurred but not reported (IBNR), is calculated according to actuarial formulas recognized worldwide: for incidents incurred, using triangulations to estimate future development, applying the global statistical method.

The Company considers that the gross provisions for claims in process are reasonably presented based on the information that is available, the final liability could vary as a result of subsequent information and could result in significant adjustments to the amounts provided.

### IBNR of retro share

This asset provision accumulated the retro share portion of claims incurred but not reported and is calculated according to actuarial formulas.

### Unearned retroceded commission

This unearned retroceded commission comprises all direct and indirect commissions arising from the writing of reinsurance contracts, are amortized and recorded in the consolidated statement of profit or loss.

### Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the writing of reinsurance contracts. Deferred acquisition costs (DAC) comprise other variable costs directly connected with acquisition or renewal of reinsurance contracts.

Deferred acquisition costs represent a proportion of commission and other acquisition costs, which are incurred during a financial year and are deferred to the extent that they are recoverable out of future revenue margins. DAC is amortised over the premium payment period in proportion to the premium revenue recognised.

### **3.3 Principle of consolidation**

The consolidated financial statements comprise 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.

## **Barents Re Reinsurance Company, Inc. and Subsidiary**

### **Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)**

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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, the process is 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.

### **3.4 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 are recognized in profit or loss. Gains and losses from the translation at year end of assets and liabilities denominated in foreign currencies are recognized as a separate component of equity.

# Barents Re Reinsurance Company, Inc. and Subsidiary

## Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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### ***Financial assets***

Financial assets are classified into the following specific categories: securities available for sale, premiums receivable, other assets and receivables. 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 90 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 records 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**

These consist of securities purchased with the intention of holding them for a period of indefinite duration, and 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 the financial assets are sold or impairment is determined. At this time, the cumulative gain or loss, previously recognized in equity is recognized in profit or loss. 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.

#### **Ceding deposits**

The ceding deposits are presented at cost and consist of deposits generated by reinsurance contracts with insurance companies that arise from the normal course of business.

#### **Accounts receivable - retrocessions**

Accounts receivable retrocessions are presented at cost and are generated by premium commitments assumed during the current period corresponding to the coverage of the retrocessionaires.

#### **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.



# **Barents Re Reinsurance Company, Inc. and Subsidiary**

## **Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)**

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### **3.5 *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 consolidated statement of profit or loss. The impairment loss is accounted for as 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 are 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.

### **3.6 *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.

### **3.7 *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.

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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).

Financial assets	<u>Fair value</u>		<u>Fair value hierarchy</u>	<u>Valuation techniques (s) and key inputs</u>	<u>Significant unobservable inputs no observables significativos</u>	<u>Relationship of unobservable inputs to fair value</u>
	<u>2020</u>	<u>2019</u>				
<b>Securities available for sale</b>						
Government and corporate bonds	<u>477,333,300</u>	<u>457,749,184</u>	Level 1	Quoted prices in active markets	N/A	N/A
Corporate bonds	<u>-</u>	<u>3,200,000</u>	Level 2	Price of transactions in an organized market, interest rate curves, risk-free rate.	N/A	N/A

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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

The Company 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.

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
<b>Assets</b>				
Cash and deposits in banks	34,981,612	34,981,612	56,773,436	56,773,436
Deposits in ceding companies	48,919,338	47,628,603	31,143,536	30,204,186
Trust agreements	15,545,562	15,692,738	-	-
Premiums receivable	60,314,580	60,314,580	37,420,645	37,420,645
Accounts receivable - retrocessions	62,414,518	62,414,518	49,427,595	49,427,595
	<u>222,175,610</u>	<u>221,032,051</u>	<u>174,765,212</u>	<u>173,825,862</u>
<b>Liabilities</b>				
Loan payable	388,205	272,416	2,505,123	2,103,686
Repurchase agreement	18,000,000	18,000,000	-	-
	<u>18,388,205</u>	<u>18,272,416</u>	<u>2,505,123</u>	<u>2,103,686</u>

	Total	Fair value hierarchy		
		Level 1	Level 2	Level 3
<b>2020</b>				
<b>Financial assets:</b>				
Cash and deposits in banks	34,981,612	-	34,981,612	-
Deposits in ceding companies	47,628,603	-	-	47,628,603
Trust agreements	15,692,738	-	11,074,983	4,617,755
Premiums receivable	60,314,580	-	-	60,314,580
Accounts receivable - retrocessions	62,414,518	-	-	62,414,518
	<u>221,032,051</u>	<u>-</u>	<u>46,056,595</u>	<u>174,975,456</u>
<b>Financial liabilities:</b>				
Loan payable	272,416	-	-	272,416
Repurchase agreement	18,000,000	-	-	18,000,000
	<u>18,272,416</u>	<u>-</u>	<u>-</u>	<u>18,272,416</u>

	Total	Fair value hierarchy		
		Level 1	Level 2	Level 3
<b>2019</b>				
<b>Financial assets:</b>				
Cash and deposits in banks	56,773,436	-	56,773,436	-
Deposits in ceding companies	30,204,186	-	-	30,204,186
Premiums receivable	37,420,645	-	-	37,420,645
Accounts receivable - retrocessions	49,427,595	-	-	49,427,595
	<u>173,825,862</u>	<u>-</u>	<u>56,773,436</u>	<u>117,052,426</u>
<b>Financial liabilities:</b>				
Loan payable	2,103,686	-	-	2,103,686

## **Barents Re Reinsurance Company, Inc. and Subsidiary**

### **Notes to the consolidated financial statements for the year ended December 31, 2020** (In United States of America dollars)

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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.

#### **3.8 *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 to maintain 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.

##### *De-recognition of financial liabilities*

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

#### **3.9 *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.

#### **3.10 *Reinsurance contracts***

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

Retrocession or reinsurance ceded is arranged 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.

# Barents Re Reinsurance Company, Inc. and Subsidiary

## Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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

### **3.11 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 of fair value less cost and used value.

Any item of property, furniture, equipment and improvement is written off at the time of 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.

### **3.12 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.

### **3.13 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.

## **4. Financial risk management**

### **4.1 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. Risk is a fundamental component in the financial business, and operational risks are unavoidable risks incurred whilst carrying on 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 Company.

# **Barents Re Reinsurance Company, Inc. and Subsidiary**

## **Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)**

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The activities of the Company 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 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 and which report to the Board of Directors.

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

### **4.2 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 notwithstanding the statistical methodologies applied by the Company in their financial forecasting.

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 reinsurance coverage that protects against loss frequency and severity. Contracts of reinsurance coverage include excess of loss, stop loss and catastrophe. The aim of these contracts is to minimize net insurance losses so that they do not affect the total net assets and liquidity of the Company in any year. Apart from the total reinsurance program of the Company, additional reinsurance protection can be purchased by facultative contract when 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.

## **Barents Re Reinsurance Company, Inc. and Subsidiary**

### **Notes to the consolidated financial statements for the year ended December 31, 2020** (In United States of America dollars)

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#### *Sensitivity to insurance risk*

The Company's sensitivity to risk can be clearly seen on the Company's retention for each Retrocession Program on all Lines of Business. We establish our own self retention (Priority) based on each line of business's Underwriting Guidelines and risks are back-to-back with our retrocession arrangements, so as to mitigate yet any gaps in coverage. Our net retentions, after retrocession, are measured (and lowered) and are relative to our individual lines of business and our risk tolerance for each. We have "Cash Loss Clauses" in our Quota Share treaty purchases, and "Simultaneous Settlements Clauses" in our Excess of loss treaty purchases to manage cash flow for large claims.

Overall, the direct impact on the cash flow derived from an insurance event is balanced according to the company's ERM practices. The Company has a conservative approach to risk retention, buying down via reinsurance where the market is still prepared to trade at a risk transfer price acceptable to us. Actuarial and Aggregate Reports (where applicable) are prepared to monitor closely the exposure and possible impacting scenarios.

#### *Credit risk*

The Company utilizes a minimum security quality threshold of A.M. Best 'A-' and/or S&P 'A-' rating. Exceptions require sign-off by the CEO and are advised to the Board of Directors. Self-imposed maximum capacity any one reinsurer/group is 20%. Quarterly security reviews are prepared to keep record of the security quality and applying possible future changes when applicable and necessary. Our retrocession panel is diversified, in terms of number of counter parties (50+) and their geographical domicile.

Internally, the Company monitors and reviews Counter Party Security and ageing of our Treaty Retro reinsurance Recoverables on a quarterly basis. The amount of balances due to us for retro claims from our brokers/agents/reinsurers beyond 90 days ageing is \$nil. To date, we have no reinsurers that have defaulted.

#### *Liquidity risk*

Loss Reserves are set according to actuarial reports based on yearly loss development including claims paid. Provision for claims and retro protection are acquired to minimize potential impact of a major liquidity situation. Premium and loss developments are quarterly prepared and monitored according to annual projection and closely followed; if necessary, projections are updated to accommodate any given situation.

#### *Market risk*

The Company's reinsurance placements are not affected directly by fluctuations on interest rates, as the majority of our business is done in USD and we are not involved on pure financial, credit, loan businesses.

On the other hand, since the vast majority of the Company's premium receivables and retrocession payables are denominated in USD, this minimizes foreign exchange currency risk on its consolidated statement of financial position. Most of the portfolio is either in USD or EUR and possible devaluation is considered to be well absorbed within the overall business results.

The Company's underwriting philosophy excludes long-term contracts. Concurrently, the Company's assets are mostly invested in short duration investment grade securities. As such, market and interest rate risks are minimized given short durations of assets and liabilities.

# Barents Re Reinsurance Company, Inc. and Subsidiary

## Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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### Concentrations

The Company believes the concentration risk on insurance contracts is low, as it participates in pools of risks which the broker divides between several different counterparties, countries and industries.

#### **4.3 Credit risk**

Is the risk of a financial loss for the Company, 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, the Company 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.

The Company continuously monitors the financial condition of the issuers of securities involving a credit risk to the entity. It 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 the Company's 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:

The Company is responsible for the quality and performance of premiums receivable in their portfolios, as well as for control and monitoring of their risks.



## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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:

	2020	2019
Investment grade	477,333,300	457,749,184
Non rated investment	-	3,200,000
	477,333,300	460,949,184

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
Non rated	-

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	
	2020	2019	2020	2019
Concentration by sector:				
Corporate	60,314,580	37,420,645	4,074,430	93,375,730
Government	-	-	473,258,870	367,573,454
Carrying amount	60,314,580	37,420,645	477,333,300	460,949,184
Geographic concentration:				
South America and Caribbean	60,314,580	37,420,645	-	3,200,000
United States of America	-	-	477,333,300	457,749,184
Carrying amount	60,314,580	37,420,645	477,333,300	460,949,184

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

#### 4.4 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.

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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:

	<u>No maturity</u>	<u>Up to 3 months</u>	<u>3 moths 1 year</u>	<u>Over a year</u>	<u>Total</u>
<b><u>2020</u></b>					
<b>Financial assets:</b>					
Cash and deposits in bank	34,531,113	-	450,499	-	34,981,612
Deposits in ceding companies	48,919,338	-	-	-	48,919,338
Securities available for sale	-	-	477,333,300	-	477,333,300
Trust agreements	3,545,562	-	-	12,000,000	15,545,562
Premiums receivable	-	-	60,314,580	-	60,314,580
Accounts receivable - retrocessions	-	-	62,414,518	-	62,414,518
Total financial assets	<u>86,996,013</u>	<u>-</u>	<u>600,512,897</u>	<u>12,000,000</u>	<u>699,508,910</u>
<b>Financial liabilities:</b>					
Loans payable	-	-	145,560	242,645	388,205
	<u>No maturity</u>	<u>Up to 3 months</u>	<u>3 moths 1 year</u>	<u>Over a year</u>	<u>Total</u>
<b><u>2019</u></b>					
<b>Financial assets:</b>					
Cash and deposits in bank	45,614,534	-	11,158,902	-	56,773,436
Deposits in ceding companies	31,143,536	-	-	-	31,143,536
Securities available for sale	-	-	460,949,184	-	460,949,184
Premiums receivable	-	-	37,420,645	-	37,420,645
Accounts receivable - retrocessions	-	-	49,427,595	-	49,427,595
Total financial assets	<u>76,758,070</u>	<u>-</u>	<u>558,956,326</u>	<u>-</u>	<u>635,714,396</u>
<b>Financial liabilities:</b>					
Loans payable	-	-	2,145,560	359,563	2,505,123

#### 4.5 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. Management's objective for market risk 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.

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

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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 repricing and the maturity dates:

	<u>Upt o 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>No interest rate</u>	<u>Total</u>
<b>2020</b>						
<b>Financial assets:</b>						
Cash and deposits in banks	-	450,499	-	-	34,531,113	34,981,612
Deposits in ceding companies	-	-	-	-	48,919,338	48,919,338
Securities available for sale	-	477,333,300	-	-	-	477,333,300
Trust agreements	-	-	12,000,000	-	3,545,562	15,545,562
Premiums receivable	-	-	-	-	60,314,580	60,314,580
Accounts receivable - retrocessions	-	-	-	-	62,414,518	62,414,518
Total financial assets	-	477,783,799	12,000,000	-	209,725,111	699,508,910
<b>Financial liabilities:</b>						
Loan payable	-	145,560	242,645	-	-	388,205
Repurchase agreement	-	18,000,000	-	-	-	18,000,000
Total financial liabilities	-	18,145,560	242,645	-	-	18,388,205
Net	-	459,638,239	11,757,355	-	209,725,111	681,120,705
	<u>Upt o 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>No interest rate</u>	<u>Total</u>
<b>2019</b>						
<b>Financial assets:</b>						
Cash and deposits in banks	-	11,158,902	-	-	45,614,534	56,773,436
Deposits in ceding companies	-	-	-	-	31,143,536	31,143,536
Securities available for sale	-	460,949,184	-	-	-	460,949,184
Premiums receivable	-	-	-	-	37,420,645	37,420,645
Accounts receivable - retrocessions	-	-	-	-	49,427,595	49,427,595
Total financial assets	-	472,108,086	-	-	163,606,310	635,714,396
<b>Financial liabilities:</b>						
Loan payable	-	2,145,560	359,563	-	-	2,505,123
Net	-	469,962,526	(359,563)	-	163,606,310	633,209,273

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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#### 4.6 Operational risk

Is the risk of potential losses, direct or indirect, related to the Company's operations including, 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.

The Company's objective is to manage operational risk in order to avoid financial losses and damages to the Company's reputation.

#### 4.7 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. The Company complied with the minimum capital established by the Superintendency of Insurance and Reinsurance of Panama until its redomestication date to the Cayman Islands, June 8th, 2018, which set a minimum of US\$1,000,000 for reinsurance companies. As of June 8th, 2018, the minimum capital requirement established by the Cayman Islands Monetary Authority is assured, which is set at a minimum of US\$50,000,000 for Class D reinsurance companies.

#### 4.8 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:

	<u>EURO</u>	<u>USD</u>	<u>MXN</u>	<u>Total</u>
<b><u>2020</u></b>				
<b>Assets</b>				
Cash and deposits in bank	2,840,974	32,114,985	25,653	34,981,612
Deposits in ceding companies	46,506,054	2,413,284	-	48,919,338
Securities available for sale	-	477,333,300	-	477,333,300
Trust agreements	-	15,545,562	-	15,545,562
Premiums receivable	-	60,314,580	-	60,314,580
Accounts receivable - retrocessions	62,414,518	-	-	62,414,518
Total financial assets	<u>111,761,546</u>	<u>587,721,711</u>	<u>25,653</u>	<u>699,508,910</u>
<b>Liabilities</b>				
Loan payable	-	388,205	-	388,205
Repurchase agreements	-	18,000,000	-	18,000,000
Total financial liabilities	<u>-</u>	<u>18,388,205</u>	<u>-</u>	<u>18,388,205</u>

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

	<u>EURO</u>	<u>USD</u>	<u>MXN</u>	<u>Total</u>
<b><u>2019</u></b>				
<b>Assets</b>				
Cash and deposits in bank	473,116	56,277,512	22,808	56,773,436
Deposits in ceding companies	31,143,536	-	-	31,143,536
Securities available for sale	-	460,949,184	-	460,949,184
Premiums receivable	-	37,420,645	-	37,420,645
Accounts receivable - retrocessions	49,427,595	-	-	49,427,595
Total financial assets	<u>81,044,247</u>	<u>554,647,341</u>	<u>22,808</u>	<u>635,714,396</u>
<b>Liabilities</b>				
Loan payable	-	2,505,123	-	2,505,123
Total financial liabilities	<u>-</u>	<u>2,505,123</u>	<u>-</u>	<u>2,505,123</u>

#### 5. 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.

- *IBNR Reserve* – This reserve is calculated according to actuarial formulas recognized worldwide: for incidents incurred, using triangulations to estimate future development, applying the global statistical method.

These estimates were made with the information available as at December 31, 2020 on annualized events and it is possible that future events may require modifying them (increase or decrease) in the future.

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

#### 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:

	2020	2019
<b>Balances with related parties</b>		
<b>Assets</b>		
Bank deposits	2,067,691	11,832,771
Securities available for sale (i)	-	3,200,000
Investment in associate (Note 14)	7,720,337	6,484,644
Notes receivable (ii)	8,963,980	5,308,530
Accounts receivable (iii)	18,196,380	325,033
Account receivable - others	2,091,641	5,421,127
Account receivable - Shareholder	148,661	117,148
Trust agreement (iv)	12,000,000	-
<b>Transactions with related parties</b>		
Gross written premium	1,378,263	1,198,007
Commissions paid	229,710	107,331
Claims paid	861,324	-
Interest income	920,772	551,266
Key executive salaries	656,978	332,754

- (i) In August 2020, the term of the corporate bonds for the amount of USD\$3,200,000 expired, which were held in securities available for sale and were exchanged for properties in Bogotá, Colombia guaranteed through a trust agreement (See Note 13).
- (ii) At December 31, 2020, the Company maintains US\$8,963,980 (2019: US\$5,308,530) relating to certificates of investment issued by the related company Standard Capital Shareholding Inc., (B.V.I), which accrued interest at an annual rate of 2.5% (2019: 2.5%) with a maturity of one year.
- (iii) In June 2020, the Company acquired a repurchase agreement (see Note 21), which was transferred in its entirety as an account receivable to the affiliate Standard Capital Shareholding, Inc.
- (iv) The Company established an administration trust with Canal Trust, Inc., for the amount of US\$12,000,000, related to fixed deposits. (see Note 13).

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 scheduled repayment date, maturity date nor do they accrue interest.

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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#### 7. Cash and bank deposits

Deposits in banks are detailed below:

	2020	2019
Demand deposits - domestic	2,108,071	1,360,601
Time deposits - domestic	450,499	11,158,902
Demand deposits - foreign	<u>32,423,042</u>	<u>44,253,933</u>
Total	34,981,612	56,773,436
Less:		
Time deposits at original maturity greater than 90 days	<u>450,499</u>	<u>11,158,902</u>
Cash and cash equivalents for consolidated cash flow purpose	<u>34,531,113</u>	<u>45,614,534</u>

At December 31<sup>st</sup> 2020, term deposits yield an interest of 1.75% at maturity in June 2021 (2019: ranged from 1.75% to 4% at maturity in August 2020).

#### 8. Premium receivable, net

Premiums receivable are summarized as follows:

	2020	2019
Barents R.M., Inc.	65,513,288	41,817,754
Others	<u>3,367,649</u>	<u>2,225,213</u>
	68,880,937	44,042,967
Less: uncollectible premium provision	<u>(8,566,357)</u>	<u>(6,622,322)</u>
Net premium receivable	<u>60,314,580</u>	<u>37,420,645</u>

The Company has no direct control over Barents R.M., Inc. which is therefore not considered a related party. The balance corresponds to the normal business activity of generating risk policies in the market.

#### Aging of accounts receivable matured but not uncollectible

	2020	2019
Current	19,222,222	33,823,437
30-60 days	25,577,864	10,089,099
61-90 days	17,540,437	103,539
More than 90 days	<u>6,540,414</u>	<u>26,892</u>
Total	<u>68,880,937</u>	<u>44,042,967</u>

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

#### Provision movement for uncollectible premiums

	2020	2019
Balance at beginning of the year	6,622,322	4,088,974
Provision increase	1,944,035	2,533,348
Balance at end of year	<u>8,566,357</u>	<u>6,622,322</u>

#### 9. Deposits in ceding companies

As of December 31, 2020, the Company placed a deposit of US\$48,919,338 (2019: US\$31,143,536) under a reinsurance contract signed with a transfer company licensed in Europe, with a term of one year and without interest.

Deposits retained on assumed reinsurance serve as collateral for technical provisions covering business assumed from cedants in reinsurance. The amount of and changes in deposits retained on assumed reinsurance derive from the values for the changes in the related technical provisions.

#### 10. Securities available for sale

Securities available for sale are summarized as follows:

	2020	2019
<u>Listed securities (at fair value):</u>		
Governments bonds - foreign	473,258,870	367,573,454
Corporates	4,074,430	90,175,730
	<u>477,333,300</u>	<u>457,749,184</u>
<u>Unlisted securities (at cost):</u>		
Corporates	-	3,200,000
	<u>477,333,300</u>	<u>460,949,184</u>

The annual interest rate earned by securities available for sale ranged from 1.49% to 8.42% with one-year maturity (2019: 0.83% to 6.70% with maturities up to one year).

The movement of securities available for sale is summarized below:

	2020	2019
Balance at beginning of year	460,949,184	453,649,391
Additions	477,235,486	369,420,904
Sales	(462,359,841)	(374,615,794)
Change in fair value	1,508,471	12,494,683
Balance at year end	<u>477,333,300</u>	<u>460,949,184</u>

During 2020, the Company sold and redeemed securities available for sale for a total of US\$462,359,841 (2019: US\$374,615,794), the sales generated a net profit of US\$9,371,571(2019: US\$7,635,596).



## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

#### 11. Property, furniture, equipment and improvements

Property, furniture, equipment and improvements are summarized below:

<u>2020</u>	<u>Improvements</u>	<u>Building</u>	<u>Office equipment</u>	<u>Computer equipment</u>	<u>Balance</u>
Cost					
Balance at the beginning of the year	286,037	-	220,863	319,173	826,073
Additions	349,408	-	53,208	18,099	420,715
Balance at end of the year	<u>635,445</u>	<u>-</u>	<u>274,071</u>	<u>337,272</u>	<u>1,246,788</u>
Accumulated depreciation and amortization					
Balance at the beginning of the year	3,493	-	73,816	250,342	327,651
Expense for the year	76,441	-	54,096	29,497	160,034
Balance at end of the year	<u>79,934</u>	<u>-</u>	<u>127,912</u>	<u>279,839</u>	<u>487,685</u>
Net balance	<u>555,511</u>	<u>-</u>	<u>146,159</u>	<u>57,433</u>	<u>759,103</u>
<u>2019</u>					
Cost					
Balance at the beginning of the year	1,924,030	1,841,000	788,633	279,035	4,832,698
Additions	286,037	-	165,809	40,138	491,984
Adjustments	-	(1,841,000)	-	-	(1,841,000)
Disposals	(1,924,030)	-	(733,579)	-	(2,657,609)
Balance at end of the year	<u>286,037</u>	<u>-</u>	<u>220,863</u>	<u>319,173</u>	<u>826,073</u>
Accumulated depreciation and amortization					
Balance at the beginning of the year	331,965	276,226	445,334	214,162	1,267,687
Expense for the year	57,463	58,672	100,753	36,180	253,068
Adjustments	-	(334,898)	-	-	(334,898)
Disposals	(385,935)	-	(472,271)	-	(858,206)
Balance at end of the year	<u>3,493</u>	<u>-</u>	<u>73,816</u>	<u>250,342</u>	<u>327,651</u>
Net balance	<u>282,544</u>	<u>-</u>	<u>147,047</u>	<u>68,831</u>	<u>498,422</u>

On December 2019, the Company reclassified US\$ 1,506,041 comprised by real estate P.H. Prime Time Tower, Floors 23A and 23B as other assets, given that they are not in use. However, the Company maintains a payment obligation with Capital International Bank.. The disposal of the improvements of the properties are accounted in the consolidated statement of profit or loss of the period.

At October 2019, the Company transferred the office equipment to Arden & Price, Inc., at book value. These disposals generated a loss of US\$1,799,403, which was recognized in the consolidated statement of profit or loss.

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

#### 12. Accounts receivable

Accounts receivable is summarized below:

	2020	2019
Retrocessions (i)	62,414,518	49,427,595
Barents R. M., Inc. (ii)	15,679,411	10,998,704
Other	6,055,212	18,027,173
	<u>84,149,141</u>	<u>78,453,472</u>

- (i) Accounts receivable - retrocessions are generated by premium assumed during the current period corresponding to the coverage of the commitments on reinsurers.
- (ii) At July 2018, the Company maintains an account receivable at a one-year term, renewable with annual interest rate of 2.68%.

#### 13. Trust agreements

The Group maintains trust agreements, which are detailed below:

	2020	2019
Trust - Fixed Deposit	12,000,000	-
Trust - Real Estate	3,545,562	-
	<u>15,545,562</u>	<u>-</u>

On September 25<sup>th</sup> 2020, the Group established an administration trust with Accion Sociedad Fiduciaria, S.A., for the amount of US\$3,545,562, which maintains real estate properties located in Bogota, Colombia as trust assets. These assets were acquired on August 25<sup>th</sup> 2020 as an exchange of corporate bond that the Group had as securities available for sale (see Note 6).

After December 2<sup>nd</sup> 2020, the Group established an administration trust with Canal Trust, Inc., for the amount of US\$12,000,000, related to fixed deposits with an interest rate ranged from 1.25% to 4%, which are detailed below:

Starting Date	End Date	Fixed Deposit	Amount
23-mar-20	23-mar-23	1300180377	2,500,000
23-mar-20	23-mar-23	1300180385	2,500,000
23-mar-20	23-mar-23	1300180369	2,500,000
16-abr-20	16-abr-23	1300180435	2,500,000
20-oct-20	20-oct-21	1300178009	2,000,000

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

#### 14. Investment in associate

Investment in associate are summarized below:

Name	Activity	Country of incorporation	% of interest		2020	2019
			2020	2019		
Nacional de Seguros, S.A.	Insurance company	Colombia	49%	49%	5,471,077	4,213,652
Fianza Avanza, S.A.	Insurance company	México	49%	49%	2,249,260	2,270,992
					<u>7,720,337</u>	<u>6,484,644</u>

All of the above associates are accounted for using the equity method in these consolidated financial statements as set out in the accounting policies in note 3.

#### Nacional de Seguros, S. A.

The Company maintains 1,298,459,285 shares in Nacional de Seguros, S.A., company incorporated under the laws of the Republic of Colombia. The Company has no power or control over the operations of Nacional de Seguros, S.A.

A summary of the statement of financial position and the statement of profit or loss as of December 31, 2020 is detailed as follows:

#### **Statement of financial position:**

	2020	2019
Total assets	73,841,045	60,084,967
Total liabilities	<u>61,743,661</u>	<u>49,885,944</u>
Net assets	<u>12,097,384</u>	<u>10,199,023</u>

#### **Statement of profit or loss:**

Income for premiums:	2020	2019
Total earned premium	1,192,620	939,757
Liquidated and recovered claims	1,429,082	560,475
Earned commissions	10,579,184	6,312,762
Net cost	(7,405,256)	(4,673,147)
General and administrative expenses	<u>(3,211,645)</u>	<u>(2,850,095)</u>
<b>Technical result</b>	2,583,985	289,752
Total other income, net	<u>1,074,378</u>	<u>1,033,916</u>
Income before income tax	3,658,363	1,323,668
Income tax	(12,447)	(38,907)
Deferred tax	<u>(1,079,742)</u>	<u>(445,326)</u>
<b>Net income</b>	<u>2,566,174</u>	<u>839,435</u>

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

#### Fianzas Avanza S.A., de C.V. (México)

On September 30, 2013, the Company acquired 29,400 shares in Grupo Sodafi, S.A. de C.V. a company organized and existing under the laws of the United Mexican States. On November 6, 2016; the Board of Shareholders resolved to change the legal name of the company from Grupo Sodafi, S.A. de C.V. to Fianzas Avanza S.A. de C.V. The Company owns 47,266 shares of Fianzas Avanza S.A., de C.V. (Mexico) and has no power or control over the operations of Fianzas Avanza S.A. de C.V.

A summary of the statement of financial position and the statement of profit or loss as of December 31, 2020 is detailed as follows:

#### **Statement of financial position:**

	<b>2020</b>	<b>2019</b>
Total assets	12,589,064	7,924,572
Total liabilities	<u>8,455,207</u>	<u>3,532,792</u>
Net assets	<u>4,133,857</u>	<u>4,391,780</u>

#### **Statement of profits or losses:**

	<b>2020</b>	<b>2019</b>
<b>Income for premiums:</b>		
Total earned premium	155,264	153,170
Earned commissions	420,233	529,277
Net cost	(4,623)	(4,107)
General and administrative expenses	<u>(899,711)</u>	<u>(1,012,927)</u>
<b>Technical result</b>	<u>(328,837)</u>	<u>(334,587)</u>
Total other income, net	<u>250,352</u>	<u>361,580</u>
Income before income tax	<u>(78,485)</u>	<u>26,993</u>
Deferred tax	<u>34,134</u>	<u>(5,302)</u>
<b>Net income</b>	<u>(44,351)</u>	<u>21,691</u>

Investment in associate movement schedule is a follows:

<b>2020</b>	<b>Nacional de Seguros, S.A.</b>	<b>Fianza Avanza, S.A.</b>	<b>Total</b>
Balance at beginning of the year	4,213,652	2,270,992	6,484,644
Share of profit of associate	<u>1,257,425</u>	<u>(21,732)</u>	<u>1,235,693</u>
Ending balance as of December 31	<u>5,471,077</u>	<u>2,249,260</u>	<u>7,720,337</u>

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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#### 15. Leasing

The Group leases a number of assets, including buildings, plants and computer equipment. The average lease term is 24 months.

The right-of-use assets are presented below:

	2020	2019
<b>Cost:</b>		
Balance at beginning and the end of the year	2,530,637	2,868,142
Change in foreign currency translation	164,910	-
Balance at the end of the year	<u>2,695,547</u>	<u>2,868,142</u>
<b>Accumulated depreciation:</b>		
Expense and balance at the end of the year	<u>677,072</u>	<u>337,505</u>
<b>Net balance</b>	<u>2,018,475</u>	<u>2,530,637</u>

#### (i) Amounts recognized in the consolidated statement of profit or loss

	2020	2019
Depreciation expense on right of use assets	<u>677,072</u>	<u>337,505</u>
Interest expense on lease liabilities	<u>81,863</u>	<u>37,628</u>
Expenses related to short-term leases	<u>739,636</u>	<u>901,198</u>
	<u>1,840,855</u>	<u>2,177,529</u>

#### (ii) Lease liabilities

Lease liabilities are discounted at a discount rate ranging from 4.25%, the balances being as follows:

	2020	2019
Amounts due for settlement within twelve months	1,032,763	1,433,593
Amounts due for settlement after twelve months	<u>937,362</u>	<u>1,032,763</u>
	<u>1,970,125</u>	<u>2,466,356</u>

The Group does not face significant liquidity risk with respect to its lease liabilities. The lease liabilities are maintained in accordance with the entity's operation.

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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#### 16. Other assets

Other assets are comprised as follow:

	2020	2019
Warehouse and offices	2,498,030	2,498,030
Prepaid tax	1,186,633	535,140
Interest receivable	945,989	319,508
Prepaid expenses	525,421	147,181
Others	125,561	255,395
	<u>5,281,634</u>	<u>3,755,254</u>

On December 31<sup>st</sup> 2019, the Company reclassified the real estates P.H. Prime Time Tower, Floors 23A and 23B as other assets, given that they are not in use. However, the Company maintains a payment obligation with Capital International Bank for the following 3 years (See Note 11).

#### 17. Unearned premium reserve

The unearned premium reserve was calculated using the daily pro rata method, in which the subscribed premium is considered proportional to the validity indicated on the invoice, so the amount of the liability is calculated taking into account the proportion of the risk not incurred on each invoice to the valuation date. At December 31, 2020, the unrealized premium reserve was US\$127,906,920 (2019: US\$101,149,081) and the total unrealized retroceded premium is US\$60,448,090 (2019: US\$50,006,821).

The movement in unearned premium reserve and unearned retroceded premium is presented below:

	2020	2019
<b>Unearned premium reserve:</b>		
Balance at beginning of year	101,149,081	52,223,346
Change in foreign currency translation	11,152,351	(846,459)
Increase	15,605,488	49,772,194
Balance at end of year	<u>127,906,920</u>	<u>101,149,081</u>
<b>Unearned retroceded premium:</b>		
Balance at beginning of year	50,006,821	28,015,550
Change in foreign currency translation	10,355,252	(690,192)
Increase	86,017	22,681,463
Balance at end of year	<u>60,448,090</u>	<u>50,006,821</u>

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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#### Development of gross unearned premium

	2020	2019
Beginning balance	101,149,081	52,223,346
Currency translation differences	11,152,351	(846,459)
Gross premium written	386,270,033	232,315,396
Earned premiums	<u>(370,664,545)</u>	<u>(182,543,202)</u>
Ending balance	<u>127,906,920</u>	<u>101,149,081</u>

#### 18. Claims outstanding, IBNR reserve and Deferred acquisition costs

	2020	2019
Gross provision by type:		
Claims outstanding reserve	126,655,948	166,421,215
IBNR reserves	<u>301,757,042</u>	<u>170,758,316</u>
	<u>428,412,990</u>	<u>337,179,531</u>
Ceded share:		
Claims outstanding reserve	(83,416,701)	(122,585,588)
IBNR reserves	<u>(202,765,444)</u>	<u>(131,970,821)</u>
	<u>(286,182,145)</u>	<u>(254,556,409)</u>
Net	<u>142,230,845</u>	<u>82,623,122</u>

Claims outstanding include losses arising from the reinsurance business and loss expenses paid during the year together with the movement in the provision for claims in process. The claims outstanding are made up of the accumulation of the final costs to settle all the reported and incurred losses at the date of the statement of financial position.

The reserve for claims incurred but not reported (IBNR), is calculated from 100% of the claims paid.

The Company considers that the gross provisions for claims in process are reasonably presented based on the available information. The final liability could vary as a result of subsequent information and could result in significant adjustments to the amounts provisioned.

This assets provision accumulated the retroshare portion of claims incurred but not reported, is calculated according to actuarial formulas.

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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The movement of claims outstanding reserve, retroshare of outstanding claims, IBNR reserve, IBNR of retroshare, and deferred acquisition costs is presented below:

	2020	2019
<b>Provision reserve IBNR:</b>		
Balance at the beginning of the year	170,758,316	104,270,216
Change in foreign currency translation	10,062,572	(954,973)
Increase	120,936,153	67,443,073
Balance at the end of the year	<u>301,757,041</u>	<u>170,758,316</u>
<b>IBNR of retroshare:</b>		
Balance at the beginning of the year	131,970,821	58,903,274
Change in foreign currency translation	9,327,806	2,217,255
Increase	61,466,817	70,850,292
Balance at the end of the year	<u>202,765,444</u>	<u>131,970,821</u>
<b>Claims outstanding reserve:</b>		
Balance at the beginning of the year	166,421,215	122,881,718
Change in foreign currency translation	(112,232)	(1,406,438)
Increase	(39,653,035)	44,945,935
Balance at the end of the year	<u>126,655,948</u>	<u>166,421,215</u>
<b>Reserve for claims in process:</b>		
Balance at the beginning of the year	122,585,588	95,947,777
Change in foreign currency translation	(424,033)	(4,425,773)
Increase	(38,744,854)	31,063,584
Balance at the end of the year	<u>83,416,701</u>	<u>122,585,588</u>
<b>Deferred acquisition costs:</b>		
Balance at the beginning of the year	9,199,665	5,059,922
Change in foreign currency translation	566,930	(109,669)
Increase	1,684,049	4,249,412
Balance at the end of the year	<u>11,450,644</u>	<u>9,199,665</u>



## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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#### 18.1. Claims paid, net:

	2020	2019
<b>Gross</b>		
Gross claims paid	(181,866,755)	(108,734,423)
Change in technical provisions:		
Claims outstanding	39,653,035	(44,945,935)
IBNR	(120,936,153)	(67,443,073)
Gross claims paid	<u>(263,149,873)</u>	<u>(221,123,431)</u>
<b>Ceded share</b>		
Claims paid	62,266,887	38,707,802
Change in technical provisions:		
Claims outstanding	(38,744,854)	31,063,584
IBNR	61,466,817	70,850,292
Claims paid - ceded share	<u>84,988,850</u>	<u>140,621,678</u>
<b>Net</b>		
Claims paid	(119,599,868)	(70,026,621)
Change in technical provisions		
Claims outstanding	(76,061,569)	(13,882,351)
IBNR	17,500,414	3,407,219
Net claims paid	<u>(178,161,023)</u>	<u>(80,501,753)</u>

#### 19. Ceded share of technical provisions

	2020	2019
Unearned retroceded premium	60,448,090	50,006,821
Claims outstanding reserve	83,416,701	122,585,588
IBNR reserve of retroshare	202,765,444	131,970,821
Unearned retroceded commission	3,843,588	3,420,581
	<u>350,473,823</u>	<u>307,983,811</u>

Details of the ceded share of technical provisions are shown under Note 17 and Note 18.

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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#### 20. Loans payable

The loans payable are detailed as follows:

	2020	2019
<b>Capital International Bank Inc.</b>		
Loan at a 10 years term with a minimum annual interest rate of 6.25%, with maturity in October 2024. The Company maintains a collateral trust agreement on real estate as a guarantee of this obligation.	388,205	505,123
<b>Canal Bank, S. A.</b>		
Loan at a one year term with a minimum annual interest rate of 4.25%, with maturity in August 2020. Guaranteed by time deposits.	-	2,000,000
Total	<u>388,205</u>	<u>2,505,123</u>
Short term	145,560	2,145,560
Long term	<u>242,645</u>	<u>359,563</u>
	<u>388,205</u>	<u>2,505,123</u>

Below, a summary of the obligations assumed, payments and cancellations during the year:

	2020	2019
Balance at the beginning of the year	2,505,123	8,114,792
Payments to loans	<u>2,116,918</u>	<u>5,609,669</u>
Total	<u>388,205</u>	<u>2,505,123</u>

#### 21. Repurchase agreements

At June 24<sup>th</sup>, 2020, The Company acquire repurchase agreement for US\$18,000,000 renewable for one year an average interest rate of 3.0%.

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

#### 22. Deposits received from reinsurance companies

As of December 31<sup>st</sup>, 2020, the Company maintains deposits in other reinsurance companies as detailed as follows:

	2020	2019
Trina Solar (Spain) System, S.L.U.	184,315	169,225
Apicil Prevoyance	-	25,604,885
	<u>184,315</u>	<u>25,774,110</u>

Deposits retained on ceded business are collateral for technical provisions covering business ceded to reinsurers and retrocessionaires. As a rule, the changes in deposits retained on ceded business derive from the changes in the relevant technical provisions covering ceded business. Deposits retained on ceded business thus do not have a fixed maturity date, their release generally being dependent on run-off of the corresponding provisions.

#### 23. Accounts payable and accrued expenses

The accumulated accounts and expenses payable are as follows:

	2020	2019
Tax payable	2,273,694	807,557
Accruals payable (a)	1,421,727	1,421,394
Deferred tax liability	671,587	1,025,479
Interest payable	354,897	354,897
Suppliers payable	68,118	55,998
Withholdings payable	64,012	20,089
Other accounts payable	1,996,745	2,125,550
	<u>6,850,780</u>	<u>5,810,964</u>

a) During 2020, the Company accrued for Service Level Agreement (SLA) fees with BRM Beirut for the services received during the year but not invoiced yet, for an amount of US\$1,421,727 (2019: US\$1,421,394).

#### 24. Other technical costs

	2020	2019
Commission paid	36,892,178	25,288,802
Change in acquisition costs	(1,656,198)	(4,249,412)
Reinsurance commissions and profit participation	(1,432,618)	(980,283)
Commission received	(539,010)	(1,443,475)
Change in unearned retrocession commission	(423,007)	(398,114)
Risk analysis cost	12,750	80,909
	<u>32,854,095</u>	<u>18,298,427</u>

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

#### 25. Other expenses

The other expenses account is summarized below:

	2020	2019
Gain and loss in currencies	1,019,225	59,053
Other fees	1,184,209	510,620
VAT expenses	287,647	38,215
Rentals	251,555	901,198
Insurances	227,345	282,381
Travel expenses	215,217	462,020
Bank charges	166,890	24,315
Taxes	96,594	394,179
Licenses & software	95,088	84,239
Telecommunications	74,244	122,997
Expenditure abroad	65,891	71,312
Director's compensation	37,639	49,704
Electrical energy	35,462	107,093
Legal and notarial expenses	34,107	26,086
Maintenance and repairs	30,120	40,971
Loss on disposal of fixed assets	-	1,799,403
Seminars	-	101,483
Others	1,712,043	407,216
	<u>5,549,738</u>	<u>5,537,632</u>

#### 26. Non - controlling interest

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

	% of non - controlling interest		2020	2019
	2020	2019		
Barents Re Reinsurance S.A. (Luxemburgo)	49%	49%	<u>22,329,817</u>	<u>20,538,355</u>

Movement of non-controlling interest is detailed as follows:

	2020	2019
Issuance of shares	20,538,355	18,248,221
Profit participation	1,791,462	2,290,134
	<u>22,329,817</u>	<u>20,538,355</u>

The capital increase participation by way of increase and / or decrease in profit was proportional and therefore does not change the percentage of the participation in the capital.

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

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#### 27. Common shares

The capital is composed of 100,000 shares with no par value and amounts to US\$404,988,405 (2019: US\$311,858,180).

On October 2nd of 2020, the shareholders of the company resolved to capitalize retained earnings of Barents Re Reinsurance Company, Inc., in the amount of US\$93,130,225.

#### 28. Income tax

According to current Cayman Islands laws, the Company is not subject to taxes levied on profits, income, gains or appreciations.

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

For the year ended December 31, 2020, Barents Reinsurance S.A. (Luxembourg) generated income tax of US\$900,051 (2019: US\$1,416,395).

	2020	2019
Barents Reinsurance, S. A. (Luxemburg) taxable income	<u>3,974,077</u>	<u>5,927,768</u>
Current income tax	664,112	1,344,128
Prior year adjustments	<u>70,071</u>	<u>(90,102)</u>
	734,183	1,254,026
Wealth tax	<u>165,868</u>	<u>162,369</u>
Income tax	<u>900,051</u>	<u>1,416,395</u>

## Barents Re Reinsurance Company, Inc. and Subsidiary

### Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)

#### 29. Reclassifications

In order to improve the comparability of the consolidated financial statements, reclassifications were made to the previously reported balances for the year ended December 31, 2019. These reclassifications have no effect net profit for the year or on previously reported equity.

Consolidated statement of profit or loss	2019 as previously reported	Reclassifications	2019 as reclassified
Gross claims paid	-	(221,123,431)	(221,123,431)
Retroshare of claims paid	-	140,621,678	140,621,678
<b>Claims paid, net</b>	-	<b>(80,501,753)</b>	<b>(80,501,753)</b>
Change in claims outstanding	(44,945,935)	44,945,935	-
Change in retro outstanding	31,063,584	(31,063,584)	-
Change in IBNR	(67,443,073)	67,443,073	-
Change in retrocession of IBNR	70,850,292	(70,850,292)	-
Change in unearned retrocession commission	398,114	(398,114)	-
Change in acquisition costs	4,249,412	(4,249,412)	-
Change in doubtful receivables	(2,533,348)	-	(2,533,348)
Gross claims paid	(108,734,423)	108,734,423	-
Retroshare of claims paid	38,707,802	(38,707,802)	-
Other technical costs	-	5,546,900	5,546,900
Other incomes (expenses):			
Interests income	1,227,312	-	1,227,312
Interests paid	(632,651)	-	(632,651)
Commissions received	1,443,475	-	1,443,475
Commissions paid	(25,288,802)	-	(25,288,802)
Risk analysis cost	(80,909)	80,909	-
Gain in securities available for sale	7,635,596	-	7,635,596
Reinsurance commissions and profit participation	980,283	(980,283)	-
Other income	929,829	-	929,829
<b>Net effect</b>		-	

Certain other elements of corresponding figures have been changed to conform to current year presentation.

#### 30. COVID-19 Impact

The Group maintains policies and procedures to ensure business continuity, which establishes the mechanisms to function in contingency situations, guaranteeing the uninterrupted continuity of operations and services for our clients.

Up to the date of these consolidated financial statements and until its issuing date, management continues with the monitoring, analysis and management of the effects that COVID-19 may have in its operations, clients and providers.

The following are among the main actions that the Company has adopted:

# **Barents Re Reinsurance Company, Inc. and Subsidiary**

## **Notes to the consolidated financial statements for the year ended December 31, 2020 (In United States of America dollars)**

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### **Business:**

The Company projected earnings for US\$20.8 millions for the 2020 period. At the end of the period, the earnings resulted in US\$27.8 millions.

No interruptions were observed in the Company's business underwriting, given that the 2020 period was of US\$330 millions in premium underwriting, with a 2020 projection of US\$113 millions.

### **Investments:**

The investment assets of the Company mainly consist of treasuries and fixed term deposits of short duration (Luxembourg); as well as cash holdings with no asset value impact resulting from COVID-19; showing a high resiliency to the market downturn experienced due to the pandemic:

Cayman Islands: Treasuries at 100% of concentration to mitigate the 2020 volatility due to COVID-19.

Luxembourg: Maintains investment grade bonds.

The Company maintains investments in its associated entities Nacional de Seguros S.A. (Colombia) and Fianzas Avanza S.A., de C.V. (México). According to reports from the first quarter of 2020, their day-to-day operations were maintained uninterrupted.

### **Debt:**

The Company maintained regular scheduled payments to its providers. Regarding debt with financial entities (loans and mortgages), the Company negotiated an extension for the first four (4) months after the National Emergency State was declared.

### **Clients:**

During 2020, the collection of premiums collectable was not affected, given that 86% of the 2019 balance of US\$44 millions was collected, and management maintains a robust follow up of the collectable balances, avoiding extensions of the 90 days normal timeframe.

### **Human Resources:**

The Company avoided the need to file for temporary suspension or early termination of employment agreements, even when labour law allows it. Management reduced work schedule by 30% from April to September of 2020, at which time it implemented a work from home methodology. Starting on October of 2020, all personnel was reincorporated to their regular work schedule and in person.

## **31. Approval of financial statements**

The consolidated financial statements for the year ended December 31, 2020 were approved and issuance was authorized by the Board of Directors on June 29, 2021.

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