Audited Financials 2017

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

www.selecta.re

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Foreword
BY THE MANAGING DIRECTOR

Dear Ladies and Gentleman,

2017 was a year of many challenges for the SELECTA group of companies. As we have represented earlier, SELECTA Insurance and Reinsurance Company Ltd, based in Moscow Russia, has suffered significant pressure from the local regulator.
An additional pressure of the world recognized jurisdictions on Russia has proven to continue operating from within Russia unjustified, albeit the Russian regulator has admitted that SELECTA /Moscow is ultimately solvent and none of the fines are enforceable.
In order to continue normal market operations, SELECTA /Caribbean had to accept the future claims originally written by SELECTA /Moscow due to uncertainty in the amount and period of payment. On the other hand, it was not possible to transfer the assets from Moscow to Caribbean entity at the same time due to longevity of the insurance company winding up in Russia.
In addition, we had to keep in mind the necessity to transfer the core staff from Moscow to Caribbean entity. And lastly, we had to keep in mind the necessity to write off over US$ 900,000 of the doubtful debts as advised by the Auditor in 2016 Financial statements.
Even as we continued to record the signs of recovery getting underway, we were still dealing with and feeling the effects of the transfer of the business and winding up SELECTA /Moscow.
We have to thank our partners, who made it possible to estimate our credibility based not only on a single entity statement, but on a group, and who appreciated management's efforts to ensure creditworthiness.
Together with our many partners in every part of the world, SELECTA Insurance and Reinsurance Company (Caribbean) Ltd will continue to deliver for the clients on both the verbal promises and contract obligations signed by either SELECTA /Caribbean or SELECTA /Moscow.
As at December 31, 2017 we had a very limited capital in the Caribbean entity. However, we believe that the Group as a whole is financially solvent to cover all current obligations with an excessive capital approximately US$ 3,000,000, which is legally in possession of Moscow entity.
We are currently building up the capital transfer structure to transfer the excessive capital from Moscow to Caribbean entity, supported with an A-rated financial institution in form of a payment guarantee with an effect from January 1, 2018.
We have also decided to undergo irregular Audited statement of 2018th half year balance, coupled up with irregular Actuarial report for the same period.

Kirill Patyrykin
Managing Director

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

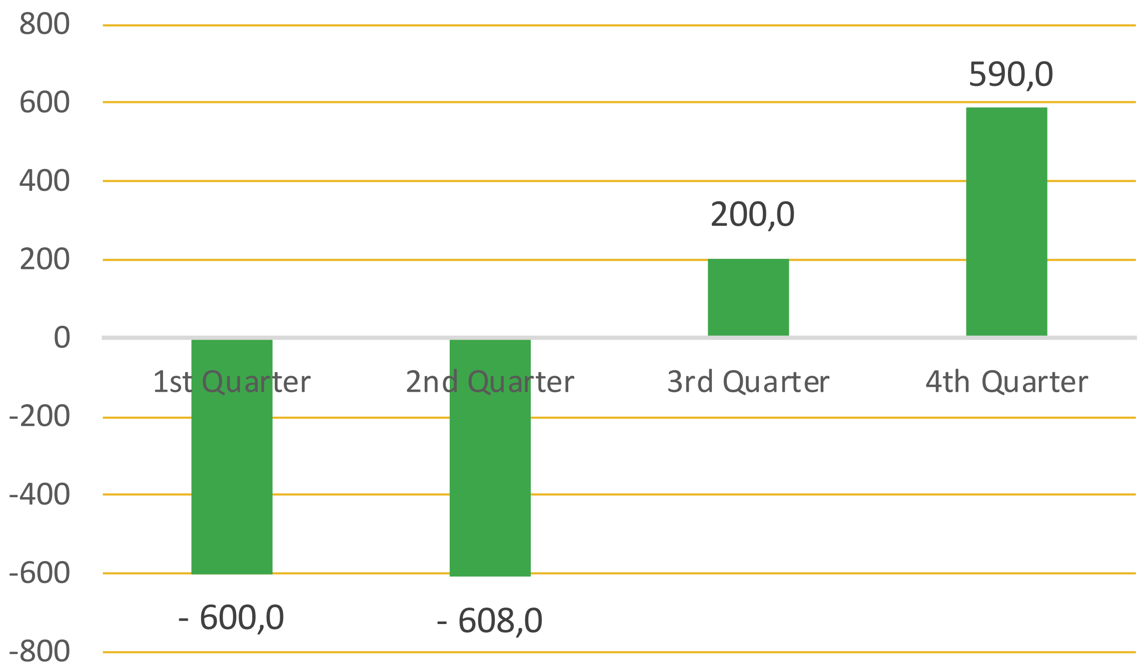
PROMPT CLAIMS ADJUSTMENT

PROFESSIONAL TEAM

HIGH FINANCIAL SOLVENCY AND STABILITY

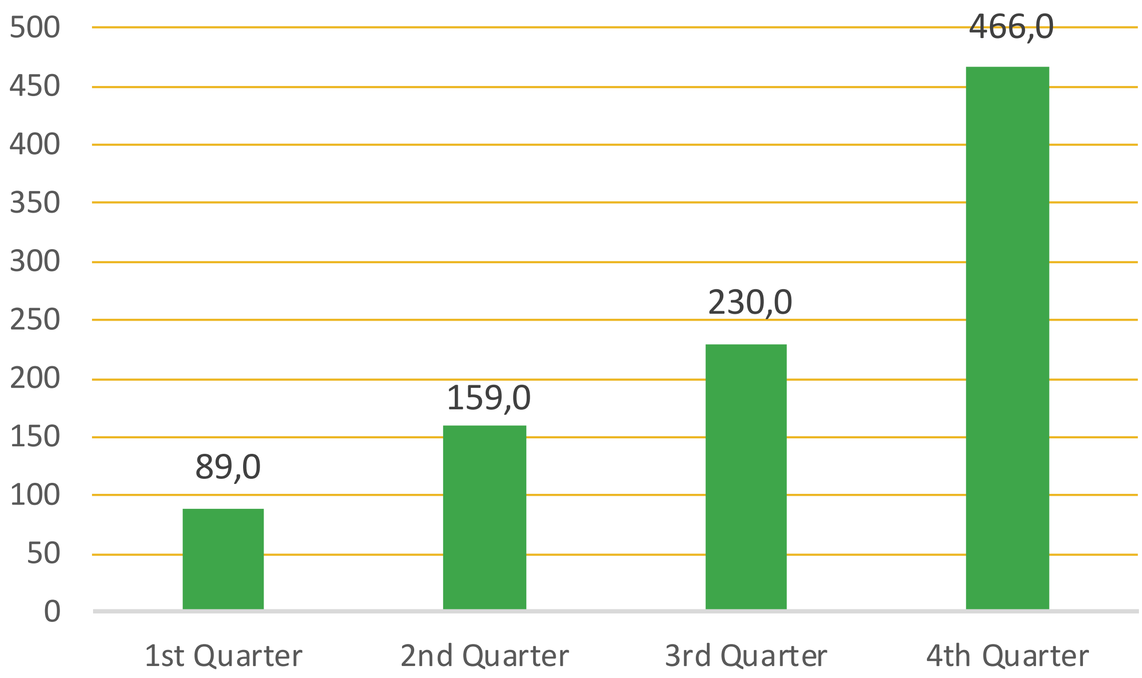
Financial statements 2017

Premiums Written (USD in thousands)



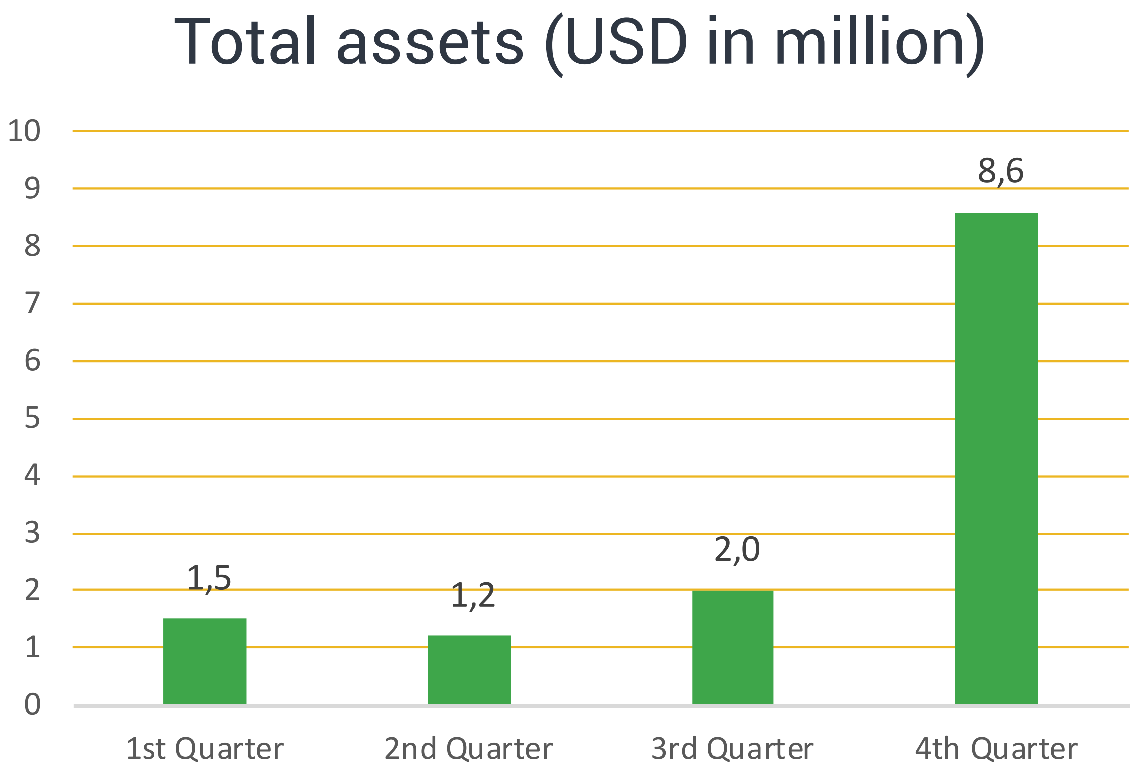
Negative amount due to significant write off of past premiums due unlikely to be every paid

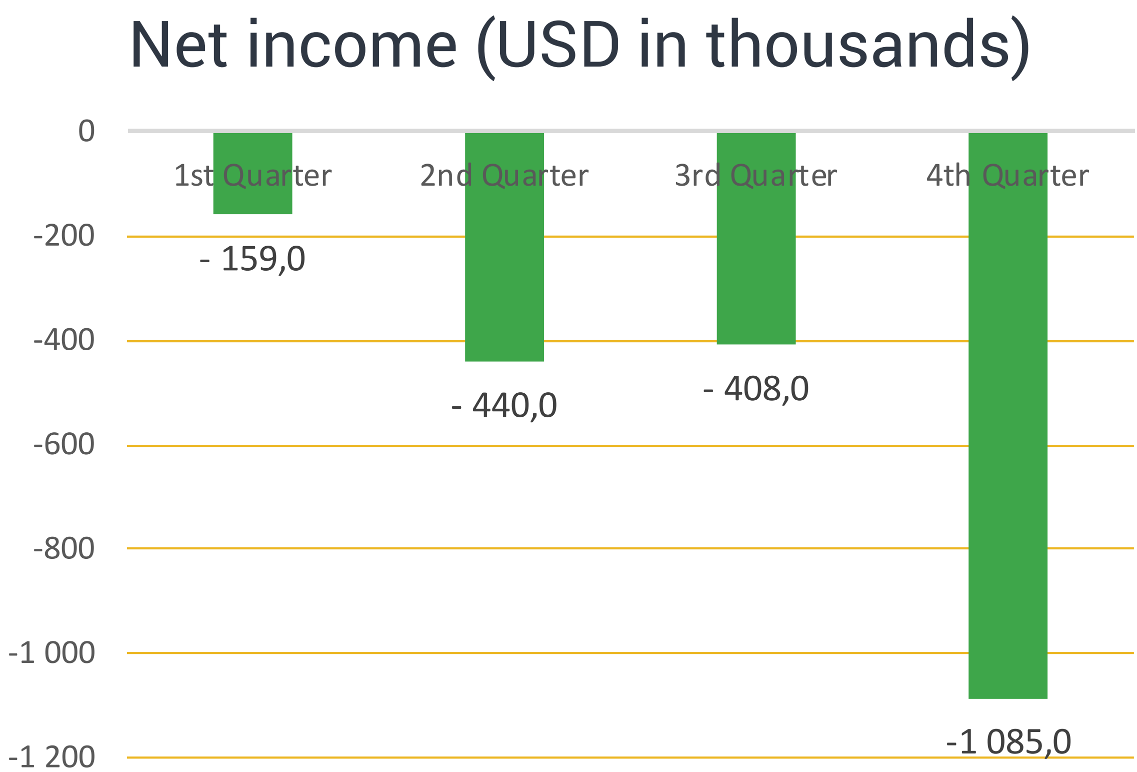
Number of contracts written



Financial statements

2017





Independent Auditor's Report

Opinion

We have audited the financial statements of Selecta Insurance and Reinsurance Company (Caribbean) Limited, which comprise the statements of financial position as of December 31, 2017 and 2016 and the statements of profit and loss, changes in shareholders' equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Selecta Insurance and Reinsurance Company (Caribbean) Limited at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016, in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Selecta Insurance and Reinsurance Company (Caribbean) Limited in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants together with the ethical requirements that are relevant to our audits of the financial statements in the Island of Nevis, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing Selecta Insurance and Reinsurance Company (Caribbean) Limited'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 the directors either intend to liquidate Selecta Insurance and Reinsurance Company (Caribbean) Limited or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Selecta Insurance and Reinsurance Company (Caribbean) Limited's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for 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 audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Selecta Insurance and Reinsurance Company (Caribbean) Limited's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the re

lated disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Selecta Insurance and Reinsurance Company (Caribbean) Limited 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 transitions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Selecta Insurance and Reinsurance Company (Caribbean) Limited to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstance, we determine that a matter shall not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leon L. Rives.

Lexington, North Carolina August 22, 2018

Rives & Associates LLP

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS	Note	2017	2016
Current assets:			
Prepaid reinsurance	2	$ 223,726	$ 147,725
Premiums receivable	2	1,228,150	1,089,846
Prepaid expenses		70,362	31,610
Other assets		-	3,000
Due from affiliates	9	35,938	-
Reinsurance recoverable on unpaid losses	2,8	5,451,689	8,000
Accrued interest receivable	10	245,263	-
Investments (held-to-maturity)	2,5,6,10	530,400	599,403
Cash and cash equivalents	2,7	824,499	346,311
Total assets		$ 8,610,027	$ 2,225,895

SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity:			
Common stock, $1.00 par value, 75,000			
authorized, issued, and outstanding	2	$ 75,000	$ 75,000
Paid in capital		29,200	29,200
Retained earnings (deficit)		(131,516)	954,030
Total shareholders' equity		(27,316)	1,058,230
Liabilities:			
Loss and loss adjustment expense reserves	2,8	6,428,248	623,754
Unearned premiums	2	1,897,997	308,162
Reinsurance payable	2	285,098	211,264
Amounts due to affiliates	10	-	10,985
Accrued expenses		26,000	13,500
Total liabilities		8,637,343	1,167,665
Total liabilities and shareholders' equity		$ 8,610,027	$ 2,225,895

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

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

STATEMENTS OF PROFIT OR LOSS

Years Ended December 31, 2017 and 2016

Underwriting income:	Note	2017	2016
Premiums earned			
Direct premiums earned	2,4	$589,790	-
Assumed premiums earned	2,4	103,495	437,642
Ceded premiums earned	2,4	(766,225)	(443,142)
Premiums earned, net		(72,940)	(5,500)
Other underwriting income		19,988	
Total underwriting income		(52,952)	(5,500)
Underwriting expenses:			
Losses incurred, net	2,7	558,060	497,354
Commissions and brokerage, net		14,830	-
General and administrative expenses	9	627,291	318,156
Total underwriting expenses		1,200,181	815,510
Net underwriting loss		(1,253,133)	(821,010)
Investment income:			
Interest	6	179,598	67,141
Foreign exchange loss	6	(12,011)	(631)
Total investment income		167,587	66,510
Net loss		$ (1,085,546)	$ (754,500)

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

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2017 and 2016

	Shares	Amount	Paid in Capital	Retained Earnings (Deficit)	Total
Balance at January 1, 2016	$ 75,000	$ 75,000	$ 29,200	$ 1,708,530	$ 1,812,730
Net loss	-	-	-	(754,500)	(754,500)
Dividend paid	-	-	-	-	-
Capital contributions	-	-	-	-	-
Balance at December 31, 2016	$ 75,000	$ 75,000	$ 29,200	954,030	1,058,230
Net loss	-	-	-	(1,085,546)	(1,085,546)
Balance at December 31, 2017	$ 75,000	$ 75,000	$ 29,200	$ (131,516)	$ (27,316)

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

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

Cash flows from operating activities:	2017	2016
Net loss	$ (1,085,546)	$ (754,500)
Cash flows from changes in:		
Prepaid reinsurance	(76,001)	286,391
Premiums Receivable	(138,304)	(26,326)
Prepaids	(38,752)	(19,209)
Other assets	3,000	-
Due from affiliates	(46,923)	45,87
Reinsurance recoverable on unpaid losses	(5,443,689)	88,037
Accrued interest receivable	(245,263)	2,821
Loss and loss adjustment expense reserves	5,804,494	405,916
Unearned premiums	1,589,835	234,274
Reinsurance payable	73,834	(119,812)
Accrued expenses	12,500	7,075
Net cash provided by operating activities	409,185	150,537
Cash flows from investing activities:		
Cost of investments acquired	69,003	(599,403)
Net cash (used in) provided by investing activities	69,003	(599,403)
Net (decrease) increase in cash and cash equivalents	478,188	(448,866)
Cash and cash equivalents, beginning of year	346,311	795,177
Cash and cash equivalents, end of year	$ 824,499	$ 346,311

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

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 - NATURE OF BUSINESS AND STATEMENT OF COMPLIANCE

NATURE OF BUSINESS

Selecta Insurance and Reinsurance Company (Caribbean) 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, guarantee, liability, energy, and specialty.

Effective February 21, 2017, with the approval of the Nevis Island Administration - Ministry of Finance, Statistics & Economic Planning - Financial Services Department, the Company changed its name from SKY RE Facultative and Treaty Ltd. to Selecta Insurance and Reinsurance Company (Caribbean) Ltd.

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 the Company.

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 August 22, 2018.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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.

Accounting Judgements and Estimates

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

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. 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

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Reinsurance

The Company assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business.

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.

Reinsurance

Premium Revenue and Unearned Revenue

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions' payable to agents and exclusive of taxes levied on premiums. The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

The underwriting results are recognized principally by reference to the annual accounting basis and are determined after making provisions for claims incurred. Income is accounted for in the year in which the risks are assumed. Premiums are recognized as revenue over the period of insurance coverage. Unearned premium represents that portion of premiums written and assumed that apply to the unexpired terms of policies in force.

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 Estmates

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

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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 estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

(a) Held-to-maturity- investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as life insurance policy, as held-to-maturity investments the Company evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold investments up to maturity. If the Company fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as available-for-sale financial assets. In such a case, the investments would therefore be measured at fair value, not amortized cost.

(b) Estimation of the provision for losses

There are several sources of uncertainty that need to be considered in the estimate of a loss provision liability for claims incurred prior to the date of the statement of financial position. For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Management has determined the current year loss provisions based on an individual case-basis valuation and statistical analysis.

NOTE 3 - 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 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.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 3 - FUTURE ACCOUNTING AND REPORTING CHANGES (continued)

(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) IFRS 17 “Insurance Contracts”

In May 2017, the IASB issued IFRS 17 that will replace IFRS 4 on its effective date for accounting periods beginning on or after January 1, 2021. IFRS 17 is the first comprehensive and truly international IFRS Standard establishing the accounting for insurance contracts. Under the IFRS 17 model, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. The discount rate will reflect current interest rates. If the present value of future cash flows would produce a gain at the time a contract is issued the model would also require a “contractual service margin” to offset the day 1 gain. The contractual service margin would amortize over the life of the contract. There would also be a new income statement presentation for insurance contracts, including a revised definition of revenue, and additional disclosure requirements.

(d) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

In December 2016, the IASB issued guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency. This interpretation is effective from accounting periods beginning on or after January 1, 2018.

NOTE 4 - 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:

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 4 - REINSURANCE (continued)

	2017		2016	
	Written	Earned	Written	Earned
Direct premiums	$ 589,790	$ 589,790	-	-
Assumed premiums	1,693,329	103,495	671,916	437,642
Ceded premiums	(842,226)	(766,225)	(156,750)	(443,142)
Total	$ 1,440,893	$ (72,940)	$ 515,166	$ (5,500)

NOTE 5 – 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.

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

	2017			
	Level 1	Level 2	Level 3	Total
Corporate bond	$ -	$ -	$ 775,663	$ 775,663
	2016			
	Level 1	Level 2	Level 3	Total
Corporate bond	$ -	$ -	$ 599,403	$ 599,403

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 6 – 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:

	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate bond, including accrued interest	$ 775,663	$ -	$ -	$ 775,663
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate bond, including accrued interest	$ 599,403	$ -	$ -	$ 599,403

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

	2017	2016
Interest	$ 179,599	$ 67,142
Foreign exchange gain (loss)	(12,011)	(631)
Total investment income (loss)	$ 167,588	$ 66,511

NOTE 7 – CASH AND CASH EQUIVALENTS

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

	2017	2016
Cash (USD)	$ 613,391	$ 207,494
Cash (EUR)	177,519	13,677
Cash (GBP)	33,589	-
Security deposit	-	25,140
Fixed deposit (USD)	-	100,000
Total	$ 824,499	$ 346,311

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NOTE 8 – 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:

	2017	2016
Balances at January 1	$ 623,754	$ 217,838
Less reinsurance recoverable	8,000	96,037
Net balances at January 1	615,754	121,801
Incurred related to:		
Current year	997,66	619,155
Prior years	(439,600)	(121,801)
Total incurred	558,06	497,354
Paid related to:		
Current year	21,101	3,401
Prior years	176,154	-
Total paid	197,255	3,401
Net balances at December 31	976,559	615,754
Plus reinsurance recoverable	5,451,689	8
Balances at December 31	$ 6,428,248	$ 623,754

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $439,600 and $121,801 in 2017 and 2016, 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.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

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NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

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

	2017	2016
Management and administrative	$ 76,710	$ 45,000
Directors fees	222,700	
Salaries	9,780	131,448
Consultancy	56,615	
Actuarial	11,250	
Insurance license fees	1,200	
Corporate services	6,564	
Audit and accounting	24,250	35,250
Legal and professional	80,467	30,839
Travel	20,244	14,714
Research and subscriptions	730	3,244
Marketing	45,197	5,902
Information technology	25,421	9,166
Bank charges	14,45	2,472
Other expenses	31,713	40,121
Total general and administrative expenses	$ 627,291	$ 318,157

NOTE 10 – RELATED PARTIES

As of December 31, 2017 and 2016, the Company has recorded amounts due from affiliates of $35,938 and $0, respectively. As of December 31, 2017 and 2016, the Company has recorded amounts due to affiliates of $0 and $10,985, 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 years ended December 31, 2017 and 2016, the Company assumed premiums totaling $670,692 and $61,397, respectively from Selecta Insurance and Reinsurance Company (Moscow) Ltd. As of December 31, 2017 and 2016, the Company is the holder of a bond issued by Selecta Insurance and Reinsurance Company (Moscow) Ltd. with principle and carrying value of $775,663 and $599,403, respectively yielding interest of 30% per annum, which appropriately includes accrued interest totaling $245,263 and $69,003, respectively.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 11 – 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.

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.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 11 – RISK MANAGEMENT *(continued)*

Financial Risk (continued)

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.

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.
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.

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 reinsurer, 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:

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 11 – RISK MANAGEMENT *(continued)*

	2017	2016
Company's margin of solvency (net assets)	$ (27,316)	$ 1,058,229
Required minimum margin of solvency (retained premium is Nil)	(75,000)	(75,000)
Excess (deficit)	$ (102,316)	$ 983,229

NOTE 12 – 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 August 22, 2018, the date of which the financial statements were available to be issued.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 11 – RISK MANAGEMENT *(continued)*

Financial Risk (continued)

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.

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.
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.

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 reinsurer, 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:

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