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2019

Audited Financials

SELECTA Insurance & Reinsurance Company (Caribbean) Limited

P.O. Box 355
Hunkins Waterfront Jewels, Main Street
Charlestown, Nevis West Indies

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DIRECTOR STATMENT

DEAR LADIES AND GENTLEMEN,

2019 was a year of rapid growth for SELECTA Insurance & Reinsurance Company (Caribbean) Ltd.

Our team has successfully set up Sun Underwriting MGA which caused a synergic effect for SELECTA. We have written four times as much gross premium as a year ago. Although we still maintain our loss ratio below the market average, such rapid growth has come at the price of significant incurred but not reported loss reserve (IBNR) increase.

As a result, we experienced a net loss totaling up to $665,793. We have balanced most of it by paying in additional capital and we expect good profits by the end of 2020 when reserves get depleted.

As always, nothing could be done without the help of our esteemed partners, who made it possible to come this far.

Still, we remain at your service 365 days a year, seven days a week and 24 hours a day.

THE BOARD OF DIRECTORS

MR. VASILY KOZLOV

Chairman of the board

of Selecta Insurance & Reinsurance Co Carib Ltd, Charlestown, Nevis WI

MR. KIRILL PATYRYKIN

Managing Director

of Selecta Insurance & Reinsurance Co Carib Ltd, Charlestown, Nevis WI

MRS. LETICIA NISBETT-DORE

Independent Director

of Selecta Insurance & Reinsurance Co Carib Ltd, Charlestown, Nevis WI

MR. ALEXANDER SHAKHMATOV

Director

of Selecta Insurance & Reinsurance Co Carib Ltd, Charlestown, Nevis WI

MR. VLADIMIR IVANOV

Director

of Selecta Insurance & Reinsurance Co Carib Ltd, Charlestown, Nevis WI

PROFESSIONAL ACTIVITIES

Our professional activities are based on:

INDIVIDUAL APPROACH TO THE CLIENT

RELIABLE REINSURANCE PROTECTION

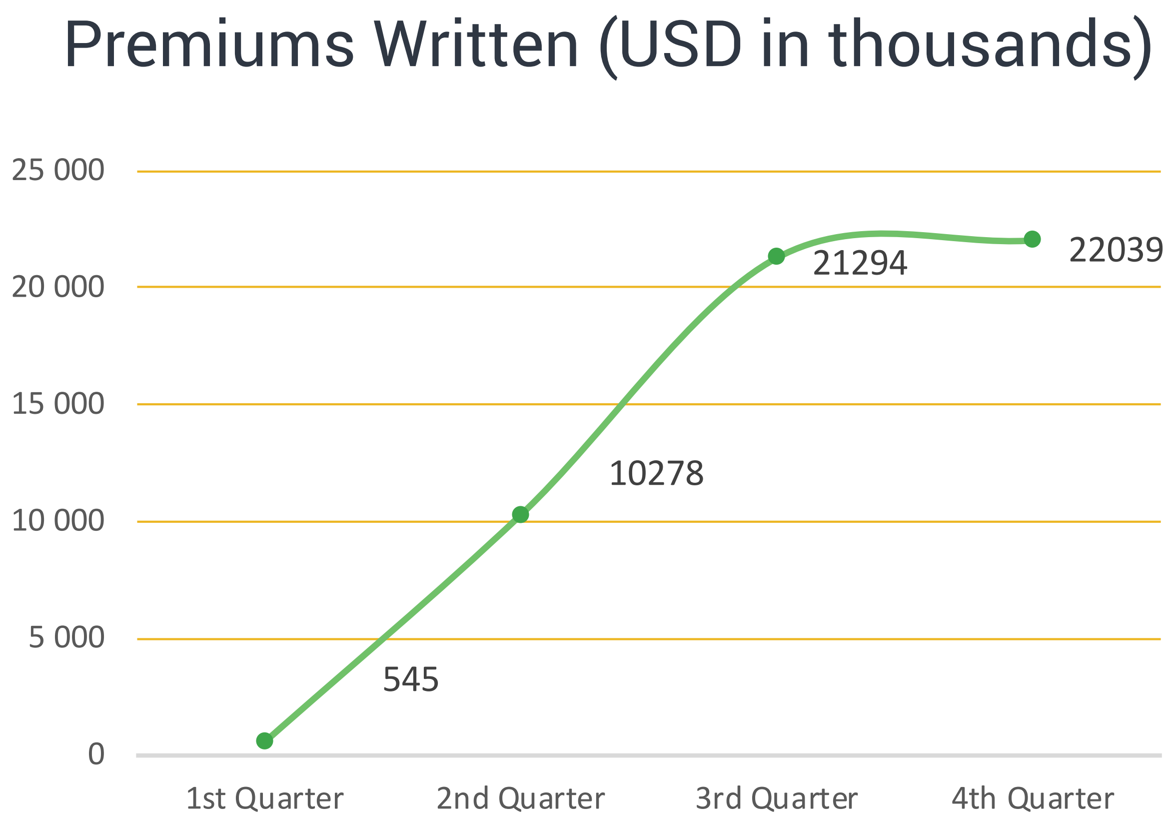
PRUDENT UNDERWRITING POLICY

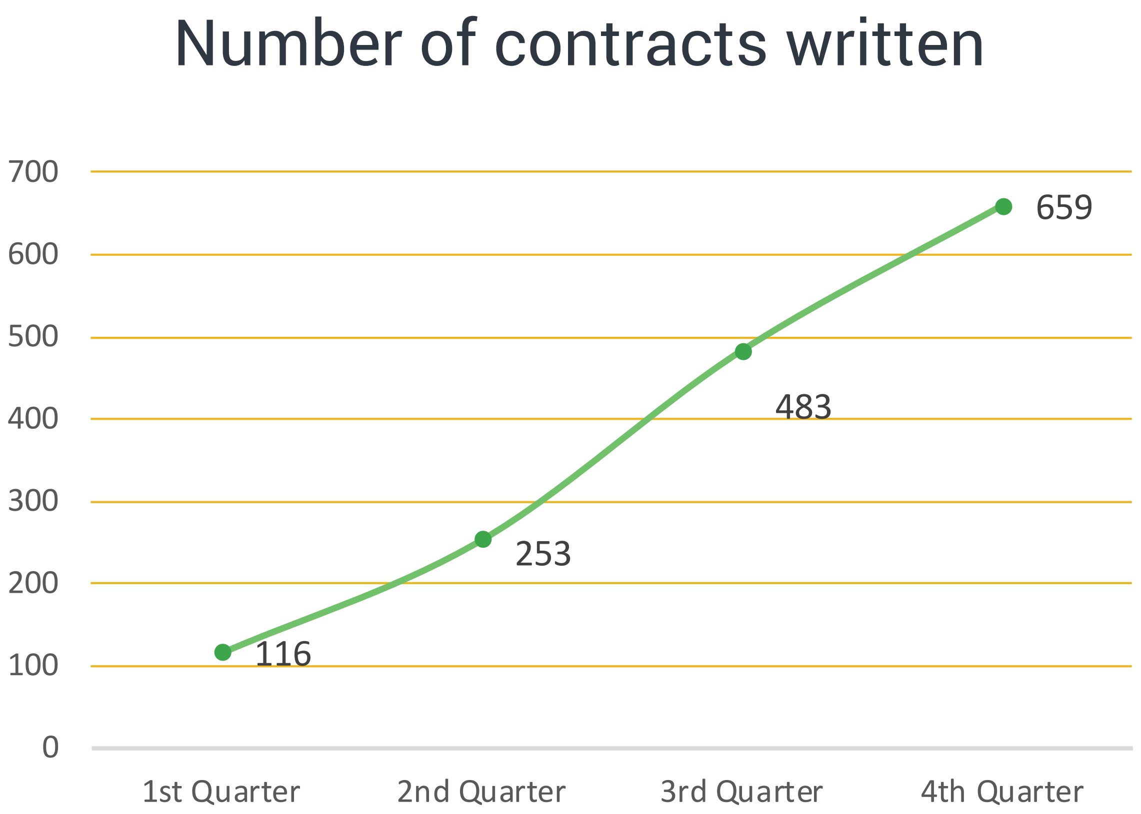
PROMPT CLAIMS ADJUSTMENT

PROFESSIONAL TEAM

HIGH FINANCIAL SOLVENCY AND STABILITY

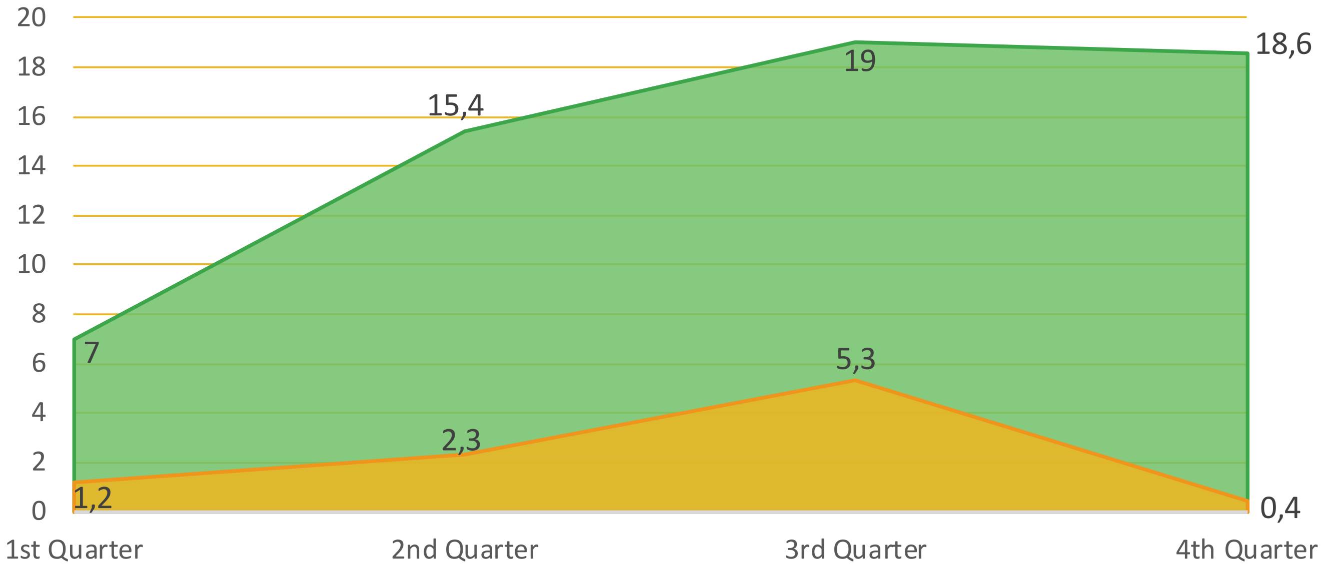
FINANCIAL
STATEMENTS 2019





FINANCIAL
STATEMENTS 2019

Total Assets and Net Assets (USD in million)



INDEPENDENT

AUDITOR'S REPORT

By RH CPAs, PLLC.

Independent Auditors' Report

To the Board of Directors
Selecta Insurance and Reinsurance Company (Caribbean) Ltd.
Island of Nevis

Qualified Opinion

We have audited the financial statements of Selecta Insurance and Reinsurance Company (Caribbean) Ltd. (the Company), which comprise the statements of financial position as of December 31, 2019 and 2018 and the statements of profit or loss and comprehensive income, changes in shareholder's equity and cash flows for the years ended December 31, 2019 and 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter relating to the prior year financial statements as fully described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and its financial performance and its cash flows for the years ended December 31, 2019 and 2018, in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

The Company had net foreign currency exchange losses of $56,609 for the year ended December 31, 2018. This net foreign currency exchange losses amount included bank revaluation loss amounting to $64,466 which was adjusted for identified calculation errors. However, no appropriate details and working was available for the remaining adjusted balance, due to the limitation of the accounting system used by the Company. Thus, we were unable to determine whether any further adjustments to this amount were necessary and consequently we were unable to obtain sufficient appropriate audit evidence about the completeness and accuracy of this expense in 2018. However, during the year ended December 31, 2019, no such issues were noted.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit 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 qualified opinion.

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

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

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rh-accounting.com

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transitions and events in a manner that achieves fair presentation.

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

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.

The engagement partner on the audit resulting in this independent auditors' report is Diana Hardy.

RH CPAs, PLLC

Greensboro, North Carolina
October 19, 2020

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

ASSETS	Note	2019	2018
Current assets:			
Deferred reinsurance premium	2	$ 933,108	$ 93,474
Deferred acquisition cost		1,874,223	-
Prepaid expenses		76,308	116,088
Premiums receivable	2	4,973,791	2,554,134
Reinsurance recoverable on unpaid losses	2,8	-	3,279,513
Due from affiliates	7	1,129,044	147,240
Accrued interest receivable	7	-	477,468
Investments (held-to-maturity)	2,5,7	-	530,400
Cash and cash equivalents	2,6	9,568,456	1,208,972
Total assets		$ 18,554,930	$ 8,407,289

SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity:			
Common stock, $1.00 par value, 75,000 shares			
authorized, issued, and outstanding	2	$ 75,000	$ 75,000
Paid in capital		626,200	29,200
(Accumulated deficit) Retained earnings		(313,709)	352,084
Total shareholders' equity		387,491	456,284
Liabilities:			
Loss and loss adjustment expense reserves	2,8	5,260,055	4,222,957
Unearned premiums	2	11,609,901	3,379,797
Accrued expenses		1,263,710	216,378
Other liabilities		33,773	131,873
Total liabilities		18,167,439	7,951,005
Total liabilities and shareholders' equity		$ 18,554,930	$ 8,407,289

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2019 AND 2018

Underwriting income:	Note	2019	2018
Premiums earned			
Assumed premiums earned	2,4	$ 15,683,662	$ 3,999,565
Ceded premiums earned	2,4	(2,219,693)	(1,685,603)
Premiums earned, net		13,463,969	2,313,962
Other underwriting income (expense)		9,137	(569)
Total underwriting income		13,473,106	2,313,393
Underwriting expenses:			
Losses incurred, net	2,8	6,710,531	147,786
Commissions and brokerage, net		4,511,203	621,448
General and administrative expenses	9	3,054,106	1,238,861
Total underwriting expenses		14,275,840	2,008,095
Net underwriting income (loss)		(802,734)	305,298
Other income:			
Interest income		272,091	234,911
Foreign exchange gain (loss), net		(135,150)	(56,609)
Total other income		136,941	178,302
Net profit (loss)		(665,793)	483,600
Other comprehensive income		-	-
Total comprehensive income (loss)		$ (665,793)	$ 483,600

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Stock				
	Shares	Amount	Paid in Capital	(Accumulated Deficit) /Retained Earnings	Total
Balance at January 1, 2018	$ 75,000	$ 75,000	$ 29,200	$ (131,516)	$ (27,316)
Net profit	-	-	-	483,600	483,600
Balance at December 31, 2018	$ 75,000	$ 75,000	$ 29,200	352,084	456,284
Net loss	-	-	-	(665,793)	(665,793)
Capital contribution	-	-	597,000	-	597,000
Balance at December 31, 2019	$ 75,000	$ 75,000	$ 626,200	$ (313,709)	$ 387,491

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

Cash flows from operating activities:	2019	2018
Net (loss) profit	$ (665,793)	$ 483,600
Adjustments to reconcile net profit (loss) to net cash flow from operations		
Interest income	-	(234,911)
Unrealized foreign exchange loss	(47,898)	7,050
Cash flows from changes in:		
Deferred reinsurance premium	(839,634)	130,252
Deferred acquisition cost	(1,874,223)	-
Prepaid expenses	39,780	(75,700)
Premiums Receivable	(2,371,759)	(1,333,034)
Reinsurance recoverable on unpaid losses	3,279,513	2,172,176
Due from affiliates	(981,804)	(111,302)
Accrued interest receivable	477,468	2,706
Other assets	-	29,974
Loss and loss adjustment expense reserves	1,037,098	(2,205,291)
Unearned premiums	8,230,104	1,481,800
Reinsurance payable	-	(285,098)
Accrued expenses	1,047,332	190,378
Other liabilities	(98,100)	131,873
Net cash provided from operating activities	7,232,084	384,473
Cash flows from investing activities:		
Proceeds from settlement of investments	530,400	-
Cash flows from financing activities:		
Receipts from capital contribution	597,000	-
Net increase in cash and cash equivalents	8,359,484	384,473
Cash and cash equivalents, beginning of year	1,208,972	824,499
Cash and cash equivalents, end of year	$ 9,568,456	$ 1,208,972
Supplemental disclosure:		
Settlement of investments against outstanding claims liability (refer note 7)	$ 530,400	-

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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. The Company is 100% owned by RIGV&I Limited.

The financial statements were authorized for issuance by the Board of Directors on October 19, 2020.

STATEMENT OF COMPLIANCE

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in United States Dollars ($) which is the Company's functional and presentation currency.

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 and comprehensive income.

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 IFRSs 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 2 below.

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

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Company has one cash-generating unit for which impairment testing is performed.

Impairment charges are included in the statement of profit or loss and comprehensive income, except to the extent they reverse gains previously recognized in other comprehensive income.

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.

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

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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.

REVENUE RECOGNITION

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 Company measures its financial assets and liabilities in accordance with IFRS. The carrying amounts reported on the balance sheet for cash and cash equivalents, premium receivable, due from affiliates, prepaid reinsurance and accrued expenses approximate the respective fair value. This is generally due to their short maturities.

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.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

TAXATION

Under current legislation in Island of Nevis, there is no income, estate, corporate, capital gain or other taxes payable by the Company. Accordingly, no provision for income tax has been made.

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 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.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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) 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.

(b) 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.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 – REINSURANCE

Certain premiums and losses are ceded to other unrelated insurance companies through treaty and facultative 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:

	2019		2018	
	Written	Earned	Written	Earned
Assumed premiums	$ 22,039,542	$ 15,683,662	$ 5,481,365	$ 3,999,565
Ceded premiums	(3,059,327)	(2,219,693)	(1,555,352)	(1,685,603)
Total	$ 18,980,215	$ 13,463,969	$ 3,926,013	$ 2,313,962

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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.

At December 31, 2019 and 2018, the Company does not have any investments which is measured at fair value. At December 31, 2018, the Company's investment in corporate bond of $530,400 (principal) was measured at amortized cost since it was classified as held-to-maturity.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 6 – CASH AND CASH EQUIVALENTS

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

	2019	2018
Cash (USD)	$ 6,419,700	$ 768,660
Cash (EUR)	1,309,337	100,541
Cash (GBP)	33,081	33,521
Fixed deposit (USD)	1,806,338	306,250
Total	$ 9,568,456	$ 1,208,972

NOTE 7 – RELATED PARTIES

As of December 31, 2019 and 2018, the Company has amounts due from affiliates of $1,129,044 and $147,240, respectively. These amounts consist of fees and expenses paid by the Company on behalf of these affiliates.

The Company assumes premiums from Sun UW MGA FZ-LLC., which is an affiliate by means of the same ultimate beneficial owner and management team. For the years ended December 31, 2019 and 2018, the Company assumed premiums totaling $4,078,313 and $0, respectively from Sun UW MGA FZ-LLC. At December 31, 2019 and 2018, total premiums receivable balance includes premium receivable from Sun UW of $3,091,056 and $0 respectively.

At December 31, 2018, the Company was the holder of a bond issued by Selecta Insurance and Reinsurance Company (Moscow) Ltd., which is an affiliate by means of the same ultimate beneficial owner and management team. The bond had carrying value of $1,007,868 yielding interest of 30% per annum. On November 14, 2019, the Company set off and transferred the outstanding balance of bond including accrued interest amounting to $1,271,294 against the settlement of one of its major claim liability that was paid off by Selecta Moscow to the extent of the carrying value of this bond. On this bond investment, the Company recorded interest income of $263,555 and $232,699 for the years ended December 31, 2019 and 2018 respectively.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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:

	2019	2018
Balances at January 1	$ 4,222,957	$ 6,428,248
Less reinsurance recoverable	3,279,513	5,451,689
Net balances at January 1	943,444	976,559
Incurred related to:		
Current year	6,753,451	583,197
Prior years	(42,920)	(435,411)
Total incurred	6,710,531	147,786
Paid related to:		
Current year	120,297	-
Prior years	2,273,623	180,901
Total paid	180,901	197,255
Net balances at December 31	5,260,055	943,444
Plus reinsurance recoverable	-	3,279,513
Balances at December 31	$ 5,260,055	$ 4,222,957

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $42,920 in 2019 and $435,411 in 2018. 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.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

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

	2019	2018
Management and administrative	$ 21,240	$ 64,323
Directors fees	461,111	317,697
Performance bonus	1,740,468	313,448
Consultancy	439,532	299,458
Actuarial	10,000	-
Corporate services	14,150	14,150
Audit and accounting	50,500	12,500
Travel	143,232	162,929
Research and subscriptions	48,853	675
Information technology	51,673	21,341
Bank charges	25,072	16,718
Other expenses	48,275	15,622
Total general and administrative expenses	$ 3,054,106	$ 1,238,861

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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.

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

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 10 – RISK MANAGEMENT

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 due from affiliates, premium receivable 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.

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.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 10 – RISK MANAGEMENT

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.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 10 – RISK MANAGEMENT

The Company's minimum margin of solvency is as follows:

	2019	2018
Required minimum margin of solvency	$ 2,692,794	$ 462,792
	2019	2018
Total allowable assets	$ 15,671,291	$ 8,197,727
Total liabilities	(18,167,439)	(7,951,005)
	$ (2,496,148)	$ 246,722
Deficit	$ 5,188,942	$ 216,070

NOTE 11 – CONTINGENCIES AND COMMITMENTS

As of December 31, 2019, the Company has following pending legal matters:

a) In June 2019, a loss notification was made to the Company by PSTV Energy DMCC (PSTV), a policyholder, in relation to Trade Credit Insurance policy covering a customer of the Sonara refinery in the Cameroons. The claim of $15.3 million was submitted for the fire incident at the refinery which closed down the facility. After evaluating the claims facts and supporting details, the Company has rejected the claim on a number of bases that includes i) the cause of the fire was apparently an act of terrorism and thus a political risk and such risks are excluded under the Company's policy, ii) PSTV failed to lodge a surety to cover its exposure to any loss thus mitigating its financial exposure pursuant to the policy terms, iii) the loss

submission was premature under the policy provisions as there has been no formal certification of the quantum of the loss, iv) it appears that PSTV may have other insurance policies which would cover such loss and those policies would be triggered before the Company's policy. Further, there is a financial limitation in the Company's policy of $2 million per loss. No legal action has been commenced by PSTV. Hence, management believes that there is no adverse outcome expected from this claim and accordingly no provision is required in the Company's financial statements.

b) In February 2018, claim amounting to MXN 59,250,000 (i.e. the Company's share of 75% of the total claim amount of MXN 79 million) equivalent to $3,128,184, was submitted by Seguros Inbursa, i.e. the direct insurer in a risk in which the Company participated as a retrocessionaire on an excess of loss basis. This claim relates to a fire loss which occurred

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 11 – CONTINGENCIES AND COMMITMENTS

in January 2018 in Mexico when a truck carrying 35,000 liters of diesel collided with a tunnel and then burst into flames damaging the road and the bridge. It has been informed to the Company by the broker that the claim has been fully paid off by the direct insurer however,

the Company has not been able to obtain the complete requested information and documentation from the underlying parties involved in this matter or from the insured. Further, the Company also noted that no subrogation proceedings have been taken against the owner/operator of the truck although the original insured has been paid and the insurer seems reluctant to take any steps against third parties. Thus, the Company has concerns about the quantum of the claim and also the liability itself. Until the requested information and documentation is received, management is not in a position to ascertain whether this notification will turn into a claim and accordingly no provision against this claim was considered necessary.

c) The Company is currently is in the process of arbitration in London with National Insurance Company Ltd. (National), which is an Indian company who participated in the Company's 2017 whole account access of loss treaty. The dispute is in relation to outstanding claims in relation to two losses which are covered by the reinsurance contract on which National agreed to reinsure the Company in relation to risks which fell within the terms of that contract. These claims were originally $500,000, however a partial payment has been received reducing the outstanding balance to just over $300,000. The present status of the arbitration, which was commenced in November 2019, is that the Company is waiting to hear from the Arbitration Panel with directions concerning the procedure and the filing of pleadings. Progress in the arbitration has been due to

ongoing COVID-19 pandemic in India, however, it is hoped that the dispute can be resolved on the basis of documentation rather than the oral hearing which will save time and costs. In accordance with the requirements of International Accounting Standard - 37 (IAS-37) - Provisions, Contingent Liabilities and Contingent Assets, no recoveries receivable has been recorded as of December 31, 2019.

SELECTA INSURANCE AND REINSURANCE COMPANY (CARIBBEAN) LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

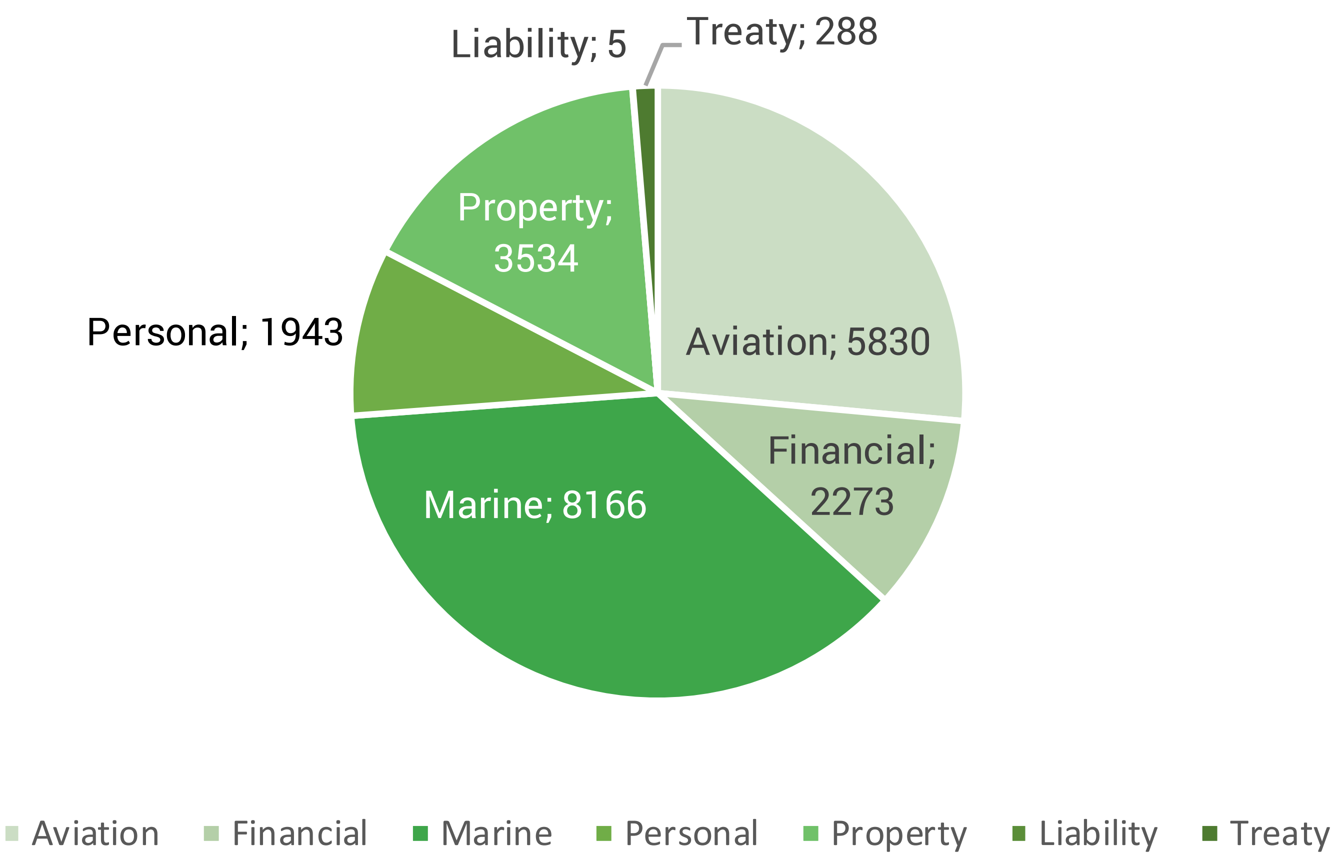
NOTE 12 – SUBSEQUENT EVENTS

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 October 19, 2020, the date of which the financial statements were available to be issued.

In January 2020, the World Health Organization has declared the outbreak of a novel coronavirus (COVID-19) as a "Public Health Emergency of International concern," which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus outbreak and government responses are creating disruption in global supply chains and adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Company, its performance, and its financial results.

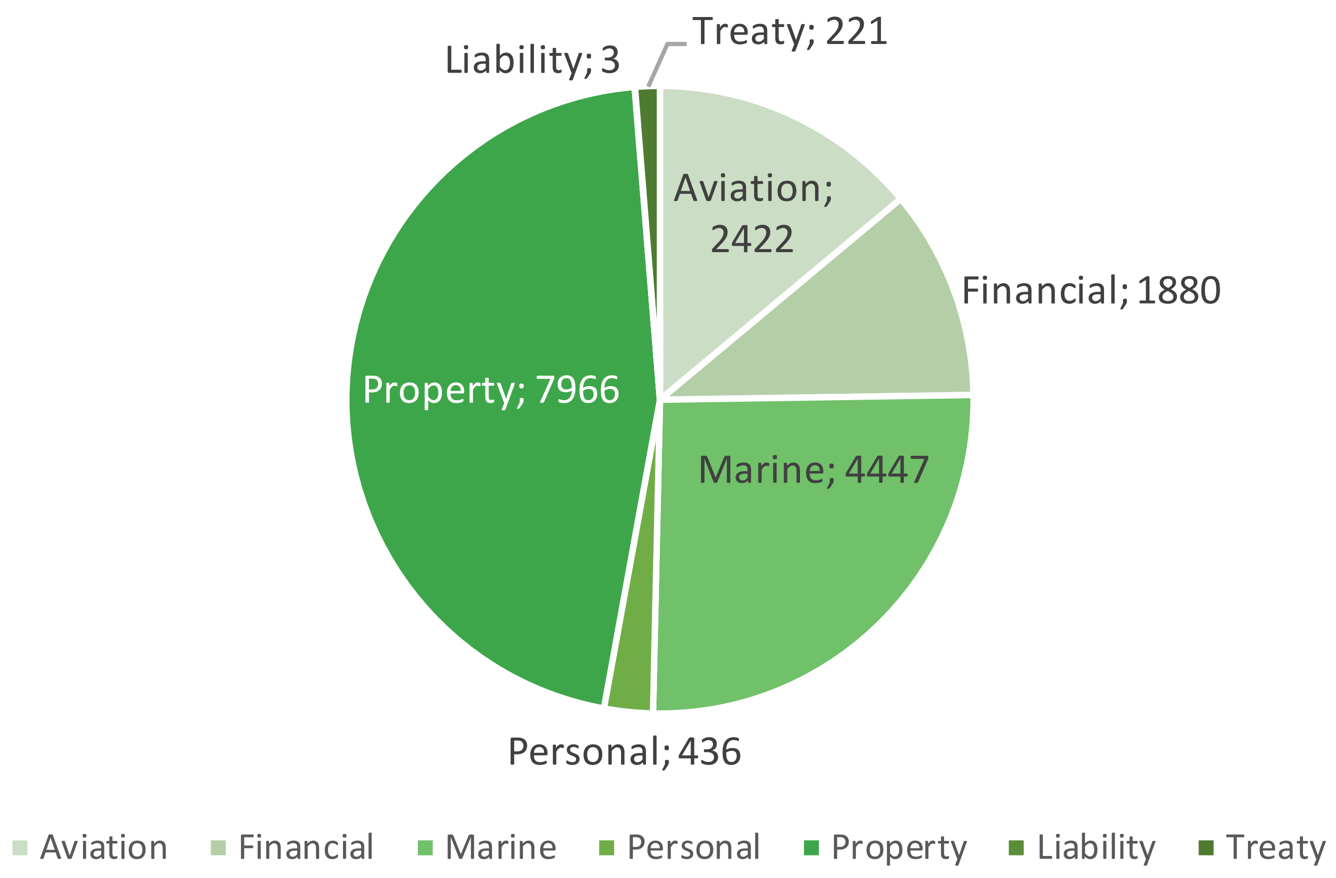
LINES OF
BUSINESS

Written Premium (USD in thousands)



LINES OF BUSINESS

Reserves (USD in thousands)



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