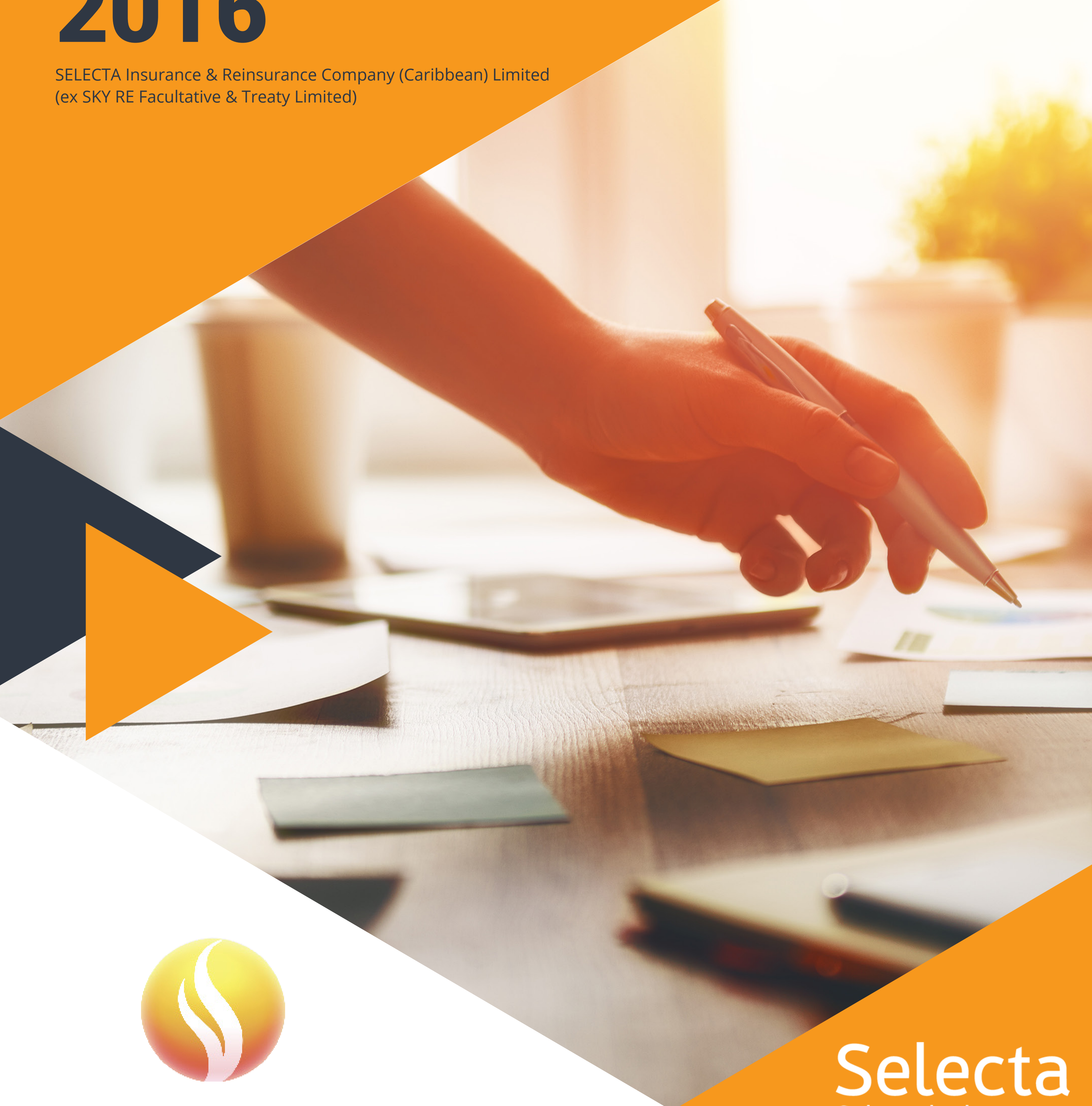
Audited Financials 2016

SELECTA Insurance & Reinsurance Company (Caribbean) Limited
(ex SKY RE Facultative & Treaty Limited)



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Acquisition STATEMENT

Dear Colleagues,

We are pleased to announce the acquisition of "SKY RE Facultative and Treaty Ltd." by "Russian Insurance Group SA" and that the company has been renamed to "SELECTA Insurance and Reinsurance Company (Caribbean) Ltd."

Technically the transition process was finally complete on June 20, 2017. However, full scale discussions were in place as at December 31, 2016.
The financial statements hereby provided are in full responsibility of the new SELECTA Insurance and Reinsurance Company (Caribbean) Limited Board of Directors.

The board of DIRECTORS

MR. VASILY KOZLOV

CEO of Selecta Insurance & Reinsurance Company Ltd, domiciled in Moscow, Russia

MRS. LETICIA NISBETT-DORE

Director of SELECTA Insurance and Reinsurance Company (Caribbean) Ltd. [previously SKY RE]

MR. KIRILL PATYRYKIN

Deputy CEO of Selecta Insurance & Reinsurance Company Ltd is Managing Director, and the Secretary of the Board

MR. PAVEL DANILOV

Director of Selecta Insurance & Reinsurance Company Ltd.

MR. ALEXANDER SHAKHMATOV

Managing director of Selecta Insurance & Reinsurance Company Ltd.

MR. STANISLAV YANKEVICH

Head of Overseas projects of Selecta Insurance & Re-insurance Company Ltd.

Change of ownership
AND REBRANDING

SELECTA Insurance and Reinsurance Company (Caribbean) Limited was duly incorporated and licensed as an international Reinsurance company under the provisions of the Nevis International Insurance Ordinance 2004 (and amendments) in December 2013, offering a wide variety of reinsurance products for the customers.

The original rationale for the establishment of the company was to provide suitable reinsurance options within the conventional reinsurance and alternative risk transfer market and to provide competitive and appropriate solutions in such instances. Over the last years of our activities we have achieved success in various segments of the market. We are constantly developing a range of our products offered both to corporate clients.

We are studying and analyzing all aspects of each and every client and create tailor-made products meeting the needs and wishes of our insureds. As a result we enjoy a continuous increase in number of our clients.

Strict performance of current requirements of state regulating body – Nevis Financial Services Regulatory Commission allows us to offer legally adequate products and services to our clientele.

Steady development of partner relations with the leading reinsurance companies brings us prudent reinsurance protection and enhances our incoming reinsurance portfolio.

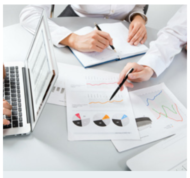
Professional
ACTIVITIES

Our professional activities are based on:

INDIVIDUAL APPROACH TO THE CLIENT

RELIABLE REINSURANCE PROTECTION

PRUDENT UNDERWRITING POLICY



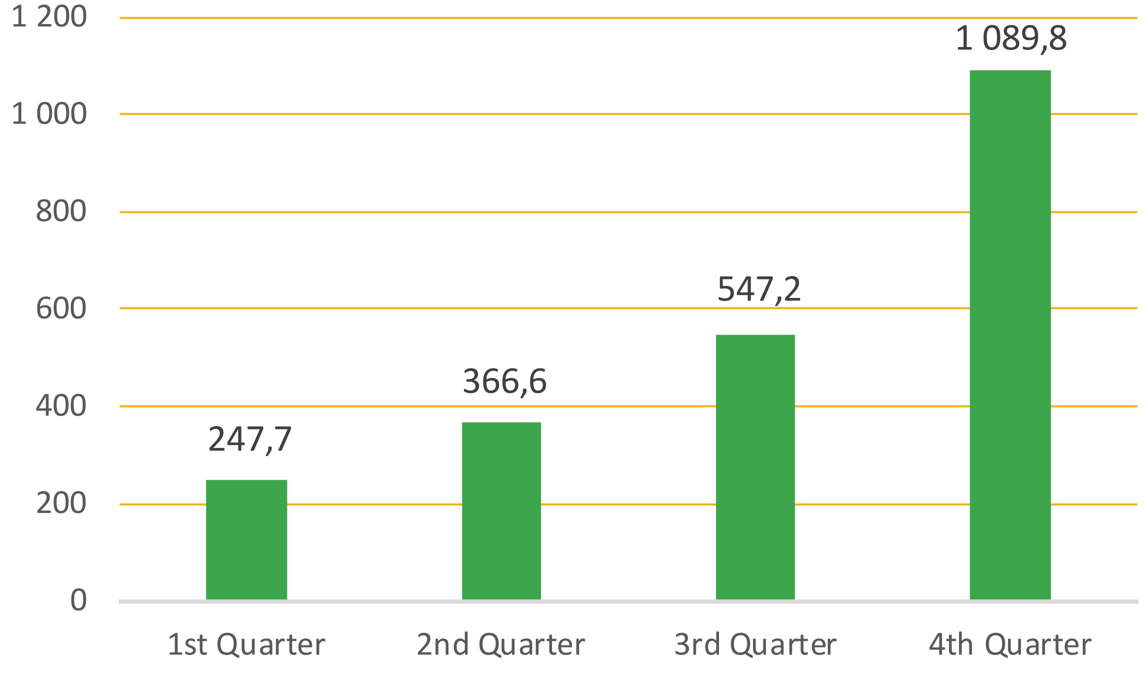
PROMPT CLAIMS ADJUSTMENT

PROFESSIONAL TEAM

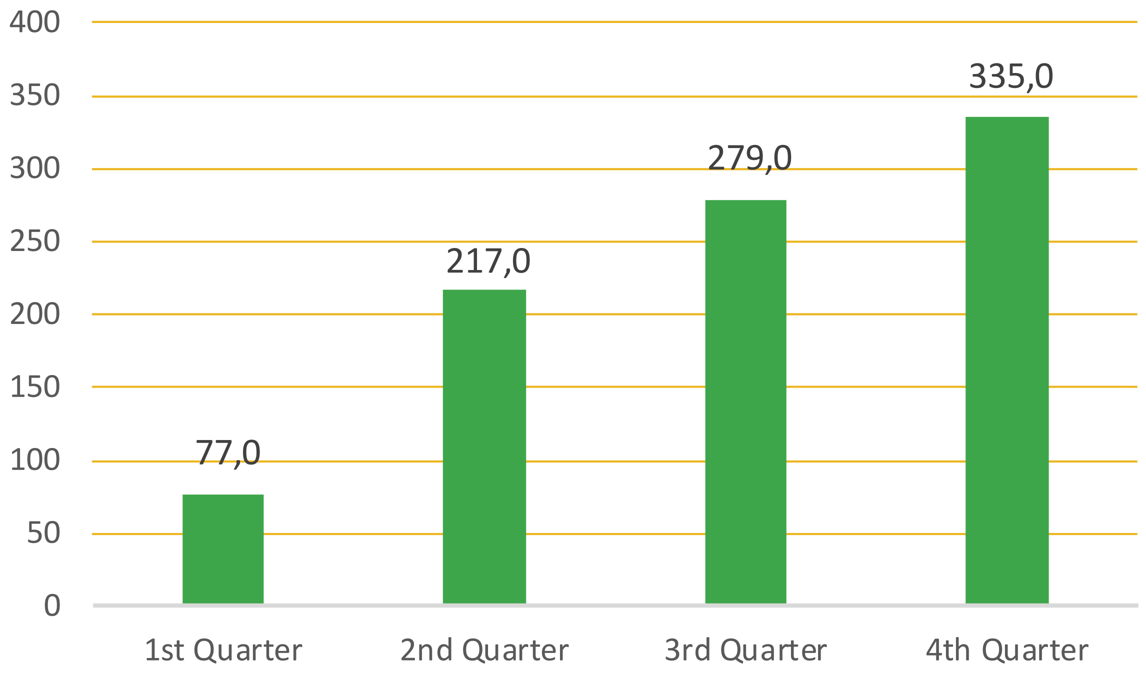
HIGH FINANCIAL SOLVENCY AND STABILITY

Financial statements
2016

Premiums Written (USD in thousands)

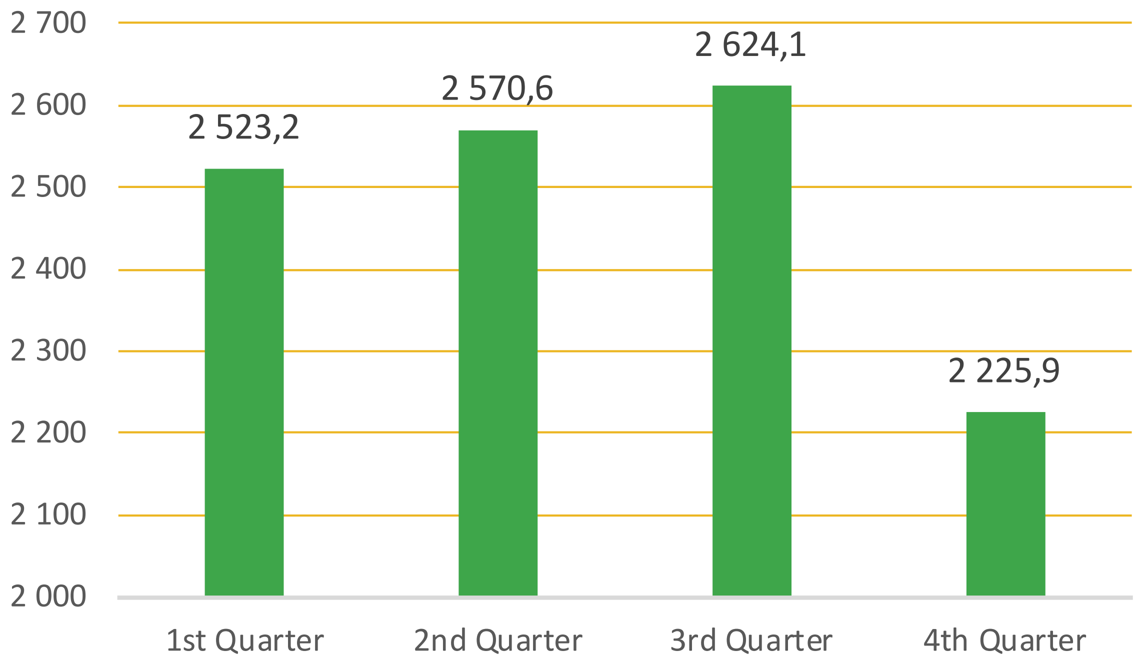


Number of contracts written

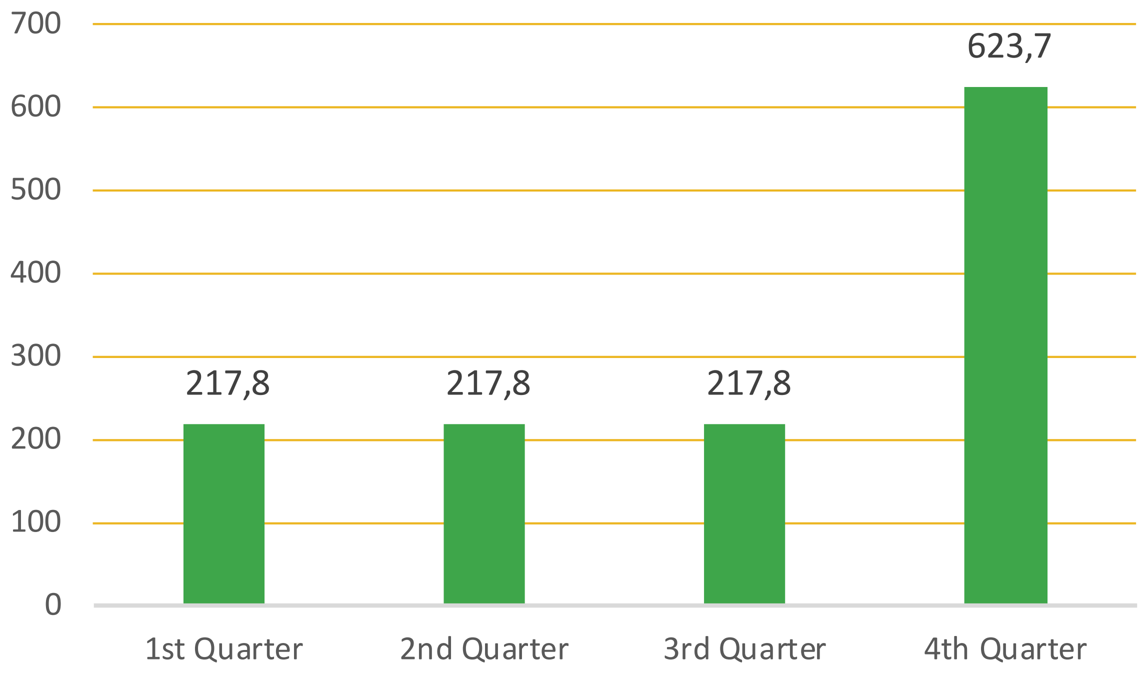


FINANCIAL STATEMENTS 2016

Total assets (USD in thousands)



Losses incurred (USD in thousands)



Independent Auditor's Report

To the Board of Directors
SKY RE Facultative and Treaty Ltd.
Island of Nevis

Report on the Financial Statements

We have audited the accompanying financial statements of SKY RE Facultative and Treaty Ltd., which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of profit and loss, and changes in shareholders' equity, and the statements of cash flows for the year ended December 31, 2016 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The Company has recorded premiums receivable of $1,089,846 as of December 31, 2016. We were unable to obtain sufficient appropriate audit evidence to support the collectability of $932,199 of these assets as of December 31, 2016. Therefore, we were unable to determine as part of our audit the need for an allowance for doubtful accounts reserve related to $932,199 of these assets. The Company has not recorded an allowance for doubtful accounts reserve related to these assets as of December 31, 2016.

Qualified Opinion

In our opinion, except effects of the matter described in the "Basis for Qualified Opinion paragraph, the financial statements referred to present fairly, in all material respects, the financial position of SKY RE Facultative and Reinsurance Ltd. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board

Rives & Associates LLP

Lexington, North Carolina October 17, 2017.

SKY RE FACULTATIVE AND REINSURANCE LTD.

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS	Note	2016	2015
Current assets:			
Prepaid reinsurance	1	$ 147,725	$ 434,116
Premiums receivable	1	1,089,846	1,063,520
Prepaid expenses		31,610	12,401
Other assets		3,000	3 ,000
Due from affiliates	8	-	34,885
Reinsurance recoverable on unpaid losses	1,7	8,000	96,037
Accrued interest receivable	9	-	2,821
Investments (held-to-maturity)	1,4,5,9	599,403	-
Cash and cash equivalents	1,6	346,311	795,177
Total assets		$ 2,225,895	$ 2,441,957

SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity:			
Common stock, $1.00 par value, 75,000 shares			
authorized, issued, and outstanding	1	$ 75,000	$ 75,000
Paid in capital		29,200	29,200
Retained earnings		954,03	1,708,530
Total shareholders' equity		1,058,230	1,812,730
Liabilities:			
Loss and loss adjustment expense reserves	1,7	623,754	217,838
Unearned premiums	1	308,162	73,888
Reinsurance payable	1	211,264	331,076
Due to affiliates	9	10,985	-
Accrued expenses		13,500	6,425
Total liabilities		1,167,665	629,227
Total liabilities and shareholders' equity		$ 2,225,895	$ 2,441,957

The accompanying notes to the combined financial statements are an integral part of these statements.

SKY RE FACULTATIVE AND REINSURANCE LTD.

STATEMENTS OF PROFIT OR LOSS

Years Ended December 31, 2016 and 2015

Underwriting income:	Note	2016	2015
Assumed premiums earned	1,3	$ 437,642	$ 20,704,981
Ceded premiums earned	1,3	(443,142)	(18,988,004)
Premiums earned, net		(5,500)	1,716,977
Underwriting expenses:			
Losses incurred, net	1,6	497,354	25,517
Commissions and brokerage, net		-	227,155
General and administrative expenses	8	318,156	123,332
Total underwriting expenses		815,510	376,004
Net underwriting (loss) income		(821,01)	1,340,973
Investment income:			
Interest	5	67,141	20,935
Foreign exchange gain (loss)	5	(631)	234,575
Total investment income		66,510	255,510
Net (loss) profit		$ (754,500)	$ 1,596,483

The accompanying notes to the combined financial statements are an integral part of these statements.

SKY RE FACULTATIVE AND REINSURANCE LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2016 and 2015

	Common Stock				
	Shares	Amount	Paid in Capital	Retained Earnings	Total
Balance at January 1, 2015	75 ,000	$ 75,000	$ 4,200	$ 137,047	$ 216,247
Net profit	-	-	-	1,596,483	1,596,483
Dividend paid	-	-	-	(25 ,000)	(25 ,000)
Capital contributions	-	-	25,000	-	25,000
Balance at December 31, 2016	75,000	75,000	29,200	1,708,530	1,812,730
Net loss	-	-	-	(754,500)	(754,500)
Balance at December 31, 2016	75,000	$ 75,000	$ 29,200	$ 954,030	$ 1,058,230

The accompanying notes to the combined financial statements are an integral part of these statements.

SKY RE FACULTATIVE AND REINSURANCE LTD.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

Cash flows from operating activities:	2016	2015
Net (loss) profit	$ (754,500)	$ 1,596,483
Cash flows from changes in:		
Prepaid reinsurance	286,391	148,140
Premiums Receivable	(26,326)	(409,06)
Prepaids	(19,209)	(11,343)
Other assets	-	(3,000)
Due from affiliates	45,870	(34,545)
Reinsurance recoverable on unpaid losses	88,037	245,179
Accrued interest receivable	2,821	(2,821)
Loss and loss adjustment expense reserves	405,916	(219,662)
Unearned premiums	234,274	(600,370)
Reinsurance payable	(119,812)	(225,951)
Accrued expenses	7,075	(1,575)
Net cash provided by operating activities	150,537	481,475
Cash flows from investing activities:		
Cost of investments acquired	(599,403)	-
Sales proceeds from sale of investments	-	200,000
Net cash (used in) provided by investing activities	(599,403)	200,000
Cash flows from financing activities:		
Dividend paid	-	(25,000)
Capital contributions	-	25,000
Net cash provided by financing activities	-	-
Net (decrease) increase in cash and cash equivalents	(448,866)	681,475
Cash and cash equivalents, beginning of year	795,177	113,702
Cash and cash equivalents, end of year	$ 346,311	$ 795,177

The accompanying notes to the combined financial statements are an integral part of these statements.

SKY RE FACULTATIVE AND REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Sky Re Facultative and Treaty Ltd. (the Company) was established in December of 2013 within the Island of Nevis to carry on Insurance Business in the class of Reinsurance, under the Nevis International Insurance Ordinance of 2004, as amended. The purpose of the Company is to issue inward reinsurance treaties and facultative policies in the following risk categories: property, casualty, aviation, space, marine, cargo, and specialty.

Statement of Compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). When IFRS is silent, as it is in respect of the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In this instance, the Company defers to accounting principles generally accepted in the United States (US GAAP).

The financial statements were authorized for issuance by the Board of Directors on October 17, 2017.

Functional and Presentation Currency

These financial statements are expressed in United States Dollars ($), consistent with the predominant functional currency of the Company's operations.

Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars ($) at the closing rates of exchange prevailing at the reporting date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

Basis of Presentation

The financial statements of the Company have been prepared on the accrual basis of accounting where revenue is recognized when earned and expenses are recognized when incurred.

The statements of financial position of the Company is presented in order of increasing liquidity.

IFRS 4, Insurance Contracts, was issued in March 2004 and specifies the financial reporting for insurance contracts by an insurer. The current standards I Phase I in the IASB insurance contract project and does not specify the recognition or measurement of insurance contracts.

Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Grouping of Items

Certain items in the accompanying financial statements are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

Cash and Cash Equivalents

The Company classifies all highly liquid investments with a maturity of three months or less when purchased as cash and cash equivalents.

Investments

The Company's investment security portfolio consists of a related party corporate bond, which has been classified as held to maturity based on the Company's positive intent and ability to hold it to maturity. The investment security held to maturity is carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using a method that approximates the effective interest method.

The Company's investments are exposed to various risks, such as interest rate, market, currency and credit risks.

SKY RE FACULTATIVE AND REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Due to the level of risk associate with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

Impairment of Financial Assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for- sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statements of profit or loss.

Impairment losses recognized in the statement of profit or loss on equity investments are not reversed through the statements of profit or loss.

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 impairment loss is reversed through the statement of profit or loss.

Insurance Contracts

Insurance contracts are those contracts where the Company (the Insurer) has accepted significant insurance risk from another party (the Policyholders) by agreeing to compensate the Policyholders if a specified uncertain future event (the Insured Event) adversely affects the Policyholders. These contracts are accounted for in accordance with IFRS 4, Insurance Contracts. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits that would be payable if the Insured Event did or did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire

Premium Revenue and Unearned Revenue

Assumed and ceded premiums are generally recognized on a pro rata basis over the policy term. The portion of assumed premiums that will be earned in the future is deferred and reported as unearned premiums. The portion of ceded premiums that will be incurred in the future is deferred and reported as prepaid reinsurance.

Reinsurance

Premiums assumed comprise the total premiums receivable for the whole period of cover provided by inwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums assumed include any adjustments arising in the accounting period for changes in estimated premium in respect of reinsurance assumed in prior accounting periods

Premiums assumed are based upon reports received from ceding companies. Estimates of premiums assumed and unearned premium are made at the individual contract level, based on historical patterns and experience from the ceding company and management judgment for certain business that has not been reported to the Company.

Premiums ceded comprise the total premium payable for the whole period of coverage provided by outwards reinsurance contracts entered into during the accounting period and are recognized on the date on which the insurance contract commences. Premiums ceded include any adjustments arising in the accounting period for changes in premium in respect of reinsurance ceded in prior accounting periods.

Insurance and reinsurance receivables are recognized when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of the insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statements of profit or loss.

SKY RE FACULTATIVE AND REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Fair Value of Financial Instruments

The carrying amounts reflected in the statements of financial position for cash and accounts payable, approximate the respective fair values due to the short maturities of those instruments.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Loss and Loss-Related Expenses

The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analysis. Management believes that the reserves for losses and loss adjustment expenses are adequate to cover the ultimate cost of losses and loss adjustment expenses thereon. However, because of the limited population of insured risk, limited historical data, economic conditions, judicial decisions, legislation, and other reasons, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the financial position date. Loss and loss adjustment expenses reserve estimated are reviewed periodically and adjusted as necessary as experience develops or new information becomes known. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Critical Accounting Judgements and Estimates

The Company's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimate that has a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year is the estimation of the provision for losses which is based on an individual case-basis valuation and statistical analysis as detailed above.

NOTE 2 – FUTURE ACCOUNTING AND REPORTING CHANGES

Future accounting and reporting changes that may impact the Company's financial reporting and disclosure are as follows:

(a) IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" was issued in November 2009 and amended in October 2010, November 2013 and July 2014, and is effective for years beginning on or after January 1, 2018, to be applied retrospectively, or on a modified retrospective basis. It is intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9's current classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged; however, for a financial liability designated at fair value through profit or loss, revisions have been made in the accounting for changes in fair value attributable to changes in the credit risk of that liability. Gains or losses caused by changes in an entity's own credit risk on such liabilities are no longer recognized in profit or loss but instead are reflected in Other Comprehensive Income ("OCI").

Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. Changes were also made to the existing classification and measurement model designed primarily

SKY RE FACULTATIVE AND REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – FUTURE ACCOUNTING AND REPORTING CHANGES

to address specific application issues raised by early adopters of the standard. They also address the income statement accounting mismatches and short-term volatility issues which have been identified as a result of the insurance contracts project. The Company is assessing the impact of these amendments, including the proposed amendments to IFRS 4 "Insurance Contracts" outlined below.

(b) Proposed Amendments to IFRS 4 "Insurance Contracts"

In December, 2015, the IASB issued proposed amendments to IFRS 4 which address concerns about the different effective dates of IFRS 9 and the new insurance contracts standard that will replace IFRS 4. The amendments propose an optional temporary exemption from applying IFRS 9 "Financial Instruments" that would be available to companies whose predominant activity is to issue insurance contracts. The amendments would permit deferral of adopting IFRS 9 until annual periods beginning on or after January 1, 2021 or until the new insurance contract standard becomes effective if at an earlier date. The amendments also propose an option for entities issuing insurance contracts within the scope of IFRS 4 to apply the "overlay approach" to the presentation of qualifying financial assets, removing from net income and presenting instead in OCI, the impact of measuring Fair Value Through Profit and Loss ("FVTPL") financial assets at fair value through profit or loss under IFRS 9 when they would not have been so measured under IAS 39. The Company is assessing the impact of these proposed amendments.

(c) Amendments to IAS 7 "Statement of Cash Flows"

In January, 2016, the IASB issued amended IAS 7 which address required disclosures that enable users of financial statements to evaluate changes in liabilities from financing activities, including both changes arising from cash flow and non-cash changes. The amendments become effective for annual period on or after January 1, 2017, with early adoption permitted. The Company is assessing the impact of these proposed amendments.

(d) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

In January, 2016, the IASB issued amended IAS 12 which address the accounting for deferred tax assets for unrealized losses on debt instruments at fair value. The amendments become effective for annual period on or after January 1, 2017, with early adoption permitted. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are intended to remove existing divergence in practice in recognizing deferred tax assets for unrealized losses. The Company is assessing the impact of these proposed amendments.

SKY RE FACULTATIVE AND REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 3 - REINSURANCE

Certain premiums and losses are ceded to other unrelated insurance companies through quota share reinsurance arrangements and various excess of loss reinsurance agreements. The ceded reinsurance agreements are intended to provide the Company with the ability to minimize its exposure to losses within its surplus resources. These reinsurance agreements do not relieve the Company from its primary obligation to its policyholder. The Company remains liable to its policyholder to the extent that any reinsurer does not meet its obligations for reinsurance ceded to it under reinsurance contracts. Therefore, the Company is subject to credit risk with respect to the obligations of its reinsurers, and any failure on the part of these reinsurers could have a material adverse effect on the Company's business, financial condition, and results of operations.

The effects of reinsurance on premiums written and earned were as follows:

	2016		2015	
	Written	Earned	Written	Earned
Assumed premiums	$ 671,916	$ 437,642	$ 20,110,323	$ 20,704,981
Ceded premiums	(156,750)	(443,142)	(18,838,614)	(18,988,004)
Total	$ 515,166	$ (5,500)	$ 1,271,709	$ 1,716,977

NOTE 4 – FAIR VALUE MEASUREMENTS

The fair value of financial instruments is measured according to a fair value hierarchy which reflects the significance of market inputs in the valuation. The hierarchy is described and discussed below.

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

SKY RE FACULTATIVE AND REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 4 – FAIR VALUE MEASUREMENTS

The following table sets forth the level within the fair value hierarchy, for the Company's investments at fair value as of December 31:

2016				
	Level 1	Level 2	Level 3	Total
Corporate bond	$ -	$ -	$ 599,403	$ 599,403

2015				
	Level 1	Level 2	Level 3	Total
Corporate bond	$ -	$ -	$ -	$ -

NOTE 5 – INVESTMENTS

The portfolio of investments is carried at their fair market value. Market values and unrealized gains and losses pertaining to the investment portfolio as of December 31:

2016				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate bond, including accrued interest	$ 599,403	$ -	$ -	$ 599,403

2015				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate bond	$ -	$ -	$ -	$ -

The following schedule summarized investment income for the years ended December 31:

	2016	2015
Interest	$ 67,142	$ 20,935
Foreign exchange gain (loss)	(631)	234,575
Total investment income (loss)	$ 66,511	$ 255,510

SKY RE FACULTATIVE AND REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 6 – CASH AND CASH EQUIVALENTS

The portfolio cash and cash equivalents are comprised of the following as of December 31:

	2016	2015
Cash (USD)	$ 207,494	$ 154,037
Cash (EUR)	13,677	15,866
Security deposit	25,140	25,045
Fixed deposit (USD)	100,000	600,229
Total	$ 346,311	$ 795,177

NOTE 7 - LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the liability for unpaid loss and loss adjustment expense reserves is summarized for the year ended December 31:

	2016	2015
Balances at January 1	$ 217,838	$ 437,500
Less reinsurance recoverable	96,037	341,216
Net balances at January 1	121,801	96,284
Incurred related to:		
Current year	619,155	59,474
Prior years	(121,801)	(33,957)
Total incurred	497,354	25,517
Paid related to:		
Current year	3,401	-
Prior years	-	-
Total paid	-	-
Net balances at December 31	615,754	121,801
Plus reinsurance recoverable	8,000	96,037
Balances at December 31	$ 623,754	$ 217,838

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $121,801 and $33,957 in 2016 and 2015, respectively. Typically, increases or decreases of this nature occur as a result of claim settlements during the current year, and additional information received regarding individual claims causes changes from the original estimates of the cost of these claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of the unpaid loss and loss adjustment expenses.

SKY RE FACULTATIVE AND REINSURANCE LTD.

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NOTE 8 – GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following for the years ending December 31:

	2015	2015
Management and administrative	$ 45,000	$ 47,500
Salaries	131,448	-
Audit and accounting	35,250	5,750
Legal and professional	30,839	6,372
Travel	14,714	16,194
Research and subscriptions	3,244	20,715
Marketing	5,902	3,077
Information technology	9,166	6,820
Bank charges	2,472	10,717
Other expenses	40,121	6,187
Total general and administrative expenses	$ 318,156	$ 123,332

NOTE 9 – RELATED PARTIES

As of December 31, 2016 and 2015, the Company has recorded amounts due from affiliates of $0 and $34,885, respectively. As of December 31, 2016 and 2015, the Company has recorded amounts due to affiliates of $10,985 and $0, respectively. These amounts consist of fees and expenses paid by or on behalf of the owners and overpayments of premiums.

The Company assumes premiums from Selecta Insurance and Reinsurance Company (Moscow) Ltd. which is an affiliate by means of the same ultimate beneficial owner and management team. For the year ended December 31, 2016, the Company assumed premiums totaling $61,397 from Selecta Insurance and Reinsurance Company (Moscow) Ltd. As of December 31, 2016, the Company is the holder of a bond issued by Selecta Insurance and Reinsurance Company (Moscow) Ltd. with principle and carrying value of $599,403 yielding interest of 30% per annum, which appropriately includes accrued interest totaling $69,003.

NOTE 10 – RISK MANAGEMENT

The Company's exposure to potential loss from financial assets and insurance contracts primarily relates to governance risk, regulatory risk, insurance risk, financial risk, and operational risk. The Company's objectives, policies and processes for managing those risks and the methods used to measure them are summarized below:

Governance Framework
Professional and effective risk management is essential to maintaining a favorable financial performance for all insurance companies.

The Company evaluates every risk underwritten by using a rating scale system and overall knowledge of the account.

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NOTE 10 – RISK MANAGEMENT

Regulatory Framework

Regulators are primarily interested in protecting the rights to the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or external disasters.

The Company is regulated by the Registrar of Insurance of the Nevis Financial Services Department (the NFSD). The NFSD regulates, supervises and inspects all insurance companies, insurance managers and other intermediaries operating within the island of Nevis to ensure compliance with the provisions established in the Nevis International Ordinance, 2004 (as amended).

The regulations not only prescribe approval and monitoring activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as they arise.

Insurance Risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. Therefore, the objective of the Company is to ensure sufficient reserves are available to cover the claims and payments.

In order to minimize the Company's exposure arising from large claims, in the normal course of business, the Company may enter into contracts with other parties for reinsurance purposes. Such reinsurance is to offset a portion of the claims exposure that may arise. The Company has also limited its exposure by imposing maximum claim amounts on its insurance contracts and limiting the period when claims should be reported.

Financial Risk

The Company's principal financial instruments are financial assets held to maturity and cash and cash equivalents.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, and credit risk. Management reviews and agrees policies for managing each of these risks and they are summarized below:

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk on some of its investments and cash and cash equivalents. The Company limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and interest bearing investments and borrowings are denominated.

Foreign Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations since predominantly all of the business transactions are in U.S. Dollars and U.S. Dollars pegged currencies and consequently the Company does not hedge its foreign currency exposure.

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NOTE 10 – RISK MANAGEMENT

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum exposure to credit risk before any credit enhancements is the carrying amount of the financial assets.

Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating an effective control framework and by monitoring and responding to potential risks, the Company is able to manage risk.

The Company contracts for its supervisory, general and administrative and insurance services with service providers and professional organizations. As a result the Company has no employees of its own. The financial statements reflect the costs of the various service providers.

Capital Management

The Company's objective when managing capital is to comply with the insurance capital requirements which are set and regulated in accordance with the provision of the Ordinance. In order to be licensed as a reinsurance business, a reinsurance company is required to have a minimum fully paid up capital of $75,000. The Company fully complied with this requirement during the reported financial period.

Minimum Margin of Solvency

The Company's ability to pay dividends and other distributions is subject to statutory restriction. As a licensed captive insurer, the Company is required under the terms of the Ordinance to maintains a minimum margin of solvency (the amount by which its "allowable assets" exceed its liabilities) equivalent to the greater of the minimum amount of contributed capital or 20% of the net retained premium up to $5,000,000. Net premiums in excess of $5,000,000 shall have an additional required solvency margin of $1,000,000 plus 10% of the amount by which the net retained premium exceeds $5,000,000.

The Company exceeds the required minimum margin of solvency as follows:

	2016	2015
Company's margin of solvency (net assets)	$ 1,058,229	$ 1,812,730
Required minimum margin of solvency (retained premium is Nil)	-	(343,395)
Excess	$ 1,058,229	$ 1,469,335

SKY RE FACULTATIVE AND REINSURANCE LTD.

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NOTE 11 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the financial statement date but before the financial statements are issued or available to be issued. Recognized subsequent events consist of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet including the estimates inherent in the process of preparing the financial statements. Non-recognized subsequent events consist of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has evaluated subsequent events through October 17, 2017, the date of which the financial statements were available to be issued. The following non-recognized subsequent events were noted:

Effective January 30, 2017, with the approval of the Nevis Island Administration - Ministry of Finance, Statistics & Economic Planning - Financial Services Department received on February 17, 2017, the Company transferred 75,000 shares from Sunshine Services Limited and Moonlight Services Limited to Transition Services Limited. Further, effective March 21, 2017, the Company transferred 75,000 shares from Transition Services Limited to RIGV&I Limited to be the 100% shareholder of Sky Re Facultative & Treaty Ltd.

Effective February 1, 2017, the Board of Directors of Moonlight Services Limited agreed to file Articles of Dissolution with the Registrar of International Insurance of the Nevis Island Administration.

Effective February 1, 2017, the Board of Directors of Sunshine Services Limited agreed to file Articles of Dissolution with the Registrar of International Insurance of the Nevis Island Administration.

Effective March 27, 2017, with the approval of the Nevis Island Administration - Ministry of Finance, Statistics & Economic Planning - Financial Services Department, the Company changed its name to Selecta Insurance and Reinsurance Company (Caribbean) Ltd.

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